

GUNSON RESOURCES LIMITED

QUARTERLY REPORT FOR THE PERIOD ENDED 30th SEPTEMBER 2007

HIGHLIGHTS

- Gunson has signed a second Memorandum of Understanding (MOU) with China Triumph International Engineering Co. Ltd (CTIEC), providing for CTIEC's parent, China National Building Material Company (CNBM) and an electric power supply company in the Chinese city of Bengbu, to take a combined 40% participating interest in the Coburn Zircon Project.
- This MOU provides for CTIEC to be the general fixed-price engineering contractor for delivery of the Coburn mine and proposed Chinese mineral separation plant (MSP), conditional upon CNBM proceeding with its proposed investment and zircon offtake contract.
- The MOU also recognises that a draft, legally binding Outline Agreement documenting the commercial and legal structure, and management of the Coburn Project in its development and operational phases, is being considered by the parties mentioned above.
- These parties aim to conclude the Outline Agreement by the end of 2007, so that construction of the Coburn mine and Chinese MSP can commence in early 2008.
- A review of the 18.7 million tonne open pit Windabout copper prospect at Mount Gunson has commenced, with a view to establishing its financial viability at current and forecast copper prices.
- Geophysical surveys are in progress at Mount Gunson, aimed at defining iron oxide copper-gold-uranium targets in basement rocks scheduled for drilling in December, 2007.

1. COBURN ZIRCON PROJECT (100%: WESTERN AUSTRALIA)

Good progress was made during and after the quarter with CTIEC, whose parent company, CNBM is Gunson's proposed equity and zircon offtake partner. CTIEC are preparing a proposal to deliver the Project on a lump sum "turnkey" basis, which is to be incorporated in a legally binding Outline Agreement involving CNBM's equity investment and zircon offtake discussed below.

1.1 Government Approvals

The remaining approvals required prior to the commencement of construction were granted during the quarter. These are:

- a) **Licence to Take Water** – granted by the Western Australian Department of Water on 27th July 2007 for a one year period. Application for a water

licence covering the production phase of the Project is to be made in 2008.

- b) **Consent for Main Road Intersection** – The Company's traffic management plan for work on the mine access road – North West Coastal Highway intersection was approved by Main Roads WA on 10th August 2007.

An environmental management system (EMS) for the construction phase of the Project was completed in early September. Work on the groundwater mounding management plan continued during the quarter, with the targeted completion date extended to December, 2007.

1.2 Resource and Reserve Estimates

Assaying of samples from the 2007 drilling program concluded in July is now just over 40% complete. Once the remaining assays from this program have been received, consultants McDonald Speijers will be commissioned to calculate a more robust JORC compliant estimate on the 157 million tonne inferred resource within this area reported in the March 2007 quarterly report.

1.3 Metallurgy – China Mineral Separation Plant (MSP)

Following the completion of metallurgical test work by Outotec in the previous quarter, a flow sheet for the proposed mineral separation plant (MSP) in China was completed. This flow sheet and preliminary engineering design allowed cost estimates to be made which confirm that it will be substantially cheaper to build and operate a MSP in China than in Australia.

Processing of a 25 tonne composite sample of ore from the 2007 drilling program is in progress, with a view to sending an attritioned concentrate sample to China for further test work in the CTIEC laboratory at Bengbu. Samples of zircon and other end products from this test work are to be made available to potential customers near the proposed MSP site at Bengbu.

1.4 Second MOU with CTIEC

A second Memorandum of Understanding (MOU) was signed with CTIEC on 11th October, in the Chinese city of Bengbu, where CTIEC have two industrial parks, one of which is the site of the proposed MSP. Two factories under construction at this latter site are obvious customers as they will require significant quantities of zircon.

Two key points of the second MOU are as follows:

- A subsidiary of CTIEC's parent, China National Building Material Company Limited (CNBM) and an electric power supply company in the Chinese city of Bengbu to take a combined 40% participating interest in the Project.
- A draft, legally binding Outline Agreement, documenting the commercial and legal structure and management of the Project in its development and operational phases has been prepared and is being considered by the parties. All three parties will make their best endeavours to conclude this Agreement by the end of 2007, so that construction of the proposed mine in Western Australia and MSP in China can commence in early 2008.

The MOU also reiterated the previous understandings regarding zircon offtake by CNBM, and CITEC undertaking the construction of the Project on a fixed price “turnkey” basis, announced over the past 3 months.

1.5 DFS (Definitive Feasibility Study)

As stated in the June quarterly report, the capital and operating costs for the Project using Australian contractors are essentially complete. However, as CTIEC now propose to deliver the Project on a fixed price “turnkey” basis, the Company has decided not to release the results of the DFS until this fixed capital cost has been agreed. The turnkey cost is expected to be appreciably lower than the aggregate of prices quoted by Australian contractors, although sub contracting of some work packages to Australian companies is envisaged. Discussions with potential sub contractors are in progress.

1.6 Conclusions

The second MOU with Chinese company CTIEC is a promising development and significant milestone for the Project. Work during the December quarter, 2007 will be focused on assisting CTIEC to complete its fixed-price proposal for the mine at Coburn and MSP in China. Concurrent with this, Gunson, CTIEC, CNBM and the Bengbu power generation company will use their best endeavours to conclude the legally binding Outline Agreement, which is currently in draft form, by the end of 2007.

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

2.1 Geophysical Program

In accordance with the budget and work program for 2007/2008 approved by the Company’s joint venture partner, Noranda Pacific Pty Ltd, geophysical surveys designed to provide additional targets for iron oxide associated copper-gold-uranium mineralisation in basement rocks are in progress.

These surveys include infill gravity readings between Emmie East and Chianti prospects, and surface/down hole EM at Chianti Prospect. An IP survey at Chianti Prospect has also been requested from an Adelaide based contractor but this week-long survey is unlikely to start until mid November 2007.

2.2 Drilling

A drilling program is tentatively scheduled for December 2007 but drill targets are to be firmed up in November, after results of the geophysical surveys discussed above have been interpreted.

2.3 Windabout Prospect

A review of the 18.7 million tonne Windabout deposit has commenced, with a view to establishing its financial viability at current and forecast copper prices.

Windabout lies within open pit range, and comprises an indicated resource of 18.7 million tonnes averaging 1% copper, 0.05% cobalt and 10 g/t silver in a flat sheet some 70 metres below the surface. Digital data from the 123 reverse circulation and 8 diamond drill holes completed by Stuart Metals NL (Stuart) in 1994-1995 has been collated from old records, with the aim of building a new resource model as the first step in revising the feasibility study done by Stuart in 1995/1996. This study concluded that an open pit mining operation based on Windabout and the nearby MG 14 deposit, which contains 1.1 million tonnes averaging 1.7% copper, was not viable at the copper prices prevailing at the time. The current copper price is much higher than that it was in the mid 1990's and the financial returns from a mine development at Windabout and MG 14 will be reviewed as a matter of priority.

2.4 Joint Venture Expenditure

Noranda Pacific Pty Ltd, a company within the Xstrata Copper Business Unit, has the right to earn a 51% interest in the Project by spending \$3.5 million on exploration within 3 years of 15th June 2006. By the end of September 2007, Noranda Pacific had spent \$1,008,581.

To complete its earn-in requirements, Noranda Pacific must therefore spend approximately \$2.5 million over the next 21 months. In accordance with the Option/Joint Venture Agreement, reported in the Company's June 2006 quarterly report, Noranda Pacific will not have any equity in the Mount Gunson Project if it fails to meet its expenditure requirement but may withdraw at any time. If it earns its 51% interest, Noranda Pacific may then increase its equity to 75% by spending a further \$6.5 million, to a cumulative total of \$10 million, in an additional 3 year period.

3. TENNANT CREEK GOLD-COPPER PROJECT (100%: NORTHERN TERRITORY)

No further progress has been made with the Central Lands Council regarding access to the one exploration licence application (ELA) that has not been rejected for negotiations.

It is highly unlikely that access to this ELA will be resolved before mid 2008 and for this reason, plans for drilling targets on the two approved ELs not on aboriginal land have been brought forward. Drilling is scheduled for early 2008.

4. FOWLER'S BAY NICKEL PROJECT (100%: SOUTH AUSTRALIA)

The Project exploration licence has been extended for another year until October 2008.

In early August, negotiations to access the Yalata Aboriginal Reserve, which covers approximately 35% of the Project EL, became possible via a new protocol proclaimed in the South Australian Government Gazette. As a consequence of this protocol, contact with the Yalata Community is expected to be initiated during the December quarter.

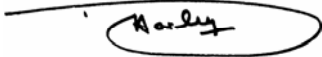
Results of an airborne electromagnetic geophysical survey by a neighbouring tenement holder, which partly encroached on the Fowler's Bay EL, have been received and are being interpreted. These results will assist the Company in planning a first pass drilling program scheduled for mid 2008.

5. BURKIN NICKEL/GOLD PROJECT (100%: WESTERN AUSTRALIA)

An aeromagnetic survey over the single 207 square kilometre Burkin Project exploration licence is scheduled to commence in mid November 2007. The survey line spacing is 200 metres and the results will help to guide a gravity geophysical program first pass drilling planned for 2008.

6. FINANCIAL

At 30th September, the Company had \$1 million in cash and short term deposits, with a further \$0.3 million expected from a R&D tax rebate in December, 2007. Exploration expenditure during the quarter was \$802,000 and forecast exploration outlays for the December quarter are \$300,000.



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29th October 2007

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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.