GUNSON RESOURCES LIMITED
ABN 32 090 603 642

FACSIMILE MESSAGE

To:	Australian Stock Exchange Limited
Facsimile:	1300 300 021
From:	D N Harley
Date:	31st January 2003
Pages:	16
Ref:	COR A2
Subject:	**QUARTERLY REPORT – DECEMBER 2002**

Attached is our Quarterly Report for the three months ended 31st December 2002, along with the Mining Exploration Entity Quarterly Report (Appendix 5B)

D N HARLEY
MANAGING DIRECTOR

Level 2 · 33 Richardson Street · West Perth · Western Australia 6005
PO Box 1217 · West Perth · Western Australia 6872
Telephone (08) 9226 3130 · Facsimile (08) 9226 3136

GUNSON RESOURCES LIMITED

QUARTERLY REPORT FOR THE PERIOD ENDED 31ST DECEMBER 2002

HIGHLIGHTS

- Results of the pre-feasibility study on the Amy Zone heavy mineral sand deposit at Coburn show that it can sustain a high volume, low cost and long life mining operation which will produce premium grade mineral sand products.
- Over the 20 year life of the Project, total revenue is estimated at $1.5 billion, with an operating cash surplus excluding capital of $440 million.
- Development of the Amy Zone deposit by Gunson would generate a net present value (8%) of $44 million after tax with an internal rate of return of 21%. Much better financial returns could be achieved by utilising regional production facilities, with a net present value (8%) of $81 million after tax and 44% internal rate of return.
- Approximately half the revenue stream from the notional Amy Zone mining operation is from zircon, which has a very positive market outlook.
- Drilling for diamond bearing pipes on the Shell Lakes Project by the Company's Joint Venture partner, De Beers, is due to recommence in early February.
- BHP Billiton advised today of its intention to withdraw from the Mt Gunson Joint Venture. Consequently, discussions will commence next week with potential joint venture partners, a number of whom have expressed interest in the past few years. All of the potential partners are large multi national companies with profitable base metal mining operations.
- The Company will continue its association with BHP Billiton in generating new mineral exploration opportunities in Australia using BHP Billiton's extensive technical data base. Two areas of interest have already been identified under an agreement concluded with BHP Billiton in December and work on access to these areas is in progress.

1 COBURN MINERAL SAND PROJECT – WESTERN AUSTRALIA

The pre feasibility study on the metallurgy and economics of the 516 million tonne Amy Zone resource was completed on 30th January 2003. This resource contains 7 million tonnes of heavy minerals and the main results of the study are summarised below.

Results of the pre-feasibility study were summarised in a special ASX release earlier today.

1.1 Preferred Mining Methods

The Amy Zone deposit is ideally suited to large scale dredging and gravity separation of both the ore and overburden.

Two dredging options were considered:

- Option 1 – **Conventional dredge and concentrator**

  Mining plant comprises two conventional suction cutter dredge and floating spiral concentrator plants. Both units operate in a side by side staggered configuration within the same dredge pond. In this arrangement each unit mines the overburden and both upper and lower ore horizons.

- Option 2 – **Tray Plant**

  This option comprises two conventional suction cutter dredges. The first is predominantly an "overburden" dredge, mining the upper ore horizon and overburden material. The tray overburden dredge would feed a single stage tray plant that would increase the heavy mineral grade by a factor of 4:1 while providing recovery factors in the order of 80%. The concentrate stream from the tray plant would report by gravity to the bottom of the dredging pond. Mining of the lower orebody and reclamation of the tray plant concentrate would be undertaken by a second conventional dredge, the ore being processed via a floating concentrator, as per option 1.

The tailings from both plants would be hydraulically transported to tailings stackers located at the rear of the dredging pond, allowing continuous rehabilitation. Heavy mineral concentrates from the primary concentrator(s) would be hydraulically transported and de-watered in stockpiles adjacent to the pond. The concentrate would typically be 95% heavy minerals and be de-watered to 5% moisture before being reclaimed by front end loader and transported by road train to a mineral separation plant located in Geraldton.

1.2 Mineral Products

Results of metallurgical test work on seven bulk samples recovered from representative parts of the Amy Zone deposit have shown that good quality mineral products can be recovered with conventional methods. These mineral products are similar to those from other large deposits along the west coast of Western Australia, which have good market acceptance. Comments on the individual products recovered during the test work are as follows, the figures in brackets being % of the total heavy mineral assemblage.

- **Ilmenite** (51.4%) – has low uranium and thorium levels averaging 180 ppm combined with titanium dioxide (TiO_2) content over 60%. Suitable for synthetic rutile feedstock as well as direct chlorination to pigment.

- **leucoxene** (11.5%) – a + 90% TiO_2 product, which should be acceptable in the welding electrode market.

- **rutile** (4.2%) – contains 94 - 95.5% TiO_2 readily acceptable in the pigment market.

- **zircon** (21.6%) – a premium grade product subsequent to a mineral conditioning step to remove weak to moderate iron oxide coating. This step involved a 10 minute hot acid leach similar to the process used in South Africa and Western Australia. The capital cost of a hot acid leach circuit was included in the stand alone case mineral separation plant.

The median grain size of the valuable heavy mineral product is in the 120 to 125 micron range.

1.3 Capital Cost Estimates

Given the location of the project and the established regional infrastructure, two capital investment strategies have been considered:

- **Case 1 - Stand Alone**
  All plant and equipment is purchased new. Total estimated capital cost of the conventional dredge and concentrator option is $162 million, and the tray plant option is estimated at $147 million.

- **Case 2 – Incremental**
  The Project would be developed by or in conjunction with an existing regional mineral sands producer, thereby reducing

the initial capital requirements of the project. Under this scenario, the estimated capital cost of the conventional dredge and concentrator option is $109 million and $84 million for the tray plant option. It was assumed that the Project would pay the pro rata operating and maintenance costs of the shared infrastructure.

1.4 Financial Assessment

Economic evaluation of the various mining options and capital strategies summarised below show that the project provides attractive financial returns for both the stand alone and incremental cases. A debt to equity ratio of 60:40 was used in the financial model, and the figures quoted are after tax and royalties.

Because of the lower capital cost, the incremental case shows the best results. In this case, the conventional option has a 44% internal rate of return and NPV of $81 million whereas the tray plant option has a 41% internal rate of return and NPV of $77 million. The stand alone case has a 21% internal rate of return and NPV of $44 million for the conventional option, and a 16% internal rate of return and NPV of $31 million for the tray plant option.

Initial capital investment for the tray plant option is significantly less than that required for the conventional mining option, although this saving is offset by the two year increase in mine life of the tray plant option compared to the conventional plant option. There are also significant operational advantages with the conventional plant option, mainly involving greater flexibility in mining and savings in spare parts inventory.

EVALUATION SUMMARY – STAND ALONE		
Parameter	**1. Conventional Plant**	**2. Tray Plant**
Mine Life	20 years	22 years
Capital Cost	$162 M	$147 M
Total Revenue	$1,539 M	$1,542 M
Total Operating Costs *	$1,097 M	$1,099 M
Operating Cash Surplus *	$442 M	$443 M
Cost/tonne HMC	$176	$176
Ilmenite recovered	3.12 Mt	3.13 Mt
Leucoxene recovered	0.25 Mt	0.25 Mt
Rutile recovered	0.27 Mt	0.27 Mt
Zircon recovered	1.20 Mt	1.21 Mt
IRR after tax	21%	16%
NPV (8%) after tax	$44 M	$31M

EVALUATION SUMMARY – INCREMENTAL °		
Parameter	**1. Conventional Plant**	**2. Tray Plant**
Capital Cost	$109 M	$84 M
IRR after tax	44%	41%
NPV (8%) after tax	$81 M	$77 M

* excluding capital and before tax and debt repayment
° Revenue, operating cost and recovered product figures are the same as stand alone case

1.5 Conclusion

The results of the pre-feasibility study have indicated that Amy Zone could sustain a long life and financially attractive mining operation. Financial returns would be significantly enhanced if existing regional mineral processing infrastructure is utilised.

Discussions with potential partners to fund a bankable feasibility study will commence early next month.

2 SHELL LAKES DIAMOND/NICKEL PROJECT - WESTERN AUSTRALIA

2.1 Diamond Exploration

After the first hole of the program was finished in October, the results of which were discussed in the September quarterly report, no further drill holes were completed.

The delays in recommencing the drilling program were initially due to mechanical problems with the drill rig, but subsequently extended by the unavailability of a suitable drill crew prior to Christmas.

These problems have now been resolved and drilling is scheduled to recommence in early February, this time at target 7, some 60 kilometres north east of the first hole (Figure 2).

In the meantime, microprobe laboratory analyses of 90 chromite grains recovered from the ultramafic pipe intersected in the first drill hole confirmed that it is a para kimberlite with low diamond potential. However, similar para kimberlitic pipes occur within diamondiferous kimberlite fields in other parts of the world, lending strong support for the continuation of the drilling program by De Beers Australia Exploration. De Beers is the Company's diamond joint venture partner at Shell Lakes and may earn 51% of the

diamond rights to the Project by spending $2.5 million in 3 years from 9th April 2002.

2.2 Nickel Exploration

Interpretation of regional geophysical data during the quarter has upgraded the potential of the area for major nickel sulphide deposits. This interpretation highlighted magnetic anomalies along the western side of the Project and applications for an additional four exploration licences to cover the extensions of these anomalies were made in early January (Figure 2). Relatively quick approval of these new applications is expected as they lie outside the Great Victoria Desert Nature Reserve.

3. MOUNT GUNSON COPPER PROJECT - SOUTH AUSTRALIA

The main activities during the quarter were infill soil sampling and a review of copper exploration targets with the Company's Joint Venture partner at Mount Gunson, BHP Billiton. BHP Billiton subsequently advised its intention to withdraw from the Joint Venture on 31st January 2003.

3.1 Joint Venture Funding

After a review of the Company's proposed drilling program for stratabound copper in January, BHP Billiton advised of their decision to withdraw from the Joint Venture on 31st January. This proposed drilling program included testing of the promising 23 Mile Tank Prospect, which comprises strong coincident gravity geophysical and soil geochemical anomalies over a two by one kilometre area.

Following BHP Billiton's decision to withdraw, discussions will commence immediately with potential joint venture partners for the Mount Gunson Project, a number of whom have expressed interest in the Project over the past several years. All of the potential partners are large multi national companies with profitable base metal mining operations.

The Company will continue its association with BHP Billiton in generating new mineral exploration opportunities in Australia using BHP Billiton's extensive technical data base, as discussed below.

3.2 Infill Soil Geochemical Surveys

Infill soil sampling over six of the stratabound copper targets in the cover sequence was completed in late October and the assay results were received in late November.

The results confirmed the encouraging response over targets 6 (23 Mile Tank gravity anomaly), 7, 9, 10 and 11 and revealed a strong new anomaly in the southern part of target 10, coincident with the gravity feature named Mosley Dam Prospect in the previous report.

3.3 Drilling - Manganese

Drilling of manganese targets by Consolidated Minerals Limited is scheduled to commence in late February.

4 BHP BILLITON EXPLORATION DATA AGREEMENT

On 18th December, an agreement was concluded with the Company's substantial shareholder, BHP Billiton, whereby Gunson can utilise the extensive Australian mineral exploration data base of BHP Billiton to generate new exploration opportunities for minerals in Australia.

This agreement allows Gunson's consultant geologist, Douglas Haynes Discovery Pty Ltd, non exclusive access to BHP Billiton's technical data for the definition of targets at Gunson's cost. BHP Billiton will then have the first right to farm-in on any exploration project resulting from the technical assessment of their data. The pro forma farm-in agreement is similar in structure to the Mt Gunson Joint Venture and allows BHP Billiton to earn up to an 80% interest by carrying Gunson's 20% share of costs into production.

Due to BHP Billiton's contractual arrangements with other companies, the agreement excludes areas subject to existing agreements or confidentiality undertakings with a number of other companies. It covers minerals other than iron ore and coal but also excludes nickel sulphide opportunities in any geological province in which Mithril Resources Limited is conducting generative activities.

The Data Agreement is an endorsement of Gunson's target generation ability in the search for new exploration opportunities for world class mineral deposits in Australia. It is consistent with one of Gunson's key objectives of forming alliances with major mining companies to share financial risk.

Dr Haynes of Douglas Haynes Discovery Pty Ltd has identified two areas of interest and work on access to these areas is in progress.

5 FINANCIAL

At 31st December, the Company had $1.9 million in cash and short term deposits. Exploration expenditure for the quarter was $250,000 excluding externally funded expenditure by De Beers on the Shell Lakes Project and Consolidated Minerals Ltd on the Mount Gunson Project. Forecast exploration expenditure by the Company for the March quarter is $70,000.

D N HARLEY
Managing Director
31st January 2003

Investor enquires:

Telephone: (08) 9226 3130
Facsimile: (08) 9226 3136
Email: info@gunson.com.au
Website: www.gunson.com.au
Address: PO Box 1217, West Perth
Western Australia 6872

Attachments:

- Figure 1: Coburn Project – Regional Setting
- Figure 2: Shell Lakes Project – Drilling Program and New ELAs

ATTRIBUTION

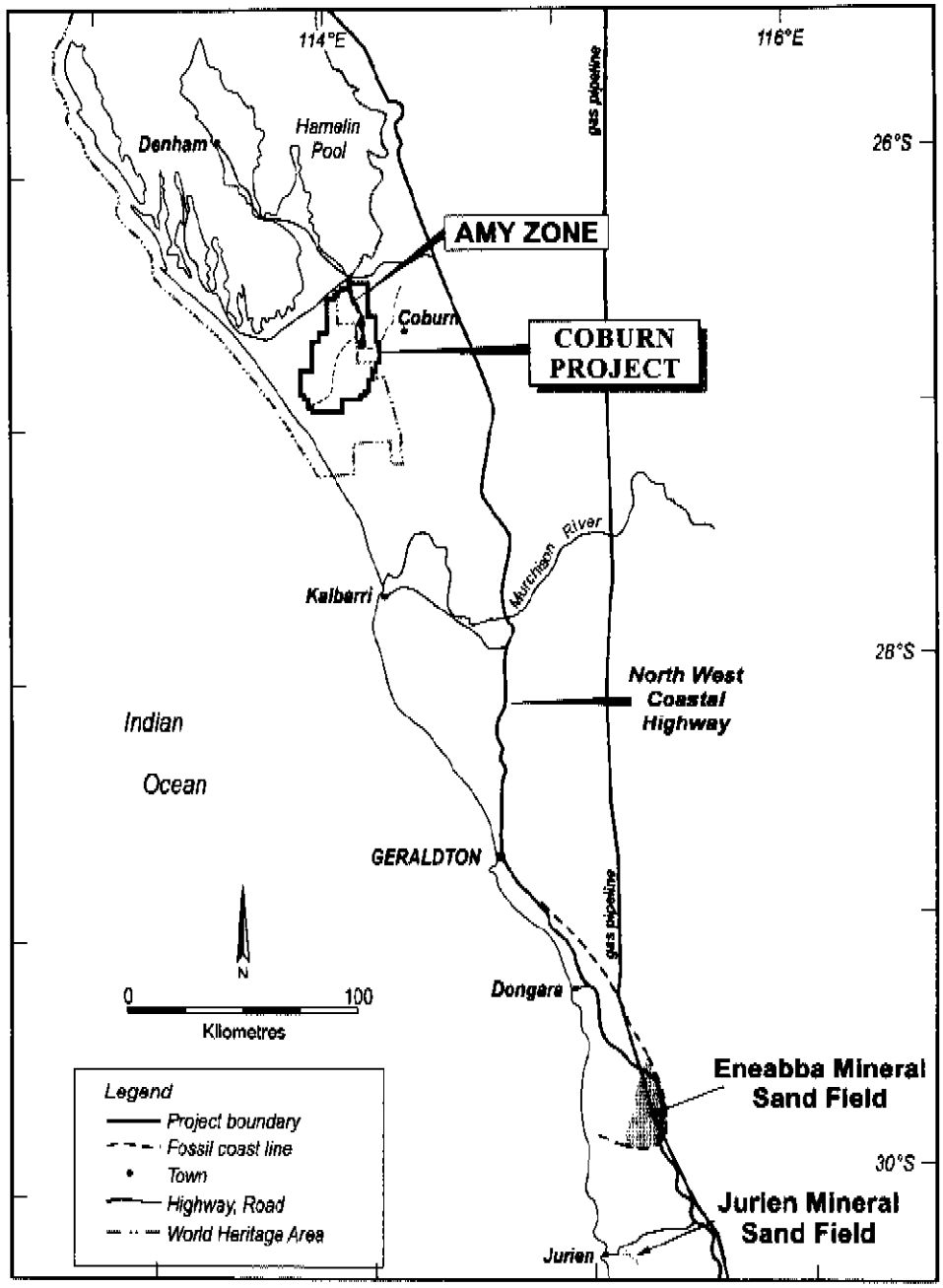
The information contained in this report is based on, and accurately reflects, information compiled by Mr D N Harley, a corporate member of the Australasian Institute of Mining and Metallurgy, who has over five years experience in the field of activity being reported on.

The metallurgical test work for the Coburn pre-feasibility study was coordinated by Mr P A Butler of Gravcon Consultancy. The mining and financial evaluation portions of the pre-feasibility study were carried out by Mr D Merkley of Pertola Pty Ltd. Both Mr Butler and Mr Merkley have sufficient experience in preparing pre-feasibility and feasibility studies relevant to the style of mineralisation, and type of deposits under consideration and to the activity which they are undertaking, to qualify as Competent Persons as defined in the 1999 release of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves". Both persons consent to the inclusion of the information in the report in the form and context in which it appears.

Gunson Resources Limited

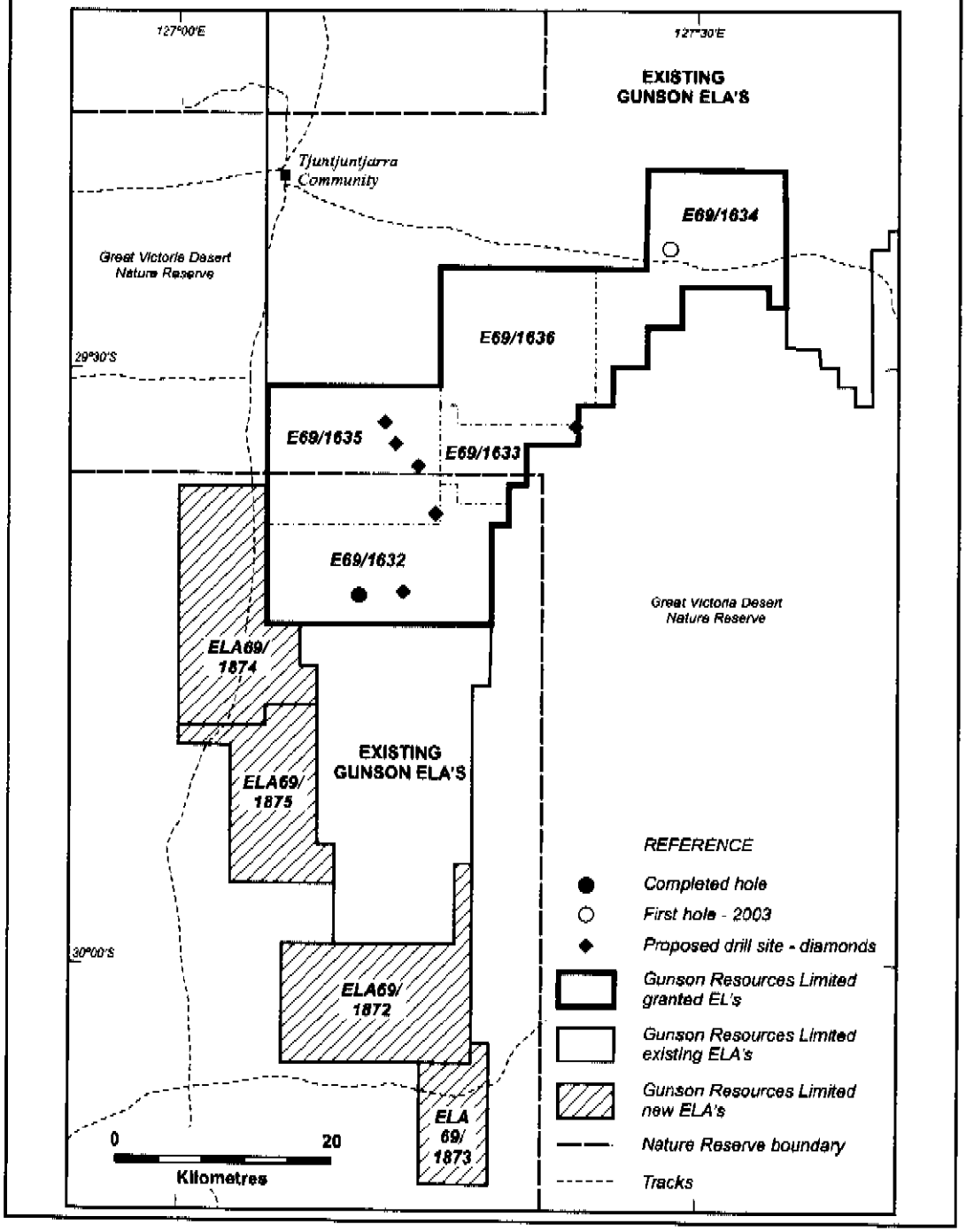
Figure 1

COBURN PROJECT - REGIONAL SETTING



Gunson Resources Limited

Figure 2
SHELL LAKES PROJECT
DRILLING PROGRAM AND NEW ELA'S



Rule 5.3

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98.

Name of entity

GUNSON RESOURCES LIMITED

ACN or ARBN

090 603 642

Quarter ended ("current quarter")

31st December 2002

Consolidated statement of cash flows

		Current quarter $A'000	Year to date (6 months) $A'000
Cash flows related to operating activities			
1.1	Receipts from product sales and related debtors		
1.2	Payments for (a) exploration and evaluation	(250)	(359)
	(b) development		
	(c) production		
	(d) administration	(63)	(164)
1.3	Dividends received		
1.4	Interest and other items of a similar nature received	31	50
1.5	Interest and other costs of finance paid		
1.6	Income taxes paid		
1.7	Other - JV Fees 3, Office Bond (12)		(9)
	Net Operating Cash Flows	(282)	(482)
	Cash flows related to investing activities		
1.8	Payment for purchases of: (a)prospects		
	(b)equity investments		
	(c) other fixed assets	(15)	(20)
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)	3	8
	Net investing cash flows	-	-
1.13	Total operating and investing cash flows (carried forward)	(294)	(494)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(294)	(494)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	
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 - Capital Raising Expenses		
	Net financing cash flows		
	Net increase (decrease) in cash held	(294)	(494)
1.20	Cash at beginning of quarter/year to date	2199	2399
1.21	Exchange rate adjustments to item 1.20		
1.22	**Cash at end of quarter**	1905	1905

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	15
1.24	Aggregate amount of loans to the parties included in item 1.10	Nil

1.25 Explanation necessary for an understanding of the transactions

Payments to Managing Director .

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

Nil

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

Billiton Exploration Australia had made contributions of $954K to the Mt Gunson Joint Venture before withdrawing on 31st January 2003 with no equity in the Joint Venture.

De Beers Australia Exploration have made contributions to date totalling $339K to the Shell Lakes Joint Venture. They must spend a minimum of $2.5 million In 3 years from 9th April 2002 to earn a 51% interest, otherwise they will not earn any equity.

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

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	Nil	-
3.2	Credit standby arrangements	Nil	-

Estimated cash outflows for next quarter

		$A'000
4.1	Exploration and evaluation	70
4.2	Development	-
	Total	70

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	105	99
5.2	Deposits at call	0	0
5.3	Bank overdraft		
5.4	Other - Term Deposit	1800	2100
	Total: cash at end of quarter (item 1.22)	1905	2199

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 2567 Mount Gunson	100%	100%	0%
6.2	Interests in mining tenements acquired or increased	EL 3022 Mount Gunson	Granted Application	100%	100%

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

6.3	Interests in mining tenements acquired or increased	ELAs - 69/1872-75 Shell Lakes	Application	0%	100%

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** *(description)*	Nil			
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	Nil			
7.3	**+Ordinary securities**	37,408,005	36,644,002		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	Nil			
7.5	**+Convertible debt securities** *(description)*	Nil			
7.6	Changes during quarter				
7.7	**Options** *(description and conversion factor)*	100,000 Class A 75,000 3,125,000 Class B 375,000 3,125,000	- - - - -	Exercise price 20 cents 20 cents 20 cents 25 cents 25 cents	**Exercise Period** **16/12/02 – 16/12/07** **12/5/01 – 12/5/05** **12/5/02 – 12/5/05** **12/5/01 – 12/5/05** **12/5/02 – 12/5/05**
7.8	Issued during quarter	100,000		20 cents	16/12/02 – 16/12/07
7.9	Exercised during quarter	Nil	-		
7.10	Expired during quarter	Nil			

+ See chapter 19 for defined terms.

7.11	**Debentures** *(totals only)*	Nil	
7.12	**Unsecured notes** *(totals only)*	Nil	

Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Law 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: 31st JANUARY 2003.
(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.

== == == == ==

+ See chapter 19 for defined terms.