



Mining

Barry FitzGerald: Diatreme Resources' true grit to be tested as zircon deal looms

June 24, 2019 | [Barry FitzGerald](#)

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Don't make the mistake that a princely market price of 1c for a market cap of \$15m means **Diatreme Resources (ASX:DRX)** is going nowhere fast.

Its sand box is actually chock full of market re-rating events which are set to be triggered in coming weeks at its Galalar (silica sand) project in far north Queensland, and its Cyclone (heavy mineral sands) project in Western Australia.

Sands ain't sands, with Galalar targeted at the high-purity silica sands market for glass in solar panels while Cyclone's zircon is destined for use in ceramic tiles and sanitary ware.

Garimpeiro checked in with the company last week to confirm previous guidance that a scoping study in to the development of Galalar, and an announcement on the success – or otherwise – on the sale/partnering process at Cyclone, should hit the ASX reporting platform next month.

“We hope to get our initial scoping study on Galalar over the next two or three weeks,” Diatreme boss Neil McIntyre said.

“We can move quickly as it is a relatively simple project in mining terms. It is a homogenous resource through the dunes, and the market is screaming out for the very particular product we are looking at producing.”

Diatreme announced a maiden indicated resource for Galalar in May of 21.5 million tonnes at better than 99% silica, with the total resource on an indicated and inferred basis standing at 30.2mt.

The resource is good for a 30-40 year operation at Diatreme's likely annual production target – to be confirmed in the scoping study – of 500,000t.

There is also a conceptual “exploration target” for the broader dune system to the north of the Galalar deposit (it is named after a local yam and used to be known as Nob Point) which ranges from 210mt to 2.1 billion tonnes of silica.

Diatreme's tenements in the broader region surround the world's biggest operating silica mine, Mitsubishi Corp's 2.5mtpa Cape Flattery mine.

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Galalar is unusual in the Australian mining scene by having the traditional landowner group as a 12.5% free carried partner.

“We negotiated the 12.5% interest before we turned a wheel at the project,” McIntyre said.

“They've been fantastic with us, and in our dealings with government. They are really keen to see something happen on the ground.”

Given the simple mining process and product prices of \$US80-\$US110/t, Galalar could be a good earner, particularly for a company like Diatreme with its \$15m market cap.

Annual free cash flow of \$20-\$30m seems possible after initial capital expenditure of a little more than \$20m or so. Like all these things, it is best to wait for confirmation of that sort of potential in a definitive feasibility study (DFS).

July deal?

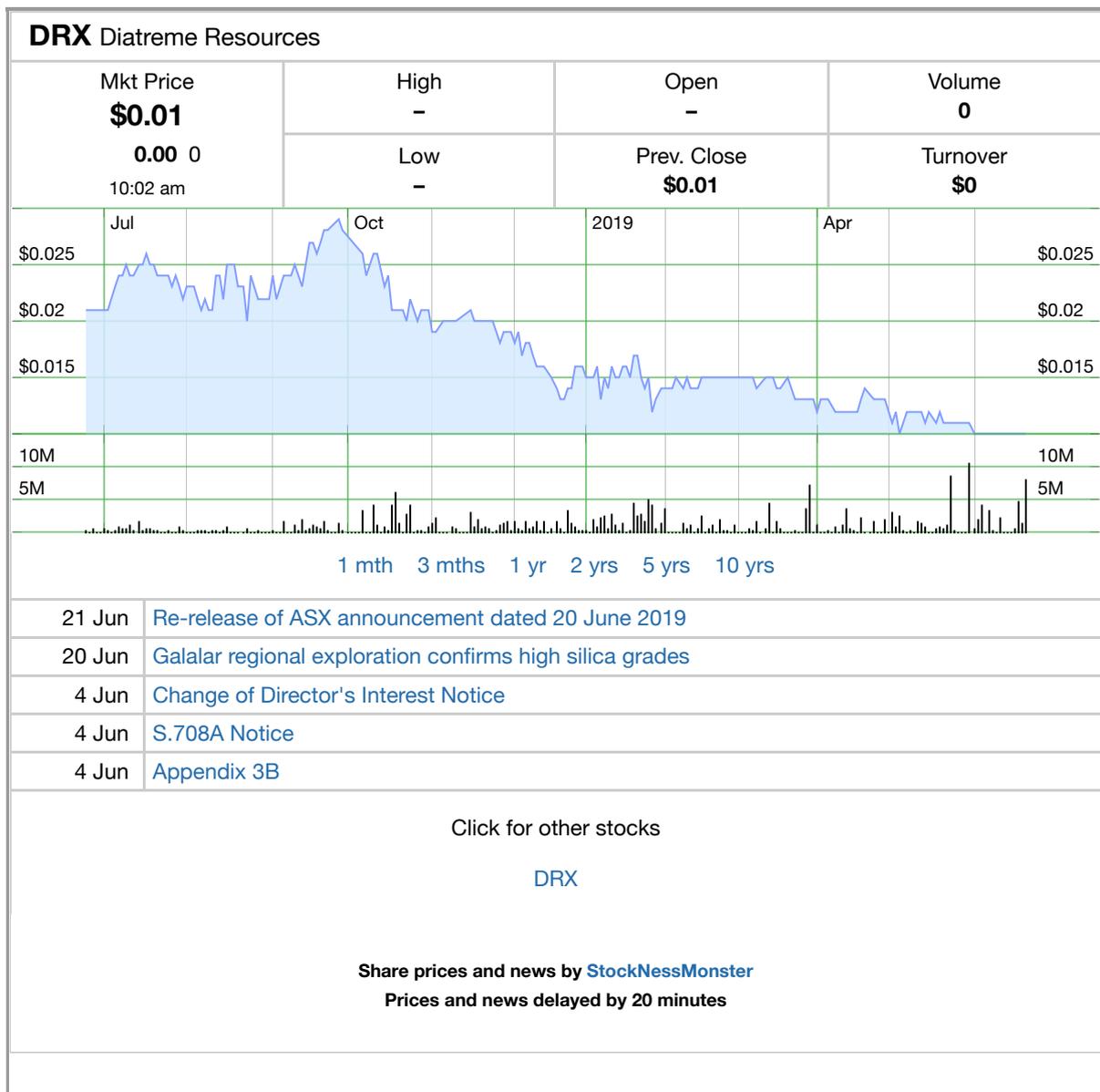
Assuming confirmation of Galalar's earnings potential, financing the development would not be a big ask.

And as it is, the sale/partnering process for the Cyclone zircon project could provide the answer for Galalar's financing.

A DFS into Cyclone's development was released in November last year. It pointed to a \$135m project with a payback of 2.7 years compared with an estimated mine life of 13.2 years.

"We are at the tail end of the sale or joint venture process that is being run by Blackbird Partners," McIntyre said. "We are confident of getting to a deal – in an announceable form – in July."

"It is an unusual project in that it is fully permitted and ready to go. And it is in a market that has an appetite, in particular, for zircon," McIntyre said.



Zircon has staged a strong price recovery since slumping to \$US900/t at the end of 2015.

Earlier this year the biggest producer, ASX-listed **Iluka (ILU)**, increased its reference price for six months to the end of September to \$US1,580/t, and US producer Tronox held its price flat for the now finishing June half at \$USS1,650/t.

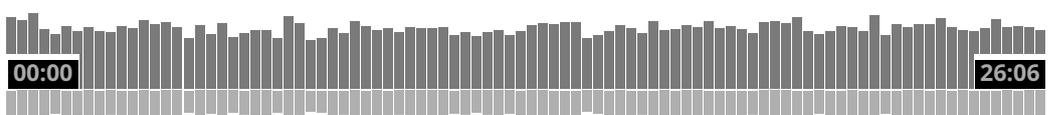
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