Gunson Resources Limited

Annual Report 2008

ABN 32 090 603 642

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Drilling of MGD 47 at Mount Gunson, February 2008

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Highlights

- Coburn Zircon Project JORC – compliant ore reserves increased by two and a half times, increasing the mine life from 7 to 17.5 years, all on the area of the Project that has government environmental approval for mining.
- Metallurgical test work has resulted in significant improvements to the product quality and flow sheet of the Coburn Project.
- Considerable effort was focused in assisting Chinese company CTIEC to produce its fixed price "turnkey" engineering proposal for construction of the Coburn Project, in accordance with the MOUs signed in 2007.
- CTIEC's proposal was received on 1st August 2008 and they were advised that the price was too high. A plan to resolve the pricing issue by mid November 2008 was discussed and agreed.
- Respected Beijing based merchant bank The Balloch Group, headed by former Canadian ambassador to China, Howard Balloch, mandated to assist Gunson in its dealings in China. This has had a very positive effect.
- Demand for zircon in China and elsewhere remains strong and marketing consultants TZMI observed in September 2008 that global supply is "very tight".
- A feasibility study has commenced on the shallowest of the Company's inventory of copper deposits at Mount Gunson, MG14, with the aim of producing some 10,000 tonnes of copper metal per annum.
- Two exciting airborne TEM geophysical anomalies in a favourable geological setting for nickel sulphide deposits revealed at the Fowler's Bay Project in South Australia.

Chairman's Report

Dear Shareholder,

On behalf of the Board, it is my pleasure to present our ninth annual report.

Overview:

As I write this review, the global business world is facing economic challenges not experienced in our lifetime. However, with challenges come opportunities. There is an immediate need for cool heads and steadfastness of purpose in order for businesses in our industry to survive, before consideration of those new opportunities that will inevitably arise.

Gunson Resources has maintained its long-held strategy of focusing all its exploration efforts in Australia to avoid sovereign risk, whilst searching for a range of minerals with different geological settings, in order to spread the exploration and marketing risks. The Company has always worked within its financial capabilities and endeavoured to give shareholders value for their investment in what has to be recognised as high-risk grass roots exploration. Your Board does its utmost to limit those risks, as described above. To convert hope into reality in exploration requires patience, persistence and technological excellence, together with trust and transparency.

Before reviewing our individual exploration and development projects, I must add my voice to the chorus of mining industry executives pleading to the new Western Australian Government to dramatically reduce the complexity of the approvals process and to change the culture within the Public Service to a supportive "can do" approach. A good test of any regulation would be "is it really adding to the common good?" So too should the Federal Government look at Aboriginal Land Rights legislation, in particular the power of the Land Councils, to ensure proper checks and balances are in place to enable the best outcomes for all stakeholders.

Coburn Zircon Project:

Overall exploration expenditure by the Company was $2.3 million in 2007/08, down from $5.1 million the previous year, due to Coburn Zircon Project moving from the exploration and engineering design phase into a joint venture negotiation phase. This year saw the ore reserve increase from 124 million tonnes at 1.3% heavy mineral to 306 million tonnes at 1.2%. Also, big improvements were made in the quality of heavy mineral concentrate through ongoing metallurgical testwork, together with major efficiencies in process design, which will facilitate the separation and production of a good quality saleable ilmenite product at Coburn, with the non-magnetic concentrate being shipped to a mineral separation plant ("MSP") in China. Our testwork on the flow sheet for the MSP has also given a good quality final zircon product which will be competitive in the international market.

We have received widespread acclaim for our joint venture business model. This involves a major Chinese company as an investor in the Project, using their engineering arm to design and build both the processing facilities in Australia and the MSP in China at their industrial park, together with consuming a significant proportion of the zircon end-product in their subsidiary ceramics facilities on the same site. However it has taken much longer than expected to complete the engineering costing, and we are now in extended negotiations with this group, CTIEC, over the costs they

Chairman's Report

presented. We have recently engaged Beijing-based investment bank, The Balloch Group, to assist us in our negotiations in China for a satisfactory joint venture outcome, be it with CTIEC or another group.

As for the future zircon market, we can expect strong demand supported by interesting new growth areas in auto rust prevention and in the nuclear power industry. To quote respected marketing consultant TZMI's September Mineral Sands Report on the zircon market, "TZMI estimates that demand is growing at a good pace when measured year-on-year, with ceramics, foundry and zirconia end uses all performing well". And in a later quote "Indeed, (demand) is so strong that it is significantly outstripping the capability of the global zircon supply side."

We have spent nine years and nearly $17 million bringing Coburn Zircon Project to the point where it is ready to construct. In these very uncertain times, we have the right mineral targeted at the right market, offering security of supply to a resource-hungry China. It requires the appropriate joint venture agreement to proceed to construction.

Mount Gunson Copper Project:

Xstrata Copper's subsidiary, Noranda Pacific Pty Ltd, continued with the joint venture funding of exploration for copper-gold deposits in basement rocks and has now spent $2.1 million, with a further $1.4 million total expenditure required by June 2009 in order for them to earn an interest in the Project. Considerable geophysical work was done during the year to better define drill targets. Three gravity anomalies were defined as priority targets but only one was drilled, without success, at Emmie East, as the other two require prior aboriginal heritage clearance. Induced polarisation and transient electromagnetic geophysical surveys at the Chianti Prospect gave rise to coincident

Drilling at MG 14 Prospect - Mount Gunson, July 2008

Chairman's Report

anomalous drilling targets and two holes were drilled. However, the anomalies were shown to arise from iron oxide rather than sulphide mineralisation. The result has been a downgrading of Chianti and Emmie East Prospects, although much remains to be tested. Xstrata Copper are currently reviewing their exploration priorities in Australia and are expected to make a decision about their future involvement in this Project before the end of 2008.

In April, we decided to review the shorter term opportunities provided by our inventory of small, shallow cover sequence deposits, and entered into agreement with Mines Trust to conduct a feasibility study on our MG 14 deposit, which has useful values of cobalt and silver, in addition to copper. Mines Trust is an unlisted company, with a successful record in recovery of copper from low grade mine stockpiles. Drill core has been recovered and is undergoing metallurgical testing. If a viable route to marketable end-products is achieved, the experience at MG 14 can be readily transferred to the nearby and much bigger Windabout deposit. Power, water, roads, and accommodation are all available in the vicinity, which will greatly assist with infrastructure costs. Completion of the MG 14 feasibility study is expected during the first half of 2009.

Other Exploration Projects:

Tennant Creek Copper-Gold Project has two approved exploration licences, which we plan to drill in November 2008. Four other licence applications on aboriginal land have been denied by the local people, represented by the Central Land Council. The sticking point has been inclusion of uranium as a potential by-product in the copper deposits being sought, which is a very sad state of affairs, with the local people and the nation being the potential losers.

Access track to Amy Zone from Coburn Homestead

Chairman's Report

Fowler's Bay Nickel Project has benefited from an airborne geophysical survey, which has given rise to two promising nickel sulphide targets. These will be the subject of ground geophysical surveys as soon as access is granted, which should be within 2008.

Finally, we have the Burkin Nickel Project, which was the subject of a detailed aeromagnetic survey in December 2007. Interpretation of the aeromagnetic data has led to sites being chosen for a first pass drilling program.

Acknowledgements;

On behalf of the shareholders, my thanks to David Harley and his competent team, for another year of tireless devotion to the tasks at hand. Finally, to you the shareholders, thank you for your continued loyalty through these difficult times.

Bill Cunningham

Chairman

3 October, 2008

Wildflowers, Coburn

Review of Operations

Exploration expenditure by the Company in the 2007/2008 financial year was $2.3 million, considerably less than last year's net expenditure of $5.1 million. The decrease was due to the completion of most of the expensive engineering design and costing work for the Coburn Zircon Development Project definitive feasibility study in 2006/2007.

Including farm-in expenditure by Noranda Pacific Pty Ltd (Noranda) on the Mount Gunson Copper Project, overall expenditure in 2007/2008 was $3.5 million, about 51% of which was spent on the Coburn Project. Excluding the Noranda expenditure, Coburn's share of net exploration costs was 78%.

In 2008/2009, the proportion of the net exploration budget allocated to Coburn further decreased to 46%, as the exploration work required to bring this Project to a development decision is essentially complete. Consequently, Gunson's expenditure on its copper and nickel exploration projects in proportion to Coburn will increase in 2008/2009.

The location of Gunson's projects is shown in Figure 1 below.

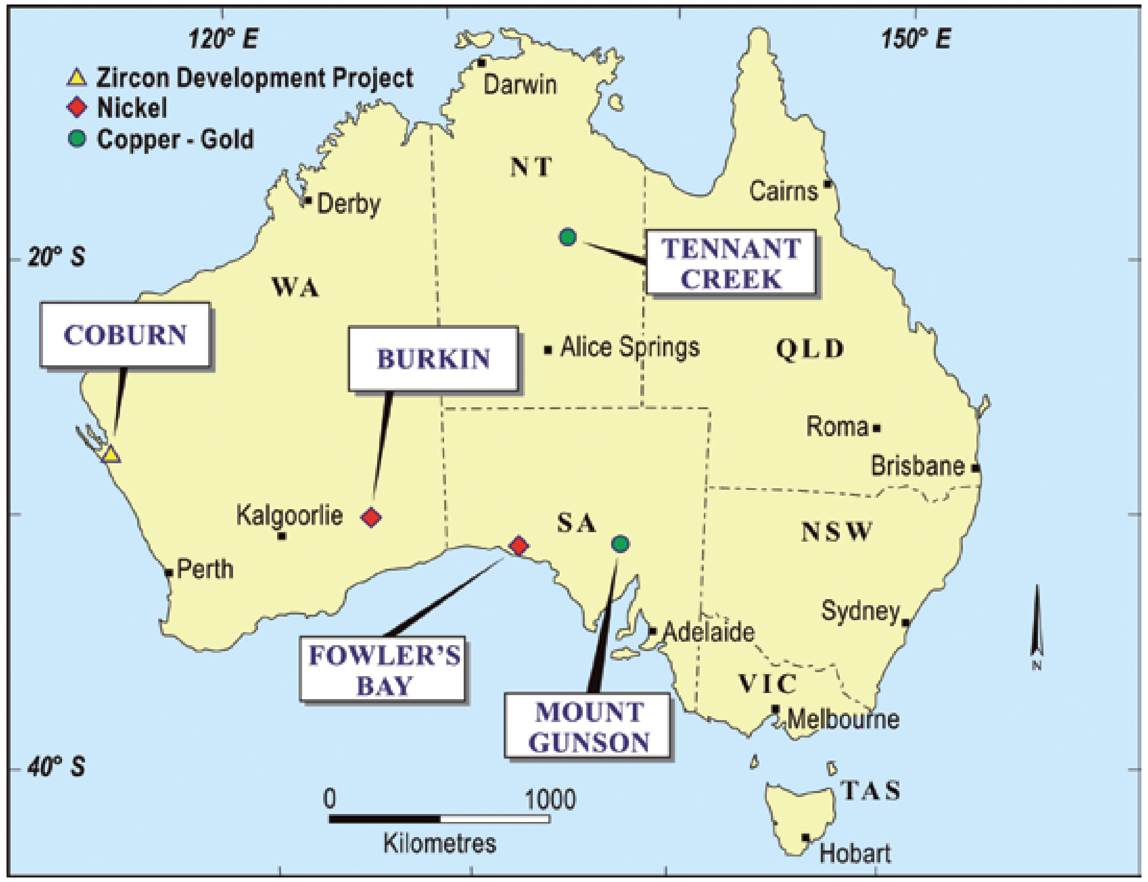


Figure 1 Project Location Map

Review of Operations

COBURN ZIRCON DEVELOPMENT PROJECT, WESTERN AUSTRALIA (100% GUNSON)

1 INTRODUCTION

Expenditure on the Coburn Project decreased in early 2008, as discussions with potential investor China Triumph International Engineering Company (CTIEC), which began in mid 2007, continued at a slower pace than anticipated in the two Memoranda of Understanding (MOUs) announced in July and October 2007 respectively. A key feature of the MOUs was that CTIEC would be the general engineering contractor for construction of the Project on a fixed price, "turnkey" basis.

CTIEC's engineering proposal was eventually received on 1st August 2008. They were advised in mid August that their price was far too high and a price target was provided to them in order to progress the negotiations. At a meeting with CTIEC's Executive Chairman in Shanghai in late September 2008, a plan to resolve the pricing issue was discussed and agreed.

Total expenditure on Coburn from its inception in 1999 to end of September 2008 is approximately $17 million, including $484,676 for purchasing the Coburn pastoral lease in 2005. A histogram showing the annual expenditure over this 9 year period is shown as Figure 2.

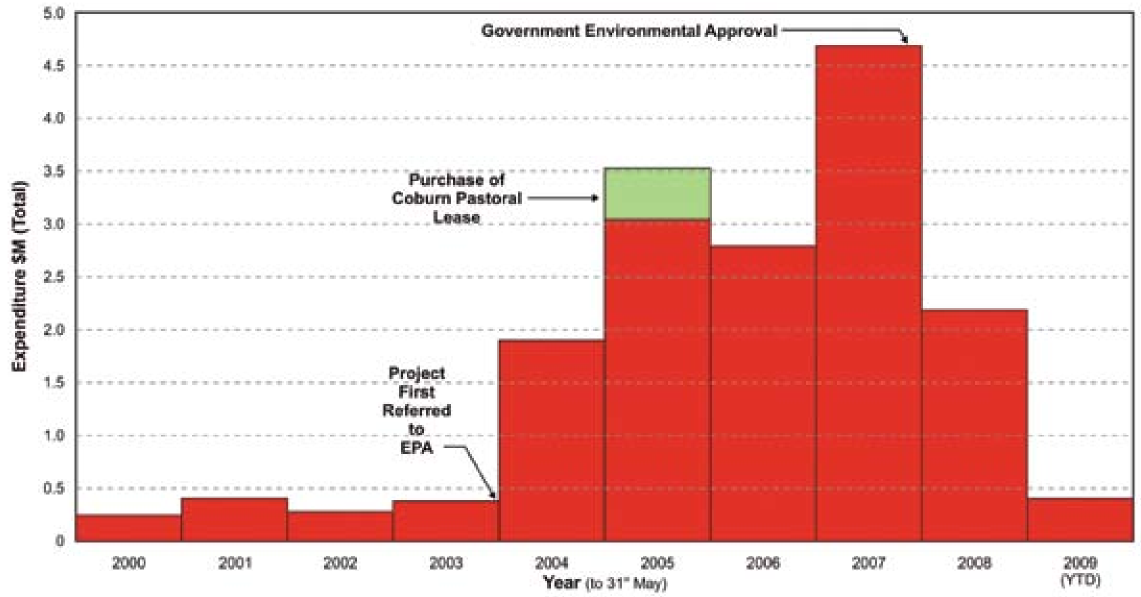


Figure 2 Coburn Project Expenditure 2000 - September 2008

2 BACKGROUND

Coburn is located 250 kilometres north of the regional centre and port of Geraldton in Western Australia (Figure 3), immediately south of Shark Bay and just outside the eastern boundary of the Shark Bay World Heritage Property.

The core asset of the Coburn Project is the Amy Zone deposit, discovered by Gunson in 2000 (Figure 4). Amy Zone is hosted mainly in unconsolidated sand dunes with a very low slime content and is approximately 35 kilometres long by up to 3 kilometres wide. In April 2008, the Company

Figure 3 - Regional Setting of the Coburn Project

announced new resource figures based on the results of the 2007 and earlier drilling programs, totalling 979 million tonnes at an average grade of 1.25% heavy minerals. Nearly three quarters of this resource lies in the area of the Project that has government approvals for mining.

The new resource contains approximately 12.3 million tonnes of heavy minerals, just over 20% of which is zircon. This resource lies close to the surface, between weakly mineralised overburden and a basement dominated by impermeable clay rich sediment.

3 ENVIRONMENTAL APPROVALS PROCESS

The Project was fully permitted for the commencement of production in March 2007, as recorded in last year's Annual Report. Since then, the approvals process has continued with the completion of a second application for a Non Substantial Change from the Public Environmental Review, a groundwater mounding management plan required prior to the commencement of mining and approval of a safety management plan.

Two of the 3 critical pre-construction approvals listed in the 2007 Annual Report, the Shark Bay Shire Council and Mining Proposal, were subject to the payment of a $20,000 fee and the lodgement of nearly $1 million in unconditional performance bonds respectively. Because the performance bonds had to be backed by a bank deposit for the same amount, the Company elected not to tie up such a large amount of money until project funding was in place. At the end of June, 2008, the

mining approval expired but officers of the WA Department of Industry and Resources advised the Company that if there are no significant changes to the original Mining Proposal 1, re-approval for this Proposal would be quick. Gunson does not anticipate any significant changes to the Mining Proposal 1 and intends to submit its Mining Proposal 2 covering the production phase of the Project before the end of 2008.

4 RESOURCES

Results from the 16,200 metre infill drilling program in the central part of Amy Zone, discussed in the 2007 Annual Report, enabled a substantial increase in the indicated resource figure, from 300 million tonnes (Mt) averaging 1.2% heavy minerals (HM) in 2007 to 599 Mt at the same grade in April 2008.

All upgraded resources lie in the area of the Project that has government environmental approval for mining. In addition to the indicated resources quoted above, an inferred resource of 261 Mt @1.4% HM has been estimated from widely spaced drilling in the northern third of the Project, which was removed from the 2005 environmental approvals process (Figure 4). Nevertheless, Gunson holds title to this part of the deposit and intends to submit application for environmental approval to mine this area once mining is well established to the south.

Table 1 below summarises the upgraded resource figures.

Table 1. Coburn Heavy Mineral Resources

Resource Category	Million Tonnes (Mt)	Average Grade % Heavy Mineral (HM)	Cut-off Grade % HM	Contained HM (Tonnes)
Measured	119	1.3	0.8	1.5
Indicated	599	1.2	0.8	7.2
Inferred	261	1.4	0.8	3.6
Total	979	1.26	0.8	12.3

5 ORE RESERVES

The Company's consultants, McDonald Speijers, prepared pit optimisation block models on the Measured and Indicated resources listed in Table 1 above. From these models, Gunson's geological and mining team defined a mine path (Figure 4) and compiled the Proved and Probable reserves listed in Table 2 below:

Table 2. Coburn Heavy Mineral Ore Reserves

Reserve Category	Pit No.	Ore - Million Tonnes	HM Grade (%)	Zircon (%)	Ilmenite (%)	Rutile (%)	Leucoxene (%)
Proved	A	51	1.3	24	46	5	6
Probable	B-E	255	1.2	23	48	7	4
Total		306	1.2	23	48	7	5

The valuable mineral assemblage listed in Table 2 above is expressed as a percentage of the total HM content of each ore reserve category

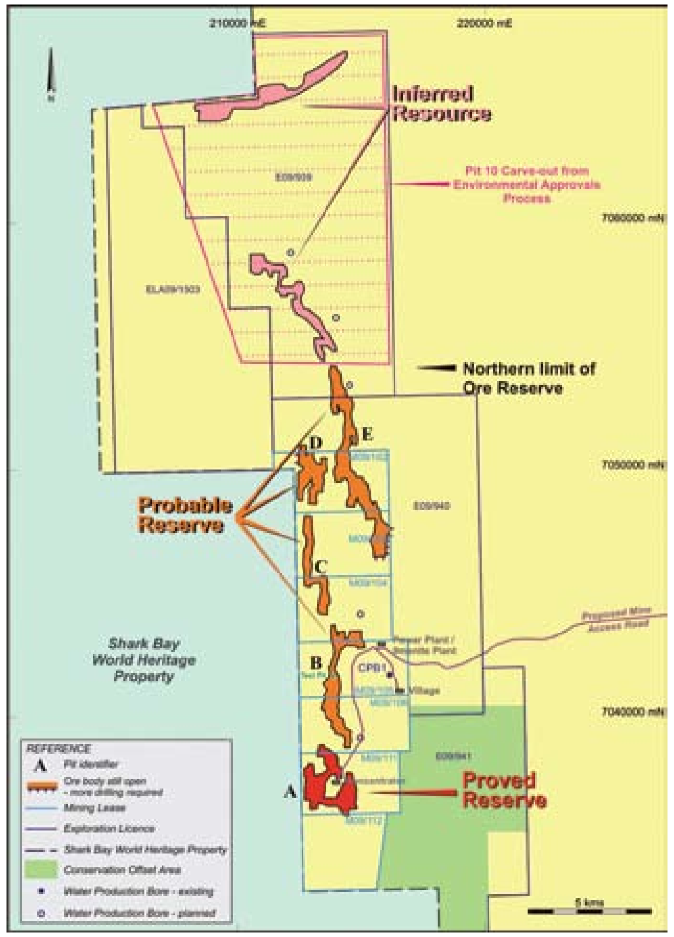


Figure 4 - Amy Zone, Coburn Project

Since the previous Annual Report, the total ore reserve has increased by two and a half times, from 124 Mt @ 1.3% HM to 306 Mt @ 1.2% HM. The clay (slime) content of the ore is very low, averaging 2.7% and the overall open pit strip ratio is 0.6 tonnes of waste per tonne of ore.

At the proposed mining rate of 17.5 Mt of ore per annum, the much larger ore reserve has increased the demonstrated life of the proposed mine from 7 years to 17.5 years. Further scope to increase the ore reserve is shown on Figure 4, where the ore in pits D and E is open to the north west and south east respectively.

6 METALLURGICAL TEST WORK

Test work during the year was focused on a 25 tonne composite bulk sample collected from the 2007 drilling program within the central Amy Zone area, now defined as open pits D and E (Figure 4).

Processing of this bulk sample at a Perth laboratory included the use of a new, environmentally benign attritioning agent which has resulted in a much cleaner heavy mineral concentrate. This attritioning agent is to be used in the secondary separation facility at the mine known as the Ilmenite Plant. The functions of the Ilmenite Plant are to produce an ilmenite product, reduce the quantity of uneconomic minerals transported from the mine site and to improve the quality of the valuable heavy minerals. As a result, the wet high intensity magnetic separator (WHIMS) previously incorporated in

the design and costing of the mine wet concentrator plant (WCP), has been removed and replaced by more efficient units incorporated within the Ilmenite Plant.

Two product streams will be trucked from the Ilmenite Plant to Geraldton port. The first is approximately 84,000 tonnes per year of ilmenite product containing 62% titanium dioxide to be sold f.o.b at Geraldton. The second is just over 81,000 tonnes per annum of non magnetic concentrate, over half of which is zircon, with only 2% uneconomic minerals. This non magnetic concentrate is to be shipped to China for processing in a custom built and Gunson controlled mineral separation plant (MSP).

Test work to optimise the flow sheet of the proposed MSP in China was very successful, resulting in considerable improvement in product quality, in particular lowering the $Ti0_2$ content of the zircon product to levels which will improve its market acceptance.

7 HEAVY MINERAL PRODUCTS

At a mining rate of 17.5 million tonnes per year over approximately 17.5 years, the average annual yield of final mineral products with some of their key specifications is shown in Table 3 below. Mineral recovery factors in the WCP, Ilmenite Plant and China MSP have been applied to the in-ground heavy mineral contents listed in Table 2 to derive the final product quantities. These recovery factors are based on test work completed over the past 6 years and are heavily influenced by customer product specifications. With less stringent specifications, product tonnages would increase but prices achieved may be lower. Nevertheless, there is scope for selling smaller quantities of low quality zircon and other minerals by retreating tailings from the China MSP.

Table 3. Estimated Annual Production from Coburn

Product	Annual Tonnage	Key Specification	U + Th (ppm)	% of Revenue
* Zircon	40,000	66% ZrO_2	400	66
+ Ilmenite	84,000	62% TiO_2	130	21
* Rutile	9,000	95% TiO_2	50	9
* Others	10,300	Various •	-	4

+ To be sold f.o.b Australia
** Shipped to China in 81,000 tones per annum of non magnetic concentrate*
• Comprises leucoxene, secondary ilmenite and kyanite.

Because the rutile price has increased appreciably during the past year, it has been decided not to produce the mixed rutile-leucoxene product HiTi, in favour of separate rutile and leucoxene products.

8 COMMODITY MARKETS

The surge in zircon production from Indonesian artisanal miners reported last year slowed dramatically in early 2008 and for this and a number of other reasons, the zircon price has recovered quickly. Respected industry consultants, TZMI, and the world's largest zircon producer, Iluka Resources Limited, are both predicting higher prices in 2009 due to a shortage of supply. Further, TZMI have noted that the global production system is run down and is in need of fresh sources of supply. They reported in September 2008 that zircon supply is "very tight".

Demand for zircon remains strong and of particular significance in this regard is the recent decision of the Toyota and Hyundai vehicle manufacturers to replace zinc with zirconium chemicals in the pre treatment of steel car body parts against rust. The main rationale for this changeover is the greatly reduced toxicity and increased effectiveness of the zirconium chemicals.

In the meantime, titanium dioxide mineral prices have also increased appreciably in 2008 and further increases are predicted for 2009.

9 PROPOSED CHINESE OFFTAKE AND INVESTMENT

- *CTIEC*

Considerable effort was made during the year to assist Chinese company CTIEC to prepare its fixed price "turnkey" engineering proposal for the Coburn Project, in accordance with the two MOUs signed in 2007.

After a lengthy delay, CTIEC finally produced its engineering proposal on 1st August 2008. The price was much higher than anticipated by Gunson and CTIEC were advised that it was unacceptable. CTIEC were given a price target which Gunson felt was realistic and a meeting with their Executive Chairman in China was held in Shanghai on 26th September, 2008. A plan to resolve the pricing issue by mid November 2008 was discussed and agreed.

- *THE BALLOCH GROUP*

As a result of the apparent difficulties with CTIEC, Beijing based investment bank The Balloch Group, TBG, led by former Canadian Ambassador to China, Howard Balloch, was mandated in September 2008 to assist Gunson in its dealings in China.

TBG has over 60 staff, with offices in 4 Chinese cities, as well as in New York and Hong Kong. It was ranked among the top 5 China-based boutique investment banks in terms of services for mergers and acquisitions and private placements in 2007. Major Canadian investment bank CIBC World Markets has a close working relationship with TBG and together they were involved in more than 40 listings or follow up offerings of Chinese companies on North American stock exchanges between 2004-7.

Gunson senior management spent the second half of September 2008 in China, mostly with TBG, and meetings with several major Chinese construction, mining and potential offtake companies were held. Strong interest was shown in an investment in the Coburn Project and with TBG's wide network, Gunson is optimistic that an investment deal with CTIEC and/or other Chinese companies can be concluded.

10 DFS (DEFINITIVE FEASIBILITY STUDY)

In last year's Annual Report, it was stated that the capital and operating costs for the Project using Australian contractors was complete. However, the Company had decided to delay announcement of the full DFS results until the cost of building the Project had been agreed.

As the CTIEC price was uncompetitive, announcement of the DFS results will be further delayed until the Project capital costs have been finalised.

TBG have suggested that other Chinese companies could participate in funding the Project and this option is being pursued.

11 CONCLUSIONS

In 2007, the signing of 2 MOUs with Chinese company CTIEC was an encouraging development for the Project. The CTIEC strategy of investing in a mine to secure future zircon supplies is a good one and its objective to design and construct the Project facilities both in Australia and China fitted well with this strategy. The business model of shipping the zircon rich non magnetic concentrate from Coburn to China for separation in a Gunson controlled MSP has been commended by potential consumers and investors alike. The Company intends to pursue this model in 2008/2009 with CTIEC but with TBG's assistance, to develop complimentary or alternative funding arrangements.

Recent positive developments in the zircon and titanium dioxide mineral markets, coupled with the significant reduction in the US to Australian dollar exchange rate have increased market interest in the Coburn Project, after a very severe downturn in the mineral sand sector in 2007/2008.

MOUNT GUNSON COPPER PROJECT, SOUTH AUSTRALIA (100% GUNSON)

1. INTRODUCTION

The Mount Gunson Project lies in the centre of the best endowed copper belt in Australia, named the Olympic Copper-Gold Province, after the world class Olympic Dam copper-uranium-gold mine some 100 kilometres to the north of Mount Gunson (Figure 5).

Figure 5 - South Australian Copper Belt

Noranda Pacific Pty Ltd (Noranda), part of the Xstrata Copper Business Unit, continued to fund exploration for iron oxide associated copper-gold deposits in basement rocks during the year, increasing its cumulative expenditure since inception of the Agreement between Gunson and Noranda to just over $2.1 million. In accordance with this Agreement, Noranda must spend $3.5 million on exploration by mid June 2009, otherwise it does not earn any interest in the Project and is deemed to have withdrawn.

A work program and budget for 2008/2009, the final year of the initial earn-in period, was sent to Noranda in mid July but their approval is still awaited. Its new owners, Xstrata Copper, are currently ranking copper exploration opportunities in Australia and ongoing funding of the Mount Gunson Project hinges on the results of this study.

In April 2008, the Company announced that it had commenced a feasibility study on the MG14 copper deposit, the shallowest in its inventory of small to medium sized, near surface copper resources at Mount Gunson. This inventory comprises over 200,000 tonnes of contained copper metal in JORC compliant Indicated Resources, together with significant cobalt and silver by product credits.

2. WORK FUNDED BY NORANDA PACIFIC PTY LTD

- *Geophysical Program*

A considerable amount of geophysical work was completed on the Project to better define drilling targets. This work included two gravity surveys in the northern third of the Project and induced polarisation (IP) and transient electromagnetic (TEM) surveys at Chianti Prospect.

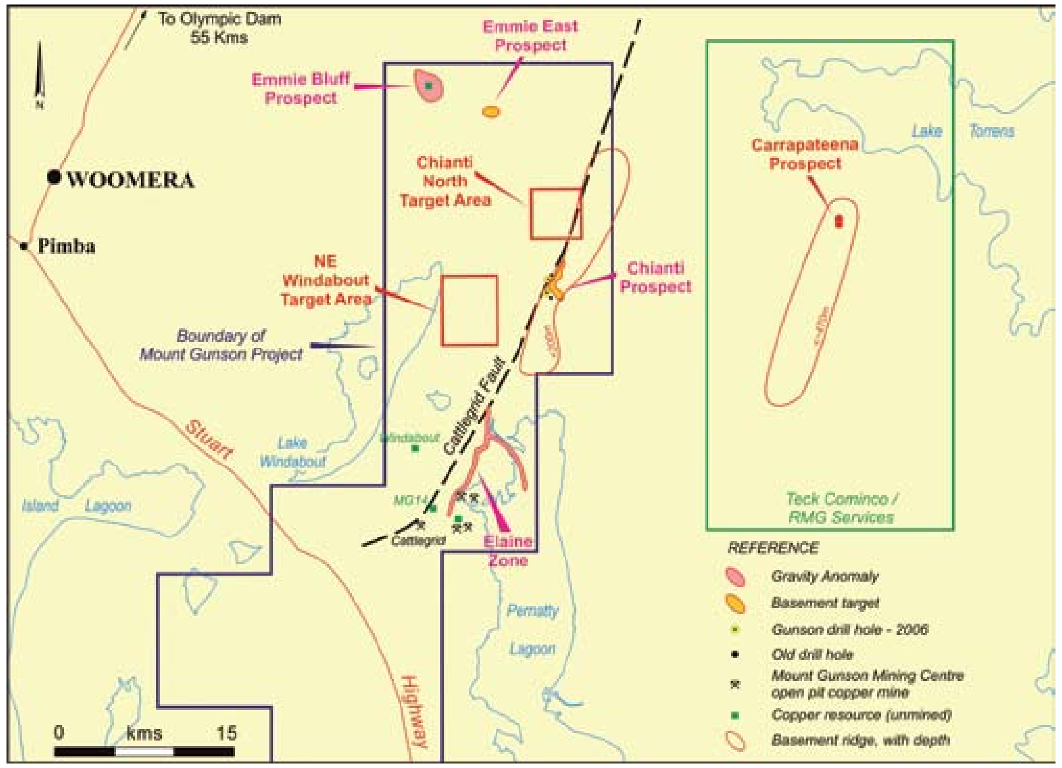


Figure 6 - Mount Gunson Prospects and Target Areas

Results of the two gravity surveys defined 3 priority target areas at Emmie East, NE Lake Windabout and Chianti North respectively (Figure 6). Only one of these, at Emmie East Prospect, was drilled in 2008, the remaining two targets needing aboriginal heritage clearance before any drilling can be initiated.

Six east-west lines of IP were completed at Chianti Prospect during the year, covering a 2 km strike length at 400m traverse spacing. Two northerly trending anomalous zones were defined, as shown in Figure 7. The best drill intersection achieved at Chianti, 2m @ 3.4% copper from 549m in early 2006, lies just west of the eastern IP anomaly.

A TEM survey comprising six east-west lines at 200m spacing was also completed at Chianti Prospect, which defined a 1.3km long anomalous zone coincident with the eastern IP anomaly and open to the north (Figure 7). The presence of the coincident TEM and IP anomalies provided strong encouragement for the drilling program discussed below.

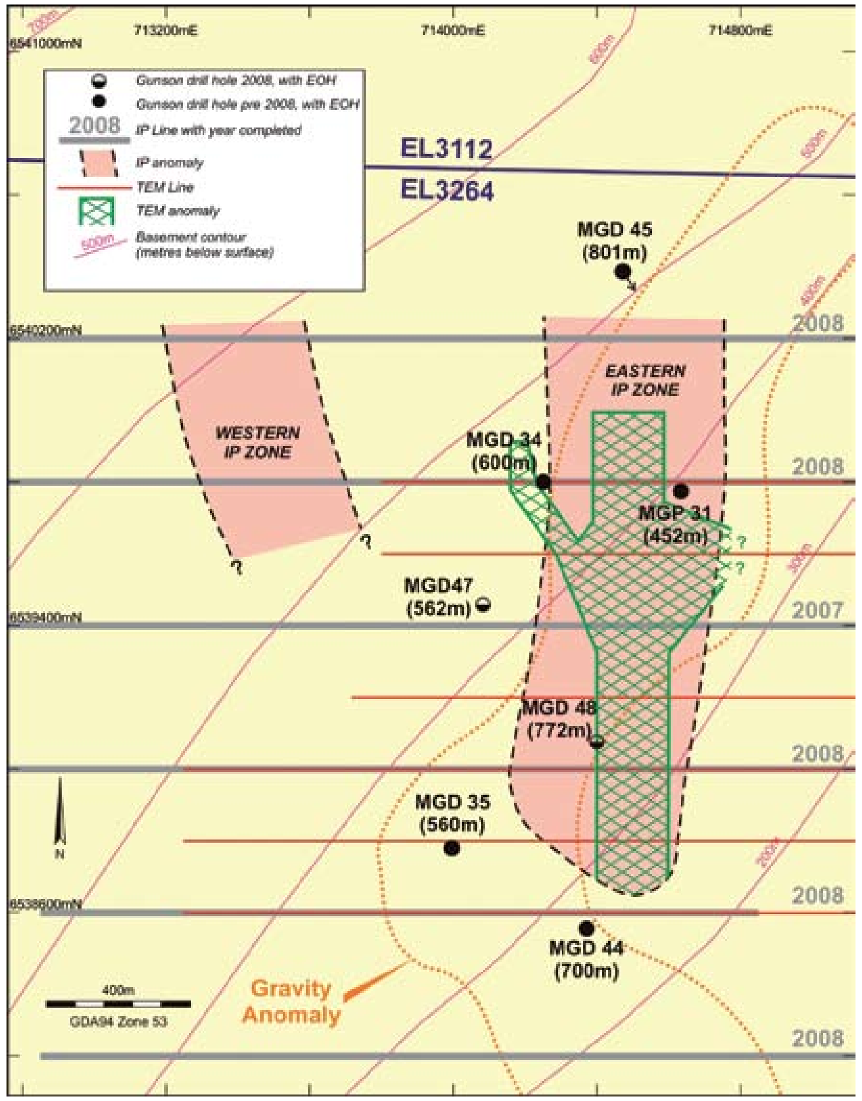


Figure 7 - Chianti Prospect IP Anomalies & Drilling

- *Drilling*

Three holes were drilled over a 7 week period from 3rd February to 24th March 2008. The first two holes were at Chianti Prospect and the last hole at Emmie East Prospect. Table 4 below outlines the drilling statistics.

Table 4. Mount Gunson 2008 Deep Drilling Summary

Hole No	Prospect	Drill Collar Inclination	Basement Depth (m)	Hole Depth (m)
MGD 47	Chianti	vertical	400	562
MGD 48	Chianti	vertical	356	772
MGD 49	Emmie East	vertical	754*	956
			Total Metres	**2290**

* *dolerite. No basement intersected.*

MGD47. This hole was located on the basis of only one IP traverse, due to a delay in the IP contractor returning to complete the survey commenced in December 2007. Results from a nearby TEM traverse were also used but the hole was targeted on the shallowest IP anomaly.

Basement in the hole comprised moderately to strongly altered granite, with negligible sulphides. The absence of sulphides led to questioning of the IP results on the 2007 traverse (Figure 7) and it was concluded that the data on this traverse were not recorded as reported by the geophysical contractor. With this knowledge, reprocessing of the data produced a good match with the 2008 traverses completed after MGD47 had finished, confirming that there is no anomaly beneath the collar of MGD47. Instead, the only credible IP anomaly is in the same relative position as those on the traverses along strike in either direction (Figure 7).

Drilling of MGD 49 at Mount Gunson, March 2009

MGD 48. The second hole in the program was sited some 470m to the south east of MGD47, to test the centre of the Eastern IP Zone, on the traverse with the strongest IP response.

The upper 20m of the basement comprised strongly altered granite with abundant earthy and dark grey hematite as veins and patches. Beneath this upper zone, the hole passed into strongly altered and deformed granite with minor breccia zones but no visible sulphides. Isotopic dating of granite samples from nearby holes by the University of Adelaide revealed an age of 1.8 billion years, 200 million years older than the granites at Olympic Dam but likely the same age as the nearby Carrapateena Copper Prospect host rocks.

At 631m, the hole passed into cherty, ferruginous sedimentary rocks with 10% hematite rich beds and no visible copper sulphides. These sedimentary rocks persisted to 696m. From 696m, the dominant lithology is granite with no sulphides to the end of the hole at 772m.

Unfortunately, copper assays from this hole did not support the visual identification of the high tenor copper sulphide bornite, the highest copper value being 47ppm. It is suspected that the mineral mistakenly identified as bornite is fine grained, hematite stained chlorite.

Physical property measurements on 11 samples of drill core from MGD 48 indicated that the surface IP anomaly was caused by specular hematite (iron oxide) rather than sulphide mineralisation. This result was not expected but was confirmed by the low copper assays from this hole discussed above.

MGD49. Hole MGD49 was collared about 750m south east of MGD42, drilled at Emmie East Prospect in 2007, to test the peak of the residual gravity anomaly missed by MGD42.

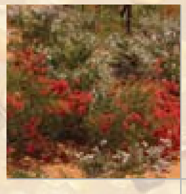
After passing through 754m of cover sequence rocks, MGD49 entered a relatively dense, uniform dolerite dyke and remained in this rock until the hole was terminated at 956m. The apparent density contrast between the dolerite and overlying sedimentary rocks appears adequate to explain the Emmie East gravity anomaly and no further work is planned at this prospect.

Comments. The 2008 drilling program has downgraded both Chianti and Emmie East Prospects, although there are TEM targets near holes MGP 31 and MGD 34 at Chianti which remain to be tested. Attractive gravity geophysical targets which have not been tested by drilling have been defined north east of Lake Windabout and at Chianti North, with the Lake Windabout target preferred because of its stronger gravity signature.

3. GUNSON FUNDED MG 14 FEASIBILITY STUDY

Background: As well as its high potential for large and deep iron oxide associated copper-gold deposits in the basement, there are a number of relatively small, shallow copper deposits in the cover sequence at Mount Gunson, which collectively contain over 200,000 tonnes of copper metal in JORC compliant Indicated Resources. These deposits have significant cobalt and silver by product credits, as shown on page 25 of this report.

To date, the main focus of exploration at Mount Gunson has been on the deep, copper-gold targets in basement rocks. To a large extent, this focus has reflected the exploration priorities of the two major companies that have funded the majority of work since Gunson was floated in 2000: Billiton, then BHP Billiton from 2000-2002, followed by Noranda since mid 2006.



In view of the strong price and firm outlook for copper in early 2008, Gunson decided to capitalise on the shorter term opportunities offered by its inventory of small, shallow deposits in the cover sequence.

Agreement with Mines Trust: An agreement was signed on 21st April 2008 with Mines Trust, an unlisted company controlled by Mr Steven Sickerdick. Mines Trust is the operator of the Kanmantoo heap leach copper plant, located approximately 50 km east of Adelaide. This operation was initiated in 2006, to treat the low grade ore stockpile from the old Kanmantoo open pit copper mine. The ore, which averages about 0.6% copper, is crushed and then leached with sulphuric acid. Copper metal is recovered by pumping the metal rich liquor through rotating drums containing scrap steel. Approximately 50 tonnes of copper is sold per month, with a high cash margin.

Gunson and Mines Trust have agreed to carry out a feasibility study on developing the MG14 deposit at Mount Gunson, which will include but not be limited to the following aspects:

a) Details and costs of obtaining mining title and the relevant statutory approvals
b) Deposit geology, JORC complaint resource and ore reserves
c) Proposed mining method and mine development costs
d) Metallurgical test work and flow sheet
e) Treatment plant
f) Site infrastructure, power and water
g) Project capital and operating costs
h) Product sales contracts

The Agreement is to be replaced by a more detailed Production Agreement prior to the completion of financing of the proposed mine development.

Previous Work: The MG 14 deposit, named in 1973 after the discovery drill hole about 1 Km north of the old Cattlegrid copper mine (Figure 8), is a totally concealed, flat lying body of copper sulphide mineralisation at about 25 metres average depth. It is oriented east-west and is about 800m long by 200m wide and about 2.5m thick.

A JORC compliant Indicated Resource was estimated by Mr K.F. Bampton of Ore Reserve Evaluation Services in 1997. This resource is 1.1 million tonnes @ 1.7% copper, 17g/t silver and 390ppm cobalt at a 0.5% copper cut-off. Excluding by product credits, the contained copper metal in the deposit is 18,700 tonnes.

Bampton's resource estimate was based on 107 vertical drill holes, approximately half of which are diamond core holes and the remainder reverse circulation. The main copper sulphides are bornite, chalcocite and chalcopyrite.

Metallurgical test work on some diamond core samples was carried out in 1990, which showed that fine grinding was needed to achieve satisfactory recoveries. Based on the test work done, a conventional flotation circuit was proposed, with relatively high flotation retention times. No work was done on recovering copper metal from the concentrate but this possibility is being evaluated in the 2008 study.

A scoping study carried out by the Adelaide Chemical Company in 1992 indicated that producing a sulphide concentrate on site from an open pit mine at MG 14 was financially attractive at a copper

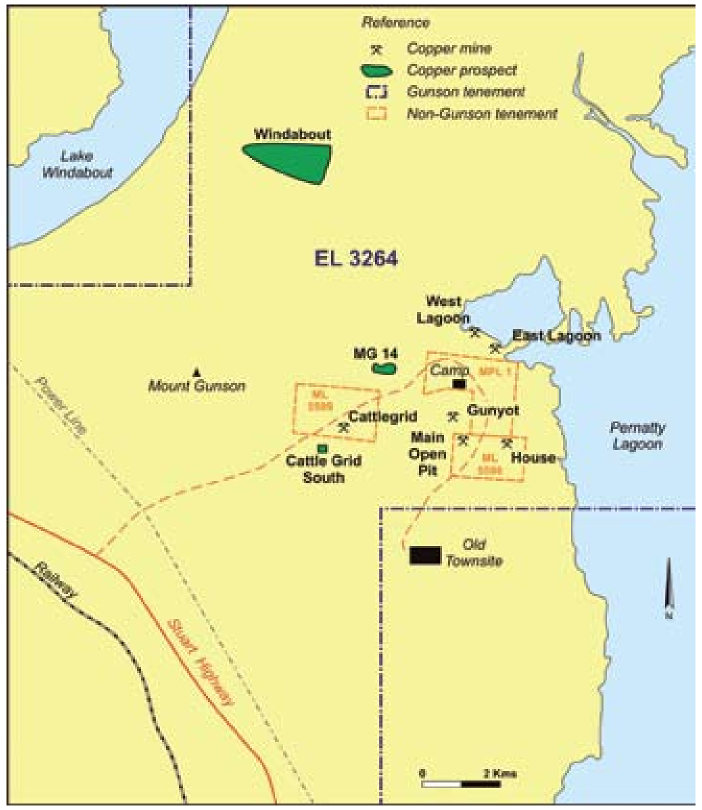


Figure 8 - Mount Gunson Shallow Copper Deposits

price of US $1 per pound and cobalt at US $15 per pound. With the current copper and cobalt prices, Gunson is confident that the financial return from MG 14 will have improved significantly since 1992.

New MG 14 Feasibility Study: Aspects of the proposed MG 14 mine development being covered in the new feasibility study are listed above. Gunson is managing the study and doing the majority of the work on it, however Mines Trust are responsible for supervising the metallurgical test work, metallurgical flow sheet development and the design and costing of a treatment plant to process between a half and three quarters of a million tonnes of ore per annum.

New metallurgical samples have been obtained from five wide diameter diamond core holes completed in July 2008. The metallurgical test work is being carried out by the Ian Wark Research Institute of the University of South Australia, focused on producing a copper-cobalt sulphide concentrate to be leached with acid so that the copper and cobalt can be precipitated into saleable products. To assist the metallurgical work, Amdel Laboratories are scanning the samples with an electron microscope to establish the grain size of the various copper and cobalt minerals.

Assay results from the July 2008 drilling program are listed in table 5 below. All holes are vertical and the intersections reflect true widths due to the flat dip of the MG 14 deposit.

Because of the extensive drilling database available from previous work on the MG 14 deposit, no further ore body delineation work is considered necessary and Gunson has the geological and mining skills in house to complete the feasibility study.

Table 5. MG 14 Drilling Results

Hole No	From (m)	To (m)	Intersection (%copper)
MGD 50	24.6	25.65	1.05m @ 4.2%
MGD 51	25.8	29.75	3.95m @ 1.7%
MGD 52	28.46	29.5	1.04m @ 2.0%
	31.0	32.15	1.15m @ 1.0%
MGD 53	27.0	28.5	1.5m @ 1.9%
MGD 54	25.5	27.6	2.1m @ 2.2%

Most of the intersections listed above occur in the breccia zone at the top of the Tapley Hill Formation dolomitic mudstone, although this breccia is absent in hole MGD 54. Instead, the intersection in MGD 54 and the lower one in MGD 52 occur in thinly bedded dolomitic mudstones and sandstones. Cobalt grades over the above intersections vary between 400 and 600 ppm, except for 41 ppm in MGD 50. Silver grades range between 15 - 20 ppm, again with the exception of MGD 50, with 53 ppm.

Other Work. Work on estimating the costs and availability of accommodation, power and water for the proposed mine is proceeding well. Because the proposed production rate at MG 14 is between a half and three quarters of a million tonnes of ore per year, the MG 14 deposit could be mined out in approximately 2 years. To improve the financial return from the proposed mining operation, subsequent production from the nearby and geologically similar Windabout copper deposit is being considered in the present feasibility study. Windabout is approximately ten times larger than MG 14 and mining of it at the above production rate would extend the life of a joint mine development to about 20 years.

Mount Gunson, July 2008

4. MOUNT GUNSON SUMMARY

The results of the deep drilling in early 2008 funded by Noranda were disappointing and Noranda's owner, Xstrata Copper, is reviewing it's commitment to ongoing exploration at Mount Gunson in the context of its other copper exploration programs in Australia. Xstrata Copper's decision is expected before the end of 2008.

Gunson initiated a feasibility study on its near-surface copper deposits around the old Mount Gunson mine workings in April 2008. This study is being funded by Gunson itself, as these deposits are too small to justify a stand-alone mine development for a major company such as Xstrata Copper. Nevertheless, low cost mine developments on small to medium sized deposits such as Gunson's MG 14 and Windabout prospects can be financially attractive at current copper prices and the current feasibility study is making good progress.

TENNANT CREEK GOLD-COPPER PROJECT, NORTHERN TERRITORY (100% GUNSON)

The Tennant Creek district has yielded some 5 million ounces of gold and 350,000 tonnes of copper since large scale mining began there in 1934. Gold-copper ore bodies in the district are typically high grade, averaging 9 g/t gold and 2.1% copper. They are associated with distinctive magnetic anomalies, due to the abundance of the magnetic iron oxide, magnetite.

Significantly less exploration has been conducted in the district for non-magnetic gold-copper ore bodies. Such ore bodies are predicted to occur in the Tennant Creek district but will not have the usual geophysical characteristics of the known gold-copper deposits. They will be associated with discrete gravity anomalies, with either a weak near-coincident magnetic anomaly, like Oz Minerals' Prominent Hill and BHP Billiton's Olympic Dam deposits in South Australia.

Gunson's two approved exploration licences cover weak magnetic anomalies with associated gravity responses in favourable geological settings, where little or no previous exploration has been carried out. These targets are to be the subject of a drilling program in November, 2008.

Unfortunately, access to four exploration licence applications covering the Company's targets on aboriginal land was denied by the local aboriginal people, represented by the Central Lands Council (CLC). Three applications have been placed in moratorium for a 5 year period and the fourth, ELA 23945 refused by the Northern Territory Government in September, 2008.

CTIEC visitors at Coburn, September 2007 and May 2008

FOWLER'S BAY NICKEL PROJECT, SOUTH AUSTRALIA (100% GUNSON)

1. INTRODUCTION

This project comprises an exploration licence located some 150km west of Ceduna. The exploration target is craton margin Proterozoic nickel sulphide deposits, although the decision in early 2008 by mineral sand miner Iluka Resources Limited to mine its Jacinth and Ambrosia zircon deposits some 50km to the north west has highlighted interest in the area for mineral sands as well.

2. NEW AIRBORNE GEOPHYSICAL ANOMALIES

Interpretation of the results of an airborne transient electromagnetic (TEM) geophysical survey in the northern part of the Project flown by a neighbouring tenement holder last year revealed two promising nickel sulphide targets.

These targets, which comprise 2 bedrock TEM geophysical conductors up to a kilometre long, are located in a regional fold structure in a belt of magnetic units interpreted to be Proterozoic mafic and ultramafic rocks prospective for nickel sulphides.

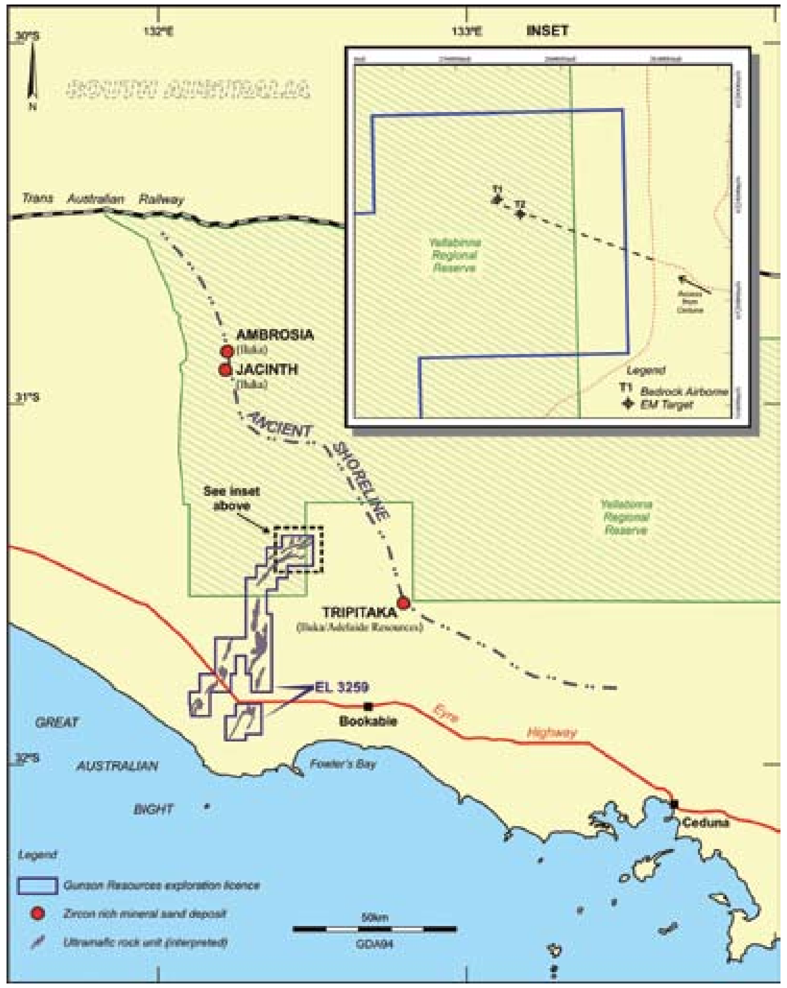


Figure 9 - Fowler's Bay Project

Evidence for the presence of mafic and ultramafic rocks in this apparent margin of the Gawler Craton is from some widely scattered scout holes drilled by previous explorers which penetrated to basement.

The two airborne TEM anomalies appear to occur either side of a basement high expressed by a hill and both have an estimated depth to top of 100m or less. A ground TEM survey to better define the two anomalies for possible drill testing is scheduled for late 2008.

The above anomalies are located in the same regional conservation reserve as the new Jacinth-Ambrosia mines currently being developed by Iluka Resources Limited (Figure 9). An application to access this reserve for the TEM survey discussed above was submitted to the South Australian Government regulators in July 2008 and their approval is expected by November 2008.

3. SUMMARY

The discovery of two bedrock TEM conductors in airborne geophysical data flown by a neighbouring tenement holder is an exciting development for this project. Both conductors lie in a geologically prospective environment and if the results of the ground TEM survey scheduled for late 2008 confirm the airborne data, drilling will follow as soon as possible in 2009.

BURKIN NICKEL PROJECT, WESTERN AUSTRALIA (100% GUNSON)

Burkin comprises a single 207 square km exploration licence located close to the Burkin outcamp, 70km north of Haig siding on the Trans Continental railway; some 450km east of Kalgoorlie. The exploration target at Burkin is Proterozoic craton margin nickel sulphide deposits associated with a cluster of strong magnetic anomalies and a regional gravity high under shallow Eucla Basin cover.

A detailed aeromagnetic survey was flown over the whole exploration licence in December 2007 and the results of this survey better defined and upgraded the conceptual targets for nickel sulphides chosen previously from regional data. Three sites were chosen for a first pass drilling program comprising single vertical diamond holes to approximately 250m depth. Encouragement for this approach comes from the interpretation of the magnetic anomalies as large mafic intrusions in the Proterozoic basement at shallow depths, possibly less than 120m below the ground surface.

Field examination of the proposed drill sites has shown that they are readily accessible from existing tracks and planning for a drilling program is in progress.

Burkin Nickel Project

ATTRIBUTION

The information in this report that relates to exploration results, mineral resources and ore reserves is based on information compiled by Mr D N Harley, who is a Fellow of The Australasian Institute of Mining and Metallurgy. Mr Harley has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Harley consents to the inclusion in the report of the matters based on his information in the form and context in which it appears

The figures in the Mineral Resource Inventory were compiled by the persons named below who are corporate members of the Australasian Institute of Mining and Metallurgy, each of whom has had at least five years experience in the fields of activity concerned and accurately reflects the information compiled by those persons. The estimates of Mineral Resources and Ore Reserves are reported in accordance with the standards set out in the Australasian Code cited above.

Coburn - Resources	**Measured & Indicated:**	D Speijers (2008) of McDonald Speijers Resource Consultants Pty Ltd
	Inferred:	P Leandri (2007)
Coburn - Reserves		P Leandri and T Colton (2008)
Windabout:		F J Hughes (1997)
MG 14:		K F Bampton of Ore Reserve Evaluation Services (1997)
Cattlegrid South, Sweet Nell:		S D Lee, when Managing Director of Stuart Metals NL (1995)
Tailings Dams:		K F Bampton of Ore Reserve Evaluation Services (1997)
Emmie Bluff:		H L Paterson (1998)

MINERAL RESOURCE INVENTORY

The Company's mineral resource inventory and ore reserves are summarised in the tables below:

COBURN

1. Ore Reserves

Prospect	Category	Mineralisation Type	Cut-Off Grade (% HM)	Resource (Million Tonnes)	HM (%)	Contained HM (Million Tonnes)
Amy South	Proven	Dune/strand	0.8%	51	1.3	0.7
Amy Central	Probable	Dune/strand	0.8%	255	1.2	3.1

2. Resources

Prospect	Category	Mineralisation Type	Cut-Off Grade (% HM)	Resource (Million Tonnes)	HM (%)	Contained HM (Million Tonnes)
Amy South	Measured	Dune/strand	0.8%	119	1.3	1.5
Amy Central	Indicated	Dune/strand	0.8%	599	1.2	7.2
Amy North	Inferred	Dune/strand	0.8%	261	1.4	3.6

MOUNT GUNSON - Resources

Prospect	Category	Mineral -isation Type	Cut-Off Grade (% HM)	Resource (Million Tonnes)	Copper (%)	Cobalt (%)	Silver (g/t)	Contained Copper (Tonnes)
Windabout	Indicated	Sulphide	0.5	18.7	1.0	0.05	10	187,000
MG 14	Indicated	Sulphide	1.0	1.1	1.7	0.04	17	18,700
Cattlegrid South	Inferred	Sulphide	0.5	0.7	1.7	-	10	11,900
Sweet Nell	Inferred	Sulphide	0.5	0.35	1.2	-	12	4,200
Tailings Dams	Inferred	Sulphide	-	7.2	0.14	0.01*	-	10,080
Emmie Bluff*	Inferred	Sulphide	0.5	24.0	1.3	0.06	10	312,000
		TOTAL		**52.05**				**543,880**

Notes:

* *Cobalt grade regarded as a low estimate as a result of inadequate sampling.*

- *Resource stated only relates to that portion of the upper copper deposit which lies within EL 3112.*

Northern Boundary of Coburn Pastoral Lease

Review of Operations

TENEMENT SCHEDULE

Burkin Project, Western Australia

Tenement	Area (sq km)	Date Granted
EL 59/1972	207	18 November 2005

Coburn Project, Western Australia

Tenement	Area (sq km)	Grant/ Application Date	Notes
EL 09/939	98.0	18 June 1999	1
EL 09/940	98.0	18 June 1999	1
EL 09/941	179.0	18 June 1999	1
ELA 09/942	196.0	12 May 1998	2
ELA 09/943	61.6	12 May 1998	2
ELA 09/944	176.4	15 May 1998	2
ELA 09/957	196.0	21 July 1998	2
ELA 09/1503	110.5	29 October 2007	2
ML 09/102	9.98	25 October 2004	
ML 09/103	9.99	25 October 2004	
ML 09/104	9.99	25 October 2004	
ML 09/105	10.0	25 October 2004	
ML 09/106	10.0	25 October 2004	
ML 09/111	9.99	14 July 2005	
ML 09/112	9.90	14 July 2005	
L09/15	4.7	6 June 2006	3
L09/21	9.5	8 January 2007	3

Fowler's Bay Project, South Australia

Tenement	Area (sq km)	Date Granted	Next Renewal
EL 3259	700	October 2004	October 2008

Review of Operations

Mount Gunson Project, South Australia

Tenement	Name	Area (sq km)	Date Granted	Next Renewal
EL 3264	Mt Gunson	855	October 2004	October 2008
EL 3477	Woocalla	196	December 2005	December 2008
EL 3967	Mount Moseley	105	October 2007	October 2008
EL 4187	Yeltacowie	317	October 2008	October 2009

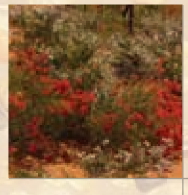
Tennant Creek Project, Northern Territory

Tenement	Name	Area (sq km)	Grant/ Application Date	Notes
EL 23944	Barkly	6.1	5 February 2004	
ELA 23945	Europa	12.8	25 June 2003	4
ELA 23946	Gosse 1	12.9	25 June 2003	2,5
EL 23947	Gosse 5	38.5	13 May 2004	
ELA 23948	Inn	12.9	25 June 2003	2,5
ELA 23949	Boon	31.5	25 June 2003	2,5

Key to Notes (all projects)

1. No mining (exploration) conditions on portions overlapping the Shark Bay World Heritage Area.
2. Tenement Application (ELA).
3. Lies on aboriginal land – access refused.
4. Application refused 8 September 2008.
5. On aboriginal land, in moratorium period

Drilling of MGD 49 at Mount Gunson, March 2008



Directors' report

The Directors of Gunson Resources Limited submit herewith the annual financial report of the Company for the financial year ended 30 June 2008. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

Information about Directors and senior management

The names and particulars of the Directors of the Company during or since the end of the financial year are:

William H Cunningham B.Com. (Non-Executive Chairman) Age 69

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 61

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 58

Peter Harley is an experienced manager and Director with over 25 years association with a number of public and private companies.

Peter has been a non-executive Director of Perilya Ltd since November 2003. He was non executive Chairman of Blaze International Ltd until May 2007 and non executive Chairman of iiNet Ltd until November 2007.

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

The above named Directors held office during the whole of the financial year and up until the date of this report.

Directors' shareholdings

The following table sets out each Director's relevant interest in shares and rights or options in shares of the Company as at the date of this report.

Directors	Fully paid ordinary shares Number	Share options Number
William Cunningham	268,653	-
David Harley	2,600,000	2,000,000
Peter Harley	287,353	-

Remuneration of Directors and senior management

Information about the remuneration of Directors and senior management is set out in the remuneration report of this Directors' report.

Company secretary

Ian E Gregory, B.Bus, F.C.P.A, F.C.I.S Age 53

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 the immediate past 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 $405,699 (2007: $1,068,921 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, with lesser emphasis on the Coburn Zircon Project than previously due to completion of most aspects of the Definitive Feasibility Study in 2007. Focus at Coburn was on negotiations with Chinese company CTIEC for their proposed investment in the Project and assisting them with providing a fixed price "turnkey" construction proposal. This proposal was delivered on 1st August 2008 and negotiations with CTIEC are continuing.

In April 2008, a feasibility study commenced on the MG14 copper deposit at Mount Gunson, which has a JORC compliant Indicated Resource of 1.1 million tonnes grading 1.7% copper. The deposit lies only 25 metres below the surface and the study should be completed in early 2009.

Encouraging nickel-copper sulphide exploration targets have been defined from airborne geophysical data collected over the Burkin and Fowler's Bay projects and a drilling program for copper-gold at Tennant Creek scheduled for late 2008 was approved by Northern Territory Government regulators.

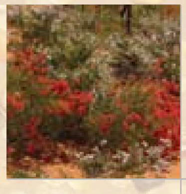
Total exploration expenditure for the financial year was $1,972,962 (2007: $4,127,314).

Changes in state of affairs

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

Subsequent events

There has not been any matter or circumstance occurring subsequent to 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.



Future developments

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 regulations

Procedures are adopted for each exploration program to ensure that environmental conditions of the Company's tenements are met. In June, 2008 the Western Australian Department of Industry and Resources (DoIR) advised the Company that in the Department's opinion, the Company had conducted ground disturbing activities during a drilling program in 2007 that had breached its tenement conditions. In response, the Company has advised DoIR that it disputes the Department's view and it is expected that the matter will be resolved in 2008/2009.

Share options

Shares under option

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

Issuing entity	Number of shares under option	Class of shares	Exercise price of option	Expiry date of options
Gunson Resources Limited	1,800,000	Ordinary	30 cents each	30 November 2010
Gunson Resources Limited	1,800,000	Ordinary	35 cents each	30 November 2010
Gunson Resources Limited	400,000	Ordinary	35 cents each	4 May 2012
Gunson Resources Limited	400,000	Ordinary	40 cents each	4 May 2012
	4,400,000			

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

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

Share options that expired/lapsed

During and since the end of the financial year 100,000 options expired on 16 December 2007 (2007: nil).

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.

Indemnification of officers and auditors

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.

Directors' meetings

The following table sets out the number of Directors' meetings (including meetings of committees of Directors) held during the financial year and the number of meetings attended by each Director (while they were a Director or committee member). During the financial year, 11 board meetings and 1 audit committee meeting were held. The nomination and remuneration committee did not formally meet.

Directors	Board of Directors		Audit Committee	
	Eligible to attend	Attended	Eligible to attend	Attended
William Cunningham	11	11	1	1
David Harley	11	11	-	-
Peter Harley	11	11	1	1

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-audit services

BDO Kendalls Audit & Assurance WA Pty Ltd 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).

Auditor's independence declaration

The auditor's independence declaration is included on page 36 of this report.

Remuneration report

This remuneration report, which forms part of the Directors' report, sets out information about the remuneration of Gunson Resources Limited's key management personnel for the financial year ended 30 June 2008. The information provided in the Remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001.

The prescribed details for each person covered by this report are detailed below under the following headings:

- key management personnel details;
- remuneration policy and relationship between the remuneration policy and company performance;
- remuneration of key management personnel; and
- key terms of employment contracts.

Key management personnel details

The key management personnel of Gunson Resources Limited during the year or since the end of the year were:

- William H Cunningham (Non-Executive Chairman)
- David N Harley (Managing Director)
- Peter C Harley (Non-Executive Director)
- Ian E Gregory (Company Secretary)
- Alan F Luscombe (General Manager)
- Todd B Colton (Project Manager)

Included in key management personnel above are the highest remunerated executives of the Company.

Remuneration policy and relationship between the remuneration policy and company performance

- 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 Boards 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 nonexecutive 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. During the current financial year, 800,000 options were granted (2007: nil).

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:

	2008 AIFRS	2007 AIFRS	2006 AIFRS	2005 AIFRS	2004 AGAAP
Revenue	$231,057	$172,005	$76,156	$128,294	$119,496
Net loss	$405,699	$1,068,921	$1,215,691	$142,797	$489,486
Dividends paid	-	-	-	-	-
Share price	$0.11	$0.28	$0.32	$0.20	$0.22
Change in share price $	($0.17)	($0.04)	$0.12	($0.02)	$0.11
Change in share price %	(61%)	(12%)	60%	(9%)	100%

- Non-Executive Directors remuneration policy

The Company's non-executive Directors receive only fees (including statutory superannuation) for their services and the reimbursement of reasonable expenses. The fees paid to the Company's non-executive Directors reflect the demands on, and responsibilities of these Directors. They do not receive any retirement benefits, other than compulsory superannuation. The Board decides annually the level of fees to be paid to non-executive Directors with reference to market standards.

Non-executive Directors may also receive share options where this is considered appropriate by the Board as a whole and with regard to the stage of the Company's development. Such options would vest across the life of the option and would be primarily designed to provide an incentive to non-executive Directors to remain with the Company.

Directors' report

Remuneration of key management personnel

	Short-term employee benefits				Post-employment benefits	Other long-term employee benefits	Share-based payment		% of compensation that consists of options
	Salary & fees	Bonus	Non-monetary	Other	Super-annuation		Options	Total	
	$	$	$	$	$	$	$	$	%
2008									
Directors									
W H Cunningham	40,000	-	-	-	3,600	-	-	43,600	-
D Harley	275,000	-	-	-	24,750	-	-	299,750	-
P C Harley	30,000	-	-	-	2,700	-	-	32,700	-
Executives									
I E Gregory	-	-	-	-	-	-	-	-	-
T B Colton	210,000	-	-	-	18,900	-	171,122	400,022	43%
A F Luscombe	174,230	-	-	-	-	-	-	174,230	-
	729,230	-	-	-	49,950	-	171,122	950,302	43%
2007									
Directors									
W H Cunningham	40,000	-	-	-	3,600	-	-	43,600	-
D Harley	275,000	-	-	-	24,750	-	220,244	519,994	42%
P C Harley	30,000	-	-	-	2,700	-	-	32,700	-
Executives									
I E Gregory	-	-	-	-	-	-	-	-	-
	345,000	-	-	-	31,050	-	220,244	596,294	42%

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

- Share Based Compensation

During the financial year the following share based payment arrangements for key management personnel were in existence:

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:

Directors' report

Grant Date	Date vested and exercisable	Expiry date	Exercise price at grant date	Value per option
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
5 May 2007	9 August 2008	4 May 2012	35 cents each	$0.24
5 May 2007	9 August 2008	4 May 2012	40 cents each	$0.23

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	
	2008	2007	2008	2007
Directors				
W H Cunningham	-	-	-	-
D N Harley	-	-	-	2,000,000
P C Harley	-	-	-	-
Executives				
I E Gregory	-	-	-	-
T B Colton	800,000	-	-	-
A F Luscombe	-	-	-	800,000

The following grants of share based payment compensation to key management personnel relate to the current financial year:

		During the financial year				
Name	Options series	No. Granted	No. Vested and exercisable	% of grant vested	% of grant forfeited	% of grant compensation for the year consisting of options
T B Colton	Issued 5 May 2008	800,000	-	-	-	43%

The assessed fair value at grant date of options granted to the individuals in the above table is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables in this remuneration report. Fair values at grant date are determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and the expected price volatility of the underlying share and the risk free rate for the term of the option.

Directors' report

The model inputs for options granted during the year ended 30 June 2008 are as follows:

Inputs to the model	Option series	
	5 May 2008	5 May 2008
Exercise price (cents)	40	35
Grant date	5 May 2007	5 May 2007
Expiry date	4 May 2012	4 May 2012
Share price at grant date (cents)	33	33
Expected volatility	89%	89%
Risk-free interest rate	6.0%	6.0%

The following table summarises the value of options granted during the annual reporting period to the identified Directors and executives:

Name	Value of options granted at the grant date (i) $	Remuneration consisting of options %
T B Colton	187,343	43

(i) The value of options granted during the period is recognised in compensation over the vesting period of the grant, in accordance with Australian accounting standards.

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

Details of the options granted are as follows:

	Options granted					Value yet to vest	
	Number	Date	Vested	Forfeited	Financial years in which options may vest	Min $	Max $
D N Harley	2,000,000	1 Dec 2005	100%	-	2007	-	-
T B Colton	800,000	5 May 2007	-	-	2009	-	16,221
A F Luscombe	800,000	1 Dec 2005	100%	-	2007	-	-

- ***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.

Key terms of employment contracts

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.

Directors' report

- 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.

Remuneration and other terms of employment for executives are formalised in a letter of employment which provide for a base salary and where applicable statutory superannuation contributions. Notice periods and termination payments payable under these contracts vary as follows:

- T B Colton – 1 month notice period and in the case of redundancy, a termination payment equal to three months annual salary.
- A F Luscombe – 3 month notice period and failure to provide full notice by the Company will result in a termination payment of $25,000.

In addition the executives hold share options issued as part of the share based payment arrangements.

This Directors' report is signed in accordance with a resolution of Directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors

D N Harley
Managing Director

22 September 2008
Perth, Western Australia

Rehabilitated water bore site at Amy Zone, Coburn

Income statement

for the financial year ended 30 June 2008

	Note	2008 $	2007 $
Continuing operations			
Revenue	5	58,515	98,028
Other income	5	172,542	73,977
Administration expenses		(738,367)	(1,167,985)
Depreciation expense		(12,177)	(14,130)
Exploration costs written off		-	(2,798)
Other expenses		(251,862)	(335,207)
Loss before income tax expense		(771,349)	(1,348,115)
Income tax benefit	7	365,650	279,194
Loss for the year		(405,699)	(1,068,921)
Loss per share			
Basic loss (cents per share)	16	(0.36)	(1.06)
Diluted loss (cents per share)	16	N/A	N/A

The accompanying notes form part of these financial statements.

Balance sheet

as at 30 June 2008

	Note	2008 $	2007 $
Current assets			
Cash and cash equivalents	19(a)	1,007,340	1,831,989
Trade and other receivables	8	364,951	217,578
Total current assets		1,372,291	2,049,567
Non-current assets			
Property, plant and equipment	10	17,225	29,402
Exploration, evaluation and development	11	20,437,695	18,464,733
Other assets	9	484,676	484,676
Total non-current assets		20,939,596	18,978,811
Total assets		22,311,887	21,028,378
Current liabilities			
Trade and other payables	12	349,374	431,297
Provisions	13	44,305	74,603
Total current liabilities		393,679	505,900
Total liabilities		393,679	505,900
Net assets		21,918,208	20,522,478
Equity			
Issued capital	14	25,423,173	23,792,866
Reserves	15	833,857	662,735
Accumulated losses		(4,338,822)	(3,933,123)
Total equity		21,918,208	20,522,478

The accompanying notes form part of these financial statements.

Statement of changes in equity

for the financial year ended 30 June 2008

	Fully paid ordinary shares (Contributed Equity) $	Share based payment Reserve $	Accumulated losses $	Total $
Balance at 1 July 2006	8,780,001	266,295	(2,864,202)	16,182,094
Loss for the period	-	-	(1,068,921)	(1,068,921)
Total recognised income and expense	-	-	(1,068,921)	(1,068,921)
Recognition of share-based payments	-	396,440	-	396,440
Issue of share capital	5,324,140	-	-	5,324,140
Share issue costs	(311,275)	-	-	(311,275)
Balance at 30 June 2007	23,792,866	662,735	(3,933,123)	20,522,478
Balance at 1 July 2007	23,792,866	662,735	(3,933,123)	20,522,478
Loss for the period	-	-	(405,699)	(405,699)
Total recognised income and expense	-	-	(405,699)	(405,699)
Recognition of share-based payments	-	171,122	-	171,122
Issue of shares	1,700,800	-	-	1,700,800
Share issue costs	(70,493)	-	-	(70,493)
Balance at 30 June 2008	25,423,173	833,857	(4,338,822)	21,918,208

The accompanying notes form part of these financial statements.

Cash flow statement

for the financial year ended 30 June 2008

	Note	2008 $	2007 $
Cash flows from operating activities			
Payments for exploration and evaluation		(2,304,430)	(4,479,545)
Payments to suppliers and employees		(737,733)	(1,210,872)
Interest received		58,515	98,027
Other income		165,031	65,879
Research an development tax refund received		365,650	279,194
Export and marketing development grant received		7,511	8,098
Net cash used in operating activities	19(d)	(2,445,456)	(5,239,219)
Cash flows from investing activities			
Payments for property, plant and equipment		-	(8,930)
Net cash used in investing activities		-	(8,930)
Cash flows from financing activities			
Proceeds from issues of shares		1,691,300	5,324,140
Payment for share issue costs		(70,493)	(311,275)
Net cash provided by financing activities		1,620,807	5,012,865
Net decrease in cash and cash equivalents		(824,649)	(235,284)
Cash and cash equivalents at the beginning of the financial year		1,831,989	2,067,273
Cash and cash equivalents at the end of the financial year	19(a)	1,007,340	1,831,989

The accompanying notes form part of these financial statements.

Notes to the financial statements

1. General information

Gunson Resources Limited (the Company) is a public Company listed on the Australian Securities Exchange trading under the symbol

"GUN", incorporated in Australia and operating in Australia.

Gunson Resources Limited'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

The entity's principal activities are exploration for and evaluation of economic mineral deposits in Australia.

2. Significant 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 A-IFRS ensures that the financial statements and notes of the Company comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the Directors on 22 September 2008.

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. All amounts are presented in Australian dollars, unless otherwise noted.

Going concern

The Company has incurred a net loss after tax for the year ended 30 June 2008 of $405,699 (2007: $1,068,921) and experienced net cash outflows from operating activities of $2,445,456 (2007: $5,239,219). As at 30 June 2008, the Company had net current assets of $978,612 (2007: $1,543,667).

The Directors have prepared the financial statements on the basis of going concern, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The ability of the Company to continue as a going concern will be dependant on the ability to raise further funds as required to facilitate the ongoing exploration of its various tenement holdings.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experiences and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects the current and future periods.

Refer to Note 3 for a discussion of critical judgements in applying the entity's accounting policies and key sources of estimation uncertainty.

Adoption of new and revised Accounting Standards

Changes in accounting policy on initial application of Accounting Standards

In the current year, the Company has 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.

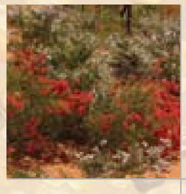
The adoption of these new and revised Standards and Interpretations has resulted in changes to the Company's accounting policies in the following areas:

- AASB 7 'Financial Instruments: Disclosures';
- AASB 101 'Presentation of Financial Statements' – revised standard (October 2006);
- AASB 1048 'Interpretation and Application of Standards' – revised standard (September 2007);
- Interpretation 8 'Scope of AASB2';
- Interpretation 9 'Reassessment of Embedded Derivatives'; and
- Interpretation 10 'Interim Financial Reporting'.

The adoption of these new and revised Standards and Interpretations have not affected the amounts reported for the current or prior years, but have changed the disclosures made in the financial statements of the Company.

At the date of authorisation of the financial report, the following Standards and Interpretations were in issue but not yet effective:

Planning the drilling program at MG 14, Mount Gunson, June 2008



• AASB 8 'Operating Segments' and AASB 2007-3 'Amendments to Australian Accounting Standards arising from AASB 8'	Effective for annual reporting periods beginning on or after 1 January 2009
• AASB 101 '(revised September 2007) 'presentation of Financial Statements' and AASB 2007-8 'Amendments to Australian Accounting Standards arising from AASB 101' and AASB 2007-10 'Further Amendments to Australian Accounting Standards arising from AASB 101'	Effective for annual reporting periods beginning on or after 1 January 2009
• AASB 123 'Borrowing Costs' – revised Standard and AASB 2007-6 'Amendments to Australian Accounting Standards arising from AASB 123'	Effective for annual reporting periods beginning on or after 1 January 2009
• AASB Interpretation 12 'Service Concession Arrangements'	Effective for annual reporting periods beginning on or after 1 January 2008
• AASB Interpretation 14 'AASB 119 – the Limit on a Defined benefit Asset, Minimum Funding Requirements and their Interaction'	Effective for annual reporting periods beginning on or after 1 January 2008
• AASB Interpretation 13 'Customer Loyalty Programme'	Effective for annual reporting periods beginning on or after 1 July 2008
• AASB 2008-2 'Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation'	Effective for annual reporting periods beginning on or after 1 January 2009

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Company.

The potential effect of the initial application of the expected issue of an Australian equivalent accounting standards to the following Standard has not yet been determined:

• AASB 3 'Business Combinations' and IAS 27 'Separate and Consolidated Financial Statements'	Effective for annual reporting periods beginning on or after 1 January 2009

These Standards and Interpretations will be first applied in the financial report of the Company that relates to the annual reporting period beginning after the effective date of each pronouncement.

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%

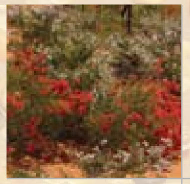
Assets are depreciated from the date the asset is ready for use. Depreciation costs are capitalised to Exploration and Evaluation where the assets are used exclusively for such activities.

(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) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised costs using the effective interest method, less provision for impairment. Trade and other receivables are generally due for settlement within 30-60 days.

(e) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses and the effect on tax concessions (research and development rebate).

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.

(f) 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.

(g) Employee Benefits

Wages and salaries, 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 12) 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.

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 the 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.

(h) 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.

(i) 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.

(j) 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.

(k) 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 Black-Scholes 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.

(l) 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.

(m) 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.

(n) 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.

(o) Comparative Figures

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

3. Critical accounting judgements 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 2(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:

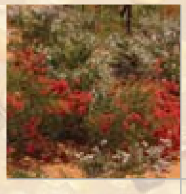
<u>Impairment of property, plant and equipment</u> - Property, plant and equipment is reviewed for impairment if there is any indication that the carrying amount may not be recoverable. Where a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value 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 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 using the Black Scholes model using the assumptions detailed in note 21.



Notes to the financial statements

4. Segment information

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

5. Revenue

An analysis of the Company's revenue for the year, from continuing operations, is as follows:

	2008 $	2007 $
Interest revenue	58,515	98,028
Other income		
Joint venture management fees	163,532	56,052
Rebates and other income	1,499	9,827
Export marketing development grant	7,511	8,098
	172,542	73,977

6. Loss for the year

(b) Other expenses

Loss for the year includes the following expenses:		
Depreciation of non-current assets	12,177	14,130
Operating lease rental expenses:		
Minimum lease payments	118,161	119,839
Employee benefit expense:		
Post employment benefits	30,252	28,228
Share-based payments	171,122	396,440
Other employee benefits	301,095	330,789
	502,469	755,457

7. Income taxes

Income tax recognised in profit or loss
Tax expense/(benefit) comprises:

Current tax benefit	(365,650)	(279,194)
Total tax benefit reported in the income statement	(365,650)	(279,194)

The prima facie income tax expense benefit on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

Loss from operations	(771,349)	(1,348,115)
Income tax expense calculated at 30%	(231,405)	(404,435)
Effect of expenses that are not deductible in determining taxable profit	55,467	43,808
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	880,643	1,044,586
Effect of deductible capitalised expenditure	(704,705)	(683,959)

Notes to the financial statements

Effect of tax concessions (research and development offset)	(365,650)	(279,194)
	(365,650)	(279,194)

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.

The following deferred tax assets have not been brought to account as assets:		
Tax losses	5,903,072	5,022,430
Temporary differences	55,323	64,412
Temporary differences arising from exploration activities	(5,359,229)	(4,767,349)
	599,166	319,493

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.

8. Trade and other receivables

	2008 $	2007 $
Goods and services tax recoverable	31,920	95,095
Other receivables	269,315	122,483
	301,235	217,578
Prepayments	63,716	-
	364,951	217,578

Other receivables do not contain impaired assets and are not past due.

9. Other assets

Non-current		
Pastoral lease-Coburn Station	484,676	484,676

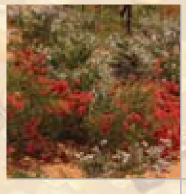
10. Property, plant and equipment

Plant and equipment - gross carrying amount

Balance at beginning of the financial year	130,760	121,830
Additions	-	8,930
Balance at end of the financial year	130,760	130,760
Plant and equipment - accumulated depreciation		
Balance at beginning of the financial year	101,358	87,228
Depreciation expense	12,177	14,130
Balance at end of the financial year	113,535	101,358
Net book value	17,225	29,402

The following depreciation rates used in the calculation of depreciation:
Plant and equipment 7% - 40%
Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:

Plant and equipment	12,177	14,130



Notes to the financial statements

11. Exploration, evaluation and development

	2008 $	2007 $
Carried forward expenditure	18,464,733	14,340,217
Capitalised during the year	1,972,962	4,127,314
Expenditure written off	-	(2,798)
	20,437,695	18,464,733

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.

12. Trade and other payables

Trade payables	90,779	271,471
Other creditors and accruals	258,595	159,826
	349,374	431,297

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

13. Provisions

Current		
Employee benefits	44,305	74,603

The current provision for employee benefits represents annual leave provision.

14. Issued capital

119,662,252 fully paid ordinary shares (2007: 108,701,416)	25,423,173	23,792,866

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

	2008 No.	2008 $	2007 No.	2007 $
Fully paid ordinary shares	08,701,416	23,792,866	89,289,786	18,780,001
Balance at beginning of financial year				
Pro rata 1 for 10 non-renounceable entitlement issued at 20 cents per share on 21 December 2007	2,390,549	478,110	-	-
Shares issued at 20 cents per share in consideration of professional services on 11 February 2008	47,500	9,500	-	-
Share placement issued at 14 cents per share on 6 May 2008	6,522,787	913,190	-	-
Share placement issued at 15 cents per share on 3 June 2008	2,000,000	300,000	-	-
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
Share issue costs	-	(70,493)	-	(311,275)
Balance at end of financial year	119,662,252	25,423,173	108,701,416	23,792,866

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Notes to the financial statements

Share options on issue

Share options issued by the Company carry no rights to dividends and no voting rights.

As at 30 June 2008, the Company has 4,400,000 share options on issue (2007: 3,700,000) exercisable on a 1:1 basis for 4,400,000 shares (2007: 3,700,000) at various exercise prices. During the year no options were converted into shares (2007: nil) and 100,000 options expired (2007: nil). Further details of options granted to Directors and employees are contained in note 21 to the financial statements.

Details of unissued shares or interest 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 Limited	1,800,000	Ordinary	30 cents each	30 November 2010
Gunson Resources Limited	1,800,000	Ordinary	35 cents each	30 November 2010
Gunson Resources Limited	400,000	Ordinary	35 cents each	4 May 2012
Gunson Resources Limited	400,000	Ordinary	40 cents each	4 May 2012
	4,400,000			

15. Reserves

	2008 $	2007 $
Share-based payments reserve	833,857	662,735

The equity-settled employee benefits 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. Further information about share-based payments to employees is made in note 21 to the financial statements.

16. Loss per share

	2008 Cents per share	2007 Cents per share
Basic loss per share	(0.36)	(1.06)

Basic loss per share

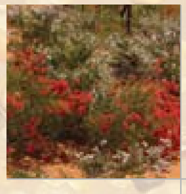
The loss and weighted average number of ordinary shares used in the calculation of basic loss per share are as follows:

	2008 $	2007 $
Net loss	(405,699)	(1,068,921)

	2008 No.	2007 No.
Weighted average number of ordinary shares for the purposes of basic loss per share	111,107,960	100,412,214

Diluted loss per share

Diluted loss per share has not been calculated as the Company's potential ordinary shares are not considered dilutive and do not increase loss per share.



17. Commitments for expenditure

	2008 $	2007 $
(a) Leasing commitments		
Leasing arrangements for the rental of office space expiring August 2010 with an option to extend for a further five years		
Not longer than 1 year	99,200	150,000
Longer than 1 year and not longer than 5 years	115,800	325,000
Longer than 5 years	-	-
	215,000	475,000
(b) Exploration expenditure on granted tenements		
Not longer than 1 year	1,330,500	1,325,500
Longer than 1 year and not longer than 5 years	5,322,000	5,302,000
Longer than 5 years	-	-
	6,652,500	6,627,500

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.

18. 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 26 December 2008 and it is backed by a $49,000 term deposit with the National Australia Bank.

The Company has been notified by the Western Australian Department of Industry and Resources of a breach of tenement conditions due to ground disturbing activities. The possible actions available to the Minister are the forfeiture of the mining tenements concerned, imposition of a fine, or impose no penalty of which the Department has recommended a fine of $43,500. The Directors believe that the claim can successfully be defended and therefore no fine will be imposed. The matter is expected to be settled by the end of 2008.

The Directors are not aware of any other contingent liabilities as at 30 June 2008.

19. Notes to the cash flow statement

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

	2008 $	2007 $
Cash at bank	1,007,340	1,831,989

(b) Non-cash financing and investing activities

On 11 February 2008, the Company issued 47,500 fully paid ordinary shares in consideration of professional services. The fair value of these shares was $9,500 and have been included as part of share capital for the year (refer note 14).

(c) Financing facilities

As at 30 June 2008 the Company had no financing facilities available.

(d) Reconciliation of loss for the period to net cash flows from operating activities

	2008 $	2007 $
Loss for the year	(405,699)	(1,068,921)
Non-cash items		
Depreciation	12,177	14,130
Exploration costs written off	-	2,798
Equity-settled share-based payment	180,622	396,440
Changes in net assets and liabilities		
(Increase)/decrease in assets:		
Trade and other receivables	16,139	47,371
Exploration, evaluation and development costs capitalised	(2,304,431)	(4,479,545)
Increase/(decrease) in liabilities:		
Trade and other payables	86,034	(174,395)
Provisions	(30,298)	22,903
Net cash used in operating activities	(2,445,456)	(5,239,219)

20. Financial instruments

Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Interest rate risk

This note presents information about the Company's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this note and the financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk management

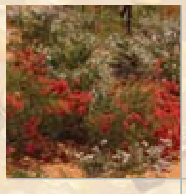
Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables due from sub-tenants. There were no non accrual debtors or debtors in arrears.

The Company's exposure and the credit ratings of its counterparties are continuously monitored. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral/security bond where appropriate, as a means of mitigating the risk of financial loss from defaults.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Liquidity risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.



Notes to the financial statements

Liquidity risk management is the responsibility of the Board of Directors, who have built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows, identifying when further capital raising initiatives are required.

Liquidity and interest risk tables

The remaining contractual maturity for the non-derivative financial liabilities of the Company are shown in the table below. These are based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay.

	Weighted average effective interest rate %	Less than 1 month $	1-3 months $	3-12 months $	1 year to 5 years $	5+ years $	Total $
2008							
Financial liabilities							
Trade and other payables	-	187,421	34,325	127,628	-	-	349,374
		187,421	34,325	127,628	-	-	349,374
2007							
Financial liabilities							
Trade and other payables	-	322,276	92,021	15,000	-	-	431,297
		322,276	92,021	15,000	-	-	431,297

The remaining contractual maturity for the non-derivative financial assets of the Company are shown in the table below. These are based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Company anticipates that the cash flow will occur in a different period.

	Weighted average effective interest rate %	Less than 1 month $	1-3 months $	3-12 months $	1 year to 5 years $	5+ years $	Total $
2008							
Financial liabilities							
Trade and other receivables	-	30,496	31,920	238,819	-	-	301,235
		30,496	31,920	238,819	-	-	301,235
2007							
Financial assets							
Trade and other receivables	-	663	95,095	121,820	-	-	217,578
		663	95,095	121,820	-	-	217,578

Market risk management
As the Company is still in the exploration phase and does not sell a commodity, market risk, which is the risk that changes in market prices will affect the Company's income does not currently apply. However, it is recognised that when production commences the prices of mineral sands, in particular zircon may affect the Company.

Interest rate risk management
The Company places funds on high interest bearing terms so as to maximise the benefit of a cash positive position. Although some of the Company's assets are subject to interest rate risk, it is not dependent on this income. Interest income is only incidental to the Company's operations and operating cashflows.

Notes to the financial statements

The Company is not exposed to interest rate risk associated with borrowed funds.

The Company's exposure to interest rate risk is shown in the table below:

	Weighted average effective interest rate	Variable interest rate	Fixed maturity dates						Non interest bearing	Total
			Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years		
	%	$	$	$	$	$	$	$	$	$
2008										
Financial assets										
Cash and cash equivalents	5.8%	1,007,340	-	-	-	-	-	-	-	1,007,340
Trade receivables and other receivables	5.8%	-	49,000	-	-	-	-	-	315,951	364,951
		1,007,340	49,000	-	-	-	-	-	315,951	1,372,291
Financial liabilities										
Trade payables and other payables	-	-	-	-	-	-	-	-	349,374	349,374
		-	-	-	-	-	-	-	349,374	349,374
2007										
Financial assets										
Cash and cash equivalents	5.0%	1,831,989	-	-	-	-	-	-	-	1,831,989
Trade receivables and other receivables	5.0%	-	49,000	-	-	-	-	-	168,578	217,578
		1,831,989	49,000	-	-	-	-	-	168,578	2,049,567
Financial liabilities										
Trade payables and other payables	-	-	-	-	-	-	-	-	431,297	431,297
		-	-	-	-	-	-	-	431,297	431,297

Interest rate sensitivity analysis
The sensitivity analyses of the Company's exposure to interest rate risk at the reporting date has been determined based on the change of 50 basis points in interest rates taking place at the beginning of the financial year and held constant throughout the year.

At reporting dated, if interest rates had been 50 basis points higher and all other variables were constant, the Company's net loss would have decreased by $7,343 (2007: $9,983). Where interest rates decreased, there would be an equal and opposite impact on the profit.

Fair value of financial assets and liabilities
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 2.

21. 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.

Share based payment arrangements in existence during period

The following share-based payment arrangements were in existence during the current and comparative reporting periods:

Options series	Number	Grant date	Expiry date	Exercise price $	Fair value at grant date $
Issued 16 December 2002	100,000	16 Dec 2002	16 Dec 2007	0.20	(i)
Issued 1 December 2005 (ii)	1,800,000	1 Dec 2005	30 Nov 2010	0.30	0.18
Issued 1 December 2005 (ii)	1,800,000	1 Dec 2005	30 Nov 2010	0.35	0.18
Issued 5 May 2008 (iii)	400,000	5 May 2007	4 May 2012	0.35	0.24
Issued 5 May 2008 (iii)	400,000	5 May 2007	4 May 2012	0.40	0.23

(i) Fair value is not applicable as the share based payments vested prior to 1 January 2005 and are accounted for under AGAAP.

(ii) In accordance with the terms of the share based arrangement, the options issued vested on 1 December 2006 and 1 June 2007.

(iii) In accordance with the terms of the share based arrangement, the options issued will vest on 9 August 2008.

The fair value of the share options granted during the financial year is $187,382 (2008: $nil). Options were priced using a Black Scholes pricing model. Expected volatility is based on the movement of the underlying share price around its average share price over the expected term of the option. The Directors have determined the expected period of exercise to be similar to the option life based on historical experience.

Inputs to the model	Option series 5 May 2008	5 May 2008
Grant date share price (cents)	33	33
Exercise price (cents)	40	35
Expected volatility	89%	89%
Option life	4 years	4 years
Dividend yield	-	-
Risk-free interest rate	6.0%	6.0%

	2008 Number of options	2008 Weighted average exercise price $	2007 Number of options	2007 Weighted average exercise price $
Balance at beginning of the financial year	3,700,000	0.32	3,700,000	0.32
Granted during the financial year	800,000	0.37	-	-
Forfeited during the financial year	-	-	-	-
Exercised during the financial year (i)	-	-	-	-
Expired during the financial year	(100,000)	0.20	-	-
Balance at end of the financial year (ii)	4,400,000	0.33	3,700,000	0.32
Exercisable at end of the financial year	3,600,000	0.33	3,700,000	0.32

(i) Exercised during the financial year

No share options were exercised during the financial year.

(ii) Balance at end of the financial year

The share options outstanding at the end of the financial year had a weighted average remaining contractual life of 2.68 years (2007: 3.33 years).

Expenses arising from share-based transactions

Total expense arising from share-based payment transactions recognised during the period were as follows:

	2008 $	2007 $
Options issued	171,122	396,440
Shares issued in consideration of professional services	9,500	-
	180,622	396,440

22. Related party transactions

(a) Transactions with key management personnel

i. Key management personnel compensation

The aggregate compensation of the key management personnel of the Company is set out below:

	2008 $	2007 $
Short term employee benefits	729,230	345,000
Post employment benefits	49,950	31,050
Share based payments	171,122	220,244
	950,302	596,294

ii. Loans to key management personnel

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

iii. Key management personnel equity holdings

Fully paid ordinary shares

	Balance at 1 July No.	Balance on appointment/ (registration) No.	Granted as compension No.	Received on exercise of options No.	Net other change No.	Balance at 30 June No.
2008						
W H Cunningham	244,230	-	-	-	24,423	268,653
D N Harley	2,000,000	-	-	-	500,000	2,500,000
P C Harley	261,230	-	-	-	26,123	287,353
A F Luscombe	150,000	-	-	-	-	150,000
T B Colton	-	-	-	-	-	-
	2,655,460	-	-	-	550,546	3,206,006
2007						
W H Cunningham	244,230	-	-	-	-	244,230
D N Harley	2,000,000	-	-	-	-	2,000,000
P C Harley	261,230	-	-	-	-	261,230
	2,505,460	-	-	-	-	2,505,460

Share options

	Balance at 1 July No.	Balance on appointment No.	Granted as compen-sation No.	Exercised No.	Net other change No.	Balance on resignation No.	Balance at 30 June No.	Vested during year No.	Vested and exercisable at 30 June No.
2008									
W H Cunningham	-	-	-	-	-	-	-	-	-
D N Harley	2,000,000	-	-	-	-	-	2,000,000	-	2,000,000
P C Harley	-	-	-	-	-	-	-	-	-
A F Luscombe	800,000	-	-	-	-	-	800,000	-	800,000
T B Colton	-	-	800,000	-	-	-	800,000	-	-
	2,800,000	-	800,000	-	-	-	3,600,000		2,800,000
2007									
W H Cunningham	-	-	-	-	-	-	-	-	-
D N Harley	2,000,000	-	-	-	-	-	2,000,000	2,000,000	2,000,000
P C Harley	-	-	-	-	-	-	-	-	-
	2,000,000	-	-	-	-	-	2,000,000	2,000,000	2,000,000

iv. Other transactions with key management personnel

There were no transactions or balances with key management personnel other than those disclosed in the Remuneration Report which forms part of the Directors' Report and has been audited.

23. Remuneration of auditors

	Company 2008 $	Company 2007 $
Auditor of the parent entity		
Audit or review of the financial report	28,529	22,202

The auditor of Gunson Resources Limited is BDO Kendalls Audit & Assurance (WA) Pty Ltd.

24. Subsequent events

There has not been any matter or circumstance, other than that 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.

Drilling at MG 14 Prospect, Mount Gunson, July 2008

Directors' declaration

The Directors declare that:

1. The financial statements, comprising the income statement, balance sheet, cash flow statement, statement of changes in equity, accompanying notes, are in accordance with the Corporation Act 201 and:
   - (a) comply with Accounting Standards and the Corporations Regulation 2001; and
   - (b) give a true and fair view of the financial position as at 30 June 2008 and of the performance for the year ended on that date of the Company.
2. In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
3. The remuneration disclosures included on pages 5 to 8 of the Director's report (as part of the audited Remuneration Report), for the year ended 30 June 2008, comply with section 300A of the Corporations Act 2001.
4. The Directors have been given the declarations required by s.295A of the Corporations Act 2001.

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

D N Harley
Managing Director

22 September 2008
Perth, Western Australia

Site of discovery hole MG 14, drilled at MG 14 Prospect at Mount Gunson in 1973

BDO

BDO Kendalls

BDO Kendalls Audit & Assurance (WA) Pty Ltd
128 Hay Street
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PO Box 700
WEST PERTH WA 6872
Phone 61 8 9380 8400
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aa.perth@bdo.com.au
www.bdo.com.au

ABN 79 112 284 787

22 September 2008

The Directors
Gunson resources Limited
Level 2
33 Richardson Street
WEST PERTH WA 6005

Dear Sirs

DECLARATION OF INDEPENDENCE BY BRAD MCVEIGH TO THE DIRECTORS OF GUNSON RESOURCES LIMITED

As lead auditor of Gunson Resources Limited for the year ended 30 June 2008, 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 during the period.

BG McVeigh
Director

BDO Kendalls Audit & Assurance (WA) Pty Ltd
Perth, Western Australia

BDO Kendalls is a national association of separate partnerships and entities

BDO Kendalls

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ABN 79 112 284 787

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 2008, 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.

Directors' Responsibility for the Financial 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 controls 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 1, 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.

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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial 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 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.

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*.

Auditor's Opinion

In our opinion the financial report of Gunson Resources Limited is in accordance with the *Corporations Act 2001*, including:

BDO Kendalls

(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 2008 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 1.

Material Uncertainty Regarding Going Concern

Without qualifying our audit opinion, we draw attention to the matters discussed in Note 1, the company will have to seek additional funding if it is to enter into the operational stage of production. If the company is unable to obtain this additional funding it may cast significant doubt about the company's ability to continue as a going concern and whether it will be able to realise its assets and extinguish its liabilities at the values carried in the balance sheet.

Material Uncertainty Regarding Recoverability of Deferred Exploration and Evaluation Expenditure

Without qualifying our audit opinion, we draw attention to the matter disclosed in Note 11. There is uncertainty as to the recoverability of the deferred exploration and evaluation expenditure assets of Gunson Resources Limited. The recoverability of the deferred exploration and evaluation expenditure assets is dependant upon the successful development and commercialisation of the underlying areas of interest or their sale. This significant uncertainty may cast doubt about the company's ability to realise the asset at the values carried in the balance sheet.

Report on the Remuneration Report

We have audited the Remuneration Report included within the Directors' Report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001.* Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

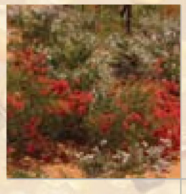
In our opinion, the Remuneration Report of Gunson Resources Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001.*

BDO Kendalls Audit and Assurance (WA) Pty Ltd

BDO Kendalls

BG McVeigh
Director

Dated this 22nd day of September 2008
Perth, Western Australia



Shareholding Information

As at 30 September 2008.

1 Number of Shareholders and Unmarketable Parcels

There were 2,237 shareholders, including 709 with an unmarketable parcel valued at less than $500.

2 Distribution of Ordinary Shareholdings

	No. of holders	% of holders	No. of shares	% of shares
1 – 1,000	145	6.5	82,229	0.1
1,001 – 5,000	486	21.7	1,483,052	1.2
5,001 – 10,000	369	16.5	3,093,028	2.6
10,001 – 100,000	1,033	46.2	37,736,998	31.5
100,001 and over	204	9.1	77,266,945	64.6
TOTALS	**2,237**	**100.0**	**119,662,252**	**100**

3 Twenty Largest Ordinary Shareholdings

Name	Fully paid shares held	%
Citicorp Nominees Pty Ltd	3,801,471	3.18
FW Holst & Co.	3,039,499	2.54
Bruce Birnie Pty Ltd	3,000,000	2.51
Daleregent Pty Ltd	2,700,000	2.26
Wark Super Fund	2,000,000	1.67
Clodene Pty Ltd	1,825,000	1.53
Virginia Klingler	1,800,000	1.50
Perpetual Trustees	1,738,695	1.45
Forty Traders (NZ)	1,640,000	1.37
Narlack Pty Ltd	1,533,982	1.28
Tapp/Polymeneas Super Fund	1,476,977	1.23
Surpion Pty Ltd	1,100,000	0.92
Pochana Super Fund	1,054,923	0.88
KJ Hayes Super Fund	1,041,500	0.87
Mercyana Tilbrook	1,000,001	0.84
Kurruba Investments Pty Ltd	1,000,000	0.84
Whittingham Securities Pty Ltd	1,000,000	0.84
Murphy Pension Fund	990,000	0.83
Michael Sesto	950,843	0.79
William Goodfellow	880,000	0.74
TOTAL OF TOP 20 SHAREHOLDERS	**33,572,891**	**28.07**

Shareholding Information

4 Substantial Shareholdings (over 5%)

Nil

5 Unquoted Equity Securities

All the securities listed below are options to purchase ordinary shares in the Company at the prices shown.

Name	Expiry Date	Number of Options	Exercise Price (cents)
Todd Colton	4 May 2012	400,000	35
Todd Colton	4 May 2012	400,000	40
Philip Cronk	30 November 2010	75,000	30
Philip Cronk	30 November 2010	75,000	35
David Harley	30 November 2010	1,000,000	30
David Harley	30 November 2010	1,000,000	35
Michael Kwan	30 November 2010	75,000	30
Michael Kwan	30 November 2010	75,000	35
Paul Leandri	30 November 2010	200,000	30
Paul Leandri	30 November 2010	200,000	35
Alan Luscombe	30 November 2010	400,000	30
Alan Luscombe	30 November 2010	400,000	35
Karen Trapnell	30 November 2010	50,000	30
Karen Trapnell	30 November 2010	50,000	35

6 Voting Rights

At a general meeting of the Company shareholders are entitled:

- On a show of hands, each person who is a member or sole proxy has one vote.
- On a poll, each shareholder is entitled to one vote for each fully paid share.

Corporate Governance Statement

The corporate governance practices of the Company have been in place since its listing and are constantly reassessed in the light of experience, within the Company and in other organisations, contemporary views and guidelines on good corporate governance practices. The Board adopts practices it considers to be superior and which will lead to better outcomes for the Company's shareholders, whilst endeavouring to avoid those which are based on unsound principles or represent temporary fads.

The Board has considered the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations" published in August 2007. As a result, the Company's Charters and Policies have been reviewed and updated in recent months and the revised documents are being placed on the Company's website www.gunson.com.au .

The Board supports the Principles of Good Corporate Governance and Best Practice Recommendations published in March 2003 by the ASX Corporate Governance Council and this Corporate Governance Statement is consistent with those recommendations. The Board confirms that the corporate governance practices of the Company in place during the year under review are in accordance with the ASX recommendations.

Roles of the Board and Management

The Board considers that its main responsibilities are the strategic direction of the Company, and to monitor executive performance on behalf of shareholders.

The Board has a Charter which clearly establishes the relationship between the Board and management and describes their functions and responsibilities in a manner which is consistent with ASX Principle 1.

Responsibility for management of Gunson's business is delegated to the Managing Director, who is accountable to the Board. The key responsibilities of the Board include to:

- Appoint and monitor the performance of the Managing Director;
- Develop with management and approve strategy/ major capital expenditure;
- Ensure effective budgeting and financial supervision;
- Ensure that appropriate audit arrangements are in place;
- Ensure that effective and appropriate reporting systems are in place that will, in particular, assure the Board that proper financial, operational, compliance and risk management controls function adequately.

Board Structure

The composition of the Board is presently 3 directors, two of whom are non-executive and one, the Managing Director, is an executive director. The board structure is determined in accordance with the following principles and guidelines:

- The Board shall comprise at least 3 directors, increasing where additional expertise is considered desirable in certain areas.
- The Board should not comprise a majority of executive directors.

- Directors should bring characteristics which allow a mix of qualifications, skills and experience both nationally and internationally.

The terms and conditions of the appointment and retirement of directors are set out in a letter of appointment which covers remuneration, expectations, terms, the procedures for dealing with conflicts of interest and the availability of independent professional advice.

The performance of all directors is reviewed by the Chairman each year. Directors whose performance is unsatisfactory will be asked to retire.

The Board's structure is consistent with ASX Principle 2.

Director Independence

Directors are expected to bring independent views and judgement to the Board's deliberations. In response to the ASX Principles, the revised Board Charter requires the Board to include a majority of non-executive independent directors, a non-executive independent Chairman and to have different persons filling the roles of Chairman and Chief Executive Officer.

In considering whether a director is independent, the Board has had regard to the independence criteria in ASX Principle 2 and other facts, information and circumstances that the Board considers relevant.

Meetings

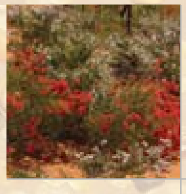
The Board meets at least ten times a year to review the business of Gunson, its financial performance and other operational issues.

The Board reviews the remuneration and policies applicable to non-executive directors and the Managing Director on an annual basis. Remuneration levels are competitively set to attract the most qualified and experienced directors and senior executives. Where necessary the Board obtains independent advice on the appropriateness of remuneration packages.

Retirement and Re-election

The Constitution of the Company requires one third of the directors, other than the Managing Director, to retire from office at each Annual General Meeting. Directors who have been appointed by the Board are required to retire from office at the next Annual General Meeting and are not taken into account in determining the number of directors to retire at that Annual General Meeting. Directors cannot hold office for a period in excess of three years or later than the third Annual General Meeting following their appointment without submitting themselves for re-election. Retiring directors are eligible for re-election by shareholders.

When a vacancy exists, for whatever reason, or where it is considered that the Board would benefit from the services of a new director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience. External advisers may be used to assist in such a process. The Board will then appoint the most suitable candidate who must stand for election at the next general meeting of shareholders.



Corporate Governance Statement

Nomination and Appointment of New Directors

Recommendations of candidates for new directors are made by the Board's Nomination and Remuneration Committee for consideration by the Board as a whole.

Review of Performance

The Board reviews its performance and composition on an annual basis to ensure that it has the appropriate mix of expertise and experience, consistent with ASX Principle 8.

The structure and disclosure of the Company's remuneration policies for directors and senior executives are generally consistent with ASX Principle 9 and are set out in the Directors Report.

Board Access to Information

All directors have unrestricted access to all employees of the group and, subject to the law, access to all Company records and information held by group employees and external advisers. The Board receives regular detailed financial and operational reports from senior management to enable it to carry out its duties.

Consistent with ASX Principle 2, each director may, with the prior written approval of the Chairman, obtain independent professional advice to assist the director in the proper exercise of powers and discharge of duties as a director or as a member of a Board Committee. The Company will reimburse the director for the reasonable expense of obtaining that advice.

Board Committees

The Board where appropriate may establish a number of committees to assist in carrying out its responsibilities in an effective and efficient manner.

Two standing Board Committees assist the Board in the discharge of its responsibilities and are governed by their respective Charters, as approved by the Board. These are:

- The Nomination and Remuneration Committee; and
- The Audit Committee.

Nomination & Remuneration Committee

Among the specific responsibilities set out in its revised Charter, the Nomination and Remuneration Committee reviews and makes recommendations to the Board on the Board's operation and performance. It also reviews Board composition and makes recommendations for new appointments to the Board; establishes an induction program for directors; reviews and makes recommendations on remuneration policies for the Company including, in particular, those governing the directors, the Managing Director and senior management.

The members of the Nomination and Remuneration Committee during the year were:

Mr Bill Cunningham (Chairman)
Mr Peter Harley

The composition, operation and responsibilities of the Committee were generally consistent with ASX Principles 2 and 9.

Audit Committee

The Audit Committee monitors internal control policies and procedures designed to safeguard Company assets and to maintain the integrity of financial reporting, consistent with ASX Principle 4.

The role of the Committee is to provide a direct link between the Board and the external auditors.

It also gives the Board of Directors additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in financial statements.

The responsibilities of the Audit Committee are:

- monitoring compliance with regulatory requirements;
- improving the quality of the accounting function;
- reviewing external audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management;
- liaising with external auditors and ensuring that the annual audit and half-year review are conducted in an effective manner.

The Audit Committee reviews the performance of the external auditors on an annual basis and meets with them at least twice during the year. Nomination of auditors will be at the discretion of the Committee.

The members of the Audit Committee during the year were:

Mr Peter Harley (Chairman)
Mr Bill Cunningham

Audit

As part of the Company's commitment to safeguarding integrity in financial reporting, Gunson has implemented procedures and policies to monitor the independence and competence of its external auditors. The auditor's independence declaration appears on page 63 of this Annual Report.

Consistent with ASX Principle 6, the Auditor attends and is available to answer questions at, the Company's annual general meetings.

Business Risks

Consistent with ASX Principle 7, the Company is committed to the identification, monitoring and management of risks associated with its business activities and has embedded in its management and reporting systems a number of risk management controls.

The Board monitors and receives advice on areas of operational and financial risk, and considers strategies for appropriate risk management arrangements.

Specific areas of risk identified initially and which are regularly considered at Board meetings include sovereign risk, foreign currency and commodity price fluctuations, performance of activities, human

Corporate Governance Statement

resources, the environment, statutory compliance and continuous disclosure obligations.

Share Trading

Under the Company's share trading policy, all employees and directors of Gunson and its related companies are prohibited from trading in the Company's shares or other securities if they are in possession of "inside information". Subject to this condition and in light of the ASX's continuous disclosure requirements, trading can occur at any time and is not limited to specified windows following the publication of financial results.

In addition, in order to trade, directors of the Company must advise the Chairman of their intention to trade and must also have been advised by the Chairman that there is no known reason to preclude them trading in the Company's shares or other securities.

The Company's share trading policy is consistent with ASX Principle 3.

Continuous Disclosure

The Company understands and respects that timely disclosure of price sensitive information is central to the efficient operation of the Australian Securities Exchange's securities market and has adopted a comprehensive policy covering announcements to the Australian Securities Exchange, prevention of selective or inadvertent disclosure, conduct of investor and analysts briefings, media communications, commenting on expected earnings, communications black-out periods and review of briefings and communications. The policy is reviewed periodically and updated as required.

The Company Secretary has responsibility for overseeing and coordinating disclosure of information to the Australian Stock Exchange. The Company Secretary also liaises with the Managing Director in relation to continuous disclosure matters. The Managing Director is responsible for overseeing and coordinating disclosure of information to analysts, brokers and shareholders.

The Company's continuous disclosure policy is consistent with ASX Principle 5.

Ethical Standards

All Directors, executives and employees are charged with the responsibility to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

Both the Board Code of Conduct and the Company Code of Ethics and Conduct are consistent with ASX Principles 3 and 10.

Communications with Shareholders

The Board aims to ensure that shareholders are kept informed of all major developments affecting Gunson. Information is communicated to shareholders through the distribution of annual reports; and by presentation to shareholders at the Annual General Meeting which they are encouraged to attend.

In addition, all reports, including quarterly reports and releases made by Gunson throughout the year with respect to its activities are distributed widely via the Australian Securities Exchange and on the Company's website www.gunson.com.au .

GUNSON RESOURCES LIMITED

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