

**GUNSON RESOURCES LIMITED**

**QUARTERLY REPORT FOR THE PERIOD ENDED  
30<sup>th</sup> SEPTEMBER 2006**

**HIGHLIGHTS**

- Definitive Feasibility Study (DFS) on Coburn is nearly complete, with pricing of the major capital and operating packages currently being finalised.
- Negotiations with preferred suppliers to the Coburn Project post the tendering process are leading to reductions in tendered prices.
- Former Rio Tinto executive Patrick McManus joined the Company in mid September as a full time consultant to advise on the development of the Coburn Project.
- Further delays in the environmental approvals process have made it unlikely that full permitting of the Coburn Project will be achieved until early February 2007.
- Three dimensional modelling of data from the Chianti Copper Prospect at Mount Gunson by new Joint Venture operator Xstrata Copper has refined and upgraded the previous Noranda Pacific drill targets and drilling is expected to commence in early 2007.
- Promotion of the Company to overseas investors has attracted the large New York based resource fund, Ospraie, who are now the Company's largest shareholder, with 10.2%.

**1. COBURN ZIRCON PROJECT (WESTERN AUSTRALIA)**

Further delays in the environmental approvals process have made it unlikely that full permitting of the Project will be achieved before early February 2007. For this reason and in the current climate of strong competition for construction contractors, the Company has decided to delay the completion of capital and operating work contracts until final statutory approvals are imminent. This will allow more accurate cost estimates in the Definitive Feasibility Study prior to a final investment decision and subsequent Project fund raising in early 2007.

**1.1 Environmental Approvals Process**

The government ministerial approvals reported in the June quarterly report specified a number of conditions the Company must adhere to, including approval by the Western Australian Environmental Protection Authority (EPA) of 15 environmental management plans (EMPs) prior to commencement of construction.

After consultation with the appropriate government regulators, the 15 EMPs have been consolidated into 10 management plans which are listed below:

Aboriginal Heritage	Hydrocarbon
Bush Fire	Preliminary Mine Closure
Dust	Progressive Rehabilitation
Fauna	Radiation
Flora and Vegetation	Solid and Liquid Waste

Drafts of all these management plans have been circulated to the appropriate departments of the Western Australian Government and comments on most received back. The plans are being modified to reflect the regulator comments and when this process has been completed, the plans will be submitted in to the Department of Environment and Conservation for review with the EPA. EPA approval is not expected until late January 2007.

## 1.2 Ore Reserves

Infill drilling on the initial mining area described in the June 2006 quarterly report was completed on 3<sup>rd</sup> August. The program comprised 641 holes on 17 east-west traverses 125 metres apart and to date approximately just over half of the assay results from this drilling have been received. The assays are confirming the earlier grade estimates from the 500 metre spaced drilling in this relatively high grade part of the Amy Zone deposit.

Estimation of JORC compliant ore reserves, is well advanced, which on the basis of earlier resource estimates reported in the December 2005 quarterly report, will mostly be probable reserves with a lesser amount in the proven category. All of the area covered by the recently completed infill drilling program will qualify for proven reserves once the assay data have been received and interpreted.

## 1.3 Definitive Feasibility Study (DFS)

The DFS is now 90% complete but as indicated above, completion of this study will be delayed to ensure that the most current capital and operating cost estimates are incorporated to coincide with final permitting of the proposed mine development.

Tenders for the wet concentrator plant, main access road and associated civil works, camp/office complex, water supply, contract mining and power supply were received during the quarter. Negotiations with preferred tenderers and in some

cases other suppliers, is leading to reductions in tendered prices.

#### **1.4 Refining of Concentrates**

Evaluation of opportunities for toll refining of non magnetic concentrates continued during the quarter and a decision on the favoured option is to be made in time for completion of the DFS.

#### **1.5 Product Marketing**

Discussions with potential consumers of both zircon and TiO<sub>2</sub> products continued during the quarter, with the objective of concluding marketing agreements for uncommitted output in time for completion of the DFS.

#### **1.6 Appointment of Senior Mineral Sands Executive**

Patrick McManus, who until early September 2006, was General Manger – Operations for the Rio Tinto Fort Dauphin mineral sand development project in Madagascar, joined the Company in mid September 2006. He is responsible for advising Gunson on the development of Coburn, initially via a consulting arrangement.

Mr McManus has gained global experience in the mineral sands industry over the past 30 years, firstly with RGC Mineral Sands Ltd, a predecessor of Iluka Resources Ltd, between 1976 – 1993 and then the RZM Cable Sands Group between 1995 – 2005. At RZM Cable Sands, he was General Manager – Group Development, responsible for managing exploration and development, with particular emphasis on feasibility studies and evaluation of new business opportunities. Since leaving RZM Cable Sands, who were purchased by Bemax Resources Limited in 2004, Mr McManus worked with Rio Tinto on its Madagascar development project, responsible for developing the organisational structure and optimising the mine development.

#### **1.7 Financing**

Strong interest continues to be shown by prospective financiers for the Coburn mine development and the third overseas roadshow for 2006 is planned for late November/early December.

## **2. MOUNT GUNSON COPPER PROJECT (SOUTH AUSTRALIA)**

On 21<sup>st</sup> September 2006, the Company announced that ownership of its joint venture partner, Noranda Pacific Pty Ltd, had changed following the takeover of Canadian major Falconbridge Limited by Xstrata plc to form the world's fifth largest diversified metals and mining company. Xstrata Copper had advised the Company that they intend to proceed with the previously announced drilling program at Chianti Prospect, which will be managed by the Xstrata Copper exploration group in north Queensland. It was also reported that the Queensland based contractor engaged by Noranda Pacific to commence the 6 hole drilling program at Chianti Prospect in mid August 2006 failed to mobilise its rig and had been dismissed.

Since the 21<sup>st</sup> September announcement above, Xstrata Copper has constructed a 3D geological model of the area around Chianti Prospect and this has refined the previous Noranda Pacific drill targets. As a result of the positive results, this process is being extended to other prospects in the Project area. Drilling is planned for early 2007.

In the meantime, exploration activity by others to the east of the Mount Gunson Project has increased significantly. A major drilling program by Canadian major Teck Cominco at Carrapateena Prospect is in progress some 20 km east of Chianti Prospect and encouraging basement copper intersections have been reported by Monax Mining along a linear north west zone of gravity features known as the Groundhog trend. This trend extends westward into the Mount Gunson Project and has highlighted a gravity feature some 5 kilometres south west of Chianti Prospect, close to the Cattlegrid Fault.

## **3. SHARE CAPITAL**

A placement of 8.3 million shares at 28 cents per share was completed in early September, to raise \$2.3 million. This increased the Company's issued capital to 97.6 million shares.

The placement was to sophisticated investor clients of Cartesian Capital and ABN Amro Morgans. Funds raised are being used to further advance the Coburn Project towards mine development and for general working capital purposes.

## **4. NEW SUBSTANTIAL SHAREHOLDER**

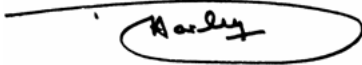
Promotion of the Company to overseas investors has attracted the large New York based resource fund, Ospraie, who began buying the Company's shares in May 2006. Ospraie are the Company's only substantial shareholder, with an interest of 10.2%.

Ospraie took up the bulk of the share placement in September discussed above.

## 5. FINANCIAL

At 30<sup>th</sup> September, the Company had \$1.5 million in cash and short term deposits.

Forecast exploration and evaluation expenditure for the December quarter is \$0.5 million.



**D N HARLEY**  
**MANAGING DIRECTOR**

27<sup>th</sup> October 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")

30 September 2006

### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (...3... months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration and evaluation	(2,512)	(2,512)
(b) development	-	-
(c) production	-	-
(d) administration	(341)	(341)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	19	19
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other	-	-
<b>Net Operating Cash Flows</b>	<b>(2,834)</b>	<b>(2,834)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(3)	(3)
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)	-	-
<b>Net investing cash flows</b>	<b>(3)</b>	<b>(3)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(2,837)</b>	<b>(2,837)</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(2,837)	(2,837)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	2,324	2,324
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	-	-
	<b>Net financing cash flows</b>	<b>2,324</b>	<b>2,324</b>
	<b>Net increase (decrease) in cash held</b>	<b>(513)</b>	<b>(513)</b>
1.20	Cash at beginning of quarter/year to date	2,067	2,067
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	<b>1,544</b>	<b>1,544</b>

**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	117
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

**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

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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

Noranda Pacific at Mt Gunson : \$47,628 (Initial earn-in phase – minimum \$3.5 M required by 14 June 2009)

**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	500
4.2	Development	-
<b>Total</b>		<b>500</b>

**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	1,554	1,435
5.2	Deposits at call		632
5.3	Bank overdraft		
5.4	Other (provide details)		
<b>Total: cash at end of quarter (item 1.22)</b>		<b>1,554</b>	<b>2,067</b>

**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			
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.*

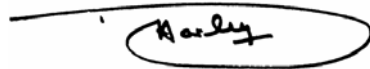
	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>*Ordinary securities</b>	97,589,786	97,589,786		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	8,300,000	8,300,000	28 cents	28 cents
7.5 <b>*Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> <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				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 <b>Debentures</b> <i>(totals only)</i>				
7.12 <b>Unsecured notes</b> <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 does /does not\* (*delete one*) give a true and fair view of the matters disclosed.

Sign here:



(Director)

Date 27th October 2006

Print name: David 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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