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Gunson Is Going Great Guns With Its Copper And Zircon Projects

By Charles Wyatt of Minesite.com

Copper seems to be kicking off 2010 as the flavour of the month, so it is timely for us to be taking a look at [Gunson Resources](#) which holds the Mount Gunson copper project on the huge Olympic copper-gold belt in South Australia. No prizes for guessing that the massive Olympic Dam mine isn't far away. This mine is the fourth largest copper and the largest uranium deposit in the world, and overall the Olympic belt holds 75 per cent of Australia's known copper resources. Minews has long kept his distance from nearology, but it is a fact that within the last ten years two discoveries have been made on this belt. One was at Prominent Hill which is about 110 kilometres northwest of Olympic Dam, and the other at Carrapateena, only 20 kilometres east of Gunson's Chianti prospect.

Prominent Hill was discovered by Oxiana in 2002, well before it entered its ill-fated merger with Zinifex, and first copper-gold concentrate was produced in February 2009. Then, back in 2007 a prospector called Rudi Gomez, albeit in partnership with Teck Cominco, revealed what surely must be a contender for world's best drill intersection at Carrapateena. The hole recorded 905 metres of 2.1% copper and one grammes per tonne gold, and it is not a one-off. Other holes have recorded 73 metres at 2.89% copper, 58 metres at 0.94% and 13metres at 0.65%. Since then Gomez and Teck have argued as to who has control and what to do next. David Harley at Gunson took note and shrewdly divided his company's interest in Mt Gunson in two, so a subsidiary of Xstrata Copper is earning a 51 per cent interest in any major iron ore-copper-gold deposits on the Olympic Dam pattern discovered at depth, i.e. below 250 metres, while his company retains 100 per cent ownership of the near surface deposits.

At the end of September Xstrata had spent A\$2.9 million out of the A\$3.5 million to which it is committed and was very encouraged by the results of a deep Transient Electromagnetic geophysical conductor which has been identified at the Emmie Bluff prospect at Mt Gunson. The hole from which down-hole and surface readings were taken was drilled in the summer and intersected two narrow zones of high grade copper-gold. More work is now taking place to the north east to define the anomaly better and drilling is taking place this month. According to gravity modelling Emmie Bluff is stronger than Carrapateena, and David Harley notes that only six holes have so far been drilled on the prospect, whereas high grade was not discovered at Olympic Dam until the 10th hole, and that was right on the edge of a gravity high.

In the meantime a bankable feasibility study has started on two of the near surface open pit mineable deposits, MG 14 and Windabout. MG 14 will be first into production. Once it is exhausted the much larger Windabout deposit, which is only five kilometres to the north, will be developed. A positive pre-feasibility study for MG 14 showed that it could generate cumulative cash of A\$1.3 million by end 2013 based on a 67 per cent copper recovery rate. In that study the copper price was only

US\$2.70 per pound and cobalt US\$14.50 per ounce so things looked a lot better with copper at US\$3.10 per pound as it was when the pre-feasibility was released back in November. Cobalt is not a major issue, but a price of US\$14.50 per pound still underplays the situation significantly.

Anyway, the important thing is that it is now thought that recovery could be increased to 80 per cent. Combining this new rate with the stronger Aussie dollar takes cumulative cash for the same period to A\$25.1 million. More will be known when the bankable feasibility study is completed in 2011, but there will certainly be plenty of demand for copper concentrate grading higher than 33% copper, so no problem about that. In fact David Harley hopes that a buyer of concentrate may help with funding, but that is still some way off.

The current price of copper is US\$3.35 per pound, and the outlook is bright. RBS, for one, expects demand to grow at around six per cent per annum. As with all banks, their forecasts tend to be very cautious, but even so they see an increase of 31 per cent in the yearly average price to US\$3.01 per pound. Make of this what you will, as that is actually eight per cent below the closing price for 2009, according to our commodity expert Rob Davies, but at any rate things are clearly expected to move in the right direction.

Investors will therefore be awaiting the results of the Xstrata deep drilling and the MG 14 BFS with interest. However, the immediate focus has now moved to the definitive feasibility study for the Coburn zircon project which has just been published. The important thing to note about this study is that costs and prices are based on forecasts made by TZMI (Titanium Zircon Minerals International), the doyen of the industry, and this group anticipates a transformation in costs and prices by 2014 as a result of a significant supply shortfall starting in 2013. As a result TZMI forecasts that the zircon price will increase by 46 per cent by 2015. TZMI's team of principals and specialist consultants have been closely involved in the mineral sands and TiO₂ pigment industries since the 1970s, accumulating well over 100 years of experience between them.

The new study for Coburn is intended to attract a strategic investor, not a bank, so it will be the zircon quality, the estimated capex, the cash surplus and the net present value which will be assessed. No problems with the quality of the zircon which will account for around 67 per cent of total revenue. Transportation and shipping to a large overseas zircon consumer will be straightforward, as the port of Geraldton, about 250 kilometres to the south on the coast of Western Australia will be used. The total cost is estimated at A\$168.8 million, and this will include the wet concentration plant and the mineral separation plant. The project is estimated to have a net present value of A\$163 million, equivalent to A\$1 per share. That's a valuation that looks quite interesting when compared with the present share price of A10 cents. Over the 23.5 year life of the project total revenue is expected to be A\$2.2 billion, with an operating cash surplus of A\$37 million per year.

David Harley was put through the hoop by the Chinese company CTIEC with whom negotiations eventually stopped just over a year ago, but he believes he has another contender in the Middle East. It is worth noting that the talks with CTIEC got as far as a Memorandum of Understanding for joint development of the project, but many a

good deal hit the skids in November 2008. The MOU was based on the Chinese taking up to a 40 per cent interest in the Coburn zircon project and agreeing to buy 20,000 tonnes of zircon a year. As a result CTIEC would have been the general contractor and a mineral separation plant would have been built in China. Something along these lines could still be contemplated now the definitive feasibility has been published, but first the strategic investor will have to be identified. Either way Gunson comes into 2010 in a busy mode. It will need some more funding shortly, but success in any direction should get the shares moving.