

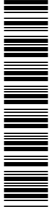


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AZURE CAPITAL STRATEGIC REVIEW AND FUTURE COMPANY STRATEGY

Enclosed is the Company's ASX Release of today which summarises the Azure Capital Strategic Review of the Company and the Board's response, as foreshadowed in the Notice of Meeting dated 19 April 2013 and posted to you on 22 April 2013.

The document should assist you in deciding your voting intentions for the General Meeting to be held on 24 May 2013. The Board continues to recommend **AGAINST** the Resolution to be considered at this Meeting, for the reasons stated previously. If the Resolution is passed, the Company will immediately lose the services of its Managing Director at a critical time in the transition arrangements proposed by the Board as outlined in the enclosed ASX Release. Such an outcome will hamper implementation of the Company's strategy and could result in significant delays and disruptions of efforts to realise the greatest possible value for shareholders from the Company's assets and, in particular, the Coburn Zircon Project.

Again, I urge you to vote **AGAINST** the Resolution which, in the light of the current Managing Director's decision not to continue in the role after a new executive is appointed, seems unnecessary.

Yours sincerely

**D A CRAIG
CHAIRMAN**



Azure Capital Strategic Review and Future Company Strategy

HIGHLIGHTS

- ***Strategic Review completed, providing a strategy for the Company's future.***
- ***The Review has endorsed the Company's approach to financing development of the Coburn Zircon Project (Coburn Project) by bringing in a strategic partner but highlighted the additional barriers to financing mineral sand projects in which zircon is the dominant revenue source rather than titanium dioxide minerals.***
- ***Reduction and restructuring of the Company's Board and increased focus on corporate costs.***
- ***A recent research report by global broker JP Morgan shows that the Coburn Project has a lower zircon inducement price than any other unfinanced development project in the world.***

1 INTRODUCTION

In its announcement of 28 March 2013, Gunson (**ASX Code:GUN**) advised that the Board had initiated a Strategic Review (Review) of the Company by Perth-based corporate advisory firm Azure Capital (Azure).

This Review, which commenced on 5 April, covered the following aspects:

- alternatives for maximising the value of the Coburn Project, including new avenues or structures for developing the Project or its possible sale;
- the future Company structure, including a review of the size and composition of both the Board and executive management team, as well as the introduction of a strategic shareholder; and
- assessment of other projects held by the Company, together with its future exploration strategy and Company focus.

The Review has now been completed and the results are outlined below.

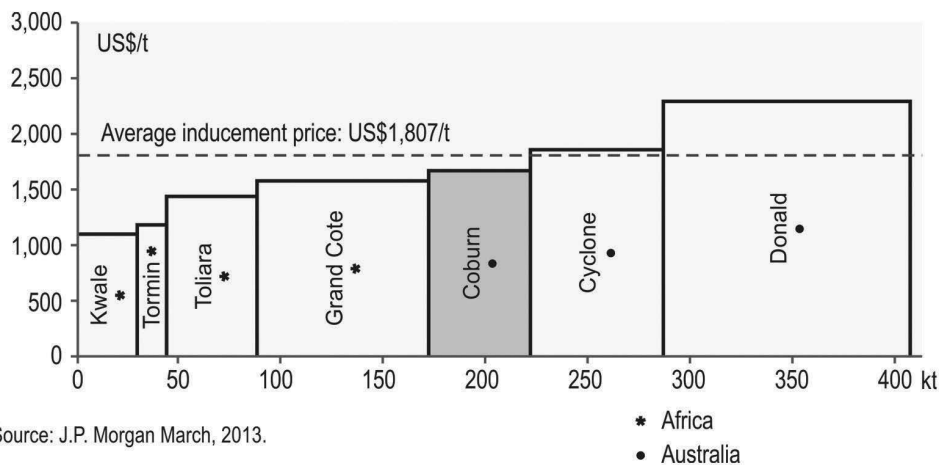
2 MAXIMISING THE VALUE OF THE COBURN PROJECT

The Azure review endorsed the Company's focus on securing a strategic partner to assist in funding the mine development. However, Azure noted that the Coburn Project's dependence on zircon revenue reduced the universe of potential partners to those focused on zircon, rather than the much larger titanium dioxide industry, where more bankable offtake contracts can be negotiated. Due to the relatively small size and fragmentation of the zircon industry, underpinning of revenue with floor prices in offtake contracts is, in the Company's experience, not obtainable, thus making it very difficult to develop the Coburn Project with a conventional debt finance arrangement.

Azure recommended a potential strategic partner approach and endorsed the recommencement of discussions with parties that had previously shown interest in the Coburn Project. Sector mergers and acquisitions should also be considered.

To assist in maximising the value of the Coburn Project, benchmarking with other mineral sand projects in the global development pipeline needs to be considered, such as shown in the example below.

Figure 1: Zircon Inducement Prices for Selected Global Development Projects



This diagram is a zircon inducement price histogram taken from a 5 March 2013 JP Morgan research report, showing that the Coburn Project is currently the only unfinanced zircon development project in the world lying below the estimated \$US1,807 per tonne average inducement price, apart from the World Titanium Resources' Toliara project in Madagascar, which is under a joint venture offer from major Chinese titanium dioxide pigment producer Sichuan Lomon Titanium.

The histogram takes into account capital and operating costs, showing that the Coburn Project is globally competitive and within \$US100 of the world's largest zircon development project under the \$US1,807 average zircon inducement price: the Mineral Deposits' Grand Cote project currently under construction in Senegal, north west Africa.

3 COMPANY STRUCTURE & INCREASED FOCUS ON CORPORATE COSTS

Azure recommended that in view of the Company's current financial position, the number of Board members be reduced from four to three. As it had been Mr Peter Harley's intention to retire from the Board this year, Peter intends to resign at the forthcoming Shareholders' General Meeting on 24 May 2013.



Further, the Company's inaugural Managing Director, Mr David Harley, advised the Board prior to commencement of the Strategic Review of his intention not to seek renewal of his service contract when it expires at the end of March 2014. David turns 66 in July 2013 and has agreed that he be replaced by a new Managing Director to lead the Company through its next stage of development. This view is endorsed by Azure and the Board. David will be retained by the Company on a twelve month consultancy to ensure his institutional memory and knowledge of the Company is available to the new managing Director and the Board for at least that period of time. The search for a new Managing Director will commence immediately. Once an appointment is made David will step down from the Board.

Until the Company has appointed a new Managing Director, the Board has increased its focus on corporate costs and overheads, including taking the following steps:

- reducing Director's fees by 25% and suspending their payment until circumstances permit reinstatement and repayment;
- reducing the ongoing remuneration of the Managing Director and the fees paid to the Chief Financial Officer and the Coburn Project Manager, both of whom are contractors; and
- ceasing or limiting to the greatest extent possible any payments to consultants and service providers.

4 STRATEGIC PARTNER AND FINANCING

As discussed above, Azure has endorsed the Company's focus on securing a strategic partner to assist in funding the Coburn Project. One option is for the strategic partner to take up shares in the Company and to assist in obtaining both debt and equity finance.

This option is to be pursued with a small number of potential partners, who because of the very advanced stage of the Coburn Project, will be given tight deadlines to decide on participation.

5 OTHER PROJECTS AND EXPLORATION STRATEGY

The Azure Review did not address the Company's other projects due to the short time available, however as indicated in the Company's March 2013 quarterly report, interest in the small 100% owned MG14 and Windabout copper-cobalt deposits at Mount Gunson has increased significantly in the past several weeks.

6 CONCLUSIONS

The newly completed Strategic Review has provided the Company with a plan and new corporate structure to realise the greatest possible value for shareholders from the Company's assets and, in particular, the Coburn Project.

Directors believe that shareholders can look forward to a much brighter future than has been apparent over the past several months.

**D A CRAIG
CHAIRMAN**

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