

**COBURN ZIRCON PROJECT –  
PROGRESS REPORT ON NEGOTIATIONS WITH CTIEC**

In July and October 2007 respectively, Gunson signed two non binding Memoranda of Understanding (MOU's) with Chinese company CTIEC, acting on behalf of its parent company China National Building Material Company Limited (CNBM), to develop the Coburn Zircon Project in Western Australia.

The main points agreed in these MOU's are listed below:

1. A subsidiary of CNBM and a Bengbu electric power supply company to invest in the Project as minority equity partners, with a combined 40% participating interest.
2. An offtake agreement with CNBM's subsidiary for 20,000 tonnes of zircon sand per year. The price of this zircon would be benchmarked to a major producer's price, *c.i.f.* China.
3. Subject to CNBM's investment in Coburn and completion of the above offtake agreement, Gunson to accept CTIEC as the fixed price "turnkey" engineering contractor to deliver the whole Project.
4. Both parties to use their best endeavours to locate the proposed Project mineral separation plant in China, in CTIEC's Hi-Tech Industrial Park at Bengbu, some 200 kilometres west of Nanjing.
5. Best endeavours to be made to conclude a legally binding Outline Agreement by the end of 2007, so that construction of the mine in Western Australia and the mineral separation plant in China could commence in early 2008. This Agreement covers the commercial and legal structure and management of the Project in its development and operational stages.

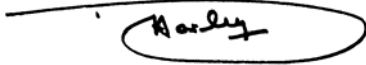
Good progress has been made on all five points listed above but the joint goal of completing the legally binding Outline Agreement by the end of 2007 has not been achieved.

CTIEC's aim has been to complete the design and costing of its turnkey proposal, and then have the investment in the Coburn Project approved by CNBM's investment committee before concluding the Outline Agreement. Preparation of the turnkey proposal was accelerated by the visit of Gunson's General Manager, Alan Luscombe, in late November/early December this year and Mr Luscombe will be returning to China in early January to help CTIEC finalise the design and costing work.

It is now anticipated that the turnkey price will be finalised in late January 2008 and that after Gunson has had an opportunity to review the CTIEC engineering proposal, the parties are scheduled to meet in China from 20<sup>th</sup> February 2008. In the meantime, CTIEC's comments on the first draft of the

Outline Agreement were received in late November and a second draft Agreement incorporating the changes they requested was returned to them on 13<sup>th</sup> December.

Subject to agreement on the turnkey capital cost of the Project, the Outline Agreement is to be concluded in March 2008, with the aim of commencing construction by mid 2008. As stated previously, it is estimated that the Project will take 58 weeks to develop, from contract award to the completion of commissioning.

A handwritten signature in black ink, appearing to read "Harley", is enclosed within a hand-drawn oval. A horizontal line extends to the left from the top of the oval.

**D N HARLEY  
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