

GUNSON RESOURCES LIMITED

**QUARTERLY REPORT FOR THE PERIOD ENDED
30th JUNE 2006**

HIGHLIGHTS

- State and Federal government environmental approvals received for the mine development at Coburn.
- Government environmental conditions require the approval of 15 environmental management plans (EMPs) before construction can commence. Approval of these EMPs is expected in the December quarter of 2006.
- Definitive Feasibility Study (DFS) on Coburn well advanced, with compilation of the DFS document approximately 70% complete.
- Negotiations with potential offtake parties for the Coburn titanium dioxide products and the remaining uncommitted zircon have, in some cases, advanced to the draft contract stage. The zircon market continues to strengthen, particularly for product relatively low in the radioactive elements uranium and thorium – a feature of Coburn zircon.
- Three week roadshow in Europe, New York, Hong Kong and Singapore reveals strong interest in equity and debt financing for Coburn.
- Option/Joint Venture agreement on the Mount Gunson Copper Project concluded with Canadian major Falconbridge, giving them the right to earn a 75% interest by spending \$10 million over 6 years from 15th June 2006.
- A 6 hole diamond drilling program at Mount Gunson solely funded by Falconbridge is scheduled to commence in mid August.

**1 COBURN MINERAL SAND PROJECT
(WESTERN AUSTRALIA)**

Unforeseen delays in the environmental approvals process have resulted in the postponement of a decision to proceed with mine development until later in 2006, as full permitting of the Project to enable construction to commence is now not expected until the fourth quarter of 2006. However, the Company is working toward finalising its Definitive Feasibility Study (DFS) and financing strategy prior to the receipt of final mining approvals, so that construction work can begin immediately after these approvals are granted.

1.1 Environmental Approvals Process

Both State and Federal government environmental approvals have now been received, as announced to ASX on 24th May and 21st July respectively.

The government approvals have specified a number of conditions which the Company must adhere to, including approval by the EPA of 15 environmental management plans (EMPs) before the commencement of construction. Priority

is being given to completing these EMPs so that they can be approved as soon as possible in the fourth quarter of 2006.

1.2 Ore Reserve Drilling

A 640 hole infill drilling program on the initial mining area commenced on 3rd June and should be completed by 2nd August. Drilling is on a 125 by 50 metre grid, to upgrade the resource based on the previous 500 by 100 metre pattern, from indicated to measured status (Figure 1). Once the assays for this drilling have been received, estimation of proven ore reserves in accordance with the JORC Code can be made.

1.3 Definitive Feasibility Study (DFS)

Shortly after the appointment of Proteus Engineers as managing contractor for the Project on 10th March 2006, a DFS designed to update and improve on the accuracy of the 2004 Bankable Feasibility Study commenced.

Proteus recommended that all minesite construction and operating packages be re tendered in accordance with tighter scopes of work, so that variations after contract award can be minimised. New tenders have now been received for the accommodation camp/offices, bore field, power supply and contract mining. A decision on the successful tenderers will be made after further negotiations.

Tendering of the mine access road and wet concentrator plant has been delayed by the need to tighten up the design criteria and scope of work in each case. Tender documents for the wet concentrator are to be sent out on 28th July, for a response by 21st August. Road construction tenders will be invited in mid August.

Remaining minesite construction and operating packages, the largest of which is the Ilmenite Plant designed to produce a final ilmenite product for export *f.o.b.* from Geraldton, will not be put out to tender for the time being as they are relatively small and are not critical path items. Despite the absence in the short term of a competitive tender process for these packages, reasonably accurate estimates will be available for inclusion in the DFS.

Compilation of the DFS document is approximately 70% complete and proceeding satisfactorily.

1.4 Refining of Concentrates

Alternatives for toll refining of the more valuable non magnetic portion of the Coburn heavy mineral concentrates, which contain just over 50% zircon, have been narrowed down to a facility in Western Australia and a Gunson controlled plant in southern China. A decision on the favoured option is to be made in time for completion of the DFS.

1.5 Product Marketing

The zircon market, particularly for product with low levels of the radioactive elements uranium and thorium, has tightened further and the Company is well positioned to take advantage of this market niche.

Discussions with major consumers of TiO₂ and zircon products have advanced considerably during the quarter, with some reaching the draft contract stage.

1.6 Financing

A 3 week roadshow in Europe, New York, Hong Kong and Singapore at the end of the quarter confirmed the strong interest in both equity and debt funding for the Project. As a result of the visit to Europe, a representative of one bank visited site in early July.

Delays in the environmental approvals process have led to slippage in completing a debt information memorandum, which is now expected to be ready in September.

1.7 Overall Schedule

Because of the delays in the environmental approvals process, construction work at the minesite is unlikely to start before November 2006, with commissioning forecast for the fourth quarter of 2007.

2 MOUNT GUNSON COPPER PROJECT (SOUTH AUSTRALIA)

On 2nd May, the Company announced that it had signed an Option/Joint Venture Agreement with Noranda Pacific Pty Ltd (Noranda), the wholly owned subsidiary of Canadian major Falconbridge Limited.

This Agreement entitles Noranda to earn a 65% interest in the Mount Gunson Project by solely funding \$10 million of exploration expenditures over a six year period from 15th June 2006. Principal terms of this Agreement are as follows:

- (a) Noranda may earn a 51% interest in the Project by spending \$3.5 million in 3 years from 15th June 2006. Noranda will not have any equity in the Project if it fails to meet its expenditure requirements and may withdraw at any time.
- (b) If Noranda earns its initial 51% interest, it may then increase its equity to 75% by spending a further \$6.5 million in an additional 3 year period. Again, if it fails to meet this minimum expenditure target, its interest will not increase and will revert to 51%. Alternatively, Noranda may initiate a Joint Venture where it holds a 51% interest and Gunson 49%.
- (c) If Noranda reaches 75% equity, a Joint Venture would be formed, with Gunson having the right to contribute to ongoing expenditure at 25% interest. Alternatively, Gunson may elect not to contribute and be diluted in accordance with an agreed formula. However, Gunson may elect to recommence contributing to the Joint Venture at the commencement of subsequent budget periods.
- (d) If Gunson's equity falls below 10%, it will cease to have equity in the Project but will be entitled to a net smelter royalty.

The initial emphasis of Noranda's exploration program will be to test the potential for a major copper-uranium-gold deposit at Chianti Prospect, where Gunson's drilling program completed this year revealed a promising copper intersection, described below. This drilling also confirmed a geological environment similar in many respects to the Carrapateena Prospect some 20 kilometres to the east, where another Canadian copper producer, Teck-Cominco, has commenced a major drilling program to follow up an intersection of 67 metres at 3% copper announced in July 2005.

Noranda has advised that it has engaged a drilling contractor to commence a six hole, 3000 metre diamond drilling program at the Chianti Copper Prospect in mid August.

The estimated cost of this program is \$0.75 million, two thirds of which is to be spent on drilling.

A new geophysical and structural geological interpretation of Chianti Prospect by Noranda has highlighted the prospectivity of this area, which was upgraded by the high grade copper intersection in hole MGD 34 announced on 17th January 2006. The mineralisation, comprising 2 metres at 3.4% copper from 549 metres depth, is hosted in altered hematitic granite breccia similar to other iron oxide associated copper – uranium – gold deposits in the Olympic Copper Province of South Australia.

Noranda's geophysical interpretation shows a large gravity anomaly at Chianti, approximately 7 kilometres long by 4 kilometres wide, within which the six widely spaced holes will be drilled. Naturally, results from the early holes may influence the location of subsequent holes in the drilling program but the proposed holes are shown on the attached diagram, Figure 2. The exact location of the drill holes may also be affected by an Aboriginal Heritage clearance scheduled for late July.

3 TENNANT CREEK GOLD-COPPER PROJECT (NORTHERN TERRITORY)

Correspondence with the Central Land council (CLC) regarding a draft agreement for access to 4 of the Company's exploration licence applications on aboriginal land continued. One major issue remains, which has been referred back to the traditional owners and a decision is expected shortly.

4 BURKIN NICKEL/GOLD PROJECT (WESTERN AUSTRALIA)

A potential joint venture partner is currently reviewing technical data on the Project exploration licence, which was granted on 18th November 2005.

5 SHARE CAPITAL

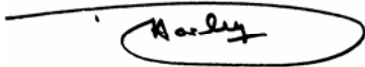
A total of \$1.8 million was raised during the quarter by the placement of 4.6 million shares at 35 cents per share and the exercise of 1 million options at 20 cents per share. The placement was to sophisticated investor clients of ABN AMRO Morgans and Cartesian Capital. The funds raised are being used to further advance the Coburn Mineral Sand Project towards mine development and for general working capital purposes.

After completion of the above transactions, the Company's issued share capital increased to 89.3 million fully paid ordinary shares.

6 FINANCIAL

At 30th June 2006, the Company had \$2.1 million in cash and short term deposits.

Forecast exploration and evaluation expenditure for the September Quarter is \$2 million.



**D N HARLEY
MANAGING DIRECTOR**

27th July 2006

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Attachment

Figure 1: Amy South Drilling Program 2005
Figure 2: Mount Gunson Project – Chianti Prospect

ATTRIBUTION

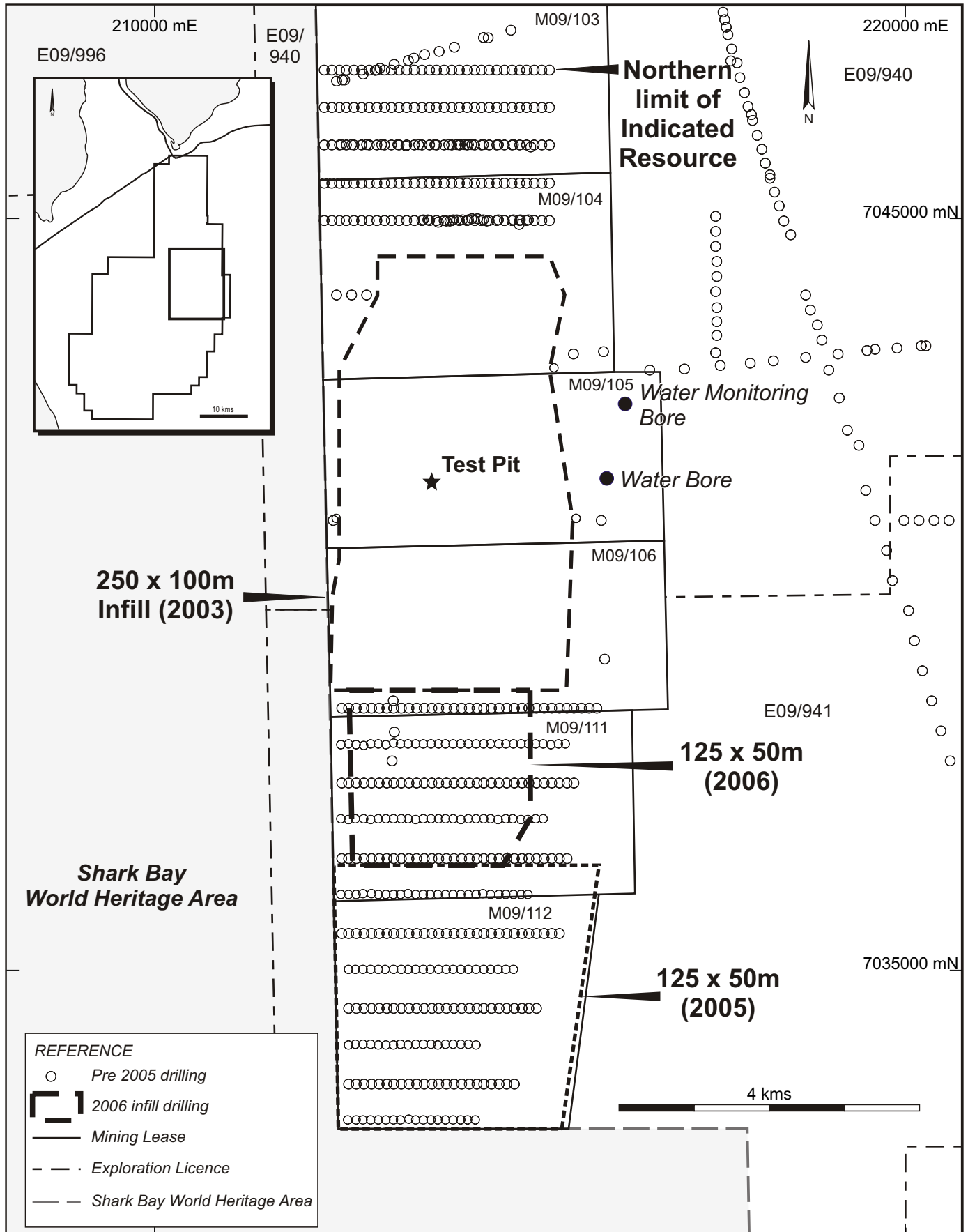
The information in this report that relates to exploration results, mineral resources and ore reserves is based on information compiled by Mr D N Harley, who is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Harley has sufficient experience which is relevant to the style of mineralisation 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.

Gunson Resources Limited

Figure 1

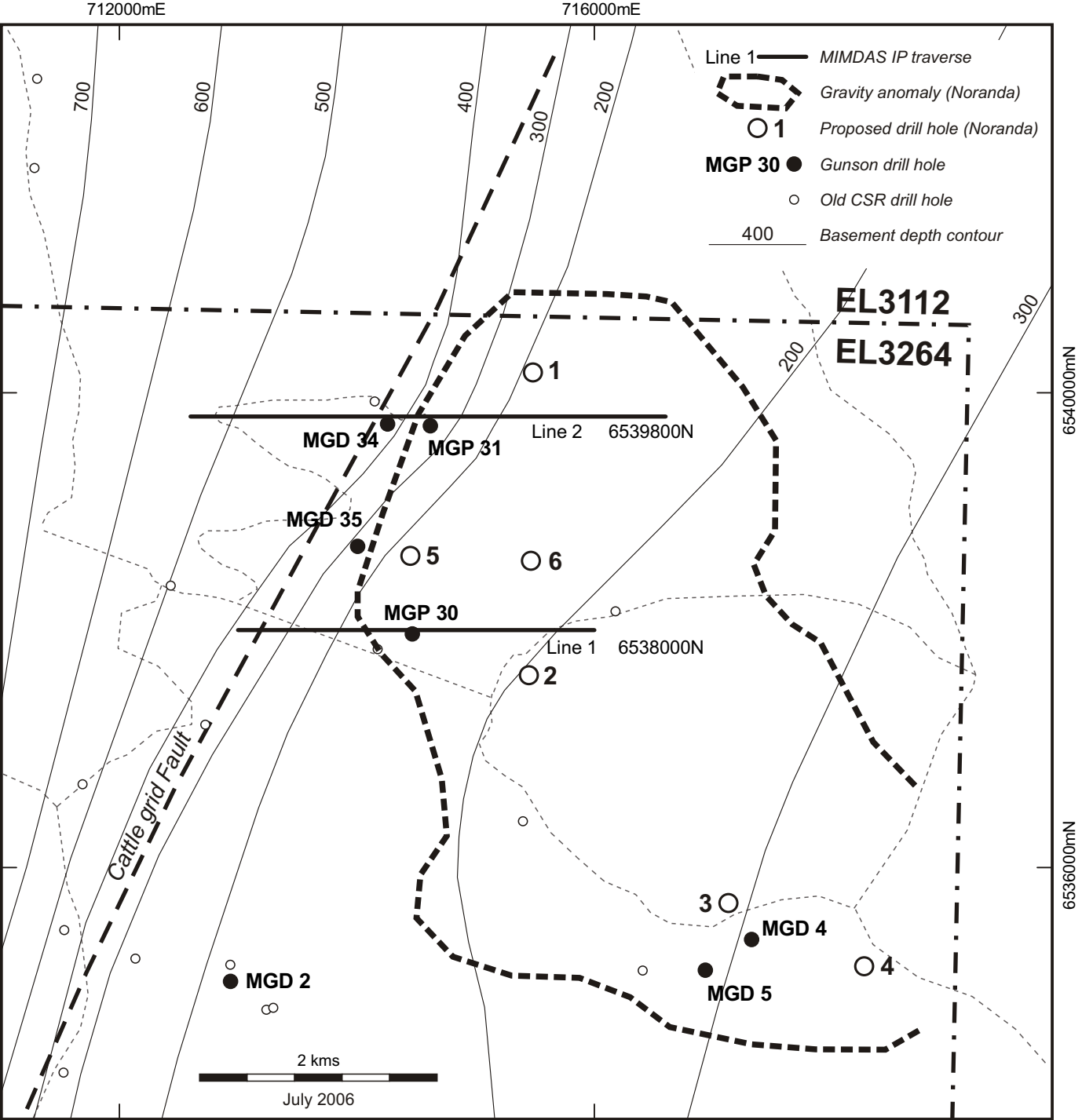
COBURN PROJECT -

AMY SOUTH DRILLING PROGRAM 2006



Gunson Resources Limited

Figure 2 MOUNT GUNSON PROJECT - CHIANTI PROSPECT



Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

Gunson Resources Limited

ABN

32 090 603 642

Quarter ended ("current quarter")

30 June 2006

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (... ¹² ... months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration and evaluation	(740)	(3,037)
(b) development	-	-
(c) production	-	-
(d) administration	(329)	(905)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	21	66
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (incl \$327,938 R&D reimbursement)	12	346
Net Operating Cash Flows	(1,036)	(3,530)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a)prospects	-	-
(b)equity investments	-	-
(c) other fixed assets	-	(7)
1.9 Proceeds from sale of: (a)prospects	-	-
(b)equity investments	-	-
(c)other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	(-)	(7)
1.13 Total operating and investing cash flows (carried forward)	(1,036)	(3,537)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,036)	(3,537)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	1,810	4,734
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Share Issue costs	(95)	(179)
	Net financing cash flows	1,715	4,555
	Net increase (decrease) in cash held	679	1,018
1.20	Cash at beginning of quarter/year to date	1,383	1,044
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	2,062	2,062

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	69
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Payment of Directors salaries and fees during the quarter	69
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Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil.

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

Financing facilities available

Add notes as necessary for an understanding of the position.

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	NIL	NIL

+ See chapter 19 for defined terms.

3.2 Credit standby arrangements	NIL	NIL
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Estimated cash outflows for next quarter

		\$A'000
4.1	Exploration and evaluation	2,000
4.2	Development	-
Total		2,000

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter \$A'000	Previous quarter \$A'000
5.1	Cash on hand and at bank	1,435	762
5.2	Deposits at call	627	621
5.3	Bank overdraft		
5.4	Other (provide details)		
Total: cash at end of quarter (item 1.22)		2,062	1,383

Changes in interests in mining tenements

		Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	NIL			
6.2	Interests in mining tenements acquired or increased	NIL			

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

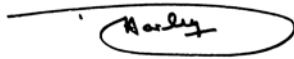
	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference +securities <i>(description)</i>	NIL			
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	89,289,786	89,289,786		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	4,599,153 1,000,000 1,820	4,599,153 1,000,000 1,820	35 cents 20 cents 22 cents	35 cents 20 cents 22 cents
7.5 +Convertible debt securities <i>(description)</i>	NIL			
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	100,000 1,800,000 1,800,000	- - -	<i>Exercise price</i> 20 cents 30 cents 35 cents	<i>Expiry date</i> 16/12/07 30/11/10 30/11/10
7.8 Issued during quarter	NIL			
7.9 Exercised during quarter	1,000,000	-	20 cents	20 cents
7.10 Expired during quarter	NIL			
7.11 Debentures <i>(totals only)</i>	NIL			

+ See chapter 19 for defined terms.

7.12	Unsecured notes (totals only)	NIL	
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Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.



D N HARLEY
27th July 2006
Managing Director

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.