GUNSON RESOURCES LIMITED

ABN 32 090 603 642

FINANCIAL REPORT 2005

For the Year Ended 30 June 2005

CORPORATE DIRECTORY

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

Company Secretary
I E Gregory

Registered and Principal Office
Level 2, 33 Richardson St
West Perth WA 6005
Tel: (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 Western Australia 6000

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

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

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DIRECTOR'S REPORT

The Directors of Gunson Resources Limited submit their report for the year ended 30 June 2005.

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)

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)

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 2004.

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

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.

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

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 $142,797 (2004: $489,486). 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 where a bankable feasibility study was completed in December 2004.

Work on the Coburn project in 2005 has been focused on obtaining environmental approvals, product offtake contracts and project finance, all of which are expected in late 2005.

Including the Coburn bankable feasibility study, exploration expenditure totaled $3,711,615 (2004: $2,296,245) during the period under review.

Number of Employees

The Company employed 2 people at as 30 June 2005 (2004: 2 employees).

Significant Changes in State of Affairs

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

- Exploration expenditure for the financial period totalled $3,711,615.

Use Of Funds

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

Significant Events After Balance Date

There are no matters or circumstances that have arisen since the end of the financial year which significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company.

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 1,300,000 (2004: 7,900,000) options over unissued ordinary shares. Refer to note 12 of the Financial Statements for further details of the options outstanding.

1,930,770 options were exercised during the year and 4,319,230 lapsed. No 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		**Audit Committee Meetings**	
Director	**Number of meetings held**	**Number of meetings attended**	**Number of meetings held**	**Number of meetings attended**
W H Cunningham	11	11	1	1
D N Harley	11	11	-	-
P C Harley	11	11	1	1

Directors' and Executive Officers' Emoluments

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

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.

The emoluments of each Director are as follows:

Name	Cash salary and fees $	Cash bonus $	Superannuation $	Share Options $	Total $
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)	12,000	-	1,080	-	13,080
Total	220,166	-	19,815	-	239,981

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)	-	250,000
D N Harley (Managing Director)	-	5,000,000
P C Harley (Non-Executive Director)	-	1,000,000

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)	25,000	0.20
D N Harley (Managing Director)	1,180,770	0.20
P C Harley (Non-Executive Director)	100,000	0.20

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 2004	Granted as remuner-ation	Exercised	Sold	Lapsed	Held at 30 June 2005
W H Cunningham (Chairman)	250,000	-	25,000		225,000	-
D N Harley (Managing Director)	5,000,000	-	1,180,770	625,000	3,194,230	-
P C Harley (Non-Executive Director)	1,000,000	-	100,000		900,000	-

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

Service Agreements

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 1 April 2005.
- Base salary to be reviewed annually.
- 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.
- Annual salary of $200,000.
- 2,000,000 options to purchase fully paid shares at a price to be agreed later in 2005.

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.

DIRECTOR'S REPORT

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Gunson support and have adhered to the principles of Corporate Governance. The Company's corporate governance statement is contained in the Corporate Governance section 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 entities auditor and the directors are satisfied that auditor independence was not compromised:

Tax Compliance	$3,930

Auditors Independence Declaration

The Auditor's Independence Declaration on page 6 forms part of the Director's Report for the year ended 30 June 2005.

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

29 September 2005

Chartered Accountants
& Advisers

Level 8, 256 St George's Terrace Perth WA 6000
PO Box 7426 Cloisters Square Perth WA 6850
Tel: (61-8) 9360 4200
Fax: (61-8) 9481 2524
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www.bdo.com.au

29 September 2005

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

Dear Sirs

DECLARATION OF INDEPENDENCE BY BDO CHARTERED ACCOUNTANTS 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 this Act in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to this audit.

Yours faithfully
BDO
Chartered Accountants & Advisers

BG McVeigh
Partner

Quality Endorsed Company ISO 9001 Lic 8142/08 Standards Australia

BDO is a national association of separate partnerships and entities.

STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2005	Note	2005 $	2004 $
REVENUES FROM ORDINARY ACTIVITIES			
Interest Income		127,727	111,831
Other Income		567	7,665
Total Revenue From Ordinary Activities	2	128,294	119,496
Administration expenses		(565,124)	(537,229)
Exploration Costs Written Off		(6,460)	(71,753)
Loss From Ordinary Activities Before Income Tax	2	(142,797)	(489,486)
R&D Expenditure Tax Refund		300,493	-
Income tax expense	3	-	-
NET LOSS ATTRIBUTABLE TO MEMBERS		**(142,797)**	**(489,486)**
Basic Earnings per share (cents per share)	17	(0.22)	(0.87)

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2005	Note	2005 $	2004 $
CURRENT ASSETS			
Cash Assets	4	1,044,045	3,512,052
Receivables	5	147,289	210,219
Other	6	21,546	-
TOTAL CURRENT ASSETS		1,212,880	3,722,271
NON-CURRENT ASSETS			
Deferred Exploration Evaluation and Development Costs	7	11,193,977	7,488,822
Property, Plant and Equipment	8	55,267	49,786
Pastoral Lease (Coburn)	9	484,676	-
TOTAL NON-CURRENT ASSETS		11,733,920	7,538,608
TOTAL ASSETS		12,946,800	11,260,879
CURRENT LIABILITIES			
Payables	10	332,591	421,781
Provisions	11	26,231	30,052
TOTAL CURRENT LIABILITIES		358,822	451,833
TOTAL LIABILITIES		358,822	451,833
NET ASSETS		12,587,978	10,809,046
EQUITY			
Contributed Equity	12	14,236,489	12,314,760
Accumulated Losses	13	(1,648,511)	(1,505,714)
TOTAL EQUITY		12,587,978	10,809,046

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2005	Note	2005 $	2004 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments for exploration and evaluation		(3,843,885)	(2,447,907)
Payments to suppliers and employees		(533,706)	(622,634)
Interest received		125,728	111,831
Deposits paid		(34,000)	(15,000)
Tenement rentals refund received		96,266	-
R&D Tax refund received		300,493	-
Goods and services tax (paid)/received		(5,325)	224,984
NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES	22	(3,894,429)	(2,741,061)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on sale of plant and equipment		1,500	-
Payment for plant and equipment		(23,131)	(41,016)
Payment for pastoral lease – Coburn Station		(484,676)	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(506,307)	(41,016)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of shares		1,975,285	5,215,948
Payment of share issue costs		(42,556)	(219,739)
NET CASH FLOWS FROM FINANCING ACTIVITIES		1,932,729	4,996,209
NET (DECREASE)/INCREASE IN CASH HELD		(2,468,007)	2,214,132
Cash at the beginning of the financial year		3,512,052	1,297,920
CASH AT THE END OF THE FINANCIAL YEAR	4	1,044,045	3,512,052

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

(a) Exploration and Evaluation Expenditure

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

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

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

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

(b) Recoverable Amount

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

(c) Property, Plant & Equipment

Depreciation and amortisation

Items of property, plant and equipment are depreciated/amortised using either of 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Income Tax

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

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

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

(e) Employee Benefits

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

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

(f) Cash and Cash Equivalents

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

(g) Accounts Payable

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

(h) Revenue Recognition

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Share Capital

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

(j) 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.

(k) Earnings Per Share

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

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

(l) International Financial Reporting Standards

Gunson Resources Limited is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (AIFRS). Pursuant to AASB 1047 the impacts of the changes to AIFRS have been set out in note 25 to the financial statements. The figures disclosed are managements best estimates of the quantitative impact as at the date of preparing the 30 June 2005 financial report. The actual effects of the transition to AIFRS may differ from the estimates disclosed.

	2005 $	2004 $
2. Revenue and Expense from Ordinary Activities		
The operating results before income tax has been determined after:		
Revenues From Operating Activities		
Interest received	127,727	111,831
Profit on sale of assets	567	-
Other income	-	7,665
	128,294	119,496

	2005 $	2004 $
Expenses from Operating Activities		
Depreciation	23,900	16,331
Exploration costs written off	6,460	71,753
Salaries & Wages Cost expensed	154,066	165,293
Directors Fees	58,315	27,450
Rent expense on operating lease	46,803	40,653
Shareholder and Listing Expenses	67,866	72,375
Advertising	20,131	31,752
Travel	17,061	17,973
Accounting	19,194	26,036
Audit Fees	16,567	16,892
Company Secretarial	25,000	18,000
Tax consultancy	45,094	-
Insurance	4,372	20,426
Bad Debts written off (A.T.O.)	-	27,585
Other operating expense	66,755	56,463
	571,584	608,982

3. Income Tax

	2005 $	2004 $
Net Loss before Tax	(142,797)	(489,486)
Prima facie tax benefit at 30% (2004: 30%)	42,839	146,846
Tax effect of permanent differences		
Non-deductible entertainment	(120)	(96)
Other non-deductible expenses	(1,404)	(896)
Tax effect of timing differences		
Capital Raising Costs		
Exploration	1,111,546	707,346
Other	(4,251)	(6,941)
Future income tax benefit not brought to account	(1,148,610)	(846,259)
	-	-

Income Tax Loss

	2005 $	2004 $
Future income tax benefit arising from tax losses of the Company not brought to account at balance date as realisation of the benefit is not regarded as virtually certain.	3,040,422	1,891,812

The benefit for tax losses will only be obtained if:

(i) the consolidated entity derives future assessable income of a nature and amount sufficient to enable the benefit from the tax losses to be realised;

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

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

4. Cash

	2005 $	2004 $
Cash at bank	244,045	112,052
Cash on deposit	800,000	3,400,000
	1,044,045	3,512,052

5. Receivables

	2005 $	2004 $
Goods and services tax refund	82,152	76,826
Other receivables	65,137	133,393
	147,289	210,219

		2005 $	2004 $
6.	**Other**		
	Prepayments - Insurance	21,546	-
7.	**Deferred Exploration, Evaluation and Development Costs**		
	Exploration costs brought forward	7,488,822	5,131,001
	Expenditure incurred on exploration	3,711,615	2,429,574
	Exploration costs written off	(6,460)	(71,753)
		11,193,977	7,488,822

Amortisation of Exploration and Evaluation Costs

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective mining tenements. Amortisation of the costs carried forward for the development phase is not being charged pending the commencement of production.

		2005 $	2004 $
8.	**Property, Plant and Equipment**		
	Plant and equipment, at cost	105,480	78,166
	Accumulated depreciation	(50,213)	(28,380)
	Total written down value	53,200	49,786
	Movements in Carrying Amounts		
	Pant and Equipment		
	Balance at the beginning of the year	49,786	25,101
	Additions	30,314	41,016
	Disposals	(3,000)	-
	Depreciation expense (note 2)	(23,900)	(16,331)
	Carrying amount at the end of year	53,200	49,786
9.	**Other**		
	Pastoral Lease – Coburn Station	484,676	-
10.	**Payables**		
	Trade creditors	86,297	167,902
	Other creditors and accruals	246,359	253,879
		332,656	421,781

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

		2005 $	2004 $
11.	**Provisions**		
	Employee entitlements	26,231	30,052
12.	**Contributed Equity**		
(a)	**Issued and Paid Up Capital**		
	72,388,965 (2004: 64,300,000) ordinary shares fully paid	14,236,489	12,314,760

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

	2005		2004	
	Number of Shares	**$**	**Number of Shares**	**$**
Movements in shares on issue				
Opening Balance	64,300,000	12,314,760	37,408,005	7,318,551
Share placement issued at 26 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		
Less: share issue expenses	-	(53,556)	-	(219,739)
	72,388,965	14,236,489	64,300,000	12,314,760

(c) Share Options

The Company has on issue at year end 1,300,000 (2004: 7,900,000) options over unissued shares. During the year 1,930,770 options were converted into shares (2004: 300,000).

No. of options	
200,000	Other options issued – Exercise price 20 cents Exercise period 16/9/03 – 7/3/06
100,000	Other options issued – Exercise price 20 cents Exercise period 16/12/02 – 16/12/07
1,000,000	Other options issued – Exercise price 20 cents Exercise period 16/9/03 – 16/9/08
1,300,000	

(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.

	2005 $	2004 $
13. Reserves and Accumulated Losses		
Accumulated Losses		
Accumulated loss at the beginning of the financial year	1,505,714	1,016,228
Net loss for the year	147,080	489,486
Accumulated loss at the end of the financial year	1,652,794	1,505,714

14. Remuneration Of Directors and Executives

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)

Directors' and Executive Officers' Emoluments

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

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

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

The emoluments of each Director are as follows:
2005

Name	Cash salary and fees $	Cash bonus $	Superannuation $	Share Options $	Total $
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)	12,000	-	1,080	-	13,080
Total	220,166	-	19,815	-	239,981

2004

Name	Cash salary and fees $	Cash bonus $	Superannuation $	Options $	Total $
W H Cunningham (Chairman)	24,000	-	2,160	-	26,160
D N Harley (Managing Director)	181,000	-	16,290	-	197,290
P Harley (Non Executive Director)	12,000	-	1,080	-	13,080
Total	217,000	-	19,530	-	236,530

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)	-	250,000
D N Harley (Managing Director)	-	5,000,000
P C Harley (Non-Executive Director)	-	1,000,000

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)	25,000	0.20
D N Harley (Managing Director)	1,180,770	0.20
P C Harley (Non-Executive Director)	100,000	0.20

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:

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

Equity Holding and Transaction

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

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

Service Agreements

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 15 March 2000.
- Base salary to be reviewed annually.
- 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.

15. Auditors Remuneration

	2005	2004
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	16,567	16,897
- other services	3,930	3,375
	20,497	20,272

16. Significant Events After Balance Date

There are no matters or circumstances that have arisen since the end of the financial year which significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company.

17. Earnings Per Share

	2005	2004
	$	$
Basic earnings per share (cents)	(0.22)	(0.87)
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	66,149,841	56,186,940
Earnings used in the calculation of basic EPS	(142,797)	(489,486)

18. Segment Information

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

19. Related Party Transactions

Other than disclosed in note 12 there were no related party transactions during the financial year.

20. Expenditure Commitments

The following tables summarise the Company's exploration expenditure commitments on granted tenements for the financial year 2005/2006 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	55,350
EL 09/996	18 July 2000	31,500
ML 09/102	25 October 2004	99,800
ML 09/103	25 October 2004	99,900
ML 09/104	25 October 2004	99,900
ML 09/105	25 October 2004	100,000
ML 09/106	25 October 2004	100,000
ML 09/111	14 July 2005	99,900
ML 09/112	14 July 2005	99,000
	Total	**$885,350**

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 SA Department of Primary Industry and Resources under which the Company must spend a minimum of $250,000 on exploration in the 2005/2006 financial year. Expenditure during and after this time will depend on the area retained under exploration licences.

(c) Tennant Creek

The Company has two granted exploration licences, ELs 23944 and 23947, granted on 5 February 2004 and 13 May 2005 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) 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	1,322,350
Later than 1 year but not later than 2 years	1,322,350
Later than 2 years but not later than 5 years	2,250,000
TOTAL	4,894,700

(f) Operating Lease – Richardson Street

The lease of the Company's office at West Perth has been extended with some additional space into a second three year period effective 1st July 2005.

Monthly rent for the extended lease is $6,526 including GST.

21. Financial Instruments Disclosure

Interest rate risk

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

30 June 2005	**Weighted average interest rate**	**Floating interest $**	**Fixed interest maturing in less than 1yr period $**	**Non-interest bearing $**	**Totals $**
Financial Assets					
Cash	4.7%	239,931	800,000	-	1,039,931
Accounts Receivable		-	-	147,289	147,289
Total Financial Assets		239,931	800,000	147,289	1,187,220
Financial Liabilities					
Accounts Payable		-	-	332,655	332,655
Total Financial Liabilities		-	-	332,655	332,655
Net Financial Assets (30 June 2005)		239,931	800,000	(184,366)	854,565

30 June 2004	Weighted average interest rate	Floating interest $	Fixed interest maturing in less than 1 period $	Non-interest bearing $	Totals $
Financial Assets					
Cash	4.7%	112,052	3,400,000	-	3,512,052
Accounts Receivable		-	-	104,326	104,326
Total Financial Assets		112,052	3,400,000	104,326	3,616,378
Financial Liabilities					
Accounts Payable		-	-	182,681	182,681
Total Financial Liabilities		-	-	182,681	182,681
Net Financial Assets (30 June 2005)		112,052	3,400,000	(78,355)	3,433,697

Credit Risk

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

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

Net Fair Values

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

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

22. Cash Flow Information	**2005 $**	**2004 $**
Reconciliation of the operating loss after tax to the net cash flows from operations.		
Operating loss after income tax	(142,797)	(489,486)
Non cash items		
Depreciation	23,900	16,331
Exploration costs written off	6,460	71,753
Profit on sale of asset	(567)	-
Changes in assets and liabilities		
Decrease/(Increase) in receivables	62,930	(149,478)
Increase in prepayments	(21,546)	-
Exploration Costs Capitalised	(3,711,615)	(2,429,574)
Increase/(decrease) in trade creditors and accruals	(107,373)	223,755
Increase/(decrease) in provisions	(3,821)	15,638
Net cash flow from/(used in) operating activities	(3,894,429)	(2,741,061)
Reconciliation of Cash		
Cash balance comprises;		
cash at hand	244,045	112,052
short term deposits	800,000	3,400,000
	1,044,045	3,512,052

Financing facilities available

As at 30 June 2005 the Company had no financing facilities available.

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

23. Employee Benefits

	Note	2005 $	2004 $
Aggregate liability for employee benefits including on-costs			
Current			
Other creditors and accruals	10	44,153	7,157
Employee entitlements provision	11	26,231	30,052
Number of Employees			
Number of employees at year end		2	2

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 2006 and it is backed by a $49,000 term deposit with the bank.
The Directors are not aware of any other contingent liabilities as at 30 June 2005.

25. Impact of Adopting Australian Equivalents to IFRS

Gunson Resources Ltd is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (AIFRS) which will be applicable for the financial year ended 30 June 2006. Priority has been given to the preparation of an opening balance sheet in accordance with AIFRS as at 1 July 2004, Gunson Resources transition date to AIFRS. This will form the basis of accounting for AIFRS in the future, and is required when Gunson Resources prepares its first fully AIFRS compliant financial report for the year ended 30 June 2006.

Set out below are the key areas where accounting policies are expected to change on adoptions of AIFRS and our best estimate of the quantitative impact of the changes on total equity as at the date of transition and 30 June 2005 and on net profit for the year ended 30 June 2005.

The figures disclosed are management's best estimates of the quantitative impact of the changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to AIFRS may differ from the estimates disclosed due to (a) ongoing work being undertaken by the AIFRS project teams; (b) potential amendments to AIFRSs and interpretations thereof being issued by the standard-setters; and (c) emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations.

(a) Reconciliation of equity as presented under AGAAP to that under AIFRS

	Notes	30 June 2005**	1 July 2004*
		$	$
Total equity under AGAAP		12,587,978	10,809,046
Adjustments to retained earnings (net of tax)			
Impairment of assets including goodwill	(i)	-	-
Write-back of good will amortisation	(ii)	-	-
Recognition of share-based payment expense	(iii)	-	-
Deferred tax	(v)	-	-
		-	-
Adjustments to other reserves (net of tax)			
Recognition of share-based payment expense	(iii)	-	-
Deferred tax effect	(v)	-	-

		-	-
Total equity under AIFRS		12,587,978	10,809,046

* This column represents the adjustments as at the date of transition to AIFRS.
** This column represents the cumulative adjustments as at the date of transition to AIFRS and those for the year ended 30 June 2005.

(i) Under AASB 136 *Impairment of Assets*, the recoverable amount of an asset is determined as the higher of its net selling price and value in use. The company's current accounting policy is to determine the recoverable amount of an asset on the basis of discounted cash flows. The Company's assets were tested for impairment on transition and each subsequent reporting date as part of the cash generating unit to which they belong. This would result in impairment losses being recognised under AIFRS.

(ii) Under AASB 3 *Business Combinations* goodwill would not be permitted to be amortised but instead is subject to impairment testing on an annual basis or upon the occurrence of triggers which may indicate a potential impairment. Currently, the company amortises goodwill over its useful life but not exceeding 12 years. The Company has not elected to apply AASB 3 retrospectively and hence, prior year amortisation would not be written-back as at the date of transition.

(iii) Under AASB 2 *Share based Payments*, the company would recognise the fair value of options granted to employees as remuneration as an expense on a pro-rata basis over the vesting period in the income statement with a corresponding adjustment to equity.

(iv) Under AASB 116 *Property, Plant and Equipment*, the Company would be required to include as part of the cost of its leasehold improvements, an estimate of the costs to remove those improvements at the end of the lease terms where such an obligation exists to the lessor. These costs are not recognised under AGAAP. A corresponding liability would also be recognised under AIFRS in accordance with AASB 137 *provisions, Contingent Liabilities and Contingent Assets.*

(v) Under AASB 112 *Income Taxes* the Company would be required as at the date of acquisition to recognise the tax effect of fair value adjustments in a business combination, which in turn would effect the amount of goodwill recognised. Such deferred taxes are not recognised under AGAAP. On transition, the recognition of deferred taxes would be required to be recognised in retained earnings and not as an adjustment to goodwill.

AASB 112 *Income Taxes* requires the Company would be required to use a balance sheet liability method, rather the current income statement method which recognises deferred tax balances where there is a difference between the carrying value of an asset or liability and its tax base. This would result in the recognition of a deferred tax liability in relation to the revalued assets. Under AGAAP, the tax effects of assets revaluations are not recognised.

The above changes will result in an increase in a net deferred tax asset under AIFRS as follows:

	30 June 2005 $	1 July 2004 $
Other current assets	(6,464)	-
Exploration and evaluation	(2,650,370)	(1,541,713)
Payables	2,400	2,250
Provisions	7,869	9,016
Black hole expenditure	(211,159)	(194,582)
Carry forward losses	3,141,617	1,945,175
Net deferred tax asset	283,893	220,146

No adjustments to deferred tax balances or retained earning shave been made on adoption of AASB 112 *Income Taxes* as the net asset would have to be virtually certain of recovery. The Company has yet to reach production stage and the asset would therefore appear to not be recoverable in the foreseeable future.

(vi) Management has decided to apply the exemption provided in AASB1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* which permits entities not to apply the requirements of AASB 103 *Financial Instruments*: *Presentation and Disclosures* and AASB 139 *Financial Instruments: Recognition and Measurement* for the financial year ended 30 June 2005. The standards will be applied from 1 July 2005. The Company is in the process of determining the impact that adopting the standards would have on the financial statements.

(b) Reconciliation of net profit under AGAAP to that under AIFRS

YEAR ENDED 30 JUNE 2005	**Notes**	
		$
Net loss as reported under AGAAP		(142,797)
Share-based payment expense	(iii)	-
Impairment losses recognised	(iv)	-
Adjustment to income tax expense	(v)	-
Net Profit under AIFRS		(142,797)

(b) Restated AIFRS Statement of Cash Flows for the year ended 30 June 2005

No material impacts are expected to the cash flows presented under AGAAP on adoption of AIFRS.

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 2005 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 2005

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

D N Harley
Managing Director

29 September 2005
Perth, Western Australia

BDO

Chartered Accountants
& Advisers

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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF GUNSON RESOURCES LIMITED

Scope

The Financial Report and Directors' Responsibility
The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Gunson Resources Limited (the company), for the year ended 30 June 2005.

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

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

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

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

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

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

Quality System
Quality Endorsed Company
ISO 9001
Lic 8142/08
Standards Australia

BDO is a national association of separate partnerships and entities.

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 2005 and of its performance for the year ended on that date; and

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

(b) other mandatory financial reporting requirements in Australia.

BDO
Chartered Accountants & Advisers

BG McVeigh
Partner, Perth
29 September 2005