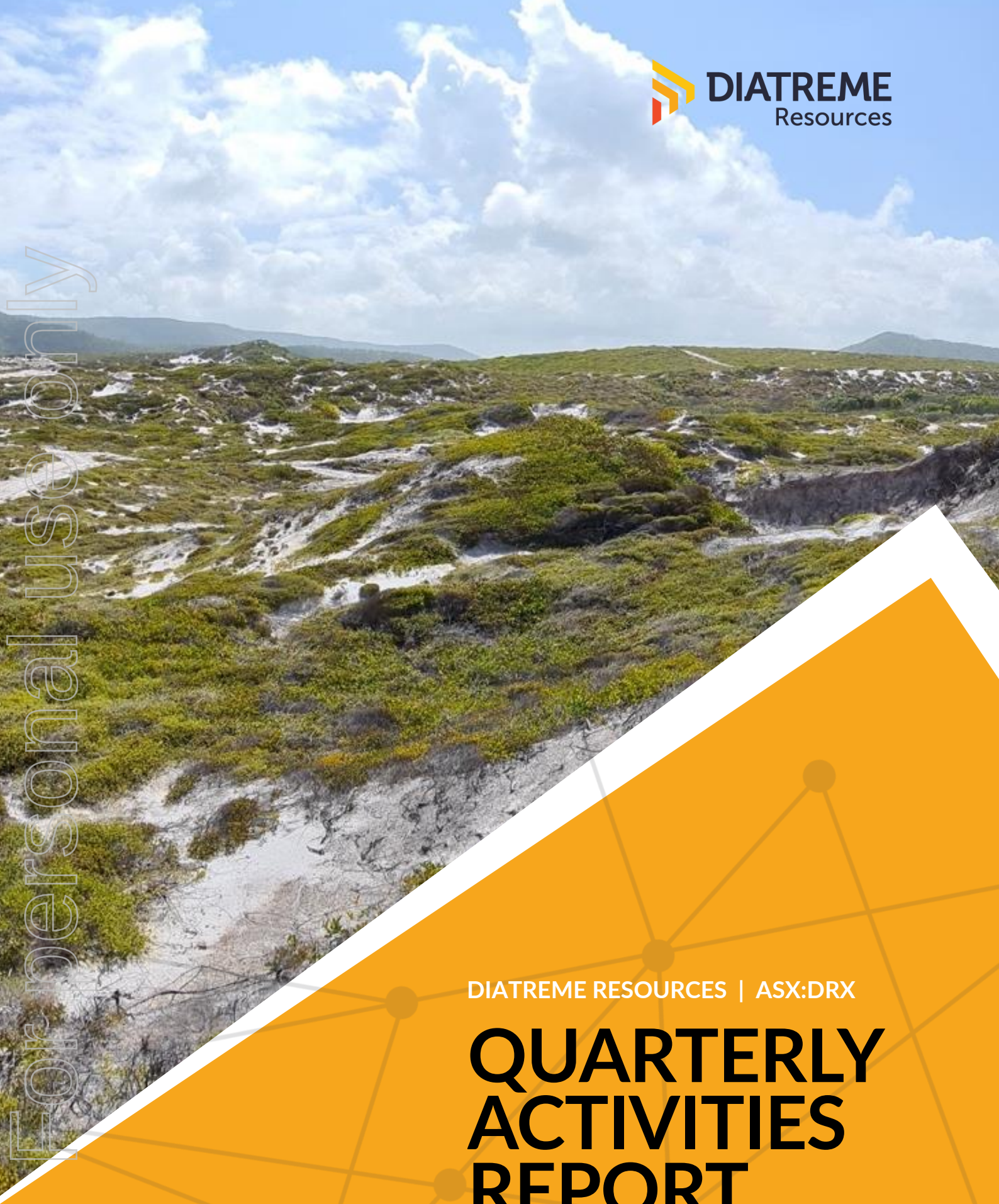

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DIATREME Resources

DIATREME RESOURCES | ASX:DRX

QUARTERLY ACTIVITIES REPORT

FOR THE PERIOD ENDED 30 September 2022

DIATREME Resources

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ASX RELEASE

31 October 2022

Quarterly Activities Report

For the period ended 30 September 2022

This announcement was authorised for release by the Board.

Neil McIntyre
Chief Executive Officer

Wayne Swan
Chairman

Contact – **Mr Neil McIntyre**
Ph 07 3397 2222

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Ph: +61 (0) 407 112 623

CORPORATE

Diatreme held an Extraordinary General Meeting of shareholders on 25 August 2022 in Brisbane. Both resolutions were passed on a poll (refer ASX release).

The Company's cash and liquids position as at 30 September 2022 totalled **$16.69m.**

During the quarter the Company made payments for Directors' remuneration totalling $61,051.

On 1 September, Diatreme released its Financial Report for the half year ended 30 June 2022. The net loss for the group for the half year was $1,460,546 (2021: loss of $1,008,075), reflecting corporate and marketing costs, and expenses incurred to support the Company's exploration and development activities.

Noosa Mining Investor Conference presentations

Diatreme's CEO Neil McIntyre presented at the 2022 Noosa Mining Investor Conference, held from 20-22 July in Noosa, Qld. The investor presentation and a recording of Mr McIntyre's presentation are on the Company's website.

Diatreme will also be presenting at the next Noosa Mining Investor Conference, to be held from 9-11 November 2022. Investors can watch Diatreme's presentation online via the conference website (https://www.noosaminingconference.com.au/).

DIATREME Resources

QUARTERLY HIGHLIGHTS

Galalar Silica Project & Northern Resource Project

- Two Mining Lease Applications lodged for Northern Silica Development near Port of Cape Flattery; four Infrastructure MLA's lodged, delivering access to port and road connections to Hope Vale
- MOU signed with Ports North on Northern Resource Project
- New drilling and exploration underway on silica projects
- Further export optionality identified for Galalar Silica Project

Clermont Copper/Gold Project

- Farm-out partner Metallica Minerals (ASX:MLM) announces assay results show potential for mineralised porphyry system at depth
- Further drilling planned for Dec quarter

Cyclone Zircon Project

- Rising prices for zircon and rutile and constrained supply underpin project demand, as Diatreme continues to advance development options

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COMING DECEMBER QUARTER 2022 ACTIVITIES

Diatreme's operational focus for the upcoming December quarter 2022 comprises the following:

Galalar Silica Project and Northern Resource Project (NRP)

Galalar

- Further engagement with project partners, Hopevale Congress, affected native title holders and relevant regulatory/government agencies to advance project approvals and preferred logistics solution;
- Engagement with regulatory agencies on the approvals pathway utilising either EIS or EA approvals process.
- Progression on northern export route implementation and economic studies.
- Further market engagement on silica product diversification including "value add" market development and downstream product development.

Northern Resource Project (NRP)

- Further resource definition and expansion drilling programs
- Engagement with regulatory agencies (State and Federal) regarding permitting and approvals process
- Commencement of early desk top Project financial analysis (scoping study)
- Early EIS relevant studies (water, flora & fauna, etc.) planning.
- Commencement of water bore installations for environmental water sampling program
- Progress discussions with Ports North regarding export methodology and infrastructure requirement planning.

Cyclone Zircon Project

- Continue work towards assembling an optimum mix of commercial parties to facilitate the project's development or divestment, amid continued rising demand and constrained supply of zircon and titanium products.

Corporate

- Targeting formal commencement of the Sibelco silica projects joint venture post all relevant asset transfers and remnant regulatory approvals

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GALALAR SILICA PROJECT, QLD

Diatreme's planned development of a major new silica sand mining operation advanced substantially during the quarter.

The Company is actively working to identify synergies between its Galalar Silica Sand Project (GSSP) and Northern Silica Development, with the aim of enhancing their financial fundamentals and operational efficiencies, minimising their environmental impact and expediting the development approvals process.

The successful development of two such operations will enable the delivery of high-grade silica to fast-growing export markets amid increasing demand from the solar PV industry.

Potential synergies include:

- Shared use of product export methodology and associated infrastructure
- Optimisation and efficiencies in the use of operational plant and equipment
- Further de-risking of the regulatory approvals process
- Early establishment of a plant nursery and rehabilitation programs
- Early project recruitment and training of workforce (Indigenous and non-Indigenous)
- Access to shared site facilities including staff accommodation
- Evaluation of hybrid power Solar-Wind-Hydrogen solutions across operations to minimise carbon footprint and target a carbon neutral operation.

Diatreme will identify further synergies as its scoping studies progress on the Northern Silica project. The Company will also continue to enhance and refine project economics and planning as studies transition from the pre to definitive feasibility stage.

The latest advances by Diatreme follow the announcement of a strategic partnership with global material solutions company, Sibelco (refer ASX release 27 June 2022). The two partners have agreed on a joint venture to develop the GSSP and Northern Silica Project, supported by a significant initial investment from Sibelco of $35 million, subject to regulatory approvals.

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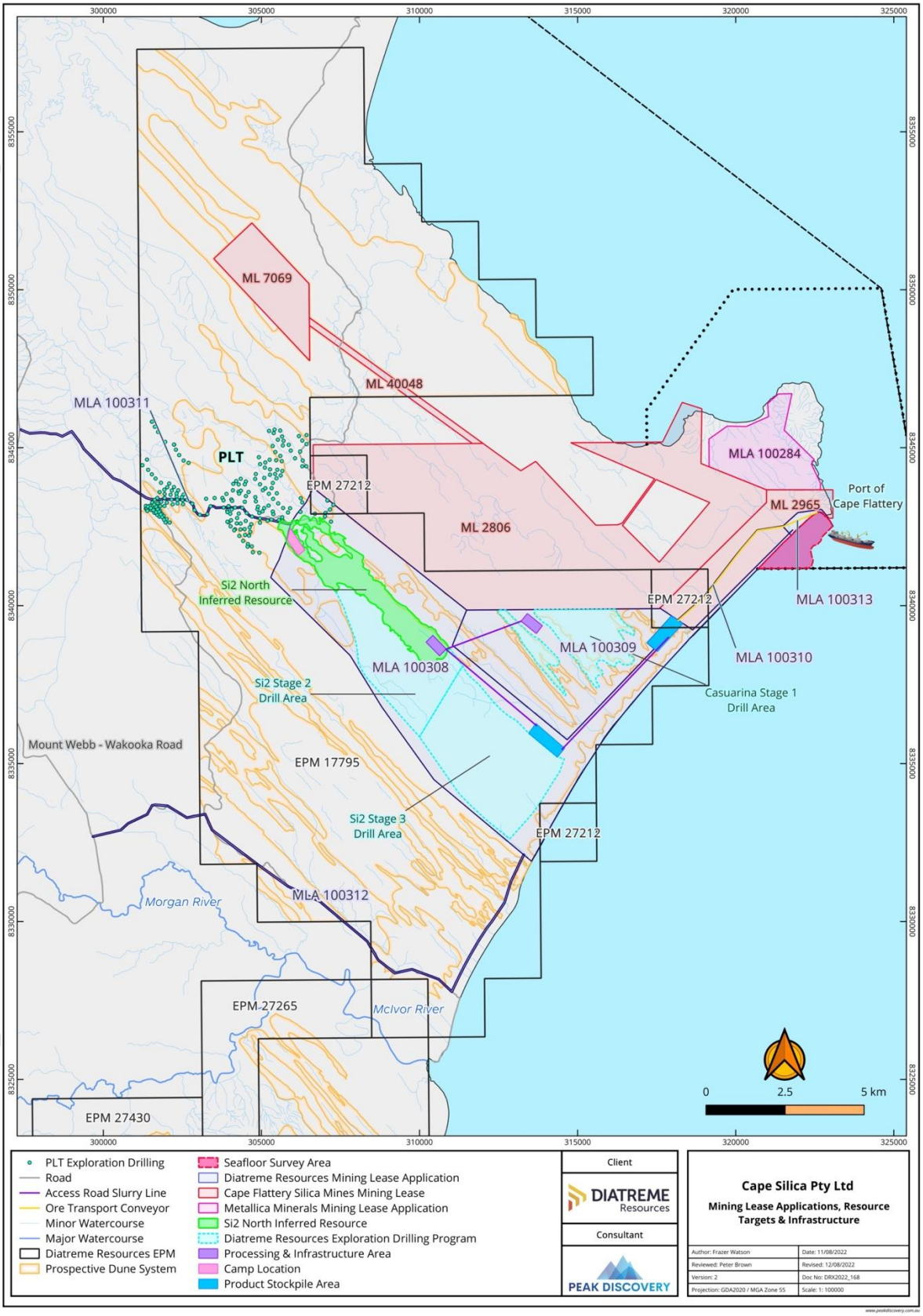

Figure 1: Project and resource target areas

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Galalar Dune System – extension drilling (Gaambi)

On 30 August, Diatreme announced planned extension drilling at the Gaambi dune, part of the Galalar dune system.

The Gaambi dune has been subject to preliminary hand auger drilling to augment the 2019 hand auger program. Holes were centred on a 400m spaced grid pattern to collect enough information for a potential Inferred Resource to 5m depth.

A total of 13 holes for 63m were drilled utilising a UTV "buggy" to access the area without any requirement for track clearing. The Gaambi results were positive, confirming extensions of the high purity silica sand within the eucalypt forest, and there is scope to extend the Galalar resource into this area in the future.

In the extension drilling, the Galalar Extended and Gaambi areas of the dune will be targeted by initial 400m spaced drilling within open woodland, allowing easy access. Diatreme's purpose-built air core rig will be transported between the sites.

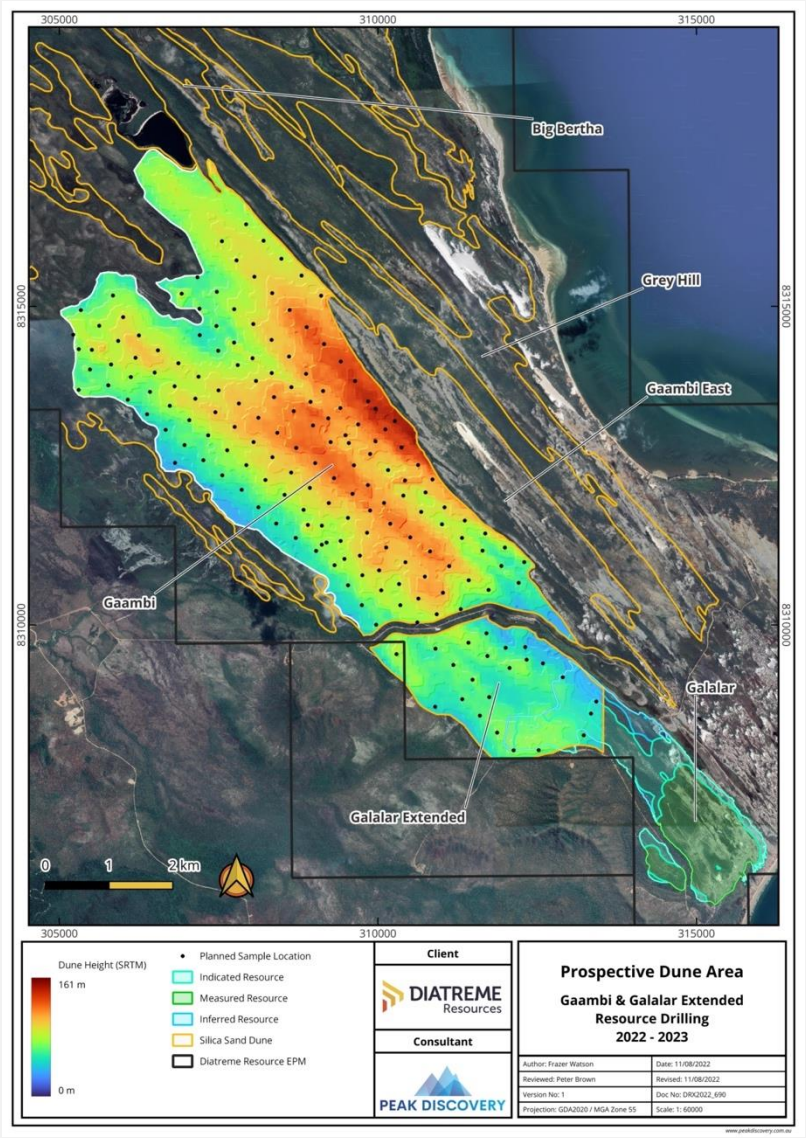

Figure 2: Galalar Extended and Gaambi dune system
(dune height represents topography and is not an indication of true dune thickness)

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Diatreme also announced exploration results for the Point Lookout Track, with the sand quality in this area of high purity. Preliminary metallurgical results were completed on two composite samples to determine whether sand in this area can be readily upgraded to high purity silica sand. The two samples produced by a silica characterisation procedure both achieved this chemical composition (refer ASX release 30 August 2022).

Further export optionality

Diatreme has identified an additional potential transport pathway for exports from the GSSP predominantly through its existing EPM 17795 to the Port of Cape Flattery, potentially providing enhanced permitting and approvals certainty while also reducing marine impacts and transport costs.

The move follows the Company's signing of a Memorandum of Understanding (MOU) with government-owned corporation Far North Queensland Ports Corporation (Ports North), the relevant port authority for the Port of Cape Flattery, concerning planned silica exports from Diatreme's Northern Silica Project (NSP).

Significantly, the new export corridor is consistent with the Sustainable Ports Development Act and Reef 2050 Plan as it confines marine barging and loading operations within existing port limits, which are excluded from the Great Barrier Reef Marine Park.

The establishment of an alternative export corridor for the Company's most advanced project, the GSSP has the potential to provide a number of benefits:

- Greater regulatory and permitting certainty (de-risking approvals process).
- Leverages and builds on the existing EIS permitting studies and extensive regional stakeholder engagement, whilst potentially allowing for a simpler permitting pathway via an EA process.
- Significant reduction in carbon emissions from the use of a low impact slurry pipeline compared to barging from Nob Point to the Port of Cape Flattery.
- Potential for enhancing fundamental economics by reducing costs of production and transport of product to market.
- Potential for examination of higher product processing targets (product delivery tonnage).
- Potential for cost saving initiatives from sharing of associated delivery infrastructure.

Investigation of the pipeline corridor alignment, the use of open access infrastructure at Cape Flattery Port and undertaking barging and shipping activities within the port limits will form part of further studies, including revised economics, environmental, project planning and other matters of practical implementation.

Post-quarter, on 21 October Diatreme announced plans to progress an application for this alternate product delivery corridor via a northern pipeline route, predominantly through its current exploration tenure area EPM 17795 for silica product delivery from the mine site to the designated port area of Cape Flattery.

Given the compelling economic positives already identified by Diatreme in the alternate northern product delivery route directly through to Cape Flattery port, and to provide greater certainty in the project's transition to development through the permitting and approvals process the Company has requested the withdrawal of MLA 100285 with Queensland's Department of Resources, which encompassed road access and marine infrastructure (barge ramp) to an area known as "Nob Point".

The next steps for the GSSP include the lodgement of a new Mining Lease (Infrastructure) application to facilitate the amended export corridor, based on a low disturbance, small diameter (300-500mm) pipeline.

Lodgement of the new MLA application is expected within the first quarter of 2023. Diatreme will also undertake further discussions with State and Federal regulatory agencies to facilitate the GSSP project approval pathway, together with the revision of any required Galalar PFS or DFS studies, while continuing further rapid advancement of the Northern Silica Project in parallel with Galalar's development.

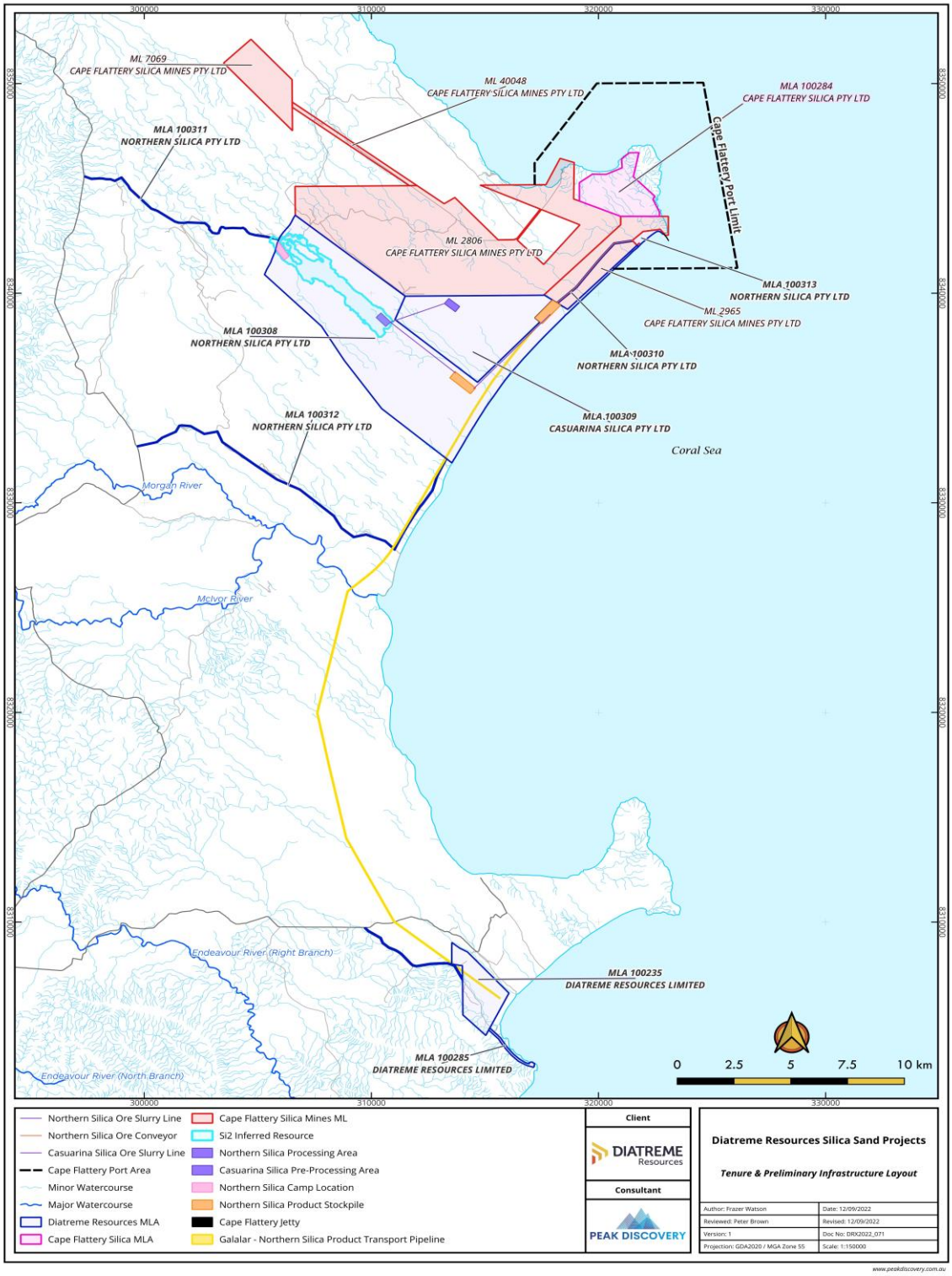

Figure 3: Conceptual infrastructure corridor

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New Mining, Infrastructure Lease Applications lodged

On 5 July, Diatreme announced the lodgement of two Mining Lease Applications (MLA's) and four Infrastructure MLA's for its Northern Silica Development, located near the Port of Cape Flattery. The proposed MLA's cover the entire Si2 and Casuarina dune systems.

The lodged Mining and Mining Infrastructure Lease applications comprise:

Lease Name	Number	Purpose
Northern Silica	MLA 100308	Mining, processing, with infrastructure supporting both Northern Silica and Casuarina Silica leases.
Casuarina Silica	MLA 100309	Separated lease with infrastructure areas noted.
Northern Silica Port Access	MLA (Infrastructure) 100310	Access to port across Mitsubishi granted ML.
FNQPCL Cape Flattery Access	MLA (Infrastructure) 100313	Lease over the Ports North Freehold Leases.
Starke-Northern Silica Access 1	MLA (Infrastructure) 100311	Shortest possible access form Starke Rd to Northern Silica and camp.
Starke-Northern Silica Access 2	MLA (Infrastructure) 100312	Backup access to Northern Silica and Casuarina Silica.

Table 1 – Mining and Infrastructure MLA's, Northern Silica Development

Concurrently, Diatreme is applying for an Infrastructure Lease for product transport purposes to link the Northern Silica MLA areas to the State-owned Cape Flattery Port, located within 15km of the project area. Expansion or addition to the current port facilities is being assessed, facilitating the port's long-term operation and expansion.

Planning and implementation of any required changes to the port are being completed in consultation with Ports North. Oceangoing vessels are expected to deliver the product to Asian markets, while options also exist for possible barging of the product to a regional port such as Townsville, with potential downstream domestic manufacturing of high-quality silica products, subject to further analysis.

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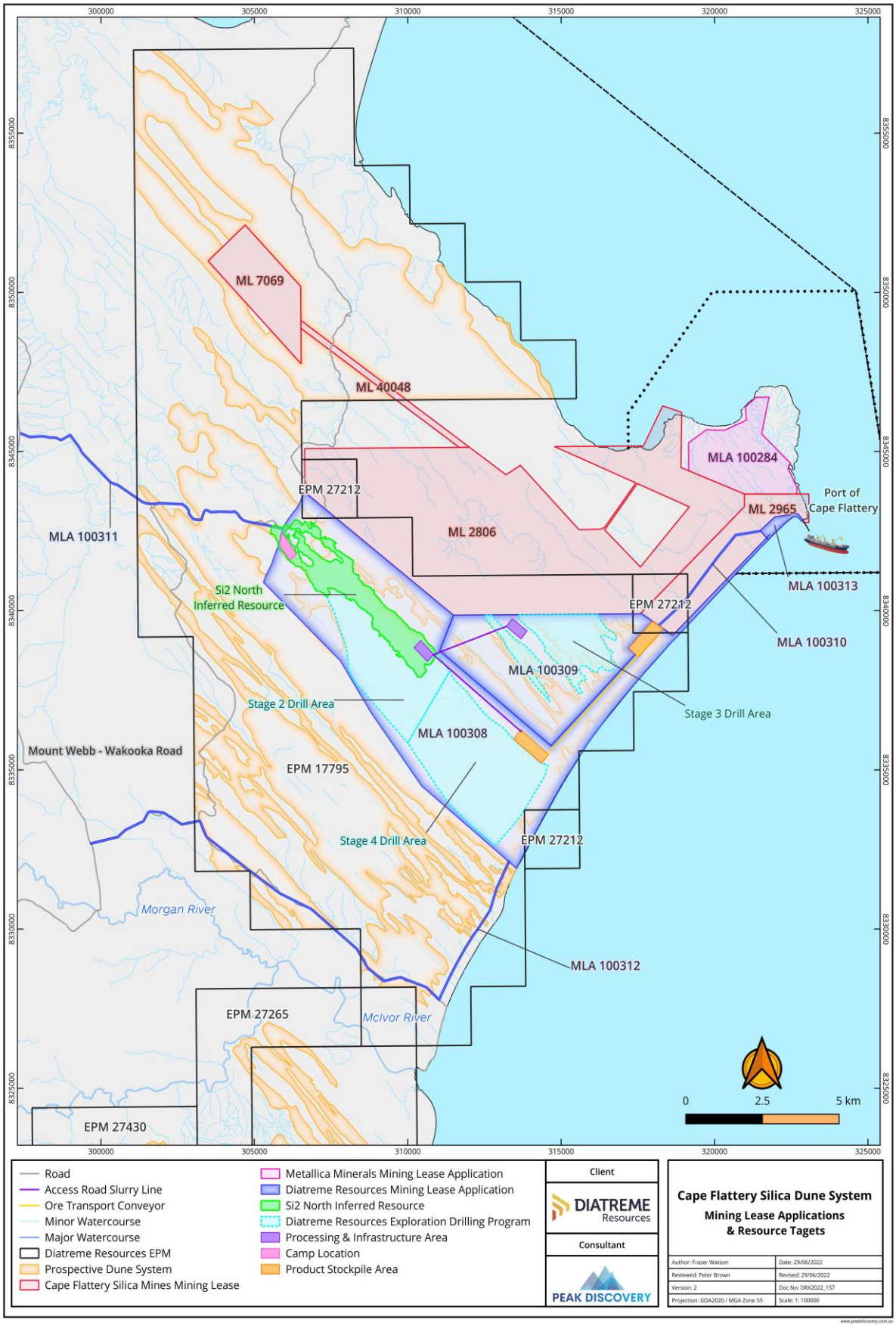

Figure 4 – Mining Lease Applications and Resource Targets

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MOU signed with Ports North on Northern Silica Project

On 18 August, Diatreme announced the signing of a Memorandum of Understanding (MOU) with government-owned corporation Far North Queensland Ports Corporation (Ports North). Ports North is the relevant port authority for the Port of Cape Flattery, currently used by Cape Flattery Silica Mines for the export of its silica product.

The MOU will spur the development of Diatreme's second high-grade silica project as the Company progresses further resource drilling, feasibility studies and traditional owner negotiations for the Northern Silica Project (NSP). Significantly, the MOU outlines key terms of co-operation to advance and facilitate exports from the NSP via the state-owned port.

Whilst non-binding, the MOU facilitates the exchange of commercially sensitive project information between the parties and enables Diatreme to access key senior executives from Ports North to facilitate effective planning, project design, establishment of key capital cost parameters and related matters.

Ports North is a government-owned corporation as defined in the Government Owned Corporations Act 1993 (Qld). It is charged with the administrative, managerial, and operational responsibilities for the Port of Cape Flattery, pursuant to section 274A, Transport Infrastructure Act 1994 (Qld) and the Transport Infrastructure (Ports) Regulation 2016 (Qld).

The NSP involves the establishment and operation of a high-grade silica sand mining operation, with the ability to export product via vessels utilising the port. The project may involve trans-shipping and/or direct loading of bulk carrier vessels and the construction and operation offshore structures. The precise location and layout of supporting infrastructure is yet to be finalised.

Ports North and Diatreme will share information and conduct studies as agreed to progress the NSP. These activities will include the following:

- onshore and offshore infrastructure;
- access to land – onshore and offshore, including seabed leases;
- commercial agreements;
- shipping activities and ship simulation studies;
- review of any required government approvals documentation.

Diatreme looks forward to working with Ports North to release the economic and social benefits of the project for the benefit of its shareholders, the people of Queensland and particularly the regional communities in which it operates, including Traditional Owners.

Ports North via the Department of Transport and Main Roads (DTMR), Maritime Safety Queensland (MSQ), Hydrographic Services Branch, is also completing a hydrographic survey of areas located to the south of the current port.

The data will attach to surveys already completed seaward of the existing port infrastructure. This data will inform the location of any new export infrastructure to support scoping and then feasibility studies on product export solutions (refer ASX release 30 August 2022).

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Figure 5 – Aerial view of Cape Flattery Port

New drilling – Northern Silica

New drilling within the Northern Silica MLA plans to increase resource confidence with additional surveys and infill drilling. Planned drilling will test the extension to the current Si2 resource at 400m centres and at closer separation where necessary. The drilling will occur in low heath areas along dune ridge lines.

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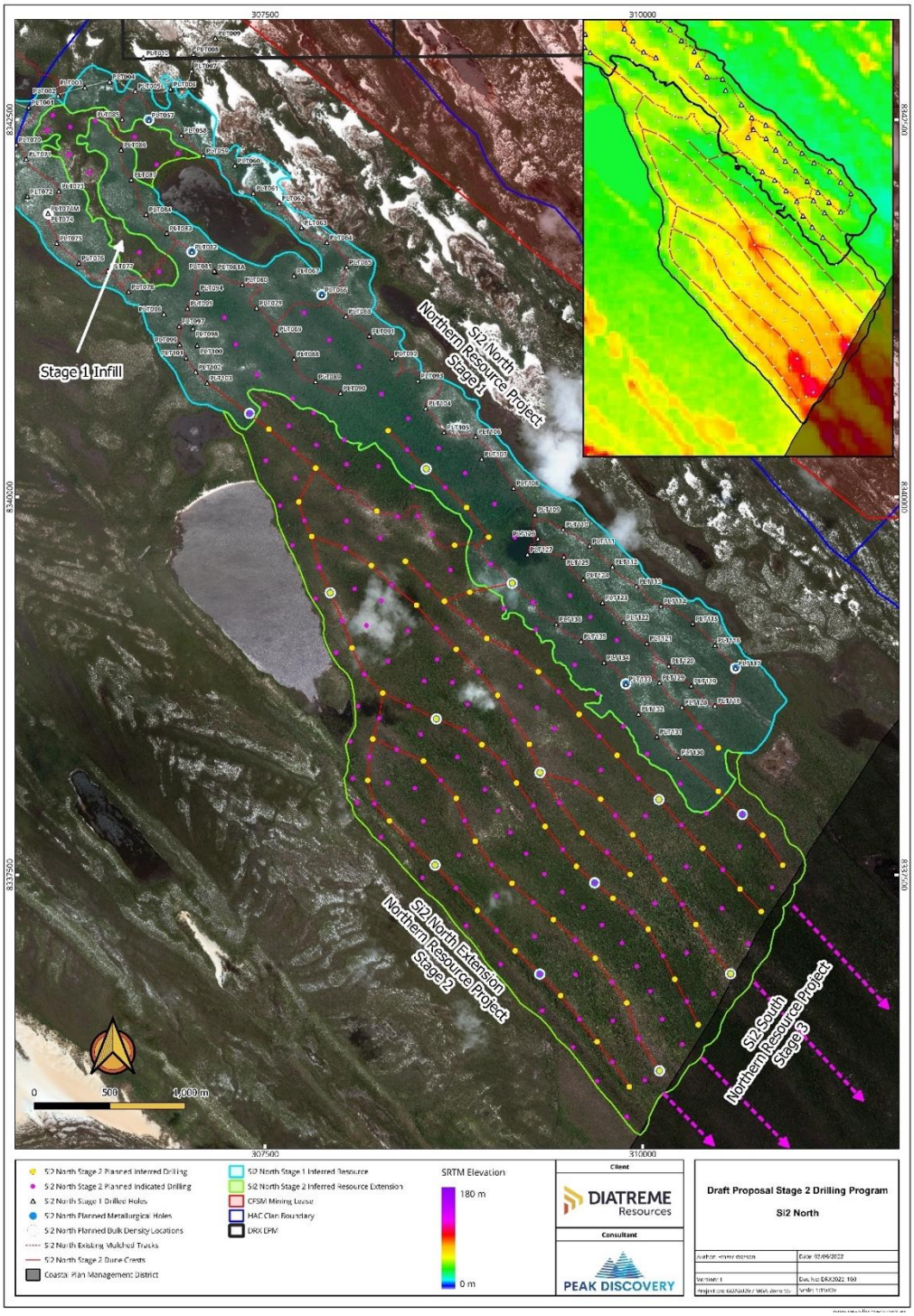

Figure 6 – Planned Stage 2 drilling to extend Si2 North resource

Diatreme also plans further resource drilling at the Casuarina dune, which is currently mined within the Cape Flattery Silica Mine but extends into Diatreme's EPM 17795.

The current mining lease boundary was established more than 50 years ago, when ML 2806 was initiated through an application in 1970. The boundary appears to be an arbitrary line across the dune field.

The remnant Casuarina dune system is located in close proximity to the Cape Flattery Port and hence may deliver early feed to a development located within Diatreme's MLA 100309. Estimated sand volumes in the dune have been included within Initial development planning for the Company's Northern Silica Development.

Drilling activities in the dune are currently restricted by access and to some extent by thick vegetation. In alignment with Diatreme's environmental protocols, drilling is focussed on hand auguring with access gained via walking to sites. Initial environmental surveys over the area were planned for September 2022.

Historic drilling along the current ML boundary indicates a range of sand dune thickness between 15m and 48m, with an average of 28m. Drilling in 2022-23 plans to confirm sand quality, thickness and continuity across the Casuarina dune.

Figure 7: CFSM Mining Operation within Casuarina dune *(image publicly available via internet)*

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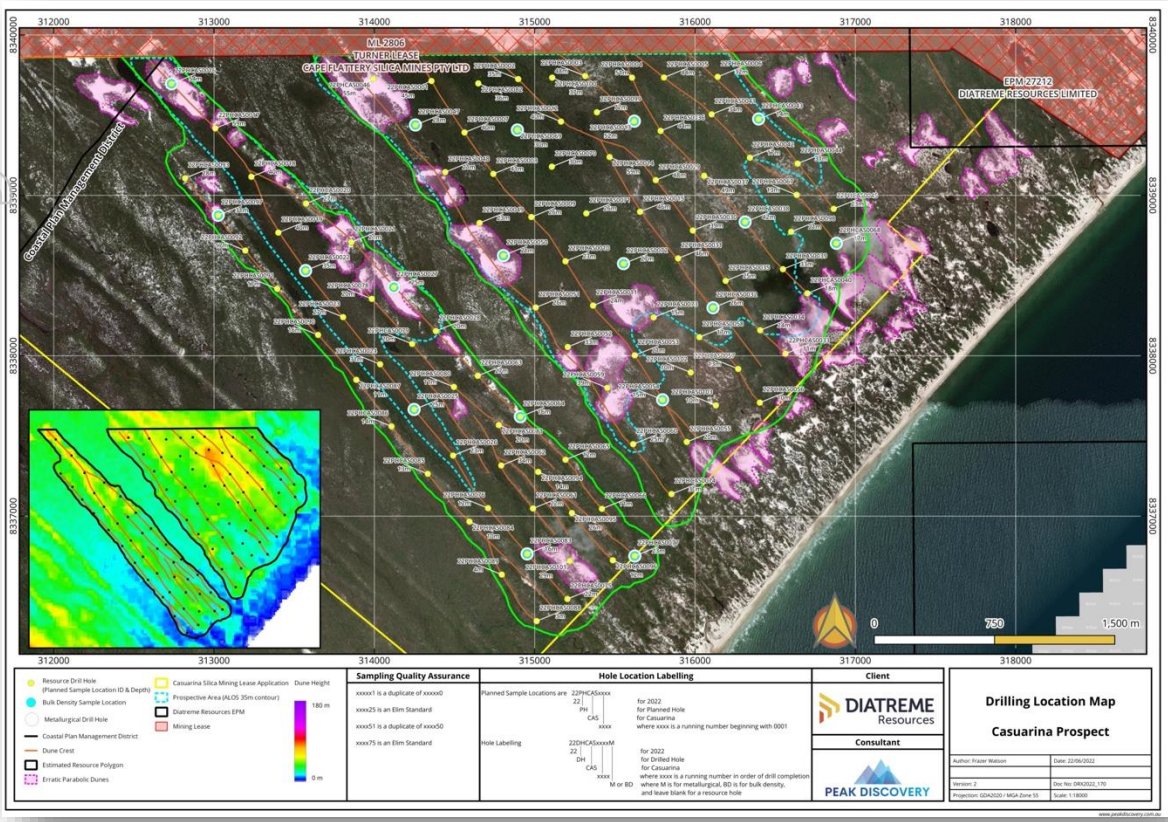

Figure 8: Planned Casuarina drilling

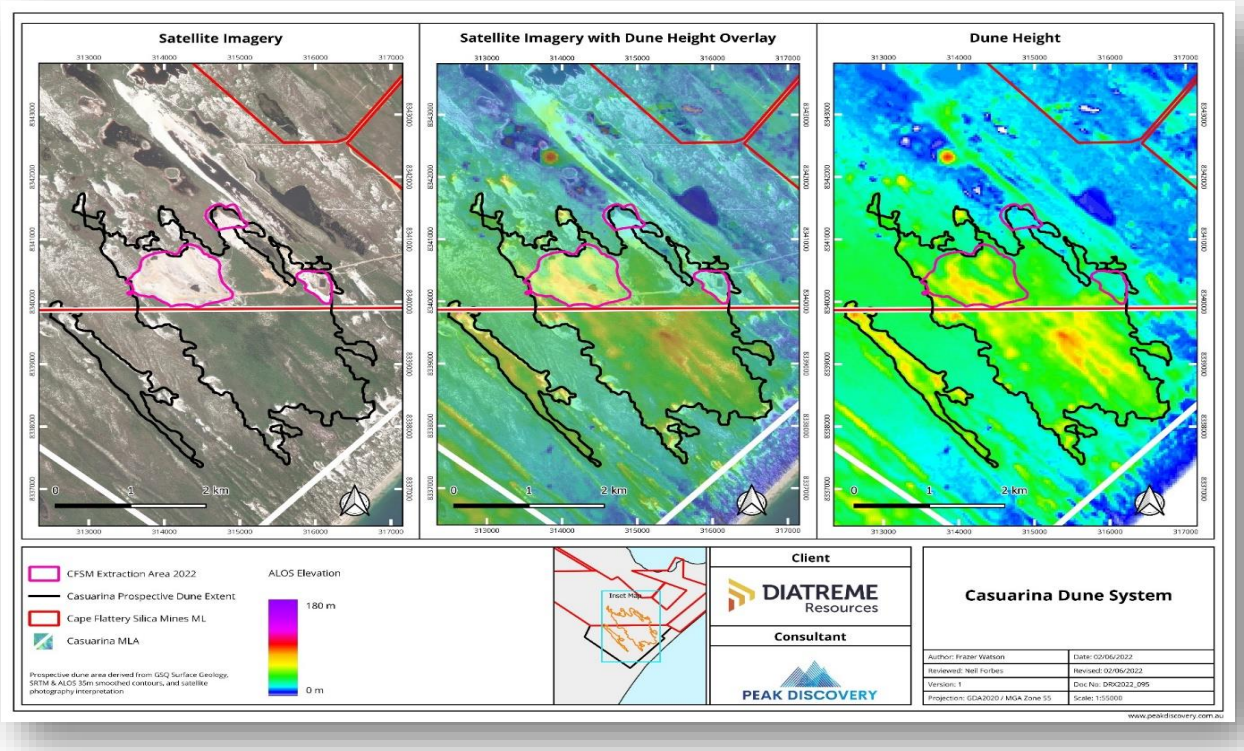

Figure 9: Casuarina dune system thickness and current mining

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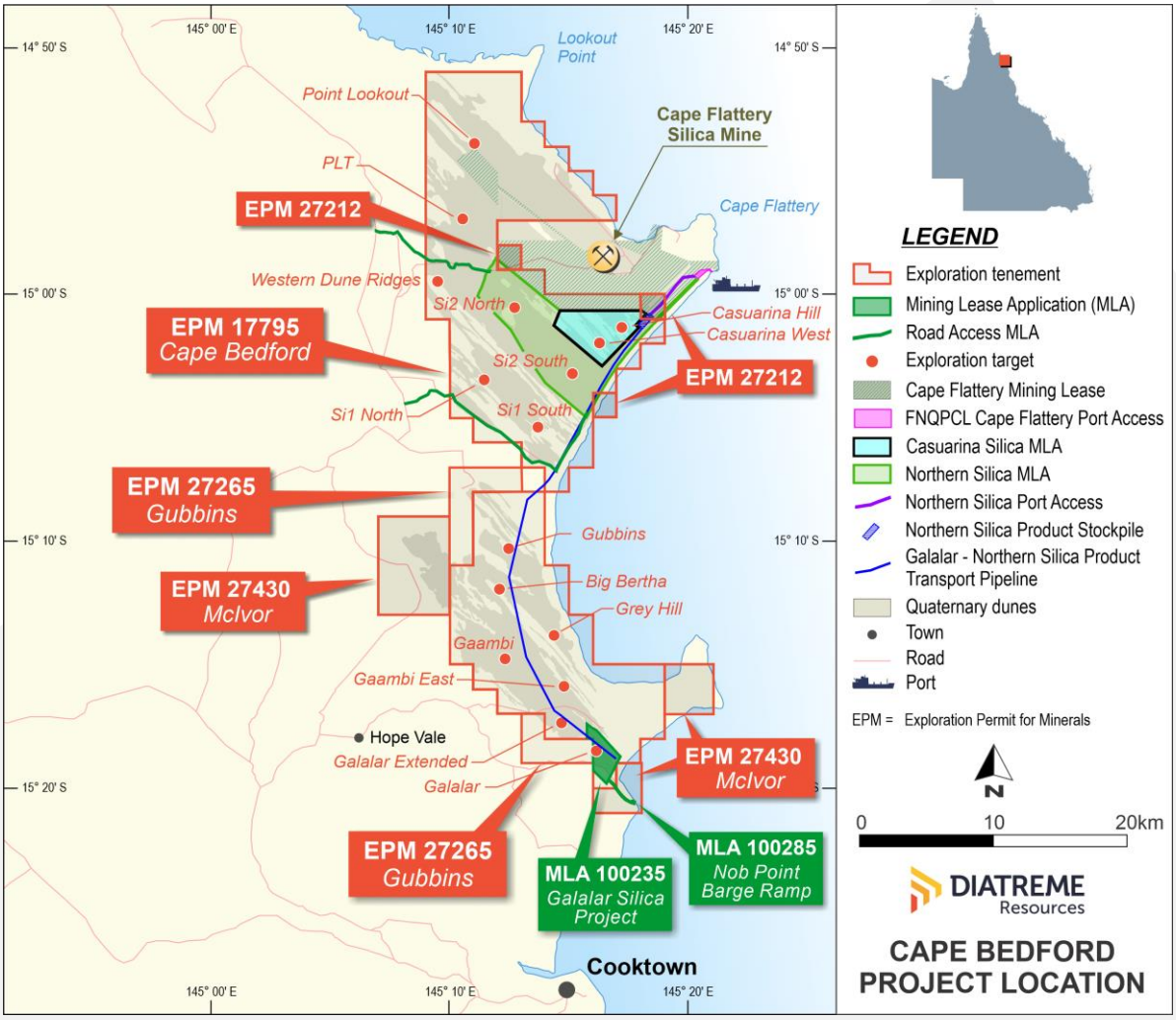

Figure 10 – Cape Bedford Project Location, showing key Diatreme MLA's

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Figure 11 – Drone survey of Diatreme's silica projects

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CLERMONT COPPER/GOLD PROJECT, QLD

The Clermont Copper/Gold Project continues to progress under a binding Memorandum of Understanding (MOU) with Metallica Minerals Limited (ASX:MLM).

On 29 April, Metallica announced it had met the MOU's expenditure commitments to earn 25% of the project and had made the decision to move to the second stage, increasing its interest to 51% through spending an additional $700,000 on exploration prior to 27 April 2023.

Metallica has drilled two diamond holes at Clermont, RDD019 and RDD020, totalling 1,030.4m. The two holes were drilled to test a possible copper gold exploration target withing the Rosevale Porphyry Corridor.

Porphyry style alteration was intersected in both drill holes, with potassic and phyllic alteration observed in both and with the intensity of alteration increasing with depth. Sulphide mineralisation in the form of iron pyrite, chalcopyrite and molybdenum was also observed in the core removed from both holes.

On 13 July, Metallica reported assay results for the two diamond drill holes. Anomalous copper was recorded in both drill holes, with grades ranging from 5ppm Cu to 1,840ppm Cu in hole RDD019 and 2ppm to 3,460ppm Cu in RDD020.

Molybdenum grades ranged from <1ppm Mo to 312 ppm Mo in RDD019 and from <1ppm Mo to 87ppm Mo in RDD020. Gold grades ranged from <0.01 to 0.11 Au in RDD019 and from <0.01 ppm Au to 1.75 g/t Au in RDD020.

The assay data showed a distinct increase in copper mineralisation with hole depth, with the highest copper assays recorded at the base of each hole. The same trend was also evident with silver assays in RDD020. The highest recorded gold assays occurred in the bottom 30m of RDD020, with the highest gold intercept of 2m @ 1.69 g/t Au recorded in hole RDD020 from 475m.

Geochemical modelling, especially of the tin and tungsten assays, indicated that both drill holes possibly intersected the porphyry immediately above or adjacent to the expected location of the more mineralised core.

Metallica's future work at the project will include reviewing geochemical and petrological data from RDD019 and RDD020 in conjunction with data available from historical holes drilled on the periphery of the magnetic low.

This is expected to further assist in identifying which part of the mineralised porphyry system has been intersected and to aid in recommending further exploration activity.

A ground magnetic survey is also expected to be undertaken over the magnetic low feature to improve understanding of the geometry of the anomaly.

On 18 October, Metallica announced plans for further drilling on one of the existing holes. The hole will be extended by an additional 500m to 1,000m to determine if the copper grades continue to increase with depth.

The additional drilling is planned for the December 2022 quarter, depending on weather conditions.

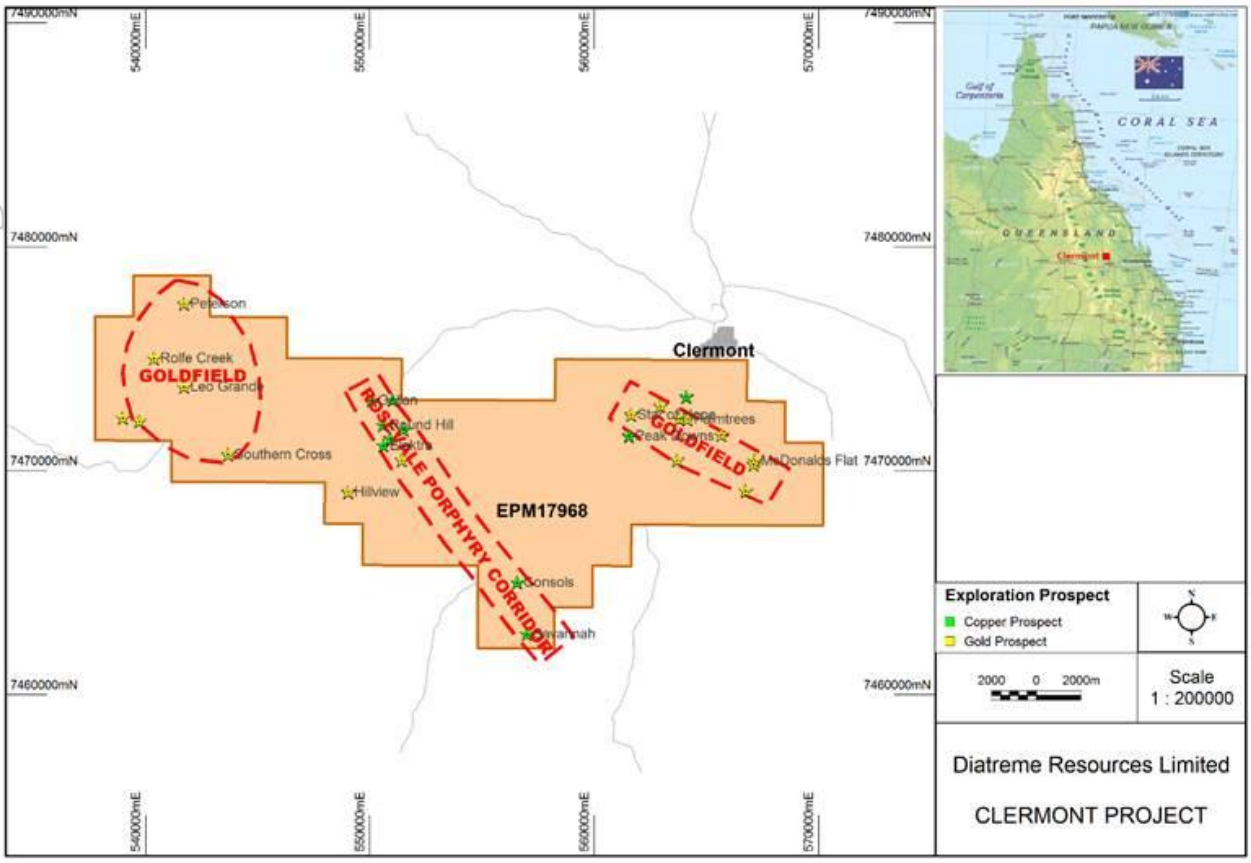

Figure 12: Clermont Copper/Gold Project

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CYCLONE ZIRCON PROJECT, WA

The Cyclone Zircon Project is well positioned for development given declining global supply and growing demand for high-grade zircon.

Diatreme continues to advance discussions with potential development partners for Cyclone, with the aim of maximising benefits for shareholders.

Major producer Iluka Resources has reported strong demand for zircon in the first half of 2022, despite global macroeconomic and political uncertainty. It has reported a Q2 2022 weighted average zircon price for premium and standard sand of US$1,910 per tonne, up 45% from the first half of 2021.

It also announced a US$140 per tonne average price increase for zircon sand, effective 1 July 2022. The company's Q3 2022 zircon sales were fully contracted, reflecting ongoing tightness of supply.

Iluka also reported a first half 2022 rutile price of US$1,506 per tonne, up 23% from the first half of 2021. Low double digit rutile price increases are planned for the second half of 2022, amid low inventory levels and strong

These positive market dynamics support Diatreme's aim to maximise value from Cyclone by attracting a suitable investment partner to develop this shovel-ready project.

The Company will keep the market fully informed when talks potentially transition to a more formally documented process.

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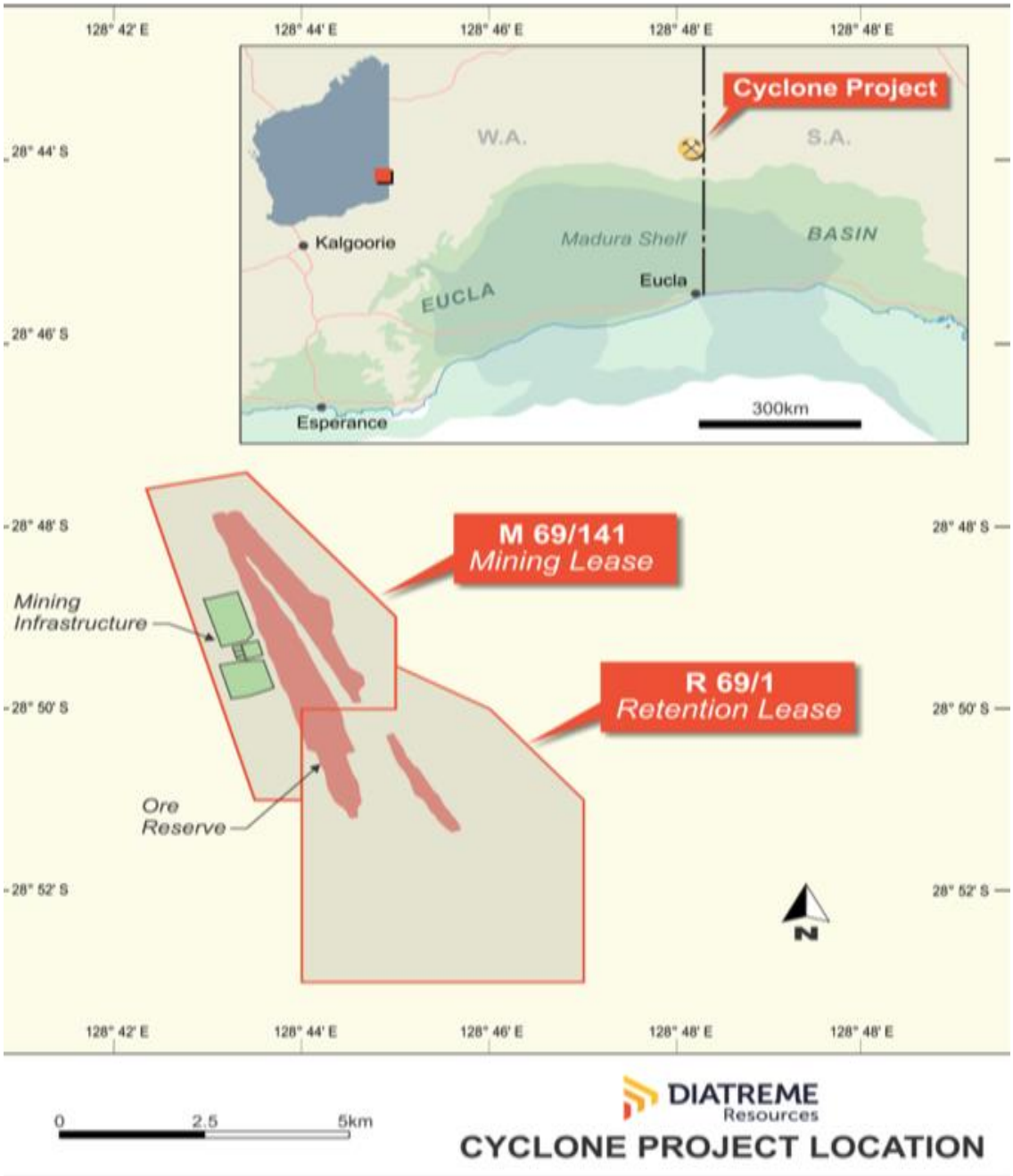

Figure 13: Cyclone project location

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MINERAL SANDS AND SILICA - COMPETENT PERSON STATEMENTS

The information in this report that relates to Mineral Resources at the Cape Bedford Project (including the Galalar Silica Project) is based on information compiled by Bryce Mutton from Ausrocks Pty Ltd who has significant experience in Industrial Minerals and Quarry Resource assessments.

Bryce 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). Bryce 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 Cape Bedford 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.

The information in this report, insofar as it relates to Mineral Resources at the Cyclone Project is based on information compiled by Mr Ian Reudavey, who was a full time employee of Diatreme Resources Limited and a Member of the Australian Institute of Geoscientists. Mr Reudavey has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he has 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 Reudavey consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.

The information in this report, insofar as it relates to Ore Reserves at the Cyclone Project is based on information compiled by Mr Phil McMurtrie, who is a director of Tisana Pty Ltd (a consultant to Diatreme Resources Limited), and a Member of the Australasian Institute of Mining and Metallurgy. Mr McMurtrie has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he has 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 McMurtrie consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.

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APPENDIX 1

Appendix 1 provides information required under ASX listing rule 5.3.3 for mineral exploration entities.

Interest in mining tenements at end of quarter

State	Tenement Name	Tenement ID	Status	Location	Interest	Holder
WA	Cyclone	M 69/141	Granted	Eucla Basin	100%	LSPL
WA	Cyclone Extended	R 69/1	Granted	Eucla Basin	100%	DRX
QLD	Clermont	EPM 17968	Granted	Clermont	100%	CHAL
QLD	Cape Bedford	EPM 17795	Granted	Hopevale	100%	DRX
QLD	Cape Bedford	EPM 27265	Granted	Hopevale	100%	DRX
QLD	Cape Bedford	EPM 27212	Granted	Hopevale	100%	DRX
QLD	Cape Bedford	EPM 27430	Granted	Hopevale	100%	DRX
QLD	Cape Bedford	MLA 100235	Application	Hopevale	(Pending)	DRX
QLD	Cape Bedford	MLA 100285	Application	Hopevale	(Pending)	DRX
QLD	Cape Bedford	MLA 100308	Application	Cape Flattery	(Pending)	DRX
QLD	Cape Bedford	MLA 100309	Application	Cape Flattery	(Pending)	DRX
QLD	Cape Bedford	MLA 100310	Application	Cape Flattery	(Pending)	DRX
QLD	Cape Bedford	MLA 100313	Application	Cape Flattery	(Pending)	DRX
QLD	Cape Bedford	MLA 100311	Application	Cape Flattery	(Pending)	DRX
QLD	Cape Bedford	MLA 100312	Application	Cape Flattery	(Pending)	DRX

Beneficial percentage interests held in farm-in or farm-out agreements at end of quarter

State	Project name	Agreement type	Parties	Interest held at end of quarter by exploration entity or child entity	Comments
WA	Cyclone Zircon Project	Farm-out Heads of Agreement	LSPL and Perpetual Mining Holding Limited	94%	HoA announced Jan 2014, initial 6% farm-out completed 18 Sept 2014 – Subject to dilutionary non-contribution clauses.

Abbreviations:

M	Western Australia	Mining Lease	DRX - Diatreme Resources Limited
R	Western Australia	Retention Licence	CHAL – Chalcophile Resources Pty Ltd
EPM	Queensland	Exploration Permit for Minerals	LSPL – Lost Sands Pty Ltd
EPMA	Queensland	Exploration Permit for Minerals Application	
MLA	Queensland	Mining Lease Application	

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