RESOURCESTOCKS

ZIRCON PRICE CLEARS THE WAY FOR COBURN

Times have changed since Gunson Resources was promoting its Mount Gunson copper-cobalt deposits as its first production hopeful, underpinned by a global copper shortage and a strong forward price.

WITH A PROJECT located in South Australia's massive Gawler Craton, 100km south of BHP Billiton's Olympic Dam copper-gold-uranium mine, the diversified junior was advancing a bankable feasibility study and had commenced infill drilling and metallurgical testwork in preparation for the development of an open pit mine and a 550,000 tonne per annum flotation plant to produce high-grade copper concentrates for export.

But two years is a long time in the exploration game and a dramatic swing in the commodity cycle since April 2010 – during which the zircon price doubled and continues to rise – has seen Gunson put less emphasis on its copper assets in favour of its zircon-rich, heavy mineral sands interests at the $169 million Coburn project, 250 kilometres north of Geraldton.

Fuelled by a global deficit in the supply chain caused by a decade of little or no investment in the mineral sands industry, zircon is now in short supply, with increased demand as a glazing material used in the manufacture of household ceramics such as bathroom and kitchen tiles and toilet bowls.

Its resurgence has been driven by steadily increasing consumption in developing regions such as east Asia, the Middle East and South America as well as the Chinese government's multi-billion dollar plan to build 10 million units of low-cost residential housing by 2014.

With China currently accounting for almost 50% of global zircon imports and no hope that it will be able to meet that demand with domestic production, Gunson Resources managing director David Harley believes the $40 million company is well poised to take advantage of zircon's upward swing.

A geologist and veteran of the mining industry with 20 years experience in senior exploration management positions with Western Mining Corp, Harley said the market turnaround was typical of a supply crunch caused by a worldwide lack of greenfields zircon developments.

"When we were focused on the Mount Gunson project, zircon was not performing well and then with the global financial crisis, the price sank even further, taking a lot of confidence out of the mineral sands sector of the market," he said.

"But the prices of zircon, rutile and ilmenite have nearly doubled since then and that is not something we could ignore, particularly with a robust project such as Coburn in our portfolio."

Global mineral sands market consultant TZMI noted demand for mineral sands products had rebounded faster than many predicted and the impact of this surge in demand had seen consumers accept much higher prices.

"Coburn has been a tough project to move forward because of the dismal state of the industry for so many years," Harley said.

"But our recent forecasts estimate a net present value of $300 million and a rate of return around 30% dominated by zircon, so we are confident that advancing this project will be well worth it."

A definitive feasibility study conducted in 2009 and refreshed in 2011 in light of the improved conditions, evaluated total annual production at Coburn of 40,000 tonnes of zircon, 90,000t of ilmenite, 9000t of rutile and 7000t of leucoxene from reserves of 308 million tonnes of ore at 1.2% heavy minerals within a resource of 979Mt at 1.26% heavy minerals.

The study's projected mine life of 23.5 years could extend well beyond 25 years if regional exploration opportunities come to fruition.

With all eyes focused on Coburn as one of the few material greenfields zircon development projects in the world with a completed definitive feasibility study and fully permitted for construction, Harley said Gunson had commenced the search for potential strategic funding and offtake partners, as well as capital market participants.

"We can say with confidence that we have a project that is going ahead," he said.

"The milestone we have in front of us now is to find strategic partners ▶

"The prices of zircon, rutile and ilmenite have nearly doubled and that is not something we could ignore, particularly with a robust project such as Coburn in our portfolio."

DAVID HARLEY
GUNSON RESOURCES

Gunson Resources' drill operations at the company's Coburn project

that can constitute the foundation of the development by way of financing and some sales agreements.

"The significant improvement in the project's economics due to the rise in mineral sand prices has seen a substantial increase in interest from parties wishing to participate in Coburn's funding."

Harley said the financial community was waking up to the fact that things had changed dramatically.

"Thanks to some greatly improved earnings reports from existing mineral sands producers, the general interest in the industry has improved markedly since earlier this year.

"That has resulted in a number of indicative proposals from several parties interested in our funding opportunities, which we are currently reviewing."

Harley outlined some of the options to fund Coburn.

"We may opt to sell off some equity in the project to a successful investor, which may include a capital repayment and some sort of commitment to source debt funding for Gunson.

"The other alternative is to fund it ourselves, but we are optimistic that in the current environment a good investment deal can be completed.

"Our underlying objective at the end of the day is to secure a funding solution for Coburn which will allow us to best develop the project in a way that optimises the value for our 2400 shareholders."

When financing is locked in, project construction will take an estimated 85 weeks, with commissioning of the Coburn project expected in the second half of 2013.

In the meantime, Gunson is continuing infill and extension resource drilling to confirm continuity of mineralisation, and bulk sampling to provide additional zircon and titanium mineral samples for potential offtake customers.

Although Mount Gunson has taken a backseat to zircon, the company is also maintaining a level of progress at the project, located within a world-class copper belt near OZ Minerals' more recently acquired iron oxide-associated copper-gold discoveries of Prominent Hill and Carrapateena.

Deep diamond drilling funded by Xstrata Copper subsidiary Noranda Pacific (Gunson's joint venture partner since 2006) commenced at the Emmie Bluff prospect in July, designed to test for high-grade copper-gold ore on the flanks of a 5km-long gravity geophysical anomaly shown by earlier drilling to be associated with narrow zones of high-grade copper-gold mineralisation.

"If Xstrata's drilling hits paydirt, our share price will jump dramatically, so we are not ignoring Mount Gunson's potential," Harley said.

"The fact at the moment though, is that zircon is the mineral in demand and we are in a good position to cater to that."

Harley says Coburn is bigger than Mount Gunson, which will be reflected in the company's share price once the mine development financing risk is removed.

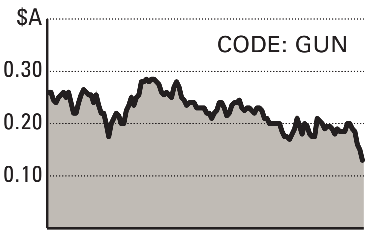
"While we are still seeking investors, there is a perception that financing of such a large project by a small company is out of reach, but people were saying the same things about companies with copper and iron ore projects 10 years ago so we are not being swayed.

"Two years ago, we were struggling with Coburn and it has surprised us how quickly things have changed in our favour.

"There are very positive price forecasts for the next decade and we are seeing a massive increase in public interest.

"The number of new competitors out there is very limited so Coburn occupies a fairly unique space in the market." – **Imelda Cotton**

GUNSON RESOURCES AT A GLANCE



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MARKET CAPITALISATION
$A27.15 million (at press time)

QUOTED SHARES ON ISSUE
208,854,800

MAJOR SHAREHOLDERS
John Tilbrook 6.4%
Grey Willow Pty Ltd 6.1%
RBC Nominees 3.1%