DIATREME RESOURCES LIMITED

ABN 33 061 267 061

FINANCIAL REPORT

For the year ended 31 December 2003

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 2003.

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

Mr K J Harvey was appointed a director on 4 February 2002 and continued in office until his resignation on 11 July 2003.

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 2003 was a loss of $294,235 (2002 : loss of $489,954).

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 2003.

Significant changes in state of affairs

During the year the company issued a prospectus offering 25,000,000 fully paid ordinary shares at $0.10 per share with a minimum subscription set at 5,000,000 fully paid ordinary shares. The company successfully raised the minimum subscription and listed with the Stock Exchange of Newcastle Limited on 30 October 2003.

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

No matter or circumstance 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 2003.

DIRECTORS' REPORT
(continued)

Likely developments

The consolidated entity has raised capital to enable it to conduct certain mineral exploration and drilling programs on selected projects. This exploration will continue in the current period. However, investigations are being conducted into funding arrangements to advance the company's corporate objectives, including a potential listing on the Australian Stock Exchange for the purpose of expanding exploration activities.

Information on Directors

Director	Qualifications	Experience	Special responsibilities
A J Fawdon	F.A.I.C.D., F.Aus.I.M.M.	33 years in the metalliferous exploration and mining industry	Chairman/CEO
D H Hall	B.Sc.(Geol), G.D.E.Sc.	24 years as a geologist and Manager in the mineral exploration industry	Exploration Administrator
L J Litzow	FCA	Professional Company Director and Corporate Secretary in various industries	Corporate Secretary

Meetings of Directors

During the financial year there were 17 meetings of directors held. Attendances were as follows:

Director	**Meeting attended**	**Meetings held whilst a director**
A J Fawdon	17	17
D H Hall	17	17
L J Litzow	17	17
K J Harvey	12	12

Share options

Options over unissued ordinary shares of the consolidated entity 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
			4,512,791

DIRECTORS' REPORT
(continued)

Share options (continued)

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

Date options granted	Expiry date	Exercise price	Number of options
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
8 July 2003	30 May 2007	$0.20	750,000
17 July 2003	30 May 2007	$0.20	1,000,000
			2,175,000

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

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

Expiry date	Exercise price	Number of options
30 May 2007	$0.20	6,687,791
		6,687,791

Options over unissued ordinary shares of the consolidated entity granted to any of the directors (or former directors) were as follows:

Director	Number of options
A J Fawdon	1,000,000
D H Hall	1,000,000
L J Litzow	1,009,617
K J Harvey	1,001,587
	4,011,204

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.

DIRECTORS' REPORT
(continued)

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.

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

A J Fawdon
Chairman

D H Hall
Director

Brisbane, 31March 2004

DIRECTORS' DECLARATION

The directors declare that the financial statements and notes set out on pages 6 to 19:

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

(b) give a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2003 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.

A J Fawdon
Director

D H Hall
Director

Brisbane, 31 March 2004

STATEMENTS OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	Consolidated 2003 $	Consolidated 2002 $	Parent 2003 $	Parent 2002 $
Revenue					
Revenue relating to exploration operations		87,704	299,794	87,704	279,445
	2	87,704	299,794	87,704	279,445
Expenditure					
Employee benefits and on costs		121,969	134,057	121,969	134,057
Professional fees		40,429	37,725	38,529	27,725
Exploration expenditure written off		138,875	518,718	7,585	531,673
Depreciation		1,487	5,448	1,487	2,905
Administration costs		79,179	93,800	78,882	93,345
Provision for diminution in value		-	-	1,979,960	-
Profit (loss) from ordinary activities before income tax expense	3	(294,235)	(489,954)	(2,140,708)	(510,260)
Income tax expense	4	-	-	-	-
Net profit(loss)	18	(294,235)	(489,954)	(2,140,708)	(510,260)

	Cents	Cents
Basic earnings per share	(1.21)	(2.41)
Diluted earnings per share	(1.21)	(2.41)

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

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2003

	Note	Consolidated 2003 $	Consolidated 2002 $	Parent 2003 $	Parent 2002 $
Current Assets					
Cash	5	38,574	90,351	37,886	90,188
Receivables	6	17,069	7,160	16,604	7,160
Investments	7	280,000	-	280,000	-
Other	8	36,744	22,983	17,711	21,450
Total Current Assets		372,387	120,494	352,201	118,798
Non Current Assets					
Investments	9	47,275	47,275	345,315	2,325,275
Property, plant and equipment	10	3,000	6,834	3,000	6,834
Receivables	11	3,155	1,660	156,218	31,678
Exploration interests	12	2,737,814	2,581,697	589,983	469,019
Total Non Current Assets		2,791,244	2,637,466	1,094,516	2,832,806
Total Assets		3,163,631	2,757,960	1,446,717	2,951,604
Current Liabilities					
Payables	13	32,136	1,181	32,136	176
Provisions	14	12,423	24,126	12,423	24,126
Total Current Liabilities		44,559	25,307	44,559	24,302
Non Current Liabilities					
Borrowings	15	-	-	240,360	305,450
Total Non Current Liabilities		-	-	240,360	305,450
Total Liabilities		44,559	25,307	284,919	329,752
Net Assets		3,119,072	2,732,653	1,161,798	2,621,852
Equity					
Contributed equity	16	3,758,513	3,077,859	3,758,513	3,077,859
Reserves	17	-	-	-	-
Accumulated profits/(losses)	18	(639,441)	(345,206)	(2,596,715)	(456,007)
Total Equity		3,119,072	2,732,653	1,161,798	2,621,852

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 2003

	Note	Consolidated 2003 $ Inflows (Outflows)	Consolidated 2002 $ Inflows (Outflows)	Parent 2003 $ Inflows (Outflows)	Parent 2002 $ Inflows (Outflows)
Cash flows from operating activities					
Sundry receipts (GST inclusive)		88,646	394,674	92,198	336,420
Payments to suppliers and employees (GST inclusive)		(265,694)	(291,160)	(248,079)	(279,555)
Payments for exploration expenditure		(129,361)	(135,358)	(128,548)	(120,162)
Interest received		2,208	1,809	2,208	1,460
Net cash inflow(outflow) from operating activities	25	(304,201)	(30,035)	(282,221)	(61,837)
Cash flows from investing activities					
Payments for property, plant and equipment		(405)	(1,000)	(405)	(1,000)
Proceeds from sale of investment		19,300	(47,275)	19,300	(47,275)
Net cash inflow(outflow) from investing activities		18,895	(48,275)	18,895	(48,275)
Cash flows from financing activities					
Loan from related entity		-	-	(22,505)	50,433
Proceeds on issue of shares		671,447	109,232	671,447	109,232
Capital raising costs		(156,423)	-	(156,423)	-
Loan to related entity		(1,495)	(1,660)	(1,495)	(1,660)
Net cash inflow(outflow) from financing activities		513,529	107,572	491,024	158,005
Net increase (decrease) in cash held		228,223	29,262	227,698	47,893
Cash at beginning of financial year		90,351	61,089	90,188	42,295
Cash at the end of financial year	26	318,574	90,351	317,886	90,188

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 2003

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 2003 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

Investments consist of term deposits. Interest is recognised as earned and accrued as required in the financial statements.

(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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

1. Summary of Significant Accounting Policies (continued)

(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.

	Consolidated		**Parent**	
	2003	**2002**	**2003**	**2002**
	$	**$**	**$**	**$**
2. Revenue				
Management fees	64,784	175,681	64,784	175,681
Insurance claim	19,300	-	19,300	-
Refund of security deposit previously expensed	-	20,000	-	-
Interest	2,208	1,809	2,208	1,460
Other	1,412	2,304	1,412	2,304
Individually significant items:				
- Proceeds on sale of tenement	-	100,000	-	100,000
	87,704	299,794	87,704	279,445

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

	Consolidated		Parent	
	2003	2002	2003	2002
	$	$	$	$
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	2,208	1,809	2,208	1,460
Proceeds on sale of tenement	-	100,000	-	100,000
Profit on disposal of non-current asset	16,549	-	16,549	-
Charges:				
Exploration expenditure written off	138,875	518,718	7,585	531,673
Depreciation	1,487	5,448	1,487	2,905
Provision for employee entitlements	(11,703)	10,758	(11,703)	10,758
Provision for diminution in value	-	-	1,797,960	-

4. Income Tax Expense and Future Income Tax Benefits

Profit (loss) from ordinary activities before income tax expense	(294,235)	(489,954)	(2,140,708)	(510,260)
Prima facie income tax expense (benefit) calculated at 30%	(88,270)	(146,986)	(642,212)	(153,078)
Tax effect of permanent differences				
• Other	-	221	-	213
Future income tax benefit not brought to account	88,270	146,765	642,212	152,865
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 2003

	Consolidated		Parent	
	2003	2002	2003	2002
	$	$	$	$
5. Current Assets - Cash				
Cash at bank and on hand	38,574	90,351	37,886	90,188
6. Current Assets - Receivables				
Trade debtors	477	6,329	477	6,329
Sundry debtors	16,592	831	16,127	831
	17,069	7,160	16,604	7,160
7. Current Assets - Investments				
Term deposits	280,000	-	280,000	-
8. Current Assets – Other				
Prepayments	5,211	3,950	5,211	3,950
Deposits	31,533	19,033	12,500	17,500
	36,744	22,983	17,711	21,450
9. Non Current Assets - Investments				
Investment in unlisted entities	47,275	47,275	47,275	47,275
Investment in controlled entities (Note 24)	-	-	2,278,000	2,278,000
Provision for diminution in value	-	-	(1,979,960)	-
	47,275	47,275	345,315	2,325,275
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	6,191	6,191	1,000	1,000
Accumulated depreciation	(6,191)	(5,691)	(1,000)	(500)
	-	500	-	500
Field vehicles - at cost	22,647	63,906	22,647	63,906
Accumulated depreciation	(20,026)	(57,572)	(20,026)	(57,572)
	2,621	6,334	2,621	6,334
Plant and equipment – at cost	78,479	78,074	77,820	77,415
Accumulated depreciation	(78,100)	(78,074)	(77,441)	(77,415)
	379	-	379	-
	3,000	6,834	3,000	6,834

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

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:

	Office equipment	Furniture and fittings	Field vehicles	Plant and equipment	Total
Consolidated					
Carrying amount at 1 January 2003	-	500	6,334	-	6,834
Additions	-	-	-	405	405
Disposals	-	-	(2,752)	-	(2,752)
Depreciation	-	(500)	(961)	(26)	(1,487)
Carrying amount at 31 December 2003	-	-	2,621	379	3,000
Parent					
Carrying amount at 1 January 2003	-	500	6,334	-	6,834
Additions	-	-	-	405	405
Disposals	-	-	(2,752)	-	(2,752)
Depreciation	-	(500)	(961)	(26)	(1,487)
Carrying amount at 31 December 2003	-	-	2,621	379	3,000

	Consolidated		Parent	
	2003 $	2002 $	2003 $	2002 $
11. Non Current Assets – Receivables				
Loan to controlled entity	-	-	153,063	30,018
Loan to a director related entity	3,155	1,660	3,155	1,660
	3,155	1,660	156,218	31,678

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	2,737,814	2,581,697	589,983	469,019

13 Current Liabilities – Payables

Sundry creditors *	32,136	1,181	32,136	176

* Capital raising costs of $26,200 have been satisfied subsequent to year end.

14. Current Liabilities – Provisions

Employee entitlements	12,423	24,126	12,423	24,126
	Number	**Number**	**Number**	**Number**
Number of employees at year end	4	4	4	4

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

	Consolidated 2003 $	Consolidated 2002 $	Parent 2003 $	Parent 2002 $
15 Non Current Liabilities – Borrowings				
Loan from controlled entity	-	-	240,360	176

16. Contributed Equity

	Consolidated 2003 $	Consolidated 2002 $	Parent 2003 $	Parent 2002 $
Issued capital	3,758,513	3,077,859	3,758,513	3,077,859

a) Ordinary shares	**Number**	**Number**
Number of ordinary fully paid shares	30,409,127	21,683,394
Weighted average number of shares	24,361,476	20,288,319

Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	$
1 January 2002	Balance	55,974,425		2,678,627
14 March 2002	Private placement	5,800,000	$0.050	290,000
17 April 2002	Private placement	200,000	$0.050	10,000
17 April 2002	1 : 3 consolidation	(41,316,616)		
20 December 2002	Private placement	1,025,585	$0.100	102,559
20 December 2002	Capital raising costs	-		(3,327)
31 December 2002	Balance	21,683,394		3,077,859
13 March 2003	Private placement	250,000	$0.080	20,000
30 May 2003	Private placement	300,000	$0.070	21,000
24 June 2003	Private placement	300,000	$0.070	21,000
8 July 2003	Private placement	1,500,000	$0.070	105,000
17 July 2003	Private placement	1,000,000	$0.001	1,000
24 October 2003	Share issue – prospectus	5,044,473	$0.100	504,447
24 October 2003	Prospectus costs	-		(157,423)
	Shares to be issued	331,260	$0.500	165,630
31 December 2003	Balance	30,409,127		3,758,513

b) Options

Grant date	Expiry date	Exercise price	Options granted	Options exercised and shares issued	Unissued shares
3 June 2002	30 May 2007	$0.20	4,000,000	-	4,000,000
20 December 2002	30 May 2007	$0.20	512,791	-	512,791
			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 2007	$0.20	1,000,000	-	1,000,000
Balance			6,687,791	-	6,687,791

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

	Consolidated		Parent	
	2003	2002	2003	2002
	$	$	$	$
17. Reserves				
Asset revaluation reserve	-	-	-	-
Movement in reserves				
Balance at beginning of the financial year	-	230,683	-	230,683
Revaluation of exploration interests to cost (Note 12)	-	(230,683)	-	(230,683)
	-	-	-	-
18. Accumulated profits/(losses)				
Accumulated profit/(loss) at the beginning of the financial year	(345,206)	144,748	(456,007)	54,253
Net profit/(loss)	(294,235)	(489,954)	(2,140,708)	(510,260)
Accumulated profit/(loss) at the end of the financial year	(639,441)	(345,206)	(2,596,715)	(456,007)

19. Segment Information

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

	Directors of entities in the consolidated entity		Directors of parent entity	
	2003	2002	2003	2002
	$	$	$	$
20. Remuneration of Directors				
Income (including superannuation benefits) received or due and receivable, by directors from entities in the consolidated entity and related bodies.	157,124	191,729	157,124	181,729

The number of parent entity directors whose income from the parent entity or related bodies was within the specified bands are as follows:

$		$	2003	2002
10,001	-	20,000	1	-
20,001	-	30,000	1	1
40,001	-	50,000	-	1
50,001	-	60,000	2	1
60,001	-	70,000	-	1

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

	Executive Officers of entities in the consolidated entity		Executive Officers of parent entity	
	2003	2002	2003	2002
	$	$	$	$
21. Remuneration of Executives				
Income and superannuation benefits received or Due and receivable from entities in the consolidated entity and related bodies by executive officers whose income was at least $100,000.	-	-	-	-

21. Related Party Transactions

(a) Directors

The names of persons who were directors of the Company at any time during the year are as follows:
A J Fawdon, D H Hall, L J Litzow and K J Harvey.

(b) Remuneration, Retirement Benefits and Service Agreements

Information regarding the remuneration of directors and amounts paid as superannuation on behalf of the directors is disclosed in Note 20.

(c) Other 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	
	2003	2002	2003	2002
	$	$	$	$
Management fees charged to a director related entity	24,107	27,274	24,107	27,274

Loans to a director related entity are disclosed in Note 11.

Loans advanced	1,495	1,660	1,495	1,660
Loan repayments	-	-	-	-

(d) Wholly owned group

The wholly owned group consists of Diatreme Resources Limited and its wholly owned controlled entities, Regional Exploration Management Pty Ltd and Chalcophile Resources Pty Ltd. Ownership interests are set out in Note 24.

(e) 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 2003

23. 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 impact on exploration tenements under application. Any substantiated claim may have an effect on the value of the tenement application affected by the claim.

(ii) So as to maintain current rights to tenure of various 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, which arise in relation to granted tenements, are as follows:

	Consolidated		Parent	
	2003 $	2002 $	2003 $	2002 $
Payable within 1 year	606,620	284,911	375,716	146,785
Payable between one and two years	281,528	138,191	4,624	38,626
	888,148	423,102	380,340	185,411
Rental on tenements payable within 1 year	7,528	9,911	4,624	4,159
Other tenement expenditure obligations payable within one 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 $30,000 (2002: $30,000) are currently held by the relevant governing authorities to ensure compliance with granted tenement conditions.

24. Investments in Controlled Entities

Name of entity	Country of incorporation	Class of shares	Equity holding		Cost of parent entity's investment	
			2003 %	2002 %	2003 $	2002 $
Regional Exploration Management Pty Ltd	Australia	Ordinary	100	100	2,278,000	2,278,000
Chalcophile Resources Pty Ltd *	Australia	Ordinary	100	100	-	-

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

	Consolidated		Parent	
	2003	2002	2003	2002
	$	$	$	$
25. 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	(294,235)	(489,954)	(2,140,708)	(510,360)
Depreciation	1,487	5,448	1,487	2,905
(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	(13,761)	48,239	3,739	14,772
Decrease / (increase) in receivables	(9,909)	16,933	(9,444)	14,400
Decrease / (increase) in exploration expenditure	9,514	383,360	(120,963)	411,512
Increase / (decrease) in provisions	(11,703)	10,758	(11,703)	10,758
Increase / (decrease) in creditors	30,955	(4,819)	31,960	(5,824)
Net cash flows from operating activities	(304,201)	(30,035)	(282,221)	(61,837)

26. Reconciliation of Cash

Cash as per the Statement of Cash Flows is reconciled to cash in the Statement of Financial Position as follows:

	Note	Consolidated 2003 $	Consolidated 2002 $	Parent 2003 $	Parent 2002 $
Cash at bank and on hand	5	38,574	90,351	37,886	90,188
Term deposit	7	280,000	-	280,000	-
Cash as per the Statement of Cash Flows		318,574	90,351	317,886	90,188

27. 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:

	Consolidated 2003 $	Consolidated 2002 $	Parent 2003 $	Parent 2002 $
- audit of the financial report	9,500	9,000	9,500	9,000
- taxation compliance services	5,440	-	3,540	-
- capital raising reports	13,000	-	13,000	-
- share registry services	4,655	-	4,655	-
	32,595	9,000	30,695	9,000

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

28. 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:

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

2002	**Note**	**Floating Interest**	**Fixed Interest Maturing 1 year**	**Non-interest bearing**	**Total**
Financial Asset					
Cash	5	90,351	-	-	90,351
Receivables	6	-	-	7,160	7,160
Investments	7	-	-	-	-
Other	8/11	-	-	24,643	24,643
Total		90,351	-	31,803	122,154
Weighted average interest rate		1.58%	-	-	1.17%
Financial Liability					
Payables	13	-	-	1,181	1,181
Total		-	-	1,181	1,181
Weighted average interest rate		-	-	-	-
Net financial asset/(liability)		90,351	-	30,622	120,973

(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.

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 2003. 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.

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.

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

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 2003 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

R C Brown
Partner

Brisbane, 31 March 2004