

**GUNSON RESOURCES LIMITED**

**QUARTERLY REPORT FOR THE PERIOD ENDED  
30<sup>th</sup> SEPTEMBER 2005**

**HIGHLIGHTS**

- Coburn Project Public Environmental Review progressed to its latter stages at the end of the quarter, with environmental approvals expected in early 2006.
- Value engineering study on the Coburn minesite concentrator concludes that the capital cost of this plant is almost identical to that estimated in the Bankable Feasibility Study (BFS) of December 2004.
- Firm prices received to date for the other items of equipment for the proposed Coburn mine are very similar in most cases to the December 2004 BFS estimates.
- Product offtake and toll treating negotiations for the Coburn concentrates are well advanced and scheduled for completion to MOU stage by the end of 2005.
- Discussions with potential debt and equity financiers continued, with lending offers expected by early 2006.
- The keenly anticipated drilling program for copper on the Mount Gunson Project now firmly scheduled to commence in late 2005.

**1 COBURN MINERAL SAND PROJECT  
(WESTERN AUSTRALIA)**

Effort during the quarter was focused on obtaining all the required approvals and contracts to enable a decision to proceed with mine development as soon as practicable.

The 8 week public review period of the Public Environmental Review (PER) was completed on 29<sup>th</sup> August and 18 submissions from government departments, non-government organisations, the local shire and some individuals were received. The main issues raised in the submissions were the impact on district groundwater supplies, the effectiveness of rehabilitation after mining and the impact on the nearby World Heritage Area of developing the northernmost open pit, Pit 10. The Company responded to the submissions on 4<sup>th</sup> October and the Western Australian Environmental Protection Authority (EPA) has indicated that it is aiming to complete its report to the State Minister for the Environment in early December 2005. A decision by the minister is anticipated early next year.

Negotiations with potential offtake partners, equipment suppliers and service providers are at an advanced stage and progress is outlined below.

**1.1 Public Environmental Review**

The main concession made by the Company in its response to the public submissions discussed above was to remove the northern third of the Amy Zone ore body from the PER, Pit 10. Gunson has committed to complete more studies

to demonstrate that successful rehabilitation can be achieved and that Pit 10 can be developed without adverse impact on the World Heritage Area, before resubmitting this northern pit for approval in several years time. Mining is not scheduled in this area of the Project until year 13.

Removal of the northern area from the current PER has largely defused two of the main issues raised in the public submissions. In particular, the drawdown effects on district groundwater supplies and potential for brackish groundwater discharge into Shark Bay would be negligible. The remaining major issue, rehabilitation after mining, is to be managed by supporting an independent research organisation aimed at maximising rehabilitation efficiency as part of the Company's rehabilitation management plan.

Now that the contentious northern Pit 10 has been removed from the current PER, completion of the approval process should proceed in a timely manner. The anticipated timetable for the balance of the PER process is outlined below:

- EPA report to the Environment Minister released - early December 2005
- Two week public appeals period - mid to late December 2005
- Ministers decision - early 2006
- Mining approvals - early 2006

## 1.2 Product Marketing

A further visit to potential offtake and joint venture partners in China was made in September. Discussions with other local and international parties interested in purchasing and/or toll treating the Coburn heavy mineral concentrates were also held during the quarter.

The Company now has a number of attractive alternatives for the commercial development of the Coburn Project and is in the process of making a decision on which alternative to accept. A decision is expected before the end of 2005.

## 1.3 Minesite Concentrator and Bucket Wheel Excavators

In late August, Roche Mining – Mineral Technologies (Roche) completed a value engineering study on the minesite concentrator they had designed and costed for the Bankable Feasibility Study (BFS) last year. Despite significant increases in material and labour costs since 2004, the capital cost estimate for the concentrator came in at approximately the same as the BFS estimate, mainly via the omission of the wet high magnetic intensity separation stage. This results in a 4% higher waste heavy mineral content in the concentrates but slightly reduces the operating costs.

Roche are currently preparing a fixed price contract for the supply of a 2,200 tonne per hour concentrator, which is expected in November, 2005.

The other large equipment supply contract for the proposed mine is for two bucket wheel excavators – one to mine the ore and the other to mine the overburden. Suppliers of this equipment have indicated that current pricing will be similar to or less than the figure quoted in the BFS last year.

## 1.4 Mine Service Contracts

Quotes for road construction, soil removal and overburden stacking have been received. Finalisation of contracts for these services, along with negotiation of electricity supply, concentrate haulage, borefield and other ancillary contracts should be completed in the current quarter.

### **1.5 Financing**

Discussions with selected banks were held during the quarter and firm expressions of interest from these banks will be invited in November. Potential debt levels have been indicated and lending offers are expected in January 2006.

### **1.6 Resource Calculations**

All assay results from the 2005 drilling program have been received and geological interpretation of the cross sections in the southernmost 3.5 kilometres of the ore body has commenced. A proven reserve for this zone should be ready by mid November.

### **1.7 Overall Schedule**

Assuming statutory and financial approvals in early 2006, the Company's schedule for commissioning of a mining operation at Coburn is the latter part of the March quarter, 2007. This is three months later than the schedule forecast previously.

## **2 MOUNT GUNSON COPPER PROJECT (SOUTH AUSTRALIA)**

The proposed drilling program for copper at Chianti and Moseley Dam prospects, which was scheduled for late September, was again postponed due to the shortage of drilling rigs. A drill has now been confirmed for late 2005 and will begin the program at Chianti Prospect.

In August, the Company reduced the area of its tenements by 20% to 1,473 square kilometres. Due to the significant under expenditure at Mount Gunson in 2004/2005, the South Australian Department of Primary Industry and Resources increased the minimum exploration expenditure on the Project for 2005/2006 to \$250,000. This requirement is 11% above the previous minimum expenditure.

## **3 SHELL LAKES PROJECT (WESTERN AUSTRALIA)**

Attempts to attract a joint venture partner during the quarter were unsuccessful and the Project was abandoned in early October.

## **4 TENNANT CREEK GOLD-COPPER PROJECT (NORTHERN TERRITORY)**

A response from the Central Land Council (CLC) on the Company's comments regarding a draft legal agreement for access to aboriginal land was received on 7<sup>th</sup> September. Some amendments requested by the Company have been accepted by the CLC but others have not. Resolution of the outstanding issues is unlikely before next year.

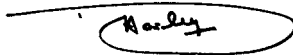
**5 BIRKIN NICKEL PROJECT  
(WESTERN AUSTRALIA)**

Advice has been received that the Company's single exploration licence application at Burkin should be granted shortly. Reconnaissance ground magnetic and gravity geophysical surveys are planned once the tenement is granted.

**6 FINANCIAL**

At 30<sup>th</sup> September, the Company had \$1.1 million in cash and short term deposits. This does not include a \$0.3 million R&D refund from the Australian Tax office due in early November 2005.

Forecast exploration and evaluation expenditure for the December quarter is \$500,000.



**D N HARLEY  
MANAGING DIRECTOR**

**24<sup>th</sup> October 2005**

**Investor enquiries:**

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

# 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")

30 September 2005

### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (...3... months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration and evaluation	(662)	(662)
(b) development	-	-
(c) production	-	-
(d) administration	(228)	(228)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	16	16
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
<b>Net Operating Cash Flows</b>	<b>(874)</b>	<b>(874)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(3)	(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)	-	-
<b>Net investing cash flows</b>	<b>(3)</b>	<b>(3)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(877)</b>	<b>(877)</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(877)	(877)
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	964	964
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Share Issue costs	(49)	(49)
<b>Net financing cash flows</b>		915	915
<b>Net increase (decrease) in cash held</b>		38	38
1.20	Cash at beginning of quarter/year to date	1,044	1,044
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	1,082	1,082

**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	18
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 fees during the quarter	18
--	----

**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

Nil
-----

**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	-	-

+ See chapter 19 for defined terms.

**Estimated cash outflows for next quarter**

		\$A'000
4.1	Exploration and evaluation	500
4.2	Development	-
<b>Total</b>		<b>500</b>

**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	477	240
5.2	Deposits at call	605	800
5.3	Bank overdraft		
5.4	Other (provide details)		
<b>Total: cash at end of quarter (item 1.22)</b>		<b>1,082</b>	<b>1,040</b>

**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 3008 (Mt Gunson Project)	100%	100%	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 <b>Preference +securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	76,772,145	76,772,145		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	4,383,180	4,383,180		
7.5 <b>+Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> <i>(description and conversion factor)</i>	100,000 200,000 1,000,000	- - -	<i>Exercise price</i> 20 cents 20 cents 20 cents	<i>Expiry date</i> 16/12/07 07/03/06 16/09/08
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 <b>Debentures</b> <i>(totals only)</i>				
7.12 <b>Unsecured notes</b> <i>(totals only)</i>				

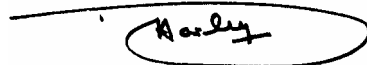
+ See chapter 19 for defined terms.



## 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 4).
- 2 This statement does /does not\* (*delete one*) give a true and fair view of the matters disclosed.

Sign here:



Date: 24<sup>th</sup> October 2005

(Director)

Print name: D N 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.