DIATREME RESOURCES LIMITED

ABN 33 061 267 061

General Purpose Financial Report for the year ended 31 December 2004

Pitcher Partners
Level 21 300 Queen Street
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DIRECTORS' REPORT

Your Directors present their report on the consolidated entity consisting of Diatreme Resources Limited and the entities it controlled at the end of, or during, the year ended 31 December 2004.

Directors

The following persons were Directors of the Company during the whole of the financial year and continue in office at the date of this report:

A J Fawdon
D H Hall
L J Litzow

Principal activities

The principal continuing activities of the consolidated entity have been the exploration for gold, base metals and diamonds in Australia. There were no significant changes in the nature of the consolidated entity's principal activities during the year.

Operating results and review of operations

The operating profit/(loss) after income tax of the consolidated entity for the financial year ended 31 December 2004 was a loss of $219,234 (2003 : loss of $294,235).

Dividends paid or recommended

No dividend has been paid since the end of the previous financial year and the directors do not recommend the payment of any dividend for the year ended 31 December 2004.

Significant changes in state of affairs

On 15 October 2004, the Company acquired 100% of the issued shares of Lost Sands Pty Ltd, for a total consideration of $1,342,000 satisfied by the issue of 13,420,000 ordinary shares at $0.10 each by the Company.

There has been no other significant change to the nature of the consolidated entity's activities or state of affairs during the financial year and no changes are anticipated.

Matters subsequent to the end of the financial year

Subsequent to year end the Company issued a prospectus offering 25,000,000 fully paid ordinary shares at $0.20 per share to raise $5,000,000, with a minimum subscription set at 15,000,000 fully paid ordinary shares. The Company issued a supplementary prospectus on 28 February 2005 extending the closing date of the prospectus to 22 March 2005 and subsequently a second supplementary prospectus on 22 March 2005 further extending the closing date to 31 May 2005.

Other than the issuing of a prospectus and associated supplementary prospectus', there is no matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in financial years subsequent to 31 December 2004.

DIRECTORS' REPORT
(continued)

Likely developments

The consolidated entity has issued a prospectus to raise additional capital to enable it to continue to conduct mineral exploration and drilling programs on selected projects.

Information on Directors

Director	Qualifications	Experience	Special responsibilities
Executive:			
A J Fawdon	F.A.I.C.D., F.Aus.I.M.M.	34 years in the metalliferous exploration and mining industry	Chairman/CEO
D H Hall	B.App.Sc.(Geol), G.Dip.E.Sc.	25 years as a geologist and manager in the mineral exploration industry	Exploration Administrator
Non-executive:			
L J Litzow	F.C.A., A.A.U.Q., A.C.I.S	Professional Company Director and Corporate Secretary in various industries	Corporate Secretary

Meetings of Directors

During the financial year there were 8 meetings of Directors held. Attendances were as follows:

Director	Meetings attended	Meetings held whilst a director
A J Fawdon	8	8
D H Hall	7	8
L J Litzow	8	8

Remuneration

Principles used to determine the nature and amount of remuneration

Executive Directors
The combination of Directors' fees, salary, non-cash benefits and superannuation make up the Executive Directors total remuneration. The salary component of Executive Directors' remuneration packages is reviewed annually to ensure the Executives' pay is competitive with the market. Executive Directors' pay is not directly linked to the financial performance of the consolidated entity.

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

DIRECTORS' REPORT
(continued)

Remuneration (continued)

Aggregate Directors' fees

Directors' fees are determined within an aggregate Directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at $150,000 in aggregate plus statutory superannuation.

Details of remuneration

Details of the nature and amount of each major element of the emoluments of each Director of the Company and the officers of the Company and the consolidated entity are:

2004

Name	Directors' fees $	Salary $	Non-cash benefits $	Super contribution $	Other $	Total $
A J Fawdon	-	65,000	-	5,850	-	70,850
D H Hall	-	65,000	-	5,850	-	70,850
L J Litzow	-	-	-	-	19,996	19,996
Total	-	130,000	-	11,700	19,996	161,696

2003

Name	Directors' fees $	Salary $	Non-cash benefits $	Super contribution $	Other $	Total $
A J Fawdon	-	54,907	-	4,942	-	59,849
D H Hall	-	49,625	-	4,466	-	54,091
L J Litzow	-	-	-	-	19,996	19,996
K J Harvey *	-	21,274	-	1,914	-	23,188
Total	-	125,806	-	11,322	19,996	157,124

* Remuneration during the period from 1 January 2003 to date of resignation as a Director on 11 July 2003.

Specified Executives

The Company and consolidated entity did not have any other executives ("specified executive") with authority for the strategic direction and management of the consolidated entity during the financial year.

DIRECTORS' REPORT
(continued)

Directors' shareholdings

The number of ordinary shares in the parent entity held during the financial year by each Director and their personally related entities is set out below:

Name	Balance at the start of the year	Received on exercising options	Net purchased / (sold)	Other changes *	Balance at the end of the year
A J Fawdon	3,094,370	-	92,500	1,036,204	4,223,074
D H Hall	982,005	-	295,553	863,505	2,141,063
L J Litzow	1,023,378	-	158,333	1,079,381	2,261,092
Total	5,099,753	-	546,386	2,979,090	8,625,229

* Movement recorded to recognise acquisition of Lost Sands Pty Ltd.

Directors' option holdings

The number of options in the Company held during the financial year by each Director and their personally related entities is set out below:

Name	Balance at the start of the year	Received on the exercising options	Net purchased / (sold)	Other changes	Balance at the end of the year
A J Fawdon	1,000,000	-	-	-	1,000,000
D H Hall	1,000,000	-	-	-	1,000,000
L J Litzow	1,009,617	-	-	-	1,009,617
Total	3,009,617	-	-	-	3,009,617

Share options

Options over unissued ordinary shares of the Company at the beginning of the financial year are as follows:

Date options granted	Expiry date	Exercise price	Number of options
3 June 2002	30 May 2007	$0.20	4,000,000
20 December 2002	30 May 2007	$0.20	512,791
13 March 2003	30 May 2007	$0.20	125,000
30 May 2003	30 May 2007	$0.20	150,000
24 June 2003	30 May 2007	$0.20	150,000
08 July 2003	30 May 2007	$0.20	750,000
17 July 2003	30 May 2007	$0.20	1,000,000
			6,687,791

DIRECTORS' REPORT
(continued)

Share options (continued)

Options over unissued ordinary shares of the Company granted during or since the end of the financial year are as follows:

Date options granted	Expiry date	Exercise price	Number of options
17 December 2004	30 May 2007	$0.20	1,000,000
			1,000,000

No options were exercised or expired during or since the end of the financial year.

Options over unissued ordinary shares of the Company at the end of the financial year are as follows:

Expiry date	Exercise price	Number of options
30 May 2007	$0.20	7,687,791
		7,687,791

Insurance of officers

During the financial year, the consolidated entity did not pay a premium to insure certain officers of the consolidated entity. However, at an appropriate time, the consolidated entity will be seeking to insure certain officers of the consolidated entity under an appropriate Directors and officers insurance policy.

Environmental regulation

The consolidated entity is not subject to any significant environmental regulation (apart from normal requirements under its mineral tenements) in respect of its operations.

Proceedings on behalf of consolidated entity

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

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

DIRECTORS' REPORT
(continued)

Corporate Governance

The Board of Directors is responsible for the Corporate Governance of the consolidated entity. The Board is committed to achieving the highest standards of corporate behaviour and accountability.

Auditor's Independence Declaration

Section 307C of the Corporations Act 2001 requires the company's auditors, Pitcher Partners, to provide the directors with a written Independence Declaration in relation to their audit of the financial report for the year ended 31 December 2004. The Auditor's Independence Declaration is attached and forms part of this Directors' Report.

Signed in accordance with a resolution of the Board of Directors.

D H Hall
Executive Director

Brisbane, 30 March 2005

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AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF DIATREME RESOURCES LIMITED

In relation to our audit of the financial report of Diatreme Resources Limited for the year ended 31 December 2004, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Pitcher Partners

PITCHER PARTNERS

S A Green
Partner

Brisbane, 30 March 2005

DIRECTORS' DECLARATION

The Directors declare that the financial statements and notes set out on pages 9 to 25:

(a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory financial reporting requirements; and

(b) give a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2004 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the Directors' opinion:

(a) the financial statements and notes are in accordance with the Corporations Act 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

D H Hall
Executive Director

Brisbane, 30 March 2005

STATEMENTS OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	Consolidated		Parent	
		2004 $	2003 $	2004 $	2003 $
Revenue					
Revenue relating to exploration operations		59,667	87,704	59,667	87,704
	2	59,667	87,704	59,667	87,704
Expenditure					
Employee benefits and on costs		132,529	121,969	132,529	121,969
Professional fees		47,296	40,429	47,296	38,529
Exploration expenditure written off		824	138,875	824	7,585
Depreciation		1,932	1,487	1,932	1,487
Administration costs		96,320	79,179	86,493	78,882
Provision for diminution in value		-	-	-	1,979,960
Profit (loss) from ordinary activities before income tax expense	3	(219,234)	(294,235)	(209,407)	(2,140,708)
Income tax expense	4	-	-	-	-
Net profit(loss)	18	(219,234)	(294,235)	(209,407)	(2,140,708)

	Cents	Cents
Basic earnings per share	(0.64)	(1.21)
Diluted earnings per share	(0.64)	(1.21)

The above statements of financial performance should be read in conjunction with the accompanying notes.

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2004

	Note	Consolidated 2004 $	Consolidated 2003 $	Parent 2004 $	Parent 2003 $
Current Assets					
Cash	5	456,608	38,574	433,032	37,886
Receivables	6	17,890	17,069	13,511	16,604
Investments	7	-	280,000	-	280,000
Other	8	44,405	5,211	44,405	5,211
Total Current Assets		518,903	340,854	490,948	339,701
Non Current Assets					
Investments	9	51,603	47,275	1,691,643	345,315
Property, plant and equipment	10	6,735	3,000	6,735	3,000
Receivables	11	3,214	3,155	279,606	156,218
Exploration interests	12	4,281,350	2,737,814	661,047	589,983
Other	13	109,960	31,533	24,960	12,500
Total Non Current Assets		4,452,862	2,822,777	2,663,991	1,107,016
Total Assets		4,971,765	3,163,631	3,154,939	1,446,717
Current Liabilities					
Payables	14	227	32,136	-	32,136
Provisions	15	11,335	12,423	11,335	12,423
Total Current Liabilities		11,562	44,559	11,335	44,559
Non Current Liabilities					
Borrowings	16	-	-	130,848	240,360
Total Non Current Liabilities		-	-	130,848	240,360
Total Liabilities		11,562	44,559	142,183	284,919
Net Assets		4,960,203	3,119,072	3,012,756	1,161,798
Equity					
Contributed equity	17	5,818,878	3,758,513	5,818,878	3,758,513
Accumulated profits/(losses)	18	(858,675)	(639,441)	(2,806,122)	(2,596,715)
Total Equity		4,960,203	3,119,072	3,012,756	1,161,798

The above statements of financial position should be read in conjunction with the accompanying notes.

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	Consolidated 2004 $ Inflows (Outflows)	Consolidated 2003 $ Inflows (Outflows)	Parent 2004 $ Inflows (Outflows)	Parent 2003 $ Inflows (Outflows)
Cash flows from operating activities					
Sundry receipts (GST inclusive)		90,967	88,646	86,867	92,198
Payments to suppliers and employees (GST inclusive)		(465,001)	(265,694)	(381,420)	(248,079)
Payments for exploration expenditure		(202,359)	(129,361)	(71,887)	(128,548)
Interest received		6,116	2,208	6,116	2,208
Net cash inflow(outflow) from operating activities	24	(570,277)	(304,201)	(360,324)	(282,221)
Cash flows from investing activities					
Payments for property, plant and equipment		(5,667)	(405)	(5,667)	(405)
Acquisition of investment in unlisted entity		(4,328)	-	(4,328)	-
Proceeds from sale of investment		-	19,300	-	19,300
Net cash inflow(outflow) from investing activities		(9,995)	18,895	(9,995)	18,895
Cash flows from financing activities					
Loan from related entity		-	-	(232,841)	(22,505)
Proceeds on issue of shares		766,371	671,447	766,371	671,447
Capital raising costs		(48,006)	(156,423)	(48,006)	(156,423)
Loan to related entity		(59)	(1,495)	(59)	(1,495)
Net cash inflow(outflow) from financing activities		718,306	513,529	485,465	491,024
Net increase (decrease) in cash held		138,034	228,223	115,146	227,698
Cash at beginning of financial year		318,574	90,351	317,886	90,188
Cash at the end of financial year	25	456,608	318,574	433,032	317,886

The above statements of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

1. Summary of Significant Accounting Policies

This general purpose financial report has 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.

Except for certain assets which, as noted, are at valuation, the financial statements are prepared in accordance with the historical cost convention. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

(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 December 2004 and the results of all controlled entities for the year then ended. Diatreme Resources Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity 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.

(e) Investments

Term deposits
Investments in term deposits are recorded at cost. Interest is recognised as earned and accrued as required in the financial statements.

Interests in securities
Investments in securities are recorded at cost less a provision for diminution in value. Dividends are recognised as earned and accrued as required in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

1. Summary of Significant Accounting Policies (continued)

(f) 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 fittings	20%	Diminishing value
Field vehicles	22.5%	Diminishing value
Plant and equipment	40%	Diminishing value

(g) Exploration Expenditure

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 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.

(h) Trade and Other Creditors

These amounts represent liabilities for goods and services provided to the economic entity prior to the end of the financial year and which remain unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(i) 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 balance date has been accrued.

(j) Cash

For the purpose of the statements of cash flows, 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

	Consolidated		Parent	
	2004 $	2003 $	2004 $	2003 $
2. Revenue				
Management fees	50,958	64,784	50,958	64,784
Insurance claim	-	19,300	-	19,300
Interest	6,116	2,208	6,116	2,208
Other	2,593	1,412	2,593	1,412
	59,667	87,704	59,667	87,704
3. Profit/(Loss)				
Profit/(loss) from ordinary activities before income tax expense has been arrived at after recording the following specific credits and charges:				
Credits:				
Interest received	6,116	2,208	6,116	2,208
Profit on disposal of non-current asset	-	16,549	-	16,549
Charges:				
Exploration expenditure written off	824	138,875	824	7,585
Depreciation	1,932	1,487	1,932	1,487
Provision for employee entitlements	(1,088)	(11,703)	(1,088)	(11,703)
Provision for diminution in value	-	-	-	1,979,960
4. Income Tax Expense and Future Income Tax Benefits				
Profit (loss) from ordinary activities before income tax expense	(219,234)	(294,235)	(209,407)	(2,140,708)
Prima facie income tax expense (benefit) calculated at 30%	(65,770)	(88,270)	(62,822)	(642,212)
Tax effect of permanent differences				
□ Other	-	-	-	-
Future income tax benefit not brought to account	65,770	88,270	62,822	642,212
Income tax expense	-	-	-	-

The future income tax benefit has not been brought to account. The future income tax benefit of the income tax losses carried forward will only be obtained if:

(i) the consolidated entity 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 consolidated entity continues to comply with the conditions for deductibility imposed by legislation; and
(iii) no changes in tax legislation adversely affect the consolidated entity in realising the benefit of the deduction of the losses.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

	Consolidated		Parent	
	2004 $	2003 $	2004 $	2003 $
5. Current Assets – Cash				
Cash at bank and on hand	456,608	38,574	433,032	37,886
6. Current Assets – Receivables				
Trade debtors	4,417	477	4,417	477
Sundry debtors	13,473	16,592	9,094	16,127
	17,890	17,069	13,511	16,604
7. Current Assets – Investments				
Term deposits	-	280,000	-	280,000
8. Current Assets – Other				
Prepayments	44,405	5,211	44,405	5,211
9. Non Current Assets – Investments				
Investment in unlisted entities	51,603	47,275	51,603	47,275
Investment in controlled entities (Note 23)	-	-	3,620,000	2,278,000
Provision for diminution in value	-	-	(1,979,960)	(1,979,960)
	51,603	47,275	1,691,643	345,315
10. Non Current Assets – Property, Plant and Equipment				
Office equipment – at cost	5,578	5,578	-	-
Accumulated depreciation	(5,578)	(5,578)	-	-
	-	-	-	-
Furniture and fittings – at cost	20,297	19,826	15,106	14,635
Accumulated depreciation	(19,830)	(19,826)	(14,639)	(14,635)
	467	-	467	-
Motor vehicles – at cost	22,647	22,647	22,647	22,647
Accumulated depreciation	(20,597)	(20,026)	(20,597)	(20,026)
	2,050	2,621	2,050	2,621
Plant and equipment – at cost	83,986	78,479	83,327	77,820
Accumulated depreciation	(79,768)	(78,100)	(79,109)	(77,441)
	4,218	379	4,218	379
	6,735	3,000	6,735	3,000

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

10. Non Current Assets – Property, Plant and Equipment (continued)

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below:

	Furniture and fittings	Motor vehicles	Plant and equipment	Total
Consolidated				
Carrying amount at 1 January 2004	-	2,621	379	3,000
Additions	471	-	5,196	5,667
Disposals	-	-	-	-
Depreciation	(4)	(571)	(1,357)	(1,932)
Carrying amount at 31 December 2004	467	2,050	4,218	6,735
Parent				
Carrying amount at 1 January 2004	-	2,621	379	3,000
Additions	471	-	5,196	5,667
Disposals	-	-	-	-
Depreciation	(4)	(571)	(1,357)	(1,932)
Carrying amount at 31 December 2004	467	2,050	4,218	6,735

	Consolidated		Parent	
	2004 $	2003 $	2004 $	2003 $
11. Non Current Assets – Receivables				
Loan to controlled entity	-	-	276,392	153,063
Loan to a director related entity	3,214	3,155	3,214	3,155
	3,214	3,155	279,606	156,218

The loan to a director related entity is interest free, unsecured with no fixed term of repayment.

12. Non Current Assets – Exploration Interests				
Geological, geophysical, drilling and other expenditure at cost	4,281,350	2,737,814	661,047	589,983
13. Non Current Assets – Other				
Security deposits	109,960	31,533	24,960	12,500
14. Current Liabilities – Payables				
Sundry creditors	227	32,136	-	32,136
15. Current Liabilities – Provisions				
Employee entitlements	11,335	12,423	11,335	12,423
	Number	Number	Number	Number
Number of employees at year end	3	4	3	4

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

	Consolidated		Parent	
	2004 $	2003 $	2004 $	2003 $
16. Non Current Liabilities – Borrowings				
Loan from controlled entity	-	-	130,848	240,360
17. Contributed Equity				
Issued capital	5,818,878	3,758,513	5,818,878	3,758,513

a) Ordinary shares	**Number**	**Number**
Number of ordinary fully paid shares	52,610,234	30,409,127
Weighted average number of shares	34,096,027	24,361,476

Movements in ordinary share capital:

Date	Details	Number of shares	Issue Price	$
1 January 2003	Balance	21,683,394		3,077,859
13 March	Private placement	250,000	$0.08	20,000
30 May	Private placement	300,000	$0.07	21,000
24 June	Private placement	300,000	$0.07	21,000
8 July	Private placement	1,500,000	$0.07	105,000
17 July	Underwriters placement	1,000,000	$0.00	1,000
24 October	Share issue – prospectus	5,044,473	$0.10	504,447
24 October	Prospectus costs	-		(157,423)
	Private placement	331,260	$0.50	165,630
31 December 2003	Balance	30,409,127		3,758,513
29 June	Share purchase plan issue	1,005,877	$0.07	66,600
15 October	Lost Sands Pty Ltd acquisition	13,420,000	$0.10	1,342,000
12 November	Private placement	945,000	$0.09	85,050
17 December	Private placement	6,830,230	$0.09	614,721
	Prospectus costs	-		(49,006)
31 December 2004	Balance	52,610,234		5,817,878

b) Options

Movements in option capital:

Date	Details	Number of shares	Issue Price $	$
1 January 2003	Balance	4,512,791	-	-
13 March	Private placement	125,000	-	-
30 May	Private placement	150,000	-	-
24 June	Private placement	150,000	-	-
8 July	Private placement	750,000	-	-
17 July	Private placement	1,000,000	-	-
31 December 2003	Balance	6,687,791		-
22 December	Private placement	1,000,000	0.001	1,000
31 December 2004	Balance	7,687,791		1,000

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

17. Contributed Equity (continued)

b) Options (continued)

Grant date	Expiry date	Exercise price	Options granted	Options exercised	Unissued shares
1 January 2003 balance			4,512,791	-	4,512,791
13 March 2003	30 May 2007	$0.20	125,000	-	125,000
30 May 2003	30 May 2007	$0.20	150,000	-	150,000
24 June 2003	30 May 2007	$0.20	150,000	-	150,000
8 July 2003	30 May 2007	$0.20	750,000	-	750,000
17 July 2003	30 May 2003	$0.20	1,000,000	-	1,000,000
31 December 2003 balance			6,687,791		6,687,791
22 December 2004	30 May 2007	$0.20	1,000,000	-	1,000,000
31 December 2004 balance			7,687,791		7,687,791

	Consolidated		Parent	
	2004 $	2003 $	2004 $	2003 $
18. Accumulated profits/(losses)				
Accumulated profit/(loss) at the beginning of the financial year	(639,441)	(345,206)	(2,596,715)	(456,007)
Net profit/(loss)	(219,234)	(294,235)	(209,407)	(2,140,708)
Accumulated profit/(loss) at the end of the financial year	(858,675)	(639,441)	(2,806,122)	(2,596,715)

19. Segment Information

The consolidated entity operates in one business segment as an explorer for gold, base metals and diamonds in Australia.

20. Directors and Executives Disclosures

Directors

The names of persons who were directors of the Company at any time during the year are as follows:

Executive Directors
A J Fawdon and D H Hall

Non-executive Director
L J Litzow

Principles used to determine the nature and amount of remuneration

Executive Directors

The combination of Directors' fees, salary, non-cash benefits and superannuation make up the Executive Directors total remuneration. The salary component of Executive Directors' remuneration packages is reviewed annually to ensure the Executives pay is competitive with the market. Executive Directors' pay is not directly linked to the financial performance of the consolidated entity.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

20. Directors and Executives Disclosures (continued)

Non-executive Directors

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

Aggregate Directors' fees

Directors' fees are determined within an aggregate Directors' fees pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at $150,000 in aggregate plus statutory superannuation.

Details of remuneration

Details of the nature and amount of each major element of the emoluments of each Director of the Company and the officers of the Company and the consolidated entity are:

2004

Name	Directors' fees $	Salary $	Non-cash benefits $	Super contribution $	Other $	Total $
A J Fawdon	-	65,000	-	5,850	-	70,850
D H Hall	-	65,000	-	5,850	-	70,850
L J Litzow	-	-	-	-	19,996	19,996
Total	-	130,000	-	11,700	19,996	161,696

2003

Name	Directors' fees $	Salary $	Non-cash benefits $	Super contribution $	Other $	Total $
A J Fawdon	-	54,907	-	4,942	-	59,849
D H Hall	-	49,625	-	4,466	-	54,091
L J Litzow	-	-	-	-	19,996	19,996
K J Harvey *	-	21,274	-	1,914	-	23,188
Total	-	125,806	-	11,322	19,996	157,124

* Remuneration during the period from 1 January 2003 to date of resignation as a Director on 11 July 2003.

Specified Executives

The Company and consolidated entity did not have any other executives ("specified executive") with authority for the strategic direction and management of the consolidated entity during the financial year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

20. Directors and Executives Disclosures (continued)

Directors' shareholdings

The number of ordinary shares in the parent entity held during the financial year by each Director and their personally related entities is set out below:

Name	Balance at the start of the year	Received on exercising options	Net purchased / (sold)	Other changes *	Balance at the end of the year
A J Fawdon	3,094,370	-	92,500	1,036,204	4,223,074
D H Hall	982,005	-	295,553	863,505	2,141,063
L J Litzow	1,023,378	-	158,333	1,079,381	2,261,092
Total	5,099,753	-	546,386	2,979,090	8,625,229

* Movement recorded to recognise acquisition of Lost Sands Pty Ltd.

Directors' option holdings

The number of options in the Company held during the financial year by each Director and their personally related entities is set out below:

Name	Balance at the start of the year	Received on the exercising options	Net purchased / (sold)	Other changes *	Balance at the end of the year
A J Fawdon	1,000,000	-	-	-	1,000,000
D H Hall	1,000,000	-	-	-	1,000,000
L J Litzow	1,009,617	-	-	-	1,009,617
Total	3,009,617	-	-	-	3,009,617

* Movement recorded to recognise appointment / resignation as a Director.

Related Party Transactions

Aggregate amounts included in the determination of the profit/(loss) from ordinary activities before income tax expense that resulted from transactions with each class of other related parties were as follows:

	Consolidated		Parent	
	2004 $	2003 $	2004 $	2003 $
Management fees charged to a Director related entity	28,982	24,107	28,982	24,107
Loans to a Director related entity are disclosed in Note 11.				
Loans advanced	59	1,495	59	1,495
Loan repayments	-	-	-	-

21. Related Parties

Wholly owned group

The wholly owned group consists of Diatreme Resources Limited and its wholly owned controlled entities, Regional Exploration Management Pty Ltd, Chalcophile Resources Pty Ltd and Lost Sands Pty Ltd. Ownership interests are set out in Note 23.

Parent Entity

The ultimate parent entity in the wholly owned group is Diatreme Resources Limited.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

22. Commitments for Expenditure and Contingent Liabilities

No provision has been made for the following in the financial report of the consolidated entity:

(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 substantiated 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 consolidated entity 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 December 2004 are as follows:

	Consolidated		Parent	
	2004 $	2003 $	2004 $	2003 $
Tenement Expenditure:				
Payable within 1 year	894,694	606,620	283,026	375,716
Payable between one and two years	602,253	281,528	109,837	4,624
	1,496,947	888,148	392,863	380,340
Rental on tenements payable within 1 year	89,755	7,528	28,609	4,624
Other tenement expenditure payable within 1 year	-	-	-	-

The outlays may be varied from time to time, subject to approval of the relevant government departments, and may be relieved if a tenement is relinquished. Cash security bonds totalling $100,000 (2003: $30,000) are currently held by the relevant governing authorities to ensure compliance with granted tenement conditions.

(iii) Operating lease commitments for office rental are as follows:				
Payable within 1year	37,462	-	37,462	-
Payable between one and two years	9,712	-	9,712	-
	47,174	-	47,174	-

23. Investments in Controlled Entities

Name of entity	Country of incorporation	Class of shares	Equity holding		Cost of parent entity's investment	
			2004 %	2003 %	2004 $	2003 $
Regional Exploration Management Pty Ltd	Australia	Ordinary	100	100	2,278,000	2,278,000
Chalcophile Resources Pty Ltd *	Australia	Ordinary	100	100	-	-
Lost Sands Pty Ltd	Australia	Ordinary	100	-	1,342,000	-

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

23. Investments in Controlled Entities (continued)

Acquisition of a Controlled Entity

On 15 October 2004 the parent entity acquired 100% of the issued share capital of Lost Sands Pty Ltd for $1,342,000. The operating results of this newly controlled entity have been included in the consolidated statement of financial performance since the date of acquisition.

Details of the acquisition are as follows:

	$
Cash	3,781
Receivables	63,000
Exploration interests	1,275,219
	1,342,000
Outflow of cash to acquire controlled entity, net of cash acquired:	
Cash	-
Consideration by issue of shares	1,342,000
	1,342,000

	Consolidated		Parent	
	2004 $	2003 $	2004 $	2003 $
24. Reconciliation of Profit/(Loss) from ordinary activities after income tax to Net Cash Flows from Operating Activities				
Profit/(loss) from ordinary activities after income tax	(219,234)	(294,235)	(209,407)	(2,140,708)
Depreciation	1,932	1,487	1,932	1,487
(Profit)/loss on disposal of non-current asset	-	(16,549)	-	(16,549)
Provision for diminution in value	-	-	-	1,979,960
Decrease / (increase) in other assets	(117,621)	(13,761)	(51,654)	3,739
Decrease / (increase) in receivables	(821)	(9,909)	3,093	(9,444)
Decrease / (increase) in exploration expenditure	(201,536)	9,514	(71,064)	(120,963)
Increase / (decrease) in provisions	(1,088)	(11,703)	(1,088)	(11,703)
Increase / (decrease) in creditors	(31,909)	30,955	(32,136)	31,960
Net cash flows from operating activities	(570,277)	(304,201)	(360,324)	(282,221)

25. Reconciliation of Cash	**Note**				
Cash as per the Statement of Cash Flows is reconciled to cash in the Statement of Financial Position as follows:					
Cash at bank and on hand	5	456,608	38,574	433,032	37,886
Term deposit	7	-	280,000	-	280,000
Cash as per the Statement of Cash Flows		456,608	318,574	433,032	317,886

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

	Consolidated		Parent	
	2004 $	2003 $	2004 $	2003 $
26. Remuneration of Auditors				
Amounts received, or due and receivable by the auditors for audit of the parent entity or any entity in the consolidated entity:				
- audit of the financial report	13,000	9,500	13,000	9,500
- taxation compliance services	5,780	5,440	5,780	3,540
- capital raising reports	8,000	13,000	8,000	13,000
- share registry services	307	4,655	307	4,655
	27,087	32,595	27,087	30,695

27. Financial Instruments

(a) Interest Rate Risk Exposures

The consolidated entity's exposures to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities are set out below:

2004	Note	Floating Interest	Fixed Interest Maturing 1 year	Non-interest bearing	Total
Financial Asset					
Cash	5	456,608	-	-	456,608
Receivables	6	-	-	17,890	17,890
Investments	7	-	-	-	-
Other	8/11	-	-	157,579	157,579
Total		456,608	-	175,469	632,077
Weighted average interest rate		1.42%	-	-	-
Financial Liability					
Payables	13	-	-	227	227
Total		-	-	227	227
Weighted average interest rate		-	-	-	-
Net financial asset/(liability)		456,608	-	175,242	631,850

2003	Note	Floating Interest	Fixed Interest Maturing 1 year	Non-interest bearing	Total
Financial Asset					
Cash	5	38,574	-	-	38,574
Receivables	6	-	-	17,069	17,069
Investments	7	-	280,000	-	280,000
Other	8/11	-	-	39,899	39,899
Total		38,574	280,000	56,968	375,542
Weighted average interest rate		-	4.81%	-	-
Financial Liability					
Payables	13	-	-	32,136	32,136
Total		-	-	32,136	32,136
Weighted average interest rate		-	-	-	-
Net financial asset/(liability)		38,574	280,000	24,832	343,406

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

27. Financial Instruments (continued)

(b) Fair Net Values
The consolidated entity's financial assets and liabilities included in current assets and liabilities in the statements of financial position are carried out at amounts approximate net fair value.

(c) Credit Risk Exposures
The consolidated entity's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the statements of financial position.

28. Impact of adopting Australian equivalents to International Financial Reporting Standards

The Company has investigated the transition from current Australian Accounting Standards to Australian equivalents of International Financial Reporting Standards "(IFRS)". Set out below are the key areas identified at this time where accounting policies may change and have an impact on the financial report of the Company or consolidated entity.

Exploration and Evaluation Costs
The current accounting policy for exploration and evaluation costs is set out in note 1(g). Under the IASB's ED 6 Exploration for and Evaluation of Mineral Resources it was expected that a more rigorous impairment test would need to be performed in relation to recognised exploration and evaluation assets. However, in its July 2004 Action Alert the AASB advised that the IASB has decided to fully grandfather national GAAP such as Australia's existing area of interest method of accounting for exploration costs until such time as the IASB produces a comprehensive extractive industry IFRS. Accordingly, at this time it is expected that the current policy will continue under the grandfathering in the transition to Australian equivalents of IFRS. The policy will, however, be subject to possible future change under a more comprehensive extractive industry IFRS post 2005.

Equity-based Compensation Benefits
Under the new standard AASB 2 Shared-based Payments, equity-based compensation to directors and employees will be recognised as an expense in respect of the services received. This will result in a change to the current accounting policy where no expense is recognised for equity-based compensation.

Income Tax
Under the new standard AASB 112 Income Taxes, there is a requirement that the company adopt a balance sheet approach to income tax accounting rather than the current income statement approach. Additionally, the tests for the recognition of deferred tax assets, such as future income tax benefits, will be based on where realisation of the benefit is "probable" rather than where realisation of the benefit can be regarded as being assured beyond any reasonable doubt or virtually certain. The company does not currently recognise deferred tax assets as these are not considered virtually certain. Adoption of the new standard may result in recognition of deferred tax assets earlier than under the current standard.

Impact upon financial report
The Company's assessment of the impact of adopting Australian equivalents of International Financial Reporting Standards is set out below:

	$
Financial position	
Total equity as at 1 January 2004 as reported under Australian Accounting Standards	3,119,072
Adjustments relating to the adoption of IFRS	-
As restated under Australian equivalents of IFRS	3,119,072
Financial performance	
Net profit/(loss) for the year ended 31 December 2004 as reported under Australian Accounting Standards	(219,234)
Adjustments relating to the adoption of IFRS	-
As restated under Australian equivalents of IFRS	(219,234)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

29. Matters subsequent to the end of the financial year

Subsequent to year end the Company issued a prospectus offering 25,000,000 fully paid ordinary shares at $0.20 per share to raise $5,000,000, with a minimum subscription set at 15,000,000 fully paid ordinary shares. The Company issued a supplementary prospectus on 28 February 2005 extending the closing date of the prospectus to 22 March 2005 and subsequently a second supplementary prospectus on 22 March 2005 further extending the closing date to 31 May 2005.

Other than the issuing of a prospectus and associated supplementary prospectus', there is no matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in financial years subsequent to 31 December 2004.

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INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF DIATREME RESOURCES LIMITED

Scope

The financial report and directors' responsibility
The financial report comprises the statements of financial performance, statements of financial positions, statements of cash flows, accompanying notes to the financial statements, and the Directors' declaration for both Diatreme Resources Limited (the company) and Diatreme group (the consolidated entity) for the year ended 31 December 2004. The consolidated entity comprises both the company and the entities it controlled during that year.

The Directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach
We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order 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 control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Directors.

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF DIATREME RESOURCES LIMITED (continued)

Audit approach (continued)

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit opinion

In our opinion, the financial report of Diatreme Resources Limited is in accordance with:

(a) the Corporations Act 2001, including:
- (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2004 and of their performance for the year ended on that date; and
- (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

Pitcher Partners

PITCHER PARTNERS

S A Green
Partner

Brisbane, 30 March 2005