

**GUNSON RESOURCES LIMITED**  
**QUARTERLY REPORT FOR THE PERIOD ENDED**  
**30<sup>th</sup> JUNE 2007**

**HIGHLIGHTS**

***COBURN ZIRCON DEVELOPMENT PROJECT***

- Memorandum of Understanding (MOU) concluded with China Triumph International Engineering Co. Ltd (CTIEC) for CTIEC to invest in the Project as a minority equity partner.
- The participating interest of CTIEC will not exceed 40% and the precise level of its minority equity is to be decided by mid September 2007 after further evaluation and discussion within and between the two companies.
- CTIEC has also agreed to conclude a zircon offtake agreement for the supply from Coburn of 20,000 tonnes of zircon sand per annum.
- Subject to CTIEC's investment in the Project and the zircon offtake agreement, Gunson will accept CTIEC as the general contractor for construction of the Project.
- Both parties will use their best endeavours to conclude construction contracts and funding arrangements by mid September 2007, with the contents of the MOU to be included in a more formal agreement between the parties by mid October 2007.
- A 16,000 metre infill drilling program on the central part of Amy Zone was completed to upgrade the JORC status of the resource in this area.

***MOUNT GUNSON COPPER EXPLORATION PROJECT***

- Anomalous copper values have been returned from the drilling at Chianti Prospect completed in April, the best being 5 metres at 0.36% copper in hole MGD 45.
- Xstrata Copper, which has the right to earn a 51% interest in the Project by spending \$3.5 million on exploration within 3 years of 15<sup>th</sup> June 2006, has approved the pre drilling portion of the Company's 2007/2008 budget.
- This budget comprises surface and down hole geophysical surveys around Chianti Prospect, to define targets for further drilling.
- The drilling portion of the budget is subject to satisfactory targets being defined by the geophysical work program.

**1. COBURN ZIRCON PROJECT (100%: WESTERN AUSTRALIA)**

Major progress has been made during and immediately after the quarter, the highlight being the signing of the MOU with CTIEC. Good progress has also been made with further government approvals and the Definitive Feasibility Study.

## 1.1 Government Approvals

Following the grant in the previous quarter of all critical government approvals necessary for the commencement of construction, focus has been on obtaining the remaining approvals and consents for specific construction items. The status of these is summarised below:

- a) **Works Approval** – from the Department of Environment and Conservation for the sewage and landfill facilities. Issued on 21<sup>st</sup> June.
- b) **Licence to Take Water** – application presented to the Department of Water's Board on 29<sup>th</sup> May and approved subject to two changes being made to the operating strategy procedures for the mine operating phase. These changes should be approved in late July.
- c) **Consent for Main Road Intersection** – this involves consent by Main Roads WA for the intersection of the proposed mine access road with the North West Coastal Highway. Drafts of a Traffic Management Plan required by Main Roads for construction of the intersection have been sent to them and their consent is expected in August.

Work in the September quarter will be focused on drafting the groundwater management plan and the remaining stages of the mining approvals required prior to the commencement of production.

## 1.2 Resource and Reserve Estimates

There have been no changes to the resource and reserve estimates announced in the previous quarterly report but a 16,200 metre drilling program designed to convert the *inferred* resource in the centre of Amy Zone (Figure 1) to *indicated* status was completed on 12<sup>th</sup> July. This program comprised reverse circulation air core drilling on a 500 metre by 100 metre grid along a 7 kilometre strike length.

Assay results received to date are encouraging.

## 1.3 Metallurgy – China Mineral Separation Plant (MSP)

Metallurgical test work during the quarter was focused on establishing the flow sheet for the MSP to be built in China. This work was carried out by Outokumpu Technology Pty Ltd, now renamed Outotec and has provided a sound basis for detailed design of the Plant, which will incorporate both Australian and Chinese equipment. The capital cost estimate for a fixed price (EPC) proposal is currently being finalised by CTIEC but it is likely to be very modest in comparison with the cost of building a similar plant in Australia.

## 1.4 MOU with CTIEC

A MOU was signed in July with CTIEC for them to invest in the Project as a minority equity partner, up to a maximum of 40%. The level of CTIEC's minority equity is to be decided by mid September 2007, after further discussion within and between Gunson and CTIEC. CTIEC is a subsidiary of the majority mainland Chinese state owned (64%) and Hong Kong listed (36%, stock code 3323) China National Building Material Company, which is a significant zircon consumer in its own right.

Other points agreed in the MOU are as follows:

- CTIEC will conclude a zircon offtake agreement for the supply from Coburn of 20,000 tonnes of zircon sand per year. The price of this zircon will be benchmarked to a major producer's price *c.i.f.* China.
- Subject to CTIEC's investment in Coburn, and the zircon offtake agreement above, Gunson will accept CTIEC as the general contractor for construction of the Project.
- Both parties will use their best endeavours to locate the Chinese MSP at CTIEC's industrial park at Bengbu, some 200 kilometres west of Nanjing, on the main railway line between Shanghai and Beijing.
- Both parties will make their best endeavours to conclude the construction contracts and funding arrangements for the Project by 15<sup>th</sup> September 2007, so that construction works can commence as soon as practicable.
- The content of the MOU will be included in a more formal agreement between both parties by mid October 2007.

Gunson plans to compare in detail the merits of locating the China MSP at the previously announced site at Qujiang, north of Guangzhou in southern China, with the Bengbu site in CTIEC's industrial park. Although it is further inland, the Bengbu site can also be accessed by very low cost barge transport and has a significant advantage over the Qujiang site for shared services and labour with other CTIEC operations in the industrial park. Labour costs also appear lower at Bengbu.

The advantage of building the MSP in China is that around 80% by value of the final mineral products (zircon, HiTi and minor ilmenite) are then locally available and can be sold at Chinese domestic prices, recouping the shipping costs of the non magnetic concentrate from Australia. In contrast, ilmenite is to be separated at the mine and sold *f.o.b.* at Geraldton.

### 1.5 DFS (Definitive Feasibility Study)

The capital and operating costs for the Project using Australian contractors is essentially complete. However, the Company has decided to delay announcement of the DFS results until the capital cost estimates from its proposed Chinese partner, CTIEC, have been received and evaluated; and the terms of participation in the Project by CTIEC have been resolved. Estimates of capital costs are expected to be appreciably lower than the quotes supplied by Australian contractors.

CTIEC are providing fixed price (EPC) bids on the following capital items:

- Wet Concentrator/Mining Unit Plant (WCP/MUP)
- Ilmenite Plant
- Accommodation Village and Offices
- Chinese MSP
- Managing Contractor

Based on the Australian cost estimates, the above 5 items comprise approximately 80% of the Project capital expenditure. Construction of the first 3 items listed above is to be in conjunction with an Australian contractor who has been involved in discussion with CTIEC since early June 2007.

## 1.6 Conclusions

The recently concluded MOU with Chinese company CTIEC for its participation in funding the Project development and to purchase half of the annual zircon output is an encouraging development.

The long term outlook for the zircon market remains robust, however the industry is suffering from reduced profit levels due to the ongoing strength of the Australian dollar. This is a challenge for existing producers and proposed new projects alike.

## 2. MOUNT GUNSON COPPER PROJECT (100%: SOUTH AUSTRALIA)

### 2.1 Drill Core Assay Results

Assays for the 3 drill holes at Chianti Prospect described in the previous quarterly report have confirmed the strong visual encouragement in the first hole, MGD 44 and revealed some anomalous values in holes MGD 45 and 46. These results are summarised below:

#### (a) MGD 44

The best intersection is 18 metres at 520 ppm (0.05 %) copper between 394 - 412 metres depth, associated with iron rich, bedded Gawler Range Volcanic rocks. This sub economic but strongly anomalous zone contains minor blebs of the copper sulphide chalcopyrite but the suspected presence of fine grained, higher tenor copper sulphides such as chalcocite and bornite is being checked in an Adelaide laboratory. Anomalous uranium values up to 18 ppm occur in the lower part of this zone, extending down to 420 metres depth.

A deeper intersection of 2 metres at 0.13 % copper and 0.13 g /t gold from 516 metres was also recorded.

The above results are considered to be very encouraging, as the Gawler Range Volcanics intersected in hole MGD 44 suggest a possible small caldera structure in the basement, supported by the presence of large angular (brecciated) fragments of granite within the volcanics up to a metre across. This structure is shown in the attached cross section along the northerly trending basement ridge at Chianti, over a strike length of 3.5 kilometres. To put this in perspective, the mineralised breccia host unit at the nearby Carrapateena Prospect, where Canadian major TeckCominco is close to completing a 75,000 metre delineation drilling program, has a small foot print measuring only 800 by 600 metres in plan projection.

#### (b) MGD 45

A strongly anomalous 5 metre zone containing 0.36% copper and 26ppb gold between 715-720 metres was the best intersection in this hole. This mineralisation comprises fine sulphide in altered and brecciated granite.

#### (c) MGD 46

Some anomalous copper values were revealed from 2 zones in this hole, as follows:

- 807ppm between 645-650 metres in chloritised granite.
- 514ppm between 735-750 metres in chloritised dolerite.

## 2.2 Windabout Copper Prospect

Xstrata Copper has advised that it plans to assess the Windabout deposit, which lies within open pit range and contains an indicated resource of 18.7 million tonnes averaging 1% copper and 0.05% cobalt in a flat sheet some 70 metres below the surface.

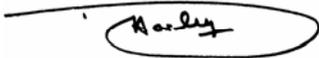
## 2.3 Joint Venture Budget for 2007/2008

Noranda Pacific Pty Ltd, a company within the Xstrata Copper Business Unit, which has the right to earn a 51% interest in the Project by spending \$3.5 million on exploration within 3 years of 15<sup>th</sup> June 2006, invited Gunson on 17<sup>th</sup> June to submit a 2007/2008 work program and budget for ongoing exploration at Mount Gunson. The program will be focused on iron oxide associated copper-uranium-gold targets in the basement in the northern part of the Project. This will include further gravity surveys, deep penetration IP surveys and drill hole TEM geophysics in hole MGD 34 at Chianti Prospect, which intersected 2 metres at 3.4% copper from 549 metres depth in early 2006. The object of this geophysical work is to define targets warranting drill testing during the budget period.

Xstrata Copper has approved the pre drilling portion of the budget but the drilling portion is subject to satisfactory targets being defined by the geophysical work in the next few months.

## 3. FINANCIAL

At 30<sup>th</sup> June, the Company had \$1.9 million in cash and short term deposits. Exploration expenditure during the quarter was \$821,000 and forecast exploration outlays for the September quarter of 2007 are \$200,000.



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

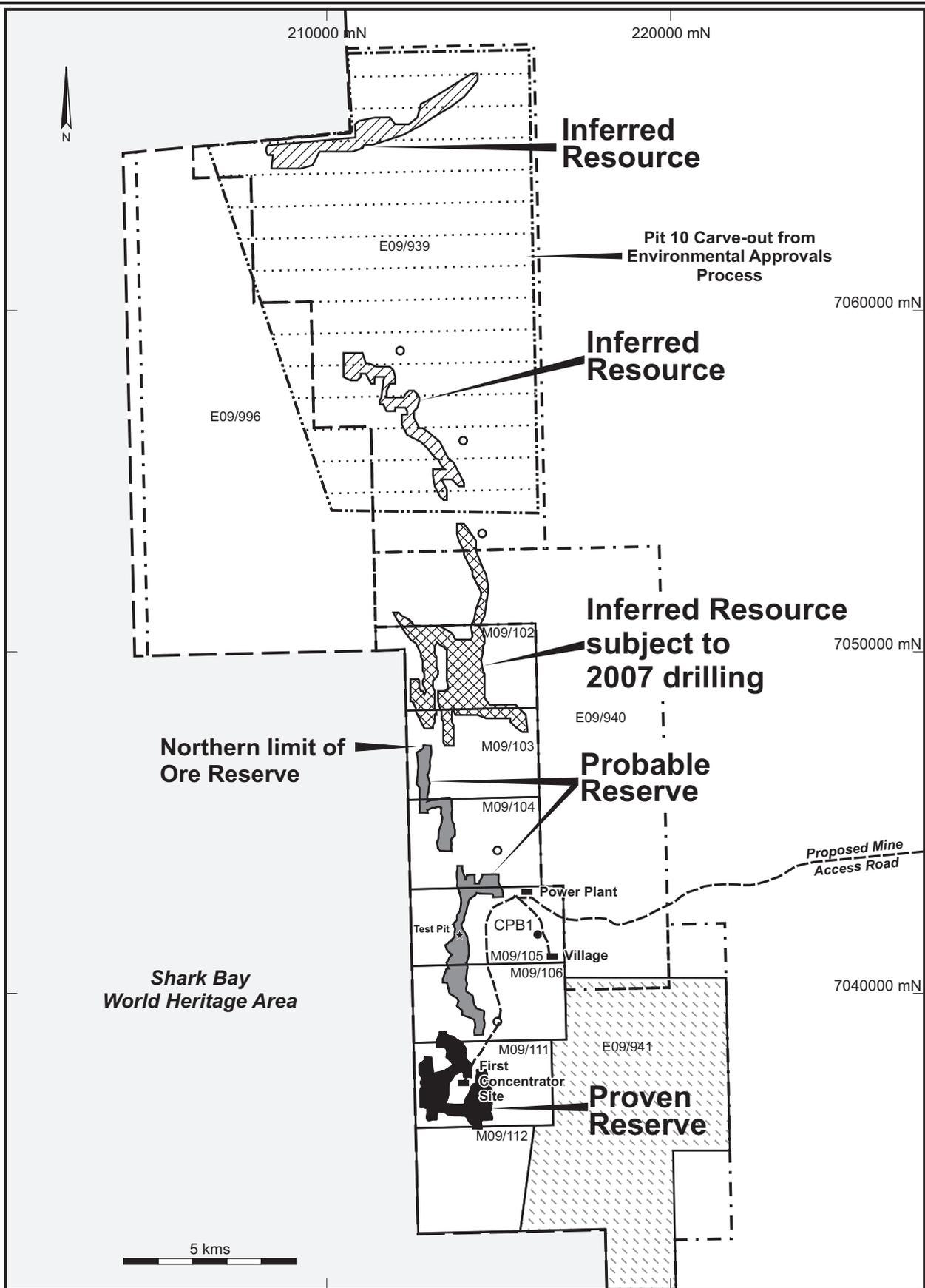
23<sup>rd</sup> July 2007

**Attachments: Figure 1. Coburn Project – Amy Zone Ore Reserves and Potentially Mineable Resources**  
**Figure 2. Mount Gunson Project – Cross Section at Chianti Prospect**

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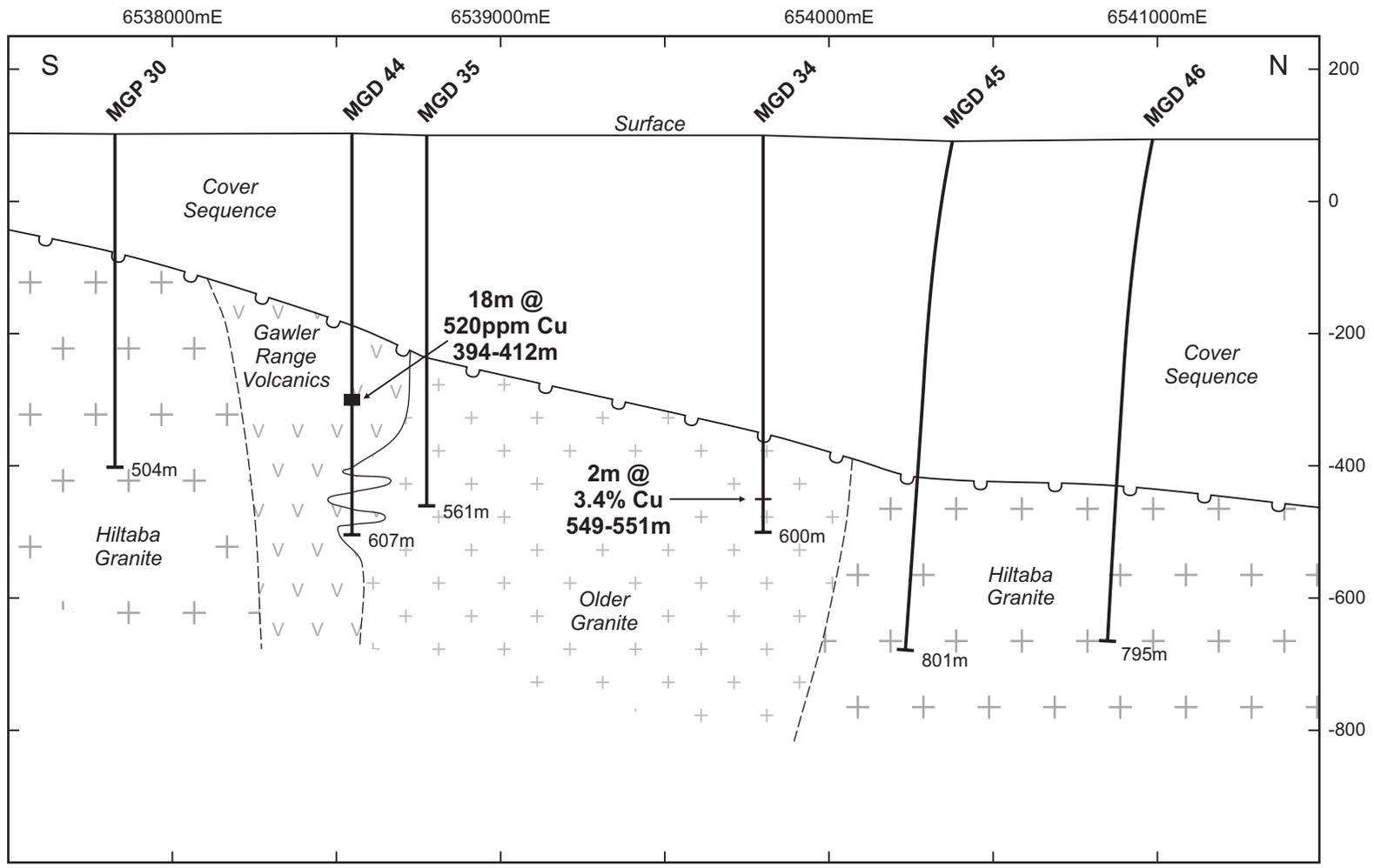
### ATTRIBUTION

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.



REFERENCE	
	Mining Lease
	Exploration Licence
	Shark Bay World Heritage Area
	Conservation Offset Area
	Water Production Bore - existing
	Water Production Bore - planned

<b>Gunson Resources Ltd</b>	
<b>COBURN PROJECT Amy Zone Ore Reserves &amp; Potentially Mineable Resources</b>	
Scale : NTS	Figure 1.
Date : 23 July 2007	



REFERENCE

-  Drill hole with mineralisation
-  Cover Sequence
-  Unconformity
-  Gawler Range Volcanics
-  Hiltaba Granite
-  Older Granite

<b>Gunson Resources Ltd</b>	
<b>MOUNT GUNSON PROJECT</b>	
<b>Chianti Prospect</b>	
<b>N - S Cross Section at 714600E</b>	
<b>(Looking West)</b>	
Scale : V / H = 2	Figure 2.
Date : 8 Jun. 2007	