GUNSON RESOURCES LIMITED

Gunson Resources Limited

ABN 32 090 603 642

Financial report for the half-year ended 31 December 2010

Corporate directory

Board of Directors

David A Craig	Chairman
David N Harley	Managing Director
Peter C Harley	Director

Company Secretary

Ian E Gregory

Registered and Principal Office

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Email: enquiries@gunson.com.au

Postal Address

PO Box 1217
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Website

Website: www.gunson.com.au

Auditors

BDO Audit (WA) Pty Ltd
38 Station Street
Subiaco, Western Australia 6008

Share Registry

Computershare Investor Services Pty Limited
Level 2, Reserve Bank Building
45 St George's Terrace
Perth, Western Australia 6000

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Stock Exchange

Australian Securities Exchange Limited
Level 2, Exchange Plaza
2 The Esplanade
Perth, Western Australia 6000
ASX Code: GUN

Financial report for the half-year ended 31 December 2010

Directors' report

The Directors of Gunson Resources Limited ("the Company") submit herewith the financial report for the half-year ended 31 December 2010. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

Names of Directors

The names of the Directors of the Company during or since the end of the half-year are:

William H Cunningham
David N Harley
Peter C Harley
David A Craig

The above named Directors held office during and since the end of the half-year except for:

- William H Cunningham (resigned 8 March 2011).
- David Craig (appointed 8 March 2011).

Mr. Cunningham had previously advised his intention to retire from the Board at the 2010 Annual General Meeting of shareholders and the Company extends its gratitude to him for his long and capable service as Chairman since Gunson Resources Limited was listed on ASX in May 2000. David Craig brings to the Board expertise in the law, financial markets, mining and mining services, the construction industry, reputation management, strategic planning and risk management.

Review of operations

Highlights of the Company's activities in the second half of 2010 were as follows:

- Coburn Zircon Development Project - Western Australia

  A rapid improvement in the zircon market, which began in the first half of 2010, gathered strength in the second half of the year, prompting leading global mineral sands consultancy TZMI to raise its zircon price forecasts twice, the first in September and the second in late December 2010. The second of these forecasts was accompanied by significant price increases for the titanium dioxide minerals rutile and ilmenite, which are already being reflected in the global market place.

  Updated financial analyses of the Project Definitive Feasibility Study (DFS) were released in October 2010 and January 2011 respectively, to show the effect of the improved TZMI price forecast on the predicted financial returns. The first of these, at a US to Australian dollar exchange rate of 85 US cents, showed a broadly similar return to the DFS release in January 2010 but the second, at parity between the US and Australian dollars, showed a 29% increase on the internal rate of return (IRR) and a 53% increase in the net present value (NPV).

  With all of the three major global zircon producers now publicly commenting on the effect of the dramatically improved mineral sand markets, the level of investor interest in the Coburn Project has increased markedly. Potential investors, which include companies from major zircon-consuming regions, are well aware that Coburn is one of the very few development projects in the global "pipeline", resulting from a lack of market interest and thus investment during the past decade. Consequently, the competitive tension for an investment in the Project is higher than it has ever been and the Company is increasingly optimistic that its efforts to conclude a funding arrangement that maximises the financial benefits to current shareholders will be rewarded in the near future.

Review of operations (Cont'd)

- Mount Gunson Copper Project - South Australia

  The main activities on this project were airborne and ground geophysical surveys funded by the Company's farm-in partner Noranda Pacific Pty Limited (Noranda), part of the Xstrata Copper Business Unit and metallurgical test work on the shallow MG 14 and Windabout copper deposits excised from the Noranda farm-in during 2009.

  Noranda has the right to increase its equity in the Project, excluding the Excised Area, from its current 51% to 75% by spending a total of $10 million on exploration by mid June 2013. Noranda's cumulative expenditure to the end of December 2010 stood at $4.17 million, with a drilling program due to commence in the second quarter of 2011.

  Metallurgical test work on bulk samples from the MG 14 and Windabout copper-cobalt-silver deposits has been focused on separating cobalt from the copper concentrates, following market research that revealed copper smelters would not pay for the contained cobalt. Some promising results from this test work have been achieved and further tests are in progress.

- Fowlers Bay Nickel Project – South Australia

  The main activity comprised attempts to resolve aboriginal heritage issues for the proposed drilling program in the northern part of the Project.

  Following the failure of the native title claimants' lawyer to progress the Company's request for a meeting to discuss aboriginal heritage clearances, an experienced anthropologist was engaged to visit the proposed drill site with a Company representative in early December 2010. The anthropologist's conclusion was that there are no aboriginal sites of interest in the target area and that a drilling program would not impact native title.

  Consequently, a 2 hole diamond drilling program was initiated in late February 2011, without aboriginal heritage clearance from the registered native title claimants.

- Tennant Creek Gold-Copper Project - Northern Territory

  A detailed gravity geophysical survey over the western portion of the Gosse 5 exploration licence in September 2010 defined a discrete anomaly approximately 1 km long, interpreted to be a hematitic ironstone body in the 100 to 150 m depth range. This body appears to be underlain by a magnetic zone 200 m below and drilling is scheduled for the second quarter of 2011.

Auditor's independence declaration

The auditor's independence declaration as required under s307C of the *Corporations Act 2001* is included on page 3 and forms part of the Directors' report for the half- year ended 31 December 2010.

Signed in accordance with a resolution of Directors made pursuant to s.306 (3) of the Corporations Act 2001.

On behalf of the Directors

Harley

D N Harley
Managing Director
15 March 2011
Perth, Western Australia

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38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

15th March 2011

Gunson Resources Limited
The Board of Directors
Level 1, 985 Wellington Street
West Perth, WA 6005

Dear Sirs,

DECLARATION OF INDEPENDENCE BY CHRIS BURTON TO THE DIRECTORS OF GUNSON RESOURCES LIMITED

As lead auditor of Gunson Resources Limited for the half-year ended 31 December 2010, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

C Burton

Chris Burton
Director

BDO

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Gunson Resources Limited, which comprises the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the entity.

Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the disclosing entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Gunson Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Gunson Resources Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Gunson Resources Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the disclosing entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of Matter

Without qualifying our review conclusion, we draw attention to the matter disclosed in Note 1. There is uncertainty as to the recoverability of the deferred exploration, evaluation and development expenditure assets of Gunson Resources Limited. The recoverability of the deferred exploration and evaluation expenditure asset is dependant upon the successful development and commercialisation of the underlying areas of interest or their sale. This material uncertainty may cast doubt about the company's ability to realise the asset at the values stated in the statement of financial position. Our opinion is not qualified in respect of this matter.

BDO Audit (WA) Pty Ltd

BDO Audit
C Burton

Chris Burton
Director

Perth, Western Australia
Dated this 15th day of March 2011

Directors' declaration

The Directors declare that:

(a) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(b) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and the Corporations Regulations 2001; and giving a true and fair view of the Company's financial position as at 31 December 2010 and its performance for the half year ended on that date.

Signed in accordance with a resolution of the Directors made pursuant to s.303 (5) of the *Corporations Act 2001*.

On behalf of the Directors

Harley

D N Harley
Managing Director
15 March 2011
Perth, Western Australia

Statement of comprehensive income
for the half-year ended 31 December 2010

	Note	31 Dec 2010 $	31 Dec 2009 $
Other income	2	67,402	111,755
Investment revenue		12,207	9,970
Employee benefits expense		(118,131)	(170,568)
Depreciation and amortisation expense		(2,819)	(2,249)
Impairment of exploration expenditure		-	(403,425)
Other expenses		(355,845)	(66,516)
Loss before income tax		(397,186)	(521,033)
Income tax benefit	3	-	145,847
Loss for the period		(397,186)	(375,186)
Other comprehensive income			
Other comprehensive income (net of tax)		-	-
Total comprehensive loss for the period		(397,186)	(375,186)
Loss per share:			
Basic (cents per share)		(0.22)	(0.26)
Diluted (cents per share)		n/a	n/a

The accompanying notes form part of these financial statements.

Statement of financial position as at 31 December 2010

	Note	31 Dec 2010 $	30 June 2010 $
Current assets			
Cash and cash equivalents		2,859,508	277,108
Trade and other receivables		97,820	101,114
Total current assets		2,957,328	378,222
Non-current assets			
Property, plant and equipment		13,710	15,780
Exploration and evaluation expenditure	4	24,717,474	23,733,394
Other assets		484,676	484,676
Total non-current assets		25,215,860	24,233,850
Total assets		28,173,188	24,612,072
Current liabilities			
Trade and other payables		697,965	688,647
Total liabilities		697,965	688,647
Net assets		27,475,223	23,923,425
Equity			
Issued capital	5	32,672,924	28,800,440
Reserves	6	926,578	850,078
Accumulated losses		(6,124,279)	(5,727,093)
Total equity		27,475,223	23,923,425

The accompanying notes form part of these financial statements.

Statement of changes in equity
for the half-year ended 31 December 2010

	Issued Capital $	Equity-settled employee benefits reserve $	Accumulated losses $	Total $
Balance at 1 July 2009	26,361,797	850,078	(5,044,779)	22,167,096
Comprehensive income for the year				
Loss for the period	-	-	(375,186)	(375,186)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the half year	-	-	(375,186)	(375,186)
Transactions with owners in their capacity as owners				
Issue of shares	1,794,502			1,794,502
Share issue costs	(71,767)			(71,767)
Balance at 31 December 2009	28,084,532	850,078	(5,419,965)	23,514,645
Balance at 1 July 2010	28,800,440	850,078	(5,727,093)	23,923,425
Comprehensive income for the year				
Loss for the period	-	-	(397,186)	(397,186)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the half year	-	-	(397,186)	(397,186)
Transactions with owners in their capacity as owners				
Issue of shares	4,069,998	-	-	3,960,000
Share issue costs	(197,514)	-	-	(87,516)
Recognition of share-based payments	-	76,500	-	76,500
Balance at 31 December 2010	32,672,924	926,578	(6,124,279)	27,475,223

The accompanying notes form part of these financial statements.

Statement of cash flows
for the half-year ended 31 December 2010

	31 Dec 2010 $	31 Dec 2009 $
Cash flows from operating activities		
Payments to suppliers and employees	(303,542)	(243,096)
Payments for exploration and evaluation	(954,914)	(1,331,215)
Other income	67,402	111,755
Net cash used in operating activities	(1,191,054)	(1,462,556)
Cash flows from investing activities		
Payment for property, plant and equipment	(749)	(2,609)
Interest received	11,717	9,970
Net cash provided by investing activities	10,968	7,361
Cash flows from financing activities		
Proceeds from issues of equity securities	3,960,000	1,794,502
Payment for share issue costs	(197,514)	(71,767)
Net cash provided by financing activities	3,762,486	1,722,735
Net increase in cash and cash equivalents	2,582,400	267,540
Cash and cash equivalents at the beginning of the period	277,108	468,164
Cash and cash equivalents at the end of the period	2,859,508	735,704

The accompanying notes form part of these financial statements.

Notes to the financial statements for the half-year ended 31 December 2010

1. Significant accounting policies

Statement of compliance

The half-year financial statements are a general purpose financial statement prepared in accordance with the requirements of the *Corporations Act 2001* and AASB 134: *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standards IAS 34 *Interim Financial Reporting*. The half-year statements do not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

Basis of preparation

The financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial statements are consistent with those adopted and disclosed in the Company's 2010 annual financial report for the financial year ended 30 June 2010, except for the impact of the Standards and Interpretations described below. Theses accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Company has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period.

New and revised Standards and amendments thereof and Interpretations effective for the current reporting period that are relevant to the Company include:

- Amendments to AASB 5, 8, 101, 107, 117, 118, 136 and 139 as a consequence of AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*.

AASB 2009-5 Introduces amendments into Accounting Standards that are equivalent to those made by IASB under its program of annual improvements to its standards. A number of the amendments are largely technical, clarifying particular items, or eliminating unintended consequences. Other changes are more substantial, such as the current/non-current classification of convertible instruments, the classification of expenditures on unrecognised assets in the statement of cash flows and the classification of leases of lands and buildings.

The adoption of these amendments have not resulted in any changes to the Company's accounting policies and have no effect on the amounts reported for the current or prior periods.

Exploration and Evaluation Expenditure

There is uncertainty as to the recoverability of the deferred exploration and evaluation expenditure assets of Gunson Resources Limited. The recoverability of the deferred exploration expenditure assets is dependent upon the successful development and commercialisation of the underlying asset of interest or their sale. This material uncertainty may cast doubt about the Company's ability to realise the asset at the values stated in the Statement of Financial Position.

Significant accounting judgements and key estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

In preparing these half-yearly statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial report for the year ended 30 June 2010.

2. Other income

	31 December 2010 $	31 December 2009 $
Joint venture management fees	26,406	111,755
Rebates and other income	40,996	-
	67,402	111,755

3. Income tax benefit

No income tax benefit for the current period has been recognised as a result of the tax rebate being lodged on 28 February 2011. The benefit arises as a result of a research and development tax incentive claim as a number of activities associated with the Company's Coburn Zircon and Mount Gunson projects qualify under the Commonwealth Government Research and Development Tax Incentive Scheme (2009: $145,847).

4. Exploration and evaluation expenditure

	31 December 2010 $	30 June 2010 $
Costs carried forward in respect of areas of interest in the following phases:		
Exploration and evaluation phase – at cost		
Balance at beginning of the half-year	23,733,394	21,780,730
Expenditure capitalised during the period	984,080	2,357,743
Exploration expenditure written off during the half-year	-	(405,079)
	24,717,474	23,733,394

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.

5. Issued capital

	31 December 2010 No.	31 December 2010 $
Fully paid ordinary shares		
Balance at 1 July 2010	163,465,312	28,800,440
Balance at 31 December 2010	194,053,307	32,672,924
Movements in ordinary shares on issue		
At 1 July 2010	163,465,312	28,800,440
Share placement issued at 6 cents per share on 13 July 2010	10,000,000	600,000
Share placement issued at 9 cents per share on 13 October 2010	4,000,000	360,000
Share placement issued at 20 cents per share on 20 December 2010	15,000,000	3,000,000
Shares issued at 6.143 cents per share on 24 December 2010	895,290	54,998
Shares issued at 7.94 cents per share on 24 December 2010	692,705	55,000
Share issue costs	-	(197,514)
31 December 2010	194,053,307	32,672,924

6. Reserves

Movement in unlisted options over ordinary shares

On 1 December 2010, the Company issued 4,000,000 unlisted options to David Harley, following shareholders approval on 30 November 2010 with an exercise price of 27 cents per option and an expiry date on or before 30 November 2014. 50% of the options will vest 1 December 2011 and the remainder will vest 1 December 2012 (Series 1).

On 24 December 2010, the Company issued 250,000 unlisted options with an exercise price of 12 cents per option and an expiry date on or before 23 December 2013. These options vest immediately (Series 2).

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using the Black-Scholes formula.

Inputs for measurement of grant date fair values

	Series 1	Series 2
Fair value at grant date	10.70 cents	19.86 cents
Share price on grant date	18.00 cents	26.50 cents
Exercise price	27.00 cents	12.00 cents
Expected volatility	90%	90%
Option life	4 years	3 years
Expiry date	30 November 2014	23 December 2013
Expected dividends	N/A	N/A
Risk-free interest rate	5.11%	5.11%

7. Segment Information

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The Company has adopted AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 with effect from 1 January 2009

The Company's operating segments have been determined with reference to the monthly management accounts used by the chief operating decision maker to make decisions regarding the Company's operations and allocation of working capital.

Due to the size and nature of the Company, the Board as a whole has been determined as the chief operating decision maker.

The Company does not have any operating segments with discrete financial information. It does not have any customers, and all of its assets and liabilities are located in Australia.

The revenues and results of this segment are those of the Company as a whole and are set out in the statement of comprehensive income. The segment assets and liabilities of this segment are those of the Company and are set out in the statement of financial position.

This does not represent any changes in disclosure from the predecessor Standard AASB 114 Segment.

8. Contingencies and commitments

There has been no change in contingent liabilities since the last annual reporting date.

9. Key management personnel

Remuneration arrangements of key management personnel are disclosed in the annual financial report. Arrangements with related parties continue to be in place. For details of these arrangements, please refer to the 30 June 2010 annual financial report.

Key management personnel continue to receive compensation in the form of short term employee benefits, post employment benefits and share based payments.

10. Subsequent events

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

(i) On 24 January 2011, the Company announced a Share Purchase Plan (SPP) to issue shares at 20 cents per share to raise $2 million. Funds raised are to be used to progress negotiations on financing of the Coburn Zircon Project, continue the Bankable Feasibility Study on the Mount Gunson Copper Project and fund drilling programs on the Fowlers Bay nickel and Tennant Creek gold and copper projects.

(ii) On 21 February 2011, the Company announced that the SPP closed on Wednesday 16 February 2011 with applications totaling $7.5 million, compared to the target of $2 million. The Directors decided to scale back all applications by 60%, subject to a final review of applications.

(iii) On 24 February 2011, the Company allotted 14,771,516 ordinary fully paid shares pursuant to the SPP, raising $2,954,303.20 before costs of the issue.

(iv) On 8 March 2011, the Company announced the appointment of David Craig as Chairman of the Board of Directors. The appointment followed Bill Cunningham's retirement from the Board and from his role as Chairman.