

Lodgement of 'Company Interview'



GUNSON RESOURCES LIMITED

'COMPANY INTERVIEW'-MARKET PROFESSIONALS

Gunson Resources Limited

Date of lodgement: 30/9/2013

TITLE: "Company Interview. New MD on Improved Outlook"

Highlights:

- **New MD's experience in Resources sector including as MD, Director and Chairman of small ASX-listed companies, plus as a senior executive at BHP.**
- **Attractions for joining Gunson include Coburn Zircon Project, share price undervaluation and quality of Gunson team.**
- **Characteristics and status of Coburn and Mount Gunson projects.**
- **Current trends in mineral sands industry should lead to price increases.**
- **Involvement of DuPont in Coburn Zircon Project a positive.**
- **Revised financials for Coburn gives NPV of A\$208m & IRR of 19.5%.**
- **Previous MD giving valuable input; and objectives for 2013 for Gunson.**
- **Current funding sufficient to late Q1 2014; comments on seemingly undervalued market capitalisation; and outlines longer term growth strategy.**

Record of interview:

Company Interview question:

Gunson Resources Limited (ASX code: GUN; market cap of ~\$6m) announced your appointment on 2 August 2013. Can you explain your experience in the Resources sector and skills you bring to Gunson?

Managing Director, Bill Bloking

Sure. I've been in the resources sector for nearly 40 years, and have spent virtually all of that time in the oil and gas sector. Appointing an oil and gas person to lead a mineral sands

company may seem a bit surprising at first blush, but if you think about the core experience and skills needed in the Managing Director of a small resources company like Gunson – an engineering background, strategic decision-making skills, business and project development experience, deep commercial experience, as well as an extensive background of working and living throughout Asia – I think my appointment starts to make more sense.

I'm a mechanical engineer by training, and spent the first 10 years of my career working in technical areas – project design and operations, equipment troubleshooting, and project construction and commissioning. Subsequent to that, I worked in corporate strategic planning for a few years, I've held senior roles in petroleum marketing, crude and petroleum products trading, and shipping, and I've have had a number of senior leadership roles as an executive director and Chief Executive Officer. And, since retiring as BHP Billiton Petroleum's President of Australia/Asia Gas in early 2007, I've gained a lot of strategic and corporate governance experience through my various roles as Managing Director, Non-Executive Director, and Non-Executive Chairman of a number of small, ASX-listed companies.

Company Interview question:

What were the main attractions for joining Gunson?

Managing Director, Bill Bloking

One of the key attractions for me was the Coburn Zircon Project – an economically robust project that has all material development permits in place and is ready to go once financing can be secured. Coburn has struggled to lock in financing, as have other mining and mineral sands projects, and the market environment has been a major challenge. But my sense is that market sentiment is starting to turn and that we'll be able to find a commercial way forward. There are not a lot of companies around with mining projects that are this well progressed!

I was also quite impressed with the quality of the people and the quality of their technical work – particularly on the Coburn Project but also more generally – and thought it would be a great team to work with and be a part of.

The other assets in the portfolio, particularly Mount Gunson, are also quite interesting in terms of the potential upside that they bring to the Company.

Finally, I was quite surprised at the Company's low share price and market capitalization given the level of definition and maturity of Coburn, even though zircon prices declined so precipitously in 2012.

To sum it all up, it seemed to me that Gunson was significantly undervalued and, with a significant, "shovel ready" asset poised for rapid development, it represented a great opportunity to apply my background to turn things around and create wealth for our shareholders.

Company Interview question:

Can you summarise the status of your two main projects – the Coburn Zircon Project (GUN 100%) and the Mount Gunson Copper Project (GUN 49%, Noranda 51%)?

Managing Director, Bill Bloking

Let me start with Coburn. Following termination of Joint Venture discussions with POSCO and other Korean parties earlier this year, Gunson now holds a 100% working interest in Coburn. As I said a short while ago, the Project is economically robust under current and forecast product prices, and there are emerging signs that market sentiment is starting to improve. All permits are either in hand or in the final approval stages so the Project is ready to proceed to construction once financing can be secured.

On the other hand, the capital expenditure estimate for Coburn is about US\$200 million, which is a very significant investment for a company of Gunson's size. Our strategy has always been to secure a strategic partner who would carry a significant portion of the financial and development cost, and who might also be able to assist us in securing financing to cover some of our share of costs. We have recently re-engaged in that process and we are finding some market interest. There are some discussions taking place, but it's simply too early to say where they might lead.

It is worth pointing out that the Project has a number of important attributes, including:

- Very low geopolitical risk due to its location here in Western Australia;
- Very low land access risk due to its location, with no significant alternative land-use and the majority of resources situated on a Pastoral Lease owned by the Company;
- Low technical risks as it has a broad homogeneous orebody of free flowing sands, negligible slimes and oversize, and low levels of "trash" heavy minerals;
- Existing and accessible infrastructure to get products to market, with the nearby North West Coastal Highway running to the Port of Geraldton, an established mineral sands port;
- Low risk of cost and schedule overruns given the high level of engineering definition;
- High quality final products, with low radioactivity, low impurities, and standard grain sizes;
- The heavy mineral concentrate has a high-value, zircon-rich assemblage; and
- All material approvals for development have either been secured or are at an advanced application stage.

We also have identified a number of value enhancement initiatives that have the potential to further reduce costs and improve project economics. These will be pursued in due course, but our near term focus will be on minimising further Project spending and reducing company overheads whilst the search for a strategic partner continues.

Turning to the Mount Gunson Project, it is located in South Australia about 100 kilometres south of the world class Olympic Dam copper-uranium-gold mine, and it's in the centre of the best endowed copper belt in Australia.

The Project is divided into two separate parts: a ~1,000 square kilometre tenement package operated by a Joint Venture between Noranda Pacific Pty Limited – a wholly owned subsidiary of Xstrata – and ourselves, and a ~40 square kilometre "Excised Area", covering the MG-14 and Windabout prospects, in which Gunson has the sole right to explore for and develop mineral deposits to a depth of 250 metres. Below that, the Noranda/Gunson Joint Venture has the right to explore for and develop mineral deposits.

Through June of this year, Gunson had been fully carried through exploration activities in the Joint Venture under a 2006 Farm-in Agreement with Noranda. After earning a majority 51% interest in the Joint Venture, Noranda assumed management of the exploration program back in January 2012 and has continued to sole fund exploration activities since that time.

Following on from the recent merger between Xstrata and Glencore, Noranda has advised us that Mount Gunson is no longer a strategic focus for them and that they intend to farm out some or all of their interest in the Joint Venture. Given our limited human and financial resources – and our focus on Coburn – we've agreed to participate fully in the farm-out process and we see it as a good way for Gunson to realise near term value from the Project.

With respect to the "Excised Area", this area was kept out of the scope of the farm-out agreement because it had two small, near-surface copper deposits that could potentially be developed quickly and at low cost, in contrast to Noranda's focus on large but deep iron oxide associated copper-gold deposits like Olympic Dam. Additional work commenced a couple of months ago following an approach from a group interested in developing the shallow MG-14 copper-cobalt-silver deposit and the much larger, but lower grade, Windabout deposit to the north.

Historically, the inability to economically separate cobalt and silver from copper concentrates has made it very difficult to realise any commercial value for the cobalt or silver in the concentrate. This has posed a significant hurdle for deposits such as Windabout, where the value of cobalt actually exceeds the value of the copper in the sulphide concentrate.

In an attempt to solve this dilemma, a concept involving acid leaching of flotation concentrates and concentrates from gravity separation of fine-grained flotation tailings, followed by recovery of copper and cobalt metal by solvent extraction-electrowinning (SX-EW) from the enriched leach solution, has been developed and a research group at the Mawson Institute of the University of South Australia has proposed a program to test the concept. Proof of concept would certainly add value to the "Excised Area" – and could potentially lead to a small scale development within a couple of years – so we believe it is worthy of pursuit. However, given our limited financial resources and, again, our focus on Coburn, we are talking with third parties about possible interest in funding or co-funding the test program.

Company Interview question:

More specifically, can you give more detail on Gunson's comment in the June 2013 quarterly report that "the market outlook for the mineral sand industry has improved considerably during the quarter..."? How important is that for Coburn to progress?

Managing Director, Bill Bloking

Let me deal with the second question first. Unlike some other projects, Coburn is highly dependent on the outlook for zircon prices. Whilst we will produce titanium dioxide products, zircon sales will account for about 65% of total revenue over the life of the Project, so our project economics are dominated by zircon pricing.

After reaching an all time high of about US\$2,500 per tonne, the zircon price was about US\$2,000 per tonne in September 2012 when it began to fall precipitously. It reached a low point of about US\$1,100 per tonne in March 2013 – about half of the level that prevailed 6 months earlier!

Destocking and substitution by consumers appear to have been major factors in the collapse of zircon prices, but signs are emerging that some restocking is occurring, particularly in China, and that stocks are returning to more normal levels. Early indications are that zircon sales have outpaced production in the first half of 2013 and data suggest that total demand to date in 2013 has already exceeded total demand in 2012. If sustained, these trends should ultimately lead to a price recovery.

On the other hand, global demand for high-grade titanium dioxide feedstocks was subdued in the first half of 2013, reportedly due to high pigment inventories, and price recovery is not expected until 2014. In its report for the quarter ending June 2013, DuPont indicated that pigment inventories had returned to normal levels and that its titanium dioxide business is rebounding in terms of sequential sales volumes and earnings.

Company Interview question:

What is the potential for DuPont to be a future customer of your titanium dioxide feedstock? What is DuPont's stance?

Managing Director, Bill Bloking

As the Company reported back in March 2012, we entered into a conditional Chloride Ilmenite Sales Agreement with DuPont for 60% of Coburn's production for 5 years. DuPont has confirmed recently that it is willing to extend the financing deadline in the 2012 Chloride Ilmenite Sales Agreement by a year to 30 June 2014, which is good news for Gunson. And given that Gunson now has 100% of Coburn, there is scope for discussion with DuPont about the other 40% of production.

Company Interview question:

How important for Gunson would it be to have a company the size and calibre of DuPont as a customer? DuPont is the largest producer in the world of titanium dioxide (along with China) and therefore has significant influence on the market for titanium dioxide feedstock – is that a concern?

Managing Director, Bill Bloking

I think it's very important! Having a supply agreement with a customer of DuPont's profile, which accounts for quite a significant portion of estimated revenues over the first 5 years of the Project's life, is a fantastic endorsement of the Company as a future supplier of titanium dioxide feedstocks and frankly adds a lot of credibility to Coburn.

I think the second part of your question goes to relative market power. It certainly is true that a company like DuPont has a lot more market power than a company like Gunson – and can certainly negotiate from a position of strength – but I also think that their own self interest is served by ensuring that multiple supply sources remain in the game and that there is robust supply-side competition. On balance, I'm delighted to be where we are with DuPont!

Company Interview question:

Can you explain the previously calculated economics of Coburn and the major sensitivities around them? Have these economics been revised to reflect recent market changes - or when might they be?

Managing Director, Bill Bloking

In February, the Company released the results of its Coburn Optimisation Study. Relative to the previously announced FEED Study, the optimisation work resulted in a capital cost increase of about US\$10 million – but an increase in valuable mineral production of about 22% per annum and a reduction in unit costs of about 13%. Overall, this resulted in an improvement of the Project's pre-tax net present value, at a discount rate of 8%, from A\$211 million to A\$330 million, using the same underlying assumptions as those contained in the FEED Study. The pre-tax internal rate of return increased from 22.4% to 31.2%, and the "life-of-mine" revenue-to-cost ratio improved to 1.6 from 1.45.

It now appears that zircon prices have stabilised, albeit at much lower levels than those prevailing for most of 2012, and are perhaps even turning around a bit. Accordingly, we've run a new financial summary based on the Optimisation Study capital costs, production volumes and operating costs, as well as the real US dollar price forecasts for zircon and titanium dioxide minerals provided by respected industry marketing consultants, TZMI, in August 2013. This produced a pre-tax net present value of A\$208 million using an 8% discount factor, and a pre-tax Internal Rate of Return of 19.5%.

Recent evidence suggests that project delays and cancellations in Australia over the past year have resulted in a reduction of some capital costs since September 2012. These reductions, along with the potential introduction of new mineral processing technologies in the Wet Concentrator Plant, provide support for our view that we'll be able to make additional capital cost savings in due course.

Overall, Coburn remains financially attractive, and interest from potential strategic investors seems to be growing.

Company Interview question:

How will you work with the previous Managing Director, David Harley, who has been retained as a consultant until April 2014?

Managing Director, Bill Bloking

Working with David has been fantastic. He has vast experience in the mining industry generally and has a wealth of knowledge around the Mineral Sands business. And, as the founding Managing Director of Gunson, he's an enormous store of institutional memory and corporate knowledge. He has been very open and supportive, and I am finding this period of overlap with him to be invaluable as I come up the curve on the Mineral Sands industry.

Company Interview question:

What will be the major objectives for the rest of the year for Gunson?

Managing Director, Bill Bloking

Creating shareholder wealth through the Coburn Project will remain the key strategic objective of the Company, and the effort for the next several months at least will be commercially focused rather than technically focused.

We are also intent on minimising discretionary spending, achieving significant reductions in corporate costs, and rationalising our asset portfolio, such as Mount Gunson.

Although they are less immediate priorities, we have 100% working interests in Fowler's Bay Nickel Project and the Tennant Creek Copper-Gold Project. The exploration commitments coming up on these Projects over the next couple of years have the potential to distract us from the main game – Coburn – as well as to drain essential resources, so we'll be looking to minimize expenditure on these assets as a general rule. However, we'll continue to consider spending money on these projects where relatively modest outlays can provide valuable insight into the commercial value of the acreage. A good example of this is Fowler's Bay, which appears to be geologically similar to the host geological province of Sirius' recent discoveries. We are planning modest expenditure on a geophysical survey and, depending on results, we will probably look to either farm-down our working interest or divest.

Company Interview question:

To what extent will you pursue the recommendations of the Azure Strategic Review announced in May 2013?

Managing Director, Bill Bloking

The Azure Review endorsed the Company's approach to developing Coburn by bringing in a strategic partner, but also highlighted the additional barriers to financing mineral sand projects in which zircon, rather than titanium dioxide minerals, is the dominant revenue source. Azure also recommended a restructure of the Company's Board and an increased focus on cost reduction.

We took immediate action to implement Azure's recommendations. We restarted the search for strategic partners in Coburn, we reduced the size of the Board from 4 directors to 3, and we appointed a new Managing Director with a reduced remuneration package. That's why I am here!

My overall mandate from the Board is to undertake a complete review of the Company's projects in the context of current commodity and financial markets in order to deliver the greatest potential benefit to the Company's shareholders. Accordingly, I have been conducting a line-by-line review of corporate costs – with the objective of minimising discretionary spending and reducing overheads going forward – and we are developing plans to farm-out or divest our other exploration assets as we focus on commercial activities surrounding Coburn.

Company Interview question:

What is your current funding position and plans to utilise that?

Managing Director, Bill Bloking

Our current cash balance is around \$1.2 million, which at current spending levels should be sufficient to keep the Company cash positive until late in the first quarter of 2014. As I've already mentioned, we plan to make significant cuts in discretionary spending in order to preserve cash, and we will be looking at farm-outs and/or asset sales to bolster the cash position as we engage in partnering discussions around Coburn. As I mentioned earlier, we do have discussions underway on a couple of fronts, but it's still early days.

Company Interview question:

You referred to this before, but what's your view on why the market capitalisation of Gunson is seemingly very low at \$6 million when Coburn is so advanced, mineral sands markets are improving and DuPont is interested in becoming a customer?

Managing Director, Bill Bloking

Although a lot of this has to do with the recent market malaise and the precipitous decline in zircon prices, I suspect that the termination of Joint Venture discussions with POSCO and the other Korean Parties also had a lot to do with the current share price. Of course, it's hard to say that the market has gotten it wrong, but I personally think there's been an overreaction to that particular bit of news.

In any event, positive news on the Coburn front would almost certainly be a catalyst for a significant rerating of the Company, so we will continue to focus our energy on bringing the Project to fruition.

Company Interview question:

Longer term, do you see any fundamental changes to strategy in your pursuit of growing shareholder wealth under your leadership?

Managing Director, Bill Bloking

Clearly, Coburn is the key to creating wealth for Gunson shareholders, and this is where I intend to focus the efforts of the Company for the foreseeable future. The Project has many positive attributes and remains economically robust, and the market for mineral sands seems to be showing signs of improvement. Whilst there are further opportunities to improve Coburn's economics through further technical work, we will be concentrating our efforts on commercial activities until the Project gets more market traction.

In the meantime, we will continue our efforts to reduce corporate costs and conserve cash. We will also consider M&A activity, to the extent that there are compelling opportunities available for consideration.

Company Interview:

Thank you Bill.

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