

**GUNSON RESOURCES LIMITED
QUARTERLY REPORT FOR THE PERIOD ENDED
31 DECEMBER 2012**

HIGHLIGHTS

COBURN ZIRCON DEVELOPMENT PROJECT

- ***POSCO and its Korean investment fund partner have confirmed in writing that they will promptly execute the Coburn Joint Venture Agreement if Gunson meets a commercial condition by the end of February, 2013.***
- ***The Korean commercial condition is to revise the Project operating budget to meet an agreed financial return hurdle.***
- ***Mine pit optimisation, along with collaboration with a small number of key contractors and equipment suppliers in relation to improving mine and mineral processing plans is on schedule for completion in late February 2013.***
- ***High level financial modelling of the main aspects of this work program has provided confidence that the Korean commercial condition can be met.***

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

1.1 POSCO & Korean Investment Fund Participation

In mid December 2012, both POSCO and the Korean resources investment fund, who together comprise the POSCO SPV, confirmed to Gunson that they had progressed their investment decision to the point where the proposed Joint Venture Agreement (JVA) had now been substantially agreed and would be executed subject only to normal internal approvals and the following commercial condition being satisfied by 28 February 2013. This one commercial condition is final resolution of the Project operating budget.

Once executed, the POSCO SPV's investment in the Project will be made on the terms and conditions set out in the JVA, including the payment of the initial earn-in amount of \$7 million once Gunson has secured funding commitments to meet its share of Project development costs.

Additional work is in progress to further increase the financial returns of the Project, with a review of operating costs including a pit optimisation study scheduled for completion in February 2013. The Company is confident that it can achieve cost reductions and introduce other measures by late February 2013, which would provide significant benefits to both Gunson shareholders and the POSCO SPV.

1.2 Operating Cost Review – Phase 1

On 28 November 2012, the Company announced that a review of Project operating costs had resulted in a 6.3% reduction in the life of mine estimated annual average operating cost, from \$85.1 million to \$79.8 million. Over the 23 year mine life, this translates to an operating cost reduction of \$122 million.

In particular, this review provided important insights into the key drivers of mining and mineral processing costs, highlighting potential areas of the mining/production methods and their interaction that in turn revealed opportunity for cost reduction. The second phase of the Operating Cost Review, designed in part to meet the POSCO SPV commercial condition and discussed below, is focused on quantifying these potential improvements.

1.3 Operating Cost Review – Phase 2 & Optimisation

In its announcement on 28 November 2012, Gunson advised that additional work was in progress to further increase the financial returns of the Project, including a pit optimisation study. This work is on schedule for completion in late February 2013 and includes collaboration with a small number of key contractors and equipment suppliers in relation to optimising mining and mineral processing plans.

High level financial modelling of the main aspects of this work program has provided increased confidence that the POSCO SPV commercial condition can be met.

1.4 Permitting

Environmental baseline surveys along the proposed 110 kilometre lateral gas pipeline route have been completed and reports submitted to State government regulators in late December 2012. Importantly, no major environmental issues were identified by the baseline surveys and their completion gives added confidence that the 15 month delivery period estimated in last year's Front End Engineering Design (FEED) study can be met.

The Company's environmental consultant, URS, has completed the application documents required for the remaining two government approvals needed before mining commences. These documents are to be reviewed by the Company over the next several months, prior to their submission to State regulators. The added delay will allow incorporation of all changes to the mine plan from the current optimisation study, into the final documents submitted to the regulators.

1.5 Zircon Market

In its December 2012 quarterly production report released on 17 January 2013, the world's largest zircon producer, Iluka Resources Limited, commented that significant price weakness had resulted from a competitor auction in December, 2012. Prices below \$US1,500 per tonne were reported, with the percentage reduction from mid 2012 prices exceeding that of the iron ore market in the second half of 2012.

On 17 January 2013, Bell Potter Research observed that there are signs the zircon market may have bottomed, concurring with Iluka's observation that modernisation, thrifting and substitution by zircon consumers is largely complete. If the zircon market follows the recovery path of the iron ore market in the past several months, prices just above \$US2,000 per tonne could be expected in the medium term.

The above comments on zircon price recovery are supported by a growing number of broker analysts, including Nomura Securities in Sydney, who in their 30 January 2013 research report predicted that the zircon price will recover from \$US 1,375 per tonne in the first half of 2013 to \$US 1,750 per tonne in the second half. Nomura also report positive statements this month from American pigment producers Dupont and Tronox regarding improving fundamentals and normalisation of customer inventories from very low levels late last year.

1.6 Offtake

Potential zircon customers in the ceramic industry were identified at the annual TZMI Mineral Sands Congress in Hong Kong in early November 2012 and a draft contract sent to one in December 2012. However, as stated previously, terms of zircon offtake will not be finalised until the JVA with the POSCO SPV has been executed.

Finalisation of HiTi offtake has been postponed until the current optimisation study has been completed in February 2013.

1.7 Hamelin Pastoral Lease

As a result of the cost reduction study discussed above, the Company's conditional agreement to purchase the Hamelin pastoral lease was allowed to lapse.

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

The Company's farm-in partner Noranda Pacific Pty Limited (Noranda), part of the Xstrata Copper Business Unit, spent \$26,265 during the quarter, bringing its cumulative expenditure to \$6,610,110.

Noranda's expenditure was mainly focused on laboratory testing of drill core from hole MGD 70 at the Elaine Pinchout Prospect described in the previous quarterly report, along with geological/geophysical modelling of the surrounding area. Very low resistivity measurements from samples of the fractured carbonate rock intersected in MGD 70 adequately account for the geophysical anomaly tested by this hole and no further work is planned in the Elaine area. Project review and target assessment are the main activities planned for the March 2013 quarter.

Noranda has until mid June 2013 to meet its \$10 million farm-in expenditure target to earn a further 24% Joint Venture Interest. Cumulative expenditure to

date is approximately \$3.4 million short. If the \$10 million expenditure target is not achieved, Noranda's equity in the Project will remain at 51% and a 51:49% Noranda-Gunson Joint Venture will be triggered, with Gunson able to elect not to contribute to ongoing expenditure after each annual budget is agreed. In the event that Gunson elects not to contribute funding, its interest will dilute in accordance with an agreed formula.

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

No further progress since the previous report.

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

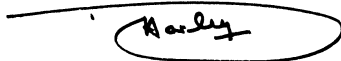
Negotiations with the Central Lands Council regarding two of the Company's exploration licence applications on aboriginal freehold land, ELAs 23946 and 23949 have reached an advanced stage, with only one issue requiring approval of the traditional aboriginal land owners to be resolved.

A meeting of the traditional land owners is expected to consider this issue in the first quarter of 2013.

6 FINANCIAL

At 31 December 2012, the Company had \$405,000 in cash and short term deposits. Since the end of 2012, a R&D tax rebate of \$358,060 from the Australian Tax Office was received on 18 January 2013.

A share placement to raise about \$2 million, largely to fund completion of the Coburn Project optimisation study, is in progress. This placement is being arranged during a two day trading halt in place today and tomorrow, 31 January 2013 and 1 February 2013 respectively.



**D N HARLEY
MANAGING DIRECTOR**

31 January 2013

Attachment

- **Appendix 5B**

Further enquiries, please contact:

David Harley, Managing Director

Phone: (08) 9226 3130

Email: enquiries@gunson.com.au

Website: www.gunson.com.au

David Waterhouse, Waterhouse

Investor Relations

Phone: + 61 3 9670 5008

Mobile: 0407 880 937

Email:

dwaterhouse@waterhouseir.com.au

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")

31 December 2012

Consolidated statement of cash flows

		Current quarter	Year to date (6 months)
		\$A'000	\$A'000
Cash flows related to operating activities			
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for (a) exploration & evaluation	(1,069)	(2,658)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(358)	(692)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	8	38
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other (R&D rebate)	-	-
Net Operating Cash Flows		(1,419)	(3,312)
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	(2)
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		-	(2)
1.13	Total operating and investing cash flows (carried forward)	(1,419)	(3,314)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,419)	(3,314)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	2,088
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 (\$48k share issue costs and \$241k borrowing establishment costs)	(241)	(289)
	Net financing cash flows	(241)	1,799
	Net increase (decrease) in cash held	(1,660)	(1,515)
1.20	Cash at beginning of quarter/year to date	2,065	1,920
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	405	405

Cash at end of quarter does not include the 2012 Research and Development tax offset claim of \$358,060 which was received shortly after half year end.

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	95
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 December 2012. Xstrata Copper, through its subsidiary Noranda Pacific Pty Limited (Noranda) has a cumulative expenditure of \$6,610,110. Noranda spent \$26,265 during the December 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	1,000
4.2 Development	-
4.3 Production	-
4.4 Administration	300
Total	1,300

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	405	2,065
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	405	2,065

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			
6.2	Interests in mining tenements acquired or increased			

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

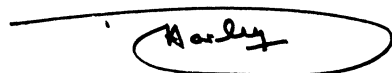
Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	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	238,254,823	238,254,823		
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				
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

Compliance statement

+ See chapter 19 for defined terms.

- 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.

A handwritten signature in black ink, appearing to read 'Harley', is enclosed within a hand-drawn oval.

Sign here: David Harley
 (Managing Director)

Date: 31 January 2013

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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