



19 October 2009

ADMINISTRATOR'S UPDATE TO SHAREHOLDERS

AUSTRALIAN ZIRCON NL
(ADMINISTRATOR APPOINTED)
ACN 063 389 079
ASX CODE: AZC
("AZC")

APPOINTMENT OF ADMINISTRATOR

FREQUENTLY ASKED QUESTIONS

Who is the Administrator?

As previously advised, Bryan Hughes of Pitcher Partners was appointed as Voluntary Administrator ("the Administrator") of AZC and its subsidiaries (collectively known as the Group) on 9 October 2009 by their respective Boards of Directors pursuant to section 436A of the Corporations Act 2001 ("the Act"). Mr Hughes is an independent, experienced insolvency practitioner with extensive mining experience.

Who Controls AZC and its assets?

Following the appointment of the Administrator the powers of the Group's officers (including directors) are suspended. The Administrator assumes control of the Groups' business, property and affairs.

How will shareholders be advised of the progress of the Administration?

Due to the large number of shareholders, corresponding individually with shareholders is an expensive and time consuming process. Given the current financial position of the Group and the need for the Administrator to focus on the assets and affairs of the Group, the Administrator will provide regular updates throughout the Administration by way of announcements to the Australian Securities Exchange ("ASX"). These updates will also be posted on the Groups' website at www.australianzircon.com.au

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How does an Administration work?

The following table sets out the standard timetable for the conduct of an Administration:

Days from Appointment	Event	Comment
0	Appointment date	Administrator assumes control of the company.
8 business days	First meeting of creditors	Creditors meet to discuss the reasons for the appointment, decide whether or not to appoint a committee of creditors and to confirm the appointment of the Administrator.
From appointment onwards	Investigations	The Administrator conducts investigations into the business, property, affairs and financial circumstances of the company.
Usually 20 business days (But may be extended to 8 weeks in this case)	Convene second meeting of creditors	The Administrator issues: <ol style="list-style-type: none">1. Notice of Meeting; and2. Second Report to Creditors.
Usually within 5 business days of the end of the convening period.	Second meeting of creditors	Creditors vote to: <ol style="list-style-type: none">1. End the Administration; or2. Enter into a Deed of Company Arrangement; or3. Place the company into liquidation. The second meeting can be adjourned for a period of up to 45 business days. The Administrator intends to continue to liaise with relevant parties to negotiate appropriate terms for the recapitalisation and restructure of the Group through a Deed of Company Arrangement.

Shareholders should note that the abovementioned meetings and reports are for creditors only in accordance with the Act.

What is the likely outcome for shareholders?

Given the early stage of the Administration I am unable to advise the likely outcome for shareholders. As previously advised future developments in the administration will be made by way of announcement to the ASX.

Can I sell my shares whilst AZC is in administration?

All listed securities in AZC were suspended on 25 August 2009 at the request of AZC following a trading halt on 20 August 2009. Whilst AZC is in Administration the shares will remain suspended, unless advised otherwise by way of further announcement to the ASX website.

Shareholders are unable to transfer their shares during the Administration.

Section 437F of the Act states that a transfer of shares in a company, or an alteration in the status of members in a company that is made during the administration of the company is void except so far as the court orders otherwise.

Can I claim a capital loss on my shares?

Broadly before a capital loss can be claimed the Administrator must declare the shares worthless (Income Tax Assessment Act 1997 section 104-145). In order to make such a declaration the Administrator must have reasonable grounds to believe that there is **no likelihood** shareholders in the company will receive any further distribution for their shares.

At this time the Administrator is investigating the affairs of AZC and its subsidiaries and accordingly is not in a position to make such a declaration. Any change to this position will be advised by way of further announcement to the ASX. At this time the Administrator expects a recapitalisation proposal to be negotiated. Details of any proposal will be provided if and when available.

Shareholders should seek independent taxation advice in relation to their shareholding and personal financial circumstances. It would be inappropriate for the Administrator to provide such advice to shareholders.

Who can I Contact for more information?

The Administrator will provide further updates by way of announcements to the ASX. Shareholders are requested to refrain from contacting the Administrator's office at this time to allow the Administrator and his staff to focus on the assets and affairs of AZC in order to achieve the best possible outcome for all parties concerned.