



ASX RELEASE

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PROACTIVE INVESTORS' INTERVIEW

The Company is pleased to release the text of an interview undertaken by Proactive Investors with Mr David Harley, Gunson's Managing Director.

David Harley

D N HARLEY
MANAGING DIRECTOR

Attachment: Proactive Investors' Interview

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Financials

Focus:	Mineral explorer
Country:	Australia
Share price:	A\$0.13
Market capitalisation:	A\$29 million
Cash position (Jun 2012)	A\$1.92 million

Directors and Management

Managing director	David Harley
Chairman	David Craig
Non-executive director	Peter Harley

Major shareholders

Grey Willow	7.30%
John Tilbrook	6.20%

Proactive Investors Q&A with Gunson Resources' David Harley

New JV agreement with POSCO – positions Gunson closer toward mineral sands production

Gunson Resources is on the road to completing the first step in financing the development of its Coburn Zircon Project, after announcement of the POSCO deal on 13 August 2012.

Managing director David Harley in Questions & Answers with Proactive Investors.

POSCO JV agreement

PROACTIVE INVESTORS: It is quite a coup to obtain the investment by POSCO into the Coburn Project. Is the JV document with POSCO still on track for completion during the September 2012 quarter?

DAVID HARLEY:

Yes it is.

POSCO, being primarily a steel company, has seen its revenue drop quite a bit, but it has been voted the most competitive steel company in the world by its peers.

Compared to most of the global steel companies it is still making reasonable money. Its income for the second quarter of this year doubled; in fact it more than doubled from the first quarter.

PROACTIVE INVESTORS: Have there been many material variations in the terms of the POSCO agreement from what was originally expected? If so, what are the key differences?

DAVID HARLEY:

Not really, apart from the extension of time to conclude it. When we first started, POSCO thought it could get the joint venture agreement to a point where its board of directors could sign off in May. Then POSCO had a hiccup with the lowest profit in its history in the first quarter of 2012. So

the board of POSCO decreed that all new investments had to be very carefully scrutinised in April-May 2012.

POSCO's board only considers new investments once per quarter, so we missed the May board meeting but they put it up in August and Coburn was approved.

POSCO investment approval granted, with JV document on track for completion in September 2012 quarter.

PROACTIVE INVESTORS: Gunson has until December 2012 to raise \$80m of debt and equity to finance its share of the \$180m project as part of the agreement, which could be considered a tight deadline given current capital markets. Are you finding that debt markets have loosened up any of late?

DAVID HARLEY:

Well they have for us, and I say that because we have been in discussions with banks and other sort of debt providers for over a year now.

One alternative is a traditional bank debt package in which the lender's overriding concern is getting its loan money back. This concern is satisfied by offtake agreements with creditworthy customers containing floor prices.

Due to the small size and below bank standard credit rating of nearly all global zircon consumers, acceptable offtake agreements with little or no upside price restrictions are virtually impossible to achieve in the current market.

For this reason, we are directing our attention towards non-bank lenders, some of whom are quite competitive with banks and can move much faster. Thus, we are confident of securing debt finance on attractive terms to meet the end 2012 deadline.

PROACTIVE INVESTORS: If POSCO is paying \$28m for a 40% share, this would value the project at around \$70m. In turn, this would value Gunson at over \$0.30 just on that transaction alone, allowing for a mix of debt/equity. What has the market missed as Gunson is still trading around \$0.13?

DAVID HARLEY:

Short answer is that we are in a bear market, so the glass is half empty. Add to that, the fear of inability to raise finance in the current market and dilution when Gunson raises its share of development capital.

PROACTIVE INVESTORS: In your opinion then, what do you think will turn investors around?

DAVID HARLEY:

We thought the POSCO deal would. I think the answer is that you have to go on the front foot, with good research behind you and have strong institutional interest. We are attending to that.

We also have to reduce the financing risk, which the market is still focused on, in particular the amount of new equity we will need to raise. This in turn depends on the quantum of satisfactory debt finance.

PROACTIVE INVESTORS: In terms of offtake partners, do you expect the completion of the JV agreement to spur potential interest in offtake agreements for Zircon and HiTi90, a mixture of rutile and leucoxene?

DAVID HARLEY:

No, I do not think it will have anything to do with it. We already have an offtake agreement for the chloride ilmenite with Dupont, which was announced on the 2nd of March.

This leaves our zircon (65% of revenue) and HiTi90 (15%) products, for which we expect to conclude offtake arrangements in the short term.

One offtake agreement already executed with Dupont for chloride ilmenite, and others in the pipeline.

Project economics

PROACTIVE INVESTORS: The internal rate of return estimated in the updated Definitive Feasibility Study is 28.3%. What would increase the IRR for Coburn?

DAVID HARLEY:

Higher product prices. The longer this current stock market downturn goes on, the worse the supply problem is going to get.

A lot of the more immature projects, from greenfields to those still in the feasibility study stage, are having trouble getting money and progress is going to slow down.

The supply problem is just going to get worse and worse. One of the offtakers we are currently talking to cannot get an assured supply of zircon. This is supposed to be a market in surplus, but when you talk to the people trying to obtain zircon, some are unable to obtain long-term supply contracts.

Shorter construction schedule anticipated in Engineering and FEED Study, which will positively impact NPV.

PROACTIVE INVESTORS: Is the Sedgman Metals Engineering and FEED study still on track for completion in September 2012? Do you expect any material changes to the capital costs and construction schedule?

DAVID HARLEY:

Yes it is. With respect to material changes, not on capital cost. On the construction schedule, it may be shortened a bit, which will impact on the NPV – because the shorter the time you spend on construction, the better your NPV will be.

PROACTIVE INVESTORS: In a peer comparison, which mineral sands project is similar to Gunson's Coburn Project?

DAVID HARLEY:

An existing one called North Stradbroke Island, which is just off Brisbane. It was majority owned and managed by Iluka, but then Iluka and its minority partner sold the operation to a private Belgian company called Sibelco in 2009.

It is lower grade than ours, with less zircon in it but the zircon they have is very good. Many consumers want the rutile and zircon but the heavy mineral grade is about 0.9%.

Coburn's grade is 1.26%, a bit higher grade than North Stradbroke Island, but we have got more zircon. Thus, our in-ground value is higher, but the North Stradbroke Island operation mines three times as much ore as we plan to, producing high quality rutile and zircon products. They are making a cash surplus of around \$100 million a year.

PROACTIVE INVESTORS: What are your thoughts on mineral sands prices over the next few years? Many like Iluka have stated publicly that they have softened in the near-term but will regain ground in the medium to longer term – care to comment?

DAVID HARLEY:

Yes I agree with that. All of our research, with people like TZMI, and just general feeling around the market is that demand and prices will improve.

What we are seeing in China at the moment is that the brakes have been put on the economy to stop property speculation and slow inflation.

If you look at the average growth of zircon consumption in China over the last 10 years, this year it is way below trend. Is this a new paradigm? No, I think it is deliberately created by government policy.

Coburn similar to North Stradbroke Island mineral sands project, which generates a cash surplus of \$100m per year and is lower grade with less zircon.

News flow

PROACTIVE INVESTORS: In terms of milestone announcements, what should investors be looking for over the next six months?

DAVID HARLEY:

On Coburn, quite a lot. We have a number of steps coming up, like the Korean fund approving its investment. Then POSCO want to have a JV signing ceremony in mid September.

Around about the same time, maybe just a little bit after, we will announce results of the Engineering and FEED Study. We will then do a global roadshow in late September/early October.

The purpose of the roadshow is to let people know there is an equity raising on the way. The trigger for the equity raising will be an acceptable debt facility and we are looking at around about late October for that, with the equity raising to follow soon afterwards.

PROACTIVE INVESTORS: Thank-you David.