GUNSON RESOURCES LIMITED

Company Insight
the intelligent market update

Gunson Resources Limited **Date of Lodgement: 6/12/12**

Title: "Company Insight – Cost Reductions, POSCO JV & Financing Progress"

Highlights of Interview

- **To date, Coburn Zircon Project's operating cost review has reduced life of mine average annual operating costs by 6.5% from $85.1 to $79.8 million**
- **Operating costs being reviewed include mining, power and other >5% significant items**
- **Rescheduling the mining sequence has also lowered mining costs by $1.2 million over the first five years of the Project**
- **Explains ongoing mining & cost reduction studies - results expected in the first quarter of 2013**
- **Substantial agreement on JV wording with POSCO and Korean co-investor– signing planned in December 2012**
- **Debt arrangements continuing, with due diligence proceeding under JV's financing deadline, extended to the first quarter of 2013**

Record of interview:

With David Harley Managing Director of Gunson Resources Limited (ASX: GUN) market capitalisation ~A$19.5 million.

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Why did Gunson undertake the cost review, and what was the broad outcome?

Managing Director, David Harley

The cost review followed the preliminary conclusion in our announcement of 20 September that life of mine annual operating costs had increased from $66 to $85 million. That was a big jump, and we felt it was too much. We therefore undertook a broad review, looking closely at the material cost items, and to date this has found that annual operating costs can be reduced from $85.1 million to $79.8 million, a reduction of around 6.5%. We're still looking at a number of other areas, with the intention of further improving the operating cost position.

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What cost and operational areas were reviewed, and what changes did the Company decide upon?

David Harley
Our particular focus to date has been on mining, power, and the various cost areas, that have at least 5% significance.

First, we went back to suppliers after deciding that if we gave them additional detail of the mining method, this would lead to less uncertainty, allowing them to reduce the ‘risk’ or contingency components in their pricing. That approach has generated a reasonable improvement in cost estimation.

Next, a review of our natural gas (basis of Coburn’s power supply) cost assumptions revealed some savings based on current market conditions and forecasts, together with numerous other small incremental changes.

Overall, operating cost reductions of $5.3 million per annum have been identified.

Additionally, we worked out that we can reduce our annual average mining costs in the first 5 years of the Project by $1.2 million by mining Pit B before we mine Pit A - because the Pit B overburden to ore ratio is lower than at Pit A. This change will improve early returns, enhancing the NPV and IRR of the Project. We’ll provide further details on the updated Project economics once the final review of costs is complete.

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On the next stage of the operational cost review, what areas will you target and what is the timeline for this exercise?

David Harley
The further operational cost review is focussed on mining, and there are two areas.

The first area is pit optimisation, where we go back to first principles and look at the boundary between the overburden and ore, based on conservatively forecast commodity prices and mining costs. The purpose of the study is to identify whether the boundary between overburden and ore shifts upwards towards the surface when some outdated assumptions used in the mine modelling are modified to accord with an appropriate view of reality. The key outdated assumption was a cut-off grade of 0.8% based on when zircon was US$800 a tonne. The zircon price is well above $800 now and I don’t think anyone believes it will sink to that level in the future.

With an appropriate overburden/ore boundary, our cost projections would involve shifting less overburden than previously. Because of the additional push distance, overburden removal costs 50% more than mining ore – so this will makes quite a difference to mining costs. People have contended that this means putting lower grade ore through the plant, yielding less product – but we know that with most projects, including Coburn, the plant capacity is underestimated by a factor of around 10%. Accordingly we can address those people’s contention – firstly, because more sand can be accommodated by the plant than its nameplate capacity and secondly, since the additional lower grade material (that previously would have been counted as overburden) is mineralised, the marginal increase in throughput compensates for any slight reduction in grade.

The other area we’re looking at is mining contractor costs. There is scope here because contractors initially tend to give high level budget figures in the expectation that the contract will be offered for tender. If an item goes to tender, pencils are invariably sharpened. The alternative is for us and the contractor to commit to an exclusivity arrangement in which both Gunson and the contractor work collaboratively to determine the best outcome for the Project. The combined resources and experience of both parties will determine the most appropriate use of equipment for key activities, reduce the risk allowance and lower the overall cost estimate below the earlier budget figures.

So we're getting closer to the crunch with the contractors, some of whom won't participate in the tender process until we can prove financing, and others who want exclusivity arrangements. We have some good indications of the right ballpark figures from the various people in the market, and this will help us negotiate the right outcome.

Thus, when the Project's financing becomes clearer, we'll be able to bring all these fine tunings into account, complete our cost assessments and let our shareholders know the position.

But we anticipate that our cost outcome is going to be lower than at present, rather than higher.

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What is the status of the final stage negotiations with POSCO and its Korean fund co-investor, and when do you expect finalisation?

David Harley
Essentially, we've reached substantial agreement on the wording of the joint venture agreement with POSCO and the Korean co-investor. We now just have to tidy up the loose ends and plan to sign the documentation in December, 2012.

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What is the progress on Coburn's financing arrangements and the timeline for finalisation?

David Harley
The joint venture negotiations assume that Gunson will satisfy the financing of its share by the end of March 2013. Debt discussions have been under way for a long time, and parties we've had discussions with are proceeding with due diligence. Some of these discussions are also linked with final customer offtake arrangements. Offtake arrangements and equity discussions are also well-advanced.

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Thank you David.

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