GUNSON RESOURCES LIMITED
ABN: 32 090 603 642

Level 2, 33 Richardson Street West Perth Western Australia 6005
PO Box 1217 West Perth Western Australia 6872
Telephone: (08) 9226 3130 Facsimile: (08) 9226 3136
Email: enquiries@gunson.com.au Web: www.gunson.com.au

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17th October 2006

Dear Shareholder

On behalf of the Board of Directors, I have pleasure in enclosing this year's Annual Report and inviting you to attend the seventh Annual General Meeting of the Company, which is to be held in Perth.

The Meeting will be held in The Western Australian Club at 101 St Georges Terrace, Perth at 10.00 am on Friday, 17th November 2006. A copy of the Notice of Meeting is enclosed and if you are able to attend, please bring this letter with you to facilitate your admission to the Meeting.

If you are unable to attend but wish to vote on any of the resolutions to be put to the Meeting, a proxy form for your use is enclosed with the Notice of Meeting.

Thank you for your support as a shareholder of the Company.

Yours sincerely

W H CUNNINGHAM
CHAIRMAN

Enc

GUNSON RESOURCES LIMITED

ABN 32 090 603 642

NOTICE OF ANNUAL GENERAL MEETING

Gunson Resources Limited (**Gunson** or the **Company**) gives notice that the annual general meeting of members will be held at The Western Australian Club (Inc), 101 St George's Terrace, Perth, Western Australia on Friday, 17th November 2006 at 10.00am Western Standard Time.

The Explanatory Statement which accompanies and forms part of this Notice describes the matters to be considered, and terms used in this Notice have the meaning given to them in the Explanatory Statement.

AGENDA

BUSINESS

1. Reports and Accounts

To receive and consider the financial report and the reports of the Directors and of the Auditor for the financial year ended 30 June 2006.

2. Resolution 1 – Remuneration Report

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

> "*To adopt the remuneration report for the financial year ended 30 June 2006.*"

Short Explanation: Consistent with section 250R of the Corporations Act 2001, the Company submits to shareholders for consideration and adoption by way of a non-binding resolution its Remuneration Report for the year ended 30 June 2006. Please refer to the Explanatory Statement for further details.

Note – the vote on this resolution is advisory only and does not bind the Directors or the Company.

3. Resolution 2 – Re-election of Mr William H Cunningham

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

> *"That Mr William H Cunningham, who will retire by rotation at the close of the Annual General Meeting in accordance with clause 58.1 of the Company's Constitution, be re-elected as a Director of the Company."*

Short Explanation: Clause 58.1 of the Company's Constitution provides that one-third of the Directors, or, if their number is not a multiple of 3, then the number nearest one-third, shall retire from office at every annual general meeting. A retiring Director is eligible for re-election. Please refer to the Explanatory Statement for further details.

4. Resolution 3 - Approval for past placement of shares

To consider and, if thought fit, pass the following resolution as an **ordinary resolution**:

"*That approval is given for the past issue of a total of 8,300,000 fully paid ordinary shares in the Company on the terms and to the persons set out in the Explanatory Statement accompanying the Notice of Meeting*."

Voting Exclusion Statement
Under Rule 14.11 of the Listing Rules of Australian Stock Exchange Limited, the Company will disregard any votes cast on the resolution in Item 4 by any person who participated in any of the past issues and any associates of those persons. However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a member who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the Chairman of the meeting as proxy for a member who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides and the member who is entitled to vote has indicated on the proxy appointment form that the Chairman of the meeting may vote as a proxy in relation to each resolution to which the voting exclusion relates.

5. Resolution 4 - Approval for possible future placement of shares

To consider and, if thought fit, pass the following resolution as an **ordinary resolution**:

"*That approval is given for the issue of up to 15 million fully paid ordinary shares in the Company at a price that is at least 90% of the average market price for fully paid ordinary shares in the Company to the persons and on the terms set out in the Explanatory Statement accompanying the Notice of Meeting*."

Voting Exclusion Statement
Under Rule 14.11 of the Listing Rules of Australian Stock Exchange Limited, the Company will disregard any votes cast on the resolution in Item 5 by any person who may participate in the proposed issue, by any person who might obtain a benefit (except a benefit solely in the capacity of a holder of ordinary securities) if the resolution is passed and by any associates of those persons. However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a member who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the Chairman of the meeting as proxy for a member who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides and the member who is entitled to vote has indicated on the proxy appointment form that the Chairman of the meeting may vote as a proxy in relation to each resolution to which the voting exclusion relates.

BY ORDER OF THE BOARD

IE Gregory

IAN GREGORY
COMPANY SECRETARY
West Perth
17 October 2006

NOTES

These Notes form part of the Notice of annual general meeting.

Members entitled to attend and vote

In accordance with the Company's constitution and the Corporations Act, the Directors have set a time and date for the purpose of determining entitlements of members to attend and vote at the meeting, which is 5.00pm (WST) on Wednesday, 15th November 2006. Transactions registered after that time will be disregarded in determining entitlements to attend and vote at the meeting.

Appointment of proxies

Each member entitled to vote at the general meeting may appoint a proxy to attend and vote at the general meeting. A member entitled to cast 2 or more votes may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If the member appoints 2 proxies and the appointment does not specify this proportion, each proxy may exercise half of the votes.

A proxy need not be a member of the Company and can be an individual or a body corporate.

A body corporate appointed as a member's proxy may appoint a representative to exercise any of the powers the body may exercise as a proxy at the general meeting. The representative should bring to the meeting evidence of his or her appointment, including any authority under which the appointment is signed, unless it has previously been given to the Company.

Voting by proxy

To vote by proxy:

- the signed and completed proxy appointment form (**enclosed** with this Notice); and
- if the appointment is signed by the appointor's attorney – the authority under which the appointment was signed (eg a power of attorney) or a certified copy of it,

must be received by the Company at one of the addresses set out below by no later than 10.00am (WST) on Wednesday, 15th November 2006.

Documents received after that time will not be valid for the scheduled meeting.

By fax: (08) 9226 3136 (International: +61 8 9226 3136)

My mail: Gunson Resources Limited, PO Box 1217 West Perth, Western Australia 6872

By delivery: Gunson Resources Limited, Level 2, 33 Richardson Street, West Perth, Western Australia 6005

Your proxy form is enclosed.

Bodies corporate

A body corporate may appoint an individual as its representative to exercise any of the powers the body may exercise at meetings of a company's members. The appointment may be a standing one. Unless the appointment states otherwise, the representative may exercise all of the powers that the appointing body could exercise at a meeting or in voting on a resolution.

The representative should bring to the meeting evidence of his or her appointment, including any authority under which the appointment is signed, unless it has previously been given to the Company.

GUNSON RESOURCES LIMITED
ABN 32 090 603 642

EXPLANATORY STATEMENT

INTRODUCTION

This Explanatory Statement forms part of the Notice of annual general meeting and has been prepared to provide shareholders of Gunson Resources Limited (**Company**) with information about the items of business to be considered at the annual general meeting to be held at The Western Australian Club (Inc), 101 St George's Terrace, Perth, Western Australia on Friday, 17th November 2006 at 10.00am Western Standard Time.

This Explanatory Statement is an important document and should be read carefully and in its entirety by all shareholders.

BUSINESS OF THE MEETING

ITEM 1 - RECEIVE AND CONSIDER THE FINANCIAL AND OTHER REPORTS

This item is self explanatory. It is intended to provide an opportunity for shareholders at the meeting to raise questions on the reports themselves and on the performance of the Company generally.

ITEM 2 – RESOLUTION 1: ADOPTION OF REMUNERATION REPORT

There will be an opportunity for shareholders at the meeting to comment on and ask questions about the Remuneration Report which commences on page 18 of the Company's Annual Report 2006, including the remuneration tables referred to in the report and set out in note 13 to the financial statements commencing on page 38.

The vote on Resolution 1 is advisory only and will not bind the Directors or the Company, however, the Board will take the outcome of the vote into consideration when reviewing its remuneration practices and policies. The Directors recommend that shareholders vote in favour of Resolution 1. The Chairman intends to vote undirected proxies in favour of the Resolution.

ITEM 3 - RESOLUTION 2: RE-ELECTION OF MR WILLIAM H CUNNINGHAM

Clause 58.1 of the Company's Constitution provides that one-third of the Directors, or, if their number is not a multiple of 3, then the number nearest one-third, shall retire from office at every annual general meeting.

The Director(s) to retire at an annual general meeting, are those who have been longest in office since their last election, however, as between persons who became Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by drawing lots. A retiring Director is eligible for re-election.

Mr William H Cunningham shall retire by rotation in accordance with this requirement pursuant to the Company's Constitution, and, being eligible, seeks re-election at the Annual General Meeting.

MR WILLIAM H CUNNINGHAM B. Com. (Non-Executive Chairman)

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.

The Directors (excluding Mr. W H Cunningham) recommend that shareholders vote in favour of Resolution 2. The Chairman intends to vote undirected proxies in favour of the Resolution.

ITEM 4 – RESOLUTION 3: APPROVAL FOR PAST PLACEMENT OF SHARES

Under Australian Stock Exchange Limited (**ASX**) Listing Rule 7.1, the Company can issue up to 15% of its issued equity securities in a 12 month period (subject to certain exceptions) without shareholder approval.

Item 4 seeks shareholder approval under ASX Listing Rule 7.4 to ratify the past placement of 8,300,000 shares in the Company at 28 cents per share to institutions and sophisticated investor clients of Cartesian Capital Pty Ltd and ABN AMRO Morgans Limited on 8 September 2006, announced to ASX on that date. The effect of the ratification will be that this issue of shares will not be counted as reducing the number of securities which the Company can issue in the future without shareholder approval under the 15% limit imposed by ASX Listing Rule 7.1 (ie the 15% limit is "renewed" to the extent of the ratification).

All of the shares issued pursuant to the placement above were fully paid ordinary shares which ranked equally with all other existing fully paid ordinary shares in the Company from their date of issue. None of the recipients of placement shares was a related party of the Company within the meaning of the *Corporations Act 2001* (Cth) and the ASX Listing Rules.

The funds raised from the placement above have been and will be used for:

(a) further advancement of the Coburn Mineral Sand Project; and

(b) general working capital purposes.

The directors of the Company (**Directors**) believe that the resolution in item 4 is in the best interests of the Company and its shareholders and unanimously recommend that shareholders vote in favour of it.

ITEM 5 – RESOLUTION 4: APPROVAL FOR POSSIBLE FUTURE PLACEMENT OF SHARES

Background

Item 5 relates to a part of the proposed funding arrangements for the initial phase of the Coburn Project mine development. The Company is considering a number of possible funding options for the development of the Coburn Project. The Directors currently anticipate undertaking a major capital raising in early 2007, subject to completion of the environmental approvals process prior to this time. The Company previously anticipated undertaking this capital raising in September / October 2006, however progress has been slower than anticipated, particularly in relation to environmental approvals.

Gunson's current focus is on the profitable development of the first phase of Coburn with a nominal annual production of 30,000 tonnes of zircon. While the Amy Zone deposit at Coburn potentially enables the doubling of zircon production, this will be further scoped as the second phase of the Project, after successful implementation of the first phase.

Over the past few months, the Company has made a number of positive advances towards development of the Coburn Project. Effort has been focussed on (1) preparing and amending where required by the State Government regulators, the environmental management plans needed for approval prior to the commencement of construction, (2) negotiating offtake agreements for the remainder of the Coburn mineral products not already subject to memoranda of understanding (**MOUs**), (3) optimising the operational model to improve profitability and (4) firming up prices for key operating and capital items of the Project.

To assist in funding the Company's working capital requirements and long lead capital items at the Coburn Project until the main capital raising occurs, Gunson is seeking shareholder approval to have the ability, if necessary, to make a placement of up to 15 million ordinary shares. This will be in addition to Gunson's renewed ability to issue up to 15% of its share capital in accordance with ASX Listing Rule 7.1, pursuant to the Resolution in Item 4.

The reasons for the proposed placement are largely the same as the reasons for the past placement announced on 8 September 2006, which was approved by shareholders on 16 August 2006, namely to enable the Company to fund its ongoing requirements prior to the anticipated major capital raising referred to above.

The proposed placement, if undertaken, would provide additional working capital and would enable Gunson to continue its work on long lead items, such as detailed engineering design on the Coburn Project. Normally, this would be done once major funding is in place. However, the advantages of having funding in place to undertake this work are that construction time will be shortened and there will be less latitude for contingency in pricing by suppliers to the Project.

The Company is currently examining several alternatives for the structure of the main capital raising. Once the final estimated capital costs for the Coburn Project are determined, shareholders will be provided with further information on these costs and the Company's preferred funding alternatives.

Directors remain positive about the prospects for the Coburn Project. In order to capture the upside and create value for Gunson shareholders, the Company intends to fund the Coburn mine development in an efficient and timely manner. This would include a rights issue to existing shareholders via a prospectus. For the reasons outlined above, Directors seek your support to allow the Company to achieve its objectives.

Further information in relation to Item 5 is set out below.

Resolution in Item 5

Item 5 seeks shareholder approval under ASX Listing Rule 7.1 for the issue of up to 15 million fully paid ordinary shares in the Company at a price that is at least 90% of the average market shares price of Gunson's fully paid ordinary shares over the last 5 days on which sales of the Company's are recorded before the day of issue.

The allottees under the placement are proposed to be international and Australian institutions and sophisticated investors. All of the shares in the placement will be issued on a single occasion no later than 3 months after the annual general meeting and allotment will occur on the same date.

The shares issued will be fully paid ordinary shares and will rank equally with all other existing fully paid ordinary shares in the Company from their date of issue.

The Directors believe that the resolution in item 5 is in the best interests of the Company and its shareholders and unanimously recommend that shareholders vote in favour of it.

PROXY APPOINTMENT FORM

GUNSON RESOURCES LIMITED

ABN 32 090 603 642

Name and address of member or joint members

Appointment of proxy

I/We, being a member/s of Gunson Resources Limited and entitled to attend and vote, appoint

Name of proxy (please print)

or failing that person or, if no person is named, the Chairman of the meeting to attend, act generally and vote as directed below, or, if no directions are given, as the proxy or the Chairman sees fit, at the annual general meeting of the Company to be held on Friday, 17th November 2006 at 10.00am (WST) and at any adjournment.

Appointing a second proxy

If appointing a second proxy, state the percentage of your voting rights applicable to the proxy appointed by this form.

%

Voting directions to your proxy – please mark to indicate your directions

Business Item		For	Against	Abstain*
2	Adoption of Remuneration Report	☐	☐	☐
3	Re-election of Mr William H Cunningham	☐	☐	☐
4	Approval for past placement of shares	☐	☐	☐
5	Approval for future placement of shares	☐	☐	☐

* If you mark the Abstain box for a particular item of business, you are directing your proxy not to vote on that item on a show of hands or on a poll and your shares will not be counted in computing the required majority on a poll.

If you appoint the Chairman of the meeting as your proxy, and you do not direct him how to vote on any of the items, the Chairman of the meeting will vote in favour of each of those items.

If you appoint the Chairman of the meeting as your proxy and you do not wish to direct the Chairman how to vote please mark ✖ in the box.

By marking this box, you acknowledge that the Chairman of the meeting may vote as your proxy even if he has an interest in the outcome of the relevant item and that votes cast by the Chairman as your proxy in relation to the relevant item will, if the Chairman has an interest in the outcome, be disregarded.

Signatures of individual member, joint individual member, attorney or company member

Member, Attorney or Joint Member

Sole director and sole company secretary	**Director**	**Director/Company secretary (delete one)**

		/ /
Contact name	**Contact daytime telephone**	**Date**

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INSTRUCTIONS FOR COMPLETION OF PROXY APPOINTMENT FORM

Your name and address

This is your name and address as it appears on the register of members of the Company. If this information is incorrect, please make the correction on the Proxy Appointment Form. Members sponsored by a broker should advise their broker of any changes. **Please note that you cannot change ownership of your shares using this Proxy Appointment Form.**

Appointment of proxy

If you are entitled to vote at the meeting you have a right to appoint a proxy and should use this Proxy Appointment Form. The proxy need not be a member of the Company and can be an individual or a body corporate.

If you wish to appoint someone other than the Chairman of the meeting as your proxy, please write the name of that person in the appropriate box. Members cannot appoint themselves. If you leave the box blank, or your named proxy does not attend the meeting, the Chairman of the meeting will be your proxy and vote on your behalf.

Your proxy's authority to speak and vote for you at the meeting is suspended if you are present at the meeting.

Voting directions to your proxy

You may direct your proxy how to vote by marking ✖ in 1 of the 3 boxes opposite each item of business. All your votes will be cast in accordance with your direction, unless you indicate only a portion of votes are to be cast on any item by inserting the percentage of your voting rights applicable to the proxy appointed by this Proxy Appointment Form in the appropriate box. If you do not mark any of the boxes relating to the items of business, your proxy will vote as he or she chooses. If you mark more than 1 box relating to the same item of business any vote by your proxy on that item will be invalid.

Appointing a second proxy

If you are entitled to cast 2 or more votes you may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If you wish to appoint a second proxy, an additional Proxy Appointment Form may be obtained by telephoning the Company or you may copy this form. Both Proxy Appointment Forms should be lodged together.

If you appoint 2 proxies and the appointment does not specify the proportion or number of your votes each proxy may exercise, section 249X of the *Corporations Act 2001* (Cth) will take effect so that each proxy may exercise half of the votes (ignoring fractions).

If you appoint 2 proxies, neither proxy will have a right to vote on a show of hands.

If you appoint another member as your proxy, that person will have only 1 vote on a show of hands and does not have to vote on a show of hands in accordance with any direction by you.

Signing instructions

This Proxy Appointment Form must be signed and dated by the member or the member's attorney. Any joint member may sign.

If this form is signed by an attorney and you have not previously lodged the power of attorney with the Company for notation, please attach a certified copy of the power of attorney to this form when you return it.

If the member is a company that has a sole director or a sole director who is also the sole company secretary, this form must be signed by that person. Otherwise, this form must be signed by 2 directors or 1 director and a company secretary. Please indicate the office held by signing in the appropriate place.

Privacy

Chapter 2C of the *Corporations Act 2001* (Cth) requires information about you (including your name, address and details of the shares you hold) to be included in the Company's public register of members. This information must continue to be included in the public register if you cease to hold shares. These statutory obligations are not altered by the *Privacy Amendment (Private Sector) Act 2000* (Cth). Information is collected to administer your shareholding which may not be possible if some or all of the information is not collected.

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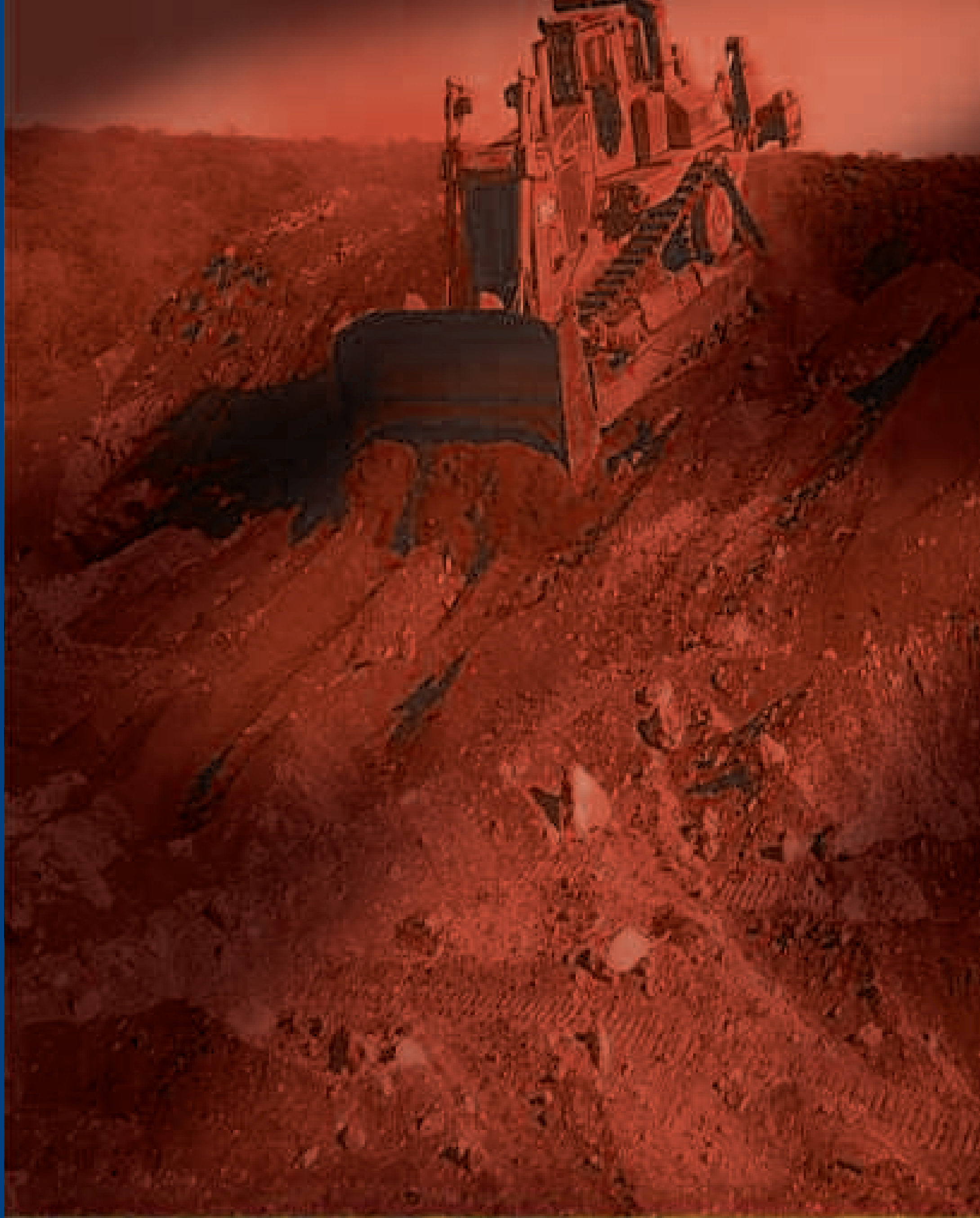
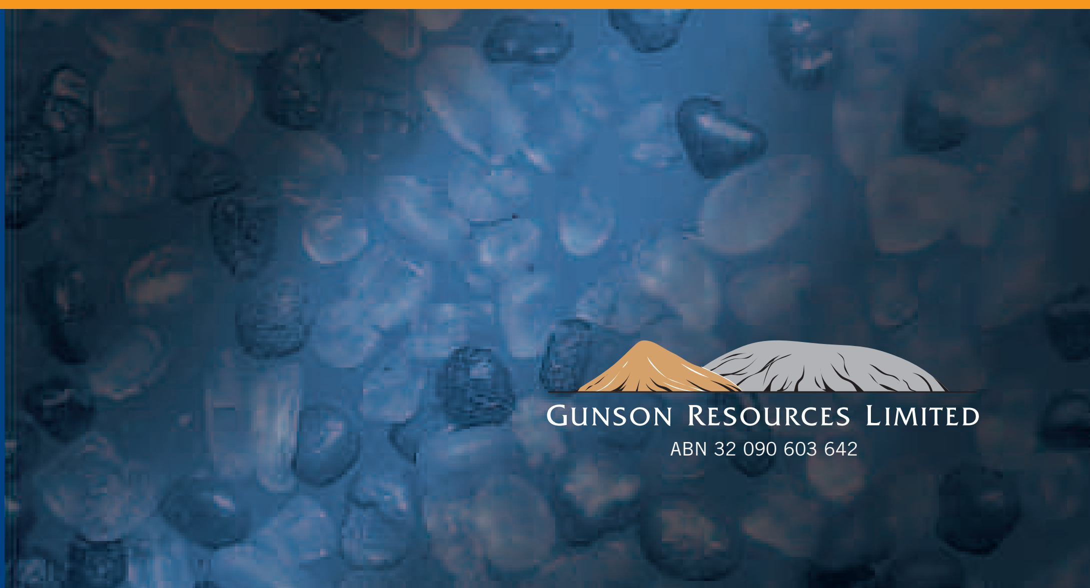
ANNUAL REPORT 2006





GUNSON RESOURCES LIMITED

ABN 32 090 603 642

Corporate Directory

Directors

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

Company Secretary

IE Gregory

Registered and Principal Office

Level 2, 33 Richardson Street West Perth WA 6005
Telephone: 08 9226 3130 Fax: 08 9226 3136
Email: enquiries@gunson.com.au

Postal Address

PO Box 1217 West Perth WA 6872

Website

www.gunson.com.au

Country of Incorporation

Gunson Resources Limited is domiciled and incorporated in Australia

Auditors

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

Share Registry

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St George's Terrace Perth WA 6000
Telephone: 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

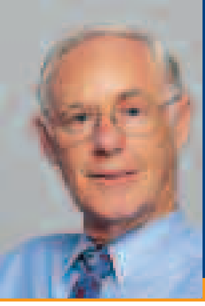
Ceramic shop in Barcelona, Spain specialising in zircon products, including the toilet bowls in the foreground. Zircon is a key ingredient in such sanitary ware.

Track to Amy Zone deposit from Coburn homestead.

Contents

Highlights

- State and Federal Government environmental approvals received for the proposed Coburn zircon mine, albeit much later than anticipated.
- Memoranda of Understanding signed with two Chinese consumers for over 40% of the proposed 30,000 tonne per annum initial zircon production from Coburn, over a 5 year period.
- The above zircon offtake agreements provide for prepayments totalling US$6million, which will assist in funding the Coburn mine development. Prepayments are to be rebated progressively as refined product is supplied to these Chinese key customers.
- Definitive Feasibility Study on Coburn is nearly complete, with pricing of the major capital and operating packages currently being finalised. Negotiations with preferred suppliers are leading to reductions in tendered prices.
- Promotion of the Company to overseas investors has attracted the large New York based resource fund, Ospraie, who are now Gunson's largest shareholder, with 10.2%.
- Drilling at Mount Gunson resulted in an intersection of 2 metres at 3.4% copper in basement rocks at Chianti Prospect, which led in May 2006 to an option/joint venture agreement with Canadian major Noranda Pacific. This agreement allows Noranda Pacific to earn a 75% interest in the Mount Gunson Project by spending $10 million over 6 years.



Chairman's Review

Dear Shareholder

On behalf of the Board, I have pleasure in presenting our seventh annual report.

In last year's Review, I described it as "our year of progress". By comparison, this year has been "our year of frustration", from regulatory delay and the competition for services during this mineral resources boom.

There has been sound progress, achieved by a small group of extremely hard-working, loyal, highly competent employees and consultants. We have to operate within our available resources of people and funds and the Coburn Zircon Project is a big and complex project for a small company. We as a Board have steadfastly kept within our resource limitations, in order to preserve shareholder equity in this project.

Over $12 million has been expended at Coburn since its inception seven years ago, including purchase of the Coburn pastoral lease, which we are de-stocking. More than 20% of the exploration and development cost to date has been on environmental studies and aboriginal heritage issues. Being near the Shark Bay World Heritage Property has given rise to extensive environmental regulation. The time taken in the approval process is unacceptable.

For example, we lodged our Public Environmental Review ("PER") document for public review in June 2005, after two years of study and public consultation Our response to the public submissions to the PER was lodged with EPA in October, 2005. EPA recommended approval, subject to conditions which we accepted, in December. We did not receive Ministerial approval until May of this year, after yielding 42 square kilometres of Coburn pastoral lease to the conservation estate, a condition not included in the EPA recommendations. Commonwealth approval followed in late July. With the approvals came the requirement for 15 environmental management plans, to be approved prior to commencement of construction. These were lodged in September, but will go through a process of review by the public service, and all need EPA approval prior to issue of a mining licence. We hope final approval comes before the end of 2006, an elapsed time of over three and a half years.

Time is of the essence in developing greenfield resource projects, where market opportunities have to be seized and engineering costs confirmed in order to raise development finance. The State Government needs to streamline the approval process, a view the Chamber of Minerals and Energy has been vocal in supporting.

Coburn Zircon Project has reached a stage where final mining approval should be received before the end of 2006, as mentioned above. Infill drilling on the initial mine area has been successfully completed. The mine plan is resolved in favour of dozer trap rather than bucket-wheel excavator method, and a contractor appointed. Minesite front-end engineering design has been completed, most work packages tendered, and negotiations are in progress with preferred tenderers, with the aim of finalising pricing by late 2006. Refining includes plans for an ilmenite plant at the mine, to produce a plus 60% TiO_2 ilmenite for sale, and a zircon-rich non-magnetic concentrate, to be refined either in Western Australia or southern China. Marketing options are well advanced but not fully resolved. International investors have viewed the project favourably, testament to that being New York-based resource fund Ospraie recently becoming our largest shareholder, with 10.2%.

At the Mount Gunson Copper Project, we managed to secure a drilling contractor late in 2005, and had immediate success at Chianti Prospect. Examination of core from the two holes drilled at Chianti, together with the two metres of 3.4% copper in the first hole, encouraged Falconbridge's subsidiary Noranda Pacific to enter into a joint venture to explore our Mount Gunson tenements, whereby they could earn up to 75% interest by sole funding $10 million on exploration over six years.. This agreement was signed in May, and they intended to engage a drilling contractor for a six-hole, $0.75 million program at Chianti in August. Unfortunately the driller let them down, and his services were terminated. Xstrata took over Falconbridge in the meantime and has confirmed its intention to proceed with the drilling program.

At the Tennant Creek Copper Project, work has been delayed waiting for the Central Land Council to agree that uranium has to be included as a potential mineral associated with the type of copper ore we are looking for, before we can explore on their lands. We also hold tenements outside their control.

The Fowlers Bay nickel/mineral sands and Burkin nickel/gold projects await further attention, which should be possible during 2007, as Coburn moves to the next phase.

Our Managing Director, David Harley, has built up a stable core of expert full time consultants to assist him with development of the Coburn Zircon Project. Alan Luscombe and Paul Leandri have had long term involvement. Patrick McManus, most recently General Manager – Operations at Rio Tinto's mineral sand project in Madagascar, has joined them, responsible for advising on Coburn's development. All three have a wealth of mineral sands experience.

I thank David Harley for the outstanding leadership he continues to bring to the team at Gunson, and our shareholders for their continued support and great patience.

W.H. Cunningham
Chairman

9 October 2006

Water rig drilling hole CPB3 at Coburn.
For location, see Figure 5.

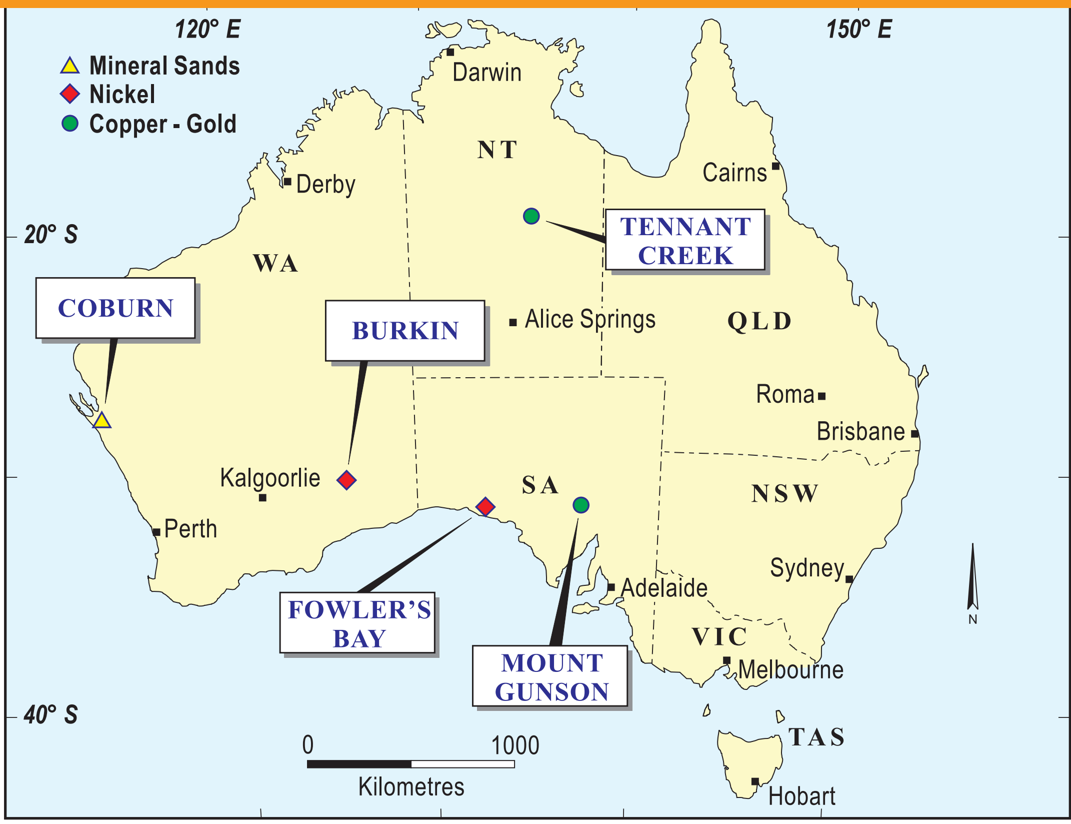


Figure 1. Project Location Map

The Company operates one development project and four mineral exploration projects in Australia, as shown on Figure 1.

Coburn Zircon Development Project, Western Australia (100% Gunson)

1. INTRODUCTION

Coburn continued to be the Company's main focus during the year, accounting for 90% of total exploration expenditure.

From its inception in 1999 to the end of September 2006, Gunson had spent $11.6 million on exploration at Coburn, along with a further $484,676 in acquiring the Coburn pastoral lease. The exploration expenditure includes $4.2 million in feasibility work, $2.2 million on environmental studies exclusive of Gunson staff and overhead costs, $2.2 million on drilling and $0.3 million on aboriginal heritage. A histogram showing the annual exploration expenditure over this period is shown in Figure 2.

Environmental approvals continued to delay progress at Coburn, with the early 2006 prediction in last year's annual report for completion of the approvals process delayed by government red tape. The revised target for completion of the approvals process is the end of 2006 and the reasons for the delay are outlined below.

Despite the disappointing delays to the environmental approvals process, considerable progress was made on other aspects of the Project, including a Definitive Feasibility Study, signing of MOU's for the sale of just over 40% of the zircon output and refining the strategy for construction, mining, processing and product sales. The Company is working toward finalising its capital and operating cost structure, offtake contracts for uncommitted mine products, toll treatment and financing arrangements prior to the receipt of final mining approvals, so that construction work can begin immediately after these approvals are granted.

2. BACKGROUND

Coburn is located 250 kilometres north of the regional centre 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.

Review of Operations

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 January 2006, the Company announced that Amy Zone contained an indicated and inferred resource of 725 million tonnes at 1.4% heavy minerals.

This resource totals 10 million tonnes of contained heavy minerals worth over $2 billion in situ and lies close to the surface, between weakly mineralised overburden and a basement dominated by largely impermeable clay rich sediment. Amy Zone is amenable to low cost open pit mining techniques and there is excellent potential to expand the resource to well over 12 million tonnes of contained heavy minerals.

3. ENVIRONMETAL APPROVALS PROCESS

Both State and Federal government environmental approvals have been received, on 22nd May and 20th July respectively.

Figure 3. Regional Setting of the Coburn Project.

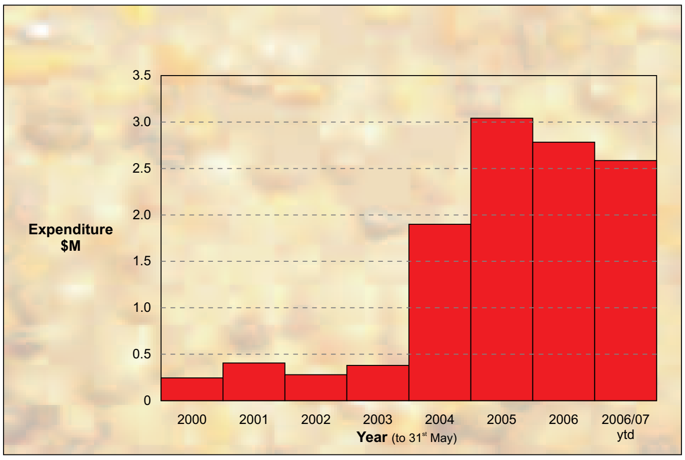


Figure 2. Coburn Project Expenditure 2000-2006.

The government approvals have specified a number of conditions which the Company must adhere to, including approval by the Western Australian Environmental Protection Authority of 15 environmental management plans (EMPs) prior to commencement of construction. In addition, a Groundwater Mounding Management Plan must be approved prior to commencement of productive mining.

After consultation with the Department of Environment and Conservation, the 15 EMPs required before the commencement of construction have now been consolidated into 10 management plans. In addition to the EMPs, there are 3 important provisions in the Western Australian Environment Minister's Statement of Approval:

- *That after 7 years of mining, the Western Australian Government will decide whether to allow the mine to continue, on the basis of Gunson's performance in meeting strict rehabilitation criteria*
- *That Gunson must publish annual reports on its rehabilitation program*
- *That seven environmental offsets by the Company be made legally binding. These offsets include the 42 square kilometre area of land within Gunson's Coburn pastoral lease and exploration licence EL 09/941 to be included in the conservation estate.*

The environmental offset area is contiguous with the Shark Bay World Heritage Property and lies on the south eastern margin of the proposed mine (Figure 4). It will not impact on planned mining operations.

Figure 4. Coburn Pastoral Lease and Proposed Mine.

4. DRILLING

A 641 hole infill drilling program on the initial mining area was completed on 3rd August 2006. Drilling was on a 125 by 50 metre grid, to upgrade the resource based on the previous 500 by 100 metre pattern, from indicated to measured status (Figure 5). Approximately half the assays from this program have been received, reinforcing the grades and ore widths predicted by the earlier drilling. JORC compliant ore reserves are to be calculated after all remaining assays have been received.

5. MINING METHOD

Pit optimisation studies during the first half of 2006 indicated that a change in the mining method would have a positive impact on the project economics and risk profile. This change, from the relatively inflexible bucket wheel excavator/conveyor system to a modified version of the bulldozer trap technique currently being used at Consolidated Rutile's North Stradbroke Island mine in Queensland, results in halving the downtime and total costs. Despite the change in mining method, the topsoil-subsoil-overburden and ore mining sequence, along with the back filling of the mine void with overburden and tailings remain the same as that described in last year's annual report.

The new mining method is shown below in Figure 6 and JMS Engineering have been chosen as the mining contractor. JMS are the mining contractor at the BHP Billiton Greenvale nickel mine near Townsville and have been operating in Western Australia for several years.

6. DEFINITIVE FEASILBITY STUDY (DFS)

Shortly after the appointment in March 2006 of Proteus Engineers as managing contractor for the pre construction phase of the Project, a DFS designed to update and improve on the accuracy of the 2004 Bankable Feasibility Study commenced.

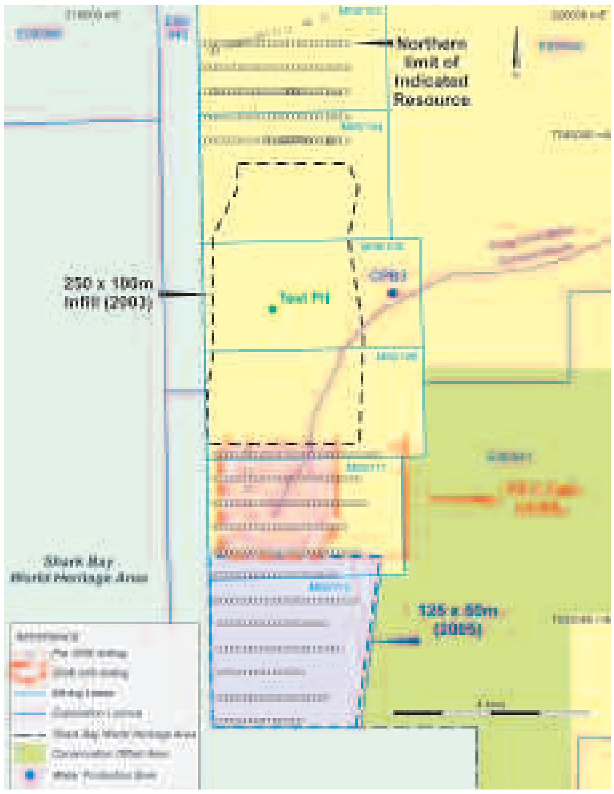


Figure 5. Amy Zone Drilling

Figure 6. Amy Zone Mining Method

Proteus recommended that all minesite construction and operating packages be retendered in accordance with tighter scopes of work, so that variations after contract award could be minimised. Tenders for most of the work packages were sent out between June and August 2006 and following the receipt of proposals for each, preferred tenderers have been selected. Negotiations with the preferred tenderers are in progress, with a view to finalising pricing and other contractual conditions by late 2006.

Some minesite construction and operating packages, the largest of which is the Ilmenite Plant, designed to produce a final ilmenite product for export ***fob*** from Geraldton, were not put out to tender. The rationale for this approach was that they were not critical path items, are relatively small and that they would unnecessarily increase the cost of the DFS.

Pricing of the major capital and operating packages is currently being finalised, with negotiations between preferred tenderers and the Company leading to reductions in tendered prices.

7. REFINING TO FINAL PRODUCT

An ilmenite separation facility known as the Ilmenite Plant is to be is to be built at the mine, to magnetically separate a final ilmenite product exceeding 60% TiO_2. Testwork by Outokumpu Technology Pty Ltd has demonstrated that 40% of the total heavy mineral suite will report to the ilmenite product and 45% as a non magnetic concentrate. The balance will be returned to the mine as tailings.

At least 50% of the non magnetic heavy mineral concentrate which remains after the ilmenite separation process is zircon, with lesser amounts of rutile and altered weakly to non magnetic ilmenite/leucoxene. This non magnetic concentrate is to be refined into final products at a facility in either Western Australia or a Gunson controlled plant in southern China. A decision on the best option is planned in time for completion of the DFS.

8. PRODUCT MARKETING

The zircon market, particularly for product with low levels of the radioactive elements uranium and thorium, has tightened further and the Company is well positioned to take advantage of this market niche.

Memoranda of understanding with two Chinese key zircon consumers were signed in early 2006. The main conditions outlined in the memoranda of understanding are:

a) that they are for fixed tonnages of zircon over a 5 year period from first production and;

b) that the draft contracts attached to the MOU's will be finalised 5 days after finance for the mine development has been approved.

The agreements encompass over 40% of the proposed 30,000 tonne per annum initial phase zircon production.

Prepayments for the supply of zircon under these two agreements total US$6 million, which will assist in funding development of the Coburn mine. These prepayments are to be rebated progressively as refined product is supplied to both key customers.

The pricing mechanism in both draft contracts is a ***c.i.f.*** China benchmark, currently well above US$800 per tonne.

Because the current free market price of zircon in China is well in excess of the above benchmark, offtake contracts for most of the remainder of the Coburn zircon production are likely to be above the benchmark price and would not involve prepayments.

Discussions with potential customers for the remainder of the zircon, and the titanium dioxide mineral output are well advanced, with some reaching the draft contract stage. Recent confirmation from two European consumers that the Coburn zircon can be used in ceramic title manufacture gives the Company added flexibility in its zircon marketing.

9. APPOINTMENT OF SENIOR MINERAL SANDS EXECUTIVE

Patrick McManus, who until early September 2006 was General Manager – Operations for the Rio Tinto Fort Dauphin mineral sand development project in Madagascar, joined the Company in mid September 2006. He will be responsible for advising Gunson on the development of Coburn, initially via a consulting arrangement.

Mr McManus has gained global experience in the mineral sands industry over the past 30 years, firstly with RGC Mineral Sands Ltd, a predecessor of Iluka Resources Ltd, between 1976-1993 and then the RZM Cable Sands Group between 1995-2005. At RZM Cable Sands, he was General Manager – Group Development, responsible for managing exploration and development, with particular emphasis on feasibility studies and evaluation of new business opportunities. Since leaving RZM Cable Sands, who were purchased by Bemax Resources Limited in 2004, Mr McManus worked with Rio Tinto on its Madagascar development project, responsible for developing the organisational structure and optimising the mine development.

10. FINANCING

Two international roadshows to Europe, the latter one incorporating New York, Hong Kong and Singapore, were completed in the first half of 2006. Strong interest was confirmed in providing equity and debt funding for the Project and as a result a representative of one bank visited the proposed mine site in early July 2006.

Promotion of the Company to overseas investors has attracted the large New York based resource fund, Ospraie, who began buying the Company's shares in May 2006. Ospraie are the Company's only substantial shareholder, with an interest of 10.2%.

11. SUMMARY

Despite the frustrating delays with the environmental approvals process, which have set the development timetable back over a year since it was first forecast in the 2004 annual report, significant progress has been made in advancing Coburn towards commercial production. Subject to the completion of the approvals process and financing at the end of 2006, first production from the mine is expected in early 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 along strike to the north of Mount Gunson. Following the intersection of 67 metres averaging 3% copper at Carrapateena Prospect, about 19 kilometres to the east of the Mount Gunson Project in mid 2005 (Figure 7), interest by major copper producers in the area increased significantly. This led in May 2006 to the Company concluding an option/joint venture agreement with Noranda Pacific Ltd, a wholly owned subsidiary of Canadian major Falconbridge Ltd. The catalyst for this agreement with Noranda was the encouraging copper results from the Company's drilling program at Chianti Prospect between December 2005 and January 2006, described below.

2. DRILLING – CHIANTI PROSPECT

Drilling of two vertical diamond drill holes at Chianti Prospect to test for Olympic Dam style mineralisation in basement rocks commenced on 10th December 2005 and was completed on 16th January 2006 (Figure 8). Both holes were sited along the 3 kilometre long Chianti gravity geophysical anomaly which, although weaker, occurs in a similar geological setting to the gravity anomaly at Carrapateena Prospect.

- ***MGD 34*** The first hole of the Chianti program, MGD 34, passed through the cover-basement contact at 450 metres. Basement rocks are strongly hematised granite breccias and granite with chloritic and sericitic alteration, cut by fine to medium grained chloritised dykes between 471-488 metres and 576-600 metres. The hole was stopped at 600 metres when the depth limit of the rig had been reached.

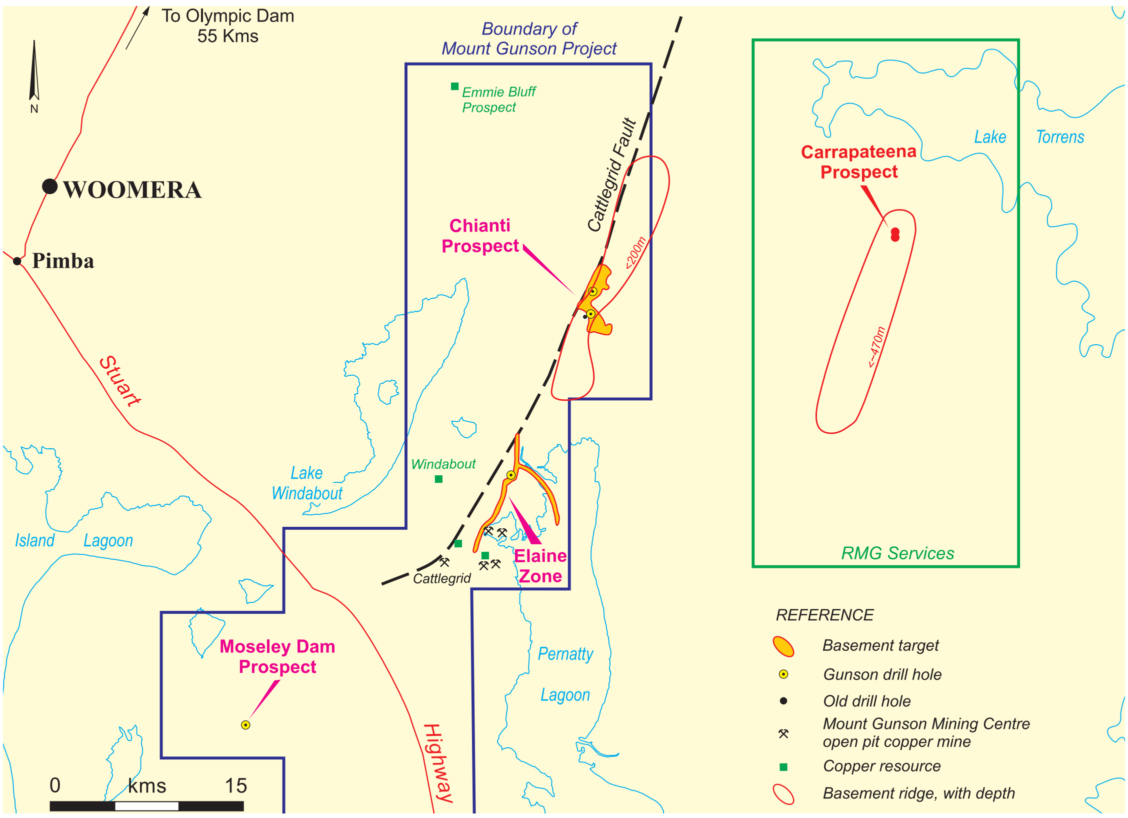


Figure 7. Mount Gunson Project in Relation to the Carrapateena Copper Discovery.

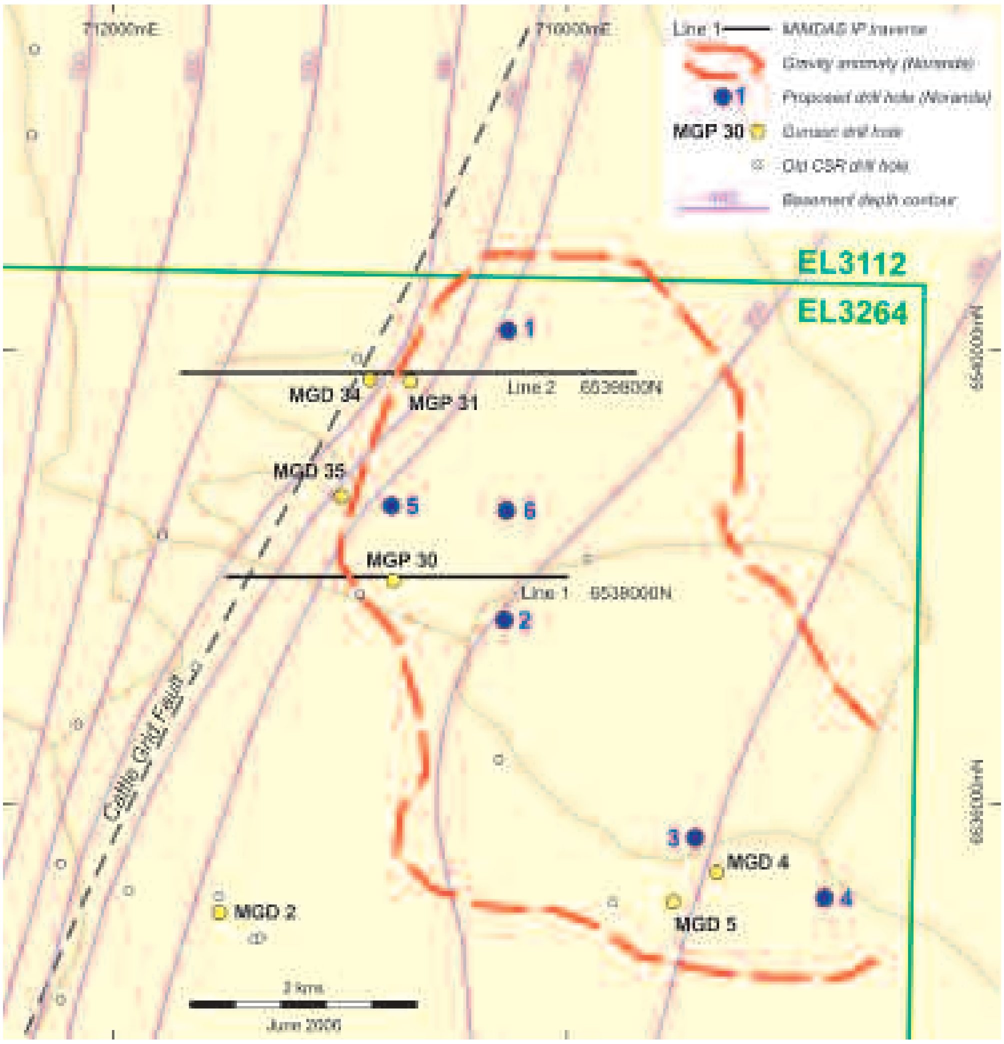


Figure 8. Chianti Prospect at Mount Gunson.

Encouraging copper sulphide mineralisation was intersected between 548-554 metres, a 6 metre interval which averaged 1.4% copper, including 2 metres at 3.4% copper and 0.2g/t gold between 549-551 metres. The main copper sulphides in this zone are chalcopyrite and the high tenor copper mineral bornite. The sulphides are associated with quartz-carbonate veins interpreted to be considerably younger in age than the host brecciated granites and possibly of Hiltaba age, the same age as the Olympic Dam mineralisation.

Copper results from the remainder of the basement were weakly to strongly anomalous, the best value of 0.16% copper associated with quartz-carbonate veins in the chloritised mafic dyke between 583-584 metres.

- ***MGD 35*** The second hole of the drilling program, MGD 35, was collared just over a kilometre south of the first hole to test a pronounced bend in the peak of the Chianti gravity geophysical anomaly. This hole passed through the cover-basement contact at 337 metres, into variably brecciated hematite rich granite and was stopped at 561m. Although there were no strongly anomalous copper values, the alteration, brecciation and pervasive hematisation of the host granite in this hole were more obvious than in MGD 34.

3. DRILLING – MOSELEY DAM PROSPECT

A six hole drilling program commenced in late January 2006 and was completed on 6th February.

Four reverse circulation and two diamond holes were drilled, for a total of 628 metres. They tested for copper mineralisation in the cover sequence within open pit range, similar in style to the ore bodies mined previously at the Mount Gunson mining centre, 20 kilometres to the north east (Figure 7).

Drilling was focused on the north-westerly pinchout of the Tapley Hill Formation shale against a basement high. It showed that the pinchout is more rapid than predicted. Strongly anomalous but sub economic copper values were intersected near the top of the Tapley Hill dolomitic shale in both diamond holes and some of the reverse circulation holes. The best intersections are listed below:

Hole	From (m)	To (m)	Intersections
MGD 38	60	62	2m @ 0.7% copper 5.6g/t silver
MGD 40	40	42	2m @ 0.5% copper
MGD 41	92	93	1m @ 0.2% copper

These results provide encouragement for thicker, higher grade mineralisation along strike in either direction.

4. AGREEMENT WITH NORANDA PACIFIC PTY LTD

On 2nd May, the Company announced that it had signed an Option/Joint Venture Agreement with Noranda Pacific Pty Ltd (Noranda), the wholly owned subsidiary of Canadian major Falconbridge Limited.

This Agreement entitles Noranda to earn a 75% interest in the Mount Gunson Project by solely funding $10 million of exploration expenditures over a six year period from 15th June 2006. Principal terms of this Agreement are as follows:

(a) *Noranda may earn a 51% interest in the Project by spending $3.5 million in 3 years from 15th June 2006. Noranda will not have any equity in the Project if it fails to meet its expenditure requirements and may withdraw at any time.*

(b) *If Noranda earns its initial 51% interest, it may then increase its equity to 75% by spending a further $6.5 million in an additional 3 year period. Again, if it fails to meet this minimum expenditure target, its interest will not increase and will revert to 51%. Alternatively, Noranda may initiate a Joint Venture where it holds a 51% interest and Gunson 49%.*

(c) *If Noranda reaches 75% equity, a Joint Venture would be formed, with Gunson having the right to contribute to ongoing expenditure at 25% interest. Alternatively, Gunson may elect not to contribute and be diluted in accordance with an agreed formula. However, Gunson may elect to recommence contributing to the Joint Venture at the commencement of subsequent budget periods.*

(d) *If Gunson's equity falls below 10%, it will cease to have equity in the Project but will be entitled to a net smelter royalty.*

The initial emphasis of Noranda's exploration program has been to test the potential for a major copper-uranium-gold deposit at Chianti Prospect, where Gunson's drilling program in early 2006 revealed a promising copper intersection in hole MGD 34. This drilling also confirmed a geological environment similar in many respects to the Carrapateena Prospect some 23 kilometres to the east, where another Canadian copper producer, Teck-Cominco, is conducting a major drilling program to follow up the intersection of 67 metres at 3% copper described above.

Noranda has committed to a 6 hole drilling program at Chianti Prospect, which they have estimated to cost $0.75 million, including $0.5 million on drilling. The location of the proposed holes is shown on Figure 8. They have been sited using a new geological and geophysical interpretation of Chianti Prospect, which has extended the gravity anomaly over an area 7 kilometres long by 4 kilometres wide.

The Noranda drilling program was scheduled to commence in mid August 2006 but they were let down by their drilling contractor, who has been dismissed. At the same time, Noranda's parent, Falconbridge Ltd, was taken over by Xstrata plc, now the world's fifth largest diversified mining and metals company. Xstrata have reaffirmed their intention to fund the Chianti drilling program and drilling is expected to commence in late 2006, after the completion of further geophysical interpretation and aboriginal heritage clearances.

Tennant Creek Gold-Copper Project, Northern Territory (100% Gunson)

1. INTRODUCTION

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, and 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 a weak near-coincident magnetic anomaly, like Oxiana Resources' Prominent Hill and BHP Billiton's Olympic Dam deposits in South Australia. These South Australian deposits have a much higher uranium content than the known Tennant Creek gold-copper deposits.

Gunson's two exploration licences and four exploration licence applications (ELAs) cover weak magnetic anomalies with associated gravity responses in favourable 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.

2. WORK COMPLETED

No field work was carried out during the year as the focus has been on obtaining title to the remaining four ELAs, which lie on aboriginal freehold land. Negotiations commenced at a meeting with the local aboriginal people in September 2004 but access to two ELAs was subsequently refused due to the presence of sacred sites. A draft legal agreement from the Central Land Council (CLC) outlining the proposed conditions for a land access agreement covering the remaining two ELAs has been reviewed and a number of unacceptable provisions highlighted. The CLC is currently seeking further instructions on one of these and resolution of an access agreement is unlikely before 2007.

3. SUMMARY

The Company's strategy at Tennant Creek has been to conclude access agreements for its ELAs on freehold aboriginal land before attempting to drill its targets on crown land. However, it is clear that access to the aboriginal freehold land cannot be resolved in the short term and drilling on the two approved ELs will proceed when a drill rig can be obtained.

Fowler's Bay Nickel Project, South Australia (100% Gunson)

This project comprises an exploration licence located some 150 kilometres west of Ceduna. The exploration target is craton margin Proterozoic nickel sulphide deposits, although the discovery of zircon rich mineral sand deposits by Iluka Resources Limited in the past 2 years some 50 kilometres north and 30 kilometres south east of the northern portion of the Company's exploration licence has highlighted its potential for offshore deposits like the WIM 150 deposit in Victoria.

Due to land access problems and the prevailing shortage of drill rigs in South Australia, no work was carried out on this project during the year but this situation should be resolved in early 2007.

Burkin Nickel Project, Western Australia (100% Gunson)

A second new nickel sulphide exploration project generated using data supplied as part of Gunson's agreement with BHP Billiton, which has now lapsed. It comprises a single 207 square kilometre exploration licence application located close to the Burkin outcamp, 70 kilometres north of Haig siding on the Trans Continental railway, some 450 kilometres east of Kalgoorlie.

Burkin comprises a northeasterly trending zone of magnetic anomalies coincident with a gravity high under shallow basinal cover. The target is Proterozoic craton margin nickel sulphide deposits, although it has a similar geophysical signature to the multi million ounce Tropicana gold Prospect discovered by the Independence Group – AngloGold joint venture in 2005.

Some interest in a joint venture by large gold exploration companies has been shown but if an agreement cannot be concluded by the end of 2006, the Company will carry out an airborne magnetic survey and follow up drilling in 2007.

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	**Inferred**	P Leandri (2006)
	Indicated	J McDonald (2005) of McDonald Speijers Resource Consultants Pty Ltd
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 is summarised in the tables below:

COBURN

Prospect	Category	Mineralisation Type	Cut-Off Grade (% HM)	Resource (Million Tonnes)	HM (%)	Contained HM (Million Tonnes)
Amy Zone	Inferred	Dune/strand	0.9%	420	1.4	5.9
Amy South	Indicated	Dune/strand	0.9%	258	1.4	3.6
Amy South	Measured	Dune/strand	0.9%	47	1.3	0.6

MOUNT GUNSON

Prospect	Category	Mineralisation Type	Cut-Off Grade (%Copper)	Resource (Million Tonnes)	Copper (%)	Cobalt (%)	Silver (g/t)	Copper Equiv (%) [1]	Contained Copper Equiv (Tonnes)
Windabout	Indicated	Sulphide	0.5	18.7	1.0	0.05	10	1.8	327,250
MG 14	Indicated	Sulphide	1.0	1.1	1.7	0.04	17	2.3	25,300
Cattlegrid South	Inferred	Sulphide	0.5	0.7	1.7	-	10	1.7	11,900
Sweet Nell	Inferred	Sulphide	0.5	0.35	1.2	-	12	1.2	4,200
Tailings Dams	Inferred	Sulphide	-	7.2	0.14	0.01[2]	-	0.3	21,600
Emmie Bluff[3]	Inferred	Sulphide	0.5	24.0	1.3	0.06	10	2.2	528,000
		TOTAL		**52.05**					**918,250**

Notes:

1 Cobalt converted to copper equivalent on the basis of cobalt value equivalent to 15 times copper value.

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

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

Tenement Schedule

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
EL 09/996	98.0	18 July 2000	1
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
L09/16	0.19	6 June 2006	3
GA09/6	0.1	18 November 2005	3
GA09/7	0.1	18 November 2005	3
GA09/8	0.1	18 November 2005	3

FOWLER'S BAY PROJECT, SOUTH AUSTRALIA

Tenement	Area (sq km)	Date Granted	Next Renewal
EL 3259	934	October 2004	October 2006

MOUNT GUNSON PROJECT, SOUTH AUSTRALIA

Tenement	Name	Area(sq km)	Date Granted	Next Renewal
EL 3022	Mount Moseley	105	October 2002	October 2007
EL 3112	Yeltacowie	317	July 2003	July 2007
EL 3264	Mt Gunson	855	October 2004	October 2007
EL 3477	Woocalla	196	December 2005	December 2006

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	2,5
ELA 23946	Gosse 1	12.9	25 June 2003	2,4
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	2,4

Key to Notes (all projects)

1 No mining (exploration) conditions on portions overlapping the Shark Bay World Heritage Property.

2 Exploration Licence Application (ELA).

3 Infrastructure tenement

4 Lies on aboriginal land – access refused.

5 Lies on aboriginal freehold land, available for negotiated access.

The Directors of Gunson Resources Limited submit their report for the year ended 30 June 2006.

THE BOARD OF DIRECTORS

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

William H Cunningham B.Com. (Non-Executive Chairman) Age 67
Bill Cunningham is a consultant in mineral commodities marketing with over 40 years experience in the mining industry, mainly with WMC Resources Limited and CRA Limited. Prior to leaving WMC in 1997, he was manager for that company's Nickel Division intermediate products marketing. Since 1997, he has managed his own mineral marketing consultancy.

David N Harley BSc (Hons) MSc.,F.Aus. I.M.M. (Managing Director) Age 59
David Harley is a geologist with over 30 years experience in the mining industry, mostly in senior exploration management positions with WMC Resources Limited. He is the immediate past President of the Association of Mining and Exploration Companies, AMEC and was Chairman of Gallery Gold Ltd for 5 years until November 2003.

Peter C Harley B.Com., F.C.P.A (Non-Executive Director) Age 56
Peter Harley is an experienced manager and director with over 25 years association with a number of public and private companies. Peter is non executive Chairman of iiNet Ltd (appointed to the Board in August 1999) and has been a non-executive director of Perilya Ltd since November 2003. He became non executive Chairman of Blaze International Ltd in September 2005.

Company Secretary – Ian E Gregory, B.Bus, F.C.P.A, F.C.I.S Age 51
Mr Gregory is an experienced company secretary who worked as full time Secretary of Iluka Resources Limited from March 1999 to December 2004. Prior to this, he was company secretary and compliance manager for IBJ Australia Bank Limited Group for the 12 years to the end of 1997 and company secretary for the Griffin group of companies for four years until the end of 1985.

PRINCIPAL ACTIVITIES

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

RESULTS OF OPERATIONS

The Company made a loss after tax of $1,025,080 (2005: $142,797 loss). No dividends were paid and the directors have not recommended the payment of a dividend.

REVIEW OF OPERATIONS

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

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

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

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

ADOPTION OF AUSTRALIAN EQUIVALENTS TO IFRS.

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

SIGNIFICANT EVENTS AFTER BALANCE DATE

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

SHARE OPTIONS

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

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

DIRECTORS' AND BOARD COMMITTEE MEETINGS

The following table sets out the number of meetings of the Company's directors and Board committee meetings held while each director was in office and the number of meetings attended by each director:

	Board Meetings		Nomination and Remuneration Committee Meetings	
Director	**Number of meetings held**	**Number of meetings attended**	**Number of meetings held**	**Number of meetings attended**
W H Cunningham	10	10	1	1
D N Harley	10	10	-	-
P C Harley	10	10	1	1

REMUNERATION REPORT

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

- Remuneration Policy

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

All remuneration paid to directors and executives is valued at the cost to the Company and expensed. Shares given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using the Black-Scholes methodology.

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

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

- Performance Based Remuneration

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

- Company Performance, Shareholder Wealth and Director/Executive Remuneration

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

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

- Details of Remuneration

Year ended 30 June 2006

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

Year ended 30 June 2005

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

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

- Equity Instruments

Options and rights over equity instruments granted as remuneration.

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

- Performance Income as a Proportion of Total Income

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

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

- Employment Contracts of Directors and Senior Executives

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

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

OPTION HOLDINGS

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

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

EQUITY HOLDINGS AND TRANSACTIONS

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

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

EXERCISE OF OPTIONS GRANTED AS REMUNERATION

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

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

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

INDEMNIFICATION AND INSURANCE OF DIRECTORS

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

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

a) the liability does not arise out of conduct involving a lack of good faith; or

b) the liability is for costs and expenses incurred by the director or officer in defending proceedings in which judgement is given in their favour or in which they are acquitted.

Directors' 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 later in this annual report.

AUDITOR

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

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

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

AUDITORS INDEPENDENCE DECLARATION

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

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

LEGAL PROCEEDINGS

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

Signed in accordance with a resolution of Directors.

D N Harley
Managing Director

28th September 2006

Income Statement

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

The accompanying notes form part of these financial statements.

Balance Sheet

For the year ended 30 June 2006	Note	2006 $	2005 $
CURRENT ASSETS			
Cash and Cash Equivalents	4	2,067,273	1,044,045
Trade and other Receivables	5	241,484	147,289
Other Receivables		23,465	21,546
TOTAL CURRENT ASSETS		2,332,222	1,212,880
NON-CURRENT ASSETS			
Deferred Exploration and Evaluation Costs	6	14,340,217	11,193,977
Plant and Equipment		734,602	55,267
Pastoral Lease (Coburn)	8	484,676	484,676
TOTAL NON-CURRENT ASSETS		14,859,495	11,733,290
TOTAL ASSETS		17,191,717	12,946,800
CURRENT LIABILITIES			
Trade and Other Payables	9	957,923	332,591
Provisions	10	51,700	26,231
TOTAL CURRENT LIABILITIES		1,009,623	358,822
TOTAL LIABILITIES		1,009,623	358,822
NET ASSETS		16,182,094	12,587,978
EQUITY			
Issued Capital	11	18,780,001	14,236,489
Reserves	12	266,295	-
Accumulated Losses		(2,864,202)	(1,648,511)
TOTAL EQUITY		16,182,094	12,587,978

The accompanying notes form part of these financial statements.

Statement of changes in Equity

For the year ended 30 June 2006

	Contributed Equity $	Accumulated Losses $	Share-based Payments Reserve $	Total equity $
At 1 July 2004	12,314,760	(1,505,714)	-	10,809,046
Loss for the period	-	(142,797)	-	(142,797)
Total recognised income and expense for the year	-	(142,797)	-	(142,797)
Issue of share capital	1,549,131	-	-	1,549,131
Exercise of options	426,154	-	-	426,154
Share issue costs	(53,556)	-	-	(53,556)
At 30 June 2005	14,236,489	(1,648,511)	-	12,587,978
Loss for the period	-	(1,215,691)	-	(1,025,080)
Total recognised income and expense for the year	-	(1,215,691)	-	(1,025,080)
Issue of share capital	4,534,404	-	-	4,534,404
Exercise of options	200,000	-	-	200,000
Share issue costs	(190,892)	-	-	(190,892)
Cost of share-based payment	-	-	266,295	266,295
At 30 June 2006	18,780,001	(2,864,202)	266,295	16,182,094

Statement of Cash Flows

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

(a) Basis of accounting

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

(b) Statement of compliance

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

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

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

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

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

(b) Statement of compliance (continued)

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

(c) Exploration and Evaluation Expenditure

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

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

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

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

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

(d) Property, Plant & Equipment

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

Plant and Equipment

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

Depreciation and amortisation

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

- Plant & equipment 20% - 40%

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

(e) Impairment

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

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

(f) Income Tax

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

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

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

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

(g) Goods and services tax

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

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

(h) Employee Benefits

i. Wages and salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other creditors (see Note 22) in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

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

(i) Cash and Cash Equivalents

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

(j) Trade and Other Payables

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

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

(k) Revenue Recognition

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

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

(l) Share based payments

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

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

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

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

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

(m) Share Capital

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

(n) Leases

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

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

(o) Earnings Per Share

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

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

(p) Comparative Figures

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

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

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

  Capitalisation of exploration and evaluation expenditure Under AASB 6 Exploration for and Evaluation of Mineral Resources, the Company has the option to either expense exploration and evaluation expenditure as incurred, or to capitalise such expenditure provided that certain conditions are satisfied. The Company's policy is closer to the latter, as outlined in Note 1(c).

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

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

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

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

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

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

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

3. Income Tax

	2006 $	2005 $
The major components of income tax expense are:		
Income Statement		
Current income tax:		
Current income tax benefit	(1,277,509)	(1,167,756)
Deferred income tax		
Relating to origination and reversal of temporary differences	878,006	1,108,640
Deferred tax assets not brought to account as realisation is not considered probable	399,503	59,116
Income tax expense reported in the income statement	-	-

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

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

	2006 $	2005 $
Accounting loss before income tax	(1,543,629)	(443,290)
At the Group's statutory income tax rate of 30% (2005: 30%)	(463,089)	(133,152)
Expenditure not allowable for income tax purposes	22,799	120
Capital raising expenditure	(16,397)	(16,397)
Deferred tax assets not brought to account as realisation is not considered probable	469,491	149,429
	-	-

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

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

At 30 June 2006, Gunson Resources Limited has tax losses arising in Australia of $13,259,479 (2005: $9,001,112) that are available indefinitely for offset against future taxable income. The Company has not recognised a deferred income tax asset in relation to these losses as realisation of the benefit is not regarded as probable.

These deferred tax assets will only be obtained if:

(i) future assessable income is derived of a nature and an amount sufficient to enable the benefit to be realised;

(ii) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation; and

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

	2006 $	2005 $
4. Cash and Cash Equivalents		
Cash at bank	1,440,684	244.045
Cash on deposit	626.589	800,000
	2,067,273	1,044,045
5. Trade and Other Receivables		
Goods and services tax refund	178,281	82,152
Other receivables	63,203	65,137
	241,484	147,289
6. Deferred Exploration and Evaluation Costs		
Exploration costs brought forward	11,193,977	7,488,822
Expenditure incurred on exploration	3,558,654	3,711,615
Exploration costs written off	(412,414)	(6,460)
	14,340,217	11,193,977

Amortisation of Exploration and Evaluation Costs

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

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

	2006 $	2005 $
9. Trade and Other Payables		
Trade creditors	464,852	86,297
Other creditors and accruals	493,071	246,294
	957,923	332,591

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

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

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

	2006		2005	
	Number of Shares	$	Number of Shares	$
Movements in shares on issue				
Opening Balance	72,388,965	14,236,489	64,300,000	12,314,760
Share placement issued at 22 cents per share on 23 March 2005	-	-	5,260,000	1,367,600
Exercise of options at 20 cents per option on 23 March 2005	-	-	200,000	40,000
Share purchase plan issued at 26 cents per share on 27 April 2005	-	-	698,195	181,531
Exercise of "A" Class options at 20 cents per option on 27 April, 6 May and 12 May 2005	-	-	1,930,770	386,154
Share placement issued at 22 cents per share on 27 July 2005	4,385,000	964,700	-	-
Share placement issued at 24 cents per share on 23 November 2005	3,116,668	760,000	-	-
Shares issued as placement fee on 23 November 2005	50,000	-	-	-
Share placement issued at 32 cents per share on 7 February 2006	3,000,000	960,000	-	-
Share placement issued at 32 cents per share on 9 February 2006	750,000	240,000	-	-
Exercise of options at 20 cents per option on 15 May 2006	1,000,000	200,000	-	-
Share placement issued at 35 cents per share on 17 May 2006	4,599,153	1,609,704	-	-
Less: share issue expenses	-	(190,892)	-	(53,556)
	89,289,786	18,780,001	72,388,965	14,236,489

11. Contributed Equity (continued)

(c) Share Options

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

No. of options	
100,000	Other options issued – Exercise price 20 cents Exercise period 16/12/02 – 16/12/07
1,800,000	Other options issued – Exercise price 30 cents Exercise period 1/06/07 – 30/11/10
1,800,000	Other options issued – Exercise price 35 cents Exercise period 1/06/07 – 30/11/10
3,700,000	

(d) Terms and Conditions of Contributed Equity

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

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

12. Share-based Payments Reserve

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

13. Director and Executive Disclosures

(a) Details of Key Management Personnel

The directors of Gunson Resources Limited during the financial period were:
William H Cunningham B.Com. (Non-Executive Chairman)
David N Harley BSc (Hons) MSc.,F.Aus. I.M.M. (Managing Director)
Peter C Harley B.Com., F.C.P.A (Non-Executive Director)
There were no changes to key management personnel between the reporting date and the date the financial report was authorised for issue.

(b) Remuneration

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

13. Director and Executive Disclosures (continued)

- **Remuneration by category**

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

- ***Equity Instruments***

Options granted as remuneration to key management personnel.

Year ended 30 June 2006

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

Year ended 30 June 2005

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

(c) *Option Holdings of Key Management Personnel*

2006

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

13. Director and Executive Disclosures (continued)

2005

	Held at 1 July 2004	Granted as remuneration	Exercised	Sold	Lapsed	Held at 30 June 2007	Vested exercisable at this end of the year
William H Cunningham (Chairman)	250,000	-	25,000	-	225,000	-	-
David N Harley (Managing Director)	5,000,000		1,180,770	625,000	3,194,230	-	-
Peter C Harley (Non-Executive Director)	1,000,000	-	100,000	-	900,000	-	-

(d) Share Holdings of Key Management Personnel

2006

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

2005

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

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

13. Director and Executive Disclosures (continued)

(e) Loans to key management personnel

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

(f) Other transactions and balances with key management personnel

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

14. Auditors Remuneration

	2006 $	2005 $
Amounts received or due and receivable by the auditors of Gunson Resources Limited for:		
- an audit or review of the financial statements of the entity	27,139	16,567
- other services	2,310	3,930
	29,449	20,497

15. Significant Events After Balance Date

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

16. Loss Per Share

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

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

17. Segment Information

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

18. Related Party Transactions

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

19. Expenditure Commitments

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

(a) Coburn

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

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

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

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

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

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

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

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

19. Expenditure Commitments (contiuned)

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

20. Financial Instruments Disclosure

- ***Financial risk management objectives and policies*** The Company's principal financial instruments are cash and short term deposits. The main purpose of these financial instruments is to provide working capital for operations. The Company has various other financial assets and liabilities such as receivables and trade payables, which arise directly from its operations. The main risks arising from the Company's financial instruments are interest rate risk and credit risk. The Board reviews and agrees policies for managing each of these risks.

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

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

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

- ***Credit Risk*** The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance sheet date to recognised financial assets is the carrying amount, net of any provisions for doubtful debts of those assets, as disclosed in the statement of financial position and the notes to the financial statements.
  The Company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments it has entered into.

- ***Net Fair Values*** The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in Note 1

21. Cash Flow Information

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

Financing facilities available

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

Non Cash financing and Investing Activities

There were no non-cash financing & investing activities.

22. Employee Benefits

	Note	2006 $	2005 $
Aggregate liability for employee benefits including on-costs			
Current			
Other creditors and accruals	9	45,674	44,153
Employee entitlements provision	10	51,700	26,231

24. Contingent Liabilities

The Company has established a $49,000 bank guarantee in favour of the Minister for State Development in Western Australia. The expiry date of the guarantee is 31 January 2007 and it is backed by a $49,000 term deposit with the National Australia Bank.

The Directors are not aware of any other contingent liabilities as at 30 June 2006.

25. Impact of Adopting Australian Equivalents to IFRS

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

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

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

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

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

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

- **Reconciliation of profit for the year ended 30 June 2005**

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

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

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

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

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

Total equity under AGAAP	14,236,553	12,314,760	12,314,760
Changes	-	-	-
Total retained earnings (accumulated losses) under AIFRS	14,236,553	12,314,760	12,314,760

Director's Declaration

The directors of the Company declare that:

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

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

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

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

(c) this declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2006

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

D N Harley

Managing Director

28th September 2006

Perth, Western Australia

BDO Chartered Accountants & Advisers

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Independent Audit Report to Members of Gunson Resources

Scope

The Financial Report and Directors' Responsibility

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

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

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

Audit Approach

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

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

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

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

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

Chartered Accountants
& Advisers

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Independence

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

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

Audit Opinion

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

(a) the Corporations Act 2001, including:

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

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

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

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

Inherent Uncertainty Regarding Recoverability of Capitalised Exploration Expenditure.

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

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

BDO
Chartered Accountants

BG McVeigh
Partner

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

Shareholding Information

As at 30 September 2006.

1 Number of Shareholders and Unmarketable Parcels

There were 2,073 shareholders, including 241 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	155	7.4	94,870	0.8
1,001 – 5,000	487	24.0	1,490,453	1.4
5,001 – 10,000	381	18.0	3,341,582	3.3
10,001 – 100,000	913	44.0	34,391,998	35.1
100,001 and over	137	6.6	58,270,883	59.4
TOTALS	**2073**	**100.0**	**97,589,786**	**100.0**

3 Twenty Largest Ordinary Shareholdings

Name	Fully Paid Shares Held	%
Ospraie Portfolio Ltd	9,958,111	10.2
Bruce Birnie Pty Ltd	2,240,000	2.30
Daleregent Pty Ltd	2,000,000	2.05
FW Holst & Co Pty Ltd	1,854,090	1.90
Narlack Pty Ltd	1,669,182	1.71
Kerry Wark	1,250,159	1.28
Crishane Pty Ltd	1,150,000	1.18
K J Hayes Corporation Pty Ltd	1,041,500	1.07
Babade Pty Limited	1,000,000	1.02
Perpetual Trustee Co Ltd	988,695	1.01
Forty Traders Limited	940,000	0.96
Virginia Roberta Klinger	930,000	0.95
Daydeb Nominees Pty Ltd	830,834	0.85
William Douglas Goodfellow	820,000	0.84
NZ Guardian Trust Co Ltd	770,500	0.79
Philip Alan Speakman	750,000	0.77
Michael and Stanislawa Sesto	742,543	0.76
Michael Piperoglou	731,640	0.75
Stipe Balenovic	716,509	0.73
Mark Bevan Tilbrook	715,541	0.73
TOTAL OF TOP 20 SHAREHOLDERS	**31,099,304**	**31.9**

4 Substantial Shareholdings (over 5%)

Ospraie Portfolio Ltd	9,958,111

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)
Douglas Haynes	16 December 2007	100,000	20
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

* Vesting date is 1st June 2007, i.e. options cannot be exercised until this date.

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 supports the Principles of Good Corporate Governance and Best Practice Recommendations released by the ASX Corporate Governance Council. The Board confirms that the current corporate governance practices of the Company 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 and major capital expenditure;
- Ensure 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.

Consistent with ASX Principle 1, a summary of the Board Charter has been posted to the new corporate governance section of the Company's website.

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.

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; reviews Board composition and makes recommendations for new appointments to the Board; establishes an induction programme 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 at the date of this report are:

Mr Bill Cunningham (Chairman)
Mr Peter Harley

The composition, operation and responsibilities of the Committee are 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 at the date of this report are:

Mr Peter Harley (Chairman)
Mr Bill Cunningha

Consistent with ASX Principle 4, the Audit Committee Charter has been posted to the new corporate governance section of the website.

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 50 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 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.

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 was revised in April 2004 and is consistent with ASX Principle 3. A summary of the policy has been posted to the new corporate governance section of Gunson's website.

Continuous Disclosure

The Company understands and respects that timely disclosure of price sensitive information is central to the efficient operation of the Australian Stock Exchange's securities market and has adopted a comprehensive policy covering announcements to the Australian Stock 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. A summary of the policy has been posted on the new corporate governance section of the company's website.

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 and summaries of both Codes have been posted to the new corporate governance section of the company's website.

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.

BDO Chartered Accountants
& Advisers

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28 September 2006

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

Dear Sirs

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

To the best of my knowledge and belief, there have been no contraventions of:

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

Yours faithfully
BDO
Chartered Accountants

BG McVeigh
Partner

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