GUNSON RESOURCES LIMITED

ABN 32 090 603 642

annual report 2010

corporate directory

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W H Cunningham (Chairman)
D N Harley (Managing Director)
P C Harley (Non-Executive Director)

Company Secretary
I E Gregory

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Country of Incorporation
Gunson Resources Limited is domiciled and incorporated in Australia

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Gunson Board of Directors. Standing, from left: Ian Gregory, Company Secretary and Peter Harley. Sitting, from left: David Harley and Bill Cunningham

contents

highlights

- Definitive Feasibility Study (DFS) completed on the Coburn Zircon Project, with positive results in a very strong zircon market.
- Financial modelling of the Coburn Zircon Project has been based on the sale of final heavy mineral products produced at the mine, increasing the flexibility in marketing from previous studies.
- Since the release of the Coburn DFS in January 2010, modelling of the Project with a higher exchange rate and updated commodity price forecasts has shown little change from the earlier financial returns, with the IRR at 16.4% and NPV at $A141 million at 85 US cents to one Australian dollar.
- Efforts to attract a strategic investment partner to fund the proposed Coburn mine are proceeding well, with seven companies currently reviewing the opportunity. Negotiations have started with two of these, with the aim of concluding an agreement by the end of 2010.
- Global mineral sands market consultancy TZMI has reported a 30% increase in the price of zircon from the end of 2009 to October 2010, with the likelihood of further significant price rises in the next several years due to restricted supply and growing demand, particular from emerging economies.
- The MG14 – Windabout Bankable Feasibility Study at the Mount Gunson Project has been dominated by metallurgical test work, which is now focused on maximising financial returns from the high cobalt content of the copper concentrates.
- The company's farm-in partner at Mount Gunson, Noranda Pacific Pty Limited (Noranda), earned a 51% interest in the Project in March 2010, excluding the MG14 – Windabout Excised Area.
- Noranda is currently funding airborne and ground geophysical surveys over the northern half of the Mount Gunson Project., with a view to selecting drilling targets for 2011. Noranda has the right to earn a 75% interest in the Project by spending $10 million by June 2013.

chairman's review

Dear Shareholder

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

Firstly I wish to thank our shareholders for their patience, understanding, and continued support. It has not been an easy year for Gunson, as a grass-roots exploration company yet to develop its first project cash flow. However, I am very confident that your patience is soon to be rewarded, as I will shortly explain.

The world has staggered out of the global financial crisis of 2008, led by the positive performance of the developing nations, China in particular. Europe, USA and Japan are still struggling to sustain a meaningful economic recovery, burdened as they are with massive debt. Australia is fortunate to have the mineral raw materials sought by China and the other developing economies.

Whilst coal, iron ore and natural gas have taken the spotlight, the diverse mineral suite that Gunson is deliberately pursuing has been buoyant over the past year, demonstrating the strength of global demand, especially generated within the Asian region. Despite the significant appreciation of the Australian dollar against the US currency in this time, the US dollar prices of the Company's principal target commodities, zircon and copper, have appreciated at a faster pace than the exchange rate. For instance, respected mineral sands market consultant TZMI has reported a 30% increase in the price of zircon from the end of 2009 to the fourth quarter of 2010 and the price of copper has gone up by 18% over the same period, compared with a 10% increase in the Australian dollar exchange rate.

During the past year we have fine-tuned the Coburn Zircon Project, working through a Design Definition Study with engineering group Sedgman Metals. This culminated in the release of their Study as part of Gunson's Definitive Feasibility Study in January of this year, establishing the total capital cost at a 90% confidence level as $A169 million.

Since then, the main focus has been on contact with parties potentially interested in participation in Coburn Zircon Project and RFC Corporate Finance was mandated in July to assist Gunson in selection of a strategic partner. Meanwhile, Gunson continued discussions with parties contacted prior to the RFC mandate, both in Australia and overseas. At present, seven potential strategic investors are reviewing the Coburn opportunity and the objective is to attract a partner before the end of 2010.

In September 2010, TZMI reported that zircon and titanium dioxide mineral prices have risen substantially since the beginning of 2010, and the outlook for zircon in particular is one of restricted supply, strengthening demand and increasing prices over the next few years. Given the lead time to bring on a new project, Coburn Zircon Project is almost unique in that it is "permitted and ready to go", and can be in production 85 weeks from finance sign-off. Hence my initial comment that I am confident our shareholders are about to be rewarded for their patience. This project has taken 10 years and nearly $20 million of shareholder funds to reach this point.

Our Mount Gunson Copper Exploration Project with Noranda Pacific Pty Limited (Noranda), part of Xstrata's Copper Business Unit, saw our sole-funding joint venture partner achieve 51% equity in the project in March 2010. Noranda spent $A1.7 million during the financial year, taking its cumulative expenditure to $A4 million. A further $A6 million expenditure by June 2013 (total $A10 million) would entitle Noranda to an additional 24% equity. I have no reason to believe they will not achieve this, as Noranda share our belief that this is a prime copper exploration area. The three deep diamond drill holes put down in 2009/10 on the Emmie Bluff prospect did not yield other than sub-economic copper values. Exhaustive geophysical evaluation has finally indicated that the source of high conductivity in the last drill hole was salt water in porous sandstone. However, the Emmie Bluff area remains a high priority focus for ongoing geophysical surveys currently in progress. Drilling may follow on this and other areas of the Project if results are sufficiently encouraging.

chairman's review

Meanwhile, a Preliminary Feasibility Study into the shallow MG14 deposit, excised from the Noranda joint venture, gave encouragement in October 2009 with indications of a high grade copper concentrate. This Study was extended in late 2009 to a Bankable Feasibility Study to include the nearby, larger but deeper Windabout deposit in a planned sequential development. Over the past year, metallurgical testing of both deposits has been undertaken, and is ongoing to determine our optimum metallurgical route. Discussions with potential offtake and financing partners were held during the year but most of those interested wanted the metallurgical test work to be completed before a decision on investment was made, despite the current critical shortage of copper concentrates, which is predicted to become acute in 2011.

We made our first drilling foray into the Tennant Creek Gold - Copper Project in May this year, and further gravity surveys since then have defined another attractive drill target some 3 km to the west of the original drill hole.

Fowlers Bay Nickel Project, in the Yellabinna Regional Reserve, now has drill clearance from the South Australian authorities, and we are seeking to expedite an aboriginal heritage clearance prior to the proposed drilling program.

A Share Purchase Plan raised $664,500 in December, 2009 (6.645 million shares at 10 cents), and Share Placements were made in February (7.5 million shares at 10 cents for $750,000), July 2010 (10 million shares at 6 cents, for $600,000) and early October 2010 (4 million shares at 9 cents for $360,000). Total shares on issue are currently 177,464,312. Funds have been utilised chiefly on Coburn Zircon Project and MG14/Windabout Copper Project, with a lesser amount on Tennant Creek Gold-Copper Project.

I thank our Managing Director David Harley and his hard-working, dedicated staff. The word "dedicated" typifies David's approach to Gunson. He works long hours, and makes extensive physical and financial sacrifices in his drive to provide us with our first operational project. My fellow-non-executive Director, Peter Harley, is a constant source of wisdom and experience, and we are indeed fortunate to have him on our Board. Our Company Secretary, Ian Gregory, is our quiet and efficient achiever. I am proud to be part of this team.

Bill Cunningham
Chairman

12 October, 2010

Gosse River Crossing, Tennant Creek

review of operations

Excluding farm-in expenditure by others, Gunson's cash expenditure on exploration during the year was $2.6 million, 50% higher than last year's net expenditure of $1.7 million. The increase was due to improved market sentiment following the worst of the global financial crisis, although this sentiment reversed in early to mid 2010 after the European sovereign debt problems surfaced in March 2010 and then public release in May 2010 of the Australian Government's ill considered Mining "Super Profits Tax" proposal.

Excluded from the above figure is farm-in expenditure on the Mount Gunson Project by Noranda Pacific Pty Limited (Noranda), which was much higher than in the previous year at $1.7 million. This enabled Noranda to earn a 51% equity in the Project, excluding the MG14 and Windabout copper deposits excised from the exploration farm-in agreement in 2008.

Again, the highest net Gunson expenditure was on the Coburn Zircon Project at $1.4 million or 54% of the total. Expenditure on the MG14-Windabout excised area at Mount Gunson came in second at 28% of the total, with the remaining 18% spent on the Burkin, Tennant Creek and Fowlers Bay grass roots exploration projects.

The location of the Company's projects is shown on Figure 1 below. Burkin was abandoned in late 2009 and consequently does not appear on this map.

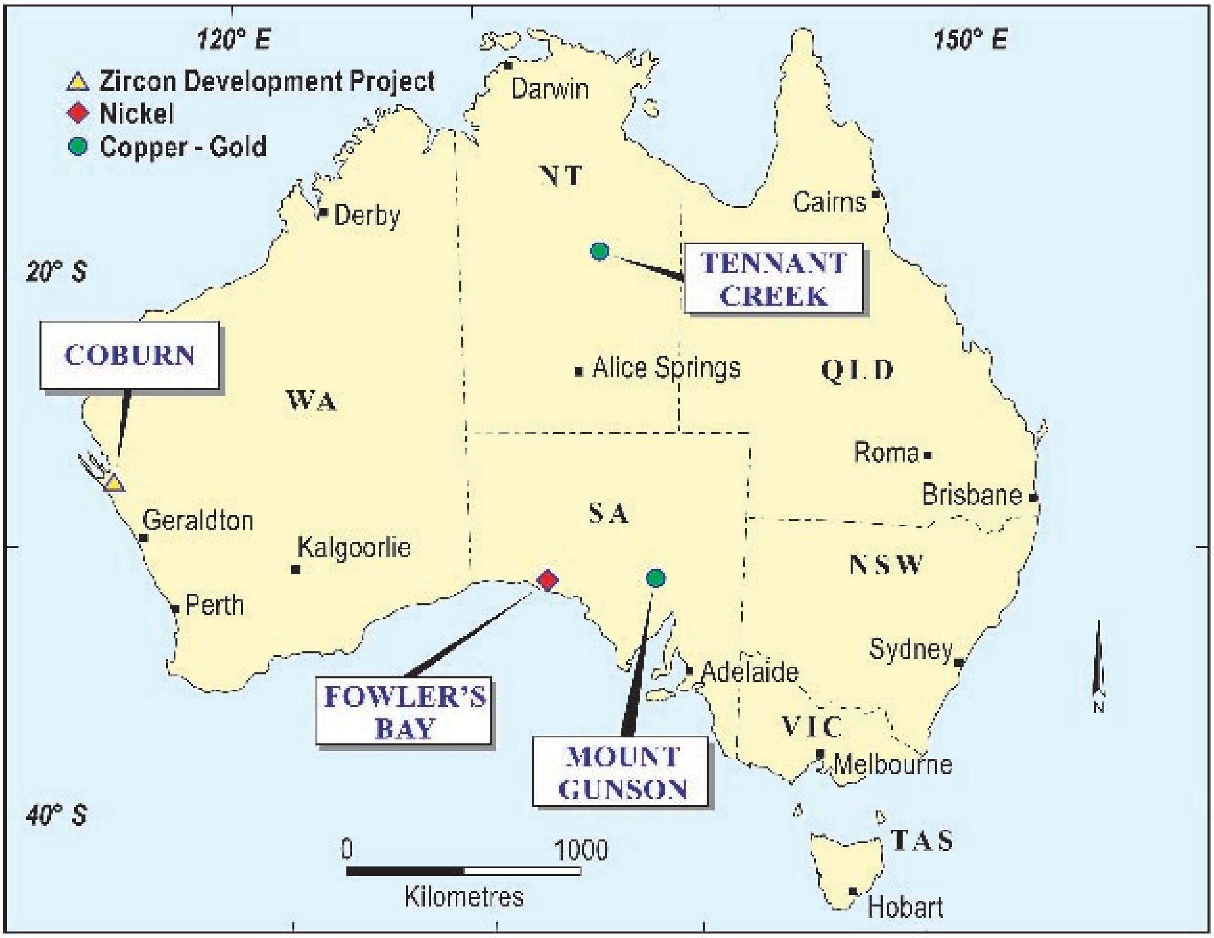

Figure 1. Project Location Plan

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

1 INTRODUCTION

Expenditure on the Project was slightly higher than in the previous year (see Figure 2 below), reflecting increased metallurgical test work and engineering design definition as part of the Definitive Feasibility Study (DFS), results of which were released in January 2010. This Study concluded that development of the Coburn Project to produce final saleable heavy mineral products at the mine for export from Geraldton was financially attractive. Consequently, efforts to attract one or more strategic investors to share the mine development costs were stepped up.

The Company's emphasis on attracting a strategic partner have been assisted by the dramatic recovery in the zircon market, with respected global mineral sands marketing consultant TZMI reporting that zircon prices in the final quarter of 2010 are some 30% above those prevailing at the end of 2009. TZMI expects further price rises in 2011, based on continued tight supply, along with strong demand from China and other developing economies.

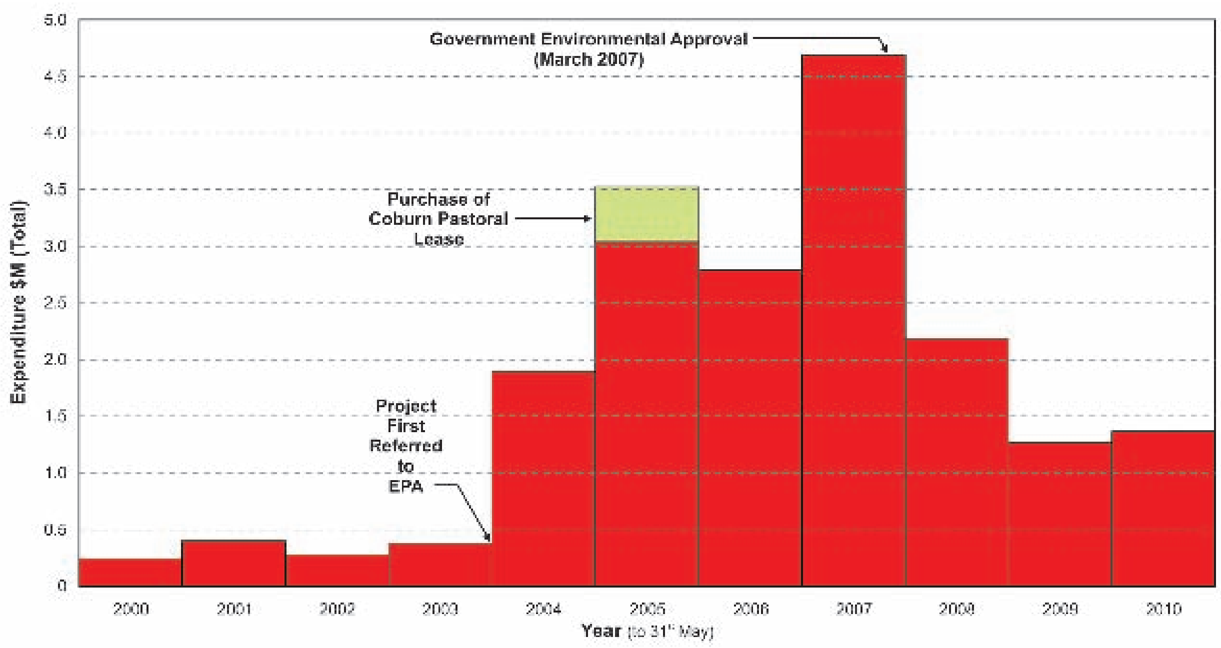

Figure 2. Coburn Expenditure 2000 -2010

2 BACKGROUND

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

The zircon-rich Amy Zone heavy mineral sand deposit at Coburn was discovered by Gunson in 2000 and has been the subject of 3 feasibility studies. The first, a Preliminary Feasibility Study (PFS), was completed in January 2003 and the second, a Bankable Feasibility Study (BFS), was released in December, 2004. Because of its location close to the edge of the Shark Bay World Heritage Property, Coburn was the subject of a four year environmental approvals process, which culminated in approval for construction in March 2007, over 2 years after completion of the BFS.

A Definitive Feasibility Study (DFS) designed to update and improve on the accuracy of the BFS, began in mid 2006. This DFS was not completed until December 2009, due to the failure of the Company's proposed Chinese offtake and investment partner, state controlled China Triumph International Engineering Company (CTIEC), to provide a competitive construction proposal after nearly two years of discussions that began in early 2007. CTIEC had made its appointment as the Project construction engineer a condition of its investment but was advised in November 2008 that this arrangement was unacceptable to Gunson.

Construction of the Project was re tendered in early 2009, with a preferred contractor, Sedgman Metals (Sedgman), chosen in June 2009. Sedgman then commenced a Design Definition Study (DDS), to reduce the capital and operating costs, and risk associated with execution of the Project. A major focus of this Study was the dry mineral separation plant (MSP), the location of which was changed from China to the mine site during the tendering process.

Sedgman's DDS, received in mid December 2010, provided a sound basis for completion of the DFS, the results of which are summarised in item 4 below.

3 GEOLOGY, RESOURCES AND RESERVES

The Amy Zone heavy mineral sand deposit is approximately 35 km long by up to 3 km wide and is hosted predominantly in unconsolidated sand dunes with a very low slime content. Mineralisation occurs between the surface and a largely impermeable clay rich sediment basement at depths between 10 and 50 metres (m). Heavy minerals are present over a very large area but higher grades are more common near the base of the sand dunes and within a narrower northerly trending zone which bends eastward at its northern end (Figure 4).

No changes have been made to the resource estimates listed in the 2008 Annual Report, which total 979 million tonnes at 1.26% heavy minerals, including 261 million tonnes at 1.4% heavy minerals in the northern part of Amy Zone that has not yet been approved for mining by the Western Australian Environment Minister.

A slight increase to the ore reserves listed in the 2008 and 2009 Annual Reports was made as a result of the DDS and the new reserve figures are listed in table 1 below. All of these ore reserves lie within the southern part of Amy Zone which has government environmental approval for mining.

Table 1. Coburn Heavy Mineral Ore Reserves

Reserve Category	Pit No.	Ore - Million Tonnes	HM Grade %	Zircon %	Ilmenite %	Rutile %	Leucoxene %
Proved	A	53	1.3	24	46	5	6
Probable	B-E	255	1.2	23	48	7	4
Total		**308**	**1.2**	**23**	**48**	**7**	**5**

The valuable mineral assemblage listed above is expressed as a percentage of the total HM content of each ore reserve category. Slimes average 2.7% of the ore and oversize 3.3%.

4 DEFINITIVE FEASIBILITY STUDY

4.1 Mining

Contract mining using the dozer trap technique for ore and bulldozer for overburden, was assumed in the DFS. Cost estimates for this work were supplied by Watpac Limited, based on using Caterpillar D11 bulldozers to push the ore downwards into a dozer trap, where it would be mixed with water and pumped as a slurry into the wet concentrator plant (WCP). Overburden would also be pushed into the void created by removal of the ore. Tailings from the WCP would then be pumped back into the pit, covering the previously mined overburden to within a metre of the original ground level. Subsoil and topsoil would be

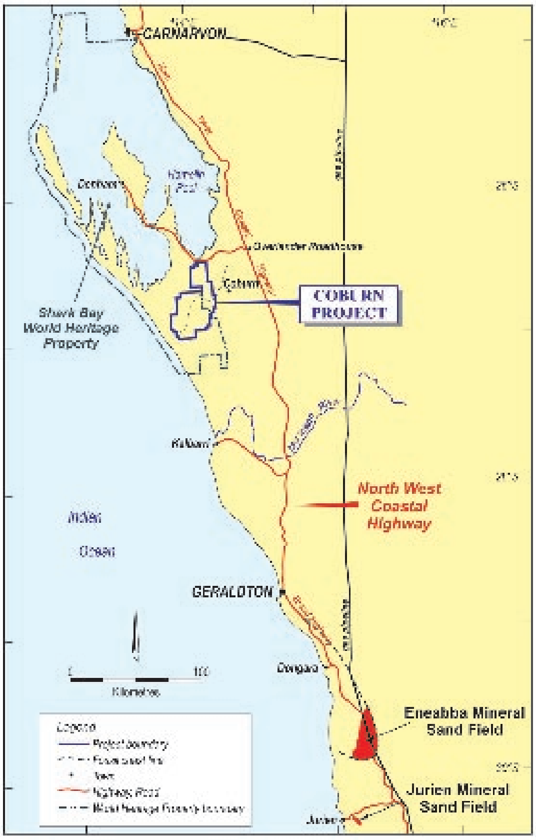

Figure 3. Regional Setting of the Coburn Project

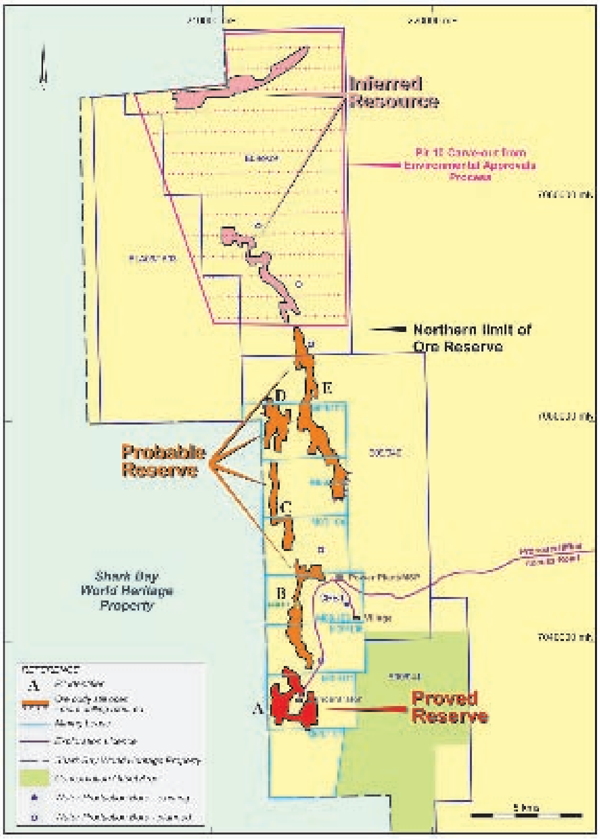

Figure 4. Amy Zone, Coburn Project

placed on top of the tailings to enable commencement of the revegetation phase of the mine rehabilitation process.

The DDS reviewed the design and operation of the dozer traps and design changes were incorporated to combine the previously specified separate dozer trap and screening plants into a single dozer mining unit (DMU), with improved flexibility of operation and an increase in the utilisation and average feed rate. At the proposed mining rate of 17.5 Mt of ore per annum, the ore reserve supports a mine life of 17.5 years. Further scope to increase the ore reserve is shown on Figure 4, where the ore in pits D and E is open to the north west and south east respectively. The overall strip ratio of the Proven and Probable Ore Reserves is 0.64 tonnes of waste to 1 tonne of ore. An increase of 2 million tonnes to the Proved Ore Reserve from the figure listed in the 2008 and 2009 Annual Reports resulted from a review of the mining method during the DDS.

In addition to the ore reserves listed above, a potentially mineable resource of 106 million tonnes averaging 1.3% HM was estimated using the optimised pit shells from the inferred resource in the northern third of Amy Zone (Figure 4). Assuming that this area receives government approval for mining prior to depletion of the ore reserves listed in Table 1, the Coburn mine life would be extended by 6 years to 23.5 years. Mining of this northern area has been assumed in the financial evaluation discussed below.

4.2 Mineral Processing

Metallurgical test work to define the design and costing of the minesite WCP and mineral separation plant (MSP) has been carried out in several phases between 2003 and 2009. The majority of this work was completed by Roche Mining – Mineral Technologies (Roche) prior to 2007, Outotec in 2007, company metallurgist Alan Luscombe during 2007 – 2008 and by Allied Mineral Laboratories in 2009.

review of operations

Allied Mineral Laboratories' work formed part of the Sedgman's DDS and has been very beneficial in defining equipment selection and flow sheets for the WCP and MSP.

- **Wet Concentrator Plant (WCP)**
  Roche designed a mobile WCP with a name plate capacity of 2200 tonnes per hour during the 2004 BFS. This design, modified by Roche during a value engineering study in 2005, has proved to be robust, with very few modifications made to it during the 2009 DDS. The Roche test work results indicated that a HM recovery of 87.2% could be achieved at a grade of 92% HM and this performance was confirmed during the DDS.

  The WCP is to be located at the edge of the open pit and moved along the ore body at approximately 1 to 3 year intervals, as mining proceeds northwards. Ore is pumped as a slurry from the DMU on the pit floor to the WCP, where the heavy minerals are recovered by wet spiral separation. Tailings (over 98% of the ore) are then pumped as a slurry back into the mine void, where they are dewatered so that the water can be reused in the mining and mineral concentration process.

  Concentrate from the WCP is to be trucked to the MSP, which is located next to the power station (Figure 4).

- **Mineral Separation Plant (MSP)**
  A major focus of the 2009 DDS was placed on the MSP, as previous work had assumed that final mineral separation would be elsewhere in Western Australia or China. However, these alternatives were rejected in early 2009 during the tendering process and the MSP in the DFS was based on a fixed facility at the mine, with a capacity of 30 tonnes of concentrate per hour.

  A key conclusion from the test work competed between 2007 and 2008 was the benefit of an attritioning step in the MSP, to reduce clay and iron oxide coatings on the heavy minerals, particularly zircon. This step has been incorporated into the MSP flow sheet, followed by separation of the ilmenite, zircon, rutile and leucoxene into final saleable products with magnetic and electrostatic equipment. The flow sheet adopted in the MSP, while specific to the Coburn ore, is relatively conventional, being typical of most existing Western Australian mineral sand mines.

  The final products from the MSP are to be trucked to a company owned storage shed to be built adjacent to the Geraldton port, where they are to be exported to overseas markets.

4.3 Heavy Mineral Products

At a mining rate of 17.5 million tonnes of ore per year over approximately 23.5 years, the average annual yield of final mineral products with some of their key specifications is shown in Table 2 below. Mineral recovery factors in the WCP and MSP have been applied to the in-ground heavy mineral contents listed in Table 1 to derive the final product quantities. These recovery factors are based on the metallurgical test work discussed above and are heavily influenced by customer quality specifications. With less stringent specifications, product tonnages would increase but prices achieved may be lowered.

Table 2. Average Annual Coburn Mineral Production

Product	Annual Tonnage	Key Specification	U + Th (ppm)	% of Revenue
Zircon	40,000	66% ZrO_2	340	67
Ilmenite	90,000	61% TiO_2	114	18
Rutile	9,000	95% TiO_2	50	10
Leucoxene	7,000	90% TiO_2	150	5
Total	**146,000**			**100.0**

Many opportunities to sell the mine products have been offered but the Company's strategy has been to link product offtake with direct investment in the Project.

4.4 Infrastructure

The Coburn Project is located approximately 45 km west of the North West Coastal Highway (Figure 3), linking the port of Geraldton some 250 km to the south with coastal towns in the Gascoyne, Pilbara and Kimberley regions. A 42.5 km sealed access road into the MSP and power station at the mine site is included in the capital cost estimates, along with a 1.7 km paved road to the village (Figure 4). Secondary unsealed roads to the WCP and water bores are also included.

Power for the mine is to be provided by a build-own-operate supplier, using natural gas piped from the Dampier to Bunbury pipeline some 110 km to the east. As the Company has not yet obtained government approvals for constructing a gas pipeline, LNG may be used in place of the piped gas at the start of operations.

Water supply will come from artesian aquifers directly below the mine, from one established water bore and two others to be drilled during the construction phase. As the water salinity is about a quarter of sea water, potable water will be produced from a site -based reverse osmosis plant. A Licence to Take Water for the first 5 years of the mining operation was issued by the Western Australian Department of Water in August 2010.

Proposals for a build-own-operate village and office accommodation were invited from several suppliers but the hire rates had a negative effect on the financial return of the Project in comparison with outright ownership by Gunson. Thus, the capital cost of a 128 person village and offices is included in the financial analysis.

4.5 Permitting

As mentioned in the 2007 Annual Report, the Project received government approval for construction after a four year environmental approvals process that began in mid 2003.

The remaining permits required prior to the commencement of mining are approval of a Groundwater Mounding Management Plan, approval of a second Non Substantial Change to the Public Environmental Review and two mining approvals from the Department of Mines and Petroleum (DMP). Apart from the second DMP approval for construction of treatment plants and open pit mining, these approvals are expected before the end of 2010.

4.6 Capital Costs

Capital expenditure estimates listed in Table 3 below include all on-site items, apart from the build-own-operate power station. The only off site item is a mineral storage shed adjacent to the port of Geraldton.

Sedgman, in compiling the capital cost estimates, has included contingencies at the P90 level, indicating a 90% chance of the actual cost coming in at or below estimate. The average contingency is 9.7% and this reflects the relatively mature nature of the designs and pricing, which in many cases for large items are based on competitive tenders.

In its capital cost estimates, Sedgman assumed that a single EPCM engineer would be appointed to design and construct the Project, with a permanent Gunson site manager on site throughout. All equipment is priced new and the construction period is estimated to be 85 weeks.

Table 3a. Capital Cost Estimates – EPCM Contractor
(Includes Contingency and EPCM costs)

Item	Description	Cost ($A million)
1	2 x DMUs	21.3
2	WCP	33.3
3	MSP	41.4
4	Water Supply	8.9
5	Road/Civils	19.9
6	Site Services	5.8
7	Village/Office	14.4
8	Geraldton Shed	5.3
9	Power Retic., Mobilisation & General	7.7
Total		**158.0**

Table 3b. Capital Cost Estimates – Owner (Includes Contingency)

Item	Description	Cost ($A million)
1	Communications	1.8
2	Insurance etc	1.6
3	Owner Pre Production	6.8
4	Miscellaneous	0.6
Total		10.8

Following the accepted convention of including the Owner's pre production costs in the capital cost figure, the total cost is $168.8 million. This figure does not include working capital and financing charges.

4.7 Financial Analysis

The financial analysis for the DFS released in January 2010 has been superseded by dramatic upward movements in the Australian to US dollar exchange rate and mineral sand commodity prices. Fortunately, as stated in the Chairman's Review, the rise in zircon prices has exceeded the exchange rate appreciation and thus the financial returns have not been severely affected.

Using long-term real US dollar price forecasts provided in October 2010 by respected global marketing consultant TZMI and a long-term average exchange rate of 85 US cents to one Australian dollar, the Coburn Zircon Project is still financially attractive, with a Net Present Value (NPV) of $141 million and Internal Rate of Return (IRR) of 16.4%. As shown in Table 4 below, the NPV has nearly doubled since the 2004 BFS, when the exchange rate used was 70 US cents to one Australian dollar. There has been a slight weakening in the NPV and IRR from the returns announced on 5 January 2010 (see below), because the exchange rate used at that time was 72 US cents to one Australian dollar but these returns may improve if reductions in capital expenditure currently under consideration are implemented and ilmenite prices improve, as predicted.

A summary of the financial analysis over the 23.5 year mine life is shown in Table 4 below.

Table 4. Financial Summary of the Coburn Zircon Project (Real $A millions)

	DFS Oct 10	DFS Jan 10	BFS 2004
Total Revenue	2,086	2,189	1,336
Total Operating Costs	1,288	1,310	776
Net Operating Margin	798	879	560
Capital Cost	168.8	168.8	128
IRR before tax/financing	16.4%	16.8%	15.4%
NPV (8%)	141	163	73
Exchange Rate ($US to $A)	85c	72c	70c

The first column above is simply the January 2010 DFS model incorporating the latest TZMI price forecasts and a new long-term exchange rate assumption.

There are some important assumptions built into the above financial analysis, the principal one being the royalty rate on the final products from the mine. At present, producers of heavy mineral sand products in Western Australia pay a 5% gross royalty to the State Government, in contrast to South Australia, where all new mines pay a 1.5% gross royalty for the first 5 years of production and then 5% thereafter.

Further, the Western Australian royalty levied on heavy mineral sand producers gives them no financial incentive to refine their concentrates to final mineral product, as the royalty for both is the same, at 5%. This compares unfavourably with base metal producers, who are rewarded for producing metal product with a reduced royalty of 2.5%, in contrast to the concentrate royalty rate of 5%.

On this basis, the royalty rate in the Coburn DFS financial model has been set at 2.5% and discussions with the Western Australian Department of Minerals and Petroleum regarding a reduction in the royalty rate are in progress. In view of the steep decline in the size of the mineral sand industry in Western Australia over the past several years, the Company has a good case for a royalty reduction.

4.8 Development Timing

The Project is now ready to proceed to the mine development stage. However, the Company has decided that the capital cost of the Coburn Zircon Project is too large to finance by itself and since 2007 has been seeking to attract a minority partner to help fund the mine development, in exchange for access to an assured long-term supply of zircon.

Seven companies are currently reviewing the Coburn investment opportunity and Gunson is seeking to attract a Project partner before the end of 2010. With the Project fully permitted for construction, work could begin in early 2010.

5 SUMMARY

The lack of investment in new mineral sand projects in recent years has been a major reason why the market outlook is now very positive. As stated in the introduction, zircon prices in the final quarter of 2010 are about 30% higher than those prevailing at the end of 2009 and further rises in coming years are likely due to continued tight supply and strong demand from developing economies.

Because Coburn is one of only a small number of zircon development projects in the world with a recently completed detailed feasibility study, interest in the Project is high. In July 2010, RFC Corporate Finance was appointed to assist in discussions with potential strategic funding and offtake partners and this process is proceeding well.

The Project has a lower risk profile than many existing production or development stage mineral sands operations. It benefits from a thick mineralised horizon which provides for simple mining, very low slime and oversize levels which provide for low processing risks and low tenure risks due to its location in Australia. It will not be subject to the proposed Australian Government Mineral Resources Rent Tax.

MOUNT GUNSON COPPER PROJECT, SOUTH AUSTRALIA (49% GUNSON, EXCEPT 100% GUNSON INTEREST IN THE MG14-WINDABOUT EXCISED AREA)

1 INTRODUCTION

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

Noranda Pacific Pty Limited (Noranda), part of the Xstrata Copper Business Unit, earned a 51% interest in the Project in March 2010, after reaching its initial earn-in target of $3.5 million. In accordance with the Deed of Variation between Noranda and Gunson outlined in the 2009 Annual Report, the MG14-Windabout Excised Area is excluded from the farm-in and Gunson retains a 100% interest in this Area, to a vertical depth of 250m (Figure 5).

Having reached its initial earn-in target, Noranda advised its intent to continue sole funding exploration on the Project and by the end of June 2010 had spent another $0.5 million. It has the right to earn a further share of 24% by spending a cumulative total of $10 million by June 2013, to bring its equity to 75%.

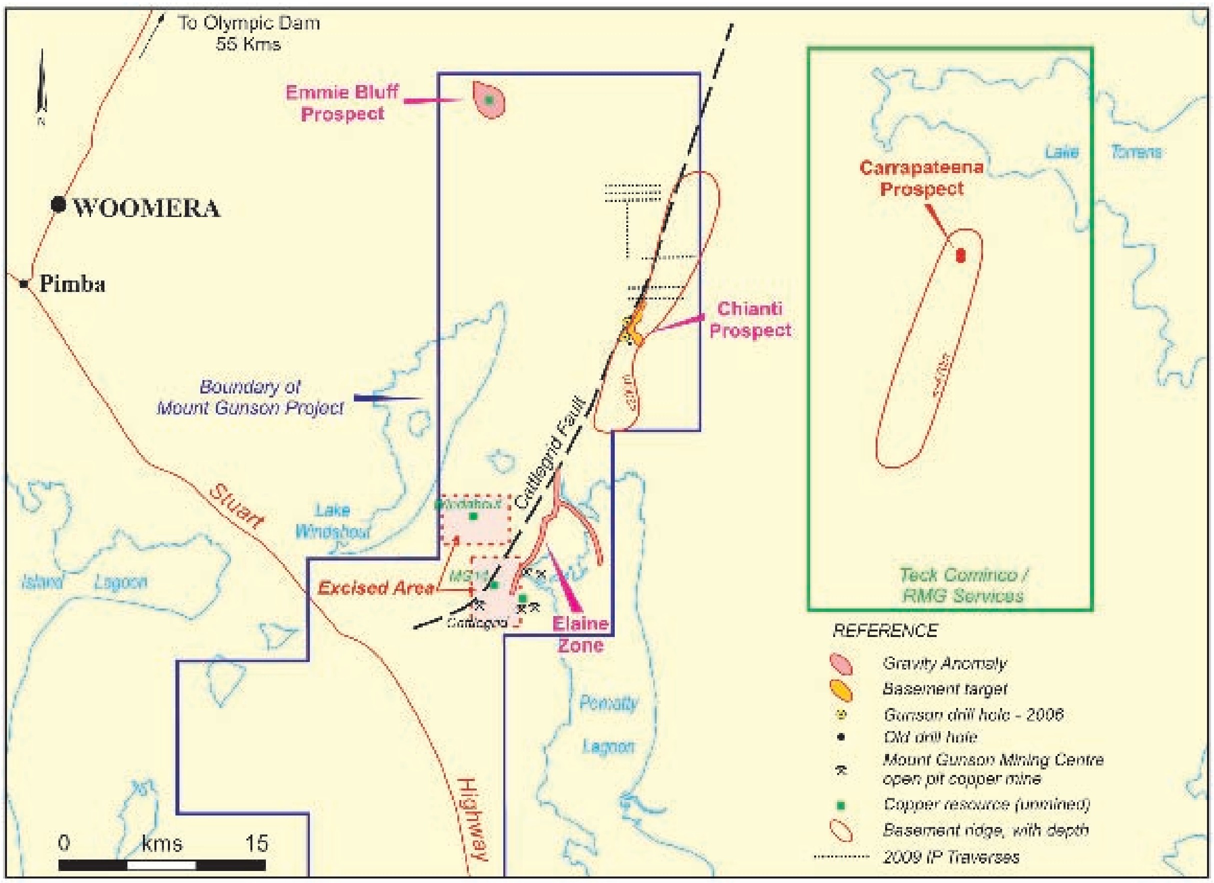

Figure 5. Mount Gunson Prospects and Target Areas

2 WORK FUNDED BY NORANDA

Since the 2009 Annual Report, three phases of surface transient electromagnetic (TEM) geophysical surveys were carried out in late 2009 over most of Emmie Bluff Prospect. An extensive apparent conductivity high centred at about 900m depth was defined in the north eastern quadrant of the survey area, which at the time was thought to be in the basement.

This conductor was tested with vertical drill hole MGD 57 in February-March 2010 (Figure 6), intersecting sub economic copper sulphide mineralisation in the cover and basement. The top of the basement was considerably deeper than expected, at 960m and the hole was stopped at 1,243m (Figure 7). Selected copper intersections in MGD 57 are listed below:

From (m)	To (m)	Intersection	Comments
392	393	1m @ 1.0% copper, 9 g/t silver	Cover Sequence
1,159.8	1,162	2.2m @ 1.8% copper, 0.4 g/t gold	Basement mineralisation
1,225	1,227	2m @ 1.7% copper, 0.4 g/t gold	Basement mineralisation

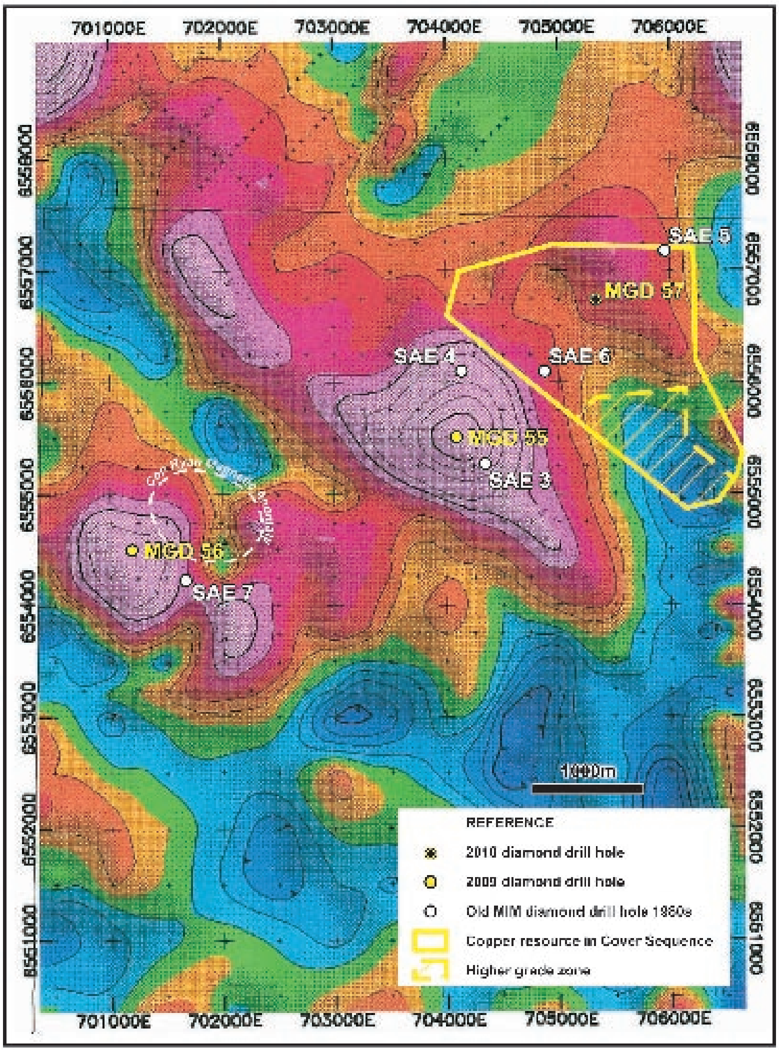

Figure 6. Emmie Bluff Area - Residual Gravity and Basement Drilling

The first intersection is on the upper contact of the Tapley Hill Formation, host rock unit of the MG14 and Windabout copper deposits some 30km to the south (Figure 5), and lies within the outline of the inferred resource listed on page 18 of this report. The basement mineralisation is within a zone of magnetite rich meta-sedimentary rocks lying below the sheared contact of a granite body present at the top of the basement (Figure 7).

The shallower of the two basement intersections is associated with strong brecciation and extends the zone of iron rich mineralisation containing individual copper values of 2% over 1 metre or more to in excess of 2 km across strike. This mineralisation is open along strike in either direction to the north-west and south-east.

Results of down hole TEM and induced polarisation (IP) logging in MGD 57, which was not completed until mid May 2010, suggested that the apparent TEM conductivity high tested by MGD 57 was caused by salt water in porous Pandurra sandstone immediately above the top of basement at 960m (Figure 7). This unexpected result, in an area to the east of the main Emmie Bluff gravity geophysical anomaly, has shifted attention to untested gravity targets in the western and northern parts of Emmie Bluff Prospect.

As stated in the Chairman's Review, Emmie Bluff Prospect remains a high priority focus for ongoing exploration and both airborne magnetic and ground deep-seeing magneto-telluric (MT) surveys are currently in progress over this and other areas of the Project. Drilling may follow in 2011 if the results of these surveys are sufficiently encouraging.

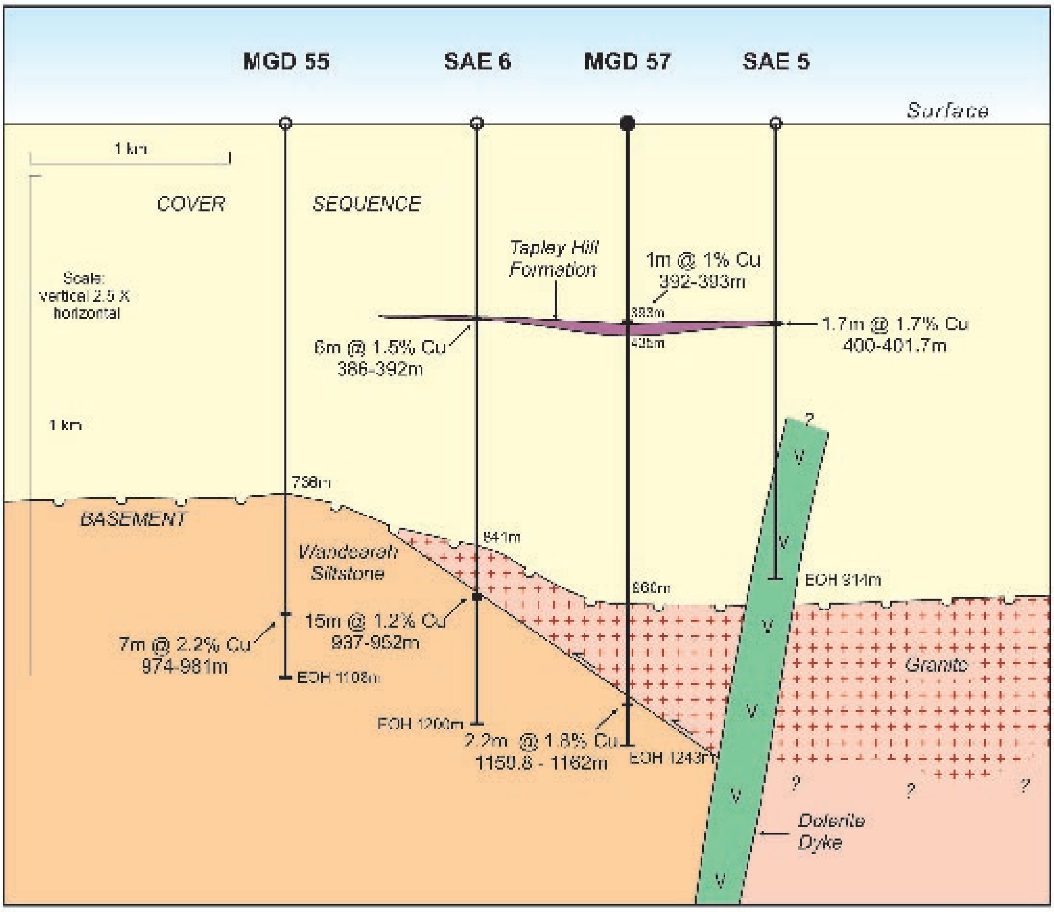

Figure 7. Cross Section Through Eastern Half of Emmie Bluff Prospect (looking north west)

3 GUNSON FUNDED BFS ON MG14-WINDABOUT

In the 2009 Annual Report, the rationale for proceeding to a BFS on sequential development of the small to medium sized, near-surface MG14 and Windabout copper deposits was discussed. A work program and timetable for the BFS was outlined, with an estimated completion date released in March 2010 of late March, 2011.

The first major activity of the BFS was a 10 hole metallurgical drilling program to collect samples from both the MG14 and Windabout deposits for further flotation test work. Five drill holes on each deposit were completed between mid March and mid April 2010, the assay results from these holes comparing well with previous holes drilled between 1973 and 2008. Based on the assay data at a 0.8% copper cut-off grade, two bulk samples, one each from MG14 and Windabout, were composited from the individual drill intersections. The MG14 bulk sample weighed about 155 kilograms, assaying 2.2% copper, 29% above the 1.7% resource grade. The Windabout sample weighed 198 kilograms, assaying 1.8% copper, 80% above the resource grade.

Metallurgical test work on the two bulk samples began in May 2010 and to date, the copper recovery into concentrate from a locked cycle test on the MG14 sample has been similar to the test results from the preliminary feasibility study reported in the 2009 Annual Report, at 68%. In contrast, the cobalt recovery is 92%, reflecting the coarser grain size of the main cobalt mineral, carrollite.

Work to date on the Windabout bulk sample has yielded a lower copper recovery in a locked cycle test at 54%, with a much higher cobalt recovery at 92%. In both cases, the cobalt content of the concentrate is a significant proportion of the copper content in terms of contained metal value, ranging from 25% in the MG14 concentrate to 69% in the Windabout concentrate.

Marketing studies during the year suggested that copper smelters were not willing to pay for the contained cobalt in copper concentrates. For this reason, additional test work is in progress to improve the copper recovery from ore to concentrate and to establish a viable flow sheet to recover payable cobalt intermediate product from the concentrate. This additional work should be completed by the end of 2010.

Discussions with a short list of companies potentially interested in funding part of the BFS and part of the potential mine development were held during the year. The main attraction for these organisations was access to the high quality low uranium concentrate but in most cases there was a reluctance to commit funds until the metallurgical issues had been resolved. This continues to be the case, leaving the Company to fund the low cost metallurgical program itself whilst retaining a wide range of funding options if the metallurgical issues are resolved.

4 SUMMARY

Most industry and financial analysts share a very strong outlook for the copper price due to increased demand from developing economies and restricted global supply. This situation appears set to become more acute in 2011, with the current severe shortage of copper concentrates likely to persist for some years.

At current copper prices, development of the MG14 deposit could provide an attractive cash surplus, even at a 68% recovery of copper into concentrate and no payment from smelters for the contained cobalt. However, the viability of the Windabout deposit is much more dependent on payment for the contained cobalt and the best alternative is to establish an economically viable process route to extract cobalt from the copper concentrate prior to concentrate sale. This work is in progress and should be completed by the end of 2010.

Airborne and ground geophysical surveys funded by Noranda and currently in progress are aimed at generating further drill targets for large iron oxide associated copper-gold deposits. Drilling may follow in 2011 if the results of these surveys are sufficiently encouraging.

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

Drilling of the 2 km long Gosse 5 gravity geophysical anomaly approximately 70 km east of Tennant Creek townsite was carried out in May 2010.

This program comprised a single vertical diamond drill hole, TCD 1, to 330 m depth, which passed into the basement target zone at 93m, beneath flat lying sediments of the Georgina Basin. The main rock types in the basement were felsic to more mafic volcanic rocks of the Warramunga Formation, the host rock unit of the gold-copper ironstone deposits in the Tennant Creek district. Localised breccia zones with hematite infill are present below 140 m, some with trace galena and a narrow zone of minor copper sulphide (chalcopyrite) mineralisation associated with thin quartz veins was noted at 243 m.

Overall, alteration of the Warramunga Formation host rocks appears to increase downwards but assays from chip sampling of the core did not show any anomalous copper, gold or silver values. Re interpretation of the gravity geophysical data indicated that the Gosse 5 feature may be a basement high and that potential exists for smaller, more discrete gravity anomalies along or around it. If present, these anomalies could be the signature of small hematite-rich iron oxide copper-gold bodies similar in dimension to the high grade deposits around Tennant Creek.

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

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

Approval from South Australian Government regulators to access the Yellabinna Regional Reserve for a diamond drilling program was received in June 2010, a year after submission of the access application. The target is a strong TEM conductive zone at least 200 m long and open to the north east. It is at approximately 100 metres depth, within a regional fold structure along a belt of magnetic units interpreted to be Proterozoic mafic and ultramafic rocks prospective for nickel sulphides.

A request for an aboriginal heritage clearance of the proposed drill site was submitted to the native title claimants' lawyer in August but no agreement has been reached to date on a heritage clearance protocol. If this protocol is not resolved by November 2010, drilling may commence without the heritage clearance.

BURKIN NICKEL PROJECT, WESTERN AUSTRALIA

This project was abandoned in mid November 2009, following the receipt of laboratory results from the diamond drilling program discussed in the 2009 Annual Report. These results comprised nickel-copper assays and microscope reports suggesting that the rocks intersected were not prospective for nickel sulphides.

A $75,000 reimbursement of the Company's drilling costs was made by the Western Australian Government, in accordance with the co-funding agreement reported in the previous Annual Report.

review of operations

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 deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Harley consents to the inclusion in the report of the matters based on his information in the form and context in which it appears

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

Coburn - Resources	**Measured & Indicated:**	D Speijers (2008) of McDonald Speijers Resource Consultants Pty Ltd
	Inferred:	P Leandri (2007)
Coburn - Reserves		P Leandri and T Colton (2008)
Windabout:		F J Hughes (1997)
MG14:		K F Bampton of Ore Reserve Evaluation Services (1997)
Cattlegrid South, Sweet Nell:		S D Lee, when Managing Director of Stuart Metals NL (1995)
Tailings Dams:		K F Bampton of Ore Reserve Evaluation Services (1997)
Emmie Bluff:		H L Paterson (1998)

MINERAL RESOURCE INVENTORY

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

COBURN

1. Ore Reserves

Prospect	Category	Mineralisation Type	Cut-Off Grade (% HM)	Resource (Million Tonnes)	HM (%)	Contained (Million Tonnes HM)
Amy South	Proven	Dune/strand	0.8%	53	1.3	0.7
Amy Central	Probable	Dune/strand	0.8%	255	1.2	3.1

2. Resources

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

MOUNT GUNSON

Prospect	Category	Mineralisation Type	Cut-Off Grade (%Copper)	Resource (Million Tonnes)	Copper (%)	Cobalt (%)	Silver (g/t)	Contained Copper (Tonnes)
Windabout	Indicated	Sulphide	0.5	18.7	1.0	0.05	10	187,000
MG14	Indicated	Sulphide	1.0	1.1	1.7	0.04	17	18,700
Cattlegrid South	Inferred	Sulphide	0.5	0.7	1.7	-	10	11,900
Sweet Nell	Inferred	Sulphide	0.5	0.35	1.2	-	12	4,200
Tailings Dams	Inferred	Sulphide	-	7.2	0.14	0.01*	-	10,080
Emmie Bluff•	Inferred	Sulphide	0.5	24.0	1.3	0.06	10	312,000
		TOTAL			**52.05**			**543,880**

Notes:
* Cobalt grade regarded as a low estimate as a result of inadequate sampling.
• Resource stated only relates to that portion of the upper copper deposit which lies within EL 4187.

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
ELA 09/1685	110.5	25 August, 2009	2
ML 09/102	9.98	25 October 2004	
ML 09/103	9.99	25 October 2004	
ML 09/104	9.99	25 October 2004	
ML 09/105	10.0	25 October 2004	
ML 09/106	10.0	25 October 2004	
ML 09/111	9.99	14 July 2005	
ML 09/112	9.90	14 July 2005	
L09/21	9.5	8 January 2007	3

FOWLER'S BAY PROJECT, SOUTH AUSTRALIA

Tenement	Area (sq km)	Date Granted	Note
EL 4440	700	March 2010	

review of operations

MOUNT GUNSON PROJECT, SOUTH AUSTRALIA

Tenement	Name	Area (sq km)	Date Granted	Next Renewal and Note
EL 4460	Mt Gunson	84	March 2010	March 2011
EL 3477	Woocalla	53	December 2005	December 2009
EL 3967	Mount Moseley	105	October 2007	October 2010
EL 4187	Yeltacowie	317	October 2008	October 2010

TENNANT CREEK PROJECT, NORTHERN TERRITORY

Tenement	Name	Area (sq km)	Grant/Application Date	Notes
EL 23944	Barkly	6.1	5 February 2010	3
ELA 23946	Gosse 1	12.9	25 June 2003	2,4
EL 23947	Gosse 5	19.3	13 May 2010	3
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. Tenement Application (ELA).
3. Renewal granted.
4. On aboriginal land, out of moratorium period, application resubmitted.
5. On aboriginal land, in moratorium period.

Drilling at Gosse 5, Tennant Creek, May 2010

directors' report

The Directors of Gunson Resources Limited (the Company) submit herewith the annual financial report of the Company for the financial year ended 30 June 2010. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

Information about the Directors and senior management

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

William H Cunningham B.Com. (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 firm. During the past 3 years Mr Cunningham has not held directorships in other listed companies.

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

David Harley is a geologist with over 35 years experience in the mining industry, mostly in senior exploration management positions with WMC Resources Limited. He is a past President of the Association of Mining and Exploration Companies, AMEC. During the past 3 years Mr Harley has not held directorships in other listed companies.

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

Peter Harley is an experienced manager and Director with over 30 years association with a number of public and private companies. Peter has been a Non-Executive Director of Perilya Ltd since November 2003. He was also Non-Executive Chairman of iiNet Ltd until November 2007.

The above named Directors held office during the whole of the financial year and since the end of the financial year.

Directorships of other listed companies

Directorships of other listed companies held by Directors in the 3 years immediately before the end of the financial year are as follows:

Name	Company	Period of directorship
Peter Harley	Perilya Limited	Since November 2003
	iinet Limited	May 2006 – November 2007

Directors' shareholdings

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

Directors	Fully paid ordinary shares Number	Share options Number
William Cunningham	459,553	-
David Harley	3,650,000	2,000,000
Peter Harley	478,253	-

Remuneration of Directors and senior management

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

Share options granted to Directors and senior management

No options were granted to Directors or senior management during or since the end of the financial year.

Company secretary

Ian E Gregory, B.Bus, FCIS, F Fin, MAICD

Mr Gregory is an experienced company secretary who worked as full time secretary of Iluka Resources Limited from March 1999 to December 2004. With more than 28 years experience he has provided company secretarial and business administration services to a variety of industries, including exploration, mining, mineral processing, oil and gas, banking and insurance. He consults on secretarial matters to a number of listed companies and is a past chairman of the WA State Council of the Institute of Chartered Secretaries and Administrators.

Principal activities

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

Results of operations

The Company incurred a loss after tax of $682,314 (2009:$705,957).

Review of operations

After successful completion of the Coburn Zircon Project Definitive Feasibility Study at the end of 2009, the Company's main focus has been on attracting a strategic investment partner to assist in financing the proposed $A169 million mine development.

Growing evidence during 2010 of a global supply shortage for most mineral sand products, in particular zircon, has increased the level of interest in Coburn, supported by the total absence of new greenfields mineral sand projects of any significant size currently under construction in the world. At present, seven potential strategic investors are reviewing the Coburn opportunity and this process is proceeding well. The Company appointed RFC Corporate Finance in July 2010 to assist in its discussions with potential investors, with the aim of choosing a Project partner before the end of 2010.

The Bankable Feasibility Study (BFS) on sequential development of the MG 14 and Windabout copper deposits in the centre of the Mount Gunson Project has been in progress since late 2009, with metallurgical test work on samples from both deposits nearing completion. Results from this test work should be released in October, 2010. In parallel, exploration for iron oxide associated copper-gold deposits funded by Noranda Pacific Pty Limited (Noranda), part of the Xstrata Copper Business Unit, continued in the first half of 2010. The Noranda funded exploration excludes the MG 14 and Windabout copper deposits and the main activity was a 1,243m diamond drill hole at Emmie Bluff Prospect, completed on 6 March 2010. This hole, MGD 57, yielded sub economic copper mineralisation but again highlighted the overall potential of the Emmie Bluff area. Further airborne and ground geophysical surveys designed to define drilling targets for the first half of 2011 are planned or in progress.

Approval from South Australian Government regulators to commence a diamond drilling program for nickel sulphides in a conservation reserve on the Fowlers Bay Project was received in late June 2010 and negotiations for an aboriginal heritage clearance of the proposed drilling area are in progress. Drilling is expected to start later in 2010.

A single diamond drill hole, TCD 1, designed to test the 2km long Gosse 5 gravity geophysical anomaly at Tennant Creek was completed in May 2010. This hole, on the structurally complex eastern end of the gravity anomaly, intersected prospective basement rocks at 93m but no significant mineralisation. An infill gravity survey to the west of TCD 1 and completed after TCD 1, has defined a small, discrete gravity feature 3km to the south west which warrants drill testing.

Changes in state of affairs

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

Subsequent events

On 13 July 2010, the Company placed 10,000,000 ordinary shares at 6 cents each to raise $600,000. The capital will be used to fund working capital, progress discussions on financing of the Coburn Zircon Project and to progress the Bankable Feasibility Study on the Mount Gunson Copper Project.

Other than the above, there has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

Future developments

Disclosure of information regarding likely developments in the operations of the Company in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Company. Accordingly, this information has not been disclosed in this report.

Environmental regulations

The Company's environmental obligations are regulated under both State and Federal legislation. Performance with respect to environmental obligations is monitored by the Board of Directors and subjected from time to time to government agency audits and site inspections. No environmental breaches have been notified by any government agency during the financial year ended 30 June 2010.

The Directors have considered compliance with the National Greenhouse and Energy Reporting Act 2007 which requires entities to report annual greenhouse gas emissions and energy use. In respect of the financial year ended 30 June 2010, the Directors have assessed that there are no current reporting requirements, but may be required to do so in the future.

Dividends

No dividends were paid or declared and the Directors have not recommended the payment of a dividend.

Shares under option

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

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

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

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

Shares issued on the exercise of options

No shares or interests were issued during or since the end of the financial year as a result of exercise of an option.

Share options that expired/lapsed

No options have expired or lapsed during or since the end of the financial year.

Indemnification of officers and auditors

The Company has arranged Directors' and Officers' Insurance to indemnify all current officers of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position with the Company, 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 cannot be disclosed.

The Company has made an agreement to provide access, indemnity and insurance for all its Directors and executive officers for any breach of duty as a Director or executive officer by the Company, for which they may be held personally liable.

The agreement provides for the Company to pay insurance premiums and legal costs where:

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

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

Directors' meetings

The following table sets out the number of Directors' meetings (including meetings of committees of Directors) held during the financial year and the number of meetings attended by each Director (while they were a Director or committee member). During the financial year, 8 Board meetings were held.

	Board of Directors	
Directors	**Held**	**Attended**
William Cunningham	8	8
David Harley	8	8
Peter Harley	8	8

Proceedings on behalf of the Company

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

Non-audit services

BDO Audit (WA) Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

There were no non-audit services performed during the year by the auditors (or by another person or firm on the auditors' behalf).

Auditor's independence declaration

The auditor's independence declaration is included on page 34 of this annual financial report.

Remuneration report

This remuneration report, which forms part of the Directors' report, sets out information about the remuneration of Gunson Resources Limited's Directors and its senior management for the financial year ended 30 June 2010. The prescribed details for each person covered by this report are detailed below under the following headings:

- Director and senior management details
- remuneration policy
- relationship between the remuneration policy and Company performance
- remuneration of Directors and senior management
- key terms of employment contracts.

Director and senior management details

The following persons acted as Directors of the Company during or since the end of the financial year:

- William H Cunningham (Chairman)
- David N Harley (Managing Director)
- Peter C Harley (Non-Executive Director)

The term 'senior management' is used in this remuneration report to refer to the following persons. Except as noted, the named persons held their current position for the whole of the financial year and since the end of the financial year:

- Ian E Gregory (Company Secretary)
- Alan F Luscombe (General Manager)
- Todd B Colton (Project Manager)

Remuneration policy

The Executive Director and Executives receive a salary and 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.

The Company's Non-Executive Directors receive only fees (including statutory superannuation) for their services and the reimbursement of reasonable expenses. The fees paid to the Company's Non-Executive Directors reflect the demands on, and responsibilities of these Directors. They do not receive any retirement benefits, other than compulsory superannuation.

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

The Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors and the senior management. 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.

Relationship between the remuneration policy and Company performance

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 $150,000 cash bonus payable on the date that the Company announces its formal decision to proceed with a mine development on any of the Company's projects. The criterion was chosen because it was deemed to be the most appropriate measure of performance by the Board. At the date of this report, no such decision has been made. Non-Executive Directors do not receive a bonus. However, to align Directors' interests with those of shareholders, the Non-Executive Directors are encouraged to hold shares in the Company.

Share-based payments are granted at the discretion of the Board to align the interests of shareholders with executives and key consultants. No options were granted during the year (2009: Nil).

Due to the stage of the Company's development, no link between remuneration and financial performance currently exists other than referred to in the previous paragraph.

The table below sets out summary information about the Company's earnings and movement in shareholder wealth for the five years to 30 June 2010:

	30 June 2010	**30 June 2009**	**30 June 2008**	**30 June 2007**	**30 June 2006**
Revenue	156,948	103,410	231,057	172,005	76,156
Net loss before tax	(828,161)	(1,018,867)	(771,349)	(1,348,115)	(1,543,629)
Net loss after tax benefit	(682,314)	(705,957)	(405,699)	(1,068,921)	(1,215,691)
Share price at start of year	13 cents	10 cents	28 cents	32 cents	22 cents
Share price at end of year	6 cents	13 cents	10 cents	28 cents	32 cents
Basic and diluted loss per share	42 cents	56 cents	36 cents	1.06 cents	1.27 cents

Remuneration of Directors and senior management

	Short-term employee benefits				Post employment benefits	Other long-term employee benefits	Share-based payment	
	Salary & fees	Bonus	Non-monetary	Other	Superannuation		Options	Total
	$	$	$	$	$	$	$	$
2010								
Directors *								
W Cunningham	40,000	-	-	-	3,600	-	-	43,600
D Harley	275,000	-	-	-	24,750	-	-	299,750
P Harley	30,000	-	-	-	2,700	-	-	32,700
Executives								
I Gregory**	-	-	-	-	-	-	-	-
T Colton	240,000	-	-	-	21,600	-	-	261,600
A Luscombe	126,900	-	-	-	-	-	-	126,900
	711,900	-	-	-	52,650	-	-	764,550
2009								
Directors *								
W Cunningham	40,000	-	-	-	3,600	-	-	43,600
D Harley	275,000	-	-	-	24,750	-	-	299,750
P Harley	30,000	-	-	-	2,700	-	-	32,700
Executives								
I Gregory**	-	-	-	-	-	-	-	-
T Colton	240,000	-	-	-	21,600	-	16,221	277,821
A Luscombe	133,562	-	-	-	-	-	-	133,562
	718,562	-	-	-	52,650	-	16,221	787,433

* No Director drew his full salary/fee or superannuation entitlement during the current or previous year, to help conserve the Company's limited cash resources. Of the total $376,050 available, only $135,104 (2009: $77,211) or 36% (2009: 20%) was drawn. The undrawn balance of Directors' benefits were accrued in the Company's accounts.

** No remuneration was paid to Ian Gregory or a related entity in the 2009 or 2010 financial years for his role as Company Secretary.

No Director or senior management person appointed during the period received a payment as part of his consideration for agreeing to hold the position.

Bonuses and share-based payments granted as compensation for the current financial year.

Bonuses

No bonuses were paid to Directors or senior management during the financial year.

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 Board 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.

Incentive share-based payment arrangements

During the financial year, the following share-based payment arrangements were in existence.

Options series	Grant date	Expiry date	Grant date fair value $	Vesting date
(1) Issued 1 December 2005	1 December 2005	30 November 2010	0.18	1 June 2007
(2) Issued 1 December 2005	1 December 2005	30 November 2010	0.18	1 June 2007
(3) Issued 5 May 2008	5 May 2008	4 May 2012	0.24	9 August 2008
(4) Issued 5 May 2008	5 May 2008	4 May 2012	0.23	9 August 2008

There are no further service or performance criteria that need to be met in relation to options granted under series (1) – (4) before the beneficial interest vests to the recipient.

No share options or interests were issued to Directors or senior management during the period or since the end of the financial year and no share options or interest held by Directors and senior management were exercised, expired or lapsed during or since the end of the financial year.

Key terms of employment contracts

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

- Term of agreement – commencing 1st April 2010.
- 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. The options vested 18 months after the issue date on 1 June 2007.
- Bonus entitlement of $150,000 payable on the date that the Company announces its formal decision to proceed with a mine development on any of the Company's exploration projects.

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

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

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

The Company does not have a policy on executives and Directors hedging their equity remuneration received.

This is the end of the audited remuneration report.

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

On behalf of the Directors

D N Harley
Managing Director

30 September 2010
Perth, Western Australia

statement of comprehensive income for the year ended 30 june 2010

	Notes	2010 $	2009 $
Revenue from continuing operations	6	24,939	27,212
Other income	7	132,009	76,198
Employee benefits expense		(248,659)	(217,624)
Depreciation expense	12	(4,432)	(5,596)
Impairment of exploration expenditure	13	(405,079)	(386,204)
Other expenses		(326,939)	(512,853)
Loss before tax		(828,161)	(1,018,867)
Income tax benefit	8	145,847	312,910
Loss for the year attributable to owners of the Company	9	(682,314)	(705,957)
Other comprehensive income			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year attributable to owners of the Company		(682,314)	(705,957)
Loss per share			
Basic (cents per share)	10	0.42	0.56
Diluted (cents per share)	10	N/A	N/A

The accompanying notes form part of these financial statements.

statement of financial position as at 30 june 2010

	Notes	2010 $	2009 $
Current assets			
Cash and cash equivalents	20	277,108	468,164
Trade and other receivables	11	101,114	129,166
Total current assets		378,222	597,330
Non-current assets			
Property, plant and equipment	12	15,780	11,629
Exploration, evaluation and development	13	23,733,394	21,780,730
Other assets	14	484,676	484,676
Total non-current assets		24,233,850	22,277,035
Total assets		24,612,072	22,874,365
Current liabilities			
Trade and other payables	15	688,647	707,269
Total current liabilities		688,647	707,269
Total liabilities		688,647	707,269
Net assets		23,923,425	22,167,096
Equity			
Contributed equity	16	28,800,440	26,361,797
Reserves	17	850,078	850,078
Accumulated losses		(5,727,093)	(5,044,779)
Total equity		23,923,425	22,167,096

The accompanying notes form part of these financial statements.

statement of changes in equity for the year ended 30 june 2010

	Contributed equity	Equity-settled employee benefits reserve	Accumulated losses	Total
	$	$	$	$
Balance at 1 July 2008	25,423,173	833,857	(4,338,822)	21,918,208
Comprehensive income for the year				
Loss for the year	-	-	(705,957)	(705,957)
Other comprehensive income for the year	-	-	-	-
Total comprehensive loss for the year	-	-	(705,957)	(705,957)
Transactions with owners in their capacity as owners				
Issue of shares	1,009,692	-	-	1,009,692
Share issue costs	(71,068)	-	-	(71,068)
Recognition of share-based payments	-	16,221	-	16,221
Balance at 30 June 2009	26,361,797	850,078	(5,044,779)	22,167,096
Balance at 1 July 2009	26,361,797	850,078	(5,044,779)	22,167,096
Comprehensive income for the year				
Loss for the year	-	-	(682,314)	(682,314)
Other comprehensive income for the year	-	-	-	-
Total comprehensive loss for the year	-	-	(682,314)	(682,314)
Transactions with owners in their capacity as owners				
Issue of shares	2,544,502	-	-	2,544,502
Share issue costs	(105,859)	-	-	(105,859)
Balance at 30 June 2010	28,800,440	850,078	(5,727,093)	23,923,425

The accompanying notes form part of these financial statements.

statement of cash flows for the year ended 30 june 2010

	Notes	2010 $	2009 $
Cash flows from operating activities			
Payments for exploration and evaluation		(2,109,019)	(1,327,316)
Payments to suppliers and employees		(814,892)	(566,804)
Interest received		24,939	27,212
Other income		132,009	28,862
Research and development tax refund received		145,847	312,910
Export and marketing development grant received		-	47,336
Net cash outflow from operating activities	20	(2,621,116)	(1,477,800)
Cash flows from investing activities			
Payments for property, plant and equipment		(8,583)	-
Net cash outflow from investing activities		(8,583)	-
Cash flows from financing activities			
Proceeds from issues of shares		2,544,502	1,009,692
Payment for share issue costs		(105,859)	(71,068)
Net cash inflow from financing activities		2,438,643	938,624
Net decrease in cash and cash equivalents		(191,056)	(539,176)
Cash and cash equivalents at the beginning of the year		468,164	1,007,340
Cash and cash equivalents at the end of the year	20	277,108	468,164

The accompanying notes form part of these financial statements.

1. General information

Gunson Resources Limited (the Company) is a limited company incorporated in Australia. The addresses of its registered office and principal place of business are disclosed in the corporate directory of the annual report. The principal activities of the Company are exploration for and evaluation of economic mineral deposits in Australia.

2. Adoption of new and revised Accounting Standards

Standards and Interpretations affecting amounts reported in the current period and prior periods

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in these financial statements.

Standards affecting presentation and disclosure

AASB 101 *Presentation of Financial Statements* (as revised in September 2007), AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101* and AASB 2007-10 *Further Amendments to Australian Acounting Standards arising from AASB 101*	AASB 101 (September 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements. In addition, the revised Standard has required the presentation of a third statement of financial position at 1 July 2008, because the entity has applied new accounting policies retrospectively.
AASB 8 *Operating Segments*	AASB 8 is a disclosure Standard that has resulted in a redesignation of the reportable segments.
AASB 2009-2 - *Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments*	The amendments to AASB 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The Company has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.
Amendments to AASB 107 *Statement of Cash Flows* (adopted in advance of effective date of 1 January 2010)	The amendments (part of AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*) specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. Consequently, cash flows in respect of development costs that do not meet the criteria in AASB 138 *Intangible Assets* for capitalisation as part of an internally generated intangible asset (and, therefore, are recognised in the statement of comprehensive income as incurred) have been reclassified from investing to operating activities in the statement of cash flows. Prior year amounts have been restated for consistent presentation.

Standards and Interpretations adopted with no effect on financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

AASB 2008-1 *Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations*	The amendments clarify the definition of vesting conditions for the purposes of AASB 2, introduce the concept of 'non-vesting' conditions, and clarify the accounting treatment for cancellations.
AASB 123 *Borrowing Costs* (as revised in 2007) and AASB 2007- 6 *Amendments to Australian Accounting Standards arising from AASB 123*	The principal change to AASB 123 was to eliminate the option to expense all borrowing costs when incurred. This change has had no impact on these financial statements because it has always been the Company's accounting policy to capitalise borrowing costs incurred on qualifying assets.

Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* *	*1 January 2010*	*30 June 2011*
AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions*	1 January 2010	30 June 2011
AASB 2009-10 Amendments to Australian Accounting *Standards – Classification of Rights Issues*	1 February 2010	30 June 2011
AASB 124 *Related Party Disclosures (revised December 2009), AASB 2009-12 Amendments to Australian Accounting Standards*	1 January 2011	30 June 2012
AASB 9 *Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9*	1 January 2013	30 June 2014
AASB 2009-14 *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement*	1 January 2011	30 June 2012
Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010	30 June 2011

* AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* specify amendments resulting from the IASB's annual improvement project to various Australian accounting standards and interpretations. As permitted, the Company has early adopted most of the amendments in AASB 2009-5 (refer above). However, the amendments to AASB 117 Leases have not been early adopted. Adoption of these amendments will potentially result in the reclassification of several leases over land as finance leases. The amendments, which apply retrospectively to unexpired leases from 1 July 2010, remove the guidance from AASB 117 which effectively prohibited the classification of leases over land as finance leases. It is not practical to provide a reasonable estimate of the impact of this amendment until a detailed review of existing leases has been completed.

3. Significant accounting policies

Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law.

The financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The financial statements were authorised for issue by the Directors on 30 September 2010.

Basis of preparation

The financial statements have been prepared on the basis of historical cost, as modified by 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.

Early adoption of Accounting Standards

The Directors have elected under s.334(5) of the Corporations Act 2001 to apply Amendments to AASB 107 Statement of Cash Flows in advance of its effective date. The Standard is not required to be applied until annual reporting periods beginning on or after 1 January 2010.

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements:

Going concern basis

The financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The Company has incurred a net loss after tax for the year ended 30 June 2010 of $682,314 (2009: $705,957), and a net cash outflow from operations of $2,621,116 (2009: $1,477,800). At 30 June 2010, the Company has net current assets/(liabilities) of ($310,425) (2009: ($109,939).

The Company's ability to continue as a going concern and pay its debts as and when they fall due, given the Company's intended operational plans, assumes the following:

a) Since the end of the financial year the Company raised $600,000 from a share placement of 10,000,000 ordinary shares at 6 cents each;

b) Further capital raisings in the next six months to twelve months; and

c) Active management of the current level of discretionary expenditure in line with the funds available to the Company.

The Directors have reviewed the business outlook and cash flow forecasts and are of the opinion that the use of the going concern basis of accounting is appropriate as they believe the Company will achieve the matters set out above. As such, the Directors believe that they will continue to be successful in securing additional funds through debt or equity issues as and when the need to raise working capital arises.

Notwithstanding this, as a junior explorer, with start up projects and a dependency on continued support from current financiers and on securing additional funding, there is a significant uncertainty whether the Company will be able to continue as a going concern.

Should the Company be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial statements.

The financial statements does not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that may be necessary should the Company be unable to continue as a going concern.

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.

Joint venture management fees
Revenue is recognised on the completion of the services provided under the contractual arrangement.

Employee benefits

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

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

Share-based payments

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

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

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

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

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

Taxation

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

Deferred income tax is provided on all temporary differences at the balance 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 statement of comprehensive income.

Property, plant and equipment

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

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

- Plant & equipment 7% - 40%

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

Exploration, evaluation and development expenditure

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

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

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

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

Impairment

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the statement of comprehensive income immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the statement of comprehensive income immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised costs using the effective interest method, less provision for impairment.

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 statement of financial position. 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.

Comparative figures

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

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.

Trade and other payables

Liabilities for trade creditors and other amounts represents the consideration to be paid in the future for goods and services received, whether or not billed to the Company. These amounts are initially recognised at fair value and subsequently at amortised cost.

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.

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.

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.

Loss per share

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

4. Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the Directors have made in the process of applying the Company's accounting policies and that 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 3.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities with the next financial year.

Impairment of exploration and evaluation expenditure
Exploration and evaluation expenditure is reviewed for impairment if there is any indication that the carrying amount may not be recoverable.

The Directors are required to exercise judgement on future events and the likelihood of defining an economic reserve. Assumptions made are altered as exploration continues and more information becomes available. Where it is evident that the value of exploration expenditure cannot be recovered the capitalised amount will be impaired through the statement of comprehensive income.

Share-based payment transactions
The Company measures the cost of equity-settled transactions with Directors and employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black Scholes model.

5. Segment information

The Company has adopted AASB 8 *Operating Segments* with effect from 1 July 2009. 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 segments and to assess their performance.

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 operates in one business segment and one geographical segment, namely the mineral exploration industry in Australia only. AASB 8 Operating Segments states that similar operating segments can be aggregated to form one reportable segment. Also, based on the quantitative thresholds included in AASB 8, there is only one reportable segment, namely the mineral exploration industry. However, none of the other operating segments currently meet any of the prescribed quantitative thresholds, and as such do not have to be reported separately. Gunson Resources Limited has therefore decided to aggregate all its reporting segments into one reportable operating segment.

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 Accounting Standard AASB 114 Segments.

	2010 $	2009 $
6. Revenue		
The following is an analysis of the Company's revenue for the year		
Interest revenue	24,939	27,212
7. Other income		
Joint venture management fees	132,009	27,768
Rebates and other income	-	1,094
Export market development grant	-	47,336
	132,009	76,198
8. Income taxes		
Income tax recognised in profit or loss		
Tax benefit comprises:		
Current tax benefit	(145,847)	(312,910)
Total tax benefit relating to continuing operations	(145,847)	(312,910)
The benefit for the year can be reconciled to the accounting loss as follows:		
Loss from continuing operations	(828,161)	(1,018,867)
Income tax expense calculated at 30%	(248,448)	(305,660)
Effect of expenses that are not deductible in determining taxable loss	41,755	120,869
Effect of unused tax losses not recognised as deferred tax assets	759,823	703,562
Effect of deductible capitalised expenditure	(553,130)	(518,771)
Effect of tax concessions (research and development offset)	(145,847)	(312,910)
Income tax benefit recognised in statement of comprehensive income	(145,847)	(312,910)

The tax rate used for the 2010 and 2009 reconciliations above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

	2010 $	2009 $
8. Income taxes (continued)		
Unrecognised deferred tax assets/(liabilities)		
Capital raising costs recognised directly in equity	97,796	66,038
Temporary differences	177,669	255,324
Temporary differences arising from exploration activities	(7,120,018)	(5,878,000)
	(6,844,553)	(5,556,638)

Tax losses

Unused tax losses for which no deferred tax asset has been recognised have not been disclosed as the future recovery of those losses is subject to the Company satisfying the requirements imposed by the regulatory taxation authorities. The benefits of deferred tax assets not brought to account will only be brought to account if:

- future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- the conditions for deductibility imposed by tax legislation continue to be complied with; and
- no changes in tax legislation adversely affect the Company in realising the benefit.

9. Loss for the year

Loss for the year has been arrived at after charging the following items of expenses:

Depreciation expense	4,432	5,596
Impairment of exploration expenditure	405,079	386,204
Employee benefit expense		
Directors fees	70,000	70,000
Wages and salaries	107,849	113,294
Superannuation expenses	25,630	18,109
Increase in liability for annual leave	45,180	-
Equity-settled share-based payments	-	16,221
Total employee benefit expense	248,659	217,624

10. Loss per share

	2010 $ Cents per share	2009 $ Cents per share
Basic loss per share	0.42	0.56

Basic loss per share

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

Net loss	(682,314)	(705,957)
Weighted average number of ordinary shares for the purposes of basic loss per share	162,781,278	126,262,534

	2010 $	2009 $

10. Loss per share (continued)

Diluted loss per share

The following potential ordinary shares are anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted loss per share.

	No.	No.
Unlisted options exercisable at 30 cents on or before 30 November 2010	1,800,000	1,800,000
Unlisted options exercisable at 35 cents on or before 30 November 2010	1,800,000	1,800,000
Unlisted options exercisable at 35 cents on or before 4 May 2012	400,000	400,000
Unlisted options exercisable at 40 cents on or before 4 May 2012	400,000	400,000

Ordinary shares and potential ordinary share transactions occurring after reporting date

The following ordinary shares issued after reporting date would have changed significantly the number of ordinary shares used in the calculation of the basic and diluted loss per share.

	No.	No.
Ordinary fully paid ordinary shares	10,000,000	11,300,000

11. Trade and other receivables

Goods and services tax recoverable	71,550	53,430
Other receivables	29,564	75,606
Prepayments	-	130
	101,114	129,166

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

12. Property, plant and equipment

Plant and equipment - gross carrying amount		
Balance at beginning of the financial year	130,760	130,760
Additions	8,583	-
Balance at end of the financial year	139,343	130,760
Plant and equipment - accumulated depreciation		
Balance at beginning of the financial year	19,131	113,535
Depreciation expense	4,432	5,596
Balance at end of the financial year	123,563	119,131
Net book value	15,780	11,629

The following depreciation rates used in the calculation of depreciation:

Plant and equipment 7% - 40%

	2010 $	2009 $
13. Exploration, evaluation and development		
Carried forward expenditure	21,780,730	20,437,695
Capitalised during the year	2,357,743	1,729,239
Impairment of exploration expenditure	(405,079)	(386,204)
	23,733,394	21,780,730

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.

14. Other assets

	2010 $	2009 $
Pastoral lease-Coburn Station	484,676	484,676

15. Trade and other payables

	2010 $	2009 $
Trade payables	96,243	175,132
Other creditors and accruals	537,571	491,793
Employee benefits	54,833	40,344
	688,647	707,269

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

16. Issued capital

	2010 $	2009 $
163,465,312 fully paid ordinary shares (2009: 138,020,297)	28,800,440	26,361,797

The Company does not have a limited amount of authorised capital and issued shares do not have a par value.

Fully paid ordinary shares	2010		2009	
	No.	$	No.	$
Balance at beginning of year	138,020,297	26,361,797	119,662,252	25,423,173
Share placement issued at 10 cents per share on 6 July 2009	11,300,000	1,130,000	-	-
Share purchase plan at 10 cents per share on 15 December 2009	6,645,015	664,502	-	-
Share purchase plan at 10 cents per share on 8 February 2010	7,500,000	750,000	-	-
Share placement issued at 5.5 cents per share on 2 February 2009	-	-	4,030,000	221,650
Share purchase plan at 5.5 cents per share on 4 March 2009	-	-	13,328,045	733,042
Share placement issued at 5.5 cents per share on 4 March 2009	-	-	1,000,000	55,000
Share issue costs		(105,859)	-	(71,068)
Balance at end of year	163,465,312	28,800,440	138,020,297	26,361,797

	2010 $	2009 $

16. Issued capital (continued)

Fully paid ordinary shares carry one vote per share and carry the right to dividends. Ordinary shares participate in the proceeds on winding up of the Company in proportion to the number of shares held.

Share options on issue

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

As at 30 June 2010, the Company has 4,400,000 share options on issue (2009: 4,400,000) exercisable on a 1:1 basis for 4,400,000 shares (2009: 4,400,000) at various exercise prices. During the year no options were converted into shares (2009: nil) and no options expired (2009: nil). Further details of options granted to Directors and employees are contained in note 22 to the financial statements.

17. Reserves

	2010 $	2009 $
Equity-settled employee benefits reserve	850,078	850,078

The equity-settled employee benefits reserve arises on the grant of share options to executives, employees, consultants and advisors. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share-based payments to employees is made in note 22 to the financial statements.

18. Commitments for expenditure

	2010 $	2009 $
(a) Leasing commitments		
Leasing arrangements for the rental of office space expiring 11 September 2013 with an option to extend for a further two years		
Not longer than 1 year	120,064	107,496
Longer than 1 year and not longer than 5 years	516,700	17,916
Longer than 5 years	26,911	-
	663,675	125,412
(b) Other expenditure commitments		
Coburn environmental approvals & Mount Gunson metallurgy (2009 was Coburn design definition study)		
Not longer than 1 year	93,723	294,738
Longer than 1 year and not longer than 5 years	-	-
Longer than 5 years	-	-
	93,723	294,738
(c) Exploration expenditure on granted tenements		
Not longer than 1 year	2,056,800	1,297,150
Longer than 1 year and not longer than 5 years	-	-
Longer than 5 years	-	-
	2,056,800	1,297,150

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

	2010 $	2009 $

19. Contingent liabilities

The Company has a $10,000 bank guarantee in favour of the Minister for Mines and Petroleum in Western Australia. This guarantee was established in late September 2009 as an unconditional performance bond on mining lease 09/105 at Coburn.

The Directors are not aware of any other contingent liabilities as at 30 June 2010.

20. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

	2010 $	2009 $
Cash and bank balances	277,108	468,164

	2010 $	2009 $
Reconciliation of loss for the period to net cash flows from operating activities		
Loss for the year	(682,314)	(705,957)
Non-cash items		
Depreciation	4,432	5,596
Impairment of exploration expenditure	405,079	386,204
Equity-settled share-based payment	-	16,221
	(272,803)	(297,936
Movements in working capital		
Decrease in trade and other receivables	28,052	235,785
Increase in exploration and evaluation costs capitalised	(2,357,743)	(1,729,239)
Increase/(decrease) in trade and other payables	(33,111)	317,551
Increase/(decrease) in provisions	14,489	(3,961)
Net cash used in operating activities	(2,621,116)	(1,477,800)

21. Financial instruments

Overview

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

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

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

21. Financial instruments (continued)

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

Capital risk management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. As a junior explorer, the Company does not establish a return on capital. Capital management requires the maintenance of strong cash balance to support ongoing exploration. There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

Credit risk management

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

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

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The credit rating of the Company's bank is AA.

At risk amounts are as follows:

		Contractual cash flows			
	Carrying amount	**Less than 1 month**	**1-3 months**	**3-12 months**	**1 year to 5 years**
	$	**$**	**$**	**$**	**$**
2010					
Financial assets					
Trade and other receivables	101,114	(71,550)	(19,564)	(10,000)	-
2009					
Financial assets					
Trade and other receivables	129,166	(53,430)	(26,736)	(49,000)	-

21. Financial instruments (continued)

Liquidity risk management

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

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

Liquidity risk table

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

	Contractual cash flows				
	Carrying amount	**Less than 1 month**	**1-3 months**	**3-12 months**	**1 year to 5 years**
	$	**$**	**$**	**$**	**$**
2010					
Financial liabilities					
Trade and other payables	688,647	(144,243)	(37,500)	(506,904)	-
2009					
Financial liabilities					
Trade and other payables	707,269	(653,916)	-	(40,344)	(13,009)

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

Market risk management

Price risk management

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

21. Financial instruments (continued)

Interest rate risk management

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

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

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

	Variable interest rate $	Less than 1 year $	Total $
2010			
Financial assets			
Cash and cash equivalents	277,108	-	277,108
Trade and other receivables	-	10,000	10,000
	277,108	10,000	287,108
Financial liabilities			
Trade and other payables	-	-	-
	-	-	-
2009			
Financial assets			
Cash and cash equivalents	468,164	-	468,164
Trade and other receivables	-	49,000	49,000
	468,164	49,000	517,164
Financial liabilities			
Trade and other payables	-	-	-
	-	-	-

Interest rate sensitivity analysis

A change of 100 basis points in interests rates would have decreased the Company's loss by $27,711 (2009: $46,816). Where interest rates decreased, there would be an equal and opposite impact on the loss.

Fair value of financial assets and liabilities

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in note 3.

22. Share-based payments

Share-based payments are granted at the discretion of the Board to align the interests of shareholders and the executive Director and other staff and key consultants.

Each option issued converts into one ordinary share of Gunson Resources Limited on exercise. No amounts are paid or payable by the recipient on receipt of the option. Options neither carry rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

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

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

In accordance with the terms of the share-based arrangement, all options issued have vested to the recipient.

Movements in share options during the period

The following reconciles the share options outstanding at the beginning and end of the year.

	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance at beginning of the year	4,400,000	0.33	4,400,000	0.33
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Balance at end of the year	4,400,000	0.33	4,400,000	0.33
Exercisable at end of the year	4,400,000	0.33	4,400,000	0.33

Share options exercised during the year

No share options were exercised during the financial year.

Share options outstanding at the end of the year

The share options outstanding at the end of the year had a weighted average exercise price of 33 cents (2009: 33 cents) and a weighted average remaining contractual life of 248 days (2009: 613 days).

23. Related party transactions

Transactions with key management personnel

Key management personnel compensation

The aggregate compensation made to Directors and other members of key management personnel of the Company is set out below:

	2010 $	2009 $
Short- term employee benefits	711,900	718,562
Post-employment benefits	52,650	52,650
Share-based payments	-	16,221
	764,550	787,433

Key management personnel equity holdings

Fully paid ordinary shares

	Balance at 1 July	Granted as compensation	Received on exercise of options	Net other change	Balance at 30 June
	No.	No.	No.	No.	No.
2010					
W H Cunningham	359,553	-	-	100,000	459,553
D N Harley	3,290,900	-	-	359,100	3,650,000
P C Harley	378,253	-	-	100,000	478,253
A F Luscombe	168,000	-	-	(168,000)	-
T B Colton	-	-	-	-	-
2009					
W H Cunningham	268,653	-	-	90,900	359,553
D N Harley	2,500,000	-	-	790,900	3,290,900
P C Harley	287,353	-	-	90,900	378,253
A F Luscombe	150,000	-	-	18,000	168,000
T B Colton	-	-	-	-	-

Share options

	Balance at 1 July	Granted as compensation	Exercised	Net other change	Balance at 30 June	Vested and exercisable
	No.	No.	No.	No.	No.	No.
2010						
D N Harley	2,000,000	-	-	-	2,000,000	2,000,000
A F Luscombe	800,000	-	-	-	800,000	800,000
T B Colton	800,000	-	-	-	800,000	800,000
2009						
D N Harley	2,000,000	-	-	-	2,000,000	2,000,000
A F Luscombe	800,000	-	-	-	800,000	800,000
T B Colton	800,000	-	-	-	800,000	800,000

24. Remuneration of auditors

	2010 $	2009 $
Auditor of the Company		
Audit and review of the financial statements	34,707	35,000

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

25. Subsequent events

On 13 July 2010, the Company placed 10,000,000 ordinary shares at 6 cents each to raise $600,000. The capital will be used to fund working capital, progress discussions on financing of the Coburn Zircon Project and to progress the Bankable Feasibility Study on the Mount Gunson Copper Project.

Other than the above, there has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

Abandoned stock watering trough just east of the Amy Zone deposit at Coburn

director's 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;

(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 giving a true and fair view of the financial position and performance of the Company;

(c) In the Directors' opinion, the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board;

(d) The Directors have been given the declarations required by s.295A of the Corporations Act 2001; and

(e) The remuneration disclosures included in pages 5 to 8 of the Directors' Report (as part of the audited Remuneration Report), for the year ended 30 June 2010, comply with s.300A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

D N Harley
Managing Director

30 September 2010
Perth, Western Australia

Drilling of MGD 57 at Mount Gunson, February 2010

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

30th September 2010

Board of Directors
Gunson Resources Limited
PO Box 1217
WEST PERTH WA 6872

Dear Sirs,

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

As lead auditor of Gunson Resources Limited for the year ended 30 June 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 audit; and
- any applicable code of professional conduct in relation to the audit.

C Burton

Chris Burton
Director

BDO

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Perth, Western Australia

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Australia

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

Report on the Financial Report

We have audited the accompanying financial report of Gunson Resources Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the company.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 3, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

Auditor's Opinion

In our opinion:

(a) the financial report of Gunson Resources Limited is in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the company's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 3.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualification to the opinion expressed above, we draw attention to Note 3 to the financial statements. The company will have to seek additional funding in order to progress exploitation of its exploration assets. If the company is unable to obtain additional funding it may indicate the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business at the values stated in this financial report.

Material Uncertainty Regarding Recoverability of Deferred Exploration and Evaluation Expenditure

Without qualifying our audit opinion, we draw attention to the matter disclosed in Note 3. There is uncertainty as to the recoverability of the deferred exploration and evaluation expenditure assets of Gunson Resources Limited. The recoverability of the deferred exploration and evaluation expenditure assets is dependant upon the successful development and commercialisation of the underlying areas of interest or their sale. This material uncertainty may cast doubt about the company's ability to realise the asset at the values stated in the balance sheet.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Gunson Resources Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO Audit

C Burton

Chris Burton
Director

Perth, Western Australia
Dated this 30th day of September 2010

shareholding information as at 30 september 2010

1 Number of Shareholders and Unmarketable Parcels

There were 2,234 shareholders, including 670 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	214	9.6	85,557	0.05
1,001 – 5,000	451	20.2	1,377,161	0.79
5,001 – 10,000	319	14.3	2,707,140	1.56
10,001 – 100,000	943	42.2	36,293,348	20.93
100,001 and over	307	13.7	133,002,106	76.67
TOTALS	**2,234**	**100.0**	**173,465,312**	**100.0**

3 Twenty Largest Ordinary Shareholdings

Name	Fully Paid Shares Held	%
Grey Willow Pty Ltd	9,295,000	5.36
John Tilbrook	9,295,000	5.36
Bruce Birnie Pty Ltd	4,000,000	2.31
HSBC Custody Nominees	3,993,075	2.30
Daleregent Pty Ltd	3,650,000	2.10
Kerry Wark	3,146,849	1.81
FW Holst & Co	3,130,399	1.80
Virginia Klingler	3,000,000	1.73
Narlack Pty Ltd	2,757,828	1.59
Paul Duncan	2,128,188	1.23
Perpetual Trustee Company	1,929,595	1.11
William Douglas Goodfellow	1,880,000	1.08
Forty Traders Limited	1,640,000	0.95
Cedric Desmond Parker	1,400,000	0.81
Stipe Balenovic	1,390,900	0.80
Michael & Stanislawa Sesto	1,301,743	0.75
CIMB Securities (Singapore) PTE Ltd	1,280,000	0.74
Berne No 132 Nominees Pty Ltd	1,095,000	0.63
Kurraba Investments Pty Ltd	1,090,900	0.63
K J Hayes Corporation Pty Ltd	1,041,500	0.60
TOTAL OF TOP 20 SHAREHOLDERS	**58,445,977**	**33.69**

shareholding information as at 30 september 2010

4 Substantial Shareholdings (over 5%)

Name	Fully Paid Shares Held	%
Grey Willow Pty Ltd	9,295,000	5.36
John Tilbrook	9,295,000	5.36

5 Unquoted Equity Securities

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

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

6 Voting Rights

At a general meeting of the Company shareholders are entitled:

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

corporate governance statement

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

The Company's Charters and Policies have been reviewed and updated taking into consideration the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations" published in August 2007, and the various updates published since that time, and are available on the Company's website www.gunson.com.au.

The Company's practices are mainly consistent with those of the recommendations and where they do not correlate with the recommendations, the Board considers that its adopted practices are appropriate. At the end of this statement a table is included detailing the recommendations with which the Company does not strictly comply.

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 its functions and responsibilities in a manner which is consistent with ASX Principle 1.

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

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

Board Structure

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

- The Board shall comprise at least 3 directors, increasing where additional expertise is considered desirable in certain areas.
- The Board should comprise a majority of non-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 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.

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The Board has considered the associations of each of the non-executive directors in office at the date of the Directors' Report and determined that the two non-executive directors, William Cunningham and Peter Harley, are considered to be independent as they are not members of management and there is no relationship affecting that status. They are not substantial shareholders, past or present employees, professional advisers, consultants, suppliers or customers with or to the Company, nor do they have any contractual relationship with the Company other than as a director.

Meetings

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

Remuneration Arrangements

The Company's remuneration policy is set out in the Remuneration Report section of the Directors' Report.

The Board has not formed a remuneration committee as it considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of a remuneration committee. The Board as a whole is responsible for the remuneration arrangements for directors and the Managing Director.

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.

The structure and disclosure of the Company's remuneration policies for directors and senior executives are generally consistent with ASX Principle 8.

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. Re-appointment of directors retiring by rotation or filling a casual vacancy is not automatic.

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 Annual General Meeting of shareholders.

Nomination and Appointment of New Directors

The Board has not formed a nomination committee as it considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of a nomination committee.

Recommendations of candidates for new directors are made by the Directors, or external advisers, 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 2.

Board Access to Information

All directors have unrestricted access to all employees of the Company and, subject to the law, access to all Company records and information held by Company 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. The Company will reimburse the director for the reasonable expense of obtaining that advice. While prior approval of the Chairman is required, it may not be unreasonably withheld and, in its absence, approval by the Board may be sought.

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.

The Board, however, considers that the Company is not currently of a size, nor are its affairs of such complexity, to justify the formation of separate or special committees at this time. The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards.

The Board has also established a protocol for the management of the Company including a system of internal controls, a business risk management process and the establishment of appropriate ethical standards.

The full Board currently holds meetings at such times as may be necessary to address any general or specific matters as required.

If the Company's activities increase in size, scope and nature, the appointment of separate or special committees will be reviewed by the Board and implemented if appropriate.

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 is responsible for the oversight of the Company's risk management and control framework. Responsibility for control and risk management is delegated to the appropriate level of management within the Company with the Managing Director having ultimate responsibility to the Board for the risk management and the control framework.

Areas of significant business risk to the Company are highlighted in Board meetings and any business plans and operating reports presented to the Board by the Managing Director.

Arrangements put in place by the Board to monitor risk management include monthly reporting to the Board in respect of operations and the financial position of the Company. Monthly and year to date actual to budget comparatives and variance explanations are a standard inclusion in monthly Board packs and the Board meeting agenda to provide the directors with the review and assessment opportunity.

The Company's approach to risk management is based on the identification, assessment, monitoring and management of material risks that the Board and management believe that the Company may encounter. Once the risks have been identified, the risks are then classified in terms of their severity, the probability of occurring and the potential impact or damage they may have if they do occur. Once the risks have been identified the Company can then decide on whether to avoid, manage, insure or transfer these risks.

Specific areas of risk identified and which are 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.

Audit

The Board has not established an audit committee as it considers that the Company is not of a size, nor is its financial affairs of such complexity to justify the formation of an audit committee. The Board as a whole undertakes the selection and proper application of accounting policies, the identification and management of risk and the review of the operation of the internal control systems.

Role of Auditor

The Company's policy is to appoint an external auditor who clearly demonstrates quality and independence. The performance of the external auditor is reviewed annually and if deemed appropriate, having regard to the assessment of performance, existing value and costs, applications for tender of external audit services may be requested.

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The Company's practice is to invite the auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

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 51 of this Annual Report.

Integrity of Financial Reporting

The Managing Director reports in writing to the Board that:

- the consolidated financial statements of the Company and its controlled entities for each half and full year present a true and fair view, in all material aspects, of the Company's financial condition and operational results and are in accordance with accounting standards;
- the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control framework is operating efficiently and effectively in all material respects.

There is further commentary on financial risk management at Note 21 to the financial statements.

For the Financial Report for the year ended 30 June 2010 it is confirmed that the Board has received:

1. A report confirming the effectiveness of the Company's management of material business risks; and
2. Assurance that the Corporation Act 2001 section 295A declarations are founded on a sound system of risk management and internal control.

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 or major announcements.

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

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

Continuous Disclosure

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

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

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

Ethical Standards

The Company has implemented a Code of Conduct, which provides guidelines aimed at maintaining high ethical standards, corporate behaviour and accountability within the Company.

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All employees and directors are expected to:

- respect the law and act in accordance with it;
- respect confidentiality and not misuse company information, assets or facilities;
- value and maintain professionalism;
- avoid real or perceived conflicts of interest;
- act in the best interests of shareholders;
- by their actions contribute to the Company's reputation as a good corporate citizen which seeks the respect of the community and environment in which it operates;
- perform their duties in ways that minimise environmental impacts and maximise workplace safety;
- exercise fairness, courtesy, respect, consideration and sensitivity in all dealings within their workplace and with customers, suppliers and the public generally; and
- act with honesty, integrity, decency and responsibility at all times.

An employee who breaches the Code of Conduct may face disciplinary action. If an employee suspects that a breach of the Code of Conduct has occurred or will occur, he or she must notify management of that breach. No employee will be disadvantaged or prejudiced if he or she reports in good faith a suspected breach. All reports will be acted upon and kept confidential.

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.

The Code of Conduct is consistent with ASX Principle 3.

Communications with Shareholders

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

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

Table of Departures and Explanations from the Recommendations of the ASX Corporate Governance Council

"Recommendation" Ref ("Principle No" Ref followed by Recommendation Ref)	Departure	Explanation
2.4	No formal Nomination Committee has been established.	The Board considers that the Company is not currently of a size to justify the formation of a nomination committee. The Board as a whole undertakes the process of reviewing the skill base and experience of existing directors to enable identification or attributes required in new directors. Where appropriate, independent consultants may be engaged to identify possible new candidates for the Board.
4.1, 4.2 and 4.3	No formal Audit Committee has been established.	The Board considers that the Company is not of a size, nor are its financial affairs of such complexity, to justify the formation of an audit committee. The Board as a whole undertakes the selection and proper application of accounting policies, the identification and management of risk and the review of the operation of the internal control systems.
8.1	No formal Remuneration Committee has been established.	The Board considers that the Company is not currently of a size, nor are its affairs of such complexity, to justify the formation of a remuneration committee. The Board as a whole is responsible for the remuneration arrangements for directors and executives of the Company.

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