

**GUNSON RESOURCES LIMITED**  
ABN 32 090 603 642

INTERIM FINANCIAL REPORT  
31 DECEMBER 2005

**GUNSON RESOURCES LIMITED**  
**ABN 32 090 603 642**

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**CORPORATE DIRECTORY**

**DIRECTORS**

William Cunningham (Chairman)  
David Harley (Managing Director)  
Peter Harley (Director)

**COMPANY SECRETARY**

Ian Gregory

**REGISTERED & PRINCIPAL OFFICE**

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Level 2, 33 Richardson Street  
West Perth WA 6005  
Tel: (08) 9226 3130  
Fax: (08) 9226 3136  
Website: [www.gunson.com.au](http://www.gunson.com.au)  
ASX Code: GUN

**AUDITORS**

BDO  
Chartered Accountants  
Level 8, 256 St Georges Terrace  
Perth WA 6000  
Tel: (08) 9360 4200  
Fax: (08) 9481 2524

**SHARE REGISTRY**

Computershare Investor Services  
Level 2, Reserve Bank Building  
45 St Georges Terrace  
Perth WA 6000  
Tel: (08) 9323 2000  
Fax: (08) 9323 2033

**DIRECTORS REPORT**

Your directors present their report on the accounts for the half year ended 31 December 2005.

**1. DIRECTORS**

The names of persons who were directors of Gunson Resources Limited during the whole of the half year and up to the date of this report are:

W H Cunningham	(Chairman) Appointed 13 March 2000
D N Harley	(Managing Director) Appointed 23 December 1999
P C Harley	(Non Executive Director) Appointed 23 December 1999

**2. REVIEW OF OPERATIONS**

The highlights of the Company's activities in the six months to 31 December 2005 were as follows:

• **Coburn Mineral Sand Project – Western Australia**

Good progress was made towards a decision to proceed with mine development, a major milestone being the recommendation of the project for environmental approval by the Western Australian Environmental Protection Authority on 5<sup>th</sup> December. Formal government approvals for the mine are expected in April 2006.

Consulting engineers Evans and Peck were appointed in December to advise the Company on scheduling and contracting the mine development. The development has been divided into 8 work packages and fixed price/delivery proposals for all of these are being received between late January and March 2006. Following this, an information memorandum to prospective debt financiers is planned.

Discussions with potential zircon and titanium dioxide customers continued and agreement in principle for some consumers to make prepayments in exchange for long term zircon contracts was reached.

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 June 2006, with commissioning of the mining operation in July, 2007.

• **Mount Gunson Copper Project – South Australia**

A drilling program at the Chianti Prospect commenced on 10<sup>th</sup> December. The first hole intersected encouraging copper sulphide mineralisation averaging 1.4% copper over a 6 metre interval between 548-554 metres, including 2 metres at 3.4% copper between 549-551 metres.

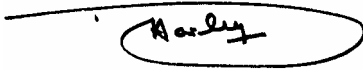
This intersection is in hematite rich granite breccias in basement rocks in a very favourable geological setting. More drilling is planned in 2006.

**DIRECTORS REPORT**

**3. AUDITORS INDEPENDENCE DECLARATION**

A copy of the independence declaration by the lead auditor under section 307C is included on page 3 to this half year financial report.

This report is made in accordance with a resolution of the Board of Directors and is signed for and behalf of the directors by:

A handwritten signature in black ink, appearing to read "Harley", is enclosed within a hand-drawn oval. A horizontal line extends to the left from the top of the oval.

DN Harley  
Managing Director

Perth, Western Australia  
10<sup>th</sup> March 2006

10<sup>th</sup> March 2006

The Directors  
Gunson Resources Ltd  
PO Box 1217  
WEST PERTH WA 6872

Dear Sirs

**DECLARATION OF INDEPENDENCE BY BDO TO THE DIRECTORS OF GUNSON RESOURCES LTD**

To the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of this Act in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

Yours faithfully

**BDO**  
**Chartered Accountants**



**BG McVeigh**  
Partner

**GUNSON RESOURCES LIMITED**  
**ABN 32 090 603 642**

**CONDENSED INCOME STATEMENT**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

	Notes	31 December 2005 \$	31 December 2004 \$
Revenue	3	35,313	79,721
Employee benefits expense		(87,210)	(78,438)
Depreciation and amortisation expenses		(13,000)	(13,452)
Borrowing cost expense		-	(1,511)
Other expenses	4	(293,155)	(177,981)
Share of net profits of associates		-	-
<b>Profit before income tax expense</b>		(358,052)	(191,661)
Income Tax Expense	5	327,938	300,493
<b>Profit after tax from continuing operations</b>		(30,114)	108,832
<b>Net profit for the half year</b>		(30,114)	108,832
Profit attributable to minority interest		-	-
<b>Net profit attributable to members of Gunson Resources</b>		(30,114)	108,832
Basic earnings per share (cents per share)		(0.04)	0.16

The above Condensed Income Statement should be read in conjunction with the accompanying notes.

**GUNSON RESOURCES LIMITED**  
**ABN 32 090 603 642**

**CONDENSED BALANCE SHEET**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

	<b>31 December 2005</b>	<b>30 June 2005</b>
	\$	\$
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	1,237,109	1,044,045
Receivables	143,114	147,289
Other financial assets	-	21,546
	1,380,223	1,212,880
<b>NON-CURRENT ASSETS</b>		
Property, plant & equipment	49,241	55,267
Intangible assets	12,593,992	11,193,977
Other	484,676	484,676
	13,127,909	11,733,920
	14,508,132	12,946,800
<b>CURRENT LIABILITIES</b>		
Payables	231,688	332,591
Provisions	33,397	26,231
	265,085	358,822
<b>NON-CURRENT LIABILITIES</b>		
	-	-
	265,085	358,822
<b>NET ASSETS</b>		
	14,243,047	12,587,978
<b>EQUITY</b>		
Contributed Equity	15,910,924	14,236,489
Reserves	10,812	-
	(1,678,689)	(1,648,511)
	14,243,047	12,587,978

The above Condensed Balance Sheet should be read in conjunction with the accompanying notes.

**GUNSON RESOURCES LIMITED**  
**ABN 32 090 603 642**

**CONDENSED CASH FLOW STATEMENT**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

	<b>Half Year</b>	
	<b>2005</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Payments for exploration and evaluation	(1,400,016)	(2,174,386)
Payments to suppliers and employees	(431,087)	(256,006)
Interest received	28,831	79,172
Other		96,266
Research and development	327,938	-
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>(1,474,334)</b>	<b>(2,254,954)</b>
<b>CASHFLOWS FROM INVESTING ACTIVITIES</b>		
Payments for property, plant and equipment	(6,973)	(2,618)
Other	-	(22,500)
<b>NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES</b>	<b>(6,973)</b>	<b>(25,118)</b>
<b>CASHFLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issues of shares	1,712,300	-
Payment of share issue costs	(37,929)	-
<b>NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES</b>	<b>1,674,371</b>	<b>-</b>
<b>NET INCREASE IN CASH HELD</b>	<b>193,064</b>	<b>(2,280,072)</b>
Net cash at beginning of period	1,044,045	3,512,052
<b>NET CASH AT END OF PERIOD</b>	<b>1,237,109</b>	<b>1,231,980</b>

The above condensed Statement of Cash Flows should be read in conjunction with the accompanying notes



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**CONDENSED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

	<b>Issued capital \$'000</b>	<b>Retained earnings \$'000</b>	<b>Other reserves \$'000</b>	<b>Total Equity \$'000</b>
<b>At 1 July 2004</b>	<b>12,314,760</b>	<b>(1,505,714)</b>	-	<b>10,809,046</b>
Profit for the period	-	108,768	-	108,768
<b>At 31 December 2004</b>	<b>12,314,760</b>	<b>(1,396,946)</b>	-	<b>10,917,814</b>
Profit for the period	-	(251,629)	-	(251,629)
Issue of Share Capital	1,921,793	-	-	1,921,793
<b>At 30 June 2005</b>	<b>14,236,553</b>	<b>(1,648,575)</b>	-	<b>12,587,978</b>
Issue of Share Capital	1,674,371	-	-	1,674,371
Profit for the period	-	(30,114)	-	(30,114)
Share based payment expense	-	-	10,812	10,812
<b>At 31 December 2005</b>	<b>15,910,924</b>	<b>(1,678,689)</b>	<b>10,812</b>	<b>14,243,047</b>

The above Condensed Statement of Changes in Equity should be read in conjunction with the accompanying notes

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

1. BASIS OF PREPARATION OF HALF YEAR FINANCIAL STATEMENTS

This general purpose financial report for the interim half year reporting period ended 31 December 2005 has been prepared in accordance with Australian Accounting Standard 134 "Interim Financial Reporting", and the Corporations Act 2001.

The historical cost basis has been used except for share based payments which have been measured at fair value.

This interim report does not include all of the notes of the type normally included in an annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report. Accordingly, this interim financial report is to be read in conjunction with the annual report for the year ended 30 June 2005 and any public announcements made by Gunson Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The half year financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the half year financial report, comprising the financial statements and the notes thereto, complies with International Financial Reporting Standards.

This is the first half year financial report which has been prepared using Australian equivalents to International Financial Reporting Standards ("AIFRS") and comparatives have been restated accordingly. Reconciliations of equity, retained earnings and profit under the previous accounting standards and AIFRS have been included. (Note 9).

The same accounting policies and methods of computation have generally been followed in this interim financial report. AASB 134: Interim Financial Reporting generally only requires disclosure of accounting policies that have changed from those used in the prior annual reporting period.

The same accounting policies and methods of computation have generally been followed in this interim financial report as compared with the most recent annual financial report.

(a) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a

**GUNSON RESOURCES LIMITED**  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

business combination, that at the time of the transaction did not affect either accounting profit of table profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities here the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(b) Share based Payments

In order to apply the requirements of AASB 2 "Share based Payments", estimates were made to determine the "fair value" of equity instruments issued to directors and incorporated into a Binomial Valuation model prepared by an independent firm of chartered accountants.

2. SEGMENT INFORMATION

The Company operated wholly within the minerals exploration industry within Australia.

3. REVENUE FROM ORDINARY ACTIVITIES	<b>31 December</b>	<b>31 December</b>
	<b>2005</b>	<b>2004</b>
	\$	\$
Interest received	35,313	79,721

4. LOSS FROM ORDINARY ACTIVITIES

The loss from ordinary activities before income tax has been determined after:

Depreciation	13,000	13,452
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5. TAX EXPENSE/(REFUND)

The tax refund of \$327,938 is the result of a research and development tax incentive claim as a number of activities associated with the Company's Coburn project qualify under the Commonwealth Government Research and Development Tax Incentive Scheme.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

		<b>31 December 2005</b>	<b>30 June 2005</b>
		\$	\$
6.	<b>CONTRIBUTED EQUITY</b>		
	Issued and paid-up capital 79,938,813 (June 2005: 72,388,965) ordinary shares, fully paid	15,910,924	14,236,489

**(a) Issues of Ordinary Shares during the Half Year**

The Company successfully placed 4,383,180 fully paid ordinary shares at an issue price of 22 cents per share on 27<sup>th</sup> July 2005. The funds of this placement were used for advancing the Coburn mineral sand project towards financial closure. The Company also placed 3,116,668 fully paid ordinary shares at an issue price of 24 cents per share on 23<sup>rd</sup> November 2005. The funds of this placement were to be applied to furthering the study on the Coburn mineral sand project and fund drilling at the Mount Gunson copper project.

**(b) Issue of Options**

At the Annual General Meeting of the Company on 21<sup>st</sup> November, 2005, the issue of 3.6 million new management options was approved. These 5 year unlisted options were issued on 1<sup>st</sup> December, 2005. The total number of unlisted options outstanding at 31<sup>st</sup> December 2005 is 4.9 million.

7 **EVENTS SUBSEQUENT TO BALANCE DATE**

There are no matters or circumstances that have arisen since 31<sup>st</sup> December 2005 which significantly affect, or may significantly affect, the operations of the Company, the results of those operations, or the status of affairs of the Company.

8 **CONTINGENT LIABILITIES**

There have been no changes in contingent liabilities since the last annual reporting date.

9 **IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“AIFRSs”)**

**(a) Impairment of Exploration Assets**

The entity/group is adopting the exemption available in AASB 1 for restating comparatives under AASB 6 *Exploration for and Evaluation Mineral Resources*. As such there are no AIFRSs impacts on the 31 December 2005 financial report.

**(b) Income Tax**

The application of AASB 112 income Taxes could result in increases in deferred tax assets and deferred tax liabilities as a consequence the recognition of deferred taxes associated with fair value adjustments in relation to business combinations, revaluations of land and buildings and investments in associates. Deferred tax assets could also increase due to the differing requirements for the recognition of carried forward tax losses.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

There will be no impact on the cumulative financial position at 31 December 2005. This is because a deferred tax asset has not been recognised for carry forward tax losses because it is not probable that future taxable profit will be available against which the unused tax losses can be utilised.

10 EXPLANATION OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“AIFRS”)

(a) **Reconciliation of profit under previous Australian Generally Accepted Practice (AGAAP”) to profit under Australian equivalents to AIFRS**

(i) **Reconciliation of profit for the half year ended 31 December 2004**

	<b>Previous AGAAP</b>	<b>Effect of transition to AIFRS</b>	<b>AIFRS</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Revenue</b>	79,721	-	79,721
Administration expense	177,981	-	177,981
Employees expense	78,438	-	78,438
Depreciation	13,452	-	13,452
Borrowing cost	1,511	-	1,511
<b>Profit/Loss</b>			
Before income tax	(191,661)	-	(191,661)
<b>Income Tax Expense</b>	300,493	-	300,493
<b>Net Profit/(Loss)</b>			
For the half year	108,832	-	108,832
<b>Net Profit/(Loss)</b>			
Attributable to members	108,832	-	108,832

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

**(ii) Reconciliation of profit for the year ended 30 June 2005**

	<b>Previous AGAAP</b>	<b>Effect of transition to AIFRS</b>	<b>AIFRS</b>
	\$	\$	\$
<b>Revenue</b>	128,294	-	128,294
Administration expense	387,158	-	387,158
Employees expense	154,066	-	154,066
Depreciation	23,900	-	23,900
Exploration written off	6,460	-	6,460
<b>Profit/Loss</b>			
Before income tax	(443,290)	-	(443,290)
<b>Income Tax Expense</b>	300,493	-	300,493
<b>Net Profit/(Loss)</b>			
For the half year	(142,797)	-	(142,797)
<b>Net Profit/(Loss)</b>			
Attributable to members	(142,797)	-	(142,797)

**(b) Reconciliation of retained earnings presented under AGAAP to that under AIFRS**

	<b>30 June 2005</b>	<b>31 December 2004</b>	<b>1 July 2004</b>
	\$	\$	\$
Total retained earnings (accumulated losses) under AGAAP	(1,648,575)	(1,396,946)	(1,505,714)
Changes	-	-	-
Total retained earnings (accumulated losses) under AIFRS	(1,648,575)	(1,396,946)	(1,505,714)

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

**(c) Reconciliation of total equity under AGAAP to that under AIFRS**

	<b>30 June 2005</b>	<b>31 December 2004</b>	<b>1 July 2004</b>
	\$	\$	\$
Total equity under AGAAP	14,236,553	12,314,760	12,314,760
Changes	-	-	-
<hr/>			
Total retained earnings (accumulated losses) under AIFRS	14,236,553	12,314,760	12,314,760
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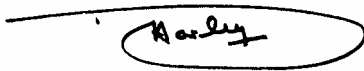
**GUNSON RESOURCES LIMITED**  
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**DIRECTORS DECLARATION**

In accordance with a resolution of the directors of Gunson Resources Limited we declare that in the opinion of the directors:

- a) The financial statements and notes set out on pages 4-13:
  - (i) Give a true and fair view of the financial position of the Company as at 31 December 2005 and the performance of the Company for the half-year ended on that date, and
  - (ii) Comply with Accounting Standards AASB 134 "Interim Financial Reporting" and the Corporations Regulations.
- b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors.

A handwritten signature in black ink, appearing to read "Harley", is enclosed within a hand-drawn oval. A horizontal line extends to the left from the top of the oval.

D N Harley  
Managing Director

Perth, Western Australia  
Date: 10<sup>th</sup> March 2006



**INDEPENDENT REVIEW REPORT  
TO THE MEMBERS OF GUNSON RESOURCES LTD****Scope**

We have reviewed the financial report of Gunson Resources Ltd for the half-year ended 31 December 2005 as set out on pages 4 to 14. The financial report includes the financial statements of the consolidated entity comprising the disclosing entity and the entities it controlled at the end of the half-year or from time to time during the half-year. The disclosing entity's directors are responsible for the financial report. We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 134: Interim Financial Reporting, other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and cash flows, and in order for the disclosing entity to lodge the financial report with the Australian Securities & Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the disclosing entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

**Statement**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Gunson Resources Ltd is not in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and
  - (ii) complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

**BDO**  
**Chartered Accountants****B G McVeigh**  
PartnerDated : 10<sup>th</sup> March 2006  
Perth, Western Australia