

Cyclone : now moving ahead
Management changed; First Zircon in 2017
Key is securing off-take.

Recommendation

BUY, High Risk

Price

1.6c

Valuation

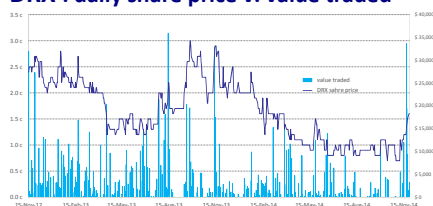
4.4c

- DRX announced the results of its PFS in March 2012. There were 4 key issues to be resolved, and 3 of these have now been resolved, 2 in the last month, with the final issue in train.
- Processing 10Mt/yr of ore, Cyclone is expected to produce 65kt/yr of saleable zircon, plus 85kt/yr of saleable titaniferous feedstock.
- DRX is re-engaging with off-take partners to secure funding and a project go-ahead during 2015.

Snapshot

Market Cap	\$11.2m
Cash on hand (30 Sept 2014)	\$1.4m
Shares on Issue	719.2m
52 Week High	2.5c
52 Week Low	0.7c
1 month / 6 month VWAP	1.30c / 1.06c

DRX : daily share price v. value traded



In March 2012, DRX announced the results of its Pre-Feasibility Study on the Cyclone mineral sands deposit, with a pay-back period of 2.1years.

While DRX had announced, in August 2010, an MOU with the largest end user of zircon in China, there were 4 key assurances required, and 3 have now been delivered, with the final, environmental clearance for an access road, now in train.

DRX is now re-engaging with potential off-take partners and financiers.

A formal commitment to project construction can be expected late in 2015, with first product in early 2017.

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Three of the four required assurances now delivered

In 2013, DRX advised that to execute the Memorandum of Understanding into a binding Heads of Agreement, four key issues needed to be resolved

- Water supply was located in November 2013, with the successful drilling of a water bore within the area of the Exploration Lease;
- The signing of a Native Title Agreement was announced on 17 November 2014;
- A Mining Licence, which was announced on 24 November 2014; and
- Approval for a road transport corridor from Cyclone to the rail line at Forrest, for which the Public Environmental review documents have been lodged.

In short, DRX is now making real progress on the Cyclone project.

Cyclone Valuation

On 9 January 2014, DRX announced a Heads of Agreement with Perpetual Mining Holdings Limited, a Hong Kong based company with sound business connections within China including in iron ore mining and steel products processing, for PMHL to acquire a 6% stake in the Cyclone project for \$2m. Beer & Co expects zircon prices to firm to \$1,500/t, and rutile to \$1,250/t by 2017, when Cyclone begins production. Our resulting, after-tax valuation of Cyclone is \$A 125m.

Financing

Estimated capital to get into production is \$146m. Beer & Co expects that DRX's current discussions with potential investors and off-take partners results in a party buying a project stake at a value related to NPV, and the new party facilitates the required capital.

Beer & Co conclusions

Our risk weighted valuation of DRX is 4.4c/share. There is significant upside potential at Tick Hill and Cape Bedford.

The recent progress encourages us that the final requirements for financing will be met. Beer & Co initiates research on DRX with a BUY, High Risk recommendation.

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DRX : Zircon in 30 months

DRX - Background

DRX has a number of exploration projects, but it is now focussed on the developed of the Cyclone zircon project, in the Eucla Basin, which is shown in Figure 1.

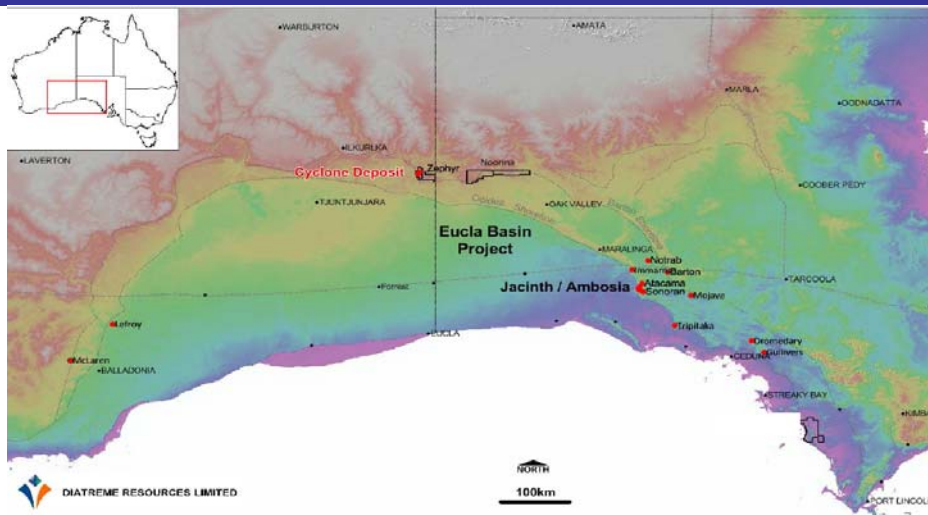
DRX has zircon in the Eucla Basin

915klt of contained zircon in Cyclone

plus

345klt of contained zircon in Cyclone Extended

Figure 1 : Cylcone, in WA, Eucla Basin



Source : DRX presentation, March 2014

Cyclone Zircon Project ...

In February 2012, DRX announced a Mineral Resource estimate for Cyclone of 136Mt at 2.3% Heavy Minerals, for 954kt contained zircon. This was recently revised, to be JORC 2012 compliant, to 137Mt at 2.2% HM for 915kt of contained zircon, as shown in Figure 2.

Figure 2 : Cyclone Resource estimate

	1% cut-off	H M	slimes	over-size	Zircon	Rutile	85% - 95%	70%- 85%	<70%	SiTiOx
Measured	118 Mt	2.3 %	4.1 %	5.4 %	0.71 %	0.07 %	0.15 %	0.49 %	0.24 %	0.51 %
Indicated	19 Mt	1.5 %	3.3 %	5.0 %	0.38 %	0.05 %	0.04 %	0.49 %	0.07 %	0.28 %
TOTAL	137 Mt	2.2 %	4.0 %	5.4 %	0.67 %	0.07 %	0.14 %	0.49 %	0.21 %	0.47 %

Source : DRX ASX announcement, 9 January 2014, Beer & Co

In March 2012, DRX published the results of its Pre-Feasibility Study. Figure 3 shows the Ore Reserve estimate, of 97Mt of ore grading 2.5% HM for 770kt of contained zircon, developed for the PFS.

Figure 3 : Cyclone project, Maiden ore reserve

Reserves	HM	Slimes	over-size	Zircon	Rutile	Leucoxene	HiTi	Alt. Ilm	Si-TiOx	Zircon	Rutile	HiTi + Ilm.	
Probable	97 Mt	2.5 %	4.0 %	5.1 %	0.79 %	0.08 %	0.17 %	0.52 %	0.26 %	0.56 %	770 kt	78 kt	922 kt

Source : DRX ASX announcement, 7 February 2012, Beer & Co

The PFS showed an economic project, with an NPV of \$194m, after cap.ex of \$233m and annual op.ex, before royalties, of \$82m.

DRX completed its PFS in May 2012

The PFS was based on mining and processing 10Mt/yr of ore to produce 65kt of zircon, 10kt of HiTi87 and 46kt of HiTi67.

The assumed product prices were US\$2,100/t for zircon, \$1,200/t for HiTi87 and \$400/t for HiTi67.

DRX had signed an MoU with a major Chinese consumer of zircon in August 2010.

To complete the DFS, DRX needed to achieve certain milestones.

To complete a DFS and secure investment in the project, DRX needed to

- Secure an adequate water supply,
 - On 11 November 2013, DRX announced that it had successfully drilled a bore that produced water at a rate likely to be adequate for Cyclone operations
- Execution of an agreement with the Traditional Owners
 - On 17 November, 2014, DRX announced that it had signed an agreement with the traditional owners
- Secure the grant of a Mining Lease
 - This was announced on 24 November 2014; and
- Secure environmental approval
 - The Public Environmental Review will be made available for public review in early 2015 and is expected to be concluded by mid 2015

The first milestone, a secure water supply, was achieved in November 2013, though it needed further testing.

Agreement with the Traditional Owners was announced on 17 November 2014

Present Status

Since publication of the PFS, development momentum slowed as key milestones drifted out in time as the commodity prices softened.

Grant of the Mining Licence was announced on 24 November 2014

In January 2014, DRX agreed to sell a 6% stake in the project to a Hong Kong base company, Perpetual Mining Holdings Limited (PMHL), for \$2m, following the success of the water bore.

The draft Public Review document has been lodged and is expected to be open for comment early in 2015.

In August 2014, the Board was re-structured with the Executive Chairman and the Executive Director of Operations standing down. Neil McIntyre, a non-executive director, resigned from the Board and took over as Chief Executive, and has since moved the project significantly, including securing Cyclone Extended.

It is hoped that the Environmental Approval will be given by mid 2015

The project is being revised :

- Capital required has been trimmed by \$77m to \$146m, of which \$5m is required for completion of the DFS, and
 - The cost of the wet plant has been reduced by \$15m, following its re-design
 - \$41m has been saved by using spare dry plant capacity currently available in China
- Site operational costs has been trimmed, with lower oil prices and use of a relocatable wet concentrator plant.

DRX has cut both cap.ex and op.ex from the PFS levels.

Importantly, DRX has re-engaged with a number of parties that are interested in the product and may be prepared to invest in the project, as PMHL has done.

Commodity prices are also lower

Figure 4 shows the timetable expected by Beer & Co.

Figure 4 : Expected timetable

Complete DFS	6 months	April 2015
Permits	2 months	June 2015
Finance / JV	2 months	August 2015
Construction	15 months	November 2016
Commission	3 months	February 2017
First HMC sale	2 months	April 2017

Source : Beer & Co estimates

DRX has secured Cyclone Extended

On 10 November, 2014, DRX announced that it had secured the extension of the Cyclone deposit. Figure 5 shows the current, though dated, resource estimate for Cyclone Extended.

Figure 5 : Cyclone Extended – Mineral Resources estimate

	1% cut-off	H M	slimes	over-size	Zircon	85% - 95%	<70%
Indicated	77 Mt	2.0 %	6.1 %	5.4 %	0.42 %	0.20 %	0.74 %
Inferred	9 Mt	1.2 %	2.3 %	5.0 %	0.26 %	0.06 %	0.50 %
TOTAL	86 Mt	1.9 %	5.7 %	5.4 %	0.40 %	0.18 %	0.71 %

Source : Image Resources (IMA) ASX announcement, 23 July 2010, Beer & Co

Beer & Co has analysed the Cyclone project, using the PFS as a base.

Beer & Co's analysis

Figure 6 shows the mining inventory assumed by Beer & Co for this analysis. The first 2 tranches are very close to the Reserve developed for the PFS, while the final tranche is basically a project extension that adds a little value.

Figure 6 : Beer & Co's assumed mining inventory for expanded Cyclone project

	1% cut-off	H M	Zircon	Rutile	HiTi 87	HiTi 77	HiTi 67	H MWaste : Ore	Zircon	Rutile	HiTi 87	HiTi 77	HiTi 67	
Tranche 1	40 Mt	2.6 %	0.85 %	0.09 %	0.17 %	0.55 %	0.25 %	1,040 kt	1.2 : 1	340 kt	36 kt	68 kt	220 kt	100 kt
Tranche 2	50 Mt	2.3 %	0.75 %	0.07 %	0.14 %	0.50 %	0.20 %	1,150 kt	1.0 : 1	375 kt	35 kt	70 kt	250 kt	100 kt
Tranche 3	30 Mt	2.1 %	0.65 %	0.05 %	0.10 %	0.45 %	0.15 %	630 kt	1.1 : 1	195 kt	15 kt	30 kt	135 kt	45 kt
TOTAL	120 Mt	2.4 %	0.76 %	0.07 %	0.14 %	0.50 %	0.20 %	2,820 kt	1.10 : 1	910 kt	86 kt	168 kt	605 kt	245 kt

Source : Beer & Co estimates

We have changed cost estimates, due to a different project concept

DRX will ship a Heavy Mineral Concentrate. We treat this as though it were a base metal concentrate, with a charge related to metal recoveries plus operating costs plus a further charge for the facilities.

Figure 7 shows the recoveries that have been used in this analysis for each product.

Figure 7 : Assumed mineral recoveries

	Zircon	Rutile	HiTi 87	HiTi 77	HiTi 67
Wet Plant / WCP	95 %	85 %	85 %	85 %	85 %
Dry Plant / MSP	87 %	70 %	45 %	75 %	70 %
Overall / TOTAL	83 %	60 %	38 %	64 %	60 %

Source : Beer & Co estimates

Figure 8 shows the product expected to be recovered from mining 10Mt/yr of ore, grading as indicated in Figure 6.

Figure 8 : Saleable mineral in HMC

'000 tonnes	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
zircon in HMC produced	53	81	81	81	74	71	71	71	71	65	62	62	19
rutile in HMC produced	4	8	8	8	6	6	6	6	6	5	4	4	1
HiTi 87 in HMC produced	8	14	14	14	13	12	12	12	12	10	9	9	3
HiTi 77 in HMC produced	27	46	47	47	44	43	43	43	43	40	38	38	12
HiTi 67 in HMC produced	12	21	21	21	18	17	17	17	17	14	13	13	4
HMC Sold	109	176	177	177	161	154	154	154	154	137	130	130	41

Source : Beer & Co estimates

While the resource shows a range of products, the relatively small volumes and difficulties in getting definitive separation means that only 2 titaniferous products, in addition to the non-magnetic zircon, are expected to be sold.

Figure 9 shows Beer & Co's resulting final product sales and projected revenue. Note that the revenue relates to the volume of product not the final sales product. This makes it consistent with the costs shown in Figure 10.

Figure 9 also details our commodity price projections, which are considerably lower than those used in the PFS, but still a premium to current prices, reflecting Iluka's advice in their August half year results presentation

Figure 9 : Saleable final product

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
AUD/USD	0.850	0.850	0.850	0.850	0.850	0.850	0.850	0.850	0.850	0.850	0.850	0.850	0.850
Zircon USD /t	1,475	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
HiTi 87 USD/t	950	950	950	950	950	950	950	950	950	950	950	950	950
HiTi 67 USD/t	438	438	438	438	438	438	438	438	438	438	438	438	438
Final Product Volume													
Zircon	46 kt	70 kt	70 kt	70 kt	65 kt	62 kt	62 kt	62 kt	62 kt	56 kt	54 kt	54 kt	17 kt
HiTi 87	7 kt	12 kt	12 kt	12 kt	10 kt	10 kt	10 kt	10 kt	10 kt	8 kt	7 kt	7 kt	2 kt
HiTi 67	29 kt	49 kt	50 kt	50 kt	46 kt	44 kt	44 kt	44 kt	44 kt	40 kt	38 kt	38 kt	12 kt
Revenue, AUD m	127	201	202	202	184	176	176	176	176	158	149	149	47

Source : Beer & Co estimates

Our estimated changes in operating costs are due to

The use of a relocatable WCP; and

Lower oil prices

Otherwise, costs are about the same as in the PFS

Annual site costs are project to be about \$50m :

- Overburden removal, by truck and shovel, is projected to be \$1.9/t, and the quantity varies as shown by changes in waste : ore ratio in Figure 6;
- Annual mining cost, using dozer traps, is projected to be \$11.4m, for 10Mt;
- Wet plant cost are projected to be \$14.2m;
- Site admin and sales is projected to be \$5.1m.

Transport of up to 177klt/yr of HMC is expected to cost

- \$33.6/t for 240km road haulage at 14c/t-km;
- \$35/t for 1,000km by rail at 3.5c/t-km;
- \$7.5/t to load onto a ship; and
- US\$ 45/t to ship to China.

These operational costs, plus the costs of the out-sourced mineral separation, are shown in Figure 10.

Figure 10 : Projected EBITDA, Cyclone project

AUD m	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Revenue	127	201	202	202	184	176	176	176	176	158	149	149	47
Site Costs	(38)	(53)	(53)	(53)	(51)	(50)	(50)	(50)	(50)	(51)	(51)	(51)	(18)
Transport	(14)	(23)	(23)	(23)	(21)	(20)	(20)	(20)	(20)	(18)	(17)	(17)	(5)
MSP Fee	(5)	(8)	(8)	(8)	(8)	(7)	(7)	(7)	(8)	(7)	(7)	(7)	(2)
Plant Charge	(3)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(1)
Metal Losses	(24)	(39)	(39)	(39)	(35)	(34)	(34)	(34)	(34)	(30)	(28)	(28)	(9)
Royalties	(6)	(9)	(9)	(9)	(8)	(8)	(8)	(8)	(8)	(7)	(7)	(7)	(2)
E B I T D A	37	66	66	66	58	54	54	54	53	42	36	36	10

Source : Beer & Co estimates

We calculate a project NPV of \$125m

Figure 11 shows the net cashflows generated by the Cyclone project.

The NPV of these cashflows, after the DFS has been completed, using a 10% discount rate on the after-tax cashflows to equity holders, is \$125m.

Figure 11 : Projected cashflows for Cyclone project

AUD m	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
E B I T D A			37	66	66	66	58	54	54	54	53	42	36	36	10
Dep'n & Amort'sn			(10)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(4)
Interest Expense			(6)	(5)	(4)	(3)	(1)	(0)	0	0	0	0	0	0	0
Tax Expense			(6)	(14)	(14)	(15)	(13)	(12)	(12)	(12)	(12)	(8)	(7)	(7)	(2)
N P A T			15	32	33	34	30	28	28	28	28	19	16	16	4
Project Cap. Ex	(5)	(141)	0	0	0	0	0	0	0	0	0	0	0	0	0
Sus. Cap. Ex	0	0	(1)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	0	0
Net Cashflow to Equity	(5)	(70)	20	31	31	30	24	29	39	39	39	31	27	30	8

Source : Beer & Co estimates

Valuation of DRX

Recent momentum has enabled DRX to re-engage with potential Chinese off-take partners

As a result, we expect that DRX will be able to sell a stake in the Cyclone project

Beer & Co believes that there is interest in investing in the Cyclone project, as shown by PMHL's recent acquisition of a 6% stake.

Beer & Co expects that DRX will sell a further stake, which we have assumed to be 40%, in the project which will help finance the project as shown in Figure 12.

Figure 13 shows that Beer & Co's risk weighted valuation of DRX is 4.4c/share

Figure 12 : Financing Cyclone

Project Value	Jun. 15	\$ 114m
Project Share sold	40 %	\$ 46m
Value Received	85 %	\$ 39m
Project Capital		\$ 146m
Debt Finance	50 %	(\$73m)
Project Equity Required		\$ 73m
DRX share value received	54%	\$ 39m
further DRX equity required		\$ 1m
DRX Working Capital		\$ 4m
DRX Equity to raise		\$ 5m

Source : Beer & Co estimates

The sale of a project stake at a value related to its NPV will

- Assist in securing debt finance; and
- Provide much of the equity needed

Beer & Co's riskd, base case valuation is 4.4c/share

Figure 13 : Beer & Co's value for DRX is 4.4/share

discount rate = 12.0 %	risk :	31-Dec-13		25-Nov-14		
		100%	Product	per share		
	Cyclone	70 %	\$ 51m	\$ 35m	2.4 c	2.7 c
	franking credits	42 %	\$ 18m	\$ 7m	0.5 c	0.6 c
	Cape Bedford	nom	\$ 2m	\$ 2m	0.1 c	0.1 c
	Tick Hill	nom	\$ 2m	\$ 2m	0.1 c	0.1 c
	Other / Exploration	nom	\$ 0m	\$ 0m	0.0 c	0.0 c
	Corporate	100 %	(\$23m)	(\$23m)	(1.6c)	(1.6c)
	Asset Sales	80 %	\$ 31m	\$ 25m	1.7 c	1.9 c
	Cash	100 %	\$ 1m	\$ 1m	0.1 c	0.1 c
	Cash to be raised	80 %	\$ 9m	\$ 7m	0.5 c	0.5 c
	TOTAL		\$ 90m	\$ 57m	3.9 c	4.4 c
	Shares on issue		609.6m	FPO shares	19.9m	options
			110m	issued 2014	19.9m	ex'd
			442m	issued 2015		
			276m	Issued 2016		

Source : Beer & Co estimates

Conclusions

The key risks to Beer & Co's valuation are

- Commodity prices; and
- Project finance

Beer & Co feels comfortable that mineral sands price will lift 40% from current levels, from under a third to under half of the prices 2 year back

Beer & Co is certain that there is good interest from potential off-take parties in investing in Cyclone.

Beer & Co has a BUY, High Risk, recommendation.

This analysis has built on the PFS announced in March 2012.

DRX changed its Chief Executive in August, 2014, and since then many announcements have been made to advance the project, including Native Title and the Mining Lease. This momentum is critical to re-engage the Chinese parties that wish to source zircon.

Key Risks

Beer & Co's base case, risked valuation is 4.4c/share, a multiple of the share price, even after the strong rise, which has seen the share price more than double since the start of November.

The key risks in our valuation are :

- Financing : being able to sell a project stake of 40% - 50% at a value related to NPV is critical; and
- Commodity prices : at current prices, the project is uneconomic, and a price rise of more than 10% is required, though this is modest given recent price swings.

In our analysis, an investment decision is not highly sensitive to capital and operating cost estimates.

Conclusion

Beer & Co is confident that the key risks are managed. We are confident that DRX will produce zircon in 30 months, so we have a BUY, High Risk, recommendation.

Beer & Co Research
Diatreme Minerals (DRX.ASX) November 2014

Year ended December	2013	2014	2015	2016	2017	2018	2019
Section 1 - P&L							
Sales revenue	\$A m	0	0	0	0	51	81
Interest revenue	\$A m	0	0	0	0	0	1
Other revenue	\$A m	0	0	0	0	0	0
Total Revenue	\$A m	0	0	0	0	51	82
Cost of Goods Sold	\$A m	0	0	0	0	(28)	(41)
Royalties	\$A m	0	0	0	0	(3)	(5)
Exploration Expense	\$A m	(3)	0	0	0	0	0
Corporate Costs	\$A m	(2)	(2)	(2)	(2)	(4)	(4)
Total Operating Expenses	\$A m	(5)	(2)	(2)	(2)	(35)	(50)
EBITDA	\$A m	(5)	(2)	(2)	(2)	16	32
Dep'n & Amort'sn	\$A m	(0)	0	0	0	(5)	(8)
EBIT	\$A m	(5)	(2)	(2)	(2)	11	24
Interest Expense	\$A m	(0)	0	0	(0)	(3)	(2)
Other	\$A m						
Pre-Tax Profit	\$A m	(5)	(2)	(2)	(2)	8	21
Tax Expense	\$A m	0	1	1	1	(2)	(7)
NPAT	\$A m	(5)	(1)	(1)	(1)	5	15

Section 2 - Key Data							
Ordinary shares - year end	m	610	719	1,161	1,437	1,437	1,437
Fully diluted shares on issue	m	610	719	1,161	1,437	1,437	1,437
Weighted # shares	m	559	667	1,161	1,437	1,437	1,437
Earnings per Share		(0.1c)	(0.2c)	(0.1c)	(0.1c)	0.4 c	1.0 c
Dividends Per Share		0.0 c	0.0 c	0.0 c	0.0 c	0.0 c	0.0 c

Section 3 - Balance Sheet							
Cash	\$A m	1	1	38	3	11	24
Receivables	\$A m	0	0	0	0	11	12
Other	\$A m	0	0	0	0	0	0
CURRENT ASSETS	\$A m	1	1	38	3	21	36
Receivables	\$A m	0	0	0	0	0	0
P, P & E	\$A m	0	0	0	0	77	73
Mining Properties / Exploration	\$A m	20	20	17	17	16	15
Other	\$A m	1	0	0	0	0	0
NON-CURRENT ASSETS	\$A m	21	21	18	94	89	82
TOTAL ASSETS	\$A m	22	22	55	97	110	120
Payables	\$A m	1	0	0	0	3	4
Debt	\$A m	0	0	0	2	8	8
Other	\$A m	0	0	0	0	0	0
CURRENT LIABILITIES	\$A m	2	0	0	2	8	9
Long Term Debt	\$A m	0	0	0	36	28	20
Deferred Tax Liability	\$A m	0	0	0	0	0	0
Other	\$A m	0	0	0	0	0	0
Provisions	\$A m	0	0	0	0	0	0
NON-CURRENT LIABILITIES	\$A m	0	0	0	36	28	20
TOTAL LIABILITIES	\$A m	2	0	0	38	36	28
NET ASSETS	\$A m	21	22	55	59	75	90
Accumulated Profit (Loss)	\$A m	(25)	(27)	(28)	(29)	(24)	(9)
Reserves	\$A m	0	1	31	30	38	32
Contributed Equity	\$A m	46	47	52	58	58	58
Total Equity	\$A m	21	22	55	59	71	86

Section 4 - Cashflow							
Net Cashflow from operations	\$A m	(2)	(2)	(2)	(2)	16	32
Net Interest Paid	\$A m	0	0	0	(0)	(3)	(2)
Taxes Paid	\$A m	0	0	0	0	0	(4)
Change in Working Capital	\$A m	0	0	0	0	(7)	(1)
OPERATING CASHFLOW	\$A m	(2)	(2)	(2)	(2)	5	27
Exploration Expenditures	\$A m	0	0	(5)	0	0	0
Maintenance Capex	\$A m	0	0	0	0	(1)	(1)
Expansion Capex	\$A m	0	0	0	(76)	0	0
PPE Acquisitions (Total Capex)	\$A m	0	0	(5)	(76)	(1)	(1)
PPE Divestments	\$A m	0	0	39	0	0	0
INVESTING CASHFLOW	\$A m	0	0	34	(76)	(1)	(1)
Change in Equity	\$A m	0	1	5	5	0	0
Dividends Paid	\$A m	0	0	0	0	0	0
Change in Debt	\$A m	0	0	0	38	(2)	(8)
FINANCING CASHFLOW	\$A m	0	1	5	43	(2)	(8)
Free Cashflow	\$A m	(2)	(2)	32	(79)	4	26
Net Cashflow	\$A m	(2)	(1)	37	(35)	2	19

Major Shareholders			
Andrew Tsang	111.5m	15.5 %	Non-Executive Director
Zhenbin Jiang	82.0m	11.4 %	
Yufeng Zhang	59.6m	8.3 %	Non-Executive Director
Chenxia Zhou	50.0m	7.0 %	

Year ended December	2015	2016	2017	2018	2019	2020
Commodity price assumptions						
AUD/USD	0.850	0.850	0.850	0.850	0.850	0.850
Zircon USD /t	1,275	1,375	1,475	1,500	1,500	1,500
Rutile USD /t	1,075	1,175	1,250	1,250	1,250	1,250
HITI 87 USD/t	817	893	950	950	950	950
HITI 75 USD/t	637	696	740	740	740	740
HITI 67 USD/t	376	411	438	438	438	438

Mine Production, 100% basis						
Mine production '000t	0	0	6,875	10,000	10,000	10,000
Zircon in HMC, '000t	0	0	53	81	81	81
Rutile in HMC, '000t	0	0	4	8	8	8
HITI 87 in HMC, '000t	0	0	8	14	14	14
HITI 77 in HMC, '000t	0	0	27	46	47	47
HITI 67 in HMC, '000t	0	0	12	21	21	21
TOTAL HMC '000t	0	0	109	176	177	177

Attributable production (DRX share)						
Heavy Mineral Conc. '000t	0	0	59	95	95	95

Resources						
Cyclone	H M	Zircon	Rutile	85% - 95%	70% - 85%	<70%
Measured	118 Mt	2.3 %	0.71 %	0.07 %	0.15 %	0.24 %
Indicated	19 Mt	1.5 %	0.38 %	0.05 %	0.04 %	0.07 %
TOTAL	137 Mt	2.2 %	0.67 %	0.07 %	0.14 %	0.21 %
Cyclone Extended						
Indicated	77 Mt	2.0 %	0.42 %	0.0 %	0.20 %	0.74 %
Inferred	9 Mt	1.2 %	0.26 %	0.0 %	0.06 %	0.50 %
TOTAL	86 Mt	1.9 %	0.40 %	0.0 %	0.18 %	0.71 %

Assumed mining inventory						
Tranche 1	40 Mt	2.6 %	0.85 %	0.1 %	0.17 %	0.25 %
Tranche 2	50 Mt	2.3 %	0.75 %	0.1 %	0.14 %	0.20 %
Tranche 3	30 Mt	2.1 %	0.65 %	0.1 %	0.10 %	0.15 %
TOTAL	120 Mt	2.4 %	0.76 %	0.1 %	0.14 %	0.20 %

Asset based Valuation						
discount rate = 12.0 %	risking	100%	Product	per share	31-Dec-13 41968.673	
Cyclone	70 %	\$ 51m	\$ 35m	2.4 c	2.7 c	
franking credits	42 %	\$ 18m	\$ 7m	0.5 c	0.6 c	
Cape Bedford	nom	\$ 2m	\$ 2m	0.1 c	0.1 c	
Tick Hill	nom	\$ 2m	\$ 2m	0.1 c	0.1 c	
Other / Exploration	nom	\$ 0m	\$ 0m	0.0 c	0.0 c	
Corporate	100 %	(\$23m)	(\$23m)	(1.6c)	(1.6c)	
Asset Sales	80 %	\$ 31m	\$ 25m	1.7 c	1.9 c	
Cash	100 %	\$ 1m	\$ 1m	0.1 c	0.1 c	
Cash to be raised	80 %	\$ 9m	\$ 7m	0.5 c	0.5 c	
TOTAL		\$ 90m	\$ 57m	3.9 c	4.4 c	
Shares on issue		609.6m	FPO shares	19.9m	options	
		109.6m	issued 2014	19.9m	ex'd	
		441.7m	issued 2015			
		276.4m	Issued 2016			

Estimated Cash Costs, US \$ /t of HMC						
	LoM	2017	2018	2019	2020	2021
Overburden	113	116	107	107	107	105
Ore Mining	49	49	43	43	43	47
Mine Planning	14	20	12	12	12	13
Wet Concentrator	78	75	69	68	68	75
Site Admin & Sales	29	37	25	25	25	27
Transport of HMC	110	110	110	110	110	110
MSP Fee	250	252	247	248	248	249
Royalties	44	44	44	43	43	43
TOTAL	686	702	657	655	656	669

Financial Ratios							
Year ended December	2013	2014	2015	2016	2017	2018	
Revenue	\$A m	0	0	0	0	51	
EBITDA	\$A m	(5)	(2)	(2)	(2)	16	
EBIT	\$A m	(5)	(2)	(2)	(2)	11	
Adjusted EPS (cps)		(0.1c)	(0.2c)	(0.1c)	(0.1c)	0.4 c	
EPS Growth (%)			(245%)	43 %	17 %	185 %	
DPS (c)		0.0 c	0.0 c	0.0 c	0.0 c	0.0 c	
Dividend Yield (%)		0 %	0 %	0 %	0 %	0 %	
PE adj. (x)	x	(33)	(8)	(14)	(16)	4	
EV / EBITDA (x)	x	(2)	(5)	10	(37)	3	
EV / EBIT (x)	x	(2)	(5)	10	(37)	4	
Gearing (%)		0 %	0 %	0 %	39 %	32 %	
Return on Assets		(24%)	(9%)	(4%)	(2%)	10 %	
Return on Equity		(23%)	(6%)	(2%)	(2%)	7 %	
EBITDA Margin (%)		n/a	n/a	n/a	n/a	31 %	
Interest Cover (x)	x	n/a	n/a	n/a	(3.7)	3.2	

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The analyst responsible for this research report certifies that all of the views expressed reflect his personal views about the securities and the issuer.

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