

28 March 2013

**COBURN ZIRCON PROJECT:
POSCO SPV NEGOTIATIONS TERMINATED AND FUTURE PLANS**

1. INTRODUCTION

Gunson Resources Limited (**Gunson, ASX Code: GUN**) has today advised POSCO, as the senior shareholder of its prospective partner, the POSCO SPV, that it has ended joint venture negotiations on the Coburn Zircon Project (Project) because agreement could not be reached on commercial and financing conditions. This is a disappointing outcome after nearly 18 months of due diligence, engineering and optimisation studies which have resulted in making the Project considerably more robust, but reflects the significant deterioration in the zircon market over the last six months. The background to negotiations with the POSCO SPV and Gunson's future strategy are outlined below.

2. POSCO SPV

The POSCO SPV is a special purpose vehicle in which major Korean steel producer POSCO was to have a majority interest, with the minority interest to be held by a Korean resources investment fund. On 21 December 2012, Gunson announced that the POSCO SPV members had confirmed in writing that they had progressed 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 a commercial condition being satisfied by 28 February 2013. This commercial condition was to achieve improvements to the forecast Project cash flows to meet an agreed financial return hurdle.

Results of an Optimisation Study designed to meet the POSCO SPV commercial condition were announced on 26 February 2013, which in the Gunson Board's view would be sufficient to meet this condition. The Optimisation Study was very encouraging and results from it have considerably improved the Project's cost structure, along with the definition of operating plans relative to the position prior to the Study and subsequent to the cost increases announced in September 2012.

However, the incorporation of updated zircon and titanium mineral price forecasts, as recently released by TZMI, offset much of the cost structure improvements. This resulted in POSCO SPV's returns being below their required level after allowing for their \$28 million earn-in payment. Gunson was unable to successfully engage with POSCO SPV in relation to whether an acceptable return could still be achieved by them with a reduction to the earn-in payment.

In addition, the deterioration in the mineral sands markets and uncertainty about the timing of improved conditions, particularly in the zircon market, increased the challenges of Gunson raising its share of the funding for Project development. Previous term sheets for debt facilities could not be progressed without zircon offtake agreements with adequate floor prices, which could not be secured in the current market, and many potential large equity investors wanted to see some clarity on the market outlook before making any commitments.

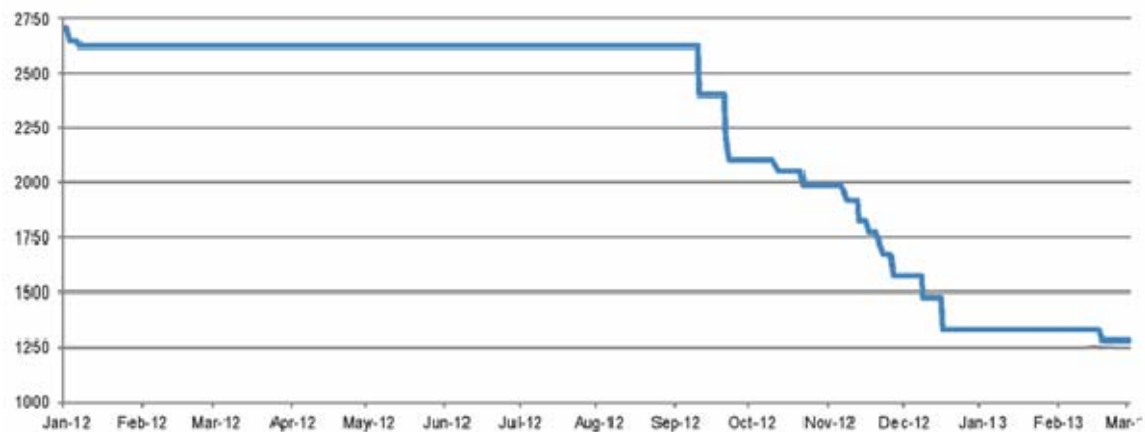
Despite the JVA containing a financing condition that was substantially agreed, the heightened financing uncertainty led the POSCO SPV to recently seek further comfort on Gunson's financing before it would sign the JVA. Gunson was unable to provide such comfort prior to the POSCO SPV's internal approval deadline of 31 March, 2013. Due to changes in the strategic imperative of

POSCO and the investment strategy of the Korean resources fund, they were unwilling to provide a further extension.

3. MARKET REVIEW

As noted above, the recent negotiations with POSCO SPV have been carried out against the backdrop of a spectacular collapse in the zircon price, which has halved between September 2012 and February 2013 (see graph below). Whilst de stocking by consumers was the major factor in the collapse of the zircon price, the steep decline has clearly impacted mineral sand commodity price forecasts for the short to medium term. However, leading industry marketing consultant TZMI has maintained its long-term price forecast of \$US1715 per tonne *f.o.b* from 2018.

Figure 1: Zircon sand Australian ZrO₂ 66% min CIF China [US\$/t]



Source: Asian Metals

Incorporating the latest TZMI forecasts and a long term exchange rate of A\$1.00 = US\$0.85, Coburn remains a robust project.

4. DUPONT AND PRODUCT OFFTAKE

Separately, as endorsement of the quality of the Project's ilmenite product, which comprises approximately 19% of forecast sales revenues, major pigment producer DuPont has indicatively confirmed that it is willing to extend the financing deadline in the Chloride Ilmenite Sales Agreement announced on 2 March 2012 by a year, to 30 June 2014.

Whilst there is keen offtake interest in relation to the Project's zircon and HiTi (90% TiO₂) production, these offtake rights have substantial strategic value and will continue to be considered as part of the overall Project funding route.

5. STRATEGIC REVIEW

The Board remains fully committed to maximising the value of the Coburn Zircon Project to shareholders. The Project has many merits relative to other mineral sands projects:

- It has very low geopolitical and land access risks, due to its location in mid-west coastal Western Australia, with no significant alternative land-use and the majority of resources situated on a Pastoral Lease owned by the Company;
- It has low technical risks, with a broad homogeneous orebody of free flowing sands, negligible slimes and oversize, and low levels of "trash" heavy minerals;
- It can utilise existing infrastructure to get products to market, with the nearby North West Coastal Highway running to the Port of Geraldton, an established mineral sands port;

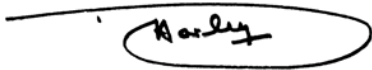
- It is very well defined from an engineering and planning perspective and has received all material approvals for development;
- It produces high quality products, with low radioactive elements, low impurities and standard grain sizes; and
- Its heavy mineral concentrate has a high-value zircon-rich assemblage.

In the context of the Company's current position, the Board has initiated a Strategic Review of the Company which will include a review of the following:

- alternatives for maximising the value of the Project, including new avenues or structures for developing the Project or its possible sale;
- the future structure of the Company, including a review of the size and composition of both the Board and the executive management team, as well as the possible introduction of a strategic shareholder;
- other projects held by the Company together with its future exploration strategy and focus of the Company..

To assist the Company in undertaking this Strategic Review, the Board will be engaging Perth based corporate advisory firm Azure Capital, whose mandate will include consultation with the Company's major shareholders and important stakeholders.

The Strategic Review is scheduled to commence shortly after Easter and a report on recommendations from the Review will be announced at the end of April 2013.



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