

DIATREME RESOURCES LIMITED

ACN 061 267 061

NSX ANNOUNCEMENT DATED 10 JANUARY 2005

ATTACHMENT 1

**PROSPECTUS AS LODGED WITH
THE AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION
10 JANUARY 2005**

Diatreme Resources Limited



ABN 33 061 267 061

Diatreme, *noun*. A pipe-like volcanic vent formed deep in the earth's crust, created by explosive gases and rapidly ascending magma, which can be shattered and brecciated and may contain minerals such as Gold or Diamonds.

OFFER

An Offer of 25 000 000 fully paid ordinary Shares at \$0.20 (20 cents) per Share to raise \$5 000 000 (the Offer).

The Company currently conducts business as a gold, diamond, base metal and mineral sands explorer in Australia.

Important Information:

This is an important document that should be read in its entirety. If you do not understand it you should consult your professional adviser.

Investment in securities of Diatreme Resources Limited should be regarded as speculative.

prospectus **2005**

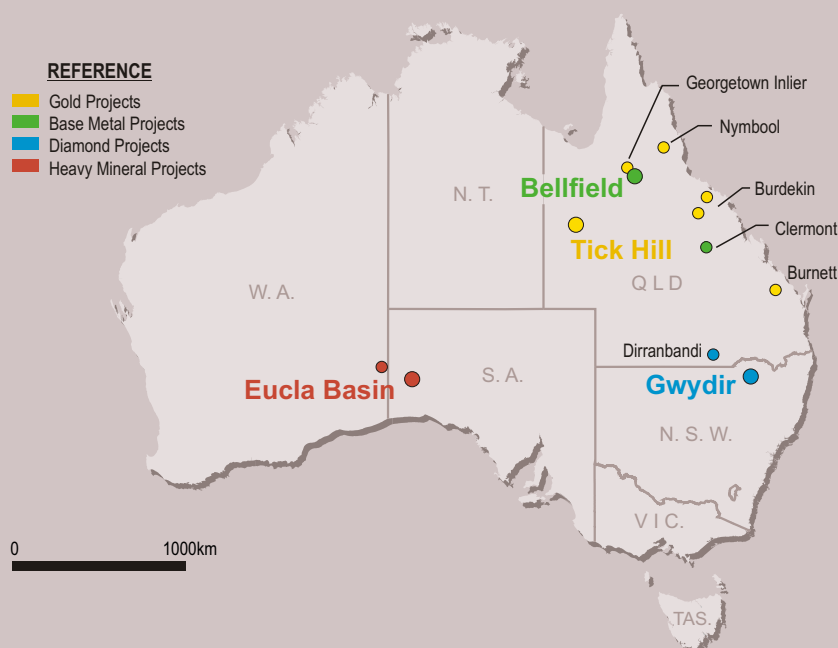
The Offer is underwritten to \$3 000 000 by Martin Place Securities Pty. Limited, pursuant to the Underwriting Agreement. The Underwriting Agreement contains terms and conditions which may affect the obligations of the Underwriter. Details of these terms and conditions are set out in Section 9.10 of this Prospectus.

highlights of Diatreme Resources Limited



Open ended advanced resources that can be substantially increased by further drilling.

Project	Prospect	Total Resources (inferred and indicated Resources)
Nymbool Gold	Nymbool	2.4 million tonnes @ 0.7g/t Gold (incl 1 million tonnes @ 1g/t Gold)
Burnett Gold Copper	Yarrol North	0.87 million tonnes @ 1.6g/t Gold
Burnett Gold Copper	Central Ridge	0.27 million tonnes @ 1.5g/t Gold
Burnett Gold Copper	Mt Steadman	1.2 million tonnes @ 0.9g/t Gold
Clermont Copper Gold	Peak Downs	25,000 to 30,000 tonnes of oxide copper metal



- Diatreme's Management has the ability to think outside the square, to generate valuable projects and also the experience and skill to bring these commercially on stream.
- The large size of the "Major Projects" means they have the capacity to be "Company Makers".
- Drilling programs will commence post-listing and will begin initially on drill-ready "Advanced" Projects and developing targets on Major "Company Maker" Projects.
- Portfolio has exposure to advanced gold and copper projects and a large diamond play.
- Diatreme holds 300 kilometres of highly prospective fossil shoreline of the new Eucla Basin mineral sands province which is also prospective for gold and platinoids.
- Highly experienced mineral explorer operating in Australia.

key offer highlights

- 25 million Shares at 20 cents per Share to raise \$5.0 million
- Proposed transfer of listing from NSX to ASX
- Priority for Existing Shareholders to "round up" their Shareholdings



chairman's letter

Dear Investor,

Thank you for taking the time to read this offer document. I would like to take this opportunity to explain the Company's exploration philosophy and business plan, which I believe has benefits for you as an investor. After your due consideration, I invite you to invest in Diatreme Resources Limited.

Exploration Strategy

The Company has divided its projects into two streams, "Major" and "Advanced" projects.

"Major" Projects

Over the past few years the Company has conducted research into the potential of identifying exploration projects capable of hosting world-class mineral deposits in under-explored mineral belts, some of which are under shallow cover in eastern and southern Australia. This internally generated search has been successful and three strategic "Company Maker" projects have been added to the Company's portfolio. Successful exploration results over these major projects have the capability of elevating the Company to becoming a large scale miner. The "Company Maker" projects have both large scale (for example 300 km of potentially mineralised "fossil" shoreline at the Eucla Basin Project) and sound scientific concepts plus extensive data to back the integrity of each of the exploration projects. The Major Projects include the Tick Hill Gold, Eucla Basin Heavy Mineral Sands, Gwydir Diamonds and Bellfield Base Metals projects, any of which have the capacity to elevate the Company to being a substantial miner.

"Advanced" Gold and Copper Projects

The Company has developed a business plan, initially focussed on fast tracking its drill ready advanced projects, some of which have gold or copper resources. Drill targets can rapidly be developed with limited preparatory work on the more greenfields gold projects. An important part of the plan is that those projects which have early success will progress to mining feasibility study levels within two years of completion of the Offer. The Advanced Projects include the Burdekin Gold, Nymbool Gold, Burnett Gold Copper, Clermont Copper Gold, and Georgetown Inlier Gold projects. With their high exploration drilling components any of these projects have the capability to rapidly define mineable resources.

Company Background

The Company has been actively exploring in Queensland and New South Wales over a number of years and has built up a high quality project portfolio. To date, it has expended \$3.3 million in exploration on its gold, diamond and copper projects, and has proven up or acquired gold and copper resources on which to conduct further exploration with the aim of taking them through to mineable propositions. The Company has only recently expanded its exploration activities into South Australia and Western Australia with its Eucla Basin Heavy Mineral Sands Project.

ASX Listing

The Offer represents an opportunity for the Company to "graduate" to a listing on Australian Stock Exchange Limited, following a successful listing and year of trading on the Stock Exchange of Newcastle Limited.

Although investment in the Company should be considered speculative, I believe that the Company holds a portfolio of prospective new exploration opportunities. The possibility of a significant find is greatly enhanced with advanced targets ready to drill, and the hands-on experience and personal successful track record of the management team. This augers well for what the Board regards as an extremely exciting venture.

On behalf of the Directors, I look forward to welcoming you as a Shareholder.

Yours faithfully

Anthony J Fawdon
Executive Chairman / CEO

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Important Notice

This Prospectus is dated 10 January 2005. A copy of this Prospectus was lodged with the Australian Securities and Investments Commission (ASIC) on 10 January 2005. The ASIC, Australian Stock Exchange Limited (ASX), Stock Exchange of Newcastle Limited (NSX) and their officers take no responsibility for the contents of this Prospectus. The expiry date of this Prospectus is the date which is 13 months after the date of this Prospectus. No Shares will be allotted or transferred on the basis of this Prospectus later than the expiry date.

This Prospectus does not constitute an offer in any place where, or to any person to whom, it would not be lawful to make such an offer. The distribution of this Prospectus in jurisdictions outside the Commonwealth of Australia may be restricted by law and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities law.

This Prospectus provides information for investors to decide if they wish to invest in Diatreme Resources Limited (the Company) and should be read in its entirety. In particular, the budgeted exploration costs and the risk factors that could affect the financial performance of the Company should be examined. If, after reading this Prospectus, you have any questions about the desirability of, or procedure for, investing in the Company please contact your stockbroker, accountant or independent financial adviser.

No person is authorised to give any information or to make any representation regarding the Offer other than as set out in this Prospectus. Any information or representation in relation to the Offer which is not contained in this Prospectus may not be relied upon as having been authorised by the Company or its Directors.

Defined terms and abbreviations used in this Prospectus are set out in the Definitions section. All financial amounts shown in this Prospectus are expressed in Australian dollars unless otherwise stated. The assets depicted in photographs in this Prospectus are not assets of the Company unless otherwise stated.

This Prospectus is available in electronic form via the Company's website at www.diatreme.com.au. The Offer constituted by this Prospectus in electronic form is available only to persons (not including USA persons) receiving this Prospectus in electronic form within Australia. There is no facility for on-line Applications. Persons having received a copy of this Prospectus in its electronic form may, during the offer period, obtain a paper copy of this Prospectus (free of charge) by telephoning 02 8280 7454. Applications for Shares under the Offer may only be made on the Application Form attached to this Prospectus or in its paper copy form as downloaded in its entirety from www.diatreme.com.au. The Corporations Act prohibits any person from passing an Application Form on to another person unless it is attached to, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

The Company will not process Application Forms in the 7 day period after the date of lodgement of this Prospectus with ASIC. This period may be extended by up to a further 7 days. This period is an exposure period to enable this Prospectus to be examined by market participants prior to the raising of funds. Application Forms received during the exposure period will not be processed until after the expiry of that period. No preference will be conferred on Application Forms received in the exposure period. An electronic copy of this Prospectus may be downloaded during the exposure period at www.diatreme.com.au.

THIS DOCUMENT IS IMPORTANT AND SHOULD BE READ IN ITS ENTIRETY

section **1**

investment overview



1.1 OFFER

Shares offered to the public under this Prospectus*	25 000 000
Existing Shares on issue	52 610 233
Existing Options on issue**	7 687 791
Total number of Shares on issue following this Offer	77 610 233
Total number of Options on issue following this Offer**	7 687 791
Amount to be raised under this Offer before costs	\$5 000 000
Market capitalisation at the Offer Price of 20 cents	\$15 522 046

* Shares are on offer at 20 cents per Share.

** All Options are options to acquire one Share, exercisable at 20 cents and expiring on 30 May 2007.

The above is based on the Offer being fully subscribed.

The Offer is underwritten to \$3 000 000 (the minimum subscription amount). The Underwriter is Martin Place Securities Pty Ltd. Refer to Section 9.10.1 for details of the Underwriting Agreement including terms and conditions which may affect the obligations of the Underwriter.

1.2 IMPORTANT DATES

Offer schedule	Dates
Prospectus lodged with ASIC	10 January 2005
Record Date for Existing Shareholders' Priority Allocation	20 January 2005
Opening Date of Offer*	9.00 a.m. (Brisbane time) 1 February 2005
Priority Allocations close	5.00 p.m. (Brisbane time) 21 February 2005
Closing Date of Offer*	5.00 p.m. (Brisbane time) 28 February 2005

**These dates and times are indicative only and may change. The Company reserves the right (in consultation with the Underwriter) to change the above dates and in particular close the Offer early or extend the Closing Date or decide to withdraw or otherwise not to proceed with the Offer described in this Prospectus. Applications may be accepted prior to the Opening Date and Applicants are encouraged to apply as soon as possible. The Offer may close earlier than the date specified above.*

1.3 Purpose of the Offer and Utilisation of Funds

The net proceeds of the Offer (assuming the Offer is fully subscribed) will be used as follows:

Total Funds Raised at IPO	\$5 000 000
Funds currently available as at 10 January, 2005	\$505 000
Total Funds Available	\$5 505 000
Funds to be used as follows:	
Exploration Programs over three years	\$4 093 000
Administration & Corporate costs over three years	\$907 000
Fund expenses of Offer	\$505 000
TOTAL	\$5 505 000

Based upon a successful raising of \$5.0 million, section 3.4 sets out details of the Company's three year exploration budget and allocation of funds to the projects. A separate budget for the Minimum Subscription level is also shown.

At the minimum subscription level (\$3 000 000) the total for Exploration Programs will be reduced by \$1 697 000 to \$2 396 000, administration and corporate reduce by \$303 000 to \$604 000, and the expenses of the Offer will reduce by \$120 000 to \$385 000. Details of the Exploration Budget at the minimum subscription level, and the Company's proposals for exploration if the amount raised exceeds the minimum subscription but is less than the full subscription, are set out in Section 3.4.

Following completion of the Offer, the Company will have adequate working capital to carry out its objectives (as described in this Prospectus generally and in Sections 3 and 6 in particular). Depending on the success of the Company's exploration and any new opportunities arising, the Company may require further fund raisings in the future to facilitate growth.

1.4 Shareholding and Capital Structure

Upon successful completion of the Offer the shareholding structure of the Company will be as follows (assuming the Offer is fully subscribed):

Shareholding	Number of Shares	Percentage
Existing 1337 Shareholders	52 610 233	67.79
Shareholdings from the Offer	25 000 000	32.21
Total Shares	77 610 233	100.00

Optionholding	Number of Options	Percentage
Existing Optionholding	7 687 791	100.00
Option holding from the Offer	0	0.00
Total Options	7 687 791	100.00



1.5 Risk Factors

An investment in Diatreme Resources Limited should be considered speculative. In addition to the general risks associated with any investment in the equity market, there are certain risks inherent in investing in the exploration and mining industry. Investors should be aware that an investment under this Prospectus is likely to involve exposure to risks specific to the Company's operations. A more detailed description of risk factors is contained in Section 5 of this Prospectus. Investors should consider all risks and seek professional financial advice before investing.

1.6 Transfer of Listing to ASX

The Company will apply to ASX for admission to the Official List and Official Quotation of its ordinary shares (including Shares issued under this Prospectus). If ASX admits the Company to its Official List, the Company's existing listing on NSX will cease.

An application for admission of the shares offered under this Prospectus to quotation on ASX will be made to ASX within seven days after the date of this Prospectus. In the event that the application for admission of the shares to quotation on ASX is refused, an application for admission of the shares to quotation on NSX will be made to NSX within seven days after notification that the shares will not be admitted to quotation on ASX.

1.7 Summary Only

The investment overview in this section is not intended to provide full details of the investment opportunity. Investors must read this Prospectus in full to make a fully informed investment decision.

section **2**

details of the offer



2.1 DESCRIPTION OF THE OFFER

The Offer

The Company is seeking to raise \$5 000 000 through the Offer of 25 000 000 Shares at 20 cents per Share. Upon completion of the Subscription, the new Shareholders' holdings shall represent 32.21% of the issued Shares (subject to the Offer being fully subscribed). If only the Minimum Subscription is reached, the new Shareholders' holding will be 22.18%.

Other than in the case of Existing Shareholders, applications must be for a minimum of 10 000 Shares (\$2000) and thereafter in multiples of 5000 Shares (\$1000).

The Offer opens at 9:00am (Brisbane time) on 1 February 2005 and closes at 5:00pm (Brisbane time) on 28 February 2005. The Company reserves the right to vary the Opening and Closing Dates without notice.

Priority Allocation for Existing Shareholders

Existing Shareholders of the Company will have the opportunity to apply for Shares under the Offer in priority to the public until 21 February 2005. Existing Shareholders may apply during the Priority Period using the Priority Application Form (coloured blue) which will be sent to Shareholders with a copy of this Prospectus. The application price for Existing Shareholders under the Priority Allocation is the same as the Offer Price (ie 20 cents per Share).

Existing Shareholders who hold fewer than 10 000 Shares may subscribe for additional Shares in order to "round up" their holdings to a minimum of 10 000 Shares by using the Priority Application Form. Existing Shareholders who "round up" their holdings to 10 000 Shares, or who already hold at least 10 000 Shares may use the Priority Application Form to subscribe for additional Shares to increase their shareholding in multiples of 5000 Shares.

Applications made by Existing Shareholders using the Priority Application Form received, together with credit card payment details or a cheque for the subscription amount at 20 cents per Share, on or before 21 February 2005 will be given priority in the allocation of Shares under the Offer. Applications to "round up" holdings to 10 000 Shares will be treated as firm allocations, subject to satisfaction of the Minimum Subscription of \$3 000 000 and ASX listing conditions applying to the Offer under the Corporations Act.

To receive priority, Existing Shareholders must use the Priority Application Form. Applications made using the Application Form attached to this Prospectus or a paper copy of the Application Form which accompanies an electronic copy of this Prospectus will not be accorded any priority. The Company may accept Priority Application Forms after 21 February 2005 at its discretion. The Company at its sole discretion retains the right to accept or reject any Application (in whole or in part) and to alter the terms of the Priority Allocation.

2.2 HOW TO APPLY FOR SHARES IN THE OFFER

Applications should be:

Posted to:
Diatreme Resources Limited Share Offer
c/- ASX Perpetual Registrars Limited
GPO Box 2537
BRISBANE QUEENSLAND 4001

or

Delivered to:
Diatreme Resources Limited Share Offer
c/- ASX Perpetual Registrars Limited
Level 22, 300 Queen Street
BRISBANE QUEENSLAND 4000

to arrive on or before 5:00pm (Brisbane time) on the Closing Date 28 February 2005, unless changed).

Existing Shareholders' Priority Application Forms received after 21 February 2005 may be accepted at the discretion of the Directors and the Underwriter, but will not be given priority.

Applications for Shares can only be made by completing and lodging a paper copy of an Application Form which was attached to or accompanied a copy of this Prospectus.

Application Forms for the Offer are attached to printed copies of this Prospectus and can be downloaded with the Prospectus in electronic form at www.diatreme.com.au.

Existing Shareholders of the Company as at 20 January 2005 will be sent a personalised Priority Application Form together with a copy of this Prospectus. The personalised Priority Application Form sets out the Shareholder's details as recorded in the Company's Shareholder register and makes provision for the named Existing Shareholder:

- a) to apply for Shares at the Offer subscription price of 20 cents each to "round up" their Existing Holding (if less than 10 000 Shares, see above); and
- b) to apply for additional Shares as part of the Offer at the Subscription price of 20 cents each (in addition to or distinct from "rounding up" their Existing Holding).

Application Forms should be completed in accordance with the instructions on the relevant Application Form. Completed Application Forms and credit card payment details or cheques should be returned to reach the Company's share registry, ASX Perpetual Registrars Limited, at the address shown on the back of the Application Form by the Offer Closing Date. Priority Application Forms should be returned with payment to reach the Company's share registry on or before 21 February 2005, but may be accepted (without priority) after that date.

If any details in a personalised Priority Application Form sent to an Existing Shareholder (other than name or address details or the number of shares held by the Existing Shareholder) are incorrect, the Shareholder should amend the form and initial the change. The Company reserves the right to reject a Priority Application Form (in part or entirely) which has been amended to increase the number of "round up" Shares applied for in excess of the number required to increase the Shareholder's holding to 10 000 Shares. Amendment of the form cannot be used to change the name of the holder of Shares or to transfer an entitlement to "round up" Shares.

If the name or address details are incorrect, the Shareholder should contact the Company's share registry on 02 8280 7454 to arrange for the information to be corrected and a replacement form sent. Priority to apply for additional Shares to "round up" holdings of fewer than 10 000 Shares is as specified on the relevant Priority Application Form. The Shareholder should contact the Company's share registry if the "rounding up" number is believed to have been miscalculated, so that the information can be corrected and a replacement form sent. Existing Shareholders who do not receive a Priority Application Form should contact the Company's share registry to arrange for a Priority Application Form and a copy of the Prospectus to be sent.

Application Forms must be accompanied by payment by cheque or credit card for the subscription price of the Shares applied for in Australian dollars. A cheque must be drawn on an Australian branch of a bank or financial institution, made payable to "Diatreme Resources Limited Share Offer" and crossed "Not Negotiable".

Additional copies of this Prospectus are available from the Company's website at www.diatreme.com.au. Application Forms may only be distributed attached to or accompanied by a complete and unaltered copy of this Prospectus in printed or electronic form. Application Forms contain a declaration that the applicant has personally received the complete and unaltered Prospectus prior to completing the Application Form.

The Company will not accept a completed Application Form if it has reason to believe that the Applicant has not received a complete paper or electronic copy of this Prospectus or if it has reason to believe that the Application Form or electronic copy of this Prospectus has been altered or tampered with in any way.

Lodgement of an Application Form constitutes an irrevocable offer made in accordance with this Prospectus and the relevant Application Form. The Company, in consultation with the Underwriter, reserves the right to accept applications (in whole or in part) received after the Closing Date.



Enquiries about how to accept the Offer should be directed to ASX Perpetual Registrars Limited call centre on 02 8280 7454 during business hours.

2.3 ALLOTMENT

Subject to the Minimum Subscription of \$3 000 000 being received, allotment of Shares will be made as soon as possible after the Closing Date but no earlier than 7 days after this Prospectus was lodged with ASIC. Statements of Shareholdings will be dispatched after allotment and issue. It is the responsibility of Applicants to determine their allocation prior to trading in Securities. Applicants trading Securities before they receive their Shareholder statements will do so at their own risk.

The Company reserves the right to allocate the Shares offered under this Prospectus in full on any Application, or in the case of Offers to allocate any lesser number, or to decline any Application under the Offer. Where no allotment is made, or if fewer Shares than applied for are allotted and issued, the applicable amount will be returned without interest in accordance with the Corporations Act. Applications to "round up" Existing Holder's shareholdings will be given priority over other applications.

All Application Monies received with Applications will be held in trust for the Applicants by the Company until the allocations are determined.

2.4 MINIMUM SUBSCRIPTION

The minimum amount to be raised under the Offer is \$3 000 000, which amount is underwritten (see below). The maximum amount that can be raised under the Offer is \$5 000 000,

Separate exploration budgets for Full Subscription and Minimum Subscription levels are shown in section 3.4.

If the Company does not receive the Minimum Subscription Amount by the Closing Date (which may be extended without notice) or such later date as maybe permitted and as the Company in consultation with the Underwriter may determine, no Shares will be issued and all Application Monies (as applicable) will be refunded to Applicants in full without interest, in accordance with the Corporations Act.

2.5 UNDERWRITING

The Minimum Subscription of 15 000 000 Shares (\$3 000 000) has been underwritten by Martin Place Securities Pty Limited (Underwriter). The underwriting is subject to certain conditions including circumstances under which the Underwriter may terminate its obligations as summarised in Section 9.9.1 of this Prospectus. The Company will pay to the Underwriter a management fee of 1% and an Underwriting fee of 5% in respect of applications received and accepted by the Company.

2.6 AUSTRALIAN STOCK EXCHANGE LIMITED (ASX) LISTING

The Company will apply to ASX within 7 days from the date of this Prospectus to be admitted to the Official List and for quotation of Existing Shares and the Shares offered under this Prospectus on ASX. If granted, Official Quotation of the Shares on ASX will commence as soon as practicable after the allotment of the Shares to investors.

The Company's existing listing on NSX will cease as part of the Company becoming listed on ASX.

If the Company's application to ASX is unsuccessful for any reason, it is intended to maintain the Company's listing on NSX, in which case shares offered under this prospectus may be listed on NSX rather than ASX. There is no provision for refunds if the shares are listed on NSX rather than ASX. If the shares are not approved for admission for quotation on either Exchange, application monies will be refunded to Applicants without interest and no shares will be issued.

Further detail is provided in Section 9.15.

ASX and NSX and their respective officers take no responsibility for the contents of this Prospectus. The fact that ASX may admit the Company to its Official List is not to be taken in any way as indication of the merits of the Company or the Shares offered pursuant to this Prospectus.

2.7 CHESS

The Company will participate in the Clearing House Electronic Subregister System, known as CHESS. ASX Settlement and Transfer Corporation Pty Limited (ASTC) operates CHESS in accordance with the Listing Rules and the ACH Clearing Rules and the ASTC Settlement Rules.

Under CHESS, a Shareholder will not receive a certificate but will receive a statement of their holding in the Company.

If a Shareholder is broker sponsored, ASTC will send the Shareholder a CHESS statement. The CHESS statement will set out the number of Shares allotted to each Shareholder under this Prospectus, give details of the Shareholder's Holder Identification Number and give the Participant Identification Number of the sponsor.

If you are registered on the Issuer Sponsored sub-register, your statement will be dispatched by ASX Perpetual Registrars Limited, and will contain the number of Shares allotted under this Prospectus and the Shareholder's security holder reference number.

A CHESS statement or Issuer Sponsored statement will routinely be sent to Shareholders at the end of any calendar month during which the balance of their shareholding changes. A Shareholder may request a statement at any other time. However, a charge may be made for additional statements.

2.8 RESTRICTED SECURITIES

None of the Shares offered and to be issued pursuant to this Prospectus will be restricted securities.

Presently 4 853 824 existing shares are subject to escrow on NSX. The escrow expires on 31 October 2005. It is anticipated ASX will require at least the balance of that escrow period to apply to those shares if the Company's application to list on ASX is successful. ASX may impose additional escrow requirements on existing shares. The Company will announce the periods of escrow and number of shares to be escrowed when advised by ASX.

2.9 FOREIGN INVESTORS

No action has been taken to register or qualify the Shares or the Offer, or otherwise to permit a public offering of the Shares in any jurisdiction outside Australia.

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

2.10 RIGHTS ATTACHING TO SHARES

The Shares issued pursuant to this Prospectus will rank equally in all respects with the Company's existing Shares. The rights and liabilities attaching to all Shares are described in Section 9.1.

2.11 DIVIDEND POLICY

As the Company is an exploration company, the Directors do not anticipate declaring a dividend for the year ending 31 December 2005 or in the foreseeable future.

The payment of any future dividends will be dependent upon the Company undertaking activities to generate revenue such as the mining of a resource or profitable sale of a mining asset. Any future determination as to the payment of dividends by the Company will be at the discretion of the Directors. The payment of dividends will depend upon the availability of distributable earnings, the operating results and financial condition of the Company, future capital requirements, general business and financial conditions and other factors considered relevant by the Directors. No assurances in relation to the payment of future dividends, or the franking credits attached to such dividends, can be given to Shareholders.



Burnett Gold Project - DRL Drilling

2.12 WITHDRAWAL

The Directors may at any time withdraw this Prospectus and the Offer, in which case the Company will return all Application Monies (if applicable) to Applicants without interest within 21 days of giving notice of its withdrawal.

2.13 ADVISOR AND BROKER COMMISSIONS

Financial advisers and other intermediaries are compensated in different ways for the provision of services to their clients. For those organisations that levy a handling or similar fee, the Company, through the Underwriter, will pay such a fee to participating organisations of ASX and eligible licensed or exempt financial services providers (together referred to as 'advisers') who introduce investors.

The fee will not exceed 5% (plus GST, if applicable) of the issue price of the Shares, payable on monies received pursuant to Applications by clients of advisers lodged bearing the adviser's stamp. The Underwriter will receive a management fee of a further 1% on all Application Monies.

Advisers are obliged to disclose the amount of the fee to their clients. No brokerage or commission is payable by Applicants in respect of their Applications for Shares under this Prospectus.



Nymbol Gold Project - DRL Drilling

section **3**

directors' report



3.1 COMPANY PROFILE

Diatreme Resources Limited was incorporated as Minstrike Mining Pty Ltd on 10 August 1993 and changed its name to Strike Exploration Pty Limited on 25 May 1994.

The Company became a wholly owned subsidiary of Strike Mining NL, a Queensland based company which listed on ASX in May 1994 through a \$7.5 million capital raising. Strike Mining NL acquired Select-Tel Pty Ltd in July 2000 and renamed itself Select-Tel Limited. Subsequently, the Company was divested to the Select-Tel Limited shareholders in an in specie share distribution.

In November 2000, the Company was converted into an unlisted public company, changing its name to Minstrike Limited.

In March 2001, the Company changed its name to Diatreme Resources Limited and acquired the assets, including cash, of Regional Exploration Management Pty Ltd and its wholly owned subsidiary Chalcophile Resources Pty Ltd. This acquisition resulted in an expanded Company portfolio of mineral projects and provided further funds for exploration programs.

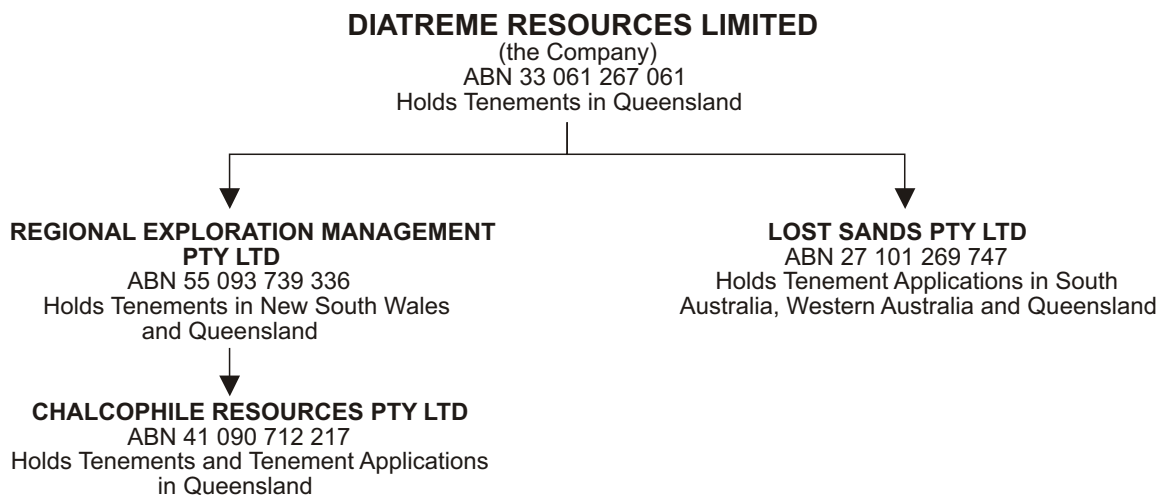
In October 2003 the Company raised \$500 000 before costs of the issue, in a capital raising when the Company listed on the Official List of the Stock Exchange of Newcastle Limited (NSX). Post NSX listing the Company embarked on an exploration drilling program at the Nymbool Gold Prospect which was completed in December 2003. Drilling programs were carried out in early 2004 with the Clermont Copper Gold Project program being completed in February 2004 and a ground magnetic survey and subsequent drilling program completed at the Gwydir Diamond Project in March 2004.

In September 2004 the Company acquired the assets, including cash, of Lost Sands Pty Ltd.

Exploration expenditure to date by the Company, predecessor entities and joint venture partners on the Company's granted project areas totals approximately \$3.3 million. This includes drilling at the Gwydir Diamond, Clermont Copper Gold, Burnett Gold and Nymbool Gold projects where resources in some prospect areas have previously been identified.

The Company currently conducts business as a diversified mineral explorer in Queensland, New South Wales, South Australia and Western Australia.

Organisational Chart of the Company and its wholly owned subsidiaries:



3.2 EXPLORATION RATIONALE AND STRATEGY

The Directors believe that the Company's exploration strategy has potential to lead to success in discovering and bringing new mining projects onstream from within its existing portfolio of exploration projects.

Projects held by the Company vary widely between "brownfield" and "greenfield" in status. Therefore, the Company has developed a strategy of fast tracking its drill ready Advanced Projects whilst at the same time steadily progressing the Major Projects which require a longer lead time to succeed.

3.2.1 "Major" Projects

Major Projects are ambitious in size and scope, all covering areas the Directors believe to be among the most prospective portions of their respective geological terrains. All the projects in this category dominate the mineral belts within which they reside.

Each project has the potential to be a "Company Maker" (subject to successful development) and each presents the Company with substantial targets where hitherto minimal exploration (or in the case of the Gwydir Diamond Project no exploration) has been conducted. Projects within this category include the Eucla Basin Heavy Mineral Sands Project (South and Western Australia), Gwydir Diamond Project (New South Wales) and the Bellfield Base Metal Project (Queensland).

The exception to the above is the Tick Hill Gold Project in north west Queensland. The Company intends exploring for extensions to the very productive high grade gold orebody that was mined by Mount Isa Mines Limited in the mid 1990's.

With the exception of the Tick Hill Gold Project, the Major Projects (because of their size) involve longer lead times to bring to fruition. However, they give the Company potential "Company Maker" opportunities on which to build the foundations of becoming a substantial miner.

Initial exploration on the Major Projects is expected to be conducted directly by the Company, but because of the high funding levels required, it may be necessary to pursue alternative sources of funds for their further development. This may involve proposals to separately farm out the heavy mineral sands, diamond and base metal projects.

3.2.2 "Advanced" Gold and Copper Projects

Advanced Projects are defined as those in which exploration has been progressed to a stage where drilling targets have already been established or where limited preparatory work is required to delineate targets.

The Company has a defined exploration strategy to aggressively pursue exploration on its Advanced Projects and to fast track its drill ready projects. This strategy will be implemented by a commitment to high drilling components in the exploration programs over those projects with existing defined resources and with established targets. The Burdekin Gold, Nymbool Gold and Clermont Copper Gold projects fall within this category.

The exploration programs will be dependent upon the level of funds raised but it is the intention of the Company to endeavour to bring at least one project onstream to mining feasibility study status within a two year period. Details of the Company's exploration expenditure proposals are provided in section 3.4.

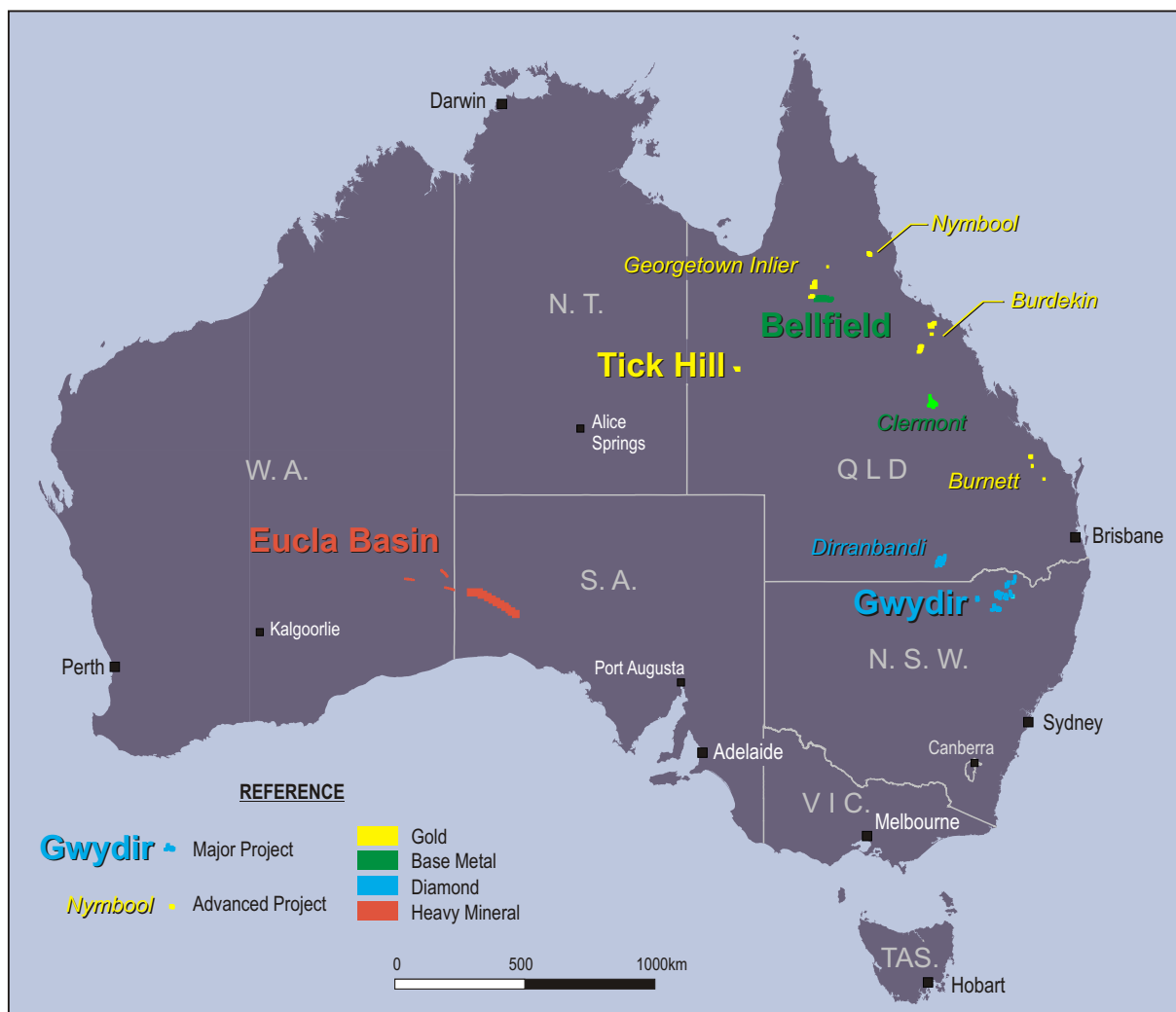
Successful exploitation of a mineral resource contained within an Advanced Project would give the Company a cash flow status, which in itself is desirable. However, if the Company is to progress and elevate itself into a major producer then it may be necessary to look toward the development of its Major Projects.



3.3 EXPLORATION PROJECTS

Summary Table of Projects

Major Projects	Target Type	Comments
Tick Hill Gold	Past production of 513 333 ounces gold at a grade of 22.62 g/t gold.	Targeted drill sites for extensions to mined orebody.
Eucra Basin Heavy Mineral Sands	Largely untested extensive "fossil" shoreline with potential for heavy mineral sands and precious metals.	300 km of "fossil" shoreline held by the Company with economic ilmenite and zircon grades drilled on same structure in previous tenements.
Gwydir Diamond	Deep seated diamond intrusives under shallow cover rocks. Possible source for Bingara and Copeton alluvial diamond fields.	Multiple geophysical anomaly targets with potential to host diamond pipes. Current drilling has identified deep seated pipes.
Inclusive of Dirrandbandi Diamond	<i>Swarm of topographic low features with potential for intrusive diamond pipes.</i>	<i>Topographic ring features are unusual and can present good drill targets for diamonds.</i>
Bellfield Base Metal	A Mount Isa style copper zinc target under shallow cover rocks.	Geological interpretation and geophysical anomalies have defined broad targets over a 30km prospective zone.
Advanced Projects	Target Type	Comments
Burdekin Gold	In the productive epithermal gold belt of northern Queensland.	Targeted drill sites on extensions to high grade gold intersections to follow up - 8 m @ 18 g/t gold.
Clermont Copper Gold	Volcanic massive sulphide copper mineralisation in central Queensland.	A resource of 25 000 tonnes of oxide copper with good drilling potential to increase resource along strike.
Nymbool Gold	Large shallow dipping porphyry gold complex.	Ready to drill an untested extension to a large gold mineralised system.
Burnett Gold Copper (Yarrol Gold Prospect)	Suite of extensive gold rich veins in altered granitoids and epithermal prospects.	Drill targets on open ended resources with high grade intersections up to 8 m @ 39.8g/t gold.
Burnett Gold Copper (Mt Cannindah Gold Prospect)	Intrusive style porphyry mineralisation surrounded by skarn, breccia and stockwork mineralisation.	Untested bullseye magnetic anomaly over possible mineralised intrusive centre.
Georgetown Inlier Gold	Two targets within mineralised intrusives and a further quartz vein and breccia swarm target.	Drilling targets on untested high grade gold up to 22.5 g/t gold on surface.



Diatreme Resources limited - Project locations.

3.3.1 Major Projects

Major Projects have the size and potential to host world class deposits in prospective geological terrains. In each case, their successful exploitation would have "Company Maker" potential. Though the projects have reached certain levels of data generation and groundwork, further data research and reconnaissance exploration to delineate targets is required before substantial drilling programs can be conducted on the majority of these projects. The Company proposes to progress the Major Projects in parallel with the shorter term drill ready Advanced Projects.

Tick Hill Gold Project

The Tick Hill Gold Mine, located in north-west Queensland, was mined by Mount Isa Mines Limited between 1991 and 1995, producing 513 333 ounces of gold from 705 000 tonnes of ore. The recovered grade was very high at 22.62 grams gold per tonne, with treatment plant recovery averaging 97.2%.

The mine was a highly profitable operation generating net cash of in excess of \$150 million from total capital costs of \$25 million.



The Company has the exclusive right to conduct exploration on specified Tick Hill mining leases under an agreement with Mount Isa Mines Limited ("MIM"), together with an option to acquire the mining leases. Further details are set out in Section 9.10.5.

Near surface ore was mined by a 70 metre deep small open cut, following which a decline was constructed to access and mine the underground ore. Currently the mine area is covered by three granted mining leases.

Proposed exploration by the Company will aim at looking for extensions to the mined orebody or repetitions of the mineralisation, as the Company considers the potential for discovering significant resources of a similar nature makes the area an attractive target for exploration.



Open pit mining operations at the Tick Hill Gold Mine in the early 1990's.

Once compilation and interpretation of geology and mine data has been finalised and target zones delineated, the Company plans to commence staged drilling programs in order to locate further mineralisation.

The mining leases have an existing decline and ventilation shaft (flooded at this time) to approximately 300 m depth. If further mineralisation is found at depth through surface based drilling then it may be possible to recommission this infrastructure to operate underground exploration and possible mining.



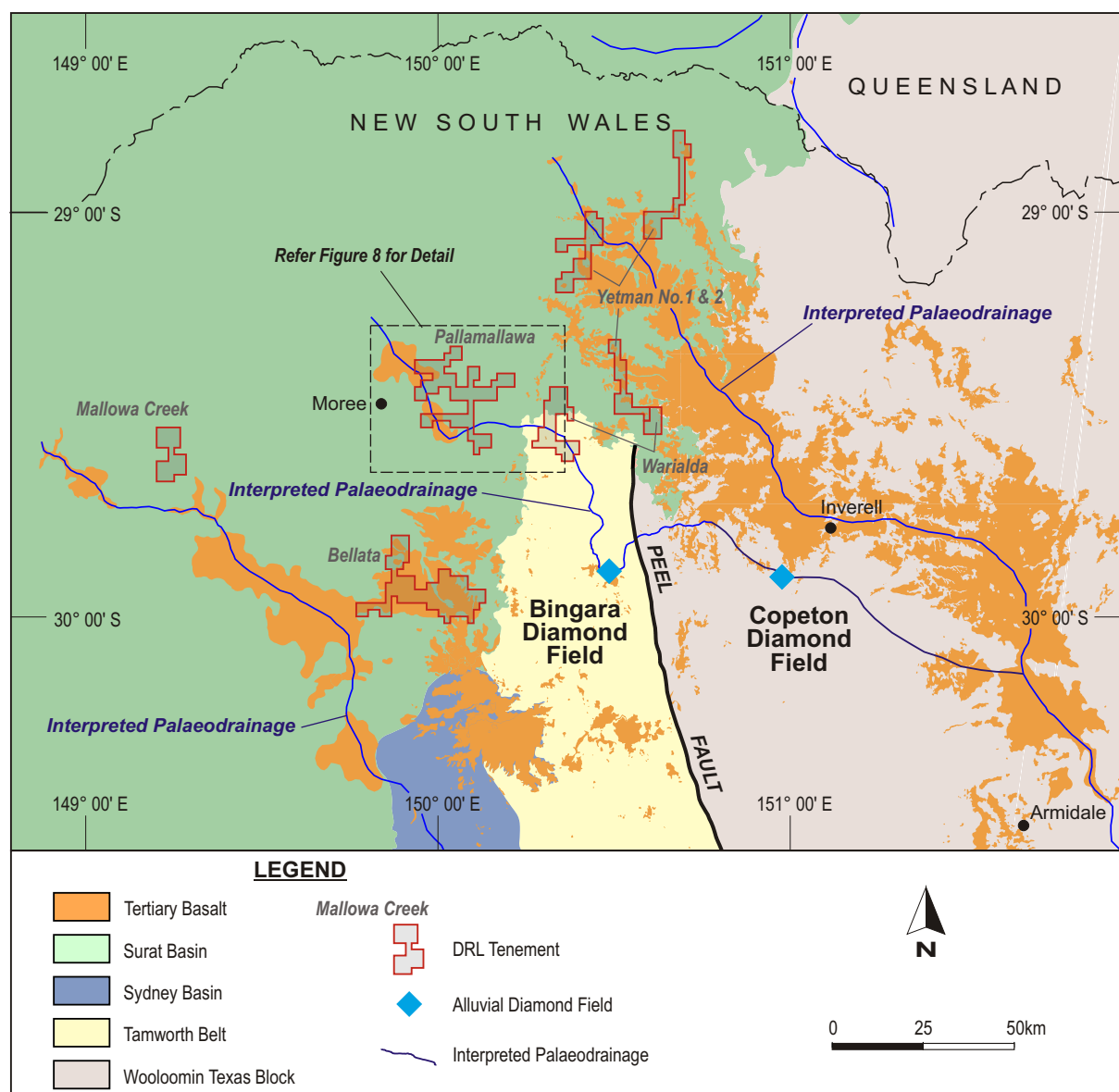
Tick Hill Gold Mine viewed from the west during operations in the mid 1990's.

Gwydir and Dirranbandi Diamond Projects

The aim of the Gwydir Diamond Project is to discover the hard rock sources of the alluvial diamonds of the Bingara and Copeton diamond fields which have been the largest producing diamond fields in eastern Australia with an estimated production of 400 000 metric carats.

The Dirranbandi Diamond Project in southern Queensland has 18 targets coincident with unusual low circular topographic features. It is typically these types of features that diamond explorers would consider favourable in diamond exploration.

The Gwydir Diamond Project area extends from near Yetman to Bellata in northern central New South Wales and forms a discontinuous arc of approximately 200 km in extent covering land the Company believes may contain the source areas for the Bingara and Copeton alluvial diamond fields. The Company has used innovative geological methods coupled with interpretation of the latest high quality geophysical and radiometric data in the search for these diamond source areas.



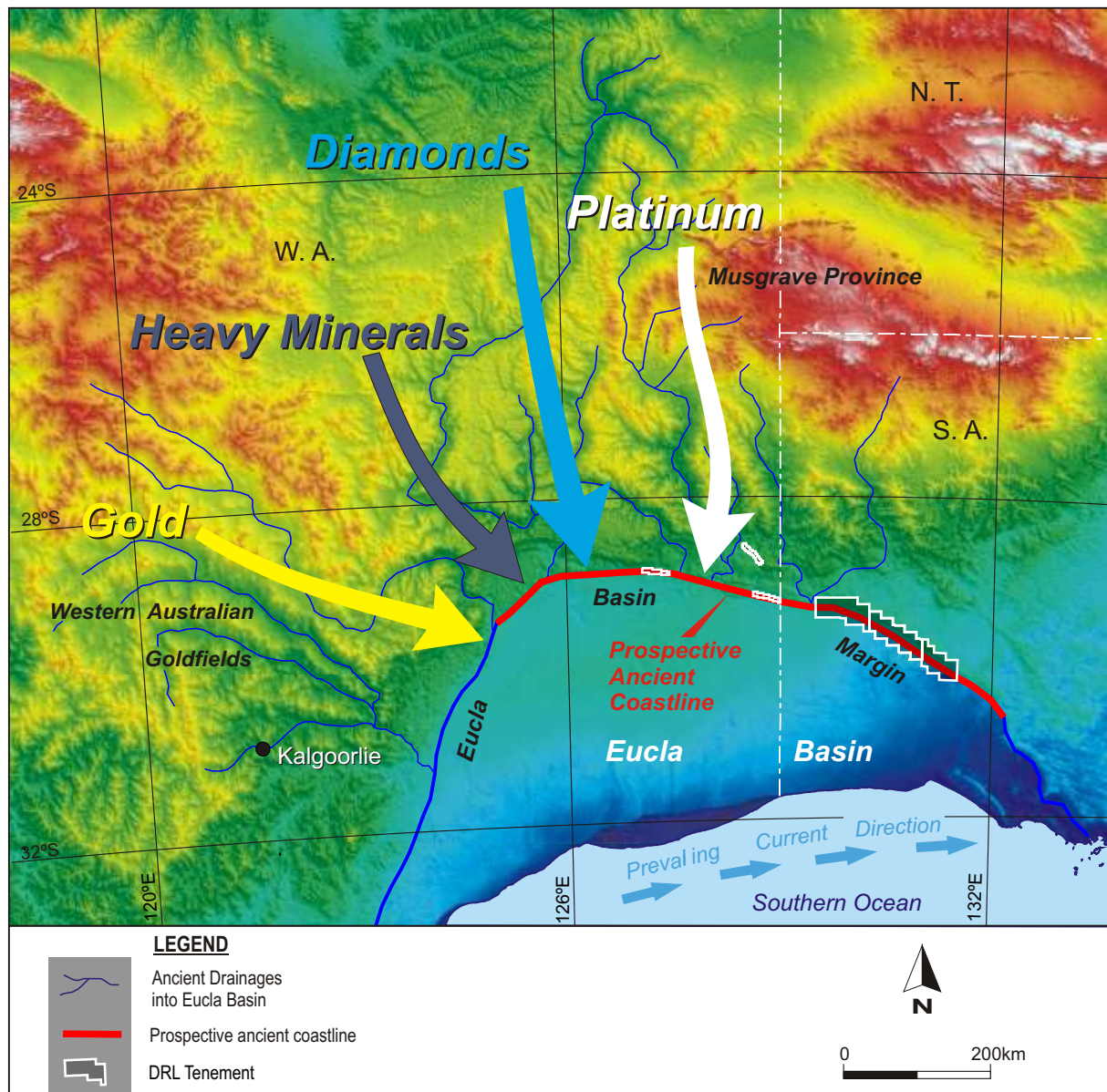
Gwydir Diamond Project - New South Wales tenements, diamond fields and interpreted palaeodrainage.



The Company's diamond exploration model involved the reconstruction of the drainage patterns at the time of deposition of the Bingara/Copeton alluvial diamonds within an elevated ancient river system. Importantly, the paleodrainage directions are interpreted as being reversed from those of the present time. This has enabled the Company to establish the possible headwater catchments supplying diamonds to the alluvial deposits in ancient times. Using modern geophysical data, 51 high priority magnetic anomalies have been defined within the postulated source areas. Recent drilling by the Company of several of the anomalies has identified, below shallow cover rocks, the existence of deep seated intrusive pipes which have the characteristics to carry diamonds from depth.

These magnetic anomalies are thought to be highly prospective and potentially indicate kimberlitic or lamproitic diamond pipes, which may prove to be the source of the alluvial diamonds. The Company intends to conduct reconnaissance geology, ground geophysics and drill selected anomalies, a diamond exploration technique that has been successful in other diamond fields around the world.

Eucla Basin Heavy Mineral Sands Project



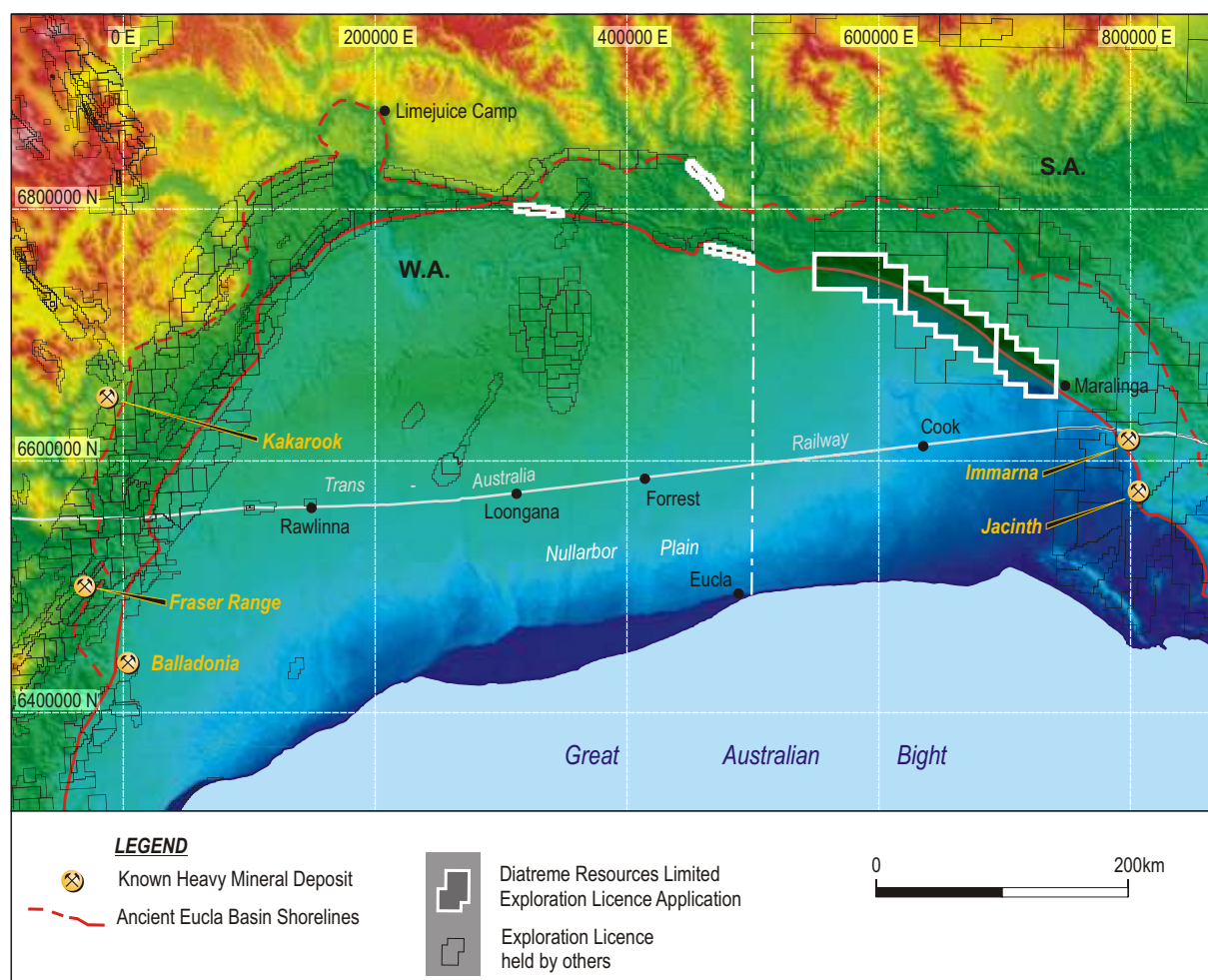
Eucla Basin Heavy Mineral Sands Project - Exploration Model based on Shuttle Radar Altimetry.

The project covers a discontinuous 300 km length along an ancient "fossil" shoreline of the Eucla Basin of Tertiary age commanding areas the Company has assessed as containing the most favourable depositional environments for heavy mineral sands deposits. The "fossil" shoreline occurs along the northern perimeters of the Eucla Basin, straddling the common boundary of Western Australia and South Australia, and consists of a continuous strandline.

The Company's digital elevation model strongly indicates the existence of a long "fossil" shoreline and also a series of very extensive old river drainages (represented today as paleovalleys in the hinterland of the fossil shoreline) which would have flowed into, and deposited their contents into an adjacent shallow sea. The paleovalleys are believed to represent an important source of heavy minerals along the fossil shoreline.

The paleostreams are believed to have been active over geologic time draining three major mineral provinces including the Gawler Craton, Musgrave Mineral Province and the Yilgarn Block, the latter hosting the Kalgoorlie Goldfields, a very large producer of gold, nickel and platinoid metals on a world scale. On the eastern margins of the Yilgarn Block rare earth carbonatite deposits have been discovered which have similar chemistry to the diamond bearing kimberlites and lamproites. This means the region is also prospective for diamonds.

There are ten indicated major paleovalley catchments which have drained into the 500 km linear arc in the central portion of the fossil shoreline.



Eucla Basin Heavy Mineral Sands Project - Shuttle Radar Altimetry digital terrain model in colour showing tenements and ancient shoreline.



The Company has applied for six exploration tenements which cover 300 linear km of potentially the most productive parts of the central 500 km portion of the shoreline.

The northern Eucla Basin fossil shoreline represents one of the last major heavy mineral target provinces that has not been comprehensively explored in Australia.

Exploration by other parties has identified heavy mineral concentrations along the fossil shoreline. The best assays recovered along the shoreline outside of the Company's project area were up to a grade of 27.2% heavy mineral sands with 51% zircon, 43% ilmenite and 3% rutile on which a microprobe analysis returned an average of TiO₂ assay of 66.2%. Previous drilling within the Company's project area by previous explorers has recovered up to a grade of 2.85% heavy mineral sands with up to 47% zircon, 31% ilmenite and 2% rutile recovered within the mineral assemblage. These grades compare very favourably with the high grade occurrences along the Western Australian seaboard.

The Company believes the project has very high potential to locate economic heavy mineral deposits along the fossil shoreline, and more importantly that gold, platinum metals and possibly diamonds are likely to be accessories to the economic mineral assemblage.

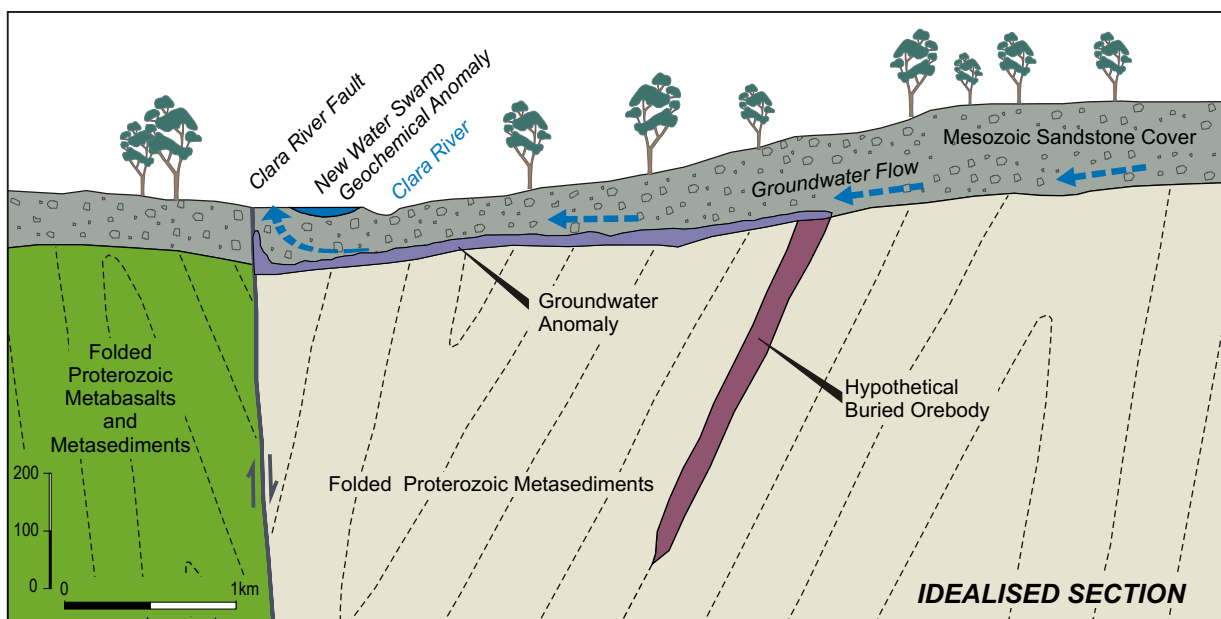
Bellfield Base Metal Project

The aim of the Bellfield Base Metal Project is to discover a major Mount Isa style copper-lead-zinc-silver deposit.

The Company is looking for world-class base metal deposits within Proterozoic age rocks, where the bulk of Australia's large base metal mineral deposits occur.

Work to date has identified a base metal project area within similar rocks and in a similar structural setting to the giant Mount Isa deposit. The prospective rocks are covered by up to 180 m of younger sandstone rocks from which springs of groundwater, carrying anomalous zinc values, are known to well up from depth to the surface along a major fault zone.

Anomalous zinc and copper have been precipitated in swamp mud near the fault zone. The metals are thought to be sourced from mineral deposits in the underlying Proterozoic rocks.



Bellfield Base Metal Project - Exploration Model Section

The Company's research using modern high quality geophysical datasets and geological interpretation has identified five high-priority geophysical anomalies over a distance of 30 km along the fault zone.

The Company initially plans to drill into these anomalies through the overlying sandstone cover seeking the source of the high order anomalous zinc and copper being transported by the groundwater.

3.3.2 Advanced Projects

The Advanced Projects are at or near drill ready status and have been classed as having the capability of being brought forward to mining feasibility status rapidly and/or have very defined drilling targets, which can be investigated and assessed for economic exploitation within a period of two years.

Burdekin Gold Project

The project area is located 120 km south-east of Charters Towers in the productive epithermal belt of central Queensland that hosts many significant gold deposits including Pajingo, Vera Nancy, Wiralie, Yandan, Mount Coolon and Twin Hills. The project aim is to find a significant body of high-grade epithermal gold mineralisation.

The best drilling results from within the project area previously reported are 8 m @ 18.1 g/t gold, 24 m @ 5.0 g/t gold and 26 m @ 2.8 g/t gold at the Gettysberg Prospect. Further assessment of the Gettysberg Prospect by the Company has identified a gold mineralised zone extending from surface shallowly plunging to the north, which is open ended and untested to the north of current drilling.

The Company proposes to follow up the previous drilling and establish additional drilling targets.

The Quartz Hill Prospect presents a classic epithermal gold target with quartz-chalcedony veining with low-sulphidation alteration, where deep drilling is required to test for potential high grade epithermal gold mineralisation.

Clermont Copper Gold Project

The project area is situated immediately south and west of the mining town of Clermont in central Queensland and covers numerous historic small gold workings and the Peak Downs Copper Mine. Exploration conducted in the last decade by previous companies has established a resource of 25 000 to 30 000 tonnes of near surface oxide copper metal at the Peak Downs Copper Mine. Several historic copper workings, such as the Comstock and Consols mines, and other widespread copper mineralisation, such as the Oakey Creek Prospect, occur throughout the project area over tens of kilometres in length in areas that have received very little modern exploration.

The Company proposes conducting exploration along the mineral belt with the aim of substantially, but incrementally, increasing the oxide copper resources. The plan is to identify resources through drilling and to increase them to a level that makes it attractive to sustain a mining and heap leach processing operation to recover copper product.



Clermont Copper Gold Project - Copper lode at Peak Downs Copper Mine



Nymbool Gold Project

The project area is centred immediately west of the town of Mount Garnet, north Queensland. It contains the Nymbool Gold Prospect which is typical of the large low grade porphyry style deposits of the very productive north Queensland gold province, including such mines as Kidston, Mount Leyshon and Red Dome.

Recent drilling by the Company on the Nymbool Gold Prospect has intersected a substantial gold rich zone which is 150 m or more in width, with internal grades in excess of 3.0 g/t gold and overall widths of 155.5 m @ 0.42 g/t gold. The gold mineralisation occurs within a wide shallow easterly dipping porphyritic granite which has been tested by drilling from its outcrop for a distance of 200 m down dip. Gold grades appear to be increasing incrementally as it dips deeper to the east. Future drilling by the Company intends to concentrate on testing the prospective, yet undrilled, down dip extensions of this mineralisation.

Previous bench test work was conducted by the Company to ascertain possible recoverable gold grades from heap leach processing. The results were very favourable with early bench test work showing levels of 96% gold recovered.

Burnett Gold Copper Project

The Company aims to outline substantial additional higher-grade gold resources adjacent to the known resources at the Yarrol and Mount Steadman Gold prospects.

Resources defined to date at the Yarrol Gold Prospect include 870 000 tonnes @ 1.6 g/t gold (Yarrol North area) and 270 000 tonnes @ 1.5 g/t gold (Central Ridge area) and 1.2 million tonnes @ 0.9 g/t gold at the Mount Steadman Gold Prospect.

The Company proposes to conduct drilling on untested zones adjacent to current resource areas and follow up drilling of open ended along strike extensions to previous drillhole intersections with economic gold grades.

The Mount Cannindah Prospect surrounds the Mount Cannindah Mine (not held by the Company) which hosts copper and gold resources. However, the Company has identified a high priority prominent magnetic anomaly within the prospect which is interpreted as being the geophysical signature for an intrusive body. Mineralisation in the area is related to intrusives, skarns and breccia stockworks and the high priority anomaly has received no exploratory drilling. The Company intends to conduct a ground based magnetic survey to delineate drillsite locations for follow-up.

Georgetown Inlier Gold Project

The aim of exploration on this project is to find substantial gold mineralisation at the Warrigal Creek, Munitions Creek (Langdon River) and Ironhurst Gold prospects.

The Warrigal Creek Gold Prospect contains magnetic anomalies resembling those at Mount Leyshon and gold geochemical anomalies in the overlying sandstone cover rocks.

At the Munitions Creek Gold Prospect, quartz veins have yielded surface rock chip results to 22.5 g/t gold within an area 600 m by 200 m in extent. No drilling has been previously completed in this area.

At the Ironhurst Gold Prospect previous drilling has encountered moderately high zinc and silver values in the shallow parts of a sub-volcanic breccia system. Potential exists for gold mineralisation beneath the shallow zinc and silver zone.

These prospects can be brought very rapidly into drill ready status following grant of the relevant Tenements.

3.4 ALLOCATION OF FUNDS AND RATE OF EXPENDITURE

3.4.1 Full Subscription Exploration Budget

The funds raised by this Offer are to be applied to progressing exploration and the strategic position of the Company, to pay outstanding costs of the Offer and to be used for general working capital, as set out in the

table below. The budget assumes that the Offer is fully subscribed resulting in a total of \$5.0 million raised through this Prospectus.

The proposed three year exploration budget for the Company is as follows:

PROJECT	1st Year	2nd Year	3rd Year	TOTAL
MAJOR PROJECTS				
Tick Hill Gold	200 000	200 000	191 000	591 000
Eucla Basin Heavy Mineral Sands	200 000	200 000	230 000	630 000
Gwydir Diamond (inclusive of Dirranbandi Diamond)	300 000	290 000	290 000	880 000
Bellfield Base Metal	50 000	100 000	120 000	270 000
ADVANCED PROJECTS				
Burdekin Gold	180 000	190 000	190 000	560 000
Nymbool Gold	120 000	120 000	120 000	360 000
Burnett Gold Copper	100 000	100 000	100 000	300 000
Georgetown Inlier Gold	80 000	80 000	80 000	240 000
Clermont Copper Gold	82 000	90 000	90 000	262 000
GRAND TOTAL	1 312 000	1 370 000	1 411 000	4 093 000

3.4.2 Minimum Subscription Exploration Budget

In the event that the raising only achieves the Minimum Subscription of \$3.0 million, the Directors propose to complete programs with reduced drilling components to test the best targets and to take action to maintain the Tenements held by the Company.

The proposed exploration budget for the Company in the event that only the Minimum Subscription is raised is as follows:

PROJECT	1st Year	2nd Year	TOTAL
MAJOR PROJECTS			
Tick Hill Gold	197 000	197 000	394 000
Eucla Basin Heavy Mineral Sands	207 000	207 000	414 000
Gwydir Diamond (inclusive of Dirranbandi Diamond)	189 000	189 000	378 000
Bellfield Base Metal	43 000	43 000	86 000
ADVANCED PROJECTS			
Burdekin Gold	140 000	140 000	280 000
Nymbool Gold	132 000	132 000	264 000
Burnett Gold Copper	105 000	105 000	210 000
Georgetown Inlier Gold	89 000	89 000	178 000
Clermont Copper Gold	96 000	96 000	192 000
GRAND TOTAL	\$1 198 000	\$1 198 000	\$2 396 000



In the event that the funds raised are greater than the Minimum Subscription, but less than the total amount to be raised, the program for the Minimum Subscription budget will be completed as well as additional exploration on drill-ready targets and further work on the above projects in the second year, if warranted by results obtained in the first year. Additional expenditure on drill-ready targets will be directed according to the level of subscriptions received and the results of preliminary reviews to establish the priority in which work is to be undertaken on those targets.

3.5 CORPORATE OBJECTIVES

The Company has extensive expertise in mineral exploration which it will use for Shareholder's benefit. The principal objective is to discover a major mineral resource in Australia. This is consistent with the Company's expertise. The Directors believe that if it can be achieved it will generate substantial wealth for Shareholders.

The Company's Directors have not formed a view on whether discoveries will be developed, farmed out, joint ventured or sold by the Company as this decision must be made on the basis of maximising the returns to Shareholders. A decision can only be made when the full facts of a discovery are known.



Tick Hill Gold Project - Views from Tick Hill summit,
December, 2004.



section 4

directors and management



4.1 DIATREME RESOURCES LIMITED AND ITS BOARD

The Board is responsible for the corporate governance of the Company, including its strategic development. The Board will be responsible for reviewing corporate strategy and financial targets in terms of Shareholder expectations, performance and potential. It establishes goals for management and monitors achievement of these goals.

4.2 PROFILE OF DIRECTORS AND EXECUTIVE MANAGEMENT



Anthony John Fawdon (Age 61) *F.Aus.I.M.M., F.A.I.C.D.*
Executive Chairman CEO

Tony has been active in the Australian mining and exploration industry for 33 years, working, until 1982, at various management levels for multinational companies. Tony then became founder and director of several listed explorers including the Queensland based gold and base metal explorer Strike Mining NL in 1994 for which he was Managing Director/CEO until 2000. Tony is a Director of the Queensland Resources Council Ltd and chairs their Exploration Committee. He is Chairman of the Queensland Geoscience Improvement Forum, a member of the Queensland Minister for Natural Resources and Mines Exploration Committee and is Chairman of Opal Horizon Limited.



David Hugh Hall (Age 51) *B.App.Sc. (Geol), G.Dip.E.Sc.*
Executive Director - Exploration Administrator

David is a geologist with over 24 years experience in both field exploration and office administration. During this time, he has developed skills and experience in corporate management, with specialist experience in project maintenance, tenement administration, government agency, landholder and native title liaison and public and private company dealings. He is a member of the Exploration Committee of the Queensland Resources Council Ltd.



Lawrence James Litzow (Age 70) - *F.C.A., A.A.U.Q., A.C.I.S.*
Non-Executive Director - Corporate Secretary

As a Chartered Accountant, Lawrie consults in specialist accounting and corporate matters. He holds positions as corporate secretary with a number of public and private companies. His background includes tenure as Managing Partner of Douglas Heck & Burrell, Chartered Accountants, member of the Small Business Council (advising the Federal Minister for Small Business), Chairman of the Small Business Taxation Group (Canberra), State Chairman of the Taxation Institution of Australia and Director of several public and private companies.



Kenneth James Harvey (Age 59) *M.Sc., Dip. Ed., M.Aus.I.M.M., M.A.I.G., M.S.E.G., M.G.S.A.*
Exploration Consultant

Ken has over 34 years experience in mineral exploration, management and resource evaluation throughout Australia. He was a long-standing member of MIM's exploration team, who were responsible for many discoveries. Throughout his career he has held numerous management positions within the minerals industry. He is currently a member of the Queensland Geoscience Improvement Forum and a member of the Queensland Minister for Natural Resources and Mines Exploration Committee.

4.3 CORPORATE GOVERNANCE

The Board has put in place the framework and operational policies for the management of the Company ensuring the proper management of internal controls and risk.

The Board of Directors

The Board carries out its responsibilities according to the following mandate:

- the Board should comprise at least three Directors;
- the Board should include at least one non-executive Director;
- the Directors should possess a broad range of skills, qualifications and industry experience;
- the Board should meet on a regular basis; and
- all available information in connection with items to be discussed at a meeting of the Board shall be provided to each Director prior to that meeting.

The primary responsibilities of the Board include:

- the approval of the annual and half year financial reports;
- the establishment of the long-term goals of the Company and strategic plans to achieve those goals;
- the review and adoption of annual budgets for the financial performance of the Company and monitoring the results on a quarterly basis; and
- ensuring that the Company has implemented adequate systems of internal controls together with appropriate monitoring of compliance activities.

Independent Professional Advice

With the prior approval of the Chairman, each Director has the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as Directors.

Audit Committee

The Board has established an Audit Committee consisting of three Directors. The current members of the Audit Committee are:

AJ Fawdon (Chairman)
DH Hall
LJ Litzow

The Audit Committee provides a forum for the effective communication between the Board and the auditors.

The Audit Committee reviews:

- the annual and half year financial reports prior to their approval by the Board;
- the effectiveness of management information systems and systems of internal control; and
- the efficiency and effectiveness of the audit functions.

The Audit Committee invites the auditors to attend Audit Committee meetings.



Remuneration Committee

The Remuneration Committee consists of the following Directors:

AJ Fawdon (Chairman)
LJ Litzow

The policy of the Company is to set remuneration at competitive levels so as to attract the appropriate levels of skill and experience in Directors and senior executives. The Remuneration Committee will commission external independent experts to guide the Board in setting appropriate industry remuneration levels on a case by case basis. The Remuneration Committee will recommend in each case (subject to Shareholder confirmation where applicable):

- the amount of the remuneration; and
- the term of appointment.

Risk Management

The Board is responsible for the Company's system of internal controls. The Board monitors the operational and financial aspects of the Company's activities and, through the Audit Committee, the Board considers the recommendations and advice of the auditors and other external advisers on the operational and financial risks that face the Company.

The Board ensures that recommendations made by the auditors and other external advisers are investigated and appropriate action is taken to ensure that the Company has an appropriate internal control environment in place to manage the key risks identified.

In addition, the Board investigates ways of enhancing existing risk management strategies, including appropriate segregation of duties and the employment and training of suitably qualified and experienced personnel. To manage risk, the Company has formed a Risk Management and Compliance Committee consisting of:

DH Hall (Chairman)
LJ Litzow
AJ Fawdon

Code of Conduct

As part of the Board's commitment to the highest standard of conduct, the Company has adopted a Code of Conduct to guide executives, management and employees in carrying out their duties and responsibilities. The Code of Conduct covers such matters as:

- responsibilities to Shareholders;
- compliance with laws and regulations;
- relations with customers and suppliers;
- ethical responsibilities;
- employment practices; and
- responsibilities to the environment and the community.

section **5**

risk factors



RISK FACTORS

The directors consider that an investment in the Shares, the subject of this Prospectus, is speculative because of the nature of the Company's intended activities.

The future performance of DRL and the future investment performance of the Shares may be influenced by a range of factors. Many are outside the control of the Board and DRL. Prior to making any decision to accept the Offer, investors should carefully consider the following risk factors applicable to the Company.

Careful consideration should be given to the following risk factors, as well as the other information contained in this Prospectus and the Applicant's own knowledge and enquiries, before an investment decision is made. Some of the risks may be mitigated by the Company using safeguards and appropriate systems and taking certain actions. Some of the risks may be outside the control of DRL and not capable of mitigation. There are also general risks associated with any investment in Shares.

5.1 Specific Risk Factors of DRL

a) Reliance on Key Personnel In formulating its exploration programs, the Company relies to a significant extent upon the experience and expertise of the following Executive Directors and Management:

Executive Chairman and CEO	Tony Fawdon
Exploration Administrator	David Hall
Exploration Consultant	Ken Harvey

These gentlemen possess knowledge of many of the DRL tenements through extensive personal experience of prospecting in those areas.

Although information concerning DRL's tenements has been chronicled, the loss of one or more of these key personnel may adversely affect the Company's prospects of pursuing its exploration programs within the timeframes and within the cost structure as currently envisaged.

Although the Key Personnel have a considerable amount of experience and have previously been successful in their pursuits of important prospecting discoveries, there is no guarantee or assurance that they will be successful in their objectives pursuant to this Prospectus.

b) Resource Targets The geological characteristics of the Company's gold, diamond, base metal and heavy mineral sands targets at the various locations covered by the Tenements appear to have similar characteristics to locations where established exploration and mining operations are being successfully conducted. Similarity of geological characteristics is not determinative of any similarity in actual mineral resources. Whilst those characteristics may encourage explorers like DRL to commit expenditure to drilling programs, it must be appreciated that a substantial and real risk still exists that no viable resource will be identified. As such, it is important that geological similarities be appreciated in the context that they only provide an indication rather than any determinative evidence of any viable outcome.

c) Tenements A failure to adhere to the requirements for the expenditure identified in Section 6.2 of this Prospectus will, unless an exemption is granted, make the Tenement subject to possible forfeiture.

Tenements have previously been renewed in Queensland and New South Wales notwithstanding full expenditure requirements not having been met, on the basis that further expenditure will occur. The combined expenditure on all Queensland tenements exceeds the aggregate of requirements for each tenement, and it is anticipated that the practice of the Department of Natural Resources and Mines which has enabled the Company to renew tenements on that basis will continue. However, a change of practice may result in additional expenditure being required on specific tenements before renewal. The total required cannot be determined in advance. If the practice were to change, the Company would review its expenditure commitments on each affected tenement and determine whether to relinquish affected tenements or redirect expenditure to maintain them.

Not all of the tenements as detailed in Section 8 of the Prospectus have been granted. The Company cannot guarantee that Native Title claims and other issues will not impact upon the successful granting of pending applications.

Access negotiations completed by the Company with the Tagalaka People in relation to certain areas coming within its Georgetown Inlier Gold Project have been embodied into a signed Indigenous Land Use Agreement (ILUA) which has not been registered with the National Native Title Tribunal (NNTT).

Under certain Queensland Exploration Permits the lodgement of a Native Title claim will, under the terms and conditions attaching to the grant of the original Permit, have the effect of excluding the claimed area from the Permit area. In effect this would require the Company to pursue a right to negotiate process with such claimants prior to conducting exploration.

5.2 General Risk Factors of DRL

a) Operation and Development Risks By its nature, the business of exploration, mineral development and production which the Company may continue to participate in contains risks. Prosperity depends on the successful exploration and/or acquisition of reserves, design and construction of efficient processing facilities, competent operation and management, and efficient financial management. For its part, exploration is a speculative endeavour, while mining operations can be hampered by force majeure circumstances, environmental considerations and cost overruns for unforeseen events. Further, the nature of the business of exploration, can sometimes result in industrial accidents, unusual or unexpected rock formations, and other incidents beyond the control of the Company.

There can be no assurances that the proposed project exploration programs described in this Prospectus, or any other projects or tenements that the Company may acquire in the future, will result in the discovery of a significant ore deposit. Even if a significant ore deposit is identified, there can be no guarantee that it can be economically exploited.

Ultimate success depends on the discovery and delineation of economically recoverable mineral resources, establishment of an efficient exploratory operation, obtainment of necessary titles and access and government and other regulatory approvals (including those relating to native title). The exploration activities of the Company may be affected by a number of factors including, but not limited to, geological conditions, seasonal weather patterns, technical difficulties and failures, continued availability of the necessary technical equipment and appropriately skilled and experienced technicians, adverse changes in government policy or legislation and access to the required level of exploration funding.

b) Development Possible future development of a mining operation at any of the Company's projects is dependent on, or affected by, a number of factors including, but not limited to, the discovery of recoverable ore bodies, favourable geological conditions, receiving the necessary approvals from all relevant authorities and parties, seasonal weather patterns, unanticipated technical and operational difficulties encountered in extraction and production activities, mechanical failure of operating plant and equipment, cost overruns, access to the required level of funding and contracting risk from third parties providing essential services.

c) Mining In the event that the Company commences production, its operations may be disrupted by a variety of risks and hazards which are beyond its control, including environmental hazards, industrial accidents, technical failures, labour disputes, unusual or unexpected rock formations, flooding and extended interruptions due to inclement or hazardous weather conditions, fires, explosions or other accidents. No assurances can be given that the Company will achieve commercial viability through the successful exploration and/or mining of its project interests.

d) Legislative Changes Changes in government regulations and policies may adversely affect the financial performance of DRL. DRL is not aware of any current or proposed material changes in relevant regulations or policy.

e) General Economic Conditions Changes in the general economic climate in which DRL operates may adversely affect the financial performance of the Company. Factors that may contribute to that economic climate include the general level of economic activity, interest rates, inflation and other economic factors. The price of commodities and level of activity within the mining industry will also be of particular relevance to DRL.



f) Unforeseen Expenses While DRL is not aware of any expenses that may need to be incurred that have not been taken into account, if such expenses were subsequently incurred, the expenditure proposals of the Company may be adversely affected.

g) Government Policy Capacity to explore and mine, as well as industry profitability generally, can be affected by changes in government policy that are beyond the control of DRL.

Most of DRL's existing tenements are located in Queensland. The Company's main diamond project areas are located in New South Wales and its heavy mineral sands project areas in South Australia and Western Australia.

The Queensland State Government has made a number of changes to its Native Title regime and has from 1 April 2003 reverted to using the Commonwealth Right to Negotiate process administered through the NNTT. The Queensland, New South Wales, South Australian and Western Australian state governments do conduct reviews from time to time of their policies in connection with the granting and administration of mining tenements. At present the Company is not aware of any reviews or changes that would materially affect its tenements.

h) Native Title The Native Title Act 1993 (Commonwealth), related State native title legislation and aboriginal land rights and aboriginal heritage legislation may affect DRL's ability to gain access to prospective exploration areas or obtain production titles. Compensatory obligations may be necessary in settling native title claims lodged over tenements held or acquired by DRL. The level of impact of these matters will depend, in part, on the location, background tenure and status of the tenements. At this stage, it is not possible to quantify the impact (if any), which these developments may have on the operations of DRL. For further details regarding native title claims affecting the Company's tenements please refer to the tenement report contained in Section 8 of this Prospectus.

i) Commodity Price Risk The Company's prospects and share price will be influenced by the price obtained from time to time for the commodities targeted in its exploration programs. Commodity prices fluctuate and are affected by factors including the relationship between global supply and demand for minerals, forward selling by producers, the cost of production and general global economic conditions.

Commodity prices are also affected by the outlook for inflation, interest rates, currency exchange rates and supply and demand issues. These factors may have an adverse affect on the Company's exploration and any subsequent development and production activities, as well as its ability to fund its future activities.

j) Environmental Risks The Company's operations and projects are subject to State and Federal laws and regulation regarding environmental hazards. DRL intends to conduct its activities in an environmentally responsible manner, in accordance with applicable laws and regulations.

k) Share Market Risk The market price of Shares and Options can be expected to rise and fall in accordance with general market conditions and factors specifically affecting the Australian resources sector and exploration companies in particular.

There are a number of factors (both national and international) that may affect the share market price and neither the Company nor its Directors have control of those factors.

l) Future Capital Needs and Additional Funding The future capital requirements of the Company will depend on many factors including the results of the proposed exploration programs. The Company believes its available cash and the net proceeds of this offer should be adequate to fund the continued exploration of the projects and other Company objectives as stated in this Prospectus.

Should the Company require additional funding, there can be no assurance that additional financing will be available on acceptable terms, or at all. Any inability to obtain additional funding, if required, would have a material adverse effect on the Company's business and its financial condition and performance.

section **6**

independent geological report

**VERONICA WEBSTER PTY. LIMITED**

7 December 2004

The Directors

Diatreme Resources Limited
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Queensland 4002

(Incorporated in Queensland; ACN 010 299 224)
Consultants to the Mining Industry
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Dear Sirs,

**RE: INDEPENDENT GEOLOGIST'S REPORT ON THE MINERAL PROPERTIES OF
DIATREME RESOURCES LIMITED**

The Directors of Diatreme Resources Limited ("DRL") have commissioned Veronica Webster Pty Limited ("VWPL") to prepare an independent geologist's report ("Independent Report" or "Report") on mineral properties held or controlled by DRL and its subsidiaries, Chalcophile Resources Pty Ltd ("CRPL"), Regional Exploration Management Pty Ltd ("REMPL") and Lost Sands Pty Ltd ("LSPL").

The Independent Geological Report will be included in a Prospectus prepared by DRL for the purpose of raising exploration capital and transferring its listing from NSX to ASX. The offer to the public will be for a subscription of 25 000 000 ordinary fully paid shares at \$0.20 per share to raise \$5 million.

Mr. L W Davis of VWPL was supplied exploration information by DRL, which warrants that the supplied information was accurate and complete. Several days were spent perusing material and holding discussions with DRL staff at the Brisbane office of DRL and discussing technical and land title aspects. Mr Davis has relied, at his own discretion, on the observations and interpretations of previous explorers, exploration consultants and DRL geological staff.

VWPL has relied on the information and advice made available by the staff of DRL and its associates. Independent checking at other organisations was not carried out. The views and conclusions expressed in this report are solely those of VWPL and L W Davis.

Mr. Davis has considerable work experience in the geology and mineral deposits of Queensland and New South Wales and inspected the Clermont Copper Gold (including the Peak Downs Copper Mine) and Gwydir Diamond (Warialda area only) projects in early 2001. He examined the Yarrol and Mount Steadman gold prospects briefly during March 2000 and the Nymbool Gold Project and its environs during 1981 and later in 1994. The Ironhurst Prospect in the Georgetown Inlier Gold Project was visited in 2004. Prospects within the Burdekin Gold Project were not visited specifically but Mr Davis supervised exploration programs in these localities during the 1990s during which he examined the Gettysburg Prospect in the Burdekin Gold Project.

The Bellfield Base Metal Project, Eucla Basin Heavy Mineral Sands Project, Tick Hill Gold Project and Gwydir and Dirranbandi Diamond projects have not been examined in the field but the potential for these Projects lies principally at depth and beneath cover rocks.

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

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

VWPL will observe the Code and Guidelines for Technical Assessment and/or Valuation of Mineral and Petroleum Assets and Mineral and Petroleum Securities for Independent Expert Reports (The Valmin Code), which is referred to by the Australian Securities and Investments Commission.

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

6.1 INTRODUCTION SUMMARY AND OPINION

DRL and its subsidiaries have acquired a portfolio of tenement areas that are grouped into two categories, "Major Projects" and "Advanced Gold and Copper Projects", Figure 1.

The Major Projects are considered to be situated in geological environments with the potential to host large mineral deposits or deposits with highly attractive economic characteristics. Should the company achieve commercial success at any of these Projects then a large operation is considered likely in both terms of cash flow and longevity. Success in this category might have the effect of changing DRL out of the ranks of a junior explorer but this outcome must be considered high risk as it relies on heavy exploration expenditure over a long period.

It is DRL's intention to conduct the initial exploration on the Major Projects in order to define targets and then farm out the Major projects to joint venturers, who will fund the ongoing exploration programs.

DRL intend to retain 100% interest in the Advanced Gold and Copper Projects. These will be explored rapidly because programs with drill targets have already been planned. Several of the Advanced Projects contain JORC-classified resources and the future programs have been designed with the objective of increasing the resources.

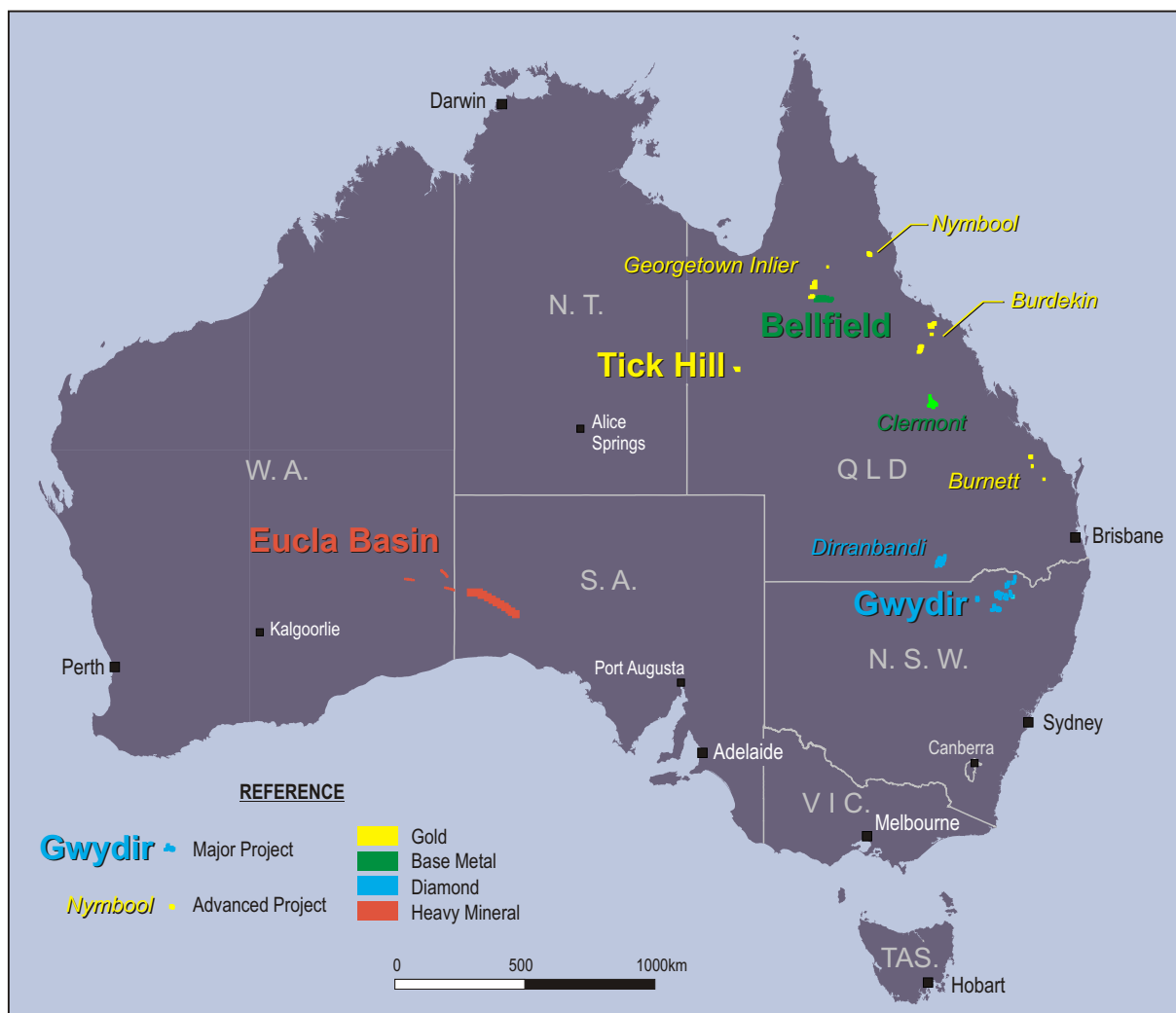


Figure 1: Diatreme Resources limited - Project locations.



Major Projects

Four projects of DRL are considered to be situated in geological environments with the potential to host large mineral deposits or deposits with highly attractive economic characteristics. With the exception of the Tick Hill Gold Project, a long "lead in" time of a few years is expected from exploration and discovery through to the establishment of an operating mine.

Project	Brief Summary
Tick Hill Gold Project	Very high grade gold (+20 g/t gold) in extensions or repetitions of the mined ore body
Eucla Basin Heavy Mineral Sands Project	Large new province with evidence of economic ilmenite and zircon grades
Gwydir Diamond Project	Deep seated volcanic intrusives under shallow cover rocks are the possible sources for the Bingara and Copeton alluvial diamond fields
Bellfield Base Metal Project	Mount Isa style copper-lead-zinc targets under shallow cover rocks

The Tick Hill Gold Project in north-west Queensland includes three mining leases which cover the old Tick Hill Gold Mine. Between 1991 and 1995 this high-grade mine produced 513 333 ounces of gold at a recovered grade of 22.6 g/t gold from a single ore body. Potential exists for the discovery of similar sized ore bodies in this project area. The project offers the possibility of rapid development of a highly profitable operation on any discovery made.

The Eucla Basin Heavy Mineral Sands Project in Western Australia and South Australia holds potential as a "world-class heavy-mineral sands province" according to published research by independent organisations. Previous and current exploration results are positive and support this interpretation. VWPL considers that economic heavy mineral ("HM") sands deposits will eventually be discovered in the region as the known producing areas in Australia become depleted and greater effort is concentrated elsewhere.

The significantly large size of the Eucla Basin Heavy Mineral Sands Project, extending across an area of over 6700 km² make it a strategic holding for DRL. The area has potential for the discovery of large deposits of mineralisation in multiple strandlines which can persist over large distances and are sufficient to support large scale mining operations. An exploration program with drilling is budgeted at \$400 000 for two years.

In New South Wales, at the Gwydir Diamond Project (including the Dirranbandi Diamond Project in Queensland), DRL's objective is to find the source(s) of the diamonds in the Bingara and Copeton Alluvial Diamond Fields with newly interpreted palaeodrainage (ancient river systems). After a great deal of conventional prospecting the source of the Bingara and Copeton diamonds is unsolved. DRL's reconstruction of the major pre-basaltic drainages in the Bingara area shows that the alluvial diamonds in the Bingara diamond deposits were deposited probably by streams that originated from as far west as the Moree region of New South Wales. Tenure over carefully selected magnetic features which might have been drained by the palaeoriver system has been secured. This district has not been subjected to intense diamond exploration work.

At the Bellfield Base Metal Project in the Georgetown region, DRL plan to search for giant-sized copper-lead-zinc rich massive sulphide mineralisation of the Mount Isa style under the younger Mesozoic cover rocks. A good case for drilling five geophysical targets has been prepared. DRL has planned a limited drilling program in the early part of the second year amounting to two holes for 800 m but will continue drill testing in later years.

Advanced Gold and Copper Projects

DRL have several exploration areas for gold and copper in Queensland and one for gold in the Northern Territory, Figure 1. Most of these are advanced because preliminary field surveys are completed, with encouraging results and drill programs have been prepared. Although economically important discoveries cannot be ruled out for these areas, DRL does not promote the same value potential that it does for the Major

Project category. However because of the definition of targets and the principal commodity being gold, an operation might be established quite rapidly once resources have been proved. The prospects scheduled for drilling are:

Project	Prospects
Burdekin Gold Project	Gettysberg and Sellheim Gold Prospects
Nymbool Gold Project	Nymbool Gold-Copper and Ambrose Gully Gold Prospects
Clermont Copper Gold Project	Peak Downs, Oaky Creek and Comstock Copper Prospects
Burnett Gold Copper Project	Yarrol, Mount Steadman and Cannindah Gold Prospects
Georgetown Inlier Gold Project	Ironhurst and Warrigal Creek Gold Prospects

The gold deposit styles are mainly intrusive related at which bulk-tonnage ore bodies are being sought. In each project area, DRL envisages a target gold deposit or close grouping of deposits containing at least one million ounces of gold.

The tenement holding protecting the above prospects is often large and has been designed to include previously identified prospects, areas containing geochemical and geophysical anomalies and geologically favourable ground. DRL has reconnaissance programs prepared for several of these with a view to developing them to the drilling stage.

Less advanced projects where reconnaissance activity is planned include the Bogie River area of the Burdekin Gold Project south of Townsville, the Munitions Creek Gold Prospect at Langdon River in the Georgetown Inlier Gold Project and the Mt Dobbie Gold Project in the Northern Territory.

The Burdekin Gold Project contains the "drill-ready" Gettysberg Prospect and a number of opportunities to explore for high-grade epithermal mineralisation.

In far north Queensland, the Nymbool and Georgetown Inlier gold projects contain known bulk low-grade mineralisation of the intrusive related or porphyry style. These gold projects fall in a regional porphyry province, which contains the well-known mines of Kidston, Mount Leyshon and Red Dome.

DRL plans extra drilling at the Nymbool Gold Prospect and the Ambrose Gully Gold Prospect in the Nymbool Gold Project where bulk low-grade gold mineralisation has been discovered. The Ironhurst Gold Prospect (breccia pipe) and the Warrigal Creek Prospect (magnetic feature) in the Georgetown Inlier Gold Project will be drilled.

At the Clermont Copper-Gold Project in central Queensland, DRL will search for copper resources to add to that of the Peak Downs Copper Mine where indicated and inferred resources of 25 000 to 30 000 tonnes of near surface oxide copper metal have been established. Opportunities to discover gold deposits are just as important at Clermont.

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

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

In the first year of exploration, DRL proposes to progress all four of the Major Projects with drilling at the Tick Hill



Gold Project, the Eucla Basin Heavy Mineral Sands Project and the Gwydir and Dirranbandi Diamond Projects. Geological mapping and geophysics will commence at the Bellfield Base Metal Project. Forecast expenditure at the four Major Projects for the first year is \$620 000.

At the Advanced Gold and Copper Project areas, in the first year of exploration DRL proposes to spend about \$500 000, with emphasis on the Burdekin Gold Project, the Nymbool Gold Project and the Clermont Copper-Gold Project, which will be drilled first. However, drilling may take place at the Burnett Gold Project and Georgetown Inlier Gold Project. Reconnaissance work outside the "drill-ready" localities will be carried out in conjunction with drilling programs. Allowance has been made for successful first-year programs and high expenditures on follow-up activity in the second and third years. At this stage, a minimum exploration budget of approximately \$2.5 million is contemplated over two years and depending on the results of the first phase activities then a reallocation of funds will be made. A successful three-year program will see the employment of approximately \$4 million of raised funds.

DRL considers that all the tenement areas have the inherent potential for the discovery, through exploration, of significant new mineralisation and for the extension of established resources. Exploration has been scheduled to test the prospects which show the best promise in the first year of operation. Several tenements are still to be granted and in these activity is scheduled mainly for the second year.

6.2 TENEMENTS

The Table below lists the tenement details and indicates the level of expenditure necessary to ensure that the tenements are maintained in good standing.

Note that the granted tenements allow DRL to carry out many of their planned drilling programs under relevant access procedures applying to each tenement. However, drilling programs cannot be undertaken on those tenements which are in the application stage.

IDENTIFICATION	STATE	TENEMENT	GRANT (EXPIRY)	Minerals	Registered Holders (Applicant) / Interests	Area Size	Current Year Expenditure Commitment \$	NOTES
TICK HILL GOLD PROJECT								
Tick Hill No 1	QLD	ML 7094	20/06/91 (30/06/11)	Gold	Mount Isa Mines Limited 100%	130 ha	\$50 000	(1)
Tick Hill No 2	QLD	ML 7096	20/06/91 (30/06/11)	Gold	Mount Isa Mines Limited 100%	130 ha		
Tick Hill No 3	QLD	ML 7097	20/06/91 (30/06/11)	Gold	Mount Isa Mines Limited 100%	130 ha		
EUCLA BASIN HEAVY MINERAL SANDS PROJECT								
Eucla 2	SA	ELA 109/02	Applic. 18/07/02	All Minerals excl. opal	LSPL 100%	2235 km ²	No Expenditure required Yet	
Eucla 3	SA	ELA 110/02	Applic. 18/07/02	All Minerals excl. opal	LSPL 100%	2309 km ²	No Expenditure required Yet	
Eucla 4	SA	ELA 018/04	Applic. 01/03/04	All Minerals excl. opal	LSPL 100%	1556 km ²	No Expenditure required Yet	
Forrest Lakes	WA	ELA 69/1918	Applic. 12/12/03	All Minerals	LSPL 100%	210 km ²	No Expenditure required Yet	
Shell Lakes	WA	ELA 69/1919	Applic. 12/12/03	All Minerals	LSPL 100%	210 km ²	No Expenditure required Yet	
Wanna Lakes	WA	ELA 69/1920	Applic. 12/12/03	All Minerals	LSPL 100%	210 km ²	No Expenditure required Yet	

IDENTIFICATION	STATE	TENEMENT	GRANT (EXPIRY)	Minerals	Registered Holders (Applicant) / Interests	Area Size	Current Year Expenditure Commitment \$	NOTES
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GWYDIR DIAMOND PROJECT

Warialda	NSW	EL 5900	26/10/01 (25/10/05)	Groups 1 & 6 Minerals	REMP 100%	149 km ²	\$80 000	(2)
Bellata	NSW	ELA 6301	22/09/04 (21/09/06)	Group 6 Minerals	REMP 100%	298 km ²	\$57 000	(2)
Yetman No 1	NSW	EL 6352	07/12/04 (06/12/06)	Group 6 Minerals	REMP 100%	220 km ²	\$33 000	(2)
Yetman No 2	NSW	EL 6353	07/12/04 (06/12/06)	Group 6 Minerals	REMP 100%	78 km ²	\$70 000	(2)
Pallamallawa	NSW	EL 6331	20/10/04 (19/10/06)	Group 6 Minerals	REMP 100%	256 km ²	\$63 000	(2)
Mallowa Creek	NSW	EL 6330	19/10/04 (18/10/06)	Group 6 Minerals	REMP 100%	86 Km ²	\$34 500	(2)

DIRRANBANDI DIAMOND PROJECT

Dirranbandi	QLD	EPM 14661	12/11/04 (11/11/09)	All Minerals excl. coal	REMP 100%	691 km ²	\$20 000	
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BELLFIELD BASE METAL PROJECT

Bellfield	QLD	EPMA 12868	Applic. 02/12/99	All Minerals excl. coal	CRPL 100%	320 km ²	No Expenditure required Yet	
Gilbert River	QLD	EPMA 12888	Applic. 15/12/99	All Minerals excl. coal	CRPL 100%	774 km ²	No Expenditure required Yet	

BURDEKIN GOLD PROJECT

Pyramid	QLD	EPM 12887	05/08/04 (04/08/09)	All Minerals excl. coal	CRPL 100%	320 km ²	\$20 000	
Tondarra	QLD	EPM 14402	23/11/04 (22/11/09)	All Minerals excl. coal	LSPL 100%	320 km ²	\$35 000	
Teatree Creek	QLD	EPMA 14675	Applic. 17/06/04	All Minerals excl. coal	LSPL 100%	320 km ²	No Expenditure required Yet	

NYMBOOL GOLD PROJECT

Mt Garnet	QLD	EPM 8998	26/10/92 (25/10/04)	All Minerals excl. coal	DRL 100%	106 km ²	\$20 000	(3)
Blacks Creek	QLD	EPM 8994	01/12/92 (30/11/04)	All Minerals excl. coal	DRL 100%	6 km ²	\$20 000	(3)

CLERMONT COPPER GOLD PROJECT

Clermont	QLD	EPM 12867	22/12/00 (21/12/05)	All Minerals excl. coal	CRPL 100%	128 km ²	\$80 000	
Clermont No 2	QLD	EPM 12956	22/12/00 (21/12/05)	All Minerals excl. coal	CRPL 100%	9 km ²	\$8 000	
Clermont No 3	QLD	EPM 14026	26/08/04 (25/08/09)	All Minerals excl. coal	CRPL 100%	320 km ²	\$30 000	



IDENTIFICATION	STATE	TENEMENT	GRANT (EXPIRY)	Minerals	Registered Holders (Applicant) / Interests	Area Size	Current Year Expenditure Commitment \$	NOTES
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BURNETT GOLD COPPER PROJECT

Yarrol	QLD	EPM 8402	13/11/91 (12/11/04)	All Minerals excl. coal	DRL 100%	12 km ²	\$85 000	(3)
Mt Steadman	QLD	EPM 12834	17/12/99 (16/12/04)	All Minerals excl. coal	DRL 100%	12 km ²	\$65 000	(3)
Mt Cannindah	QLD	EPM 12903	11/12/02 (10/12/07)	All Minerals excl. coal	CRPL 100%	29 km ²	\$8 000	
Barrimoon	QLD	EPMA 14524	Applic. 18/02/04	All Minerals excl. coal	CRPL 100%	61 km ²	No Expenditure required Yet	

GEORGETOWN INLIER GOLD PROJECT

Ironhurst	QLD	EPM 12976	05/11/04 (04/11/09)	All Minerals excl. coal	CRPL 100%	6 km ²	\$2 000	
Langdon River	QLD	EPM 11849	03/12/04 (02/12/09)	All Minerals excl. coal	DRL 100%	316 km ²	\$30 000	
Warrigal Creek	QLD	EPM 13126	03/12/04 (02/12/09)	All Minerals excl. coal	CRPL 100%	105 km ²	\$8 000	

Notes

- (1) DRL's interest held under an Option and Sale Agreement with Mount Isa Mines Limited dated 27 August 2004
- (2) Group 1 (elemental minerals-metallics) & Group 6 (corundum, diamond, ruby, sapphire) as defined in NSW Mining Act Regulations
- (3) Tenement under application for renewal

Table 1: DRL Tenement Summary

6.3 MAJOR PROJECTS

DRL believes that its Major Projects have the potential to host very large, very rich or even world class mineral deposits.

Four DRL projects are considered to be situated in geological environments which have the potential to host large mineral deposits or deposits with highly attractive economic characteristics. Should the company achieve commercial success at any of these projects then a large operation is quite likely in terms of both cash flow and longevity. With the exception of the Tick Hill Gold Project, a long "lead in" time of a few years is expected from exploration and discovery through to the establishment of an operating mine.

Project	Brief Summary
Tick Hill Gold Project	Very high grade gold (+20 g/t gold) in extensions or repetitions of the mined ore body
Eucla Basin Heavy Mineral Sands Project	Large new province with evidence of economic ilmenite and zircon grades
Gwydir Diamond Project	Deep seated volcanic intrusives under shallow cover rocks are the possible sources for the Bingara and Copeton alluvial diamond fields
Bellfield Base Metal Project	Mount Isa style copper-lead-zinc targets under shallow cover rocks

DRL will progress the Major Projects at the same time as other shorter term Advanced Projects which are dominantly for gold and copper.

6.3.1 TICK HILL GOLD PROJECT

The Tick Hill Gold Project is situated 110 km south-south-east of Mount Isa in north-west Queensland, Figure 1.

The project comprises the Tick Hill Mining Leases ("MLs") 7094, 7096 and 7097, totalling 390 ha, which are owned by Mount Isa Mines Limited (MIM), a member of the Xstrata Copper Group of Companies. DRL has an option to purchase the three mining leases which cover the project from MIM. Under the agreement with MIM, DRL has to fulfil annual exploration expenditures on the mining leases and has the right to purchase the leases at any time. A royalty will apply to any gold produced. The rate of royalty is based on the recovered gold grade and the royalty amount is based on the gold produced.

The Tick Hill deposit was discovered by MIM in October 1989 and subsequently mined during the period 1991 to 1995. The deposit produced a total of 513 333 ounces gold from 705 000 tonnes of ore at a recovered grade of 22.6 g/t gold.

Exploration will aim at looking for extensions to the mined ore body or repetitions of similar high-grade mineralisation in the immediate mine area.

Brief outline of the Tick Hill Mining Operation

The summarized history of the MIM project is included in this Report to illustrate the characteristics of this unusual high-grade gold deposit target and the exceptional gold production and profitability that are possible from a discovery.

The Tick Hill deposit was discovered by a joint MIM and Carpentaria Exploration Company Pty. Ltd. team in October 1989. Follow up work on a bulk cyanide leach ("BCL") sampling anomaly of 6.95 ppb gold in a stream draining the Tick Hill deposit culminated in the drilling of early discovery holes (eg TH203 with 24m grading 32.2 g/t gold).

Evaluation drilling of the Tick Hill mineralisation included a total of 26 000 m of RC percussion and diamond drilling.

Mining of the Tick Hill ore body involved a small 70 m deep open pit followed by underground mining from a decline. The open pit mining was completed in a 10 month period. A total of 900 000 bank m³ was removed which included 148 600 tonnes of high-grade ore at 31.4 g/t gold and 161 200 tonnes of low-grade ore at 5.8 g/t gold, which was stockpiled for later treatment. When processed it proved to have a grade approximating to 10 g/t gold. The waste to ore ratio for the pit was 10 to 1.

Underground mining at Tick Hill was accessed by a 4.5 m by 4.8 m, 1 in 8 decline driven from the haul road in the north-west corner of the open pit at a depth of about 25 m from surface. A 250 m deep 2.6 m diameter shaft, which was blind bored from the surface, was used for ventilation.

Preliminary underground stope design was based on the detailed underground diamond drilling with final design based on grade control sampling. Sill drives were stripped out to the full width of the ore zone prior to blast hole drilling to minimise dilution and to ensure that no high grade ore remained.

The initial high-grade ore produced from Tick Hill was processed at MIM's Ravenswood Gold Project, which allowed the mine to produce gold ahead of plant construction, and also utilised available capacity at Ravenswood.

The Tick Hill processing plant included a two stage crushing plant; a ball mill and a carbon in leach ("CIL") circuit. Gold recovery in the plant was about 97%. The gold bars assayed up to 99% gold reflecting the fineness of the gold in the ore and the lack of associated metals with the gold. Throughput for the plant was approximately 200 000 tonnes/annum. A maximum throughout of 216 000 tonnes was achieved in 1993/1994.



Total production from Tick Hill was 513 333 oz gold as follows:

Year	Processed (Tonnes)	Recovery (%)	Production (oz Au)	Grade (g/t Au)
1991/1992	112 315	95.0	109 113	30.21
1992/1993	183 824	96.5	191 127	32.33
1993/1994	216 644	98.0	149 934	21.52
1994/1995	192 952	98.2	63 159	10.17
Total	705 735	97.2	513 333	22.62

This production was made up of about 200 000 ounces gold from the open pit and about 310 000 ounces from the underground mine. This allows for the additional grade of the gold in the low grade stockpiled ore from the open pit.

The capital cost of the initial open pit and processing plant at Tick Hill was \$11.13 million. Total underground development cost (including the hanging wall lens) was \$12.87 million. Ongoing capital expenditure was \$0.462 million. Some (~\$3 million) of the total estimated exploration costs of \$8 million were also capitalised against the Tick Hill mine.

Cash operating costs for the project were about \$120/oz gold.

The potential financial performance of a Tick Hill type operation can be simply summarised using a gold price of A\$560 per ounce as follows.

Total value of gold at \$560 per ounce	\$280 000 000
Total capital cost (excluding exploration)	\$25 000 000
Total operating costs	\$62 000 000
Total exploration cost (estimated)	\$8 000 000
Net cash generated	\$185 000 000*

Based on the gold prices at the time of the operation and on the higher prices achieved using forward sales, the net cash generated would have been between \$150 and \$200 million.

The actual net present value of the project based on a discount rate of 20% is believed to have been about \$70 million.

Geology

The area is geologically complex with at least two strong deformation phases and also strong metasomatic events. The following interpretation by K J Harvey, Exploration Consultant, is based on his own observations as well as the observations and work completed by MIM's exploration and mine geologists at Tick Hill.

Rocks in the Tick Hill area are of middle Proterozoic age. The stratigraphic position of the Tick Hill deposit which is hosted by quartzite and calc-silicate rocks is either, at or near the base of the Corella Formation immediately above the Argylla Formation, or within the Corella Formation at a point where there is an unconformity with quartzites marking this unconformity.

The Corella Formation rocks include calc-silicates and quartzites and the Argylla Formation rocks include metamorphosed felsic volcanics, pelites and intrusive rocks. Quartzites that 'host' the deposit correlate with quartzites that occur elsewhere at the base of the Corella Formation such as the Ballara Quartzite. Beneath the Tick Hill quartzites, the rocks are dominantly metamorphosed pegmatoid intrusives of the Corella Formation or metamorphosed felsic volcanics of the Argylla Formation.

Scapolite and red albitisation are common in the area reflecting the original evaporitic content of the sequence prior to metamorphism.

The gold mineralisation occurs within or associated with strongly laminated rocks referred to locally as 'laminites' which may or may not be highly strained. These 'laminites' contain high-grade gold-bearing generally thin pale pink feldspar quartz bands alternating with grey quartz and silicate bands. This led to the local use of the term 'galahstone'. The quartz bands are lenticular but the pale pink feldspar quartz bands have better continuity.

The 'laminites' are contained within rock generally referred to as 'lodestone'. This is principally a grey to green impure quartzite/siliceous schist containing scapolite and iron/calcium silicates of metamorphic origin. The pink feldspar in the 'laminites' is albite/oligoclase and this is quite different to the red albite that occurs throughout the Corella Formation.

Both a hangingwall and a footwall quartzite occur. To the north of the mine there are prominent outcropping parallel lenses of quartzite; to the south of the mine there is only one quartzite horizon. In detail the quartzite horizons are not continuous but form lenses and boudinaged structures. The quartzite structures are the product of deformed metamorphosed and metasomatised quartz sandstone horizons formed with or without strike slip faulting.

Locally distributed outliers of Adelaidean, Cambrian, Tertiary and Recent surficial deposits are present in the area.

Early deformation of the sequence resulted in a series of tight to isoclinal folds, only rarely observed, and which is probably responsible for the majority of the mineral elongation and deformational induced layering in the area and also the host 'laminites'.

Second stage more open-style folding is more easily identified. There is a large synclinal fold to the west of the Tick Hill Gold Deposit.

Late stage north-east and north-west striking faults are common in the area.

Mineralisation

The mineralised body, which consists of two ore lenses, lies on the eastern limb of a tight asymmetric fold. It strikes northerly and dips to the west at 55°. The main lens has a strike length of 140 m and a down dip extent of 275 m. At the base of the lens the strike length is only 40 m, Figure 2. The second lens in the immediate hanging wall of the main lens is much smaller.

The average grade of the mined gold mineralisation at Tick Hill was 22.6 g/t gold. The gold largely occurs within thin 'laminite' horizons with spectacular grades. A maximum drill intersection grade of 3209 g/t gold was recorded over 0.5 m by MIM. The thin gold bearing 'laminite' bands vary in width from 1 cm to 50 cm. Individual bands can be traced for up to 50 m both along strike and down dip and these were relatively easy to follow during mining. The boundaries of the gold mineralisation are very sharp and it was not unusual for a drill hole sample immediately above (or below) high-grade mineralisation to assay at <0.01 g/t gold.

All gold occurs as free gold. The gold apparently has little associated sulphides although the country rock has a minor sulphide content. There is no identifiable and clear association with base metals or any of the elements that commonly are associated with gold such as arsenic, antimony, bismuth, tellurium and silver.

Data from selected drill holes indicate a high gold to silver ratio of 227 to 1. Copper in most of the high-grade gold mineralisation is barely anomalous, although anomalous copper occurs in the absence of gold in a few areas.

Petrology of ore samples reports heavy minerals with the gold.

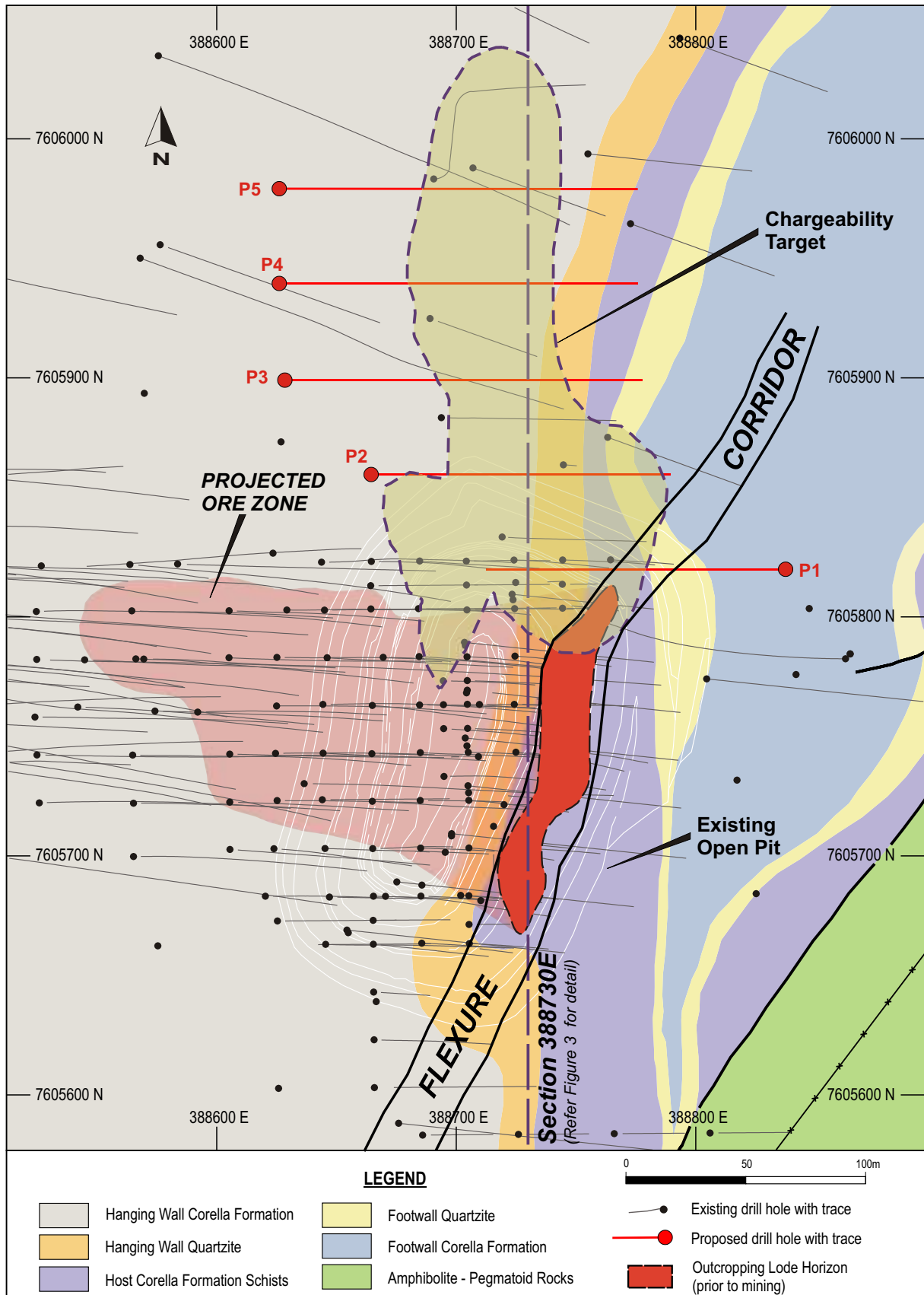


Figure 2: Tick Hill Project - Simplified surface geology, ore zone and chargeability (IP) target.

Origin of Tick Hill Gold Deposit

The Deformed Alluvial Model

DRL believes that the most likely origin for the Tick Hill deposit is that of a deformed ancient alluvial deposit. The main evidence for this conclusion is that

- the deposit is located within clastic sedimentary units immediately above an unconformity,
- the gold is associated with heavy minerals and
- there is a lack of other elements normally associated with gold in hard rock deposits.

In particular, the low silver content of the gold suggests an alluvial origin for the gold. Within alluvial gold deposits, the silver content (and copper content) usually decreases with time because of leaching in the surface environment. This results in the silver content of alluvial gold decreasing with increasing distance from the hard rock source.

If the gold in the Tick Hill deposit was of alluvial origin then the hard-rock source(s) for the gold is an issue of conjecture.

The Deformation Associated Model

The formation of the Tick Hill Gold Deposit by deposition from gold-bearing solutions of unknown origin during deformation must also be considered.

The association of significant deformation with the ore zone at Tick Hill is clear and generally accepted. The layering of the rocks in the ore zone has a deformation origin. This layering is apparently parallel to the enclosing stratigraphy but a more detailed inspection indicates that the deformed zone probably is at an acute angle to the stratigraphy. It apparently corresponds with a 'flexure' in the stratigraphic units in the mine area. An interpretation of the local geology of the Tick Hill mine area showing this 'flexure' is shown in Figure 2.

The 'flexure' corridor corresponds with a 'kink' in both the footwall and hanging wall quartzites. These 'kinks' were indicated by large outcrops of quartzite to the north-east and south-east of the outcropping gold mineralisation prior to mining. To the north of the open pit the 'flexure' corridor moves progressively into the footwall stratigraphy and to the south it moves into the hanging wall stratigraphy. This 'flexure' corridor apparently dips at 55° westerly and is parallel to the ore zone.

Under the deformation associated model this 'flexure' corridor is a prime target zone. There is a feature in the 3D modelled IP survey results within the 'flexure' corridor which although surrounded by drill holes has been very poorly tested. It represents a prime drilling target.

Future Exploration

DRL's exploration effort will be concentrated on searching for extensions to the ore body or repetitions of the gold mineralisation. Figures 2 and 3 show one target area (and proposed drill holes), which has already been generated by DRL on the basis of:

- the deformed alluvial model.
- the deformation associated model.
- the possible association of an IP anomaly.

VWPL take the view that drilling is warranted at any targets close to the mined deposit where it can be demonstrated that there is sufficient room for the development of a body of sufficient size.

If mineralisation is found at depth, the project has the advantage of the decline and ventilation shaft (flooded at this time) as a starting point from which to operate further exploration and mining.

Once compilation and interpretation of geology and mine data has been finalised and target zones defined, DRL will commence staged drilling programs in order to locate further mineralisation.



DRL has allowed \$200 000 and 1400 m of drilling for the first year of operation.

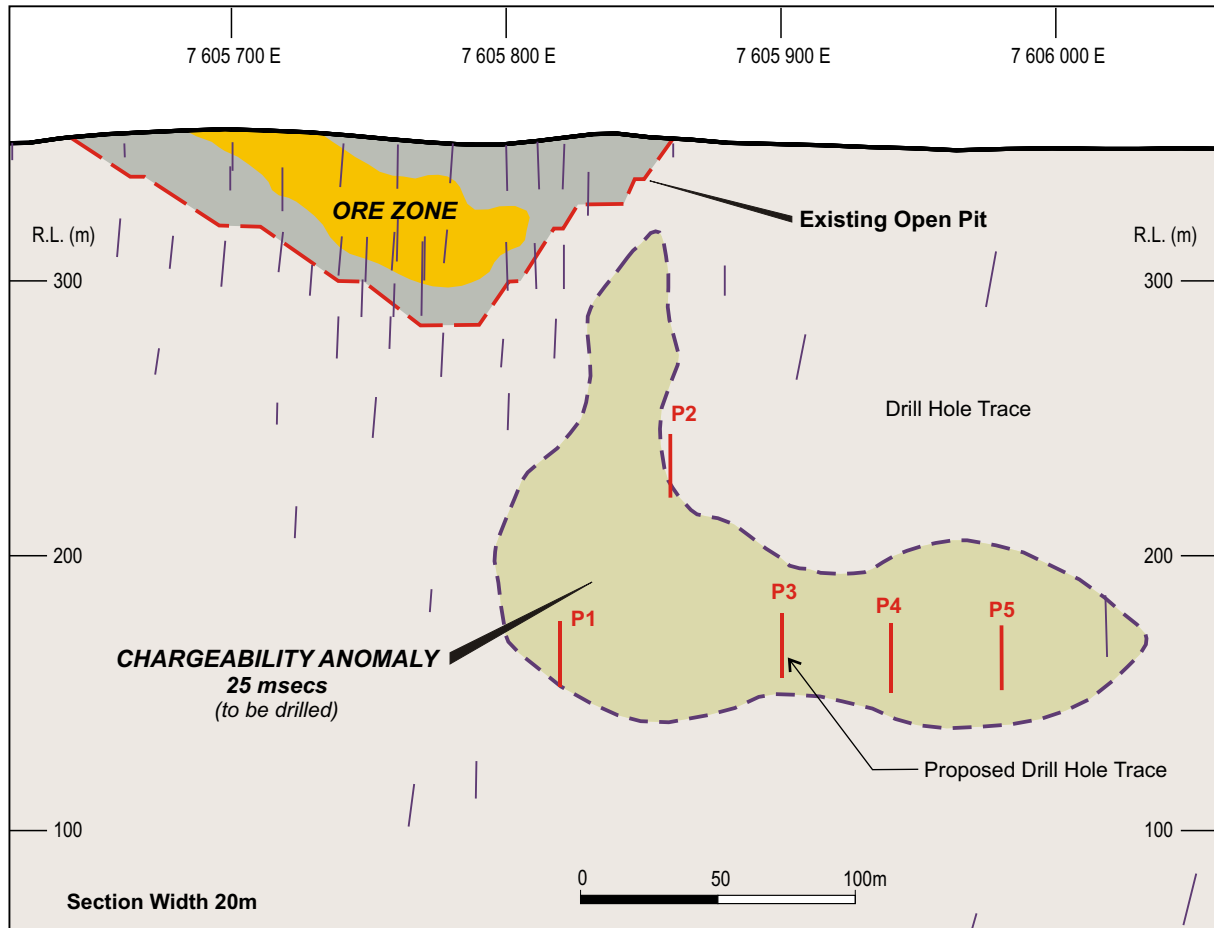


Figure 3: Tick Hill - Section 388730E looking west showing the existing open pit, ore zone mined in the open pit and the 25 msecs chargeability anomaly which DRL intends to drill.

6.3.2 EUCLABASIN HEAVY MINERAL SANDS PROJECT

The Eucla Basin Heavy Mineral Sands Project of DRL is located in Western Australia and South Australia, Figure 1, and covers 6730 km² of prospective beach accumulations or beach placer deposits of heavy minerals ("HM"). These deposits are the Tertiary equivalent of those that have been exploited around the coastline of Australia for decades as the principal source of titanium and zirconium. The significantly large size of the Eucla Basin Heavy Mineral Sands Project makes it a strategic holding for DRL. The area has potential for the discovery of large deposits of mineralisation in multiple strandlines which could persist over large distances and could support large-scale mining operations.

Geology

McIntosh, 2004, supplied DRL with a comprehensive report on the Eucla Basin Heavy Mineral Sands Project, which VWPL has used as the main source of information.

The Eucla Basin is a large sedimentary basin, of about 1 500 000 km³, located in the central part of the southern region of Australia landward from the Great Australian Bight. It extends from the south-east coast of Western Australia to the south-west coast of South Australia about 2000 km long and northwards through to the boundary of the Nullarbor Plain and the Great Victoria Desert up to 500 km wide.

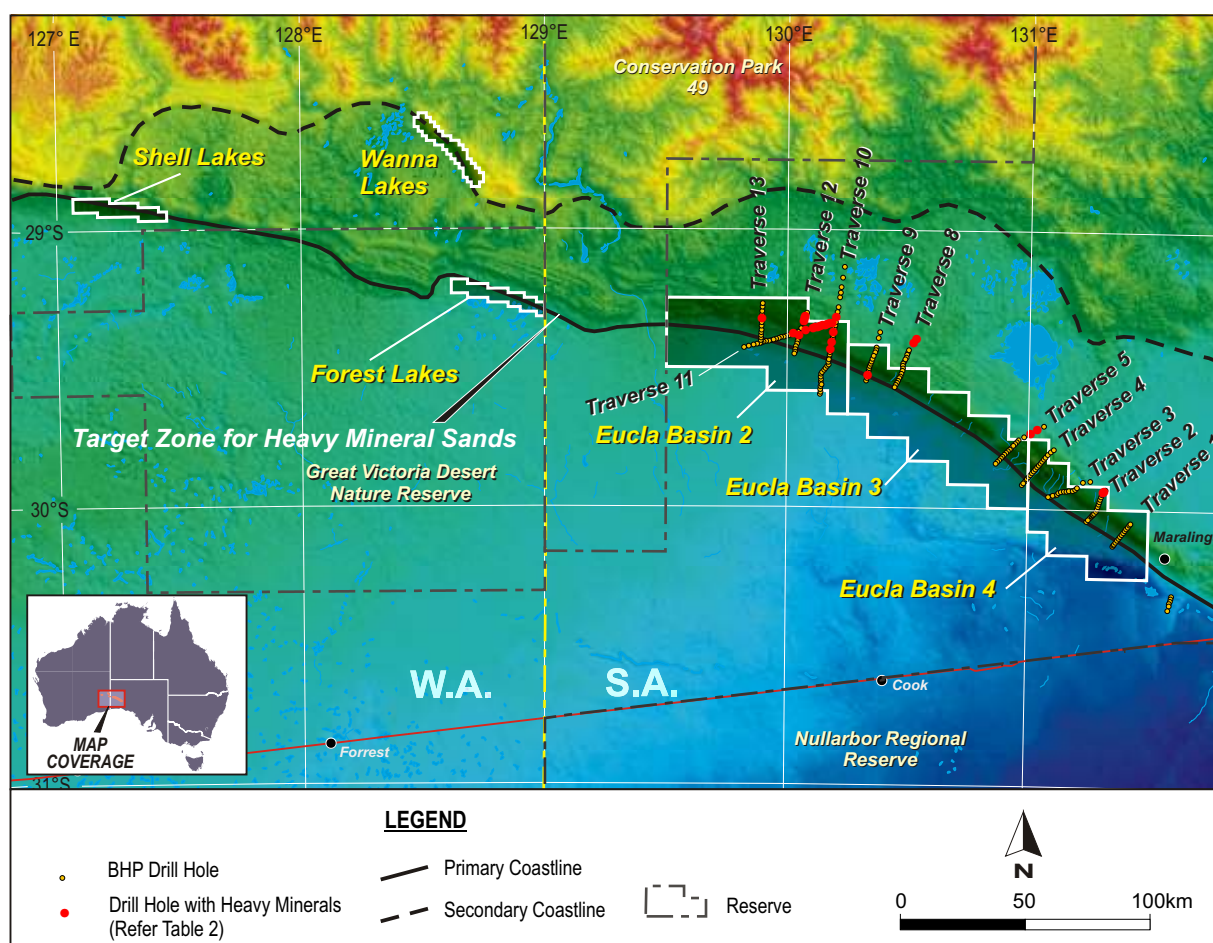
The basin contains continental and marine Cainozoic sediments ranging in age from 140 million years to the near present time.

The DRL tenements cover the northern margin of the Eucla Basin which is interpreted as an ancient "fossil" shoreline that formed during the Tertiary period, Figure 4.

This basin margin is fault controlled. From the centre along the north-eastern edge of the basin, sand islands, coastal dunes and ridges developed extending from headlands. Accumulation of sediment by longshore drift occurred on the shoreline over large distances and over a long period of time, in several marine transgressions, due to the prolonged existence of the fault bounded margin. Hou, Frakes, Alley and Heithersay describe the stratigraphy and processes of formation of shorelines independently in detail, 2003, in "Evolution of beach placer shorelines and heavy-mineral deposition in the eastern Eucla Basin, South Australia."

Concentrations of HM containing rutile, zircon, ilmenite and minor leucoxene and monazite have formed in beach placers or strandlines and have been discovered in several localities along the Tertiary shoreline. According to Hou et al, there may be as many as four generations of Tertiary shorelines containing HM bearing strandlines.

Analogies have been drawn between the eastern Eucla Basin shoreline and that of North Stradbroke Island and Fraser Island off the coast of Queensland. In the Western Eucla shoreline there are similarities to the sand deposits of Busselton, Capel and Eneabba, Western Australia and the Murray Basin in Victoria, all of which formed under similar conditions.





In the eastern Eucla Basin the main marine transgressions are of Miocene and Eocene age but smaller marine transgressions occurred up to as late as two million years ago. Consequently the prospective horizons for heavy minerals are buried by both Tertiary and Quaternary sediments. This is similar to the geological history of the Murray Basin. In both regions drilling is required to discover and test the HM deposits.

The sediments of the Eucla Basin on lap rocks of the Albany-Fraser Orogen and Yilgarn Craton in Western Australia, the Officer Basin and Musgrave Block in both Western and South Australia and the Gawler Craton, Duntroon Basin and Denman Basin in South Australia. These cratons are interpreted to be the principle source regions of the mineral assemblages to be found in heavy mineral sand deposits: ilmenite, rutile, monazite, leucoxene and zircon. These source regions host large numbers of mineral occurrences (possibly including diamonds) and significant economic deposits which contain gold, platinoid group metals and rare earth elements. Ancient river systems are interpreted to have drained the mineralised cratonic areas and transported large amounts of sand and minerals into the southern ocean where they were concentrated in the shoreline deposits by strong westerly winds and currents.

Tenure

The Eucla Basin Heavy Mineral Sands Project, held by DRL, consists of a group of six Exploration Licence Applications ("ELAs"): three in Western Australia and three in South Australia, Table 1.

In South Australia none of the ELAs are subject to Native Title claims but all three lie within Maralinga Tjarutja Aboriginal Lands.

All three ELAs in Western Australia lie within areas covered by the non-native title agreements between the Spinifex People, represented by the Ngaanyatjarra Council, and the Western Australian Government and ratified by the Federal Court of Australia. The eastern-most licence, Forrest Lakes, extends west from the state border lying wholly within Reserve 30490, (the Great Victoria Desert Nature Reserve) an A class reserve for Conservation of Flora and Fauna.

Exploration potential

Hou, Frakes, Alley and Heithersay claim that the eastern Eucla Basin has potential as a "world-class heavy-mineral sand province".

VWPL considers that economic HM deposits will eventually be discovered in the region as the known producing areas become depleted and more effort is concentrated elsewhere. Allocation of land to other uses has rendered some coastal mineral sands resources inaccessible to exploration or mining. In eastern Australia, the majority of inaccessible resources occur along the Queensland coast and make up half of this State's economic resources of zircon and a quarter of its economic resources of rutile. Similarly, almost half of economic resources of rutile and zircon are inaccessible to mining in New South Wales. Western Australia remains the most prominent producer of mineral sands accounting for 90% of Australian production in 2002.

The significantly large size of the Eucla Basin Heavy Mineral Sands Project, extending across an area of over 6700 km², make it a strategic holding for DRL (Table 1). There is good potential for the discovery of large deposits of mineralisation in multiple strandlines which could persist over large distances and which could support large-scale mining operations.

As the region is remote exploration and production costs will probably be higher than the coastal regions of Australia and the onshore Murray Basin region.

The Ooldea Sand, which is the main barrier strandline target in the three DRL ELAs in South Australia is of some 200 km linear extent. Exploration has produced encouraging HM analytical results, refer to Previous investigations.

In units correlable with the Ooldea Sand previous and current exploration has discovered strong HM mineralisation. Recently a small high-grade strandline has been discovered approximately 130 km south-east of the DRL ELAs and approximately 200 km to the south-east of the DRL ELAs very high HM sample results have been reported, refer to "*Evidence for HM deposits in the Eucla Basin*".

Exploration target size

Analysis of existing HM deposit provinces provides an understanding of the order of magnitude of potential discoveries for newly discovered regions.

In the Murray Basin, drill defined deposits yet to be exploited suggest the nature of exploration targets. At Ginko the main continuous body, which is a stack of lenses, is nearly 8 km long, from 450 m wide and about 40 m thick in its strongest parts. It has been estimated by Bemax Resources NL ("Bemax") as 252 million tonnes containing 2.8% HM at a cut-off grade of 1% HM for a content of 7.06 million tonnes of HM. Ginko could be highgraded to 28 million tonnes containing 7.9% HM using a higher bottom cut-off of 5% HM.

Consolidated Rutle Limited has a low-grade dredging operation on North Stradbroke Island in Queensland from which it produced about 78 000 tonnes of HM from 36 million tonnes of ore in 2003. This translates to a grade of only 0.22% HM although the mean grade target is usually about 1% HM. In 2003, reserves were reported as 4 627 000 tonnes of HM in the proved and probable categories at a cut-off grade of 0.7% HM so the resource is in excess of 660 million tonnes of heavy mineral sands.

Previous Investigations

Three explorers are recorded to have worked in the Eucla Basin Heavy Minerals Sands Project area:

Company	Target	Work Completed
Aquitaine Australia Minerals Pty. Ltd.	Uranium	Geomorphic mapping, geophysical imagery and reconnaissance sampling
BHP Minerals Ltd ("BHP")	Heavy Minerals	Drilling on traverses
CRA Exploration Pty. Ltd.	Shale Oil and Lignite	Results are scant

Only the exploration by BHP has any direct bearing on the initiative of DRL.

BHP - South Australia - EL 1355 and ELs 1653 1655

In 1990 and 1991, BHP explored ELs 1653 to 1655 for heavy mineral sands and these overlap the DRL ELAs. Drilling was completed on 13 traverses, along existing tracks or bulldozer constructed access, across the ELs and one to the south-east near the western edge of EL 1355, Figure 4. A total of 229 holes were drilled for 6447 m. Holes were spaced at an average of 1 km centres along the traverses. A ground magnetic survey of three of the traverses and gamma logging of 12 holes were also completed.

Composite drill samples over 10 m (total 679) were submitted for analysis. The original individual 2 m sample splits collected were then also analysed from the 10 m composite intervals that reported anomalous values of greater than 0.5% HM (41 samples). Twenty-eight samples analysed in excess of 1% HM with a few above 5% HM. Heavy mineral separations showed zircon to be dominant, 28% to 47%. Ilmenite ranged from 12% to 35% and rutile ranged from 2% to 5%. The results of samples containing greater than 0.2% HM are shown in Table 2. In a few very high-grade samples up to 20% HM - non-economic iron oxide minerals dominated the assemblages and rutile and ilmenite contents were very low on a percentage basis.

Sand cover over the HM horizons is generally between 20 m and 40 m and fluctuates markedly because of dunes. The strike of the dunes is similar to that of the strandlines.

Considering the wide drill spacing of 1 km along traverses and the narrower width of strandlines the results are very encouraging. The chance of finding smaller zones with higher grades by drilling at shorter intervals is considered high.



Hole	Traverse	From	To	Width(m)	HM(%)	Minerals	%
M131	10	30	46	16	0.44	Ilmenite	6
						Rutile	tr
						Zircon	12
M134	10	38	41.8	3.8	1.19	Leucoxene	5
						Trash	77
M138	10	38	44	6	0.44	Ilmenite	7
						Rutile	tr
						Zircon	1
						Leucoxene	8
						Trash	84
M143	11	32	39	7	1.95	Ilmenite	13
M144	11	34	39	5	0.60	Rutile	1
M145	11	30	42	12	1.57	Zircon	4
M146	11	32	36	4	0.72	Leucoxene	9
M147	11	34	39	5	1.23	Trash	73
M172	11	34	42	8	0.50		
M173	11	28	38	10	0.88		
M174	11	34	39	5	0.67		
M175	11	34	44	10	1.30		
M178	11	34	38	4	2.85	Ilmenite	31
						Rutile	2
						Zircon	47
						Leucoxene	5
						Monazite	2
						Trash	13
M150	11	36	40	4	0.27	Ilmenite	33
						Rutile	4
						Zircon	25
						Leucoxene	16
						Monazite	tr
						Trash	22
M167	12	36	42	6	0.98	Ilmenite	12
						Rutile	tr
M168	12	30	34	4	0.87	Zircon	4
						Leucoxene	4
M169	12	24	28	4	1.00	Trash	80
M154	12	20	36	16	0.27	Ilmenite	26
						Rutile	5
						Zircon	30
						Leucoxene	8
						Monazite	1
						Trash	30
M204	13	20	28	8	0.95	Ilmenite	31
						Rutile	1.5
						Zircon	14
						Leucoxene	5.5
						Monazite	tr
						Trash	48

Table 2: Heavy mineral intersections from BHP drilling in Eucla Basin 2 (ELA 109/02).
(Trash denotes heavy mineral species of little or no economic interest)

Evidence for HM deposits in the Eucla Basin

The westernmost BHP traverse drilling described above verifies the existence of HM deposits which contain significant ilmenite, zircon and rutile in the DRL tenement area, Figure 4.

Currently, a joint venture between Iluka Resources Limited ("Iluka") and Adelaide Resources Limited are actively exploring in the Eucla Basin. Iluka has announced the discovery of the Jacinth Prospect located about 130 km south-east of the DRL ELAs in South Australia, Figure xx of the Directors Report. The Jacinth Prospect is reported as classic beach placer mineralisation and has defined over 1000 m in 14 drill traverses. The high grade core of the deposit extends over about 700 m and contains an average HM content of greater than 20% with impressive drilled intervals; for example, 3.0 m grading 28.1% HM, 7.5 m grading 16.8% HM and 27.0 m grading 13.5% HM. Iluka reported the discovery drill traverse line to contain an average of 10% HM with 52% zircon, 7% rutile, 24% ilmenite and low clay content. Preliminary analytical and mineralogical assessment is therefore very favourable.

Two hundred kilometres to the south-east of the DRL ELAs, Geopeko Limited located two distinct heavy mineral strandlines at the Immarna Prospect. Metallurgical testing showed the strandlines were dominantly ilmenite bearing with an average TiO_2 content of between 61% and 62.1%. Drilling near Lake Ifould showed some encouraging results with some significant intersections within the Ooldea Sand. The best intersection was 27.2% HM the mineral assemblage comprising 51% zircon, 43% ilmenite and 3% rutile.

Future exploration

DRL has prepared a first year program budgeted at \$200 000 which includes airborne geophysical surveys and imagery studies to assist in positioning traverse drilling of the strandlines in selected target areas. DRL intend to drill reconnaissance traverses at the end of the first field season and commence full drill programs in the second field season.

6.3.3 GWYDIR DIAMOND PROJECT

The Gwydir Diamond Project is located in northern New South Wales and is situated to the north and west of the old alluvial diamond producing areas of Bingara and Copeton (Figures 1 and 5). The project comprises six ELs.

Geology and Mineralisation

The simplified regional geology of the Gwydir Diamond Project area is shown in Figure 6. Siluro-Devonian rocks of the New England Fold Belt are the oldest exposed rocks in the area. The Peel Fault separates these into two domains. The eastern domain is the Woolloomin-Texas Block which contains metamorphosed submarine basalts and deep-water sediments. The western Tamworth Belt contains sediments and andesitic volcanoclastics of shallow-water shelf conditions.

The Peel Fault is a major easterly dipping structure which probably represents a low-angle thrust zone with a slab of oceanic plate containing sediments and basalt thrust over a fore arc sequence of sediments and volcanoclastics. On this interpretation the volcanic arc would have been located to the west of the area. Abundant serpentinite (ophiolite) is intruded into the Peel Fault.

Permo-Triassic sediments of the Gunnedah or Sydney Basin lie to the west of the Tamworth Belt rocks. Sedimentation in the Sydney Basin ceased at about middle Triassic in this area and a considerable time break occurred before deposition of sediments of the Surat Basin at about early middle Jurassic. In the northern part of the Gwydir Diamond Project area, the Surat Basin rocks completely mask the underlying Permian Rocks.

Extensive basaltic volcanic activity occurred in the Tertiary in the eastern part of the Gwydir Diamond Project area. Extensive sheets of basalt which once covered a large portion of the land surface have since been partly eroded but a substantial sheet still remains in the Inverell area to the immediate east of Warialda. Substantial erosion that has occurred has reduced the basaltic cover to scattered outliers usually capping hills. Some basaltic activity also occurred in the western part of the area.

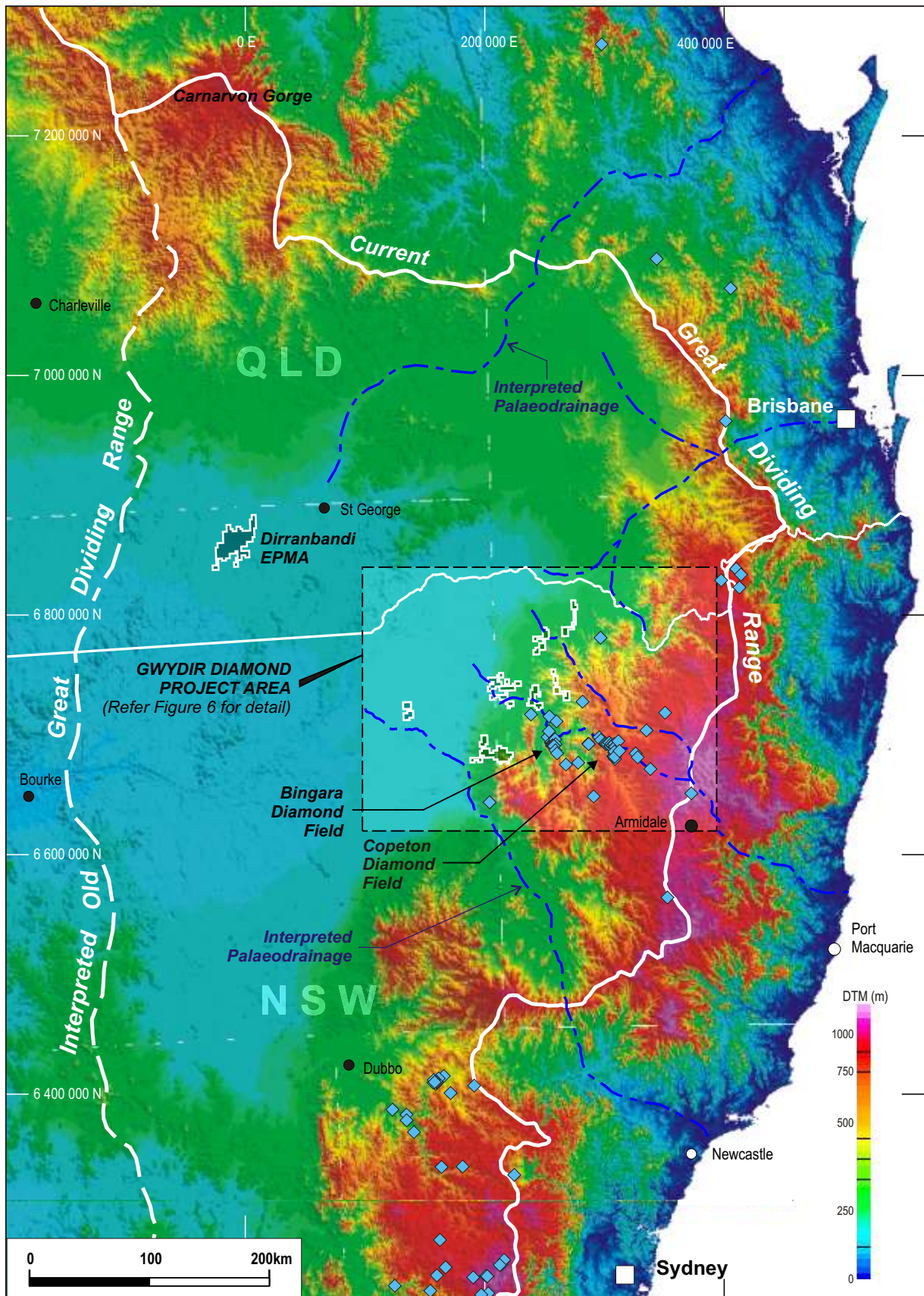


Figure 5: Gwydir Diamond Project - Digital Terrain Model, interpreted reconstruction of ancient river system (palaeodrainage), DRL prospects and diamond occurrences.

Extensive Cainozoic sedimentation occurred in the western part of the Gwydir Diamond Project area. This is related to the diversion of coastal drainages inland as discussed below. The extensive surficial cover totally masks the western half of the Gwydir Diamond Project area.

Quaternary alluvial sediments consisting of gravel, sand, silt and clay have been deposited along and in the flood plains of most of the major and minor rivers and creeks of the region.

The district contains numerous deposits including gold, tin, base metals, other metals, and alluvial diamonds. The historic Bingara and Copeton Diamond Fields are the justification for persistent diamond exploration. The DRL tenements are situated in a 90-degree arc, some 30 to 40 km west and north of the Bingara Diamond Field (Figures 5 and 6).

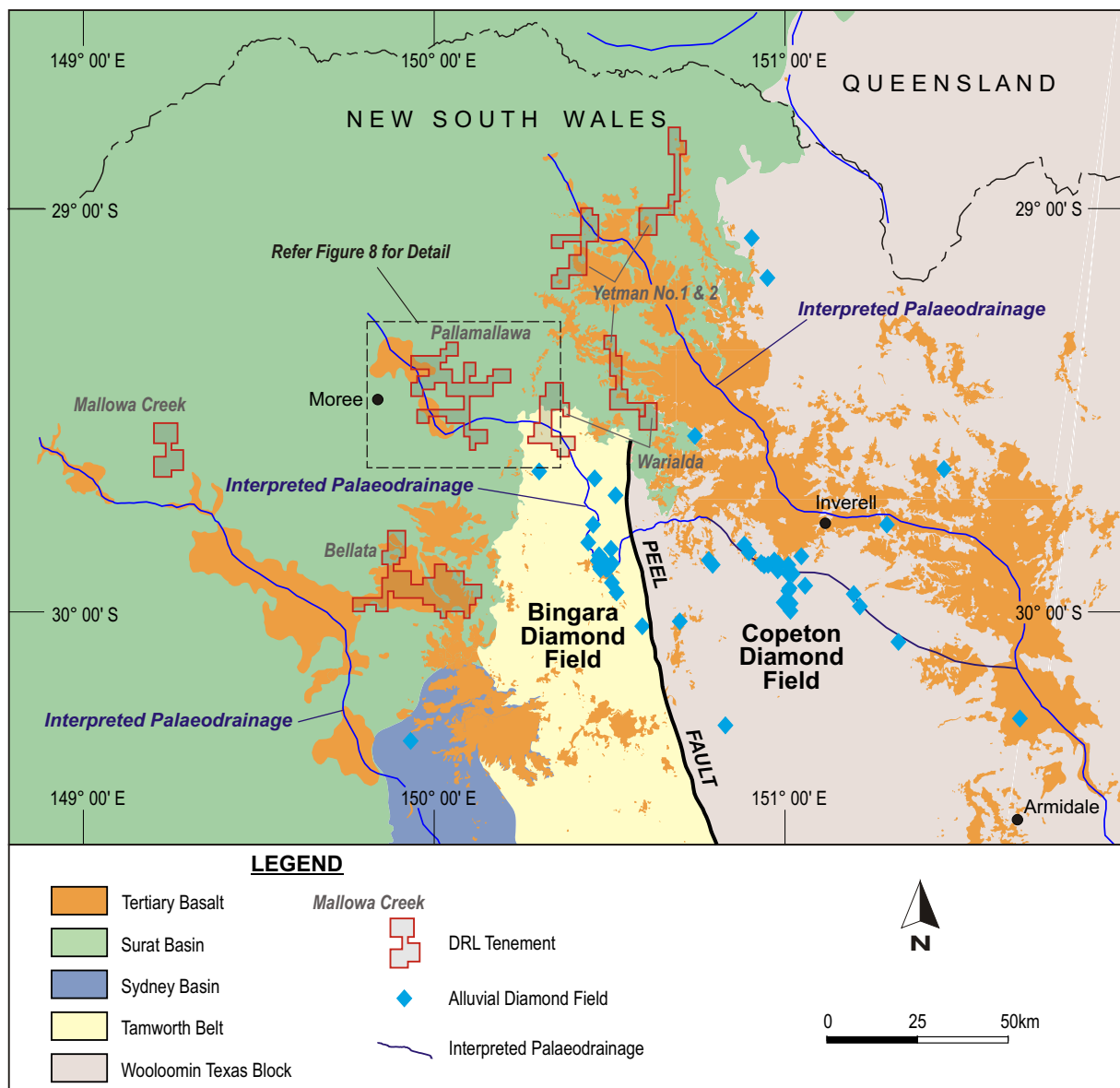


Figure 6: Gwydir Diamond Project - New South Wales tenements, diamond fields and interpreted palaeodrainage.



Bingara Diamond Field

The Bingara Diamond Field is situated in the western part of the New England Fold Belt, 120 km north-west of Armidale in northern New South Wales.

The Bingara Diamond Field is the second largest diamond producer in New South Wales with a total recorded production in excess of 34 000 CM, though actual production was probably much higher (125 000 CM, Barron et al.). Prior to the discovery of the Argyle deposit in Western Australia this was one of Australia's most productive diamond fields and second only to Copeton. Diamonds were discovered in 1872 during gold mining operations and worked intermittently until 1939. Minor reworking has occurred more recently.

Diamonds in the Bingara area have been recovered exclusively from alluvial deposits. The main clusters of workings, which account for most of the diamond production, occupy an area of 4 km by 3 km. The distribution of the diamonds suggests that they are not exotic to the region and a 'local' source is considered likely.

Diamonds were mined from Tertiary deep leads, exposed Tertiary gravels and minor re-worked alluvial deposits of Holocene age. Most of the diamond production came from perched terrace gravels, which are developed extensively in the main deposit cluster area. Although diamonds are found in Tertiary deep leads, Tertiary gravels and Holocene gravels sourced from Tertiary alluvial deposits they are extremely rare in present day drainage systems. This implies that the source rock has not been exposed to weathering and erosion since Tertiary time. Therefore, Tertiary basalts, Mesozoic sediments or Quaternary sediments may be concealing the source rocks for the alluvial diamonds. Alternatively the source area may lie at some distance from the Bingara area and sampling may not have been completed in the source area.

Bingara diamonds are distinctive in their hardness, morphology, enriched carbon isotopic signature and calcium-rich inclusions when compared with the world diamond population. The diamonds are generally small, commonly 0.2 to 1.0 CM (1 carat equals 0.2 gram), with some stones over 1 CM in weight. The largest stone recovered weighed 2.625 CM. Historic production reported about 5% of the stones were gem quality but recent work has shown this to be a misconception and 98% were considered gem quality in a 1995 bulk-sampling program. Bingara diamonds generally have well developed octahedral crystal form and in general the crystal faces are rounded. They are extremely hard and brilliant making them prized gemstones and superb industrial diamonds. Poor grade, industrial quality stones such as boart and carborundum are rare. It is also notable that diamonds throughout the Bingara field are consistent in size, colour and morphology with no mine having unique diamond properties. This apparent homogeneity of diamond characteristics implies a possible single source for the diamonds.

The diamonds show evidence of abrasion and fracture indicating they have travelled some distance from their source. On the other hand, in comparison to diamonds elsewhere in New South Wales, Bingara diamonds show less mechanical wear implying they could be relatively closer to their source than some of the other diamonds.

Copeton Diamond Field

The Copeton Diamond Field is situated 80 km north-west Armidale in northern New South Wales and 50 km east of the Bingara Diamond Field (Figure 5).

Copeton is the largest diamond field in eastern Australia with total production reported at 300 000 CM by Barron et al.

Diamonds were first discovered in 1872 in recent alluvium but later it was recognised that the diamonds and tin in this area were eroding from a Tertiary deep lead which in many areas was still covered by basalt. Mining of the Tertiary sediments in the deep leads was done by underground methods using adits and in some cases shafts.

The diamonds found at Copeton average approximately four per CM which is larger than those that occur at Bingara. The largest diamond was 8 CM. Like the Bingara diamonds, the Copeton diamonds are straw coloured, yellow and white in colour. They have high brilliance and are hard and difficult to cut.

In two areas diamonds are reported as having being derived from dolerite intrusives but the evidence has been lost. Analyses indicate that the rock was similar in composition to the basanite intersected in drill holes at DRL's Moven Prospect. It was also believed to be of Mesozoic age.

Previous Mining and Exploration

Very little previous work has taken place in the DRL tenements that is relevant to the current exploration objectives.

In the region, despite significant exploration by a variety of companies, the hard rock source for the Bingara and Copeton diamonds has not been discovered. Previous exploration has relied extensively on heavy mineral sampling for both indicator minerals and diamonds with disappointing results. Explorers, who have carried out extensive programs in the area, include Baxter Brown Exploration, Diamond Ventures, Stockdale Exploration and Western Mining Corporation. A large number of other explorers have also been active in the area. Several different theories for the origin of the diamonds, the age and source have been put forward.

The NSW Department of Mineral Resources ("DMR") has recently compiled high quality geophysical imagery datasets, for the Bingara and surrounding area. These datasets, when used with historical exploration information, provide an interpretative means to locate the hard rock source for the alluvial diamonds by studying paleo-drainage systems.

Gwydir Diamond Exploration Concept

DRL's exploration initiative for the region relies on the validity of two research aspects:

- The origin of Bingara and Copeton diamonds
- Re-interpretation of the early Tertiary drainage systems

Origin of Bingara and Copeton Diamonds

Some researchers, notably Davies, R. M., O'Reilly, S. Y., and Griffin, W. L., 2002 and Barron et al suggest that the diamonds of NSW are fundamentally different in their formation from many diamond producing areas throughout the world. The details cannot be addressed in detail here but in summary, there are two types of diamonds, Group A and Group B.

Group A diamonds are similar to diamonds from the cratonic areas across the world where most diamond production occurs. These diamonds have an ancient age and are believed to originate from the mantle below the cratonic areas at about 150 km depth.

Group B diamonds are considerably different in their morphological characteristics and mineral inclusion compositions and age to the Group A diamonds. These diamonds are believed to be diamonds formed within subduction zones and possibly at depths less than the 150 km depth often proposed for Group A diamonds, refer Figure 7. The majority of the Bingara and Copeton diamonds fall into the Group B category and therefore the conclusions drawn from study of the Group B diamonds are relevant to exploration in the Gwydir Diamond Project area.

The volcanic lithologies that are capable of transporting diamonds to the surface from a subducting slab are conjectural as the depth of origin of some of the potentially deeper volcanics is uncertain. Clearly kimberlite and lamproite are transporting mediums, as they are known carriers of diamond. Barron et al. imply that rocks with essentially alkaline basaltic composition are potential carriers.

DRL believes that basalts and ordinary alkaline basalts are unlikely diamond transporting mediums. It may be, however, that some of the alkaline basalts with unusual compositions do originate from sufficient depth to be regarded as transporting mediums. These are likely to have compositions that reflect their deeper origins and to be similar in composition to ultramafic lamprophyres. Like many of the kimberlites and lamproites these rocks are likely to be altered and therefore difficult to identify. If they were diamond bearing it is likely that they will contain abundant eclogite xenoliths with very high-pressure mineral suites including high sodium garnets.



The age of formation of diamonds can be interpreted by dating of mineral inclusions within the diamonds. This is complicated because there may have been loss of argon and/or radiogenic lead from the mineral inclusions. Using this approach an age range for Group B diamonds at Bingara between Carboniferous and Upper Triassic can be interpreted.

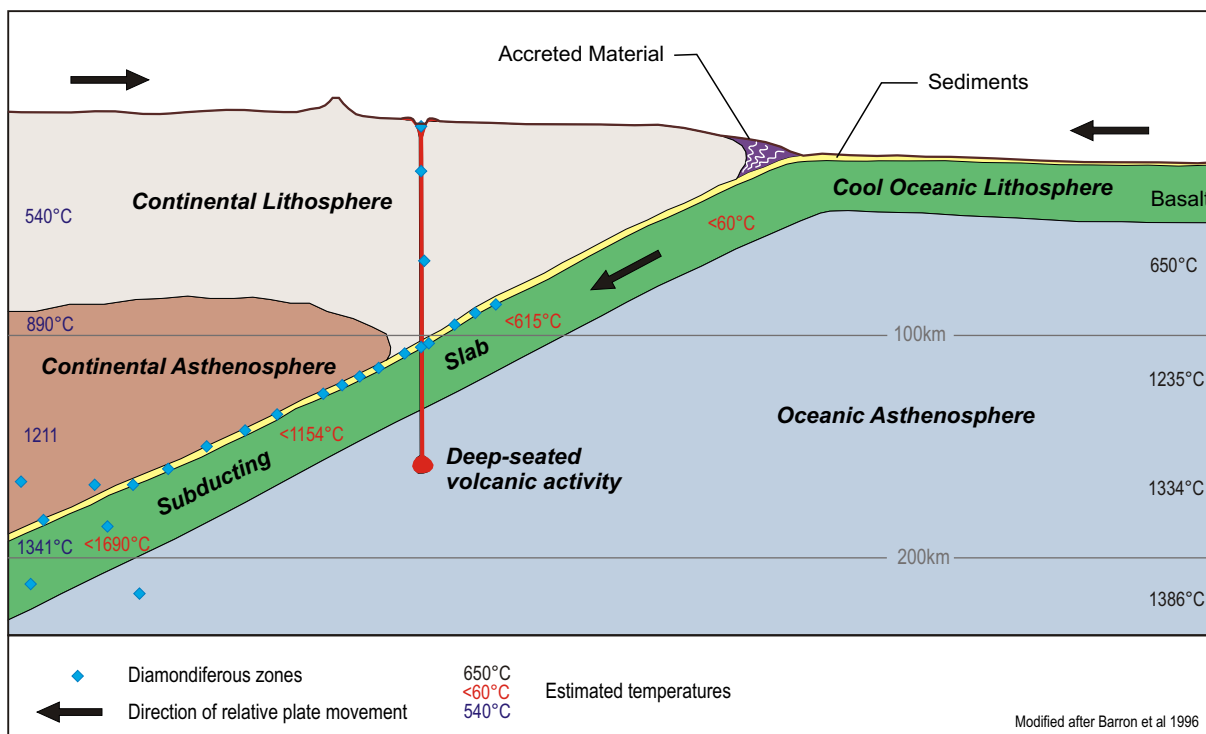


Figure 7: Gwydir Diamond Project - Proposed model for the formation of diamonds in a cool oceanic plate subducting beneath a continental plate.

Re-interpretation of the early Tertiary drainage systems

The Bingara and Copeton diamonds are alluvial diamonds deposited in stream gravels in the early to middle Tertiary. The direction of flow of these early Tertiary streams is fundamental for determining the source for the diamonds.

The Great Dividing Range, which extends from Cape York to Victoria, is the watershed between the river systems that drain easterly into the Pacific Ocean and those that drain westerly into the Gulf of Carpentaria, Lake Eyre and the Southern Ocean. The Great Dividing Range is mountainous only in areas where Tertiary uplift or volcanic activity has occurred and elsewhere shows low relief.

DRL considers that in the early Tertiary the Great Dividing Range in northern New South Wales and southern Queensland lay well to the west of its current position, Figure 5. This contrasts with the conventional view that the Great Dividing Range was approximately in its current position in the early Tertiary. DRL's theory is summarized as follows:

The opening of the Tasman Sea and the uplift of the eastern margin of the Australian continental plate began in the Cretaceous and continued into the Tertiary. Early river systems are considered to have flowed from the watershed in central inland New South Wales and Queensland to the east through the uplifted coastal ranges. Extensive volcanic activity which began in the early to middle Tertiary, generally in the area of uplift, deposited thick sheets of basalt which increased the height of the coastal range and dammed the east-flowing river channels cutting through the coastal range. In northern New South Wales and southern Queensland this diverted the rivers inland. The diverted drainages breached the old Great Dividing Range just to the north-east of Bourke in NSW. To the south of this area the old Great Dividing Range still exists as a range of hills protruding towards Bourke. To the north of this area the old Great Dividing Range extended on the eastern side of Cunnamulla to join the current Great Dividing Range at about the Carnarvon Gorge area, Figure 5.

If the theory is correct, the rivers that deposited the Bingara and Copeton Diamond Fields flowed eastwards and the source of the diamonds lies to the west of these areas. Erosion has removed a considerable amount of the basalt which once covered the region but remnants of the basalt covered drainage systems can be identified from aerial magnetic surveys. Reconstruction of the palaeo-drainages has enabled DRL to predict localities which have the potential to host primary diamond deposits.

Future exploration program

A number of high quality airborne geophysical surveys were flown by the DMR in and around the Gwydir Diamond Project area and are available in digital format. DRL has completed a detailed review of airborne geophysical surveys, geological reports, mineral locations and company reports on previous exploration. Five ELAs have been lodged over areas considered to be prospective for hard-rock diamonds.

It is assumed that the rock types transporting diamonds to the surface are likely to have magnetic signatures. Therefore attention has been given to airborne magnetic data in the targeting of areas that are prospective for diamonds. Particular attention has also been given to round "bullseye" type positive magnetic features which may reflect diatremes. The work completed also takes into consideration that prospective rocks may have been substantially altered and may have only very weak magnetic signatures.

Prospective diamond bearing rocks may also contain substantial potassium and if cropping out may show a positive potassium signature in the radiometric survey results.

Warialda EL 5900

The Warialda EL has been held by DRL since 26 October 2001. The original area of 298 km² has recently been reduced by 50%. The area was selected in the early development of the Gwydir Diamond Model after it became clear that the streams that transported the diamonds to the Bingara Diamond Field were flowing from the north-west. At that stage it appeared that the stream could have originated from the Warialda-Gravesend area but now it is considered more likely that this stream probably originated from near Moree.

Work completed in the Warialda area resulted in the selection of seven magnetic targets for further work. Field inspection of two of these targets on the eastern side of the area led to their downgrading and this part of the area has been relinquished. Of the remaining five magnetic targets, four have been covered by detailed ground magnetics and two have been drilled.

Moven Prospect

The Moven Prospect is located at about 242 000E, 6 740 200N (MGA Zone 56) on Moven farm. This prospect was covered by detailed ground magnetics and three holes were also drilled into the area.

The prospect is covered by sandstone and claystone of the Hutton Sandstone of the Surat Basin. Detailed ground magnetics over this prospect outlined four separate magnetic anomalies. Two of these features were drilled and a further hole was drilled adjacent to these two anomalies.

Hole WA001 intersected 23.5 m of Jurassic sandstone and claystone of the Surat Basin followed by 23.5 m (23.5 to 47 m) of alkaline basalt with a fragmental texture. Hole WA002 intersected 38 m of Jurassic sandstone and claystone of the Surat Basin followed by 22 m (38 to 60 m) of alkaline basalt. Hole WA003 intersected 25 m of Jurassic sandstone and claystone of the Surat Basin followed by 24.5 m (25 to 49.5 m) of andesitic volcanoclastics. The andesitic volcanoclastics are similar to those extending from Bingara to this area and probably belong to the Carboniferous Luton Formation.

Kyalla Prospect

The Kyalla Prospect is located at about 242 300E, 6 736 300N (MGA Zone 56) on Kyalla farm. This prospect was covered by detailed ground magnetics and one hole was also drilled into the area.

The prospect area is a mesa of Tertiary aged lateritised friable sandstone, possibly alluvium, covered by red soil. Surrounding this mesa, isolated outcrops of Hutton Sandstone of the Surat Basin occur.



Detailed ground magnetics over this anomaly outlined a broad 'diffuse' magnetic anomaly which corresponded closely with the mesa of lateritised Tertiary sediments. This suggested that the anomaly resulted from the tertiary sediments. However as there existed the possibility that the Tertiary sediments were covering a diatreme a drill hole was completed into the area.

Hole WA004 intersected 41m of Tertiary lateritised sandstone and claystone before the hole was abandoned because of hammer blockages. The magnetic anomaly remains unexplained and further drilling is required to resolve the source of the magnetic anomaly.

Poinciana Prospect

The Poinciana Prospect is located at about 268 900E, 6 731 000N (MGA Zone 56) on Poinciana farm.

A discrete magnetic feature of about 300 m diameter was defined from a ground magnetic survey, which reflects a possible diatreme at a depth of approximately 100 m.

Sandstones of the Pilliga Sandstone of the Surat Basin cover the prospect. The depth of the Surat Basin sediments is unknown but likely to be about 100 m.

A drill hole to a depth of about 150 m is required to test this anomaly and is planned in the next exploration campaign.

Murdering Creek Prospect

The Murdering Creek Prospect is located at about 267 500E, 6 732 300N (MGA Zone 56) on Poinciana farm.

Detailed ground magnetics was not completed over this prospect as the anomaly is well defined on the airborne magnetics. The anomaly consists of a single discrete elongate north-south magnetic low feature with a length of 2 km and a width of 400 m.

Sandstones of the Pilliga Sandstone of the Surat Basin cover the prospect. The depth of the Surat Basin sediments is unknown. A drill hole into this prospect is likely to penetrate about 80 m of cover before intersecting basement. A hole to a depth of about 130 m is therefore required and planned in the next exploration campaign.

Bundilla Prospect

The Bundilla Prospect is located at about 245 800E, 6 724 900N (MGA Zone 56) on Bundilla farm.

A ground magnetic survey indicates that the magnetic anomaly is not caused by a discrete magnetic source reflecting a diatreme. A gravel quarry on the western side of the prospect area exposes partly consolidated Tertiary river gravels which probably contain magnetic minerals that are responsible for the magnetic anomaly.

No drilling on the area is warranted at this stage.

Pallamallawa EL 6331

The Pallamallawa EL was granted on 20 October 2004 over an area of approximately 256 km². DMR records indicate that the area has never previously been held for mineral exploration.

Quaternary sediments which obscure the bedrock geology cover almost all of the area. It is likely that sediments of the Surat Basin lie beneath most of the surficial cover. Limited information from drill holes in the area show that the Surat Basin sediments on the western side of the Goondiwindi Fault (which is in the eastern part of the area) dip westerly and therefore the thickness of the Surat Basin sediments increases westerly. If this is correct then the Surat Basin sediments in the Pallamallawa ELA are of the order of 300 m thick.

The airborne magnetic survey shows a number of discrete "bullseye" magnetic anomalies that are probably reflecting diatremes, Figure 8. The sharp nature of the magnetic anomalies suggest that the sources of these anomalies are relatively shallow and not at a depth of 300 m. They are unlikely to be below the base of the Surat Basin sediments. The anomaly sources are therefore interpreted to be either of Tertiary age and intruded

through the Surat Basin sediments or of Jurassic age and intruded into the base of the Surat Basin sediments. Resolution of these two alternatives will require drilling of the anomalies.

As the source of the Bingara diamonds is interpreted to be in the Moree area these anomalies are rated highly. DRL has planned this drilling in the next exploration campaign.

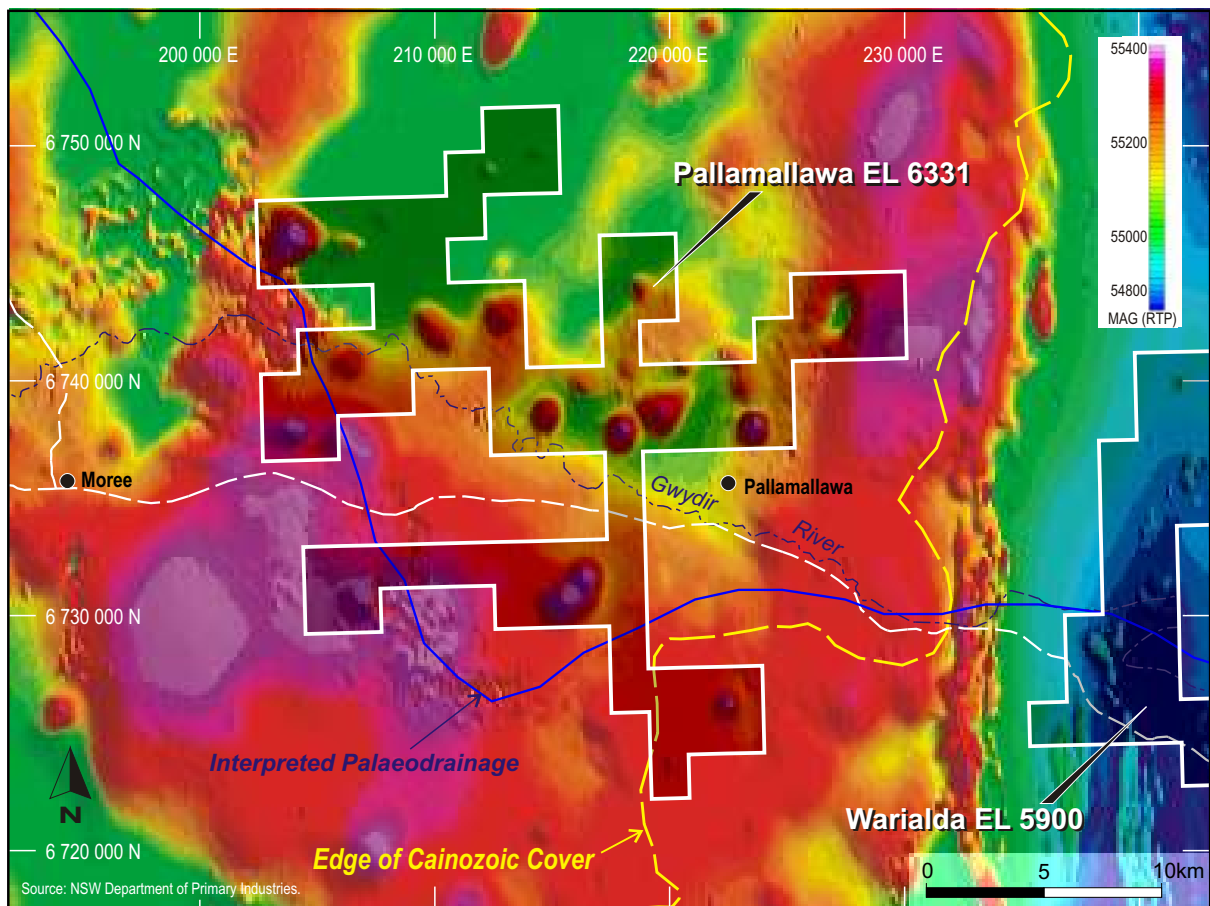


Figure 8: Gwydir Diamond Project - Pallamallawa ELA on Airborne Magnetic Survey (Reduced to Pole) showing magnetic targets (possible Diatremes).

Bellata EL 6301, Yetman No 1 EL 6352, Yetman No 2 EL 6353 and Mallowa Creek EL 6330

Applications for these ELs were lodged on 14 April 2004. EL 6301 was granted on 22 September 2004 and EL 6330 on 19 October 2004. The ELs have a combined area of approximately 682 km². DMR records indicate that very little exploration has been done in the areas previously. The Yetman No 1 and No 2 EL areas have previously been held for uranium exploration.

Quaternary sediments often obscure the bedrock geology and it is probable that Surat Basin sediments or Tertiary basalt underlie almost all of the EL areas.

The airborne magnetic survey shows a number of "bullseye" magnetic features which are of interest. These appear to represent anomalies over diatremes.

Some of the magnetic anomalies show radiometric results with a "basalt" signature. These are of limited interest but still require field checking. Some of the magnetic features have associated radiometric results showing increased potassium content. These features are of particular interest as they may be caused by alkaline ultrabasic diatremes. An alternative explanation is that they are trachybasalt plugs.

DRL intend to drill several of the magnetic anomalies.



Dirranbandi Diamond Project

The Dirranbandi Diamond Project consists of Exploration Permit for Minerals ("EPM") 14661 of about 690 km² situated about 100 km west of St George and 500 km west of Brisbane in Queensland. It may be considered as a sub-project of the Gwydir Diamond Project insofar as the target of primary diamonds associated with diatremes and the proposed methods of exploration are similar. Furthermore, the area could possibly be the source for the diamonds of Bingara and Copeton.

Geology

The area is covered by flat-lying Great Artesian Basin sediments about 1200 m thick and from Jurassic to Recent ages which overlie a metamorphic basement of probable Permian or Devonian age. Surface rocks are generally Cainozoic sandy loam and clay alluvium but Tertiary sands and conglomerates crop out to the south-east and west.

Stratigraphic drilling down to 2000 m shows from 0 to 200 m of Cainozoic and Tertiary overlying about 600 m of Cretaceous sediments.

More than a dozen well-developed circular depressions up to 1.4 km across and up to 3 to 4 m deep are distributed over an area of about 500 km², Figures 9 and 10. They contain clay alluvium at surface and are prominent on photographs largely because of abrupt soil and vegetation change.

The features are interpreted as volcanic vents or craters, now filled with sediments and perhaps collapsed pyroclastic material above volcanic pipes or diatremes. Ultrabasic volcanic pipe material has been reported but may be doubtful.

Previous Investigations

Union Oil 1959 to 1965, North American International, 1966; Samin Ltd, 1975 to 1977; Era South Pacific/Sydney Oil Company Ltd, 1978 to 1986, all conducted oil exploration which included seismic surveys and rotary drilling.

In an attempt to prospect through the thick cover rocks, past explorers have used photo geological (Landsat) interpretation, airborne geophysical studies, soil sampling, water bore geochemical surveys, the results of Bureau of Mineral Resources - Geology and Geophysics ("BMR") and Water Resources Commission gamma logging, core drilling and have looked for diamond indicator minerals in soil sampling and drilled material with petrology. Seismic survey results were analysed for basement faulting.

Oilmin NL, Transoil and Petromin searched for diamonds between 1980 and 1982 and completed an airborne magnetic and radiometric survey, drilled six shallow holes to a maximum depth of 80 m and completed heavy mineral investigations. Two of the drill holes were abandoned at a shallow depth. Heavy mineral investigations indicated the presence of pyrope garnets but the source of these was uncertain

Metallurgical Refining & Development Pty Ltd ("MRDPL") prospected for diamond pipes and gold deposits that might be associated with lineament intersections. The area was selected partly because it lies on the intersection of the north-east trending Darling lineament and the west-north-west trending Grafton lineament and also to test the circular structures.

MRDPL drilled four holes at three localities but two of these were abandoned before reaching the target depth. In the other two holes, volcanic pipes were intersected: from 192 m to 254 m, in drill hole DBDH 1A, at the Lord Prospect and from 82 m to 132 m, in drill hole DBDH 3, at the Two Towers Prospect, Figure 9. Texturally the rock types are crystal lithic tuffs and clay derived from these. MRDPL interpreted "lamprophyric intersections". Phlogopite, a mica common in ultrabasic igneous rocks, was reported but this may have been vermiculite. Gold and chromites with lamproite/kimberlite affinity were recognized/interpreted but it was concluded that the rock types were probably not diamondiferous.

Tops of fresh pipes may be as much as 350 m below surface and deepest on the western side of the area.

Future Exploration

DRL has allocated 3100 m of drilling and a budget of \$300 000 for the initial diamond exploration campaign.

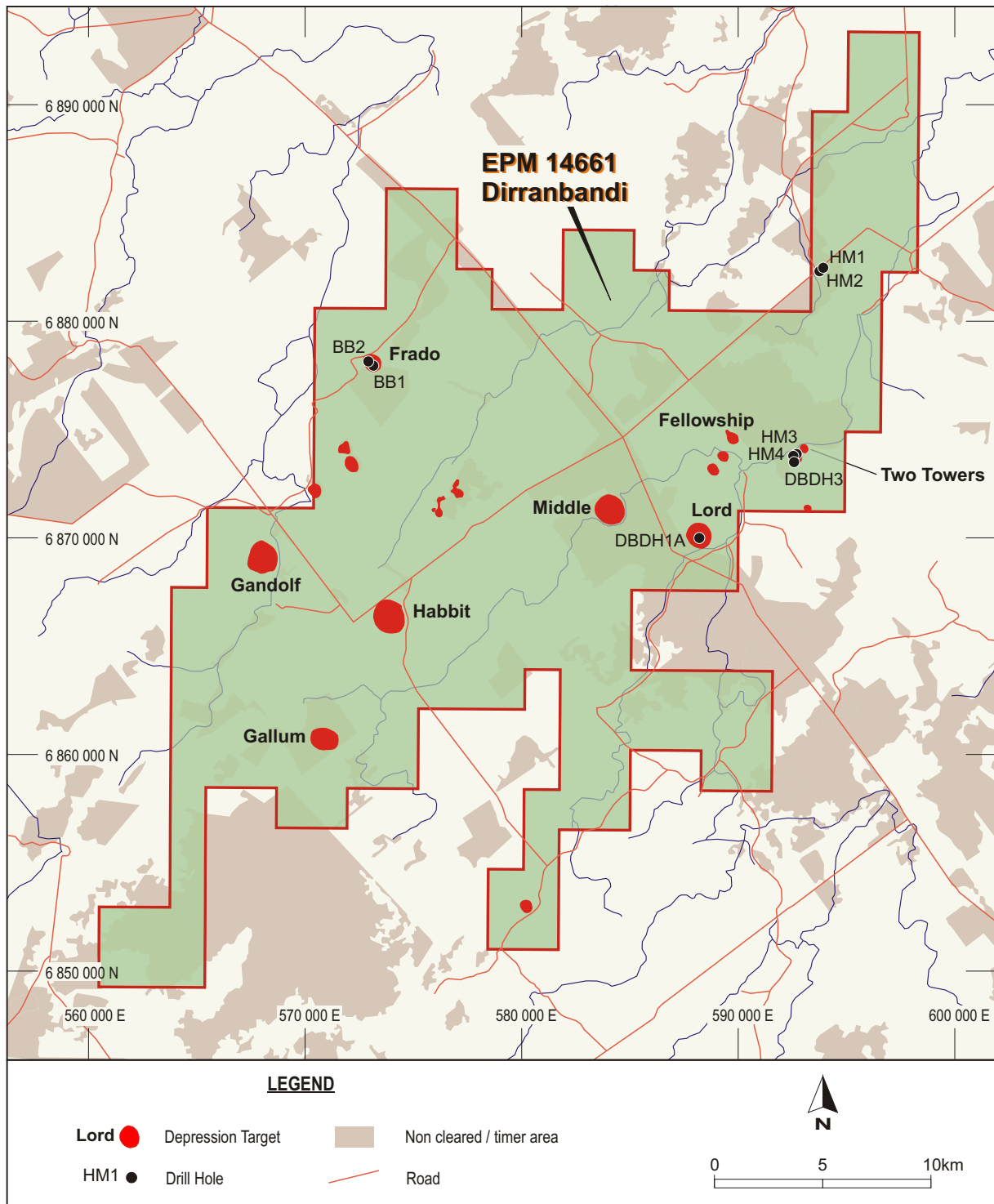


Figure 9: Dirranbandi Diamond Project - Tenement location and Diatreme targets.

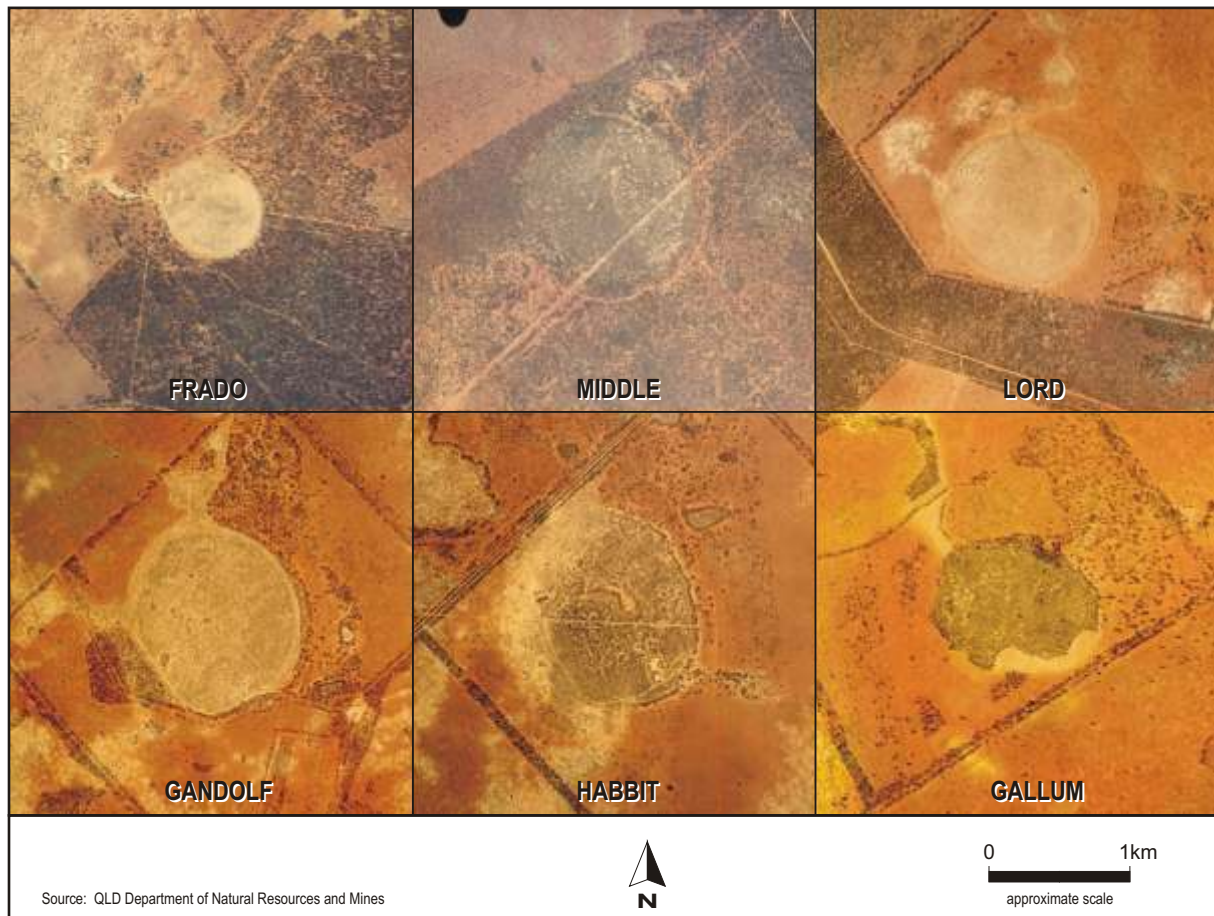


Figure 10: Dirranbandi Diamond Project - Aerial photographs of circular depression features (Diatreme targets, Figure 9).

6.3.4 BELLFIELD BASE METAL PROJECT

The Bellfield Base Metal Project is comprised of Exploration Permit for Minerals Applications ("EPMAs") 12868 "Bellfield" and 12888 "Gilbert River". The project area, which totals some 1100 km² is located about 120 km south-west of Georgetown in north Queensland, Figure 1. Agreement has been reached with one of the aboriginal groups holding native title over some of the area but agreements are outstanding on the remainder of the area.

Regional Geology

The Project area is located in the Georgetown Inlier, which is one of a series of Proterozoic inliers, extending from south of Gilberton to Cape York. The Georgetown Inlier is separated from the Mount Isa Inlier by shallow sedimentary cover of Mesozoic to Tertiary Basins. In many respects the Georgetown Inlier should be regarded as an easterly extension of the Mount Isa Inlier. The oldest rocks in the Georgetown Inlier consist predominantly of Proterozoic metasediments, metabasalts, granites and volcanics.

Within the Bellfield Base Metal Project area, units of the Middle Proterozoic Lower Etheridge Group including the Bernecker Creek, Daniel Creek, Dead Horse Metabasalt, Corbett and Lane Creek Formations, predominate. The metamorphic grade increases in an easterly direction and the equivalent amphibolite facies rocks in the eastern part of the inlier are referred to as the Einasleigh Metamorphics. Flat lying sandstones and conglomerates of Jurassic age overlie the Proterozoic sediments in the western part of the project area.

Previous Mining and Exploration

A number of small shear and vein hosted lead and dolerite hosted copper workings occur within the area. Gold has been produced from both alluvial and hard rock sources. The total alluvial and hard rock gold productions of the Gilberton Goldfield, located just to the east of the project area, are 130 000 ounces and 30 000 ounces gold, respectively.

Within the project area a number of organisations have undertaken exploration for base metals, gold, uranium, tin and tungsten mineralisation and have conducted geological mapping, geochemical surveys and geophysical surveys relevant to exploration of the Bellfield Base Metal Project.

Between 1982 and 1984, a joint venture consortium led by Queensland Metals Corporation N.L. completed exploration for base metals and the work included photo geological interpretation and mapping, airborne magnetic and radiometric surveys, gravity surveys, stream sediment, soil and water sampling and drilling.

M.I.M. Exploration Pty. Ltd. ("MIM") held several hundred square kilometres under EPMs covering the south-western part of the Georgetown Inlier, including its extension under Mesozoic cover, during the period from 1991 to 1996.

MIM's target in the area was a Proterozoic base metal deposit similar to those that occur in the Mount Isa Inlier.

The extensive program of work completed by MIM included a large detailed airborne magnetic survey, three separate electromagnetic surveys, a gravity survey, geological mapping, stream and soil geochemical sampling, lead isotope analyses and drilling.

Work completed by DRL

DRL has analysed and reprocessed geological information from previous surveys and drill holes and interpreted geology from the airborne magnetics and EM surveys to produce a map of the bedrock geology beneath the Mesozoic cover, Figure 11.

Using this interpreted geological map, the geophysical data and a widely accepted model for the formation of Proterozoic base metal deposits, DRL has also outlined a number of high priority targets for exploration.

Exploration Model

The Proterozoic sedimentary sequences in north-west Queensland are highly prospective for large base metal deposits. This area contains four major lead zinc deposits (Mount Isa, Hilton [George Fisher], Century and Macarthur River [HYC]) as well as the major Mount Isa copper deposit. A number of smaller deposits also occur. Exploration of the outcropping Proterozoic sequences of the Mount Isa Inlier is at a mature stage and greater attention is now being focused on the surrounding covered areas. This has led to the discovery of a number of medium-sized deposits to the west of the Bellfield Base Metal Project (e.g. Cannington and Ernest Henry). The discovery of a major deposit under cover has yet to be made.

DRL has established the following key points favouring the exploration initiative at Bellfield and confirming the potential of the Georgetown Proterozoic sequences to contain large Proterozoic base metal deposits.

- The Georgetown Inlier contains Proterozoic sedimentary sequences that are very similar to the rocks in the Mount Isa Inlier.
- The similarity in ages of the two sequences has recently been confirmed by dating completed by the Queensland Department of Natural Resources and Mines and the Australian Geological Survey Organisation.
- The outcropping Georgetown rocks are merely separated from the outcropping Mount Isa rocks by an area of generally thin Mesozoic cover generally about 120 m thick in the Project area.

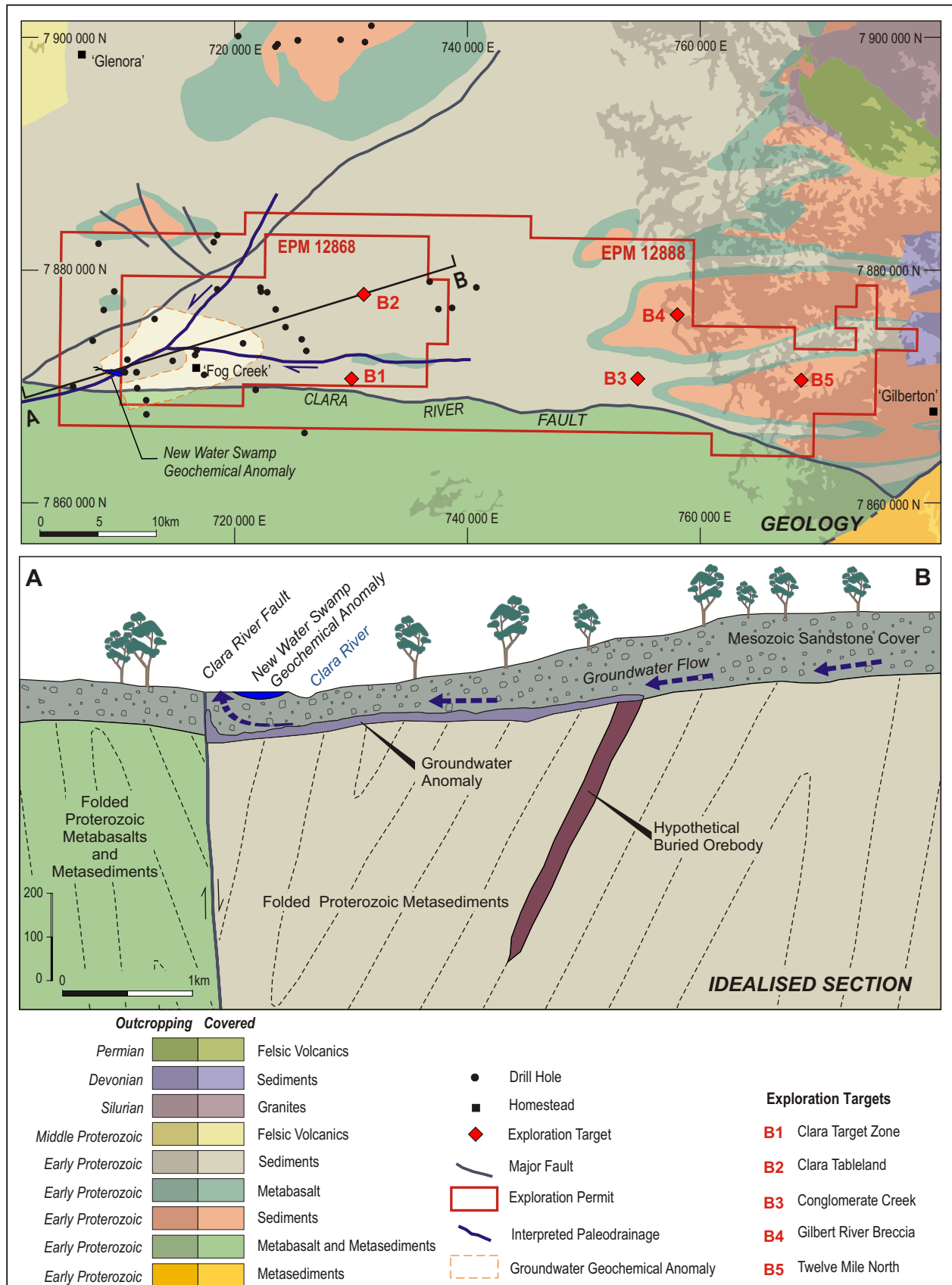


Figure 11: Bellfield Base Metal Project showing the geochemical anomalies and the drilling targets.



Bellfield Base Metal Project - New Water Swamp

Exploration in the Georgetown Inlier has failed to return a discovery of a significant base metal deposit to date but smaller base metal deposits (e.g. Mount Misery) do exist and a number of occurrences of stratabound zinc mineralisation have been reported. Most of the known stratabound zinc occurrences are associated with the Etheridge Group.

A major east-west fault (the Clara River Fault) separates a major unit of metabasalts and metasediments from the prospective Etheridge Group rocks at Bellfield. This fault is similar in character to other faults, which occur adjacent to a number of large base metal deposits in north-west Queensland and the Northern Territory, such as the Mount Isa Fault at Mount Isa, the Emu Fault at Macarthur River and the Termite Range Fault at Century. In all cases the base metal deposits occur adjacent to and on the downthrown side of these major faults. Potential is therefore interpreted to exist adjacent to and on the northern side of the Clara River Fault, Figure 11.

A large shallow swamp (New Water Swamp) lies on or close to the Clara River Fault in the western part of the project area, Figure 11. This swamp contains substantial zinc and copper values determined by soil geochemical sampling of bottom sediments. DRL interprets that the metal has leaked via the groundwater system from an ultimate sulphide source in the Etheridge Group.

Future Exploration

DRL has outlined five target areas based on its understanding of the geology of the project area and interpretation of the airborne geophysical data. The principal target for a large sulphide deposit is the Clara Target Zone (B1 on Figure 11). This area of high potential lies to the east of the New Water Swamp and on the northern side of, but close to, the Clara River Fault.

A very strong complex EM anomaly (Target B2 on Figure 11) exists approximately 7 km north of the Clara Target Zone in an area under flat-lying Mesozoic sediments. It is referred to as Clara Tableland.

A strong elongate but discrete magnetic anomaly lies near Conglomerate Creek just to the west of the Gilbert River in an area of shallow Mesozoic cover. This anomaly is shown as Target B3 and the prospect is called Conglomerate Creek.

The area of haematitic breccia in the bed of the Gilbert River and referred to as the Black Hand or Big Bend prospect by MIM, remains as a prospective target. It is shown as Target B4 and is referred to as the Gilbert River Breccia. The prospect has not been drilled.

A prominent potassium radiometric anomaly, (Target B5), occurs within the Bernecker Creek Formation to the north of the old Twelve Mile copper prospect. The anomaly is partly obscured by Mesozoic sandstone cover.

At this stage, DRL anticipates granting of the two EPMA's in 2005 and plans an initial geophysical survey followed by a drill program of two 400 m RC percussion holes for a total of 800 m in 2006. Preliminary geophysical survey work and completion of two RC percussion holes has been estimated to cost \$270 000 of which the direct drilling budget is \$137 000.



Nymbool Gold Project - DRL Drilling

6.4 ADVANCED GOLD AND COPPER PROJECTS

DRL have several exploration areas for gold and copper in Queensland, Figure 1. Most of these are advanced because preliminary field surveys are completed, the results are encouraging and drill programs have been prepared. Although economically important discoveries cannot be ruled out for these areas, DRL does not promote the value potential that it does for the Major Project category. However because of the definition of targets and the principal commodity being gold, an operation might be established quite rapidly once resources have been proved. The prospects scheduled for drilling are:

Project	Prospects
Burdekin Gold Project	Gettysberg and Sellheim Gold Prospects
Nymbool Gold Project	Nymbool Gold-Copper and Ambrose Gully Gold Prospects
Clermont Copper Gold Project	Peak Downs, Oaky Creek and Comstock Copper Prospects
Burnett Gold Copper Project	Yarrol, Mount Steadman and Cannindah Gold Prospects
Georgetown Inlier Gold Project	Ironhurst and Warrigal Creek Gold Prospects

The Exploration Permit for Minerals ("EPMs") and ("EPMA") protecting the above prospects are often large and have been designed to include previously identified prospects, areas containing geochemical and geophysical anomalies and geologically favourable ground. DRL has reconnaissance programs prepared for several of these with a view to developing them to the drilling stage.

Less advanced initiatives where reconnaissance activity is planned include the Tondarra EPM and Teatree Creek EPMA within the Burdekin Gold Project, south of Townsville, and the Munitions Creek Gold Prospect in the Langdon River EPM within the Georgetown Inlier Gold Project.

6.4.1 BURDEKIN GOLD PROJECT

The Burdekin Gold Project comprises EPM 12887 "Pyramid", EPM 14402 "Tondarra" and EPMA 14675 "Teatree Creek".

The Pyramid EPM is located in the Drummond Basin region of central Queensland which is located approximately 120 km south-east of Charters Towers and 220 km west of Mackay in central Queensland, Figure 1. It contains several prospects showing gold bearing epithermal style quartz veins. The region is important for economic gold deposits of the epithermal style such as Pajingo, Yandan and Wirralie.

The Tondarra EPM and Teatree Creek EPMA are situated some 125 km south south-east of Townsville and both contain mineralisation with epithermal characteristics.

Tenure

EPM 12887, "Pyramid", contains 100 sub blocks (about 320 km²) and was granted on 5 August 2004.

EPM 14402 "Tondarra" and EPMA 14675 "Teatree Creek" each contain 100 sub-blocks (about 640 km² in total). EPM 14402 was granted on 23 November 2004.

Pyramid EPM

Geology and mineralisation

The Pyramid area lies in the north-east corner of the Drummond Basin of Devonian to Carboniferous age. A north-north-east trending inlier of Late Ordovician Anakie Metamorphics divides this region from the main area of Drummond Basin sedimentation to the west. A thick wedge of the Late Carboniferous Bulgonunna Volcanics forms the Bulgonunna Block to the east.

The Drummond Basin succession is generally a monotonous sequence of sandstones, siltstones shales and some conglomerates interdigitated with varying amounts of calcareous material. The sequence is intruded by rhyodacitic or andesite porphyry rocks with associated volcanics. The Saint Anns Formation of late Devonian to early Carboniferous age is dominated by a sedimentary sequence composed of feldspathic quartz sandstones, micaceous siltstones and thin beds of algal limestones and quartz pebble conglomerates. Equivalents to the Saint Anns Formation are the hosts to epithermal gold mineralisation in the Drummond Basin at the Pajingo, Yandan, Wirralie and Twin Hills gold deposits. On this basis, considerable potential is thought to exist for the development of multiple bulk-tonnage epithermal gold deposits within sediments of the Saint Anns Formation in the Pyramid area. In the Pyramid area mineralisation also occurs within the Ukalunda Beds which underlie the Saint Anns Formation.

The EPM is located on a major north-north-east trending belt of gold mineralisation developed over a strike length of 15 km, extending from the Sellheim North Prospect in the north, south-westerly through to the Pradesh - Rockpool Creek prospects in the south, with many prospects in between, Figure 12.

Mineralisation at the Pyramid area consists of several styles, including:

- Epithermal quartz veins, graphite-pyrite-sericite stylolitic veinlets and breccia matrix infill.
- Late Carboniferous intrusive related silver-lead-zinc veins.
- Late Carboniferous intrusive porphyry copper-gold veins.

Of these styles, the most economically significant gold mineralisation is the epithermal style quartz veins and graphite-pyrite-sericite-chlorite stylolitic veinlets and breccia matrix infill. Both carry free visible gold and electrum is present within stylolites. This mineralisation is hosted within clastic units of the Ukalunda Beds and Saint Anns Formation.

DRL considers that the two most important prospects are the Sellheim and Gettysberg prospects, both of which manifest epithermal style quartz veins and graphite-pyrite-sericite-chlorite stylolitic veinlets.

Previous investigations

From the late 1970s, several mining companies have been active in and around EPM 12887 with exploration mainly directed towards locating epithermal gold mineralisation. These have included Amoco Minerals Inc, AOG Minerals Limited, Sanidine NL, Battle Mountain (Australia) Inc ("BMA") (Pajingo Gold Mine Pty Ltd), Hunter Resources Limited, Dalrymple Resources NL ("Dalrymple"), Poseidon Exploration Limited, and Newcrest Mining Limited ("Newcrest").

The work has included mainly geological mapping, stream sediment (BCL and pan concentrate) surveys, rock chip sampling and drilling of gold anomalous prospects, especially those showing epithermal characteristics. Some exploration was directed specifically towards Carboniferous intrusive associated porphyry gold mineralisation.



Various prospects which have been drill tested within the Project area, are summarised in Table 3.

Prospect	Company	Type	Hole No's	No. of Holes	Metreage
Sellheim	BMA	RC	EBR001 to 009	9	750
	BMA	RC	EBR038 to 048	11	1560
	Dalrymple	RC	MDRC022 to 024	3	236
	Dalrymple	RC	MDRC-60	1	80
Gettysberg	Dalrymple	RC	MDRC025-054	24	2430
	Dalrymple	Diamond	MDD001 to 003	2	284
	Dalrymple	RC	MDRC059	1	150
	Dalrymple	RC	MDRC064	1	150
Marrakesh	Dalrymple	RC	MDRC001 to 006	6	543
Pradesh	Dalrymple	RC	MDRC007 to 010	4	418
Madras	Dalrymple	RC	MDRC020 to 021	2	120
Rutherfords	Dalrymple	RC	MDRC017 to 019	3	192
Carey Guille	Dalrymple	RC	MDRC011 to 016	6	594
Sugarloaf	Dalrymple	RC	MDRC055 to 056	3	573
	Dalrymple	RC	MDRC065 to 067	2	80
	Newcrest	RC	MDRC068 to 071	4	738
Dempsey's	Dalrymple	RC	MDRC057 to 058	2	100
TM-64	Dalrymple	RC	MDRC061 to 063	3	100
Mt Stone	BMA	RC	EBR011 to 021	11	1466
Buried Hatchet	Dalrymple	RC	MSRC001 to 002	2	100

Table 3. Summary of Previous Drilling conducted over the area of EPM 12887.

Future Exploration

Following a comprehensive review of previous investigations and available literature, DRL concluded that future exploration over the Pyramid Project should be directed towards locating a bulk-tonnage sediment-hosted epithermal gold deposit, within the Ukalunda Beds and Saint Anns Formation sediments.

Mineralisation is likely to be "blind" as the area has been extensively prospected and explored by surface geochemical techniques.

The proposed exploration program includes further geological mapping, acquisition of digital aeromagnetic and radiometric data, structural analysis, refined improved soil geochemical sampling, IP - resistivity geophysical surveys and RC drill testing of targets generated

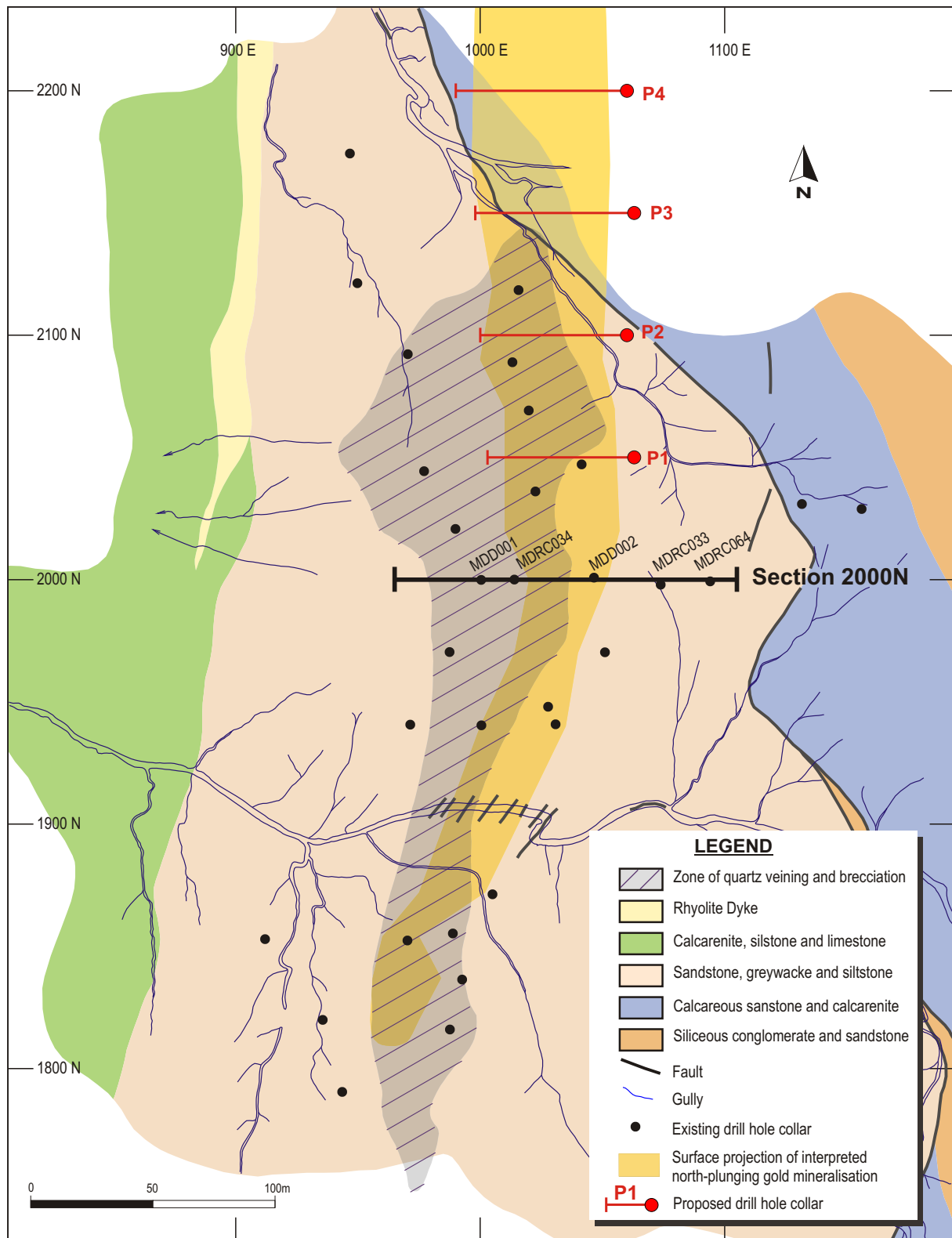
The Sellheim Gettysberg Marrakesh - Pradesh line of basin margin fault prospects have potential for modest high-grade gold mineralisation. No deep diamond core drilling has been undertaken on these prospects and so they can be considered as only partially tested.

Eight high priority targets have been identified from structural analysis, where a combination of antiform structures, north-north-west trending sinistral crosscutting faults and east-north-east dip-slip faults occur in close proximity.

Gettysberg Prospect

DRL will give the Gettysberg Prospect priority, Figure 12 and 13.

Follow up of a stream sediment anomaly resulted in the discovery of the Gettysberg Prospect by previous explorers. Highly anomalous rock chip assays up to 2000 g/t gold were located in siliceous breccias.



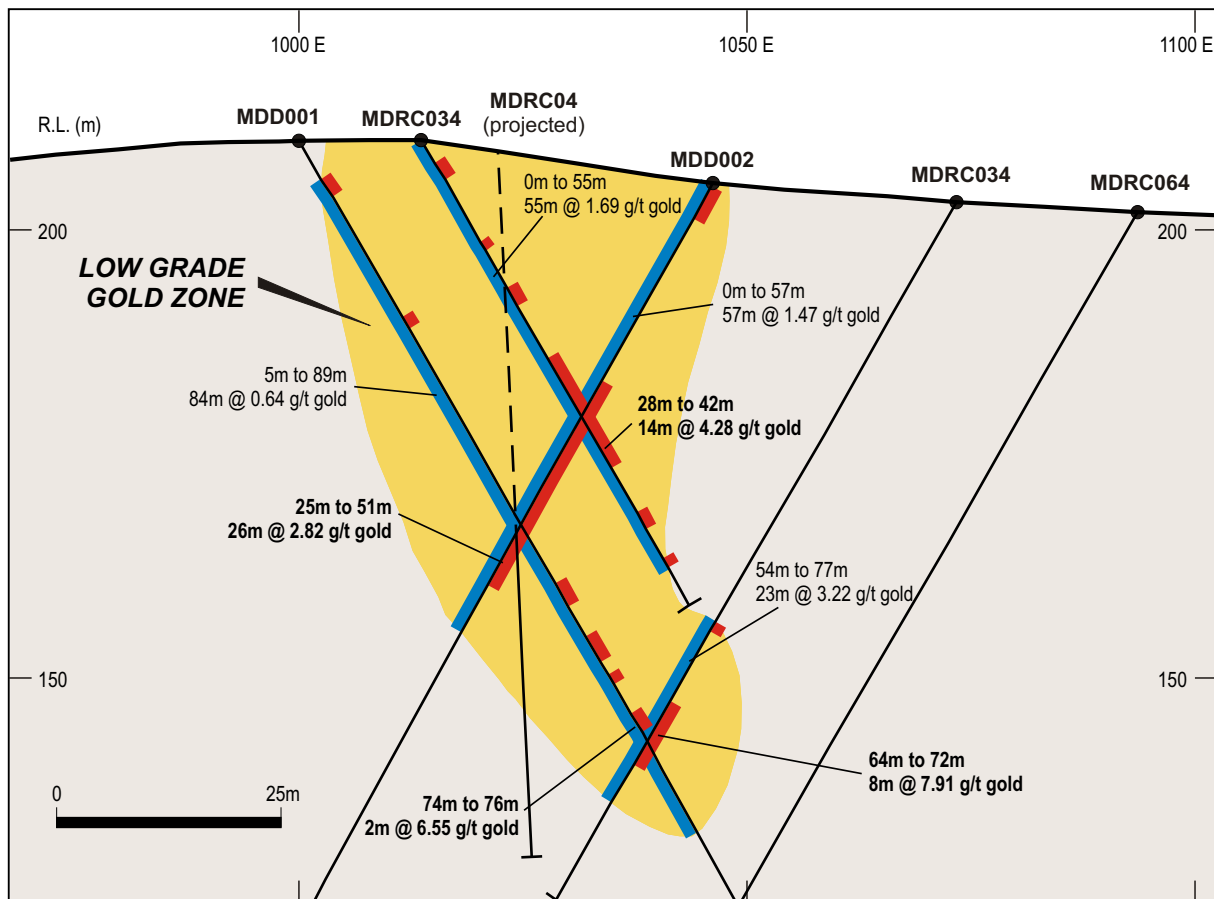


Figure 13: Burdekin Project - Gettysberg Prospect - Section 2000N - Drill holes with gold mineralisation (refer Figure 12).

Geologically the prospect consists of a folded sequence of Ukalunda Beds and Saint Anns Formation comprised of fine-grained micaceous siltstones, feldspathic sandstones and thin beds of algal limestones, calcarenites and quartz pebble conglomerate. Sericite jarosite alteration is developed around quartz vein stock works. Structurally the area is complex and consists of a series of north-north-east and north-north-west plunging anticlines, with fault contacts near the conglomerates. An argillic altered rhyodacite dyke is present in the north-west and narrow north-north-west trending andesite porphyry dykes are present.

Soil sampling delineated a 400 by 100 m anomaly of >175 ppb gold (1500 ppb gold peak) trending north-east. Several zones of >50 ppb gold occur outside the main anomalous zone.

Dalrymple drilled 26 RC holes (MRDC025 to MRDC050) and two diamond core holes (MDD001 to MDD002; MDD003 was a diamond extension) over a strike extent of 400 m and widespread gold mineralisation was intersected in 21 holes. The most encouraging results of this drill program are presented in Table 4.

Hole No.	From	To	Width (m)	Gold g/t Au (4m Samples)	Gold g/t Au (1m Samples)
MDRC031	0	8	8	18.08	7.31
MDRC033	52	76	24	4.96	3.06
MDRC034	28	44	16	2.48	3.84
MDD001	47	80	33		1.16
MDD002	23	51	28		2.66
MDRC039	8	72	64	0.49	
MDRC042	8	72	64	0.35	
MDRC037	28	64	36	0.74	

Table 4. Significant Intersections - Gettysberg Prospect.

The holes intersected fine-grained micaceous quartzose sandstone and interbedded fissile siltstones. Mineralisation consists of comb/cockade quartz vein stock works and graphite-pyrite-dolomite breccia zones. Visible gold was noted in the core holes associated with the graphite-pyrite matrix.

A further six RC holes (MDRC049, MDRC051 to MDRC054, MDRC059) were completed by Dalrymple in 1993. These holes intersected zones of weak mineralisation, with a best result of 8 m grading 1.09 g/t gold from 48 to 56m in hole MDRC059.

High-grade gold mineralisation outcrops at about 1840 N and appears to plunge shallowly to the north through holes MDRC031 and MDRC050 to the high-grade intersections on section 2000 N, Figures 12 and 13. There appears to be an easterly dip to the high-grade mineralised zone. To the north of 2000 N drilling on the probable extension is very limited and there is opportunity in this direction to locate more mineralisation. The interpretation is supported by the presence of low-grade gold in the bottoms of holes MDRC042 and MDRC048, located on sections 2173 N and 2263 N respectively.

Exploration Programs

The proposed work program for the Gettysberg Prospect will include approximately 1000 m of RC drilling designed to extend the known high-grade gold mineralisation.

At the Sellheim Prospects an allowance of approximately 500 m of RC drilling is made for locating zones of high-grade gold mineralisation within the low-grade gold mineralised areas.

Other proposed work is to complete geological mapping of the area surrounding Gettysberg to understand the setting of the gold mineralisation, appraise the prospects to the south-west of Gettysberg and assess interpreted high-grade gold mineralisation in the Marrakesh, Madrass and Dempsey's prospects.

The proposed programs will cost approximately \$180 000 in the first year.

Tondarra EPM and Teatree Creek EPMA

Previous Investigations

The only previous mining activity in the region was restricted to small scale gouging of copper from a small open cut at Mount Carlton.

Modern exploration in the area has tested for porphyry and epithermal style gold mineralisation.

Otter Exploration NL and AO Australia held parts of the ground in the 1980s and explored for porphyry systems using geochemical sampling techniques.

In 1985, BP Minerals Australia ("BP") carried out photo-geological studies, stream sediment sampling, reconnaissance rock sampling and traverse-based sampling in the Mt Wickham area.

In 1989 1990, Carpentaria Exploration Company Pty Limited ("CEC") prospected the area under EPMs 5001, 5002 and 5576 in a joint venture with Ashton Mining Limited ("Ashton"). At the Quartz Hill Prospect, after grid based geological and geochemical programs, three diamond drill holes and five percussion drill holes were drilled beneath the most encouraging sample results.

In 2001 2000, Gold Fields Australasia Pty Ltd evaluated Quartz Hill but did not do further drilling.

Geology and Mineralisation

The area lies at the northern end of the Bowen Basin and is bounded to the west by the Millaroo Fault Zone and the Almoora Hinge Zone of the Connors-Auburn Arch to the east. The oldest rocks in the area are Upper Carboniferous or Lower Permian granitoids, which form the basement to the Bowen Basin. The granitoids are generally recessive consisting of a series of deeply weathered stocks ranging in composition from granite, microgranite, granodiorite, adamellite and quartz diorite. The basement granitoids are overlain by a sequence of Lower Permian andesitic volcanics, Lizzie Creek Volcanics, into which a number of altered rhyolite



intrusives, Mt Wickham Rhyolite, have been emplaced.

A number of prospective areas containing epithermal style veining, brecciation, sinter, alteration and gold mineralisation have been located. Known mineralisation in the area includes a small gold resource of approximately 100 000 tonnes grading 5 g/t gold associated with an intrusive rhyolite body at Herbert Creek East. Gold mineralisation is associated with siliceous breccia zones in altered andesites and on the margins of rhyolite intrusives at Mount Carlton. Neither Herbert Creek East nor Mt Carlton is within the EPM area. The gold bearing epithermal system at Quartz Hill is a well-known type locality for this style of mineralisation.

The widespread alteration in the Mt Wickham Rhyolite comprises mainly intense silica-pyrite and clay. Sampling by BP, Ashton and others produced widespread weakly anomalous base metal, arsenic and precious metal analytical results in rock samples and stream sediment geochemical samples.

The northern part of EPM 14402 and EPMA 14675 takes in the prospects of Edinburgh Castle, Humpty Doo, Bonnie Doon, Anomaly 8/1, Fish Creek, Tea Tree Creek and Higgings Hill. The southern part surrounds Quartz Hill and Mt Wickham.

All these prospects show alteration (silica, sericite, sulphide, clay) and elevated stream sediment and rock chip sample geochemical results. The strongest alteration is seen at Quartz Hill where there are numerous veins. The alteration has been described as low sulfidation epithermal style and classic quartz-chalcedony textures, colloform and crustiform banding, occurs in the veins. Celadonite (a soft, green or grey-green, mineral of the mica group containing potassium, magnesium and iron) alteration accompanies the siliceous alteration at Quartz Hill as it does at many of the economic epithermal gold deposits in the Drummond Basin.

Exploration Potential

In spite of the rather disappointing surface sample results, the region in which the tenements are situated still retains appeal for epithermal gold mineralisation and possibly other intrusive related gold systems associated with altered Triassic volcanic centres.

Although shallow drilling of veins at Quartz Hill was unrewarding, there is an opportunity to test for extensions of the mineralisation at depth. Epithermal systems are notorious for abrupt changes in mineralisation grade over short intervals.

Mt Wickham is a large altered felsic volcanic pile. It has been extensively altered. A gold (bulk cyanide leach or BCL) anomaly on its eastern side requires follow up as no source for this has been found.

The northern area contains Edinburgh Castle prospect where extensive work has previously been carried out and which requires further reassessment.

DRL contemplates a program of around \$85 000 in the first year dealing with Quartz Hill, Mt Wickham and Edinburgh Castle and containing some drilling.

6.4.2 NYMBOOL GOLD PROJECT

The Nymbool gold-copper porphyry system and associated gold mineralisation is located just north-west of the township of Mount Garnet in North Queensland, Figure 1. A small resource of low-grade gold (2.4 million tonnes grading 0.7 g/t gold) has been outlined at the Nymbool Gold Prospect but exploration is still at an immature stage. DRL intends to explore for an ore body containing at least one million ounces of gold.

Tenure

This project is comprised of EPM 8994, "Blacks Creek" and EPM 8998, "Mount Garnet". The current EPM holding is approximately 112 km².

Previous Investigations

The Nymbool Gold Prospect was held by Western Mining Corporation ("WMC") under a Mining Lease Application ("MLA") and prospected during 1989. After surface grid-based mapping, sampling and induced

polarisation ("IP") surveying, WMC drilled 11 reverse circulation percussion ("RC") holes to about 50 m hole depth, for a total of 545 m. Every hole intersected low-grade gold and the best intersections were 31 m grading 0.68 g/t gold and 27 m grading 1.1 g/t gold.

WMC relinquished the area and in 1991 Minexco Associates Pty Ltd and G Hunter applied for MLA 20110 covering the Nymbool Gold Prospect. Auralia Resources N L ("Auralia") secured the adjacent area under EPM. Arimco Mining Pty Limited ("Arimco") entered into an agreement with the leaseholders and Auralia and in 1992 conducted a nine-hole program of RC drilling, which extended the low-grade gold mineralisation, delineated by WMC, to the north. Auralia drilled three RC holes in 1992, one into the known mineralisation and two to the west, which were reported as failing to intersect significant mineralisation.

Between 1992 and 1994, Normandy Gold Exploration Pty Ltd ("Normandy") explored EPM 8998 for bulk tonnage gold and/or copper-gold mineralisation. Normandy's exploration program included drainage geochemistry and prospecting of airborne geophysical anomalies in areas of outcrop and drill testing of aeromagnetic targets on the Palmerville Fault in areas of Cainozoic cover.

Since 1994, under a farm-in agreement with Normandy over EPM 8998, DRL has explored for gold and base metal mineralisation. In mid 2002 DRL purchased Normandy's interest in EPM 8998. DRL has completed stream sediment and grid based soil sampling, grid based geological mapping, IP surveying, reverse circulation percussion drilling, resource estimation and preliminary metallurgical studies of composites of rock chips from previous drill holes.

Geology and mineralisation

The Nymbool Gold Project covers part of the Hodgkinson Province close to the west-bounding Palmerville Fault Zone, which is spatially and genetically related to some centres of economically important mineralisation in north Queensland. In the district, sediments of the basal Siluro-Devonian Chillagoe Formation, consisting of sandstone, shale, and conglomerates, are intruded by numerous granitoid rocks of Permo-Carboniferous age.

Regionally, the granitoids are often hosts to the extensive tin mineralisation around Mount Garnet as well as deposits of tungsten, molybdenum, gold and base metals. Vein gold mineralisation is widespread in the sedimentary rocks and base metal skarn deposits are currently under investigation. Low-grade gold deposits similar to Nymbool are known in the district. The Triple Crown Prospect (~280 000 tonnes grading ~1.4 g/t gold), situated about 7 km south-east of the Nymbool Gold Prospect is an example.

Far north Queensland contains several bulk tonnage low-grade gold deposits of economic significance, which fall into the "intrusive-hosted/related" category. While these are the same style, they are quite different in details of structure and mineralogy and vary from Permian to Carboniferous age. They are described as plugs, breccia pipes and diatremes and can feature skarns. The deposits are Kidston (production to 2001 of in excess of 3.4 million ounces gold), Mount Leyshon (production to 2000 of in excess of 3.0 million ounces gold), Mount Wright (resource estimate of about 10 million tonnes grading 3 g/t gold) and Red Dome (production to 1997 of 0.68 million ounces of gold). The Nymbool district falls into this gold province. (Note that the resource information is given to illustrate the order of magnitude of the gold deposits).

Nymbool Gold Prospect

The principal interest in the Nymbool Gold Project area is the low-grade porphyry style Nymbool Gold Prospect. At this prospect, mineralisation occurs where a complex of felsic porphyritic rocks intrudes the contact zone of two granitoids, Figure 14. Several felsic porphyry bodies, together with country rock granitoids, are hosts to mineralisation but the principal host is quartz porphyry. The host rocks are cut by a north north-west trending set of fractures, greisen zones and veins which, in turn, are cut by north trending shears with sheeted quartz veins, gossanous partings and narrow, quartz-fill breccias. Better gold grades are associated with intense quartz veining and pervasive or selvage silicification, but gold grades occur in all rock types.

Drilling has intersected large intervals of low-grade gold and minor copper mineralisation with most of the drill holes ending in mineralisation. There are 27 drill holes delineating a resource with a projected surface area of about 40 000 m².

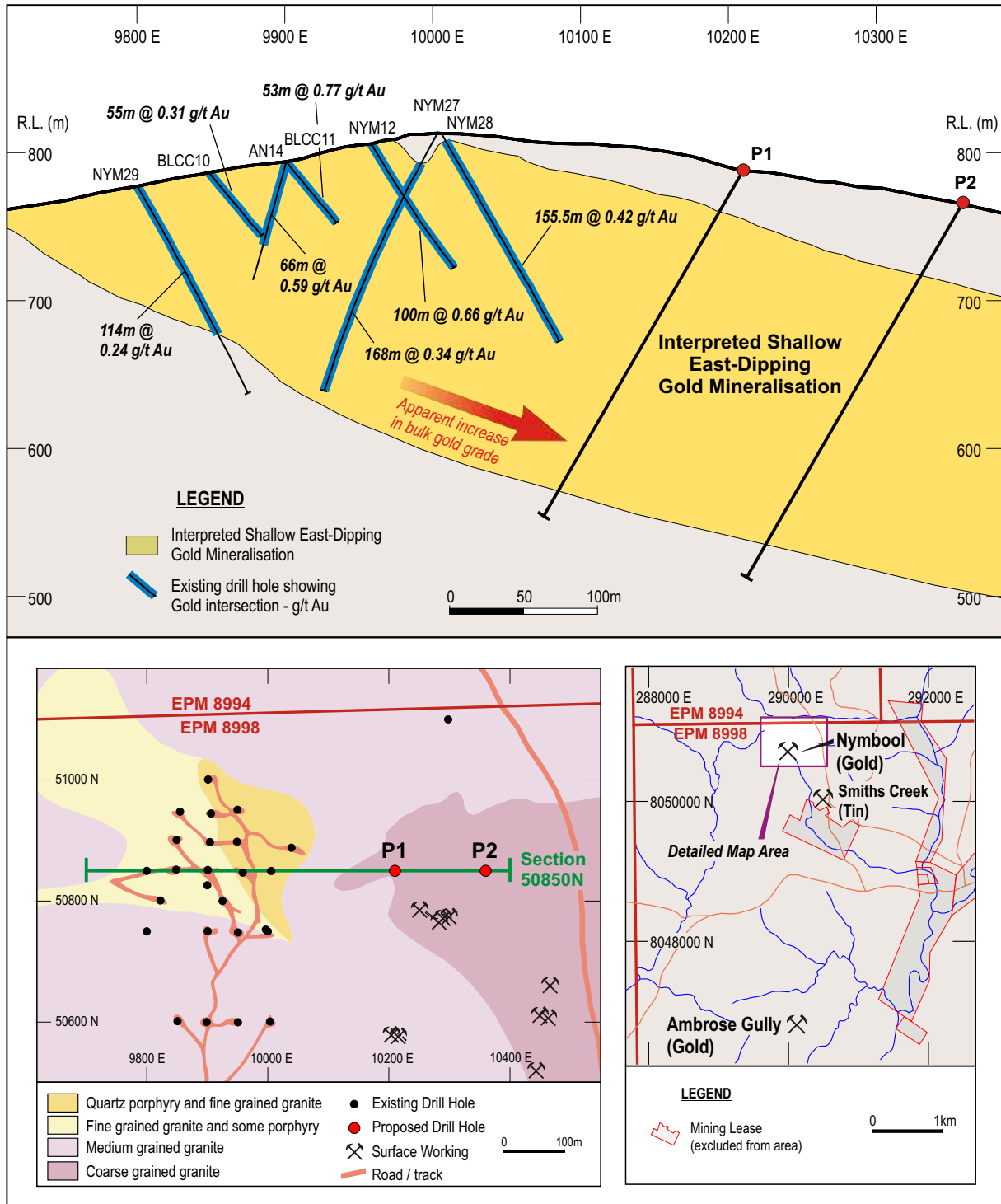


Figure 14: Nymbool Gold Project - Location, geology and Section 508500N showing proposed drill holes.

In 2002, resources were estimated using several alternative geological models. The favoured model provides an estimate of 2.4 million tonnes of indicated and inferred material at an average grade of 0.7 g/t gold, including 1 million tonnes at an average grade of about 1 g/t gold, using a lower cut-off grade of 0.5 g/t gold. This resource could be extracted from a pit with a waste to mineralisation ratio of 2.2 to 1. Recent drilling by DRL in 2003 would

have added more tonnes at a similar grade but no estimates have been carried out as additional proposed drilling will change the resources once again.

Preliminary metallurgical testing has indicated that the oxide material could be suitable for heap leaching.

In 2001, DRL completed a dipole-dipole IP and resistivity survey using a dipole spacing of 100 m to define zones with potential gold mineralisation at depth and adjacent to the known gold mineralisation. Three-dimensional ("3D") inversion modelling of this IP data identified a number of targets for further drilling in a zone approximately 300 000 m² in surface area.

In November 2003, DRL completed a program of deep drilling at the Nymbool Gold Prospect to test the chargeability anomalies. The Ambrose Gully Prospect was also reviewed.

Recent (2003) Nymbool Drilling

The drilling by DRL at Nymbool comprised six RC holes for a total of 941.5 m.

Hole NYM24 was drilled further to the north-east of previous drilling on section 51100N. It failed to intersect significant gold mineralisation. Sufficient pyrite is present to explain the chargeability anomaly.

Holes NYM25 to NYM29 were drilled in the vicinity of previous shallower drilling on the main mineralised prospect area. All holes showed variable amounts of alteration including silicification, sericitisation, chloritisation, pyritisation and quartz veining.

Holes NYM25 and NYM26 were drilled on section 50750N and holes NYM27, NYM28 and NYM29 were drilled on section 50850N. Holes NYM26 and NYM29 were drilled on the western side of the area. They intersected broad zones of low-grade gold mineralisation and apparently limit the significant gold mineralisation in this direction. Holes NYM25, NYM27 and NYM28 were drilled on the eastern side of the area. These three holes intersected grade gold mineralisation over longer intervals with some higher-grade sub-intervals.

A summary of the gold intersections is shown in Table 5. A section through the Nymbool Gold Prospect, Figure 14, Section, shows the drill holes NYM 27, NYM28 and NYM29.

Hole	From	To	Length	Gold (g/t Au)	Comments
NYM24					No significant values
NYM25	0	160	160	0.39	Eastern Side
incl	0	96	96	0.49	
also	2	6	4	1.37	
also	74	76	2	1.91	
also	156	158	2	3.21	
NYM26	0	134	134	0.18	Western Side
incl	68	92	24	0.31	
and	120	134	14	0.32	
NYM27	22	190	168	0.34	Eastern Side
incl	30	66	36	0.82	
and	168	190	22	0.46	
also	38	40	2	1.50	
also	58	64	6	2.20	
NYM28	6	161.5	155.5	0.42	Eastern Side
incl	38	84	46	0.67	
and	118	128	10	0.76	
also	44	46	2	1.06	
also	70	82	12	1.15	
also	118	122	4	1.15	
also	140	142	2	1.04	
NYM29	0	114	114	0.24	Western Side
incl	74	96	22	0.40	

Table 5. Nymbool Gold Prospect – 2003 Program Drill Hole Gold Intersection Summary



Ambrose Gully Gold Prospect

Work at the Ambrose Gully Gold Prospect included compilation and reviewing of the previous data. Two rock chip samples were collected from an outcrop of quartz-greisen near the southern end of the prospect area. Both samples of continuous rock chips over 40 m showed anomalous gold (0.24 and 0.95 g/t gold) and elevated tungsten assays. The quartz-greisen occurs on the flat-dipping contact zone of porphyritic biotite granite and intruded sediments.

Gold Potential of the Nymbool Gold Project

Nymbool Gold Prospect

Figure 14 shows an interpreted section through 50850N at the Nymbool Gold Prospect. Three drill holes were completed on this section in the 2003 program. The greater depth and extent of the new holes allow the interpretation of a shallow easterly dip to the gold mineralisation. Prior to the 2003 drilling program, it was always considered that the gold mineralisation would dip steeply and that the best targets for higher grade gold would be at depth below the known mineralisation. If the apparent flat easterly dip for the gold mineralisation is valid, then untested potential exists at shallow depth on the eastern side of the area drilled.

To the east of the Nymbool Gold Prospect coarse-grained biotite granite overlies the fine to medium grained granite which hosts the gold mineralisation at Nymbool. This coarse grained granite is considerably sericitised in the vicinity of the prospect and is not known to be mineralised by gold but it does contain significant tin mineralisation, for example the Smiths Creek Tin Mine. The gold mineralisation appears to extend beneath this coarse-grained granite east of the prospect. This interpretation is supported by the 3D modelling of the IP/resistivity results from the dipole-dipole IP survey.

Further drilling of the area east of the area drilled at Nymbool is planned.

Ambrose Gully Gold Prospect

The presence of significant gold in shallow dipping quartz greisen in the rock chip and soil geochemistry results and the shallow drilling completed to date creates the possibility that significant bodies of gold mineralisation are hosted within greisen at this prospect. Apart from holes AG5, AG6 and AG7, previous drilling has targeted the ferruginous breccia lodes in the sediments. While these lodes are obviously sulphide bearing they do not appear to carry appreciable gold.

A large area of quartz greisen occurs on the contact of the granite and sediments. As the quartz-greisen is only partially covered by the soil geochemical survey, the extent of the gold bearing quartz-greisen is uncertain. On the basis of the soil geochemical results it extends at least some 600 m.

Further mapping will be conducted at the prospect to determine full extent of the quartz-greisen. Drilling of the thicker flat-dipping greisen zones is also recommended.

Conclusions and Assessment - Future Exploration

At both the Nymbool and Ambrose Gully gold prospects, gold is closely associated with the top contact of a porphyritic biotite granite. At Nymbool gold occurs in a fine to medium grained granite on the contact and at Ambrose Gully gold is associated with quartz-greisen on the contact. In both cases the contacts dip at a flat angle of less than 20 degrees. A model for the formation of gold deposits in the area has been developed highlighting the contact zone of the porphyritic biotite granite, which is a potential gold source. Using this model it has been possible to outline a target zone of gold potential.

DRL intends to drill the eastern side of the Nymbool mineralisation at depth where it is apparently dipping to the south-east and increasing in both width and grade, Figure 14: Eight RC percussion drill holes of approximately 200 m each for a total of 1600 m are proposed.

At Ambrose Gully, DRL is planning four RC percussion drill holes, two to 60 m depth and two to 40 m depth, into the porphyritic biotite granite contact zone.

For Nymbool and Ambrose Gully gold prospects a total of 1800 m drilling and an expenditure of \$120 000 is allowed in the first year.

6.4.3 CLERMONT COPPER GOLD PROJECT

The Clermont Copper Gold Project is situated south and west of the town of Clermont in central Queensland, Figure 1. The principal prospect of interest for DRL in the project area is the abandoned Peak Downs Copper Mine, which is located 7 km south-west of the township of Clermont. Exploration conducted in the last decade by previous companies has established a resource of 25 000 to 30 000 tonnes of near surface oxide copper metal at the Mine.

Vein and alluvial gold were won extensively from the Clermont Goldfield and numerous copper and gold prospects are now controlled by DRL within its EPMs, Figure 15.

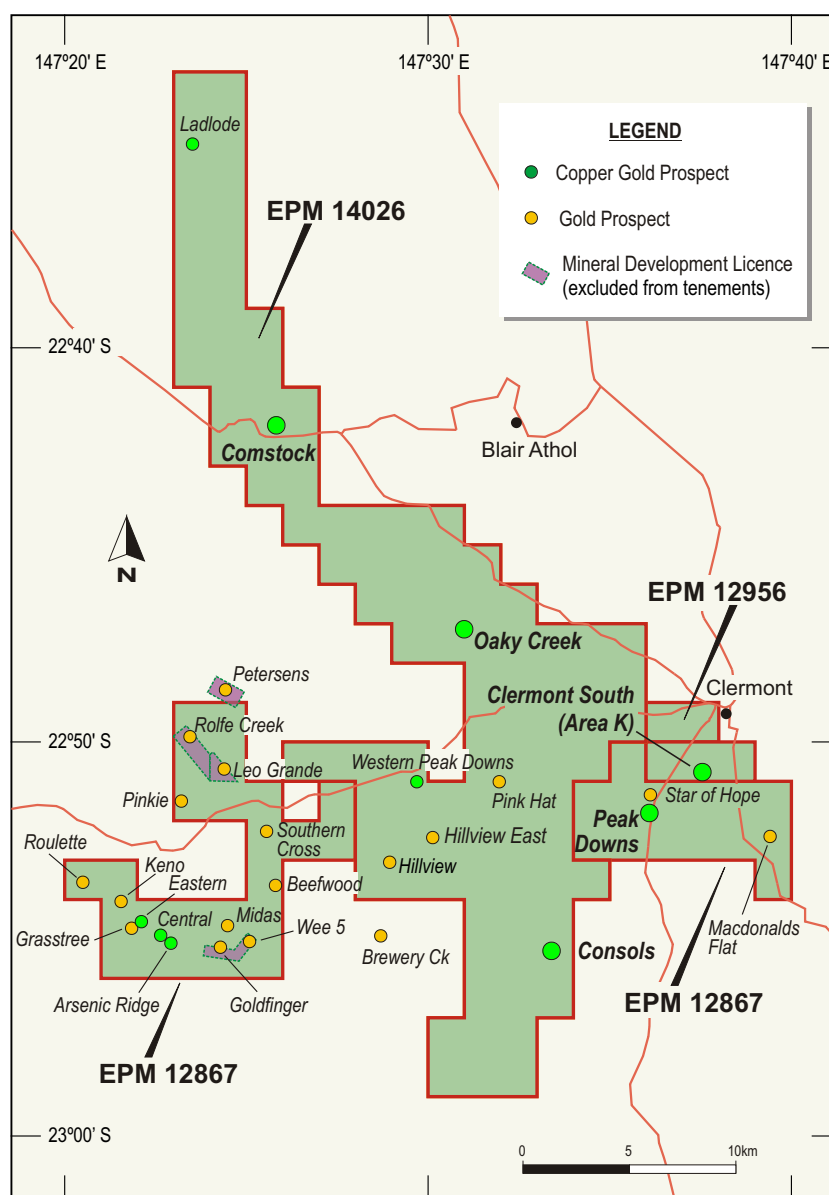


Figure 15: Clermont Copper Gold Project - Tenements and prospect locations.



Historic copper workings such as the Oaky Creek, Comstock and the Consols prospects and other wide spread copper mineralisation occur throughout the project area and will be explored to increase the resource inventory.

Tenure

The Clermont project comprises EPM 12867, "Clermont", EPM 12956, "Clermont No. 2" and EPM 14026, "Clermont No. 3", centred near the town of Clermont in central Queensland and approximately 315 km west of Rockhampton.

Geology

The project area is located in the Anakie Inlier in central Queensland. The Anakie Inlier is an elongate belt of metamorphic rocks and granitoids between the Permian Bowen Basin to the east and the Devonian to Carboniferous Drummond Basin to the west.

The Anakie Metamorphic Group, the main unit in the Anakie Inlier, contains metasedimentary and metavolcanic rocks (quartzite, pelitic to psammitic schist, greenstone, mafic schist, amphibolite and minor serpentinite) of Neoproterozoic to Cambrian age which have been intruded by Ordovician to Devonian age intrusives.

Small basins of Permian sediments perched on the inlier and containing coal resources are outliers of the Bowen Basin.

Granitoids of the Retreat Batholith intrude the Anakie Metamorphics. Tertiary basalt flows with interbedded clastic sediments and pyroclastics rest unconformably on the Anakie Metamorphics and Permian sediments. Quaternary alluvium covers much of the region.

Known mineralisation in the area includes gold associated with quartz veins and stratiform copper mineralisation at the Peak Downs mine and other prospects. Substantial alluvial gold has been mined from deposits in the area. Deep lead alluvial gold deposits were also mined from conglomerates at the base of the Permian Bowen Basin.

Previous Investigations

Previous metalliferous mining activity in the region included gold mining predominantly from placers in Permian conglomerates and from Tertiary and Cainozoic alluvials. The main centres of alluvial mining were in the area adjacent to the Clermont township. Production from the Clermont goldfield during the period 1862 to 1901 is documented as 8200 kg of gold. Between 1877 and 1901, recorded production amounted to 5458 kg from deep leads and other alluvial sources and only 308 kg from quartz lodes.

In 1931 a new lead discovered at Miclere sparked a revival of mining which continued through to the mid 1950s. During the 1980s and early 1990s small to medium scale alluvial mining was carried out at McDonalds Flat, Bathampton and Expedition Creek. Total gold production for the Clermont area to 1993 is estimated to be about 14 000 kg.

Copper was mined at the Peak Downs Mine following its discovery in 1863 and during the period to 1877, 17 000 tonnes (100 000 tonnes of ore grading 17% copper) of copper is reported to have been produced from the mining and smelting operations on site.

A number of companies have explored in the district within and around the DRL Project area, testing for both gold and base metal mineralisation. These companies, including Mines Administration Pty Ltd. ("Mines Administration"), Newmont Pty Ltd. ("Newmont"), Uranium Consolidated N.L., Utah Development Company ("Utah"), Electrolytic Zinc Company of Australia Limited ("EZ"), BHP Minerals Pty Ltd., Pennzoil of Australia Limited ("Pennzoil"), Ladnote Pty Ltd ("Ladnote"), Plutonic Operations Limited ("Plutonic") and Straits Mining Pty Ltd ("Straits"), completed extensive exploration that included stream sediment, soil and rock geochemical surveys, airborne and ground geophysical surveys, geological mapping and extensive drilling.

A number of copper and gold prospects were identified and many of these still warrant further work, refer Figure 15. Plutonic entered into option agreements with several smaller exploration companies and evaluated several prospects: Rolfe Creek - Leo Grande, Goldfinger and Petersons were the most important prospects and these were eventually protected by Mineral Development Licences ("MDLs").

A program of 18 percussion drillholes comprising one vertical and 17 inclined holes for a total of 1004m tested the Leo Grande shear zone confirming that the gold mineralisation in the Leo Grande Shear zone was associated with pyritic graphitic mylonite. On the basis of broad spaced drilling in the central and eastern sections, an estimate of the potential resource of 400 000 tonnes grading 1.5g/t gold is inferred. This resource is excluded from the DRL tenements.

At the Petersens prospect, 25 km west of Clermont drilling delineated a small oxide gold resource. Insufficient drilling was completed to calculate a reserve. Resource estimates of 81 000 tonnes grading 3.5 g/t gold and 400 000 t grading 1.95 g/t gold were inferred. This resource is excluded from the DRL tenements.

Plutonic quoted a small inferred resource at Goldfinger as 40 000 tonnes grading 5 g/t gold. Potential for an additional small resource along strike to the west at the Rolfe Creek prospect was noted. This resource is excluded from the DRL tenements.

DRL completed a drill campaign at the Area K (Clermont South) Prospect within EPM 12956 early in 2004 and downgraded the prospect. During 2003, DRL reviewed the Comstock and Oak Creek Prospects within EPM 14026 and has prepared future exploration programs for both.

The Peak Downs Copper Mine

The Peak Downs Mine is hosted by the Bathampton Metamorphics, of the Anakie Metamorphic Group, which contains both sedimentary and intermediate to basic volcanic rock types.

The lode was worked in three sections. The Central workings extend over a length of 500 m and to a depth of 107 m and were stoped up to a width of 3.66 m. The majority of the ore produced was from this section and between the surface and a depth of 55 m. The Eastern workings lie between 500 m and 1200 m east of the Central workings. At the Eastern workings an ore shoot was worked over a length of 200 m to a vertical depth of 37 m and over an average width of 0.61m. The Western workings lie 600 m west of the Central workings.

The Peak Downs Mine was dewatered and investigated in 1898. Also, during the period 1922 to 1923, Mt Morgan Limited completed detailed mapping and sampling of the lower levels of the main workings in the Central section. This work indicated that a sulphide horizon containing 3.9% copper with an average width of 0.7 m extended over a strike length of 366 m.

Mines Administration, initially in a joint venture with Cyprus Mines Corporation, completed geophysical surveys at the Peak Downs Copper Mine followed by trenching and drilling. Eight vertical percussion holes for a total of 580 m were completed by Cyprus to test IP anomalies. Mines Administration followed the work carried out by Cyprus by completing a program of five drill holes for a total of 427 m.

Newmont explored the tenement in joint venture with Union Miniere Development and Mining Corporation Limited with stream sediment and soil sample surveys. Eleven inclined diamond drill holes for 1526 m were drilled to test the copper mineralisation at Peak Downs Copper Mine. It was concluded that the Peak Downs lodes were narrow and erratic lenticular units with average grades in the sulphide zone varying from trace copper up to 14% copper (for example 0.18 m grading 14% copper and 2.07 m grading 1.85 % copper). Pyrite and chalcopyrite were the dominant sulphides.

Straits carried out three phases of drilling during 1994 and 1995 testing the near surface oxide and secondary sulphide mineralisation within both the main lode and lower hanging wall across the full extent of the known workings and associated gossans. In addition copper mineralisation discovered during the initial drill program, within the footwall sequence of the main lode in the eastern part of the central section of the workings, was tested. In total, one inclined and 192 vertical RC percussion drill holes to a maximum depth of 92 m for a total of 12 364 m on 33 drill sections spaced at 50 m to 200 m apart were completed. The drilling showed that the Peak Downs Copper Mine mineralisation is hosted by fine-grained phyllic to psammitic rocks consisting of muscovite with varying amounts of quartz and chlorite. The mineralisation comprises pyrite, chalcopyrite, chalcocite,



malachite, azurite and minor gold. The primary sulphides are preserved beneath the base of oxidation, which is developed at 35 m to 55 m below the surface. The primary mineralisation occurs as narrow (less than 4 m wide) discontinuous zones of massive to disseminated sulphides.

Resource estimations were completed by consultants, Exa-Min Resource Industry Consultants ("Exa-min") of Brisbane and Snowdon Associates Pty. Ltd ("Snowdon") of Perth.

	Measured	Indicated	Inferred
ide	3.08 mt @ 0.69% Cu		0.68 mt @ 0.60% Cu
lphide		1.02 mt @ 0.50% Cu	0.54 mt @ 0.60% Cu

Table 6. Peak Downs Exa-Min July 1995. Block Model Resource Estimation using 0.15% Cu cut-off. (mt = million tonnes)

	Measured	Indicated	Inferred
ide	1.5 mt @ 0.53% Cu	1.5 mt @ 0.37% Cu	1.2 mt @ 0.47% Cu
mary	0.8 mt @ 0.40% Cu	1.4 mt @ 0.37% Cu	0.4 mt @ 0.33% Cu

Table 7. Peak Downs Snowdon August 1995. Block Model Resource Estimation using 0.15% Cu cut-off. (mt = million tonnes)

Conclusions and Assessment - Future Exploration

DRL recognizes that the Clermont area held under tenement has potential for both gold and copper discoveries. The Peak Downs Copper Mine is probably important to the future of copper mining in the Clermont area. While the known secondary copper resources at Peak Downs Mine are apparently not sufficient to sustain a heap leach operation at current copper prices, they represent a significant base to which further resources might be added to support such an operation. DRL controls most of the ground with potential for additional secondary copper resources and therefore it is in the best position to undertake exploration with this result in mind.

Initially, DRL will test those prospects considered to have the potential to add copper resources to those of the Peak Downs Copper Mine and make a combined oxide copper operation more robust. Two prospects, Oaky Creek and Comstock, show promise for this objective based on past exploration results. DRL intends to expend \$80 000 on drilling in the next program.

Oaky Creek Prospect

A substantial "bullseye" magnetic anomaly with a coincident gradient array conductivity anomaly is associated with a banded quartz-haematite-goethite horizon. Utah drilled one hole into this area with a four metre intersection containing 0.38% copper. Utah did not report assaying for gold. Surface sampling of the horizon by Pennzoil shows that it contains values up to 0.78 g/t gold. The horizon is similar to the banded siliceous horizon at Clermont South which also contains low grade gold values. Magnetic and conductivity anomalies associated with the horizon are possibly caused by massive sulphide copper-gold mineralisation.

DRL plans six RC percussion holes for a total of 600 m.

Comstock Prospect

At the Comstock Prospect, quartz-muscovite and chlorite schists host lenses of gossan. The gossans reflect massive pyrite lenses in the primary zone. Old copper workings and the surface geochemical zinc and copper results are evidence that the massive sulphide lenses carry some chalcopyrite and sphalerite.

Only four drill holes were completed at the prospect by Utah and further drilling is warranted to test for base metal bearing massive sulphide lenses. DRL plans four RC percussion holes for a total of 400 m.

6.4.4 BURNETT GOLD COPPER PROJECT

The Burnett Gold Copper Project consists of four separate tenements, totalling 114 km², located near Monto in south-east Queensland, Figure 1. The project includes the Yarrol, Mount Steadman and Mount Cannindah gold prospect areas. The style of gold mineralisation in all areas is of the intrusive related type and may be described as porphyry mineralisation. DRL intends to explore for a combination of ore bodies containing at least one million ounces gold.

Tenure

The four tenements are EPM 8402 "Yarrol", EPM 12834 "Mount Steadman", EPM 12903 "Mount Cannindah" and EPMA 14524 "Barrimoon".

Geology and Mineralisation

The project area falls within the northern New England Fold Belt, which consists mostly of a complex volcanic arc - continental margin succession related to a Carboniferous subduction complex. The subduction complex underwent extension with a period of compressive easterly-directed thrusting in the Late Permian. Granitoid emplacement accompanied the extensional events as well as extensive Triassic volcanism. North-north-west shears, such as the Perry Fault and north-east cross-cutting faults, dominate the structural framework. Overprinting this regional fabric are north trending faults, which exhibit a strong spatial relationship with Permian to Triassic mineralisation.

Several Late Permian to Cretaceous age porphyries of the New England Fold Belt occur in relatively narrow zones roughly parallel to the Perry Fault. Host intrusives range from quartz diorite, granodiorite to granite/rhyolite composition. Multiple intrusions, breccias and pebble dykes are common. Mineralisation ranges from copper, copper/gold to gold. Alteration is typically quartz-pyrite-sericite assemblages, which grade outward to chlorite-clay zones. Potassic (biotite) cores are present sometimes.

The major Yarrol Fault occurs along the eastern margin of the Yarrol Basin and it is considered to be a thrust along which serpentinites have been emplaced. Large silica-pyrite bodies also lie along this fault.

The Yarrol Basin contains sediments of Carboniferous to Permian age.

Permian to Triassic plutonic rocks have intruded these Permo-Carboniferous sediments.

The largest copper porphyry in the region is Coalstoun (85 million tonnes grading 0.3% copper). Mount Rawdon, a large breccia pipe, (1987 resource estimate of 22 million tonnes grading 1.2 g/t gold and 4.2 g/t silver) is currently being mined.

Yarrol Gold Prospect

The Yarrol Gold Prospect, which is situated 25 km south-east of Monto, lies within EPM 8402. Gold mineralisation within the Yarrol Gold Prospect area is associated with a compositionally variable suite of dioritic bodies and is of a porphyry style.

Previous Investigations

Mining at Yarrol started in the late 1800s and continued spasmodically until 1938. Production records are incomplete but only 300 tonnes are believed to have been produced with variable high grades and a likely average grade of 10 g/t gold.

Several exploration companies, including Amoco Minerals Australia Company, Augold NL, the Geopeko-Fawdon/Skett joint venture, Cyprus Gold Australia Corporation ('Cyprus') and DRL (then Strike Exploration Pty Ltd), have explored at Yarrol since 1971.

This exploration has included: stream sediment sampling, grid controlled geochemical soil sampling, detailed and reconnaissance geological mapping, trenching and channel sampling, ground magnetic and IP surveys,



airborne magnetic and radiometric surveys, an aerial photographic survey, RAB drilling, RC percussion, diamond drilling and resource estimations.

A total of 141 RC and diamond drill holes have been drilled for 14 516 m.

Mineralisation

Gold mineralisation within the Yarrol EPM is contained mainly within a dioritic suite of rocks of variable composition, which has been intruded along major north-south trending fault or fracture systems. Workings can be traced intermittently over a length of 4 km. In the southern part of the mineralised belt, the gold mineralisation is not always spatially related to north-south shearing and gabbroic country rocks are more prevalent. The relative width of intrusive rocks mapped between east-trending cross faults, interpreted from aerial photography, indicates possible significant vertical movement along the cross faults and a possible deepening of the system to the north. Copper-gold mineralisation occurs as structurally controlled gossanous zones on both the eastern and western contact of the intrusive body with the enclosing sediments. Old workings are present intermittently along the extent of the system.

The bulk of the estimated resources at the Yarrol North and the Central Ridge prospects is associated with a shallow to moderate easterly-dipping, tabular zone of sodic alteration within a diorite intrusive (possibly a separate quartz dioritic phase).

At the Yarrol North Grid area, steeply-dipping high-grade mineralised fault structures, exploited by early miners, are associated with a more disseminated style of gold mineralisation, incorporating sheeted quartz-sulphide veins within a tabular alteration zone which is characterised by anomalous bismuth and tellurium geochemical results. This zone has a low to moderate easterly dip and appears truncated to the east by a mineralised steeply-dipping fault zone, which extends north into the Starlight Grid area. Most of the estimated resources are contained in this part of the Yarrol North Grid area.

At the Central Ridge Grid area, a similar, easterly-dipping tabular zone of gold mineralisation, which has been intersected by drilling, locally contains high gold grades.

Resources

At the Yarrol North Grid area, a resource estimate has been completed using a lower cut-off grade of 0.5 g/t gold. This has resulted in an indicated resource of 870 000 tonnes grading about 1.6 g/t gold. Additional resources have been drilled, but not estimated, at depth and to the east of Yarrol North and at the Starlight Grid area immediately to the north.

At the Central Ridge Grid area, a resource estimate has been completed using a lower cut-off grade of 0.5 g/t gold and an upper cut grade of 20 g/t gold. This has resulted in an indicated resource of 270 000 tonnes grading about 1.5 g/t gold.

Future Exploration

Most of the drilling to date at Yarrol has been quite shallow and only one deep diamond drill hole has been drilled at each of the Yarrol North and Central Ridge grids. DRL proposes to complete a program of deeper RC drilling on the Yarrol Gold Prospect to locate extensions to the known areas of gold mineralisation. Attention will also be paid to the continuity of higher-grade zones. This work will involve the drilling of four holes for a total of 400 m of RC percussion drilling with a budget of \$30 000. DRL plans to execute the work in the next stage of exploration.

Mount Steadman Gold Prospect

The Mount Steadman Gold Prospect is situated south of the township of Mount Perry. EPM 12834 which covers the area is subject to a purchase agreement between DRL and Probe Resources N L ("Probe"). This agreement allows for DRL to pay Probe a future net proceeds royalty of 5% from a commercial venture established on the property.

The tenement covers part of the Chowey Goldfield that was worked between 1880 and 1886.

Previous Investigations

The old Mount Steadman Mines (Mount Steadman, Venus and London) were worked mainly between 1891 and 1902 with some activity during the 1920s, 1930s and 1940s. In the London Mine, gold occurs in north-trending quartz fissure veins parallel to a major regional shear direction. At the Venus Mine, the formation carried bismuth and molybdenite with fine gold occurring between molybdenite laminae. Early workers referred to stock working related to irregular bunches of aplite.

Previous exploration in the Mount Steadman Gold Prospect area has been completed by Eagle Mining, Pennzoil, Transit Mining, Metana Minerals, M F Davidson, Homestake Australia Ltd, Probe, CRA Exploration Pty Ltd ("CRAE") and DRL (then Strike Exploration Pty Ltd).

This exploration has included: drainage and reconnaissance rock chip sampling programs, data reviews, gridding, geological mapping, soil geochemical sampling, rock chip sampling, ground magnetic surveys, RC percussion, diamond drilling and resource estimations.

The drilling completed totals 41 holes for approximately 2 750 m.

Mineralisation

Gold mineralisation is hosted by the Chowey Granite, which is a relatively small polyphase stock with a core of medium to coarse-grained biotite hornblende granite, that gives way outwardly to a highly potassic (syenitic) marginal phase. Aplites, porphyry and diorite dykes intrude the granite.

The work completed outlined an area of significant gold mineralisation at the Fitzroy Prospect. Intersections from surface at this prospect include 26 m grading 1 g/t gold, 22 m grading 1 g/t gold, 25 m grading 1.1 g/t gold and 29 m grading 0.9 g/t gold. Gold mineralisation was found to be associated with a moderately easterly-dipping zone of sheeted quartz veining in the Chowey Granite. The auriferous zone varies from 4 m to 33 m in true thickness. Sericite-haematite with minor chlorite alteration is characteristic of the mineralised zone. There is no consistent association between the gold grade and the intensity of quartz veining.

Resources

DRL has completed a resource estimation of the gold mineralisation at the main zone of the Fitzroy Prospect using the cross section polygonal method. This has resulted in an indicated resource of approximately 1.2 million tonnes grading 0.9 g/t gold. This resource is spatially related to the zone of sheeted quartz veining to about 50 m depth. Drilling to a depth of 130 m has intersected zones of mineralisation below this estimated resource.

Future Exploration

Although it might be possible to add to resources at the Fitzroy Prospect through further drilling adjacent to the existing resource, the grade would most likely be at the marginal grade found to date. No further drilling is therefore planned on this resource. A small program of drilling however is planned on targets adjacent to the Fitzroy Prospect where significant potential is indicated from interpretation of the detailed ground magnetic data.

This drilling program will involve three RC drill holes for a total of 300 m of drilling with a budget of \$20 000 allowed. DRL plans to execute the work in the second year of exploration.

Mount Cannindah Gold Prospect

The Mount Cannindah Gold Prospect is located 25 km north-east of Monto. The tenure surrounds a group of Mining Leases (MLs) held by other parties in which copper and gold resources have been defined.

Tenure

The prospect is held within EPM 12903, "Mount Cannindah", of nine sub blocks which was granted on 11 December 2002 and EPMA 14524 "Barrimoon", comprising 19 sub-blocks, which was applied for on 18 February 2004 for term of five years.



Geology

Rocks of the Carboniferous Yarrol Trough underlie the Mt Cannindah area. These are predominantly sediments (including limestones) and interbedded intermediate volcanics of shallow marine origin. Within the Mt Cannindah tenements they are intruded by a series of Permo-Triassic granitoid bodies which are thought to be the source for most of the mineralisation.. The Triassic Muncon Volcanics which comprise basaltic and andesitic lavas and tuffs unconformably overlie the older Palaeozoic sediments, volcanics and intrusives. Isolated occurrences of Tertiary basalt, generally cap hills.

Previous Investigations

Alluvial gold was first discovered at Mt Cannindah in 1889. This was followed by hard rock mining of high-grade copper at the Mt Cannindah mine after the discovery of copper mineralisation in 1896. In the 1950s a copper precipitation plant was erected. This produced between 10 to 20 tonnes of copper per year until 1973. Total recorded production from the Mt Cannindah area is approximately 1000 tonnes copper and 30 000 oz gold mainly from the Mt Cannindah mine.

The central portion of the Mt Cannindah area is held within a block of MLs, not held by DRL, which covers the identified prospects that have been the main areas targeted for exploration. The Mt Cannindah mineral system is large and extends outside the ML areas. Potential exists within the surrounding areas for extensions to the Mt Cannindah system and also for similar systems to that at Mt Cannindah.

At Mt Cannindah, a total of about 350 holes have already been drilled for about 33 000m of drilling.

Resources outlined by this work include.

- | | |
|----------------------|---|
| 1. Mt Cannindah Mine | 4.4 Mt @ 0.93% Cu, 20 g/tAg, 0.4 g/tAu |
| 2. Cannindah East | 250 000 t @ 2.82 g/tAu |
| 3. Appletree | 30 000 t @ 2.1% Cu, 20 g/tAg, 1.7 g/tAu |

(Note that these resources are not controlled by DRL).

In addition to the drilling and resource estimation work, previous exploration has included geological mapping, soil, stream and rock chip geochemistry, ground and airborne magnetics, dipole dipole IP and resistivity, and costeaning.

Geological mapping of the Monto 1:250000 sheet as part of the Yarrol Project has been carried out by the Queensland Department of Natural Resources and Mines ("DNRM"). Airborne magnetic and radiometric surveys have also been completed by the DNRM.

Future Exploration

DRL has completed compilation, plotting and interpretation of the results of the extensive earlier programs. This was initially focussed on the area of the old Mt Cannindah Mineral Field and the immediate surrounding area. This work is now being extended to cover a much larger area including the area of EPMA 14524 which lies immediately to the east of EPM 12903.

Limited field examination has been carried out to check areas of interest highlighted by the compilation and interpretation work. A more substantial program of field work is proposed for the tenements and ground magnetics, mapping and drilling are planned.

It is apparent from the results of various exploration programs on the Mt Cannindah Mineral Field that the mineralised system extends beyond the limits of the field. This is the case on the southern boundary of the mineral field where southerly dipping mineralised limestone (skarn) horizons extend down dip to the south beyond the southern limits of the mineral field.

A high priority exploration target exists within EPM 12903 immediately to the north of the mining leases. This target, which has been identified from airborne magnetics, appears to be an untested repeat of the Mount Cannindah porphyry/skarn/breccia system. The target is blind and lies beneath Muncon Volcanics of Triassic

age. It consists of a strong magnetic "low" with surrounding magnetic "highs" and it is known as Pages Prospect. Early geological mapping by MIM on the magnetic low feature recorded gossanous rhyolite. A stream draining northward from the eastern side of Pages Prospect shows anomalous gold values in BCL stream samples.

At least two exploratory holes will be necessary to test the feature and this will cost \$20 000. DRL plans the work for the first year of exploration.

On the north-eastern side of the Mt Cannindah Mineral Field, Newcrest drilled two drill holes into the western end of a north-east trending siliceous lode with epithermal characteristics. This lode is hosted by the Muncon Volcanics. It extends along a prominent north-easterly trending ridge for about 2.5 km. This lode, the Barrimoon Prospect, represents a target for gold exploration and is the principal reason for the application for EPM 14524.

DRL plans to drill a total of 700 m at the Pages and Barrimoon prospects.

6.4.5 GEORGETOWN INLIER GOLD PROJECT

The Georgetown Inlier Gold Project comprises three separate tenements, totalling 427 km², located in the Georgetown region of north Queensland, Figure 1. The tenements cover the Ironhurst Gold Prospect, the Munitions Creek Gold Prospect at Langdon River and the Warrigal Creek Gold Prospect. The tenements forming this project are EPM 12976 "Ironhurst", granted on 5 November 2004, EPM 11849 "Langdon River", granted on 3 December 2004, and EPM 13126 "Warrigal Creek", granted on 3 December 2004.

Ironhurst Gold Prospect

The Ironhurst Gold Prospect is located approximately 25 km north-west of the town of Georgetown. The prospect consists of a felsic volcanic breccia pipe intruding metasedimentary rocks of Proterozoic age. It has similar geological characteristics to economically significant deposits of this style in north Queensland such as Kidston, Mount Leyshon, Red Dome and Mount Wright.

Previous exploration in the area has been completed by CRAE and Seltrust Mining Corporation ("Seltrust").

Seltrust completed a program of 22 RC drill holes for 2618 m of drilling on the breccia body. Holes were drilled to 150 m vertical depth to test the breccia and the surrounding basement rocks. The drilling encountered intersections of low grade gold returning up to 0.3 g/t gold. Significant intervals of zinc and silver mineralisation were intersected in several holes with the best reported interval of 20 m grading 10.7% zinc and 13 g/t silver in IHP10 from 84 to 104 m. Anomalous silver intersections included 4 m grading 162 g/t silver and 3.7% zinc in IHP12 from 32 to 36 m.

Recent investigations of this style of gold deposit in north Queensland indicate that base metal values tend to lie above the gold zones. This is well-documented at Mount Wright. DRL considers that the high zinc and silver values at Ironhurst may lie above a significant gold zone and that deeper drilling into the breccia pipe may be productive.

The proposed program of work includes drilling of two RC drill holes for 500 m with a budget of \$60 000. At this stage, DRL plans the work for the second year of exploration.

Munitions Creek Gold Prospect

The Munitions Creek Gold Prospect lies within EPM 11849 "Langdon River" which is located 80 km south-west of Georgetown in north Queensland. EPM 11849 of 316 km² is subject to the Georgetown Exploration Database Agreement with BHP Billiton whereby BHP Billiton may participate in the exploration of the EPM and obtain a 75% interest by reimbursing DRL three times the incurred expenditure. Alternatively, BHP Billiton may claim a 5% net profit interest in the EPM.

BP Minerals Australia, CRA, MIM and BMA have completed previous exploration in the area for gold. At the Munitions Creek Gold Prospect, previous exploration located a quartz and quartz-breccia vein swarm over a



zone measuring 600 m by 200 m. Composite rock chip sampling from quartz veins from a 100 m by 2 m zone returned assays of up to 22.5 g/t gold. Other quartz vein sampling produced assays up to 20.8 g/t gold and 10.7 g/t gold.

The surface dimensions of individual structures within the quartz vein and breccia swarm at Munitions Creek, coupled with the high grade rock chips collected by previous explorers, suggest a style of mineralisation amenable to selective underground mining. A program of four RC drill holes for a total of 300 m and a budget of \$60 000 is proposed to test the size and grade of individual structures at depth, as well as for the presence of a more disseminated style of mineralisation within the host metasediments. DRL plans the work for the end of the first year of exploration.

Warrigal Creek Gold Prospect

The Warrigal Creek Gold Prospect in EPM 13126, is centred approximately 125 km south-west of Georgetown in north Queensland.

This target is a complex of magnetic low features resembling the magnetic low anomaly over Mount Leyshon. The magnetic features are probably related to intrusives into Middle Proterozoic sediments.

Within the district a number of companies have undertaken exploration testing for base metal, gold, uranium, tin and tungsten mineralisation but none has carried out any testing of DRL's magnetic target.

As part of its search for Proterozoic base metal deposits, MIM Exploration Pty Ltd ("MIM") completed a high quality airborne magnetic survey over the region in 1992. This survey showed a complex of magnetic low features beneath shallow Mesozoic sandstone in the headwaters of Warrigal Creek. Cyanide leach stream sediment sampling by ACM Gold Operations Pty Ltd showed stream gold anomalies to 30 ppb in streams draining Mesozoic sandstones to the north-west of the complex of magnetic low features. The pattern of stream gold anomalies and the interpreted pre-Mesozoic drainage pattern suggest that the source of the gold could be in the vicinity of the magnetic low features. Drilling of the magnetic low features is required.

The prospect is close to the EPMA's of the Bellfield Base Metal Project and for logistical purposes exploration will be carried out in conjunction with that project.

A program of three RC drill holes for a total of 300 m and a budget of \$55 000 is proposed to test the size and grade of structures at depth below the Mesozoic cover. Drilling is planned for the end of the first year of operations.

6.5 VALIDATION OF EXPLORATION DATABASE

The level of documentation and degree of detail is of high professional standard. Resource data would appear to be accurate and reliable but has not been audited. Reporting is incomplete at some of the older Projects/Prospects. However, as reputable explorers carried out the work, there is no reason or evidence to suggest the results are invalid.

6.5.1 Drilling

Conventional RC and diamond drill methods have been used in programs of DRL - all projects; Tick Hill -MIM, Dalrymple/Newcrest Pyramid; WMC, Amoco/Arimco, Auralia Nymbool; Utah/Straits/Plutonic Clermont; Cyprus Yarrol; CRAE and Probe - Mount Steadman.

Recoveries were recorded for each drilled interval. Overall, recoveries are high enough that assay results for the interval were accepted as representative.

Collar positions and heights have been located by ground surveys. Diamond drill holes and some of the deeper RC holes have been down-hole surveyed.

6.5.2 Sampling

RC drilled intervals were 1 m and samples were reduced by spear/tube sampling in programs conducted by DRL. Riffling was probably used in other programs but the details are not available.

Sampling interval composites averaged approximately 2 m hole length but were reduced to 1 m for detailed investigations and sometimes expanded to 3 m for reconnaissance. Core was routinely halved by diamond saw, with one half dispatched for analyses.

Approximately 2 kg of RC sample and the remaining half of mineralised core is stored on site at projects. Samples have not been stored for the older programs of the Nymbool and Mount Steadman gold prospects.

6.5.3 Sample Preparation and Assay

Original analytical returns are unavailable for the older drill campaigns, which includes the Nymbool Gold Project.

Analabs Pty Limited and Australian Laboratory Services Pty Limited using laboratories in Brisbane and Townsville have carried out the majority of sample processing for DRL. This includes the Yarrol and Mount Steadman Gold Prospects.

After conventional crushing, pulverising and reduction, 50 g fire assay and an AAS finish determined gold.

6.5.4 Bulk Density

For the gold resource estimates of Yarrol, Nymbool and Mount Steadman gold prospects, DRL used an arbitrary 2.5 g/cm³ to 2.6 g/cm³.

Sample and assay information has been acquired in accordance with acceptable industry standards for all the projects of DRL.



6.6 SOURCES OF INFORMATION

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Burnett Gold Copper Project

Horton, D.J., 1982. Porphyry-Type Copper and Molybdenum Mineralisation in Eastern Queensland. Geol. Surv. Queensland Publ. 378.

Yarrol Gold Prospect

Deakin, R.C., 1997. A Review of Surface Magnetism from the Yarrol Project Area, Queensland. On behalf of Strike Exploration Pty Ltd. by R. Deakin & Associates (unpublished report to Strike Exploration).

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Mount Steadman Gold Prospect

EPM 8093. Mt Steadman Exploration Report for Period of Joint Venture 1/12/94 to 31/5/95 and EPM 10401. Mt Steadman North Exploration Report for Period of Joint Venture 3/1/95 to 31/5/95. CRA Exploration Pty Limited Report No 20251.

EPM 8093. Mt Steadman, Annual Report for period ending 23 August 1994. Probe Resources NL.

EPM 8093. Mt Steadman, Annual Report for period ending 23 August 1996. Probe Resources NL.

EPM 10401. Mt Steadman North, Annual Report for period ending 2 January 1997. Probe Resources NL.

EPM 10401 Mt Steadman North, Annual Report for period ending 2 January 1998. Probe Resources NL.

EPM 8093. Mt Steadman, Partial Relinquishment Report, August 1994. Probe Resources NL.

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EPM 8093. Mt Steadman, First and Final Report ending 18 December 1991. Homestake Gold Australia Ltd.

EPM 8093. Mt Steadman, Annual Report 1996. Probe Resources NL.

Mount Cannindah Gold Prospect

Creenaune, P. and Harvey, K. 1997. The geology and mineralisation of the Mount Cannindah porphyry copper and gold system.

Georgetown Inlier Gold Project

Ironhurst Gold Prospect

EPM 1619. Esso Australia Ltd. CR6126, CR6551, CR6551, CR7387, CR7388.

EPM 2996. Howard Smith Exploration Pty Ltd. CR9589.

EPM 3455. Seltrust Gold Pty Ltd. CR12933, CR13569, CR13988.

EPM 4316. CRA Exploration Pty Ltd. CR16304, CR18072, CR18155, CR18371, CR18700, CR20437, CR20493, CR21725.

EPM 4519. CRA Exploration Pty Ltd. CR16829, CR17395, CR17831, CR18412, CR19301, CR19420, CR20713.

EPM 8452. BP Minerals. CR26055, CR27135, CR28278.

Munitions Creek Gold Prospect

A to P 3956M. BP Minerals Australia. CR15339.

A to P 4644M. CRA Exploration Pty Limited. CR16956.

A to P 5043M. Battle Mountain (Australia) Inc. CR18614.



6.7 GLOSSARY OF TECHNICAL TERMS

Terms not included in the glossary are used in accordance with their definition in the Concise Oxford Dictionary.

AAS (atomic absorption spectrophotometry) a laboratory technique for testing the amount of an element in a sample.

alluvial deposit a mineral deposit consisting of recent surficial waterlain sediments.

breccia a rock composed of angular rock fragments.

basanite collective name for a group of basaltic rocks characterized by the normal basalt minerals and olivine.

Cainozoic an era of geologic time from the end of the Mesozoic to the present.

Cambrian a time period, approximately 545 million to 505 million years ago.

Carboniferous a time period, approximately 360 million to 290 million years ago.

chalcopyrite a mineral of copper (CuFeS_2).

CM metric carat International unit

conglomerate sedimentary rock formed by the cementing together of waterrounded pebbles, distinct from breccia.

costean a trench usually dug to expose rock for sampling.

Cretaceous a time period, approximately 131 million to 65 million years ago.

deep lead an covered ancient alluvial deposit usually covered by basalt.

Devonian a time period, approximately 408 million to 360 million years ago.

dipole-dipole a method of completing an IP survey.

diatreme a breccia-filled volcanic vent or pipe created by violent gas-driven eruption of magma.

dip the angle at which any planar feature is inclined from the horizontal.

dyke a tabular igneous intrusion which cuts across the bedding or other planar structures in the country rock.

epithermal a hydrothermal mineral deposit formed at a relatively low temperature near the Earth's surface, mainly in veins.

felsic a light coloured igneous rock, typically containing an abundance of feldspar and quartz.

gabbro a coarse-grained intrusive igneous rock composed chiefly of plagioclase feldspar and pyroxene.

gossan rock composed of hydrated oxides of iron that forms a superficial cover over sulphides of iron and/or other metals.

granitoid rock similar to granite in texture and composition.

greisen a pneumatolytically altered granitic rock composed largely of quartz, muscovite mica, and topaz.

hematite (haematite) a mineral composed of ferric iron oxide (Fe_2O_3).

indicated resource a mineral resource sampled by drill holes, underground openings, or other sampling procedures at locations too widely spaced to ensure continuity but close enough to give reasonable indication of continuity, and where geoscientific data are known with a reasonable level of reliability.

inferred resource a mineral resource inferred from geoscientific evidence, drill holes, underground openings, or other sampling procedures where the lack of data is such that continuity cannot be predicted with confidence and where geoscientific data may not be known with a reasonable level of reliability.

inversion modelling a method of determining the possible cause of a geophysical anomaly by using computer algorithms.

IP (Induced Polarisation) a geophysical exploration method which measures changes in magnetic and electrical fields induced in the earth by the application of an electrical current to the ground.

Jurassic a time period, approximately 210 million to 131 million years ago.

kimberlite a porphyritic alkalic ultrabasic rock containing abundant phenocrysts of olivine (commonly serpentinized or carbonatized) and phlogopite, in a fine-grained groundmass of calcite and second-generation olivine and phlogopite and with accessory ilmenite, serpentine, chlorite, magnetite, and perovskite.

lamproite a group name for dark-colored hypabyssal or extrusive rocks rich in potassium and magnesium.

lamprophyric said of the *holocrystalline-porphyritic* texture exhibited by *lamprophyres*, in which phenocrysts of mafic minerals are contained in a fine-grained crystalline groundmass.

mafic a dark coloured rock composed dominantly of magnesium, iron and calcium-rich rock-forming silicates.

Mesozoic an era of geologic time, from the end of the Palaeozoic to the beginning of the Cainozoic, or from about 250 to about 65 million years ago.

metamorphic descriptive of a rock which has changed its structure and properties due to the effects of heat and/or increased pressure over time.

Neoproterozoic a time period approximately 1 000 million to 545 million years ago.

Ordovician a time period, approximately 505 million to 433 million years ago.
paleo-drainage ancient drainage.

pelite a sediment or sedimentary rock composed of the finest detritus (clay- or mud-sized particles); e.g. a mudstone.

percussion a type of drilling method whereby the rock is broken by a hammering action into small chips.

Permian a time period, approximately 290 million to 250 million years ago.

Permo-Carboniferous an interval of geologic time covering the Permian and Carboniferous periods.

porphyry an igneous rock with conspicuous crystals in a finegrained groundmass.

porphyry style deposit a well known intrusive related mineralisation style for copper and gold.
psammite a clastic sediment or sedimentary rock composed of sand-size particles; a sandstone.

pyrite a common iron sulphide mineral (FeS₂).

RC (reverse circulation percussion) a drilling method in which the sample is brought to the surface inside the drill rods, thereby reducing contamination. Conventional percussion drilling retrieves the sample exterior to the rods between the rods and the wall of the drill hole.

reduced to pole (RTP) the transformation from a directional magnetic survey to the earth's magnetic field.

rhyolite a volcanic rock composed chiefly of potassium feldspar and quartz.

sericite a mineral; a fine grained white mica of similar composition to muscovite.

Serpentinite an ultramafic rock composed of hydrous magnesium and iron minerals.

Shuttle Radar Altimetry (Shuttle Radar Topographic Mission data) radar images of the earth's land surfaces generated from the space shuttle "Endeavour" on a mission in the year 2000

Silurian a time period, approximately 433 million to 408 million years ago.

Siluro-Devonian an interval of geologic time covering the Silurian and Devonian periods.

Sirotem a ground electromagnetic survey which utilizes a large transmitting loop.

skarn a thermally metamorphosed impure limestone.

strandline a former shoreline now elevated above the present water level. A beach, especially one raised above the present sea level.

stratabound a deposit confined to a single stratigraphic unit, it may or may not be conformable.

stratiform said of a special type of stratabound deposit in which the desired rock or ore constitutes, or is strictly coextensive with, one or more sedimentary, metamorphic, or igneous layers.

subduction the process of one lithospheric plate (slab of the Earth's crust) descending beneath another.

Tertiary first period of the Cenozoic era covering the time span from 65 to 2 million years ago.

Triassic a time period, approximately 250 million to 210 million years ago.

ultrabasic said of rocks with less than 35% silica, which are dense, composed of calcic feldspars and ferro-



6.8 DECLARATION

Qualifications and Experience

This report has been prepared for Veronica Webster Pty Limited through its duly authorised and qualified representative, Mr. Leslie William Davis, Minerals Exploration Consultant and Director of the company. Veronica Webster Pty Limited has operated in Australia serving the mining industry since 1980.

Mr. Davis has had 30 years experience in the Australian minerals industry, particularly exploration for precious metals and base metals, mining geology, ore resource/reserve estimation and property evaluation. He held senior positions with Electrolytic Zinc Co of Australasia Limited, Freeport Minerals Corporation of Australia, Tenneco Oil & Minerals and Amad NL before joining Veronica Webster Pty Limited in 1985.

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

Fellow - The Australasian Institute of Mining & Metallurgy

Chartered Professional Geology CP Geo

Fellow - Australian Institute of Geoscientists

Member - Geological Society of Australia.

Independence

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

Limitations

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

Consents

Veronica Webster Pty Limited hereby consents to the inclusion of the Independent Report in a Prospectus prepared by DRL for the purpose of raising exploration capital and transferring its listing from NSX to ASX. The offer to the public will be for a subscription of 25 000 000 ordinary fully paid shares at \$0.20 per share to raise \$5 million.

Veronica Webster Pty Limited hereby consents to the inclusion of the Independent Report, in both electronic and paper form, in the form and context in which it appears and advise that we have not, at the date of the Independent Report, withdrawn such consent. Veronica Webster Pty Limited was only commissioned to prepare, and has only authorised issue of this Independent Report on DRL's exploration tenements specified in the Independent Report. It has not been involved in the preparation of, or authorised issue of, any other part of the Prospectus in which this Independent Report is included.

For and on behalf of
VERONICAWEBSTER PTY LIMITED

L W DAVIS

section 7

independent accountant's report



7 January 2005

The Directors
Diatreme Resources Limited
Level 8, 26 Wharf Street
BRISBANE QLD 4000

Dear Sirs



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INDEPENDENT ACCOUNTANT'S REPORT

1. Introduction

We have prepared our Independent Accountant's Report ("Report") at the request of the Directors of Diatreme Resources Limited ("Diatreme" or the "Company") for inclusion in a Prospectus to be dated on or about 10 January 2005. The Prospectus has been prepared in relation to Diatreme's Offer to the public to subscribe for 25,000,000 Shares at an Offer Price of 20 cents each to raise \$5,000,000.

The Offer is underwritten by Martin Place Securities Pty Limited to the extent of 15,000,000 Shares, being a Minimum Subscription of \$3,000,000, conditional to the sub-underwriting and/or commitments for placements of an amount of at least \$2,000,000.

Expressions defined in the Prospectus have the same meaning in our Report.

2. Basis of Preparation

Our Report has been prepared to provide investors with financial information on the statement of financial position and pro-forma statements of financial positions of Diatreme and its wholly owned controlled entities (the "Diatreme group") as at 31 October 2004. The pro-forma statements of financial positions include the financial effect of share issues and significant transactions which have occurred subsequent to 31 October 2004, and those transactions contemplated by the Prospectus as if they had taken place as at 31 October 2004. Pro-forma statements of financial positions have been considered in respect of the Minimum Subscription and Offer scenarios.

This Report does not address the rights attaching to the Shares to be issued, the risks associated with the investment, nor form the basis of an independent expert's opinion with respect to a valuation of Diatreme or a valuation of the Offer Price of 20 cents each.

We have not been requested to consider the prospects for Diatreme nor the merits and risks associated with becoming a shareholder and have not done so, nor purport to do so. Accordingly, we take no responsibility for those matters or for any matter or omission in the Prospectus, other than responsibility for our Report.

3. Scope of Our Report and Procedures

3.1 Historical Financial Reports

Pitcher Partners has acted as the independent auditor of Diatreme since the Company's incorporation and for its controlled entities since their acquisition by the Company.

The financial report of the Diatreme group for the year ended 31 December 2003 has been audited by Pitcher Partners. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures which included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures were undertaken to assess whether, in all material respects, the financial report is presented fairly, in accordance with Accounting Standards, other mandatory financial reporting requirements and the Corporations Act 2001 in Australia, a view which is consistent with our understanding of Diatreme's and the Diatreme group's financial position, and performance as represented by the results of their operations and their cash flows.

Our audit report on the financial report of the Diatreme group for the year ended 31 December 2003 did not contain any audit qualifications.

3.2 Financial Position as at 31 October 2004

We have reviewed the statement of financial position and pro-forma statements of financial positions of the Diatreme group as at 31 October 2004. Our review was conducted in accordance with Australian Auditing Standard AUS 902 "Review of Financial Reports" in order to report whether anything has come to our attention which would cause us to believe that the financial positions are not properly drawn up in accordance with the basis of preparation, assumptions and transactions contemplated by the Prospectus. Review procedures are substantially less in scope than an audit examination.

Our procedures consisted primarily of enquires and comparison and other such analytical review procedures we considered necessary so as to evaluate the basis of the preparation of the financial positions. In conducting our review we have undertaken the following:

- (a) inquiries of the Directors;
- (b) reviewed relevant working papers, accounting records and other documentation relating to transactions that have already occurred, the proposed transactions and assumptions; and
- (c) ensured that the financial positions have been determined in accordance with Diatreme's current accounting policies, Australian Accounting Standards, other mandatory financial reporting requirements and the key assumptions underlying the preparation of the Prospectus.

Having regard to the nature of the review, which provides a level of assurance less than that given in an audit, and to the nature of the financial positions, this Report does not express an audit opinion on the financial positions.

4. Financial Information

4.1 Financial Information

The financial information consists of the statement of financial position and pro-forma statements of financial positions of the Diatreme group as at 31 October 2004. The financial information is set out in Section 4.2 and the accounting policies upon which they are prepared are set out in note 1 of Appendix A.

The pro-forma statements of financial positions reflect the proposed financial structure of the Diatreme group after completion of the Offer, on the basis of the following assumptions and transactions having had occurred as at 31 October 2004:

- Issue of 6,830,230 Shares at 9 cents on 17 December 2004, to raise an additional \$614,721 in seed capital;
- (a) The allotment of 1,000,000 Options at 0.1 cent on 17 December 2004 to Diatreme's corporate financial advisors (or their nominees) in respect of the raising of seed capital;
- (b) Issue of 25,000,000 Shares at an Offer Price of 20 cents, to raise \$5,000,000, with a Minimum Subscription of 15,000,000 Shares, being \$3,000,000; and
- (c) The estimated expenses associated with the preparation of the Prospectus and capital raising are \$385,000 and \$505,000 under the Minimum Subscription and Offer scenarios respectively, being offset against the share capital raised.
- (d)

The statement of financial position as at 31 October 2004 does not include any of the abovementioned transactions.



4.2 Statements of Financial Position as at 31 October 2004

	Appendix A Note	Actual \$	Pro-forma Minimum \$	Pro-forma Offer \$
Current Assets				
Cash and term deposits		47,479	3,277,200	5,157,200
Receivables	2	3,894	3,894	3,894
Other	3	108,959	108,959	108,959
Total Current Assets		160,332	3,390,053	5,270,053
Non-Current Assets				
Investments	4	47,275	47,275	47,275
Plant and equipment	5	1,276	1,276	1,276
Receivables	6	7,541	7,541	7,541
Exploration interests	7	4,210,796	4,210,796	4,210,796
Total Non-Current Assets		4,266,888	4,266,888	4,266,888
Total Assets		4,427,220	7,656,941	9,536,941
Current Liabilities				
Payables	8	12,826	12,826	12,826
Provisions	9	13,584	13,584	13,584
Total Current Liabilities		26,410	26,410	26,410
Total Liabilities		26,410	26,410	26,410
Net Assets		4,400,810	7,630,531	9,510,531
Equity				
Contributed equity		5,204,157	8,433,878	10,313,878
Accumulated profits/(losses)		(803,347)	(803,347)	(803,347)
Total Equity		4,400,810	7,630,531	9,510,531

4.3 Contributed Equity

	Shares Number	Capital \$	Options* Number
Balance as at 31 December 2003	30,409,127	3,758,513	6,687,791
Share purchase plan issue	1,005,877	66,600	-
Share issue to acquire Lost Sands	13,420,000	1,342,000	-
Seed capital issue	945,000	85,050	-
Capital raising costs	-	(48,006)	-
Balance as at 31 October 2004	45,780,004	5,204,157	6,687,791

	Shares Number	Issue Price cents	Capital \$	Options* Number
<i>Post 31 October 2004 issues:</i>				
Balance as at 31 October 2004	45,780,004		5,204,157	6,687,791
Seed capital issue	6,830,230	9.0	614,721	-
Allotment of Options	-	0.1	1,000	1,000,000
Seed capital raising costs	-		(1,000)	-
Equity prior to Prospectus	<u>52,610,234</u>		<u>5,818,878</u>	<u>7,687,791</u>
<i>Minimum Subscription:</i>				
Equity prior to Prospectus	52,610,234		5,818,878	7,687,791
Issue to public under Prospectus	15,000,000	20.0	3,000,000	-
Cost of issue	-		(385,000)	-
	<u>67,610,234</u>		<u>8,433,878</u>	<u>7,687,791</u>
<i>Offer:</i>				
Equity prior to Prospectus	52,610,234		5,818,878	7,687,791
Issue to public under Prospectus	25,000,000	20.0	5,000,000	-
Cost of issue	-		(505,000)	-
	<u>77,610,234</u>		<u>10,313,878</u>	<u>7,687,791</u>

* Options are exercisable at 20 cents each on or before 30 May 2007.

4.4 Reconciliation of cash

	Pro-forma Minimum \$	Pro-forma Offer \$
Cash as at 31 October 2004	47,479	47,479
Seed capital raising	614,721	614,721
Issue to public under Prospectus	3,000,000	5,000,000
Cost of issue	(385,000)	(505,000)
Cash as at 31 October 2004	<u>3,277,200</u>	<u>5,157,200</u>



5. Statement

Based on our review, which is not an audit, nothing has come to our attention which would cause us to believe that the statement of financial position and pro-forma statements of financial positions of the Diatreme group as at 31 October 2004, are not properly drawn up in accordance with the basis of preparation and assumptions set out in this Report and with generally accepted principles for the presentation of such information in a prospectus.

As set out in Note 7 of Appendix A, \$4,210,796 has been included by the Directors as exploration interests in the statements of financial positions. This is the principal asset of the Diatreme group. The ultimate recovery of this asset is primarily dependent upon the successful development and commercial exploitation of, or alternatively sale of, the tenements.

6. Subsequent Events

To the best of our knowledge and belief, other than those matters dealt with in this Report, there have been no material items, transactions or events subsequent 31 October 2004 to the date of this Report which would require comment on, or adjustment to the contents of this Report, or which would cause the information included in this Report to be misleading.

7. Independence

Pitcher Partners does not have any pecuniary interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in relation to these matters. Pitcher Partners will receive a professional fee for the preparation of this Report and will act as auditors and tax advisers for Diatreme and the Diatreme group. The partners of Pitcher Partners do not hold any nor have any interest in any shares of Diatreme.

Consent to the inclusion of our Independent Accountant's Report in the Prospectus, in the form and context in which it appears, has been given. At the date of our Report our consent has not been withdrawn.

Yours faithfully
PITCHER PARTNERS

R C Brown
Partner

APPENDIX A

NOTES TO THE STATEMENTS OF FINANCIAL POSITIONS AS AT 31 OCTOBER 2004

1. Summary of Significant Accounting Policies

The statements of financial positions have been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

The financial positions have been prepared in accordance with the historical cost convention. Unless otherwise stated, the accounting policies adopted are consistent with the accounting policies adopted for the preparation of the financial report of the Diatreme group for the year ended 31 December 2003.

The following specific accounting policies have been adopted in the preparation of the statements of financial positions.

(a) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Diatreme Resources Limited ("parent entity") as at 31 October 2004 and the results of all controlled entities for the period then ended. Diatreme Resources Limited and its controlled entities together are referred to as the Diatreme group. The effects of all transactions between entities in the Diatreme group are eliminated in full.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which control commences.

(b) Revenue

Revenue is recognised when the service is provided, or there is an unconditional contract for the sale of an asset.

(c) Income Tax

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit (after allowing for permanent differences). The future tax benefit relating to losses is not carried forward as an asset unless the benefit can be regarded as being virtually certain of realisation. Income tax on net cumulative timing differences is set aside to the deferred income tax and future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

(d) Non-Current Assets

The carrying amounts of all non-current assets are reviewed at least annually to determine whether they are in excess of their recoverable amount. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written-down to the lower value. In assessing recoverable amounts the relevant cash flows have not been discounted to their present value.



NOTES TO THE STATEMENTS OF FINANCIAL POSITIONS AS AT 31 OCTOBER 2004

1. Summary of Significant Accounting Policies (continued)

(e) Depreciation

Depreciation on fixed assets has been calculated on 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 office equipment	20.0% - 22.5%	Diminishing value
Plant and equipment	40.0%	Diminishing value

(f) Exploration Expenditure

Exploration expenditure is accumulated separately for each area of interest until such time as the area is abandoned or sold. The realisation of the value of the expenditure carried forward depends on any commercial results that may be obtained through successful development and commercial exploitation of the area of interest or alternatively by its sale. If an area of interest is abandoned or is considered to be of no further commercial interest the accumulated exploration costs relating to the area are written off against income in the year of abandonment. Some exploration expenditure may also be written off where areas of interest are partly relinquished. In cases where uncertainty exists as to the value, provisions for possible diminution in value are established.

(g) Trade and Other Creditors

These amounts represent liabilities for goods and services provided to the Diatreme 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.

(h) Employee Entitlements

Amounts expected to be paid to employees for their pro-rata entitlements to annual leave are accrued annually at the current pay rates having regard to years of service and statutory awards. Contributions for superannuation are made in accordance with statutory requirements. Any liability for superannuation unpaid at reporting date has been accrued.

(i) Cash

Cash includes deposits at call, which are readily convertible to cash on hand, and which are used in the cash management function on a day-to-day basis, net of outstanding bank overdrafts.

(j) International Financial Reporting Standards

The Company is evaluating the financial impact of key differences in accounting policies that are expected to arise from adopting Australian equivalents of the International Financial Reporting Standards ("IFRS") from 1 January 2005. Based upon current information, the adoption of Australian equivalents to IFRS from 1 January 2005 should have no material effect on the Company's reported financial performance, cash flows, or assets, liabilities and contributed equity as disclosed in the statements of financial positions.

NOTES TO THE STATEMENTS OF FINANCIAL POSITIONS AS AT 31 OCTOBER 2004

	Actual \$	Pro-forma Minimum \$	Pro-forma Offer \$
2. Current Assets – Receivables			
Trade debtors	3,873	3,873	3,873
Sundry debtors	21	21	21
	<u>3,894</u>	<u>3,894</u>	<u>3,894</u>
3. Current Assets – Other			
Prepayments	13,809	13,809	13,809
Deposits	95,150	95,150	95,150
	<u>108,959</u>	<u>108,959</u>	<u>108,959</u>
4. Non-Current Assets – Investments			
Investment in unlisted entity	<u>47,275</u>	<u>47,275</u>	<u>47,275</u>
5. Non-Current Assets – Plant and Equipment			
Motor vehicle – at cost	22,647	22,647	22,647
Accumulated depreciation	(21,624)	(21,624)	(21,624)
	<u>1,023</u>	<u>1,023</u>	<u>1,023</u>
Plant and equipment – at cost	99,305	99,305	99,305
Accumulated depreciation	(99,052)	(99,052)	(99,052)
	<u>253</u>	<u>253</u>	<u>253</u>
	<u>1,276</u>	<u>1,276</u>	<u>1,276</u>
6. Non-Current Assets – Receivables			
Loan to unlisted entity	<u>7,541</u>	<u>7,541</u>	<u>7,541</u>
7. Non Current Assets – Exploration Interests			
Exploration expenditure	<u>4,210,796</u>	<u>4,210,796</u>	<u>4,210,796</u>
8. Current Liabilities – Payables			
Trade creditors	<u>12,826</u>	<u>12,826</u>	<u>12,826</u>
9. Current Liabilities – Provisions			
Employee entitlements	<u>13,584</u>	<u>13,584</u>	<u>13,584</u>



NOTES TO THE STATEMENTS OF FINANCIAL POSITIONS AS AT 31 OCTOBER 2004

10. Future Income Tax Benefits

The future income tax benefit of income tax losses has not been brought to account will only be obtained if:

- i) The Diatreme group derives assessable income of a nature and an amount sufficient to enable the benefit from the deduction of the losses to be realised;
- ii) The Diatreme group continues to comply with the conditions for deductibility imposed by legislation; and
- iii) No changes in tax legislation adversely affect the Diatreme group in realising the benefit of the deduction of the losses.

11. Commitments for Expenditure and Contingent Liabilities

No provision has been made for the following in the financial report of the Diatreme group:

- i) The possibility of native title claim applications at some future time, under the provisions of the Native Title Act (1993), may affect access to and tenure of exploration tenements. Any substantial claim may have an effect on the value of the tenement affected by the claim;
- ii) So as to maintain current rights to tenure of exploration tenements, the Diatreme 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 granted subsequent to 31 October 2004 are as follows:

	Actual \$	Pro-forma Minimum \$	Pro-forma Offer \$
Tenement expenditure:			
Payable within 1 year	667,334	894,694	894,694
Payable between one and two years	319,662	597,234	597,234
	<u>986,996</u>	<u>1,491,928</u>	<u>1,491,928</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 deposits held by the relevant governing authorities to ensure compliance with granted tenement conditions are as follows:

Security deposits	<u>90,000</u>	<u>100,000</u>	<u>100,000</u>
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- iii) Operating lease commitments for office rental are as follows:

Payable within 1 year	20,600	35,633	35,633
Payable between one and two years	8,583	15,416	15,416
	<u>29,183</u>	<u>51,049</u>	<u>51,049</u>

section **8**

tenement report



TENEMENTS GENERALLY

Diatreme Resources Limited and its subsidiaries (the "Company") holds existing interests in, or entitlements to acquire interests in, the mineral tenements ("Tenements") included within this Prospectus.

The Tenements, comprising exploration permits, exploration licences and mining leases have been applied for and/or granted under relevant State legislation within Queensland (Qld), New South Wales (NSW), South Australia (SA) and Western Australia (WA).

(a) Queensland - Exploration Permit

Exploration permits for minerals are granted for an initial term not exceeding 5 years, and may be renewed by the Minister for a term that does not exceed 5 years (unless otherwise determined by the Minister). The area of an exploration permit must be reduced 50% at the end of the second year of grant and at the end of each subsequent year (unless the Minister otherwise decides). The written consent of the Minister is required for the assignment of an exploration permit.

(b) Queensland - Mining Lease

A mining lease is granted for mining operations and entitles the holder to machine mine specified minerals and carry out activities associated with mining or promoting the activity of mining. Mining leases are not restricted to a maximum term and can be granted for those minerals specified in either the prospecting permit, exploration permit or mineral development licence held prior to the grant of the lease. The Act does not specifically define the area or shape of land that can be granted under a lease although the shape and size must be justifiable.

(c) New South Wales - Exploration Licence

Exploration licences may be granted for a period not exceeding 5 years and may be renewed for up to a further 5 years, over an area between one and 100 units (being units into which a "block" as defined in the NSW Act, is divided). Ministerial consent is required for the transfer of an exploration licence. Exploration licences are issued subject to standard terms and conditions under the NSW Act. Other conditions may be imposed by the Minister including payment of royalties and security to be provided in respect of the exploration licence obligations.

(d) South Australia - Exploration Licence

An exploration licence may have a maximum term of five years, after which period a new application for the area must be lodged. Its area should not normally exceed 2,500 square kilometres. Renewal of term is normally granted in increments of one year. At renewal, the Minister may vary or add to the exploration licence conditions. An exploration licence carries the right to explore for all minerals (excluding extractive minerals) and/or opal. No approval will be given to assignment of the tenement until at least one year of exploration has elapsed and the obligations for that year have been adequately met.

(e) Western Australia - Exploration Licence

An exploration licence remains in force for a period of 5 years. The Minister may extend the term in prescribed circumstances by a further period or periods of 1 or 2 years. An exploration licence cannot be assigned during the first year of its term without the prior written consent of the Minister. At the end of the third and fourth years of the term of an exploration licence, the holder must surrender not less than half of the number of the blocks that are then subject to the licence.

The Tenement Schedule

The Directors have undertaken an examination of all the Tenements for the purpose of collating, summarising and interpreting available information to ascertain the location, standing, registered ownership and material qualifications regarding the Tenements tabled in the following Tenement Schedule.

The Tenement Schedule is included in two parts. Part A contains a list of the Tenements and Part B contains a summary of the status of native title claims existing over the Tenements. As a result of, and based upon, the information derived, we confirm that the information and particulars included in the Tenement Schedule, subject to the qualifications below, are an accurate statement of the Tenements therein.

Sources of Information

Information in respect of the Tenements has been derived from Company records and searches and extracts of registers obtained from the various State registers (collectively the "Tenement Registers") as detailed below. All material requested has been supplied, and we have no reason to be dissatisfied unless expressly stated.

Tenement Registers
Queensland Department of Natural Resources and Mines ("DNRM")
Queensland Environmental Protection Agency ("EPA")
New South Wales Department of Primary Industries - Mineral Resources Branch ("DMR")
South Australian Department of Primary Industries and Resources ("PIRSA")
Western Australian Department of Industry and Resources ("DOIR")
National Native Title Tribunal ("NNTT") website (www.nntt.gov.au)

Encumbrances

Other than those material encumbrances listed in the Tenement Schedule, the Tenements have, from the information available, no other charges, liens or encumbrances extant.

Government and Other Royalties

No Royalties are outstanding or payable on the Tenements by the Company, its subsidiaries, or by Mount Isa Mines Limited, with respect to the Tenements to relevant government authorities or other parties.

Local Government Rates

No Local Government Rates are outstanding or payable on the Tenements by the Company or its subsidiaries.

Wardens Court Complaints and Objections

No Tenements are subject to Wardens Court Complaints for forfeiture or objections to grant.

Compliance

The Company's interest in or rights in relation to the granted Tenements are subject to the holder continuing to comply with the respective terms and conditions of the granted Tenements under the provisions of the various State's legislation and regulations made pursuant to that legislation, together with the conditions specifically applicable to those Tenements. The searches that we have carried out in relation to the Tenements do not reveal any failure to comply with the conditions in respect of each of the granted Tenements.

Native Title

Native title refers to the unique title held by Australian indigenous peoples over Australian land or waters, and was first recognised by the Australian legal system in 1992 in *Mabo v Queensland (No. 2)*. The Commonwealth Parliament has since passed the *Native Title Act 1993 (Cth)* (as amended by the *Native Title Amendment Act 1998 (Cth)*) which sets out a legislative scheme in respect of native title.

From enquiries of the National Native Title Tribunal ("NNTT") and the various State government departments, the Directors are aware of certain registered native title claims which may impact on the Tenements. These are set out in the Tenement Schedule.

There is a possibility that, in the future, further native title claims may be made. The existence and determination of native title over the land the subject of the Tenements may affect the Company's ability to gain access to, explore and conduct mining operations in respect of the Tenements. If native title is found to exist, the nature of



the native title may be such that consent to the grant of a mining tenement may be required by the native title holders but is withheld or only granted on conditions unacceptable to the Company.

The Directors have not undertaken the considerable historical, anthropological and ethnographic work that would be required to determine the likelihood that existing claims may be successful, or the possibility of any further native title claims being made in the future.

Other Applicable Legislation

The Tenements are subject to the provisions of the *Aboriginal and Torres Strait Islander Heritage Protection Act (1984) (Cth)*.

Other legislation applicable to the Company's operations on the Tenements in each of Queensland, New South Wales, South Australia and Western Australia respectively, may include (without limitation):

- (a) the Cultural Record (Landscapes Queensland and Queensland Estate) Act 1987 (QLD);
- (b) the Heritage Act 1977 (NSW) and
- (c) the Aboriginal Heritage Act 1988 (SA);
- (d) the Aboriginal Heritage Act 1972 (WA);

The legislation set out above is not an exhaustive list of all legislation that may be applicable to the Tenements and the Company's operations on the Tenements.

Qualifications

While the status of the Tenements is dealt with in detail in the Tenement Schedule, the Directors indicate by way of summary that:

- all searches conducted through the State government authorities are assumed to be complete and accurate as at the time the searches were conducted;
- all information or advice, whether oral or written provided to us in the period since completion of the searches by State government officers, employees, agents or representatives is assumed to be accurate and complete;
- in relation to each tenement application no opinion is expressed as to whether such tenement application will ultimately be granted or whether the conditions under which such tenement application may be granted will be acceptable to the Directors; and
- in relation to each native title claim outlined in this report no opinion is expressed on the merits of such native title claim.

Conclusion

Subject to the qualifications set out above, the Directors report that the Tenements are in good standing in accordance with the details provided in respect of each of the Tenements in the Tenement Schedule.

TENEMENT SCHEDULE

Part A

contains a list of the Tenements

Part B

contains a summary of the status of native title claims existing over the Tenements.

TENEMENT SCHEDULE - Part A

TENEMENT	STATE	IDENTIFICATION	GRANT	EXPIRY	MINERALS	REGISTERED HOLDER	SHARES	UNITS / SUB BLOCKS	AREA (Sq Km)	NOTES
ML 7094	QLD	Tick Hill No 1	20/06/1991	30/06/2011	Gold	Mount Isa Mines Limited	100	n/a	130ha	1, 3
ML 7096	QLD	Tick Hill No 2	20/06/1991	30/06/2011	Gold	Mount Isa Mines Limited	100	n/a	130ha	1, 3
ML 7097	QLD	Tick Hill No 3	20/06/1991	30/06/2011	Gold	Mount Isa Mines Limited	100	n/a	130ha	1, 3
EPM 8998	QLD	Mt Garnet	26/10/1992	25/10/2004	All Minerals excl coal	Diatreme Resources Limited	100	33	106.2	2, 4, 9
EPM 8994	QLD	Blacks Creek	1/12/1992	30/11/2004	All Minerals excl coal	Diatreme Resources Limited	100	2	6.4	2, 4
EPM 12867	QLD	Clermont	22/12/2000	21/12/2005	All Minerals excl coal	Chalcophile Resources Pty Ltd	100	40	128.0	4, 5
EPM 12956	QLD	Clermont No 2	22/12/2000	21/12/2005	All Minerals excl coal	Chalcophile Resources Pty Ltd	100	3	9.0	4, 6
EPM 14026	QLD	Clermont No 3	26/08/2004	25/08/2009	All Minerals excl coal	Chalcophile Resources Pty Ltd	100	100	320.0	4, 7, 8
EPM 8402	QLD	Yarrol	13/11/1991	12/11/2004	All Minerals excl coal	Diatreme Resources Limited	100	4	12.4	2, 4
EPM 12834	QLD	Mt Steadman	17/12/1999	16/12/2004	All Minerals excl coal	Diatreme Resources Limited	100	4	12.4	2, 4, 10
EPM 12903	QLD	Mt Cannindah	11/12/2002	10/12/2007	All Minerals excl coal	Chalcophile Resources Pty Ltd	100	9	28.8	4, 11
EPM 14524	QLD	Barrimoon	Applic	n/a	All Minerals excl coal	Chalcophile Resources Pty Ltd	100	19	60.8	
EPM 12976	QLD	Ironhurst	5/11/2004	4/11/2009	All Minerals excl coal	Chalcophile Resources Pty Ltd	100	2	6.4	4, 7
EPM 11849	QLD	Langdon River	3/12/2004	2/12/2009	All Minerals excl coal	Diatreme Resources Limited	100	98	315.6	4, 19
EPM 12887	QLD	Pyramid	5/08/2004	4/08/2009	All Minerals excl coal	Chalcophile Resources Pty Ltd	100	100	320.0	4, 13, 14, 15
EPM 14402	QLD	Tondarra	23/11/2004	22/11/2009	All Minerals excl coal	Lost Sands Pty Ltd	100	100	320.0	4, 7
EPM 14675	QLD	Teatree Creek	Applic	n/a	All Minerals excl coal	Lost Sands Pty Ltd	100	100	320.0	4
EL 5900	NSW	Warialda	26/10/2001	25/10/2005	Groups 1 & 6 Minerals	Regional Exploration Management Pty Ltd	100	100	149.0	16
EL 6301	NSW	Bellata	22/09/2004	21/09/2006	Group 6 Minerals	Regional Exploration Management Pty Ltd	100	100	298.0	17
EL 6352	NSW	Yetman No 1	7/12/2004	6/12/2006	Group 6 Minerals	Regional Exploration Management Pty Ltd	100	74	220.5	17
EL 6353	NSW	Yetman No 2	7/12/2004	6/12/2006	Group 6 Minerals	Regional Exploration Management Pty Ltd	100	26	77.5	17
EL 6331	NSW	Pallamallawa	20/10/2004	19/10/2006	Group 6 Minerals	Regional Exploration Management Pty Ltd	100	86	256.3	17
EL 6330	NSW	Mallowa Creek	19/10/2004	18/10/2006	Group 6 Minerals	Regional Exploration Management Pty Ltd	100	29	86.4	17
EPM 14661	QLD	Dirranbandi	12/11/2004	11/11/2009	All Minerals excl coal	Regional Exploration Management Pty Ltd	100	223	691.3	4, 12
EPM 12868	QLD	Bellfield	Applic	n/a	All Minerals excl coal	Chalcophile Resources Pty Ltd	100	100	320.0	4, 18
EPM 12888	QLD	Gilbert River	Applic	n/a	All Minerals excl coal	Chalcophile Resources Pty Ltd	100	242	774.4	4, 18
EPM 13126	QLD	Warrigal Creek	3/12/2004	2/12/2009	All Minerals excl coal	Chalcophile Resources Pty Ltd	100	33	105.0	19
EL 109/02	SA	Eucla Basin No 2	Applic	n/a	All Minerals excl coal	Lost Sands Pty Ltd	100	750	2235.0	
EL 110/02	SA	Eucla Basin No 3	Applic	n/a	All Minerals excl coal	Lost Sands Pty Ltd	100	775	2309.0	
EL 018/04	SA	Eucla Basin No 4	Applic	n/a	All Minerals excl coal	Lost Sands Pty Ltd	100	525	1556.0	
EL 69/1918	WA	Forrest Lakes	Applic	n/a	All Minerals	Lost Sands Pty Ltd	100	70	210.0	
EL 69/1991	WA	Shell Lakes	Applic	n/a	All Minerals	Lost Sands Pty Ltd	100	70	210.0	
EL 69/1920	WA	Wanna Lakes	Applic	n/a	All Minerals	Lost Sands Pty Ltd	100	70	210.0	



NOTES - TENEMENT SCHEDULE - Part A

NOTE	DETAILS
1	Registered Survey Plan Number 41087
2	Renewal application lodged
3	Subject to Tick Hill Option and Sale Agreement between Mount Isa Mines Limited and Diatreme Resources Limited dated 27/08/2004
4	Environmental Authority (mining activities) granted under the Environmental Protection Act 1994 and includes conditions to minimise environmental harm caused, or likely to be caused, by the authorised mining activities.
5	This permit is exclusive of other than the following land: 1. Current or past private freehold land and exclusive possession tenures as defined in Schedule 1 Part 3 of the Native Title Act 1993 (excluding land which is set aside for the benefit of Aboriginals and Torres Strait Islander or unallocated state land, and is occupied by Aboriginal People or Torres Strait Islanders) 2. Validly dedicated road reserves up to maximum width of 120.7 m that are surrounded by private freehold land or exclusive possession tenures as defined in '1' above. 3. Those parts of the area of a road (other than roads defined in '2' above, and either dedicated or otherwise legally available for public use), that contain a constructed road, to a maximum distance of 60.35 m either side of the centre line of the constructed road. 4. Railway reserves containing constructed railways and/or associated infrastructure. And exclusive of Mineral Development Licence No's 28, 103, 106 and 143 pursuant to section 132(1) of the Mineral Resources Act 1989.
6	This permit is exclusive of other than the following land: 1. Current or past private freehold land and exclusive possession tenures as defined in Schedule 1 Part 3 of the Native Title Act 1993 (excluding land which is set aside for the benefit of Aboriginals and Torres Strait Islander or unallocated state land, and is occupied by Aboriginal People or Torres Strait Islanders) 2. Validly dedicated road reserves up to maximum width of 120.7 m that are surrounded by private freehold land or exclusive possession tenures as defined in '1' above. 3. Those parts of the area of a road (other than roads defined in '2' above, and either dedicated or otherwise legally available for public use), that contain a constructed road, to a maximum distance of 60.35 m either side of the centre line of the constructed road. 4. Restricted Area 189 - (Fossicking Area Clermont), no exploration permit (mineral or coal) or mineral development licence applications other than the land outside the boundaries delineated on Plan Number Mp41006.
7	Excludes any current mining claims, mineral development licences or mining lease at the time of lodgement of the permit pursuant to section 132 of the Mineral Resources Act 1989.
8	Exploration Permit is granted subject to the following conditions: 1. General Conditions Version 1 - 1 October 2003 included as Annexure B to permit 2. Specific Conditions being the program of works included as Annexure C to permit 3. Native Title Protection Conditions Version 1.1(a) as Annexure D to permit
9	Excludes MDL 38 and ML's 4032, 4042, 4043, 4044, 4083, 4084, 4130, 4363, 4390, 4400, 20016, 20018, 20034, 20035 and MLA's 7110, 20005, 20007, 20104, 20105 pursuant to Section 132 of the Mineral Resources Act 1989
10	This permit is exclusive of other than the following land: 1. Current or past private freehold land and exclusive possession tenures as defined in Schedule 1 Part 3 of the Native Title Act 1993 (excluding land which is set aside for the benefit of Aboriginals and Torres Strait Islander or unallocated state land, and is occupied by Aboriginal People or Torres Strait Islanders) 2. Validly dedicated road reserves up to maximum width of 120.7 m that are surrounded by private freehold land or exclusive possession tenures as defined in '1' above. 3. Those parts of the area of a road (other than roads defined in '2' above, and either dedicated or otherwise legally available for public use), that contain a constructed road, to a maximum distance of 60.35 m either side of the centre line of the constructed road.
11	This permit is exclusive of other than the following land: 1. Current or past private freehold land and exclusive possession tenures as defined in Schedule 1 Part 3 of the Native Title Act 1993 (excluding land which is set aside for the benefit of Aboriginals and Torres Strait Islander or unallocated state land, and is occupied by Aboriginal People or Torres Strait Islanders) 2. Validly dedicated road reserves up to maximum width of 120.7 m that are surrounded by private freehold land or exclusive possession tenures as defined in '1' above. 3. Those parts of the area of a road (other than roads defined in '2' above, and either dedicated or otherwise legally available for public use), that contain a constructed road, to a maximum distance of 60.35 m either side of the centre line of the constructed road. 4. Railway reserves containing constructed railways and/or associated infrastructure. And exclusive of Mining Lease No's 3201, 3202, 3203, 3204, 3205, 3206, 3207, 3208 and 3209 pursuant to section 132(1) of the Mineral Resources Act 1989.

NOTES - TENEMENT SCHEDULE - Part A (continued)

NOTE	DETAILS
12	This permit is exclusive of other than: - Land where native title is extinguished in accordance with s.23B of the Native Title Act (Cth.). (Land where native title is previously extinguished and is now held or currently set aside for the benefit of Aboriginals or Torres Strait Islanders or unallocated State land, and is occupied by Aboriginal People or Torres Strait Islanders, is not included). - All validly dedicated road reserves (including stock routes and esplanades where dedicated as roads) that extinguish native title.
13	Exploration Permit is granted subject to the following conditions: - General Conditions Version 1 - 1 October 2003 included as Annexure B to permit with the extra conditions as follows: - The DNRM remains free of liability from inundation above the full supply level of the Burdekin Falls Dam. - Ensure the prospecting will not adversely affect the stability of the beds and banks of the watercourses within the area and that only small scale removal of material from those beds and banks is permitted. - There will be no activity directly or indirectly resulting in erosion of the beds and banks of any watercourses and that none of the prospecting, or any potential mining tenement, will result in any form of pollution of these watercourses. - Specific Conditions being the program of works included as Annexure C to permit - Native Title Protection Conditions Version 1.1(a) as Annexure D to permit
14	Exclusions: Other than land below the higher of the following: - The reduced level 161 m (AHD derived) contour - A line at a horizontal distance of 400 m from the Burdekin Falls dam storage area full supply level
15	Restricted Area 206 (Burdekin Falls Dam Catchment Area), Special Condition "2" applies, which states; Whilst the Department of Natural Resources and Mines does not object to prospecting within the Restricted Area, the department may object or seek to impose additional conditions of the grant of mineral development licences or mining leases.
16	"Low Impact Methods" - no exploration on land affected by Native Title without due process.
17	Standard exploration licence conditions apply.
18	Native Title Process Category is "Non Exclusive Land" - High Impact - Schedule of General Exclusions and Conditions Version 13 - February 2003.
19	This permit granted subject to Statewide Model ILUA - Tagalaka People Exploration Permit backlog Project registered with NNTT on 3 November 2003

TENEMENT SCHEDULE - Part B**Summary of Native Title Claims over Tenements (excluding Tenements over non-native title land areas)**

State	NNTT File No.	Federal Court File No.	Application Name	Tenement
WA	WC95/51	WG6043/98	Spinifex People	ELA's 69/1918, 69/1919, 69/1920
NSW	NC98/17	NG6106/98	Nucoorilma Clan of the Gamilaaroy Aboriginal People	EL 5900
QLD	QC98/10	QG6230/98	Jangga People	EPM 12887
QLD	QC98/12	QG6244/98	Birri People	EPM's 14402, 14675
QLD	QC98/25	QG6195/98	Kangoulu People	EPM 14026
QLD	QC04/06	Q85/04	Wangan & Jagalingou Peoples	EPM 14026
QLD	QC99/33	Q6032/99	Wakka Wakka People #2	EPM 12834
QLD	QC01/16	Q6018/01	Ewamian People #3	EPM's 12888, 12976
QLD	QC01/22	Q6020/01	Tagalaka People #2	EPM's 11849, 12868, 12888, 13126
QLD	QC01/29	Q6026/01	Port Curtis Coral Coast	EPM 14524



section 9

additional information

9.1 Constitution

The Shares issued pursuant to this Prospectus will be fully paid ordinary Shares and will rank equally in all respects with the Company's fully paid ordinary Shares currently on issue.

Subject to any restrictions on the allotment of Shares imposed by the Constitution of the Company, the ASX Listing Rules ("Listing Rules") and the Corporations Act ("Act"), the Directors may issue or otherwise dispose of new Shares on such terms and conditions as they see fit.

The following is a broad summary of the rights which attach to the Company's Shares. It is not intended to be an exhaustive or definitive summary of the rights and obligations of Shareholders. The summary assumes the Company's existing Constitution is amended by the adoption of a new Constitution at the General Meeting to be held on 19 January 2005 (see Section 9.14, below). The following summary also summarises the material provisions of the existing Constitution, except that reference is made to the Listing Rules and requirements of NSX rather than ASX, and in the existing document references to transfers under ACH Clearing Rules and the ASTC Settlement Rules are references to "proper transfers" under the now substituted predecessor SCH Rules.

Copy of Constitution

The Company will give a copy of the proposed Constitution and the current Constitution to any person who requests a copy of it during the Offer period of this Prospectus, free of charge.

Voting Rights

Subject to any rights or restrictions for the time being attached to any class of Shares, at a meeting of Shareholders, each Shareholder entitled to vote may vote in person or by proxy or attorney or, being a corporation, by representative duly authorised under the Corporations Act, and has one vote on a show of hands and one vote per fully paid Share on a poll.

A poll may be demanded by the Chairman of a general meeting, by not fewer than five Shareholders who are present in person or by proxy, attorney or representative and who are entitled to vote, or by any one or more Shareholders holding not less than 5% of the total voting rights of all members having the right to vote.

Dividend Rights

The profits of the Company which the Directors may from time to time determine to distribute by way of dividend are payable equally on all fully paid ordinary Shares.

Buy Back of Shares

Subject to the Corporations Act and the ASX Listing Rules, the Company may buy back Shares in itself by any of the means authorised by the Corporations Act.

Sale of Unmarketable Parcels

Once in each 12 months the Company may dispose of any holding that is less than a marketable parcel in accordance with the procedure set out in the Constitution, and forward the monies received to the former holder. This power lapses during a takeover. The procedure includes at least 42 days notice being given to holders and holders having opportunity to object to the sale of their holding.

Rights on Winding-Up

If the Company is wound-up, the liquidator may, with the authority of a special resolution, divide among the Shareholders in kind the whole or any part of the property of the Company and may, for that purpose, set a value as the liquidator considers fair upon the property to be so divided and may determine how the division is to be carried out between the Shareholders. The liquidator may, with the authority of a special resolution, vest the whole or any part of the property of the Company in trustees upon trusts for the benefit of Shareholders as the liquidator thinks fit.



If approved by special resolution, any division of the property of the Company may be otherwise than in accordance with the legal rights of the members of the Company.

Issue of Further Shares

Subject to the Constitution of the Company, the Listing Rules, the Corporations Act and any special rights (if any) conferred on the holders of any existing Shares or class of shares of the Company, the Directors may allot, issue, grant Options over, or otherwise dispose of, further Shares with or without preferential rights on such terms and conditions as they see fit.

Transfer of Shares

Subject to the Constitution and the Corporations Act, shareholders may transfer any or all of their shares by any computerised or electronic system established or recognised by the ASX Listing Rules or by an instrument in writing or any other form approved by the Directors.

The Directors may refuse to register a transfer of shares only if the ASX Listing Rules permit, and shall refuse to register a transfer of shares if the ASX Listing Rules require the company to do so. Subject to the ASX Listing Rules, the Company may not prevent, delay or interfere with the generation of a transfer in accordance with the ACH Clearing Rules and the ASTC Settlement Rules or the registration of a paper based transfer of shares in registrable form.

Variation of Rights

At present, the Company has only fully paid ordinary Shares on issue. The rights, privileges and restrictions attaching to those Shares, or to any other class of Shares, can only be varied by a special resolution passed at the general meeting of the relevant holders or with a written consent of relevant holders of at least three quarters of the ordinary Shares on issue.

General Meetings

Each Shareholder will be entitled to receive notice of, and to attend and vote at, general meetings of the Company and to receive all notices, accounts and other documents required to be furnished to Shareholders under the Constitution or the Corporations Act.

Proportional Takeover Provisions

The Constitution contains provisions which prohibit the registration of any transfer of Shares giving effect to an offer made as part of a proportional takeover scheme until the Shareholders who hold Shares at the end of the day on which the first offer was made have passed an ordinary resolution approving the scheme. These provisions will cease to apply after three years unless renewed by Shareholders in general meeting.

Amendment of Constitution

The Constitution can only be amended by special resolution passed at a general meeting of the Company. The Company must give at least 28 days notice of its intention to propose a resolution as a special resolution.

Listing Rules

Upon the Company being admitted to the Official List of the ASX, then despite anything in the Constitution, if the ASX Listing Rules prohibit an act being done, the act must not be done. Nothing in the Constitution prevents an act being done that the ASX Listing Rules require to be done. If the ASX Listing Rules require an act to be done or not to be done, authority is given for that act to be done or not to be done (as the case may be). If the ASX Listing Rules require the Constitution to contain a provision or not to contain a provision, the Constitution is deemed to contain that provision or not to contain that provision (as the case may be). If a provision of the Constitution is or becomes inconsistent with the ASX Listing Rules, the Constitution is deemed not to contain that provision to the extent of the inconsistency.

9.2 Terms and Conditions of Existing Options

Holders of Options are entitled to subscribe for and be allotted one ordinary Share in the capital of the Company on the following terms:

Shares issued on Options exercise

- (a) Each Option entitles the Optionholder to subscribe for one new Share upon exercise of the Option and payment of the Exercise Price.

Option period

- (b) The Options are exercisable at any time prior to 5:00 pm Brisbane time on 30 May 2007 (Expiry Date) by completing the Option Exercise Form and delivering it together with the payment for the number of Shares in respect of which the Options are exercised to the registered office of the Company.

Exercise price

- (c) The exercise price of the Options is \$0.20 (20 cents) per Option.

Transferability

- (d) Subject to the Corporations Act, the ASX Listing Rules (if appropriate at the time) and the Constitution of the Company, Options are freely transferable. An application may be made to the ASX for Official Listing of the Options upon the completion of any escrow period imposed by ASX, if appropriate at the time.

Class of Share

- (e) All ordinary fully paid Shares issued upon exercise of Options will rank *pari passu* in all respects with the Company's then issued ordinary fully paid Shares. The Company may apply for Official Quotation by ASX of all Shares issued upon exercise of Options, subject to satisfaction of any applicable restriction requirements.
- (f) There are no participating rights and entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered to shareholders during the currency of the Options. The Company will ensure that Option holders will be allowed at least 10 business days notice to allow for the conversion of Options prior to the Record Date in relation to any offer of securities made to shareholders.
- (g) In the event of any reconstruction or reorganisation of capital (including consolidation, sub-division, reduction or return) of the issued capital of the Company prior to the Expiry Date, rights of the holders of the Options, the number of Options and/or the exercise price of the Options shall be changed to the extent necessary to comply with the ASX Listing Rules (if applicable at the time) applying to the reorganisation of capital at the time of the reorganisation.

9.3 Disclosing Entity

The Company is a disclosing entity under the Corporations Act. As a disclosing entity, the body is subject to regular reporting and disclosure obligations. Copies of documents lodged with ASIC in relation to the body may be obtained from, or inspected at, an ASIC office.

Any person may obtain, and the Company will give a copy of each of the following documents free of charge to anyone who asks during the application period for this Prospectus:

- (i) the Company's 2003 Annual Report (containing the annual financial report most recently lodged with ASIC by the Company);
- (ii) the Company's 30 June 2004 half-year financial report (being the half-year financial report lodged with ASIC by the Company after the lodgement of that annual financial report and before the lodgement of this Prospectus with ASIC);



- iii) any continuous disclosure notices given by the Company after the lodgement of that annual financial report and before the lodgement of this Prospectus with ASIC.

The following is a list of continuous disclosure notices given by the Company after listing on NSX and lodgement of the 2003 annual financial report and before the lodgement of this Prospectus with ASIC:

DATE	NSX ANNOUNCEMENT DETAILS
23-Dec-2004	Eucla Basin Heavy-Mineral Sand Project
23-Dec-2004	Issue of Options
22-Dec-2004	Notice of initial substantial shareholder Form 603
21-Dec-2004	Change of Director's Interest
21-Dec-2004	Private Placement Share Issue
17-Dec-2004	Shareholder Meeting Notice, Explanatory Memorandum & Proxy Form
13-Dec-2004	Proposed Capital Raising and ASX Listing
01-Dec-2004	Change of Directors Interest
01-Dec-2004	Application for Quotation of Escrow released Shares
30-Nov-2004	Private Placement Share Issue
19-Nov-2004	Ceasing to be a substantial shareholder Form 605
19-Nov-2004	Release of Escrow Shares
08-Nov-2004	Eucla Basin Heavy-Mineral Sand Project
04-Nov-2004	Notice of Change of Interests of Substantial Holder Form 604
28-Oct-2004	Activities Report for the Quarter ending 30 September 2004
26-Oct-2004	Change in Substantial Shareholding Notice Form 604
26-Oct-2004	Change of Director's Interest
25-Oct-2004	Change of Director's Interest
22-Oct-2004	Change of Director's Interest
15-Oct-2004	Application for quotation of securities
13-Oct-2004	Change of Address Information
21-Sep-2004	Results of General Meeting Dated 17 September 2004
13-Sep-2004	Appendix 3-Half Yearly Financial Report 30/06/04
31-Aug-2004	Application for quotation of securities
30-Aug-2004	Tick Hill Gold Project - Option and Sale Agreement
18-Aug-2004	Notice of Meeting to Shareholders - Lost Sands Pty Ltd Acquisition
18-Aug-2004	Independent Valuation Report on Lost Sands Pty Ltd
30-Jul-2004	Activities Report for the Quarter ending 30 June 2004
19-Jul-2004	Change of Director's Interests
30-Jun-2004	Alteration to Issued Capital - Share Purchase Plan
30-Jun-2004	Issued Capital Other - Application for quotation of securities
15-Jun-2004	Periodic Disclosure Other - 2003 Annual Report Remuneration Details
11-Jun-2004	Extension of Closing Date - Share Purchase Plan
11-Jun-2004	Change of Director's Interest
02-Jun-2004	Company Acquisition - Lost Sands Pty Ltd
02-Jun-2004	Results of AGM - 31 May 2004
01-Jun-2004	Notice of Change of Interests of Substantial Holder Form 604
01-Jun-2004	Change of Director's Interest
01-Jun-2004	Change of Director's Interest
31-May-2004	2004 AGM Chairman's Address
27-May-2004	Notice of Initial Substantial Holder Form 603
12-May-2004	Share Purchase Plan
30-Apr-2004	2003 Annual Report
30-Apr-2004	AGM Notice & Proxy Form
30-Apr-2004	Notice of Initial Director's Interests
29-Apr-2004	Activities Report for the Quarter ending 31 March 2004
22-Apr-2004	Warialda (NSW) Diamond Project
22-Apr-2004	Financial Report for the year ended 31 December 2003 - Audited Accounts
15-Mar-2004	Appendix 3 - Preliminary Financial report
08-Mar-2004	Drilling Announcement
27-Feb-2004	Drilling Program Results Clermont Project Qld
06-Feb-2004	General Company Advice
02-Feb-2004	Change of Directors Interests
30-Jan-2004	Activities Report for the Quarter Ending 31 December 2003
19-Dec-2003	Nymbool Drilling Programme
14-Nov-2003	Notice of initial substantial shareholder Form 603
03-Nov-2003	Notice of Change of Interests of a Substantial Holder Form 604

9.4 Interests of Experts and Advisers

Other than set out below or elsewhere in this Prospectus, no expert or any firm in which any expert is a partner has, or has had in the two years before lodgement of this Prospectus, any interest in the promotion of, or in any property proposed to be acquired by, the Company and no amounts, whether in cash or Shares or otherwise, have been paid or agreed to be paid to any expert (or to any firm in which he or she is or was a partner) for services rendered by the expert or the firm in connection with the promotion, or was a Director of the Company. No form of payment of any kind will be made or agreed to be made to any such expert or firm other than in cash.

Pitcher Partners has acted as Independent Accountants to the Offer, conducting a review of the Company's accounts to the end of October 2004, and has prepared the Independent Accountants Report in Section 7. Pitcher Partners will be paid an amount of \$15 000 (exclusive of GST) in respect of this service. Pitcher Partners also acts as Auditor of the Company and has received fees for its services as auditors and Independent Accountants in the past two years totalling \$44 000. In the past two years, Pitcher Partners Registries received fees for the provision of registry services totalling \$4962.

Veronica Webster Pty Limited has acted as Independent Geologists to the Offer and has prepared the Independent Geological Report set out in Section 6 of this Prospectus. Veronica Webster Pty Limited will be paid an amount of \$8 000 in respect of this service. In the past two years, Veronica Webster Pty Limited received fees for the provision of services totalling \$14 400.

Oakley Thompson & Co Pty Ltd have acted as Solicitors to the Offer and have performed work in relation to preparing the due diligence program, performing due diligence inquiries on corporate legal matters and performing other work in relation to this Prospectus. The Company estimates that it will pay amounts totalling approximately \$30 000 (excluding disbursements) to Oakley Thompson & Co Pty Ltd in respect of this work. In the past two years, Oakley Thompson & Co Pty Ltd received fees for the provision of services totalling \$25 300.

Martin Place Securities Pty Limited has agreed to act as Underwriter to the Issue. The terms of the Underwriting Agreement are described in Section 9.10.1, and include a commission payable to Martin Place Securities Pty Limited of 1% of all Application Monies plus an additional amount equal to 5% of all Application Monies (which amount will be passed on to the applicable broker). The Company is also required to pay all out of pocket expenses and disbursements that are reasonably incurred by Martin Place Securities Pty Limited, including travel costs and legal fees paid in relation to the preparation of the Underwriting Agreement. In the past two years, Martin Place Securities Pty Limited received fees for the provision of services totalling \$21 000.

9.5 Interests of Directors

Holdings

The Directors of the Company or their associates have a beneficial interest in the following Shares and Options in the Company at the date of this Prospectus.

Director	Shares		Options	
	Direct	Indirect*	Direct	Indirect*
Anthony John Fawdon	3 230 796	992 137	1 000 000	0
David Hugh Hall	1 844 270	296 793	1 000 000	0
Lawrence James Litzow	1 863 505	397 587	1 009 617	0

* *Indirect holdings held by associates of the Directors*

Mr K Harvey, who was a Director of the Company within the past two years, has direct or indirect interests in 3 126 140 Shares and 1 003 174 Options.



Other than set out above or elsewhere in this Prospectus:

- No Director or proposed Director of the Company and no firm in which a Director or proposed Director of the Company is or was at the relevant time a partner, has or has had in the two years before lodgement of this Prospectus, any interest in the promotion of, or in any property proposed to be acquired by, the Company.
- No amounts, whether in cash or Shares or otherwise, have been paid or agreed to be paid to any Director or proposed Director of the Company (or to any firm in which he is or was a partner) either to induce him to become, or to qualify him as a Director, or otherwise for services rendered by him or by the firm in connection with the promotion or formation of the Company.

Payments to Directors

Under the Company's Constitution the total amount of remuneration paid to all Directors as director fees must not be increased unless authorised by the company in General Meeting. This does not apply to remuneration payable to any Director under any executive service contract with the Company. Directors are entitled to be reimbursed for travelling and other expenses incurred in attending meetings or in relation to the business of the Company. The Constitution of the Company provides that the Directors may be paid, as remuneration for their services, a sum determined from time to time by the Company's Shareholders in general meeting, with that sum to be divided amongst the Directors in such manner and proportion as they agree. The maximum aggregate amount which has been approved by Shareholders for payment to all Directors as director fees is currently \$150 000 per annum.

The total amounts received by current Directors as fees and executive service remuneration in the past two years (September 2002 to August 2004) are:

Director	Total Paid (Two years)
Anthony John Fawdon	\$131 565
David Hugh Hall	\$131 565
Lawrence James Litzow	\$47 666

Mr K Harvey, a former Director of the Company, received a total of \$93 925 in the past two years (September 2002 to August 2004).

The Corporations Act limits the extent to which insurance cover and/or indemnities may be provided or given to Directors in relation to claims arising out of their discharge of their duties as Directors. The Company's Constitution does not provide any additional restrictions on the provision of insurance or indemnity. The Company has not considered it desirable to take out Directors' insurance nor has it granted any right of indemnity to its Directors.

9.6 Expenses of the Offer

All expenses connected with the Offer are payable by the Company, including geological experts, accounting fees, legal fees, share registry fees, printing costs, public relations costs and other miscellaneous expenses. These expenses are estimated at \$505,000 if the Offer is fully subscribed.

9.7 Privacy

The Company may from time to time consider it appropriate to distribute information which may be of interest to Shareholders. Examples may include copies of prospectuses of other companies with similar activities. You may choose not to receive such information by ticking where indicated on the Application Form, or by informing the Company or its Share Registry at any time. The Company is obliged to send certain documents and information to Shareholders and Optionholders by law and under the Listing Rules. Ticking the box will not mean that you will not be sent documents and information the Company is required to send by law. The Company may release aggregated information which does not identify particular Investors.

9.8 Electronic Prospectus

Prospectus availability

This Prospectus is available in electronic form at www.diatreme.com.au. Any person receiving this Prospectus electronically will on request be sent a paper copy of this Prospectus (and attached Application Form) by the Company free of charge during the period of the Offer.

Applications must be made by completing a paper copy of the Application Form. Diatreme Resources Limited will not accept Application Forms electronically.

Electronic Prospectus

The Application Form may only be distributed attached to a complete and unaltered copy of this Prospectus. The Application Form included with this Prospectus contains a declaration that the investor had personally received the complete and unaltered Prospectus prior to completing the Application Form.

The Company will not accept a completed Application Form if it has reason to believe that the Applicant has not received a complete paper copy or electronic copy of this Prospectus or if it has reason to believe that the Application Form or electronic copy of this Prospectus has been altered or tampered with in any way.

While the Company believes that it is extremely unlikely that during the period of the Offer the electronic version of this Prospectus will be tampered with or altered in any way, the Company can not give any absolute assurance that this will not occur. Any investor in doubt concerning the validity or integrity of an electronic copy of this Prospectus should immediately request a paper copy of this Prospectus directly from the Company or a financial adviser.

9.9 Litigation

The Company is not a party to any current litigation, nor does it have notice of any impending action against it.

9.10 Material Contracts

The Board considers that certain agreements relating to the Company are significant to the Offer, the operations of the Company or may be relevant to investors. A description of material contracts or arrangements, together with a summary of the agreements is set out below.

9.10.1 Underwriting Agreement

An Underwriting Agreement dated 5 January 2005 has been entered into between Martin Place Securities Pty Limited (MPS) and the Company.

Under the terms of the agreement, MPS agrees to underwrite in part the public offering of securities by the Company. The amount underwritten is \$3 000 000 ("the Underwritten Amount") representing 15 000 000 shares at the issue price of 20 cents per share. The Offer contained in the Prospectus is for 25 000 000 shares to be issued at 20 cents per share; that is a total amount of \$5 000 000.

The Underwriting Agreement is subject to and conditional upon sub-underwriting and/or firm commitments for placements of an amount of at least \$2 000 000 being arranged to the reasonable satisfaction of the Underwriter prior to the Closing Date.

The fees payable to MPS shall include an underwriting commission up to a maximum amount of \$300 000 calculated at the rate of 1% on all Application Monies plus an additional amount equal to 5% of all Application Monies. The Underwriter will pay any entitlements of brokers from the 5% received by it. The commission payable to the underwriter excludes GST and if there is an amount of GST payable on such commission, the Company would be liable for payment of such amount.



In accordance with the terms of the Underwriting Agreement:

- (i) the Company has provided copies of this Prospectus to MPS; and,
- (ii) MPS has completed the review of the due diligence program undertaken by the Company.

The Company has reasonable grounds to believe that the conditions precedent to the commencement of the Underwriting Agreement appear to have been satisfied.

The Underwriting Agreement requires the Company to undertake that certain objectives are met in relation to the formal legal requirements for this Prospectus, including lodgement with ASX and ASIC in accordance with the Corporations Act, and ensuring that this Prospectus complies with the Corporations Act and Regulations and Listing Rules and any other relevant laws, statutes and regulations.

The Company is also required to pay all out of pocket expenses and disbursements that are reasonably incurred by MPS, including travel costs and legal fees paid in relation to the preparation of the Underwriting Agreement.

Under the Underwriting Agreement it is the sole responsibility of the Company to ensure that there are no misleading or deceptive statements in this Prospectus and generally to take all reasonable steps to ensure that the Offer is conducted in a proper and businesslike manner, and to ensure that this Prospectus is available to investors from the time that it is lodged with ASIC.

If the Company breaches any of its covenants in relation to the contents of this Prospectus or the conduct of the Offer, MPS may terminate the Underwriting Agreement.

Upon termination MPS can still recover any costs it has incurred and has rights to claim damages against the Company for any loss occasioned by the breach of the Underwriting Agreement. The Company indemnifies the Underwriter against any loss arising out of a breach of the Underwriting Agreement by the Company or loss to the Underwriter arising out of the Prospectus or the Offer, unless contributed to by the Underwriter.

Relief of Underwriter's Obligations:

If any one or more of the following events occurs after the date of the Agreement before the date which is four (4) business days after the close of the Offer (the Underwriter's Payment Date) the Underwriter may by notice to the Company and without cost or liability to the Underwriter terminate or cancel the Agreement immediately and be relieved of all its obligations under that Agreement:

- (a) the All Ordinaries Index Number or the Dow Jones Industrial Average is at any time more than 5.0% below its level as at the close of business on the Business Day immediately preceding 8 January 2005;
- (b) a new circumstance arises after this Prospectus is lodged that would in the reasonable opinion of the Underwriter have been required by sections 710 or 711 of the Corporations Act to be included in the Prospectus if it had arisen before this Prospectus was lodged;
- (c) the Company makes default under or is in breach of any of its material obligations under the Underwriting Agreement and following consultation between the Company and the Underwriter, that failure is not remedied within 5 Business Days afterwards;
- (d) any warranty or representation by the Company in the Underwriting Agreement ceases to be true in any material respect and, following consultation between the Company and the Underwriter, the matters rendering the warranty untrue are not remedied within 5 Business Days afterwards;
- (e) any material adverse change occurs in the financial position of the Company;
- (f) any Director or officer of the Company named in this Prospectus dies or is charged with or convicted of an indictable offence;

- (g) any material statement in this Prospectus is found to be or becomes misleading or deceptive or there is found to be a material omission from this Prospectus of material required by sections 710 or 711 of the Corporations Act;
- (h) the adoption or announcement by, or on the authority of, the government of the Commonwealth of Australia of:
 - (1) any future change in fiscal or monetary or taxation policy which would materially and adversely affect companies generally or the Company in particular or investments in stocks and shares in Australia including but not limited to any change which is likely to materially and adversely affect interest rates not already announced or anticipated as at the date of the Underwriting Agreement; or
 - (2) any law or prospective law or other measure having the effect of restraining capital issues, corporate profits or foreign investment, and which, in either case, would materially and adversely affect the Entitlement Issue;
- (i) any person who has previously consented to the inclusion of its, his or her name in this Prospectus or to be named in this Prospectus, withdraws that consent;
- (j) any information supplied at any time by the Company (or any person on its behalf) to the Underwriter in respect of any aspect of the Entitlement Issue is or becomes false or misleading;
- (k) any of the results of investigations of the Company or of any subsidiary conducted pursuant to the Company's due diligence program and verification material is or becomes false or misleading;
- (l) any material contravention by the Company or an officer of the Company of any provision of the Corporations Act, or the Listing Rules or any requirement of ASX or the ASIC or any governmental agency;
- (m) a resolution is passed or an order made by a Court of competent jurisdiction for the winding up of the Company, other than an order for the purpose of reconstruction or amalgamation made with the prior consent of the Underwriter;
- (n) a receiver or receiver and manager is appointed to all or part of the assets or undertaking of the Company;
- (o) the Company enters into any scheme of arrangement with its creditors or any class of them or indicates its intentions to do so;
- (p) the Company suspends payments of its debts or is unable to pay its debts within the meaning of the Corporations Act;
- (q) the Company is placed under official management or an official manager is appointed;
- (r) a provisional liquidator is appointed to the Company;
- (s) an inspector is appointed pursuant to the Corporations Act to investigate all or part of the affairs of the Company;
- (t) the Company fails to furnish a certificate in accordance with the requirements of the Agreement certifying that the Company has complied with its obligations and that no events which would relieve the Underwriter of its obligations have occurred;



(u) there is an outbreak of hostilities (whether or not war has been declared) not presently existing or a major escalation in existing hostilities occurs involving any one or more of the Commonwealth of Australia, the United Kingdom, the United States of America, The Russian Federation, a member state of the European Union, the Peoples Republic of China, Taiwan, Japan or Indonesia; or

(v) sub-underwriting and/or commitments for placements of an amount of at least \$2 000 000 not being arranged to the reasonable satisfaction of the Underwriter prior to the Closing Date.

The occurrence of an event listed above will not entitle the Underwriter to terminate the Underwriting Agreement unless, in the opinion of the Underwriter reached in good faith and acting reasonably, the event has or could have a materially adverse effect on the success of the Issue.

Failure by the Underwriter to terminate the Underwriting Agreement as a result of the occurrence of any one or more of the above events does not preclude the Underwriter from exercising its right in respect of any subsequent occurrence whether of the same or a different event.

Upon exercise of its rights to terminate the Underwriting Agreement the Underwriter must notify ASX and NSX immediately.

The warranties and representations of the Company in the Underwriting Agreement (referred to in paragraph (d) above) concern the proper incorporation and capacity of the Company, the accuracy and completeness of this Prospectus and documents and information provided to the Underwriter, there being no legal proceedings of which the Underwriter has not been informed in writing, not issuing other securities during the offer period without the Underwriter's approval, the Company seeking to procure applications under this Prospectus, and the Company acting properly to fully perform its obligations under this Prospectus.

9.10.2 Royalty Agreement with Equitx Limited (formerly Probe Resources NL)

By an agreement dated 22 July 1998, the Company acquired two tenements (Queensland Exploration Permits for Minerals "EPM"s 8093 and 10401, now replaced by EPM 12834) from Probe Resources NL [ACN 009 188 694] ("Probe"), which subsequently changed its name to Equitx Ltd, in consideration for the Company granting Probe a royalty interest over the tenements. The agreement included arrangements for the holding and management of the tenements pending Ministerial approval of the transfer, which has since occurred. The security deposits provided by Probe were to be replaced by security deposits provided by the Company.

The agreement contains warranties by Probe as to the standing of and its title to the tenements. The Company acquired and assumed all future rights and obligations in respect of the tenements.

Under the agreement, the Company is to pay Probe a net royalty of 5% of the realised value of all gold produced from the tenements, provided the net royalty is payable only if and when mining operations are commenced on any part of the tenements by the Company. The obligation to pay the net royalty ceases upon cancellation, surrender or expiration of the tenements. The realised value is total proceeds of sale less various listed expenses including operating and administrative costs of the mining operations, interest of debt, depreciation, amortisation of exploration and development expenditures, smelting and refining costs, taxes, rents, government royalties, transport and handling costs, brokerage, government charges on banking transactions and all other outlays which are a direct incident of marketing and sale of the gold. The net royalty is payable within 90 days of the end of each year of the term of the relevant tenement. Probe has obligations to maintain the confidentiality of information provided by the Company.

The agreement is stated to be governed by the laws of Queensland.

9.10.3 Georgetown Exploration Database Agreement with BHP Billiton Minerals Pty Ltd (formerly BHP Minerals Pty Ltd)

By an agreement dated 12 February 1996 BHP Minerals Pty Ltd [ACN 008 694 782] ("BHPM"), which subsequently changed its name to BHP Billiton Minerals Pty Ltd, agreed to make available to the Company, for the Company's use at its own expense, BHPM's Georgetown Geochemical Database and related information

("The GGD") developed by BHPM. The agreement permitted the Company to use information contained in the GGD for the sole purpose of assisting it in exploration target selection within the Georgetown area. The agreement continued for two years from its date and thereafter to the extent that any tenement is taken to have been acquired as a result of the use of the GGD.

The Company is obliged to maintain the confidentiality of the information provided by BHPM, and to return all information on termination of the agreement. The Company acknowledged BHPM's ownership of all intellectual property rights in relation to the GGD, and cannot sell, transfer, or grant interests or licences in any part of the GGD.

Under the agreement, if the Company acquired a tenement in the defined Georgetown area and if it applied for the tenement during the term of the agreement or during one year after the termination of the agreement (and could not demonstrate to BHPM's reasonable satisfaction that the acquisition was unconnected with the use of the GGD) or during one year after the termination of the agreement (and could not demonstrate to BHPM's reasonable satisfaction that access to the GGD was wholly irrelevant to the decision to acquire the tenement), BHPM has the right:

- to earn a 75% interest in the tenement by payment to the Company of an amount equal to three times the amount directly expended by the Company on exploration carried out on the tenement from the date of acquisition by the Company, and by paying the whole of the cost of exploration of the tenement until a feasibility study has been completed. Further costs will be contributed to in proportion to the respective holdings, with dilution if contributions are not made. BHPM will be the manager of the resultant joint venture, with a joint venture agreement to be negotiated in good faith; or
- to receive a net profit royalty of 5% (of gross revenue less operating expenses and costs properly incurred in connection with the provision of services for the purposes of conducting operations on the relevant tenement including services relating to accounting, purchasing, marketing, engineering, mining, legal and geological. The net profit royalty is payable within two months of the end of each financial year ending 30 June. The consent of the net profit royalty interest holder is required to an assignment, transfer or disposal of the tenement, and can require the assignee, transferee or recipient to covenant to pay the net royalty as a condition of the consent.

The agreement is stated to be governed by the laws of Queensland.

9.10.4 Indigenous Land Use Agreement with the Tagalaka People

On 13 November 2001 the Company entered into an Indigenous Land Use Agreement (ILUA) with the Tagalaka People ("Tagalaka"). The Tagalaka are the registered native title claimants of the land which is the subject of the agreement (being the individual claim areas incorporated under Native Title Claim QG 6109/98), in the vicinity of Normanton, Queensland. Under the terms of the agreement the Tagalaka have consented to the grant and renewal of Exploration Permits for Minerals ("EPM's") 11849, 12868, 12888 and 13126 on the terms and conditions set out in the agreement. At the date of this Prospectus the ILUA was yet to be lodged for registration.

Once registered, the ILUA permits the Company to carry out exploration work on the EPMs (once granted) without reference to the "right to negotiate" process as prescribed under the Native Title Act.

The ILUA has a duration of 10 years. Exploration by the Company must not disturb sites of special significance to the Tagalaka without the prior written consent of the Tagalaka. Artefacts that are discovered by the Company in the course of mineral exploration remain the property of the Tagalaka. The Company must report to the Tagalaka and comply with laws relating to the protection of the environment and rehabilitation of land disturbed during the course of its exploration activities.

When the Company decides to apply to convert one or more of the EPMs to one or more mining leases or mineral development licences, it must give notice to the Tagalaka of its intention to initiate a change of scope process. The parties will then negotiate provisions governing any change of scope process within 90 days of notification.

The Company may assign its rights under the agreement provided that the assignee agrees to be bound by the terms of the agreement. Before any contractor is engaged the Company must obtain the contractor's agreement to comply with the ILUA.



Costs to be borne by the Company pursuant to the agreement are:

1. \$1 000 towards the Tagalaka's costs associated with the making of the agreement (paid);
2. \$1 000 representing a contribution to the development of other initiatives of the Tagalaka People (paid);
3. \$250 per day for a maximum of five days per representative for the Tagalaka inspecting the site to identify special sites. In addition, a sum of \$500 is payable as an advance towards the travel time costs of the representatives in undertaking each site clearance exercise. The representatives may be accompanied by an archaeologist or anthropologist at the election of the Company or the Tagalaka People at a rate that does not exceed \$700 per day for a maximum of seven days.

The Company is to use its best endeavours to provide first opportunity for casual employment to the Tagalaka People and/or indigenous contractors.

The ILUA includes dispute resolution provisions including seeking to resolve the dispute by appropriate means or in the absence of agreement, referring the dispute to arbitration under the Commercial Arbitration Act 1985 (Qld).

9.10.5 Tick Hill Option and Sale Agreement with Mount Isa Mines Limited

Under the Tick Hill Option and Sale Agreement ("Agreement") dated 27 August 2004, Mount Isa Mines Limited ("MIM") [ABN 87 009 661 447], a member of the Xstrata Copper Group of companies, agreed to grant the Company:

- the exclusive right to conduct exploration activities on the area of the Tick Hill mining leases numbered 7094, 7096 and 7097 (the "MLs") for the option period,
- an option to acquire the MLs.

If the option is exercised by the Company, the Agreement covers the purchase of the MLs by agreed terms and conditions of sale.

During the option period the Company must carry out its exploration activities in accordance with professional standards, having regard at all times to complying with the obligations of mineral explorers and tenement holders under the Mineral Resources Act (Qld), including having regard to the rights of the Aboriginal and Torres Strait Islander people. The Company must also have regard to landholders with respect to rehabilitation of any area disturbed and comply with its obligations in respect of sacred sites, environmental matters and heritage areas generally and maintain the ML's in good standing.

The option consideration, payable by the Company in return for the grant of the option, is to occur as follows:

- the Company is to expend not less than \$50 000 on exploration (which exploration expenditure has been defined in the Agreement) during each of the first four calendar years;
- if the option is exercised by the Company, the terms and conditions of the Agreement shall apply to the Sale of the MLs; and
- the Company is to expend not less than \$100 000 on exploration during each calendar year thereafter.

Provided that the Company has expended not less than \$50 000 in the first calendar year period, and also that the Company has fulfilled its obligations in regards to rehabilitation in respect of its activities, the Company has the right to withdraw from the Agreement upon 1 month's written notice.

The option period commenced on the date of the Agreement and concludes at the earliest of either the exercise date, the expiration of the MLs or the withdrawal by the Company from the Agreement.

The Company may purchase at anytime the MLs under the terms and conditions of the Agreement with the payment of \$100 000 by the Company. MIM is then bound to supply to the Company all documents and instruments and to do all things to effect the sale of the MLs, subject to regulatory approval.

Any gold and/or copper production from the MLs by the Company, or its assigns, is subject to a production royalty and a copper processing benefit. The gold production royalty is pursuant to the sale terms of the Agreement, wherein the Company, or its assigns, producing from mining operations whether as ore concentrate, dore or refined metal, must pay MIM a production royalty on all gold recovered that is extracted from the MLs. The royalty is payable as physical gold each financial quarter.

The amount of royalty is calculated in grams of gold as follows:

$$\text{Production Royalty} = \frac{\text{Percent Royalty Rate} \times \text{Recovered Gold}}{100}$$

where:

$$\text{Percent Royalty Rate} = \frac{\text{Annual Recovered Grade (in g/t gold)} - 1}{5}$$

until MIM has received a total deemed cash value of the production royalty of \$5 000 000 after which time the Percent Royalty Rate is calculated as follows:

$$\text{Percent Royalty Rate} = \frac{\text{Annual Recovered Grade (in g/t gold)} - 0.5}{10}$$

In relation to any gold produced from tailings dams on the MLs, the percentage royalty rate where the recovery is in excess of 1 g/t gold will be 10% for such excess.

The production royalty is to be calculated at the end of each financial quarter and adjusted at the end of each financial year and will be based on the year's production statistics.

Under the Agreement, the Company has an ongoing obligation to offer copper ore and/or copper concentrates produced from the MLs for processing at MIM's facilities and to share in processing cost savings.

The Agreement is governed by the laws of Queensland.

9.11 Consents and Disclaimers of Responsibility

Oakley Thompson & Co Pty Ltd has given and, before lodgement of this Prospectus with ASIC, has not withdrawn its written consent to be named in this Prospectus as Solicitors to the Offer in the form and context in which it is named.

Oakley Thompson & Co Pty Ltd has not authorised or caused the issue of this Prospectus and takes no responsibility for its contents other than the references to being named as Solicitors to the Offer.

Veronica Webster Pty Limited and Mr Leslie W Davis have given and, before lodgement of this Prospectus, have not withdrawn their written consent to be named in the Prospectus as Independent Geologists and Mineral Exploration Consultant to the Company in the form and context in which they are named and to the inclusion of the Independent Geological Report in Section 6 of this Prospectus in the form and context in which it appears and reference to that report in this Prospectus.

Veronica Webster Pty Limited and Mr Leslie W Davis have only been involved in the preparation of the Independent Geological Report set out in Section 6 of this Prospectus and references to that report in this Prospectus. Veronica Webster Pty Limited and Mr. Leslie W Davis specifically disclaim liability to any person in the event of any omission from or any false or misleading statement included elsewhere in this Prospectus.

Veronica Webster Pty Limited and Mr Leslie W Davis have not authorised or caused the issue of this Prospectus and take no responsibility for its contents other than the references to being named as Independent Geologists and Minerals Exploration Consultant, to the Independent Geological Report set out in Section 6 of this Prospectus, and references to that Report in this Prospectus.

Pitcher Partners has given and, before lodgement of this Prospectus with ASIC, has not withdrawn its written consent to be named as Independent Accountant and Auditor, in the form and context in which it is named and for the inclusion of its Independent Accountants' Report in Section 7 being included in the form and context in which it is included.



Pitcher Partners takes no responsibility for any other part of this Prospectus. Pitcher Partners has not caused or authorised the issue of this Prospectus.

ASX Perpetual Registrars Limited has given and, before lodgement of this Prospectus with ASIC, has not withdrawn its written consent to be named as Share Registry in the form and context in which it is named.

ASX Perpetual Registrars Limited has not caused or authorised the issue of this Prospectus and takes no responsibility for any part of this Prospectus.

Martin Place Securities Pty Limited has given and, before lodgement of this Prospectus with ASIC, has not withdrawn its written consent to being named as Underwriters to the Issue and Advisers to the Company in this Prospectus in the form and context in which it is named.

Martin Place Securities Pty Limited has had no involvement in the preparation of any part of this Prospectus and expressly disclaims and takes no responsibility for any part of this Prospectus.

KJ Harvey and Associates Pty Ltd and Mr Kenneth J Harvey have given and, before lodgement of this Prospectus, have not withdrawn their written consent to be named in the Prospectus as Exploration Consultant to the Company in the form and context in which they are named.

KJ Harvey and Associates Pty Ltd and Mr Kenneth J Harvey have not authorised or caused the issue of this Prospectus and take no responsibility for its contents other than the references to being named as Exploration Consultant, in this Prospectus in the form and context in which they are named.

9.12 Restriction (Escrow) of Existing Securities

None of the Shares offered and to be issued pursuant to this Prospectus will be restricted securities.

Certain existing shares of the Company may be subject to various restriction ("escrow") conditions imposed by ASX. The holders of those shares will be required to enter Restriction Agreements to satisfy ASX requirements before the Company is admitted to the Official List of ASX. The Company will announce the periods of escrow and number of shares to be escrowed when advised by ASX.

Presently 4 853 824 shares are subject to escrow on NSX. The escrow expires on 31 October 2005. It is anticipated ASX will require at least the balance of that escrow period to apply to those shares if the Company's application to list on ASX is successful.



Bellfield Base Metal Project - Gilbert River Breccia (Drill Target B4)

9.13 Shareholding Summary**Top 20 Shareholders Table - Prior to the Offer**

No.	Shareholder	Number	Percent
1	Anthony John Fawdon	3,230,796	6.14%
2	Terra Search Pty Ltd	3,185,861	6.06%
3	Lawrence James Litzow	1,863,505	3.54%
4	David Hugh Hall	1,844,270	3.51%
5	Donald Cameron McIntosh	1,617,012	3.07%
6	Australian Rural Group Limited (Expl & Prospecting ProjectA/C)	1,500,000	2.85%
7	Cardinal Financial Securities Limited	1,496,165	2.84%
8	Explorers and Prospectors Finance Limited	1,496,165	2.84%
9	Richard James Nettleton	1,348,954	2.56%
10	Kenneth James Harvey	1,283,505	2.44%
11	Elizabeth Anne Harvey	1,283,503	2.44%
12	Prue Hannon	1,168,879	2.22%
13	Sanperez Pty Limited	1,056,982	2.01%
14	Mark & Jennie Smyth (Smyth Superannuation Fund)	1,000,000	1.90%
15	David John Horton & Rosalind Denise Horton	993,028	1.89%
16	Anthony John Fawdon & Rosemarie Monica Fawdon (The Fawdon Super Fund A/C)	965,201	1.83%
17	Locope Pty Limited (Locope Account)	915,084	1.74%
18	Simon David Beams	863,503	1.64%
19	David Randal Jenkins	863,503	1.64%
20	Shimfield Pty Ltd	800,000	1.52%
	Total Number of Shares on issue	28,775,916	54.70%
		52,610,233	100%

Shareholding Distribution Table - Prior to the Offer

Range	Number of Holdings	Number of Shares	Percentage of Capital
1 to 1000	728	191 281	0.36
1001 to 5000	238	572 669	1.09
5001 to 8000	102	935 048	1.78
8001 to 10000	185	6 651 033	12.64
10001 and above	84	44 260 202	84.13
Totals	1337	52 610 233	100.00

9.14 General Meeting

A general meeting of shareholders of the Company has been convened for 19 January 2005. The business of the meeting includes seeking approval to delist from NSX (see Section 9.15, below), to adopt a new Constitution (summarised in Section 9.1, above) and to obtain shareholder approval for the issue of shares offered under this Prospectus.



If shareholders do not approve the issue of shares, the Company will not proceed with the issue of Shares pursuant to this Prospectus and all monies will be refunded to Applicants without interest.

If shareholders do not approve the delisting or adoption of the new constitution, the Company proposes maintaining its current listing on NSX.

A copy of the Notice of General Meeting and accompanying Information Memorandum can be obtained by contacting the Company. The Notice of General Meeting and Information Memorandum contain further details of the shareholder approvals being sought to enable the offer and application to ASX to proceed.

The results of the General Meeting will be available on the Company website www.diatreme.com.au and at www.newsx.com.au during the Offer Period.

9.15 Applications to ASX & NSX

The Company is currently admitted to the Official List of ("listed on") Stock Exchange of Newcastle Ltd ("NSX"). The Company seeks to become listed on Australian Stock Exchange Ltd ("ASX"). If ASX gives approval for the Company to be listed on ASX, the current listing on NSX will be voluntarily discontinued.

The Company will only be listed on one Exchange (ASX or NSX) at a time. The Company is not seeking a dual listing (concurrent listing on both Exchanges).

As part of being listed on NSX, the Company's shares are admitted to Official Quotation on NSX. It is anticipated the Company's existing shares will be suspended from trading as part of the process of seeking to list on ASX.

An application for admission of the shares offered under this Prospectus to quotation on ASX will be made to ASX within seven days after the date of this Prospectus. In the event that the application for admission of the shares to quotation on ASX is refused, an application for admission of the shares to quotation on NSX will be made to NSX within seven days after notification that the shares will not be admitted to quotation on ASX.

The Company has been granted conditional relief by ASIC to permit the Company to apply to NSX for admission of the shares offered under this Prospectus more than seven days after the date of this Prospectus, if an application is made to ASX within seven days after the date of this Prospectus and ASX rejects the Company's application. The application to NSX must be made within seven days after notification that the shares will not be admitted to quotation on ASX. The relief also conditionally permits admission of the shares to official quotation on NSX more than three months after the date of this Prospectus if a supplementary prospectus which explains the effect of the relief and contains other specified information is issued, in which case Applicants would have one month in which to decide whether to exercise their right to withdraw their application and receive a full refund of their application monies.

The Company has called a General Meeting of existing Shareholders to consider a resolution approving the Company delisting from NSX if the application to list on ASX is approved (see Section 9.14, above). The Company's application to list on ASX is conditional upon three quarters of shareholders voting at the meeting approving the proposal to delist from NSX. The resolution will not take effect unless and until ASX gives its approval for the Company to list on ASX.

ASX's requirements will be equivalent to requirements applying to an initial public offering ("IPO"), and will include the Company having sufficient shareholders each with a holding of at least ten thousand (10 000) shares (a value of two thousand dollars (\$2000) at the twenty cent (\$0.20) issue price under this Prospectus).

If the shares offered under this Prospectus are not approved for admission to Official Quotation on either Exchange, all application monies received will be refunded to applicants without interest.

Applicants' attention is drawn to the consequences of the above being that the shares offered under this Prospectus may not be admitted to quotation on ASX, in which case the shares would either be admitted to quotation on NSX or will not be admitted to quotation on either Exchange. In the latter case, applicants will receive a refund but no shares. Refunds will not be made if the application to ASX is unsuccessful and the shares are admitted to quotation on NSX.

section **10**

directors' statement



The Directors report that after due enquiry by them, they have not become aware of any circumstances which in their opinion, will materially affect the assets and liabilities, financial position and performance, profits and losses or the prospects of the Company other than as disclosed in this Prospectus. The Directors have authorised the issue of this Prospectus.

Dated 10 January 2005

Anthony John Fawdon

Lawrence James Litzow

David Hugh Hall

section **11**

definitions



<i>A\$ or \$</i>	Australian dollars, unless otherwise stated.
<i>ABN</i>	Australian Business Number.
<i>ACN</i>	Australian Company Number.
<i>Applicant</i>	a person or entity who submits an Application Form.
<i>Application</i>	a lodged Application Form (with Application Monies, where applicable).
<i>Application Form</i>	an application form attached to this Prospectus or this Prospectus available electronically.
<i>Application Money</i>	the money received by the Company pursuant to the Offer, being the Offer Price for each Share multiplied by the number of Shares applied for, respectively.
<i>ASIC</i>	Australian Securities and Investments Commission.
<i>ASTC</i>	ASX Settlement and Transfer Corporation Pty Limited.
<i>ASX</i>	Australian Stock Exchange Limited, ABN 98 008 624 691.
<i>AusIMM</i>	Australasian Institute of Mining and Metallurgy.
<i>Board</i>	the board of Directors of Diatreme Resources Limited (DRL).
<i>CHESS</i>	Clearing House Electronic Subregister System, which provides for electronic share transfers in Australia.
<i>Closing Date</i>	the date on which the IPO Offer closes. This date may be varied by DRL without notice.
<i>Company</i>	Diatreme Resources Limited, ABN 33 061 267 061.
<i>Corporations Act</i>	the Corporations Act 2001.
<i>Director</i>	a Director of Diatreme Resources Limited.
<i>DNRM</i>	Department of Natural Resources & Mines (Queensland).
<i>DRL</i>	Diatreme Resources Limited, ABN 33 061 267 061.
<i>EL</i>	Exploration Licence.
<i>ELA</i>	Exploration Licence Application.
<i>EPM</i>	Exploration Permit Minerals (Queensland).
<i>EPMA</i>	Exploration Permit Minerals Application (Queensland).
<i>Existing Holding</i>	Shares held by an Existing Shareholder as recorded on the Register of Members.
<i>Existing Shareholders</i>	Shareholders of the Company recorded on the Register of Members.
<i>Existing Shares</i>	52 610 233 ordinary shares on issue at the date of this Prospectus.
<i>g/t gold</i>	grams of gold per tonne of rock.
<i>GST</i>	Goods and Services Tax.
<i>ILUA</i>	Indigenous Land Use Agreement.
<i>IPO</i>	Initial Public Offering.
<i>km</i>	kilometre
<i>Listed</i>	admitted to The Official List of a Stock Exchange.
<i>Listing Rules</i>	the listing rules of the ASX unless otherwise stated.
<i>m</i>	metre

<i>MDL</i>	Mineral Development Licence.
<i>Minimum Subscription</i>	Application Forms and accompanying payments received by the Company for 15 000 000 Shares.
<i>ML</i>	Mining Lease.
<i>MLA</i>	Mining Lease Application.
<i>Mt</i>	million tonnes.
<i>NNTT</i>	National Native Title Tribunal.
<i>NSX</i>	Stock Exchange of Newcastle Limited, ABN 11 000 902 063.
<i>Offer</i>	the offer of Shares under this Prospectus.
<i>Offer Price</i>	20 cents per Share.
<i>Official List</i>	the official list of the ASX unless otherwise stated.
<i>Opening Date</i>	1 February 2005. This date is indicative only and may change.
<i>Option</i>	an option over an unissued share in DRL, a summary of the terms and conditions of issue of which are set out in Section 9.2.
<i>Optionholder</i>	a holder of Options in DRL.
<i>Priority Allocation Application Form</i>	The personalised Application Form sent to Existing Shareholders with a copy of this Prospectus.
<i>Priority Offer</i>	The offer of “round up” Shares to Existing Shareholders described in Section 2.1.
<i>Priority Period</i>	1 February 2005 to 21 February 2005. These dates are indicative only and may change.
<i>Prospectus</i>	this Prospectus.
<i>“round up”</i>	to apply for Shares under the IPO Offer to increase an Existing Holder’s shareholding of fewer than 10 000 Shares to 10 000 Shares in aggregate.
<i>SCH</i>	the securities clearing house, the body which administers the CHESS system in Australia.
<i>SCH Business Rules</i>	the business rules of SCH.
<i>Seed capital</i>	capital contributed to establish the company.
<i>Securities</i>	Shares of the Company offered pursuant to this Prospectus.
<i>Shareholder</i>	a holder of Shares in DRL.
<i>Share</i>	a fully paid ordinary share in DRL.
<i>Subscription or Full Subscription</i>	Application Forms and accompanying payments received by the Company for 25 000 000 Shares
<i>TFN</i>	Australian tax file number.
<i>Underwriter</i>	Martin Place Securities Pty Limited, ABN 30 094 927 947.
<i>VALMIN Code</i>	the VALMIN Code of the AusIMM.
<i>you or your</i>	Applicant.

**Diatreme Resources** Limited

ABN 33 061 267 061

FOR REGISTRY USE ONLY

BROKER'S STAMP

All Application Forms must be accompanied by payment of 20 cents per Share.

Please use **BLOCK LETTERS** and refer to the guide overleaf for the correct forms of registrable names. Instructions A to K are set out on the reverse side of this form.

Broker's Code

Adviser's Code

A	I/We apply for									Shares in Diatreme Resources Limited at 20 cents per Share. (Minimum of 10 000 Shares and then in multiples of 5000 Shares)
---	----------------	--	--	--	--	--	--	--	--	--

[illegible]

C	Title	Given Names or Company Name	Surname / ACN / ABN	
				Applicant # 1

[illegible]

E	Full Postal Address Number / Street or PO Box Number																											
	Suburb / Town														State				Postcode									

F	Contact Name		Telephone Number - Business Hours

G Chess Details HIN - Existing Chess Participants Only

This Application Form does not have to be signed unless payment is by Credit Card.

H	Cheque Details Cheques should be made payable to "Diatreme Resources Limited Share Offer Account" and crossed "Not Negotiable"			
	Drawer	Bank	BSB No.	Amount of Cheque
				A\$
				A\$

Credit Card Payment Details

Please debit my credit card: ☐ Mastercard ☐ Bankcard ☐ Visa

[illegible]

Name

Expiry Date

Signature

☐ I/We do not wish to be sent additional material other than material relating to Diatreme Resources Limited.

Declarations

By lodging this Application Form and the Application Money I/We hereby:

- (1) declare that I/We have received a copy of the Prospectus accompanied by or attached to this Application Form
- (2) declare that I/We have read the Prospectus to which this Application Form relates
- (3) declare that this Application Form has been completed in accordance with the instructions on the reverse side of this Application Form
- (4) apply for the number of Shares shown in this Application Form
- (5) agree to be bound by the terms and conditions in the Prospectus and by the Constitution of Diatreme Resources Limited
- (6) Authorise the Directors to complete or amend this Application Form where necessary to correct any errors or omissions.

How to Complete the Application Form

Forward your completed application together with the Application Money to:

By mail: **Diatreme Resources Limited Share Offer**
c/- ASX Perpetual Registrars Limited
GPO Box 2537
Brisbane Qld 4001 PH:(02) 8280 7454

By delivery: **Diatreme Resources Limited Share Offer**
c/- ASX Perpetual Registrars Limited
Level 22, 300 Queen Street
Brisbane Qld 4000 PH:(02) 8280 7454

Applications must be received by the Closing Date.

Please complete all relevant sections of the Application Form using **BLOCK LETTERS**.

- A Enter the NUMBER OF SHARES you wish to apply for. Applications must be for the minimum of 10 000 shares and thereafter multiples of 5 000 as set down in Section 2 of the Prospectus.
- B Enter the TOTAL AMOUNT of Application Money payable. To calculate the amount, multiply the number of shares applied for by the amount per share.
- C Enter the FULL NAME(S) and TITLES(S) of all legal entities that are to be recorded as the registered holder(s). Refer to the name standards below for guidance on valid registration.
- D If JOINT APPLICANTS are applying or an ACCOUNT DESIGNATION is required, complete boxes C and D.
- E Enter the POSTAL ADDRESS for all communications from the Company. Only one address can be recorded.
- F Enter the NAME and TELEPHONE NUMBER for a contact person that the registry can speak to if they have any queries regarding this application.
- G If you are sponsored in CHESS by a stockbroker or other CHESS participant enter your Holder Identification Number (HIN).
- H Complete cheque details as requested. Payments must be made in Australian Currency and cheques must be drawn on an Australian Bank. Cheques or bank drafts must be made payable to "**Diatreme Resources Limited Share Offer Account**" and crossed "**Not Negotiable**". Cheques not properly drawn will be rejected. Cheques will generally be deposited on the day of receipt. If cheques are dishonoured the application will be rejected.
- I Pay by your credit card by completing and signing the credit card payment authorisation.
- J Tick this box if you do not wish to receive additional material other than material relating to Diatreme Resources Limited as set out in this Prospectus in Section 9.7.
- K Before completing the Application Form the applicant(s) declares that he or she has read the Prospectus to which this application relates. The applicant(s) agree(s) that this application is for shares in Diatreme Resources Limited upon and subject to the terms of the Prospectus, agree(s) to take any number of shares equal to or less than the number of shares indicated in box A that may be issued to the applicant(s) pursuant to the Prospectus and declare(s) that all details and statements made are complete and accurate.

This Application Form does not have to be signed unless payment is by Credit Card.

Ready Reckoner

This ready reckoner will help you calculate the money you need to pay at 20 cents per Share									
Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
10 000	\$2 000	15 000	\$3 000	20 000	\$4 000	25 000	\$5 000	30 000	\$6 000
35 000	\$7 000	40 000	\$8 000	50 000	\$10 000	100 000	\$20 000	200 000	\$40 000

Correct Forms of Registrable Names

Note that ONLY legal entities are allowed to hold Shares. Applications must be in the name(s) of natural persons, companies or other legal entities acceptable to the Company. At least one name given in full and the surname is required for each natural person. Application Forms cannot be completed by persons under 18 years of age. Examples of the correct forms of registrable title are set out below.

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
Individual Use given names in full not initials	Mr John Alfred Smith	JA Smith
Company Use the Company's full title not abbreviations	Ace Business Company Pty Ltd	ABC P/L or ABC Co
Joint Holdings Use full and complete names	Mr Peter Robert Williams Ms Louise Susan Williams	Peter Robert & Louise S Williams
Trusts Use the trustee(s) personal name(s)	Mrs Susan Jane Smith <Sue Smith Family Account>	Sue Smith Family Trust
Deceased Estates Use the executor(s) personal name(s)	Ms Jane Mary Smith Mr Frank William Smith <Estate John Smith Account>	Estate of late John Smith or John Smith deceased
Partnerships Use the partners personal names Use the Partnership Tax File Number	Mr John Robert Smith Mr Michael John Smith <John Smith and Son Account>	John Smith and Son
Clubs/ Unincorporated Bodies/ Business names Use office bearer(s) personal name(s)	Mr Michael Peter Smith <ABC Tennis Association Account>	ABC Tennis Association
Superannuation Funds Use the names of the trustee(s) of the fund	Jane Smith Pty Ltd <Super Fund Account>	Jane Smith Pty Ltd Superannuation Fund

APPLICATION FORM

Diatreme Resources Limited

ABN 33 061 267 061

FOR REGISTRY USE ONLY

For the Offer of Shares at an issue price of 20 cents per Share in Diatreme Resources Limited.

All Application Forms must be accompanied by payment of 20 cents per Share.

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BROKER'S STAMP

Broker's Code

Adviser's Code

--	--

A	I/We apply for	, ,	Shares in Diatreme Resources Limited at 20 cents per Share. (Minimum of 10 000 Shares and then in multiples of 5000 Shares)
B	I/We lodge in full the Application Money of	A\$, , .	
C	Title	Given Names or Company Name	Surname / ACN / ABN
			Applicant # 1
D	Title	Joint Applicants or Designated Account - e.g. <Super Fund Account>	
		Applicant # 2	
		Applicant # 3	
E	Full Postal Address Number / Street or PO Box Number		
	Suburb / Town	State	Postcode
F	Contact Name		Telephone Number - Business Hours
G	Chess Details HIN - Existing Chess Participants Only 		This Application Form does not have to be signed unless payment is by Credit Card.
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	Drawer	Bank	BSB No.
			Amount of Cheque
I	Credit Card Payment Details Please debit my credit card: <input style="width: 20px; height: 20px;" type="checkbox"/> Mastercard <input style="width: 20px; height: 20px;" type="checkbox"/> Bankcard <input style="width: 20px; height: 20px;" type="checkbox"/> Visa		
	Credit No.:		
J	<input style="width: 20px; height: 20px;" type="checkbox"/> I/We do not wish to be sent additional material other than material relating to Diatreme Resources Limited.		
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- (1) declare that I/We have received a copy of the Prospectus accompanied by or attached to this Application Form
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- J Tick this box if you do not wish to receive additional material other than material relating to Diatreme Resources Limited as set out in this Prospectus in Section 9.7.
- K Before completing the Application Form the applicant(s) declares that he or she has read the Prospectus to which this application relates. The applicant(s) agree(s) that this application is for shares in Diatreme Resources Limited upon and subject to the terms of the Prospectus, agree(s) to take any number of shares equal to or less than the number of shares indicated in box A that may be issued to the applicant(s) pursuant to the Prospectus and declare(s) that all details and statements made are complete and accurate.

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This ready reckoner will help you calculate the money you need to pay at 20 cents per Share									
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Note that ONLY legal entities are allowed to hold Shares. Applications must be in the name(s) of natural persons, companies or other legal entities acceptable to the Company. At least one name given in full and the surname is required for each natural person. Application Forms cannot be completed by persons under 18 years of age. Examples of the correct forms of registrable title are set out below.

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Company Use the Company's full title not abbreviations	Ace Business Company Pty Ltd	ABC P/L or ABC Co
Joint Holdings Use full and complete names	Mr Peter Robert Williams Ms Louise Susan Williams	Peter Robert & Louise S Williams
Trusts Use the trustee(s) personal name(s)	Mrs Susan Jane Smith <Sue Smith Family Account>	Sue Smith Family Trust
Deceased Estates Use the executor(s) personal name(s)	Ms Jane Mary Smith Mr Frank William Smith <Estate John Smith Account>	Estate of late John Smith or John Smith deceased
Partnerships Use the partners personal names Use the Partnership Tax File Number	Mr John Robert Smith Mr Michael John Smith <John Smith and Son Account>	John Smith and Son
Clubs/ Unincorporated Bodies/ Business names Use office bearer(s) personal name(s)	Mr Michael Peter Smith <ABC Tennis Association Account>	ABC Tennis Association
Superannuation Funds Use the names of the trustee(s) of the fund	Jane Smith Pty Ltd <Super Fund Account>	Jane Smith Pty Ltd Superannuation Fund

corporate directory

company

Diatreme Resources Limited
ABN 33 061 267 061

Registered Office

Suite 3, Level 8
26 Wharf Street
Brisbane QUEENSLAND 4000

Principal Office

Suite 3, Level 8
26 Wharf Street
Brisbane QUEENSLAND 4000

Telephone: 07 3229 9927
Facsimile: 07 3229 6627
email address: manager@diatreme.com.au

Internet address
www.diatreme.com.au

Postal Address

PO Box 10288
Brisbane Adelaide Street
QUEENSLAND 4000

directors & corporate secretary

Directors

Anthony John Fawdon
David Hugh Hall
Lawrence James Litzow

Corporate Secretary

Lawrence James Litzow

underwriter to the issue

Martin Place Securities Pty Limited
Level 3, 14 Martin Place
Sydney NEW SOUTH WALES 2000

Postal Address

GPO Box 895
SYDNEY NSW 1041

Telephone: 02 9222 9111

exploration consultant

Kenneth J Harvey
KJ Harvey & Associates Pty. Ltd.

25 Farnworth Street
Chapel Hill QUEENSLAND 4069

Telephone: 07 3378 4088
email address: kharvey@bigpond.com

share registry

ASX Perpetual Registrars Limited
Level 22, 300 Queen Street
Brisbane QUEENSLAND 4000

Postal Address

GPO Box 2537
Brisbane QUEENSLAND 4001

Telephone (Call Centre): 02 8280 7454
Facsimile: 07 3228 4999
email address: registrars@asxperpetual.com.au

independent accountant and auditor

Pitcher Partners

Level 21, 300 Queen Street
Brisbane QUEENSLAND 4000

Telephone: 07 3228 4000
Facsimile: 07 3221 6420
email address: info@pitcherqld.com.au

solicitors to the offer

Oakley Thompson and Co Pty Ltd

Level 17, 500 Collins Street
Melbourne VICTORIA 3000

Telephone: 03 9614 3771
Facsimile: 03 9629 2883
email address: frontdesk@otlawyers.com

independent geologist

Veronica Webster Pty Limited

7 O'Quinn Street
Nudgee Beach QUEENSLAND 4014

Postal Address

P O Box 619
Hamilton QUEENSLAND 4007

Telephone: 07 3267 3355

Diatreme Resources Limited



ABN 33 061 267 061

Diatreme Resources Limited

Registered Office:

Suite 3, Level 8, 26 Wharf Street, Brisbane QUEENSLAND 4000
PO Box 10288, Brisbane Adelaide Street BC, QUEENSLAND 4000

Telephone 07 3229 9927

Facsimile 07 3229 6627

Email: manager@diatreme.com.au

Website: www.diatreme.com.au

prospectus **2005**



DIATREME RESOURCES LIMITED

ABN 33 061 267 061

FOR BROKERS USE ONLY

Shareholder Priority Application Form

Broker Code				Adviser Code			

As an existing shareholder you are invited to apply for shares on the terms set out in the Prospectus

Number of Shares Currently held	Priority Allocation to round up to 10 000 Shares	Shareholders' Priority Allocation offer
		You have a firm priority allocation to round up to 10 000 shares. You may also apply for additional shares in excess of this amount in multiples of 5 000 (\$1 000).

Only applications made using this personalised Priority Application Form will receive priority. To receive priority, this Priority Application Form and your payment must be received at either address shown overleaf by no later than 5:00pm (Brisbane time) on 21 February 2005. Applications received after that time or using the Application Form in the Prospectus or downloaded from the internet may be accepted, but will not receive priority.

To meet the requirements of the Corporations Act 2001, this Application Form must not be passed on unless attached to or accompanying the Prospectus. If you are in doubt as to how to complete this form, please contact your stockbroker or professional adviser. You should read the entire Prospectus carefully before completing this Application Form.

See Instructions overleaf.

Total Application Money

A I/We Apply for	Priority allocation to round up to 10 000 shares (see above)		@ \$0.20	
	Additional Application for shares in multiples of 5 000 (\$1 000)		@ \$0.20	
	Total Number of shares applied for		@ \$0.20	A\$ _____

Please ensure your cheque is for this amount

B **Cheque Details.** Cheques should be made payable to "Diatreme Resources Limited Share Offer Account" and marked "Not Negotiable".



PIN YOUR CHEQUE(S) HERE

Drawer	Bank	Branch	Amount
			\$
			\$

C Contact Person	Daytime Contact Number	Email Address
	()	

D Credit Card Payment Details

Please debit my credit card: ☐ Mastercard ☐ Bankcard ☐ Visa

Credit No.:

Name

Expiry Date

/

Signature

I/We declare that this application is completed according to the declarations/appropriate statements on the reverse of this form and agree to be bound by the constitution of the Company and the representations and warranties contained on the reverse of this form and agree to take any number of shares equal to or less than the number applied for.

LODGE YOUR APPLICATION AS SOON AS POSSIBLE

NOTE: Return of the application form with your cheque(s) or credit card payment for the application monies will constitute your offer to subscribe for new shares in the Company. No signature is required on this form unless you wish to pay for your new shares by way of credit card.

How to Complete the Application Form

Forward your completed application together with the application money to:

By mail: Diatreme Resources Limited Share Offer
c/- ASX Perpetual Registrars Limited
GPO Box 2537
Brisbane QLD 4001 Ph: (02) 8280 7454

By delivery: Diatreme Resources Limited Share Offer
c/- ASX Perpetual Registrars Limited
Level 22, 300 Queen Street
Brisbane QLD 4000 Ph: (02) 8280 7454

Lodge your application as soon as possible. Late applications may be rejected.

To receive Priority, Applications using this form must be received by no later than 5:00PM (Brisbane time) on 21 February 2005.

Please complete all relevant sections of the Application Form using **BLOCK LETTERS**.

- A) Add your round up priority allocation (if applicable) and any additional shares you wish to apply for to get the total number of shares applied for. Enter the TOTAL AMOUNT of the application money payable. To calculate the amount multiply the number of shares applied for by 20 cents (\$0.20) per share. Applications for additional shares in excess of your round up priority allocation must be in multiples of 5 000 shares (\$1 000) unless you are accepting the round up offer only, in which case you can apply for the amount of the round up entitlement, but not for any lesser amount.**
- B) Complete cheque details as requested. Payment must be made in Australian Currency and cheques must be drawn on an Australian Bank. Cheques or bank drafts must be made payable to "Diatreme Resources Limited Share Offer Account" and crossed "Not Negotiable". Cheques not properly drawn will be rejected. Cheques will generally be deposited on the day of receipt. If cheques or credit card payments are dishonoured or declined your application may be rejected.**
- C) Enter the telephone number or e-mail address of a contact person that the registry can contact if they have any queries regarding this application.**
- D) If you are not paying by cheque, pay with your credit card by completing and signing the credit card payment authorisation.**

Before completing the Application Form the applicant(s) declares that he or she has read the Prospectus to which the application relates. The applicant(s) agree(s) that this application is for shares in Diatreme Resources Limited upon and subject to the terms of the Prospectus, agree(s) to take any number of shares equal to or less than the number of shares indicated in box A that may be issued to the applicant(s) pursuant to the Prospectus and declare(s) that all details and statements made are complete and accurate.

Ready Reckoner

This ready reckoner will help you calculate the money you need to pay at 20 cents per Share

Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
10 000	\$2 000	15 000	\$3 000	20 000	\$4 000	25 000	\$5 000	30 000	\$6 000
35 000	\$7 000	40 000	\$8 000	50 000	\$10 000	100 000	\$20 000	200 000	\$40 000