Gunson Resources Limited

ABN 32 090 603 642

ANNUAL REPORT 2004

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

Company Secretary
DA Edwards

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Country of Incorporation
Gunson Resources Limited is
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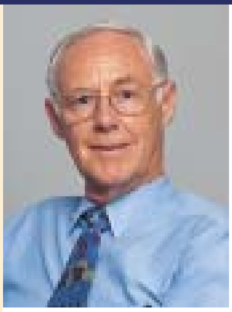
Cover Photograph: Test pit at Amy Zone on the Coburn Mineral Sand Project, March 2004.

CONTENTS

HIGHLIGHTS

- Bankable feasibility study on commercial development of the Amy Zone heavy mineral sand deposit at Coburn continued and is on schedule for completion in December 2004.
- A 34% increase in the Amy Zone resource during the year to 690 million tonnes averaging 1.35% heavy minerals, with more upgrades likely.
- Three saleable heavy mineral products recovered from metallurgical test work of Amy Zone ore, with strong market interest indicated as a result of product samples sent to potential customers.
- Unlike most heavy mineral sand mining operations, estimated product revenue from Coburn is dominated by zircon, which has the strongest market outlook of all the heavy minerals.
- A proposed drilling program at Mount Gunson has attracted a 50% drilling subsidy from the South Australian government under its 2004/2005 exploration acceleration program.

CHAIRMAN'S REVIEW



Dear Shareholder

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

As in previous years our three basic objectives continue to be –

- Discovery of world class ore bodies in mineral commodities with large global markets.
- Where appropriate, formation of alliances with companies specialising in those minerals.
- Maintenance of the highest standards of exploration expertise, in order to minimise risk and maximise utilisation of our financial resources.

Our long term vision steadfastly remains to have a range of minerals in profitable production, thus spreading the marketing risk, and having exploration projects constantly in the pipeline.

The Coburn Mineral Sand Project, immediately south of Shark Bay and 300 kilometres by road from the port of Geraldton, continues to be our primary focus, providing our first opportunity for commercial development. It absorbed almost 90% of our exploration expenditure for the year. As a result of the drilling program we completed in July 2004, the overall strike length of Amy Zone has been extended by six kilometres to 35 kilometres and a 14 kilometre long southern portion has now been tested at a minimum drill traverse spacing of 500 metres. The resource of 690 million tonnes at 1.35% heavy mineral, announced in December 2003, will be upgraded as a result of the drilling conducted during calendar 2004.

The Bankable Feasibility Study, which commenced in May 2003, should be completed in December 2004. A test pit excavated in March 2004 confirmed that the mineralisation is hosted in free running sand, thus permitting large scale mining of the ore by bucket wheel excavator. The plan is to then screen, slurry, and pump the ore to concentrators located outside the pit. Engineering design work on 2,000 tonne per hour minesite concentrators and a mineral separation plant to be located in Geraldton are well advanced. A groundwater drilling program is scheduled for completion in late October. Final product specifications were received in August, and have enabled marketing activities to begin in earnest, with considerable interest already shown by potential consumers. A Native Title Agreement was concluded with the Nanda aboriginal people in September 2004.

Due to the proximity of the Shark Bay World Heritage Area, the proposed mining operation will require a Public Environmental Review, the documentation for which is scheduled for completion by our environmental consultants in January 2005. Assuming no major delays in the Review process, environmental approvals are expected in the September quarter of 2005 and commissioning of the mining operation should follow about 12 months later.

Whilst the Bankable Feasibility Study on the Coburn Mineral Sand Project has lost some time against the original schedule, it is making sound progress on a firm base, and we are optimistic that the study will have a positive financial outcome. In September 2004 we appointed Mr Alan Luscombe as General Manager – Coburn Mineral Sand Project. He has a great depth of experience in the mineral sand industry, including new project development.

Whilst the Coburn Mineral Sand Project has been our primary focus, our vision of a range of minerals in production has not been overlooked.

The Mount Gunson Copper Project has seen a two hole diamond drilling program at 23 Mile Tank and Moseley Dam prospects in mid 2004, and the latter warrants follow-up drilling. The Chianti prospect, which we always intended to revisit after completing two percussion drill holes in 2002, will also receive attention in 2004/05. Both prospects will receive 50% drilling cost subsidies from the South Australian Government as part of their exploration acceleration program.

At the Shell Lakes Diamond and Nickel Project we had a disappointing year. The source of diamond indicator minerals in soil samples is still unresolved, and we are in discussion with potential joint venture partners. Whilst we see the area as an attractive diamond prospect, the nickel potential has been downgraded as a result of our geophysical work and drilling by WMC on adjoining tenements. We have withdrawn some exploration licence applications as a result.

The Tennant Creek Gold-Copper Project holds two exploration licences and has four applications pending. Gravity and ground magnetic geophysical surveys carried out on several of the targets have been encouraging. Further progress depends on the granting of the four outstanding applications, which are on aboriginal freehold land. Negotiations have commenced but we are entirely in the hands of the land owners as to when access may be granted.

The Fowler's Bay Nickel Project is a new project, west of Ceduna in South Australia, comprising a 934 square kilometre exploration licence application. Once the application is granted, the exploration program will focus on identified geophysical anomalies.

The Tennant Creek Project resulted from our agreement with BHP Billiton, which has allowed our consulting geologist, Douglas Haynes Discovery Pty Ltd, non-exclusive access to their technical data base. This agreement gives them first right to farm in to any project resulting from their data, and to earn up to 80% interest by carrying Gunson's 20% share of cost into production.

In conclusion, I wish to thank our Managing Director, David Harley, for his efforts on our behalf. His boundless enthusiasm and energy, his expertise, his integrity and determination set the foundations for the building of a successful mining company.

W.H. Cunningham

Chairman

8 October, 2004

The Company currently operates five mineral exploration projects in Australia, as shown on Figure 1 below.

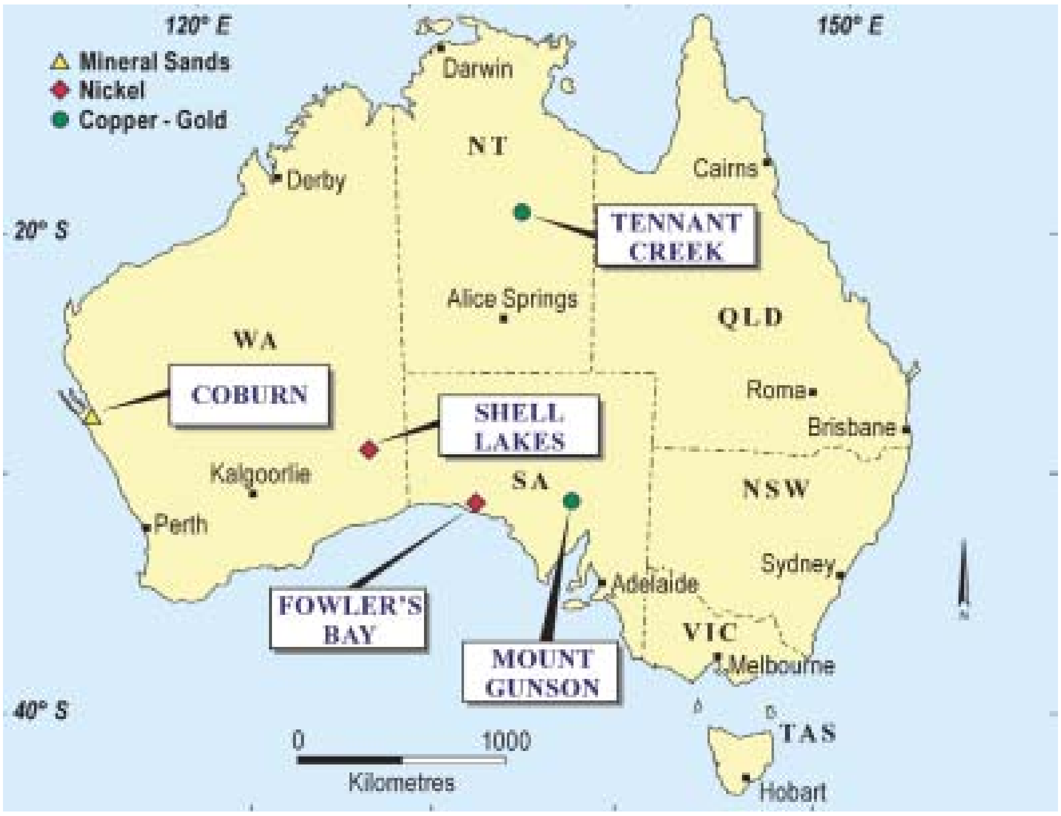


Figure 1: Project location map.

COBURN MINERAL SAND PROJECT, WESTERN AUSTRALIA

(100% Gunson)

1. INTRODUCTION

Coburn continued to be the focus of the Company's exploration activity, attracting 88% of total exploration expenditure for the year. A bankable feasibility study (BFS) which commenced in May 2003, continued throughout the year and is on schedule for completion in December 2004.

2. BACKGROUND

Coburn is located immediately south of Shark Bay and 250 kilometres north of the regional centre of Geraldton in Western Australia (Figure 2). Geraldton has a deep water port and mineral sand shipping infrastructure as a result of a major heavy mineral processing facility built to treat concentrates from the world class Eneabba deposits some 100 kilometres to the south.

The Coburn Project hosts the Amy Zone deposit (Figure 3) discovered by Gunson in 2000. In December 2003, the Company announced that Amy Zone contained an inferred resource of 690 million tonnes at 1.35% heavy minerals. This resource totals 9.3 million tonnes of contained heavy minerals worth over $2 billion in situ, hosted in unconsolidated sand dunes with a very low slime content and is therefore amenable to low cost mining. There is excellent potential to expand the Amy Zone resource to well over 10 million tonnes of contained heavy minerals.

Figure 2: Regional setting of the Coburn Project.

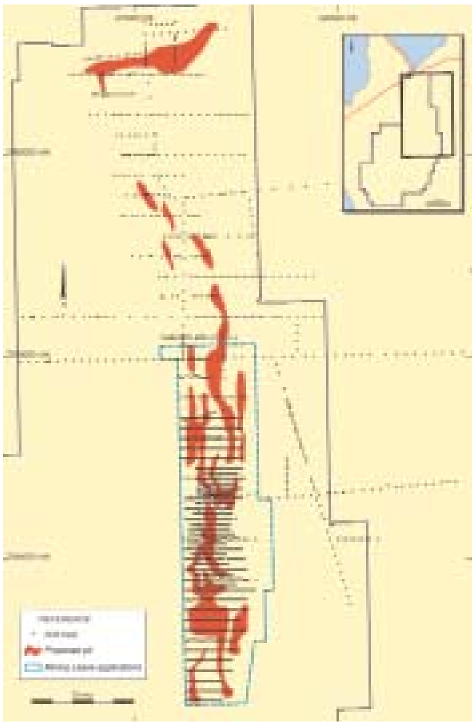


Figure 3: Amy Zone resource.

3. BANKABLE FEASIBILITY STUDY (BFS)

3.1 BFS Management

The BFS on developing the Amy Zone deposit continued throughout the year. On 6th April 2004, a progress report was received which only provided "order of magnitude" engineering design and capital cost estimates, unexpectedly short of the scope of works approved for the BFS in April 2003.

After 6th April 2004, the BFS has been managed by Gunson's Managing Director, utilising most of the same consultants and contractors who had contributed to the study up to that time. An additional consultant subsequently added to the BFS team is former Consolidated Rutile mining engineer Phillip McMurtrie. Mr McMurtrie worked in several roles with Consolidated Rutile, including mine planning and feasibility studies at their North Stradbroke Island mineral sand mine between 1990-2003.

A later addition to the BFS team is metallurgist Alan Luscombe, who joined the Company on 13th September 2004 as General Manager – Coburn Mineral Sand Project. Mr Luscombe has over 35 years experience in the mining industry, predominantly in mineral sand operations with RGC Ltd. He has managed operations in Western Australia and New South Wales and been involved in the development of mineral sand projects in Australia and overseas. Prior to joining Gunson, he was Chief Executive Officer of Mineral Commodities Limited.

Mr Luscombe will be responsible for the Coburn Project through the final stages of the BFS then subject to a favourable BFS outcome, plant design, construction and commercial production.

3.2 Resource Definition Drilling

Over a quarter of the total BFS expenditure was on resource definition drilling, entirely within the southern half of Amy Zone. The drilling was focused on lateral and strike extensions around the Amy South Infill Grid (Figure 4) and resulted in the overall strike length of Amy Zone being extended by 6 kilometres to 35 kilometres.

After completion of the 2004 drilling program on 31st July, the southern 14 kilometres of Amy Zone had been tested at a minimum drill traverse spacing of 500 metres. The drill traverse spacing over a 6 kilometre length of this area, the Amy South Infill Grid, is more detailed at 250 metres apart. As the resource status of the Amy South Infill Grid was upgraded in September 2003 to indicated on the basis of earlier 500 metre spaced drilling, it is possible that a similar upgrade will eventuate for the other 8 kilometres of this southern part of Amy Zone.

Assay results from all of the drilling south of the Infill Grid have been received, along with approximately half of the drill samples to the north. The southern results appear to confirm the continuity of ore zones revealed in the earlier drilling and a resource increase is likely for this area and the area north of the Infill Grid.

After the remaining assay results for the 2004 drilling program have been received, resource block modelling of the 14 kilometre long southern portion of Amy Zone will be completed as part of the latter stage of the BFS.

Figure 4: Amy Zone South.

3.3 Groundwater Drilling

A six hole groundwater drilling program designed to establish water quality, water table depth and sustainable supply is in progress and scheduled for completion in late October 2004. Four shallow holes averaging 50 metres depth in the northern part of Amy Zone showed that the water table is below the base of the proposed open pit and that where present, this shallow water is saline.

One of two deep bores immediately east of the Amy South Infill Grid (*water bore* on Figure 4) completed to 450 metres depth encountered three brackish water aquifers between 170 and 450 metres.

The final bore, shown as *water monitoring bore* on Figure 4 is in progress and pump testing will follow. Results from these two deep bores will determine the number and spacing of water supply holes needed for the proposed mining operation.

3.4 Mineral Processing

A metallurgical test work program designed by Roche Mining – Mineral Technologies Limited and carried out on a 58 tonne bulk sample from Amy Zone South has been completed.

The metallurgical recoveries of the valuable heavy mineral products were improved compared with the results of previous tests on samples from Amy Zone South and more northerly parts of the Amy Zone deposit. Three final products resulted from the test work : ilmenite with 60% Ti02, ceramic grade zircon and HiTi, a mixture of all the recoverable leucoxene and rutile, containing 91.5% Ti02.

Acid leaching of the zircon product to remove iron staining was successful but this is offset to some extent by the high silica content of the ilmenite product, which could not be reduced cost effectively. However, the ilmenite product has some important attributes, including a low uranium-thorium content which make it attractive as a blend for synthetic rutile production or chloride pigment feedstock.

3.5 Mining Studies

A test pit excavated within the Amy South Infill Grid (Figure 4) in March 2004 confirmed that the mineralisation is hosted in free running sand, with a thin indurated layer near the surface. The location of this pit was chosen to assess strong induration recorded in the resource evaluation drilling during 2003. Results from the test pit showed that the overburden, including the indurated layer, could be readily mined and that the ore zone occurred in free running sand which can be mined very cheaply by industry standards.

The mining method chosen for the BFS is quite different to that outlined in last year's annual report. It comprises a three stage process, as follows (Figure 5):

- Topsoil removed by scrapers and stockpiled for rehabilitation.
- Overburden removed by bulldozers and conveyed into the void left behind by mining of the ore.
- Ore mined by bucket wheel excavator is screened in the pit, mixed with water and pumped to the concentrator located outside but close to the edge of the pit.

The concentrator is being designed for periodic relocation as mining progresses northward from the southern tip of Amy Zone. Tailings from the concentrator are to be pumped back into the pit void for rehabilitation, the water being recovered by a cyclone system for re use in the concentrator.

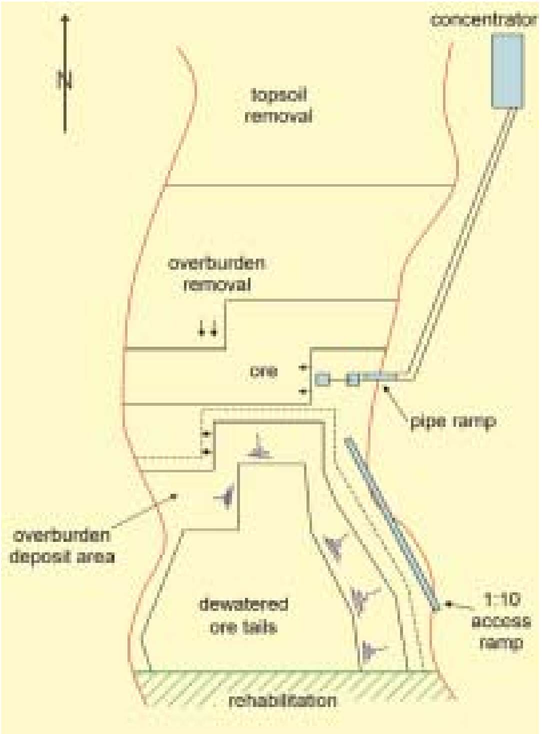


Figure 5: Amy Zone Mining Method.

3.6 Engineering Design & Costing

Roche Mining – Mineral Technologies Limited is making good progress on designing and costing the minesite concentrators and the mineral separation plant (MSP). All flow sheets for the plant design have been finalised and the nominal capacity of each minesite concentrator is to be 2000 tonnes of ore per hour.

A final stage wet magnetic separation is included with each concentrator, resulting in additional upgrading of the concentrate. The concentrators and bucket wheel excavator mining units are to be powered with electricity generated from mobile natural gas turbines designed to be located with each concentrator, so that each concentrator and mining unit is self contained and can be deployed along the ore body as needed.

The chosen location of the MSP is in the Geraldton industrial estate, 300 kilometres by road from the proposed minesite.

3.7 Heavy Mineral Production

Each 2000 tonne per hour concentrator will produce approximately 100,000 tonnes of saleable heavy mineral products, as shown in table 1 below. Prices for these products for use in the BFS have not been finalised but it is likely that zircon sales will bring in about 60% of the revenue, with the balance shared almost equally by ilmenite and HiTi.

Table 1. Estimated Annual Production From One 2000tph Concentrator

Product	Tonnes	% Project Revenue	% 2003 World Production
Zircon	27,000	60	2.5
Ilmenite	56,000	20	2.5*
HiTi	12,200	20	4.5

** % of chloride ilmenite*

It is planned to start the operation with one concentrator and subsequently add a second concentrator in the third year of operation.

3.8 Product Marketing

Final product specifications received from Roche Mining – Mineral Technologies Limited in August 2004 have enabled the Company to forward samples to prospective consumers. Very strong interest in the zircon product is being shown by potential consumers in Europe, Asia and North America. There is also widespread interest in the ilmenite and HiTi products.

Recent announcements by fellow potential producers in eastern Australia reveal a willingness by consumers to participate in supplying capital for new zircon mines in exchange for supply guarantees.

3.9 Native Title Agreement

An agreement to enable mining of the southern half of Amy Zone was concluded with the Nanda aboriginal people on 20th September 2004. This agreement provides for a range of financial, cultural and heritage provisions including 60,000 Gunson shares issued to the Nanda People's Trust.

The agreement will bring financial benefits to the community, but more importantly it provides a framework for an ongoing relationship that will be of benefit to both Gunson and the Nanda people. Gunson is committed to building relationships with the local community that recognise their connection with the land, and to provide opportunities for economic and social development.

3.10 Environment and Licensing

Because of its close proximity to the eastern boundary of the Shark Bay World Heritage Area (Figure 3), the proposed mining operation has been referred to both State and Federal environmental authorities. The level of assessment has been set as a Public Environmental Review (PER).

The PER document is currently being prepared by the Company's environmental consultants, URS Australia Pty Ltd, and is scheduled for completion in early 2005. The Review process requires an eight week Public Review, followed by Gunson's response to public comments. Assuming no major unforeseen delays, environmental approvals are expected in the September quarter of 2005.

No fatal environmental issues affecting the Project have been identified from baseline studies which form the major part of the PER.

4. SUMMARY

After an unexpected setback with the BFS earlier this year, it is on schedule for completion in December 2004. The Company remains optimistic that development of the Amy Zone heavy mineral deposit will be financially attractive and that statutory approvals for a mine development will be received in the September quarter of 2005. Commissioning of a mining operation would follow approximately 12 months after the receipt of approvals.

MOUNT GUNSON COPPER PROJECT, SOUTH AUSTRALIA

(100% Gunson)

1. INTRODUCTION

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

The Mount Gunson area is prospective for both Olympic Dam style copper deposits in basement rocks and stratabound copper deposits of the Mount Gunson type which occur in the overlying cover rocks. Several open pit copper deposits around Mount Gunson were mined by CSR between 1970-1986, the largest of which was the 8 million tonne Cattlegrid deposit, which averaged just over 2% copper equivalent including cobalt by product credits.

2. TENURE

At the end of the financial year, the Company reduced the area of its tenements by 40% to 1,859 square kilometres. As a result, the South Australian Department of Primary Industry and Resources has agreed to a lower minimum expenditure covenant for the year to 30th June 2005.

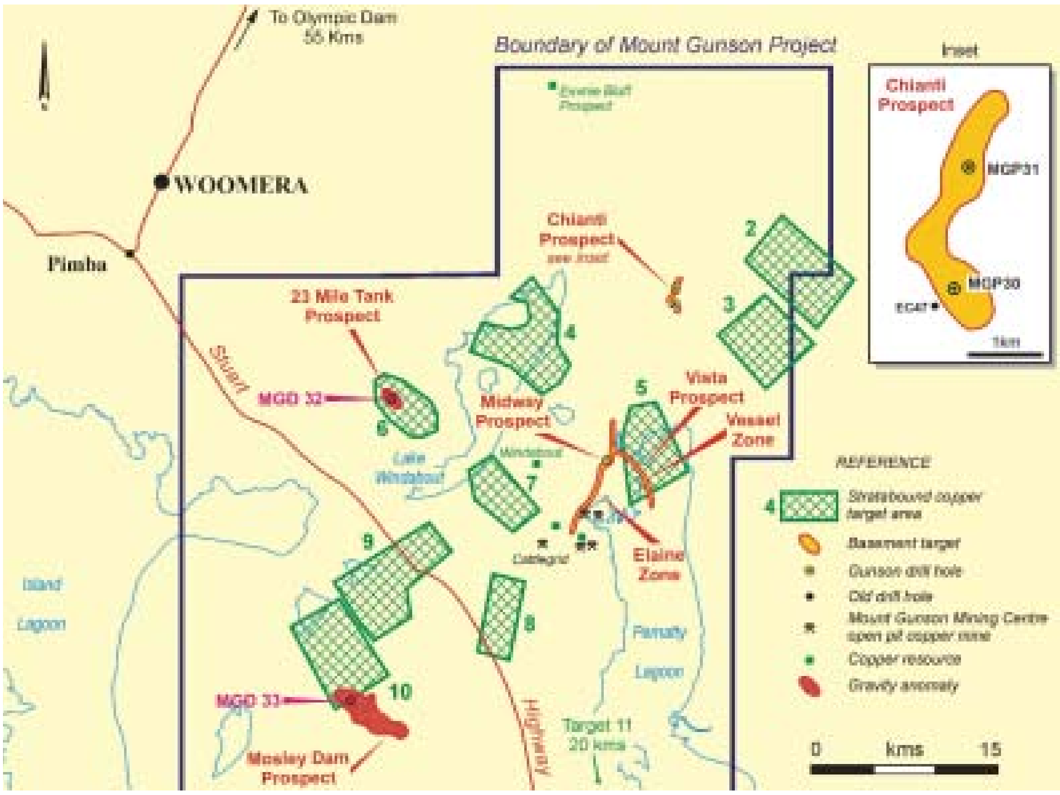


Figure 6: Northern half of the Mount Gunson Project.

3. WORK COMPLETED

An induced polarisation (IP) geophysical survey over the 23 Mile Tank and Moseley Dam prospects was completed in February 2004 (Figure 6). Results from this survey indicated potential stratabound copper targets of the Mount Gunson type, in shale of the Tapley Hill Formation.

A two hole diamond drilling program, one at each of the above prospects, was completed in late June 2004.

3.1 23 Mile Tank Prospect

The first hole, MGD 32, intersected the top of the target Tapley Hill Formation at 453 metres, some 150 metres below the depth predicted from the IP geophysical data. No copper mineralisation was observed in the hole and it was stopped in Tapley Hill Formation at 488 metres.

3.2 Moseley Dam Prospect

Drill hole MGD 33 intersected the top of the target Tapley Hill Formation at 76 metres, some 200 metres above the depth predicted from the IP geophysical data. Minor copper sulphide mineralisation was observed within the upper Tapley Hill Formation, the best assay being 2 metres at 0.06% copper between 80-82 metres.

The hole passed through the base of the Tapley Hill Formation at 207 metres, where stronger lead-zinc but weaker copper mineralisation was encountered. The best intersection was 2 metres at 0.6% lead, 0.2% zinc and 0.01% copper between 204-206 metres. The hole was stopped in Pandurra Formation sandstone at 252 metres.

4. INTERPRETATION

Although the above intersections at Moseley Dam Prospect are clearly uneconomic, the elevated copper values on the upper contact of the Tapley Hill Formation provide encouragement for further exploration in an area located 1-2 kilometres to the north of MGD 33. This area has no drilling, a strong copper anomaly in reconnaissance soil samples and anomalous copper up to 0.13% at shallow depth in a drill hole to the east (Figure 7).

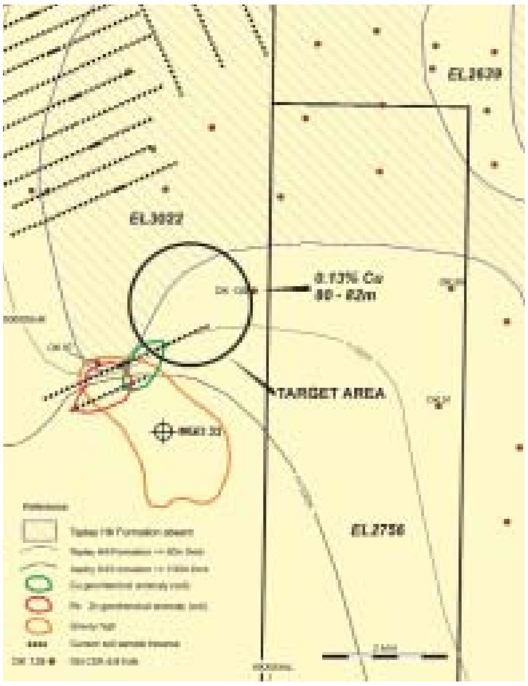


Figure 7: Moseley Dam Prospect.

The interpreted geological setting of this area is considered similar to that hosting the Mount Gunson copper deposits, 20 kilometres to the northeast. The soil anomaly is a priority target for further shallow drilling and Gunson's application for a 50% subsidy of the drilling costs for this program by the South Australian Government under their Plan for Accelerating Exploration has been approved. The funds must be spent by 30th June 2005 and the drilling has been scheduled for the March quarter 2005.

5. OTHER TARGETS

As well as several other stratabound copper targets which warrant further soil sampling (Figure 6), a deep IP geophysical survey over the Chianti Prospect using the proprietary MIMDAS technology is scheduled for late 2004. Chianti Prospect is a relatively shallow target for Olympic Dam style mineralisation which was tested somewhat ineffectively with 2 widely spaced percussion drill holes in March/April 2002. The southernmost hole contained anomalous gold values and minor copper sulphides associated with favourable host rock alteration.

Like the Moseley Dam Prospect, the Company's application for a 50% Government subsidy of the drilling costs for a program to further test Chianti Prospect has been approved.

6. SUMMARY

Both the Moseley Dam and Chianti Prospects have significant size potential and drilling programs proposed for both have attracted subsidies for 50% of the drilling costs from the South Australian Government.

SHELL LAKES DIAMOND AND NICKEL PROJECT, WESTERN AUSTRALIA

(100% Gunson)

1. INTRODUCTION

The Shell Lakes Project is strategically located on a pronounced bend in the major continental scale Mundrabilla Fault, which passes through the Argyle diamond mine and WMC's West Musgrave nickel prospect.

2. DIAMOND EXPLORATION

During the year, a second diamond joint venture partner, Southstar Diamonds Limited, was brought in to replace De Beers Australia Exploration Limited, who withdrew from the project in June 2003. Southstar did limited work on the De Beers drill core but withdrew in January 2004 after failing to recover microdiamonds or diamond indicator minerals. The source of diamond indicator minerals previously discovered in soil samples at Shell Lakes is still unresolved and discussions are in progress with potential joint venture partners who rate the potential of this area highly.

3. NICKEL EXPLORATION

A ground based transient electromagnetic geophysical survey over three bulls eye magnetic anomalies in the south western part of the Project was completed in May 2004. This survey comprised 14 east-west traverses averaging 1.1 kilometres in length. No electrically conductive bodies were detected.

4. SUMMARY

Shell Lakes remains an attractive diamond target area but its nickel potential has been downgraded by Gunson's geophysical work and drilling by WMC Resources on adjoining tenements to the south and east. Consequently, 13 exploration licence applications were withdrawn during the year.

Discussions with potential joint venture partners are in progress.

TENNANT CREEK GOLD-COPPER PROJECT, NORTHERN TERRITORY

(100% Gunson)

1. INTRODUCTION

The Tennant Creek district has yielded some 5 million ounces of gold and 350,000 tonnes of copper since large scale mining began there in 1934. Gold-copper ore bodies in the district are typically high grade, averaging 9 g/t gold and 2.1% copper, and are associated with distinctive magnetic anomalies, due to the abundance of the magnetic iron oxide, magnetite.

Significantly less exploration has been conducted in the district for non magnetic gold-copper ore bodies. Such ore bodies are predicted to occur in the Tennant Creek district, but will not have the usual geophysical characteristics of the known gold-copper deposits. They will be associated with discrete gravity anomalies, with either a very weak coincident or adjacent magnetic anomaly, like Minotaur Resources' Prominent Hill and WMCR's Olympic Dam deposits in South Australia.

Gunson's two exploration licences and four exploration licence applications cover weak magnetic anomalies with associated gravity responses in favourable geological settings, where little or no previous exploration has been carried out. The targets on these areas can be tested quickly and cheaply with ground geophysics and shallow geochemical drilling.

2. WORK COMPLETED

Gravity and ground magnetic geophysical surveys were completed over several of the targets which form the basis of the Project and results of these surveys reinforced the original targets.

Subsequent to the completion of this work, the focus has been on obtaining title to the remaining four exploration licence applications, which lie over aboriginal freehold land. A meeting with the local aboriginal people was held at Tennant Creek on 22nd September 2004 to commence negotiations for an agreement for exploration and mining.

3. SUMMARY

Further progress at Tennant Creek depends on the outcome of negotiations for access to the Company's exploration targets on freehold aboriginal land. These negotiations have just commenced and it is unlikely that an access agreement will be concluded before the second quarter of 2005.

FOWLER'S BAY NICKEL PROJECT, SOUTH AUSTRALIA

(100% Gunson)

This is a new project comprising a 934 square kilometre exploration licence application located some 150 kilometres west of Ceduna. The exploration target is craton margin Proterozoic nickel sulphide deposits and was generated from publicly available data by Douglas Haynes Discovery Pty Ltd.

Linear magnetic anomalies interpreted to be Proterozoic ultramafic intrusives will be the initial focus of the proposed exploration program.

AUSTRALIAN MINERAL EXPLORATION DATA AGREEMENT WITH BHP BILLITON

An agreement with BHP Billiton was concluded in December 2002 whereby Gunson can utilise the extensive Australian mineral exploration data base of BHP Billiton to generate new exploration opportunities for minerals in Australia.

This agreement allows Gunson's consultant geologist, Douglas Haynes Discovery Pty Ltd, non exclusive access to BHP Billiton's technical data for the definition of targets at Gunson's cost. BHP Billiton will then have the first right to farm-in on any exploration project resulting from the technical assessment of their data. The pro forma farm-in agreement is similar in structure to the Mt Gunson Joint Venture and allows BHP Billiton to earn up to an 80% interest by carrying Gunson's 20% share of costs into production.

Due to BHP Billiton's contractual arrangements with other companies, the agreement excludes areas subject to existing agreements or confidentiality undertakings with a number of other companies. It covers minerals other than iron ore and coal but also excludes nickel sulphide opportunities in any geological province in which Mithril Resources Limited is conducting generative activities.

The Data Agreement is an endorsement of Gunson's target generation ability in the search for new exploration opportunities for world class mineral deposits in Australia. It is consistent with one of Gunson's key objectives of forming alliances with major mining companies to share financial risk.

Dr Haynes of Douglas Haynes Discovery Pty Ltd, has identified targets in the Tennant Creek district and title to two of these targets has been granted.

Attribution

The technical information in this report was compiled by Mr D N Harley, a corporate member of the Australasian Institute of Mining and Metallurgy, who has had more than five years experience in the field of activity being reported on. 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 are reported in accordance with the standards set out in the Australasian Code for Reporting of Identified Mineral Resources and Ore Reserves (September 1999) as published by the joint committee of the Australasian Institute of Mining and Metallurgy; Australian Institute of Geoscientists and Minerals Council of Australia.

Coburn	P Leandri (2002) J McDonald (2004) of McDonald Speijers Resource Consultants Pty Ltd
Windabout:	F J Hughes (1997)
MG 14:	K F Bampton of Ore Reserve Evaluation Services (1997)
Cattlegrid South, Sweet Nell:	S D Lee, when Managing Director of Stuart Metals NL (1995)
Tailings Dams:	K F Bampton of Ore Reserve Evaluation Services (1997)
Emmie Bluff:	H L Paterson (1998)

Mineral Resource Inventory

The Company's mineral resource inventory is summarised in the tables below:

COBURN

Prospect	Category	Mineralisation TypeGrade	Cut-Off Grade (% HM)	Resource (Million Tonnes)	HM (%)	Contained HM (Million Tonnes)
Amy Zone	Inferred	Dune/strand	0.8%	690[4]	1.35	9.3
Amy Zone South	Indicated	Dune/ strand	0.9%	133	1.35	1.8

MOUNT GUNSON

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

Notes:

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

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

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

4 The bulk of this resource lies between the surface and approximately 40 metres vertical depth.

Tenement Schedule

COBURN PROJECT, WESTERN AUSTRALIA

Tenement	Area (sq km)	Grant/Application Date	Notes
EL 09/939	98.0	18 June 1999	1
EL 09/940	98.0	18 June 1999	1
EL 09/941	179.0	18 June 1999	1
ELA 09/942	196.0	12 May 1998	2
ELA 09/943	61.6	12 May 1998	2
ELA 09/944	176.4	15 May 1998	2
ELA 09/957	196.0	21 July 1998	2
EL 09/996	98.0	18 July 2000	1
MLA 09/102	10.0	30 October 2003	5
MLA 09/103	10.0	30 October 2003	5
MLA 09/104	10.0	30 October 2003	5
MLA 09/105	10.0	30 October 2003	5
MLA 09/106	10.0	30 October 2003	5

FOWLER'S BAY PROJECT, SOUTH AUSTRALIA

Tenement	Area (sq km)	Grant/Application Date	Notes
ELA 269/2004	934	April 2004	2

MOUNT GUNSON PROJECT, SOUTH AUSTRALIA

Tenement	Name	Area (sq km)	Date Granted	Next Renewal	Notes
EL 2639	Mt Gunson	1206	September 1999	Expired	3
EL 2756	Woocalla	196	October 2000	October 2005	
EL 3008	Bernard Hill	35	September 2002	September 2005	
EL 3022	Mount Moseley	105	October 2002	October 2005	
EL 3112	Yeltacowie	317	July 2003	July 2005	

SHELL LAKES PROJECT, WESTERN AUSTRALIA

Tenement	Area (sq km)	Grant/Application Date	Notes
EL 69/1632	209	20 August 2002	
EL 69/1633	65	20 August 2002	4
EL 69/1634	209	20 August 2002	4
EL 69/1635	208	20 August 2002	4
EL 69/1636	209	20 August 2002	4
ELA 69/1823	209	20 February 2002	2,4
EL 69/1839	209	4 December 2003	
EL 69/1840	209	4 December 2003	
EL 69/1872	209	4 December 2003	
EL 69/1873	74	4 December 2003	
EL 69/1874	209	4 December 2003	
EL 69/1875	143	4 December 2003	

TENNANT CREEK PROJECT, NORTHERN TERRITORY

Tenement	Name	Area (sq km)	Grant/Application Date	Notes
EL 23944	Barkly	6.1	5 February 2004	
ELA 23945	Europa	12.8	25 June 2003	2,6
ELA 23946	Gosse 1	12.9	25 June 2003	2,6
EL 23947	Gosse 5	38.5	13 May 2004	
ELA 23948	Inn	12.9	25 June 2003	2,6
ELA 23949	Boon	31.5	25 June 2003	2,6

Key to Notes (all projects)

1. No mining (exploration) conditions on portions overlapping the Shark Bay World Heritage Area.
2. Exploration Licence Application (ELA).
3. Application for subsequent EL made in August 2004, awaiting approval.
4. Overlaps the Great Victoria Desert Nature Reserve.
5. Mining Lease Application (MLA).
6. Lies on aboriginal freehold land.

Coburn Project 2004
Top left: Wildflowers east of Amy Zone
Right: Water drill at Amy Zone South
Bottom left: Nanda Aboriginal Working Group

The Directors of Gunson Resources Limited submit their report for the year ended 30 June 2004.

The Board of Directors

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

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

Bill Cunningham is a consultant in mineral commodities marketing with over 40 years experience in the mining industry, mainly with WMC Resources Limited and CRA Limited. Prior to leaving WMC in 1997, he was manager for that company's Nickel Division intermediate products marketing. Since 1997, he has managed his own mineral marketing consultancy.

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

David Harley is a geologist with over 30 years experience in the mining industry, mostly in senior exploration management positions with WMC Resources Limited. He is President of the Association of Mining and Exploration Companies, AMEC and was Chairman of Gallery Gold Ltd for 5 years until November 2003.

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

Peter Harley is an experienced manager and director with over 25 years association with a number of public and private companies. Peter is Chairman of iiNet Ltd and the Co-operative Research Centre for Australian Communications based at Curtin University. He is also a non-executive director of Perilya Ltd and Western Australia's largest venture capital fund, Foundation Capital Ltd.

Principal Activities

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

Results of Operations

The Company made a loss after tax of $489,486 (2003: $254,998). No dividends were paid and the directors have not recommended the payment of a dividend.

Review of Operations

During the year, the Company continued with exploration on its mineral tenements. As in the previous year, the main focus was on the Coburn mineral sand project where a bankable feasibility study continued throughout 2003/2004 for completion in December 2004.

Including the Coburn bankable feasibility study, exploration expenditure totalled $2,296,245 ($921,908) during the period under review.

Number of Employees

The Company employed 2 people at as 30 June 2004 (2003: 2 employees).

Significant Changes in State of Affairs

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

- Exploration expenditure for the financial period totalled $2,296,245.

Use Of Funds

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

Significant Events After Balance Date

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

Likely Developments and Expected Results

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

Share Options

As at the date of this report, there were 7,900,000 (2003: 8,200,000) options over unissued ordinary shares. Refer to note 10 of the Financial Statements for further details of the options outstanding.

1,400,000 options were issued and 300,000 options were exercised during the year.

Directors' Meetings

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

	Board Meetings	
Director	Number of meetings held	Number of meetings attended
W H Cunningham	14	14
D N Harley	14	14
P C Harley	14	14

Directors' and Executive Officers' Emoluments

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

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

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

The emoluments of each Director are as follows:

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

Equity Instruments

Options and rights over equity instruments granted as remuneration.

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

Exercise of options granted as remuneration

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

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

Option Holdings

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

Director	Held at 1 July 2003	Granted as remuneration	Exercised	Held at 30 June 2004	Vested and exercisable at 30 June 2004
W H Cunningham (Chairman)	250,000	-	-	250,000	250,000
D N Harley (Managing Director)	5,000,000	-	-	5,000,000	5,000,000
P C Harley (Non-Executive Director)	1,000,000	-	-	1,000,000	1,000,000

Equity Holdings and Transaction

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

Director	Held at 1 July 2003	Granted as remuneration	Received on exercise of options	Other	Held at 30 June 2004
W H Cunningham (Chairman)	150,000	-	-	50,000	200,000
D N Harley (Managing Director)	600,000	-	-	200,000	800,000
P C Harley (Non-Executive Director)	102,000	-	-	40,000	142,000

Service Agreements

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

- Term of agreement – 5 years commencing 15 March 2000.
- Base salary to be reviewed annually.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to either six months salary or six months notice.

Environmental Regulation and Performance

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

Indemnification and Insurance of Directors

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

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

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

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

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Gunson support and have adhered to the principles of Corporate Governance. The Company's corporate governance statement is contained in the Corporate Governance section on page 43 of this annual report.

Auditor

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

Legal Proceedings

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

Signed in accordance with a resolution of Directors.

D N Harley

Managing Director

20th September 2004

STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2004	Note	2004 $	2003 $
REVENUES FROM ORDINARY ACTIVITIES			
Interest Income		111,831	89,225
Other Income		7,665	8,861
Management fees (Mt Gunson JV)		-	2,907
Total Revenue From Ordinary Activities	2	119,496	100,993
Administration expenses		(537,229)	(355,991)
Exploration Costs Written Off		(71,753)	-
Loss From Ordinary Activities Before Income Tax	2	(489,486)	(254,998)
Income tax expense	3	-	-
NET LOSS ATTRIBUTABLE TO MEMBERS		(489,486)	(254,998)
Basic Earnings per share (cents per share)	15	(0.87)	(0.68)

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2004	Note	2004 $	2003 $
CURRENT ASSETS			
Cash Assets	4	3,512,052	1,297,920
Receivables	5	210,219	60,741
TOTAL CURRENT ASSETS		3,722,271	1,358,661
NON-CURRENT ASSETS			
Deferred Exploration Evaluation and Development Costs	6	7,488,822	5,131,001
Property, Plant and Equipment	7	49,786	25,101
TOTAL NON-CURRENT ASSETS		7,538,608	5,156,102
TOTAL ASSETS		11,260,879	6,514,763
CURRENT LIABILITIES			
Payables	8	421,781	198,026
Provisions	9	30,052	14,414
TOTAL CURRENT LIABILITIES		451,833	212,440
TOTAL LIABILITIES		451,833	212,440
NET ASSETS		10,809,046	6,302,323
EQUITY			
Contributed Equity	10	12,314,760	7,318,551
Accumulated Losses	11	(1,505,714)	(1,016,228)
TOTAL EQUITY		10,809,046	6,302,323

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2004	Note	2004 $	2003 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments for exploration and evaluation		(2,447,907)	(921,908)
Payments to suppliers and employees		(622,634)	(322,623)
Interest received		111,831	89,225
Management Fees (Mt Gunson JV)		-	2,907
Other income		7,665	-
Deposits paid		(15,000)	-
Goods and services tax (paid)/received		224,984	79,653
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	20	(2,741,061)	(1,072,746)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on sale of plant and equipment		-	-
Payment for plant and equipment		(41,016)	(28,144)
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		(41,016)	(28,144)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of shares		5,215,948	-
Payment of share issue costs		(219,739)	-
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		4,996,209	-
NET INCREASE / (DECREASE) IN CASH HELD		2,214,132	(1,100,890)
Cash at the beginning of the financial year		1,297,920	2,398,810
CASH AT THE END OF THE FINANCIAL YEAR	4	3,512,052	1,297,920

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

(a) Exploration and Evaluation Expenditure

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

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

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

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

(b) Recoverable Amount

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

(c) Property, Plant & Equipment

Depreciation and amortisation

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

• Plant & equipment 20% - 33%

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

(d) Income Tax

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Income Tax (continued)

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

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

(e) Employee Benefits

i. Wages and salaries, annual leave and sick leave

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

ii. Long service leave

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

(f) Cash and Cash Equivalents

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

(g) Accounts Payable

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

(h) Revenue Recognition

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Share Capital

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

(j) Trade and other payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company. Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

(k) Joint Ventures

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

(l) Leases

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

Operating leases

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

(m) Earnings Per Share

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

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

(n) International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with International Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the consolidated entity's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transaction or events are presented.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) International Financial Reporting Standards (continued)

The entity has not quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the financial performance and financial positions as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

Regulatory bodies that promulgate Australian GAAP and IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the consolidated entity's financial reports in the future. The potential impacts on the consolidated entity's financial performance and financial position of the adoption of IFRS, including system upgrades and other implementation costs which may be incurred, have not been quantified as at the transition date of 1 July 2004 due to the short time frame between finalisation of the IFRS standards and the date of preparing this report. The impact on future years will depend on the particular circumstances prevailing in those years.

The key potential implications of the conversion to IFRS on the entity are as follows:

- financial instruments must be recognised in the statement of financial position and all derivatives and most financial assets must be carried at fair value.
- income tax will be calculated based on the "balance sheet" approach, which will result in more deferred tax assets and liabilities and, as tax effects follow the underlying transaction, some tax effects will be recognised in equity.
- revaluation increments and decrements relating to revalued property, plant and equipment and intangible assets will be recognised on an individual asset basis, not a class of assets basis.
- intangible assets:
  - internally generated intangible assets (except development phase expenditure in certain circumstances will not be recognised.
  - Intangible assets can only be revalued if there is an active market.
- Goodwill and intangible assets with indefinite useful lives will be tested for impairment annually and will not be amortised.
- Impairments of assets will be determined on a discounted basis, with strict tests for determining whether goodwill and cash-generating operations have been impaired.
- Equity-based compensation in the form of shares and options will be recognised as expenses in the periods during which the employee provides related services.
- Changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effect.
- The impacts of changes from the current AASB 1022 are not yet determinable. The AASB is closely tracking the IASB's work on Extractive Activities Phase I and it is likely that the treatments in AASB 1022 will be grandfathered, although AASB 1022 will probably need to be reissued to ensure that it functions properly with the 2005 set of standards. We will seek to keep stakeholders informed as to the impact of these new standards as they are finalised.

	2004 $	2003 $
2. REVENUE AND EXPENSE FROM ORDINARY ACTIVITIES		
The operating results before income tax has been determined after:		
Revenues From Operating Activities		
Interest received	111,831	89,225
Proceeds on sale of assets	-	-
Management Fees (Mt Gunson JV)	-	2,907
Other income	7,665	8,861
	119,496	100,993
Expenses from Operating Activities		
Depreciation	16,331	7,459
Exploration costs written off	71,753	-
Salaries & Wages Cost expensed	165,293	130,606
Directors Fees	27,450	39,240
Rent expense on operating lease	40,653	31,220
Shareholder and Listing Expenses	72,375	30,467
Advertising	31,752	19,414
Travel	17,973	12,520
Accounting	26,036	19,862
Audit Fees	16,892	-
Company Secretarial	18,000	17,017
Insurance	20,426	17,773
Bad Debts written off (A.T.O.)	27,585	-
Other operating expense	56,463	30,413
	608,982	355,991

3. INCOME TAX

Net Loss before Tax	(489,486)	(254,998)
Prima facie tax benefit at 30% (2003: 30%)	146,846	76,499
Tax effect of permanent differences		
Non-deductible entertainment	(96)	-
Other non-deductible expenses	(896)	
Tax effect of timing differences		
Capital Raising Costs		5,193
Exploration	707,346	276,572
Other	(6,941)	(705)
Future income tax benefit not brought to account	(846,259)	(357,559)
	-	-
Income Tax Loss		
Future income tax benefit arising from tax losses of the Company not brought to account at balance date as realisation of the benefit is not regarded as virtually certain.	1,891,812	1,090,079

The benefit for tax losses will only be obtained if:

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

	2004 $	2003 $

3. INCOME TAX (continued)

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

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

4. CASH

	2004 $	2003 $
Cash at bank	112,052	(2,080)
Cash on deposit	3,400,000	1,300,000
	3,512,052	1,297,920

5. RECEIVABLES

	2004 $	2003 $
Goods and services tax refund	76,826	48,241
Other receivables	133,393	12,500
	210,219	60,741

6. DEFERRED EXPLORATION, EVALUATION AND DEVELOPMENT COSTS

	2004 $	2003 $
Exploration costs brought forward	5,131,001	4,209,093
Expenditure incurred on exploration	2,429,574	921,908
Exploration costs written off	(71,753)	-
	7,488,822	5,131,001

Amortisation of Exploration and Evaluation Costs

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

Interest in Joint Ventures

The Company was involved in a joint venture for diamonds on the Shell Lakes Project with Southstar Diamonds Limited. This arrangement ceased when Southstar withdrew with no equity in the Project on 27 January 2004.

7. PROPERTY, PLANT AND EQUIPMENT

	2004 $	2003 $
Plant and equipment, at cost	78,166	35,456
Accumulated depreciation	(28,380)	(10,355)
Total written down value	49,786	25,101

Movements in Carrying Amounts

Pant and Equipment

	2004 $	2003 $
Balance at the beginning of the year	25,101	4,416
Additions	41,016	28,144
Disposals	-	-
Depreciation expense	(16,331)	(7,459)
Carrying amount at the end of year	49,786	25,101

	2004 $	2003 $
8. PAYABLES		
Trade creditors	167,902	171,665
Other creditors and accruals	253,879	26,361
	421,781	198,026

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

	2004 $	2003 $
9. PROVISIONS		
Employee entitlements	30,052	14,414
10. CONTRIBUTED EQUITY		
(a) Issued and Paid Up Capital		
64,300,000 (2003: 37,408,005) ordinary shares fully paid	12,314,760	7,318,551

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

	2004		2003	
	Number of Shares	$	Number of Shares	$
Movements in shares on issue				
Opening Balance	37,408,005	7,318,551	37,408,005	7,318,551
Share placement issued at 12.5 cents per share on 8 July 2003	5,500,000	687,500	-	-
Share Purchase Plan issued at 12.5 cents per share on 16 September 2003	10,000,000	1,250,000	-	-
Share placement issued at 12.5 cents per share on 16 September 2003	3,000,000	375,000	-	-
Share placement issued at 35 cents per share on 16 February 2004	8,091,995	2,832,198	-	-
Exercise of options at 20 cents per option on 16 February 2004	75,000	15,000	-	-
Exercise of options at 25 cents per option on 16 February 2004	225,000	56,250	-	-
Less: share issue expenses	-	(219,739)	-	-
	64,300,000	12,314,760	37,408,005	7,318,551

(c) Share Options

The Company has on issue at year end 7,900,000 (2003: 6,800,000) options over unissued shares.
During the year 300,000 options were converted into shares (2003: Nil).

No. of options	
3,125,000	Class A options issued – Exercise price 20 cents Exercise period 12/5/02 - 12/5/05
150,000	Class B options issued – Exercise price 25 cents Exercise period 12/5/01 - 12/5/05
3,125,000	Class B options issued – Exercise price 25 cents Exercise period 12/5/02 - 12/5/05
400,000	Other options issued – Exercise price 20 cents Exercise period 16/9/03 – 7/3/06
100,000	Other options issued – Exercise price 20 cents Exercise period 16/12/02 – 16/12/07
1,000,000	Other options issued – Exercise price 20 cents Exercise period 16/9/03 – 16/9/08
7,900,000	

10. CONTRIBUTED EQUITY (continued)

(d) Terms and Conditions of Contributed Equity

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

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

11. RESERVES AND ACCUMULATED LOSSES

Accumulated Losses		
Accumulated loss at the beginning of the financial year	1,016,228	761,230
Net loss for the year	489,486	254,998
Accumulated loss at the end of the financial year	1,505,714	1,016,228

12. REMUNERATION OF DIRECTORS AND EXECUTIVES

The directors of Gunson Resources Limited during the financial period were:
William H Cunningham B.Com. (Non-Executive Chairman)
David N Harley BSc (Hons) MSc.,F.Aus. I.M.M. (Managing Director)
Peter C Harley B.Com., F.C.P.A (Non-Executive Director)

Directors' and Executive Officers' Emoluments

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

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

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

The emoluments of each Director are as follows:

2004

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

12. REMUNERATION OF DIRECTORS AND EXECUTIVES (continued)

2003

Name	Cash salary and fees $	Cash bonus $	Superannuation $	Options $	Total $
W H Cunningham (Chairman)	24,000	-	2,160	-	26,160
D N Harley (Managing Director)	175,000	-	15,750	-	190,750
P Harley (Non Executive Director)	12,000	-	1,080	-	13,080
Total	211,000	-	18,990	-	229,990

Equity Instruments

Options and rights over equity instruments granted as remuneration.

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

Exercise of options granted as remuneration

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

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

Option Holdings

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

	Held at 1 July 2003	Granted as remuneration	Exercised	Held at 30 June 2004	Vested and exercisable at 30 June 2004
William H Cunningham (Chairman)	250,000	-	-	250,000	250,000
David N Harley (Managing Director)	5,000,000	-	-	5,000,000	5,000,000
Peter C Harley (Non- Executive Director)	1,000,000	-	-	1,000,000	1,000,000

12. REMUNERATION OF DIRECTORS AND EXECUTIVES (continued)

Equity Holding and Transaction

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

	Held at 1 July 2003	Granted as remuneration	Received on exercise of options	Other	Held at 30 June 2004
William H Cunningham (Chairman)	150,000	-	-	50,000	200,000
David N Harley (Managing Director)	600,000	-	-	200,000	800,000
Peter C Harley (Non- Executive Director)	102,000	-	-	40,000	142,000

Service Agreements

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

- Term of agreement – 5 years commencing 15 March 2000.
- Base salary to be reviewed annually.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct equal to either six months salary or six months notice.

	2004 $	2003 $
13. AUDITORS REMUNERATION		
Amounts received or due and receivable by the auditors of Gunson Resources Limited for:		
- an audit or review of the financial statements of the entity	16,897	8,313
- other services	3,375	670
	20,272	8,983

14. SIGNIFICANT EVENTS AFTER BALANCE DATE

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

15. EARNINGS PER SHARE

	2004	2003
Basic earnings per share (cents)	(0.87)	(0.68)
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	56,186,940	37,408,005
Earnings used in the calculation of basic EPS	(489,486)	(254,998)

16. SEGMENT INFORMATION

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

17. RELATED PARTY TRANSACTIONS

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

18. EXPENDITURE COMMITMENTS

The following tables summarise the Company's exploration expenditure commitments on granted tenements for the financial year 2004/2005 and beyond.

(a) Coburn

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

Application for 5 mining leases covering the central part of the Amy Zone mineralisation and 50% of EL 09/940 was made in October 2003. The trigger for this action was the compulsory area reduction of EL 09/940 after its fourth anniversary, following refusal of the Company's application for exemptions from year 4 reduction foreshadowed in the 2003 Annual Report. Grant of the 5 mining leases is expected in late 2004 and they will attract a minimum annual expenditure requirement of $0.5M.

Application for a retention licence covering the northern half of Amy Zone and 50% of EL 09/939 was made in November 2003. This action was also triggered by the year 4 area reduction requirement, but the retention licence application was subsequently refused in May 2004 because the status of the Amy Zone resource in the area applied for was too low : inferred, not indicated. Application for exemption from the year 4 area reduction of EL 09/939 was made in June 2004 and approval is expected in late 2004.

(b) Mount Gunson

The five exploration licences at Mount Gunson are the subject of an agreement with the SA Department of Primary Industry and Resources under which the Company must spend a minimum of $200,000 on exploration in the 2004/2005 financial year. Expenditure during and after this time will depend on the area retained under exploration licences.

(c) Shell Lakes

Tenement	Date Granted	Annual Covenant $
ELs 69/1632-36	20 August 2002	272,000
ELs 69/1839-40	4 December 2003	126,000
ELs 69/1872-75	4 December 2003	191,700
	TOTAL	589,700

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

(d) Tennant Creek

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

18. EXPENDITURE COMMITMENTS (continued)

(e) Consolidated Expenditure Commitment on Granted Tenements

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

	$
Not later than 1 year	1,009,300
Later than 1 year but not later than 2 years	1,009,300
Later than 2 years but not later than 5 years	2,245,500
TOTAL	4,264,100

19. FINANCIAL INSTRUMENTS DISCLOSURE

Interest rate risk

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

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

30 June 2003	Weighted average interest rate	Floating interest $	Fixed interest maturing in less than period $	Non-interest bearing $	Totals $
Financial Assets					
Cash	4.6%	(2,080)	1,300,000	-	1,297,920
Accounts Receivable		-	-	60,741	60,741
Total Financial Assets		(2,080)	1,300,000	60,741	1,358,661
Financial Liabilities					
Accounts Payable		-	-	198,026	198,026
Total Financial Liabilities		-	-	198,026	198,026
Net Financial Assets (30 June 2003)		(2,080)	1,300,000	(137,285)	1,160,635

Credit Risk

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

19. FINANCIAL INSTRUMENTS DISCLOSURE (continued)

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

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

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

		2004 $	2003 $
20. CASH FLOW INFORMATION			
Reconciliation of the operating loss after tax to the net cash flows from operations.			
Operating loss after income tax		(489,486)	(254,999)
Non cash items			
Depreciation		16,331	7,459
Exploration costs written off		71,753	-
Changes in assets and liabilities			
Increase in receivables		(149,478)	(32,830)
Exploration Costs Capitalised		(2,429,574)	(921,908)
Decrease in trade creditors and accruals		223,755	124,852
Increase in provisions		15,638	4,680
Net cash flow from/(used in) operating activities		(2,741,061)	(1,072,746)
Reconciliation of Cash			
Cash balance comprises;			
cash at hand		112,052	(2,080)
short term deposits		3,400,000	1,300,000
		3,512,052	1,297,920

Financing facilities available
As at 30 June 2004 the Company had no financing facilities available.

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

21. EMPLOYEE BENEFITS

Aggregate liability for employee benefits including on-costs

Current			
Other creditors and accruals	8	7,157	26,361
Employee entitlements provision	9	30,052	14,415
Number of Employees			
Number of employees at year end		2	2

22. CONTINGENT LIABILITIES
The Directors are not aware of any contingent liabilities as at 30 June 2004.

DIRECTORS' DECLARATION

The directors of the Company declare that:

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

(i) giving a true and fair view of the Company's financial position as at 30 June 2004 and of its performance for the year ended on that date; and

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

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

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

D N Harley
Managing Director

20th September 2004

Perth, Western Australia

BDO Chartered Accountants & Advisers

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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF GUNSON RESOURCES LIMITED

Scope

The Financial Report and Directors' Responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Gunson Resources Limited (the company), for the year ended 30 June 2004.

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

Audit Approach

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

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

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

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

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

Independence

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

Audit Opinion

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

(a) the Corporations Act 2001, including:

(i) giving a true and fair view of the company's financial position as at 30 June 2004 and of its performance for the year ended on that date; and

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

(b) other mandatory financial reporting requirements in Australia.

BDO Chartered Accountants & Advisers

G F Brayshaw

Geoff Brayshaw – Partner, Perth
20th September 2004

As at 30th September 2004.

1 Number of Shareholders and Unmarketable Parcels

There were 1,856 shareholders, including 353 with an unmarketable parcel valued at less than $500.

2 Distribution of Ordinary Shareholdings

	No. of Shareholders	% of Holders	No. of Shares	% of Shares
1 – 1,000	178	9.6	113,851	0.18
1,001 – 5,000	496	26.7	1,542,011	2.40
5,001 – 10,000	353	19.0	3,134,323	4.87
10,001 – 100,000	740	39.9	26,234,862	40.80
100,001 and over	89	4.8	33,274,953	51.75
TOTALS	1,856	100.0	64,300,000	100.00

3 Twenty Largest Ordinary Shareholdings

Name	Fully Paid Shares Held	%
Colonial First State Global Resources Fund	6,285,643	9.78
LUCRF Pty Ltd	4,117,990	6.40
Bruce Birnie Pty Ltd	1,340,000	2.08
P J Enterprises Pty Ltd	1,000,000	1.56
William Douglas Goodfellow	820,000	1.28
Daleregent Pty Ltd	800,000	1.24
NZ Guardian Trust Co Ltd	770,500	1.20
Virginia Roberta Klingler	640,000	1.00
Commodity Traders (NZ) Ltd	540,000	0.84
Gary William Wilson	503,900	0.78
Lost Ark Nominees Pty Limited	500,000	0.78
Reynolds (Nominees) Pty Limited	500,000	0.78
Ganbare Pty Ltd	440,000	0.68
Jarra Glen Pty Ltd	410,004	0.64
Adelaide Mining Geophysics Pty Ltd	400,000	0.62
Paul Leslie Duncan	400,000	0.62
Kerry Wark	400,000	0.62
Con Panias and Athena Panias	353,000	0.55
Xiao Ying Pang	334,500	0.52
Perpetual Custodians Limited	323,200	0.50
TOTAL OF TOP 20 SHAREHOLDERS	20,754,238	32.43

4 Substantial Shareholdings (over 5%)

Colonial First State Global Resources Fund	6,285,643
LUCRF Pty Ltd	4,117,990

5 Unquoted Equity Securities

All the securities listed below are options to purchase ordinary shares in the Company. The exercise price of Class A options is 20 cents per share and for Class B options, 25 cents per share.

Name	Expiry Date	Class A Options	Class B Options
Daleregent Pty Ltd	12 May 2005	2,500,000	2,500,000
Faiban Pty Ltd	12 May 2005	500,000	500,000
WH Cunningham & Associates	12 May 2005	125,000	125,000
Hamish Paterson	12 May 2005	-	150,000
Hamish Bohannan	7 March 2006	200,000	
Craig Munro	7 March 2006	200,000	
Douglas Haynes	16 December 2007	100,000	
Southern Cross Equities	16 September 2008	1,000,000	
TOTALS		4,625,000	3,275,000

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.

In fulfilling its obligations and responsibilities to its various stakeholders, the Board is a strong advocate of corporate governance.

On 31 March 2003, the ASX Corporate Governance Council released its Principles of Good Corporate Governance and Best Practice Recommendations ("ASX Principles"). The ASX Principles, in conjunction with the ASX Listing Rules, require companies to disclose in their annual reports whether their corporate governance practices follow the ASX Principles on an "if not, why not" basis for the first financial year commencing after 1 January 2003.

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

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

1 Roles of the Board and Management

The Board considers that the essential responsibilities of the directors are to oversee Gunson's activities for the benefit of its shareholders, employees and other stakeholders and to protect and enhance shareholder value.

The Board has a Charter which clearly establishes the relationship between the Board and management and describes their functions and responsibilities in a manner which is consistent with ASX Principle 1.

Key responsibilities of the Board are to:

- Appoint and review the performance of the Managing Director;
- Develop with management and approve strategy, planning, work programs and major capital expenditure;
- Arrange for effective budgeting and financial supervision;
- Ensure that appropriate audit arrangements are in place;
- Ensure that effective and appropriate reporting systems in place will, in particular, assure the Board that proper financial, operational, compliance and risk management controls function adequately;
- Report to shareholders;

The Board is responsible for setting the strategic direction of the Company, establishing goals for management and monitoring the achievement of those goals. The Managing Director is responsible to the Board for the day to day management of the Company.

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

2 Board Structure

The composition of the Board 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.
- The Board should not comprise a majority of executive directors.
- Directors should bring characteristics which allow a mix of qualifications, skills and experience.

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 Board's structure is consistent with ASX Principle 2.

3 Director Independence

Directors are expected to bring independent views and judgement to the Board's deliberations. In response to the ASX Principles, the revised Board Charter requires the Board to include a majority of non-executive independent directors, a non-executive independent Chairman and to have different persons filling the roles of Chairman and Chief Executive Officer. Both independent directors Mr W H Cunningham and Mr P C Harley joined Gunson's Board prior to its public listing in 2000.

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.

4 Meetings of the Board

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

5 Retirement and Re-election

The Constitution of the Company requires a third of the directors, other than the Managing Director, to retire from office at each Annual General Meeting. Directors who have been appointed by the Board are required to retire from office at the next Annual General Meeting and are not taken into account in determining the number of directors to retire at that Annual General Meeting. Directors cannot hold office for a period in excess of three years or later than the third Annual General Meeting following their appointment without submitting themselves for re-election. Retiring directors are eligible for re-election by shareholders.

When a vacancy exists, for whatever reason, or where it is considered that the Board would benefit from the services of a new director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience. External advisers may be used to assist in such a process. The Board will then appoint the most suitable candidate who must stand for election at the next general meeting of shareholders.

6 Nomination and appointment of new directors

Recommendations of candidates for new directors are made by the Board's Nomination and Remuneration Committee for consideration by the Board as a whole.

7 Review of Performance

The Board reviews its performance and composition on an annual basis to ensure that it has the appropriate mix of expertise and experience, consistent with ASX principle 8.

The performance of all directors is reviewed by the Chairman each year. Directors whose performance is unsatisfactory will be asked to retire.

The Board reviews the remuneration and policies applicable to non-executive directors and the Managing Director on an annual basis. When reviewing directors fees the Board takes into account the size and scope of Gunson's activities. Remuneration levels are competitively set to attract the most qualified and experienced directors and senior executives. Where necessary the Board will obtain independent advice on the appropriateness of remuneration packages.

The structure and disclosure of the Company's remuneration policies for directors and senior executives are generally consistent with ASX Principle 9 and are set out in the Directors Report.

8 Board Access to Information

All directors have unrestricted access to all Company employees and consultants and, subject to the law, access to all Company records and information held by employees and external advisers. The Board receives regular detailed financial and operational reports from senior management to enable it to carry out its duties.

Consistent with ASX Principle 2, each director may, with the prior written approval of the Chairman, obtain independent professional advice to assist the director in the proper exercise of powers and discharge of duties as a director or as a member of a Board Committee. The Company will reimburse the director for the reasonable expense of obtaining that advice.

9 Board Committees

The Board where appropriate may establish a number of committees to assist in carrying out its responsibilities in an effective and efficient manner.

Two standing Board Committees assist the Board in the discharge of its responsibilities and are governed by their respective Charters, as approved by the Board. These are:

- The Remuneration Committee; and
- The Audit and Compliance Committee.

9.1 Remuneration Committee

Among the specific responsibilities set out in its revised Charter, the Remuneration Committee reviews and makes recommendations to the Board on the Board's operation and performance, establishes an induction program for directors; reviews and makes recommendations on remuneration policies for the Company including, in particular, those governing the directors, the Managing Director and senior management.

The members of the Remuneration Committee at the date of this report are:

Mr Bill Cunningham (Chairman)
Mr Peter Harley

The composition, operation and responsibilities of the Committee are generally consistent with ASX Principles 2 and 9. Consistent with ASX Principle 2, a summary of the Remuneration Committee Charter has been posted on the new Corporate Governance section of Gunson's website.

9.2 Audit and Compliance Committee

The Audit and Compliance Committee monitors internal control policies and procedures designed to safeguard Company assets and to maintain the integrity of financial reporting, consistent with ASX Principle 4.

The role of the Committee is to provide a direct link between the Board and the external auditors.

It also gives the Board of Directors additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in financial statements.

The responsibilities of the Audit and Compliance Committee include:

- monitoring compliance with regulatory requirements;
- improving the quality of the accounting function;
- reviewing external audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management;
- liaising with external auditors and ensuring that the annual audit and half-year review are conducted in an effective manner.

The Committee reviews the performance of the external auditors on an annual basis and meets with them at least twice during the year. Nomination of auditors will be at the discretion of the Committee.

The members of the Audit and Compliance Committee at the date of this report are:

Mr Peter Harley (Chairman)
Mr Bill Cunningham

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

10 Audit Process

As part of the Company's commitment to safeguarding integrity in financial reporting, Gunson's accounts are subject to an annual audit by an independent professional auditor who also reviews the half yearly accounts.

Consistent with ASX Principle 6, the Auditor attends and is available to answer questions at, the Company's annual general meetings.

11 Auditor Independence

The Company has implemented procedures and policies to monitor the independence and competence of Gunson's external auditors. Details of the amounts paid for both audit work and non-audit services are set out in this annual report.

The Board requires that adequate hand-over occurs in the year prior to rotation of an audit partner to ensure an efficient and effective audit under the new partner.

12 Financial Integrity

The Board has policies designed to ensure that Gunson's financial statements meet high standards of disclosure and provide the information necessary to understand Gunson's financial performance and position. The policies require that the Managing Director and Company Secretary provide to the Board prior to the Board approving the annual and half-yearly accounts, a written statement that the accounts present a true and fair view, in all material respects, of Gunson's financial performance and position and are in accordance with relevant accounting standards, laws and regulations.

13 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 Managing Director is charged with implementing appropriate risk management systems within the Company.

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

Specific areas of risk identified initially and which 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.

As part of the reporting process the Managing Director and Company Secretary provide to the Board prior to the Board approving the annual and half-yearly accounts, a written statement that the integrity of the financial statements (as per ASX Recommendation 4.1) is founded on a system of risk management and internal compliance and control which implements the Board's policies, and that the Company's risk management and internal control system is operating efficiently and effectively in all material matters.

Consistent with ASX Principle 7, a summary of the Risk Management Policies has been posted to the new corporate governance section of Gunson's website

14 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 except the following:

- within the period of 3 days prior to and following the release of all ASX announcements
- within the period of 30 days prior to the issue of a prospectus.

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

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

15 Continuous Disclosure

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

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

The Company's continuous disclosure policy is consistent with ASX Principle 5. A summary of the policy has been posted on the new corporate governance section of the Company's website.

16 Ethical Standards

All directors, executives and employees are charged with the responsibility to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

Both the Board Code of Conduct and the Company Code of Ethics and Conduct are consistent with ASX Principles 3 and 10 and summaries of both Codes have been posted to the new corporate governance section of the Company's website.

17 Communications with Shareholders

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

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

GUNSON RESOURCES LIMITED

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