

**GUNSON RESOURCES LIMITED**

**QUARTERLY REPORT FOR THE PERIOD ENDED  
31<sup>ST</sup> DECEMBER 2006**

**HIGHLIGHTS**

- Good progress on obtaining environmental approvals for the Coburn Zircon Project, with permitting expected in March 2007.
- Encouraging results from further metallurgical test work by Outokumpu Technology, improving the recovery of all valuable heavy mineral species by low cost attritioning designed for the proposed Coburn mine site.
- Other work continued on improving the Coburn Definitive Feasibility Study while the Company waits for government permits.
- Drilling for copper at Mount Gunson to commence on 5<sup>th</sup> February, wholly funded by Noranda Pacific Pty Ltd, part of Xstrata Copper.
- A placement of \$3 million announced on 30<sup>th</sup> January 2007, largely to institutional investors in Hong Kong and Singapore, to fund ongoing work at Coburn and the Company's other exploration projects.

**1. COBURN ZIRCON PROJECT (100%- WESTERN AUSTRALIA)**

Good progress has been made with environmental approvals for the proposed mine development, and with increasing the accuracy of the Definitive Feasibility Study (DFS). As previously advised, results of the DFS will not be finalised until all pre-construction environmental approvals have been received. These approvals are expected in March 2007.

**1.1 Environmental Approvals Process**

All of the ten environmental management plans required before construction can commence have been reviewed by government regulators, amended where appropriate and submitted to the Statement Management Section of the Western Australian Department of Environment and Conservation (DEC) for final statutory approval.

In parallel with this process, approval documents for local government, mining and non substantial change (from the 2005 Public Environmental Review) have been drafted and submitted to the Shire of Shark Bay, Department of Industry and Resources and DEC respectively. These documents must also be approved prior to commencement of construction.

Following a decision to change the route of the mine access road, a botanical study of the new route revealed the presence of the declared rare flora (DRF), *Eucalyptus beardiana*, in a cluster some 4km east of the proposed mine path. A path through this previously unknown cluster of *Eucalyptus beardiana* has been agreed with government regulators and a DRF Management Plan has been drafted. Approval of this additional Management Plan is not expected to hold up the pre-construction approvals process outlined above.

## 1.2 Ore Reserves

Remaining assays of the ore body within the initial mining area drilled in detail in mid 2006 were received in mid January 2007. Geological interpretation of this data is in progress and resource modelling of the initial mining area will follow shortly. The new model will then allow a JORC-compliant proven reserve to be estimated in March 2007.

A previously unknown high grade zone outside the mine path was revealed in recent assay results. This zone is centred on an intersection of 10.4 metres at 2.8% heavy mineral from 20 metres depth in hole CBC 3319, collared 100 metres west of the base of the planned pit. Intersections in the same zone 50 metres either side of this hole average 2.2% heavy minerals over 5 metres. All these intersections will be added to the new mine path.

## 1.3 Metallurgy / Toll Refining

Encouraging results have been received from metallurgical test work by Outokumpu Technology, aimed at optimising mineral recoveries in prospective treatment facilities in Western Australia and East Asia. This work has focused on removing iron oxide coatings on the heavy mineral grains with a low cost attritioning circuit at the mine site. Improved recovery of all valuable heavy mineral species has resulted from the attritioning tests.

Samples of attritioned non-magnetic concentrates produced by Outokumpu Technology have been sent to two companies with mineral separation facilities in Western Australia, and a third sample will be sent to China. This will assist a decision regarding the mineral separation facility to be used.

## 1.4 Definitive Feasibility Study (DFS)

As stated above, completion of the DFS is being delayed to ensure that the most current capital and operating cost estimates are incorporated to coincide with government permitting of the proposed mine development.

Fixed price / fixed delivery EPC tenders have been received for most of the major capital items, although proposals for the mine access road and Ilmenite Plant have yet to be finalised.

A new route for the mine access road has been chosen, which will result in a substantial reduction in the capital cost. Test excavation of potential

borrow pits for road base along this new route is in progress, with a view to more tightly define the scope and price for the road contract.

As a result of the metallurgical test work by Outokumpu Technology, a detailed flow sheet and equipment list has been developed for an Ilmenite Plant at the mine site. As discussed in the Company's June 2006 quarterly report, this plant has been designed to produce a final ilmenite product for export **fob** from Geraldton, along with an attritioned non-magnetic concentrate for toll refining in Western Australia or East Asia.

### **1.5 Product Marketing**

Discussions with potential consumers of both zircon and TiO<sub>2</sub> products continued during the quarter, with the objective of concluding marketing agreements for uncommitted product output in time for completion of the DFS.

The zircon market continued its strength in the second half of 2006 and there has been increased enquiry from potential customers in Europe and East Asia since November 2006.

### **1.6 Financing**

A two week roadshow in New York and London in late November / early December reinforced the strong interest in financing the proposed mine development, subject to the final figures in the DFS. The three overseas roadshows in 2006 have laid a good foundation for future fund raisings and the recently announced placement summarised in section 6 below reflects this.

## **2. MOUNT GUNSON COPPER PROJECT (100%- SOUTH AUSTRALIA)**

### **2.1 Drilling Program**

A 3000 metre diamond drilling program designed to test three iron oxide associated copper-uranium-gold prospects within basement rocks in the northern part of the Mount Gunson Project is to commence on 5<sup>th</sup> February 2007. Two of the three prospects (Figure 1) have not been previously tested by drilling and the third is Chianti Prospect, where the Company announced in January 2006 an intersection of 2 metres averaging 3.4% copper at 550 metres depth, within basement rocks similar to those at the nearby Carrapateena Prospect.

The first hole of the program is at Emmie East Prospect, an east-west trending gravity anomaly approximately 4 kilometres long, in a favourable structural setting. This prospect lies some 5 kilometres east of Emmie Bluff Prospect, tested by Mount Isa Mines (MIM) Limited between 1984-1995. Emmie Bluff Prospect comprises a large body of copper-uranium-gold mineralisation within basement rocks at 900 metres depth, overlain by a flat lying sheet of younger copper mineralisation at 400 metres depth containing an inferred resource of 24 million tonnes averaging 1.3% copper and 0.06% cobalt. There is potential for both styles of copper mineralisation at Emmie East.

The estimated depth of the Emmie East hole is 900 metres, with basement expected at 750 metres.

## **2.2 Funding / Management**

The above drilling program is being funded by Noranda Pacific Pty Ltd, part of Xstrata Copper, who have the right to earn a 51% interest in the Mount Gunson Project by spending \$3.5 million on exploration within 3 years of 15<sup>th</sup> June 2006. The drilling at Chianti Prospect has been granted funding to the level of \$75,000 by the South Australian Government under their Plan for Accelerating Exploration (PACE) Initiative – Round 4, announced on 1<sup>st</sup> December 2006.

A Management Agreement has been concluded with Noranda Pacific Pty Ltd, whereby Gunson will manage exploration at Mount Gunson until further notice. A budget of some \$750,000 has been approved for the above drilling program and Gunson is to be paid a management fee.

## **2.3 Windabout Copper Prospect**

Technical and financial data on the 18.7 million tonne Windabout deposit, which comprises an indicated resource averaging 1.8% copper equivalent within 70 metres of the surface, was forwarded to Xstrata Copper in early November. Xstrata Copper are reviewing this data to ascertain their interest in Windabout as a development project.

## **3. TENNANT CREEK GOLD – COPPER PROJECT (100%- N.T.)**

A meeting with traditional owners regarding issues in the draft agreement prepared by the Central Lands Council was held at Tennant Creek on 21st November. Some progress was made and a revised draft is expected in the March quarter of 2007.

## **4. FOWLER'S BAY NICKEL PROJECT (100%- SOUTH AUSTRALIA)**

The single Project exploration licence was renewed for a further year from 8<sup>th</sup> December 2006, over a reduced area of 700 square kilometres.

A reconnaissance drilling program to test for nickel sulphides associated with linear magnetic anomalies, along with zircon rich heavy mineral sand deposits in the northern portion of the exploration licence, is planned for the June quarter of 2007.

## **5. BURKIN NICKEL / GOLD PROJECT (100%- WESTERN AUSTRALIA)**

No farm-out agreement on this project has been concluded and as stated in the Company's Annual Report for 2006, an aeromagnetic survey is to be flown in the first half of 2007. This is to be followed by drill testing if suitable anomalies are present.

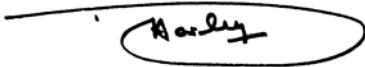
## 6. SHARE CAPITAL

A placement of 11.1 million shares at 27 cents per share was announced on 30<sup>th</sup> January 2007, to raise \$3 million. This will increase the Company's share capital to 108.7 million shares.

Most of the placement has gone to Hong Kong and Singapore based institutional clients of Cartesian Capital Pty Ltd, with a much smaller amount to Australian sophisticated investors.

## 7. FINANCIAL

At 31<sup>st</sup> December, the Company had \$0.5 million in cash and short term deposits. However, as a result of the placement reported above, the Company's cash position will be \$3.4 million on 5<sup>th</sup> February 2007, with a \$273,000 research and development refund from the Australian Tax Office expected in mid February 2007.



**D N HARLEY**  
**MANAGING DIRECTOR**

31<sup>st</sup> January 2006

### Attachment

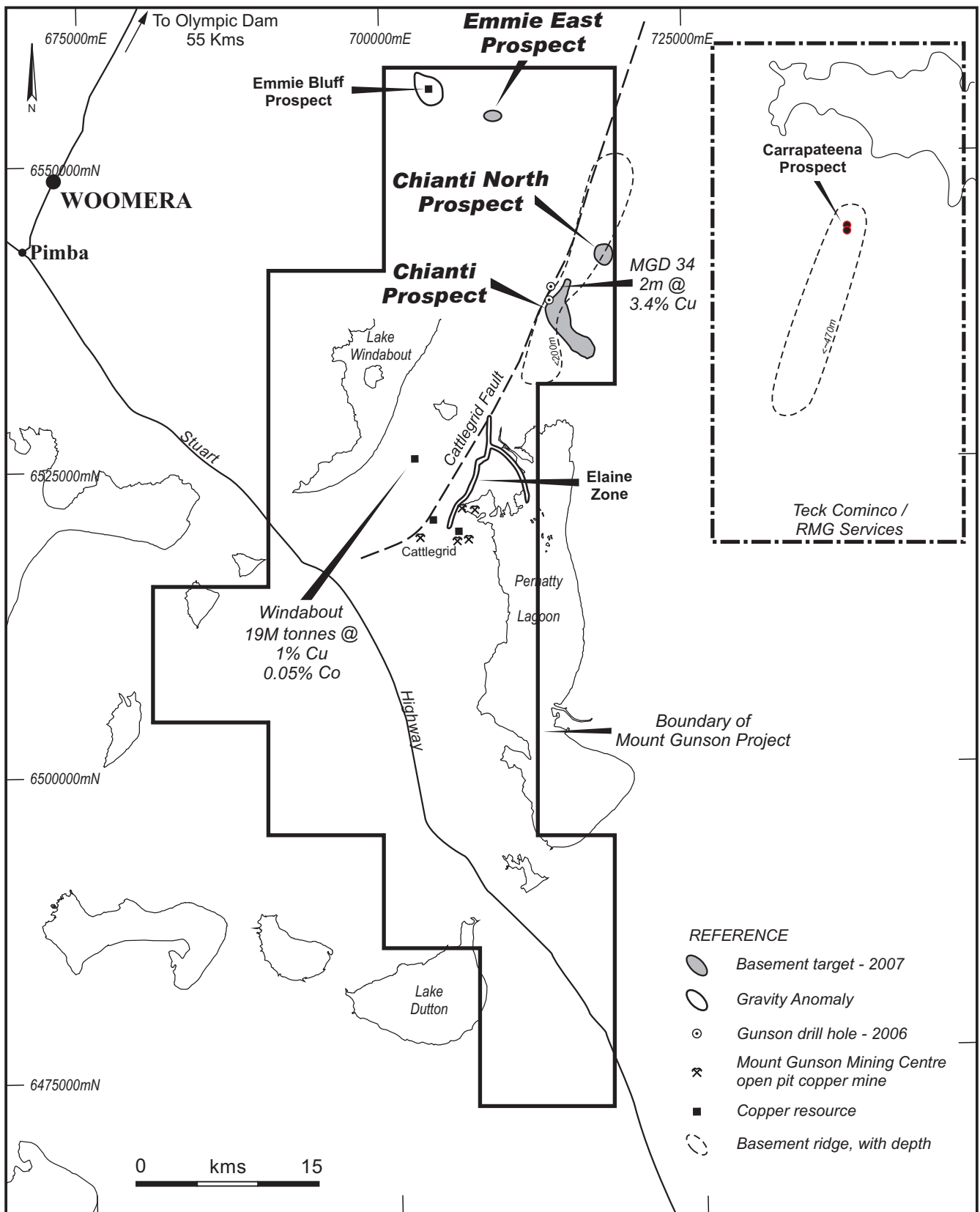
**Figure 1. Mount Gunson Target Areas- Early 2007 Drilling**

### Investor Enquiries:

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**Media:** Tony Dawe 0413 322 110

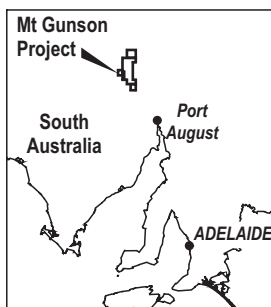
### **ATTRIBUTION**

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**

- Basement target - 2007
- Gravity Anomaly
- Gunson drill hole - 2006
- Mount Gunson Mining Centre open pit copper mine
- Copper resource
- Basement ridge, with depth



**Gunson Resources Ltd**

**MOUNT GUNSON TARGET AREAS  
- Early 2007 Drilling Program**

Scale : NTS

Date : 15 Dec. 2006

File : MG Target Areas 2007.cdr

# 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")

31 December 2006

### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (...6... 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	(847)	(3363)
(b) development	-	-
(c) production	-	-
(d) administration	(205)	(558)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	23	42
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other	-	-
<b>Net Operating Cash Flows</b>	<b>(1,029)</b>	<b>(3,879)</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)	(6)
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>(6)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(1,032)</b>	<b>(3,879)</b>

+ See chapter 19 for defined terms.

1.13	Total operating and investing cash flows (brought forward)	(1,032)	(3,879)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	-	2,924
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	-	-
	<b>Net financing cash flows</b>	-	2,324
	<b>Net increase (decrease) in cash held</b>	(1,032)	(1,555)
1.20	Cash at beginning of quarter/year to date	1,544	2,067
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	512	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	86
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 fees during the quarter
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**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

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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

Noranda Pacific at Mt Gunson: \$55,013 (Initial earn-in phase — minimum \$3.5M required by 14 June 2009)
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**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	512	1,544
5.2 Deposits at call		
5.3 Bank overdraft		
5.4 Other (provide details)		
<b>Total: cash at end of quarter (item 1.22)</b>	<b>512</b>	<b>1,544</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	NIL		
6.2	Interests in mining tenements acquired or increased	NIL		

+ See chapter 19 for defined terms.

**Issued and quoted securities at end of current quarter**

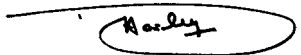
*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	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>	97,589,786	97,589,786		
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>	100,000 1,800,000 1,800,000	- - -	<i>Exercise price</i> 20 cents 30 cents 35 cents	<i>Expiry date</i> 16/12/07 30/11/10 30/11/10
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 gives a true and fair view of the matters disclosed.



D N HARLEY  
31<sup>st</sup> January 2007  
Managing Director

## 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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