

GUNSON RESOURCES LIMITED

**QUARTERLY REPORT FOR THE PERIOD ENDED
31st MARCH 2006**

HIGHLIGHTS

- The Western Australian Environment Minister rejects appeals against an EPA recommendation that the Coburn mineral sand mine proceed under certain conditions. State environmental approvals now expected in early May, with mining approvals to follow in June 2006.
- Memoranda of Understanding signed with two Chinese consumers for over 40% of the proposed 30,000 tonne per annum initial zircon production from Coburn, over a 5 year period.
- The above zircon offtake agreements provide for prepayments totalling US \$6 million, which will assist in funding the Coburn mine development. Prepayments are to be rebated progressively as refined product is supplied to these Chinese key customers.
- Managing contractor appointed on 10th March, responsible for assisting the Company to deliver the Coburn mine development on time and within budget.
- Appointment of the managing contractor has led to a change in the mining method from bucket wheel excavators to a lower risk bulldozer trap method, with considerable capital cost savings.
- Attractive joint venture terms on the Mount Gunson Copper Project concluded with a major international copper producer. Details to be announced in early May after execution of the formal agreement is completed.

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

Good progress was made during the quarter with the statutory approvals process, along with offtake and construction contracts, to enable a decision to proceed with mine development in mid 2006.

1.1 Environmental Approvals Process

Another important milestone was achieved in the approvals process when on 27th March, the Environment Minister published his decision to reject the two appeals against the Western Australian Environmental Protection Authority (EPA) recommendation that the Project should proceed.

In his ruling, the Minister included the following provisions:

- That after 7 years of mining, the Government will decide whether to allow the mine to continue, on the basis of Gunson's performance in meeting strict rehabilitation criteria.

- That Gunson must publish annual reports on its environmental program.
- That seven environmental offsets by Gunson be made legally binding. These offsets include the 42 square kilometre area of land within the Company's Coburn pastoral lease and exploration licences to be included in the conservation estate, as announced on 21st March 2006.

The environmental offset area is contiguous with the Shark Bay World Heritage Property and lies on the south eastern margin of the proposed mine. It will not impact on planned mining operations, however an infrastructure corridor which includes the mine access road passes through the southern half of the offset area.

The next step in obtaining environmental approvals is agreement on the wording of the Ministerial Statement outlining the conditions of approval and the Company's commitments. In this regard, comments on a draft Statement have been forwarded to the Appeals Convenor. The State Environment Minister's public approval is expected in early May, to be followed within four weeks by approval from the Commonwealth Environment Minister.

Mining approvals are now expected in June 2006.

1.2 Mining Method, Ore Reserves, Further Drilling

Pit optimisation studies during the quarter indicated that a change in the mining method would have a positive impact on the project economics and risk profile. This change, from the relatively inflexible bucket wheel excavator/conveyor system to a modified version of the bulldozer trap technique currently being used at the Consolidated Rutile North Stradbroke Island mine, results in an appreciable reduction in the minesite capital cost estimate of \$85 million announced on 21st March.

The bulldozer trap technique will allow selective mining of ore pods lying within the overburden layer, and planning of a detailed mine path based on this method is in progress. Indications are that the Amy South ore reserve grade can be increased from 1.1% heavy minerals in the 2004 BFS to 1.3%, which has a significant positive influence on the project economics.

Once planning of the new mine path has been completed, new ore reserve figures will be calculated.

Available results from an infill drilling program at Amy South scheduled to commence in mid May will be incorporated into the new ore reserve estimates. This drilling is designed to upgrade further indicated resources to measured status and will extend immediately northwards from the limit of the 2005 infill drilling program.

1.3 Capital Costs

On 10th March, consulting firm Proteus Engineers were appointed as managing contractor, the first of the work package contracts listed in the December 2005 quarterly report to be awarded.

Proteus will be responsible for finalising all mine construction contracts so that they can be signed once debt finance has been approved. They will also be responsible for coordinating the construction phase of the project and for assisting the Company to deliver it on time and within budget.

Following their review of the proposals received to date, Proteus have recommended that all minesite packages be re tendered in accordance with tighter scopes of work, so that variations after contract award can be minimised. Such post award variations are the cause of most of the cost overruns in the construction industry which have attracted recent negative publicity. Proteus' recommendation to re tender the work packages has been accepted and tender documents for two of these will be sent out in early May. The remaining tenders are to be sent out progressively from mid May.

1.4 Refining of Concentrates

Several promising alternatives for toll refining of the Coburn mine concentrate are being progressed. Both involve refining of the more valuable non magnetic concentrate, which contain just over 50% zircon, leaving the less valuable magnetic ilmenite product separated at the mine to be sold *f.o.b.* at the port of Geraldton.

The alternatives for treating the non magnetic concentrate include toll refining in Australia or east Asia, and refining in a Gunson controlled mineral separation facility in China. A decision on the favoured option is anticipated in June 2006.

1.5 Product Marketing

Memoranda of understanding with two Chinese zircon consumers were signed during the quarter. Attached to these memoranda are detailed draft offtake contracts in which nearly all of the normal commercial conditions have been agreed.

The main conditions outlined in the memoranda of understanding are:

- a) that they are for fixed tonnages of zircon over a 5 year period from first production and;
- b) that the draft contracts will be finalised 5 days after debt finance for the mine development has been approved.

The agreements encompass over 40% of the proposed 30,000 tonne per annum initial phase zircon production.

Prepayments for the supply of zircon under these two agreements total US\$6 million, which will assist in funding development of the Coburn mine. These prepayments are to be rebated progressively as refined product is supplied to both key customers.

The pricing mechanism in both draft contracts is a *c.i.f.* China benchmark, currently just below US\$800 per tonne but due to rise to well above US\$800 per tonne in the second half of 2006.

Because the current free market price of zircon in China is well in excess of the above benchmark, offtake contracts for most of the remainder of the Coburn zircon production are likely to be above the benchmark price and would not involve prepayments.

Considerable progress was made towards the end of the quarter regarding offtake agreements for most of the remainder of the mine products. Draft contracts are currently being negotiated.

1.6 Financing

A 2 week road show in Europe immediately prior to Easter has revealed strong interest in both the equity and debt funding for the project and independent research by Lonsdale Securities has put a valuation of 90 cents per share on the Company, using TZMI forecasts.

An information memorandum for potential debt financiers will be finalised once mining approvals have been obtained and product offtake/supply contracts have been brought to a stage where they can be signed after the approval of finance. The exact timing for completion of the debt information memorandum is uncertain but the Company is aiming for early July, giving lending institutions a 2 week period to submit draft term sheets.

Once an acceptable term sheet has been resolved, an equity raising comprising a placement and rights issue to shareholders will follow.

1.7 Overall Schedule

Assuming the above financing schedule, commencement of project construction is unlikely before August 2006, with commissioning of the mining operation towards the end of the third quarter of 2007.

2 MOUNT GUNSON COPPER PROJECT (SOUTH AUSTRALIA)

2.1 Joint Venture

Negotiations for a joint venture with a major international copper producer have been completed and an announcement of the details of this arrangement is expected in early May, after execution of the formal agreement.

2.2 Moseley Dam Prospect

A six hole drilling program was completed on 6th February.

Four reverse circulation and two diamond holes were drilled, for a total of 628 metres. They tested for copper mineralisation in the cover sequence within open pit range, similar in style to the ore bodies mined previously at the Mount Gunson mining centre, 20 kilometres to the north east.

Drilling was focused on the north-westerly pinchout of the Tapley Hill Formation shale against a basement high. It showed that the pinchout is more rapid than predicted. Strongly anomalous but sub economic copper values were intersected near the top of the Tapley Hill dolomitic shale in both diamond holes and some of the reverse circulation holes. The best intersections are listed below:

Hole	From (m)	To (m)	Intersections
MGD 38	60	62	2m @ 0.7% copper 5.6g/t silver
MGD 40	40	42	2m @ 0.5% copper
MGD 41	92	93	1m @ 0.2% copper

These results encourage further exploration for copper mineralisation along strike in either direction.

2.3 Chianti Prospect

Further examination of the basement core from MGD 35, the second diamond drill hole of the program completed earlier in 2006, identified strong alteration and brecciation of the host granite, with pervasive hematization. These factors, together with the intersection of 2 metres at 3.4% copper in the first hole of the program, MGD 34, were the prime reasons for the interest shown by the Company's new joint venture partner.

Consequently, the focus of ongoing exploration during the remainder of 2006 will be on Chianti Prospect.

3 SHARE CAPITAL

A total of \$1.2 million was raised during the quarter by the placement of 3.75 million shares at 32 cents per share. The placements were to sophisticated investor clients of ABN AMRO Morgans, FW Holst and Co and a large European institution. The funds raised are being used to further advance the Coburn mineral sand project and to finance some of the Mount Gunson drilling.

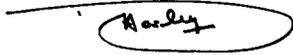
After completion of the placements, the Company's issued share capital increased to 83,688,813 fully paid ordinary shares.

The amount of outstanding unlisted management options decreased to 4.7 million during the quarter when 200,000 options lapsed on 7th March.

4 FINANCIAL

At 31st March 2006, the Company had \$1.4 million in cash and short term deposits.

Forecast exploration and evaluation expenditure for the June Quarter is \$800,000.



D N HARLEY
MANAGING DIRECTOR

27th April 2006

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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.

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")

31 March 2006

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (...9... months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration and evaluation	(842)	(2,297)
(b) development	-	-
(c) production	-	-
(d) administration	(228)	(576)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	16	45
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (incl \$327,938 R&D reimbursement)	-	334
Net Operating Cash Flows	(1,054)	(2,494)
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)	(1,054)	(2,501)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,054)	(2,501)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	1,200	2,924
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	-	(84)
	Net financing cash flows	1,200	2,840
	Net increase (decrease) in cash held	146	339
1.20	Cash at beginning of quarter/year to date	1,237	1,044
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	1,383	1,383

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	16
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	16
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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
3.2	Credit standby arrangements	NIL	NIL

+ See chapter 19 for defined terms.

Estimated cash outflows for next quarter

		\$A'000
4.1	Exploration and evaluation	800
4.2	Development	-
Total		800

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	762	624
5.2	Deposits at call	621	613
5.3	Bank overdraft		
5.4	Other (provide details)		
Total: cash at end of quarter (item 1.22)		1,383	1,237

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

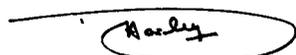
Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	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	83,688,813	83,688,813		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	3,750,000	3,750,000	32 cents	32 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 1,000,000 1,800,000 1,800,000	- - - -	<i>Exercise price</i> 20 cents 20 cents 30 cents 35 cents	<i>Expiry date</i> 16/12/07 16/09/08 30/11/10 30/11/10
7.8 Issued during quarter	NIL			
7.9 Exercised during quarter	NIL			
7.10 Expired during quarter	200,000		20 cents	07/03/06
7.11 Debentures <i>(totals only)</i>	NIL			
7.12 Unsecured notes <i>(totals only)</i>	NIL			

+ See chapter 19 for defined terms.

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 gives a true and fair view of the matters disclosed.



D N HARLEY
27th April 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.