

ASX ANNOUNCEMENT

17 September 2018

China talks advance Cyclone development prospects

- **Further bulk heavy mineral concentrate samples to be sent to China for mineral separation process testing, amid rising zircon prices.**
- **Definitive Feasibility Study (DFS) on track for completion by end of third quarter**

Emerging mineral sands miner Diatreme Resources Limited (ASX:DRX) announced today further progress towards mining at its flagship Cyclone Zircon Project in Western Australia's Eucla Basin, following recent talks in China with potential product buyers and joint venture partners.

Chinese demand for high-grade zircon has boosted development prospects for one of only three significant zircon discoveries in the past decade, amid diminishing high-grade supply and rising global demand.

Diatreme's CEO, Neil McIntyre, said the prospects for the largest undeveloped zircon project in the Eucla Basin had further advanced, as the Company continues to work towards eventual mine establishment and production.

"Talks in China with our project partner, China ENFI Engineering have reaffirmed that Cyclone's Definitive Feasibility Study ("DFS") is on track for completion by the end of the third quarter. These results are expected to reaffirm the project's sound economic fundamentals and its potential for near-term development as one of a handful of new high-grade zircon projects globally." Mr McIntyre said.

"Meanwhile, we also took the opportunity to further advance discussions with potential Chinese buyers of an export heavy mineral concentrate ("HMC"), either through a 'pure' arm's length sale or via tolling arrangements.

"In pursuing the best commercial outcome for the project, we have identified a party in China suitable for a potential joint venture processing arrangement. This could entail, subject to negotiation, Diatreme participating directly



through cross-ownership in the plant operations and participation in the end product price realised for its zircon and titanium products.”

To facilitate this potential arrangement, Diatreme is now processing via an independent lab Mineral Technologies a further representative raw ore (bulk product) sample taken from the first two years proposed mining path into a HMC. This HMC sample will then be forwarded for further testing by the processor in China in their facility for mineral separations characteristics and final product recoveries over the next four to six weeks.

Following results from this further testing, Diatreme will keep the market informed on the progress of these discussions with the potential joint venture partner.

Under the Company’s agreement with ENFI (refer ASX announcement 11 January 2018), the leading mining services company is also using its large network within China’s state-owned enterprise and banking sectors to assist in sourcing project investors, offtakers and project debt funding.

Next Steps

Following the release of the DFS, Diatreme aims in the last quarter of 2018 to conclude its arrangements with final HMC product offtake buyers or processing partners as it takes the final steps towards project development.

The Company will advise the market as these matters progress.

Recent commentary by major zircon producers has pointed to constrained supply and rising prices for zircon, providing a favourable environment for the development of high-grade zircon projects such as Cyclone.

Industry forecaster TZMI expects a structural deficit to widen from 2019, amid an estimated 2.1% CAGR in demand through to 2021 and constrained supply.

Mr McIntyre added: “Cyclone has been substantially de-risked and we are confident the DFS will provide a further boost to the project’s development, increasing confidence in its potential and its ability to deliver economic benefits to shareholders and the community, including the traditional owners.

“Meanwhile, we are also continuing to progress our Cape Bedford Silica/Heavy Minerals Project in Queensland into a potential near-term source of cashflow, based on its ability to supply the high-purity silica sand necessary for high-tech applications such as photovoltaic panels, as well as the broader automotive and construction industries.”

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Diatreme talks with ENFI held in China, September 2018

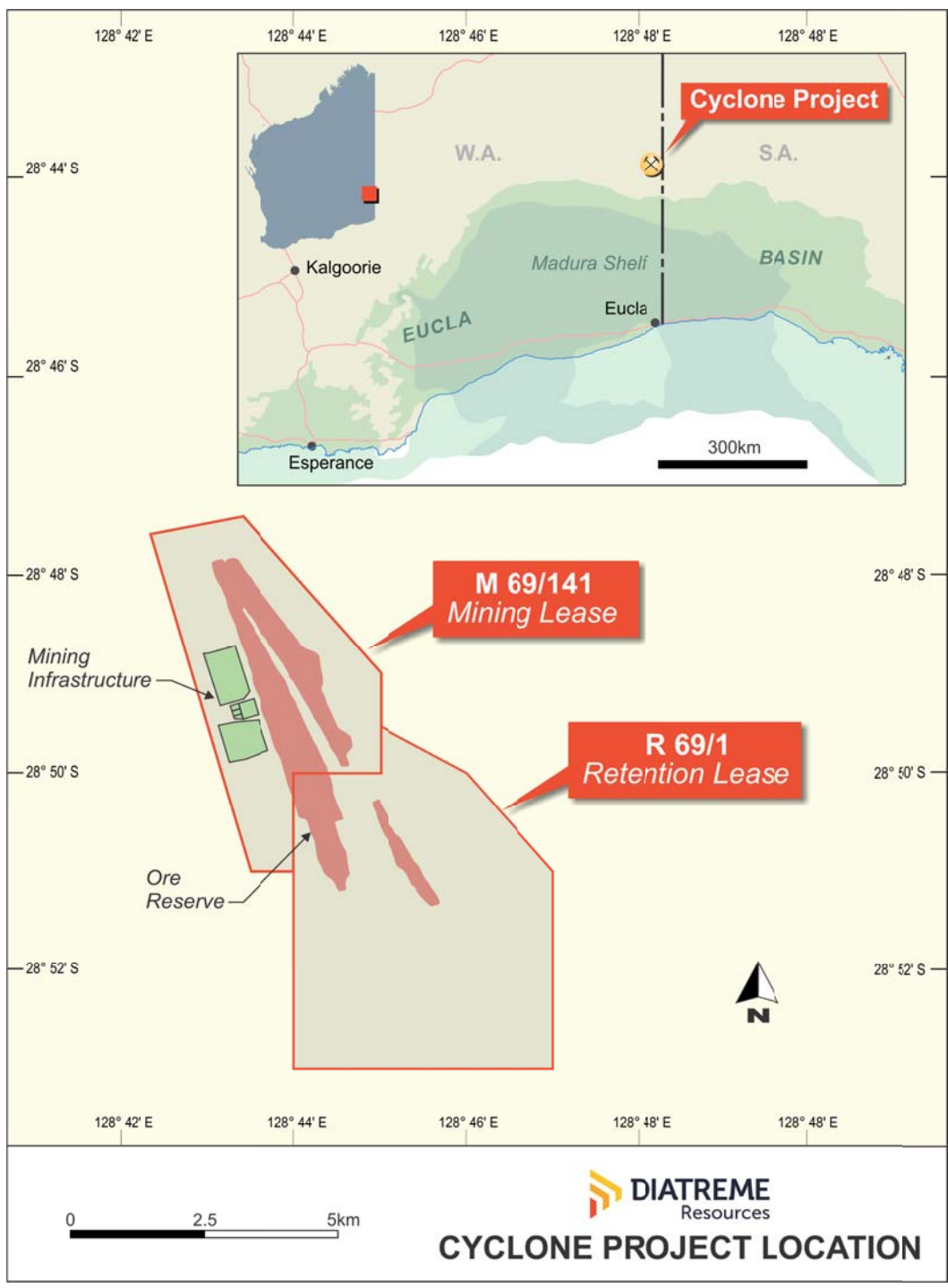
About Cyclone Zircon Project

Discovered in 2007, the Cyclone Zircon deposit is located along the Barton shoreline within the Wanna Lakes area of the northern Eucla Basin, 25 kilometres from Western Australia’s state border with South Australia and 220 kilometres north of the transcontinental railway.

In November 2014, Western Australia’s Department of Mines and Petroleum granted a Mining Lease (M69/141) for the project, which followed the signing of a Project Agreement with the traditional owners, the Spinifex People. In January 2017, the project received final ministerial consent allowing for the development of a mineral sands mine and associated infrastructure.

A Definitive Feasibility Study is underway along with further project specific commercial and operational enhancement studies, with Cyclone representing potentially the largest undeveloped zircon project in the Eucla Basin.

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About China ENFI Corporation (ENFI)

One of China's premier design institutes, Beijing-based ENFI has large geological, mining engineering and metallurgical teams as well as significant plant design, procurement and construction capabilities. It has achieved significant success working in a number of countries in Africa, Asia, the Middle East and South America and owns a number of global patents concerning processing technologies.

ENFI is backed by one of China's largest state-owned enterprises (SOEs) involved in the mining services sector, being a wholly owned subsidiary of Metallurgical Corporation of China (MCC), part of the China Minmetals Group.

MCC is China's largest mining and metals engineering and construction group with extensive experience in the design, engineering, construction and operation of base metals processing operations. MCC has a strong track record of delivering projects, including the successful development of the Ramu NiCo Operation in Papua New Guinea and jointly with ENFI recently announced an agreement to provide EPC services to the Clean TeQ Sunrise Project in New South Wales.

Headquartered in Beijing, China Minmetals has 1.6 trillion renminbi (A\$324 billion) in total assets and ranked 120th in the Fortune Global 500 for 2016 (refer <http://www.minmetals.com/english/>).

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