

**GUNSON RESOURCES LIMITED
QUARTERLY REPORT FOR THE PERIOD ENDED
30th JUNE 2011**

HIGHLIGHTS

COBURN ZIRCON DEVELOPMENT PROJECT

- *Discussions with potential strategic investors and offtake parties have intensified and at the end of the quarter, proposals from some of these were received. Further proposals from companies currently finalising their due diligence are expected in August 2011. Once received, these and the earlier proposals will be evaluated by the Company's financial advisors and compared with the sole funding option announced earlier this year.*
- *Zircon and rutile prices for the second half of 2011 have doubled from those achieved in early 2010, with the prices of the other titanium mineral products to be produced at Coburn also increasing substantially.*
- *New price forecasts currently being finalised by industry experts TZMI are expected to improve the financial returns of the Project, following the substantial zircon and titanium mineral price rises for the second half of 2011 announced by industry leader Iluka Resources Limited in June 2011.*
- *The higher prices, peaking in 2013, are forecast to prevail at lower but still very attractive levels beyond 2015, having a significant impact on the Project economics.*
- *A 166 hole infill and extensional drilling program was completed, with around 20% of assays received to date, confirming continuity of mineralisation. The full results are expected to allow a portion of the current Inferred Resource to be upgraded to Indicated status.*
- *A further 60 holes were also drilled to collect a 7 tonne bulk sample from the initial proposed mine pit. Laboratory processing of the bulk sample is underway, which will provide additional product samples for potential offtake customers.*

MOUNT GUNSON COPPER PROJECT

- *Deep diamond drilling funded by Xstrata Copper subsidiary Noranda Pacific Pty Limited commenced at Emmie Bluff Prospect on 20th July 2011.*
- *The drilling program is designed to test for high grade copper-gold ore on the flanks of a 5km long gravity geophysical anomaly shown to be associated with narrow zones of high grade copper-gold mineralisation by mid 2009 drilling.*
- *Due diligence on the 100% owned MG14 and Windabout copper prospects by two small-mine operating companies is in progress, with a view to concluding a profit sharing development agreement by the end of 2011.*

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

1.1 Permitting

Formal Shark Bay Shire Council consent to the Company's development application was granted on 25th May 2011 and on 7th June, the Western Australian Environment Minister approved a one year extension to the period within which the Project must be substantially commenced. The new expiry date is 22nd May 2012.

This leaves the second Non Substantial Change to the Public Environmental Review (NSCA2) as the remaining approval required before construction can commence. Due to a substantial backlog of work in the Office of the EPA (OEPA), NSCA2 was not processed as quickly as anticipated in the March 2011 quarterly report but approval is now likely in August 2011.

For the reason stated above, OEPA, has not made significant progress on assessment of the Groundwater Mounding Management Plan, which must be approved before mining can start.

1.2 Infill and Extensional Resource Drilling

The infill and extensional drilling program discussed in the March 2011 quarterly report was completed on 20th May, comprising 166 holes for 3837 metres. This program was designed to test for ore extensions to the south east of proposed open Pit E and to upgrade the inferred resource in the northern third of the Project (Figure 1). Samples have been submitted for assay and results for the first 20% of these, all in the northern third of the project, have been received to date. These initial results confirm the continuity of mineralisation in the previous 1 kilometre spaced drill traverses which defined the current inferred resource reported in April, 2008. The full suite of results should allow the upgrade of a portion of the Inferred Resource to Indicated status.

1.3 Bulk Sample/Testwork

On completion of the infill and extensional drilling program, 60 holes were drilled within the proposed Pit A outline (Figure 1) to an average depth of approximately 15 metres. Processing of the 7 tonne bulk sample collected from the ore zone within these holes has commenced, to provide additional zircon and titanium mineral samples for potential offtake customers. Pit A is the first open pit scheduled for production and the metallurgical test work is expected to confirm previous tests that showed the Coburn zircon grain size is significantly coarser than the **mostly below** 120 micron grain diameter reported from deposits in the Eucla Basin of South Australia in the June-July 2011 issue of the American scientific journal *Economic Geology*. Coburn zircon has an **average** grain size of 150 microns, coarser than the zircon in most of the Capel district deposits but finer than in the Eneabba deposits, both in Western Australia.

Chlorination tests on a 5 kilogram sample of chloride ilmenite supplied to a potential customer in the pigment industry have confirmed the suitability of the Coburn ilmenite product for use in that industry.

1.4 Water Bore and Road Construction

Provision of water for road construction is a critical path item for the development timetable of the Project, as access to the proposed mine site requires the construction of a new sealed road west of the Coburn station homestead (Figure 1). Respected contractor Bunbury Drilling is scheduled to drill and pump test a 180 metre production water bore on the road route, now scheduled to start in September-October 2011, due to a delay in the forecast delivery date of steel casing for the hole.

1.5 Review of Project Capital and Operating Costs

The Company's engineering contractor for the Project, Sedgman Limited, has reviewed its late 2009 capital cost estimate reported as part of the Definitive Feasibility Study (DFS) release in January 2010. This review has shown a modest 6% increase in the capital cost estimate from 2009, with reductions in the cost of fabricated steel supplied from South East Asia due to the

strong Australian dollar offsetting increases in electrical and labour costs. In the current environment, this is considered to be a very favourable outcome, with a relatively small impact on the NPV and IRR of the Project.

Based on comments from some of the potential strategic investors and banks currently completing due diligence on the Project, some operating costs have also been revised upwards in the financial model.

1.6 Further Market Improvement

The zircon and titanium mineral price rises for the second half of 2011 announced by leading producer Iluka Resources Limited (Iluka) on 6th June 2011 are ahead of the TZMI price forecasts used in the Coburn financial update outlined in the March 2011 quarterly report. New price forecasts by respected global mineral sands consultants TZMI, reflecting the recent price rises and evidence of the tight market conditions, are currently being finalised for release by the end of July 2011.

In essence, zircon and rutile prices for the second half of 2011 have doubled from those achieved in early 2010, with the prices of the other titanium mineral products to be produced at Coburn also increasing substantially.

Gunson believes that the price rises are sustainable and “structural” in nature, reflecting the ongoing demand growth and lack of new supply of both zircon and titanium mineral products. This view is supported by comments from Iluka, in a June 2011 presentation to investors. Iluka reported that it is “allocating” (i.e. rationing) volumes to customers, that “even in the low demand scenario, a considerable deficit is forecast”, and “further price increases (are) possible and sustainable”.

This view is supported by TZMI in its June 2011 monthly Mineral Sands Report, which notes the following significant market information:

- Senior industry participants on both the supply and demand side of the mineral sand markets cannot remember a time when pricing pressures were so high, despite some spikes in the past. Pricing power is now clearly with the producers, supported by a supply shortage rather than an event-driven deficit.
- In an interview with the President of Dupont Titanium Technologies, the world's largest pigment producer, he predicts that the tightness in supply of high-grade titanium dioxide ore is expected to last for at least 3 to 5 years.

1.7 Revised Financial Evaluation

New price forecasts currently being finalised by TZMI, for release at the end of July 2011, are expected to improve the financial returns of the Project. The higher prices, peaking in 2013, are forecast to prevail at lower but still very attractive levels beyond 2015, having a significant impact on the Project economics.

Once these forecasts have been incorporated into the Project financial model, an update will be released in early August.

1.8 Project Financing

In view of the improved market conditions discussed above, the Company expanded the mandate of RFC Corporate Finance (RFC) on 20th May 2011 beyond the original one announced on 14th July 2010. RFC's assignment now encompasses offtake-related funding, equity and debt finance, in addition to the option of attracting direct strategic investment in the Project. Debt finance options being canvassed are designed to not only establish the most appropriate gearing and term parameters for the Project but also to maximise the commodity price upside, as supply shortages become increasingly acute.

Former Newcrest CFO Jeff Smith was appointed on a part-time basis in early June 2011 to assist the Company's management team with its funding strategies and related commercial

requirements. At Newcrest, Mr Smith had primary responsibility for the financing of the Telfer mine in Western Australia as well as other corporate debt and equity raisings. Prior to that, he worked with WMC Resources Limited for 20 years, from 1976 to 1996 in various finance roles and took a lead role in several major project developments and acquisitions.

The underlying objective of the Company and RFC will be to secure a funding solution for Coburn that optimises the value for Gunson shareholders from development of the Project.

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

Deep drilling on the flank of the Emmie Bluff gravity geophysical anomaly (Figure 2) commenced on 20th July, funded by Xstrata Copper subsidiary Noranda Pacific Pty Limited (Noranda), the Company's joint venture partner since mid 2006.

The first hole of the 2011 drilling program, MGD 68, is located approximately 1.3 kilometres south-east of hole MGD 55 drilled in mid 2009, that intersected two narrow zones of higher grade copper-gold mineralisation in basement rocks, comprising 7m @ 2.2% copper with 0.5 g/t gold from 974m and 1m @ 4.4% copper with 1.3 g/t gold from 1006m respectively.

The location of the new hole was chosen on the basis of its position on the flank of a major north-west trending gravity geophysical anomaly some 5 kilometres long (Figure 2). The peak of this anomaly was tested by MGD 55 but research into the relationship between significant copper-gold mineralisation and gravity highs has shown that the best mineralisation occurs on the flanks rather than the peaks of these geophysical anomalies.

The top of the basement target zone in MGD 68 is expected at 800 metres depth and the hole is currently at 300m depth. It should enter the target zone by mid August. A second hole is planned approximately 2 kilometres along strike to the north-west of MGD 68, as shown on Figure 2.

Noranda has the right to earn an additional 24% interest in the Project (in addition to the 51% it currently holds) by spending an additional \$6.5million (for a cumulative amount of \$10 million) on exploration by mid June 2013. At the end of June 2011, Noranda had spent a total of \$4.3 million.

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

Evaluation of the two mine development alternatives discussed in the previous quarterly report, namely sole development of MG14 or sequential mining of MG14 then Windabout, was suspended late in the quarter, following encouraging interest from two small-scale mine operators.

In both cases, the operating companies concerned would develop a small mine at MG14 at their cost and share the surplus operating cash flow with Gunson. An option to develop a second mine at Windabout on a similar basis would also be available.

The Company expects that a mine development agreement should be reached by the end of 2011.

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

Two down-hole surveys and three surface Transient Electromagnetic (TEM) geophysical traverses were completed in May and the results interpreted.

Down-hole TEM measurements in angle hole FBD 2 described in the previous quarterly report clearly showed that the surface TEM anomaly tested with FBD 1 and FBD 2 lies in the cover

rocks between 25 – 45 metres depth. The results from vertical hole FBD 1 were more equivocal, with only a weak peak evident between 10 and 50 metres depth.

Of the three surface traverses conducted, results from the traverse across anomaly 2, located approximately 1 kilometre south east of drill hole FBD 1, are the most encouraging. This anomaly, first reported in the Company's release on 20th January 2009, is located near the northern edge of a magnetic body interpreted to be an ultramafic unit. Although broader and weaker than the TEM response tested with holes FBD 1 and FBD 2, it is in a more favourable geological position and a detailed aeromagnetic survey to better define the strike and dip of the bedrock units is scheduled for completion in September 2011. Depending on the results of this survey, infill TEM traverses and further drilling will be considered.

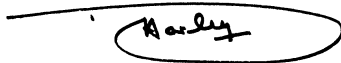
5 TENNANT CREEK GOLD-COPPER PROJECT (100%), Northern Territory

A drilling program to test the gravity-magnetic geophysical anomaly on the Gosse 5 exploration licence described in the September 2010 quarterly report is scheduled to commence at the end of September 2011.

On 7th September 2011, a meeting with the traditional aboriginal landholders near Tennant Creek has been scheduled, to discuss two of the Company's exploration licence applications refused consent for grant in October, 2004. Under the provisions of the Aboriginal Land Rights Act (Northern Territory) 1976, these applications were placed in moratorium for 5 years until 20th October 2009, after which the Company reapplied for consent to grant.

6 FINANCIAL

At 30th June 2011, the Company had \$3.25 million in cash and short term deposits, with a further \$1.2 million in a term deposit to back the unconditional performance bonds for construction of the Coburn Zircon Project. These latter funds (see item 1.12 on the attached Appendix 5B) are not available to the Company unless the bonds are waived. Exploration expenditure was \$587,000 and forecast exploration expenditure for the September quarter is \$400,000.



D N HARLEY
MANAGING DIRECTOR

29th July 2011

Attachments

- **Figure 1 Coburn Zircon Project – 2011 Drilling**
- **Figure 2 Emmie Bluff Prospect – Basement Drilling 2011**
- **Appendix 5B**

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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.