



GUNSON RESOURCES LIMITED

ABN 32 090 603 642

FINANCIAL REPORT 2003

For the Year Ended 30 June 2003

CORPORATE DIRECTORY

Directors

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

Company Secretary

DA Edwards

Registered and Principal Office

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West Perth WA 6005
Tel: (08) 9226-3130
Fax: (08) 9226-3136
Email: info@gunson.com.au

Postal Address

PO Box 1217
West Perth WA 6872

Website

www.gunson.com.au

Country of Incorporation

Gunson Resources Limited is domiciled
and incorporated in Australia

Auditors

BDO Chartered Accountants & Advisers
256 St George's Terrace
Perth Western Australia 6000

Share Registry

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

Home Stock Exchange

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

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DIRECTOR'S REPORT

The Directors of Gunson Resources Limited submit their report for the year ended 30 June 2003.

The Board of Directors

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

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

Bill Cunningham is a consultant in mineral commodities marketing with over 37 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, which included products containing copper and cobalt.

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

David Harley is a geologist with over 30 years experience in the mining industry, mostly in senior exploration management positions with WMC Resources Limited. He is President of the Association of Mining and Exploration Companies, AMEC, Chairman of Gallery Gold Ltd, and was Managing Director of Stuart Metals NL for 3 years until October 1999.

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

Peter Harley is an experienced manager and director with over 20 years association with a variety of public and private companies. Peter is Chairman of iiNet Ltd and the Co-operative Research Centre for Australian Communications based at Curtin University. He is also a non-executive director of Western Australia's largest venture capital fund, Foundation Capital Ltd.

Director's Interests in Shares and Options of the Company

As at the date of this report the relevant interest of each Director in shares and options of the Company were:

| Director | Fully Paid Ordinary Shares | Unlisted Options over Ordinary Shares |
|-----------------|-----------------------------------|--|
| W H Cunningham | 150,000 | 250,000 |
| D N Harley | 610,000 | 5,000,000 |
| P C Harley | 142,000 | 1,000,000 |

Principal Activities

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

Results of Operations

The Company made a loss after tax of \$254,998 (2002: \$449,517). No dividends were paid and the directors have not recommended the payment of a dividend.

Review of Operations

During the year the Company continued with explorations of its mineral tenements. The main focus was on the Coburn mineral sand project, where a preliminary feasibility study revealed that an open pit mining operation based on the Amy Zone resource would be financially attractive. A bankable feasibility study on Coburn commenced in May 2003.

Excluding externally funded expenditure on the Shell Lakes project and the Mount Gunson Project, exploration expenditure totaled \$921 908 (2002: \$436,105) during the period under review.

DIRECTOR'S REPORT

Number of Employees

The Company employed 2 people at as 30 June 2003 (2002: 2 employees).

Significant Changes in State of Affairs

There were no significant changes in the state of affairs of the Company during the financial year other than:

- Exploration expenditure for the financial period totalled \$921,908.

Use Of Funds

The Company's cash and like assets at the time of admission to the Australian Stock Exchange have been used in a manner consistent with the business objectives outlined in the prospectus for the Company's initial public offering dated 15 March 2000.

Significant Events After Balance Date

On the 1st July 2003 the Company announced it had applied for six exploration licences over a combined 120 square kilometre area of the Tennant Creek district in the Northern Territory, as a result of geological targeting work conducted on BHP Billitons extensive Australian database by Gunson's geological consultant, Douglas Haynes Discovery Pty Ltd. The applications cover weak magnetic anomalies with associated gravity responses in favorable geological settings, where little or no previous exploration has been carried out. The targets on these areas can be tested quickly and cheaply with ground geophysics and shallow geochemical drilling.

On the 31st July 2003, the Company successfully completed a placement of 5.5million ordinary fully paid shares at 12.5 cents per share to clients of Southern Cross Equities Limited, raising \$687,500. Gunson paid Southern Cross Equities Limited a fee of 5% of funds raised in the placement and issued 1 million options exercisable at 20 cents each on or before 5 years from 16th September 2003 as a fee for general corporate advice. Funds raised under the placement are being used for the completion of the bankable feasibility study on the Coburn Project.

On the 16th September 2003 the Company completed its \$2.3 million capital raising program, via the issue of 10 million shares at 12.5 cents per share pursuant to a Shareholder Share Purchase Plan ("SSP") and a share placement of 3 million shares at 12.5 cents per share.

On the 16th September 2003, the Company issued 1,400,000 options exercisable at 20 cents in accordance with shareholder approval.

Likely Developments and Expected Results

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

Share Options

As at the date of this report, there were 8,200,000 (2002: 6,700,000) options over unissued ordinary shares. Refer to note 10 of the Financial Statements for further details of the options outstanding.

100,000 options were issued and no options were exercised during the year.

DIRECTOR'S REPORT

Directors' Meetings

The following table sets out the number of meetings of the Company's Directors held while each Director was in office and the number of meetings attended by each Director:

| Board Meetings | | |
|-----------------------|--------------------------------|------------------------------------|
| Director | Number of meetings held | Number of meetings attended |
| W H Cunningham | 12 | 12 |
| D N Harley | 12 | 12 |
| P C Harley | 12 | 12 |

Directors' and Executive Officers' Emoluments

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.

To assist in achieving these objectives, the Board links the nature and amount of Executive Directors' and officers' emoluments to the Company's financial and operational performance. Details regarding the issue of share options are provided below.

Executives are those directly accountable and responsible for the operational management and strategic direction of the Company. Other than Mr David Harley, whose remuneration is disclosed below, there were no other executive officers in the Company.

The emoluments of each Director are as follows:

| | Base Fee | Superannuation |
|-------------------------------------|-----------------|-----------------------|
| | \$ | \$ |
| W H Cunningham (Chairman) | 24,000 | 2,160 |
| D N Harley (Managing Director) | 175,000 | 15,750 |
| P C Harley (Non Executive Director) | 12,000 | 1,080 |

Environmental Regulation and Performance

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

Indemnification and Insurance of Directors

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

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

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

DIRECTOR'S REPORT

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Gunson support and have adhered to the principles of Corporate Governance. The Company's corporate governance statement is contained in the Corporate Governance section on page 24 of this annual report.

Auditor

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

Legal Proceedings

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

Signed in accordance with a resolution of Directors.

D N Harley
Managing Director

24 September 2003

STATEMENT OF FINANCIAL PERFORMANCE

| For the year ended 30 June 2003 | Note | 2003 \$ | 2002 \$ |
|--|------|------------------|------------------|
| REVENUES FROM ORDINARY ACTIVITIES | | | |
| Interest Income | 2 | 89,225 | 101,872 |
| Other Income | 2 | 8,861 | 1,984 |
| Management fees (Mt Gunson JV) | 2 | 2,907 | 50,527 |
| Total Revenue From Ordinary Activities | | 100,993 | 154,383 |
| Administration expenses | 2 | (355,991) | (358,996) |
| Exploration Costs Written Off | 6 | - | (244,904) |
| Loss From Ordinary Activities Before Income Tax | | (254,998) | (449,517) |
| Income tax expense | 3 | - | - |
| NET LOSS ATTRIBUTABLE TO MEMBERS | | (254,998) | (449,517) |
| Basic Earnings per share (cents per share) | 15 | (0.68) | (1.3) |

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

| As at 30 June 2003 | Note | 2003 \$ | 2002 \$ |
|---|------|------------------|------------------|
| CURRENT ASSETS | | | |
| Cash Assets | 4 | 1,297,920 | 2,398,810 |
| Receivables | 5 | 60,741 | 27,911 |
| TOTAL CURRENT ASSETS | | <u>1,358,661</u> | <u>2,426,721</u> |
| NON-CURRENT ASSETS | | | |
| Deferred Exploration Evaluation and Development Costs | 6 | 5,131,001 | 4,209,093 |
| Property, Plant and Equipment | 7 | 25,101 | 4,416 |
| TOTAL NON-CURRENT ASSETS | | <u>5,156,102</u> | <u>4,213,509</u> |
| TOTAL ASSETS | | <u>6,514,763</u> | <u>6,640,230</u> |
| CURRENT LIABILITIES | | | |
| Payables | 8 | 198,026 | 73,175 |
| Provisions | 9 | 14,414 | 9,734 |
| TOTAL CURRENT LIABILITIES | | <u>212,440</u> | <u>82,909</u> |
| TOTAL LIABILITIES | | <u>212,440</u> | <u>82,909</u> |
| NET ASSETS | | <u>6,302,323</u> | <u>6,557,321</u> |
| EQUITY | | | |
| Contributed Equity | 10 | 7,318,551 | 7,318,551 |
| Accumulated Losses | 11 | (1,016,228) | (761,230) |
| TOTAL EQUITY | | <u>6,302,323</u> | <u>6,557,321</u> |

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2003

| | Note | 2003 \$ | 2002 \$ |
|--|------|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Payments for exploration and evaluation | | (921,908) | (479,716) |
| Payments to suppliers and employees | | (322,623) | (364,699) |
| Interest received | | 89,225 | 101,872 |
| Management Fees (Mt Gunson JV) | | 2,907 | 54,794 |
| Goods and services tax (paid)/received | | 79,653 | 50,097 |
| | | <hr/> | <hr/> |
| NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES | 20 | (1,072,746) | (637,652) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds on sale of plant and equipment | | - | 1,984 |
| Payment for plant and equipment | | (28,144) | (7,398) |
| | | <hr/> | <hr/> |
| NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES | | (28,144) | (5,414) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issues of shares | 10 | - | 1,392,000 |
| Payment of share issue costs | | - | (86,551) |
| | | <hr/> | <hr/> |
| NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES | | - | 1,305,449 |
| NET INCREASE / (DECREASE) IN CASH HELD | | (1,100,890) | 662,383 |
| Cash at the beginning of the financial year | | 2,398,810 | 1,736,427 |
| | | <hr/> | <hr/> |
| CASH AT THE END OF THE FINANCIAL YEAR | 4 | <u>1,297,920</u> | <u>2,398,810</u> |

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial statements have been prepared on an accruals basis and on the basis of historical costs and do not take into account changing money values or, except where stated, current valuations of non-current assets.

The following is a summary of the significant accounting policies adopted by the Company in the preparation of the financial statements.

The accounting policies have been consistently applied, unless otherwise stated.

(a) Exploration and Evaluation Expenditure

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

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made. Where the abandoned area has previously been revalued, the previous revaluation increment is reversed against the Asset Revaluation Reserve.

When production commences, the accumulated costs for the relevant area of interest are amortised over the 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) Recoverable Amount

Non - current assets are not revalued to an amount above their recoverable amount, and where carrying values exceed this recoverable amount assets are written down. In determining recoverable amount the expected net cash flows have not been discounted to their present value.

(c) Property, Plant & Equipment

Depreciation and amortisation

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

- Plant & equipment 20% - 33%

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

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Income Tax

The Company adopts the liability method of tax-effect accounting whereby the income tax expense shown in the profit and loss account is based on the operating result before income tax adjusted for any permanent differences.

Timing differences, which arise due to the different accounting years in which items of revenue and expense are included in the determination of the operating result before income tax and taxable income are brought to account as either provision for deferred income tax or an asset described as future income tax benefit at the rate of income tax applicable to the year in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

(e) Employee Benefits

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

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

ii. *Long service leave*

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

(f) Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within 2 working days, net of outstanding bank overdrafts.

(g) Accounts Payable

Liabilities are recognised for amounts to be paid in the future for goods or services already received, whether or not yet billed to the Company. Trade accounts payable are normally settled within 30 days.

(h) Revenue Recognition

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

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) 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.

(j) Trade and other payables

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

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

(k) Joint Ventures

Interest in the joint venture operation is brought to account by including in the respective classifications, the share of individual assets employed and share of liabilities and expenses incurred.

(l) Leases

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

Operating leases

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

(m) Earnings Per Share

i. Basic earnings per share

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

ii. 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.

NOTES TO THE FINANCIAL STATEMENTS

| | 2003 \$ | 2002 \$ |
|---|------------------|----------------|
| 2. Revenue and Expense from Ordinary Activities | | |
| The operating results before income tax has been determined after: | | |
| Revenues From Operating Activities | | |
| Interest received | 89,225 | 101,872 |
| Proceeds on sale of assets | - | 1,984 |
| Management Fees (Mt Gunson JV) | 2,907 | 50,527 |
| Other income | 8,861 | - |
| | <u>100,993</u> | <u>154,383</u> |
| Expenses from Operating Activities | | |
| Depreciation | 7,459 | 2,455 |
| Exploration costs written off | - | 244,904 |
| Salaries & Wages Cost expensed | 130,606 | 147,311 |
| Directors Fees | 39,240 | 36,000 |
| Rent expense on operating lease | 31,220 | 22,528 |
| Shareholder and Listing Expenses | 30,467 | 53,843 |
| Advertising | 19,414 | 10,816 |
| Travel | 12,520 | 18,529 |
| Accounting | 19,862 | 16,786 |
| Company Secretarial | 17,017 | 14,920 |
| Insurance | 17,773 | 14,733 |
| Other operating expense | 30,413 | 96,859 |
| | <u>355,991</u> | <u>603,900</u> |
| Gains and Losses | | |
| Loss on disposal of an asset | - | 198 |
| | <u>-</u> | <u>198</u> |
| 3. Income Tax | | |
| Net Loss before Tax | (254,998) | (449,517) |
| Prima facie tax benefit at 30% (2002: 30%) | 76,499 | 134,855 |
| Tax effect of permanent differences | | |
| Non-deductible entertainment | - | (10) |
| Tax effect of timing differences | | |
| Capital Raising Costs | 5,193 | 5,193 |
| Exploration | 276,572 | 57,360 |
| Other | (705) | (1,866) |
| Future income tax benefit not brought to account | (357,559) | (195,532) |
| | <u>-</u> | <u>-</u> |
| Income Tax Loss | | |
| Future income tax benefit arising from tax losses of the Company not brought to account at balance date as realisation of the benefit is not regarded as virtually certain. | 1,090,079 | 732,518 |
| | <u>1,090,079</u> | <u>732,518</u> |
| The benefit for tax losses will only be obtained if: | | |
| (i) the consolidated entity derives future assessable income of a nature and amount sufficient to enable the benefit from the tax losses to be realised; | | |
| (ii) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation; and | | |
| (iii) no changes in tax legislation adversely affect the consolidated entity realising the benefit from the deductions for the losses. | | |

NOTES TO THE FINANCIAL STATEMENTS

| | 2003 \$ | 2002 \$ |
|--|------------------|------------------|
| 4. Cash | | |
| Cash at bank | (2,080) | 98,810 |
| Cash on deposit | 1,300,000 | 2,300,000 |
| | <u>1,297,920</u> | <u>2,398,810</u> |
| 5. Receivables | | |
| Goods and services tax refund | 48,241 | 23,964 |
| Other receivables | 12,500 | 3,947 |
| | <u>60,741</u> | <u>27,911</u> |
| 6. Deferred Exploration, Evaluation and Development Costs | | |
| Exploration costs brought forward | 4,209,093 | 4,017,892 |
| Expenditure incurred on exploration | 921,908 | 436,105 |
| Exploration costs written off | - | (244,904) |
| | <u>5,131,001</u> | <u>4,209,093</u> |
| Amortisation of Exploration and Evaluation Costs | | |
| The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective mining tenements. Amortisation of the costs carried forward for the development phase is not being charged pending the commencement of production. | | |
| Interest in Joint Ventures | | |
| The Company was involved in a joint venture on the Mount Gunson Project with BHP Billiton. This arrangement ceased during January 2003 when BHP Billiton withdrew. | | |
| The Company was also involved in a joint venture for diamonds on the Shell Lakes Project with De Beers Australia Exploration. This arrangement ceased in June 2003. | | |
| 7. Property, Plant and Equipment | | |
| Plant and equipment, at cost | 35,456 | 9,006 |
| Accumulated depreciation | (10,355) | (4,590) |
| Total written down value | <u>25,101</u> | <u>4,416</u> |
| Movements in Carrying Amounts | | |
| Plant and Equipment | | |
| Balance at the beginning of the year | 4,416 | 1,655 |
| Additions | 28,144 | 7,398 |
| Disposals | - | (2,182) |
| Depreciation expense | (7,459) | (2,455) |
| Carrying amount at the end of year | <u>25,101</u> | <u>4,416</u> |

NOTES TO THE FINANCIAL STATEMENTS

| | 2003 \$ | 2002 \$ |
|------------------------------|----------------|---------------|
| 8. Payables | | |
| Trade creditors | 171,665 | 47,261 |
| Other creditors and accruals | 26,361 | 25,914 |
| | <u>198,026</u> | <u>73,175</u> |

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

9. Provisions

| | | |
|-----------------------|---------------|--------------|
| Employee entitlements | <u>14,414</u> | <u>9,734</u> |
|-----------------------|---------------|--------------|

10. Contributed Equity

(a) Issued and Paid Up Capital

| | | |
|---|------------------|------------------|
| 37,408,005 (2002: 37,408,005) ordinary shares fully paid | <u>7,318,551</u> | <u>7,318,551</u> |
|---|------------------|------------------|

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

| | 2003 | | 2002 | |
|---|---------------------|------------------|---------------------|------------------|
| | Number of Shares | \$ | Number of Shares | \$ |
| Movements in shares on issue | | | | |
| Opening Balance | 37,408,005 | 7,318,551 | 32,668,005 | 6,013,102 |
| Share placement issued at 30 cents per share on 5 December 2001 | - | - | 4,440,000 | 1,332,000 |
| Shares issued on conversion of options on 5 December 2001 | - | - | 300,000 | 60,000 |
| Less: share issue expenses | | | - | (86,551) |
| | <u>37,408,005</u> | <u>7,318,551</u> | <u>37,408,005</u> | <u>7,318,551</u> |

(c) Share Options

The Company has on issue at year end 6,800,000 (2002: 6,700,000) options over unissued shares. During the year no options were converted into shares (2002: 300,000).

| No. of options | |
|-------------------|--|
| 75,000 | Class A options issued – Exercise price 20 cents Exercise period 12/5/01- 12/5/05 |
| 3,125,000 | Class A options issued – Exercise price 20 cents Exercise period 12/5/02 - 12/5/05 |
| 375,000 | Class B options issued – Exercise price 25 cents Exercise period 12/5/01 - 12/5/05 |
| 3,125,000 | Class B options issued – Exercise price 25 cents Exercise period 12/5/02 - 12/5/05 |
| <u>100,000</u> | Other options issued – Exercise price 20 cents Exercise period 16/12/02 – 16/12/07 |
| <u>6,800,000</u> | |

(d) Terms and Conditions of Contributed Equity

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

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

NOTES TO THE FINANCIAL STATEMENTS

| | 2003 \$ | 2002 \$ |
|---|------------------|----------------|
| 11. Reserves and Accumulated Losses | | |
| Accumulated Losses | | |
| Accumulated loss at the beginning of the financial year | 761,230 | 311,713 |
| Net loss for the year | 254,998 | 449,517 |
| Accumulated loss at the end of the financial year | <u>1,016,228</u> | <u>761,230</u> |
| 12. Remuneration Of Directors and Executives | | |
| (a) Directors' remuneration | | |
| Income paid or payable, or otherwise made available, in respect of the financial period to all directors of Gunson Resources Limited, directly or indirectly, from the entity or any related party: | <u>229,990</u> | <u>214,380</u> |
| The number of Directors of Gunson Resources Limited whose income (including superannuation contributions) falls within the following bands is: | | |
| | Number | Number |
| \$ 10,000 - \$19,999 | 1 | 1 |
| \$ 20,000 - \$29,999 | 1 | 1 |
| \$190,000 - \$200,000 | <u>1</u> | <u>1</u> |
| (b) Executives' remuneration | | |
| Income paid or payable to executives of Gunson Resources Limited whose income is \$100,000 or more. Other than Mr DN Harley, there were no other executives of the Company. | <u>190,750</u> | <u>175,500</u> |
| 13. Auditors Remuneration | | |
| Amounts received or due and receivable by the auditors of Gunson Resources Limited for: | | |
| - an audit or review of the financial statements of the entity | 8,313 | 8,000 |
| - other services | 670 | - |
| | <u>8,983</u> | <u>8,000</u> |
| 14. Events Subsequent To Balance Date | | |
| On the 1 st July 2003 the Company announced it had applied for six exploration licences over a combined 120 square kilometre area of the Tennant Creek district in the Northern Territory, as a result of geological targeting work conducted on BHP Billitons extensive Australian database by Gunson's geological consultant, Douglas Haynes Discovery Pty Ltd. The applications cover weak magnetic anomalies with associated gravity responses in favorable geological settings, where little or no previous exploration has been carried out. The targets on these areas can be tested quickly and cheaply with ground geophysics and shallow geochemical drilling. | | |
| On the 31 st July 2003, the Company successfully completed a placement of 5.5million ordinary fully paid shares at 12.5 cents per share to clients of Southern Cross Equities Limited, raising \$687,500. Gunson paid Southern Cross Equities Limited a fee of 5% of funds raised in the placement and issued 1 million options exercisable at 20 cents each on or before 5 years from 16 th September 2003 as a fee for general corporate advice. Funds raised under the placement are being used for the completion of the bankable feasibility study on the Coburn Project. | | |
| On the 16 th September 2003 the Company completed its \$2.3 million capital raising program, via the issue of 10 million shares at 12.5 cents per share pursuant to a Shareholder Share Purchase Plan ("SSP") and a share placement of 3 million shares at 12.5 cents per share. | | |

NOTES TO THE FINANCIAL STATEMENTS

14. Events Subsequent To Balance Date (continued)

On the 16th September 2003, the Company issued 1,400,000 options exercisable at 20 cents in accordance with shareholder approval.

| | 2003 \$ | 2002 \$ |
|---|-------------------|-------------------|
| 15. Earnings Per Share | | |
| Basic earnings per share (cents) | (0.68) | (1.3) |
| Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share | <u>37,408,005</u> | <u>35,318,854</u> |
| Earnings used in the calculation of basic EPS | <u>(254,998)</u> | <u>(449,517)</u> |

Dilutive Earnings Per Share has not been disclosed as the entity does not have on issue any potential ordinary shares which are dilutive.

16. Segment Information

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

17. Related Party Transactions

a) Directors

The directors of Gunson Resources Limited during the financial period were:

William H Cunningham

David N Harley

Peter C Harley

b) Equity Interests of Directors

At balance date the relevant interest of each Director in ordinary fully paid shares and options of the Company were:

| | 2003 | | 2002 | |
|----------------------|------------------|-------------------|------------------|-------------------|
| | No. of Shares | No. of Options | No. of Shares | No. of Options |
| William H Cunningham | 150,000 | 250,000 | 100,000 | 250,000 |
| David N Harley | 600,000 | 5,000,000 | 350,000 | 5,000,000 |
| Peter C Harley | 102,000 | 1,000,000 | 102,000 | 1,000,000 |

During the year, there were 300,000 shares acquired on-market and there were no shares disposed.

18. Expenditure Commitments

The following tables summarise the Company's exploration expenditure commitments on granted tenements for the financial year 2003/2004 and beyond.

(a) Coburn

| Tenement | Date Granted | Annual Covenant |
|-----------|--------------|------------------|
| EL 09/939 | 18 June 1999 | \$31,500 |
| EL 09/940 | 18 June 1999 | \$31,500 |
| EL 09/941 | 18 June 1999 | \$57,600 |
| EL 09/996 | 18 July 2000 | \$31,500 |
| | TOTAL | \$152,100 |

NOTES TO THE FINANCIAL STATEMENTS

18. Expenditure Commitments (continued)

Note that a 50% reduction in the area of EL 09/996 was made in July 2003. Exemption from a further reduction in EL 09/941 was granted because over half of it overlaps the Shark Bay World Heritage Property and there is a no mining (exploration) condition on the overlapping portion. Applications for exemption from the compulsory 50% reductions in ELs 939 and 940 after year 4 were made in June 2004 but these may be refused on the grounds that only a minor proportion of both tenements overlap the World Heritage Property.

Consequently, mining leases and retention licences may be applied for over the key portions of both ELs 939 and 940, with the remaining 50% area being retained as exploration licences in each case.

Another compulsory reduction in the area of EL 996 must be made after year 4 but further reductions in ELs 939-941 will not be necessary provided that the minimum expenditure condition of \$20,000 per annum for each tenement is satisfied.

(b) Mount Gunson

The five exploration licences at Mount Gunson are the subject of an agreement with the SA Department of Primary Industry and Resources under which the Company must spend a minimum of \$250,000 on exploration in the 2003/2004 financial year. Expenditure during and after this time will depend on the area retained under exploration licences.

The Company is currently searching for a partner to fund further exploration at Mount Gunson but if this search is not successful, Gunson has sufficient cash reserves to fund some drilling itself.

(c) Shell Lakes

| Tenement | Date Granted | Annual Covenant |
|--------------|----------------|------------------|
| EL 69/1632 | 20 August 2002 | \$ 63,000 |
| EL 69/1633 | 20 August 2002 | \$ 20,000 |
| EL 69/1634 | 20 August 2002 | \$ 63,000 |
| EL 69/1635 | 20 August 2002 | \$ 63,000 |
| EL 69/1636 | 20 August 2002 | \$ 63,000 |
| TOTAL | | \$272,000 |

Note that 50% area reductions must be made after years 3 and 4 respectively, with corresponding reductions in expenditure to a minimum of \$20,000 per tenement. The Company is currently negotiating with a prospective joint venture partner to carry the expenditure commitments for this project.

(d) Consolidated Expenditure Commitment on Granted Tenements

In order to retain the rights of tenure to its granted exploration tenements, the Company is required to meet the minimum statutory expenditure requirements outlined above but may reduce these at any time by reducing the size of the tenements.

| | |
|---|--------------------|
| Not later than 1 year | \$ 674,100 |
| Later than 1 year but not later than 2 years | \$ 539,600 |
| Later than 2 years but not later than 5 years | \$1,138,800 |
| TOTAL | \$2,352,500 |

These figures assume that due to statutory tenement area reductions in year 1 above, Coburn minimum annual expenditure is reduced to \$117,600, Mount Gunson expenditure is reduced to \$150,000 and that 50% statutory area reductions are made at Shell Lakes in August 2005 and August 2006.

19. Financial Instruments Disclosure

Interest rate risk

The Company's exposure to interest rate risk, which is the risk that the financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

NOTES TO THE FINANCIAL STATEMENTS

19. Financial Instruments Disclosure (continued)

| 30 June 2003 | Weighted average interest rate | Floating interest \$ | Fixed interest maturing in less than 1 period \$ | Non-interest bearing \$ | Totals \$ |
|--|--------------------------------|----------------------|--|-------------------------|-----------|
| Financial Assets | | | | | |
| Cash | 4.6% | (2,080) | 1,300,000 | - | 1,297,920 |
| Accounts Receivable | | - | - | 60,741 | 60,741 |
| Total Financial Assets | | (2,080) | 1,300,000 | 60,741 | 1,358,661 |
| Financial Liabilities | | | | | |
| Accounts Payable | | - | - | 198,026 | 198,026 |
| Total Financial Liabilities | | - | - | 198,026 | 198,026 |
| Net Financial Assets (30 June 2003) | | (2,080) | 1,300,000 | (137,285) | 1,160,635 |
| 30 June 2002 | | | | | |
| 30 June 2002 | Weighted average interest rate | Floating interest \$ | Fixed interest maturing in less than 1 period \$ | Non-interest bearing \$ | Totals \$ |
| Financial Assets | | | | | |
| Cash | 4.6% | 98,810 | 2,300,000 | - | 2,398,810 |
| Accounts Receivable | | - | - | 27,911 | 27,911 |
| Total Financial Assets | | 98,810 | 2,300,000 | 27,911 | 2,426,721 |
| Financial Liabilities | | | | | |
| Accounts Payable | | - | - | 73,175 | 73,175 |
| Total Financial Liabilities | | - | - | 73,175 | 73,175 |
| Net Financial Assets (30 June 2002) | | 98,810 | 2,300,000 | (45,264) | 2,353,546 |

Credit Risk

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

The Company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments it has entered into.

Net Fair Values

For all assets and liabilities, their net fair value approximates their carrying values.

No financial assets and financial liabilities are traded on organised markets in standardised form.

NOTES TO THE FINANCIAL STATEMENTS

| | 2003 \$ | 2002 \$ |
|---|------------------|------------------|
| 20. Cash Flow Information | | |
| Reconciliation of the operating loss after tax to the net cash flows from operations. | | |
| Operating loss after income tax | (254,999) | (449,517) |
| Non cash items | | |
| Depreciation | 7,459 | 2,455 |
| Exploration costs written off | - | 244,904 |
| Loss on disposal of plant and equipment | - | 198 |
| Changes in assets and liabilities | | |
| Increase in receivables | (32,830) | (2,103) |
| Exploration Costs Capitalised | (921,908) | (436,105) |
| Decrease in trade creditors and accruals | 124,852 | (3,160) |
| Increase in provisions | 4,680 | 5,676 |
| Net cash flow from/(used in) operating activities | <u>1,072,746</u> | <u>(637,652)</u> |
| Reconciliation of Cash | | |
| Cash balance comprises; | | |
| cash at hand | (2,080) | 98,810 |
| short term deposits | <u>1,300,000</u> | <u>2,300,000</u> |
| | <u>1,297,920</u> | <u>2,398,810</u> |

Financing facilities available

As at 30 June 2003 the Company had no financing facilities available.

Non Cash financing and Investing Activities

There were no non-cash financing & investing activities.

| | | 2003 \$ | 2002 \$ |
|--|-------------|------------|------------|
| 21. Employee Benefits | Note | | |
| Aggregate liability for employee benefits including on-costs | | | |
| Current | | | |
| Other creditors and accruals | 8 | 26,361 | 15,306 |
| Employee entitlements provision | 9 | 14,415 | 9,734 |
| Number of Employees | | | |
| Number of employees at year end | | 2 | 2 |

22. Contingent Liabilities

The Directors are not aware of any contingent liabilities as at 30 June 2003.

DIRECTOR'S DECLARATION

The directors of the Company declare that:

- (a) the financial statements and notes of the Company are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's financial position as at 30 June 2003 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

D N Harley
Managing Director

24 September 2003
Perth, Western Australia

INDEPENDENT AUDIT REPORT



Chartered Accountants
& Advisers

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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF GUNSON RESOURCES LIMITED

Scope

The Financial Report and Directors' Responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Gunson Resources Limited (the company), for the year ended 30 June 2003.

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

Audit Approach

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

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

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

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

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

Independence

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

Audit Opinion

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

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2003 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

BDO
Chartered Accountants & Advisers

Geoff Brayshaw
Partner, Perth

CORPORATE GOVERNANCE STATEMENT

This statement outlines the principal corporate governance procedures of Gunson Resources Limited ("Gunson").

The Board of Directors (Board) supports a system of corporate governance to ensure that the management of Gunson is conducted to maximise shareholder wealth in a proper and ethical manner.

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 exploration activities are distributed widely via the Australian Stock Exchange and on the Company's website.

Board Responsibilities

The Board considers that the essential responsibilities of the directors is to oversee Gunson's exploration activities for the benefit of its shareholders, employees and other stakeholders and to protect and enhance shareholder value. 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 review the performance of the Managing Director;
- Develop with management and approve strategy, planning, exploration programs and major capital expenditure;
- Arrange for effective budgeting and financial supervision;
- Ensure that appropriate audit arrangements are in place;
- Ensure that effective and appropriate reporting systems in place will, in particular, assure the Board that proper financial, operational, compliance and risk management controls function adequately;
- Report to shareholders;

Board Composition

The composition of the Board shall be 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 Board will review its composition on an annual basis to ensure that it has the appropriate mix of expertise and experience. 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.

The terms and conditions of the appointment and retirement of Directors will be 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 will be reviewed by the Chairman each year. Directors whose performance is unsatisfactory will be asked to retire.

CORPORATE GOVERNANCE STATEMENT

Board Workings

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

With the approval of the Chairman, any directors can seek independent advice, at Gunson's expense.

The Board will review the remuneration and policies applicable to Non-Executive Directors and the Managing Director on an annual basis. Remuneration levels will be competitively set to attract the most qualified and experienced Directors and senior executives. Where necessary the Board will obtain independent advice on the appropriateness of remuneration packages.

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.

Audit Committee

An Audit Committee is to be established as soon as mining activities are instigated and in the meantime the Board will perform this function. The role of the Committee is to provide a direct link between the Board and the external auditors.

It will also give 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 will include:

- 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 will review the performance of the external auditors on an annual basis and meet with them at least twice during the year. Nomination of auditors will be at the discretion of the Committee.

Business Risks

The Board will monitor and receive advice on areas of operational and financial risk, and consider strategies for appropriate risk management arrangements.

Specific areas of risk identified initially and which will be regularly considered at Board meetings include sovereign risk, foreign currency and commodity price fluctuations, performance of activities, human resources, the environment, statutory compliance and continuous disclosure obligations.

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.