DIATREME RESOURCES LIMITED

ABN 33 061 267 061

Principal Office	Level 3, Travel House, 243 Edward Street, Brisbane, Qld, 4000
Postal Address	PO Box 295 Brisbane Albert Street BC Qld, 4002
Telephone	61 7 3229 9927
Facsimile	61 7 3229 6627
Email	manager@diatreme.com.au
Website	www.diatreme.com.au
Newcastle Stock Exchange code	NSX : "DRL"

Dear Shareholder

INVITATION TO PARTICIPATE IN SHARE PURCHASE PLAN

The directors of Diatreme Resources Limited ("Diatreme") have pleasure in inviting eligible shareholders to participate in the Company's Share Purchase Plan ("SPP"). The SPP provides opportunity for shareholders to invest a minimum of A$300 and up to a maximum of A$5 000 for additional new, fully paid, ordinary shares in the Company (free from any brokerage, commission or stamp duty fees) at an offer price **being the lower of** :

1 10 cents per share, or
2 the volume weighted average share price of market trades occurring on the NSX between 17 May 2004 and 11 June 2004 discounted by 10%.

The right to participate in the SPP is available exclusively to Australian and New Zealand shareholders who are registered as holders of fully paid ordinary shares in Diatreme at 5.00pm on 12 May 2004. The offer is non-renounceable and will close on Friday 11 June 2004.

Use of funds raised from the Plan

1 Mineral Exploration

As already reported to shareholders in the December 2003 and March 2004 quarterly reports, Diatreme has been conducting exploration and drilling on three of its projects since listing on the NSX using funds subscribed under its Prospectus 2003. With funds raised from the SPP, further exploration and drilling would be conducted on various company projects as follows:

Gold Exploration at the Mt Cannindah Gold Prospect

The Company would commence a ground geophysical magnetic survey over a significant airborne magnetic anomaly (Pages Prospect) to refine targeting for a subsequent drilling program. Anomalous gold geochemistry has identified a ridge to the south east of Pages Prospect which hosts epithermal quartz veins and is prospective for gold. Geological reconnaissance is planned along this ridge (Barrimoon Prospect) in the knowledge that epithermal quartz veined gold systems elsewhere in Queensland host very high gold grades.

Gold Exploration at the Pyramid Gold Project

The project area, currently in the process of being granted by the Department of Natural Resources Mines and Energy, covers numerous gold prospects. The Gettysburg Prospect is the most advanced and past drilling intersected mineralised zones grading 8m at 18.1 g/t gold and 24m at 5.0 g/t gold. Data compilation, in preparation for ground geological reconnaissance following grant, is to be conducted. The project is located in a region hosting high grade epithermal style gold mines including the Pajingo/Vera Nancy and Yandan gold mines (not properties of the Company).

Gold Exploration at Existing Projects which host Gold Resources
The Company plans to conduct further exploration, with possible drilling, to build on the gold resources previously identified at the Nymbool, Yarrol and Mount Steadman gold prospects.

Diamond Exploration at the Gwydir Diamond Project
Drilling would recommence in the Warialda district over the Kyalla, Murdering Creek, Poinciana and Bundilla prospects. With the Company having successfully identified basic intrusive rocks under shallow cover rocks at its Moven Prospect, the region is deemed to be highly prospective for diamond bearing pipes, possibly representing the hardrock source for the Bingara and Copeton alluvial diamonds.

Copper/ Gold Exploration at the Clermont Gold Project
Geological field reconnaissance is planned to identify, and establish drill sites over, copper and gold targets along the favourable exhalative chert horizon.

2 Australian Stock Exchange Limited (ASX) Listing

As previously announced in February 2004, your directors are investigating the potential for applying for listing of Diatreme on the ASX. If granted, such a listing would expose the Company to a larger capital market. Funds raised in this SPP may be applied in progressing a prospectus offering.

With availability of significant funds, the directors are confident that the Company can continue with its well balance exploration programs. Success from exploration, including drilling can increase the value of Diatreme's mineral portfolio and ultimately shareholder value.

How to participate

Please read carefully and in their entirety the Terms and Conditions listed on the reverse side of the enclosed SPP Application Form as by agreeing to purchase shares under the Offer you agree to be bound by those Terms and Conditions. You should also seek your own financial advice in relation to this Offer and participation in the SPP.

The completed Application Form, together with your cheque or credit card details, should be returned in the reply-paid envelope supplied. If paying by credit card, you may submit your completed application form to the Company by facsimile on (07) 3229 6627.

Your application together with full payment should be received by the Company on or before the closing date being 11 June 2004. New shares subscribed fo r will be allotted and application for their quotation on the NSX made by 17 June 2004.

Questions

If you have any questions in respect of the Diatreme SPP please direct them to the Company's Share Registry at:

Pitcher Partners Registries, GPO Box 35, Brisbane Qld 4001
Telephone: 07 3228 4219 Facsimile: 07 3221 3149

Yours sincerely

ANTHONY J FAWDON
Executive Chairman / CEO
12 May 2004

DIATREME RESOURCES LIMITED

ABN 33 061 267 061

SHARE PURCHASE PLAN APPLICATION FORM

<<<INSERT NAME AND ADDRESS HERE>>>

Entitlement Date: 12 May 2004
Closing Date: 11 June 2004

BARCODE
HIN/SRN

I/We, the above mentioned, being registered as ordinary shareholder(s) in Diatreme Resources Limited as at the Entitlement Date for this offer hereby apply for the parcel of new ordinary fully paid shares as indicated below at an issue price being the lower of :

1. 10 cents per share, or
2. the volume weighted average share price of market trades occurring on the NSX between 17 May and 11 June 2004 discounted by 10%,

issued in accordance with the Terms and Conditions of the Share Purchase Plan (SPP) on the back hereof.

The maximum parcel of new shares you can apply for will cost you $5,000

The minimum parcel of new shares you can apply for will cost you $300

Parcel of Shares	Please tick the appropriate box
$ 300 parcel of new shares ……………………………….	
$ 1 000 parcel of new shares ……………………………….	
$ 3 000 parcel of new shares ……………………………….	
$ 5 000 parcel of new shares ……………………………….	

<u>CHEQUE DETAILS</u> – PLEASE COMPLETE IN BLOCK LETTERS

Payable to "**Diatreme Resources Limited Share Offer Account**" and crossed "**Not Negotiable**"

Name of Drawer	Bank	BSB No.	Amount of Cheque
			$
			$

<u>CREDIT CARD PAYMENT DETAILS</u>

Please debit my credit card: Mastercard ☐ Visa ☐ Bankcard ☐

Credit Card No. ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐ **Amount** $

Name: | **Expiry Date:** / | **Signature:**

Contact Name: | **Daytime Telephone Number:**

1. If you intend to participate in this offer please carefully read the Terms and Conditions of the SPP.
2. Complete all the required details on this Application Form, noting that all monetary amounts are expressed in Australian dollars. <u>If paying by cheque this form does not need to be signed</u>.
3. If paying by cheque complete it for the exact dollar amount of the parcel of Shares (indicated above) you want to acquire. **Please make your cheque payable to "Diatreme Resources Limited Share Offer Account"** .
4. If paying by credit card please complete your card details, include the exact dollar amount of the parcel of Shares (indicated above) you want to acquire, and sign the form in the appropriate box.
5. Return the Application Form, together with your payment, to Pitcher Partners Registries, GPO Box 35, Brisbane, Qld, 4001, Australia in the enclosed reply paid envelope. If paying by credit card you may submit this form to the Company by facsimile on (07) 3229 6627.
6. Ensure that your Application Form and payment reach Pitcher Partners Registries, or the Company, by the closing date of the SPP being no later than 5.00pm (Brisbane time) on 11 June 2004. No late applications will be accepted.

By accepting this Offer you confirm the declaration under clause 6 of the Terms and Conditions of the Offer (overleaf) and agree to be bound by those Terms and Conditions and the Constitution of Diatreme Resources Limited.

TERMS AND CONDITIONS

1. DEFINITIONS

In this Share Purchase Plan, unless the context otherwise indicates:

Board means the Board of Directors of the Company;

Closing Date means 11 June 2004 or such later date as may be determined by the Board;

Company means Diatreme Resources Limited (ABN 33 061 267 061);

Eligible Members means members of the Company eligible to participate in the Offer as determined under Clause 2;

Entitlement Date means 12 May 2004;

NSX means The Stock Exchange of Newcastle Limited (ABN 11 000 902 063);

Offer means a non-renounceable offer of ordinary fully paid shares in the Company to Eligible Members under the SPP;

Opening Date means 14 May 2004;

Purchase Price means the lower of:

1. 10 cents, or
2. the volume weighted average share price of market trades occurring on the NSX between 17 May and 11 June 2004 discounted by 10%;

Shares means fully paid ordinary shares in the Company;

SPP means the Diatreme Resources Limited Share Purchase Plan approved by the Board from time to time.

2. ELIGIBILITY TO PARTICIPATE

2.1 Those members of the Company who will be eligible to apply for Shares under the Offer ("the Eligible Members") are those who, subject to clause 2.2:

- are recorded in the Company's register of members at 5.00pm on the Entitlement Date; and
- have an address (as recorded in the Company's register of members) in Australia or New Zealand.

2.2 Where a member is expressly noted on the Company's register of members as a trustee or nominee on account of another person ('Beneficiary'), the Beneficiary will be deemed to be the Eligible Member and an acceptance of the Offer and subsequent issue of Shares will be deemed to be made by or to the Beneficiary.

2.3 An Offer does not constitute an offer in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer.

2.4 Eligible Members may apply for up to a maximum of five thousand dollars ($5 000) worth of Shares in any consecutive twelve (12) month period. This maximum amount applies even if an Eligible Member receives more than one Offer or receives the Offer as a joint holder of Shares. If an Offer is received by a member who is expressly noted on the Company's register of members as a trustee or nominee on account of a Beneficiary, then any Shares issued in relation to that Offer will not be included in calculating the maximum number of Shares that may be applied for by that member, but will be included in calculating the maximum number of Shares that can be applied for by the Beneficiary.

2.5 Offers made under the SPP are non- renounceable. This means that members cannot transfer their right to purchase Shares under this Offer to another person.

3. PURCHASE PRICE

3.1 The Purchase Price per Share has been set as the lower of:

1. 10 cents, or
2. the volume weighted average share price of market trades occurring on the NSX between 17 May and 11 June 2004 discounted by 10%.

3.2 By accepting an Offer and applying for Shares under the SPP, each Eligible Member acknowledges that the Shares are a speculative investment and the price of the Shares quoted on NSX may change between the date of the Offer and the date of issue of the Shares and that the value of Shares received under the SPP may rise or fall accordingly.

4. TERMS OF ISSUE OF SHARES

4.1 The Board reserves the right to refuse an application if it considers that the applicant is not an Eligible Member or has not otherwise complied with the terms of the SPP or for any other reason. If an application is refused, the application monies received will be refunded without interest.

4.2 The maximum worth of Shares, dependent upon the Purchase Price, to be issued under this SPP will be the maximum that collectively all shareholders have the right to contribute being an approximate total of $6 500 000. The Company reserves the right to reduce this amount.

4.3 The Company reserves the right to issue fewer Shares than an Eligible Member applied for under the SPP (or none at all) at its sole discretion. Excess application monies will be refunded without interest.

4.4 Subject to clause 4.1, Shares issued under the SPP will be allotted and issued by 17 June 2004.

4.5 Shares allotted under the SPP will rank equally in all respects with all other fully paid ordinary shares in the Company on the date of their issue.

4.6 The Company will not make any allotment of Shares which would cause it to breach the NSX Listing Rules or the Corporations Act.

4.7 The Company will, by 17 June 2004, apply to the NSX for quotation of the Shares issued under the SPP.

5. GENERAL

5.1 The SPP will be administered by the Board or a committee of the Board that will have absolute discretion to:

(a) determine appropriate procedures for administration of the SPP consistent with these terms and conditions;

(b) resolve conclusively all questions of fact or interpretation arising in connection with the SPP or these terms and conditions; and

(c) delegate to any one or more persons, for such period and on such conditions as they may determine, the exercise of their powers or discretions under the SPP or these terms and conditions.

5.2 The SPP and these terms and conditions may be suspended, terminated or amended at any time by the Board;

5.3 These terms and conditions are governed by and construed in accordance with the laws for the time being in force in the State of Queensland.

5.4 Once an application has been made it cannot be revoked. Subject to any scale back, valid applications will be taken to have been accepted on the Closing Date. Diatreme reserves the right to reject applications received after the Closing Date.

6. DECLARATION AND ACKNOWLEDGMENT

6.1 By completing and forwarding this application form, each member:

(a) acknowledges that it has read and understood the terms and conditions of the SPP;

(b) certifies that (except where Shares are held as trustee or nominee on account of a beneficiary which is expressly noted on the Company's register of members) the aggregate of the application price for:

(i) the Shares or interests the subject of the application; and

(ii) any other Shares or interests in the class applied for by, or on behalf of, the shareholder under the SPP, or any similar SPP operated by the Company, in the 12 months prior to the application, does not exceed $5 000; and

(c) certifies that (where Shares are held as trustee or nominee on account of a beneficiary which is expressly noted on the Company's register of members ('Beneficiary')) the aggregate of the application price for:

(i) the Shares or interests the subject of the application; and

(ii) any other Shares or interests in the class applied for by, or on behalf of, the Beneficiary under the SPP, or any similar SPP, in the 12 months prior to the application, does not exceed $5 000.