

**GUNSON RESOURCES LIMITED
QUARTERLY REPORT FOR THE PERIOD ENDED
31 DECEMBER 2011**

HIGHLIGHTS

COBURN ZIRCON DEVELOPMENT PROJECT

- *Non binding Term Sheet executed with a major East Asian industrial group (the Major).*
- *The Major may earn a large minority joint venture interest in the Project by contributing its proportionate share of mine development expenditure, together with an additional earn-in contribution that reflects an overall Project value well in excess of the Company's current market capitalisation.*
- *Assistance with Gunson's share of Project debt and equity finance to be available from the Major.*
- *The Major is well advanced in its due diligence process and its executives are to visit Perth in early February to progress the joint venture documentation.*
- *Gunson is to be the Project Manager and after finalising the remaining funding arrangements, Gunson and the Major intend to immediately commence mine construction, which Gunson's engineers have estimated to take 85 weeks.*
- *An offtake agreement with a global chloride pigment producer for Gunson's proposed equity share of ilmenite production is nearing completion.*
- *Financial modelling using updated TZMI forecasts received in early November 2011 yields a Project NPV (8%) of \$223.7 million and IRR of 28.3% on a pre-tax and pre-funding basis, using the current 5% State Royalty.*

MOUNT GUNSON COPPER PROJECT

- *Despite disappointing assay results from the 2011 drilling at Emmie Bluff Prospect received during the quarter, geological interpretation has shown that a major thickening of the prospective basement iron oxide zone intersected in pre 2011 drilling has the best potential for copper ore.*

1 COBURN ZIRCON DEVELOPMENT PROJECT (100%), *Western Australia*

1.1 Permitting

The final draft of the Groundwater Mounding Management Plan, which must be approved before mining can commence as opposed to construction, was submitted to the Office of the Environmental Protection Authority (OEPA) on 10 January 2012. This draft incorporates all comments by OEPA on several previous drafts and approval is expected shortly.

1.2 Infill and Extensional Resource Drilling

Processing of results from the May 2011 drilling program by the Company's resource consultant has shown that further infill drilling will be needed to upgrade the resource category in the northern area of the Project from indicated to inferred. Another phase of infill drilling is being planned for mid 2012.

1.3 Metallurgical Testwork

Perth based Allied Mineral Laboratories completed its testwork program during the quarter on the 7 tonne bulk sample collected from proposed open pit A in May 2011. A final report is nearing completion but product recoveries from the testwork have confirmed the recovery assumptions contained in the Project financial model.

Product samples from the testwork are being provided to potential offtake customers.

1.4 Water Bore and Road Construction

A 185 m deep water bore was completed on 20 January 2012, to supply water for construction of the mine access road. Pump testing of this bore awaits the availability of a suitable contractor but the water flow rate is expected to be adequate for the purpose intended.

1.5 Power Supply

A Front End Engineering, Design and Approvals (FEED) study agreement has been signed with DBP Services Co Pty Limited, an associated entity of DBNGP (WA) Nominees Pty Ltd, owner of the Dampier to Bunbury Natural Gas Pipeline. The FEED study will provide design, construction and capital cost information for an approximately 110 kilometre long lateral gas pipeline from the main Dampier to Bunbury pipeline, westwards to the proposed Coburn power station. It will also document environmental and other approval requirements, along with operational information and indicative tariffs.

The overall purpose of the FEED study is to develop a draft Gas Transmission Agreement (GTA) under which DBP Services and its associated entities would undertake to install the lateral pipeline on a build, own, operate (transfer) basis.

Indicative timing of the FEED study is 3 months for completion to first draft GTA stage, with practical completion of the lateral pipeline by April 2013, assuming no major unforeseen regulatory or environmental problems.

Following a competitive Expression of Interest (EOI) process, Cummins Power Generation has been selected as Gunson's preferred supplier of a natural gas-fired power station on a build, own, operate, transfer basis under a standard power purchase agreement. Cummins proposes to provide a competitive electricity supply solution, with forecast unit power costs substantially below those assumed in the Project Definitive Feasibility Study released in January 2010.

1.6 Massive Price Increases for High Grade Titanium Dioxide Feedstocks

On 8 December 2011, major producer Iluka Resources announced that it had reached agreement with customers that the prices of its rutile and synthetic rutile products would increase by between 80 and 90 per cent, to \$US 2,445 and \$US 2,000 per tonne respectively. This increase was well above market expectations and was followed by Sierra Rutile announcing on 20 December 2011 that it had signed sales contracts for rutile at an average price of \$US 2,530 per tonne, including one at \$US 2,700 per tonne.

These announcements confirm the strength of the current market for high grade titanium dioxide feedstocks. The prices of titanium dioxide products in the latest Coburn financial model released in November 2011 (see below) are considerably lower than those discussed above.

1.7 Offtake

As stated in previous public announcements, the Company has not entered into any product offtake agreements in recent years due to the possibility of a strategic investor taking a minority contributing interest in the Project as a means of gaining access to offtake rights.

Conclusion of a term sheet with a strategic investor in November 2011 (see below), has clarified the Company's position that it can sell its majority joint venture equity share of mine products to third parties. All terms for an ilmenite offtake contract with a major chloride pigment producer have been agreed and this agreement is in the final approvals stage. The same pigment producer has expressed strong interest in the Company's equity share of Coburn rutile and leucoxene production but interest from other consumers is also being considered.

Wide interest has been shown in the Coburn zircon product but the input of potential debt financiers on the nature of offtake arrangements is being carefully considered.

1.8 Updated Financial Modelling

Financial modelling using updated TZMI price forecasts received on 2 November 2011, revealed a Project NPV (8%) of \$223.7 million and IRR of 28.3% on a pre-tax and pre-financing basis, at the current 5% State royalty rate.

The November 2011 model results in comparison with the original Definitive Feasibility Study (DFS) model announced in January 2010 are shown in table 1 below.

Table 1. Coburn Annual Revenues & Costs, and Long-term Returns

	November 2011	DFS January 2010
Total Revenue	103.3	92.7
Total Operating Costs	66.5	57.7
Net Operating Margin	36.8	35.0
Capital Cost	180	169
IRR before tax/financing	28.3%	15.6%
NPV (8%)	223.7	139
Exchange Rate (\$US to \$A)	1.00	72c

The figures above are in millions of Australian dollars, except the IRR and exchange rate. Operating costs include the current 5% State royalty.

Although TZMI did not change its November 2011 long-term price forecasts beyond 2015, its latest 2013 and 2014 zircon forecasts were reduced to reflect recent soft demand in China. In its mid November 2011 investor briefing, market leader Iluka Resources Limited confirmed the softening of demand in China but indicated that continuing supply deficits beyond mid 2012 will lead to higher prices.

1.9 Project Financing

A non-binding Term Sheet was executed in November 2011 with a major East Asian industrial group (the Major) with significant existing resource development investments in Western Australia, providing an attractive funding path in the current difficult financial market.

Under the Term Sheet, the Major may earn a large minority joint venture interest in the Project by contributing its proportionate share of Project development costs, together with an additional contribution that reflects a Project earn-in value. Assistance with Gunson's share of project debt and equity finance is also available from the Major.

A due diligence period of 3 months was agreed, during which a binding joint venture agreement is to be prepared and executed, with Gunson to be the Project Manager. In accordance with accepted practice, each party in the joint venture would have the right and obligation to receive its equity share of mineral products from the Coburn mine.

It is envisaged that approximately half of the total Project funding will be in the form of financing by way of bank loans. The Major will guarantee its share of any such debt finance and use its reasonable endeavours to assist Gunson as

required to raise its share of required loan funds, either jointly or separately. These funds would only have recourse to either party in proportion to its interest in the joint venture.

The Major is well advanced in its due diligence process and its executives are to visit Perth in early February to progress the joint venture documentation.

2 MOUNT GUNSON COPPER EXPLORATION PROJECT (49%), *South Australia*

Copper assays from the 6 metre thick sulphide-rich zone in hole MGD 69 at Emmie Bluff Prospect described in the previous quarterly report, revealed an intersection of 2 m at 1% copper from 950 m. This result, included on a cross section in the 2011 Annual General Meeting presentation, shows that the iron oxide rich zone at Emmie Bluff averages well over 200 m thick in the central portion, thinning rapidly to where it was intersected in holes MGD 68 and 69 drilled in 2011.

Xstrata Copper, who took over as operators of the Joint Venture at the beginning of 2012, feel that further effort should be focused on the thick iron oxide zone as well as drilling some new targets they have defined elsewhere on the Project.

Further drilling at Mount Gunson is likely to be in the second half of 2012, preceded by additional magneto-telluric (MT) and gravity geophysical surveys to firm up drill targets.

During the quarter, Xstrata Copper subsidiary Noranda Pacific Pty Limited (Noranda) spent \$551,658 on the Project, bringing its cumulative expenditure to \$5.76 million. Noranda has the right to sole fund exploration to \$10 million by mid June 2013, increasing its equity in the Project to 75% from the current 51%.

3 MOUNT GUNSON COPPER – MG 14 & WINDABOUT EXCISED AREA (100%), *South Australia*

Negotiations with a small-mine company wishing to enter into a profit sharing agreement on the MG14 deposit continued during the quarter, while this company focused on obtaining finance for the proposed mine.

With their well demonstrated expertise in developing small mining operations, Gunson is confident that the key personnel in this small company will be successful in obtaining finance in the near term.

4 FOWLERS BAY NICKEL PROJECT (100%), *South Australia*

Results from the detailed aeromagnetic survey completed during the quarter were forwarded to an external consultant geologist with extensive expertise in exploration targeting for nickel sulphide deposits.

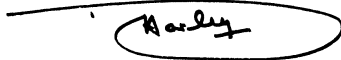
The interpretation and targeting study is expected to start in February 2011, with targets chosen to be screened with infill TEM geophysical surveys.

5 TENNANT CREEK GOLD-COPPER PROJECT (100%), Northern Territory

Drilling was again postponed due to rig availability and weather conditions. The program is to be initiated after the current wet season.

6 FINANCIAL

At 31 December 2011, the Company had \$1.57 million in cash and short term deposits. Exploration expenditure was \$484,000 and forecast exploration expenditure for the March quarter of 2012 is \$300,000.



D N HARLEY
MANAGING DIRECTOR

30 January 2012

Attachment

- Appendix 5B

Further enquiries, please contact:

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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.