

GUNSON RESOURCES LIMITED
QUARTERLY REPORT FOR THE PERIOD ENDED
31st MARCH 2011

HIGHLIGHTS

COBURN ZIRCON DEVELOPMENT PROJECT

- *Significant improvement in the market for all mineral sand products has continued since the previous quarter with global broking firm Goldman Sachs forecasting zircon prices to exceed \$US 2,000 per tonne fob between 2012-2015 and titanium dioxide minerals expected to double in price over the next few years.*
- *Based on new price forecasts provided by TZMI on 21st April, the Project IRR has increased by 50% to 32% and the NPV by 39% to \$A301 million, at an 8% discount rate and 2.5% state royalty. At the prevailing 5% state royalty, the IRR and NPV are 29.7% and \$A274 million respectively.*
- *Strong interest from financial institutions during the latter part of the quarter has alerted the Company to the option of funding the Project itself, prompting the initiation of discussions with several banks regarding debt funding.*

MOUNT GUNSON COPPER PROJECT

- *Two target areas have been chosen for drilling scheduled to commence in June 2011. This drilling is to be sole funded by the Company's farm-in partner Noranda Pacific Pty Limited, part of the Xstrata Copper Business Unit.*
- *Metallurgical test work on the 100% owned MG14 and Windabout copper deposits has confirmed that MG14 is far more profitable than Windabout. Financial modelling of alternative development options is in progress, due for completion in June 2011.*

FOWLERS BAY NICKEL PROJECT

- *Down-hole TEM geophysical logging to locate the position of the interpreted bedrock conductor missed by a 2 hole diamond drilling program during the quarter is scheduled for early May 2011. If successful the conductor will be tested by further diamond drilling.*

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

1.1 Permitting

Environmental performance bonds for construction of the 43km long mine access road and associated civil works were lodged with the Department of Mines and Petroleum (DMP) at the end of the quarter. Submission of these bonds backed by a \$1.2 million term deposit facilitated formal DMP approval on 4th April 2011, to commence development and operation

of the Project subject to necessary approvals from other authorities. Approval from the Department of Environment and Conservation was granted on 7th April 2011 and approval in principle from the Shark Bay Shire for the Company's Development Application was given on 20th April, subject to an advertising period ending on 18th May and further consideration at the next Council meeting on 25th May 2011. This leaves the second Non Substantial Change to the Public Environmental Review (NSCA2) by the EPA as the remaining approval required before construction can commence. This final approval is expected in May 2011.

Following consultation with seven government authorities, none of whom objected to the Company's proposal, application for a one year extension of the 5 year time limit of development approval by the Western Australian Environment Minister to 22nd May 2012 was lodged with the EPA on 15th April 2011. Approval of this application is expected in May. The EPA has made a written undertaking to make every endeavour to have the Company's request assessed prior to the expiry date but added that it has granted extensions after the expiry date in the past.

A final draft of the Groundwater Mounding Management Plan, which requires approval before mining can start, was submitted to the EPA on 7th April 2011.

1.2 Further Market Improvement

Significant improvement in the markets for all mineral sand products has continued since the start of the year, with supply shortages expected to persist for at least several years due to ongoing demand growth and limited new supply. Growth in zircon and titanium dioxide minerals demand continues to be driven, in particular, by increased use of ceramic tiles and paints in housing within developing economies, due to urbanisation and a growing middle class in their large populations.

On the back of this market strength, global broking firm Goldman Sachs is now forecasting zircon prices to exceed \$US 2,000 per tonne *fob* between 2012 - 2015 and titanium dioxide minerals are expected to double in price over the next few years. These dramatic price increases appear sustainable, at least in the medium term, because as Goldman Sachs has observed, the US dollar price of titanium dioxide mineral feedstocks for the decade to 2010 was negative in real terms, versus a 300% average increase in other major commodities.

Respected global mineral sand market consultant TZMI raised its mineral sand commodity price forecasts again on 21st April 2011 and these forecasts are incorporated in the financial evaluation below.

1.3 Upgraded Financial Returns

The new TZMI forecasts have further enhanced the attractiveness of the Project, with the pre tax internal rate of return (IRR) increasing by 50% to 32% and the net present value (NPV) by 39% to \$A301 million. These returns were based on an 8% discount rate and a 2.5% state royalty. At the prevailing 5% state royalty, the IRR and NPV are \$A274 million and 29.7% respectively. As stated in the Company's release on 11th January 2011, there is a strong case for a royalty reduction on finished mineral sand products in Western Australia and efforts to persuade the State Government to reduce its royalty rate will continue.

A comparative table between the January and April 2011 financial analyses based on the costs outlined in the Project Definitive Feasibility Study (DFS) announced in January 2010 is shown below:

	DFS * April 2011*	DFS * January 2011
Total Revenue	2,401	2,249
Total Operating Costs	1,318 Δ	1,291
Net Operating Margin	1,083	958
Capital Cost	169	169
IRR before tax/financing	32%	21.2%
NPV (8%)	301	216
Exchange Rate (\$US to \$A)	1.00	1.00

* *Figures in millions of Australian dollars, except the IRR and exchange rate.*

Δ *Concessional diesel fuel price increased by 28% to \$1 per litre*

1.4 Project Financing

Negotiations with potential investors in the Project continued at a high level during the quarter, with good progress being made. Companies seeking access to the product offtake continue to show strong interest in participating in the development of the Project, but as financial market recognition of the dramatic improvement in the mineral sand sector grew, interest from banks, capital market participants and other financial institutions increased markedly.

The improvement in the potential terms from debt and equity financiers has enhanced the potential attractiveness of the Company financing the Coburn mine development itself, without bringing in a strategic investor to share the estimated \$169 million capital costs. The risks and rewards of this option in comparison with the strategic investor option will be evaluated as the Company finalises its strategy during ongoing interaction with potential financiers and strategic investors.

During these discussions, the Company remains cognisant of the increasing value of the Project as one of very few significant mineral sand projects globally that are ready for development. Furthermore, the Project benefits from low technical risks, due its very low slimes content, and low geopolitical and social risks relative to other proposed mineral sand projects in higher risk countries and/or highly populated coastal areas.

1.5 Infill Drilling Program

A 6,000 metre air core drilling program designed to test for ore extensions to the south east of proposed open pit E and to upgrade the inferred resource in the northern third of the Project is scheduled to commence in early May 2011. This program is expected to increase the ore reserve in the area permitted for mining and possibly upgrade some of the inferred resource in the northern area to indicated status.

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

Infill gravity surveys over 2 target areas on the south western side of the Emmie Bluff area and at north east Windabout were completed in early April, 2011. Geophysical modelling of data from these surveys, incorporating new aeromagnetic readings from the survey flown in the December quarter of 2010, has defined drill targets in both areas.

Drilling funded by Xstrata Copper subsidiary Noranda Pacific Pty Limited (Noranda) is scheduled to commence in June, immediately following an Xstrata Copper funded drilling program on the adjoining Argo Exploration Intercept Hill prospect.

Noranda spent \$91,954 during the quarter, bringing its cumulative expenditure to \$4.26 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 has shown that while carrollite, the only known cobalt sulphide mineral in both deposits, can be separated from the copper concentrate, the copper content of the “cobalt concentrate” from MG 14 is so high that it outweighs the value of the contained cobalt. For Windabout, the cobalt concentrate has a much higher cobalt to copper ratio but successful marketing of this concentrate will depend on the willingness of buyers to pay for both the contained cobalt and copper.

The test results are summarised in the table below:

Test Result	MG 14	Windabout
Copper Concentrate		
% Cu	33.3	21.7
Cu recovery (%)	51.4	38.0
% Co	0.4	0.4
Co recovery (%)	19.3	11.0
ounces Ag/tonne	10.0	5.6
Cobalt Concentrate		
% Co	4.2	5.1
Co recovery (%)	68.1	65.0
% Cu	35.6	20.4
Cu recovery (%)	17.5	17.0
ounces Ag/tonne	7.5	4.7

All test work has been carried out by Optimet Laboratories in Adelaide.

The ratio by weight of copper concentrate to cobalt concentrate at MG 14 is approximately 3 to 1 and for Windabout 2 to 1. By adding the recovery figures for the copper and cobalt concentrates, overall copper recovery at MG 14 is 68.9% and cobalt recovery 87.4%. For Windabout, the overall copper recovery is 55% and cobalt 76%. Because the above figures are not based on locked cycle tests, they may be up to several percentage points lower than could be achieved under operational conditions. However, the results indicate that Windabout will not be nearly as profitable an ore body as MG 14.

A pause in the test work has been called to enable the two options open to further advance the Project are compared by financial modelling.

- a. Development of MG 14 as a copper concentrate producer, without the subsequent development of Windabout (2 year mine life).
- b. Sequential development of MG 14, then Windabout, with a more complex metallurgical flow sheet (10 year mine life).

Financial modeling and subsequent evaluation of these two options should be completed by June 2011.

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

Diamond drilling of a strong bedrock Transient Electromagnetic (TEM) geophysical target to test for massive nickel sulphides in the northern part of the Project was carried out between 24th February and 8th March 2011. Two holes were completed, both of which failed to intersect the interpreted conductive zone, as summarised in the table below:

Hole No	Angle	Pre Collar Depth	Total Depth	Geology
FBD 1	Vertical	50m	279m	Gneisses with foliation near-parallel to core axis <i>ie vertical</i>
FBD 2	60° NW	39m	270m	Gneisses with foliation at 35 degrees to core axis

The location of the above drill holes is shown on Figure 1 (attached) and a possible explanation for both holes missing the TEM conductor is that its dip is steep north west, sub parallel with hole FBD2, not steep south east as predicted prior to the drilling program.

A geophysical contractor attempted to carry out down hole TEM surveys in both holes shortly after the drilling contractor left the site but the holes were blocked at around 20 metres depth. The object of the down hole TEM logging was to detect the location of the conductor, to guide further drilling.

The drilling contractor returned to site during Easter, to clean out and re case the drill holes. This task was successfully completed on 27th April 2011 and down hole TEM logging is scheduled to commence in early May 2011.

The exploration target at Fowlers Bay is craton margin Proterozoic nickel sulphide deposits on the western side of the Gawler Craton, within a belt of northerly trending ultramafic rocks hosted by faulted gneisses. The TEM conductor lies in a regional north – easterly trending fold in this belt, interpreted from magnetic data. The basement rocks observed in the drilling are consistent with this geological setting.

Support for the above geological interpretation is provided in a State Government publication on the geology of South Australia in 1993, which stated that the area is highly prospective for base metals, comparing the aeromagnetic pattern with that of the Thompson nickel belt of Manitoba, Canada.

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

Drilling of the gravity-magnetic geophysical anomaly on the Gosse 5 exploration licence reported in the September 2010 quarterly report has been rescheduled to mid 2011, due to the longer than usual wet season.

6 NEW NON EXECUTIVE DIRECTORS

Two new non executive directors have been appointed to the Board since the previous quarterly report and the Company's inaugural Chairman, Bill Cunningham, retired on 8th March as he foreshadowed at the 2010 annual general meeting. All Directors and staff sincerely thank Bill for his services to the Board and wish him well for the future.

David Craig joined the Board on 8th March, replacing Bill Cunningham as Chairman on that day. David brings to the Board experience as a businessman and lawyer, who has held and

holds executive and board positions in the fields of law, mining, construction, mining services, financial services and the petroleum industry.

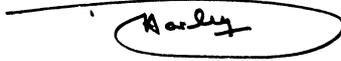
After the end of the quarter, Bryan Oliver was appointed to the Board on 11th April. Bryan is an engineer with broad experience in new mine developments and existing operations, principally in the iron ore industry. His background and skills will be most welcome as the Company moves toward the development of its Coburn Zircon Project.

7 SHARE PURCHASE PLAN

In mid February 2011, \$2,954,303 was raised in the Company's Share Purchase Plan Offer by the issue of 14,771,516 shares at 20 cents each. The Offer was heavily oversubscribed, with applications totalling \$7.5 million and a 60% scale back was applied. The Directors thanked all shareholders who applied for shares for their ongoing support and interest in the Company.

8 FINANCIAL

At 31st March 2011, the Company had \$4.3 million in cash and short term deposits, with a further \$1.2 million in a term deposit to back the unconditional performance bonds for construction of the Coburn Zircon Project. These latter funds (see item 1.12 on the attached Appendix 5B) are not available to the Company unless the bonds are waived. Exploration expenditure was \$552,000 and forecast exploration expenditure for the June quarter is \$500,000.



D N HARLEY
MANAGING DIRECTOR

29th April 2011

Attachments

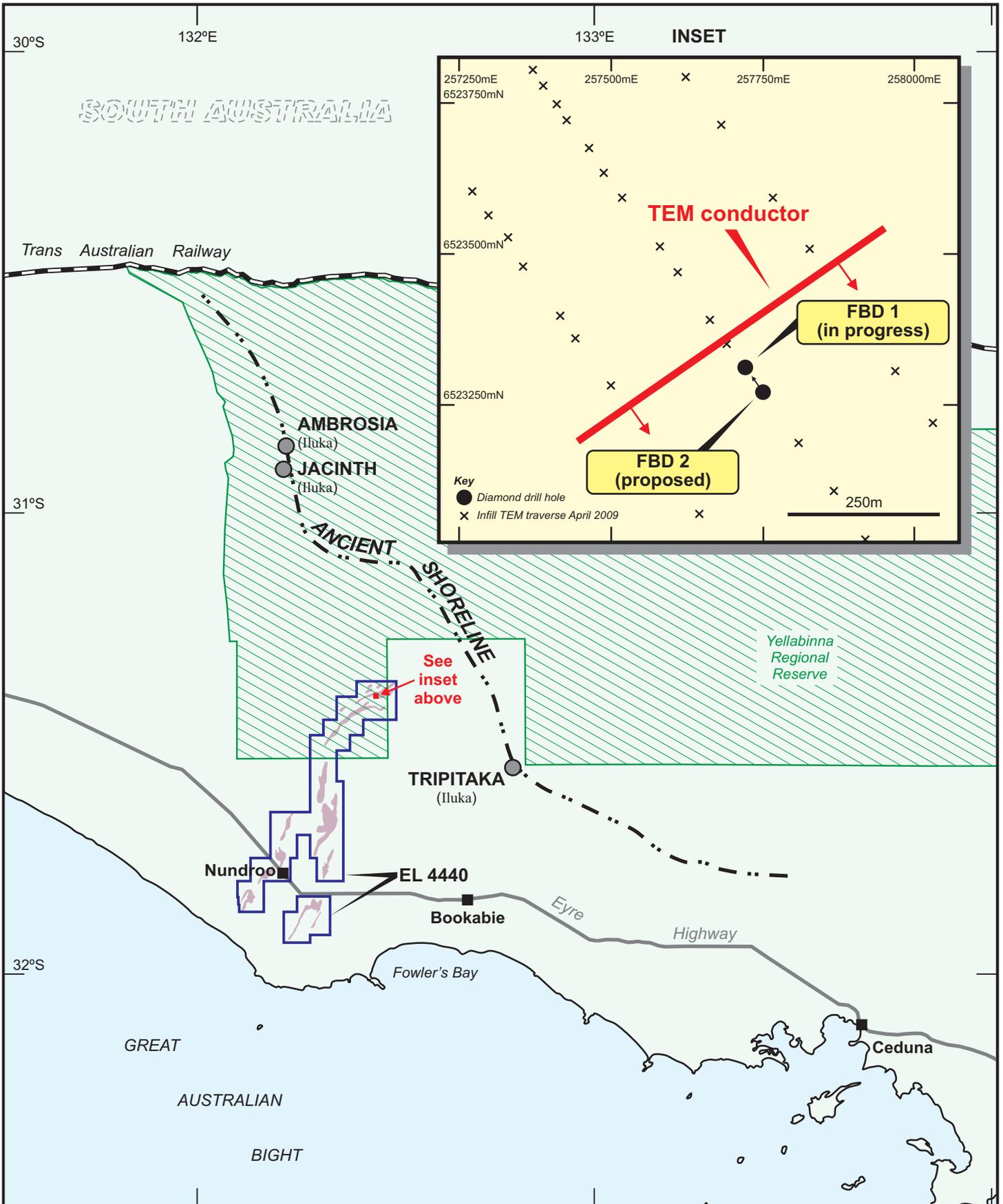
- **Figure 1 Fowlers Bay Project – Diamond Drill Holes**
- **Appendix 5B**

Investor Enquiries:

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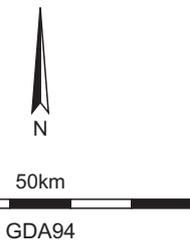
ATTRIBUTION

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.



Legend

-  Gunson Resources exploration licence
-  Zircon rich heavy mineral sand deposit
-  Interpreted ultramafic rock unit



Gunson Resources Ltd

**Fowler's Bay Project - S.A.
Diamond Drill Holes**

Scale : 1:1,250,000

File : FB Diamond Drill Holes.cdr

Date : 1 Mar 2011

Figure 1

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 March 2011

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (9 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(552)	(1,483)
(b) development	-	-
(c) production	-	-
(d) administration	(196)	(608)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	40	52
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (R&D rebate)	448	489
Net Operating Cash Flows	(260)	(1,550)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(15)	(16)
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 (Environmental Bonds - Coburn)	(1,214)	(1,214)
Net investing cash flows	(1,229)	(1,230)
1.13 Total operating and investing cash flows (carried forward)	(1,489)	(2,780)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,489)	(2,780)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	2,954	7,024
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)	(48)	(232)
	Net financing cash flows	2,906	6,792
	Net increase (decrease) in cash held	1,417	4,012
1.20	Cash at beginning of quarter/year to date	2,872	277
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	4,289	4,289

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	105
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 March 2011. Xstrata Copper, through its subsidiary Noranda Pacific Pty Limited (Noranda) has a cumulative expenditure of \$4,258,344. Noranda spent \$91,954 during the last 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	500
4.2 Development	-
4.3 Production	-
4.4 Administration	150
Total	650

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	4,289	2,872
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	4,289	2,872

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

E09/1685	Coburn Project	0%	100%
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+ See chapter 19 for defined terms.

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	208,824,823	208,824,823		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	14,771,516	14,771,516	20 cents	20 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>	250,000 400,000 400,000 4,000,000		<i>Exercise price</i> 12 cents 35 cents 40 cents 27 cents	<i>Expiry date</i> 23/12/2013 04/05/2012 04/05/2012 30/11/2014
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				

+ See chapter 19 for defined terms.

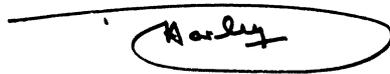
Appendix 5B
Mining exploration entity quarterly report

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:



(Managing Director)

Date: 29 April 2011

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.