GUNSON RESOURCES

JUNIOR'S GREY CLOUDS HAVE A COPPER LINING

When David Harley and his small team established Gunson Resources as a diversified minerals exploration company in 2000, the odds were stacked against them.

ALTHOUGH THEY launched their $4 million initial public offering with two promising assets – the namesake Mount Gunson copper project in South Australia and the Coburn mineral sands project in Western Australia – they did so at a time when the Australian Securities Exchange was going through one of its toughest periods in recent history.

"The year before we listed was a shocking time for the mining industry," managing director Harley said.

"Only one new minerals exploration company was listed in 1999 and, to that company's credit, it is now an established base metal miner, but it was a terribly tough year all round.

"2000 was also tough when we listed, but we did it out of necessity rather than choice."

That necessity was borne from an urgency to do something with the mineral exploration assets Harley had brought with him from his days as managing director at Stuart Metals.

He acquired Coburn and Mount Gunson in early 2000 when the newly renamed Stuart Petroleum divested its minerals portfolio to focus on its petroleum aspirations.

Before Harley's arrival at Stuart Metals from Western Mining Corporation in 1996, Mount Gunson's promotion as a near-term copper-cobalt producer faltered when the quality of metal recovery was not sufficient for Stuart to justify full-scale production in the prevailing low-price environment.

But Harley believed it held serious potential and used the project together with the Coburn project he had initiated at Stuart as the dual platform for launching Gunson Resources.

With the support of Stuart's shareholders – for every five Stuart Metals shares, they would receive one Gunson share – and a new acquaintance with Billiton in which the mining giant agreed to grubstake the junior, Gunson was off and running.

On listing day, however, it was dealt an unkind blow when many of Stuart's shareholders – comprising around 37% of Gunson – decided to cash in their chips.

"They saw it as a dividend so they started cashing in on the first day of Gunson's listing," Harley said.

"We opened at 15c and dropped to 10c by late September 2000. It certainly didn't help our cause.

"It was really tough to watch the share price drop so suddenly. I even remember buying shares to try to stem the fall."

Combine that experience with an ongoing weakness in the price of copper and mineral sands and you can understand why Harley recalls the early days of Gunson as a veritable "baptism of fire".

Despite the short-term hurdles, he maintained an optimistic long-term outlook and a steady strategic approach gained from his years in senior management at WMC.

"The fact that we managed to attract a company like Billiton proved to me that we had a good project on our hands," he said.

"Billiton's strategy was to put its exploration money into junior companies which were technically switched-on with projects in prime acreage positions.

"We were one of only two companies they backed at the time in the South Australian copper belt, which I believe speaks volumes for the calibre of our company and the Mount Gunson project."

Located within South Australia's massive Gawler Craton, 100km south of BHP Billiton's Olympic Dam copper-gold-uranium mine, Mount Gunson comprises four exploration licences covering 1320 square kilometres of the Olympic copper-gold province.

The project is the subject of a farm-in agreement with Xstrata Copper subsidiary Noranda Pacific, which can earn a 51% interest by spending $A3.5 million on exploration by mid-June 2010.

At the end of September, Noranda had spent $2.9 million and further drilling was planned to start in January. If it achieves its expenditure target, Noranda will have the right to increase its interest to 75% by spending another $6.5 million over an additional three years.

In June 2009, Gunson and Noranda signed a variation deed excising near-surface copper deposits from the farm-in agreement. Gunson's work on the excised area to date has focused on the shallowest deposit, known as MG14, which hosts an indicated resource of 1.1 million tonnes grading 1.7% and containing 18,700 tonnes of copper about 25m below the surface.

A prefeasibility study earlier this year confirmed that MG14 had the potential to generate a cash surplus of $21.5 million per annum over a two-year life at an average copper recovery of 67%.

The study also showed that, once exhausted, MG14 would leave behind a processing plant available to treat ore from the nearby Windabout deposit, estimated to be about 10 times larger.

In late 2009, Gunson embarked on a 15-month bankable feasibility study partly funded by a share purchase plan announced in November. The BFS will focus on improving the financial returns of a sequential MG14-Windabout mine development by enhancing the concentrate grade and recovery of copper into concentrate of both deposits.

"Mount Gunson is at a very exciting stage, with the copper market looking very strong for the next decade," Harley said.

"This project has two aspects of interest to our market – exploration for large copper-gold deposits at depth funded by Xstrata Copper, and our self-funded feasibility study on MG14 and Windabout, which we own 100 per cent.

"The current global shortage of copper concentrates is expected to become more acute over the next few years and forecast copper prices for 2012 are between 30 and 40 per cent above what we used in our prefeasibility work, which makes for a very promising return."

Across the border to the west, Gunson is working hard on the Coburn zircon project, 250km north of Geraldton and uniquely positioned as one of only two greenfields development projects of any size remaining in the world. (The other is Mineral Deposits Limited's Grande Cote project in Senegal.)

Near the end of 2009 the company reduced its spend on Coburn in favour of attracting a strategic investor to share mine development costs in exchange for minority equity and guaranteed access to a long-term supply of zircon.

The focus area has been the Middle East, home to some of the world's largest ceramics manufacturers and a prime market for zircon product.

"We have spent nearly $19 million on Coburn since 2000 – we know everything about it and we know that, given the right prices, it will be a strong project," Harley said.

"A good mineral sands project has to be capable of making money at the bottom of the [price] cycle. Coburn can be one of those and there is no doubt that scarcity of supply will be one of the drivers."

Central to Coburn is the Amy Zone deposit, discovered by Gunson in 2000 and containing 979Mt at an average grade of 1.25% heavy minerals, of which more than 20% is zircon.

Harley said Coburn had received considerable interest from end users of zircon worldwide – particularly in China, which underpins current demand – and the company was keen to wrap up talks with a strategic investor by mid-2010.

In the meantime, the focus remains on the promise of copper – and lots of it – from Mount Gunson.

"Unlike mineral sands at the moment, copper is a relatively forgiving industry. Just about all the world's copper mines are making money," he said.

To this end, Gunson has committed much of its $700,000 cash reserves over the next 12 months to advancing the Mount Gunson BFS and conducting infill drilling and metallurgical testwork on samples from MG14 and Windabout, as well as optimising process design to realise improvements in metal recovery and concentrate grade.

Good news from the BFS will pave the way for the development of an open pit mine and a 550,000 tonne per annum flotation plant to produce a high-grade copper concentrate for export.

And when that happens, Harley can look forward to resuming work on a full remuneration package. When the global financial crisis took hold, Gunson's management team opted to reduce their earnings to just 20% of their total expected salaries in a bid to exercise financial restraint.

"That was an entirely voluntary move on our part and quite uncommon in this industry if truth be known," he said.

"But it has been a very difficult and testing year and as a management team, we have a responsibility to our shareholders when it comes to spending their money.

"I think you can only make that sort of sacrifice when you are completely confident in the strength of your assets.

"The challenge is to stay alive and to do that you need a long-term strategy. A day trader or short-term mentality can maroon companies in this game."

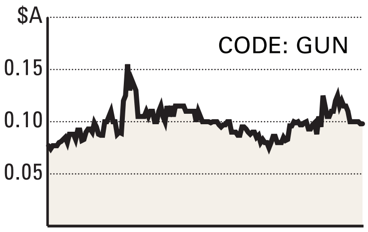
He said the approach had been particularly valuable in dealing with a commodity like zircon.

"Zircon is a troubled mineral commodity right now, but we know that there will be a resurgence down the track," he said.

"Respected industry analysts are forecasting a significant supply shortage and our own research has shown a trend back towards peak prices. – **Imelda Cotton**

Diamond drilling at Gunson Resources' MG14 deposit

GUNSON RESOURCES AT A GLANCE



7 months ending November 30, 2009

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DIRECTORS
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MARKET CAPITALISATION
$A14.6 million (at press time)

MAJOR SHAREHOLDERS
Bruce Birnie Pty Ltd 2.68%
Grey Willow Pty Ltd 2.34%
John Tilbrook 2.34%