



27 May 2010

## CHAIRMAN'S ADDRESS

### Presented to Annual General Meeting of Shareholders Thursday 27 May 2010

Ladies and Gentlemen

I am pleased to report that Diatreme has made significant strides during 2009 and early 2010 to confirm the importance of the Cyclone Heavy Mineral Deposit on the world stage and also to advance the Clermont Copper Project which exhibits potential to host significant porphyry copper/gold mineralisation.

Last year, I stated that the Company aimed to commence feasibility studies on Cyclone during 2010. I can report, that following the success of an initial scoping study completed in March this year and the appointment of a project manager, the prefeasibility studies have commenced in earnest and are planned for completion in early 2011. Full feasibility studies will be commenced on the basis of positive results from the prefeasibility studies.

In September last year, Diatreme announced a revised JORC resource for Cyclone, lifting it to 98.4 million tonnes at a grade of 2.9% heavy minerals (refer table). Since then, further mineralisation, of apparent similar size and quality to the underlying mineralisation, has been identified in the overburden. This "overburden" mineralisation is now being incorporated into the current resource by independent consultants.

The Scoping Study results released earlier this year boosted our plans for a new zircon mine in the Eucla Basin. The study showed the potential for Cyclone to be made into a profitable mine producing about 280,000 tonnes of concentrate each year at a mining rate of 9 million tonnes per annum. It also forecast an average annual profit of \$50 million for 10 years with projected capital expenditure of \$311 million.

Diatreme is now in discussions with offshore groups regarding funding arrangements for Cyclone. Once definite progress has been made, the market will be informed.

I believe that all shareholders should be well encouraged by the progress being achieved at Cyclone. At the same time, the Company has been engaged in initial scout drilling over other prospective heavy mineral areas, including:

- The Arckaringa Basin, where favorable stratigraphic units for the development of heavy mineral strand lines have been identified.
- The Ooldea Range area within South Australia and approximately 150km northwest along strike from Iluka's Jacinth-Ambrosia heavy mineral mine, where thick sequences of palaeo beach sands have been intersected requiring further drilling.
- The Willeri/Jubilee areas situated about 150km west, along strike, from Cyclone, where further drilling will continue in the current year.



During the past year, Diatreme has been quietly advancing the prospectivity of its Clermont Copper Project in central Queensland. Favorably situated in respect to rail transport and a mine township, work to date has identified three main targets, the largest of these being the Rosevale Porphyry Corridor. Using diamond drilling, this target area is shaping up to host significant gold, copper and molybdenum mineralisation. The Company has been able to apply high quality geophysics and structural analyses to assist in its attempts to direct drilling toward possible deep seated porphyry bodies, with the potential to host commercial mineralisation. It is a long road to travel, but potentially one with rich rewards.

Late in 2009, the Company identified the Palm Trees prospect, located about 5 km south of Clermont, as an area with potential to host economic gold mineralisation. Ground geophysics and reconnaissance work has been completed and historical drilling results have been found which indicate high grade intercepts with numerous plus 1g/t gold intercepts at shallow depths. It is the intention of Diatreme to conduct shallow drill testing over this area during this year.

With well documented interest in Australian copper and base metal resources being exhibited by Chinese investors, it is imperative that we continue to advance the Clermont Project.

The Company also holds interests in a number of other metallic projects throughout Australia and is maintaining progressive exploration on these areas whilst it concentrates on its major plays.

As we advance through 2010, the Company is continuing discussions with international industry groups with a view to co-funding the development process for the Wanna Heavy Mineral Sands Project, which encompasses the zircon rich Cyclone Deposit. Any development in this region of Western Australia would include the Cyclone resource and satellite resources feeding into a central mining operation.

It is a primary aim of your Company to see the Cyclone Deposit develop into a profitable mining operation commencing in 2014.

As Chairman, I thank you, the shareholders, for your support over the past 12 months and I look forward to being able to continue providing positive news into the future.

**Anthony J Fawdon**  
Executive Chairman/CEO

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Table: Cyclone Deposit JORC Resource Estimate – September 2009

Resource Category	Tonnes (Mt)	%HM	%Slimes	%Oversize
Inferred	2.51	2.38	3.53	4.08
Indicated	84.36	2.82	4.40	5.91
Measured	11.52	3.44	4.51	4.72
<b>Total</b>	<b>98.40</b>	<b>2.88</b>	<b>4.39</b>	<b>5.72</b>

**Competent Person Statement**

The information in this report, insofar as it relates to Exploration Results and Mineral Resources, is based on information compiled by Mr David Jelley, of David Jelley Pty Ltd, who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Jelley has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he has undertaken to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Jelley consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.