

ASX

ANNOUNCEMENT

19 May 2021

Offtake MOU advances Galalar Silica Project's development

- New Memorandum of Understanding (MOU) signed with Jiangxi Kangjia New Material Technology Co
- MOU for supply of 250,000 tonnes per annum (tpa) of photovoltaic grade silica product from Diatreme's Galalar Silica Project, North Queensland
- Latest agreement provides further boost to Galalar project's development, amid strong demand for premium-quality silica to supply Asia's fast-growing solar PV market.

Emerging silica sands developer and explorer, Diatreme Resources Limited (ASX: DRX) has signed a new MOU for offtake from its Galalar Silica Project, highlighting the strong Asian demand for its premium-quality silica product amid the solar energy boom.

The MOU with Jiangxi Kangjia New Material Technology Co., Ltd (Jiangxi Kangjia) concerns the supply of 250,000 tpa of photovoltaic grade ($\leq 100\text{ppm Fe}_2\text{O}_3$ silica product) from the Galalar project at mine start-up, with potential for further offtake volume post start-up, subject to mutual agreement.

The agreement adds to previous MOU's signed with Fengsha Group and Wan Zhong Investment Group, demonstrating the strength of demand from Asia's top solar PV market for Diatreme's premium silica product.

Diatreme's CEO, Neil McIntyre commented: *"We welcome this agreement, which should give our investors and other project partners increased confidence in the future of our key project. Galalar is now positioning itself as a leading supplier of premium-quality silica product to Asia amid a global solar energy boom that shows no sign of slowing."*

"We look forward to cementing these MOU's into binding agreements that deliver mutually beneficial outcomes for all parties, together with valuable new jobs and investment for the Hope Vale/Cooktown region."

AUSTRALIAN SANDS. UNIVERSAL DEMAND.

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MOU details

Under the MOU, Jiangxi Kangjia has demonstrated its intent for the offtake of 250,000 tpa of a sub 100ppm Fe silica product from Galalar at mine start-up, and for increased offtake volume post start-up subject to mutual agreement. Jiangxi Kangjia also intends to explore the potential for joint investment in a potential silica processing plant within Diatreme's tenement area, when the timing is appropriate.

Both Diatreme and Jiangxi Kangjia have expressed their strong interest in establishing a strategic partnership to build a strong and sustainable upstream and middle stream silica business chain to supply the exploding demand in China for premium-grade silica products. The MOU provides a framework and road map for further cooperation, leading potentially to a legally binding offtake agreement.

Jiangxi Kangjia is a subsidiary of Konka Group, a major Chinese manufacturer of electronics products listed on the Shenzhen Stock Exchange. It is the only domestic enterprise that is able to produce third-generation nano microcrystalline stone, and it is the largest nano microcrystalline stone manufacturer in China and the largest supplier of new nano microcrystalline materials and products in the world.

Next steps

The MOU requires the following milestones to further progress the agreement:

- Diatreme to provide all relevant information and schedule to production, including bulk samples for further testing if required
- Jiangxi Kangjia to provide Diatreme with specific requirements for final product specifications, packaging, indicative delivery schedule and name of port of discharge
- Parties to agree to commence negotiations and finalisation of formal agreements after successful and satisfactory completion of mutual due diligence by both parties.

The proposed cooperation under the MOU is for an initial duration of 12 months from the date of signature, with an intention to move to binding arrangements within that period and with its renewal subject to mutual agreement.

Note: MOU's by nature are non-binding on the parties and discussions may not lead necessarily to binding product offtake agreements.

The latest project advance follows Diatreme's recent announcement of a 30% increase in the size of the Galalar project's silica resource, to 61.9 million tonnes (refer ASX announcement 17 March 2021). Positive initial testwork



results from industry specialist Mineral Technologies have highlighted the project's ability to deliver a premium-quality product (refer ASX release 22 April 2021).

A draft EIS is underway, with Diatreme aiming to lodge the necessary environmental and mining lease approval submissions by the fourth quarter of 2021, targeting mine production in 2022.

Diatreme continues to engage with a range of potential offtakers and other partners, with the aim of developing a project that brings significant employment and other economic benefits for the community of Hope Vale/Cooktown and all other stakeholders.

This announcement was authorised for release by:

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About Diatreme Resources

Diatreme Resources (ASX:DRX) is an emerging Australian producer of mineral and silica sands based in Brisbane. Our key projects comprise the Galalar Silica Project in Far North Queensland, located next to the world's biggest silica sand mine, together with the Cyclone Zircon Project in Western Australia's Eucla Basin, considered one of a handful of major zircon-rich discoveries of the past decade.

For more information, please visit www.diatreme.com.au



About Galalar Silica Project

Located around 200km north of Cairns and 20km north of the port of Cooktown, the Galalar Silica Project (EPM 17795) lies within the same sand dune system and in close proximity to the world's largest operating silica sand mine at Cape Flattery. The Cape Flattery silica sand product is recognised as a global benchmark for quality silica sand and is widely used for industrial purposes throughout Asia.

The global silica sand market is seen reaching nearly US\$10 billion in annual revenues by 2022, with a compound annual average growth rate of 7.2% (source: IMARC Group), while the global solar PV glass market is estimated to reach US\$48.2 billion by 2025, up from US\$3.3 billion in 2016 (source: Bizwit Research & Consulting).

An independent economic study has shown the Galalar project's potential to deliver a sizeable economic injection into the Hope Vale/Cooktown region, including \$23-\$24 million in the construction phase and up to \$42m in operation, creating up to 110 full-time equivalent jobs and contributing \$1.475m in annual state royalties.

In March 2021, Diatreme announced a total Mineral Resource of 61.9 million tonnes (Mt), with the potential for further expansion (refer ASX release 17 March 2021). Bulk sample testwork has shown the project's ability to produce a premium grade silica product suitable for high-end glass and solar panel manufacturing, with more than 99% silica dioxide and low iron levels of less than 100 parts per million.

Following lodgement of a mining lease application in December 2019 and receipt of final terms of reference for the environmental studies in November 2020, Diatreme is now progressing through various environmental and regulatory approvals towards mining activity.

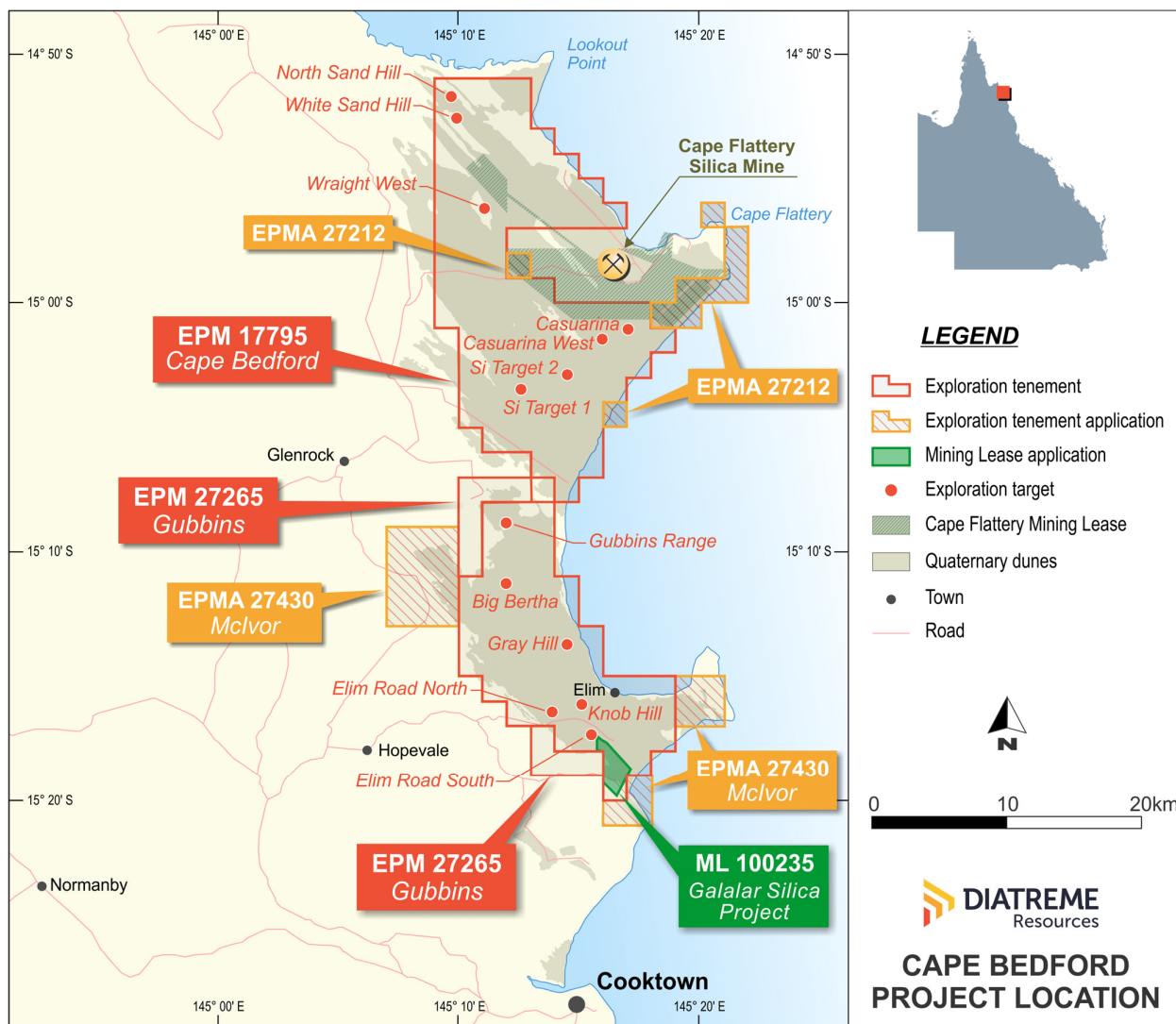


Figure 1: Galalar Silica Project, North Qld

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The forward-looking statements in this presentation are based on current interpretations, expectations, estimates, assumptions, forecasts and projections about Diatreme, Diatreme's projects and assets and the industry in which it operates as well as other factors that management believes to be relevant and reasonable in the circumstances at the date that such statements are made.

The forward-looking statements are subject to technical, business, economic, competitive, political and social uncertainties and contingencies and may involve known and unknown risks and uncertainties. The forward-looking statements may prove to be incorrect.

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MINERAL SANDS AND SILICA - COMPETENT PERSON STATEMENTS

The information in this report that relates to Mineral Resources at the Galalar Silica Project is based on information and modelling carried out by Dale Brown, Mining Engineer and Chris Ainslie, Geotechnical Engineer who are employed by Ausrocks Pty Ltd and are Members of the Australasian Institute of Mining & Metallurgy. The work was supervised by Mr Carl Morandy, Mining Engineer who is Managing Director of Ausrocks Pty Ltd and a Member of the Australasian Institute of Mining & Metallurgy and by Mr Brice Mutton who is a Senior Associate Geologist for Ausrocks Pty Ltd.

Mr Mutton is a Fellow of the Australasian Institute of Mining & Metallurgy and a Fellow of the Australian Institute of Geoscientists. Mr Brown, Mr Morandy, Mr Ainslie and Mutton are employed by Ausrocks Pty Ltd who have been engaged by Diatreme Resources Limited to prepare this independent report. This is no conflict of interest between the parties. Mr Brown, Mr Morandy, Mr Ainslie and Mr Mutton consent to the disclosure of information in the form and context in which it appears in this release/report.

Brice Mutton has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity for which he is undertaking to qualify as a Competent Person as defined in the 2012



edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (The JORC Code).

Brice Mutton consents to the inclusion in the report on the matters based on their information in the form and context in which it appears.

The information in this report that relates to Exploration Results and Exploration targets from the Galalar Silica Project is based on information reviewed and compiled by Mr. Neil Mackenzie-Forbes, a Competent Person who is a Member of the Australian Institute of Geoscientists. Mr. Mackenzie-Forbes is a director of Sebrof Projects Pty Ltd (a consultant geologist to Diatreme Resources Limited).

Mr. Mackenzie-Forbes has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr. Mackenzie-Forbes consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.