

**GUNSON RESOURCES LIMITED**  
**QUARTERLY REPORT FOR THE PERIOD ENDED**  
**30<sup>th</sup> SEPTEMBER 2008**

**HIGHLIGHTS**

**COBURN ZIRCON DEVELOPMENT PROJECT**

- A significant improvement in the financial returns of the Project has resulted from the steep decrease in the Australian to US dollar exchange rate and increases in US dollar denominated zircon and titanium dioxide mineral prices during the quarter.
- Respected industry marketing consultants TZMI noted in their September report that current zircon supply is “very tight” and both TZMI and the world’s largest zircon producer, Iluka Resources, are predicting higher prices in 2009.
- Chinese company CTIEC submitted its fixed price turnkey construction proposal for the whole Project on 1<sup>st</sup> August 2008 and was notified that the price was too high.
- A review of costs after the recent precipitous drop in raw material prices and increased availability of engineering capacity has been discussed with CTIEC and agreed. A meeting to consider the revised costings and future involvement of CTIEC in the Project is to be held in China in mid November.
- Beijing based investment bank, The Balloch Group (TBG), was mandated in September to assist Gunson with its dealings in China. Strong interest in the construction, investment and offtake aspects of the Project has been shown by the companies introduced to Gunson by TBG and further meetings with them are proposed for mid November, 2008.

**MOUNT GUNSON COPPER PROJECT**

- Noranda Pacific Pty Limited, (Noranda), a company within the Xstrata Copper Business Unit, has completed a review of the exploration it has funded to date and made a preliminary decision that the Project has sufficient potential for large copper deposits to continue its funding. Under the existing terms of the farm-in agreement, Noranda has until mid June 2009 to spend another \$1.34 million in order to earn an initial 51% interest, however it has requested an extension of time to meet this expenditure. Discussion with Noranda regarding the terms of a Variation Agreement have commenced.
- Assay results from the July 2008 metallurgical drilling program at MG14 Prospect have confirmed earlier resource drilling, the best intersection from the latest drilling being 1 metre at 4.2% copper from 24.6 metres depth.
- Metallurgical test work on bulk samples from the above drilling has commenced.

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

**1.1 CTIEC**

Chinese company CTIEC submitted its fixed price turnkey construction proposal for the Project on 1<sup>st</sup> August. After a review by Gunson’s engineering staff and advisors, CTIEC was notified that its price was too high. A subsequent proposal by CTIEC’s Executive Chairman to resolve the pricing issue was discussed and agreed. This proposal involves a

review of infrastructure and core zircon production facility costs in view of the recent sharp drop in steel prices and global engineering order books. A meeting to consider the revised costings and future involvement of CTIEC in the Project is to be held in China in mid November.

## **1.2 The Balloch Group**

Beijing based investment bank The Balloch Group, TBG, led by former Canadian Ambassador to China, Howard Balloch, was mandated in September to assist Gunson in its dealings in China. TBG has over 60 staff, with offices in 4 mainland Chinese cities, as well as in New York and Hong Kong. It was ranked among the top 5 China-based boutique investment banks in terms of services for mergers, acquisitions and private placements in 2007. Major Canadian investment bank CIBC World Markets has a close working relationship with TBG and together they were involved in more than 40 listings or follow up offerings of Chinese companies on North American stock exchanges between 2004-2007.

Gunson senior management spent the second half of September in China, mostly with TBG, and meetings with several major Chinese construction, mining and potential offtake companies were held. Strong interest was shown in construction, investment and offtake aspects of the Project and confidentiality agreements with two of the companies visited have been signed. Both of these companies are presently reviewing Gunson's resource report, feasibility study and financial information on the Project. With TBG's wide network in China, Gunson is optimistic that an investment deal with CTIEC and/or other Chinese companies can be concluded.

## **1.3 Government Approvals**

The Groundwater Mounding Management Plan was completed and submitted to the State Government regulators in mid September. This Plan must be approved before mining commences and approval is anticipated in early 2009.

A second Non Substantial Change from the Public Environmental Review, mainly to cover additional infrastructure at the proposed mine, has been completed and will be submitted to the regulators in early November.

## **1.4 Mineral Sand Markets**

Unlike the base metal and iron ore markets, the zircon and some titanium dioxide mineral markets are strong, reflecting their "late cycle" characteristics. Zircon prices were increased by approximately 10% in mid 2008 and respected industry consultant TZMI and the world's largest zircon producer, Iluka Resources Limited, are both predicting higher prices in 2009, due to a shortage of supply. Further, TZMI have noted that the global production system is run down and in need of fresh sources of supply. They reported in September 2008 that zircon supply is "very tight".

Demand for zircon remains strong and of particular significance in this regard is the recent decision of some Japanese and Korean vehicle manufacturers to replace zinc with zirconium chemicals in the pre-treatment of steel car body parts against rust. The rationale for this changeover is the greatly reduced toxicity and increased effectiveness of the zirconium chemicals.

Following the serious accident in July affecting one of two dredges at the world's largest rutile mine in Sierra Leone and the takeover of Australian miner Bemax by Saudi Arabian pigment producer Cristal, Gunson has received strong enquiry for its proposed rutile and leucosene products. This very recent development is an added bonus to Gunson's marketing prospects.

## 1.5 Financial Return

The collapse in the Australian dollar to US dollar exchange rate during the September quarter of 2008 and its further deterioration in October has seen a corresponding movement in forward exchange rate forecasts by the major Australian banks.

Incorporating these forecasts into the Coburn financial model has seen a significant improvement in the internal rate of return of the Project. If the current review of capital costs shows the expected reductions, the strong zircon and titanium dioxide markets may encourage a decision by one or more corporate investors to provide funding for the Project by early 2009.

Gunson is working with The Balloch Group to achieve this outcome.

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

### 2.1 Feasibility Study

The main focus on the Project during the quarter continued to be on the MG 14 Feasibility Study. MG 14 is a polymetallic deposit with an Indicated Resource of 1.1 million tonnes at 1.7% copper, 390 ppm cobalt and 17 ppm silver. The much larger Windabout deposit, located about 5km to the north and which has an Indicated Resource of 18.7 million tonnes averaging 1.0% copper, 500ppm cobalt and 10ppm silver is also being considered in the Study, as a source of ore once mining is competed at MG 14. The Windabout mineralisation appears to be similar to MG 14.

Copper intersections from the 5 hole wide diameter drilling program completed in July are listed below. These holes were drilled to provide new samples for metallurgical test work designed to recover saleable copper and cobalt products.

Hole No	From (m)	To (m)	Intersection (%copper)
MGD 50	24.6	25.65	1.05m @ 4.2%
MGD 51	25.8	29.75	3.95m @ 1.7%
MGD 52	28.46	29.5	1.04m @ 2.0%
	31.0	32.15	1.15m @ 1.0%
MGD 53	27.0	28.5	1.5m @ 1.9%
MGD 54	25.5	27.6	2.1m @ 2.2%

Most of the intersections listed above occur in the breccia zone at the top of the Tapley Hill Formation dolomitic mudstone, although this breccia is absent in hole MGD 54. Instead, the intersection in MGD 54 and the lower one in MGD 52 occur in thinly bedded dolomitic mudstones and sandstones. Cobalt grades over the above intersections range between 400 and 600 ppm, again with the exception of MGD 50, with 53 ppm.

Currently, AMDEL Laboratories in Adelaide are scanning ore samples from the drilling with an electron microscope to establish the grain size of the various copper and cobalt minerals. When this work is completed in early November, flotation test work by the Ian Wark Research Institute at the University of South Australia will begin. This work will be focused on producing a copper-cobalt sulphide concentrate for further processing into saleable products.

Work on estimating the costs and availability of accommodation, power and water for the proposed mine is proceeding.

## 2.2 Exploration Agreement with Noranda Pacific Pty Limited

Noranda Pacific Pty Limited (Noranda), a company within the Xstrata Copper Business Unit, has the right to earn 51% of the Project by spending \$3.5 million in 3 years from 15<sup>th</sup> June 2006. Up to 30<sup>th</sup> September 2008, Noranda had spent \$2.16 million, leaving \$1.34 million to be spent in 8 months.

Noranda has completed a review of the exploration it has funded to date and has made a preliminary decision that the Project has sufficient potential for large copper deposits to continue its funding. However, it has requested an extension of time for completion of the earn-in phase, beyond June 2009. Discussion with Noranda regarding the terms of a Variation Agreement have commenced.

## 3. FOWLER'S BAY NICKEL PROJECT (100%) SOUTH AUSTRALIA

The Company's Declaration of Environmental Factors (DEF), compiled to facilitate access to a regional conservation reserve for a TEM survey, was reviewed by the SA Department of Environment and Heritage during the quarter. The Department's comments are being incorporated into a revised DEF document and approval to enter the reserve is expected in November.

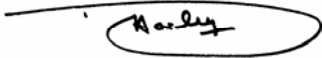
## 4. TENNANT CREEK GOLD/COPPER PROJECT (100%) NORTHERN TERRITORY

Preparations for a small drilling program on the two exploration licences which do not lie on aboriginal land continued. Drilling is expected to commence in mid November.

Access to all four exploration licence applications covering targets on aboriginal land has been denied by the local aboriginal people, represented by the Central Lands Council. Three of the applications have been placed in moratorium for a 5 year period and the fourth, ELA 23945, was refused by the Northern Territory Government on 8<sup>th</sup> September.

## 5. FINANCIAL

At 30<sup>th</sup> September, 2008, the Company had \$433,000 in cash and short term deposits, with an R&D tax rebate of \$311,417 due in mid November, 2008. Exploration expenditure during the quarter was \$399,000 and forecast exploration expenditure in the last quarter of 2008 is \$150,000.



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

**29<sup>th</sup> October 2008**

Investor Enquiries:  
Telephone: (08) 9226 3130  
Facsimile: (08) 9226 3136  
Email: [enquiries@gunson.com.au](mailto:enquiries@gunson.com.au)  
Website: [www.gunson.com.au](http://www.gunson.com.au)  
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.



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

1.13	Total operating and investing cash flows (brought forward)	(574)	(574)
	<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 (provide details if material)	-	-
	<b>Net financing cash flows</b>	-	-
	<b>Net increase (decrease) in cash held</b>	(574)	(574)
1.20	Cash at beginning of quarter/year to date	1,007	1,007
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	433	433

**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	91
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

**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

None

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, 2008. Xstrata Copper via its subsidiary Noranda Pacific Pty Limited has a cumulative expenditure of \$2,157,339. The initial option earn-in requirement is \$3.5 million by 14 June 2009.

+ 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	150
4.2 Development	0
<b>Total</b>	<b>150</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	433	1,007
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>433</b>	<b>1,007</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	ELA 23945	100% Tennant Creek Project.  Refused.	100%	0
6.2 Interests in mining tenements acquired or increased	N/A	None	N/A	N/A

+ 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>	119,662,252	119,662,252		
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>	1,800,000 1,800,000 400,000 400,000		<i>Exercise price</i> 30 cents 35 cents 35 cents 40 cents	<i>Expiry date</i> 30/11/10 30/11/10 04/05/12 04/05/12
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.

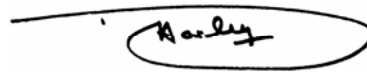


7.12	<b>Unsecured notes</b> ( <i>totals only</i> )		
------	---	--	--

## 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:



Managing Director

Date: 29<sup>th</sup> October 2008

Print name: David 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.