

GUNSON RESOURCES LIMITED

QUARTERLY REPORT FOR THE PERIOD ENDED 31st DECEMBER 2003

HIGHLIGHTS

- A significant increase in the Amy Zone resource at the Coburn heavy mineral sand project. The total inferred resource is now 690 million tonnes averaging 1.35% heavy minerals and includes a new indicated resource for Amy Zone South of 133 million tonnes averaging 1.35% heavy minerals.
- The increased resources have resulted wholly from infill and extensional drilling in the southern part of Amy Zone and include a 32% increase in the overall Amy Zone inferred resource and a 64% increase in the indicated resource at Amy Zone South.
- Total contained heavy minerals inferred in Amy Zone is now 9.3 million tonnes, which could support a longer mine life or higher annual throughput than previously envisaged.
- Metallurgical test work on the Amy Zone bulk sample collected in November is in progress and there is excellent reconciliation in heavy mineral grade between the resource definition drilling and bulk sample.
- Bankable feasibility study on the Coburn project continued broadly on schedule with completion due in late March 2004.
- Electromagnetic geophysical surveys over the promising nickel sulphide targets at Shell Lakes scheduled for mid February 2004.
- Preparations are in progress for a drilling program to test two promising copper targets at Mount Gunson in the June quarter.

1 COBURN MINERAL SAND PROJECT (WESTERN AUSTRALIA)

1.1 Introduction

The Bankable Feasibility Study (BFS) continued during the quarter, the main activities being drilling including bulk sample drilling at Amy Zone South, resource block modelling, research into cost effective mining techniques, metallurgical test work, environmental baseline studies and community consultation.

Delays in collecting the bulk sample have resulted in the estimated completion date for the BFS being moved back to late March 2004.

1.2 Drilling

Drilling during the quarter comprised first pass exploration traverses at 1 kilometre spacing along 6 kilometres of strike immediately to the south of the infill grid at Amy Zone South, and a 64 hole bulk sample program at 11 selected sites within the infill grid (Figure 1).

The 1 kilometre spaced southern extension drilling revealed good mineralisation on all traverses, extending the total strike length of Amy Zone to over 33 kilometres. Some selected intersections from this drilling are shown in Table 1.

Bulk sample drilling was completed with a wide diameter air core rig in mid November with some 45 tonnes of sample being collected from 64 drill holes. This material was added to smaller samples from previous slim hole drilling within the ore zone to make up the bulk sample, which weighed 58 tonnes.

1.3 Resource Modelling

Based on the considerable amount of drilling completed in the southern part of Amy Zone during the second half of 2003, resource estimates for both the detailed Amy Zone South infill grid and Amy Zone as a whole were updated. The latter estimate includes for the first time, the results of the southern extension drilling completed in October 2003.

1.3.1 Amy Zone South Infill Grid

The Amy Zone South indicated resource model was updated by the Company's resource consultants, McDonald Speijers, to incorporate the results of the second phase infill drilling at 250 metre traverse spacing, and extensions of the first

phase infill drilling to the east and west on 500 metre spaced lines.

The resource model has also had available mineral assemblage data incorporated, although this is only of a preliminary nature and will need to be replaced when more systematic and complete assemblage measurements become available in February 2004. The mineral assemblage information has been left in the form in which it was reported with “High Susceptibility”, “Mag 1”, “Mag 2” and “Mag 3” categories rather than a breakdown of ilmenite-leucoxene species.

Modelling procedures and parameters were similar to those used to generate the previous resource estimate in September 2003. The latest resource estimate is summarised in Table 2 and at a similar cut off grade of 0.9% heavy minerals, comprises a 64% increase in indicated resource tonnes to 133 million at 1.35% heavy minerals compared to the interim estimate announced on 30th September 2003 of 81 million tonnes averaging 1.4% heavy minerals.

Within the previously modelled area, global tonnage and grade estimates appear to be quite robust. However, the 250 metre infill lines showed too many variations in the geometry of various mineralised zones, relative to predictions based on the initial 500 metre spaced lines, for the resource classification to be upgraded to measured status.

The large increase in the Amy Zone South indicated resource, over the same strike length as the estimate announced in September, is mainly due to favourable results from lateral extension drilling. Mineralisation encountered in this drilling is still open on several drill traverses, indicating potential for further resource upgrades.

1.3.2 Southern Extension

Using similar parameters to those used previously, an inferred resource of 112 million tonnes averaging 1.4% heavy minerals has been estimated for this zone, at a cut off grade of 0.8% heavy minerals. This cut off was used because it conforms with the cut off grade for the overall Amy Zone inferred resource quoted previously.

1.3.3 Total Amy Zone Resource

The total indicated and inferred resource for Amy Zone has increased by 32% from 516 million tonnes at 1.4% heavy minerals to 690 million tonnes at 1.35% heavy minerals, with the same 0.8% heavy mineral cut off grade. The new total resource estimate incorporates the additional 52 million indicated tonnes delineated at Amy Zone South and the new 112 million tonne inferred resource defined by the Southern Extension drilling. The total contained heavy minerals inferred in Amy Zone is now 9.3 million tonnes.

1.4 Mining

Research on compatible current dry mining techniques has continued to reinforce the potential to significantly lower the mining cost structure from that incorporated in previous Project financial models.

Excavation of up to three small test pits within the Amy Zone South infill grid (Figure 1) is scheduled for mid February 2004. This program will test the hardness of indurated bands above the ore zone and will expose the two main ore horizons. The pits should be completed within two weeks of commencement.

Results from the test pit program will allow finalisation of the mining techniques and cost estimates for the BFS.

1.5 Metallurgy

Test work on the 58 tonne bulk sample at Roche Mineral Technologies in Queensland commenced in mid December and is scheduled for completion in early March.

Excellent reconciliation in heavy mineral grade between the resource definition drilling and the bulk sample has been achieved, with the predicted (drill) and actual (bulk) grades being the same to the second decimal point.

Quantitative results from the wet metallurgical processing are expected by mid February and the dry mineral processing by early March.

Metallurgical design work and capital cost estimates will commence in February and should be completed at the end of March 2004.

1.6 Environment and Licensing

Flora and fauna studies along Amy Zone have not revealed any rare species or threatened ecological communities and the results are considered favourable to the Project. Follow up autumn studies after completion of the BFS are scheduled as part of the approvals process.

A groundwater study of Amy Zone has commenced and test drilling to measure flow rates and salinity levels is scheduled for May 2004.

Applications for 5 mining leases covering approximately 12 kilometres of the southern half of Amy Zone were submitted in late October and a retention licence covering the northern half was applied for in mid November. Approval of these tenements is expected in the second half of 2004.

1.7 Stakeholder Consultations

Consultations with stakeholder groups regarding the Company's proposed mine development continued during the quarter, with encouraging results. First round consultations will continue during the March 2004 quarter and second round consultations are planned once the results of the BFS are made public.

1.8 Conclusions

The 64% increase in the Amy Zone indicated resource estimates is encouraging and will have a positive effect on the BFS. As most of the increase is due to the positive results of lateral extension drilling beyond the original inferred resource outline (Figure 1), a similar outcome along strike to the north and south would push the overall Amy Zone resource well above 10 million tonnes of contained heavy minerals, with further positive ramifications for financial returns.

The Company is very encouraged by the excellent reconciliation in heavy mineral grade between the resource definition drilling and the bulk sample, which further increases confidence in the inferred resource estimate.

2 SHELL LAKES DIAMOND & NICKEL PROJECT (WESTERN AUSTRALIA)

2.1 Diamond Exploration

Laboratory analysis of drill core samples collected by previous joint venture partner De Beers Australia Exploration was the main activity during the quarter.

This work, carried out by new joint venture partner Southstar Diamonds Limited, has not revealed any micro diamonds or diamond indicator minerals and Southstar has decided to withdraw from the Project effective from 27th January 2004.

2.2 Nickel Exploration

A ground based transient electromagnetic survey over the “bulls eye” magnetic anomalies in the south western part of the Project is scheduled to commence in mid February. These magnetic anomalies occur in a geological setting thought to be similar to the Norilsk mining district in Russia, the world’s largest and lowest cost nickel producer.

3 MOUNT GUNSON COPPER PROJECT (SOUTH AUSTRALIA)

An induced polarisation geophysical survey over the promising 23 Mile Tank and Moseley Dam prospects is scheduled for February 2004, to define the depth of the target Tapley Hill Formation conductor. A drilling program to test targets defined by the induced polarisation survey is to follow when a suitable rig is available.

4 TENNANT CREEK GOLD-COPPER PROJECT (NORTHERN TERRITORY)

Gravity and ground magnetic geophysical surveys were completed over several of the targets which form the basis of the Project.

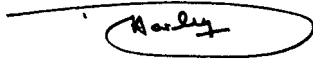
Results of these surveys reinforced the original targets and once exploration title is granted, drilling can follow soon after. Grant of title over the two targets not covered by aboriginal freehold land is expected shortly.

5 BHP BILLITON DATA AGREEMENT

Work on two areas of interest continued during the quarter, although more detailed assessment is required before tenement applications over these areas can be considered.

6 FINANCIAL

At 31st December, the company had \$2.0 million in cash and short term deposits. Exploration expenditure for the quarter was \$692,000, including \$653,000 on the Coburn Project. Forecast exploration expenditure for the March quarter is \$600,000.



D N HARLEY
Managing Director
29th January 2004

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Attachment

- Tables 1 and 2
- Figure 1: Amy Zone South

ATTRIBUTION

The information contained in this release 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 information in this release that relates to indicated mineral resources is based on data compiled by Mr John McDonald of McDonald Speijers, who has over 20 years of relevant experience in the field of activity being reported on. The information in this release relating to inferred resources is based on data compiled by Mr Paul Leandri, who has over 10 years of relevant experience in the field of activity being reported on. Mr McDonald and Mr Leandri are members of the Australian Institute of Geoscientists and corporate members of the Australasian Institute of Mining and Metallurgy. They have sufficient experience which is 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". Mr McDonald and Mr Leandri consent to the inclusion of the information in the report in the form and context in which it appears.

Table 1
Selected Intersections –
Amy Southern Extension Drilling

Hole Number	Traverse	From (m)	To (m)	Intersection	% Slime
CBC1389	7,038,000N	9	25	16m @ 2.0%	1.5
CBC1418	7,037,000N	0	12	12m @ 1.7%	3.4
CBC1455	7,036,000N	9	18	9m @ 1.5%	1.4
CBC1461	7,036,000N	0	5	5m @ 2.2%	6.8
CBC1500	7,034,000N	17	27	10m @ 1.6%	6.1
CBC1510	7,033,000N	3	12	9m @ 1.6%	4.1

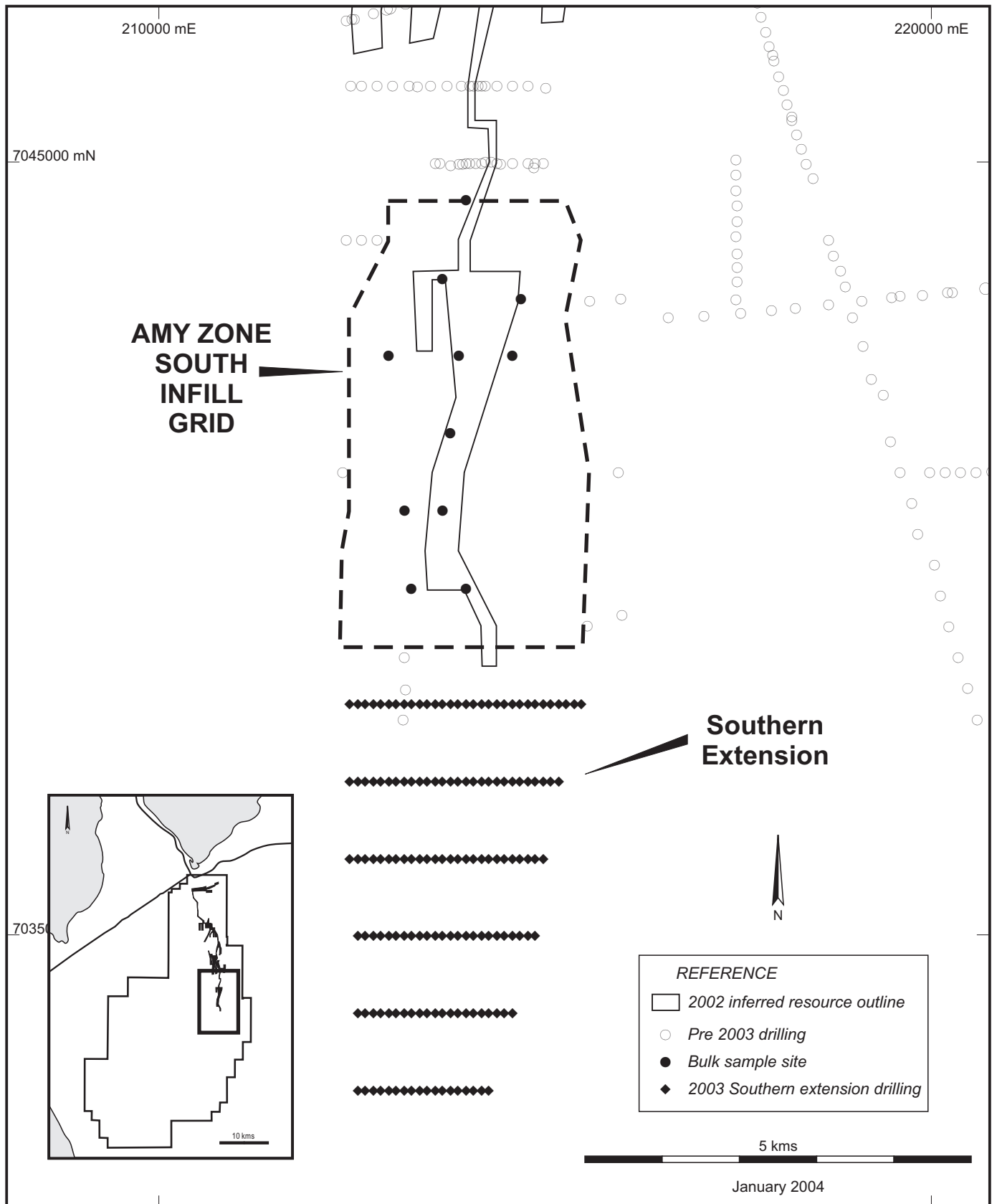
Table 2
Amy South Indicated Resources

Cutoff %HM	Million Tonnes	HM (%)	Slimes (%)	O'size (%)	HM Million Tonnes	HM Mineral Assemblage (% of HMC)							
						High Sus	Mag1	Mag2	Mag3	Rutile	Leucoxene	Zircon	Monazite
0.50	449	0.87	2.69	4.44	3.93	1.5	17.3	33.4	16.4	3.1	1.2	23.0	0.2
0.60	347	0.97	2.55	4.55	3.37	1.4	17.2	33.4	16.4	3.1	1.2	23.1	0.2
0.65	301	1.02	2.48	4.60	3.08	1.4	17.2	33.4	16.4	3.1	1.2	23.1	0.2
0.70	259	1.08	2.41	4.63	2.80	1.4	17.1	33.5	16.4	3.1	1.2	23.2	0.2
0.80	188	1.21	2.30	4.71	2.26	1.4	17.0	33.5	16.5	3.1	1.2	23.3	0.2
0.90	133	1.35	2.21	4.67	1.80	1.3	16.9	33.5	16.5	3.1	1.2	23.4	0.2
1.00	94	1.52	2.13	4.64	1.43	1.3	16.9	33.5	16.5	3.1	1.2	23.5	0.2
1.25	45	1.99	1.97	4.83	0.89	1.2	16.7	33.4	16.5	3.1	1.2	23.8	0.2
1.50	34	2.18	1.91	5.04	0.75	1.2	16.6	33.5	16.5	3.1	1.2	24.0	0.2
1.75	27	2.32	1.91	5.07	0.63	1.2	16.6	33.4	16.5	3.2	1.2	24.2	0.2
2.00	19	2.52	1.89	4.94	0.48	1.1	16.4	33.3	16.5	3.2	1.2	24.4	0.2

Gunson Resources Limited

Figure 1

AMY ZONE SOUTH



Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

GUNSON RESOURCES LIMITED

ABN

32 090 603 342

Quarter ended ("current quarter")

31 December 2003

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date \$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	(690)	(1,272)
(b) development		
(c) production		
(d) administration	(155)	(286)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	20	44
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other - GST	3	8
	(822)	(1,506)
Net Operating Cash Flows		
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects		
(b) equity investments		
(c) other fixed assets	(29)	(29)
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)		
	(29)	(29)
Net investing cash flows		
1.13 Total operating and investing cash flows (carried forward)	(851)	(1,535)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(851)	(1,535)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	2,312
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Costs associated with issue of shares	-	(73)
	Net financing cash flows	-	2,239
	Net increase (decrease) in cash held	(851)	704
1.20	Cash at beginning of quarter/year to date	2,853	1,298
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	2,002	2,002

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 and 1.7	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 of salary to the Managing Director	15

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

Southstar Diamonds Limited spent approximately \$10,000 on the Shell Lakes Joint Venture before their withdrawal with no equity on 27th January 2004.

+ 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	Nil	-
3.2 Credit standby arrangements	Nil	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	600
4.2 Development	-
Total	600

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	102	553
5.2 Deposits at call	0	0
5.3 Bank overdraft	0	0
5.4 Other – Term Deposit	1,900	2,300
Total: cash at end of quarter (item 1.22)	2,002	2,853

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	Nil		
6.2	Interests in mining tenements acquired or increased	Nil		

+ 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.

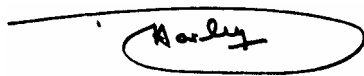
	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities <i>(description)</i>	Nil			
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	Nil			
7.3 +Ordinary securities	55,908,005	55,908,005		
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>	Nil			
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	1,000,000 400,000 100,000 Class A 75,000 3,125,000 Class B 375,000 3,125,000	- - - - - - - -	Exercise Price 20 cents 20 cents 20 cents 20 cents 20 cents 25 cents 25 cents	Exercise Period 17/9/03 – 16/9/08 17/9/03 – 7/3/06 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				
7.9 Exercised during quarter	Nil			
7.10 Expired during quarter	Nil			

+ See chapter 19 for defined terms.

7.11	Debentures <i>(totals only)</i>	Nil			
7.12	Unsecured notes <i>(totals only)</i>	Nil			

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.



David Harley
Managing Director
29 January 2004

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.