

## **COBURN ZIRCON PROJECT UPDATE**

Significant improvement in the markets for all mineral sand products has continued since the start of the year, with supply shortages expected to persist for at least several years due to ongoing demand growth and limited new supply. Growth in zircon and titanium dioxide minerals demand continues to be driven, in particular, by increased use of ceramic tiles and paints in housing within developing economies due to urbanisation and a growing middle class in their large populations.

On the back of this market strength, global broking firm Goldman Sachs is now forecasting 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. These dramatic price increases appear sustainable, at least in the medium term, because as Goldman Sachs has observed, 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.

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

### **1. Improvement in Estimated Project Financial Returns.**

The new TZMI forecasts have further enhanced the attractiveness of the Project, with the pre tax internal rate of return (IRR) increasing by 50% to 32% and the net present value (NPV) by 39% to \$A301 million. These returns were based on an 8% discount rate and a 2.5% state royalty. At the prevailing 5% state royalty, the IRR and NPV are \$A274 million and 29.7% respectively. As stated in the Company's release on 11<sup>th</sup> January 2011, there is a strong case for a royalty reduction on finished mineral sand products in Western Australia and efforts to persuade the State Government to reduce its royalty rate will continue.

A comparative table between the January and April 2011 financial analyses based on the costs outlined in the Project Definitive Feasibility Study (DFS) announced in January 2010 is shown below:

	<b>DFS *</b> <b>April 2011*</b>	<b>DFS *</b> <b>January 2011</b>
Total Revenue	2,401	2,249
Total Operating Costs	1,318 Δ	1,291
Net Operating Margin	1,083	958
Capital Cost	169	169
IRR before tax/financing	32%	21.2%
NPV (8%)	301	216
Exchange Rate (\$US to \$A)	1.00	1.00

\* *Figures in millions of Australian dollars, except the IRR and exchange rate.*

Δ *Concessional diesel fuel price increased by 28% to \$1 per litre*

### **2. Project Financing**

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, but as financial market recognition of the dramatic improvement in the mineral sand sector grew, interest from banks, capital market participants and other financial institutions increased markedly.

The improvement in the potential terms from debt and equity financiers has enhanced the potential attractiveness of the Company financing the Coburn mine development itself, without bringing in a strategic investor to share the estimated \$169 million capital costs. The risks and rewards of this option in comparison with the strategic investor option will be evaluated as the Company finalises its strategy during ongoing interaction with potential financiers and strategic investors.

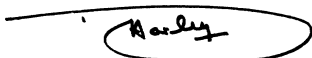
During these discussions, the Company remains cognisant of the increasing value of the Project as one of very few significant mineral sand projects globally that are ready for development. Furthermore, the Project benefits from low technical risks, due its very low slimes content, and low geopolitical and social risks relative to other proposed mineral sand projects in higher risk countries and/or highly populated coastal areas.

### **3. Infill Drilling Program**

A 6,000 metre air core drilling program 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 is scheduled to commence in early May 2011. 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.

### **4. Permitting**

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) at the end of March, 2011. Submission of these bonds, backed by a \$1.2 million term deposit, facilitated formal DMP approval on 4<sup>th</sup> 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 7<sup>th</sup> 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.



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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.