

**GUNSON RESOURCES LIMITED**

**QUARTERLY REPORT FOR THE PERIOD ENDED  
30<sup>th</sup> June 2004**

**HIGHLIGHTS**

- Work to complete the Coburn Mineral Sand Project bankable feasibility study (BFS) continued and is on track for completion in December 2004.
- Drilling is nearing completion at Coburn to upgrade approximately 210 million tonnes of inferred resources to indicated category. A one kilometre wide extension of the mineralisation has been observed on two traverses extending west of previous drilling.
- Metallurgical test work designed to improve final Coburn mineral product quality and circuit efficiency has achieved both objectives. Biggest improvement is the production of a high titanium product containing over 91% TiO<sub>2</sub> comprising all the recoverable leucoxene and rutile.
- Roche Mining – Mineral Technologies commenced design and costing of the Coburn mine site mineral processing circuits to BFS standard. Early work indicates capital costs to be substantially less than the “order of magnitude” estimates in the BFS Progress Report and closer to the PFS Review estimates.
- In principle agreement reached with the registered native title claimants for the grant of mining leases over the southern part of the Coburn Project. Legal documentation is in progress.
- Drilling of stratabound copper targets at Mount Gunson was unsuccessful.
- New copper target identified at Mount Gunson, 1-2 kilometres north of the Moseley Dam Prospect, which has no drilling and a strong copper in soil anomaly. Geological setting of this area is interpreted to be similar to that hosting the Mount Gunson copper deposits, 20 kilometres to the northwest.

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

Work on the bankable feasibility study (BFS) continued during the quarter, the main activities being resource definition drilling, metallurgical test work, engineering design and costing, and baseline environmental studies. The BFS is on schedule for completion in December 2004.

### **1.1 Resource Definition Drilling**

Drilling commenced on 22<sup>nd</sup> June to upgrade approximately 210 million tonnes of inferred resources to indicated category in the southern 40% of Amy Zone, along strike to the north and south of the Amy South detailed infill drilling grid (Figure 1).

The drilling south of this detailed infill grid was completed on 9<sup>th</sup> July. It comprised 171 holes for 4,005 metres on six east-west traverses 1 kilometre apart. Each traverse averaged 2.8 kilometres in length, the hole spacing being 100 metres. Completion of this second phase infill program brings the drill pattern to 500 metres by 100 metres, which based on the experience in 2003 with the Amy South detailed infill grid, should be sufficient to upgrade the inferred resource to indicated status.

Drilling immediately north of the detailed infill grid is progressing well and three of the five east-west traverses have been completed to date (Figure 1). Extensions of the mineralisation to the west of previous drilling have been observed over an average width of a kilometre on two traverses and the mineralisation is still open to the east.

Completion of the above drilling is expected to bring the overall indicated resource to 340 million tonnes, sufficient for 10 years production according to the following schedule:

14 million tpa in years 1 and 2  
28 million tpa in years 3 and 4  
42 million tpa in years 5-10.

Assuming that production continues at a rate of 42 million tonnes per annum after year 10, the present resource could sustain mining for a further 8 years. However, further drilling in the northern 60% of Amy Zone, not covered in the present infill program, may further enlarge the overall resource beyond the present 690 million tonnes at 1.35% heavy minerals.

Drilling to convert a small proportion of the Amy Zone South indicated resource to measured status will be considered once the present program is completed.

## 1.2 Groundwater Drilling

A six hole groundwater drilling program designed to establish water quality, water table depth and sustainable supply is scheduled to commence on 22<sup>nd</sup> July 2004. This program comprises two deep holes to about 425 metres each at Amy Zone South (Figure 1) and four shallow holes to some 50 metres each in the northern part of Amy Zone. Estimated completion is in September 2004.

## 1.3 Metallurgical Test Work

A metallurgical test work program designed by Roche Mining - Mineral Technologies to optimise the non-magnetic circuits in the mineral separation plant commenced on 21<sup>st</sup> June 2004. This two month program is designed to improve final mineral product quality and quantity while increasing circuit efficiency, with the aim of reducing overall capital and operating costs.

Work to date has significantly improved circuit efficiency and produced two non-zircon products with better marketing potential than previous studies. The biggest improvement is the production of a high titanium product containing over 91% TiO<sub>2</sub>, which is made up of all the recoverable leucosene and rutile. The proportion of primary zircon and ilmenite has also increased substantially.

Final mineral products from this test work will be provided to potential customers in late August 2004.

## 1.4 Mining Studies

Former Consolidated Rutile mining engineer Phillip McMurtrie commenced work on the BFS mining study in early July. Mr McMurtrie worked in several roles including mine planning and feasibility studies at the North Stradbroke Island mineral sand mine between 1990-2003. The study will focus on overall mine planning including pit optimisation, tailings disposal, rehabilitation and detailed scheduling.

## 1.5 Engineering Design/Costing

Roche Mining - Mineral Technologies has been commissioned to complete to BFS standard the design and costing of the mine site mineral processing circuits and mineral separation plant. Early work by Roche indicates that capital costs for the mine site concentrators will be substantially less than the "order of magnitude" estimates in the BFS Progress Report received on 6<sup>th</sup> April 2004, and closer to the estimates in the PFS Review listed in the Company's 2003 Annual Report.

## **1.6 Environment and Licensing**

Baseline environmental studies have now been completed for flora, vertebrate fauna and soils/landforms. A radiation study has commenced with completion scheduled for early August 2004. The remaining baseline studies should be completed by late September 2004.

All studies are to be included in a Public Environmental Review document, which is scheduled for completion in December 2004.

An in principle agreement has been reached with the registered native title claimants for the grant of mining leases over the southern half of Amy Zone and legal documentation is in progress.

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

A two hole diamond drilling program designed to test stratabound copper targets on the western side of the Project was completed on 24<sup>th</sup> June.

### **2.1 23 Mile Tank Prospect**

The first hole, MGD 32, intersected the top of the target Tapley Hill Formation at 453 metres, some 150 metres below the depth predicted from the induced polarisation (IP) geophysical data. No copper mineralisation was observed in the hole and it was stopped in Tapley Hill Formation at 488 metres.

### **2.2 Moseley Dam Prospect**

Drill hole MGD 33 intersected the top of the target Tapley Hill Formation at 76 metres, some 200 metres above the depth predicted from the IP geophysical data. Minor copper sulphide mineralisation was observed within the upper Tapley Hill Formation, the best assay being 2 metres at 0.06% copper between 80-82 metres.

The hole passed through the base of the Tapley Hill Formation at 207 metres, where stronger lead-zinc but weaker copper mineralisation was encountered. The best intersection was 2 metres at 0.6% lead, 0.2% zinc and 0.01% copper between 204-206 metres. The hole was stopped in Pandurra Formation sandstone at 252 metres.

### **2.3 Interpretation**

Although the above intersections at Moseley Dam Prospect are clearly uneconomic, the elevated copper values on the upper contact of the Tapley Hill Formation provide encouragement for further exploration in an area located 1-2 kilometres to the north of MGD 33. This area has no drilling, a strong copper anomaly in reconnaissance soil samples and anomalous copper up to 0.13% at shallow depth in a drill hole to the east (Figure 2).

The interpreted geological setting of this area is considered similar to that hosting the Mount Gunson copper deposits, 20 kilometres to the northwest. The soil anomaly is a priority target for further shallow drilling later this year.

### **3 SHELL LAKES NICKEL & DIAMOND PROJECT (WESTERN AUSTRALIA)**

A ground based transient electromagnetic geophysical survey over three bulls eye magnetic anomalies in the southwestern part of the Project was completed on 15<sup>th</sup> May. This survey comprised 14 east-west traverses averaging 1.1 kilometres in length. No electrically conductive bodies were detected.

Discussions with potential joint venture partners for both the nickel and diamond opportunities have commenced.

### **4 FOWLER'S BAY NICKEL PROJECT (SOUTH AUSTRALIA)**

Grant of title to the single exploration licence application comprising this Project is expected in October.

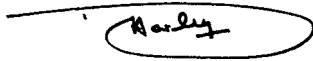
### **5 TENNANT CREEK GOLD - COPPER PROJECT (NORTHERN TERRITORY)**

The second Project exploration licence to be granted commenced its tenure on 12<sup>th</sup> May 2004. Grant of the remaining four exploration licence applications, all of which are on aboriginal land, awaits an initial meeting with the local aboriginal people in September 2004.

### **6 FINANCIAL**

At 30<sup>th</sup> June, the company had \$3.5 million in cash and short term deposits. Exploration and evaluation expenditure for the quarter was \$665,000, the bulk of which was spent on the Coburn Project.

Forecast exploration and evaluation expenditure for the September quarter is \$1.2 million.



**D N HARLEY**  
**Managing Director**  
**21<sup>st</sup> July 2004**

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**Attachments**

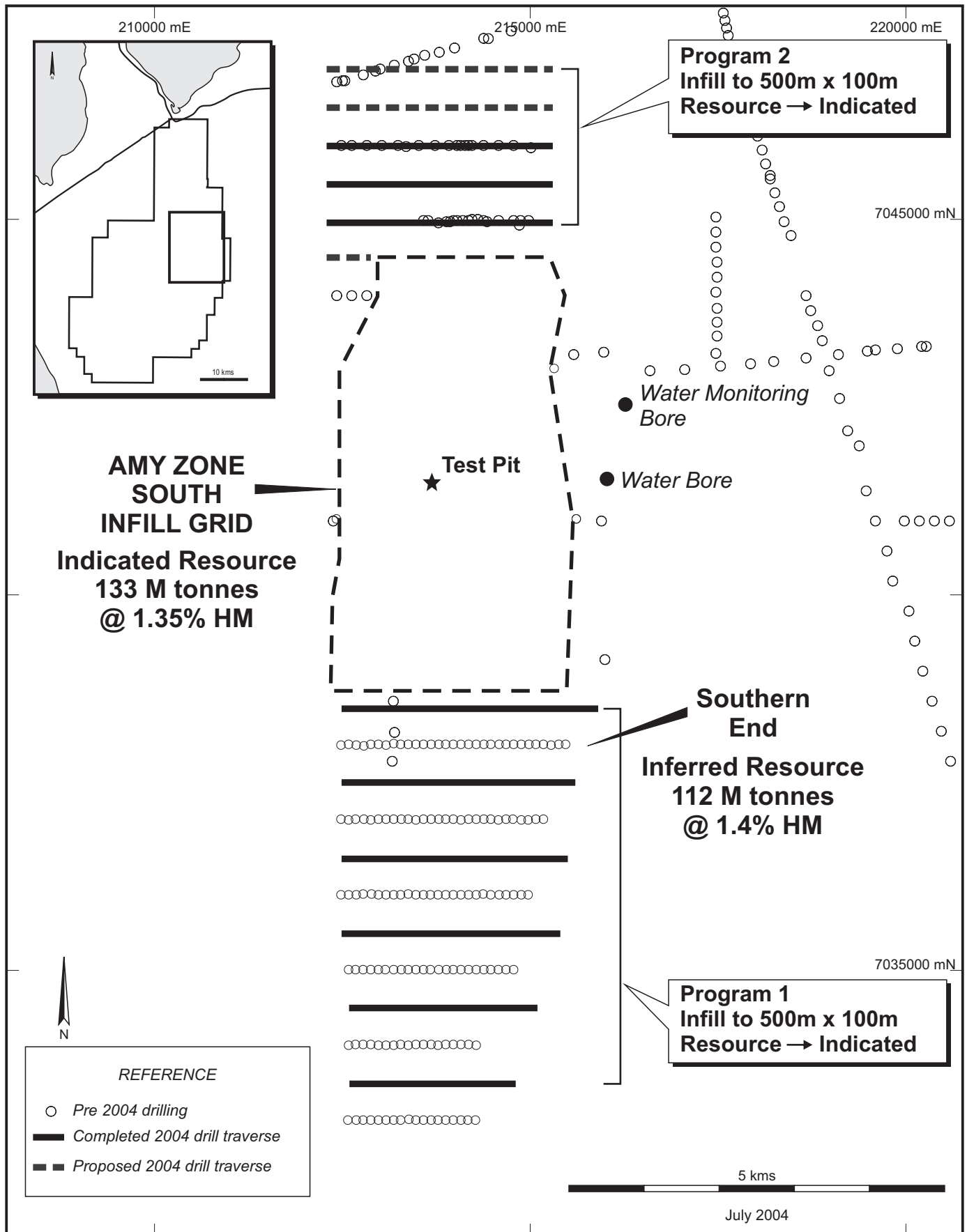
- Figure 1: Amy South Drilling Program 2004
- Figure 2: Moseley Dam Prospect

**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.*

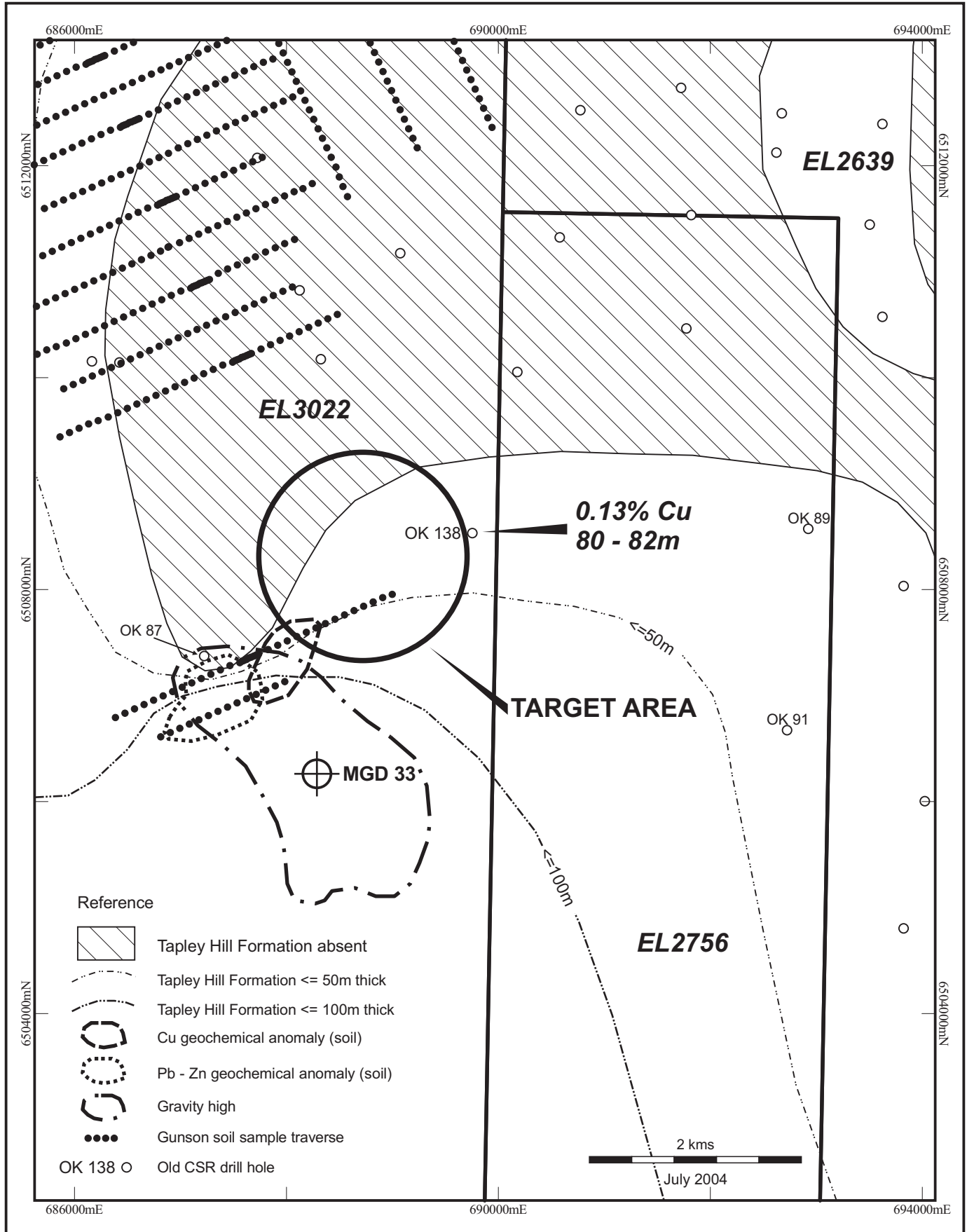
# Gunson Resources Limited

## Figure 1 AMY SOUTH DRILLING PROGRAM 2004



# Gunson Resources Limited

## Figure 2 MOUNT GUNSON PROJECT - MOUNT MOSELEY PROSPECT





# 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")

30 June 2004

### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date \$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	(665)	(2,344)
(b) development		
(c) production		
(d) administration	(81)	(502)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	37	112
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other – Receipts	-	8
- Mining Bonds		(15)
	(709)	(2,741)
<b>Net Operating Cash Flows</b>		
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a)prospects		
(b)equity investments		
(c) other fixed assets	(8)	(4)
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)		
	(8)	(41)
<b>Net investing cash flows</b>		
1.13 Total operating and investing cash flows (carried forward)	(717)	(2,782)

+ See chapter 19 for defined terms.

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

1.13	Total operating and investing cash flows (brought forward)	(717)	(2,782)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	-	5,216
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	-	(220)
	<b>Net financing cash flows</b>	-	4,996
	<b>Net increase (decrease) in cash held</b>	(717)	2,214
1.20	Cash at beginning of quarter/year to date	4,229	1,298
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	3,512	3,512

**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	54
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	45
Payments of Directors Fees	9

**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

+ 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	1,200,000
4.2 Development	-
<b>Total</b>	<b>1,200,000</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	112	530
5.2 Deposits at call	0	0
5.3 Bank overdraft	0	0
5.4 Other – Term Deposit	3,400	3,699
<b>Total: cash at end of quarter</b> (item 1.22)	<b>3,512</b>	<b>4,229</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	<b>Shell Lakes ELAs (WA)</b> ELA 69/1820-22 ELA 69/1824-25 ELA 69/1827-34	100%	100%	NIL
6.2 Interests in mining tenements acquired or increased	<b>Tennant Creek ELs (NT)</b> EL 23944 EL 23947	100%	NIL	100%

+ 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.*

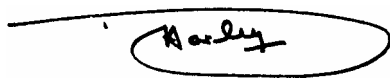
	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference securities</b> <i>(description)</i>	Nil			
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	Nil			
7.3 <b>+Ordinary securities</b>	64,300,000	64,300,000		
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>	Nil			
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>	100,000 400,000 1,000,000 Class A 3,125,000 Class B 150,000 3,125,000	- - - - - - -	Exercise Price 20 cents 20 cents 20 cents 20 cents 25 cents 25 cents	Exercise Period 16/12/02 – 16/12/07 17/9/03 – 7/3/06 17/9/03 – 16/9/08 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				
7.10 Expired during quarter	Nil			
7.11 <b>Debentures</b> <i>(totals only)</i>	Nil			

+ See chapter 19 for defined terms.

7.12	<b>Unsecured notes</b> ( <i>totals only</i> )	Nil	
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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.



David Harley  
Managing Director  
21<sup>st</sup> July 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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