GUNSON RESOURCES LIMITED

Company Insight
the intelligent market update

Gunson Resources Limited **Date of Lodgement: 5/3/13**

Title: Company Insight – Study Increases Coburn NPV 56%

Highlights of Interview

- **New optimised approach to the Coburn Zircon Project produces a substantially more robust project with higher annual production, lower unit operating costs and better financial returns**
- **Based on the same underlying assumptions as those in September 2012, the estimated NPV for the Coburn Project increases by 56% to A$330 million and IRR increases from 22.4% to 31.2%**
- **Gunson's Board believes the improved returns will satisfy the Korean parties' commercial precondition to entering into the Coburn Joint Venture**
- **The interview explains how higher throughput with only marginal additonal capex - when combined with a new mining approach - produces this positive outcome from the Optimisation Study.**

Record of interview:
With David Harley Managing Director of Gunson Resources Limited (ASX: GUN) market capitalisation ~A$14 million.

companyinsight.net.au
What did the Coburn Project's Optimisation Study find? And do you think the Study has satisfied the Korean parties' commercial pre-condition?

Managing Director, David Harley
The Optimisation Study has been very positive. For a relatively small additional capital expenditure – and a changed approach – we found we could increase the rate of mining from 2,300 to 3,000 tonnes per hour and achieve a 22% increase in finished product. Importantly – we could achieve one of the Study's prime objectives – lower unit costs of production. With this new optimised approach, the Project produces substantially better financial returns – increasing its net present value (NPV) by 56% from $211 million to $330 million (pre-tax, 8% discount rate), and its pre-tax internal rate of return (IRR) from 22.4% to 31.2%.

This makes it a more robust project.

The Study will benefit both Gunson shareholders and Gunson's future partners. All the information has been sent to the Korean parties, and it is the Board's belief that Gunson has met the commercial precondition the Koreans requested.

companyinsight.net.au
What specific reasons are behind the Optimisation Study's improved project results?

David Harley
The Study produced three changes to extracting the ore including an increase in throughput. The attitude we took was the same as the well-understood approach to large, low-grade porphyry copper deposits. Large open-pit deposits with grades considerably less than 1% copper must compete with higher-grade underground mines, so by upping the throughput, these projects become competitive with higher-grade mines. It's the same as the thinking behind BHP's decision to open-pit Olympic Dam - a massive increase in throughput can bring down unit costs significantly.

But to make this approach work, we needed to be careful about capital costs, an attitude we'd always embraced. We found specific ways of achieving this.

First, we changed the way we sequenced the pits. Originally we were going to start mining at the south end of the deposit and move northwards. But now we'll start a lot closer to the Mineral Separation Plant (MSP) which requires less infrastructure in the early stages and allows some initial capital expenditure to be deferred. Also, the shorter distance reduces operating costs, particularly concentrate cartage.

Second, we changed the order and quantity of overburden removal. Greater scale allowed us to move some material previously classified as overburden as ore - because once unit costs fall, mining this material becomes economic. Mining ore is 50% cheaper than overburden removal - in practical terms - that's because you have to push the sand less distance. It's easier to push sand downhill into a dozer mining unit (the ore) whereas you have to push sand a lot further to dispose of it as overburden – and that's been a key thing.

Third, we increased the mining rate to utilise the spare capacity in the MSP that separates the concentrate into zircon, ilmenite and HiTi. The initial design of the MSP was 30 tonnes an hour, but the average concentrate production from the mine was 25 tonnes an hour. We could therefore use that extra capacity with no additional capital requirement for the MSP. We had optimised our initial approach to capital expenditure by using 2 dozer mining units, but an important breakthrough was the decision to introduce a 3rd unit to gain the extra throughput needed to utilise the spare MSP capacity.

There are some extra capital costs in the new approach, but these are outweighed massively by additional production and productivity. We have significantly reduced the Project's unit costs, improved the financial metrics, and boosted the Project's return for shareholders.

companyinsight.net.au
Has the study involved any further costs or risks relative to how the Project was previously conceived?

David Harley
The only extra is the $10 million in additional capital. We don't need to expand the MSP but we're expanding the capacity of the Concentrator by 30%, thus the front-end of the Concentrator has to be boosted. We also need additional water to pump sand into the Concentrator so there's an extra water bore, and various other pieces of ancillary equipment. There's also slightly more people, so we need more capacity in the village, and we've gone from 2 to 3 dozer mining units with little additional cost.

Otherwise we're just using the excess capacity that already exists in the MSP.

companyinsight.net.au
Why have these improvements arisen at this stage of the planning process?

David Harley
The removal of overburden is a significant percentage of mining costs and in parallel with the Study, alternative methods were being evaluated. You can never stop improving things, but it all costs money. When the Study confirmed the increase in mining rate was justified, including a third dozer mining unit, some of the constraints associated with the operation of two dozer mining units were removed. Without the Study, the concept of a third unit would not have been considered.

companyinsight.net.au
Since the Korean parties have requested this work to be done, have they extended further time (i.e. beyond 31 March) for Gunson to raise its share of the Project's financing?

David Harley
Not officially, but it is patently obvious that we can't raise our side of the finance without the signed Coburn Joint Venture Agreement (JVA). They understood previously that it takes 3 months between the signing of the JVA and completion of financing - and they've requested further work to address their hurdle before the JV is signed.

companyinsight.net.au
Has the same zircon price assumption been used? And how do the Project's zircon price assumptions square with current conditions in the zircon market?

David Harley
Our new NPV and IRR are based on exactly the same long-term zircon price as before - US$1,715 per tonne fob. It has not been changed in the calculation of the improved return – but the returns are based on September 2012 price forecasts to enable a like-for-like comparison with the last previously released financial return figures.

The zircon situation is similar to the iron-ore market in mid-2012 when destocking led to a collapse in spot prices from around $150 per tonne down to $85 per tonne. Then, of course, the change in Chinese leadership came about, removing the political uncertainty, and allowing normal decision-making to resume. And now the price of iron ore is over $150 per tonne again. The zircon market is following, albeit with a lag. Last year, destocking was widespread, but enquiries have started again, especially since the return to work after the Chinese New Year. This supports the evidence from others in the industry that the recovery is gaining pace and zircon market conditions are looking better in the near term.

companyinsight.net.au
What is the timeframe for the Korean parties to confirm their position and commitment to Coburn?

David Harley
We're expecting this in March.

companyinsight.net.au
What concluding comments would you make about what the Optimisation Study means for the Coburn Project and Gunson?

David Harley
The Optimisation Study has been very beneficial - the Coburn Project is now a more robust project that will be more beneficial for Gunson shareholders. The Study shows that greater throughput and adjustment of the mining approach – for only marginal increases in capital costs – yields earlier returns and lower operating costs per unit across the mining and separation process.

We therefore have a sound operational basis for significant increases in NPV and IRR.

The extremely valuable outcomes were the reduction in mining costs justified by the Study, and the resultant production increase.

That's why it works.

companyinsight.net.au
Thank you, David.

To read past Company Insights please visit www.companyinsight.net.au