

Quarterly Report to ASX

for the period

1 July to 30 September 2014

Highlights

WIM150 Project Victoria – Australian Zircon 80% Owner and Operator

- **Optimisation of Bankable Feasibility Studies**

The Optimisation report was completed and the following results were reported to ASX on 1 October 2014.

- AZC 80% interest, assuming 50/50 debt: equity funding.
 - Net Present Value (10%) **\$657 million**
 - Internal Rate of Return **26.5%.**
 - Gross Operating Margin **59% (life-of-mine average)**
 - Payback period **3.25 years**
- AZC 80% share of construction costs (real 2014, AUD).
 - Base Construction cost **\$338.4 million**
 - Contingency **\$27.1 million**
 - Working capital **\$39.9 million**
- Key Metrics (life of mine average, 100% project).
 - Total Site Operating Costs pa **\$94 million**
 - Total Site Revenue pa **\$233 million**
 - Gross Operating Margin pa **59%**
 - Inflation **2.5%**
 - AUD/USD Exchange Rate **0.875**
 - Royalties (% of Net Market Value) **2.75%**
 - Discount Rate **10%**
- Project Resource, Reserve and planned throughput rate.
 - Mineral Resources (Measured, Indicated and Inferred) - **1.6 billion tonnes of 3.7% THM***
 - Ore Reserves (Proved and Probable) - **552 million tonnes of 4.3% THM**
 - Planned throughput rate - **10 million tonnes annually**
- **Project Funding** The Company continued to work with financial advisers Gresham Advisory Partners with respect to financing construction of the Project.

* THM – total heavy mineral

1. Operations

1.1. WIM150 Project Outline

The WIM150 Project is the subject of Retention Licence 2007 and parts of Exploration Licence 4521 near Horsham in the Wimmera region of western Victoria. Australian Zircon NL (the Company) has entered into a Joint-Venture Agreement with 20% Project partner Orient Zirconic Resources (Australia) Pty Ltd to bring the Project into production and a Supply and Offtake Agreement for Orient Zirconic to purchase 37.5% of Australian Zircon's share of production for the life-of-mine.



The Project's principal characteristics are:

- **Large and Shallow** - amenable to simple mining and rehabilitation. Flat-lying mineralisation overlain by shallow overburden.
- **Long productive life** - 55 years underwritten by Ore Reserves, 160 years by Mineral Resources.
- **Quality product** suite - WIM150 will produce exceptional quality zircon.
- **Logistics** - Well-located with respect to infrastructure and services.
- **Readily available mining and processing equipment** – Off-the-shelf equipment programmed for each stage of operations.
- **Sovereign regime** - Stable regulatory environment.

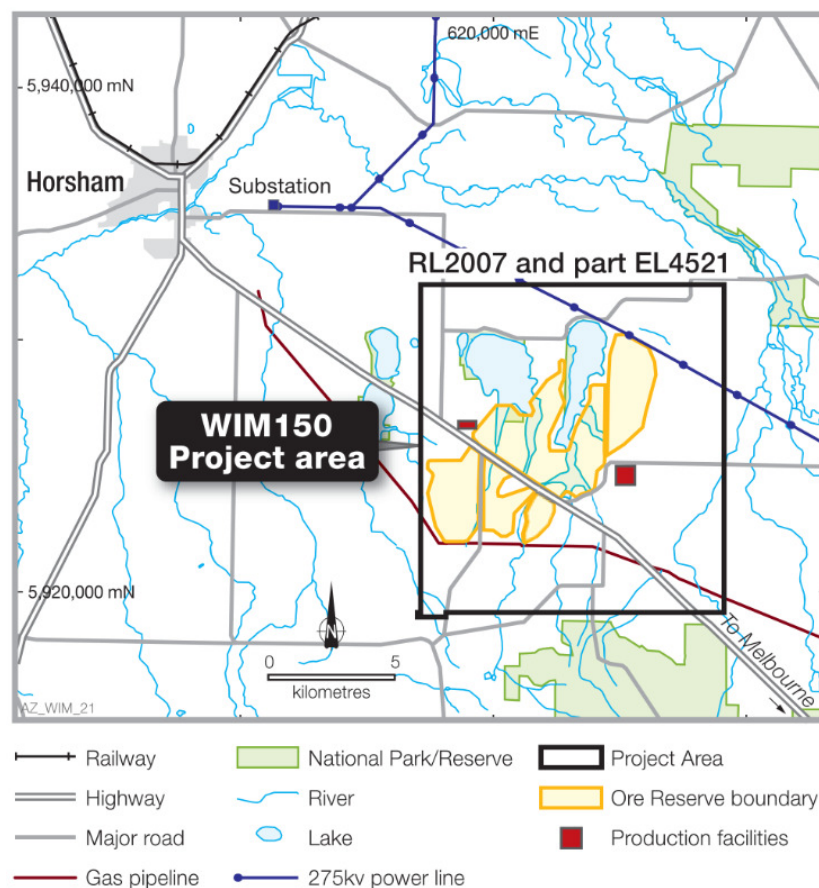
Independent Mining Expert Optiro Pty Limited has determined an attractive Waste/Ore ratio - after removal of soil and subsoil - of 0.5 to 1.

WIM150 is also well-located with respect to infrastructure. State Electricity Victoria 275,000 volt power, a Gas Pipeline Victoria trunkline, a Grampian Wimmera Mallee Water trunkline, the Melbourne - Adelaide standard gauge railway and the Melbourne - Adelaide Western Highway all pass close to the planned development.

A range of social and industrial amenities, including permanent and temporary accommodation, health care, schooling, skilled labour and engineering facilities are available in the regional centre of Horsham.

The WIM150 product suite will comprise:

- **Zircon flour**
- **Titanium products**
 - T95 (Rutile equivalent)
 - T90 (Hi-Ti equivalent)
 - T65 (Leucoxene equivalent)
 - Sulphatable ilmenites #1 and #2
- **Rare earth mineral concentrate**



WIM150 Project location plan

1.2. WIM150 Joint Venture

The WIM150 Joint Venture between Australian Zircon NL and Orient Zircon Resources (Australia) Pty Ltd crystallised on 3 September 2013.

Joint Venture participating interests are:

- Australian Zircon NL **80% and Operator**
- Orient Zircon Resources (Australia) Pty Ltd **20%**

Orient Zircon is an end-user of zircon and it is Operator of the Mindarie zircon and titanium mineral sand mine in the western Murray Basin. Orient Zircon has contracted to purchase 30% of Project production from Australian Zircon, in addition to the 20% of production which attaches to its 20% equity interest.

1.3. Completion of Optimisation of Bankable Feasibility Studies

On 1 October the Company announced the results of its optimisation of the WIM150 Bankable Feasibility Study to ASX Limited. A summary of the results of this work are set out below.

Financial outcomes of the Optimised Bankable Feasibility Study.

- AZC 80% interest, assuming 50/50 debt: equity funding.
 - Nett Present Value (10%) **\$657 million**
 - Internal Rate of Return **26.5%.**
 - Gross Operating Margin **59% (life-of-mine average)**
 - Payback period **3.25 years**
- AZC 80% share of construction costs (real 2014, AUD).
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 - Discount Rate **10%**

The Company plans now to proceed to finalization of marketing, capital raising and receipt of requisite approvals in respect of the Project.

- Project Resource, Reserve and planned throughput rate
 - Mineral Resources (Measured, Indicated and Inferred) - **1.6 billion tonnes of 3.7% THM***
 - Ore Reserves (Proved and Probable) - **552 million tonnes of 4.3% THM**
 - Planned throughput rate - **10 million tonnes annually**
 - Annual Planned Production
 - 74,000 tonnes premium zircon flour
 - 35,000 tonnes T95/T90/T65 titanium products

- 52,000 tonnes sulphateable ilmenite products
- 15,000 tonnes rare earth mineral concentrate

Australian Zircon reported to the ASX (26 July 2013) that Proved and Probable Ore Reserves of 551 million tonnes of 4.3% total heavy mineral had been defined at WIM150.

This Ore Reserve is included in a Measured, Indicated and Inferred Mineral Resource base of 1,650 million tonnes of 3.7% total heavy mineral, as reported to the ASX on the 18 June 2013. A summary breakdown of the resources and reserves is located in section 3 of this release.

Both the Ore Reserve and Mineral Resource estimates quoted in this announcement should be read as summaries of the original announcements. Australian Zircon confirms that the data contained in this release comply with the requirements of ASX Listing Rule 5.23.2:

“The entity confirms in the subsequent public report that it is not aware of any new information or data that materially affects the information included in the relevant market announcement and, in the case of estimates of mineral resources or ore reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed.”

The Project has an Ore Reserve mine life of 55 years and a Mineral Resource life of more than 160 years at the planned rate of production.

1.4. Other operational activities

Zircon upgrade testwork.

The thermal section of CSIRO's Pure Zircon Process was successfully trialled with multiple runs at pilot-plant scale at CSIRO's facilities at Clayton in Victoria. Discharge characteristics have been confirmed and analysis of the results of this work is underway.

Environment and Community Engagement

Studies required for completion of a finalised Environment Effects Statement continued, together with engagement with the relevant Federal, State, and Local government agencies, landholders and the local community. Seasonal surveys for federally listed species of fauna continued, structured in accordance with Federal Government survey guidelines.

Marketing

Discussions continued in relation to placements of the share of Australian Zircon's production which has not already been contracted for sale.

Project Financing

Australian Zircon appointed Gresham Partners as its Financial Advisors earlier this year. The Company continued to work closely with Gresham with regard to financing its share of Project construction costs throughout the Quarter.

2. Work Planned

- Engagement with additional prospective offtake partners will continue
- Discussions with potential funding partners will continue.
- Zircon upgrade work will be reported. Results will be integrated into the Final Design engineering programme.

- Environmental studies will continue and engagement with Government agencies and with the community will be maintained.

3. Finance

Support from DCM

The Company's major shareholder - DCM DECOmetal GmbH 'DCM' - continues to provide funding for the Company's ongoing operations.

Cash Position

At the end of the Quarter, the Company had cash at bank of \$23,000. However since that time, further Cash Call monies have been received in support of the ongoing operations of the project.

Note : All references to dollars in this report relate to Australian dollars unless otherwise stated.

Yours sincerely,

Jeremy D Shervington
Chairman

for and on behalf of
Australian Zircon NL

Corporate Details

ASX

The Company's shares are listed on the Australian Securities Exchange (ASX) with the code **AZC**. Trading in the shares, however, is currently suspended. The Company's balance sheet reflects a substantial negative equity position, and resolution of this matter with DCM, the major creditor, is required before consideration can be given to resumption of trading. Discussion with DCM on this matter is continuing.

Corporate Information

Directors

Jeremy Shervington	Non-Executive Chairman
Gerhard Kornfeld	Non-Executive Director
Thomas Styblo	Non-Executive Director
Johann Jacobs	Non-Executive Director

Company Secretary

Graham Seppelt

Senior Management

David Clarke	Project Coordinator
Andrew Reeves	Project Manager
Emma Vogel	Development Manager
Darren Klingner	Technical Services Manager

Further Information

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QUARTERLY CASH FLOW REPORT TO THE ASX
FOR THE PERIOD 1 JULY 2014 TO 30 SEPTEMBER 2014

Appendix 5B

MINING EXPLORATION ENTITY QUARTERLY REPORT

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10

Name of entity

Australian Zircon NL

ABN

60 063 389 079

Quarter ended ("current quarter")

30 September 2014

Consolidated statement of cash flows

		Current quarter \$A'000	Year to date (3 months) \$A'000
Cash flows related to operating activities			
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for (a) exploration & evaluation	-	-
	(b) development	(725)	(725)
	(c) production	-	-
	(d) administration	(269)	(269)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	1	1
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	9	9
	Net Operating Cash Flows	(984)	(984)
Cash flows related to investing activities			
1.8	Payment for purchases of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.9	Proceeds from sale of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	-	-
	Net investing cash flows	-	-
1.13	Total operating and investing cash flows (carried forward)	(984)	(984)

1.13	Total operating and investing cash flows (brought forward)	(984)	(984)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	650	650
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	Net financing cash flows	650	650
	Net increase (decrease) in cash held	(334)	(334)
1.20	Cash at beginning of quarter/ year to date	357	357
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	23	23

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'ooo
1.23	Aggregate amount of payments to the parties included in item 1.2	24
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Directors' fees paid.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Loan liability is increasing as interest is accruing.

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Financing facilities available

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities		
3.2 Credit standby arrangements		

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	-
4.2 Development	(277)
4.3 Production	
4.4 Administration	(200)
Total	(477)

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	23	357
5.2 Deposits at call		
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	23	357

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed				
6.2 Interests in mining tenements acquired or increased				

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	Preference securities (description)				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	*Ordinary securities	1,474,715,121 Fully Paid 7,363,026 Partly Paid			0.5 cents paid per partly paid security
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5	*Convertible debt securities (description)				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	Options (description and conversion factor)			Exercise price	Expiry date
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	Debentures (totals only)				
7.12	Unsecured notes (totals only)				

COMPLIANCE STATEMENT

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does ~~/does not~~* (delete one) give a true and fair view of the matters disclosed.



Sign here: Date: 27 October 2014
(~~Director~~/Company secretary)

Print name: Graham Seppelt

NOTES

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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