

OPTIMISATION STUDY RESULTS - COBURN ZIRCON PROJECT

HIGHLIGHTS

- *Optimisation Study completed, with positive results. By expanding annual ore production 34% and finished product output by 22%, unit costs have been reduced by an average of 14%.*
- *The combined effects of optimisation and higher ore throughput reduce the mine life from 23 to 19 years.*
- *Financial returns, compared with those released in September 2012 and using the same underlying assumptions, show an increase in the NPV of 56% to \$330 million and the IRR of 39% to 31.2%.*
- *The Board believes that the results of the Optimisation Study will meet the POSCO SPV commercial condition outlined in letters received from both POSCO and the Korean resources investment fund last December.*
- *The Optimisation Study results have been sent to the POSCO SPV to enable final negotiations on the Coburn Joint Venture financing Agreement to be completed in March, 2013.*

1. INTRODUCTION

When the results of the Coburn Zircon Project (Project) operating cost review were reported on 28 November 2012, it was stated that further work was in progress to increase the Project financial returns.

This Optimisation Study has now been completed and the results forwarded today to prospective joint venture partner POSCO SPV, a special purpose vehicle in which major Korean steel producer POSCO is to have a majority interest, with the minority interest held by a Korean resources investment fund. As reported on 21 December 2012, the POSCO SPV confirmed in writing that they had advanced their investment decision to the point where the proposed Joint Venture Agreement (JVA) had been substantially agreed and would be executed subject only to normal internal approvals and the following commercial condition being satisfied by 28 February 2013.

The one commercial condition is final resolution of the Project operating budget and the Board believes that the results of the Optimisation Study will meet the POSCO SPV condition.

2. OPTIMISATION STUDY

2.1 Strategy and Major Outputs

The strategy of the Optimisation Study was to decrease Project unit costs and increase the revenue to cost ratio to a level where the Project financial returns met a POSCO SPV minimum after tax internal rate of return hurdle. Collaboration with a small number of key contractors and equipment suppliers was a key element of this strategy.

The main outputs from the Study were:

- (a) Changes to the in-pit mining and overburden removal sequences, decreasing the volumes of materials to be rehandled, with resulting increases in productivity.
- (b) Changes in (a) above allowed mining to commence closer to the Mineral Separation Plant (MSP), deferring some initial capital expenditure.
- (c) The benefits of increasing the output of heavy mineral concentrate (HMC) from the mine to match the feed requirements of the MSP were justified despite a small increase in capital.

The strategy required a higher mining rate and minimal additional capital expenditure compared to previous studies.

2.2 Expanded Mining Rate

As the design capacity of the MSP is 30 tonnes per hour (tph) of HMC and the existing average HMC production was 25 tph, there was scope to increase the production rate of HMC by 25%, with no additional capital expenditure on the MSP. As discussed below, there is only limited capital expenditure required to expand the capacity of the Wet Concentrator Plant (WCP) to produce 30 tph of HMC.

The study determined the ore mining rate should be expanded to 3,000 tph from the previous 2,300 tph. The increase is beyond the capability of the two Dozer Mining Units (DMU) previously budgeted, requiring an additional DMU to be added to the mining fleet. The third unit will operate in a separate part of the same pit as the other two DMUs.

Total annual average ore production will increase to 23.4 million tonnes per annum (tpa), from the previous 17.5 million tpa. An additional 29 million tonnes of mineralised overburden has been reclassified from overburden to ore in the revised mining plan, reducing the average life of mine heavy mineral (HM) feed grade from 1.26% to 1.19% HM and the open pit strip ratio from 0.6 to 0.5 tonnes of overburden for each tonne of ore. As the cost of mining overburden is 50% higher than ore due to the longer bulldozer push distance required, this had a positive effect on mining costs. The expanded mining rate under the re-optimised operating plan reduces the mine life by approximately 17%, from 23 to 19 years and thus, the previous practice of listing average annual operating cost comparisons over the mine life has been replaced with unit cost comparisons, as discussed in item 2.4 below.

2.3 Expanded Annual Finished Product Output

The annual output estimates of saleable products under the re-optimised operating plan are listed in Table 1 below, as a comparison with previously announced production estimates.

**Table 1. Life of Mine Annual Average Product Output
Average Annual Tonnage**

Product	February 2013 Optimisation	Latest Previous (AGM 2012)	Product % Revenue *
Zircon	49,500	41,000	65
Ilmenite	109,000	89,000	19
HiTi	23,500	19,000	16
TOTAL	182,000	149,000	

* Same % for 2013 Optimisation and AGM 2012

2.4 Improved Unit Costs

The expanded mining rate and product output has led to the improvement in unit costs listed in Table 2 below:

Table 2. Unit Cost Comparison : 2013 Optimisation with Previous

Cost per tonne of ore *	Optimisation	September 2012
Mining	\$2.11	\$2.31
Wet Concentrator	46c	55c
Mineral Separation	32c	45c

* includes power costs

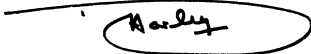
2.5 Financial Improvement & Capital Cost

For a modest \$10 million capital cost increase to a new total of \$202 million, the pre-tax 8% discount rate net present value based on the same underlying assumptions as those in the Company's release on 18 September last year has increased from \$211 million to \$330 million and the pre-tax internal rate of return from 22.4% to 31.2%. The life of mine revenue to cost ratio also improved from 1.45 to 1.6.

3. CONCLUSIONS

The results of the Coburn Project Optimisation Study are encouraging and have improved the Project financial returns to a level that the Board believes will meet the minimum POSCO SPV financial return hurdle.

POSCO and the Korean resource investment fund have indicated that they will make a prompt decision on the revised Coburn budget, which will enable final negotiations on the Coburn Joint Venture financing Agreement to be completed in March 2013.



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ATTRIBUTION

The information in this report that relates to exploration results, mineral resources and ore reserves is based on information compiled by Mr D N Harley, who is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Harley has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Harley consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.