Union Resources Limited

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Friday, 28 January 2011

Company Announcements Office
Australian Securities Exchange

QUARTERLY ACTIVITIES STATEMENT
FOR PERIOD ENDED
31 DECEMBER 2010

ASX RELEASE
Friday, 28 January 2011
ASX Code: UCL

Recent Price Sensitive Announcements:

- Namibian Phosphate Project - Scoping Study Results
- Mining Lease Application - Namibian Phosphate Project

Issue Capital:

Ordinary Shares 1.885bn

Top 20 Shareholders:

Hold 81.3%

Largest Shareholders:

- Twynam Agricultural Group Pty Limited
- Minemakers Limited
- JP Morgan Nominees Australia Limited
- Donwillow Pty Limited

Directors:
Ian Ross
John Lemon
Gida Nakazibwe-Sekandi
Chris Jordinson

- **Namibian Sandpiper–Meob Phosphate Project**
  - Scoping Study completed with positive results
  - Mining Lease Application lodged in Namibia
- **Mehdiabad Project**
  - Despite the impairment of the assets, Union's representatives are still progressing negotiation with the Iranian authorities to seek a mutually beneficial solution to the ownership issues
- **Corporate**
  - Convertible Note completed to raise A$500k
  - Appointment of Gida Nakazibwe-Sekandi as a Director
  - Cash at the end of the quarter was A$285,000

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Background

Union Resources Limited ("Union" or "the Company") is focused on:

1. exploration and development of the offshore Namibian Sandpiper–Meob Phosphate Project with joint venture partners Minemakers Limited (ASX-"MAK") and Tungeni Investments cc (Namibian partner) through the joint venture company Namibian Marine Phosphate (Pty) Ltd ("NMP"); and
2. continuing to work with the Iranian authorities to seek a mutually beneficial solution to the ownership issues relating to the Mehdiabad Project.

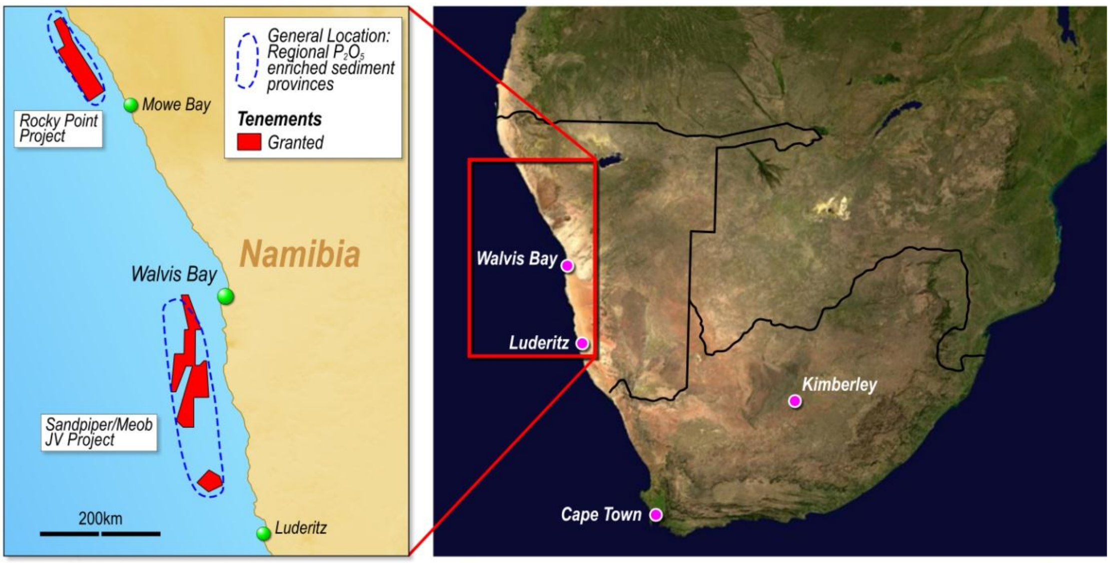
Offshore Namibian Phosphate Project

Background

Joint Venture partners Union Resources Limited (ASX: "UCL") (42.5%), Minemakers Limited (ASX: "MAK") (42.5%), and Tungeni Investments c.c. ("Namibian Partner") (15%), announced the results of the Scoping Study by the Joint Venture Company, Namibian Marine Phosphate Pty Limited ("NMP") for the Sandpiper/Meob Marine Phosphate Project ("Phosphate Project") in November 2010.

HIGHLIGHTS

- At Scoping Study level, the Namibian marine phosphate project is potentially economic.
- Operating costs have been estimated at US$57.76/t FOB Walvis Bay for an operation on beneficiated material, ramping up to 3Mtpa.
- Start-up capital costs are estimated as US$144M.
- The beneficiated material is indicated to be suitable for marketing to fertiliser producers and for the manufacturer of phosphoric acid by the Joint Venture.



Principal conclusions from the Scoping Study follow:

RESOURCE BASE AND PROJECT LIFE

As previously reported, the estimated resources categorisation of the Offshore Namibian Phosphate Project is as follows:

Indicated Category:	73.9 million dry tonnes at 20.57% P_2O_5
Inferred Category:	1,507 million dry tonnes at 18.7% P_2O_5
Total	**1,581 million dry tonnes at 18.8% P_2O_5**

Additionally, there is potential to increase this resource base considerably. As has been advised previously, the sampling upon which the above resource estimates is based was only carried out in the upper 2m of the phosphatic sediments. From previous drilling, the sediment is known to be considerably thicker in the tenements, and the JV is engaged in a programme of deeper penetration sampling. In accordance with clause 18 of the JORC Code, the JV considers there is a reasonable exploration target of an additional 1 – 2 Billion tonnes in the grade range of 18 – 21% P_2O_5. (This potential quantity and grade is conceptual in nature, there has been insufficient drilling to define an enlarged Mineral Resource, and it is uncertain if further exploration will result in the determination of an enlarged Mineral Resource).

The Scoping Study incorporates a ramp-up to 3Mtpa of beneficiated product by Year 3 of operation. The economics indicated below show potential for an operation lasting over a century.

PROJECT ECONOMICS SUMMARY

The financial highlights from the Scoping Study Base Case Study over the first 25 years of project operation are summarised as follows:

	Scoping Study Base Case
Scoping Study Base Case Financial Model	**25 years**
Scoping Study parameters	**±30%**
Saleable Rock Phosphate per annum	**3.0mtpa**
Cash Operating Costs, FOB Walvis Bay	**$57.76/t**
Capital Costs (Years 1-3)	**$144M**
Capital Costs per tonne	**$7.65/t**
NPV @ 10% discount rate	**$312M**
NPV @ 15% discount rate	**$133M**
IRR	**25.5%**

** All dollar figures are expressed as United States dollars ("US$"), unless expressed otherwise.*

The Rock Phosphate selling price has been discounted on the current Rock Phosphate selling price to adjust for the grade differential and quality of final product.

Base case production parameters include:

Rock Phosphate sold concentrated grade	**28% P_2O_5**
Annual throughput development from Year 3	**5.0Mt**
Annual sales, from Year 3	**3.0Mt**

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Scoping Study Participants

In addition to the technical staff of the JV participants, international consultants undertook key aspects of the Scoping Study as follows:

Area	Consultants
Marine mining/dredging	IHC Marine and Mineral Projects and Jan de Nul Group
Slurry handling & onshore reclamation	Patterson and Cooke Consulting Engineers (Pty) Limited
Beneficiation & Process Plant	Batemans Advanced Technology Limited

Other aspects of the phosphate project were reviewed by appropriate parties to ensure the proposed operating parameters were feasible. They included Walvis Bay Municipality, Namport, Namwater, Nampower and the Ministry of Mines and Energy.

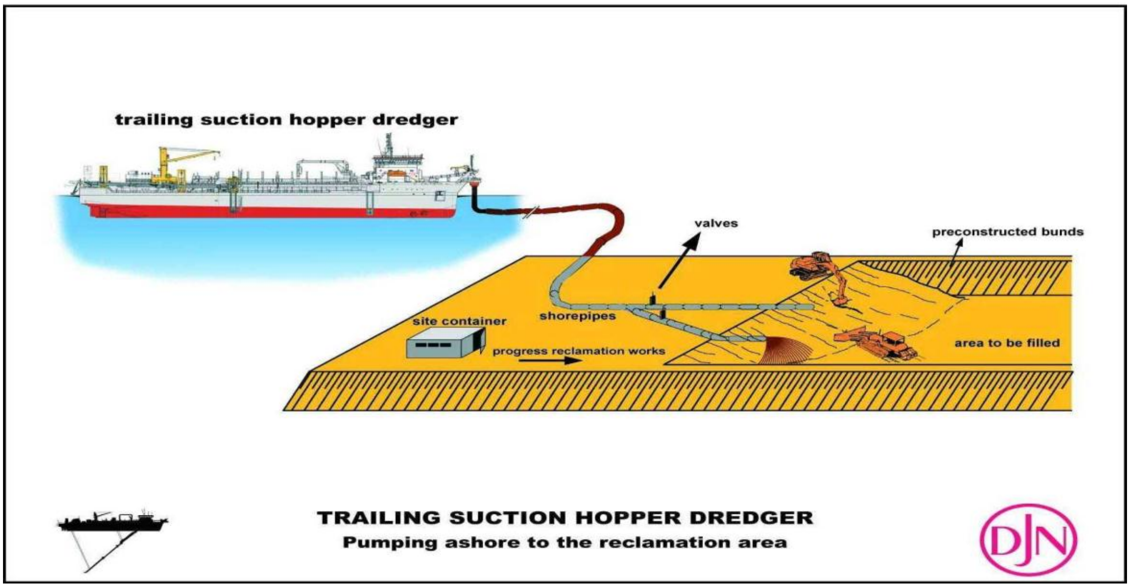
Marine Mining/Dredging

The marine consultants confirmed that the dredging option, as put forward by JDN, employing the vessel the Cristobal Colon dredging to a depth of 225m is currently recommended as the preferred option for recovery and transport of the phosphate sediments to shore.

Shore Transfer

The transfer of slurry from the dredge vessel to an onshore buffer/receiving pond has been included as part of the marine mining/dredging process provided in the cost price from the contractor. The shore transfer involves a flexible pipe being attached to the vessel and the mined material is then pumped to shore as is commonly used in the dredging industry.

Slurry consultants, Patterson and Cooke, have carried out the land based study which includes buffer ponds, a pump station and overland pipeline which allows the slurry of mined material to be pumped from the onshore buffer pond point to the proposed process plant location at Walvis Bay, which is around 15km north of the shore transfer point.



Processing

Processing studies were carried out on material recovered from an area which had been sampled sufficiently densely to enable a resource at Indicated category to be estimated. It is considered likely that actual run of mine ore will average a higher grade than this sample's 18.5% P_2O_5.

Bateman's processing testwork has indicated that through conventional sizing, screening and attrition processes the mined material can be concentrated to 26-28% P_2O_5 depending on feed grade and, in addition, attrition testwork also showed a partial removal of the contaminant gangue including iron (Fe), magnesium (Mg), aluminium (Al) and insoluble matter into the slimes.

Chemical testwork completed to date shows that the Namibian rock concentrate can be used to make either Phosphoric Acid or Single Super Phosphate ("SSP").

Batemans has also initially investigated further enhancing the quality and grade of final product concentrate through a calcination process. Further test and costing work on this will be carried out during the Feasibility Study.

In addition Bateman have opined that the concentrate can be converted into wet process acid in a similar fashion to the results reported in the Prayon test work report of 2004.

Infrastructure

In principle the allocation of land and fresh water requirements have been confirmed and are within the design parameters for the proposed process plant. In addition it has been confirmed that the port has the capacity to handle, store and load the final product onto ships for final delivery to the customer.

Start-up and Ongoing Capital Costs

The estimated capital costs have been put forward by the various consultants at a scoping study level at ±30%. Capital for project establishment and ramp-up to 3Mtpa is as follows:

	Estimated Cost
Feasibility/definitive engineering	$7.0M
Marine mobilisation/demobilisation, pipe installation and piping equipment, years 1-3	$57.6M
Reclamation area, pump station and piping to the Process Plant	$40.5M
Process Plant	$36.1M
EPCM, owners costs and working capital, years 1-3	$32.9M

In following years, working capital, including mobilisation and demobilisation of the dredge, is estimated at $13.4M to $18.4M per annum.

Operating Costs

Over the 25 year project life, FOB operating costs on beneficiated phosphate are estimated as $57.80/t.

Capital costs per tonne are estimated at $7.60/t for a total project cost of $65.40/t.

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Environment

A review of environmental requirements, potential impacts and associated risks has been completed at the scoping level. There are requirements for standard environmental impact assessments and management program reports to be completed and approved by relevant local and government authorities that will be further developed as part of the Feasibility Study and in support of a Mining Lease Application. However, at the scoping stage, there are no specific issues that have been identified as representing a potential terminal risk to the project for both the proposed marine and land activities.

Initial environmental baseline studies have been completed by external consultants for the target mining area. Results indicate there are no unique species or conditions that would present potential terminal risk to the project activities.

Mining Lease Application

NMP has lodged the Mining Licence Application ("MLA") which covers the Exclusive Exploration Licences ("EPL's") 3414, 3415 and 3323. The MLA was lodged with the Namibian Department of Mines and Energy and is registered as MLA 170.

Future Work

The work programme for the NMP Joint venture is as follows:

- Conduct and complete the Feasibility Study
- Manage the processing of the Mining Lease Application ("MLA") to the completion of the process and subsequent grant.
- Carry out the deeper penetration vibracorer sampling and revise the resource base
- Carry out additional test work to further enhance the final rock concentrate to be produced.
- Establish discussions with potential off-take parties to establish interest for sale of the Namibian concentrate for producing either Phosphoric Acid or SSP.

Mehdiabad Base Metal Project

Background

The Mehdiabad Project is carried on by Union, Iranian Mines and Mining Industries Development and Renovation Organization ("IMIDRO") and the company Itok GmbH ("Itok") through an incorporated Iranian joint venture company, Mehdiabad Zinc Company ("MZC"). Union has to date invested in excess of US$16.8 million on exploration and feasibility activities relating to the Project.

As previously advised, IMIDRO purported to terminate several agreements governing the Project in December 2006. Union stated then, and is still firmly of the opinion, that the agreements were invalidly terminated. Since that time Union has been negotiating with various Iranian parties in an effort to resolve the impasse and progress the Project. At the same time, Union has been exploring the possibility of resolving the matter through arbitration and has made initial preparations for instituting arbitration proceedings should that become necessary.

During the Quarter

Union continued to hold discussions with the relevant Iranian parties in an effort to resolve the Project dispute and progress the Project. However, no substantive progress was made.

The Company recently received notification that the Iranian Mines & Mining Industries Development and Renovation Organization ("IMIDRO"), through a public tender process managed by the Iranian Privatisation Organisation ("IPO") has awarded a tender of its 48% stake in the Mehdiabad Project Joint Venture company Mehdiabad Zinc Company ("MZC") (In which Union Resources Limited holds a 24.5% stake) to an Iranian bidder KDD Group ("KDD"). Further, it is Union's understanding that the transfer of IMIDRO's stake in MZC to KDD is subject to the approval of the shareholders of MZC, so is therefore still incomplete.

The political situation in Iran continues to be difficult, and there appears little prospect of any improvement to it in the short term. Nevertheless, the Company has continued to work with IMIDRO and IMIDRO's subsidiary IMPASCO to try to resolve the Mehdiabad Project dispute.

On 30 April 2009, Union lodged a claim with the Australian Government Export Finance and Insurance Corporation (EFIC) under the Company's political risk insurance policy with EFIC, seeking compensation for expropriation of the Company's interest in the Mehdiabad Zinc Company which carries on the Mehdiabad Zinc Project. On 1 October 2009, Union received notification from EFIC that in EFIC's opinion the acts or omissions described in Union's claim do not constitute expropriation and therefore EFIC will not meet Union's claim under the Policy. EFIC provided no reasons for its assertion and Union is currently taking advice in relation to the matter and considering its options.

Union continues to work with the Iranian authorities and has participated in a number of meetings with the Iranian authorities to seek a mutually beneficial solution to the ownership issues.

Corporate

Cash as the end of the quarter was A$285,000. The Company is currently considering capital raising options.

During the quarter the Company issued a Convertible Note ("the Note"). The terms of the Note are for the provision of a loan of A$500,000 which accrues interest at 7.25% per annum, payable 6 monthly in arrears. The redemption date of the Deed is 24 months after the issue date. The loan is redeemable in shares at an issue price of ½ an Australian cent, which if fully redeemed means the Company will issue 100,000,000 fully paid ordinary shares.

Post the quarter date the Company announced the appointment of Gida Nakazibwe-Sekandi as a Non Executive Director to the Board of the Company.

Ms Nakazibwe-Sekandi, obtained a Bachelor of Law (LLB) in 1976 at the University of Makerere in Kampala, Uganda followed by a Diploma for Legal Practice in 1977.She practiced as a lawyer for over nine years in Uganda and Zimbabwe and is an accredited public relations practitioner. She is currently an Executive Director of the Group Professional Services Division of Capricorn Investment Holdings Limited, a regional financial services group based in Namibia and Botswana with interests in banking (including 72.9% ownership of Bank Windhoek – the only locally owned bank in Namibia), insurance, asset management, investments and micro finance. The Group Professional Services Division includes the practice areas of Legal Advisory, Company Secretariat and Board Affairs, Corporate Audit Services, Business Process Management and Corporate Marketing and Communication Services. Prior to this Ms Nakazibwe-Sekandi was the Executive Director, Corporate Marketing for Capricorn Investment Holdings which included provision of Corporate Marketing and Communication services to the Group Companies, and before that had corporate roles with Bank Windhoek and Rossing Uranium Limited.

For further information, please contact:

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The information in this report that relates to Mineral Resources is based on information compiled by Roger J. Daniel, B.Sc. (Hons) Geology, London, Pr.Sci.Nat., a full-time employee of the Company, who is a Member of The Australian Institute of Mining and Metallurgy. Mr Daniel has sufficient experience deemed 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 Daniel consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.