GUNSON RESOURCES LIMITED

QUARTERLY REPORT FOR THE PERIOD ENDED 30th SEPTEMBER 2010

HIGHLIGHTS

COBURN ZIRCON DEVELOPMENT PROJECT

- Global mineral sands consultancy TZMI has reported a 30% increase in the price of zircon from the end of 2009 to October 2010, with the likelihood of further significant price rises in the next several years due to restricted supply and growing demand, particularly from emerging economies.
- A new financial analysis of the Project using updated zircon prices provided by TZMI and a higher long-term exchange rate to the US dollar, shows that Coburn remains robust, with a NPV of $A141 million and IRR of 16.4%.
- The financial returns will be further improved if reductions in capital expenditure currently under consideration are implemented and ilmenite prices rise, as predicted by TZMI.
- Strengthening zircon and titanium mineral markets are being reflected by heightened interest in the Project from potential strategic partners.

MOUNT GUNSON COPPER PROJECT

- Airborne and ground geophysical surveys over the northern part of the Project funded by the Company's farm-in partner Noranda Pacific Pty Limited are nearly complete, providing data from which additional deep targets may be selected for drilling in 2011.
- Metallurgical test work on bulk samples from the 100% owned MG 14 and Windabout copper deposits is still in progress, to date yielding similar copper recoveries and concentrate grades from the MG 14 sample as those achieved in 2009.
- Excellent cobalt recoveries in the test work on both deposits indicate high potential values and therefore future work is to be focused on extracting a saleable cobalt intermediate product from the concentrates.

1 COBURN ZIRCON DEVELOPMENT PROJECT (100%) WESTERN AUSTRALIA

1.1 Permitting

A Licence to Take Water for the first 5 years of the proposed mining operation was issued by the Western Australian Department of Water on 10 August 2010.

The remaining permits required prior to the commencement of mining are approval of a Groundwater Mounding Management Plan, approval of a second Non Substantial Change to the Public Environmental Review and two mining approvals from the Department of Mines and Petroleum (DMP). Apart from the second DMP approval for construction of treatment plants and open pit mining, these approvals are expected before the end of 2010.

1.2 Market Improvement

In late September, leading global market consultancy TZMI reported that price increases effective in the fourth quarter of 2010 would take bulk zircon prices to $US1,050 - $1,100 per tonne *f.o.b*, up some 30% over those at the end of 2009. TZMI expects further price rises in 2011, based on continued tight supply as there are no material greenfields zircon mines under construction anywhere in the world at present. The tightness of supply is already manifesting itself in shortages and rationing of volumes across customers by the major producers.

Developments in zircon are being observed as a leading indicator for what could happen with titanium dioxide mineral feedstocks in 2011, the lack of investor support for new feedstock projects in recent years being a significant influence on why the market is now so positive. TZMI has observed that over the past 5 years, the total scheduled production in titanium dioxide units of projects under active investigation has halved, as has the number of companies involved.

TZMI has recently updated its zircon price forecasts for 2011-2015, to reflect the forecast continuation of supply shortages and increased demand from developing economies. These new forecasts are incorporated in the financial evaluation below.

1.3 New Financial Analysis

Since the financial analysis for the Definitive Feasibility Study (DFS) was released on 7 January 2010, there has been significant upward movements in both zircon prices and the Australian to US dollar exchange rate. These movements have broadly offset each other, with expected Australian dollar zircon prices and the forecast financial returns from the Project relatively unchanged.

Using long-term real US dollar zircon price forecasts provided in October 2010 by TZMI and a long-term average exchange rate of 85 US cents to one Australian dollar, the Coburn Zircon Project remains financially attractive, with a Net Present Value (NPV) of $141 million and Internal Rate of Return (IRR) of 16.4%. These returns will improve if reductions in capital expenditure currently under consideration are implemented and ilmenite prices improve, as predicted.

A summary of the financial analysis over the proposed 23.5 year mine life is shown in the table below.

Financial Summary of the Coburn Zircon Project (Real $A millions)

Category	DFS Oct 10	DFS Jan 10	BFS 2004
Total Revenue	2,086	2,189	1,336
Total Operating Costs	1,288	1,310	776
Net Operating Margin	798	879	560
Capital Cost	168.8	168.8	128
IRR before tax/financing	16.4%	16.8%	15.4%
NPV (8%)	141	163	73
Exchange Rate ($US to $A)	85c	72c	70c

The Oct 2010 column above is simply the January 2010 DFS financials incorporating the latest TZMI zircon price forecasts and a new long-term exchange rate assumption.

1.4 Discussions with Potential Funding/Offtake Partners

Discussions with potential strategic investors in the Project are ongoing, with seven interested parties actively reviewing the investment and offtake opportunity. The strengthening zircon and titanium minerals markets are being reflected in heightened interest in the Project from potential strategic partners, with many expressing concern about the current and forecast medium term global zircon shortage.

Two visits have been made to the Middle East since the previous quarterly report, the first in early August and the second in mid October. Meetings with potential investors are also scheduled for the annual TZMI mineral sands Congress in Hong Kong next week.

2 MOUNT GUNSON COPPER EXPLORATION PROJECT (49%) SOUTH AUSTRALIA

The principal activity during the quarter was planning for Noranda Pacific Pty Limited (Noranda) funded geophysical surveys in the northern part of the Project. Noranda, part of the Xstrata Copper Business Unit, earned a 51% interest in the Project in March 2010 and has the right to increase its equity to 75% by spending a total of $10 million by mid June 2013. Noranda's cumulative expenditure to the end of September 2013 stands at $4.06 million.

Since the end of the quarter, an 8,075 line kilometre aeromagnetic survey at 100 metre line spacing has been completed and the data will be available for interpretation next week. A program of five 2 to 8 km long ground magneto telluric (MT) traverses at Emmie Bluff Prospect commenced in mid October and this survey should be completed next week.

Subject to the definition of sufficiently attractive drilling targets from interpretation of data from the above geophysical surveys, drilling will follow in the first half of 2011.

3 MOUNT GUNSON COPPER – MG 14 & WINDABOUT EXCISED AREA (100%) SOUTH AUSTRALIA

Metallurgical test work on bulk samples from the MG 14 and Windabout copper deposits was the main activity during the quarter.

A locked cycle test on the MG 14 sample using the same process route as the Ian Wark Research Institute at the University of South Australia a year ago, achieved similar results, with 71% of the copper recovered into a 30% copper concentrate. The cobalt recovery was much higher, at 95%, yielding 1.2% cobalt in the concentrate, which reflects the coarser grain size of the main cobalt mineral, carrollite.

Work to date on the Windabout bulk sample has yielded a lower copper recovery in the only locked cycle test completed to date, at 54%, with a much higher cobalt recovery at 92%. However, a higher copper recovery for the Windabout sample is expected when a locked cycle test is carried out under the same conditions as the MG 14 sample discussed above. In both deposits, the cobalt content of the concentrate is a significant proportion of the copper content in terms of contained metal value, ranging from 25% in the MG14 concentrate to 69% in the Windabout concentrate.

Marketing studies during the year suggested that copper smelters were not willing to pay for the contained cobalt in copper concentrates. For this reason, additional test work is in progress to improve the copper recovery from ore to concentrate and to establish a viable flow sheet to recover a payable cobalt intermediate product from the concentrate.

Discussions with companies potentially interested in funding part of the BFS and part of the proposed mine development continued during the quarter. The main attraction for these parties is access to the high quality low uranium concentrate but there is a reluctance to commit funds until the metallurgical flow sheet has been resolved. Consequently, the Company continues to fund the low cost metallurgical program itself whilst retaining a wide range of funding options if the metallurgical issues are resolved.

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

Following the receipt of approval from South Australian government regulators to access the Yellabinna Regional Reserve for a diamond drilling program, a request for an aboriginal heritage clearance of the proposed drill site was submitted to the native title claimants' lawyer in early August. However, no agreement has been reached to date on a heritage clearance protocol. If this protocol is not resolved by mid November 2010, drilling may commence without the heritage clearance.

5 TENNANT CREEK GOLD-COPPER PROJECT (100%) NORTHERN TERRITORY

A detailed gravity geophysical survey over the western portion of the Gosse 5 exploration licence in September 2010 defined a discrete anomaly approximately 1km long, interpreted to be a hematitic ironstone body in the 100 – 150 m depth range, underlain by a magnetic zone 200m below. Drilling is scheduled for early 2011.

6 SHARE PLACEMENT

A placement of 4 million shares at 9 cents each was made to clients of RBS Morgans Limited in early October 2010, raising $360,000 before costs.

This placement increased Gunson's issued capital to 177,465,312 fully paid ordinary shares.

7 FINANCIAL

At 30th September the Company had $321,000 in cash and short term deposits. Exploration expenditure during the quarter was $424,000 and forecast exploration expenditure for the December quarter is $400,000.

D N HARLEY
MANAGING DIRECTOR

29th October 2010

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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.