

11 August 2014

The Manager  
ASX Compliance Pty Ltd  
Level 40, Central park  
152 – 158 St Georges Terrace  
Perth WA 6000

By email to : Dale.Allen@asx.com.au

**Appendix 5B Response to ASX Compliance Pty Limited**

Australian Zircon NL (“AZC”, or “Company”) acknowledges your letter dated 6 August 2014 and responds to each of your questions as follows:

1. The company’s major shareholder, DCM DECOMetal International Trading GmbH, provides funds to AZC on an “as needs” basis to fund the Company’s ongoing working capital requirements. As confirmed in the company’s Quarterly Report filed with ASX on 21 July 2014.

DCM DECOMetal GmbH ‘DCM’ – has advised that it will continue to financially support the Company's ongoing operations according to its financial capability.

With the support of DCM, the Company will continue its program to finalise its Optimisation Study for the ultimate benefit of all shareholders. DCM is committed to supporting AZC through funding that program as and when funds are needed.

2. The Company expects the level of activity to vary over successive quarterly periods and that DCM will retain its confidence in the management of the company to provide the outcomes required for a successful development operation. DCM has indicated its commitment to the Company. See the response in 1. above.
3. The Company continues to take appropriate steps to meet its business objectives of developing a commercial mineral operation in conjunction with its major shareholder, DCM. Funding is an integral part of that operation. Please refer to the Quarterly Activities Report lodged on 21 July 2014 for further details of work done and planned work in this regard.
4. The Company is aware of its obligations under the listing rules, in particular those arising under listing rule 3.1 and confirms that it is in compliance with listing rule 3.1.
5. Listing Rule 12.1 requires that the entity’s level of operations must be sufficient to warrant the continued quotation of the entity’s securities and its continued listing. We refer to the amount that has been spent on exploration at the WIM 150 tenement and in conducting the feasibility study and the optimisation since 2009 amounting to

\$12,731,587. We also refer to the scale of the project by reference to reserves and resources and other measures, as previously announced to the market on 26 July 2013, and the ongoing work being conducted.

6. We refer to the fact that the balance sheet is impacted by the debt owed to DCM , that DCM is providing the ongoing financial assistance to fund the development of the WIM 150 Project and the project funding ( debt and equity ) activities referred to in the most recent Quarterly Activities Report which activities will result in a significant improvement in the financial condition of the company.

For further information, please contact:

Graham Seppelt  
Company Secretary  
Australian Zircon NL  
Ph: 0419 035 297  
Email: [seppelt@bold.net.au](mailto:seppelt@bold.net.au)



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6 August 2014

Mr Graham Seppelt  
Company Secretary  
Australian Zircon NL

*By email: seppelt@bold.net.au*

Dear Graham

**Australian Zircon NL (the "Company")**

I refer to the Company's Quarterly Cash Flow Report in the form of Appendix 5B for the quarter ended 30 June 2014, released to ASX Limited ("ASX") on 31 July 2014, (the "Appendix 5B").

ASX notes that the Company has reported the following.

1. Receipts from product sales and related debtors of \$nil.
2. Payments for exploration, evaluation, development and production of \$697,000.
3. Negative operating cash flows for the quarter of \$703,000.
4. Cash at end of quarter of \$357,000.

In light of the information contained in the Appendix 5B, please respond to each of the following questions.

1. It is possible to conclude on the basis of the information provided that if the Company were to continue to expend cash at the rate indicated by the Appendix 5B, the Company may not have sufficient cash to fund its activities. Is this the case, or are there other factors that should be taken into account in assessing the Company's position?
2. Does the Company expect that in the future it will have negative operating cash flows similar to that reported in the Appendix 5B and, if so, what steps has it taken to ensure that it has sufficient funds in order to continue its operations at that rate?
3. What steps has the Company taken, or what steps does it propose to take, to enable it to continue to meet its business objectives?
4. Can the Company confirm that it is in compliance with the listing rules, and in particular, listing rule 3.1?
5. Please comment on the Company's compliance with listing rule 12.1.

6. Please comment on the Company's compliance with listing rule 12.2, with reference to the matters discussed in the note to the rule.

### **Listing rule 3.1**

Listing rule 3.1 requires an entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. The exceptions to this requirement are set out in the rule.

In responding to this letter you should consult listing rule 3.1 and the guidance note titled "Continuous disclosure: listing rule 3.1".

If the information requested by this letter is information required to be given to ASX under listing rule 3.1 your obligation is to disclose the information immediately.

Your responsibility under listing rule 3.1 is not confined to, or necessarily satisfied by, answering the questions set out in this letter.

This letter and your response will be released to the market. If you have any concerns about your response being released, please contact me immediately. Your response should be sent to me on **facsimile number (08) 9381 1322** or **email dale.allen@asx.com.au**. It should not be sent to ASX Market Announcements.

Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event, not later than **5:00pm (WST) on Monday 11 August 2014**.

If you are unable to respond by the time requested you should consider a request for a trading halt in the Company's securities.

If you have any queries please let me know.

Yours sincerely,

*[sent electronically without signature]*

Dale Allen  
Senior Adviser, Listings Compliance (Perth)