

19 September 2008

The Manager
Company Announcements
ASX Limited

Dear Sir,

Working Capital Facility/AZC/Crescent Gold Negotiations

Australian Zircon NL is pleased to announce that Crescent Gold Limited has today agreed to provide a \$4 million working capital finance facility to AZC. As part of that facility, Crescent Gold is granted the right at any time during the 3 year term of the facility:

- (a) to convert up to 50% of the amount of the loan plus accrued interest thereon less 50% of any cash repayments made to AZC shares (subject to any necessary shareholder approval) at a conversion price equal to a 15% discount to VWAP in the 14 days prior to the date of first drawdown under the facility;
- (b) to elect to convert \$2 million of the balance outstanding under the facility to a 2% gross smelter royalty interest (capped at \$20 million) in AZC's interest in the WIM150 project;

The facility must be redeemed in full in the event of a "change of control" of AZC occurring (a person acquiring 40% or more voting power in AZC).

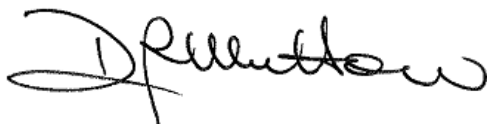
Crescent Gold will also be granted, on first drawdown under the facility, 39 million AZC options exercisable at a 15% discount to VWAP in the 14 days prior to the date of first drawdown under the facility, expiring 5 years after the date of grant. If a "change of control" of AZC occurs Crescent may require that these options be redeemed for a cash consideration as determined by an independent expert.

Further, Australian Zircon is pleased to advise that the two Companies (AZC and Crescent Gold) have also agreed to enter into negotiations and due diligence processes regarding possible corporate opportunities involving the two Companies, including a potential merger.

Further details of progress with these negotiations will be provided as and when appropriate.

Australian Zircon looks forward to these negotiations as it considers the strategic assets of the two entities could provide a unique opportunity to create long term benefits for both shareholder groups.

Yours faithfully,



Dennis Mutton
Chairman

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