

GUNSON RESOURCES LIMITED

**QUARTERLY REPORT FOR THE PERIOD ENDED
31st DECEMBER 2005**

HIGHLIGHTS

- The Western Australian Environmental Protection Authority recommends approval of the proposed Coburn heavy mineral sand mine, with final mining approvals expected by mid April 2006.
- Good progress made on capital items for the Coburn mine, with lowest cost tenders for the largest two items below the estimates published in 2005.
- Proposals for the remaining major capital and service items for Coburn expected by early March, 2006 with final costings by the end of March.
- A number of offtake options for the Coburn mine products are being defined, including toll treatment of concentrates in Western Australia or China.
- Agreement in principle reached with some Chinese zircon consumers for advance payments to offset mine development costs at Coburn.
- Financing arrangements and a decision to proceed with development of the Coburn mine await final costings and conclusion of offtake agreements but the anticipated timing is the middle of the June quarter of 2006.
- High grade copper sulphide mineralisation intersected in the first diamond drill hole at Chianti Prospect on the Mount Gunson Copper Project, 100 kilometres south along strike from the Olympic Dam mine in South Australia.
- The above intersection, 2 metres at 3.4% copper and 0.2 g/t gold between 549-551 metres depth in hole MGD 34, appears to be in a similar geological setting to the Carrapateena Prospect 20 kilometres to the east. Carrapateena is a new discovery announced in mid 2005 which has attracted a minimum \$5 million drilling and evaluation program by Canadian major Teck Cominco.

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

Emphasis during the quarter was again focused on obtaining all the required approvals and contracts to enable a decision to proceed with mine development in the first half of 2006.

1.1 Public Environmental Review

An important milestone was achieved in the Public Environmental Review Process when on 5th December the Western Australian Environmental Protection Authority (EPA) published its recommendation to the Environment Minister that the Project should be approved. A two week public appeals period followed this recommendation and 2 appeals were received by the closing date, both from non government conservation organisations. The Company and the EPA have responded to these appeals and the Appeals Convenor is expected to forward his report to the Environment Minister in mid February.

A slight delay in processing the Company's application for environmental approvals through the Minister's office is expected, due to the resignation of the incumbent Minister, but the approvals are expected by late March 2006. Mining approvals should follow approximately 3 weeks later, in April.

1.2 Resource and Reserve Calculations

Based on the detailed infill drilling completed in mid 2005, a measured resource of 47 million tonnes averaging 1.3% heavy minerals was estimated for the southern end of the Amy Zone ore body. This brings the overall measured and indicated resource to 305 million tonnes at 1.4% heavy minerals in the southern 14.5 kilometres of the ore body. An inferred resource of 420 million tonnes averaging 1.4% heavy minerals lies to the north of the better defined southern part of Amy Zone, bringing the combined resource to 725 million tonnes at 1.4% heavy minerals.

Preliminary pit optimisations have been carried out on the measured and indicated resource block models but on the recommendation of the Company's ore reserve consultants, Snowden's, final ore reserve figures will be delayed until all new capital and operating costs have been received, along with final product pricing. These figures should be available in March 2006.

1.3 Capital Costs

Consulting engineers Evans and Peck were appointed in December as the Company's representative in scheduling and contracting the mine development. Prior to this, the development had been divided into 8 work packages and there has been significant progress on most of these.

- *Minesite Concentrator*

Two proposals to design and construct a 2,200 tonne per hour concentrator were received in January 2006, the lowest cost proposal being cheaper than the BFS estimate published in the Company's 2005 annual report. Both proposals were from Perth based engineering groups. A large Chinese construction company had also intended to submit a proposal but withdrew in mid January because its equipment could not match the efficiency specified.

Negotiations with the two Australian proponents will commence on 31st January, with the objective of reaching agreement on contractual conditions and a final fixed price by March 2006.

- *Bucket Wheel Excavators*

Final proposals for the supply of two bucket wheel excavators, one for mining ore and the other for moving overburden, are expected on 8th February. As reported previously, the pricing of this equipment should be similar to that quoted in the Company's 2005 annual report.

- *Access Road*

A 50 kilometre long access road to the mine, running due west from the North West Coastal Highway about 235 kilometres north of Geraldton, has been surveyed and samples along the proposed route collected for geotechnical studies. Keen interest has been shown by local road building contractors who will be asked to submit fixed price proposals by mid March.

- *Office/Camp*

Requests for proposals were sent out to 5 proponents in mid December and the deadline for tenders is 2nd February.

- *Power Supply*

The power supply package was opened to tender on 20th January and proposals have been requested by 16th February.

- *Borefield/Monitoring Bores*

This has been broken up into several sub packages and requests for proposals are to be finalised in early February. Responses will be invited by early March.

- *Remaining Infrastructure*

Proposals for electricity reticulation from the planned fixed location power station, a communications system, an overburden conveyor and camp catering will be requested in early February for a response by early March.

- *Managing Contractor*

Three proposals for the role of site manager for the construction program have been received and evaluation of these is in progress.

1.4 Product Marketing

Discussions with potential zircon, ilmenite and HiTi consumers continued during the quarter.

The Company has the option of toll treating its concentrates in Western Australia or toll treating and/or selling concentrates in China. Discussions are in progress to establish detailed costing of all these alternatives and a decision on the preferred alternative is planned for March 2006. In the meantime, agreement in principle for some consumers to make prepayments in exchange for long term zircon contracts has been reached. The object of these prepayments is to reduce the Company's capital requirements for the mine development.

1.5 Financing

Following discussions with the Company's debt finance consultant, it was agreed to postpone approaches to financial institutions until all new estimates of capital and operating costs had been received, and product sales arrangements agreed. This would then be followed by final ore reserve calculations and an information memorandum to debt financiers.

1.6 Overall Schedule

Assuming that mining approvals are received by late April and that sufficient finance can be raised shortly afterwards, the Company has scheduled

commencement of the mine access road in early May, with commissioning of the mining operation in June, 2007.

2 MOUNT GUNSON COPPER PROJECT (SOUTH AUSTRALIA)

2.1 Chianti Prospect

Drilling of two vertical diamond drill holes at Chianti Prospect to test for Olympic Dam style mineralisation in basement rocks commenced on 10th December and was completed on 16th January. Both holes were sited along the 3 kilometre long Chianti gravity geophysical anomaly which, although weaker, occurs in a similar geological setting to the gravity anomaly at Carrapateena Prospect, approximately 20 kilometres to the east. An intersection of 67 metres at 3% copper between 476-543 metres in the second of two holes drilled at Carrapateena was announced in July 2005, which subsequently attracted an agreement with the Canadian mining company Teck Cominco to spend a minimum of \$5 million in further drilling and evaluation.

- *MGD 34*

The first hole of the Chianti program, MGD 34, passed through the cover-basement contact at 450 metres. Basement rocks are strongly hematized granite breccias and granite with chloritic and sericitic alteration, cut by fine to medium grained chloritised dykes between 471-488 metres and 576-600 metres. The hole was stopped at 600 metres when the depth limit of the rig had been reached.

Encouraging copper sulphide mineralisation was intersected between 548-554 metres, a 6 metre interval which averaged 1.4% copper, including 2 metres at 3.4% copper and 0.2g/t gold between 549-551 metres. The main copper sulphides in this zone are chalcopyrite and the high tenor copper mineral bornite. The sulphides are associated with quartz-carbonate veins interpreted to be considerably younger in age than the host brecciated granites and possibly of Hiltaba age, the same age as the Olympic Dam mineralisation.

Copper results from the remainder of the basement were weakly to strongly anomalous, the best value of 0.16% copper associated with quartz-carbonate veins in the chloritised mafic dyke between 583-584 metres.

- *MGD 35*

The second hole of the drilling program, MGD 35, was collared just over a kilometre south of the first hole to test a pronounced bend in the peak of the Chianti gravity geophysical anomaly. This hole passed through the cover-basement contact at 337 metres, into variably brecciated hematite rich granite.

A fine grained mafic dyke cuts the granite between 403-424 metres and a strong hematite – quartz breccia zone occurs between 506-512 metres. No copper sulphides were observed in the hole but the core is being assayed to check for dark coloured copper minerals such as chalcocite, which are difficult to identify with the naked eye. The hematite content of the basement granites averages 10%, slightly less than in hole MGD 34.

- *Further Drilling*

Further drilling at Chianti Prospect will await a geophysical study focused on the northern portion of the area, where the potential for high grade copper mineralisation in the basement has been significantly upgraded, particularly close to the Cattlegrid Fault west of MGD 34. Priorities of the geophysical study will be a down hole TEM survey in MGD 34 to ascertain the lateral extent of the high grade mineralisation between 549-551 metres and further work to explain the gravity anomaly, the source of which is not obvious in the drilling to date.

2.2 Moseley Dam Prospect

A six hole reverse circulation/diamond drilling program designed to test for stratiform copper mineralisation in the cover sequence within open pit range commenced on 27th January 2006.

Moseley Dam Prospect is located 20 kilometres south west of the Mount Gunson mining centre, where several open pit ore bodies in a similar geological setting were discovered, the largest being the Cattlegrid deposit. Cattlegrid was mined by CSR between 1974 and 1986, yielding 7.5 million tonnes of ore averaging 1.7% copper, with significant cobalt and silver credits. To date 3 reverse circulation drill holes have been completed averaging 116 metres each.

3 SHARE CAPITAL

A placement of 3,116,668 fully paid ordinary shares at 24 cents per share was made in November to raise \$748,000. In addition, 50,000 shares were issued for services related to the placement. These funds are being used to further advance the Coburn project and to finance some of the drilling at Mount Gunson.

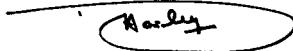
After completion of the placement, the Company's issued share capital increased to 79,938,813 fully paid ordinary shares.

At the Annual General Meeting on 21st November 2005, the issue of 3.6 million new management options was approved by a show of hands. These 5 year unlisted options were issued on 1st December 2005 but cannot be exercised for 18 months from this date. The total number of unlisted options now outstanding is 4.9 million or approximately 6% of the Company's issued capital. There are no listed options.

4 FINANCIAL

At 31st December 2005, the Company had \$1.2 million in cash and short term deposits.

Forecast exploration and evaluation expenditure for the March Quarter is \$600,000.



D N HARLEY
MANAGING DIRECTOR

30th January 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 December 2005

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (...6... 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	(793)	(1,455)
(b) development	-	-
(c) production	-	-
(d) administration	(120)	(348)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	13	29
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (incl \$327,938 R&D reimbursement)	334	334
Net Operating Cash Flows	(566)	(1,440)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(4)	(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	(4)	(7)
1.13 Total operating and investing cash flows (carried forward)	(570)	(1,447)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(570)	(1,447)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	760	1,724
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	(35)	(84)
	Net financing cash flows	725	1,640
	Net increase (decrease) in cash held	155	193
1.20	Cash at beginning of quarter/year to date	1,082	1,044
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	1,237	1,237

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	129
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	129
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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

The issue of 50,000 shares at 24 cents each (\$12,000) as fees for arranging a placement.

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	-	-
3.2	Credit standby arrangements	-	-

+ See chapter 19 for defined terms.

Estimated cash outflows for next quarter

		\$A'000
4.1	Exploration and evaluation	600
4.2	Development	-
Total		600

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	624	521
5.2	Deposits at call	613	605
5.3	Bank overdraft		
5.4	Other (provide details)		
Total: cash at end of quarter (item 1.22)		1,237	1,126

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 ELs 69/1632-1636, 1874 ELA 69/1823	100% Shell Lakes Project	100%	Nil
6.2	Interests in mining tenements acquired or increased			

+ 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.

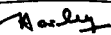
	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference +securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	79,938,813	79,938,813		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	3,166,668	3,166,668	24 cents	24 cents
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	100,000 200,000 1,000,000	- - -	<i>Exercise price</i> 20 cents 20 cents 20 cents	<i>Expiry date</i> 16/12/07 07/03/06 16/09/08
7.8 Issued during quarter	1,800,000 1,800,000		30 cents 35 cents	30/11/2010 30/11/2010
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

+ 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.

30th January 2006



Managing Director

D N HARLEY

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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