

# Gunson Resources

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## Gunson Resources riding higher zircon prices boosts economics of Coburn project

Gunson Resources (ASX: GUN) has noted that a significant improvement in the markets for all mineral sand products since the start of the year, with supply shortages has boosted the projected financial returns from the Coburn Project with an Internal Rate of Return of 32%.

Growth in zircon and titanium dioxide minerals demand has increased because of increased use of ceramic tiles and paints in housing within developing economies - particularly China - due to urbanisation and a growing middle class in their large populations.

Goldman Sachs has forecast zircon prices to exceed \$US 2,000 per tonne fob between 2012 - 2015 and titanium dioxide minerals are expected to double in price over the next few years.

Goldmans notes the large price increases appear sustainable, at least in the medium term as the US dollar price of titanium dioxide mineral feedstocks for the decade to 2010 was negative in real terms, versus a 300% average increase in other major commodities.

Global mineral sand market consultant TZMI has also recently revised its price forecasts following the further tightening in the markets.

With the new price forecasts, the pre tax IRR for the Coburn Project would increase by 50% to 32% and the net present value (NPV) of the project would increase by 39% to \$A301 million.

### Project Financing

Gunson's managing director David Harley said today that "Negotiations with potential investors in the Project continued at a high level during the quarter, with good progress being made."

"Companies seeking access to the product offtake continue to show strong interest in participating in the development of the Project"

However, as Harley noted with the dramatic improvement in the mineral sand sector and potential terms from debt and equity financiers, the relative attractiveness of Gunson financing the Coburn mine development itself has increased.

The capital costs are estimated in the DFS at \$169 million capital costs. Gunson is currently evaluating its strategy in tandem with discussions with financiers and strategic investors.

The Coburn Project is one of very few significant mineral sand projects globally

### Share Information

**Code:** GUN

**Listing:** ASX

**Sector:** General mining & base metals

**Website:** [www.gunson.com.au](http://www.gunson.com.au)

### Company Synopsis:

*Gunson Resources (ASX: GUN) is an exploration company with interests in mineral sands, nickel, gold and copper projects in Australia. The company's most advanced project is the Coburn mineral sands project in Western Australia.*

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that are ready for development and benefits from low technical risks, due its very low slimes content, and low geopolitical and social risks relative to other proposed mineral sand projects in higher risk countries and/or highly populated coastal areas.

A 6,000 metre air core infill drilling program is scheduled to commence in early May 2011. It is designed to test for ore extensions to the south east of proposed open pit E and to upgrade the inferred resource in the northern third of the Project.

This program is expected to increase the ore reserve in the area permitted for mining and possibly upgrade some of the inferred resource in the northern area to indicated status.

At the end of March, 2011, Environmental performance bonds for construction of the 43km long mine access road and associated civil works were lodged with the Department of Mines and Petroleum (DMP).

Submission of these bonds, backed by a \$1.2 million term deposit, facilitated formal DMP approval on 4th April 2011, to commence development and operation of the Project subject to necessary approvals from other authorities.

Approval from the Department of Environment and Conservation was granted on 7th April 2011, leaving Shark Bay Shire Development Approval and sanction of the second Non Substantial Change to the Public Environmental Review (NSCA2) by the EPA as the remaining approvals required before construction can commence. Both are expected in May 2011.

Coburn Project, which is Gunson's lead project, is focused on mineral sands namely Zircon (66% ZrO<sub>2</sub>); Ilmenite (61% TiO<sub>2</sub>); Rutile (95% TiO<sub>2</sub>); and Leucoxene (90% TiO<sub>2</sub>) is located in Western Australia and contains proved (53 million tonnes (Mt) and probable (255Mt) reserves of 308Mt at 1.2% heavy minerals.

A Definitive Feasibility Study (DFS) announced in early 2010 revealed that Coburn Project has the potential to support a high volume, low cost, long life mining operation producing quality mineral products.

Approximately 67% of the revenue from the proposed mine is expected to come from zircon.

Strong revenue and cash flow is expected from Coburn. In addition the company has a strong exploration team and experienced management.

The number of new Greenfield development projects, particularly for zircon, has decreased in recent years with no new mines currently under construction. A dearth of promising new regions for zircon exploration and production is causing a fall in the number of new projects.

## Comment

Riding urbanisation of developing economies, with rising demand for zircon and titanium dioxide and a lack of adequate supply, have meant the financial attractiveness of the Coburn project has likely never looked so strong.

Gunson is now strategically placed for its construction ready Coburn zircon mineral sands project to be in production in 2013, subject to project funding decision.

In turn this implies Gunson's market valuation of around \$50 million could appear very "light" once the project finance is finalised.

The future prospects for Gunson Resources and its flagship Coburn Project may have never looked so good for investors.

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