

## GUNSON RESOURCES LIMITED

### QUARTERLY REPORT FOR THE PERIOD ENDED 30<sup>th</sup> JUNE 2010

#### HIGHLIGHTS

##### COBURN ZIRCON DEVELOPMENT PROJECT

- RFC Corporate Finance (RFC) appointed to assist in discussions with potential strategic funding and offtake partners.
- Growing evidence in the market of a significant shift in supply/demand fundamentals in favour of raw material producers, for the first time in many years.
- Financial modelling of the Project in conjunction with RFC indicates that Coburn remains a robust operation using spot price and currency assumptions.
- The operating margin in the Project financial model is in excess of 50% using a USD:AUD exchange rate of 86 cents and a zircon price uplift factor of US\$150 per tonne *f.o.b.* to account for the current variation between recently reported zircon prices and those used in the Definitive Feasibility Study.

##### MOUNT GUNSON COPPER PROJECT

- At a technical review meeting in Adelaide in mid July, it was agreed with sole-funding farm-in partner Noranda Pacific Pty Limited, part of the Xstrata Copper Business Unit, that the primary activity during the remainder of 2010 would be deep-seeing magnetotelluric (MT) geophysical surveys over selected copper targets. Further drilling would be in 2011.
- Metallurgical test work on samples from the 100% owned MG 14 and Windabout deposits continued during the quarter and is scheduled for completion at the end of August.
- Discussions are in progress with a short list of companies interested in funding part of the Bankable Feasibility Study on MG 14 and Windabout, followed by part of the potential mine development. Interest has been accelerated by the current severe global shortage of copper concentrates.

##### FOWLERS BAY NICKEL PROJECT

- Approval has been received from South Australian Government regulators to commence a diamond drilling program in the Yellabinna Regional Reserve, to test a high priority TEM geophysical conductor for nickel sulphides.

#### 1. COBURN ZIRCON DEVELOPMENT PROJECT (100%) WESTERN AUSTRALIA

##### 1.1 Discussions with Potential Funding / Offtake Partners

The Company continued to advance discussions with potential funding and offtake partners during the quarter. Interest in the Project has increased significantly, following growing evidence of a global zircon supply shortage and increasing prices.

To this end, Gunson has recently appointed RFC Corporate Finance (RFC) to assist it in its discussions with potential strategic funding and offtake partners, along with consideration of other value realisation and recognition alternatives for the Project.

RFC is a specialist corporate advisory business focused on the natural resources sector, with specific mineral sands experience. With RFC's assistance, Gunson will be seeking to attract a Project partner before the end of 2010.

## 1.2 Strengthening Mineral Sands Markets

At the end of the quarter, leading global marketing consultancy TZMI reported that the investment climate and market fundamentals for the mineral sands sector have become increasingly more buoyant in recent months. Further, TZMI commented that more favourable market conditions and forecast price increases over the next few years should for the first time in many years, provide an investment environment that supports the advancement of new projects.

TZMI's comments were reinforced by observations in global zircon market leader Iluka Resources' June 2010 quarterly report, that it had noted strong demand across its mineral sand product suite, with an associated drawdown of raw material inventories. In the case of zircon, Iluka was unable to fully meet customer requirements and industry-wide price increases had been implemented during 2010.

## 1.3 Project Financial Analysis

In the Company's release on 7<sup>th</sup> January 2010, outlining the results of its Definitive Feasibility Study (DFS) on Coburn, the net operating margin was stated to be \$A879 million or 67%, over a 23.5 year mine life, with total operating costs of \$A1310 million over the same period. These figures were based on a US to Australian dollar exchange rate of 72 cents but were also based on commodity prices that now appear conservative in the light of current market conditions.

Modelling of the Coburn DFS shows that Coburn remains a robust operation using spot price and currency assumptions. The operating margin is in excess of 50% using a USD:AUD exchange rate of 86 cents and a zircon price uplift factor of US\$150 per tonne *f.o.b.* to account for the current variation between recently reported zircon prices and those used in the DFS. Prices of titanium dioxide mineral by products in the DFS model were not changed, although ilmenite and leucoxene prices have firmed since the end of 2009 when the original DFS model prices were set.

Furthermore, the Project has a lower risk profile than many existing production or development stage mineral sands operations. It benefits from a thick mineralised horizon which provides for simple mining, very low slime and oversize levels which provide for low processing risks and low tenure risks due to its location in Australia. The Project will not be subject to the proposed Australian Government Mineral Resources Rent Tax.

## 1.4 Review of Coburn by Parties Introduced Prior to RFC Appointment

As stated in the Company's release on 1<sup>st</sup> July 2010, several companies are currently reviewing the Coburn investment opportunity, including 2 that began their evaluation in 2008/2009. The rapid change in the mineral sands market this year has increased their level of interest and a trip to the Middle East is scheduled for early August.

**2. MOUNT GUNSON COPPER EXPLORATION PROJECT (49%) SOUTH AUSTRALIA**

As advised in the previous quarterly report, Noranda Pacific Pty Limited (Noranda), part of the Xstrata Copper Business Unit, earned a 51% interest in the Project in late March 2010, excluding the Excised Area covering the MG 14 and Windabout copper deposits. Work on the Excised Area is discussed separately in section 3 below.

Noranda's cumulative expenditure on the Project to the end of the quarter is \$3.99 million. Having earned its Initial Share of 51% by spending \$3.5 million within the extended first Option Period, Noranda has the right to earn a Further Share of 24% by spending an additional \$6.5 million by mid June 2013.

At a technical review meeting with Noranda in Adelaide on 15<sup>th</sup> July 2010, it was agreed that the primary activity during the second half of calendar 2010 would be a deep-seeing magneto telluric (MT) electrical geophysical survey over Emmie Bluff and Chianti prospects, along with other exploration targets which have yet to be drilled.

Results of down hole TEM and IP logging in MGD 57, which was not completed until mid May 2010, suggested that the apparent TEM conductivity high between 800m and 1km depth that MGD 57 tested, was caused by salt water in porous Pandurra sandstone immediately above the top of basement at 960m. This unexpected result, in an area to the east of the main Emmie Bluff gravity geophysical anomaly, has shifted attention to untested gravity targets in the western and northern parts of Emmie Bluff Prospect.

These two areas will be the first to be traversed with MT geophysical surveys later in 2010.

**3. MOUNT GUNSON COPPER – MG 14 & WINDABOUT EXCISED AREA (100%) SOUTH AUSTRALIA**

The principal activity on this area, excised from the Noranda farm-in agreement to a vertical depth of 250 metres, was metallurgical test work on bulk samples from the wide diameter diamond drilling program completed on 18<sup>th</sup> April, 2010.

Assays for the MG 14 drilling were listed in the previous quarterly report and assays from the 5 holes completed at Windabout, at the same 0.8% copper cut-off, are listed below.

Hole N <sup>o</sup>	From (m)	To (m)	Intersection
MGD 63	59.0	61.0	2.0 m @ 1.4% Cu
MGD 64	74.2	76.2	2.0 m @ 1.5% Cu
MGD 65	82.7	84.3	1.6 m @ 1.8% Cu
MGD 66	62.9	65.9	3.0 m @ 2.4% Cu
MGD 67	62.1	64.8	2.7 m @ 1.5% Cu

The above intersections compare well with the neighbouring drill holes on the attached plan, Figure 1 and have added useful data on the relatively wide-spaced Windabout drilling grid.

To put the drill hole spacing at Windabout Prospect in context, it averages 100 m, compared to the 50 m average spacing at MG 14. The latest drilling results support the Company's view that selective mining of the Windabout deposit could yield a lower tonnage of higher grade mineralisation than the Indicated Resource of 18.7 million tonnes at 1% copper, published on page 19 of the Company's 2009 Annual Report. Confirmation of such high grade zones is to be the focus of drilling scheduled for later in the year.

Metallurgical test work at Optimet Laboratories in Adelaide has been in progress for approximately 8 weeks and this program is scheduled for completion at the end of August, 2010. Early results from the MG 14 test work have confirmed the very low ball mill work

index and abrasion index achieved in previous test work, implying relatively low power consumption in a treatment plant. No locked cycle flotation tests have been carried out to date, as this critical phase of the program is generally left until last.

Discussions with a short list of companies interested in funding part of the BFS, followed by part of the potential mine development, continued during the quarter. Some parties withdrew due to the ill-conceived Government "super profits" tax but the current severe global shortage of copper concentrates, particularly of those matching the grade and quality of the MG 14 concentrate, has accelerated interest since late June, 2010.

During the discussions, eligibility for a \$US150 per tonne smelter credit for the approximately 10 ounces per tonne of silver contained in the MG 14 concentrate was revealed. This credit was not included in the PFS financial analysis, released on 12<sup>th</sup> October 2009 and along with the improved spot copper price, will have a beneficial effect on the Project economics.

#### 4. FOWLER'S BAY NICKEL PROJECT (100%) SOUTH AUSTRALIA

Approval was received after the end of the quarter from South Australian Government regulators to commence a diamond drilling program in the Yellabinna Regional Reserve. This program is designed to test the strong Transient Electromagnetic (TEM) conductive zone at 100 metres depth described in the June 2009 quarterly report.

Commencement of the drilling program is dependent on the completion of an aboriginal heritage clearance and efforts to expedite this process have commenced.

#### 5. TENNANT CREEK GOLD/COPPER PROJECT (100%) NORTHERN TERRITORY

A single vertical diamond drill hole, TCD1, designed to test the 2km long Gosse 5 gravity anomaly some 70km east of Tennant Creek, was completed at 330m depth on 18<sup>th</sup> May.

This hole passed into the basement target zone at 93m depth, beneath flat lying sediments of the Georgina Basin. The main rock types in the basement were felsic to more mafic volcanic rocks of the Warramunga Formation, the host rock unit of the gold-copper ironstone deposits in the Tennant Creek district. Localised breccia zones with hematite infill are present below 140m, some with trace galena and a narrow zone of minor copper sulphide (chalcopyrite) mineralisation associated with thin quartz veins was noted at 243m.

Overall, alteration of the Warramunga Formation host rocks appears to increase downwards but assays from chip sampling of the core did not show any anomalous copper, gold or silver values. Re interpretation of the gravity geophysical data indicates that the Gosse 5 feature may be a basement high and that potential exists for smaller, more discrete gravity anomalies along it. If present, these anomalies could be the signature of small hematite-rich iron oxide copper-gold bodies similar in dimension to the high grade deposits around Tennant Creek.

An infill gravity survey along the Gosse 5 feature is planned for August/September 2010.

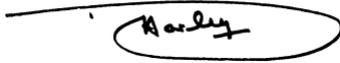
#### 6. SHARE PLACEMENT

A placement of 10 million shares at 6 cents each was made to clients of RBS Morgans Limited in early July 2010, raising \$600,000 before costs.

This placement increased Gunson's issued capital to 173,465,312 fully paid ordinary shares.

## 7. FINANCIAL

At 30<sup>th</sup> June the Company had \$277,000 in cash and short term deposits. With over \$100,000 of funds from Austrade and the ATO due in early August, together with the July placement, cash reserves have increased appreciably over those at 30<sup>th</sup> June. Exploration expenditure during the quarter was \$687,000 and forecast exploration expenditure for the September quarter is \$250,000.



**D N HARLEY**  
**MANAGING DIRECTOR**

### Figure 1 Windabout Prospect – 2010 Metallurgical Drilling

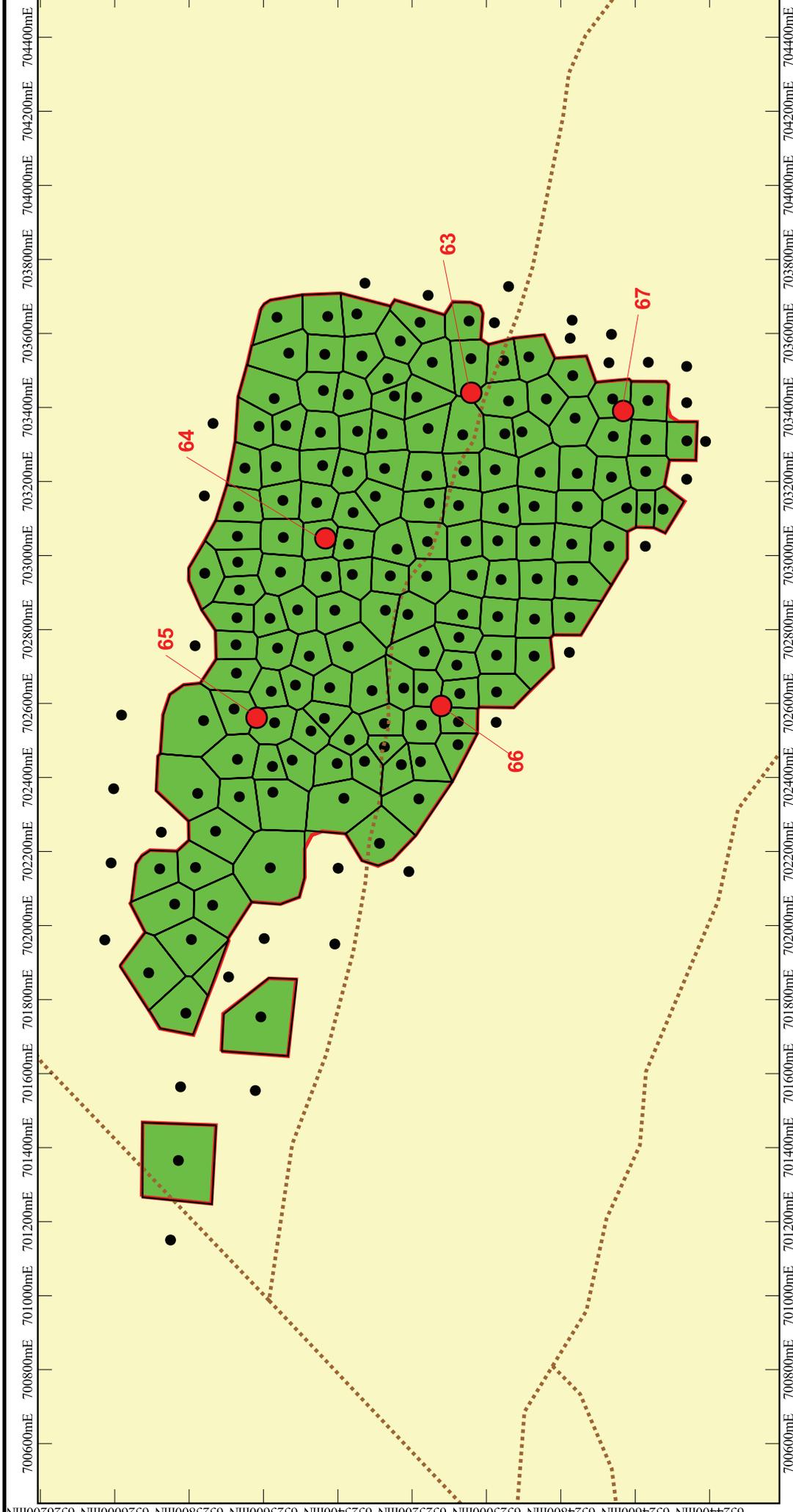
30<sup>th</sup> July 2010

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#### ATTRIBUTION

The information in this report that relates to exploration results, mineral resources and ore reserves is based on information compiled by Mr D N Harley, who is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Harley has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Harley consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

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**GUNSON RESOURCES LTD**

Mount Gunson Project

Windabout Prospect

**2010 Metallurgical Drilling**

May 27, 2010

Plan No: 2010-

Scale 1 : 15,000

Figure: 1

● 2010 metallurgical drill hole, prefix MGD

■ Pre 2008 drill hole with approximate copper resource outline

⋯ Track

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

Gunson Resources Limited

ABN

32 090 603 642

Quarter ended ("current quarter")

30 June 2010

### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (12 months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration & evaluation	(687)	(2,232)
(b) development	-	-
(c) production	-	-
(d) administration	(150)	(597)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	6	23
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7(i) Other (Research and development rebate)	-	146
1.7(ii) Other (Net retirement of environmental bond)	-	39
<b>Net Operating Cash Flows</b>	<b>(831)</b>	<b>(2,621)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(6)	(9)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
<b>Net investing cash flows</b>	<b>(6)</b>	<b>(9)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(837)</b>	<b>(2,630)</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(837)	(2,630)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	-	2,545
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (Share issue costs)	-	(106)
	<b>Net financing cash flows</b>	-	2,439
	<b>Net increase (decrease) in cash held</b>	(837)	(191)
1.20	Cash at beginning of quarter/year to date	1,114	468
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	277	277

**Payments to directors of the entity and associates of the directors**  
**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	44
1.24	Aggregate amount of loans to the parties included in item 1.10	0

1.25 Explanation necessary for an understanding of the transactions

Payment of directors' salaries and superannuation during the quarter.

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Mount Gunson Copper Project to the end of June 2010. Xstrata Copper, via its subsidiary Noranda Pacific Pty Limited (Noranda) has a cumulative expenditure of \$3,994,145. Noranda has earned a 51% share of the Project and has the right to sole fund exploration to \$10 million cumulative, increasing its share to 75%.

+ See chapter 19 for defined terms.

### Financing facilities available

*Add notes as necessary for an understanding of the position.*

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	250
4.2 Development	-
4.3 Production	-
4.4 Administration	100
<b>Total</b>	<b>350</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	277	1,114
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>277</b>	<b>1,114</b>

### Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1		Interests in mining tenements relinquished, reduced or lapsed		

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

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6.2 Interests in mining  
tenements acquired or  
increased

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**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference +securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	163,465,312	163,465,312		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 <b>+Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> <i>(description and conversion factor)</i>	1,800,000 1,800,000 400,000 400,000		<i>Exercise price</i> 30 cents 35 cents 35 cents 40 cents	<i>Expiry date</i> 30/11/2010 30/11/2010 04/05/2012 04/05/2012
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 <b>Debentures</b> <i>(totals only)</i>				

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

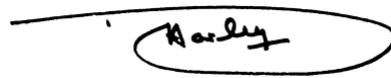
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7.12	Unsecured notes (totals only)		
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## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:



Date: 30 July 2010

(Managing Director)

Print name: David Harley

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.