

GUNSON RESOURCES LIMITED

**QUARTERLY REPORT FOR THE PERIOD ENDED
30th SEPTEMBER 2004**

HIGHLIGHTS

- Bankable feasibility study (BFS) on commercial development of the Amy Zone heavy mineral sand deposit at Coburn in Western Australia nearing completion.
- According to a report published by respected industry consultants TZMI in September 2004, Coburn is the second largest zircon development project in the world after the *Iluka Resources'* Douglas Project in Victoria, at a time when there is a significant shortage of zircon.
- Final saleable product samples from metallurgical testing of a bulk sample of Coburn ore have generated strong interest from potential offtake customers.
- New mining scheme developed for the Coburn project indicating lower costs than previously estimated.
- Shallow higher grade mineralisation revealed in assay results from drilling at Amy South completed in July.
- Agreement concluded with the Nanda aboriginal people for mining development at Coburn has paved the way for grant of mining leases on the southern half of Amy Zone in the December 2004 quarter.
- At Mount Gunson, a proposed drilling program for copper has attracted a 50% drilling subsidy from the South Australian Government under its 2004/2005 exploration acceleration program.
- New nickel sulphide exploration project in Western Australia initiated as part of the BHP Billiton agreement.
- Exploration licence granted over the Fowler's Bay nickel sulphide project in South Australia, along strike to the south from areas under active exploration by Canadian major Inco Ltd.

1 COBURN MINERAL SAND PROJECT (WESTERN AUSTRALIA)

Coburn continued to be the main focus of the Company's activity, accounting for 92% of exploration expenditure during the quarter. The main activities were resource definition drilling, metallurgical test work, engineering design and costing, mine planning, product marketing, groundwater drilling and baseline environmental studies for the BFS. The BFS is on schedule for completion in December, 2004.

A native title agreement was also concluded with the Nanda aboriginal people for mining development, paving the way for grant of mining leases over the southern half of Amy Zone in the December quarter.

1.1 Resource Definition Drilling

Resource definition drilling was completed on 31st July, after the remaining two east-west traverses north of the Amy South Infill Grid (Figure 1) had been completed. Drilling statistics for the traverses south of the Infill Grid were outlined previously and 154 holes for 5,196 metres were completed on the five traverses north of the Infill Grid.

After completion of this drilling, the southern 14 kilometres of Amy Zone has been tested at a minimum drill traverse spacing of 500 metres, with the Infill Grid being tested at a 250 metre traverse spacing.

Assay results for all but the northernmost two traverses have been received. These results confirm previously predicted grades, although higher than expected grades were revealed on traverse 36,500N just over 2 kilometres south of the Infill Grid. Selected intersections from this traverse from consecutive drill holes 100 metres apart are listed below:

Hole No	From (m)	To (m)	Intersection (HM)
CBC 1600	20	26	6m @ 4%
CBC 1601	18	24	6m @ 4.7%
CBC 1602	16	23	7m @ 3.5%

In addition to the above higher grade mineralisation in the central part of Amy South (Figure 1), a shallow higher grade strip about 2.5 kilometres long and 200 metres wide has been revealed on the eastern side of Amy Zone between 33,500N and 36,000N (Figure 1). This zone averages about 1.7% heavy minerals, lies between the surface and 5 metres depth and is open on most traverses to the east.

1.2 Groundwater Drilling

A six hole groundwater drilling program designed to establish water quality, water table depth and sustainable supply is in progress and scheduled for completion in mid November. Four shallow holes averaging 50 metres depth in the northern part of Amy Zone showed the water table is below the base of the proposed open pit and that where present, this shallow water is saline.

One of two deep bores immediately east of the Amy South Infill Grid (*water bore* on Figure 1) was completed to 450 metres depth and encountered three brackish water aquifers between 170 and 450 metres.

The final bore, shown as *water monitoring bore* on Figure 1 is in progress and pump testing will follow. Results from these two deep bores will determine the number and spacing of water holes needed to supply the proposed mining operation.

1.3 Mineral Processing

The metallurgical test work program designed to optimise the non-magnetic circuits in the mineral separation plant (MSP) was completed in mid August.

Metallurgical recoveries of the valuable heavy mineral products were improved when compared to previous test results on samples from Amy Zone South and more northerly parts of the Amy Zone deposit. Three final products resulted from the test work - ilmenite with 60% TiO₂, ceramic grade zircon and HiTi, a mixture of all the recoverable leucoxene and rutile, containing 91.5% TiO₂.

Final mineral products from this test work have been sent to potential customers in Europe, East Asia and North America.

1.4 Mining Studies

A new mining method has been selected which comprises the following 3 stage process.

- Topsoil removed by scrapers and stockpiled for rehabilitation.
- Overburden removed by bulldozers and conveyed into the void left behind by mining of the ore.
- Ore mined by bucket wheel excavator is screened in the pit, mixed with water and pumped to the concentrator located outside but close to the edge of the pit.

The concentrator is being designed for periodic relocation as mining progresses northward from the southern tip of Amy Zone. Tailings from the concentrator are to be pumped back into the pit void for rehabilitation with the water being recovered by a cyclone system for re use in the concentrator.

Pit optimisation studies have commenced and these should be completed in mid November.

1.5 Engineering Design/Costing

Roche Mining – Mineral Technologies Limited is making good progress on designing and costing the minesite concentrators and MSP. All flow sheets for the plant design have been finalised and the nominal capacity of each minesite concentrator is to be 2000 tonnes of ore per hour.

A final stage wet magnetic separation is included with each concentrator, resulting in additional upgrading of the concentrate. The concentrators and bucket wheel excavator mining units are to be powered with electricity generated from mobile natural gas turbines designed to be located with each concentrator. This will allow each concentrator and mining unit to be self contained and able to be deployed along the ore body as needed.

Work on designing and costing the MSP is slightly behind that of the minesite concentrators but is to be completed by late November, 2004.

1.6 Heavy Mineral Production

Each 2000 tonne per hour concentrator will produce approximately 100,000 tonnes of saleable heavy mineral products, as shown in Table 1 below. Prices for these products for use in the BFS have not been finalised but it is likely that zircon sales will bring in about 60% of the revenue, with the balance shared almost equally by ilmenite and HiTi.

Table 1. Estimated Annual Production from One 2000tph Concentrator

Product	Tonnes Product	% Project Revenue	% 2003 World Production
Zircon	27,000	60	2.5
Ilmenite	56,000	20	2.5*
HiTi	12,200	20	4.5

* % of world chloride ilmenite

It is planned to start the operation with one concentrator treating 14 million tonnes of ore per annum and subsequently add a second concentrator of the same capacity in the third year of operation.

1.7 Product Marketing

Final product specifications received from Roche Mining – Mineral Technologies Limited in August have enabled the Company to forward samples to prospective consumers. Very strong interest is being shown in the zircon product by potential consumers in Europe, East Asia and North America. There is also widespread interest in the ilmenite and HiTi products.

Recent announcements by fellow potential producers in eastern Australia reveal a willingness by consumers to participate in supplying capital for new zircon mines, in exchange for supply guarantees. Gunson will be pursuing similar outcomes in discussions with potential consumers over the next several months.

The attraction of the Coburn Project is that according to leading market research group TZMI, it is currently the second largest zircon development project in the world after the *Iluka Resources'* Douglas Project in Victoria, at a time when there is a significant global shortage of zircon.

1.8 Native Title Agreement

An agreement to enable mining of the southern half of Amy Zone was concluded with the Nanda aboriginal people on 20th September 2004. This agreement provides for a range of financial, cultural and heritage provisions including 60,000 Gunson shares issued to the Nanda People's Trust.

The agreement will bring financial benefits to the community, but more importantly it provides a framework for an ongoing relationship that will be of benefit to both Gunson and the Nanda people. Gunson is committed to building relationships with the local community that recognise their connection with the land, and to provide opportunities for economic and social development.

1.9 Environment

An environmental scoping document for the 8 week Public Environmental Review (PER) scheduled for early 2005 has been submitted to the Western Australian Environmental Protection Authority (EPA). It has been approved by the EPA Board subject to some modifications, mainly regarding rehabilitation methods.

The PER document is scheduled for completion in January 2005 and assuming no unforeseen delays, environmental approvals are expected late in the September quarter of 2005.

No fatal environmental issues affecting the Project have been identified from baseline studies which form the major part of the PER.

2. MOUNT GUNSON COPPER PROJECT (SOUTH AUSTRALIA)

2.1 Drilling Subsidy – SA Government

The Company's application for a subsidy from the South Australian Government to cover 50% of the drilling costs for proposed drilling programs at the Moseley Dam and Chianti Prospects was approved on 22nd September. These subsidies form part of the Government's Plan for Accelerating Exploration and there were many more proposals received than could be accommodated with available funding.

Gunson was commended by Government officials for the quality of its application.

2.2 Proposed Exploration

A deep induced polarisation geophysical survey over the Chianti Prospect targeting Olympic Dam style copper mineralisation is scheduled for late November. This survey will utilise the proprietary MIMDAS technology and drill testing of the Chianti and Moseley Dam prospects is scheduled for early 2005.

2.3 Tenure

In July 2004, the area under exploration licence was reduced by 40% to 1,859 square kilometres. As a result, the South Australian Department of Primary Industry and Resources has agreed to a lower minimum expenditure covenant for the year to 30th June 2005.

A replacement licence for the main Mount Gunson exploration licence that forms the core of the Project was granted on 18th October 2004.

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

Discussions with prospective joint venture partners continued during the quarter, with most interest being shown in the diamond opportunity.

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

The single 934 square kilometre exploration licence application comprising this project was granted on 11th October 2004.

The exploration target is craton margin Proterozoic nickel sulphide deposits. Considerable interest currently exists in exploration for similar targets along strike to the north by the Canadian nickel major Inco Ltd.

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

A meeting with the local aboriginal people was held at Tennant Creek on 22nd September to commence negotiations on an agreement for exploration and mining. This meeting, facilitated by the Central Land Council, addressed the Company's applications for 4 exploration licences that lie on aboriginal land. The other two Project licences do not lie on aboriginal land and were approved earlier this year.

The Central Land Council has subsequently advised its refusal to consent to the grant of two of the four exploration licence applications. The other two licences are open to further negotiation.

**6 BURKIN NICKEL PROJECT
(WESTERN AUSTRALIA)**

This is a new project generated by Douglas Haynes Discovery Pty Ltd using data supplied as part of Gunson's agreement with BHP Billiton.

It comprises a single 207 square kilometre exploration licence located close to the Burkin outcamp, 70 kilometres north of Haig siding on the Trans Continental railway and some 450 kilometres east of Kalgoorlie.

Burkin comprises a northeasterly trending zone of magnetic anomalies coincident with a gravity high under shallow basinal cover. The target is Proterozoic craton margin nickel sulphide deposits.

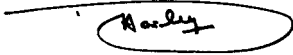
The agreement with BHP Billiton allows Gunson non-exclusive access to its Australian mineral exploration database. In return, BHP Billiton has the exclusive right to farm in to the Burkin project until Gunson has spent

over \$100,000 or defined a drill target on the project. Thereafter, Gunson may farm out the project to other parties if BHP Billiton declines to participate.

7 FINANCIAL

At 30th September, the Company had \$2.6 million in cash and short term deposits. Exploration and evaluation expenditure for the quarter was \$931,000, with over 90% spent on the Coburn Project.

Forecast exploration and evaluation expenditure for the December quarter is \$1 million.



D N HARLEY
Managing Director
26th October 2004

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Attachments

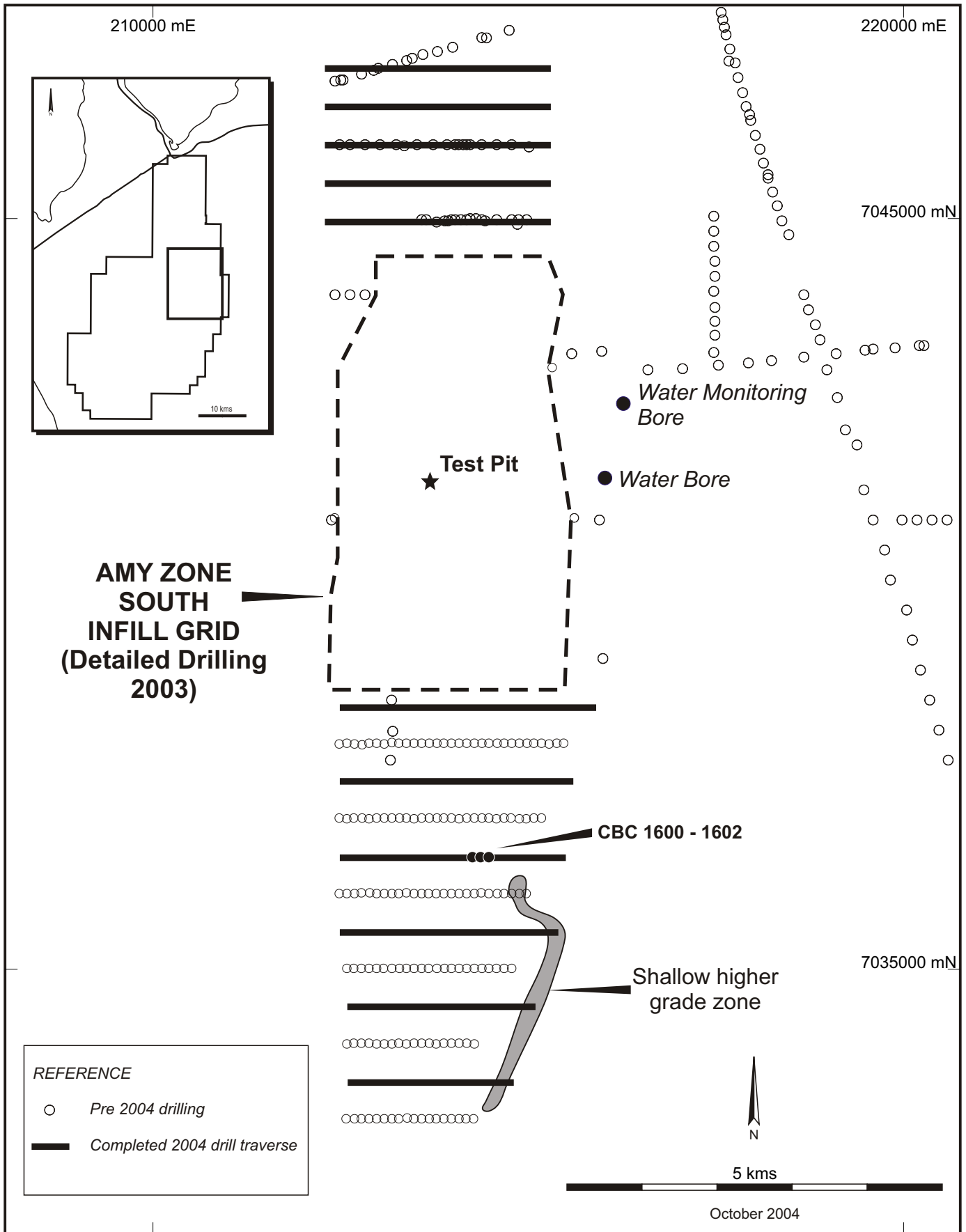
- Figure 1: Amy South Drilling 2004

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 2004



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 September 2004

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors		
1.2 Payments for		
(a) exploration and evaluation	(931)	(930)
(b) development		
(c) production		
(d) administration	(131)	(131)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	55	55
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other – Receipts	96	96
- Mining Bonds		
	(911)	(911)
Net Operating Cash Flows		
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a)prospects		
(b)equity investments		
(c) other fixed assets	(1)	(1)
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)		
	(1)	(1)
Net investing cash flows		
1.13 Total operating and investing cash flows (carried forward)	(912)	(912)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(912)	(912)
Cash flows related to financing activities			
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	Costs associated with issue of shares	-	-
	Net financing cash flows	-	-
Net increase (decrease) in cash held		(912)	(912)
1.20	Cash at beginning of quarter/year to date	3,512	3,512
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	2,600	2,600

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

+ 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	-
Total	1,200,000

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	600	112
5.2 Deposits at call	0	0
5.3 Bank overdraft	0	0
5.4 Other – Term Deposit	2,000	3,400
Total: cash at end of quarter (item 1.22)	2,600	3,512

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	EL 3259	Fowler's Bay Project	Nil	100%
	EL 3264	Mount Gunson Project	Nil	100%
	Both SA			

+ 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.

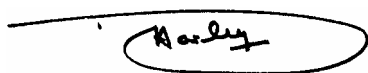
	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference +securities <i>(description)</i>	Nil			
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	Nil			
7.3 +Ordinary securities	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 +Convertible debt securities <i>(description)</i>	Nil			
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <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 Debentures <i>(totals only)</i>	Nil			

+ See chapter 19 for defined terms.

7.12	Unsecured notes (<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
Director
26th October 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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+ See chapter 19 for defined terms.