

**GUNSON RESOURCES LIMITED
QUARTERLY REPORT FOR THE PERIOD ENDED
30 JUNE 2012**

HIGHLIGHTS

COBURN ZIRCON DEVELOPMENT PROJECT

- *The proposed strategic investment by Korean steel producer POSCO is on track for its Board consideration in mid August 2012.*
- *Key final EPA confirmations and approvals received.*
- *Project construction engineering FEED/Value Engineering study on track for completion in mid September 2012.*
- *Despite recent reports of weaker sales volumes of mineral sand products, high zircon and most titanium dioxide feedstock prices still prevail, with respected industry commentators predicting a China-led demand recovery in 2013.*

MOUNT GUNSON COPPER PROJECT

- *The first diamond drill hole designed to test a new geophysical target for iron oxide associated copper-gold mineralisation, funded by the Company's farm-in partner Noranda Pacific Pty Limited, part of the Xstrata Copper business unit, is in progress just short of the target at 600 metres vertical depth.*

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

1.1 POSCO

The proposed investment by POSCO outlined in Gunson's releases of 23 November 2011 and 18 April 2012 respectively, continues to progress through POSCO's internal investment approvals process, with its final Board consideration on schedule for mid-August 2012. Gunson continues to work with POSCO to refine and finalise documentation and other arrangements for the proposed Project joint venture.

1.2 Permitting

On 6 July 2012, the Office of the Environmental Protection Authority (OEPA) confirmed the Company's advice that substantial construction of the Project had commenced. This confirmation by OEPA is important in maintaining the Environment Minister's 2006 approval of the Coburn mine development in good standing.

OEPA also advised on 11 July 2012 its approval of the Groundwater Mounding Management Plan, required prior to commencement of mining.

1.3 Power Supply

Following a review of the results from phase 1 of the DBP Services Front End Engineering Design and approvals (FEED) study, DBP Services was authorised to proceed with the second and largest phase of the study, which has now been completed. Finalisation of the study is expected by the end of August 2012.

1.4 Mineral Sand Market

In its 20 July 2012 Mineral Sands Report, leading industry market consultant TZMI observed that recent announcements by major producers indicate weaker sales volumes for pigment, titanium dioxide mineral feedstocks and zircon than what was forecast earlier in 2012.

However, zircon prices have remained above US\$2,000 per tonne *f.o.b.*, indicating considerable supply discipline by the three major producers, who have a combined market share of over 70%. The main cause of the lower sales volumes is weak demand from the world's largest consumer sector – the Chinese ceramic industry. Demand for tiles and sanitary ware has decreased as the government's credit tightening policy has particularly affected new residential building activity. This trend is similar to the early stages of the Global Financial Crisis in 2008, when demand for zircon fell rapidly. However, it recovered dramatically in 2010 after the introduction of government stimulus measures.

Once the current restrictive Chinese government credit settings are eased, long-term zircon demand growth is expected to resume, with the ongoing urbanisation and growth of the middle class driving demand for higher quality ceramics, paints and other products requiring additional zircon and titanium dioxide mineral feedstocks. Coupled with supply side limitations, industry commentators such as Iluka, TZMI and Goldman Sachs note that tight mineral sands feedstock markets could return in 2013.

1.5 Offtake

Following the execution of the Chloride Ilmenite Sales Agreement with DuPont announced on 2 March 2012, the Company has progressed negotiations with DuPont and other parties for the Project HiTi 90 product. The product has an average grade of just over 90% titanium dioxide, comprising approximately equal proportions of rutile and leucoxene. There is also keen interest in the

Project zircon product, however offtake terms will not be finalised until after the proposed investment by POSCO is approved and other funding arrangements, including a likely debt finance component, are completed.

1.6 Hamelin Pastoral Lease/Mine Village

The Company's conditional agreement to purchase the Hamelin pastoral lease, which covers the northern half of the Project ore body, was modified in May 2012 to reflect a regulatory requirement that construction of a mine village on the Hamelin lease would need approval through the Native Title Act.

Consequently, a general lease is to be marked out under the Lands Act, to initiate the approval process.

Location of the mine village at Hamelin provides a potential alternative to location of the already permitted site on one of the Coburn mining leases, some 33 km to the south.

1.7 Engineering

Gunson's engineering contractor, Sedgman Metals Engineering, is continuing its Front End Engineering and Design (FEED)/Value Engineering study on the Project, aimed at providing a more definitive capital cost figure and construction schedule.

This study is on track for completion in mid-September 2012 and will encompass results from the evaluation and analysis of identified areas for potential cost savings. A reduction in the previously advised 85 week construction period is also likely.

1.8 Other Potential Investors

While discussions with a small number of alternative strategic partners continued during the quarter, the Company's strong focus has been on assisting POSCO in its efforts to finalise progress of the proposed Coburn investment through its approvals process.

In the event that POSCO's Board does not approve the Coburn investment in mid August 2012, other strategic investment alternatives remain.

1.9 Commencement of Construction – Mine Access Road

Clearing of the pathway for the 43km long mine access road commenced on 4 May 2012, advancing to the Coburn pastoral station homestead some 25 kilometres (km) west of the North West Coastal Highway by 23 May 2012. A narrower corridor through vegetated sand dunes to the west of Coburn homestead was also cleared, along with part of the site of the proposed mineral separation plant (MSP), at a total cost well under the estimated budget, due to better than expected ground clearing conditions.

Geotechnical sampling of proposed “borrow pits” for suitable road base material close to the road route, along with construction of test strips of road base to ascertain the best mixture of road base ingredients, has been completed. As a result of this work, new tender documents with more tightly defined scopes of work were issued on 20 July 2012, with tenders closing in late August. The best tender will be included in the revised capital cost figure being prepared by Sedgman Metals Engineering.

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

As advised on 13 July 2012, deep diamond drilling at the Elaine Pinchout Prospect commenced on 4 July 2012.

MGD70, angled at 60⁰ north east, is currently at 753m. Basement was intersected 170m shallower than expected, at a down-hole depth of 556m and vertical depth of 480m. Intense brecciation and fracturing of the basement rocks is evident but the hole is still just short of its target.

During the quarter, Noranda spent \$178,004 on the Project, bringing its cumulative expenditure to \$6.15 million. Noranda has the right to sole fund exploration to \$10 million by mid June 2013, increasing its equity in the Project to 75% from the current 51%.

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

No further progress since the previous report.

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

The Project exploration licence was renewed for another year on 18 June 2012.

Further geophysical follow-up work on the exploration targets pointed out by respected nickel sulphide targeting consultant, Dr Jon Hronsky, awaits land access approval by South Australian government regulators, expected later this year.

Sirius Resources’ nickel – copper sulphide discovery in the Proterozoic age high grade metamorphic Fraser Range belt in Western Australia, announced on 27 July 2012, is considered to be very encouraging for the Fowlers Bay Project, as it occurs in a similar high grade metamorphic, craton margin geological setting.

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

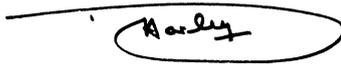
A draft Deed for Exploration covering two of the Company’s exploration licence

applications on aboriginal freehold land, 23946 and 23949, discussed in the June 2011 quarterly report, was received during the quarter. Subject to agreement being reached on the wording of this Deed, approval of these two licence applications is possible by early 2013.

Due to a change in the Northern Territory Department of Resources tenement management procedures, the Company's exploration licence 23947 covering the drill target described in the September 2010 quarterly report, expired on 12 May 2012. A new exploration licence application was lodged over the same ground after the expiry of the statutory 30 day embargo period, which has no competing applications. A proposed drilling program will be delayed until this new licence is granted.

6 FINANCIAL

At 30 June, the Company had \$1.9 million in cash and short term deposits. Exploration expenditure was \$797,000 and forecast exploration expenditure for the September quarter of 2012 is \$0.5 million.



D N HARLEY
MANAGING DIRECTOR

31 July 2012

Attachment

- **Appendix 5B**

Further enquiries, please contact:

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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 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10

Name of entity

Gunson Resources Limited

ABN

32 090 603 642

Quarter ended ("current quarter")

30 June 2012

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(797)	(2,672)
(b) development	-	-
(c) production	-	-
(d) administration	(342)	(1,290)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	15	207
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (R&D rebate)	-	100
Net Operating Cash Flows	(1,124)	(3,655)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(20)	(73)
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	(20)	(73)
1.13 Total operating and investing cash flows (carried forward)	(1,144)	(3,728)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,144)	(3,728)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	2,400
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)	-	-
	Net financing cash flows	-	2,400
	Net increase (decrease) in cash held	(1,144)	(1,328)
1.20	Cash at beginning of quarter/year to date	3,064	3,248
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	1,920	1,920

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	127
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 June 2012. Xstrata Copper, through its subsidiary Noranda Pacific Pty Limited (Noranda) has a cumulative expenditure of \$6,153,005. Noranda spent \$178,004 during the June 2012 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	300
Total	800

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	420	1,064
5.2 Deposits at call	1,500	2,000
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	1,920	3,064

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	EL 23944	Relinquished	100%	Nil
	EL 23947	Lapsed, new application lodged	100%	Nil
6.2 Interests in mining tenements acquired or increased	N/A			

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

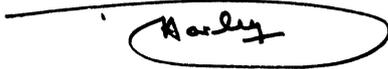
Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	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	220,854,823	220,854,823		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
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 4,000,000 1,600,000		<i>Exercise price</i> 12 cents 27 cents 29 cents	<i>Expiry date</i> 23/12/2013 30/11/2014 22/06/2015
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter	400,000 400,000		<i>Exercise price</i> 35 cents 40 cents	<i>Expiry date</i> 04/05/2012 04/05/2012
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

+ See chapter 19 for defined terms.

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 5).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here: David Harley
(Managing Director)

Date: 31 July 2012

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 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting 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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