

9 November 2012

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Dear Shareholder

**URGENT : PROXY VOTING**

I am writing to you prior to your Company's forthcoming Annual General Meeting (Meeting), to be held in Perth at 10.00 am on 28 November 2012, because the outcome of proxy voting at the Meeting is critical to the Company's future. My reason for this statement is the direct effect that voting on all resolutions to be put to the Meeting will have on the future of the Coburn Zircon Project (Coburn Project). You will see from the Notice of Meeting and Explanatory Memorandum mailed to you last week, that your Board has recommended that you vote FOR Resolutions 1 to 4 and AGAINST Resolution 5.

The Coburn Project is the Company's flagship asset and its major focus in the financial markets. Financing of the Coburn Project is our major goal and the lack of certainty on this issue is understood to be the main reason for the Company's low share price.

The Company's success earlier this year in attracting major Korean steel producer POSCO as a potential strategic partner in the Coburn Project is a big step forward in achieving the Company's main goal. The significance of the potential POSCO investment should not be underestimated, because attracting a credible strategic partner in the Coburn Project has been a long and slow process. We cannot afford to compromise the process at this advanced stage, because its success is reliant on the stability of the Board and management team.

Voting on the resolutions to be put to the Meeting is more critical than in any previous annual general meetings in the Company's 12 year history, for the following reasons:

**Resolution 1. Adoption of the Remuneration Report.** As stated in the Notice of Meeting, if more than 25% of the votes received are against this resolution a Spill Resolution will be triggered (See Resolution 5 below).

**Resolutions 2 & 3. Re-election and election of Non-Executive Directors** respectively. Negative votes on these resolutions would not be consistent with the need at this critical time to maintain stability of the Board.

**Resolutions 4(a) & 4(b). Approval for Past Placement of Shares.** Rejection of these resolutions will hamper important momentum toward financing of the Coburn Project.

**Resolution 5. Spill Resolution.** If more than 25% of the votes received at the Meeting are against Resolution 1, this resolution must be put to the Meeting and thus your vote against this resolution is the most critical of all. I want shareholders to clearly understand that should Resolution 5 be put and passed at the meeting, then the resultant actions are very likely to have a negative impact on the development of your Company and the value of its shares. Gunson is at the cusp of formally engaging with major partners such as POSCO, product off-takers and financial institutions across the world and the success of these engagements is reliant on the relationships between those parties and the current Board and management team.

In summary, and as your Chairman, I urge you to carefully consider these resolutions, complete the Proxy form recently mailed to you and return it as soon as possible.

**I reiterate previous advice that that your Board has recommended that shareholders vote as follows:**

**Resolution 1: Adoption of the Remuneration Report – Vote FOR**

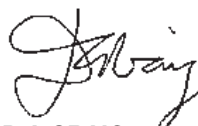
**Resolutions 2 & 3: Re-election and election of Directors – Vote FOR**

**Resolutions 4 (a) & (b): Approval for Placement of Shares – Vote FOR**

**Resolution 5: Spill Resolution – Vote AGAINST**

In the meantime, enclosed is a copy of the Company's quarterly report, which contains commentary on recent progress made toward realising the goal of developing the Coburn Project. We believe that the arrangements with prospective joint venture partner POSCO, critical to this goal, will be finalised in the near future.

Yours sincerely



**D A CRAIG**  
Chairman

# QUARTERLY REPORT

for period ended 30 September 2012

## HIGHLIGHTS

### COBURN ZIRCON DEVELOPMENT PROJECT

- Conditional POSCO Board approval in August 2012 for a 40% joint venture investment in Coburn in conjunction with a Korean resources investment fund, which would hold a minority share in a Special Purpose Vehicle (SPV).
- The POSCO SPV to earn in to Coburn by funding \$28 million before Gunson commences its contribution, leaving Gunson a net requirement of \$88 million to fund its 60% share of mine development costs.
- Front End Engineering and Design (FEED) studies for Coburn mine construction and a lateral natural gas pipeline completed in September 2012, showing a modest capital cost increase to \$192 million, with the estimated construction period reduced by 8 weeks to 77 weeks.
- Five year renewable water licence issued for the construction and operational phases of the Project, up to 31 December 2017.

### FOWLERS BAY NICKEL PROJECT

- A nickel sulphide targeting consultant review of the Project earlier this year concluded that it is a world class greenfields exploration target area. It is similar in many respects to the Fraser Range belt in Western Australia, host geological province of the new Nova discovery by Sirius Resources.

## 1 COBURN ZIRCON DEVELOPMENT PROJECT (100%), Western Australia

### 1.1 POSCO Investment Decision

On 13 August, the Company announced that the Board of major Korean steel producer POSCO had approved an investment in the Coburn Zircon Project.

POSCO's investment is to be within an unincorporated joint venture structure, through a special purpose investment vehicle (the POSCO SPV), majority owned by POSCO, with a minority interest held by a Korean based resource investment fund (Korean Fund). The POSCO SPV is to have a 40% interest in the Project, contributing its proportionate share of mine development expenditure and ongoing operating costs. It is to earn its 40% interest by making a \$7 million initial payment to Gunson and then contributing the first \$21 million of Gunson's share of mine development expenditure. Each joint venture party is to be entitled to its proportional share of the proposed production from the Project, being zircon (estimated 65% of revenue), chloride ilmenite (19%) and HiT190, a mixture of rutile and leucoxene, (16%).

A joint venture document outlining the financial and operational aspects of the Gunson-POSCO agreement is close to finalisation and execution of this document is expected in December

2012. Gunson is to be the Project manager, with the POSCO SPV, represented by POSCO, to have equal representation on the Joint Venture Management Committee. Whilst Gunson will have a higher percentage voting interest, all material decisions of the Joint Venture Management Committee will require unanimous approval.

The POSCO SPV's investment in the Project is contingent upon Gunson raising its 60% equity share of the mine development costs, less the \$28 million earn-in expenditure by the POSCO SPV, after Korean Fund approval of its Coburn investment and execution of the joint venture document. POSCO's original deadline for Gunson raising its 60% share of the mine development costs was the end of 2012 but the forecast three month delay in execution of the joint venture document, in turn dependent on Korean Fund investment approval, has set Gunson's timetable back by a similar duration. Without an executed joint venture agreement, it is recognised that Gunson will not be able to raise either the debt or equity portion of its required funding and this view has been conveyed to both POSCO and the Korean Fund. In December 2012, POSCO is expected to extend the financing deadline into early 2013.

The latest capital cost estimate, released on 20 September 2012 and discussed below, is \$A192 million and in accordance with the terms of the draft joint venture agreement, Gunson has a net requirement of \$88 million, excluding an estimated \$12 million for its share of working capital.

## 1.2 Engineering – New Capital Cost Estimates

On 20 September 2012, the Company announced the results of the Sedgman Limited (Sedgman) Front End Engineering and Design (FEED)/Value Engineering Study, initiated in March 2012. This Study focused on providing more definitive capital costs and construction schedule ahead of the finalisation of funding and commencement of full scale construction.

Key results of the Sedgman study were a modest 7.5% increase in the estimated capital costs to \$192 million and a 19% increase in the annual average HiTi90 production from 16,000 tpa to 19,000 tpa, based on an optimised process flow sheet. The construction period was shortened by 8 weeks, from the 85 week estimate in the Definitive Feasibility Study (DFS) released in January 2010.

Capital expenditure estimates listed in Table 1 below include all on-site construction items, apart from the build-own-operate power station and lateral natural gas pipeline, the expenses of which are included in operating costs. The only off-minesite item listed in the table is a mineral product storage shed to be located at the Port of Geraldton.

Sedgman, which compiled the capital cost estimates to a definitive accuracy level of +10%, has included contingencies at the P90 level, indicating a 90% chance of the actual cost coming in at or below estimate. The average contingency is 9.6%, similar to the level incorporated in the capital costs in the DFS, despite the more mature nature of the design in the latest capital cost estimate. As in the DFS, the new figures are based on competitive tenders with a price base date of August 2012. In view of the recent delays and cancellations of new development projects in the Western Australian iron ore industry, it is likely that some construction costs may fall in the next 12 months.

In compiling the capital costs, Sedgman assumed that a single EPCM engineering company would be appointed to design and construct the Project. All equipment is priced new and the construction period, which incorporates the period from time of award of early engineering and site activities through to practical completion, is estimated at 77 weeks.

**Table 1 a. Capital Cost Estimates – EPCM Contractor**

(includes 9.6% contingency and EPCM costs)

Item	Description	Cost (\$A million)	
		May 2011	August 2012
1.	2 x Dozer Mining Units	22.6	22.7
2.	Wet Concentrator Plant	35.3	38.5
3.	Mineral Separation Plant	43.9	42.9
4.	Water Supply	9.4	9.4
5.	Road/Civils	21.1	24.4
6.	Site Services	6.1	8.7
7.	Village/Office	15.3	14.3
8.	Geraldton Shed	5.6	7.8
9.	Power Retic, Mobilisation & General	7.9	8.9
	<b>Total</b>	<b>167.2</b>	<b>177.6</b>

**Table 1 b. Capital Cost Estimates – Owner**

Item	Description	Cost (\$A million)	
		May 2011	August 2012
1.	Communications	1.9	1.4
2.	Insurance etc	1.7	2.2
3.	Owner Pre Production	7.2	9.7
4.	Miscellaneous	0.6	1.1
	<b>Total</b>	<b>11.4</b>	<b>14.4</b>

<b>Overall Total from Tables 1a and 1b</b>	<b>178.6</b>	<b>192.0</b>
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### 1.3 Operating Cost Review

In the Company's 20 September 2012 release, a significant increase in estimated operating costs was noted, with the biggest single component being mining costs. However, in view of the large reductions in iron ore and other mining activity during the latter part of the September 2012 quarter and beyond, a formal cost reduction review was initiated in late September, 2012.

The first phase of this review should be completed in late November and the Company believes that there is significant scope to reduce Project operating costs due to changing conditions in the contractor market, along with other factors.

### 1.4 Power Supply

A FEED study to provide design, construction, capital and operating cost information for an approximately 110 km long lateral gas pipeline from the Dampier to Bunbury pipeline, westwards to the proposed Coburn power station, was initiated in January 2012. This study was carried out by an associated entity of the owner of the Dampier to Bunbury Natural Gas Pipeline and was completed in August 2012.

The Study concluded that natural gas could be delivered to the Coburn mine on a build-own-operate-manage arrangement with an estimated construction period of 6 months. Environmental

baseline studies along the lateral gas pipeline route have commenced, to ensure that the 16 month delivery period is completed well before commissioning of the mineral processing plants at Coburn.

Following a competitive Expression of Interest process, selection was made of the Company's preferred supplier of a natural gas fired power station on a build-own-operate-transfer basis, under a standard power purchase agreement.

Draft contracts for the natural gas supply and power generation are being reviewed but final contracts will not be executed until shortly after Project financial closure.

### **1.5 Permitting**

After the end of the quarter, a Licence to Take Water for the first 5 years of the Project up to 31 December 2017 and renewable, was granted by the Western Australian Department of Water.

Work on application documents required for the remaining two government approvals needed before mining commences is well advanced, for submission to State regulators in the final quarter of 2012.

### **1.6 Mineral Sand Market**

There has been a dramatic decline in zircon consumption in 2012, of a similar magnitude to that during the Global Financial Crisis in 2009, as shown in Figure 4 of the Company's 2012 Annual Report: a graph compiled from a 17 September 2012 report by global broker JP Morgan. This graph shows a 20 year average annual growth rate in zircon demand of 3%, interrupted only by the 2009 and 2012 slumps, both of which JP Morgan argues were unsustainable in view of the long-term growth trend. Consumer stocks of zircon are reported by Iluka Resources in its third quarter 2012 production report as being very low and following a "just in time" purchasing strategy. These conditions are similar to those in 2010, when a sudden increase in demand saw consumers resume more normal stock levels.

In the meantime, the world's three major producers: Iluka Resources, Rio Tinto and Tronox (formerly Exxaro Mineral Sands) who control approximately 70% of global zircon supply, have been restricting sales and stockpiling concentrates and final product. Iluka Resources has led the market discipline, stating in its report quoted above that concentrate at its Jacinth-Ambrosia mine in South Australia, which accounts for approximately a quarter of global zircon production, can be sustained at lower production rates with stockpiling of heavy mineral concentrate until at least 2014.

Although very minor volumes of zircon have been sold at auction for just above \$US 2000 per tonne, the price has been held above this level to date in 2012.

The titanium dioxide mineral market has not been affected as badly as zircon and the expiry of long term legacy supply contracts set at much lower prices approximately 10 years ago is providing strong price support.

### **1.7 Offtake**

As stated in the previous quarterly report, terms of zircon offtake will not be finalised until the joint venture with the POSCO SPV has been executed. Nevertheless, interest in the Coburn zircon product has been high and discussions with a short list of potential customers have continued. Further meetings with these potential customers are scheduled for the annual TZMI Mineral Sands Congress in Hong Kong between 6-8 November 2012.

HiTi 90 offtake is close to resolution, with an agreement expected in the December quarter of 2012.

## **2 MOUNT GUNSON COPPER EXPLORATION PROJECT (49%), South Australia**

In August, the Company's farm-in partner Noranda Pacific (Pty) Limited, part of the Xstrata Copper Business Unit, completed hole MGD 70 at Elaine Pinchout Prospect at 998 m.

As described in the previous quarterly report, this hole, angled at 60 degrees north east, intersected basement at a down hole depth of 556m or vertical depth of 480m.

The uppermost basement geology in MGD 70 was not as expected, with the first unit intersected over a down-hole depth of nearly 220m being an intensely fractured, fine grained massive to laminated carbonate rock of unknown origin. Intercalated felsic to mafic volcanic units of the Gawler Range Volcanic suite underlie the carbonate rock, which are in turn underlain by coarse foliated granite of the Donington Suite, similar to the pre-Hiltaba age granites intersected in previous drilling in the area. Three medium to coarse grained dolerite/gabbro dykes of the Gairdner Suite intersected in MGD 70 appear to intrude the Donington granite.

Mineralisation in the hole was weak, confined to rare blebs of the copper sulphide chalcopyrite in carbonate veins within mafic units of the Gawler Range Volcanics. Assay results confirmed the visual estimates, with only four samples returning over 0.1% copper, the higher individual sample being 0.2% copper.

Noranda has concluded that the lack of iron oxide copper-gold style alteration and mineralisation suggest that no further drilling of the Elaine Pinchout target is warranted.

Noranda has until mid June 2013 to meet the \$10 million farm-in expenditure target to earn a further 24% Joint Venture interest. Cumulative expenditure to date is approximately \$3.4 million short. If the \$10 million expenditure target is not achieved, Noranda's equity in the Project will remain at 51% and a 51:49% Noranda-Gunson Joint Venture will be triggered, with Gunson able to elect not to contribute to ongoing expenditure after each annual budget is agreed. In the event that Gunson elects not to contribute funding, its interest will dilute in accordance with an agreed formula.

During the quarter, Noranda spent \$430,840 on the Project, bringing its cumulative expenditure to \$6,583,845.

## **3 MOUNT GUNSON COPPER – MG 14 & WINDABOUT EXCISED AREA (100%), South Australia**

No further progress since the previous report.

## **4 FOWLERS BAY NICKEL PROJECT (100%), South Australia**

Approval from South Australian government regulators for ground access to the targets defined earlier this year by respected nickel sulphide targeting consultant, Dr Jon Kronsky, is still awaited. In the meantime, the growing significance of the recent Nova nickel-copper sulphide discovery in the Fraser Range belt of Western Australia has increased the Company's confidence that the Fowlers Bay Project is a world class greenfields exploration target area.

## **5 TENNANT CREEK GOLD-COPPER PROJECT (100%), Northern Territory**

A Notice for Proposed Grant of the replacement exploration licence (EL) covering the former Gosse 5 EL 23947, was issued by the Northern Territory Department of Mines and Energy on 28 September 2012. Objections from native title parties and land owners to the grant of the new licence must be lodged within 3 months from this date.

## 6 NEW NON EXECUTIVE DIRECTOR

On 5 September 2012, the Company announced the appointment of Mr Garret Dixon to the Board of Directors, effective that day.

Mr Dixon is an engineer, with broad experience in mine contracting and mine development, spending eight years with Henry Walker Eltin contracting and subsequently, four years as managing director of iron ore producer Gindalbie Metals Ltd. His background and skills are most welcome, particularly with respect to the Coburn Zircon Project.

## 7 SHARE PLACEMENT

A \$2.09 million share placement at 12 cents per share was completed in late August 2012. This placement comprised the issue of 17.4 million shares to a new British investment holding company Praetorian Resources Limited and some of the Company's substantial and institutional shareholders.

Praetorian Resources Limited, which took up nearly half of the placement, was listed on the Alternative Investment Market of the London Stock Exchange in July 2012 and its major shareholders include a range of global institutions and natural resources investors.

## 8 FINANCIAL

At 30 September, the Company had \$2.1 million in cash and short term deposits. Exploration expenditure was \$1.6 million and forecast exploration expenditure for the December quarter of 2012 is \$1.0 million.



**D N HARLEY**  
Managing Director  
31 October 2012

### Further enquiries, please contact:

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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.



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