

Lodgement of 'Company Interview'



GUNSON RESOURCES LIMITED



'COMPANY INTERVIEW'-MARKET PROFESSIONALS

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**Gunson Resources Limited**

**Date of lodgement: 7/10/2014**

**TITLE: "Company Interview. Greatly Strengthened Mineral Sands Position"**

**Highlights:**

- Discusses proposed acquisition of Strandline with quality assets in Tanzania.
- Large tenements in prime location close to existing infrastructure & projects.
- Explains why acquiring Strandline when Coburn in WA is construction ready.
- Will get significant funding injection (up to \$3.2m), plus strong management.
- Outlines plans to advance exploration on Tanzanian tenements.
- Outlines the proposed, greatly strengthened, new Board & management team.
- Explains the balance sheet impact of the proposed transaction.
- Attractive mining environment with low sovereign risk & growing economy.
- Outlines transaction timetable (shareholder meeting on 20 October).
- Strandline & 3 other projects give a very strong growth profile for Gunson.

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**Record of interview:**

**Company Interview question:**

Gunson Resources Limited (ASX code: GUN, market capitalisation of ~\$7 million) recently announced that it is to acquire 100% of Strandline Resources which is a privately held mineral sands company with large exploration ground held in Tanzania. Can you outline Strandline's main assets?

**Managing Director, Bill Bloking**

In broad terms, Strandline's asset base consists of 16 mineral sands exploration licenses covering about 2,000 square kilometres of Tanzanian coastline, and 2 exploration license applications covering another 160 square kilometres. These project areas have the same geological setting as the world class operating projects in Kenya, Mozambique, and Madagascar, namely numerous

significant river systems draining from the same source rocks and flowing into a coastline with similar prevailing currents and trap sites.

The Strandline team has worked together for about 3 years and they have put together a carefully targeted and dominant land position using a detailed geochemical database that was generated during 1999 and 2000 by Tanganyika Gold at a cost of more than \$2 million. This database reflects the only systematic exploration for mineral sands that has ever been completed along the Tanzanian coast and it has outlined a number of areas with significant potential for heavy mineral deposition. Follow-up on this original exploration work was abandoned in 2000 due to poor prevailing markets for resources and the onset of the dot.com boom.

Strandline has exclusively acquired and digitised the original exploration dataset and has used it to inform its acquisition strategy for project areas. This, along with access to the services of the geologist who carried out this original work, gives Strandline significant technical and strategic advantages in Tanzania.

I should also note that all of the project areas acquired are located within 20 kilometres of the coastline with ready access to roads, rail, and ports. This suggests that rapid development will be possible in the event of commercial discoveries, as was the case with the operating Kwale Project just across the border in Kenya and Kenmare Resources' Moma Project in neighbouring Mozambique.

Importantly, Strandline also brings significant human assets to the Gunson team. They have a strong management team with excellent mineral sands credentials and Tanzanian "in-country" experience, and will be adding critical skills and networks at Board level.

#### **Company Interview question:**

Gunson already has its 100%-owned Coburn Mineral Sands Project in Western Australia at the construction ready stage. What therefore was the rationale for the Strandline transaction?

#### **Managing Director, Bill Bloking**

As you point out, the Coburn Mineral Sands Project in Western Australia is fully engineered and permitted for mining, and is ready to move into the construction phase as soon as we can develop a solid underpinning for project funding. Unfortunately, this is taking longer than we would have liked and it is going to require further improvement in the mineral sands market – and in particular the price of zircon – given Coburn's unusually zircon-rich assemblage.

The market has been understandably gun shy since the precipitous fall in the zircon price from more than US\$2600 per tonne to about US\$1200 per tonne in late 2012/early 2013, and I think investors are waiting to see sustained price improvement before committing to new developments. I don't think anyone doubts that market conditions will eventually improve – and we are certainly seeing signs suggesting that they are improving – but the question of timing remains.

In the meantime, the Strandline transaction has created a great opportunity for Gunson to build its mineral sands position in a highly prospective part of the world. It also adds critical management skills that are needed to develop all of our projects over time – including Mount Gunson, Fowlers Bay, and Tennant Creek – and it has captured renewed interest from the market, giving us a much needed cash injection and access to important advisory and market services from Hartleys Limited, as well as an ongoing source of exciting news flow.

All of these things are required to give us ongoing access to capital and to achieve a re-rating of the Company. It won't happen overnight, but I am confident that it will happen. And that's why I'll be supporting the private placement and the upcoming Share Purchase Program personally.

**Company Interview question:**

Can you give more detail about the geological setting of Strandline's Projects and other mineral sands projects in the area, including an indication of resource sizes, mineral assemblages and grades? What about road and port transport and other essential infrastructure for a future mineral sands project?

**Managing Director, Bill Bloking**

Mineral sand accumulations are commonly located at the base of older shorelines, or terraces as they are described in the literature. Strandline's projects are located along the coast of Tanzania and capture younger modern beach facies to older palaeo – beach facies environments and they include the Tanga and Sakura Terraces, which are identified by reasonably consistent elevation ranges between 20 to 40 metres and 40 to 60 metres, respectively, along the coast of Tanzania.

The only recently delineated resource reported from Tanzania is at ASX-listed Syrah Resources' Fungoni Prospect, which reportedly has Indicated and Inferred resources totaling 14 million tonnes with a heavy minerals concentration of 3.0 percent. This is an initial resource estimate and the deposit is open in most directions. The assemblage at Fungoni is high value, with 70% valuable heavy mineral comprising 22% zircon, 4% rutile and 44% ilmenite.

To the north, just across the border in Kenya, Base Resources has the operating Kwale deposit that had a pre-mine resource of 262 million tonnes at 3.7% heavy minerals. It is thought the Kwale deposit is related to a dunal style of mineralisation which are often blown from existing strandline related deposits. Strandline is also targeting dunal style mineralization in Tanzania.

In terms of supporting infrastructure all projects are accessible by road and within 20kms of the coastline. In most cases the project areas are within 50 to 100 kilometres of existing ports such as Tanga, Dar es Salaam, Bagamoyo and Mtwara with a rail line that links into Dar es Salaam cutting through the middle of the Bagamoyo Project.

**Company Interview question:**

Which are Strandline's most advanced exploration areas and Gunson's future exploration plans to add value to the tenements? What has Strandline invested on their tenements so far?

**Managing Director, Bill Bloking**

The Strandline tenements in Tanzania are early stage, with 6 of the 16 granted tenements receiving first pass auger sampling at various spacings. In most cases, this sampling was done to follow up on the earlier geochemical evidence generated by Tanganyika's original work.

The next step for these tenements is most likely aircore drilling and continued auger drilling to potentially delineate resources. Some time is required to assess other nearby tenements and recently granted applications so that Strandline can rank the targets and prioritise the most prospective anomalies for aircore drilling.

In addition, Strandline has access to a regional database that provides it with strategic advantage when reviewing new tenement application or land acquisition opportunities. The database has over 2,100 geochemical samples along the entire coast of Tanzania and thus helps Strandline make quick, high level assessments of the prospectivity of different regions.

### **Company Interview question:**

Gunson also announced a placement of \$2.2 million, a Share Purchase Plan to raise up to \$1 million, and Board and management changes. What will the cash be used for? Can you outline the Board and Executive changes and the various skill sets to grow the Company?

### **Managing Director, Bill Bloking**

As you point out, the Company has made a private placement of \$2.2 million, which is only conditional upon shareholders approving the Strandline transaction and the placement at an upcoming General Meeting on 20 October 2014. Assuming that the transaction and the placement are approved by Shareholders, we intend to immediately offer existing shareholders an opportunity to buy up to \$15,000 worth of new shares – on the same terms and conditions as the placement – in order to raise another \$1 million. With this funding, we will have sufficient cash reserves to meet our exploration aspirations in Tanzania for at least the next 12 months and to meet our annual expenditure commitments at Coburn, Mount Gunson, Fowlers Bay, and Tennant Creek, thereby retaining tenure over all of our acreage.

With respect to people, we are adding significant mineral sands and hard rock geological talent to the Board and Management Team.

Mr. Mike Folwell, the former Managing Director of Iluka Resources, will join the Board as Non-Executive Chairman. Mike has extensive international experience in a range of mining and industrial companies at the Chief Executive Officer level, and he will bring with him a very strong network of contacts in addition to his considerable business skills.

Mr. Didier Murcia AM, a commercial lawyer with many years of experience in the mining sector and also the Honorary Consul of the Republic of Tanzania, will also join the Board as a Non-Executive Director. Didier is currently Chairman of Centaurus Resources Limited and Alicanto Minerals Limited and is also a Non-Executive Director of Gryphon Minerals.

Mr. Richard Hill, a qualified geologist and solicitor with more than 19 years of practical experience as a mine-based and exploration geologist in a range of commodities, will replace me as Managing Director, and I will remain on the Board as a Non-Executive Director.

Other members of the management team will include:

Dr. Mark Alvin, a Consultant Geologist with 20 years of experience in mine and exploration geology and a proven track record for discovery of Tier 1 Mineral Sands projects in Africa. Mark was the geologist who supervised the mineral sands exploration program for Tanganyika Gold NL and then went on to run Rio Tinto's exploration for mineral sands in neighboring Mozambique, resulting in the discovery of the massive Xie Xie deposit.

Mr. Brendan Cummins is a Consultant Geologist with over 20 years of experience in mine and exploration geology in Australia, Africa, South America and China. In the past 4 years Brendan has managed exploration teams on a number of projects in Tanzania.

Mr. Asimwe Kabunga, a Tanzanian born specialist in logistics and land access and acquisition in Tanzania.

So you can see that we are adding very significant capability to the team going forward, which I hope will add value in ways that we haven't really thought of yet, such as new and novel approaches to the financing and development of Coburn.

### **Company Interview question:**

The takeover of Strandline is an all-scrip transaction. What is the effective dollar price Gunson will pay and at what effective share price? How do you justify that price?

### **Managing Director, Bill Bloking**

The agreed consideration for the Strandline acquisition was \$2.5 million using equities valued at 1.5 cents per share. At the time the value equation was agreed, the 10-day, 20-day, 30-day, and 60-day volume weighted average price of Gunson shares all happened to be 1.5 cents.

When considering the acquisition price, I think we also need to bear in mind that Strandline brings many other benefits to the transaction.

Firstly, the Strandline value proposition for Gunson arises from three years of building the dominant mineral sands land position in Tanzania and forming a highly qualified technical, logistical, and marketing team that can successfully carry out exploration and development in this part of the world. Strandline has spent more than \$1.2 million on carefully targeted land acquisition and direct exploration in Tanzania, including the acquisition and digitisation of the \$2 million geological database put together over two years by Tanganyika Gold. Throughout this period, the directors and management have invested their own funds and have also contributed their time so that all of the funds raised could be put into the ground. In my view, the Strandline team has plenty of “skin in the game”, and they are well incentivised to create value for all shareholders.

Moreover, the transaction has generated a lot of market interest and has enabled us to raise \$2.2 million – which is a fantastic result in the context of the last capital raising that we did in April 2014 – and it has given us access to the backing, support, and advisory services of Hartleys Limited, a very important achievement, but something that we frankly have not been able to do on our own with our existing story and asset base.

It is also worth noting that ASX-listed Syrah Resources has just announced a demerger of its Tanzanian assets, including its mineral sands project, which is a much smaller package than Strandline’s. Syrah reportedly value their projects at \$12 million, with the bulk of that valuation being for the mineral sands assets, and are seeking to raise \$10 million from the market.

And, although perhaps not directly analogous, another data point to consider would be our recent farm-out of the MG14/Windabout Copper-Cobalt-Silver Project in South Australia, where Torrens Mining Limited is spending \$2.5 million to earn a 51 % project interest.

### **Company Interview question:**

Assuming the transaction is completed, how many shares will Gunson have on issue and what will be the respective percentages held by current Gunson shareholders, Strandline shareholders and new shareholders through the placement? What about the expected change in cash held and the market capitalisation?

### **Managing Director, Bill Bloking**

Assuming that the transaction is completed and the Share Purchase Program is fully subscribed, Gunson will have 673,551,796 shares on issue. Of these, 24.7% will be held by Strandline shareholders, 21.8% by participants in the Placement, and 53.5% by Gunson shareholders. Cash will increase by about \$3 million after raising costs, and pro forma net assets will increase from \$26.5 million to \$32.0 million. And, assuming a share price of 1.5 cents, the market capitalization will increase to \$10.1 Million.



Clearly, the Strandline transaction results in some dilution for existing shareholders – something we all wish could be avoided. But we also need to consider the next best alternative for Gunson, which at best would also be highly dilutive.

Since the time joint venture discussions with POSCO were terminated, we have tried very hard to find a strategic partner who would be prepared to take a major equity interest in Coburn and make an appropriate contribution to back costs, thereby assisting us in financing our remaining share. Those discussions have not yet borne fruit and it is hard to see them doing so in the very near term.

The Company's cash balance is very low so we will need to do an immediate capital raising if the Strandline transaction does not go through. It's hard to say how a capital raising might play out in the current environment, but it's difficult for me to assume that it would be significantly more successful than our effort last April, unless there is very significant and positive news emanating from Mount Gunson or Fowlers Bay. Whilst these Projects are quite exciting and have significant potential to add shareholder value over the longer term, they are not likely to contribute much to our fund raising capabilities in the near term.

**Company Interview question:**

Can you briefly describe the existing mining industry and the operating environment for mining and exploration companies in Tanzania? What about the sovereign risk including fiscal, political and social conditions?

**Managing Director, Bill Bloking**

At a macro level, Tanzania is a politically stable, multi-party democracy and it is the world's fifth fastest growing economy. The government is very supportive of foreign investment and has developed an "Australian style" Mining Act, which was updated in 2010. English is widely spoken and the legal system is based on English Common Law. Both the tax and regulatory frameworks for investors are globally competitive.

Historically, there has been a strong gold mining and exploration culture around the north east of Tanzania in the Lake Victoria district, with several major and mid cap gold miners operating there. More recently, there has been an increase in the number of junior Australian companies successfully exploring other parts of the country for a diverse range of commodities, including nickel, graphite, copper, coal, oil and gas – and now mineral sands.

From Strandline's perspective, operating in Tanzania has been a very positive experience. I am told that the processes for acquisition of tenements and security of tenure are quite transparent, and that gaining land access for exploration activities has been straightforward. Mining contractors and service providers are readily available and the team has had no trouble accessing exploration people and infrastructure including drill rigs. Strandline has employed and worked very well with the local people and the locals have been very supportive of Strandline's activities.

**Company Interview question:**

Can you outline the conditions which must be met for the Strandline transaction and the capital raisings to be completed? What about timing?

**Managing Director, Bill Bloking**

The change in the scale of Gunson's business activities from the acquisition of Strandline's mineral sands exploration assets, the issue of Consideration Shares to acquire Strandline, the issue of shares under the \$2.2 million placement, and the issue of shares under the Share Purchase Program all require shareholder approval as ordinary resolutions at a General Meeting. As ordinary resolutions, approval requires a simple majority of votes cast.

The change in scale, the issue of Consideration Shares, and the share placement are all fundamental to the transaction so the transaction will only proceed if all three resolutions are passed.

We are also seeking to change the name of the Company from Gunson Resources Limited to Strandline Resources Limited in order to align the name of the Company with the key focus of its activities. This requires a special resolution and a pass-mark of 75% of the eligible votes cast.

A General Meeting of Gunson Shareholders will be convened at 11:00 AM on Monday, October 20<sup>th</sup> in Perth to address these resolutions.

**Company Interview question:**

With all these significant changes, how would you now describe the growth strategy for Gunson and importantly the main priorities, given available funding, over the next several months?

**Managing Director, Bill Bloking**

Fundamentally, the growth strategy is unchanged – but we will have a larger suite of options and the people and funding necessary to pursue them!

Having taken Coburn to the point where it is now fully permitted for construction and mining, we will spend what is necessary to keep the tenements in good standing, but we will remain focused on finding a strategic investor to take a majority equity interest in the Project and make a commensurate contribution to historical costs. The contribution to back costs will be very important because it is likely to be a major source of funding for Gunson's equity share of the Project. If, by way of example, an investor took an 80% interest in the Project in return for reimbursement of 80% of past costs, Gunson would be well on its way to funding its remaining 20% interest, particularly if the project capex has fallen significantly from the 2012 peak, as some contractors are suggesting.

We are very keen to get after the assets in Tanzania over the next 12 months and plan to commence systematic auger drilling and reconnaissance sampling almost immediately. The objective would be to have assay results available by year-end and to follow-up this work in early 2015 with assemblage test work and continued drilling in order to rank potential resource targets. This, in turn, would lead to infill drilling on higher ranked heavy minerals anomalies and ultimately resource drilling on at least one project area.

With respect to our other projects – Mount Gunson, Fowlers Bay, and Tennant Creek – we have previously said that we would (1) pursue low cost options for assessing potential value, (2) reduce our working interests via farm-outs where appropriate, and (3) divest assets that do not have near term potential for value creation.

We have completed a farm-out of the MG14/Windabout Project at Mount Gunson and are being free carried through a significant work program that has great value creation potential for shareholders over the longer term. We are also in advanced discussions regarding a farm-out at Fowlers Bay. With respect to Tennant Creek, we are still evaluating the way forward in light of our recent decision to defer exploration drilling, but our carrying costs there are quite low so we have some time to decide.

**Company Interview question:**

In summary, how crucial is the Strandline transaction for Gunson's future growth?

**Managing Director, Bill Bloking**

The directors of Gunson have spent a great deal of time seeking and assessing options for the Company going forward, and we are of the unanimous view that the Strandline transaction is the best opportunity available to put the Company back on a solid footing. I have appreciated this opportunity to explain the logic and rationale behind our strong recommendation in favour of the transaction, but the decision is ultimately a matter for shareholders.

It is a very important decision for the Company and we need it to be as broadly based and as representative of shareholder views as possible. Therefore, I strongly urge all shareholders to complete their proxies and return them to Computershare at their earliest convenience.

### **Company Interview**

Thanks Bill.

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