

**DIATREME RESOURCES LIMITED**  
**and its controlled entities**  
**ABN 33 061 267 061**

**General Purpose Financial Statements**  
**for the year ended 31 December 2009**

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## DIRECTORS' REPORT

Your Directors present their report on the consolidated entity consisting of Diatreme Resources Limited ("the Company") and the entities it controlled at the end of, or during, the year ended 31 December 2009.

### Directors

The following persons were Directors of Diatreme Resources Limited during the whole of the financial year and up to the date of this report:

A J Fawdon  
D H Hall  
L J Litzow  
G H White

Mr A Tsang was appointed a Director on 23 January 2009 and continues in office at the time of this report.

### Principal activities

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

### Review of operations

The consolidated entity maintains an aggressive approach to conducting exploration project evaluation as part of its methodology toward increasing shareholder value.

During the year, exploration continued over the flagship mineral sand and copper projects, with particular emphasis being placed upon the advancement of the world class Eucla Basin Cyclone Heavy Mineral (HM) Deposit located in Western Australia. Geological mapping and sampling, geophysical survey and drilling methods have variously been applied over the consolidated entity extensive Australian tenement holdings.

Exploration programs conducted in 2009 included:

- Resource drilling leading to the announcement of JORC classified "Indicated Resources" at the Cyclone HM deposit (WA)
- Reconnaissance drilling in the Eucla Basin and Arckaringa HM projects (WA and SA)
- Ground geophysics followed by a diamond drilling program over the Rosevale Porphyry Corridor at the Clermont Copper Project (QLD)
- An open hole (RAB) drilling program at the Anabama Copper Project (SA)
- Reconnaissance exploration at the Bellfield Base Metals Project (QLD)

A scoping study over the Cyclone HM Deposit was concluded in March 2010, following which the Company made the decision to proceed into pre-feasibility studies over the deposit during 2010.

### Operating results

The net loss of the consolidated entity for the financial year ended 31 December 2009 was \$2,739,545 (2008: loss of \$2,439,409).

During the year the Company and consolidated entity utilised their cash resources to undertake exploration and evaluation activities within their tenement portfolio. The Company and consolidated entity monitor cash flow requirements for operational, exploration and evaluation expenditure and will continue to use capital market issues and joint venture participant funding contributions to satisfy anticipated funding requirements.

### Dividends paid or recommended

No dividend has been paid since the end of the previous year and the Directors do not recommend the payment of any dividend for the year ended 31 December 2009.

### Significant changes in state of affairs

During the year there was an increase in contributed equity of \$7,465,270 (from \$21,259,642 to \$28,724,912) from the issue of 57,191,288 ordinary shares.

In August 2009 Diatreme Resources Ltd issued 4,500,000 shares to Zircon Resources Limited for the sum of \$720,000 to acquire the 25% equity position in Lost Sands Pty Ltd held by Zircon Resources Limited, a subsidiary of Minerals Corporation Limited, thus returning Lost Sands Pty Ltd to the consolidated entity as a wholly owned controlled entity.

## DIRECTORS' REPORT

### **Matters subsequent to the end of the financial year**

A placement of 3,300,000 ordinary shares to an indirect interest of Mr A Tsang, a Director, at an issue price of 12.25 cents per share was approved at a general meeting of shareholders held on 19 March 2010.

No other matter or circumstance has arisen since the end of the 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 years subsequent to 31 December 2009.

### **Likely developments**

No other likely developments in the operations of the consolidated entity are expected to significantly affect the results of the consolidated entity in subsequent years.

### **Information on Directors**

**Anthony John Fawdon FAICD, FAusIMM.** *Chairman – Executive.* Age 66.

#### Experience and expertise

Board member since 12 January 2001, Mr Fawdon has been active in the Australian mining and exploration industry for 36 years, working until 1982 in various management levels for multinational companies. He then became founder and director of several listed mineral explorers, including the Queensland based gold and base metal explorer Strike Mining NL in 1994 for which he was Managing Director/CEO until mid 2000.

#### Other current directorships

Non-executive Chairman of Opal Horizon Limited since 2001.

Non-executive director of Katana Group Limited since 2009.

#### Former directorships in last 3 years

Non-executive director of Garimperos Limited until April 2009.

Non-executive Chairman of Xtreme Resources Limited until April 2009.

#### Special responsibilities

Chairman of the Board.

Managing Director and Chief Executive Officer.

#### Interests in shares and options

3,231,398 ordinary shares in Diatreme Resources Limited.

5,000,000 options over ordinary shares in Diatreme Resources Limited.

**David Hugh Hall BAppSc (Geol), G.Dip.ESc., MAICD.** *Executive Director – Operations.* Age 56.

#### Experience and expertise

Board member since 12 January 2001, Mr Hall is a geologist with over 30 years experience in both field exploration and office administration. During this time, he has developed skills and experience in exploration and corporate management. He has specialist experience in project maintenance and tenement administration, government / landholder / native title liaison, and public / private company dealings. He is a member of the Queensland Resources Council's Exploration Committee.

#### Other current directorships

Non-executive director of Opal Horizon Limited since 2001.

#### Former directorships in last 3 years

Non-executive director of Garimperos Limited until April 2009.

Non-executive director of Xtreme Resources Limited until April 2009.

#### Special responsibilities

Exploration and corporate administration and management.

#### Interests in shares and options

2,513,667 ordinary shares in Diatreme Resources Limited.

4,100,000 options over ordinary shares in Diatreme Resources Limited.

## DIRECTORS' REPORT

**Lawrence James Litzow FCA, AAUQ, ACIS.** *Non-executive Director. Age 75.*

### Experience and expertise

Board member since 12 January 2001, Mr Litzow has had a successful career as a Chartered Accountant and now consults in specialist accounting and corporate matters. He holds positions as corporate secretary with a number of public and private companies. His background includes tenure as Managing Partner of Douglas Heck & Burrell, Chartered Accountants, member of the Small Business Council (advising the Federal Minister for Small Business), Chairman of the Small Business Taxation Group (Canberra), State Chairman of the Taxation Institution of Australia.

### Other current directorships

Non-executive Chairman of Superior Resources Limited since 2007.  
Non-executive director of Opal Horizon Limited since 2001.  
Non-executive director of Katana Group Limited since 2009.

### Former directorships in last 3 years

Non-executive director of Tamawood Limited until November 2006.  
Non-executive director of Garimperos Limited until April 2009.  
Non-executive director of Xtreme Resources Limited until April 2009.  
Non-executive director of Ask Funding Limited until August 2009.

### Special responsibilities

Joint Company secretary.

### Interests in shares and options

4,461,785 ordinary shares in Diatrema Resources Limited.  
2,500,000 options over ordinary shares in Diatrema Resources Limited.

**George H White BSc.Hons., FAICD.** *Non-executive Director. Age 65*

### Experience and expertise

Mr White was appointed by the Directors in April 2006. He has over thirty years experience in the mineral and energy industries and has held senior environmental and mining management positions in Alcoa, Chief Executive positions in Doral Resources NL and Doral Mineral Industries Ltd.

Mr White has been instrumental in the establishment of a number of greenfield resource projects in mineral sands, gold, magnetite, natural gas production and the downstream processing of mineral sands to zirconia and zirconium chemicals.

### Other current directorships

Executive director of Curcas Energy Limited since 2005.  
Director of Doral Mineral Industries Limited since 1992.

### Former directorships in last 3 years

None.

### Special responsibilities

None.

### Interests in shares and options

2,500,000 options over ordinary shares in Diatrema Resources Limited.

**Andrew Tsang** *Non-executive Director. Age 54*

### Experience and expertise

Mr Tsang is a naturalised Australian citizen who was born and educated in China and who has successfully established and run construction, engineering and property development businesses both in China and Australia as well as establishing successful import agencies for Australian manufactured goods into China.

### Other current directorships

Non-executive director of Mindax Limited since March 2008.  
Non-executive director of Katana Group Limited since August 2009.  
Non-executive director of Xiang Rong (Australia) Construction Group Pty Limited since May 2004.

## DIRECTORS' REPORT

### Former directorships in last 3 years

None.

### Special responsibilities

None.

### Interests in shares and options

34,802,428 ordinary shares in Diatreme Resources Limited.

## REMUNERATION REPORT

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Share-based compensation
- D Service agreements

### **A 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 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.

#### *Directors' fees*

The current base remuneration was last reviewed with effect from 1 January 2010.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$150,000 per annum plus statutory superannuation.

### **B Details of remuneration (audited)**

#### *Amount of remuneration*

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 *Related Party Disclosures*) of the Company and consolidated entity are set out in the following tables.

The key management personnel of the Company includes the directors as per the "Information on Directors" section above and the following executive officer who has authority and responsibility for planning, directing and controlling the activities of the entity:

2009

D A Jelley – Exploration Manager

2008

D A Jelley – Exploration Manager

## DIRECTORS' REPORT

### **Key management personnel and other executives of Diatreme Resources Limited 2009**

<i>Name</i>	<i>Directors fees</i> \$	<i>Salary</i> \$	<i>Superannuation</i> \$	<i>Other</i> \$	<i>Long service leave</i> \$	<i>Total</i> \$
<i>Non-executive directors</i>						
L J Litzow	-	-	-	65,000	-	65,000
G H White	30,000	-	2,700	-	-	32,700
A Tsang	27,089	-	2,438	-	-	29,527
<b>Sub-total non-executive directors</b>	57,089	-	5,138	65,000	-	127,227
<i>Executive directors</i>						
A J Fawdon	-	225,000	20,250	-	6,506	251,756
D H Hall	-	205,000	18,450	-	5,927	229,377
<i>Other key management personnel</i>						
D A Jelley	-	-	-	162,699	-	162,699
<b>Sub-total executives</b>	-	430,000	38,700	162,699	12,433	643,832
<b>Total key management personnel compensation</b>	57,089	430,000	43,838	227,699	12,433	771,059

### **2008**

<i>Name</i>	<i>Directors fees</i> \$	<i>Salary</i> \$	<i>Superannuation</i> \$	<i>Other</i> \$	<i>Long service leave</i> \$	<i>Total</i> \$
<i>Non-executive directors</i>						
L J Litzow	-	-	-	65,009	-	65,009
G H White	30,000	-	2,700	-	-	32,700
<b>Sub-total non-executive directors</b>	30,000	-	2,700	65,009	-	97,709
<i>Executive directors</i>						
A J Fawdon	-	225,000	20,250	-	29,370	274,620
D H Hall	-	205,000	18,450	-	26,760	250,210
<i>Other key management personnel</i>						
D A Jelley	-	-	-	195,160	-	195,160
<b>Sub-total executives</b>	-	430,000	38,700	195,160	56,130	719,990
<b>Total key management personnel compensation</b>	30,000	430,000	41,400	260,169	56,130	817,699

### **C Share-based compensation**

There was no share-based compensation to Directors in 2009.

## DIRECTORS' REPORT

### D Service agreements

*A J Fawdon, Chairman - Executive*

Term of agreement – no fixed term.

Base salary, inclusive of superannuation, of \$270,320.

Termination benefit – six months salary plus two weeks for every year, or part thereof, for service to the Company since appointment (1 August 2000).

*D H Hall, Executive Director - Operations*

Term of agreement – no fixed term.

Base salary, inclusive of superannuation, of \$245,250

Termination benefit - six months salary plus two weeks for every year, or part thereof, for service to the Company since appointment (1 August 2000).

*L J Litzow, Non-executive Director (and Joint Company Secretary)*

Term of agreement – no fixed term

Base salary of \$65,000.

No termination benefit is specified in the agreement.

*G H White, Non-executive Director*

Term of agreement – no fixed term

Base salary inclusive of superannuation, of \$43,600.

No termination benefit is specified in the agreement.

*A Tsang, Non-executive Director*

Term of agreement – no fixed term

Base salary, inclusive of superannuation, of \$43,600.

No termination benefit is specified in the agreement.

### Joint Company Secretary

The joint Company Secretary is Ms Leni Stanley CA, B.Com. Ms Stanley was appointed to the position of joint Company Secretary in October 2009. Ms Stanley currently is a partner with a Chartered Accounting firm and holds the office of Company Secretary with other companies.

The other joint Company Secretary is Mr L J Litzow. Details of Mr Litzow's qualifications and experience are set out in Information on Directors.

### Meeting of Directors

The number of meetings of the Company's board of directors held during the year ended 31 December 2009, and the number of meetings attended by each director were:

Director	Meetings of Directors		Audit Committee		Remuneration Committee	
	A	B	A	B	A	B
A J Fawdon	8	8	-	-	-	-
D H Hall	8	8	-	-	-	-
L J Litzow	6	8	2	2	1	1
G H White	8	8	2	2	1	1
A Tsang	5	7	-	-	-	-

A = Meetings attended

B = Meetings held whilst a director

## DIRECTORS' REPORT

### Shares under option

Unissued ordinary shares of Diatreme Resources Limited under option at the date of this report are as follows:

<u>Date options granted</u>	<u>Expiry date</u>	<u>Issue price of shares</u>	<u>Number under option</u>
July 2006	30/06/2011	\$0.47	6,500,000
August 2006	30/06/2011	\$0.47	100,000
June 2007	30/06/2011	\$0.47	4,300,000
July 2007	31/07/2011	\$0.47	3,000,000
June 2008	30/06/2011	\$0.47	5,900,000
			<u>19,800,000</u>

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

### 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.

### Insurance of officers

During the year, the consolidated entity did pay a premium to insure certain officers of the consolidated entity.

### 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.

### Auditor

Hacketts DFK was appointed as the Company's auditor at the 2009 Annual General Meeting held on 28 May 2009.

### Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the consolidated entity are important. Details of the amounts paid or payable to the auditor for audit and non-audit services provided during the year are set out below.

The board of directors has considered the position and, in accordance with advice received from the Audit Committee, is satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor, and
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

## DIRECTORS' REPORT

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated	
	2009	2008
	\$	\$
Amounts received, or due and receivable by the Company's former auditor – Pitcher Partners:		
- Audit / review of the financial reports	-	15,560
- Taxation compliance services	-	14,522
		<hr/>
	-	30,082
Amounts received, or due and receivable by the Company's current auditor – Hacketts DFK:		
- Audit / review of the financial reports	25,105	22,000
- Taxation compliance services	-	-
	<hr/>	<hr/>
	25,105	22,000
	<hr/>	<hr/>
	25,105	52,082

### Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 10.

This report is made in accordance with a resolution of the directors.



D H Hall  
Director

Brisbane, 31 March 2010

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

In relation to the audit of Diatreme Resources Limited and its controlled entities' financial report for the year ended 31 December 2009, I declare that, to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001, and
- b) no contraventions of any applicable code of professional conduct.



**Hacketts DFK**



**L J Murphy  
Partner**

Brisbane, 31 March 2010

**STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2009**

	Note	Consolidated		Parent	
		2009 \$	2008 \$	2009 \$	2008 \$
<b>Continuing operations</b>					
Revenue	4	251,141	601,238	244,567	655,040
Employee benefits and on costs		(1,364,553)	(1,133,777)	(785,760)	(928,425)
Exploration expenditure written off	4	(279,586)	(645,404)	(299,073)	(203,631)
Professional fees		(280,507)	(289,438)	(209,586)	(213,829)
Property expenses	4	(272,317)	(231,571)	(241,936)	(211,055)
Depreciation	4	(247,570)	(158,677)	(14,344)	(18,894)
Listing and share registry costs		(81,028)	(56,839)	(81,028)	(56,839)
Finance costs	4	(21,548)	(18,324)	-	-
Forgiveness of loans	4	(15,022)	-	(15,022)	-
Administration costs		(448,426)	(579,939)	(372,528)	(470,860)
<b>Loss from continuing operations before income tax</b>		<b>(2,759,416)</b>	<b>(2,512,731)</b>	<b>(1,774,710)</b>	<b>(1,448,493)</b>
Income tax expense	5	-	-	-	-
<b>Loss from continuing operations after income tax</b>		<b>(2,759,416)</b>	<b>(2,512,731)</b>	<b>(1,774,710)</b>	<b>(1,448,493)</b>
Other comprehensive income		-	-	-	-
<b>Total comprehensive income/(loss) for the period</b>	22	<b>(2,759,416)</b>	<b>(2,512,731)</b>	<b>(1,774,710)</b>	<b>(1,448,493)</b>
Loss from continuing operations and total comprehensive income/(loss) for the period are attributable to:					
Non-controlling interest		(19,871)	(73,322)	-	-
Owners of the parent		(2,739,545)	(2,439,409)	(1,774,710)	(1,448,493)
		<u>(2,759,416)</u>	<u>(2,512,731)</u>	<u>(1,774,710)</u>	<u>(1,448,493)</u>
		<b>Cents</b>	<b>Cents</b>		
Basic earnings per share	31	(1.6)	(1.7)		
Diluted earnings per share	31	(1.6)	(1.7)		

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

**STATEMENTS OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2009**

	Note	Consolidated		Parent	
		2009 \$	2008 \$	2009 \$	2008 \$
<b>Current Assets</b>					
Cash and cash equivalents	6	1,916,742	3,109,621	1,724,560	2,834,037
Receivables	7	67,153	397,150	33,230	51,578
Other current assets	8	207,524	63,930	60,208	52,417
<b>Total Current Assets</b>		<b>2,191,419</b>	<b>3,570,701</b>	<b>1,817,998</b>	<b>2,938,032</b>
<b>Non Current Assets</b>					
Receivables	9	-	403,306	16,360,045	10,696,833
Available for sale financial assets	10	162,586	162,586	162,586	162,586
Investment in subsidiaries	11	-	-	2,062,000	1,342,000
Property, plant and equipment	12	1,202,100	1,027,956	28,750	35,670
Exploration and evaluation expenditure	13	17,820,255	12,492,294	1,829,791	1,340,815
Other	14	663,741	572,829	156,049	184,229
<b>Total Non Current Assets</b>		<b>19,848,682</b>	<b>14,658,971</b>	<b>20,599,221</b>	<b>13,762,133</b>
<b>Total Assets</b>		<b>22,040,101</b>	<b>18,229,672</b>	<b>22,417,219</b>	<b>16,700,165</b>
<b>Current Liabilities</b>					
Payables	15	138,905	272,207	110,530	93,879
Provisions	16	64,140	86,893	64,410	73,410
Borrowings	17	42,083	35,644	-	-
<b>Total Current Liabilities</b>		<b>245,128</b>	<b>394,744</b>	<b>174,670</b>	<b>167,289</b>
<b>Non Current Liabilities</b>					
Provisions	18	78,758	59,645	78,758	59,645
Borrowings	19	175,157	220,079	-	-
<b>Total Non Current Liabilities</b>		<b>253,915</b>	<b>279,724</b>	<b>78,758</b>	<b>59,645</b>
<b>Total Liabilities</b>		<b>499,043</b>	<b>674,468</b>	<b>253,428</b>	<b>226,934</b>
<b>Net Assets</b>		<b>21,541,058</b>	<b>17,555,204</b>	<b>22,163,791</b>	<b>16,473,231</b>
<b>Equity</b>					
Contributed equity	20	28,724,912	21,259,642	28,724,912	21,259,642
Reserve	21	87,670	87,670	87,670	87,670
Accumulated profits/(losses)	22	(7,271,524)	(4,816,089)	(6,648,791)	(4,874,081)
Parent entity interest		21,541,058	16,531,223	22,163,791	16,473,231
Non-controlling interest		-	1,023,981	-	-
<b>Total Equity</b>		<b>21,541,058</b>	<b>17,555,204</b>	<b>22,163,791</b>	<b>16,473,231</b>

The above Statements of Financial Position should be read in conjunction with the accompanying notes.

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2009**

	Consolidated					
	Ordinary shares	Share option reserve	Accumulated losses	Total	Non- controlling interest	Total equity
	\$	\$	\$	\$	\$	\$
<b>At 1 January 2009</b>	<b>21,259,642</b>	<b>87,670</b>	<b>(4,816,089)</b>	<b>16,531,223</b>	<b>1,023,981</b>	<b>17,555,204</b>
Loss for the period	-	-	(2,739,545)	(2,739,545)	(19,871)	(2,759,416)
Total other comprehensive income	-	-	-	-	-	-
<b>Total comprehensive income/(loss) for the period</b>	-	-	(2,739,545)	(2,739,545)	(19,871)	(2,759,416)
<b>Transactions with owners in their capacity as owners:</b>						
Shares issued	6,993,500	-	-	6,993,500	-	6,993,500
Transaction costs on share issue	(248,230)	-	-	(248,230)	-	(248,230)
Acquisition of non-controlling interest	720,000	-	284,110	1,004,110	(1,004,110)	-
<b>At 31 December 2009</b>	<b>28,724,912</b>	<b>87,670</b>	<b>(7,271,524)</b>	<b>21,541,058</b>	<b>-</b>	<b>21,541,058</b>

	Consolidated					
	Ordinary shares	Share option reserve	Accumulated losses	Total	Non- controlling interest	Total equity
	\$	\$	\$	\$	\$	\$
<b>At 1 January 2008</b>	<b>21,004,200</b>	<b>87,670</b>	<b>(2,376,680)</b>	<b>18,715,190</b>	<b>1,097,303</b>	<b>19,812,493</b>
Loss for the period	-	-	(2,439,409)	(2,439,409)	(73,322)	(2,512,731)
Total other comprehensive income	-	-	-	-	-	-
<b>Total comprehensive income/(loss) for the period</b>	-	-	(2,439,409)	(2,439,409)	(73,322)	(2,512,731)
<b>Transactions with owners in their capacity as owners:</b>						
Shares issued	300,000	-	-	300,000	-	300,000
Exercise of options	1,755	-	-	1,755	-	1,755
Transaction costs on share issue	(46,313)	-	-	(46,313)	-	(46,313)
<b>At 31 December 2008</b>	<b>21,259,642</b>	<b>87,670</b>	<b>(4,816,089)</b>	<b>16,531,223</b>	<b>1,023,981</b>	<b>17,555,204</b>

The above Statements of Changes in Equity should be read in conjunction with the accompanying notes.

**STATEMENTS OF CHANGES IN EQUITY (continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

	Parent			Total equity \$
	Ordinary shares \$	Share option reserve \$	Accumulated losses \$	
<b>At 1 January 2009</b>	<b>21,259,642</b>	<b>87,670</b>	<b>(4,874,081)</b>	<b>16,473,231</b>
Loss for the period	-	-	(1,774,710)	(1,774,710)
Total other comprehensive income	-	-	-	-
<b>Total comprehensive income/(loss) for the period</b>	<b>-</b>	<b>-</b>	<b>(1,774,710)</b>	<b>(1,774,710)</b>
<b>Transactions with owners in their capacity as owners:</b>				
Shares issued	6,993,500	-	-	6,993,500
Transaction costs on share issue	(248,230)	-	-	(248,230)
Acquisition of non-controlling interest	720,000	-	-	720,000
<b>At 31 December 2009</b>	<b>28,724,912</b>	<b>87,670</b>	<b>(6,648,791)</b>	<b>22,163,791</b>

	Parent			Total equity \$
	Ordinary shares \$	Share option reserve \$	Accumulated losses \$	
<b>At 1 January 2008</b>	<b>21,004,200</b>	<b>87,670</b>	<b>(3,425,588)</b>	<b>17,666,282</b>
Loss for the period	-	-	(1,448,493)	(1,448,493)
Total other comprehensive income	-	-	-	-
<b>Total comprehensive income/(loss) for the period</b>	<b>-</b>	<b>-</b>	<b>(1,448,493)</b>	<b>(1,448,493)</b>
<b>Transactions with owners in their capacity as owners:</b>				
Shares issued	300,000	-	-	300,000
Exercise of options	1,755	-	-	1,755
Transaction costs on share issue	(46,313)	-	-	(46,313)
<b>At 31 December 2008</b>	<b>21,259,642</b>	<b>87,709</b>	<b>(4,874,081)</b>	<b>16,473,231</b>

The above Statements of Changes in Equity should be read in conjunction with the accompanying notes.

**STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2009**

	Note	Consolidated		Parent	
		2009 \$	2008 \$	2009 \$	2008 \$
<b>Cash flows from operating activities</b>					
Sundry receipts (GST inclusive)		96,223	565,436	96,942	307,272
Payments to suppliers/employees (GST inclusive)		(2,368,507)	(2,478,835)	(1,656,682)	(1,882,199)
Payments for exploration expenditure		(5,192,617)	(4,128,342)	(426,573)	(620,805)
Interest received		100,130	459,064	97,326	453,501
Finance costs		(21,548)	(18,324)	-	-
<b>Net cash (outflow) from operating activities</b>	30	<b>(7,386,319)</b>	<b>(5,601,001)</b>	<b>(1,888,987)</b>	<b>(1,742,231)</b>
<b>Cash flows from investing activities</b>					
Payments for property, plant and equipment		(554,435)	(669,006)	(7,424)	(15,829)
Proceeds from sale of property, plant and equipment		132,000	1,141	-	1,141
Payments for security deposits		(119,092)	(189,880)	-	(45,380)
Refund of security deposits		28,180	10,000	28,180	-
<b>Net cash inflow/(outflow) from investing activities</b>		<b>(513,347)</b>	<b>(847,745)</b>	<b>20,756</b>	<b>(60,068)</b>
<b>Cash flows from financing activities</b>					
Proceeds from issue of shares		6,993,500	1,755	6,993,500	1,755
Transaction costs on issue of shares		(248,230)	(46,313)	(248,230)	(46,313)
Repayment of borrowings		(38,483)	(32,419)	-	-
Loan to related entity		-	(253,746)	(5,986,516)	(4,906,847)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>6,706,787</b>	<b>(330,723)</b>	<b>758,754</b>	<b>(4,951,405)</b>
Net (decrease) in cash held		(1,192,879)	(6,779,469)	(1,109,477)	(6,753,704)
Cash at beginning of the period		3,109,621	9,889,090	2,834,037	9,587,741
<b>Cash at the end of the period</b>	6	<b>1,916,742</b>	<b>3,109,621</b>	<b>1,724,560</b>	<b>2,834,037</b>

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 2009**

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statement are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statement includes separate financial statements for Diatreme Resources Limited (“the Company”) as an individual entity and the consolidated entity consisting of the Company and its subsidiaries. The Company and its subsidiaries together are referred to in this financial statement as the Group or the consolidated entity.

Diatreme Resources Limited is a public company listed on the Australian Securities Exchange (trading under the code DRX) incorporated and domiciled in Australia.

#### a) Basis of preparation

This general purpose financial statement has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

##### *Compliance with IFRS*

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of Diatreme Resources Limited comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Disclosure and Presentation*.

##### *Historical Cost Convention*

These financial statements have been prepared on an accrual basis and under the historical cost convention, as modified by the revaluation of certain classes of property, plant and equipment.

##### *Critical Accounting Estimates*

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity’s accounting policies. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

#### b) Adoption of new and revised accounting standards that are relevant to the Group

The Group applied revised AASB 101 Presentation of financial statements (2007), which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

AASB 8 Operating Segments introduces the “management approach” to segment reporting. AASB 8 requires the disclosure of segment information based on the internal reports regularly reviewed by the Group’s Chief Operating Decision Maker in order to assess each segment’s performance and to allocate resources to them. The management approach has not had an impact on the consolidated financial statements.

##### *Early adoption of standards*

The group has elected an early adoption of the amendments to AASB 127, which become mandatory for the 31 December 2010 financial statements. The amended AASB 127 Consolidated and Separate Financial Statements (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

#### c) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Diatreme Resources Limited (“Company” or “Parent entity”) as at 31 December 2009 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2009**

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to Note 1(h)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the results and equity of subsidiaries are shown separately in the statement of comprehensive income and statement of financial position respectively.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Diatreme Resources Limited.

**d) Going concern**

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and liabilities in the normal course of business.

As disclosed in the financial statements, the Group recorded an operating loss of \$2,739,545 and had net cash outflows from operating activities of \$7,386,319 for the year ended 31 December 2009.

The Directors acknowledge that, as in prior accounting periods, to continue the exploration and development of the Company and consolidated entity's mineral exploration projects, the budgeted cash outflows from operating and investing activities for the 31 December 2010 financial year, will necessitate further capital raisings. In the event that the Company and consolidated entity are unable to continue as going concerns (due to an inability to raise future funding requirements), they may be required to realise their assets at amounts different to those currently recognised, settle liabilities other than in the ordinary course of business and make provisions for other costs which may arise as a result of cessation or curtailment of normal business operations.

The Directors believe after consideration of the following matters, there are reasonable grounds to believe that the Company and consolidated entity will be able to pay their debts as and when they become due and payable and are going concerns because of the following factors:

(i) The Company and consolidated entity expect to be successful in raising capital subsequent to year end. The Company and consolidated entity are expected to have the ability to continue to raise additional funds on a timely basis, pursuant to the Corporations Act 2001;

(ii) The ability of the Company and consolidated entity to further scale back certain parts of their activities that are non essential so as to conserve cash; and

(iii) The Company and consolidated entity retain the ability, if required, to wholly or in part dispose of interests in mineral exploration and development assets.

Accordingly, the Directors believe that the Company and consolidated entity will obtain sufficient funding to enable them to continue as going concerns and that it is appropriate to adopt that basis of accounting in the preparation of the financial report.

**e) Segment reporting**

The Group has adopted AASB 8 "Operating Segments" which requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor standard (AASB 114 "Segment Reporting") required an entity to identify two sets of segments (business and geographical) using a risks and rewards approach, with the Group's 'system of internal financial reporting to key management personnel' serving as the only starting point for the identification of such segments.

The Group is engaged in the business of exploration for heavy mineral sands, and gold, copper and base metals, which is characterised as two operating segments.

**f) Revenue**

Revenue is measured at the fair value of the consideration received or receivable, and recognised when the service is provided, or ownership of the product has passed to the customer.

Interest revenue is recognised on a time proportion basis using the effective interest method.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2009**

**g) Income Tax**

The income tax expense or revenue for the year is the tax payable on the Company's taxable income based upon the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

**h) Acquisitions of assets**

The purchase method of accounting is used for all acquisitions of assets. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.

**i) Recoverable amount of non-current assets**

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal.

Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. The decrement in the carrying amount is recognised as an expense in the net profit or loss in the reporting period in which the recoverable amount write-down occurs.

**j) Available for sale financial assets**

Available for sale financial assets comprises investments in securities recorded at cost less a provision for diminution in value. They are included as non-current assets when it is expected that these assets will not be realised within 12 months of the reporting date.

**k) 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	37.5%	Diminishing value
Field vehicles	20%	Diminishing value
Plant and equipment	40%	Diminishing value

**l) Exploration and Evaluation**

Exploration and evaluation expenditure is accumulated separately for each area of interest until such time as the area is abandoned or sold. Such expenditure comprises direct costs and an appropriate portion of related overhead expenditure.

Exploration and evaluation expenditure is carried forward when incurred in areas where potentially economic mineralisation is indicated, but activities have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves, and active and significant operations in relation to the area are continuing or planned.

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. Each such area is regularly reviewed. If an area of interest is abandoned or is considered to be of no further commercial interest, or it is unlikely that a project will proceed to development, the accumulated exploration and evaluation expenditure relating to that area of interest are written off against income in the year of abandonment. Exploration and evaluation 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.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2009**

**l) Trade and Other Creditors**

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

**m) Employee Entitlements**

Liabilities for wages and salaries, including non-monetary benefits, annual leave are recognised in other payables in respect of employee's services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

**n) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held at call, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statements of financial position.

**o) Contributed equity**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**p) Borrowing costs**

Borrowing costs are expensed in the statement of comprehensive income when incurred.

**q) Earnings per share**

*(i) Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

*(ii) Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**r) Goods and services tax (GST)**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

**2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

*Recoverability of non-current assets*

The Company and consolidated entity have capitalised exploration and evaluation expenditure of \$1,829,791 (2008: \$1,340,815) and \$17,820,255 (2008: \$12,492,294) respectively (Note 13) in accordance with the accounting policy set out in Note 1(i). Given that exploration activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of recoverable resources and the difficulty in forecasting cash flows to assess the fair value of exploration and evaluation expenditure there is uncertainty as to the carrying value of exploration and evaluation expenditure. Changes to management's judgement as to the prospective nature, assessment of the existence or otherwise of economically recoverable reserves, technical feasibility and / or commercial viability of the relevant tenements and the Company's and consolidated entity's intentions with respect to the relevant tenements, could affect the assessment of the assets recoverable amount. The ultimate recovery of the carrying value of exploration and evaluation expenditure is

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2009**

dependent upon the successful development and commercial exploitation or, alternatively, sale of the interest in the tenements. The Directors are of the opinion that the exploration and evaluation expenditure is recoverable for the amount stated in the financial report.

**3. SEGMENT INFORMATION**

The consolidated entity has two reportable segments, refer Note 1(e). These include the following:

**Mineral sands**

This segment incorporates exploration for heavy mineral sands throughout Australia.

**Metalliferous**

This segment incorporates exploration for copper, gold, and base metals throughout Australia.

**Unallocated items**

This incorporates revenue, assets and liabilities for the corporate and administration function which earns revenue that are only incidental to the activities of the Group and would not be operating segments.

**Segment assets**

Segment assets were allocated based on the operations of the segment.

**Segment liabilities**

The two reportable segments do not have liabilities allocated to them.

	<b>Consolidated</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
<b>Segment revenue</b>		
Mineral sands	6,858	7,925
Metalliferous	7	-
Unallocated income	244,276	593,313
Consolidated revenue	251,141	601,238
 <b>Reportable segment loss</b>		
Mineral sands	(543,365)	(782,560)
Metalliferous	(39,316)	(111,411)
Total reportable segment loss before income tax	(582,681)	(893,971)
 <b>Reconciliation of reportable segment loss</b>		
Total reportable segment loss before income tax	(582,681)	(893,971)
Unallocated general and administration expenses	(2,421,012)	(2,212,073)
Unallocated interest income	88,657	398,909
Unallocated other income	155,620	194,404
Consolidated loss from continuing operations before income tax	(2,759,416)	(2,512,731)
 <b>Reportable segment assets</b>		
Minerals sands	10,213,252	7,698,782
Metalliferous	9,632,786	6,803,340
Total reportable segment assets	19,846,038	14,502,122
 <b>Reconciliation of reportable segment assets</b>		
Total reportable segment assets	19,846,038	14,502,122
Other assets	2,194,063	3,727,550
Consolidated total assets	22,040,101	18,229,672

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2009**

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>4. REVENUE AND EXPENSES FROM CONTINUING OPERATIONS</b>				
<b>a) Revenue</b>				
Interest	91,449	404,401	88,078	398,838
Management fees	70,393	102,029	71,263	163,887
Other	89,299	94,808	85,226	92,315
	<u>251,141</u>	<u>601,238</u>	<u>244,567</u>	<u>655,040</u>
<b>b) Expenses</b>				
Profit / (loss) before income tax includes the following specific expenses:				
Exploration expenditure written off	279,586	645,404	299,073	203,631
Depreciation	247,570	158,677	14,344	18,894
Property expense	272,317	231,571	241,936	211,055
Finance costs - interest	21,548	18,324	-	-
Forgiveness of loans	15,022	-	15,022	-
Loss on disposal of non-current assets	5,824	-	-	-
<b>5. INCOME TAX EXPENSE</b>				
<b>(a) The prima facie tax on profit / (loss) differs from the income tax provided in the financial statements as follows:</b>				
Profit / (loss) before income tax expense	(2,759,416)	(2,512,731)	(1,774,710)	(1,448,493)
Prima facie income tax expense / (benefit) calculated at 30%	(827,825)	(753,819)	(532,413)	(434,548)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
- Effect of transactions eliminated on consolidation that are not exempt from taxation	130,953	135,449	-	-
- Other	4,507	-	4,507	-
	<u>(692,365)</u>	<u>(618,370)</u>	<u>(527,906)</u>	<u>(434,548)</u>
Net adjustment to deferred tax assets and liabilities for tax losses and temporary differences not recognised	692,365	618,370	527,906	434,548
<b>Income tax expense</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>(b) Unrecognised net deferred tax assets</b>				
Unused tax losses for which no deferred tax asset has been recognised	34,031,390	25,607,627	34,031,390	20,094,822
Temporary differences for which no deferred tax asset / (liability) has been recognised:				
- Property, plant and equipment	36,326	10,585	42,431	8,731
- Accruals	39,692	35,572	12,095	30,572
- Employee entitlements	142,898	146,543	142,898	133,055
- Capital raising costs	532,148	586,102	532,148	586,102
- Exploration expenditure	(16,751,035)	(10,477,404)	(1,829,791)	(1,340,815)
- Interest receivable	-	(9,249)	-	(9,249)
- Prepayments	(18,919)	-	(18,919)	-
- Other	1,589	-	1,589	-
	<u>18,014,089</u>	<u>15,899,776</u>	<u>32,913,841</u>	<u>19,503,218</u>
Potential tax effect at 30%	<u>5,404,227</u>	<u>4,769,933</u>	<u>9,874,152</u>	<u>5,850,965</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2009**

The net deferred tax liability in relation to temporary differences has not been recognised as there are sufficient tax losses for which no deferred tax asset has been recognised to offset the potential deferred tax liability.

Unused losses which have not been recognised as an asset, and will only be obtained if:

- i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the losses to be realised;
- ii) the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and
- iii) no changes in tax legislation adversely affect the consolidated entity in realising the losses.

**(c) Tax consolidation legislation**

The Company and its wholly-owned Australian subsidiaries have implemented the tax consolidation legislation as of 1 January 2004. During the year ended 31 December 2009, Lost Sands Pty Ltd joined the Diatreme Resources Ltd tax consolidated group, as it became a wholly-owned subsidiary of Diatreme Resources Ltd.

Where applicable, each entity in the Group recognises its own current and deferred tax assets and liabilities, except for any amounts resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity. The current tax liability of each Group entity is then subsequently assumed by the parent entity. The wholly-owned entities have fully compensated the Company for deferred tax liabilities assumed by the Company that have been recognised in the accounts and have been fully compensated for any deferred tax assets transferred to the Company that have been brought to account.

The entities have also entered into a tax sharing and funding arrangement. Under the terms of this agreement, the wholly-owned entities reimburse the Company for any current income tax payable by the Company arising in respect of their activities. The reimbursements are payable at the same time as the associated income tax liability falls due. As there are significant income tax losses carried forward by the consolidated entity, no tax related receivable/payable amounts have been recognised by the Company.

In the opinion of the Directors, the tax sharing agreement is also a valid agreement under the tax consolidation legislation and limits the joint and several liability of the wholly-owned entities in the case of a default by the Company.

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	\$	\$	\$	\$
<b>6. CURRENT ASSETS – CASH AND CASH EQUIVALENTS</b>				
Cash at bank and on hand	1,916,742	3,109,621	1,724,560	2,834,037
<b>7. CURRENT ASSETS - RECEIVABLES</b>				
Trade debtors	19,285	262,398	19,285	14,312
Other debtors	47,868	134,752	13,945	37,266
	<u>67,153</u>	<u>397,150</u>	<u>33,230</u>	<u>51,578</u>
<b>8. CURRENT ASSETS - OTHER</b>				
Prepayments	207,524	63,930	60,208	52,417
<b>9. NON CURRENT ASSETS - RECEIVABLE</b>				
Loans to controlled entities	-	-	17,123,287	11,056,769
Provision for impairment of loans	-	-	(763,242)	(763,242)
Loan to a director related entity	-	403,306	-	403,306
	<u>-</u>	<u>403,306</u>	<u>16,360,045</u>	<u>10,696,833</u>

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

The ultimate recovery of the carrying value of the loans to controlled entities is depended upon the recovery of the carrying value of exploration and evaluation expenditure relating to the tenements held by the controlled entities. The ultimate recovery of the carrying value of exploration and evaluation expenditure, and future exploration expenditure, is dependent upon the successful development and commercial exploitation or, alternatively, sale of the interests in the tenements.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2009**

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>10. NON CURRENT ASSETS – AVAILABLE FOR SALE FINANCIAL ASSETS</b>				
Investment in unquoted entities	162,586	162,586	162,586	162,586

**11. NON CURRENT ASSETS – INVESTMENT IN SUBSIDIARIES**

Investment in controlled entities (Note 29)	-	-	4,340,000	3,620,000
Provision for diminution in value	-	-	(2,278,000)	(2,278,000)
	-	-	2,062,000	1,342,000

**12. NON CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT**

Consolidated	Furniture and fittings \$	Motor vehicles \$	Plant and Equipment \$	Total \$
<b>At 1 January 2008</b>				
Cost or fair value	59,435	160,663	195,017	415,115
Accumulated depreciation	(44,862)	(23,740)	(127,873)	(196,475)
Net book amount	14,573	136,923	67,144	218,640
<b>Year ended 31 December 2008</b>				
Opening net book amount	14,573	136,923	67,144	218,640
Additions	55,517	280,398	633,095	969,010
Disposals	-	-	(1,017)	(1,017)
Depreciation charge	(6,167)	(59,349)	(93,161)	(158,677)
Closing net book amount	63,923	357,972	606,061	1,027,956
<b>At 31 December 2008</b>				
Cost or fair value	114,952	441,061	826,653	1,382,666
Accumulated depreciation	(51,029)	(83,089)	(220,592)	(354,710)
Net book amount	63,923	357,972	606,061	1,027,956
<b>Year ended 31 December 2009</b>				
Opening net book amount	63,923	357,972	606,061	1,027,956
Additions	20,245	91,142	448,152	559,539
Disposals	-	-	(137,825)	(137,825)
Depreciation charge	(26,684)	(80,163)	(140,723)	(247,570)
Closing net book amount	57,484	368,951	775,665	1,202,100
<b>At 31 December 2009</b>				
Cost or fair value	135,198	532,203	1,088,279	1,755,680
Accumulated depreciation	(77,714)	(163,252)	(312,614)	(553,580)
Net book amount	57,484	368,951	775,665	1,202,100

Net carrying value of motor vehicles subject to finance lease arrangement totals \$206,644 (2008: \$242,824).

**NOTES TO THE FINANCIAL STATEMENTS  
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**12. NONCURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT (continued)**

Parent entity	Furniture and fittings \$	Motor vehicles \$	Plant and Equipment \$	Total \$
<b>At 1 January 2008</b>				
Cost or fair value	54,243	22,647	123,703	200,593
Accumulated depreciation	(39,670)	(22,647)	(98,524)	(160,841)
Net book amount	<u>14,573</u>	<u>-</u>	<u>25,179</u>	<u>39,752</u>
<b>Year ended 31 December 2008</b>				
Opening net book amount	14,573	-	25,179	39,752
Additions	-	-	15,829	15,829
Disposals	-	-	(1,017)	(1,017)
Depreciation charge	(2,915)	-	(15,979)	(18,894)
Closing net book amount	<u>11,658</u>	<u>-</u>	<u>24,012</u>	<u>35,670</u>
<b>At 31 December 2008</b>				
Cost or fair value	54,243	22,647	138,074	214,964
Accumulated depreciation	(42,585)	(22,647)	(114,062)	(179,294)
Net book amount	<u>11,658</u>	<u>-</u>	<u>24,012</u>	<u>35,670</u>
<b>Year ended 31 December 2009</b>				
Opening net book amount	11,658	-	24,012	35,670
Additions	-	-	7,424	7,424
Disposals	-	-	-	-
Depreciation charge	(2,332)	-	(12,012)	(14,344)
Closing net book amount	<u>9,326</u>	<u>-</u>	<u>19,424</u>	<u>28,750</u>
<b>At 31 December 2009</b>				
Cost or fair value	54,244	22,647	145,498	222,389
Accumulated depreciation	(44,918)	(22,647)	(126,074)	(193,639)
Net book amount	<u>9,326</u>	<u>-</u>	<u>19,424</u>	<u>28,750</u>

Net carrying value of motor vehicles subject to finance lease arrangement totals \$nil (2008: nil).

	Consolidated		Parent	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>13. NON CURRENT ASSETS – EXPLORATION AND EVALUATION EXPENDITURE</b>				
Geological, geophysical, drilling and other expenditure at cost	17,820,255	12,492,294	1,829,791	1,340,815
The capitalised tenement acquisition, exploration and evaluation costs carried forward above have been determined as follows:				
Opening balance	12,492,294	8,897,336	1,340,815	673,995
Costs incurred during the year	5,607,547	4,240,362	868,049	870,451
Costs written off during the year	(279,586)	(645,404)	(299,073)	(203,631)
Transfer to subsidiary	-	-	(80,000)	-
	<u>17,820,255</u>	<u>12,492,294</u>	<u>1,829,791</u>	<u>1,340,815</u>

**NOTES TO THE FINANCIAL STATEMENTS  
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	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>14. NON CURRENT ASSETS – OTHER</b>				
Rent guarantee deposit	105,669	105,669	105,669	105,669
Security deposits	558,072	467,160	50,380	78,560
	663,741	572,829	156,049	184,229

**15. CURRENT LIABILITIES – PAYABLES**

Trade payables	138,905	272,207	110,530	93,879
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**16. CURRENT LIABILITIES – PROVISIONS**

Employee entitlements	64,140	86,893	64,140	73,410
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	2009 Number	2008 Number	2009 Number	2008 Number
Number of employees at year end	5	14	5	9

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$

**17. CURRENT LIABILITIES – BORROWINGS**

**Secured**

Lease liabilities	42,083	35,644	-	-
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**a) Security and fair value disclosures**

Information about the security relating to each of the secured liabilities and the fair value of each of the borrowings is provided in Note 19.

**b) Risk exposures**

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in Note 23.

**18. NON CURRENT LIABILITIES – PROVISIONS**

Employee entitlements	78,758	59,645	78,758	59,645
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**19. NON CURRENT LIABILITIES – BORROWINGS**

**Secured**

Lease liabilities	175,157	220,079	-	-
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Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2009**

**20. CONTRIBUTED EQUITY**

	Consolidated and Parent entity		Consolidated and Parent entity	
	2009 Shares	2008 Shares	2009 \$	2008 \$
<b>a) Share capital</b>				
Fully paid ordinary shares	202,191,209	144,999,921	28,724,912	21,259,642

**b) Movements in ordinary share capital**

<i>Date</i>	<i>Details</i>	<i>Number of shares</i>	<i>\$</i>
1 January 2008	Opening balance	143,722,234	21,004,200
June	Placement	1,271,187	300,000
October	Exercise of options	6,500	1,755
	Capital raising costs	-	(46,313)
31 December 2008	Balance	144,999,921	21,259,642
April	Placement	14,333,333	2,040,000
May	Placement	11,000,000	1,540,000
June	Placement	2,259,996	339,000
August	Placement	4,500,000	720,000
October	Placement	17,900,000	2,192,750
November	Placement	3,300,000	404,250
December	Placement	3,897,959	477,500
	Capital raising costs	-	(248,230)
31 December 2009	Balance	202,191,209	28,724,912

**c) Options**

As at 31 December 2009 the number of options to purchase ordinary shares in the Company was as follows:

No. of Options	Exercise Price	Expiry Date
17,550,000	\$0.47	30 June 2011
3,000,000	\$0.47	31 July 2011

All options are exercisable for cash.

Subsequent to year end 750,000 options with an expiry date of 30 June 2011 have been cancelled in accordance with the provisions of the employee and officers option plan 2006.

**d) Ordinary shares**

Ordinary shares entitle the holder to participate in dividends and in proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. Ordinary shares have no par value.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll, each share is entitled to one vote.

**e) Capital risk management**

The Company's and Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Company and Group includes cash and cash equivalents, equity attributable to equity holders, comprising of contributed equity, reserves and accumulated losses. In order to maintain or adjust the capital structure, the Company and Group may issue new shares, sell assets to reduce debt or adjust the level of activities undertaken by the Company and Group.

**NOTES TO THE FINANCIAL STATEMENTS  
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The Company and Group monitor capital on the basis of cash flow requirements for operational, and exploration and evaluation expenditure. The Group's exposure to borrowings as at 31 December 2009 totals \$217,240 (2008: \$255,723). The Company and Group will continue to use capital market issues and joint venture participant funding contributions to satisfy anticipated funding requirements.

The Company's and Group's strategy to capital risk management is unchanged from prior years.

**21. RESERVES**

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$
Share based payment - option reserve	87,670	87,670	87,670	87,670

**Nature and purpose of share-based payment – option reserve**

The share-based payment – option reserve is used to recognise the fair value of options issued under the Company's employee share option plan.

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$
Accumulated losses at the beginning of the year	(4,816,089)	(2,376,680)	(4,874,081)	(3,425,588)
Loss attributable to owners of the parent	(2,739,545)	(2,439,409)	(1,774,710)	(1,448,493)
Accumulated profit transferred on acquisition of non-controlling interest during the year	284,110	-	-	-
Accumulated losses at the end of the year	<u>(7,271,524)</u>	<u>(4,816,089)</u>	<u>(6,648,791)</u>	<u>(4,874,081)</u>

**22. ACCUMULATED PROFITS/(LOSSES)**

**23. FINANCIAL INSTRUMENTS**

The Group's principal financial instruments comprise cash, and investment in an Australian unlisted company. The Group also has other financial instruments, namely debtors, creditors and borrowings which arise directly from its operations. For the period under review, it has been the Group's policy not to trade in financial instruments.

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

**a) Market risk**

*i) Cash flow and fair value interest rate risk*

The Group's main interest rate risk arises from cash equivalents with variable interest rates. At 31 December 2009, if interest rates had changed by +/- 80 basis points from the year end rates with all other variables held constant, post-tax comprehensive loss would have been \$15,000 higher/lower (2008 – change of 80 bps: \$143,000 higher/lower).

*ii) Price risk*

The Group and the parent entity are exposed to equity securities price risk. This arises from an investment held by the Group and classified on the statements of financial position as an available-for-sale financial asset.

Neither the Group nor the Company are exposed to commodity price risk.

The price risk for unlisted securities is immaterial in terms of the possible impact on profit or loss or total equity. A sensitivity analysis has therefore not been performed.

**b) Credit risk**

Credit risk is the risk that a contracting entity will not complete its obligation under a financial instrument that will result in a financial loss to the Group. The carrying amount of financial assets represents the maximum credit exposure.

The Group has a limited number of customers. The Group manages any credit risk associated with its funds on deposit by ensuring that it only invests its funds with reputable financial institutions.

**NOTES TO THE FINANCIAL STATEMENTS  
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The Group's maximum exposure to credit risk at the reporting date was as follows:

	2009 \$	2008 \$
Cash and cash equivalents	1,916,742	3,109,621
Trade and other receivables	67,153	397,150

At 31 December 2009, trade and other receivables are mostly receivable within 30 days.

**c) Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group maintains controls which provides for continual monitoring of future cash flow requirements, allowing it to put in place appropriate facilities to ensure that sufficient funds are available to fund the Group's activities in the short and medium term. The Group has access to \$1,916,742 (2008 - \$3,109,621) in cash and deposits at the end of the year.

**d) Fair values**

The carrying amount of financial assets and financial liabilities recorded in the financial statements represent their respective net fair values.

**24. KEY MANAGEMENT PERSONNEL DISCLOSURES**

**a) Key management personnel compensation**

	Consolidated		Parent	
	2009 \$	2008 \$	2009 \$	2008 \$
Short-term employee benefits	714,788	720,169	574,567	596,349
Post-employment benefits	56,271	97,530	56,271	97,530
Share-based payments	-	-	-	-
	<u>771,059</u>	<u>817,699</u>	<u>630,838</u>	<u>693,879</u>

Detailed remuneration disclosures are provided in sections A and B of the remuneration report in the Directors' Report.

**b) Equity instrument disclosures relating to key management personnel**

*i) Option holdings*

The numbers of options over ordinary shares in the Company held during the financial year by each Director of Diatreme Resources Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2009 Name	Balance at the start of the year	Granted as compensation	Exercised	Other Changes	Balance at the end of the year	Vested and exercisable
A J Fawdon	5,000,000	-	-	-	5,000,000	5,000,000
D H Hall	4,100,000	-	-	-	4,100,000	4,100,000
L J Litzow	2,500,000	-	-	-	2,500,000	2,500,000
G H White	2,500,000	-	-	-	2,500,000	2,500,000
D A Jelley	1,500,000	-	-	-	1,500,000	1,500,000
Total	15,600,000	-	-	-	15,600,000	15,600,000

**NOTES TO THE FINANCIAL STATEMENTS  
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*i) Option holdings (continued)*

2008 Name	Balance at the start of the year	Granted as compensation	Exercised	Other Changes	Balance at the end of the year	Vested and exercisable
A J Fawdon	3,700,000	1,300,000	-	-	5,000,000	5,000,000
D H Hall	3,132,488	1,000,000	-	(32,488)	4,100,000	4,100,000
L J Litzow	2,165,483	500,000	-	(165,483)	2,500,000	2,500,000
G H White	2,000,000	500,000	-	-	2,500,000	2,500,000
D A Jelley	-	1,500,000	-	-	1,500,000	1,500,000
<b>Total</b>	<b>10,997,971</b>	<b>4,800,000</b>	<b>-</b>	<b>(197,971)</b>	<b>15,600,000</b>	<b>15,600,000</b>

*ii) Share holdings*

The numbers of shares in the Company held during the financial year by each Director of Diatreme Resources Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2009 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	3,231,398	-	-	-	3,231,398
D H Hall	2,492,000	-	21,667	-	2,513,667
L J Litzow	4,461,785	-	-	-	4,461,785
G H White	-	-	-	-	-
D A Jelley	-	-	-	-	-
A Tsang <sup>(1)</sup>	17,599,700	-	4,604,769	12,597,959	34,802,428
<b>Total</b>	<b>27,784,883</b>	<b>-</b>	<b>4,626,436</b>	<b>12,597,959</b>	<b>45,009,278</b>

(1) Appointed to Board 23 January 2009

2008 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	2,963,198	-	268,200	-	3,231,398
D H Hall	2,482,000	-	10,000	-	2,492,000
L J Litzow	4,461,785	-	-	-	4,461,785
G H White	-	-	-	-	-
D A Jelley	-	-	-	-	-
<b>Total</b>	<b>9,906,983</b>	<b>-</b>	<b>278,200</b>	<b>-</b>	<b>10,185,183</b>

	Consolidated		Parent	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>25. REMUNERATION OF AUDITORS</b>				
Amounts received, or due and receivable by the Company's former auditor – Pitcher Partners:				
- Audit / review of the financial reports	-	15,560	-	12,060
- Taxation compliance services	-	14,522	-	14,522
	-	30,082	-	26,582
Amounts received, or due and receivable by the Company's current auditor – Hacketts DFK:				
- Audit / review of the financial reports	25,105	22,000	23,805	17,000
- Taxation compliance services	-	-	-	-
	25,105	22,000	23,805	17,000
	25,105	52,082	23,805	43,582

**NOTES TO THE FINANCIAL STATEMENTS  
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**26. CONTINGENCIES**

- a) The Company has possible exposure to a contingent liability totalling \$54,000 relating to an unresolved stamp duty matter in Western Australia.
- b) On transfer of the Tick Hill mining tenements to the Company there will be a requirement to pay \$100,000 option exercise fee.

**27. COMMITMENTS**

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 2009 are as follows:

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$
<i>Tenement expenditure:</i>				
Payable within 1 year	1,544,999	2,743,131	113,864	841,151
Payable between one and five years	6,302,736	4,123,738	-	283,515
	7,847,735	6,866,869	113,864	1,124,666

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 \$558,072 (2008: \$467,160) are currently held by the relevant governing authorities to ensure compliance with granted tenement conditions.

Operating lease commitments are as follows:

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$
Payable within 1 year	236,421	227,015	236,421	227,015
Payable between one and five years	132,496	354,536	132,496	354,536
	368,917	581,551	368,917	581,551

Commitments to finance leases are payable as follows:

Payable within 1 year	59,906	59,906	-	-
Payable between one and five years	192,084	255,493	-	-
Payable later than five years	-	-	-	-
Minimum lease payments	251,990	315,399	-	-
Future finance charges	(34,750)	(59,676)	-	-
Recognised as a liability	217,240	255,723	-	-
Representing lease liabilities:				
Current (Note 17)	42,083	35,644	-	-
Non-current (Note 19)	175,157	220,079	-	-
	217,240	255,723	-	-

**28. RELATED PARTY TRANSACTIONS**

**a) Parent entity**

The ultimate parent entity in the consolidated entity is Diatreme Resources Limited.

**b) Subsidiaries**

Interests in subsidiaries are set out in Note 29.

**c) Key management personnel**

Disclosures relating to key management personnel are set out in Note 24.

**NOTES TO THE FINANCIAL STATEMENTS  
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**d) Transactions with related parties**

The following transactions occurred with related parties:

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$
<i>Superannuation contributions</i>				
Contributions to superannuation funds on behalf of employees	162,845	184,624	121,618	166,757
Management fee charged to subsidiaries	-	-	870	61,858
Management fee charged to Director related entities	64,355	96,161	64,355	96,161
Reimbursement of employee benefits and on-cost from Director related entities	6,038	-	6,038	-

**e) Loans to/from related parties**

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$
<i>Loans to subsidiaries</i>				
Beginning of the year	-	-	10,293,527	5,640,426
Loans advanced	-	-	6,451,518	4,653,101
Loans forgiven	-	-	-	-
Provision for impairment of loans	-	-	-	-
Loan repayments received	-	-	(385,000)	-
End of year	-	-	16,360,045	10,293,527
<i>Loan to a director related entity</i>				
Beginning of the year	403,306	147,127	403,306	149,560
Loans advanced	-	256,179	-	253,746
Loan repayment	(400,000)	-	(400,000)	-
Loans forgiven	(3,306)	-	(3,306)	-
End of year	-	403,306	-	403,306

**29. SUBSIDIARIES**

Name of entity	Country of incorporation	Class of shares	Equity holding		Carrying value of parent entity's investment	
			2009	2008	2009	2008
			%	%	\$	\$
Regional Exploration Management Pty Ltd	Australia	Ordinary	100	100	-	-
Chalcophile Resources Pty Ltd *	Australia	Ordinary	100	100	-	-
Lost Sands Pty Ltd	Australia	Ordinary	100	75	2,062,000	1,342,000

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

**Effects of change in ownership of Lost Sands Pty Ltd**

In August 2009 Diatrema Resources Ltd issued 4,500,000 shares to Zircon Resources Limited for the sum of \$720,000 to acquire the 25% equity position in Lost Sands Pty Ltd held by Zircon Resources Limited, a subsidiary of Minerals Corporation Limited, thus returning Lost Sands Pty Ltd to the consolidated entity as a wholly owned controlled entity. The impact of the increase in interests in Lost Sands Pty Ltd has been recognised in equity (Refer Note 22).

**NOTES TO THE FINANCIAL STATEMENTS  
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	Consolidated		Parent	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>30. RECONCILIATION OF NET PROFIT/(LOSS) TO NET CASH FLOW FROM OPERATING ACTIVITIES</b>				
Net profit/(loss)	(2,739,545)	(2,439,409)	(1,774,710)	(1,448,493)
Non-controlling interest	(19,871)	(73,322)	-	-
Depreciation	247,570	158,677	14,344	18,894
Loss / (profit) on sale of fixed assets	5,824	(123)	-	(123)
Decrease / (increase) in receivables	733,304	122,633	421,654	71,626
Decrease / (increase) in other assets	(143,594)	(106,056)	(7,791)	(21,221)
Decrease / (increase) in exploration expenditure	(5,333,063)	(3,406,476)	(568,976)	(417,175)
Increase / (decrease) in payables	(133,299)	46,303	16,649	(29,028)
Increase / (decrease) in provisions	(3,645)	96,772	9,843	83,289
Net cash flows from operating activities	<u>(7,386,319)</u>	<u>(5,601,001)</u>	<u>(1,888,987)</u>	<u>(1,742,231)</u>

**Reconciliation of cash**

Cash at the end of the financial year as shown in the statements of cash flows is reconciled to the statements of financial position as follows:

Cash at bank and on hand	1,916,742	3,109,621	1,724,560	2,834,037
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**Non cash investing and financing activities**

Plant and equipment acquired during the year by means of finance leases:

Motor vehicles	-	288,142	-	-
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Investment in subsidiaries acquired during the year by means of issuing ordinary shares

Lost Sands Pty Ltd	-	-	720,000	-
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**31. EARNINGS PER SHARE**

	Consolidated	
	2009 Cents	2008 Cents
Basic earnings per share (loss)	<u>(1.6)</u>	<u>(1.7)</u>
Diluted earnings per share (loss)	<u>(1.6)</u>	<u>(1.7)</u>

**Weighted average number of shares used as the denominator**

	2009 Number	2008 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	<u>172,890,874</u>	<u>143,823,962</u>
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	<u>172,890,874</u>	<u>143,823,962</u>

**NOTES TO THE FINANCIAL STATEMENTS  
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**Information concerning earnings per share**

Earnings for the purpose of the calculation of basic earnings per share is the net loss attributable to owners of the parent.

Earnings for the purpose of the calculation of diluted earnings per share is also the net loss attributable to owners of the parent.

Options granted are usually considered to be potential ordinary shares and taken into account in the determination of diluted earnings per share and are not included in the determination of basic earnings per share. In the circumstances of the consolidated entity, the options are not dilutive and are therefore not used in the calculation of diluted earnings per share. Details of the options are set out in Note 20.

**32. SHARE-BASED PAYMENTS**

**a) Employees and Officers Option Plan**

Options have previously been granted under the Diatreme Resources Limited Employees and Officers Option Plan 2006 ("Option Plan") which was approved by shareholders at the 2006 Annual General Meeting. All employees, Directors and consultants were eligible to participate in the plan. The three year life of the plan expired in mid-2009 and no more options have since been issued.

Options previously granted under the Option Plan carry no dividend or voting rights and when exercisable, each option is convertible into one ordinary share.

Set out below are summaries of options previously granted under the Option Plan:

Grant date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
July 2006	30/06/2011	\$0.47	4,000,000	-	-	-	4,000,000	4,000,000
August 2006	30/06/2011	\$0.47	100,000	-	-	-	100,000	100,000
June 2007	30/06/2011	\$0.47	4,300,000	-	-	-	4,300,000	4,300,000
June 2008	30/06/2011	\$0.47	6,400,000	-	-	-	6,400,000	6,400,000
August 2008	30/06/2011	\$0.47	3,500,000	-	-	(3,250,000)	250,000	250,000

Subsequent to year end 750,000 options have been cancelled.

**b) Expenses arising from share-based payment transactions**

Total expense arising from share-based payment transactions recognised during the year was nil (2008: nil).

**33. EVENTS SUBSEQUENT TO REPORTING DATE**

A placement of 3,300,000 ordinary shares to an indirect interest of Mr A Tsang, a Director, at an issue price of 12.25 cents per share was approved at a general meeting of shareholders held on 19 March 2010.

No other matter or circumstance has arisen since the end of the financial year that has significantly affected, or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in financial years subsequent to 31 December 2009

**34. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS**

The following standards, amendments to standards and interpretations have been identified as those which may impact the Group in the period of initial application. They are available for early adoption at 31 December 2009, but have not been applied preparing these financial statements:

- a) AASB 2009-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16].

These are various consequential amendments to existing standards as a result of IASB's Annual Improvement's project. The amendments, which become mandatory for the Group's 31 December 2010 financial statements, are not expected to have an impact on the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2009**

- b) AASB 2009-7 Amendments to Australian Accounting Standards [AASB 5, 7, 107, 112, 136 & 139 and Interpretation 17]

These are editorial amendments that have no major impact on the requirements of the amended pronouncements. The amendments, which become mandatory for the Group's 31 December 2010 financial statements, are not expected to have an impact on the wording of the Groups' accounting policies.

- c) AASB 2009-8 Amendments to Australian Accounting Standards - Group Cash-settled Share-based Payment Transactions

The amendments clarify the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter whether the transaction is settled in shares or cash. The amendments, which become mandatory for the Group's 31 December 2010 financial statements, are not expected to have an impact on the financial statements.

- d) AASB Interpretation 18: Transfers of Assets from Customers (applicable for transfers of assets from customers received from 1 July 2009).

This guidance applies prospectively to entities that receive transfers of assets, such as plant and equipment, from their customers so that these customers can be connected to a network and provided with access to a supply of goods or services. The Interpretation outlines the appropriate accounting treatment in respect of such transfers and it is not expected to impact the Group.

## DIRECTORS' DECLARATION

The Directors declare that the financial statements and notes set out on pages 11 to 35:

- (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 2009 and of their performance, as represented by the results of their operations and their cash flows, for the 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) given reasonable assumptions in regards to the Company's ability to raise additional funds and/or scale back activities, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



D H Hall  
Director

Brisbane, 31 March 2010

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DIATREME RESOURCES LIMITED

### Report on the Financial Report

We have audited the accompanying financial report of Diatreme Resources Limited (“the company”) and its controlled entities (“the group”). The financial report comprises the statement of financial position as at 31 December 2009, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors’ declaration of the group comprising the company and the entities it controlled at the year’s end or from time to time during the financial year.

#### *Directors’ Responsibility for the Financial Report*

The Directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1, the Directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### *Auditor’s Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement in the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF DIATREME RESOURCES LIMITED  
(continued)**

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Auditor's Opinion*

In our opinion,

- (a) the financial report of Diatreme Resources Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's and group's financial positions as at 31 December 2009 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

*Inherent Uncertainty regarding Going Concern, capitalised Exploration and Evaluation Expenditure and Receivables*

Without qualification to the audit opinion expressed above, attention is drawn to the following matters:


- a) As a result of the matter described in Note 1(d) to the financial statements, there is significant uncertainty as to whether the company and group will be able to continue as going concerns and therefore whether the company and group will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.
- b) As a result of the matter described in Note 2 to the financial statements, there is significant uncertainty as to whether the company and group will be able to recover the carrying value of capitalised exploration and evaluation expenditure for the amounts recorded in the financial report, and therefore whether the company will be able to recover the carrying value of loans to controlled entities for the amounts recorded in the financial report.

**Report on the Remuneration Report**

We have audited the Remuneration Report included on pages 5 to 7 of the Directors' Report for the year ended 31 December 2009. The Directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's Opinion*

In our opinion the Remuneration Report of Diatreme Resources Limited for the year ended 31 December 2009 complies with section 300A of the *Corporations Act 2001*.

A stylized signature of the firm Hacketts.

**Hacketts DFK**

Brisbane, 31 March 2010

A handwritten signature of L J Murphy.

**L J Murphy  
Partner**