

GUNSON RESOURCES LIMITED

QUARTERLY REPORT FOR THE PERIOD ENDED 31st DECEMBER 2009

HIGHLIGHTS

COBURN ZIRCON DEVELOPMENT PROJECT

- Definitive Feasibility Study completed, with positive results, encouraging the Company to step up its efforts to conclude a zircon offtake and investment agreement with a large overseas zircon consumer.
- Financial modelling of the Project has been based on the sale of final heavy mineral products from the port of Geraldton, increasing the flexibility in marketing from previous studies
- Over the 23.5 year life of the Project, total revenue is estimated at \$2.2 billion, with an operating cash surplus of \$879 million, or \$37 million per annum.
- The Project returns, on a pre tax ungeared basis, a NPV of \$163 million at an 8% real discount rate, with an IRR of 16.8%.
- Approximately 67% of the revenue from the proposed mine is from zircon, for which industry experts TZMI forecast a significant supply shortfall commencing in 2013. By 2015, TZMI forecast that the real US dollar zircon price will increase by up to 46% from 2009 levels.
- The Company expects that the newly published zircon study by TZMI will have a significant positive impact on zircon consumers seeking access to a long term supply of zircon through a strategic investment in the current severely depleted pipeline of new development projects.

MOUNT GUNSON COPPER PROJECT

- An extensive 1.2 km x 800 m basement conductor defined by TEM geophysical surveys around Emmie Bluff Prospect completed in December 2009.
- This conductive zone is centred some 2 km north east of the narrow but high grade copper sulphide mineralisation intersected in hole MGD 55 at Emmie Bluff in 2009, around which the TEM response is considerably weaker. Drilling of this very attractive target is scheduled to start in early February 2010.
- Good progress has been made on the MG-Windabout Bankable Feasibility study and discussions with potential customers for the proposed copper concentrate production have commenced.

1. COBURN ZIRCON DEVELOPMENT PROJECT (100%) WESTERN AUSTRALIA

Perth based engineering group Sedgman Metals (Sedgman) submitted its Design Definition Study (DFS) report on 11th December 2009, enabling finalisation of the Definitive Feasibility Study (DFS) at the end of the quarter. The results of the DFS were released on 7th January 2010 and only the highlights of this release are summarised below.

1.1 Mining Method and Mine Life

The Sedgman DDS reviewed the design and operation of the dozer trap method previously proposed and design changes were incorporated to combine the screening plant and separate dozer trap into a dozer mining unit (DMU), in which sand would be mixed with water and pumped up into a mobile wet concentrator plant (WCP) near the open pit. This change improves operational flexibility and increases the utilisation and average feed rates of the mining equipment.

At the proposed mining rate of 17.5 million tonnes per annum, the ore reserve announced in April 2008 supports a mine life of 17.5 years. An increase of 2 million tonnes to the Proved Ore Reserve resulted from a review of the mining method during the DDS, bringing the overall ore reserve in the area permitted for mining to 308 million tonnes at 1.2% heavy minerals (HM).

In addition to the ore reserve, a potentially mineable resource of 106 million tonnes averaging 1.3% HM estimated in the northern third of the mineralised zone not yet permitted for mining was incorporated in the Project financial model. This assumes that the northern area receives government approval for mining prior to depletion of the ore reserve, extending the mine life by 6 years to 23.5 years.

1.2 Mineral Processing

A major part of the DDS comprised metallurgical test work by Allied Mineral Laboratories (Allied), to define equipment selection and flow sheets for the WCP and mineral separation plant (MSP).

The WCP is a mobile facility located near the edge of the open pit and moved along the ore body at approximately 1 to 3 year intervals as mining proceeds northwards. Allied demonstrated that the previous design by Roche Mining (MT) was robust and that the ore could be upgraded in the WCP from 1.2% HM in the ore feed to 92% HM in the concentrate. Heavy mineral concentrate from the WCP would then be trucked to the MSP, near the Power Station, for the recovery of the four final saleable mineral products zircon, ilmenite, rutile and leucoxene.

The major focus of the Allied work in 2009 was the development of an MSP flow sheet to produce mineral products acceptable in the market. This work resulted in a relatively conventional flow sheet, tailored where necessary to the Coburn ore.

Final products from the MSP are to be trucked to a Company owned storage shed to be built adjacent to the Geraldton port, where they will be exported to overseas markets.

1.3 Capital Cost Estimate

In compiling its capital cost estimates, Sedgman assumed that only the power supply and communication equipment would not be provided by a design and construct engineering group, on an EPCM basis. Power for the mine is to be provided by a build-own-operate supplier, using natural gas from the Dampier to Bunbury pipeline some 110 km to the east. The communication system would be provided by a supplier contracted directly by Gunson.

Contingencies average 9.7% of the total Sedgman capital cost estimate, reflecting the relatively mature nature of the designs and pricing, which in many cases are based on competitive tenders. The contingency figures in the Sedgman estimates below are at the P90 level, indicating a 90% chance of the actual cost coming in at or below estimate. All equipment is priced new and the construction period is estimated at 85 weeks.

**Table 1a. Capital Cost Estimates – EPCM Contractor
(Includes Contingency and EPCM costs)**

Item	Description	Cost (\$A million)
1	2 x DMUs	21.3
2	WCP	33.3
3	MSP	41.4
4	Water Supply	8.9
5	Road/Civils	19.9
6	Site Services	5.8
7	Village/Office	14.4
8	Geraldton Shed	5.3
9	Power Retic., Mobilisation & General	7.7
Total		158.0

**Table 1b. Capital Cost Estimates – Owner
(Includes Contingency)**

Item	Description	Cost (\$A million)
1	Communications	1.8
2	Insurance etc	1.6
3	Owner Pre Production	6.8
4	Miscellaneous	0.6
Total		10.8

Following the accepted convention of including the Owner's pre production costs in the capital cost figure, the total capital cost figure is \$168.8 million. This figure does not include working capital and financing charges.

1.4 Financial Analysis

Using long term real US dollar price forecasts provided by respected industry marketing consultants TZMI and the long-term average US dollar to Australian dollar exchange rate of 72 cents, the Coburn Zircon Project is financially attractive, with a Net Present Value (NPV) of \$163 million and an Internal Rate of Return (IRR) of 16.8%. As shown in Table 2 below, the NPV has more than doubled from the 2004 BFS, when the exchange rate used was 70 US cents to one Australian dollar.

A summary of the financial analysis over the 23.5 year mine life is shown in Table 2 below.

Table 2. Financial Summary of the Coburn Zircon Project (Real \$A millions)

	DFS	BFS 2004
Total Revenue	2,189	1,336
Total Operating Costs	1,310	776
Net Operating Margin	879	560
Capital Cost	168.8	128
IRR before tax/financing	16.8%	15.4%
NPV (8%)	163	73
Exchange Rate	72c	70c

The above financial returns assume a reduced State royalty of 2.5% of gross revenue, the reasons for which were outlined in the Company's 7th January 2010 release. With the current 5% gross royalty, the NPV and IRR are reduced to \$139 million and 15.6% respectively.

1.5 Development Timing

The Project is now ready to proceed to the mine development stage. However, the Company has decided that the capital cost of the Coburn Zircon Project is too large to finance by itself and since 2007, has been seeking to attract a minority partner to help fund the mine development, in exchange for access to an assured long-term supply of zircon.

A potential strategic investor in the Middle East was identified in March 2009. Agreement in principle has been reached with this party that its investment decision would be based on the DFS results, including final zircon product quality data. As this information is now available, a fourth visit to the Middle East in the past year is planned for mid February 2010.

Also, renewed interest in the Project has been shown by a privately owned Chinese company initially introduced by The Balloch Group in September 2008.

Following TZMI's December 2009 forecast of a potentially severe zircon supply shortfall from 2013 onwards, the Company is confident that significantly stronger interest will be shown in the Coburn Zircon Project in 2010.

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

2.1 Exploration for Iron Oxide Associated Copper-Gold Deposits

Since the completion of the two hole deep drilling program in the Emmie Bluff Prospect area in August 2009, exploration funded by Noranda Pacific Pty Limited (Noranda), part of the Xstrata Copper Business Unit, has been focused on defining further drilling targets with electrical geophysical techniques. This work was encouraged by the narrow intersections of higher grade copper mineralisation in hole MGD 55, recorded in the September 2009 quarterly report.

Down hole induced polarisation (IP) and transient electromagnetics (TEM) described in the previous quarterly report gave encouragement for further surface TEM surveys, three phases of which were completed in the quarter under review. The results of the second and last surveys were particularly encouraging, defining an extensive basement conductor well to the north east of MGD 55, as shown on Figure 1 (attached). At 950 m depth, the conductivity high trends north west for 1.2 km and is approximately 800 m wide. It is centred approximately 2 km north east of hole MGD 55 and 600 m north east of old MIM drill hole SAE 6, completed in 1989.

SAE 6 intersected basement at 841 m and a 15 m thick hematitic zone averaging 1.2% copper between 937 – 952 m. The main copper minerals in this hematitic zone were recorded as chalcopyrite-bornite.

A contract rig engaged to commence drilling the conductive zone described above in late January is now due to start in early February 2010.

2.2 Noranda Earn-In Expenditure

Noranda spent \$451,899 during the quarter, bringing its cumulative earn-in expenditure to \$3.35 million. Noranda has the right to earn a 51% interest in the Mount Gunson Copper Project, excluding the MG 14/Windbout Excised Area, by spending \$3.5 million by 15th June 2010. It then has the right to increase its equity to 75% by spending a further \$6.5 million over another 3 years after reaching its initial \$3.5 million expenditure target. Alternatively, Noranda may initiate a Joint Venture where it holds a 51% interest and Gunson 49%. Noranda and Gunson then have the right to elect not to contribute to ongoing Joint Venture Expenditure after each approved annual Program and Budget. The diluting party's interest in the Joint Venture would then be reduced in accordance with an agreed dilution formula.

2.3 MG 14/Windabout BFS

Following the decision to proceed to a bankable feasibility study (BFS) on a sequential MG14-Windabout mine development in the areas excised from the Noranda farm in agreement last June, the following progress has been made:

- planning and costing of infill drilling programs at both MG 14 and Windabout, to better define the mineralisation and to collect samples for metallurgical and geotechnical test work;
- review of existing MG 14 and Windabout drilling data by consultants McDonald Speijers and compilation of new resource models;
- commencement of a conceptual mining study on the Windabout deposit based on the new resource model;
- appointment of Max Brunson as the Company's Copper Marketing Consultant in mid November 2009 (see below).

2.4 Copper Marketing

Since the appointment of the Copper Marketing Consultant, significant interest has been generated in the high grade concentrate to be produced from the proposed sequential development of the MG 14 and Windabout deposits.

Approximately ten companies were contacted in early January 2010, with a view to establishing their interest in funding part or all of the BFS. Confidentiality agreements with some of these companies have been executed and the first meetings with prospective counter parties will be held in Perth in early February. Enquiries from some of the other companies contacted are expected and a trip to North America and the UK to progress financing discussions is scheduled for early March 2010.

3. TENNANT CREEK GOLD/COPPER PROJECT (100%) NORTHERN TERRITORY

Intermittent heavy rain in the district in December 2009 and early 2010 has led to postponement of the Company's proposed drilling program, designed to test the promising gravity target at Gosse 5. Access to this area from Tennant Creek is via the Gosse River, which is prone to flooding in the summer wet season.

Another attempt to access the Gosse 5 area will be made in March 2010.

4. FOWLER'S BAY NICKEL PROJECT (100%) SOUTH AUSTRALIA

No further progress on the Company's application to access the Yellabinna Regional Reserve for a diamond drilling program but approval is forecast during the second quarter of 2010.

5. BURKIN NICKEL PROJECT (100%) WESTERN AUSTRALIA

Laboratory analysis of basement core samples from the drilling program described in the previous quarterly report was surprisingly negative, with low nickel values and microscopic reports suggesting that the rocks were not prospective for nickel sulphide deposits.

Consequently, the Project was abandoned in mid November 2009. A claim for a \$75,000 drilling subsidy from the Western Australian Government in accordance with a Funding Agreement dated 16th July 2009 will be submitted in February 2010.

6. SHARE PURCHASE PLAN

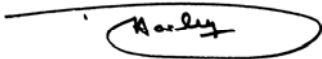
On 18th December 2009, the Company announced that it had raised \$664,500 in its second SPP for 2009, at 10 cents per share. This second SPP in the same calendar year was

made possible by ASX granting a waiver from its current listing rules, extending the SPP application limit from \$5,000 to \$15,000, in accordance with an ASIC ruling in mid 2009 several months after Gunson's first SPP.

Gunson's issued capital now stands at 155,965,312 fully paid ordinary shares.

7. FINANCIAL

At 31st December the Company had \$733,000 in cash and short term deposits. On 5th January, a \$145,847 R&D rebate was received from the Australian Tax Office and application for a \$61,907 Export Market Development Grant was lodged with Austrade in late November 2009. Receipt of this Grant is expected in April 2010. Exploration expenditure during the quarter was \$497,000 and forecast exploration expenditure for the March quarter is \$200,000.



D N HARLEY
MANAGING DIRECTOR

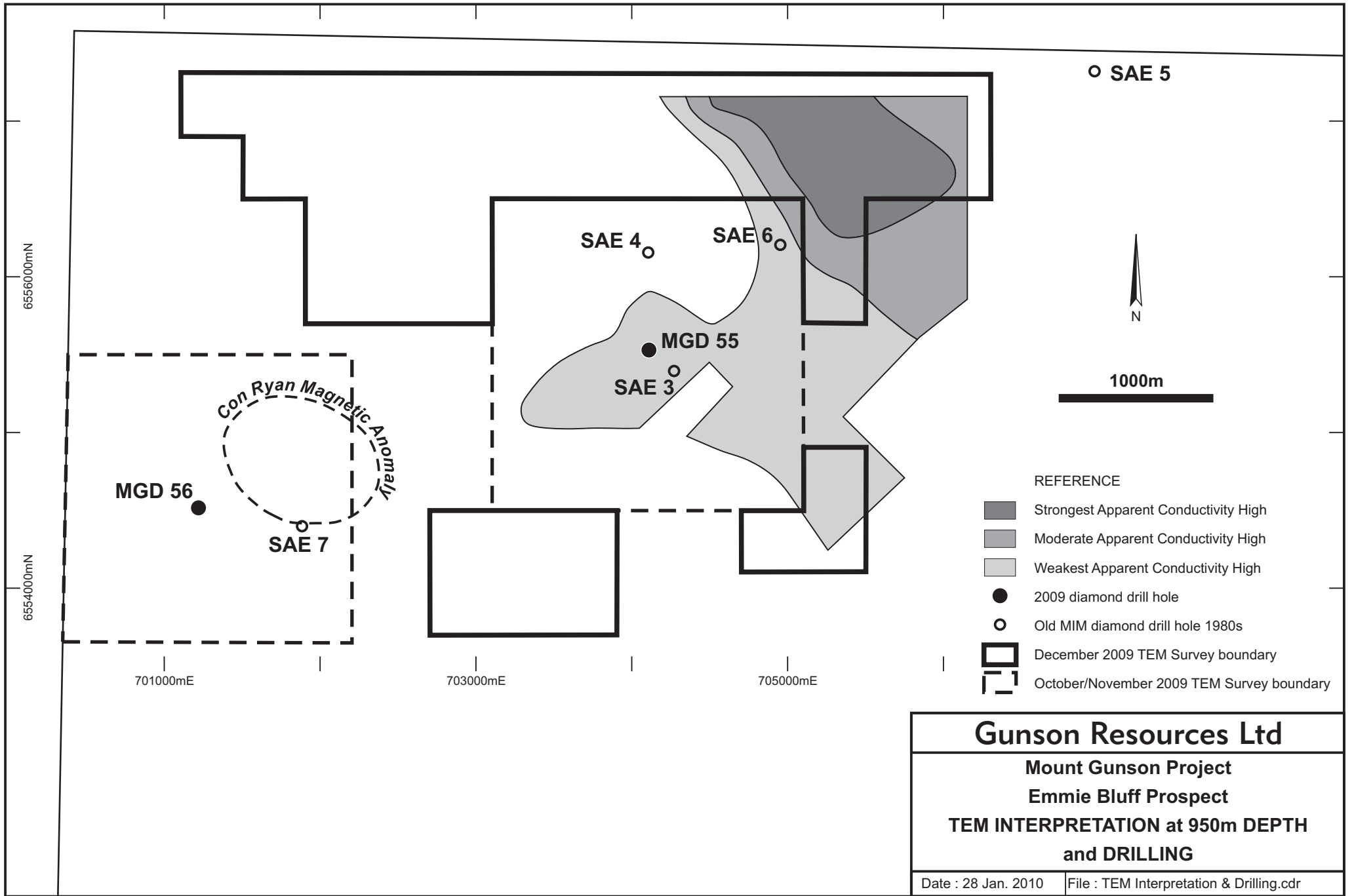
29th January 2010

Figure 1 Emmie Bluff Prospect – TEM Interpretation @ 950 m Depth & Drilling

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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
- Strongest Apparent Conductivity High
 - Moderate Apparent Conductivity High
 - Weakest Apparent Conductivity High
 - 2009 diamond drill hole
 - Old MIM diamond drill hole 1980s
 - December 2009 TEM Survey boundary
 - October/November 2009 TEM Survey boundary

Gunson Resources Ltd

Mount Gunson Project
Emmie Bluff Prospect
TEM INTERPRETATION at 950m DEPTH
and DRILLING

Date : 28 Jan. 2010 | File : TEM Interpretation & Drilling.cdr

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

32 090 603 642

Quarter ended ("current quarter")

31 December 2009

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a)exploration and evaluation (b) development (c) production (d) administration	(497) (152)	(1,220) (298)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	3	10
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (Research and Development Rebates)	-	-
1.8 Other (Net retirement of environmental bond)	-	39
Net Operating Cash Flows	(646)	(1,469)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a)prospects (b)equity investments (c) other fixed assets	- - -	- - (3)
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	-	(3)
1.13 Total operating and investing cash flows (carried forward)	(646)	(1,472)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(646)	(1,472)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	665	1,795
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 costs)	(3)	(58)
	Net financing cash flows	662	1,737
	Net increase (decrease) in cash held	16	265
1.20	Cash at beginning of quarter/year to date	717	468
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	733	733

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

1.25 Explanation necessary for an understanding of the transactions

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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

None

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 December 2009. Xstrata Copper, via its subsidiary, Noranda Pacific Pty Limited, has a cumulative expenditure of \$3,353,902. The initial option earn-in requirement is \$3.5 million by 15 th June 2010.

+ 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	200
4.2 Development	-
Total	200

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	733	668
5.2 Deposits at call	-	49
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	733	717

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 69/1972	Burkin Project Outright ownership	100%	0%
6.2 Interests in mining tenements acquired or increased	Nil	Nil	Nil	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.

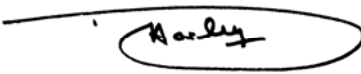
	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference +securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	155,965,312	155,965,312		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	6,645,015	6,645,015	10 cents	10 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>	1,800,000 1,800,000 400,000 400,000		<i>Exercise price</i> 30 cents 35 cents 35 cents 40 cents	<i>Expiry date</i> 30/11/2010 30/11/2010 04/05/2012 04/05/2012
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.

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: Date: 29 January 2010
(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* applies 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.