GUNSON RESOURCES LIMITED

ABN 32 090 603 642

# ANNUAL FINANCIAL REPORT 2007

# CORPORATE DIRECTORY

**Directors**
W H Cunningham (Chairman)
D N Harley (Managing Director)
P C Harley (Non Executive Director)

**Company Secretary**
I E Gregory

**Registered and Principal Office**
Level 2, 33 Richardson St
West Perth, WA 6005
Tel: (08) 9226-3130
Fax: (08) 9226-3136
Email: enquiries@gunson.com.au

**Postal Address**
PO Box 1217
West Perth, WA 6872

**Website**
www.gunson.com.au

**Country of Incorporation**
Gunson Resources Limited is domiciled and incorporated in Australia

**Auditors**
BDO Kendalls Audit & Assurance WA
256 St George's Terrace
Perth, WA 6805

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

**Home Stock Exchange**
Australian Stock Exchange Limited
Level 2
Exchange Plaza
2 The Esplanade
Perth, WA 6000
ASX Code: GUN

# DIRECTOR'S REPORT

The Directors of Gunson Resources Limited submit their annual financial report for the year ended 30 June 2007.

**THE BOARD OF DIRECTORS**

The names and details of the Company's Directors in office during the financial year until the date of this report are as follows. All Directors were in office for the entire period.

***William H Cunningham B.Com. (Non-Executive Chairman) Age 68***

Bill Cunningham is a consultant in mineral commodities marketing with over 40 years experience in the mining industry, mainly with WMC Resources Limited and CRA Limited. Prior to leaving WMC in 1997, he was manager for that Company's Nickel Division intermediate products marketing. Since 1997, he has managed his own mineral marketing consultancy.

Mr Cunningham is Chairman of the Nomination & Remuneration Committee and a member of the Audit Committee.

During the past 3 years Mr Cunningham has not held Directorships in other listed companies.

***David N Harley BSc (Hons) MSc.,F.Aus. I.M.M. (Managing Director) Age 60***

David Harley is a geologist with over 35 years experience in the mining industry, mostly in senior exploration management positions with WMC Resources Limited. He is the immediate past President of the Association of Mining and Exploration Companies, AMEC.

During the past 3 years Mr Harley has not held Directorships in other listed companies.

***Peter C Harley B.Com., F.C.P.A (Non-Executive Director) Age 57***

Peter Harley is an experienced manager and Director with over 25 years association with a number of public and private companies. Peter is non executive Chairman of iiNet Ltd (appointed to the Board in August 1999) and has been a non-executive Director of Perilya Ltd since November 2003. He was non executive Chairman of Blaze International Ltd until May 2007.

Mr Harley is Chairman of the Audit Committee and a member of the Nomination & Remuneration Committee.

***Company Secretary – Ian E Gregory, B.Bus, F.C.P.A, F.C.I.S Age 52***

Mr Gregory is an experienced Company secretary who worked as full time Secretary of Iluka Resources Limited from March 1999 to December 2004. He is currently Chairman of the WA State Council of the Institute of Chartered Secretaries and Administrators.

**PRINCIPAL ACTIVITIES**

The principal activity of the Company during the course of the financial year was mineral exploration in Australia.

**RESULTS OF OPERATIONS**

The Company made a loss after tax of $1,068,921 (2006: $1,215,691 loss).

No dividends were paid or declared and the Directors have not recommended the payment of a dividend.

**REVIEW OF OPERATIONS**

During the year, the Company continued with exploration on its mineral tenements. As in the previous year, the main focus was on the Coburn Zircon Project.

Total exploration expenditure for the financial year was $4,127,314 (2006: $3,558,654).

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the financial year there were no significant changes in the state of affairs of the Company.

## SUBSEQUENT EVENTS

On 23rd July 2007, the Company announced it had entered into a Memorandum of Understanding for both project finance and zircon product offtake from its Coburn Zircon Project with China Triumph International Engineering Co. Ltd (CTIEC), subject to the two companies reaching agreement on construction contracts and other matters. The Company later announced on 12 September 2007 that meetings with the Chairman of CTIEC in Perth resulted in an agreement on the general scope, timing and construction program for the Coburn Zircon Project.

There has not been any matter or circumstance other than that stated above or referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Likely developments in the operations of the Company and the expected results of those operations have not been included in this report as the Directors believe, on reasonable grounds, that the inclusion of such information would be likely to result in unreasonable prejudice to the Company.

## ENVIRONMENTAL REGULATION AND PERFORMANCE

So far as the Directors are aware, there have been no significant breaches of environmental conditions of the Company's exploration tenements. Procedures are adopted for each exploration program to ensure that environmental conditions of the Company's tenements are met.

## SHARE OPTIONS

- **Share Options that Expired/Lapsed**

No share options expired or lapsed during and since the end of the financial year.

- **Share Options on Issue**

Details of unissued shares or interests under option at the date of this report are:

| Issuing entity | Number of shares under option | Grant Date | Class of shares | Exercise price of option | Expiry date of options |
|---|---|---|---|---|---|
| Gunson Resources Limited | 100,000 | 16 December 2002 | Ordinary | 20 cents each | 16 December 2007 |
| Gunson Resources Limited | 1,800,000 | 1 December 2005 | Ordinary | 30 cents each | 30 November 2010 |
| Gunson Resources Limited | 1,800,000 | 1 December 2005 | Ordinary | 35 cents each | 30 November 2010 |
| | **3,700,000** | | | | |

The holders of such options do not have the right, by virtue of the option, to participate in any share issue or interest issue of any other body corporate or registered scheme.

Share options are unlisted options, carry no rights to dividends and no voting rights.

- **Shares Issued on the Exercise of Options**

No share or interests were issued during and since the end of the financial year as a result of exercise of an option.

## DIRECTORS' AND BOARD COMMITTEE MEETINGS

The following table sets out the number of meetings of the Company's Directors and Board committee meetings held during the year ended 30 June 2007 while each Director was in office and the number of meetings attended by each Director:

| | Board Meetings | | Nomination and Remuneration Committee Meetings | |
|---|---|---|---|---|
| Director | Number of meetings held | Number of meetings attended | Number of meetings held | Number of meetings attended |
| W H Cunningham | 11 | 11 | - | - |
| D N Harley | 11 | 11 | - | - |
| P C Harley | 11 | 11 | - | - |

## DIRECTORS' SHAREHOLDINGS

The following table sets out each Directors' relevant interest in shares, debentures and rights or options in shares or debentures of the Company held directly, indirectly or beneficially, by each specified Director including their personally-related entities as at the date of this report:

| Director | Ordinary Shares | Options |
|---|---|---|
| W H Cunningham | 244,230 | - |
| D N Harley | 2,100,000 | 2,000,000 |
| P C Harley | 261,230 | - |

## REMUNERATION REPORT (AUDITED)

This report details the nature and amount of remuneration for each Director of the Company. These disclosures have been transferred from the financial report and have been audited.

- ***Remuneration Policy***

The executive Directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. At times, some individuals have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to Directors and executives is valued at the cost to the Company and expensed. Options are valued using the Black-Scholes methodology.

The Board policy is to remunerate non-executive Directors at market rates for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive Directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive Directors are not linked to performance of the Company. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company.

The Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors and the executive team. The Board assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

- ***Performance Based Remuneration***

The Board seeks to align the interests of shareholders and the executive Director through a performance related incentive package. Accordingly, the managing Director, David Harley, has been granted a remuneration package that contains a $100,000 cash bonus payable on the date that the Company announces its formal decision to proceed with a mine development on the Coburn Project. At the date of this report, no such decision had been made.

- ***Company Performance, Shareholder Wealth and Director/Executive Remuneration***

Share based payments are granted at the discretion of the Board to align the interests of shareholders and the executive Director and other staff and key consultants. No options were granted during the current financial year (2006: 3.6 million options).

Due to the stage of the Company's development, no link between remuneration and financial performance currently exists. Details of the Company's indices in respect of the current financial year and the previous four financial years are as follows:

| | 2007<br>AIFRS | 2006<br>AIFRS | 2005<br>AIFRS | 2004<br>AGAAP | 2003<br>AGAAP |
|---|---|---|---|---|---|
| Revenue | $172,005 | $76,156 | $128,294 | $119,496 | $100,993 |
| Net loss | $1,068,921 | $1,215,691 | $142,797 | $489,486 | $254,998 |
| Dividends paid | - | - | - | - | - |
| Share price | $0.28 | $0.32 | $0.20 | $0.22 | $0.11 |
| Change in share price $ | ($0.04) | $0.12 | ($0.02) | $0.11 | ($0.03) |
| Change in share price % | (12%) | 60% | (9%) | 100% | (21%) |

- ***Details of Remuneration (Audited)***

| | Short-term benefits | | Post-employment benefits | Share based payments | | |
|---|---|---|---|---|---|---|
| | Cash salary and fees<br>$ | Cash bonus<br>$ | Superannuatio n<br>$ | Share Options<br>$ | Total<br>$ | Percentage of total remuneration that consists of options<br>% |
| **2007** | | | | | | |
| **Directors** | | | | | | |
| W H Cunningham | 40,000 | - | 3,600 | - | 43,600 | - |
| D N Harley | 275,000 | - | 24,750 | 220,244 | 519,994 | 42% |
| P C Harley | 30,000 | - | 2,700 | - | 32,700 | - |
| **Executives** | | | | | | |
| I E Gregory | - | - | - | - | - | - |
| Total | 345,000 | | 31,050 | 220,244 | 596,294 | 42% |
| | | | | | | |
| **2006** | | | | | | |
| **Directors** | | | | | | |
| W H Cunningham | 40,000 | - | 3,600 | - | 43,600 | - |
| D N Harley | 200,000 | - | 18,606 | 140,155 | 358,761 | 39% |
| P C Harley | 30,000 | - | 2,700 | - | 32,700 | - |
| **Executives** | | | | | | |
| I E Gregory | - | - | - | - | - | - |
| Total | 270,000 | - | 24,906 | 140,155 | 435,061 | 39% |

There are no performance conditions attached to remuneration paid during the current or previous financial year.

- **Share Based Compensation**

Incentive options issued to Directors (executive and non-executive) are subject to approval by shareholders and attach vesting conditions as appropriate.

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

| Grant Date | Date vested and exercisable | Expiry date | Exercise price | Value per option at grant date |
|---|---|---|---|---|
| 1 December 2005 | 1 June 2007 | 30 November 2010 | 30 cents each | $0.18 |
| 1 December 2005 | 1 June 2007 | 30 November 2010 | 35 cents each | $0.18 |

Share options are unlisted options, carry no rights to dividends and no voting rights.

Details of options over ordinary shares in the Company provided as remuneration to each Director is set out below. When exercisable, each option is convertible into one ordinary share of Gunson Resources Limited.

| | Number of options granted during the year | | Number of options vested during the year | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| **Directors** | | | | |
| W H Cunningham | - | - | - | - |
| D N Harley | - | 2,000,000 | 2,000,000 | - |
| P C Harley | - | - | - | - |
| **Executives** | | | | |
| I E Gregory | - | - | - | - |

No share options or interest to Directors were exercised or expired/lapsed during or since the end of the financial year.

- ***Performance Income as a Proportion of Total Income***

The Managing Director is to be paid performance based bonuses based on set monetary figures, rather than proportions of his salary. In the future, this may lead to the proportions of remuneration related to performance varying between individuals. The remuneration committee has set these bonuses to encourage achievement of specific goals that have been given a high level of importance in relation to the future growth and profitability of the Company.

Although the Managing Director has a cash bonus of $100,000 payable on the date that the Company announces its formal decision to proceed with a mine development on the Coburn Project, no such decision has been made to date.

- ***Employment Contracts of Directors and Senior Executives (Audited)***

Remuneration and other terms of employment for the Managing Director are formalised in a service agreement. Major provisions of this agreement are set out below.

- Term of agreement – 5 years commencing 1st April 2005.
- Base salary reviewed annually, currently $275,000 per annum.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to either six months salary or six months notice.
- 2,000,000 options to purchase fully paid shares granted on 1st December 2005, 1,000,000 at 30 cents and 1,000,000 at 35 cents, all of which expire on 30th November 2010. The options vested 18 months after the issue date on 1 June 2007.

Details of the options granted are as follows:

| Directors | Options granted Number | Options granted Date | Vested in year | Forfeited in year | Financial years in which options vest | Value yet to vest $ Min | Value yet to vest $ Max |
|---|---|---|---|---|---|---|---|
| D N Harley | 2,000,000 | 1 Dec 2005 | 100 % | - | 2007 | - | - |

## INDEMNIFICATION AND INSURANCE OF DIRECTORS

The Company has arranged Directors' and Officers' Insurance to indemnify all current officers of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position with the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The Company has paid insurance premiums in respect of Directors' and Officers' liability and legal expenses insurance contracts as described above. Under confidentiality arrangements with the Insurer the amount of the premium can not be disclosed.

The Company has made an agreement to provide access, indemnity and insurance for all the Directors and executive officers for any breach of duty as a Director or executive officer by the Company, for which they may be held personally liable. The agreement provides for the Company to pay insurance premiums and legal costs where:

a) the liability does not arise out of conduct involving a lack of good faith; or
b) the liability is for costs and expenses incurred by the Director or officer in defending proceedings in which judgement is given in their favour or in which they are acquitted.

## PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

## NON-AUDT SERVICES

BDO Kendalls Audit & Assurance WA continues in office in accordance with section 327 of the Corporations Act 2001.

There were no non-audit services performed during the year by the auditors (or by another person or firm on the auditors' behalf)

## AUDITORS INDEPENDENCE DECLARATION

The Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 31 of the financial report.

Signed in accordance with a resolution of Directors.

Harley

**D N Harley**
**Managing Director**

27th September 2007

# INCOME STATEMENT

| For the year ended 30 June 2007 | Note | 2007 $ | 2006 $ |
|---|---|---|---|
| **Revenue from continuing operations** | 4 | 98,028 | 64,245 |
| Other Income | 4 | 73,977 | 11,911 |
| Administration expenses | 4 | (1,167,985) | (917,610) |
| Depreciation and amortisation expense | | (14,130) | (37,015) |
| Exploration costs written off | | (2,798) | (412,414) |
| Other expenses | | (335,207) | (252,746) |
| **Loss before income tax** | | (1,348,115) | (1,543,629) |
| Income tax benefit | 5 | 279,194 | 327,938 |
| **NET LOSS ATTRIBUTABLE TO MEMBERS OF GUNSON RESOURCES LIMITED** | | **(1,068,921)** | **(1,215,691)** |
| **Loss per share from continuing operations** | | | |
| Basic loss per share (cents per share) | 19 | (1.06) | (1.27) |
| Diluted loss per share (cents per share) | 19 | (1.06) | (1.27) |

The accompanying notes form part of these financial statements.

# BALANCE SHEET

| As at 30 June 2007 | Note | 2007<br>$ | 2006<br>$ |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 6 | 1,831,989 | 2,067,273 |
| Trade and other receivables | 7 | 217,578 | 264,949 |
| **TOTAL CURRENT ASSETS** | | 2,049,567 | 2,332,222 |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 9 | 29,402 | 34,602 |
| Exploration, evaluation and development | 8 | 18,464,733 | 14,340,217 |
| Other | 10 | 484,676 | 484,676 |
| **TOTAL NON-CURRENT ASSETS** | | 18,978,811 | 14,859,495 |
| **TOTAL ASSETS** | | 21,028,378 | 17,191,717 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 11 | 431,297 | 957,923 |
| Provisions | 12 | 74,603 | 51,700 |
| **TOTAL CURRENT LIABILITIES** | | 505,900 | 1,009,623 |
| **TOTAL LIABILITIES** | | 505,900 | 1,009,623 |
| **NET ASSETS** | | 20,522,478 | 16,182,094 |
| **EQUITY** | | | |
| Issued capital | 13 | 23,792,866 | 18,780,001 |
| Reserves | 14 | 662,735 | 266,295 |
| Accumulated losses | 15 | (3,933,123) | (2,864,202) |
| **TOTAL EQUITY** | | 20,522,478 | 16,182,094 |

The accompanying notes form part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

| For the year ended 30 June 2007 | Contributed Equity | Accumulated Losses | Share-based Payments Reserve | Total equity |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **At 1 July 2005** | 14,236,489 | (1,648,511) | - | 12,587,978 |
| Loss for the year | - | (1,215,691) | - | (1,215,691) |
| Total recognised income and expense for the year | - | (1,215,691) | - | (1,215,691) |
| Issue of share capital | 4,534,404 | - | - | 4,534,404 |
| Exercise of options | 200,000 | - | - | 200,000 |
| Share issue costs | (190,892) | - | - | (190,892) |
| Cost of share-based payment | - | - | 266,295 | 266,295 |
| **At 30 June 2006** | 18,780,001 | (2,864,202) | 266,295 | 16,182,094 |
| Loss for the year | - | (1,068,921) | - | (1,068,921) |
| Total recognised income and expense for the year | - | (1,068,921) | - | (1,068,921) |
| Issue of share capital | 5,324,140 | - | - | 5,324,140 |
| Exercise of options | - | - | - | - |
| Share issue costs | (311,275) | - | - | (311,275) |
| Cost of share-based payment | - | - | 396,440 | 396,440 |
| **At 30 June 2007** | 23,792,866 | (3,933,123) | 662,735 | 20,522,478 |

The accompanying notes form part of these financial statements.

# STATEMENT OF CASH FLOWS

| For the year ended 30 June 2007 | Note | 2007 $ | 2006 $ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Payments for exploration and evaluation | | (4,479,545) | (3,040,170) |
| Payments to suppliers and employees | | (1,210,872) | (868,218) |
| Interest received | | 98,027 | 64,605 |
| Other income | | 65,879 | - |
| Research and development tax refund received | | 279,194 | 327,938 |
| Export marketing development grant received | | 8,098 | 11,911 |
| NET CASH FLOWS USED IN OPERATING ACTIVITIES | 24 | (5,239,219) | (3,503,934) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Payment for plant and equipment | | (8,930) | (16,350) |
| NET CASH FLOWS USED IN INVESTING ACTIVITIES | | (8,930) | (16,350) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issues of shares | | 5,324,140 | 4,734,404 |
| Payment of share issue costs | | (311,275) | (190,892) |
| NET CASH FLOWS FROM FINANCING ACTIVITIES | | 5,012,865 | 4,543,512 |
| NET INCREASE /(DECREASE) IN CASH HELD | | (235,284) | 1,023,228 |
| Cash at the beginning of the financial year | | 2,067,273 | 1,044,045 |
| **CASH AT THE END OF THE FINANCIAL YEAR** | 6 | 1,831,989 | 2,067,273 |

The accompanying notes form part of these financial statements.

**1. General information**

Gunson Resources Limited (the Company) is a listed public Company, incorporated in Australia and operating in Australia.

The Company's registered office and its principal place of business are as follows:

**Registered office and Principal place of business**

Level 2
33 Richardson Street
West Perth WA 6005

**2. Adoption of new and revised accounting standards**

In the current year, the Company has not adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations will not result in any changes to the Company's accounting policies and will not affect the amounts reported for the current or prior years.

At the date of authorisation of the financial report, a number of Standards and Interpretations were in issue but are not mandatory for the financial year ended 30 June 2007. They have not been adopted in preparing the financial report for the year ended 30 June 2007 and are expected to impact the Company in the period of initial application as indicated below.

Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the Company's financial report:

| Standard | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|---|---|---|
| • AASB 7 'Financial Instruments: Disclosures' and consequential amendments to other accounting standards resulting from its issue | 1 January 2007 | 30 June 2008 |
| • AASB 101 'Presentation of Financial Statements' – revised standard | 1 January 2007 | 30 June 2008 |
| • AASB 2007-7 'Amendments to Australian Accounting Standards' | 1 July 2007 | 30 June 2008 |
| • AASB 8 'Operating Segments' | 1 January 2009 | 30 June 2010 |

**2. Adoption of new and revised accounting standards (cont'd)**

Initial application of the following Standards and Interpretations is not expected to have any material impact to the financial report of the Company:

| Standard | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|---|---|---|
| • AASB Interpretation 10 'Interim Financial Reporting and Impairment' | 1 November 2006 | 30 June 2008 |
| • AASB Interpretation 11 'AASB 2 – Group and Treasury Share Transactions' | 1 March 2007 | 30 June 2008 |
| • AASB 2007-4 'Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments' | 1 July 2007 | 30 June 2008 |
| • AASB Interpretation 12 'Service Concession Arrangements' | 1 January 2008 | 30 June 2009 |
| • AASB Interpretation 13 'Customer Loyalty Programmes' | 1 July 2008 | 30 June 2009 |
| • AASB 123 'Borrowing Costs' – revised standard | 1 January 2009 | 30 June 2010 |

AASB Interpretation 10

AASB 134 'Interim Financial Reporting' requires an entity to apply the same accounting policies in its interim financial report as are applied in its annual financial report. It also states that measurements for interim reporting purposes are made on a year-to-date basis so that the frequency of reporting does not affect an entity's annual reports. AASB Interpretation 10 clarifies that an entity cannot reverse an impairment loss recognised in a previous interim period in relation to goodwill or either an investment in an equity instrument or in a financial asset carried at cost

This approach is consistent with impairment reversal prohibitions in AASB 136 'Impairment of Assets' and AASB 139 'Financial Instruments: Recognition and Measurement'.

AASB Interpretation 10 is required to be applied prospectively from the date at which the entity first applied AASB 136 (ie. 1 July 2004) and AASB 139 (ie. 1 July 2005), for goodwill and investments in either equity instruments or financial assets carried at cost, respectively. There will be no impact as the Company has not previously made any impairment write-downs on these items.

AASB Interpretation 11

AASB Interpretation 11 clarifies the application of AASB 2 'Share-based Payment' to certain share-based payment arrangements involving the entity's own equity instruments and to arrangements involving equity instruments of the entity's parent. There will be no impact because at the reporting date there are no subsidiary entities.

**2. Adoption of new and revised accounting standards (cont'd)**

AASB 2007-4

AASB 2007-4 makes amendments to a number of Australian Accounting Standards to introduce various accounting policy options, delete various disclosures presently required and make a number of editorial amendments.

Whilst a large number of Accounting Standards are amended by AASB 2007-4, key accounting policy options introduced by AASB 2007-4 relate to:

- the measurement and presentation of government grants;
- the accounting for jointly controlled entities using the proportionate consolidation method; and
- the presentation of the cash flow statement.

The Company does not intend to change any of its current accounting policies on adoption of AASB 2007-4. Accordingly, there will no financial impact to the financial report. However, in the Company's financial report for the financial year ending 30 June 2008, certain information may no longer be disclosed, or may be disclosed in an alternative manner, due to amendments made by AASB 2007-4 to the disclosure requirements of various Accounting Standards.

AASB Interpretation 12 and AASB 2007-2

AASB Interpretation 12 provides guidance on the accounting by operators for public-to-private service concession arrangements. The Company does not operate such services.

AASB Interpretation 13

AASB Interpretation 13 addresses the accounting by entities that provide their customers with incentives to buy goods or services by providing awards (i.e. award credits) as part of a sales transaction. AASB Interpretation 13 requires the entity that grants the awards to account for the sales transaction that gives rise to the award credits as a 'multiple element revenue transaction' and allocate the fair value of the consideration received or receivable between the award credits granted and the other components of the revenue transaction. AASB Interpretation 13 is required to be applied retrospectively. There will be no impact as the Company does not have a customer loyalty programme.

AASB 123 (revised) and AASB 2007-6

AASB 123 (July 2004) permits an entity to either expense or capitalise borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets. Under AASB 123 (revised), entities are no longer permitted to choose between alternate treatments and must capitalise borrowing costs relating to qualifying assets. AASB 2007-6 makes amendments to various Accounting Standards arising from the issue of AASB 123 (revised).

AASB 123 (revised) is generally to be applied prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. Accordingly, no restatements will be required in respect of transactions prior to the date of adoption.

**3. Summary of accounting policies**

**Statement of compliance**

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with the A-IFRS ensures that the financial statements and notes of the entity comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the Directors on 27th September 2007

**Basis of preparation**

The financial report has been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

**(a) Exploration, Evaluation and Development Expenditure**

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development or sale of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the productive life of the area according to the rate of depletion of the economically recoverable reserves. Any costs of site restoration are provided for during the relevant production stages and included in the costs of that stage.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

**(b) Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

*Plant and Equipment*

Plant and equipment is measured on a cost basis. The carrying value is reviewed annually by Directors to ensure it is not in excess of the recoverable amount of these assets.

*Depreciation*

Items of plant and equipment are depreciated using either the straight line or diminishing value method over their estimated useful lives to the Company. The depreciation rates used for each class of asset for the current period are as follows:

- Plant & equipment 7% - 40%

Assets are depreciated from the date the asset is ready for use. Depreciation costs are capitalised to Exploration and Evaluation where the assets are used exclusively for such activities.

**3. Summary of accounting policies (continued)**

**(c) Impairment**

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

**(d) Income Tax**

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised. A deferred income tax asset is not recognised where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted at the balance date. Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

**3. Summary of accounting policies (continued)**

**(e) Goods and services tax**

Revenues, expenses and assets are recognised net of goods and services tax (GST), except where the amount of GST incurred is not recoverable. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable or payable is included as a current asset or liability in the balance sheet. Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable or payable are classified as operating cash flows.

**(f) Employee Benefits**

i. *Wages and salaries and annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in *other creditors* (see Note 25) in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

ii. *Long service leave*

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is in accordance with (i) above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

**(g) Cash and Cash Equivalents**

For the purposes of the statement of cash flows, cash includes deposits at call which are readily convertible to cash on hand and which are used in the cash management function on a day to day basis, net of outstanding bank overdrafts.

**(h) Trade and Other Payables**

Liabilities for trade creditors and other amounts are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

Deferred cash settlements are recognised at the present value of the outstanding consideration payable on the acquisition of an asset discounted using a current pre-tax rate that reflects the risks specific to the liability.

**(i) Revenue Recognition**

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

***Interest -*** Revenue is recognised as the interest accrues using the effective interest rate method. This is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

**3. Summary of accounting policies (continued)**

**(j) Share based payments**

The Company may provide benefits to employees (including Directors) in the form of share-based payments, whereby employees render services in exchange for rights over shares ("equity settled transactions").

The cost of these equity settled transactions with employees is measured by reference to the fair value at the date they are granted. The value is determined using a binomial model. The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date").

The cumulative expense recognised for equity settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the Directors, will ultimately vest.

No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

**(k) Share Capital**

Ordinary share capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction in share proceeds received.

**(l) Leases**

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

***Operating leases*** The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis.

**(m) Earnings Per Share**

- ***Basic earnings per share*** Basic earnings per share is determined by dividing net profit/(loss) after income tax attributable to members of the Company, excluding any costs of service equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

- ***Diluted earnings per share*** Diluted earnings per share adjusts the figure used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financial costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**(n) Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

**3. Summary of accounting policies (continued)**

**(o) Judgements in applying accounting policies and key sources of estimation uncertainty**

- ***Significant accounting judgements*** In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

  Capitalisation of exploration and evaluation expenditure Under AASB 6 *Exploration for and Evaluation of Mineral Resources*, the Company has the option to either expense exploration and evaluation expenditure as incurred, or to capitalise such expenditure provided that certain conditions are satisfied. The Company's policy is closer to the latter, as outlined in Note 3(a).

- ***Significant accounting estimates and assumptions*** The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Impairment of property, plant and equipment Property, plant and equipment is reviewed for impairment if there is any indication that the carrying amount may not be recoverable. Where a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value in use' (being the net present value of expected future cash flows of the relevant cash generating unit) and 'fair value less costs to sell'.

In determining value in use, future cash flows are based on:

- Estimates of the quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- Future production levels;
- Future commodity prices; and
- Future cash costs of production and capital expenditure.

Variations to the expected future cash flows, and the timing thereof, could result in significant changes to any impairment losses recognised, if any, which could in turn impact future financial results.

Share-based payment transactions The Company measures the cost of equity-settled transactions with Directors and employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using the binomial model.

| | | 2007 $ | 2006 $ |
|---|---|---|---|
| **4.** | **Loss from operations** | | |
| **(a)** | **Revenue** | | |
| | Interest received | 98,028 | 64,245 |
| **(b)** | **Other Income** | | |
| | Joint venture management fees | 56,052 | - |
| | Rebates and other income | 9,827 | - |
| | Export marketing development grant | 8,098 | 11,911 |
| | | 73,977 | 11,911 |
| **(c)** | **Depreciation** | | |
| | Plant and equipment | 14,130 | 37,015 |
| **(d)** | **Employee and Directors' benefits expenses** | | |
| | Included in administrative expenses: | | |
| | Share-based payment | 396,440 | 266,295 |
| | Other | 359,017 | 229,170 |
| | | 755,457 | 495,465 |
| **(e)** | **Operating lease payments** | | |
| | Included in administrative expenses: | | |
| | Minimum lease payments | 119,839 | 70,682 |

| | 2007<br>$ | 2006<br>$ |
|---|---|---|
| **5. Income Tax** | | |
| The major components of income tax expense are: | | |
| **Income Statement** | | |
| Current income tax: | | |
| Current income tax benefit | (279,194) | (327,938) |
| ***Income tax benefit reported in the income statement*** | (279,194) | (327,938) |
| The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows: | | |
| Loss from operations | (1,348,115) | (1,543,629) |
| Income tax expense calculated at 30% | (404,435) | (463,089) |
| Effect of expenses that are not deductible in determining taxable profit | 43,808 | (6,402) |
| Effect of unused tax losses and tax offsets not recognised as deferred tax assets | 360,627 | 469,491 |
| Research and development offset | (279,194) | (327,938) |
| Income tax credit | (279,194) | (327,938) |

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

**Unrecognised deferred tax balances**
The following deferred tax assets and (liabilities) have not been brought to account:

| | 2007 | 2006 |
|---|---|---|
| Tax losses | 5,320,567 | 3,977,844 |
| Temporary differences | 64,412 | 114,365 |
| Temporary differences arising from exploration activities | (4,767,340) | (3,529,985) |
| | 617,639 | 562,224 |

It is considered that it is not probable that the Company will utilise all its carry forward tax losses in the near future, hence is not expected to pay tax in the foreseeable future. The deferred tax balances noted above have therefore not been accounted for in the balance sheet.

**5. Income Tax (continued)**

At 30 June 2007, Gunson Resources Limited has tax losses arising in Australia of $18,171,411 (2006: $12,556,527) that are available indefinitely for offset against future taxable income. The Company has not recognised a deferred income tax asset in relation to these losses as realisation of the benefit is not regarded as probable.

These deferred tax assets will only be obtained if:
(i) future assessable income is derived of a nature and an amount sufficient to enable the benefit to be realised;
(ii) the Company continues to comply with the conditions for deductibility imposed by tax legislation; and
(iii) no changes in tax legislation adversely affect the Company in realising the benefit.

| | | 2007 $ | 2006 $ |
|---|---|---|---|
| **6.** | **Cash and Cash Equivalents** | | |
| | Cash at bank | 1,831,989 | 1,440,684 |
| | Cash on deposit | - | 626,589 |
| | | 1,831,989 | 2,067,273 |
| **7.** | **Trade and Other Receivables** | | |
| | Goods and services tax refund | 95,095 | 178,281 |
| | Other receivables | 122,483 | 86,668 |
| | | 217,578 | 264,949 |
| **8.** | **Exploration, Evaluation and Development** | | |
| | Carried forward expenditure | 14,340,217 | 11,193,977 |
| | Capitalised during the year | 4,127,314 | 3,558,654 |
| | Expenditure written off | (2,798) | (412,414) |
| | | 18,464,733 | 14,340,217 |

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective mining tenements.

| | | 2007 $ | 2006 $ |
|---|---|---|---|
| **9.** | **Plant and Equipment** | | |
| | Plant and equipment, at cost | 130,760 | 121,830 |
| | Accumulated depreciation | (101,358) | (87,228) |
| | **Net book amount** | 29,402 | 34,602 |
| | **Movements in Net Book Amount** | | |
| | Plant and Equipment | | |
| | Opening net book amount | 34,602 | 55,267 |
| | Additions | 8,930 | 16,350 |
| | Disposals | - | - |
| | Depreciation expense | (14,130) | (37,015) |
| | **Net book amount at the end of year** | 29,402 | 34,602 |
| **10.** | **Other** | | |
| | Pastoral Lease – Coburn Station | 484,676 | 484,676 |

| | | 2007 $ | 2006 $ |
|---|---|---|---|
| **11.** | **Trade and Other Payables** | | |
| | Trade creditors | 271,471 | 464,852 |
| | Other creditors and accruals | 159,826 | 493,071 |
| | | 431,297 | 957,923 |
| | Accounts payable are all payable in Australian dollars and non interest bearing and normally settled on 30 day terms. | | |
| **12.** | **Provisions** | | |
| | Employee entitlements | 74,603 | 51,700 |
| **13.** | **Contributed Equity** | | |
| **(a)** | **Issued and Paid Up Capital** | | |
| | 108,701,416 (2006: 89,289,786) ordinary shares fully paid | 23,792,866 | 18,780,001 |

**(b) Movement of fully paid ordinary shares during the year were as follows:**

| | 2007 Number of Shares | 2007 $ | 2006 Number of Shares | 2006 $ |
|---|---|---|---|---|
| **Movements in shares on issue** | | | | |
| Opening Balance | 89,289,786 | 18,780,001 | 72,388,965 | 14,236,489 |
| Share placement issued at 22 cents per share on 27 July 2005 | - | - | 4,385,000 | 964,700 |
| Share placement issued at 24 cents per share on 23 November 2005 | - | - | 3,116,668 | 760,000 |
| Share issued as placement fee on 23 November 2005 | - | - | 50,000 | - |
| Share placement issued at 32 cents per share on 7 February 2006 | - | - | 3,000,000 | 960,000 |
| Share placement issued at 32 cents per share on 9 February 2006 | - | - | 750,000 | 240,000 |
| Exercise of "A" Class options at 20 cents per option on 15 May 2006 | - | - | 1,000,000 | 200,000 |
| Share placement issued at 35 cents per share on 17 May 2006 | - | - | 4,599,153 | 1,609,704 |
| Share placement issued at 28 cents per share on 8 September 2006 | 8,300,000 | 2,324,000 | - | - |
| Share placement issued at 27 cents per share on 5 February 2007 | 11,111,630 | 3,000,140 | - | - |
| Less: share issue expenses | - | (311,275) | - | (190,892) |
| | 108,701,416 | 23,792,866 | 89,289,786 | 18,780,001 |

**13. Contributed Equity (continued)**

**(c) Share Options**

The Company has on issue at year end 3,700,000 (2006: 3,700,000) options over unissued shares. During the year no options were converted into shares (2006: 1,000,000) and no options expired (2006: 200,000).

Details of unissued shares or interests under options at year end are:

| Issuing entity | Number of shares under option | Class of shares | Exercise price of option | Expiry date of options |
|---|---|---|---|---|
| Gunson Resources Ltd | 100,000 | Ordinary | 20 cents each | 16 December 2007 |
| Gunson Resources Ltd | 1,800,000 | Ordinary | 30 cents each | 30 November 2010 |
| Gunson Resources Ltd | 1,800,000 | Ordinary | 35 cents each | 30 November 2010 |
| | 3,700,000 | | | |

Share options are unlisted options, carry no rights to dividends and no voting rights.

**(d) Terms and Conditions of Contributed Equity**

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.

At shareholders meetings, each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has a vote on a show of hands.

| | | 2007 $ | 2006 $ |
|---|---|---|---|
| **14.** | **Reserves** | | |
| | Share-based Payments Reserve | 662,735 | 266,295 |
| | **Share-based Payments Reserve** | | |
| | Balance at the beginning of financial year | 266,295 | - |
| | Incentive options | 396,440 | 266,295 |
| | Balance at end of financial year | 662,735 | 266,295 |
| | The share-based payments reserve arises on the grant of share options to executives, employees, consultants and advisors. Amounts are transferred out of the reserve and into issued capital when the options are exercised. | | |
| **15.** | **Accumulated losses** | | |
| | Balance at the beginning of financial year | (2,864,202) | (1,648,511) |
| | Net loss attributable to members of the Company | (1,068,921) | (1,215,691) |
| | Balance at end of financial year | (3,933,123) | (2,864,202) |

## 16. Key Management Personnel Disclosures

### *(a) Details of Key Management Personnel*

The Directors of Gunson Resources Limited during the financial year were:

- William H Cunningham B.Com. (Non-Executive Chairman)
- David N Harley BSc (Hons) MSc.,F.Aus. I.M.M. (Managing Director)
- Peter C Harley B.Com., F.C.P.A (Non-Executive Director)

There were no other key management personnel of Gunson Resources Limited during the year and there were no changes to key management personnel between the reporting date and the date the financial report was authorised for issue.

### *(b) Remuneration*

The Company has applied the exemption under Corporations Amendments Regulation 2006 which exempts listed companies from providing remuneration disclosures in relation to their key management personnel in their annual financial reports by Accounting Standard AASB 124 *Related Party Disclosures.* These remuneration disclosures are provided in the Remuneration Report of the Directors' Report designated as audited.

- ***Remuneration by category***

| | 2007<br>$ | 2006<br>$ |
|---|---|---|
| ***Key Management Personnel*** | | |
| Short-term employee benefits | 345,000 | 270,000 |
| Post-employment benefits | 31,050 | 24,906 |
| Share-based payment | 220,244 | 140,155 |
| | 596,294 | 435,061 |

## 16. Key Management Personnel Disclosures (continued)

### *(c) Option Holdings of Key Management Personnel*

| | Bal at 1 July | Granted as remuner-ation | Exercised | Net other change | Bal at 30 June | Vested and exercisable at the end of the year |
|---|---|---|---|---|---|---|
| **2007** | | | | | | |
| W H Cunningham | - | - | - | - | - | - |
| D N Harley | 2,000,000 | - | - | - | 2,000,000 | 2,000,000 |
| P C Harley | - | - | - | - | - | - |
| **2006** | | | | | | |
| W H Cunningham | - | - | - | - | - | - |
| D N Harley | - | 2,000,000 | - | - | 2,000,000 | - |
| P C Harley | - | - | - | - | - | - |

### *(d) Share Holdings of Key Management Personnel*

| | Bal at 1 July | Granted as remuneration | Received on exercise of options | Other | Bal at 30 June |
|---|---|---|---|---|---|
| **2007** | | | | | |
| William H Cunningham | 244,230 | - | - | - | 244,230 |
| David N Harley | 2,000,000 | - | - | - | 2,000,000 |
| Peter C Harley | 261,230 | - | - | - | 261,230 |
| **2006** | | | | | |
| William H Cunningham | 244,230 | - | - | - | 244,230 |
| David N Harley | 2,000,000 | - | - | - | 2,000,000 |
| Peter C Harley | 261,230 | - | - | - | 261,230 |

### *(e) Loans to key management personnel*

There were no loans to key management personnel during the period.

### *(f) Other transactions and balances with key management personnel*

There were no transactions or balances with key management personnel other than those disclosed in the remuneration report of the Director's Report.

| | 2007 $ | 2006 $ |
|---|---|---|
| **17. Auditors Remuneration** | | |
| Amounts received or due and receivable by the auditors of Gunson Resources Limited for: | | |
| - an audit or review of the financial statements of the entity | 22,202 | 27,139 |
| - other services | - | 2,310 |
| | 22,202 | 29,449 |

### 18. Significant Events After Balance Date

On 23rd July 2007, the Company announced it had entered into a Memorandum of Understanding for both project finance and zircon product offtake from its Coburn Zircon Project with China Triumph International Engineering Co. Ltd (CTIEC), subject to the two companies reaching agreement on construction contracts and other matters. The Company later announced on 12 September 2007 that meetings with the Chairman of CTIEC in Perth resulted in an agreement on the general scope, timing and construction program for the Coburn Zircon Project.

There has not been any matter or circumstance other than that stated above or referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

| | 2007 | 2006 |
|---|---|---|
| **19. Loss Per Share** | | |
| Basic loss per share (cents) | (1.06) | (1.27) |
| Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share | 100,412,214 | 80,517,380 |
| Earnings used in the calculation of basic loss per share | (1,068,921) | (1,025,080) |

Diluted loss per share has not been calculated as the Company made a loss for the year hence the impact would be to reduce the loss per share.

### 20. Segment Information

The Company operates in the mineral exploration industry in Australia only.

### 21. Related Party Transactions

Other than disclosed in note 16 there were no related party transactions during the financial year.

| | 2007 $ | 2006 $ |
|---|---|---|
| **22. Expenditure Commitments** | | |
| **Lease commitments** | | |
| Leasing arrangements for the rental of office space expiring August 2010 | | |
| Not later than 1 year | 150,000 | 69,720 |
| Later than 1 year but not later than 5 years | 325,000 | 69,720 |
| Later than 5 years | - | - |
| | 475,000 | 139,440 |
| **Expenditure Commitment on Granted Tenements** | | |
| Not later than 1 year | 1,325,500 | 1,147,308 |
| Later than 1 year but not later than 5 years | 5,302,000 | 4,589,232 |
| Later than 5 years | - | - |
| | 6,627,500 | 5,736,540 |

In order to retain the rights of tenure to its granted tenements, the Company is required to meet the minimum statutory expenditure requirements but may reduce these at any time by reducing the size of the tenements. The figures quoted above assume that no new tenements are granted and that only compulsory statutory area reductions are made.

**23. Financial Instruments Disclosure**

- ***Financial risk management objectives and policies*** The Company's principal financial instruments are cash and short term deposits. The main purpose of these financial instruments is to provide working capital for operations. The Company has various other financial assets and liabilities such as receivables and trade payables, which arise directly from its operations. The main risks arising from the Company's financial instruments are interest rate risk and credit risk. The Board reviews and agrees policies for managing each of these risks.
- ***Interest rate risk*** The Company's exposure to interest rate risk, which is the risk that the financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

| | Weighted average interest rate % | Variable interest rate $ | Fixed interest maturing in less than 1 year $ | Non-interest bearing $ | Total $ |
|---|---|---|---|---|---|
| **30 June 2007** | | | | | |
| Financial Assets | | | | | |
| Cash | 5.0% | 1,831,989 | - | - | 1,831,989 |
| Trade and other receivables | 5.0% | - | 49,000 | 168,578 | 217,578 |
| | | 1,831,989 | 49,000 | 168,578 | 2,049,567 |
| Financial Liabilities | | | | | |
| Trade and other payables | - | - | - | 431,297 | 431,297 |
| | | - | - | 431,297 | 431,297 |
| **30 June 2006** | | | | | |
| Financial Assets | | | | | |
| Cash | 4.7% | 1,440,684 | 626,589 | - | 2,067,273 |
| Trade and other receivables | 5.0% | - | 49,000 | 215,949 | 264,949 |
| | | 1,440,684 | 675,589 | 215,949 | 2,332,222 |
| Financial Liabilities | | | | | |
| Trade and other payables | - | - | - | 957,923 | 957,923 |
| | | - | - | 957,923 | 957,923 |

- ***Credit Risk*** The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance sheet date to recognised financial assets is the carrying amount, net of any provisions for doubtful debts of those assets, as disclosed in the statement of financial position and the notes to the financial statements.

  The Company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments it has entered into.
- ***Net Fair Values*** The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in Note 3.

| | 2007 $ | 2006 $ |
|---|---|---|
| **24. Cash Flow Information** | | |
| Reconciliation of loss after tax to the net cash flows from operations. | | |
| **Loss after income tax** | (1,068,921) | (1,215,691) |
| **Non cash items** | | |
| Depreciation | 14,130 | 37,015 |
| Exploration costs written off | 2,798 | 412,414 |
| Share-based payment | 396,440 | 266,295 |
| **Changes in assets and liabilities** | | |
| Decrease/(Increase) in trade and other receivables | 47,371 | (96,114) |
| Exploration costs capitalised | (4,479,545) | (3,558,654) |
| Increase/(decrease) in trade creditors and accruals | (174,395) | 625,332 |
| Increase/(decrease) in provisions | 22,903 | 25,469 |
| **Net cash flow used in operating activities** | (5,239,219) | (3,503,934) |

***Financing facilities available***
As at 30 June 2007 the Company had no financing facilities available.

***Non Cash financing and Investing Activities***
There were no non-cash financing & investing activities.

| | Note | 2007 $ | 2006 $ |
|---|---|---|---|
| **25. Employee Benefits** | | | |
| Aggregate liability for employee benefits including on-costs | | | |
| **Current** | | | |
| Other creditors and accruals | 11 | 50,806 | 45,674 |
| Employee entitlements provision | 12 | 74,603 | 51,700 |

**26. Contingent Liabilities**

The Company has established a $49,000 bank guarantee in favour of the Minister for State Development in Western Australia. The expiry date of the guarantee is 31 January 2008 and it is backed by a $49,000 term deposit with the National Australia Bank.

The Directors are not aware of any other contingent liabilities as at 30 June 2007.

**27. Share-Based Payments**

Share based payments are granted at the discretion of the Board to align the interests of shareholders and the executive Director and other staff and key consultants.

Each option issued converts into one ordinary share of Gunson Resources Limited on exercise. No amounts are paid or payable by the recipient on receipt of the option. Options neither carry rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

Options granted are summarised below:

| Grant date | Expiry date | Exercise price $ | Balance at start of the year No | Granted during the year No | Exercised during the year No | Forfeited during the year No | Balance at end of the year No | Vested and exercisable at end of the year No |
|---|---|---|---|---|---|---|---|---|
| **2007** | | | | | | | | |
| 16 Dec 2002 | 16 Dec 2007 | 0.20 | 100,000 | - | - | - | 100,000 | 100,000 |
| 1 Dec 2005 | 30 Nov 2010 | 0.30 | 1,800,000 | - | - | - | 1,800,000 | 1,800,000 |
| 1 Dec 2005 | 30 Nov 2010 | 0.35 | 1,800,000 | - | - | - | 1,800,000 | 1,800,000 |
| | | | 3,700,000 | - | - | - | 3,700,000 | 3,700,000 |
| Weighted average exercise price | | | $0.32 | - | - | - | $0.32 | $0.32 |
| **2006** | | | | | | | | |
| 16 Dec 2002 | 16 Dec 2007 | 0.20 | 100,000 | - | - | - | 100,000 | 100,000 |
| 1 Dec 2005 | 30 Nov 2010 | 0.30 | - | 1,800,000 | - | - | 1,800,000 | - |
| 1 Dec 2005 | 30 Nov 2010 | 0.35 | - | 1,800,000 | - | - | 1,800,000 | - |
| | | | 100,000 | 3,600,000 | - | - | 3,700,000 | 100,000 |
| Weighted average exercise price | | | $0.20 | $0.32 | - | - | $0.32 | $0.20 |

No options expired during the period coverd by the above tables.

The weighted average remaining contractual life of share options outstanding at the end of the year was 3.33 years (2006: 4.34).

*Fair value of options granted*
No share options were granted during the financial year. The fair value at grant date of options granted during the year ended 30 June 2006 was $0.18 per option. The fair value at grant date is determined using a Black and Scholes model which takes into account the exercise price, the term of the option, the share price at grant date and expected volatility of the underlying share and the risk free interest rate for the term of the option.

| | 2007 $ | 2006 $ |
|---|---|---|
| ***Expenses arising from share based payment transactions*** | | |
| Total expenses arising from share-based payment transactions recognised during the period as part of employee expense were as follows: | | |
| Incentive options | 396,440 | 266,295 |
| | 396,440 | 266,295 |

# DIRECTOR'S DECLARATION

The Directors of the Company declare that:

(a) the financial statements and notes of the Company are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the Company's financial position as at 30 June 2007 and of its performance for the year ended on that date; and

  (ii) complying with Accounting Standards and Corporations Regulations 2001; and

(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.

(c) the audited remuneration disclosures set out in the Directors' report comply with Accounting standards AASB 124 Related Party Disclosures and the Corporations Regulations 2001.

(d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2007.

This declaration is made in accordance with a resolution of the Board of Directors.

**D N Harley**
**Managing Director**

27th September 2007
Perth, Western Australia

**BDO Kendalls**

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ABN 90 360 101 594

27 September 2007

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

Dear Sirs

**DECLARATION OF INDEPENDENCE BY BDO KENDALLS TO THE DIRECTORS OF GUNSON RESOURCES LIMITED**

As lead auditor of Gunson Resources Limited for the year ended 30 June 2007, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Gunson Resources Limited and the entities it controlled during the period.

Yours faithfully
**BDO Kendalls Audit & Assurance (WA) (formerly BDO)**

B. McVeigh

**BG McVeigh**
Partner

BDO Kendalls

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# INDEPENDENT AUDITOR'S REPORT
# TO THE MEMBERS OF GUNSON RESOURCES LIMITED

We have audited the accompanying financial report of Gunson Resources Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001,* the consolidated entity has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 *Related Party Disclosures,* under the heading "Remuneration Report" in the directors' report and not in the financial report.

**Directors' Responsibility for the Financial Report and the AASB 124 Remuneration Disclosures Contained in the Directors' Report**

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 3, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements,* that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Independence**

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Gunson Resources Limited on 27 September 2007, would be in the same terms if provided to the directors as at the date of this auditor's report.

**Auditor's Opinion on the Financial Report**

In our opinion:

(a) the financial report of Gunson Resources Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's financial position as at 30 June 2007 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 3.

**Auditor's Opinion on the AASB 124 Remuneration Disclosures Contained in the Directors' Report**

In our opinion the remuneration disclosures that are contained in the directors' report comply with Accounting Standard AASB 124.

**BDO Kendalls Audit & Assurance (WA) (formerly BDO)**

BDO Kendalls

**BG McVeigh**
Partner

Perth, Western Australia
Dated this 27th day of September 2007