GUNSON RESOURCES LIMITED

ABN 32 090 603 642

ANNUAL REPORT 2006

CORPORATE DIRECTORY

Directors
WH Cunningham (Chairman)
DN Harley (Managing Director)
PC Harley (Non Executive Director)

Company Secretary
I E Gregory

Registered and Principal Office
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West Perth, WA 6005
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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 Chartered Accountants & Advisers
256 St George's Terrace
Perth, Western Australia 6000

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 report for the year ended 30 June 2006.

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 67

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.

David N Harley BSc (Hons) MSc.,F.Aus. I.M.M. (Managing Director) Age 59

David Harley is a geologist with over 30 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 and was Chairman of Gallery Gold Ltd for 5 years until November 2003.

Peter C Harley B.Com., F.C.P.A (Non-Executive Director) Age 56

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 became non executive Chairman of Blaze International Ltd in September 2005.

Company Secretary – Ian E Gregory, B.Bus, F.C.P.A, F.C.I.S Age 51

Mr Gregory is an experienced company secretary who worked as full time Secretary of Iluka Resources Limited from March 1999 to December 2004. Prior to this, he was company secretary and compliance manager for IBJ Australia Bank Limited Group for the 12 years to the end of 1997 and company secretary for the Griffin group of companies for four years until the end of 1985.

PRINCIPAL ACTIVITIES

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

RESULTS OF OPERATIONS

The Company made a loss after tax of $1,025,080 (2005: $142,797 loss). No dividends were paid 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 mineral sand project.

Work on the Coburn project in 2006 has been focused on obtaining environmental approvals, detailed capital and operating costs, product offtake contracts and project finance, all of which are expected in late 2006.

Including the Coburn definitive feasibility study, exploration expenditure totalled $3,558,654 (2005: $3,711,615) during the period under review.

DIRECTOR'S REPORT

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Company during the financial year.

ADOPTION OF AUSTRALIAN EQUIVALENTS TO IFRS.

This financial report has been prepared under Australian equivalents to IFRS. A reconciliation between previous GAPP and Australian equivalents to IFRS has been included in note 25 of this report.

SIGNIFICANT EVENTS AFTER BALANCE DATE

On 8th September, 2006, the Company announced that it had successfully completed a placement of 8.3 million ordinary shares at 28 cents per share, raising $2,324,000. Funds raised in the placement are to be used to further advance the Coburn mineral sand project and for general working capital purposes. The large New York based resource fund, Ospraie, took up 6 million shares in this placement and on 12th September, Ospraie announced that they had become a substantial shareholder in the Company, with a 10.06% interest.

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.

SHARE OPTIONS

As at the date of this report, there were 3,700,000 (2005: 1,300,000) options over unissued ordinary shares. Refer to note 11 of the Financial Statements for further details of the options outstanding.

1,000,000 options were exercised, 200,000 options expired and 3,600,000 options were issued during the year.

DIRECTORS' AND BOARD COMMITTEE MEETINGS

The following table sets out the number of meetings of the Company's directors and Board committee meetings held 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	10	10	1	1
D N Harley	10	10	-	-
P C Harley	10	10	1	1

REMUNERATION REPORT

This report details the nature and amount of remuneration for each director of the Company.

- ***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. Shares given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. 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***

The Managing Director was issued 2 million options during the year to continue his alignment to shareholder interests after his previous options expired in May 2005. At the same time, 1.6 million options were issued to staff and key consultants for the same reason.

No link between remuneration and financial performance exists at this stage of the Company's development.

- ***Details of Remuneration***

Year ended 30 June 2006

Name	Cash salary and fees $	Cash bonus $	Superannuation $	Share Options $	Total $	Performance Related $
W H Cunningham (Chairman)	40,000	-	3,600	-	43,600	-
D N Harley (Managing Director)	200,000	-	18,606	140,155	358,761	-
P C Harley (Non Executive Director)	30,000	-	2,700	-	32,700	-
Total	270,000	-	24,906	140,155	435,061	-

Year ended 30 June 2005

Name	Cash salary and fees $	Cash bonus $	Superannuation $	Share Options $	Total $	Performance Related $
W H Cunningham (Chairman)	24,000	-	2,160	-	26,160	-
D N Harley (Managing Director)	184,166	-	16,575	-	200,741	-
P C Harley (Non Executive Director)	30,000	-	1,080	-	13,080	-
Total	220,166	-	19,815	-	239,981	-

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

- **Equity Instruments**

Options and rights over equity instruments granted as remuneration.

Directors	Number of options granted during the year	Number of options vested during the year
W H Cunningham (Chairman)	-	-
D N Harley (Managing Director)	2,000,000	-
P C Harley (Non-Executive Director)	-	-

- ***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***

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.

OPTION HOLDINGS

The movement during the reporting period in the number of options over ordinary shares in the Company held directly, or indirectly or beneficially, by each specified director including their personally-related entities, is as follows:

Director	Held at 1 July 2005	Granted as remuneration	Exercised	Sold	Lapsed	Held at 30 June 2006
W H Cunningham (Chairman)	-	-	-		-	-
D N Harley (Managing Director)	-	2,000,000	-	-	-	2,000,000
P C Harley (Non-Executive Director)	-	-	-		-	-

EQUITY HOLDINGS AND TRANSACTIONS

The movement during the reporting period in the number of ordinary shares of the Company held directly, indirectly or beneficially, by each specified director including their personally-related entities is as follows:

Director	Held at 1 July 2005	Granted as remuneration	Received on exercise of options	Other (SPP)	Held at 30 June 2006
W H Cunningham (Chairman)	244,230	-	-	-	244,230
D N Harley (Managing Director)	2,000,000	-	-	-	2,000,000
P C Harley (Non-Executive Director)	261,230	-	-	-	261,230

EXERCISE OF OPTIONS GRANTED AS REMUNERATION

During the period, the following shares were issued on the exercise of options previously granted as remuneration:

Directors	Number of shares	Amount paid $/share
W H Cunningham (Chairman)	-	-
D N Harley (Managing Director)	-	-
P C Harley (Non-Executive Director)	-	-

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.

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.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Gunson support and have adhered to the principles of Corporate Governance. The Company's corporate governance statement is contained in the Corporate Governance section later in this annual report.

AUDITOR

BDO Chartered Accountants and Advisers continues in office in accordance with section 327 of the Corporations Act 2001.

The following non audit services were provided by the entity's auditor and the directors are satisfied that auditor independence was not compromised:

Tax Compliance	$1,100
Accounts Disclosure Advice	$1,210

AUDITORS INDEPENDENCE DECLARATION

The Auditor's Independence Declaration on page 29 forms part of the Director's Report for the year ended 30 June 2006.

This relates to the audit report, where they state that they have issued an independent declaration.

LEGAL PROCEEDINGS

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.

DIRECTOR'S REPORT

Signed in accordance with a resolution of Directors.

D N Harley
Managing Director

28th September 2006

INCOME STATEMENT

For the year ended 30 June 2006	Note	2006 $	2005 $
REVENUE	2	64,245	127,727
Other Income	2	11,911	567
Administration expenses	2	(954,625)	(565,124)
Exploration Costs Written Off		(412,414)	(6,460)
Other expenses		(252,746)	-
Loss Before Income Tax		(1,543,629)	(443,290)
R&D Expenditure Tax Refund		327,938	300,493
Income tax expense	3	-	-
NET LOSS ATTRIBUTABLE TO MEMBERS OF GUNSON RESOURCES LIMITED		**(1,215,691)**	**(142,797)**
Basic and diluted Loss per share (cents per share)	16	(1.27)	(0.22)

The accompanying notes form part of these financial statements.

BALANCE SHEET

As at 30 June 2006	Note	2006 $	2005 $
CURRENT ASSETS			
Cash and Cash Equivalents	4	2,067,273	1,044,045
Trade and other Receivables	5	241,484	147,289
Other Receivables		23,465	21,546
TOTAL CURRENT ASSETS		2,332,222	1,212,880
NON-CURRENT ASSETS			
Deferred Exploration and Evaluation Costs	6	14,340,217	11,193,977
Plant and Equipment	7	34,602	55,267
Pastoral Lease (Coburn)	8	484,676	484,676
TOTAL NON-CURRENT ASSETS		14,859,495	11,733,290
TOTAL ASSETS		17,191,717	12,946,800
CURRENT LIABILITIES			
Trade and Other Payables	9	957,923	332,591
Provisions	10	51,700	26,231
TOTAL CURRENT LIABILITIES		1,009,623	358,822
TOTAL LIABILITIES		1,009,623	358,822
NET ASSETS		16,182,094	12,587,978
EQUITY			
Issued Capital	11	18,780,001	14,236,489
Reserves	12	266,295	-
Accumulated Losses		(2,864,202)	(1,648,511)
TOTAL EQUITY		16,182,094	12,587,978

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2006

	Contributed Equity	*Accumulated Losses*	*Share-based Payments Reserve*	*Total equity*
	$	*$*	*$*	*$*
At 1 July 2004	12,314,760	(1,505,714)	-	10,809,046
Loss for the period	-	(142,797)	-	(142,797)
Total recognised income and expense for the year	-	(142,797)	-	(142,797)
Issue of share capital	1,549,131	-	-	1,549,131
Exercise of options	426,154	-	-	426,154
Share issue costs	(53,556)	-	-	(53,556)
At 30 June 2005	14,236,489	(1,648,511)	-	12,587,978
Loss for the period	-	(1,215,691)	-	(1,025,080)
Total recognised income and expense for the year	-	(1,215,691)	-	(1,025,080)
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

STATEMENT OF CASH FLOWS

For the year ended 30 June 2006	Note	2006 $	2005 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments for exploration and evaluation		(3,040,170)	(3,843,885)
Payments to suppliers and employees		(868,218)	(533,706)
Interest received		64,605	125,728
Deposits paid		-	(34,000)
Tenement rentals refund received		-	96,266
R&D Tax refund received		327,938	300,493
Export marketing development grant received		11,911	-
Goods and services tax (paid)/received		-	(5,325)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	21	(3,503,934)	(3,894,429)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on sale of plant and equipment		-	1,500
Payment for plant and equipment		(16,350)	(23,131)
Payment for pastoral lease – Coburn Station		-	(484,676)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(16,350)	(506,307)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of shares		4,734,404	1,975,285
Payment of share issue costs		(190,892)	(42,556)
NET CASH FLOWS FROM FINANCING ACTIVITIES		4,543,512	1,932,729
NET INCREASE /(DECREASE) IN CASH HELD		1,023,228	(2,468,007)
Cash at the beginning of the financial year		1,044,045	3,512,052
CASH AT THE END OF THE FINANCIAL YEAR	4	2,067,273	1,044,045

(a) Basis of accounting

The financial report is a general-purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards and other mandatory professional reporting requirements. The financial report has been prepared on a historical cost basis.

(b) Statement of compliance

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

This is the first financial report prepared based on AIFRS and comparatives for the year ended 30 June 2006 have been re-stated accordingly. Further information about the impact of AIFRS on the balances reported in the 30 June 2006 financial report is detailed in Note 25.

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2006.

AASB amendment	Affected standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for group
2004 – 3	AASB 1 First-time Adoption of AIFRS, AASB 101 Presentation of Financial Statements, AASB 124 Related Party Disclosures	No change to accounting policy required. Therefore no impact.	01.01.06	01.07.06
2005 – 1	AASB 139 “Financial Instruments: Recognition and Measurement”	No change to accounting policy required. Therefore no impact.	01.01.06	01.07.06
2005 – 4	AASB 1 “First Time Adoption of AIFRS” AASB 139 “Financial Instruments: Recognition and Measurement”	No change to accounting policy required. Therefore no impact.	01.01.06	01.07.06
2005 – 5	AASB 1 “First Time Adoption of AIFRS” AASB 139 “Financial Instruments: Recognition and Measurement”	No change to accounting policy required. Therefore no impact.	01.01.06	01.07.06
2005 – 6	AASB 3 “Business Combinations”	No change to accounting policy required. Therefore no impact.	01.01.06	01.07.06
2005 – 10	AASB 132 “Financial Instruments: Disclosure and Presentation” AASB 101 “Presentation of Financial Statements” AASB114 “Segment Reporting” AASB 117 “Leases” AASB 133 “Earnings Per Share” AASB 139 “Financial Instruments: Recognition and Measurement” AASB 1 “First Time Adoption of AIFRS” AASB 4 “Insurance Contracts” AASB 1023 “General Insurance Contracts” AASB 1038 “Life Insurance Contracts”	No change to accounting policy required. Therefore no impact.	01.01.07	01.07.07
New standard	AASB 7 “Financial Instruments: Disclosures”	No change to accounting policy required. Therefore no impact.	01.01.07	01.07.07

* Application date is for the annual reporting periods beginning on or after the date shown in the above table.

(b) Statement of compliance (continued)

AASB amendment	Affected standard(s)
New Standard	AASB 119 Employee Benefits (Revised Dec 04) – Accounting policy options contained within the revised standard affect accounting for defined benefit schemes only. As Gunson does not have or does not contribute to a defined benefit scheme, there is no impact of this change.
2005 – 2	AASB 1023 General Insurance Contracts
2005 – 4	AASB 132 Financial Instruments – Disclosure and Presentation, AASB 1023 General Insurance Contracts and AASB 1028 Life Insurance Contracts
2005 – 9	AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts, AASB 139 Financial Instruments – Recognition and Measurement and AASB 132 Financial Instruments – Disclosure and Presentation
2005 – 12	AASB 1038 Life Insurance Contracts and AASB 1023 General Insurance Contracts
2005 – 13	AAS 25 Financial Reporting by Superannuation Plans

(c) Exploration and Evaluation 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.

The Company has capitalised expenditure in relation to the Coburn Mineral Sand Project of $10,440,218. The approvals process for this project is moving forward with full permitting targeted for mid November 2006. The Company commissioned a Definitive Feasibility Study (DFS) in March 2006, which is approximately 80% complete, the target date for completion being mid October. The completion of off take contracts and financing arrangements are currently being targeted to coincide with the receipt of the final approvals so work can commence on the construction immediately. The recoverability of the capitalised expenditure is subject to successful fund raising of a sufficient amount in order to commercialise the Project.

(d) Property, Plant & 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 and amortisation

Items of property, plant and equipment are depreciated/amortised 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 20% - 40%

Assets are depreciated or amortised 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.

(e) 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.

(f) 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.

(g) 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.

(h) Employee Benefits

i. *Wages and salaries, annual leave and sick leave*
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in *other creditors* (see Note 22) 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.

(i) 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.

(j) 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.

(k) 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.

(l) Share based payments
The consolidated entity may provide benefits to employees (including directors) in the form of share-based payments, whereby employees render services in exchange for shares or 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.

(m) 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.

(n) 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.

(o) Earnings Per Share

- ***Basic earnings per share*** Basic earnings per share is determined by dividing net profit 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.

(p) Comparative Figures

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

(q) 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:

  <u>Capitalisation of exploration and evaluation expenditure</u> 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 1(c).

- ***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:

  <u>Impairment of property, plant and equipment</u> 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 consolidated entity measures the cost of equity-settled transactions with 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.

		2006 $	2005 $
2.	**Revenue and Expenses**		
(a)	**Revenue**		
	Interest received	64,245	127,727
(b)	**Other Income**		
	Gain on disposal of assets	-	567
	Export marketing development grant	11,911	-
		11,911	567
(c)	**Depreciation**		
	Included in administrative expenses:		
	Plant and equipment	37,015	23,900
(d)	**Employee and directors' benefits expenses**		
	Included in administrative expenses		
	Share-based payment	266,295	-
	Other	229,170	212,381
		495,465	212,381
(e)	**Operating lease payments**		
	Included in administrative expenses:		
	Minimum lease payments	70,682	46,803

2006	2005
$	$

3. Income Tax

The major components of income tax expense are:		
Income Statement		
Current income tax:		
Current income tax benefit	(1,277,509)	(1,167,756)
Deferred income tax		
Relating to origination and reversal of temporary differences	878,006	1,108,640
Deferred tax assets not brought to account as realisation is not considered probable	399,503	59,116
Income tax expense reported in the income statement	-	-

The weighted average effective tax rate is nil % (2005: nil %)

A reconciliation between tax expense and the product of accounting loss before income tax multiplied by the Company's applicable income tax rate is as follows:

Accounting loss before income tax	(1,543,629)	(443,290)
At the Group's statutory income tax rate of 30% (2005: 30%)	(463,089)	(133,152)
Expenditure not allowable for income tax purposes	22,799	120
Capital raising expenditure	(16,397)	(16,397)
Deferred tax assets not brought to account as realisation is not considered probable	469,491	149,429
	-	-

	Balance Sheet		*Income Statement*	
	2006	*2005*	*2006*	*2005*
	$'000s	*$'000s*	*$'000s*	*$'000s*
Deferred income tax				
Deferred income tax at 30 June relates to the following:				
Deferred tax liabilities				
Capitalised exploration and evaluation expenditure	(3,529,985)	(2,586,113)	943,872	1,111,547
Payables	(1,234)	-	(1,234)	-
	(3,531,219)	(2,586,113)		
Deferred tax assets				
Tax losses available to offset against future income	3,977,844	3,028,272	-	-
Other	115,599	65,047	(65,866)	(2,907)
Deferred tax assets not brought to account as realisation is not considered probable	(562,224)	(507,206)		
Gross deferred income tax assets	3,531,219	2,586,113		
Deferred tax income			878,006	1,108,640

It is considered that it is not probable that the Company will utilise all its carry forward tax losses in the foreseeable 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.

At 30 June 2006, Gunson Resources Limited has tax losses arising in Australia of $13,259,479 (2005: $9,001,112) 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 consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation; and

(iii) no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

		2006 $	2005 $
4.	**Cash and Cash Equivalents**		
	Cash at bank	1,440,684	244,045
	Cash on deposit	626,589	800,000
		2,067,273	1,044,045
5.	**Trade and Other Receivables**		
	Goods and services tax refund	178,281	82,152
	Other receivables	63,203	65,137
		241,484	147,289
6.	**Deferred Exploration and Evaluation Costs**		
	Exploration costs brought forward	11,193,977	7,488,822
	Expenditure incurred on exploration	3,558,654	3,711,615
	Exploration costs written off	(412,414)	(6,460)
		14,340,217	11,193,977

Amortisation of Exploration and Evaluation Costs

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.

		2006 $	2005 $
7.	**Plant and Equipment**		
	Plant and equipment, at cost	121,830	105,480
	Accumulated depreciation	(87,228)	(50,213)
	Total written down value	34,602	55,267
	Movements in Carrying Amounts		
	Plant and Equipment		
	Balance at the beginning of the year	55,267	49,786
	Additions	16,350	32,381
	Disposals	-	(3,000)
	Depreciation expense	(37,015)	(23,900)
	Carrying amount at the end of year	34,602	55,267
8.	**Other**		
	Pastoral Lease – Coburn Station	484,676	484,676
9.	**Trade and Other Payables**		
	Trade creditors	464,852	86,297
	Other creditors and accruals	493,071	246,294

	957,923	332,591

Accounts payable are all payable in Australian dollars and non interest bearing and normally settled on 30 day terms.

		2006 $	2005 $
10.	**Provisions**		
	Employee entitlements	51,700	26,231
11.	**Contributed Equity**		
(a)	**Issued and Paid Up Capital**		
	89,289,786 (2005: 72,388,965) ordinary shares fully paid	18,780,001	14,236,489

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

	2006		2005	
	Number of Shares	**$**	**Number of Shares**	**$**
Movements in shares on issue				
Opening Balance	72,388,965	14,236,489	64,300,000	12,314,760
Share placement issued at 22 cents per share on 23 March 2005	-	-	5,260,000	1,367,600
Exercise of options at 20 cents per option on 23 March 2005	-	-	200,000	40,000
Share purchase plan issued at 26 cents per share on 27 April 2005	-	-	698,195	181,531
Exercise of "A" Class options at 20 cents per option on 27 April, 6 May and 12 May 2005	-	-	1,930,770	386,154
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	-	-
Less: share issue expenses	-	(190,892)	-	(53,556)
	89,289,786	18,780,001	72,388,965	14,236,489

11. Contributed Equity (continued)

(c) Share Options

The Company has on issue at year end 3,700,000 (2005: 1,300,000) options over unissued shares. During the year 1,000,000 options were converted into shares (2005: 1,930,770) and 200,000 options expired.

No. of options	
100,000	Other options issued – Exercise price 20 cents Exercise period 16/12/02 – 16/12/07
1,800,000	Other options issued – Exercise price 30 cents Exercise period 1/12/05 – 30/11/10
1,800,000	Other options issued – Exercise price 35 cents Exercise period 1/12/05 – 30/11/10
3,700,000	

(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.

12. Share-based Payments Reserve

This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration.

13. Director and Executive Disclosures

(a) Details of Key Management Personnel

The directors of Gunson Resources Limited during the financial period 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 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.

13. Director and Executive Disclosures (continued)

- ***Remuneration by category***

	2006 $	2005 $
Key Management Personnel		
Short-term	270,000	220,166
Post-employment	24,906	19,815
Share-based payment	140,155	-
	435,061	239,981

- ***Equity Instruments***

Options granted as remuneration to key management personnel.

Year ended 30 June 2006

Key Management Personnel	**Number of options granted during the year**	**Number of options vested during the year**
W H Cunningham (Chairman)	-	-
D N Harley (Managing Director)	2,000,000	-
P C Harley (Non-Executive Director)	-	-

Year ended 30 June 2005

Key Management Personnel	**Number of options granted during the year**	**Number of options vested during the year**
W H Cunningham (Chairman)	-	250,000
D N Harley (Managing Director)	-	5,000,000
P C Harley (Non-Executive Director)	-	1,000,000

(c) Option Holdings of Key Management Personnel - 2006

	Held at 1 July 2005	**Granted as remuner-ation**	**Exercised**	**Sold**	**Lapsed**	**Held at 30 June 2006**	**Vested and exercisable at the end of the year**
William H Cunningham (Chairman)	-	-	-	-	-	-	-
David N Harley (Managing Director)	-	2,000,000	-	-	-	2,000,000	-
Peter C Harley (Non- Executive Director)	-	-	-	-	-	-	-

13. Director and Executive Disclosures (continued)

2005

	Held at 1 July 2004	Granted as remuner-ation	Exercised	Sold	Lapsed	Held at 30 June 2005	Vested and exercisable at the end of the year
William H Cunningham (Chairman)	250,000	-	25,000	-	225,000	-	-
David N Harley (Managing Director)	5,000,000		1,180,770	625,000	3,194,230	-	-
Peter C Harley (Non- Executive Director)	1,000,000	-	100,000	-	900,000	-	-

(d) Share Holdings of Key Management Personnel

2006

	Held at 1 July 2005	Granted as remuner-ation	Received on exercise of options	Other	Held at 30 June 2006
William H Cunningham (Chairman)	244,230	-	-	-	244,230
David N Harley (Managing Director)	2,000,000	-	-	-	2,000,000
Peter C Harley (Non- Executive Director)	261,230	-	-	-	261,230

2005

	Held at 1 July 2004	Granted as remuner-ation	Received on exercise of options	Other	Held at 30 June 2005
William H Cunningham (Chairman)	200,000	-	25,000	19,230	244,230
David N Harley (Managing Director)	800,000	-	1,180,770	19,230	2,000,000
Peter C Harley (Non- Executive Director)	142,000	-	100,00	19,230	261,230

All equity transactions with key management personnel, other than those arising from the exercise of remuneration options, have been entered into under terms and conditions no more favourable that those the Company would have adopted if dealing at arm's length.

(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.

14. Auditors Remuneration

	2006 $	2005 $
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	27,139	16,567
- other services	2,310	3,930
	29,449	20,497

15. Significant Events After Balance Date

On 8th September, 2006, the Company announced that it had successfully completed a placement of 8.3 million ordinary shares at 28 cents per share, raising $2,324,000. Funds raised in the placement are to be used to further advance the Coburn mineral sand project and for general working capital purposes. The large New York based resource fund, Ospraie, took up 6 million shares in this placement and on 12th September, Ospraie announced that they had become a substantial shareholder in the Company, with a 10.06% interest.

16. Loss Per Share

	2006 $	2005 $
Basic loss per share (cents)	(0.22)	(0.22)
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	80,517,380	66,149,841
Earnings used in the calculation of basic loss per share	(1,025,080)	(142,797)

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.

17. Segment Information

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

18. Related Party Transactions

Other than disclosed in note 13 there were no related party transactions during the financial year.

19. Expenditure Commitments

The following tables summarise the Company's exploration expenditure commitments on granted tenements for the financial year 2006/2007 and beyond.

(a) Coburn

Tenement	Date Granted	Annual Covenant $
EL 09/939	18 June 1999	50,000
EL 09/940	18 June1999	50,000
EL 09/941	18 June1999	57,600
EL 09/996	18 July 2000	39,208
ML 09/102	25 October 2004	99,700
ML 09/103	25 October 2004	99,800
ML 09/104	25 October 2004	99,800
ML 09/105	25 October 2004	99,900
ML 09/106	25 October 2004	99,900
ML 09/111	14 July 2005	99,900
ML 09/112	14 July 2005	99,000
	Total	**$894,808**

19. Expenditure Commitments (continued)

The remaining four exploration licence applications at Coburn are still pending and likely to be so for some time.

(b) ***Mount Gunson*** The four exploration licences at Mount Gunson are the subject of an agreement with the South Australian Department of Primary Industry and Resources under which the Company must spend a minimum of $500,000 on exploration in the 2006/2007 financial year. Expenditure during and after this time will depend on the area retained under exploration licences but for the time being all expenditure on this project is being met by Noranda Pacific Pty Ltd, now a wholly owned subsidiary of Xstrata plc. From 15th June 2006, Noranda Pacific has the right to earn 51% of the Project by spending $3.5 million in 3 years. Noranda Pacific will not earn any equity if it fails to meet this expenditure target in the required time frame, but may withdraw at any time.

(c) ***Tennant Creek*** The Company has two granted exploration licences, ELs 23944 and 23947, granted on 5 February 2004 and 13 May 2004 respectively. These tenements have a combined annual expenditure covenant of $67,500.

(d) ***Fowler's Bay*** This project comprises a single exploration licence, 3259, which has an annual covenant of $120,000.

(e) ***Burkin*** Like Fowler's Bay, this project comprises a single exploration licence, which has an annual covenant of $65,000.

(f) ***Consolidated Expenditure Commitment on Granted Tenements*** In order to retain the rights of tenure to its granted tenements, the Company is required to meet the minimum statutory expenditure requirements outlined above but may reduce these at any time by reducing the size of the tenements. The figures quoted below assume that no new tenements are granted and that only compulsory statutory area reductions are made.

	$
Not later than 1 year	1,147,308
Later than 1 year but not later than 2 years	1,147,308
Later than 2 years but not later than 5 years	3,441,924
TOTAL	5,736,540

(g) ***Operating Lease – Company Office*** The lease of the Company's office at 33 Richardson Street, West Perth was extended with some additional space into a second three year period effective 1st July 2005. Monthly rent for the extended lease is $5,810 excluding GST.

20. 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:

20. Financial Instruments Disclosure (continued)

30 June 2006	Weighted average interest rate	Floating interest $	Fixed interest maturing in less than 1yr period $	Non-interest bearing $	Total $
Financial Assets					
Cash	4.7%	1,440,684	626,589	-	2,067,273
Financial Liabilities		-	-	-	-

30 June 2005	Weighted average interest rate	Floating interest $	Fixed interest maturing in less than 1 period $	Non-interest bearing $	Totals $
Financial Assets					
Cash	4.7%	244,045	800,000	-	1,044,045
Financial Liabilities	-	-	-	-	-

- ***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 1.

21. Cash Flow Information

	2006 $	2005 $
Reconciliation of loss after tax to the net cash flows from operations.		
Loss after income tax	(1,215,691)	(142,797)
Non cash items		
Depreciation	37,015	23,900
Exploration costs written off	412,414	6,460
Profit on sale of asset	-	(567)
Share-based payment	266,295	-
Changes in assets and liabilities		
Decrease/(Increase) in receivables	(94,195)	62,930
Increase in prepayments	(1,919)	(21,546
Exploration Costs Capitalised	(3,558,654)	(3,711,615)
Increase/(decrease) in trade creditors and accruals	625,332	(107,373)
Increase/(decrease) in provisions	25,469	(3,821)
Net cash flow used in operating activities	(3,503,934)	(3,894,429)

Financing facilities available
As at 30 June 2006 the Company had no financing facilities available.

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

22. Employee Benefits

	Note	2006	2005

Aggregate liability for employee benefits including on-costs		$	$
Current			
Other creditors and accruals	9	45,674	44,153
Employee entitlements provision	10	51,700	26,231

24. 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 2007 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 2006.

25. Impact of Adopting Australian Equivalents to IFRS

For all periods up to and including the year ended 30 June 2005, the Company prepared its financial statements in accordance with Australian generally accepted accounting practice (AGAAP). The financial statements for the year ended 30 June 2006 are the first that the Company is required to prepare in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

Accordingly, the Company has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 July 2005. The significant accounting policies meeting those requirements are described in Note 1. In preparing these financial statements, the Company has started from an opening balance sheet as at 1 July 2004, the Company's date of transition to AIFRS, and made those changes in accounting policies required by AASB 1 *First-time adoption of AIFRS*. Other than formatting changes to disclosure, no adjustments were required by the Company in re-stating its AGAAP balance sheet as at 1 June 2004 from its previously published AGAAP financial statements for the year ended 30 June 2005.

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

- Reconciliation of profit for the half year ended 31 December 2004

	Previous AGAAP $	Effect of transition to AIFRS $	AIFRS $
Revenue	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
Profit/Loss			
Before income tax	(191,661)	-	(191,661)
Income Tax Expense	300,493	-	300,493
Net Profit/(Loss)			
For the half year	108,832	-	108,832
Net Profit/(Loss)			
Attributable to members	108,832	-	108,832

25. Impact of Adopting Australian Equivalents to IFRS (continued)

- Reconciliation of profit for the year ended 30 June 2005

	Previous AGAAP	Effect of transition to AIFRS	AIFRS
	$	$	$
Revenue	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
Profit/Loss			
Before income tax	(443,290)	-	(443,290)
Income Tax Expense	300,493	-	300,493
Net Profit/(Loss)			
For the half year	(142,797)	-	(142,797)
Net Profit/(Loss)			
Attributable to members	(142,797)	-	(142,797)

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

	30 June 2005	31 December 2004	1 July 2004
	$	$	$
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)

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

	30 June 2005	31 December 2004	1 July 2004
	$	$	$
Total equity under AGAAP	14,236,553	12,314,760	12,314,760
Changes	-	-	-
Total retained earnings (accumulated losses) under AIFRS	14,236,553	12,314,760	12,314,760

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 2006 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) 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 period ending 30 June 2006

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

D N Harley
Managing Director

28th September 2006
Perth, Western Australia

Chartered Accountants
& Advisers

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28 September 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 LIMITED

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.

Yours faithfully
BDO
Chartered Accountants

B. McVeigh

BG McVeigh
Partner

BDO

Chartered Accountants
& Advisers

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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF GUNSON RESOURCES LIMITED

Scope

The Financial Report and Directors' Responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for Gunson Resources Limited (the company), for the year ended 30 June 2006.

As permitted by the Corporations Regulations 2001, the company has disclosed information about the compensation of key management personnel ("compensation disclosures"), as required by Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "Remuneration Report" in pages 2 to 5 of the directors' report and not in the financial report.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the preparation and presentation of the compensation disclosures contained in the directors' report in accordance with the Corporations Regulations 2001.

Audit Approach

We have conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and that the compensation disclosures in the directors' report comply with Accounting Standard AASB 124. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the compensation disclosures in the directors' report comply with Accounting Standard AASB 124.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and the compensation disclosures in the directors' report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

The independence declaration given to the directors in accordance with section 307C would be in the same terms if it had been given at the date of this report.

Audit Opinion

In our opinion, the financial report of Gunson Resources Limited is in accordance with:

(a) the Corporations Act 2001, including:

(i) giving a true and fair view of the company's financial position as at 30 June 2006 and of its performance for the year ended on that date; and

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

(b) other mandatory financial reporting requirements in Australia; and

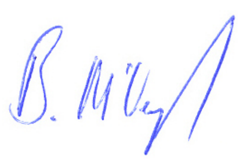
(2) the compensation disclosures that are contained in pages 2 to 5 of the directors' report comply with Accounting Standard AASB 124.

Inherent Uncertainty Regarding Recoverability of Capitalised Exploration Expenditure.

Without qualification to the opinion expressed above, attention is drawn to the following matter:

As indicated in Note 1 to the financial statements, Gunson Resources Limited has capitalised the exploration expenditure in relation to the Coburn Mineral Sand project at 30 June 2006 with a carrying value of $10,440,218. This amount is recoverable based upon Gunson Resources Limited being able to successfully raise the required funds to successfully exploit the project

BDO
Chartered Accountants



BG McVeigh
Partner

Perth, Western Australia
Dated this 28th day of September 2006