GUNSON RESOURCES LIMITED

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COBURN ZIRCON PROJECT - FRONT END ENGINEERING RESULTS AND UPDATED FINANCIAL RETURNS

1. Introduction

In the Company's announcement on 13 August 2012, the Front End Engineering (FEED)/Value Engineering Study was reported to be on track for completion in mid September, 2012. This Study, focused on providing more definitive capital costs and construction schedule ahead of finalisation of funding and commencement of full scale construction, has now been completed.

This announcement summarises the key results of the Sedgman Limited (Sedgman) Study, which has resulted in a moderate 7.5% increase in the estimated Project capital costs above the previous estimate reported 16 months ago in May 2011, and documented in more detail on page 9 of the Company's 2011 Annual Report. The Study also resulted in a 19% increase in the annual average HiTi 90 production from 16,000 tpa to 19,000 tpa, based on an optimised process flow sheet. These higher HiTi production figures have been incorporated into the updated financial analysis reported below, the first one to be published since 23 November 2011.

2. Revised Capital Costs & Construction Period

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 the operating costs reported below. 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 Definitive Feasibility Study (DFS) announced on 7 January 2010, 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. This is 8 weeks less than the construction schedule estimated in the DFS.

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
	Total	**167.2**	**177.6**

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
	Total	**11.4**	**14.4**

Overall Total from Tables 1a and 1b 192.0

The total capital cost estimate, including Owner's pre production costs, is $192 million and does not include working capital.

3. Operating Costs

The Company has this month completed a review of Project operating costs, the most thorough since the DFS was completed in 2009, which has resulted in a significant increase. Financial updates since the DFS results were announced in January 2010 were based on broad inflation adjustments only. The biggest single component increase resulting from the Company review was in mining costs. However, in view of the growing number of contractors now seeking work in Western Australia after the large reductions in iron ore activity in the past 2 months, this situation is expected to change.

For this reason, there is a reasonable basis to expect lower operating costs after the Company tenders the mining and other ancillary contracts in 2013.

4. Financial Analysis

Using the August 2012 real US dollar price forecasts for zircon and titanium dioxide minerals provided by respected industry marketing consultants TZMI, and the US to Australian dollar exchange rates shown in the footnote to Table 2 below, the Project maintains its financial attractiveness, with a Net Present Value (NPV) of $210.6 million and an Internal Rate of Return (IRR) of 22.4 %. The NPV and IRR were calculated on a pre tax and pre financing basis.

Table 2. Financial Summary of the Coburn Zircon Project
(Average Annual over 23.5 year mine life in millions of real $A)

Item	Description	*November 2011*	*September 2012*
1.	Total Revenue	103.3	123.8
2.	Total Operating Costs	66.5	85.1
3.	Net Operating Margin	36.8	38.7
4.	Capital Cost	180	192
5.	IRR before tax/financing	28.3%	22.4%
6.	NPV (8%)	223.7	210.6
7.	Exchange Rate ($US to $A)	1.0	See below

Exchange rate assumptions: US to Australian dollar. 0.95 in 2014, 0.93 in 2015, 0.9 in 2016, 0.85 from 2017. Figures based on Bloomberg consensus rates to 2016 and ten year bank swap rates from 2017 onwards.

The 5% State royalty is included in the operating costs.

5. Next Steps

Following completion of the capital and operating cost updates, the Company is now in a position to accelerate its efforts in concluding debt and equity funding for the Project.

With a net requirement of $88 million for funding its share of the capital costs, in accordance with the POSCO joint venture arrangement announced on 13 August 2012, Gunson is well advanced with several debt providers in relation to project financing, as well as with a larger number of key potential equity investors. Once the size and nature of the debt component is settled, the equity funding is scheduled to follow soon after.

In the coming weeks, the Korean resources fund reported in the 13 August 2012 announcement is expected to provide indicative approval of its investment in the Project, subject to execution of the Coburn Joint Venture Agreement by POSCO. Execution of the Joint Venture Agreement is now expected in October 2012.

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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.