

Lodgement of 'Company Interview'



GUNSON RESOURCES LIMITED



'COMPANY INTERVIEW'-MARKET PROFESSIONALS

Gunson Resources Limited

Date of lodgement: 9/10/2014

TITLE: "Company Interview. Mineral Sands Outlook & Projects Update"

Highlights:

- **Relative development stages of Coburn and Strandline mineral sands projects.**
- **Main drivers for mineral sands markets. Mineral sands possibly at bottom of cycle.**
- **Comments specifically on zircon as Gunson's projects have zircon-rich assemblage.**
- **Discusses current project and financial parameters for Coburn mineral sands.**
- **Status, attraction & way forward for Gunson copper project.**
- **Discusses MG14/Windabout within wider Gunson copper project.**
- **Achievements & objectives of Torrens Mining (partner) within MG14/Windabout.**
- **Just announced JV with Western Areas is set to progress Fowlers Bay nickel project.**
- **Summarises importance of the 2 copper and nickel projects – in addition to 2 main minerals sands projects – in adding future value for shareholders.**

Record of interview:

Company Interview question:

Gunson Resources Limited (ASX code: GUN, market capitalization of ~\$7 million) recently announced that it is to acquire 100% of Strandline Resources, a privately held mineral sands company with a large exploration acreage position in Tanzania. Mike, you are currently Chairman of Strandline and have previously been MD of Iluka Resources. You will be Chairman of Gunson if shareholders approve the Strandline transaction on 20 October. How do you see Gunson's mineral sands projects developing from here?

Strandline Chairman, Mike Folwell

Assuming the Strandline transaction is approved by shareholders, Gunson will have two streams to its mineral sands portfolio, with each at very different stages in their evolution. The Coburn Mineral Sands Project (GUN 100%) in Western Australia is essentially project ready with

necessary permits in place and engineering studies complete. Essentially what is now needed is financing and offtake agreements, not necessarily in that order, before it can move into the production phase.

Strandline's projects in Tanzania are in the early stages of exploration, but hold tremendous potential in a part of the world that is under-explored. Tenements have been secured and early drilling results on some tenements look prospective while some other tenements have yet to be drilled. The next stage for Tanzania is twofold: (1) to drill the most prospective areas to determine a resource; and (2) to carry out broad based drilling in currently un-drilled areas in order to identify high value target areas.

Company Interview question:

After a very strong price increase from 2010, mineral sands prices have endured a tough couple of years. What do you see as the main drivers for the mineral sands market?

Strandline Chairman, Mike Folwell

The main driver of the Mineral Sands Market is global GDP. Traditionally mineral sands demand has grown in line with GDP. This makes sense because the main use for titanium mineral is in the production of pigment, which in turn is a major component in paint, plastics and paper. The major use for zircon is as an opacifier for the production of ceramic tiles.

Given these factors, confidence in mineral sands markets is a function of confidence in global growth. Timing is naturally an important factor and so the ability to get either of the projects into a production phase will be dependent on all of the above factors and then the cost competitive position of either of the projects versus others in the world.

China now has the highest demand for zircon in the world, followed by Europe (Spain and Italy being large tile producers) and the United States. The Chinese economy has recently slowed a little, but is still growing at impressive rates and, importantly, off a larger GDP base. As has been well documented, the U.S. economy has strengthened while Europe remains problematic. So any uplift in these economies should benefit the overall mineral sands market.

Company Interview question:

How do you view mineral sands prices in terms of the price cycle?

Strandline Chairman, Mike Folwell

Most analysts believe that mineral sands prices are pretty much at the bottom of the cycle. Iluka Resources reported lower prices and volumes for the first half of 2014. The belief is that prices and volumes should begin to rise slowly in the second half of 2014 and the beginning of 2015.

In the medium term global growth should underpin TiO₂ volumes and prices and there is not a large oversupply in this product. The market view is that volumes from new projects currently coming on stream should be absorbed relatively easily.

Company Interview question:

Gunson has a strong exposure to zircon as a future producer with Coburn in particular and the Strandline assets. Can you comment more specifically on the outlook for zircon?

Strandline Chairman, Mike Folwell

The medium term outlook for zircon appears favourable as Chinese housing demand picks up, and this is somewhat driven by the Chinese appetite for tiles as a floor covering. Iluka, the largest zircon producer in the world with around a 25% share, has stated that Chinese preference for tiles as a floor covering far outstrips the rest of the world.

Since 2013 a much larger proportion of business has been done on a spot basis and this is expected to continue, although there has also been a recent trend of downstream producers looking for opportunities to partner with miners with a view to hedging against supply shortages and rampant price rises from the majors. This may present an opportunity for Gunson given its relatively long mine life and good assemblage in the Coburn Project. It may also be an opportunity that arises from the Tanzanian assets since early indications are that the assemblages are good.

Company Interview question:

Bill, you released a 'Company Interview' on 7 October explaining the Strandline transaction. Gunson also has its 100%-owned Coburn project at the construction ready stage. \$30 million has been spent on the project so far. Can you restate the intended operating parameters, project financials and assessed value of the project?

Managing Director, Bill Bloking

Basically, we intend to process 23.4 million tonnes of ore to produce 182,000 tonnes of valuable heavy minerals each year. The annual product breakdown is about 49,500 tonnes of zircon, 109,000 tonnes of chloride-grade ilmenite, and 23,500 tonnes of HiTi90, a product containing about 90% titanium dioxide. Whilst zircon accounts for 27% of the product stream by weight, it will account for about 65% of annual Project revenue.

Our last detailed capital cost estimate for Coburn came in at \$202 million, but it was completed in August 2012 – the peak of the mining boom. Using this capital cost estimate and TZMI's August 2013 price forecasts for zircon and titanium dioxide products, the Project generates annual revenue of \$146 million, an annual net operating margin of \$51 million, a pre-tax net present value of \$208 million at a discount rate of 8%, and a pre-tax internal rate of return of 19.5%.

Although we haven't reworked the detailed cost estimate to reflect current market conditions, anecdotal information from contractors suggests that market rates and equipment costs have softened considerably over the past several months and that capital and operating costs would now be 10 – 20% below those estimated in 2012. Reductions in capital and operating costs would go directly to the bottom line and improve project economics considerably.

Company Interview question:

Gunson also has the Mount Gunson Project in South Australia including the 'Greater Project' (100%) and the 'Excised Area' (Torrens Mining earning 51%). What are the status, attraction and way forward for the project? Can you explain Torrens' major obligations and tasks to earn 51%?

Managing Director, Bill Bloking

Let me deal with the "Greater Mount Gunson Copper Project" first and then turn to the so-called "Excised Area" involving the MG14 and Windabout deposits and Torrens Mining.

The Mount Gunson Copper Project is located about 100 kilometers south of the Olympic Dam copper-uranium-gold mine and involves four contiguous Exploration Licenses (ELs) covering an area of almost 1,000 square kilometers.

As I reported to shareholders and the ASX in June, the Operator of the Mount Gunson Joint Venture, Glencore subsidiary Noranda Pacific Pty, withdrew from Project in August 2014 and transferred its interest back to Gunson so Gunson now holds a 100% Project interest.

The Company is currently negotiating an extension to its Amalgamated Expenditure Arrangement with the South Australian Department of State Development (SA DSD). This agreement will cover

the four ELs, and will define our expenditure obligations for exploration and development activities over the next two years.

The Company is currently assessing its options for the broader Mount Gunson acreage, including a possible extension of the commercial arrangement with Torrens to encompass other exploration rights within the Stuart Shelf cover sequence beyond the MG14 and Windabout deposits, thereby providing exploration upside for that Project. We will also consider farming-out the underlying Gawler Craton Basement to a third party given that the Basement is more likely to host iron oxide associated copper-gold mineralization and thus is unlikely to fit within the scope of the commercial arrangement with Torrens.

Turning to the MG14/Windabout Copper-Cobalt-Silver Development Project – also known as the “Excised Area” because it was excluded from the Joint Venture with Noranda – this is part of the overall Mount Gunson Copper Exploration Project and sits entirely within one of the four Exploration Licenses – EL 4460.

MG14 has a JORC 2012-classified indicated resource of 1.62 million tonnes averaging 1.4% copper, 397 ppm cobalt and 14 g/t silver at 0.5% copper cut off. The larger Windabout deposit has a pre-2000 JORC indicated resource of 18.7 million tonnes averaging 1% copper, 500 ppm cobalt and 10 g/t silver at 0.5% copper cut off.

Under a commercial agreement which became unconditional in February 2014, Torrens has the right to earn a 51% contractual interest in the MG14/Windabout Project by completing, at its sole cost, all tests and studies deemed necessary to determine the viability of a process to economically extract copper, cobalt, and silver from the MG14 and Windabout deposits, and delivering a Bankable Feasibility Study. All activities, costs, and risks -- through and including the Bankable Feasibility Study and up to the point of a decision to mine -- will be for the sole account of Torrens, subject to a maximum cumulative expenditure of \$2.5 million.

Torrens will earn its participating interest upon delivery of the Bankable Feasibility Study or the cumulative expenditure of \$2.5 million, whichever occurs first. In the event that Torrens's total expenditure is less than \$2.5 million at the time of earning its 51% participating interest, Torrens will continue to carry all project development expenditure until it has expended a total of \$2.5 million. From that point onward, Torrens and Gunson will fund project costs in accordance with their respective participating interests.

Company Interview question:

What has Torrens achieved to date at the MG14/Windabout Project?

Managing Director, Bill Bloking

Torrens has now completed its initial Scoping Study which included a series of metallurgical tests designed to confirm the viability of using a sodium cyanide leaching process, developed by American Cyanamid in the 1960s, to economically extract copper from these shale-hosted deposits and to demonstrate that the majority of the sodium cyanide can be recycled. These bench top laboratory tests successfully demonstrated:

- copper recoveries of 80 to 85%, with upside potential of 90+% based on the cyanide-soluble copper remaining in the leach residue; and
- sodium cyanide regeneration in excess of 80%.

These results are significantly better than those achieved during a test program conducted in 2010 using conventional sulphide flotation, in which copper recoveries ranged between 54% and 68%.

Although still subject to completion of further studies, these "proof of concept" results are critically important because they suggest that copper can be economically leached from both the MG14 and Windabout deposits.

Also in 2010, test work conducted by Gunson confirmed that the cobalt bearing mineral, carrollite, floats efficiently, with cobalt recoveries of more than 90% into concentrate being recorded. It is expected that hydro-classification will assist in the beneficiation of the cobalt.

The metallurgical evidence to date suggests that the silver in the deposits occurs locked in sulphide mineral lattices and may be recoverable in commercial quantities along with the cobalt in sulphide concentrate.

Company Interview question:

What are the next major objectives for Torrens as it moves to delivering a Bankable Feasibility Study?

Managing Director, Bill Bloking

Following on from this very encouraging Scoping Study work, Torrens has raised additional private equity and has committed to further metallurgical testing that will lead to a pre-feasibility report of sufficient standard to allow process design to be completed and the capital and operating costs to be estimated. We expect this phase of the work to be completed during the first quarter of 2015.

Parallel activities aimed at early production are also planned by Torrens, including commencement of the permitting process, resource re-evaluation and modelling to upgrade the current JOC-compliant classifications of the Indicated Resources, mine planning studies, ongoing economic modelling, plant and tailings storage facility design, infrastructure planning, and other related works.

Company Interview question:

Gunson also has 100% of the Fowlers Bay Nickel Exploration Project in South Australia. The nickel price has been strong since the start of the year. How will you derive value from this project?

Managing Director, Bill Bloking

As I announced earlier today, the Company has entered into a Farm-in Agreement with Western Areas Ltd ("Western Areas") under which Western Areas will become Operator of the Fowlers Bay Project and earn a participating interest of up to 90% by sole funding a \$1.2 million exploration program in two stages over a period of four years.

The key terms of the Farm-in Agreement are:

- Western Areas will become Project Operator.
- Western Areas will spend \$800k on agreed exploration activities over 2.5 years (Term 1) to earn a 75% participating interest in the Project.
- Following Term 1, Western Areas can declare a 75%/25% Joint Venture (JV) or elect to earn a further 15% interest by spending \$400k over the next 18 months (Term 2).
- Following Term 2, a 90% Western Areas/10% Gunson JV will be formed.
- Gunson will be "free-carried" until a JV is declared, following which it can pay its share of JV costs, dilute its interest, or convert its interest into a 1% gross royalty.

The Farm-in Agreement remains subject to government approvals.

Note also that we will be reviewing options for our tenements near Tennant Creek in the Northern Territory once shareholders decide on the way forward with Strandline.

Company Interview question:

In summary, how important do you view the copper and nickel projects – in addition to the mineral sands projects – in the overall Gunson strategy to add value to shareholders?

Managing Director, Bill Bloking

These are very exciting projects that complement our mineral sands business and have the potential, in their own right, to add significant shareholder value over the medium to longer term. Undoubtedly, they will also benefit from the additional technical capability that Strandline will bring to the Company.

Within the next 12 months or so, we should have a pretty good idea on the way forward for MG14/Windabout as well as its longer-term economic potential.

The Fowlers Bay farm-in by Western Areas is another major development, not only reinforcing our internal view about the highly prospective nature of the acreage but also creating the opportunity for exploration activity to commence almost immediately. Western Areas have stated that they are ready to commence a program using detailed airborne geophysical surveys to facilitate geological interpretations and allow for initial target generation, so we should see a fair bit of news flow.

The Company is at a crossroads and is facing a decision that, in hindsight, will prove to be transformational. As I said in the last interview, I hope that Shareholders will grasp this opportunity and support the Board's recommendations by voting in favour of the transaction and returning their Proxy Statements to Computershare as soon as possible but before the deadline on October 18th.

Company Interview question:

Thank you Mike and Bill.

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