DIATREME RESOURCES LIMITED

ABN 33 061 267 061

ANNUAL FINANCIAL REPORT

for the year ended 31 December 2012

CONTENTS

The Directors present their report on Diatreme Resources Limited ("the Company") and its subsidiaries (the "Group") for the year ended 31 December 2012.

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 unless otherwise stated:

Anthony John Fawdon FAICD, FAusIMM. (Executive *Chairman/CEO)*

Experience
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 (listed entities) - None
Former directorships in last 3 years (listed entities) **–** None
Special responsibilities – Chairman

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

Experience
Board member since 12 January 2001, Mr Hall is a geologist with over 30 years experience in the mining industry. After spending the early part of his career in both coal and mineral exploration, in 1990 he branched into developing specialist experience in tenement administration and stakeholder liaison within a private consultancy group. Between 1994 and 2000 he was the exploration administrator with Strike Mining NL. He joined Diatreme as an executive director in early 2001.

Other current directorships (listed entities) - None
Former directorships in last 3 years (listed entities) **–** None
Special responsibilities – None

George H White BSc.Hons., FAICD. (*Non-executive Director)*

Experience
Mr White was appointed Director in April 2006. He has over 30 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 (listed entities) - None
Former directorships in last 3 years (listed entities) **–** None
Special responsibilities **–** Member of remuneration committee and Chair of audit committee

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Andrew Tsang (*Non-executive Director)*

Experience
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 (listed entities) – Mindax Limited (Director since 28 March 2008)
Former directorships in last 3 years (listed entities) – None
Special responsibilities - Member of remuneration committee

Cheng (William) Wang MBA. (*Non-executive Director)*

Experience
Mr Wang was appointed Director in May 2011. For 15 years he held senior management positions in several Chinese state owned companies. Now domiciled in Australia, he has been active with Australian companies including directorships with China Century Capital Limited and Jupiter Mines Limited. He is currently Director of Investment Banking for the AIMS Financial Group and Director of Gulf Alumina Limited and Katana Group Limited.

Other current directorships (listed entities) – None
Former directorships in last 3 years (listed entities) – None
Special responsibilities – None

Neil John McIntyre MBE, MAICD. (*Non-executive Director)*

Experience
Mr McIntyre was appointed Director in July 2011. Mr McIntyre is a senior executive with broad based commercial skills in Merchant Banking, Finance, Corporate Advisory Services, Mining and Petroleum, Government relations, Agriculture and Cross Border Management. Throughout his career he has demonstrated visionary leadership, expertise and outstanding performance in business start-up and financial/operational management of commercial entities within Papua New Guinea, Australia and Indonesia.

Other current directorships (listed entities) – None
Former directorships in last 3 years (listed entities) – None
Special responsibilities – Member of remuneration committee and audit committee

Directors' Interests

As at the date of this report, the interests of the Directors in the shares and options of Diatreme Resources Limited are shown in the table below:

Directors	**Fully paid ordinary shares Number**	**Share options Number**
A J Fawdon	4,124,577	243,179
D H Hall	2,950,000	320,000
G H White	216,667	516,667
A Tsang	94,869,443	35,832,933
C Wang	2,577,822	804,903
N J McIntyre	-	-
	104,738,509	37,717,682

COMPANY SECRETARY

The Company Secretaries are:

Leni Pia Stanley CA, B.Com.
Ms Stanley is currently a partner with a Chartered Accounting firm and holds the office of Company Secretary with other companies.

Tuan Do CA, B.Com.
Mr Do was appointed in May 2011 and is also the Group Financial Controller.

PRINCIPAL ACTIVITIES

The principal activity of the Group during the course of the financial year was exploration for heavy mineral sands, copper, gold and base metals in Australia. There were no changes in the nature of the Group's principal activities during the year.

REVIEW OF OPERATIONS

Diatreme Resources Limited (Diatreme) operates as a diversified mineral explorer within Australia, targeting heavy mineral sands, copper, gold and base metals.

The Company's flagship asset, the Cyclone Zircon Project located in Western Australia, continues to be progressed, having moved into the Definitive Feasibility Study (DFS) stage during the year after successful completion of the Prefeasibility Study in March 2012. Diatreme's current timetable anticipates completion of the DFS in the second quarter of 2014, dependent upon the significant funding requirements being achieved in a timely manner.

Progress on the Cyclone Project included:

- Release of positive Pre-Feasibility Study
- Infill drilling over the deposit
- Upgraded resource estimate (Measured and Indicated)
- Maiden Ore Reserve estimate
- Commencement of mining agreement negotiations with traditional owners
- Bulk sampling and metallurgical test work
- Mine access road options and associated environmental studies

Exploration operations during the year involved:

- Further ground exploration (including drilling) over mineral sand targets in the Eucla Basin and Arckaringa project areas along with drilling in areas peripheral to the Cyclone Deposit. Cost associated with one of the Eucla Basin tenements was written off during the year due to low prospectivity.

- Project generation resulting in new heavy mineral sand exploration application areas secured – Mandora and Serpentine (WA), Elliston (SA) and Grays Hill (QLD). Grays Hill is also prospective for porphyry copper mineralisation.

- Completion of six month assessment period over the Clermont Copper Project by Antofagasta Minerals Australia Pty Ltd (Antofagasta) under the March 2012 Memorandum of Understanding, leading to Antofagasta's decision to farm-in to the project.

- Negotiations and completion of agreement to farm-out the iron ore interests in the Anabama Copper Project.

- Limited ground exploration over the Gilbert River Base Metals Project tenements in North Queensland aimed at advancing geological targets for future drilling campaigns.

OPERATING RESULTS

The net loss of the Group for the financial year ended 31 December 2012 was $4,908,468 (2011: loss of $4,377,262).

During the year the Group utilised its cash resources to undertake exploration and evaluation activities within its tenement portfolio. The Group monitors cash flow requirements for operational, exploration and evaluation expenditure and will continue to use capital market issues to satisfy anticipated funding requirements.

DIVIDENDS

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 2012.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the year the Company successfully completed a Share Purchase Plan and several share placements to sophisticated and professional investors. As a result contributed equity increased by $3,236,510 (from $39,853,242 to $43,089,752) from the issue of 118,984,999 ordinary shares.

EVENTS SUBSEQUENT TO REPORTING DATE

9 January 2013	Heads of Agreement for iron exploration signed with Braemar Iron Pty Ltd over the Anabama Copper Project in South Australia.
11 January 2013	Exploration Licence applications “Serpentine” and “Elliston” were secured in Western Australia and South Australia respectively, targeting heavy mineral sand prospects.
18 January 2013	Farm-In Agreement signed with Antofagasta Minerals Australia Pty Ltd over the Clermont Copper Project in central Queensland.
14 March 2013	The Company received signed agreements from sophisticated investors to subscribe for placements totalling 34,000,000 ordinary fully paid shares at $0.025 per share to raise $850,000.

FUTURE DEVELOPMENTS

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this annual financial report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

REMUNERATION REPORT - AUDITED

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

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

A *Principles used to determine the nature and amount of remuneration*

The board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

REMUNERATION REPORT (Continued)

(i) 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 Group. (Refer to Note B below).

(ii) 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 Remuneration Committee.

(iii) Directors' fees

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 $300,000 per annum plus statutory superannuation.

B Relationship of remuneration with Group performance

The Directors consider that, as the Group is in an exploration phase of its development, it is not appropriate that remuneration for employees and Directors be linked to the financial performance of the Group. Once the Group enters a sustained production phase, this assessment may change accordingly.

		2008	**2009**	**2010**	**2011**	**2012**
Share price at year end	$/share	0.08	0.13	0.07	0.07	0.02
Market capitalisation	$ million	12	26	19	26	11
Revenue	$'000	601	251	241	511	254
Total assets	$ million	18	22	23	25	23
Net profit/(loss) after tax	$'000	(2,513)	(2,759)	(4,000)	(4,377)	(4,908)

C Details of remuneration

The key management personnel (KMP) include the Directors as per the "Directors" section above and the following executive officers who have authority and responsibility for planning, directing and controlling the activities of the entity:

2012
D Jelley – Exploration Manager
L Stanley – Co-Company Secretary
T Do – Group Financial Controller/Co-Company Secretary

2011
D Jelley – Exploration Manager
L Stanley – Co-Company Secretary
T Do – Group Financial Controller/Co-Company Secretary

REMUNERATION REPORT (Continued)

Details of the nature and amount of remuneration of the Directors and other key management personnel of the Group are set out in the following table.

2012	Short-term employee benefits	Post-employment benefits	Long-term benefits	Share-based payments	
Name	Cash Salary, fees & leave $	Superannuation $	Long service leave $	Options $	Total $
Non-executive Directors					
G H White	45,000	4,050	-	-	49,050
A Tsang	45,000	4,050	-	-	49,050
C Wang	45,000	4,050	-	-	49,050
N J McIntyre	45,000	4,050	-	-	49,050
Executive Directors					
A J Fawdon	254,199	22,878	5,933	-	283,010
D H Hall	225,302	20,277	1,711	-	247,290
Other key management personnel					
D Jelley	195,000	17,550	-	-	212,550
L Stanley	31,375	-	-		31,375
T Do	150,000	13,500	-	-	163,500
Total	1,035,876	90,405	7,644	-	1,133,925

2011	Short-term employee benefits	Post-employment benefits	Long-term benefits	Share-based payments	
Name	Cash Salary, fees & leave $	Superannuation $	Long service leave $	Options $	Total $
Non-executive Directors					
G H White	45,000	4,050	-	-	49,050
A Tsang	45,000	4,050	-	-	49,050
C Wang (1)	26,815	2,413	-	-	29,228
N J McIntyre (2)	19,264	1,734	-	-	20,998
Executive Directors					
A J Fawdon	254,351	22,892	15,889	-	293,132
D H Hall	230,625	20,756	14,415	-	265,796
Other key management personnel					
D Jelley	188,550	13,162	-	-	201,712
L Stanley	30,000	-	-		30,000
T Do (3)	128,000	11,520	-	-	139,520
Total	967,605	80,577	30,304	-	1,078,486

(1) Appointed Non-executive Director on 27 May 2011
(2) Appointed Non-executive Director on 29 July 2011
(3) Appointed Co-Company Secretary on 27 May 2011

D Share-based compensation

There was no share-based compensation to key management personnel or executive director's in 2012.

REMUNERATION REPORT (Continued)

E Service agreements

None of the KMP received any increases to their salaries for the year ended 31 December 2012, with the exception of D Jelly and T Do who both received CPI related increases effective from 1 January 2013. T Do also received a market related increase in his salary on 1 July 2011.

A J Fawdon, Executive Chairman/CEO

- Term of agreement – no fixed term.
- Base salary, inclusive of superannuation, of $277,078.
- The agreement may be terminated by 1 month notice from either party.
- 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 $251,381.
- The agreement may be terminated by 1 month notice from either party.
- Termination benefit - six months salary plus two weeks for every year, or part thereof, for service to the Company since appointment (1 August 2000).

G H White, Non-executive Director

- Term of agreement – no fixed term.
- Base salary inclusive of superannuation, of $49,050.
- 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 $49,050.
- No termination benefit is specified in the agreement.

C Wang, Non-executive Director

- Term of agreement – no fixed term.
- Base salary, inclusive of superannuation, of $49,050.
- No termination benefit is specified in the agreement.

N J McIntyre, Non-executive Director

- Term of agreement – no fixed term.
- Base salary, inclusive of superannuation, of $49,050.
- No termination benefit is specified in the agreement.

D Jelly, Exploration Manager

- Term of agreement – no fixed term.
- Base salary, inclusive of superannuation, of $228,491.
- The agreement may be terminated by 1 month notice from either party.
- No termination benefit is specified in the agreement.

T Do, Group Financial Controller/Co-Company Secretary

- Term of agreement – no fixed term.
- Base salary, inclusive of superannuation, of $175,763.
- The agreement may be terminated by 1 month notice from either party.
- No termination benefit is specified in the agreement.

REMUNERATION REPORT (Continued)

L Stanley, Co-Company Secretary

- Term of agreement – no fixed term.
- Fixed monthly fee - $2,625.
- No termination benefit is specified in the agreement.

The salary package amounts disclosed above are the amounts as at the date of this report.

END OF AUDITED REMUNERATION REPORT

MEETINGS OF DIRECTORS

The number of meetings of the board of Directors held during the year ended 31 December 2012, and the number of meetings attended by each Director was:

Name	Board		Audit Committee		Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
A J Fawdon	6	6	-	-	-	-
D H Hall	6	6	2	2	-	-
G H White	6	6	2	2	-	-
A Tsang	6	5	-	-	-	-
C Wang	6	6	-	-	-	-
N J McIntyre	6	6	2	2	-	-

SHARES UNDER OPTION

88,650,039 listed options, each to acquire one ordinary share in Diatreme Resources Limited, were issued as the result of the Rights Issue in April 2011. At 31 December 2012, there were 88,650,035 listed options on issue after 4 options were exercised during the year. The options have an exercise price of 15 cents per share and expire on 30 September 2013. The options carry no rights to dividends and no voting rights.

The option holders have no rights under the option to participate in any share issue or interest issue of the Company or any other entity.

ENVIRONMENTAL REGULATION

The Group is subject to environmental regulation in relation to its exploration activities. There are no matters that have arisen in relation to environmental issues up to the date of this report.

INDEMNIFICATION OF OFFICERS AND AUDITORS

During the financial year, Diatreme Resources Limited paid a premium in respect of a contract insuring Directors and executive officers of the Company and its controlled entities against a liability incurred as Director or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Diatreme Group has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or any of its controlled entities against a liability incurred as such an officer or auditor.

PROCEEDINGS ON BEHALF OF THE COMPANY

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

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

Non-audit services

BDO Audit Pty Ltd, the Company's current auditor, did not perform any other services in addition to their statutory audit duties.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is set out on page 10.

This report was authorised for issue on 25 March 2013 in accordance with a resolution of the directors.

AJ Fawdon
Executive Chairman/CEO
Brisbane, 25 March 2013

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DECLARATION OF INDEPENDENCE BY C J SKELTON TO THE DIRECTORS OF DIATREME RESOURCES LIMITED

As lead auditor of Diatreme Resources Limited for the year ended 31 December 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect Diatreme Resources Limited and the entities it controlled during the year.

C J Skelton

Director

BDO Audit Pty Ltd

Brisbane: 25 March 2013

	Note	Consolidated 2012 $	2011 $
Revenue	6	223,274	510,638
Other income	6	31,208	-
Employee benefits expenses		(1,013,661)	(881,859)
Depreciation expenses	6 & 11	(161,508)	(213,628)
Exploration assets written off	12	(2,859,921)	(2,419,719)
Impairment of available-for-sale financial assets	6	(130,069)	-
Other expenses	6	(1,393,085)	(1,648,855)
Finance costs		(5,767)	(13,864)
Loss before income tax		(5,309,529)	(4,667,287)
Income tax benefit	7	401,061	290,025
Net Loss for the year		(4,908,468)	(4,377,262)
Other comprehensive income			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		(4,908,468)	(4,377,262)

		Cents	Cents
Loss per share			
Basic earnings per share	29	(1.3)	(1.4)
Diluted earnings per share	29	(1.3)	(1.4)

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

	Note	Consolidated 2012 $	Consolidated 2011 $
Current Assets			
Cash and cash equivalents	8	1,973,713	3,650,010
Trade and other receivables	9	182,830	232,024
Current tax asset	7	401,061	-
Total Current Assets		2,557,604	3,882,034
Non-current Assets			
Available-for-sale financial assets	10	32,517	162,586
Property, plant and equipment	11	521,654	734,591
Exploration and evaluation assets	12	19,251,664	19,379,377
Other assets	13	701,123	701,194
Total Non-current Assets		20,506,958	20,977,748
Total Assets		**23,064,562**	**24,859,782**
Current Liabilities			
Trade and other payables	14	289,172	313,078
Interest-bearing liabilities	15	20,359	130,050
Provisions	16	135,314	-
Total Current Liabilities		444,845	443,128
Non-current Liabilities			
Provisions	16	-	124,979
Total Non-current Liabilities		-	124,979
Total Liabilities		**444,845**	**568,107**
Net Assets		**22,619,717**	**24,291,675**
Equity			
Issued capital	17	43,089,752	39,853,242
Reserve	18	-	-
Accumulated losses	19	(20,470,035)	(15,561,567)
Total Equity		**22,619,717**	**24,291,675**

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

	Note	Issued capital	Share option reserve	Accumulated losses	Total
		$	$	$	$
Balance at 1 January 2011		**33,321,487**	**87,670**	**(11,271,975)**	**22,137,182**
Total comprehensive income:					
Loss for the year		-	-	(4,377,262)	(4,377,262)
Transactions with owners in their capacity as owners:					
Shares issued		7,092,003	-	-	7,092,003
Share issue costs		(560,248)	-	-	(560,248)
Transfer from reserve		-	(87,670)	87,670	-
Balance at 31 December 2011		**39,853,242**	**-**	**(15,561,567)**	**24,291,675**
Total comprehensive income:					
Loss for the year		-	-	(4,908,468)	(4,908,468)
Transactions with owners in their capacity as owners:					
Shares issued		3,331,382	-	-	3,331,382
Share issue costs		(94,872)	-	-	(94,872)
Balance at 31 December 2012	17 &19	**43,089,752**	**-**	**(20,470,035)**	**22,619,717**

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

	Note	Consolidated 2012 $	Consolidated 2011 $
Cash flows from operating activities			
Receipts in the course of operations		98,895	227,357
Receipts from research and development tax claims		-	605,628
Payments to suppliers and employees		(2,272,476)	(2,532,833)
Interest received		90,315	225,750
Finance costs		(5,767)	(13,864)
Net cash inflow/(outflow) from operating activities	28	(2,089,033)	(1,487,962)
Cash flows from investing activities			
Payments for property, plant and equipment		(23,182)	(9,785)
Receipt from Antofagasta Minerals S.A.	27	383,941	-
Payments for exploration and evaluation assets		(3,186,693)	(2,905,634)
Proceeds from sale of property, plant and equipment		105,819	-
Payments for security deposits		-	(15,000)
Payments for other deposits		-	(20,570)
Refund of security deposits		5,000	-
Net cash inflow/(outflow) from investing activities		(2,715,115)	(2,950,989)
Cash flows from financing activities			
Proceeds from issue of shares		3,331,382	7,092,003
Payments for share issue costs		(94,872)	(560,248)
Repayment of interest-bearing liabilities		(108,659)	(45,107)
Net cash inflow/(outflow) from financing activities		3,127,851	6,486,648
Net increase/(decrease) in cash and cash equivalents		(1,676,297)	2,047,697
Cash and cash equivalents at the beginning of the year		3,650,010	1,602,313
Cash and cash equivalents at the end of the year	8	1,973,713	3,650,010

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Contents of the notes to the consolidated financial statements

1. REPORTING ENTITY

Diatreme Resources Limited (the "Company") is a public company listed on the Australian Securities Exchange (trading under the code DRX), and is incorporated and domiciled in Australia. The address of the Company's registered office and principal place of business is 87 Wickham Terrace, Spring Hill, Queensland 4000. The Group financial statements as at and for the year ended 31 December 2012 comprise the Company and its subsidiaries (together referred to as the "Group").

Separate financial statements for Diatreme Resources Limited as an individual entity are no longer presented as the consequence of a change to the Corporations Act 2001, however, limited financial information for the Company as an individual entity is included Note 31.

The principal activity of the Group during the course of the financial year was the exploration for heavy mineral sands, copper, gold and base metals in Australia.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

The consolidated financial statements of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors on 25th March 2013.

(b) Basis of measurement

The Group financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

These Group financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the Group.

(d) Adoption of new and revised accounting standards

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2012:

- AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets
- AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets
- AASB 1054 Australian Additional Disclosures
- AASB 2011-5 Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation

The adoption of these standards did not have any material impact on the current period or any prior period and is not likely to affect future periods.

(e) Material Uncertainty Regarding Going Concern

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

The Group has incurred a net loss after tax for the year ended 31 December 2012 of $4,908,468 (2011: $4,377,262), and a net cash outflow from operations of $2,089,033 (2011: $1,487,962). At 31 December 2012, the Group had net current assets of $2,112,759 (2011: $3,438,906).

The Group's ability to continue as a going concern and pay its debts as and when they fall due, given the Group's intended operational plans, assumes the following:

- further capital raisings in the next twelve months; and
- active management of the current level of discretionary expenditure in line with the funds available to the Group.

The Directors have reviewed the business outlook and cash flow forecasts and are of the opinion that the use of the going concern basis of accounting is appropriate as they believe the Group will achieve the matters set out above. As such, the Directors believe that they will continue to be successful in securing additional capital through debt or equity issues as and when the need to raise working capital arises. During the financial year, the Group raised $2,540,000 from share placements to sophisticated and professional investors, and a further $791,382 from a Share Purchase Plan. In the event that adequate funds cannot be raised as required, there will exist a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore whether it will be able to realise its assets and extinguish its liabilities in the ordinary course of business.

The Directors believe that they will continue to be successful in securing additional funds through the issue of securities as and when required. Accordingly, the financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, nor to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of Diatreme Resources Limited and its subsidiaries at 31 December 2012. 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.

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.

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.

(b) Revenue

Revenue is recognised 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.

(c) Income tax

The income tax expense or revenue for the year is the tax payable on the 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 other comprehensive income are also recognised directly in other comprehensive income.

Tax consolidation legislation
The Company and its wholly-owned Australian subsidiaries have implemented the tax consolidation legislation as of 1 January 2004.

Where applicable, each entity in the Group recognises its own current and deferred tax assets and liabilities. Amounts resulting from unused tax losses and tax credits are then immediately assumed by the parent entity. The current tax liability of each subsidiary entity is then also assumed by the parent entity.

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.

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.

(d) Cash and cash equivalents

For the purposes of the statement of cash flows, 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 in interest-bearing liabilities in the statement of financial position.

(e) Trade and other receivables

Trade and other receivables are recognised at nominal amount less an allowance for uncollectible amounts and have repayment terms between 30 and 90 days. Collectability of receivables is assessed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance is made for doubtful debts where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. Objective evidence of impairment includes financial difficulties of the debtor, default payments or debts more than 120 days overdue. On confirmation that the receivable will not be collectible the gross carrying value of the asset is written off against the associated provision.

(f) Available-for-sale financial assets

Available-for-sale financial assets comprise investments in listed and unlisted entities and any non-derivatives that are not classified as any other category of financial asset, and are classified as non-current assets (unless management intends to dispose of the investments within 12 months of the end of the reporting period).

The available-for-sale financial assets are recorded at cost less allowance for impairment as there is no active market for the shares of the investee company.

The Group follows the guidance of AASB 139 Financial Instruments: Recognition and Measurement to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

(g) Property, plant and equipment

Property, plant and equipment is stated at historical cost, including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, less depreciation and any impairments**.**

Depreciation is calculated on a 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	40%
Motor vehicles	20%
Plant and equipment	40%
Leased motor vehicles	20%

(h) Leases

(i) Finance leases
Assets acquired under finance leases which result in the Group receiving substantially all the risks and rewards of ownership of the asset are capitalised at the lease's inception at the lower of the fair value of the leased property or the estimated present value of the minimum lease payments. The corresponding finance lease obligation, net of finance charges, is included within interest bearing liabilities. The interest element is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the liability for each accounting period. The leased asset is included in property, plant and equipment and is depreciated over the shorter of the estimated useful life of the asset or the lease term.

(ii) Operating leases
Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

(i) Exploration and Evaluation Costs

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Group has obtained the legal rights to explore an area are recognised in the profit or loss.

Exploration and evaluation assets are only recognised if the rights to the tenure of the area of interest are current and either:

- the expenditures are expected to be recouped through successful development and exploitation of the area of interest or alternatively, by its sale; or

- activities in the area of interest have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

(j) Impairment of assets

At the end of each reporting period the Group assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

The carrying values of capitalised exploration and evaluation expenditure and property, plant and equipment are assessed for impairment when indicators of such impairment exist. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment.

(k) Trade and Other Payables

These amounts represent liabilities for goods and services provided to the Group 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.

(l) Employee Benefits

(i) Wages and Salaries and Annual Leave
Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the end of the reporting period are recognised in other liabilities in respect of employees' services rendered up to the end of the reporting period and are measured at amounts expected to be paid when the liabilities are settled.

(ii) Long Service Leave
Liabilities for long service leave are recognised as part of the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees to the end of the reporting period. Consideration is given to expected future salaries and wages levels, experience of employee departures and periods of service. Expected future payments are discounted using national government bond rates at the end of the reporting period with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(m) Issued Capital

Ordinary shares are classified as equity.

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

(n) Earnings per share

(i) Basic earnings per share
Basic earnings per share is calculated by dividing the profit or loss 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.

(o) 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 included in the statement of cash flows 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 flows.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described below:

(i) Carrying value of exploration and evaluation assets

The Group performed a detailed review of its exploration tenements at period end to determine whether the related expenditure should continue to be capitalised under AASB 6 Exploration for and Evaluation of Mineral Resources or written off. As a result of this review, management has determined that $2,859,921 (2011: $2,419,719) be written off in the year ended 31 December 2012.

During the year geological test-work downgraded the prospectivity of various Western Australia and Queensland tenements resulting in their full or partial relinquishments, which necessitates the writing off their respective costs.

The ultimate recoupment of cost carried forward for the exploration and evaluation assets is dependent upon the successful development and commercial exploitation or sale of the respective areas of interest. Ultimate exploitation through the development of mines will depend on raising the necessary funding.

5. SEGMENT INFORMATION

Operating segments are now reported in a manner that is consistent with the internal reporting to the chief operating decision maker ("CODM"), which has been identified by the Group as the Chairman and other members of the Board of directors.

(i) Identification of reportable segments
The Group has identified that it operates in only one segment based on the internal reports that are reviewed and used by the CODM in assessing performance and determining the allocation of resources. The Group operates in one business segment as an explorer for heavy mineral sands, copper, gold and base metals in Australia.

(ii) Revenue and assets by geographical region
The Group's revenue is received from sources and assets that are located wholly within Australia.

(iii) Financial information
Reportable items required to be disclosed in this note are consistent with the information disclosed in the Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial Position and are not duplicated here.

6. REVENUE, OTHER INCOME AND EXPENSES

	Consolidated	
	2012 **$**	**2011** **$**
a) Revenue		
Interest	95,244	253,511
Management fees	4,683	5,542
Other	123,347	251,585
	223,274	510,638
b) Other income		
Gain disposal of non-current assets	31,208	-
c) Impairment		
Impairment of available-for-sale financial assets	130,069	-

At year-end, an assessment of the fair value of all available-for-sale financial assets resulted in an impairment loss of $130,069 being recognised in the statement of comprehensive income. The Group's assessment of the fair value was made in accordance with AASB 139 and was based on the decline in financial health of and short-term business outlook for the investee

	2012 $	2011 $
d) Depreciation		
Furniture and fittings	10,877	17,300
Motor vehicles	21,633	27,502
Leased motor vehicles	16,630	31,675
Plant and equipment	112,368	137,151
	161,508	213,628
e) Other expenses		
Professional fees	143,184	166,687
Rental expenses on operating leases	354,749	315,208
Listing and share registry expenses	93,166	83,559
Superannuation expenses	132,467	116,959
Loss on disposal of non-current assets	-	79
Stamp duty	-	110,836
Administration costs	669,519	855,527
	1,393,085	1,648,855

7. INCOME TAX

	Consolidated 2012 $	Consolidated 2011 $
(a) The prima facie tax on accounting loss differs from the income tax provided in the financial statements. The difference is reconciled as follows:		
Loss before income tax	(5,309,529)	(4,667,287)
Prima facie income tax benefit at 30% (2010: 30%)	(1,592,859)	(1,400,186)
Tax effect of amounts which are not deductible in calculating taxable income:		
Entertainment	364	2,818
	(1,592,495)	(1,397,368)
Deferred tax assets not recognised	1,592,495	1,397,368
	-	-
Recognition of research & development tax claim	(401,061)	(290,025)
Total income tax benefit	(401,061)	(290,025)
(b) The components of income tax benefit:		
Current tax	-	-
Deferred tax	-	-
Research & development tax claim	(401,061)	(290,025)
Total income tax benefit	(401,061)	(290,025)
(c) Deferred tax		
Deferred tax assets		
Unused tax losses	5,160,776	5,030,427
Unused capital losses	4,507	4,507
Temporary differences:		
- Property, plant and equipment	23,557	13,273
- Accruals	9,540	10,233
- Employee benefits	57,729	48,499
- Capital raising costs	241,508	276,076
- Other	188,517	121,993
	5,686,134	5,505,008
Deferred tax liabilities		
- Exploration expenditure	(5,686,134)	(5,497,958)
- Income receivable	-	(7,050)
- Other		-
	(5,686,134)	(5,505,008)
Net deferred tax asset/liability	-	-
Unrecognised deferred tax assets		
Unused tax losses	32,148,060	27,864,232
Potential tax effect at 30%	9,644,418	8,359,270

The net deferred tax assets arising from these balances have not been recognised as an asset because recovery is not probable as at 31 December 2012. The recoupment of available tax loses as at 31 December 2012 is contingent upon the following:

(i) The Group deriving future assessable income of a nature and an amount sufficient to enable the benefit to be realised;

(ii) The conditions for deductibility imposed by tax legislation continuing to be complied with; and

(iii) There being no changes in tax legislation which adversely affect the Group from realising the benefit.

(iv) Given the Group is in a taxable loss position there is no franking credit to report.

8. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Consolidated	
	2012	**2011**
	$	**$**
Cash at bank and in hand	1,973,713	3,650,010

No cash is held in term deposits as at 31 December 2012 (2011: $3,000,000)

9. CURRENT ASSETS – TRADE & OTHER RECEIVABLES

	Consolidated	
	2012	**2011**
	$	**$**
Trade receivables	70,442	72,139
Allowance for doubtful debt	(16,492)	-
	53,950	72,139
Other receivables	71,294	102,890
Prepayments	57,586	56,995
	182,830	232,024

An allowance for doubtful debt has been provided for a trade receivable amount that is past due. Other receivables do not contain impaired assets and are not past due.

10. NON-CURRENT ASSETS – AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Consolidated	
	2012	**2011**
Shares in an unlisted company	**$**	**$**
Opening cost	162,586	162,586
Less impairment (Refer also to Note 6 (b))	(130,069)	-
Balance at end of year	32,517	162,586

Unlisted shares comprise an investment in Opal Horizon Limited. (Refer also to Note 20 (f)).

11. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

Consolidated	Furniture and fittings $	Motor vehicles $	Leased Motor vehicles $	Plant and Equipment $	Total $
Year ended 31 December 2011					
Opening net book amount	41,062	137,162	158,374	601,915	938,513
Additions	-	806	-	8,979	9,785
Disposals	(79)	-	-	-	(79)
Depreciation charge	(17,300)	(27,502)	(31,675)	(137,151)	(213,628)
Closing net book amount	23,683	110,466	126,699	473,743	734,591
At 31 December 2011					
Cost	134,835	246,107	287,346	1,113,115	1,781,403
Accumulated depreciation	(111,152)	(135,641)	(160,647)	(639,372)	(1,046,812)
Net book amount	23,683	110,466	126,699	473,743	734,591
Year ended 31 December 2012					
Opening net book amount	23,683	110,466	126,699	473,743	734,591
Additions	653	390	-	22,139	23,182
Disposals	-	(4,025)	(70,257)	(329)	(74,611)
Depreciation charge	(10,877)	(21,633)	(16,630)	(112,368)	(161,508)
Closing net book amount	13,459	85,198	39,812	383,185	521,654
At 31 December 2012					
Cost	135,488	237,743	116,539	1,134,492	1,624,262
Accumulated depreciation	(122,029)	(152,545)	(76,727)	(751,307)	(1,102,608)
Net book amount	13,459	85,198	39,812	383,185	521,654

12. NON-CURRENT ASSETS – EXPLORATION AND EVALUATION ASSETS

	Consolidated 2012 $	Consolidated 2011 $
Exploration and evaluation assets – at cost less impairment	19,251,664	19,379,377
Opening balance	19,379,377	18,791,274
Costs capitalised during the year	2,732,208	3,007,822
Costs written off during the year (#)	(2,859,921)	(2,419,719)
Closing balance	19,251,664	19,379,377

(#) During the year geological test-work downgraded the prospectivity of various Western Australia and Queensland tenements resulting in their full or partial relinquishments, which necessitates the writing off their respective costs.

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest. (Refer also to Note 4 (i)).

At balance date the carrying amount of exploration and evaluation assets was $19,251,664 of which $4,166,659 is attributable to the significant exploration of the Group's Cyclone Heavy Mineral Project.

13. NON-CURRENT ASSETS – OTHER

	Consolidated 2012 $	Consolidated 2011 $
Rent guarantee deposit	105,669	105,669
Security deposits	595,454	595,525
	701,123	701,194

14. CURRENT LIABILITIES – TRADE & OTHER PAYABLES

	Consolidated 2012 $	Consolidated 2011 $
Unsecured		
Trade payables	145,794	190,802
Other payables and accruals	86,263	85,592
Employee benefits	57,115	36,684
	289,172	313,078

Trade payables are non-interest bearing and are normally settled on 30 day terms.

15. CURRENT LIABILITY - INTEREST BEARING LIABILITIES

	Consolidated 2012 $	Consolidated 2011 $
Secured		
Finance lease liabilities - current	20,359	130,050

Lease liabilities are secured over the rights to the leased assets, refer Note 11, recognised in the Consolidated Statement of Financial Position which will revert to the lessor if the Group defaults.

16. CURRENT LAIBILITY - PROVISIONS

	Consolidated 2012 $	Consolidated 2011 $
Employee benefits – current	135,314	-
Employee benefits – non-current	-	124,979
	135,314	124,979

17. ISSUED CAPITAL

	2012 $	2011 $
473,582,422 (Dec 2011 354,597,423) ordinary shares	43,089,752	39,853,242

(a) Movements in ordinary share capital

Date	Details	Number of shares	Issue price $	$
1 January 2011	Opening balance	265,947,384		33,321,487
April [1]	Shares issued	88,650,039	0.080	7,092,003
	Share issue costs	-		(560,248)
31 December 2011	Balance	354,597,423		39,853,242
July 2012 [2]	Shares issued	8,432,432	0.037	312,000
July	Exercise of listed options	4	0.150	-
August [2]	Shares issued	5,405,405	0.037	200,000
September [2]	Shares issued	15,891,892	0.037	588,000
October [2]	Shares issued	57,600,000	0.025	1,440,000
December [3]	Shares issued	31,655,266	0.025	791,382
	Share issue costs	-		(94,872)
31 December 2012	Balance	473,582,422		43,089,752

(1) In April 2011, the Company successfully completed a non-renounceable rights issue to shareholders on a 1 for 3 basis. As a consequence, $7,092,003 was raised through the issue of 88,650,039 fully paid ordinary shares at 8 cents each, each with a free attaching listed option exercisable at 15 cents expiring on 30 September 2013.

(2) During the 2012 year the Company completed several placements to sophisticated and professional investors.

(3) The Company completed a Share Purchase Plan in December 2012.

Ordinary shares
Holders of ordinary shares are entitled to receive dividends that may be declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds from liquidation.

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

(b) Share Options

		Number at end of year	
Expiry date	**Exercise Price**	**2012**	**2011**
30 September 2013 (listed)	$0.15	88,650,035	88,650,039

There were 88,650,035 listed options on issue at year end 2012 after 4 listed options were exercised during the year.

Share options
Share options issued by the Company carry no rights to dividends and no voting rights. All options are exercisable for cash on a 1:1 basis.

18. RESERVE

	Consolidated	
	2012	**2011**
Share-based payment reserve	**$**	**$**
Opening balance	-	87,670
Transfer to accumulated losses for expired options (1)	-	(87,670)
Closing balance	-	-

(1) Transfer from share-based payment reserve to accumulated losses relate to the 19,800,000 unlisted options that expired on 30 June 2011 and 31 July 2011.

Nature and purpose of share-based payment – option reserve
The share-based payment reserve is used to recognise the fair value of options issued under the employee share option plan.

19. ACCUMULATED LOSSES

	Consolidated	
	2012	**2011**
	$	**$**
Accumulated losses at the beginning of the year	(15,561,567)	(11,271,975)
Net Loss for the year	(4,908,468)	(4,377,262)
Transfer from reserve	-	87,670
Accumulated losses at the end of the year	(20,470,035)	(15,561,567)

20. FINANCIAL INSTRUMENTS

The Group's principal financial instruments comprise cash and short-term deposits. The main purpose of these financial instruments is to fund the Group's operations.

The Group does not use any form of derivatives as it is not at a level of exposure that requires the use of derivatives to hedge its exposure. Exposure limits are reviewed by management on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

(a) Categories of financial instruments

	Consolidated	
	2012 $	2011 $
Financial assets		
Cash and cash equivalents	1,973,713	3,650,010
Trade and other receivables	182,830	232,024
Current tax asset	401,061	-
Security and other deposits	701,123	701,194
Available-for-sale financial assets	32,517	162,586
Total financial assets	3,291,244	4,745,814
Financial liabilities		
Trade and other payables	289,172	313,078
Interest-bearing liabilities	20,359	130,050
Total financial liabilities	309,531	443,128

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework which is summarised below:

(b) Capital risk management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. As an emerging explorer, the Group does not establish a return on capital. Capital management requires the maintenance of strong cash balance to support ongoing exploration. There were no changes in the Group's approach to capital management during the year. The Group is not subject to externally imposed capital requirements.

(c) Market risk

Interest rate risk
Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earning volatility on floating rate instruments. The Group does not have a formal policy in place to mitigate interest rate risks as the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

At balance date, the Group had the following financial assets which are interest bearing:

	Consolidated	
	2012 $	2011 $
Cash and cash equivalents (variable interest rates)	1,973,713	3,650,010
Security deposits (fixed interest rates)	595,454	595,525
	2,569,167	4,245,535

Interest rate sensitivity analysis
An increase of 80 basis points in interest rates at the reporting date, with all other variables held constant, would have decreased the Group's loss and increased equity by $20,553 (2011: $33,964). Where interest rates decreased, there would be an equal and opposite impact on the loss and equity.

Price risk
The Group is exposed to equity securities price risk. This arises from an investment held by the Group and classified on the consolidated statement of financial position as an available-for-sale financial asset.

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.

The Group is not exposed to commodity price risk or currency risk.

(d) Credit risk

Credit risk is the risk that a counter party 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 manages any credit risk associated with its funds on deposit by ensuring that it only invests its funds with reputable financial institutions. The Group currently has deposits with the ANZ and Suncorp banks.

At 31 December 2012, trade and other receivables are mostly receivable within 30 days.

(e) 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's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate cash reserves from funds raised in the market and by continuously monitoring forecast and actual cash flows.

The following are the contractual maturities of financial liabilities:

Consolidated	Carrying amount $	Contractual cash flow $	< 6 months $	6-12 months $	1-3 years $	> 3 years $
31 Dec 2012						
Trade and other payables	289,172	(289,172)	(289,172)	-	-	-
Interest bearing liabilities	20,359	(21,228)	(14,294)	(6,934)	-	-
	309,531	(310,400)	(303,466)	(6,934)	-	-

Consolidated	Carrying amount $	Contractual cash flow $	< 6 months $	6-12 months $	1-3 years $	> 3 years $
31 Dec 2011						
Trade and other payables	313,078	(313,078)	(313,078)	-	-	-
Interest bearing liabilities	130,050	(133,232)	(133,232)	-	-	-
	443,128	(446,310)	(446,310)	-	-	-

(f) Fair values

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximate their respective fair values, other than as noted below.

The fair value of the non current asset comprising available-for-sale financial assets has been valued at cost less allowance for impairment. As disclosed in the above Note 10, the assets are shares in an unlisted company Opal Horizon Limited and as such their fair value cannot be determined reliably as there is no active market. The intention at this stage is to not dispose of the shares.

21. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

	Consolidated 2012 $	Consolidated 2011 $
Short-term employee benefits	1,035,876	967,605
Post-employment benefits	90,405	80,577
Long-term benefits	7,644	30,304
Share-based payments	-	-
	1,133,925	1,078,486

(b) Key management personnel equity holdings

(i) Option holdings

2012	Balance at the start of the year	Granted as remuneration	Lapse	Rights Issue (3)	Purchases	Other Changes	Balance at the end of the year	Vested and exercisable
Directors								
A J Fawdon	243,179	-	-	-	-	-	243,179	243,179
D H Hall	320,000	-	-	-	-	-	320,000	320,000
G H White	516,667	-	-	-	-	-	516,667	516,667
A Tsang	35,832,933	-	-	-	-	-	35,832,933	35,832,933
C Wang	804,903	-	-	-	-	-	804,903	804,903
N J McIntyre	-	-	-	-	-	-	-	-
Other key management personnel								
D Jelley	-	-	-	-	-	-	-	-
L Stanley	-	-	-	-	-	-	-	-
T Do	-	-	-	-	-	-	-	-
Total	37,717,682	-	-	-	-	-	37,717,682	37,717,682
2011								
Directors								
A J Fawdon	5,000,000	-	(5,000,000)	243,179	-	-	243,179	243,179
D H Hall	4,100,000	-	(4,100,000)	250,000	70,000	-	320,000	320,000
G H White	2,500,000	-	(2,500,000)	16,667	500,000	-	516,667	516,667
A Tsang	-	-	-	35,832,933	-	-	35,832,933	35,832,933
C Wang (1)	-	-	-	-	-	804,903	804,903	804,903
N J McIntyre (2)	-	-	-	-	-	-	-	-
Other key management personnel								
D Jelley	1,500,000	-	(1,500,000)	-	-	-	-	-
L Stanley	-	-	-	-	-	-	-	-
L Stanley	-	-	-	-	-	-	-	-
Total	13,100,000	-	(13,100,000)	36,342,779	570,000	804,903	37,717,682	37,717,682

(1) Appointed to Board 27 May 2011 and net other changes relate to holdings at date of appointment as Director
(2) Appointed to Board 27 July 2011
(3) Refer also to Note 17(a)

21. MANAGEMENT PERSONNEL DISCLOSURES (Continued)

(ii) Share holdings

	Balance at the start of the year	Options exercised	Net purchased / (sold)	Rights Issue [3]	Other changes	Balance at the end of the year
2012						
Directors						
A J Fawdon	3,524,577	-	600,000	-	-	4,124,577
D H Hall	2,800,000	-	150,000	-	-	2,950,000
G H White	216,667	-	-	-	-	216,667
A Tsang	77,177,551	-	17,691,892	-	-	94,869,443
C Wang	2,537,822	-	40,000	-	-	2,577,822
N J McIntyre	-	-	-	-	-	-
Other key management personnel						
D Jelley	-	-	-	-	-	-
L Stanley	-	-	-	-	-	-
T Do	-	-	-	-	-	-
Total	86,256,617	-	18,481,892	-	-	104,738,509
2011						
Directors						
A J Fawdon	3,281,821	-	-	243,179	(423)	3,524,577
D H Hall	2,550,000	-	-	250,000	-	2,800,000
G H White	50,000	-	150,000	16,667	-	216,667
A Tsang	41,344,618	-	-	35,832,933	-	77,177,551
C Wang [1]	-	-	-	-	2,537,822	2,537,822
N J McIntyre [2]	-	-	-	-	-	-
Other key management personnel						
D Jelley	-	-	-	-	-	-
L Stanley	-	-	-	-	-	-
T Do	-	-	-	-	-	-
Total	47,226,439	-	150,000	36,342,779	2,537,399	86,256,617

(1) Appointed to Board 27 May 2011 and net other changes relate to holdings at date of appointment as Director
(2) Appointed to Board 27 July 2011
(3) Refer also to Note 17(a)

22. REMUNERATION OF AUDITORS

	Consolidated 2012 $	Consolidated 2011 $
Amounts received, or due and receivable, by the Group's auditor – BDO Audit Pty Ltd:		
- Audit and review of the financial statements	30,500	30,000

The auditor did not provide any other services.

23. CONTINGENT LIABILITY

On transfer of the Tick Hill mining tenements to the Group there will be a requirement to pay $100,000 option exercise fee.

24. COMMITMENTS

(a) Tenement expenditure commitments

So as to maintain current rights to tenure of exploration tenements, the Group 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 are as follows:

	Consolidated	
	2012 $	2011 $
Payable within 1 year	943,437	298,656
Payable between one and five years	4,179,067	3,355,335
	5,122,504	3,653,991

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 $593,855 (2011: $593,925) are currently held by the relevant governing authorities to ensure compliance with granted tenement conditions.

Performance bonds totalling $351,000 (2011: $351,000) have been issued by the Australia and New Zealand Banking Group Limited ("ANZ") on behalf of one of the Group's subsidiaries, in respect of several Western Australian tenements. ANZ will indemnify against any loss arising from the performance bonds and the indemnities are secured against the cash security bonds above.

(b) Operating lease commitments

	Consolidated	
	2012 $	2011 $
Payable within 1 year	305,968	290,542
Payable between one and five years	796,782	1,085,051
	1,102,750	1,375,593

The Company has leasing arrangements for the rental of office space expiring on 31 July 2016.

(c) Finance leases/commitments

	Consolidated	
	2012 $	2011 $
Minimum lease payments payable within 1 year	21,228	133,232
Future finance charges	(869)	(3,182)
Recognised as a liability	20,359	130,050
Representing interest-bearing liabilities (Note 15):		
Current	20,359	130,050
Non-current	-	-
	20,359	130,050

The Group leases two motor vehicles under finance lease agreements. (In 2011 there were five vehicles under the same lease agreements, of which three have been paid out during 2012).

25. RELATED PARTY TRANSACTIONS

(a) Parent entity
The ultimate parent entity in the Group is Diatreme Resources Limited.

(b) Subsidiaries
Interests in subsidiaries are set out in Note 26.

(c) Key management personnel
Disclosures relating to key management personnel are set out in Note 21.

(d) Transactions with related parties
The following transactions occurred with related parties:

	Consolidated	
	2012	**2011**
	$	**$**
Management fee charged to Director related entity (Opal Horizon Ltd)	1,561	2,771
Rental office sub-lease charged to Director related entities (Executive Director D H Hall was a non-executive Director of Opal Horizon Ltd (Resigned 1 October 2012).	19,444	23,322

26. GROUP ENTITIES

	Country of Incorporation	Ownership Interest	
Subsidiaries		2012	2011
Regional Exploration Management Pty Ltd	Australia	100%	100%
Chalcophile Resources Pty Ltd *	Australia	100%	100%
Lost Sands Pty Ltd	Australia	100%	100%

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

27. RECEIPT FROM ANTOFAGASTA

The Group’s 100% owned subsidiary, Chalcophile Resources Pty Ltd entered into a Memorandum of Understanding (“MoU”) on 27 March 2012 with Antofagasta Minerals S.A. (“Antofagasta”) in respect of the Company’s Clermont Copper Project.

For the year ended 31 December 2012, and under the agreed terms, the Company received $383,941 ($US $400,000) from Antofagasta Minerals S.A to fund exploration at the Clermont Copper Project. The balance was fully expended during 2012.

28. RECONCILIATION OF NET PROFIT/(LOSS) TO NET CASH FLOW FROM OPERATING ACTIVITIES

	Consolidated 2012 $	Consolidated 2011 $
Loss for the year	(4,908,468)	(4,377,262)
Non-cash items		
Depreciation	161,508	213,628
Capitalised exploration expenditure written-off	2,859,921	2,419,719
Impairment of available-for-sale financial assets	130,069	-
(Profit)/loss on sale of fixed assets	(31,208)	79
Movements in operating assets and liabilities		
(Increase)/decrease in receivables	49,195	(45,904)
(Increase)/decrease in current tax asset	(401,061)	315,603
(Increase)/decrease in other assets	(4,930)	(4,261)
Increase / (decrease) in payables	45,606	(45,024)
Increase / (decrease) in provisions	10,335	35,460
Net cash outflow from operating activities	(2,089,033)	(1,487,962)

29. EARNINGS PER SHARE

	Consolidated 2012 Cents	Consolidated 2011 Cents
Basic earnings per share (loss)	(1.3)	(1.4)
Diluted earnings per share (loss)	(1.3)	(1.4)

Weighted average number of shares used as the denominator	2012 Number	2011 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	365,921,183	309,975,140
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	365,921,183	309,975,140

Information concerning earnings per share

Earnings for the purpose of the calculation of basic earnings per share and also diluted earnings per share, is the loss attributable to owners of Diatreme Resources Limited of $4,908,468 (2011: loss $4,377,262).

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 Group, 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 17(b).

30. SHARE-BASED PAYMENTS

Total expense arising from share-based payment transactions recognised during the year was nil (2011: nil).

31. PARENT ENTITY INFORMATION

	2012 $	2011 $
Financial position		
Current assets	2,460,523	3,721,155
Non-current assets	27,879,642	25,291,267
Total assets	30,340,165	29,012,422
Current liabilities	349,185	131,944
Non-current liabilities	-	124,979
Total liabilities	349,185	256,923
Net assets	29,990,980	28,755,499
Shareholders' equity		
Contributed equity	43,089,752	39,853,242
Option reserve	-	-
Accumulated losses	(13,098,772)	(11,097,743)
Total equity	29,990,980	28,755,499

	2012 $	2011 $
Loss for the year	(2,001,029)	(2,193,160)
Total comprehensive loss for the year	(2,001,029)	(2,193,160)

31. PARENT ENTITY INFORMATION (Continued)

Non-Current Assets
Non-current assets include $24,640,198 (2011: $22,022,240) of Intercompany Receivables balances with recoverability of the debt based on successful exploitation of various tenement sites.

Contingent Liabilities
The parent entity has a contingent liability as disclosed in Note 23 above.

Contractual commitments
The parent entity does not have any contractual commitments for property, plant and equipment at 31 December 2012.

Guarantees
The parent entity does not have any guarantees at 31 December 2012.

32. EVENTS SUBSEQUENT TO REPORTING DATE

9 January 2013	Heads of Agreement for iron exploration signed with Braemar Iron Pty Ltd over the Anabama Copper Project in South Australia.
11 January 2013	Exploration Licence applications "Serpentine" and "Elliston" were secured in Western Australia and South Australia respectively, targeting heavy mineral sand prospects.
18 January 2013	Farm-In Agreement signed with Antofagasta Minerals Australia Pty Ltd over the Clermont Copper Project in central Queensland.
14 March 2013	The Company received signed agreements from sophisticated investors to subscribe for placements totalling 34,000,000 ordinary fully paid shares at $0.025 per share to raise $850,000.

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 Group, the results of those operations, or the state of affairs of the Group in financial years subsequent to 31 December 2012.

33. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

At the date of authorisation of the financial report, certain Standards and Interpretations were on issue but not yet effective. These Standards and Interpretations have not been adopted in the preparation of the financial report for the year ended 31 December 2012. None of these Standards and Interpretations is expected to have significant effect on the consolidated financial statements of the Group, except for AASB 9 Financial Instruments, which becomes mandatory for the Group's 2015 consolidated financial statements and could change the classification and measurement of financial assets.

The Group does not plan to adopt this Standard early and the extent of the impact has not been determined.

The Group expects to first apply these Standards and Interpretations in the financial report of the Group relating to the annual reporting period beginning after the effective date of each pronouncement.

DIRECTORS' DECLARATION

The Directors declare that the attached financial statements and notes are in accordance with the Corporations Act 2001 and:

(a) comply with Accounting Standards and the Corporations Regulations 2001; and

(b) give a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date.

The consolidated entity has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

In the Directors' opinion, 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.

The remuneration disclosures included in the Directors' Report (as part of the audited Remuneration Report), for the year ended 31 December 2012 comply with Section 300A of the Corporations Act 2001.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by Section 295A.

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

A J Fawdon
Executive Chairman/CEO

Brisbane, 25 March 2013

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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, which comprises the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view 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 company'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.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Diatreme Resources Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

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 consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Emphasis of Matter - Material Uncertainty Regarding Going Concern

Without modifying our opinion, we draw attention to Note 2(e) in the financial report. The financial report has been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of the business. The ability of the consolidated entity to maintain continuity of normal business activities and to pay its debts as and when they fall due, is dependent upon the ability of the consolidated entity to successfully raise additional funding and/or the successful exploration and subsequent exploitation of its areas of interest through sale or development. As a result of these factors, there exists a material uncertainty regarding the ability of the consolidated entity to continue as a going concern. Therefore the consolidated entity may be unable to realise its assets and extinguish its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 4 to 8 of the directors' report for the year ended 31 December 2012. 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.

Opinion

In our opinion, the Remuneration Report of Diatreme Resources Limited for the year ended 31 December 2012 complies with section 300A of the *Corporations Act 2001*.

BDO Audit Pty Ltd

BDO

Chris Skelton

C J Skelton

Director

Brisbane: 25 March 2013