

GUNSON RESOURCES LIMITED
QUARTERLY REPORT FOR THE PERIOD ENDED
31st DECEMBER 2010

HIGHLIGHTS

COBURN ZIRCON DEVELOPMENT PROJECT

- Rapid improvement in the zircon market has continued, prompting global mineral sands consultancy TZMI to again raise its price forecasts, at the end of the quarter.
- Based on TZMI's new zircon and other mineral sand price forecasts, the predicted financial returns from Coburn have increased significantly, despite the higher US to Australian dollar exchange rate assumption than in previous Project financial analyses released by the Company.
- At parity with the US dollar, the Project IRR has increased by 29% to 21.2% and the NPV by 53% to \$A216 million, at an 8% discount rate and 2.5% state royalty.
- The latest Project financial analysis has attracted some new potential investors and increased the level of interest from those that had already been reviewing the opportunity.

MOUNT GUNSON COPPER PROJECT

- Processing and interpretation of data from the airborne and ground geophysical surveys completed during the quarter are at an advanced stage, with a view to selecting drilling targets for the first half of 2011.

FOWLERS BAY NICKEL PROJECT

- Drilling of a high priority TEM geophysical conductor for nickel sulphides is scheduled to commence in mid February.

1 COBURN ZIRCON DEVELOPMENT PROJECT (100%), *Western Australia*

1.1 Permitting

Processing of remaining regulatory matters requiring approval prior to commencement of mining operations has been slower than previously expected.

Final comments on the Groundwater Mounding Management Plan are currently being prepared for submission to the Environmental Protection Authority (EPA) in February and approval of this Plan is now expected in March 2011, after a 3 year review process.

Processing of the second Non Substantial Change to the Public Environmental Review and the first mining approval from the Department of Mines and Petroleum is well advanced, for completion in March 2011.

1.2 Further Market Improvement

The rapid improvement in the zircon market discussed in the previous quarterly report continued in the period under review, prompting leading global market consultancy TZMI to again raise its zircon price forecasts in late December 2010. These forecasts, to the end of 2015, were accompanied by significant increases in the predictions for prices of the titanium dioxide minerals ilmenite and rutile. The new forecasts are incorporated in the financial evaluation below.

1.3 Enhanced Financial Returns

On 11th January 2011, the Company announced significantly improved forecast financial returns from Coburn, based on the new TZMI mineral sand price forecast discussed above. Of particular significance is that the improvement was despite the much higher US to Australian dollar exchange rate than those assumed in previous Project financial analyses released by the Company. A comparative table between the October 2010 financial analysis outlined in the previous quarterly report and the latest analysis is shown below, in millions of real 2009 Australian dollars. This shows a 29% increase in the IRR and 53% increase in the NPV:

	DFS January 2011	DFS October 2010*
Total Revenue	2,249	2,086
Total Operating Costs	1,291	1,288
Net Operating Margin	958	798
Capital Cost	169	169
IRR before tax/financing	21.2%	16.4%
NPV (8%)	216	141
Exchange Rate (\$US to \$A)	1.00	0.85

** from the Company's 2010 Annual Report, page 11.*

The above analysis assumes a 2.5% royalty rate compared to the 5% rate currently prevailing in Western Australia. As previously reported, negotiations between the Company and the Western Australian Department of Mines and Petroleum (DMP) are continuing, with a third submission to the Department being submitted on 19th January 2011. The focus of the latest submission was the lack of incentive in the currently royalty regime for heavy mineral sand producers to refine their concentrates to final mineral products, as both are classified as "concentrates", attracting a 5% royalty. This contrasts with the 2.5% rate applied to final base metal products versus a 5% royalty on base metal concentrates. The current DMP "status quo" approach is leading some new proponents to plan offshore processing of their mineral sand concentrates, at odds with the stated Government policy to encourage local value adding.

Using the current "status quo" 5% royalty rate, the January 2011 NPV and IRR would be \$191 million and 19.7% respectively.

1.4 Negotiations with Potential Funding/Offtake Partners

The latest financial analysis of the Project discussed above has attracted some new potential investors and increased the level of interest from those that had already been reviewing the opportunity.

Increased market awareness of the mineral sand sector and the Project in particular is assisting the Company in its negotiations with potential investors, with opportunities being rated to ensure the best outcome for shareholders.

2 MOUNT GUNSON COPPER EXPLORATION PROJECT (49%), *South Australia*

Processing and interpretation of data from the airborne and ground geophysical surveys completed during the quarter is at an advanced stage, with a view to selecting drilling targets for the first half of 2011.

Noranda Pacific Pty Limited (Noranda), part of the Xstrata Copper business unit, spent \$105,000 during the quarter, bringing its cumulative expenditure to \$4.17 million. Noranda has the right to increase its equity in the Project from the current 51% to 75%, by spending a total of \$10 million by mid June 2013.

3 MOUNT GUNSON COPPER – MG 14 & WINDABOUT EXCISED AREA (100%), *South Australia*

Metallurgical test work on bulk samples from the MG 14 and Windabout copper deposits continued to be the main activity, focused on improving the copper recovery from ore to concentrate and recovering a separate cobalt concentrate from the copper concentrate tailings. The Company continues to fund this low cost metallurgical program itself.

4 FOWLERS BAY NICKEL PROJECT (100%), *South Australia*

Following the failure of the native title claimants' lawyer to progress the Company's request for a meeting to discuss aboriginal heritage clearances, an experienced anthropologist was engaged to visit the proposed diamond drill target with a Company representative in early December 2010.

The anthropologist's conclusion was that there are no aboriginal sites of interest in the target area and that a drilling program would not impact native title. Consequently, a diamond drill rig is to commence a 2 hole program in mid February 2011.

The drill target is a strong TEM conductive zone at least 200 metres (m) long and open to the north east. It is at approximately 100 m depth, within a regional fold structure along a belt of magnetic units interpreted to be Proterozoic mafic and ultramafic rocks prospective for nickel sulphides.

5 TENNANT CREEK GOLD-COPPER PROJECT (100%), *Northern Territory*

Drilling of the new gravity-magnetic geophysical anomaly on the Gosse 5 exploration licence discussed in the previous report has been rescheduled due to wet weather. Commencement is now due in April 2011.

6 SHARE PLACEMENT AND SPP

A \$3 million placement to seven institutional and other sophisticated investors was settled on 17th December 2010, comprising 15 million shares at 20 cents each. RBS Morgans acted as Lead Manager to the placement, which was under the Company's 15% placement capacity refreshed at the Annual General Meeting on 30th November, 2010.

A Share Purchase Plan (SPP) Offer comprising up to 10 million shares at the same 20 cent price as the above placement was despatched to shareholders on 27th January and closes on 14th February.

Funds raised from the placement and SPP are to be used to progress negotiations on financing the Coburn Zircon Project, continue the Bankable Feasibility Study on the Mount Gunson Copper Project and carry out drilling programs on the Fowlers Bay nickel and Tennant Creek gold-copper projects.

7 FINANCIAL

At 31st December 2010, the Company had \$2.9 million in cash and short term deposits. Exploration expenditure during the quarter was \$507,000 and forecast exploration expenditure for the March quarter 2011 is \$300,000.



**D N HARLEY
MANAGING DIRECTOR**

31st January 2011

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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.

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")

31 December 2010

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(507)	(931)
(b) development	-	-
(c) production	-	-
(d) administration	(257)	(412)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	8	12
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (Austrade Grant)	-	41
Net Operating Cash Flows	(756)	(1,290)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(1)	(1)
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)	-	-
Net investing cash flows	(1)	(1)
1.13 Total operating and investing cash flows (carried forward)	(757)	(1,291)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(757)	(1,291)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	3,470	4,070
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)	(162)	(184)
	Net financing cash flows	3,308	3,886
	Net increase (decrease) in cash held	2,551	2,595
1.20	Cash at beginning of quarter/year to date	321	277
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	2,872	2,872

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	94
1.24	Aggregate amount of loans to the parties included in item 1.10	-

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 December 2010. Xstrata Copper, through its subsidiary Noranda Pacific Pty Limited (Noranda) has a cumulative expenditure of \$4,166,390. Noranda spent \$104,996 during the quarter and has the right to sole fund exploration to \$10 million cumulative by mid June 2013, increasing its equity in the Project to 75% from the current 51%.

+ 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	300
4.2 Development	-
4.3 Production	-
4.4 Administration	200
Total	500

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	2,872	321
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	2,872	321

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

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 Preference + securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	194,053,307	194,053,307		
7.4 Changes during quarter (a) Increases through issues 4,000,000 15,000,000 895,290 692,705 (b) Decreases through returns of capital, buy-backs				
			9 cents	9 cents
			20 cents	20 cents
			6.143 cents	6.143 cents
			7.94 cents	7.94 cents
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>			<i>Exercise price</i>	<i>Expiry date</i>
	400,000		35 cents	04/05/2012
	400,000		40 cents	04/05/2012
	250,000		12 cents	23/12/2013
	4,000,000		27 cents	30/11/2014

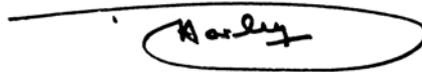
+ See chapter 19 for defined terms.

7.8	Issued during quarter	250,000 4,000,000		12 cents 27 cents	23/12/2013 30/11/2014
7.9	Exercised during quarter				
7.10	Expired during quarter	1,800,000 1,800,000		<i>Exercise price</i> 30 cents 35 cents	<i>Expiry date</i> 30/11/2010 30/11/2010
7.11	Debentures <i>(totals only)</i>				
7.12	Unsecured notes <i>(totals only)</i>				

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: 31 January 2011

(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.