

**GUNSON RESOURCES LIMITED  
QUARTERLY REPORT FOR THE PERIOD ENDED  
30 SEPTEMBER 2011**

**HIGHLIGHTS**

**COBURN ZIRCON DEVELOPMENT PROJECT**

- *Significant progress has been made with potential strategic investors and offtake parties, with negotiations at an advanced stage.*
- *“Road shows” hosted by institutional broker Deutsche Bank to Melbourne and Sydney in September and Europe-North America in October 2011, have confirmed strong institutional interest in financing the proposed Coburn mine development.*
- *All assays from the 166 hole infill and extensional drilling program completed in May 2011 have now been received, paving the way for a resource update in the central and northern parts of the Project in the December 2011 quarter.*
- *Processing of the 7 tonne bulk sample collected in May 2011 is essentially complete, with final results to be announced in the latter half of November.*

**MOUNT GUNSON COPPER PROJECT**

- *The second and last hole of the 2011 deep drilling program at Emmie Bluff Prospect, funded by Xstrata Copper subsidiary Noranda Pacific Pty Limited (Noranda) intersected a 6 metre sulphide rich zone from 946.7 m, containing the copper sulphide chalcopyrite, with lesser iron sulphide as pyrite. Assays of this zone are expected in mid November, 2011.*
- *Negotiations with a small-mine operator proposing to develop the MG 14 copper-cobalt-silver deposit excised from the Noranda farm-in during 2009, have commenced, with the object of concluding a profit sharing agreement, requiring the small-mine operator to raise the necessary finance.*

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

**1.1 Permitting**

The second Non Substantial Change to the Public Environmental Review (NSCA2) was approved by the Western Australian Environmental Protection Authority (EPA) on 21 September, 2011. Approval of NSCA 2 paves the way for commencement of construction.

Priority will now be given to approval of the Company's Groundwater Management Plan, which must be approved before mining can commence, as opposed to construction.

**1.2 Infill and Extensional Resource Drilling**

All assay results from the May 2011 drilling program in the central and northern parts of the Project have now been received. Mineral characterisation studies of selected intersections is the

next major step, prior to processing by the Company's resource consultant. Results of this work are expected by the end of the December quarter, 2011.

### 1.3 Metallurgical Testwork

Processing of the 7 tonne bulk sample collected in May 2011 is essentially complete, with final product samples awaiting chemical analysis. Results of the test work will be released after the chemical analyses have been received.

### 1.4 Water Bore and Road Construction

As stated in the previous quarterly report, provision of water for road construction is a critical path item on the development timetable of the Project.

Contractor Bunbury Drilling has received all steel casing and other equipment required to complete the 180m water bore and the work should be completed in December, 2011.

### 1.5 Further Market Improvement

The zircon and titanium dioxide mineral markets have continued to strengthen, with a lack of new supply expected to result in sustained higher prices.

In September 2011, industry leader Iluka Resources Limited published a "staircase" graph, showing the quarterly zircon prices achieved in 2010 and 2011. From \$US780 per tonne *fob* in the first quarter of 2010, the premium grade zircon price trebled to \$US2,420 in the final quarter of 2011, with Iluka noting that supply shortages are expected to lead to further price rises.

High grade titanium dioxide mineral prices are also increasing rapidly, with respected industry consultants TZMI predicting a further 70% rise in January 2012. Such an increase would lift the price of rutile to over \$US2,000 per tonne *fob*, nearly four times its price in early 2010.

Adding to the upward pressure on high grade titanium dioxide mineral prices is the decision of the Chinese government in its 2011-2015 five-year plan to encourage the pigment industry in changing to the chloride process from the more pollutive sulphate process. At present, the bulk of Chinese pigment manufacturers use the sulphate process but transition to the chloride process would be beneficial to the Coburn Project, which will produce rutile and high titanium leucoxene suitable for use in Chinese chloride pigment production.

### 1.6 Project Financing

The ongoing zircon and high grade titanium dioxide mineral price rises discussed above have substantially raised interest in the Project from strategic investors, potential offtake parties and financiers.

Two "road shows" hosted by institutional broker Deutsche Bank to Melbourne and Sydney in September and Europe-North America in October 2011 revealed strong institutional interest in financing the proposed Coburn mine development. Of particular interest was that after two large undeveloped African greenfields mineral sand projects were financed in mid 2011, Coburn is now the only remaining fully permitted greenfields mineral sands development project in the world with a completed DFS.

Negotiations with several well-credentialed potential strategic investors and offtake parties made significant progress during and after the quarter.

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

A two hole deep drilling program at Emmie Bluff Prospect, funded by the Company's farm-in partner Noranda Pacific Pty Limited (Noranda), part of the Xstrata Copper Business Unit, was completed on 4 October 2011.

The first hole in the program, MGD 68, was designed to test the south western flank of the 5 km long Emmie Bluff gravity anomaly shown in Figure 1. The top of the basement in MGD 68 was

intersected at 876 m, where it passed into altered felsic volcanic rocks interpreted to be Gawler Range Volcanics. At 914 m, the main rock type changed to chlorite-hematite altered sandstone until 950 m, where it passed into granitic to more mafic gneiss until the end of the hole. Hematite-chlorite alteration strengthens with increasing depth, mirrored by increasing patchy magnetite.

The second hole of the program, MGD 69, approximately 2km north west of MGD 68 (Figure 1), again tested the western flank of the Emmie Bluff gravity anomaly and did intersect copper sulphides in basement rocks between 946.7-952.6 m. In contrast to MGD 68, the top part of the basement in MGD 69 is brecciated and rich in hematite, with a 6 m thick sulphide rich zone from 946.7 m containing the copper sulphide chalcopyrite, with lesser iron sulphide as pyrite. Below 955 m to the end of the hole, the main rock type is variably hematite-altered sandstone. Assays from the sulphide rich zone are expected in mid November.

The next hole in the drilling program was to be first pass drilling of a gravity-magnetic geophysical target 1.8 k m east of the north east shore of Lake Windabout but drilling was postponed until 2012 due to access issues.

**3 MOUNT GUNSON COPPER – MG 14 & WINDABOUT EXCISED AREA (100%),  
South Australia**

Negotiations with one of the two small-mine companies that expressed interest in a profit sharing agreement on the MG14 deposit, commenced during the quarter.

This company proposes to establish a solvent extraction – electrowin plant near the MG 14 deposit to produce copper, cobalt and silver metal, and is currently seeking finance for its proposal.

**4 FOWLERS BAY NICKEL PROJECT (100%), South Australia**

The detailed aeromagnetic survey over areas of interest discussed in the previous quarterly report was completed on 26 October, 2011. Results from this survey will be interpreted in the December 2011 quarter, with a view to selecting areas for infill Transient Electromagnetic (TEM) ground geophysical surveys. Further drilling will be considered after the results of these surveys have been interpreted.

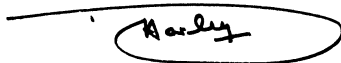
**5 TENNANT CREEK GOLD-COPPER PROJECT (100%), Northern Territory**

Drilling of the gravity-magnetic geophysical anomaly on the Gosse 5 exploration licence has been postponed to December 2011, due to rig availability.

A one year extension of time for completion of negotiations with the traditional aboriginal land owners reported in the previous quarterly report was signed by the Company on 26 October 2011.

**6 FINANCIAL**

At 30 September 2011, the Company had \$2.57 million in cash and short term deposits. Exploration expenditure was \$612,000 and forecast exploration expenditure for the December quarter is \$400,000.



**D N HARLEY  
MANAGING DIRECTOR**

**31 October 2011**

Attachments

- Figure 1 Emmie Bluff Prospect – Basement Drilling 2011
- Appendix 5B

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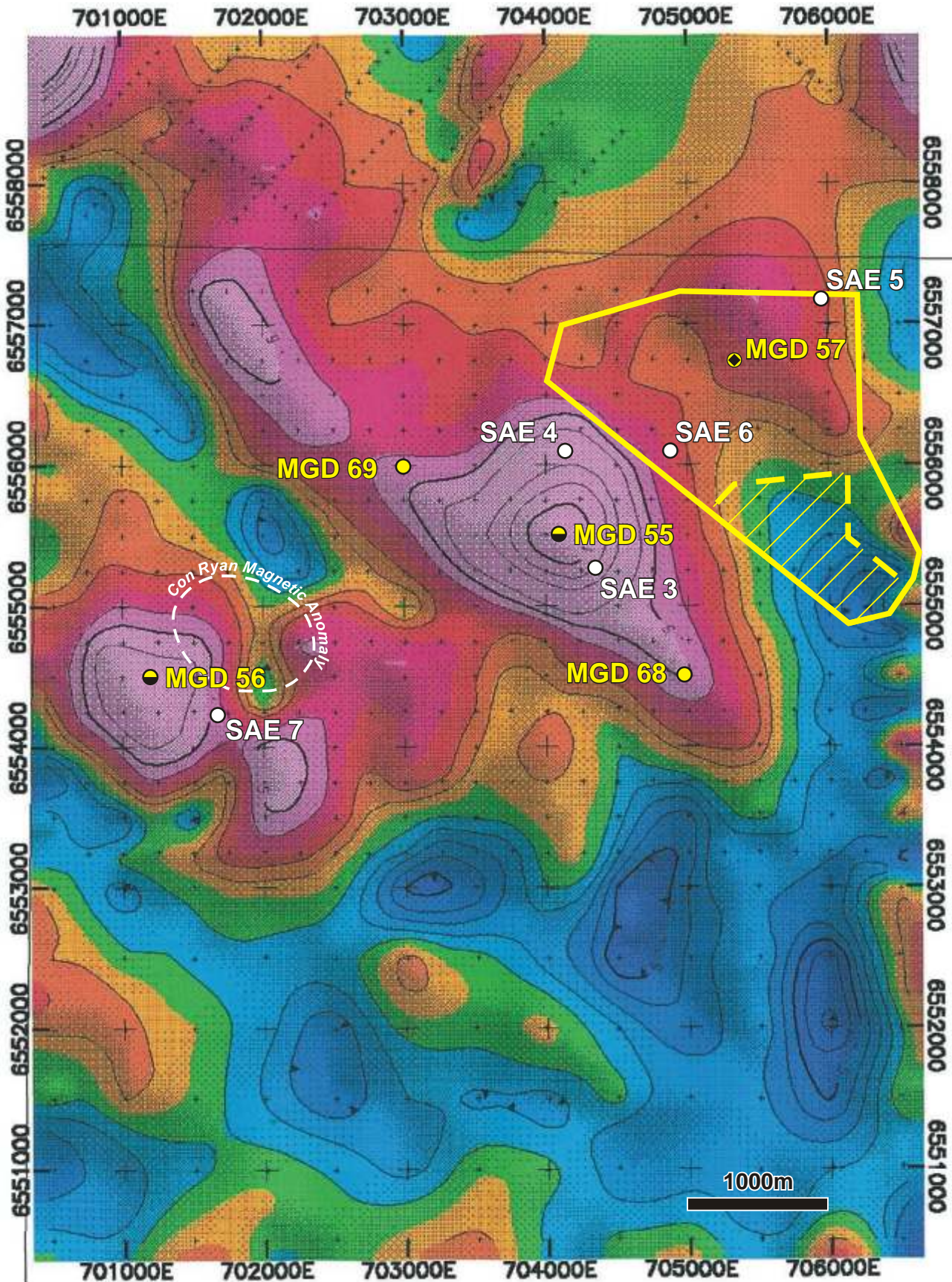
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**ATTRIBUTION**

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

- 2011 diamond drill hole
- 2010 diamond drill hole
- 2009 diamond drill hole
- Old MIM diamond drill hole 1980s
- ▭ Copper resource in Cover Sequence
- ▨ Higher grade zone

<b>Gunson Resources Ltd</b>	
<b>Mount Gunson Project Emmie Bluff Prospect Residual Gravity and Basement Drilling</b>	
Scale : 1:40,000	File : Emmie Bluff Gravity & Basement Drilling.cdr
Date : 10 Oct 2011	<b>Figure 1</b>

# 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")

30 September 2011

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (3 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(612)	(612)
(b) development	-	-
(c) production	-	-
(d) administration	(90)	(90)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	10	10
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>(692)</b>	<b>(692)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
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>-</b>	<b>-</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(692)</b>	<b>(692)</b>

+ See chapter 19 for defined terms.

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

1.13	Total operating and investing cash flows (brought forward)	(692)	(692)
	<b>Cash flows related to financing activities</b>		
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 (share issue costs)	-	-
	<b>Net financing cash flows</b>	-	-
	<b>Net increase (decrease) in cash held</b>	(692)	(692)
1.20	Cash at beginning of quarter/year to date	3,248	3,248
1.21	Exchange rate adjustments to item 1.20		
1.22	<b>Cash at end of quarter</b>	2,556	2,556

**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	141
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 September 2011. Xstrata Copper, through its subsidiary Noranda Pacific Pty Limited (Noranda) has a cumulative expenditure of \$5,210,885. Noranda spent \$912,285 during the September 2011 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	400
4.2 Development	-
4.3 Production	-
4.4 Administration	150
<b>Total</b>	<b>550</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	1,556	1,248
5.2 Deposits at call	1,000	2,000
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter</b> (item 1.22)	<b>2,556</b>	<b>3,248</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		
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 <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>	208,854,823	208,854,823		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
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>	250,00 400,000 400,000 4,000,000 1,600,000		<i>Exercise price</i> 12 cents 35 cents 40 cents 27 cents 29 cents	<i>Expiry date</i> 23/12/2013 04/05/2012 04/05/2012 30/11/2014 22/06/2015
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 <b>Debentures</b> <i>(totals only)</i>				

+ See chapter 19 for defined terms.

