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Offtake, EPC deals progressing for Cyclone Zircon Project

- Memorandum of Understanding (MOU) signed with Hunan Rare Earth Industry Group for potential life of mine (LOM) offtake of heavy mineral concentrate (HMC) product and potential investment into Diatreme’s Cyclone Zircon Project, WA

- Expression of Interest (EOI) received from MCC International for potential provision of engineering, procurement and construction services (EPC) to Cyclone and assistance in sourcing project finance

- Other potential project participants’ interests currently being formalised amid strong demand and constrained supply for zircon.

Mineral and silica sands developer Diatreme Resources Limited (ASX:DRX) announced today new proposed agreements for its Cyclone Zircon Project located in the zircon-rich Eucla Basin, with demand heating up for its high grade zircon-dominant HMC product.

The agreements follow January’s appointment of independent corporate advisers Blackbird Partners (refer ASX announcement 23 January 2019) with the aim of extracting maximum value for shareholders from Cyclone, one of only a handful of major zircon-rich discoveries over the past decade.

Diatreme continues to engage in detailed discussions with a range of other potential project participants in addition to these identified parties. Amid strong interest in Cyclone, the Company can advise the following non-binding agreements concerning the Western Australian project:

(1) MOU with China’s Hunan Rare Earth Industry Group Ltd (HRE)

HRE, whose parent holding company is Hunan Gold Corporation Ltd (see below) has executed a non-binding MOU with particular interest in HMC product offtake. Key terms include an immediate progression to more binding agreements, and examination of the potential for direct project participation (investment).
Specifically during the current negotiation process, HRE has expressed its interest in acquiring 100% of available HMC for the life of the mine (LOM), which is under further consideration by Diatreme.

HRE’s General Manager, Long Songbai said: “We look forward to progressing with Diatreme our HMC offtake discussions on this high quality project as soon as possible to more binding agreements.”

(2) Expression of interest (EOI) from MCC International Corporation Ltd (MCC)

MCC, part of the China Minmetals Group (see below) has expressed interest in providing engineering, procurement and construction (EPC) services to Cyclone, in addition to assisting in sourcing suitable (Chinese banks and lending institutions) project finance to facilitate development. Key terms include both parties advancing towards more binding agreements, subject to suitable negotiations.

MCC has a representative office in Perth, has undertaken EPC contracts for a range of resource projects in Western Australia and hence is familiar with Australian standards and requirements of the resource sector. Additionally, China Minmetals group company, China ENFI Engineering undertook Cyclone’s definitive feasibility study (refer ASX announcement 15 November 2018), making it well immersed in the project.

Cautionary Note: The Company notes both the MOU and EOI are non-binding at this stage and whilst both parties have agreed to move forward in good faith, there is a material uncertainty as to whether these will lead to more binding agreements.

Next steps for Cyclone

Diatreme is focused on achieving the following goals for Cyclone:

- Advancing discussions to potentially binding agreements with both HRE and MCC, providing suitable final terms are agreed;
- Progressing discussions with other interested parties;
- Assembling the final commercial mix of parties into binding agreements that will facilitate commercial development of Cyclone;
- Achieving the best possible commercial outcome for Diatreme, which may include a significant interest in a fully developed project generating ongoing revenues for the Company.
Development timeline

Diatreme is working towards a detailed understanding on which parties will be participating in various aspects of project development, followed by formal binding agreements being put in place. The Company anticipates these discussions progressing rapidly during the third quarter 2019.

The Company will keep the market informed as these negotiations progress, together with any potential entry of other participants.

Diatreme’s CEO, Neil McIntyre said the agreements showed the potential for Cyclone to become a profitable new mine for Western Australia, providing new jobs and investment for the benefit of the community, including the traditional owners.

“We are delighted by the high level of interest in Cyclone, which has rapidly advanced following last year’s positive DFS and are confident of progressing these negotiations towards a successful outcome for all parties,” he said.

“In addition to Cyclone, our emerging Galalar Silica Project in Far North Queensland is showing potential to become a new source of premium quality silica for fast-growing Asian markets.

“With growing demand and constrained supply for both silica and mineral sands, Diatreme is on track to generate increased shareholder value as we achieve our development targets.”

Neil McIntyre
Chief Executive Officer

Greg Starr
Chairman

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About Hunan Rare Earth Industry Group Ltd (HRE)

HRE’s parent company is Hunan Gold Corporation Limited, formerly Chenzhou Mining Group Co., Ltd, a Shenzhen listed company with a market capitalisation of RMB 12 Billion (A$2.5 billion) principally engaged in the exploration, mining, smelting and processing of nonferrous metal. The company's main products include gold, pure antimony, antimony oxide, ethylene glycol, antimony, zircon and tungsten products, which are distributed in domestic and overseas markets.

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About MCC International Corporation Ltd (MCC)

MCC is a large majority state owned enterprise in China, listed on the Shanghai and Hong Kong stock exchanges with 2018 revenues exceeding US$37 billion (A$54 billion). It is known as the most “international” of the Chinese state-owned mining and project development companies with operations around the world.

MCC’s parent is China Minmetals, headquartered in Beijing and the nation’s largest metals and minerals group, with 1.6 trillion renminbi (A$339 billion) in total assets, having ranked 120th in the Fortune Global 500 for 2016. It is engaged in the production and trading of metals and minerals, including copper, aluminium, tungsten, tin, antimony, lead, zinc, and nickel. It is one of the largest metals and minerals trading companies in the world and the largest iron and steel trader in China. The company handles more than 12 million tons of steel products annually. It also trades iron, coke, coal, copper, zinc, and lead.

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 was completed in November 2018 by China ENFI Engineering Corp., part of the leading China Minmetals group, reaffirming Cyclone’s potential as the largest undeveloped zircon dominant heavy minerals project in the world-class Eucla Basin (refer map below).
Figure 1: Cyclone Project Location

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