

GASCOYNE RESOURCES LIMITED
ANNUAL REPORT 2010



Contents

| | |
|---|--------|
| Chairman's Review | - 2 - |
| Review Of Operations..... | - 3 - |
| Corporate Governance | - 10 - |
| Directors' Report..... | - 14 - |
| Auditor's Independence Declaration..... | - 19 - |
| Independent Audit Report..... | - 20 - |
| Directors' Declaration..... | - 23 - |
| Statement Of Financial Position..... | - 24 - |
| Statement Of Comprehensive Income | - 25 - |
| Statement Of Cash Flows..... | - 26 - |
| Statement Of Changes In Equity..... | - 27 - |
| Notes To The Financial Statements | - 28 - |
| Number Of Shares Held | - 46 - |
| Tenement Schedule | 48 |
| Corporate Directory | 49 |

Chairman's Review

Dear Shareholder

Your company listed on the ASX on 11th December 2009, having raised some \$5M. At that time the company had over 450 shareholders (with Helix Resources Limited and Giralia Resources NL being the major shareholders).

The exploration and evaluation programs outlined in the prospectus have made steady progress with the Bustler Well and Mt James exploration licences being granted and additional exploration licence applications lodged at Bassit Bore and at Glenburgh.

The initial drilling has been completed at the Glenburgh deposit and at Bassit Bore project following the completion of the necessary and somewhat lengthy approval process. Approvals for additional drilling at Glenburgh are also proceeding.

The company's main objective is to build on the existing 200,000 + oz gold resource at Glenburgh to a commercially viable resource capable of supporting a mining operation. This remains a priority with the company's other exploration projects running in parallel therewith, and being overseen by the strong management and technical team the company has put in place, backed with the necessary resources and infrastructure to meet this objective.

I draw your attention to the Operational Report which discusses our Mineral assets in detail and encourage you to visit our website at www.gascoyneresources.com.au for the latest information regarding our activities.

Following listing and as foreshadowed in the prospectus, both Helix and Giralia distributed 80% of their shareholdings by way of an in-specie distribution to their respective shareholders. This increased the number of Gascoyne shareholders to approximately 5790, unfortunately this left approximately 4680 shareholders with less than a marketable parcel of shares. Accordingly your Directors initiated and approved a scheme for the sale of these shares (without brokerage) to reduce the share registry costs, with approximately 3.2M shares being sold, thereby reducing the share register by some 4000 shareholders.

The company looks forward to the coming year's exploration programs and I look forward to your attendance at the forthcoming Annual General Meeting.

Yours faithfully

Graham Riley
Chairman

Review of Operations

Gascoyne Resources Ltd is a mineral exploration company established in September 2009 with a strategy of using leading edge exploration methodologies and techniques under the guidance of an experienced Board & Management team to create shareholder wealth from its mineral assets. The immediate priority for the company is to build on the gold resources at its Glenburgh Deposit by drilling to delineate extensions to the known deposits which will add substantially to the resource base. The initial phase of this drilling commenced in late June this year, which was successful in extending the known mineralization at the Icon and Zone 102 Deposits. Also a priority for the company is the exploration activities both at Glenburgh and on the exploration projects where the target is to define economically viable gold deposit on a stand alone basis or as a satellite deposit to support an operation based at Glenburgh.

The company holds exploration licenses and applications totaling 1,100km² in the Gascoyne Province of Western Australia. Exploration activities have been undertaken at all of the exploration projects to define target areas and in the case of the Bassit Bore Project to drill test targets identified from previous soil sampling programs.

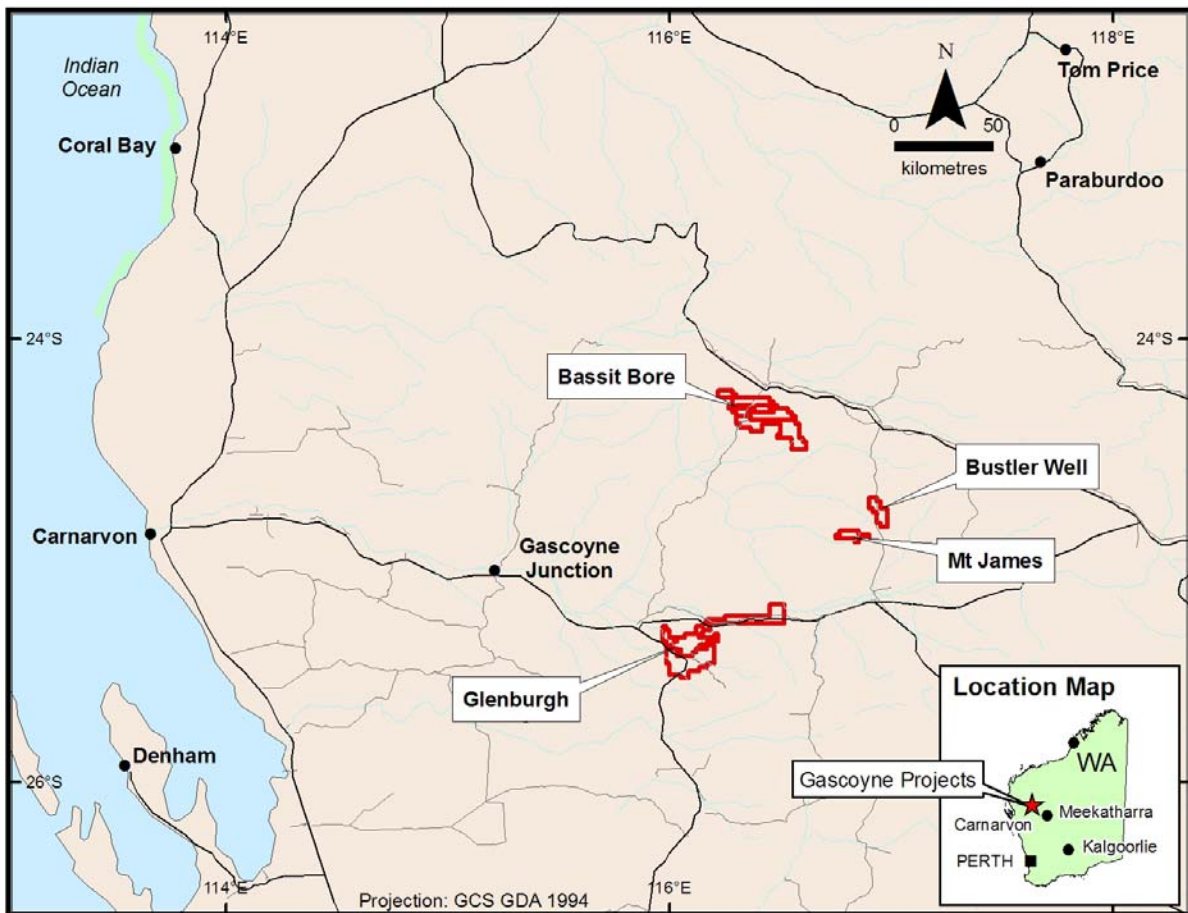


Figure 1 Gascoyne Resources Tenement Locations

RESERVES & RESOURCES

| Commodity | Category | Project | Interest | Resource |
|-------------|----------|----------------------|----------|--|
| Gold | Inferred | Glenburgh, WA | 100% | 2.4Mt @ 2.6 g/t - 203,000 oz Au |

These resources do not include the gold mineralisation delineated in the recently completed drilling program. Further drilling and re-assessment of the resources along with different development scenarios to advance the project continue.

Gascoyne Resources Limited Annual Report 2010

GLENBURGH GOLD PROJECT – WESTERN AUSTRALIA

Gascoyne Resources Limited 100%

EL 09/1325, 09/1079

ELA09/1764

Project Summary

561km² tenement area located in the Southern Gascoyne region of WA;

Inferred Resource of 2.4Mt @ 2.6 g/t for 203,000oz Au – (December 2008);

Project Background

The Glenburgh Gold Project is situated in the Southern Gascoyne Province of WA ~250km east of Carnarvon. The project consists of a gold mineralised shear system hosted in remnants of Archaean terrane in a Proterozoic mobile belt. Glenburgh was a grass roots discovery by Helix from regional stream sampling in the 1990's. It has now progressed to be considered as a Pre-Development project.

Resources

The Inferred resource for the project stands at **2.4Mt @ 2.6g/t Au for 203,000 ounces**. However with the recent drilling, an updated resource will be estimated including all the additional data.

Resource Statement

| Glenburgh Project December 2008 Inferred Resource Estimate >=1.0g/t Au Cut-off | | | |
|--|------------------|-------------------|----------------------|
| Area | Tonnes | Au Cut g/t | Au Cut ounces |
| Icon | 952,000 | 2.3 | 71,000 |
| Apollo | 670,000 | 3.4 | 73,000 |
| Zone 102 | 185,000 | 3.3 | 20,000 |
| Zone 126 | 96,000 | 2.8 | 9,000 |
| Mustang | 190,000 | 1.9 | 12,000 |
| Shelby | 124,000 | 1.7 | 7000 |
| Hurricane | 93,000 | 2.1 | 6,000 |
| North East Four | 116,000 | 1.6 | 6,000 |
| Total | 2,425,000 | 2.6 | 203,000 |

An initial desktop scoping study has commenced into the technical and economic feasibility of the Glenburgh Gold Project under current economic conditions, however the main aim for the coming year is to build on the current resource to form the foundation of any development options for the project.

Exploration Update

The results of the recent RC drilling program conducted in June/ July have been received and assessed.

ICON DEPOSIT

Drilling to the east of the Icon Deposit has confirmed that the deposit extends for at least 100m further to the east than previously interpreted. Hole VRC399 returned 47m @ 1.4 g/t gold 50m to the east and VRC401 returned 18m @ 1.4g/t gold a further 50m east. Three holes, VRC 409,410&411 drilled on a line a further 100m to the east did not

return significant values but it appears they may have been located too far to the north to intersect the mineralised zone, or the mineralisation has been offset by a fault that runs through the area. The extension of the Icon Deposit east of this offsetting fault remains untested.

APOLLO WEST

Drilling at this location to detect the faulted extension to the Apollo Deposit returned in VRC405 a one metre intersection @ 2.6g/t gold that on repeat analysis reported as 6.2 and 4.7 g/t gold for an average gold grade of 4.5g/t. The Apollo West position remains a target area for further drilling.

ZONE 102

Drilling to extend a high grade section of this deposit confirmed a 50m extension to the east with VRC 412 returning 14m @ 0.7g/t gold. This gives confidence to the geological interpretation of this deposit.

In addition to the extensional resource drilling, several areas that require follow-up exploration have been identified. These range from extensional positions along known mineralised systems, to geochemically trends that have to date not been tested. The exploration programme has been developed to test a range of these targets.

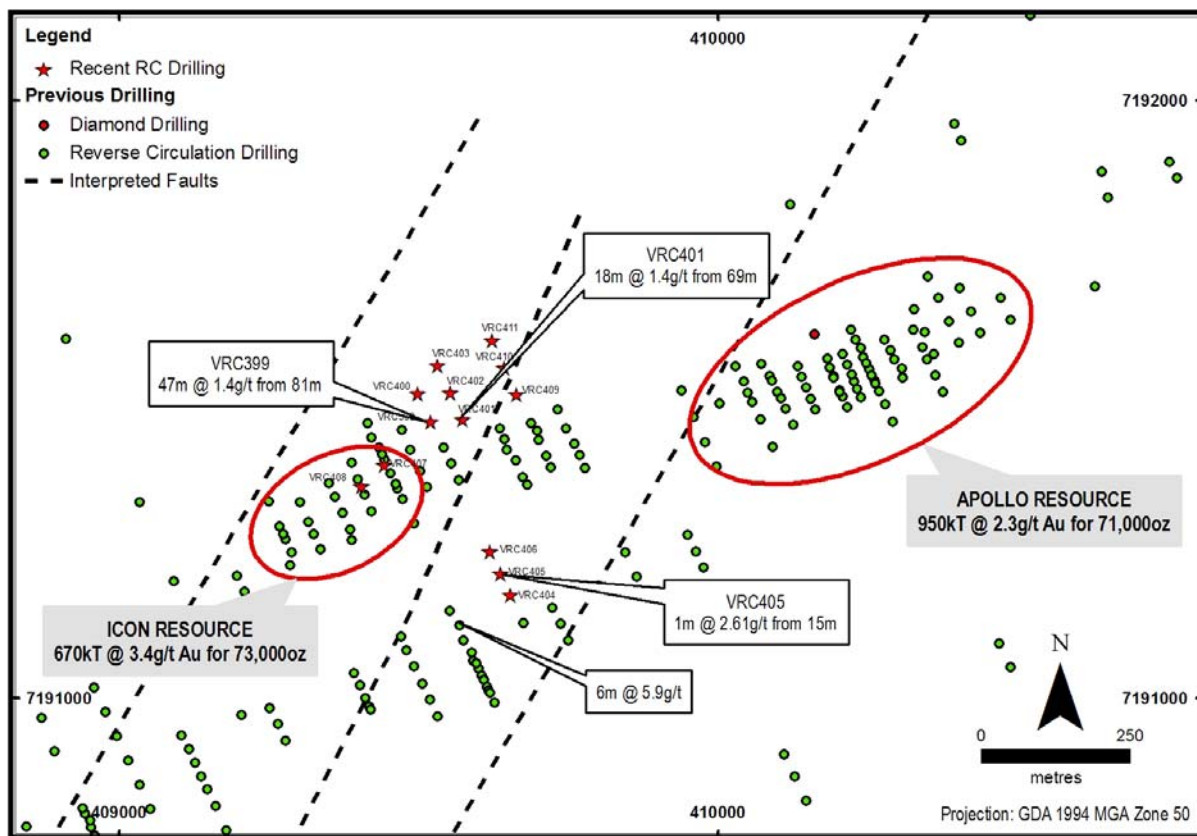


Figure 2 Location of recent Icon and Apollo South West drilling

BASSIT BORE GOLD PROJECT -WESTERN AUSTRALIA

Gascoyne Resources Limited 100%

E09/1088, ELA09/1750 & 1751 - 445km²

Background

Located approximately 120km north of Glenburgh and straddling the Dairy Creek to Cobra road the central tenement of the Bassit Bore Project, E09/1088 hosts anomalous gold and copper geochemistry in stream sediments and in soils along a 15km long east west trend across the tenement. Surrounding this central tenement are two exploration licence applications, ELA09/1750 & 51, that were lodged by Gascoyne to cover additional land with enhanced and anomalous gold in stream sediment identified by previous explorers in the area.

Previous Exploration

The tenement covers an almost east west striking linear belt of the Morrissey Metamorphics, locally comprising metasediments and metavolcanics, bounded to the north and south by granitic rocks of the Moorarie Supersuite. The schist belt at Bassit Bore is up to 3 kilometres wide, and generally steeply dipping. Aeromagnetic data shows this to be part of a splay fault off a regional shear system.

Extensive stream sediment and soil geochemistry was conducted in the area during the 1990's. This work delineated a 15 kilometre long, easterly trending zone of anomalous gold and copper. The results of this work are summarised in Figure 3.

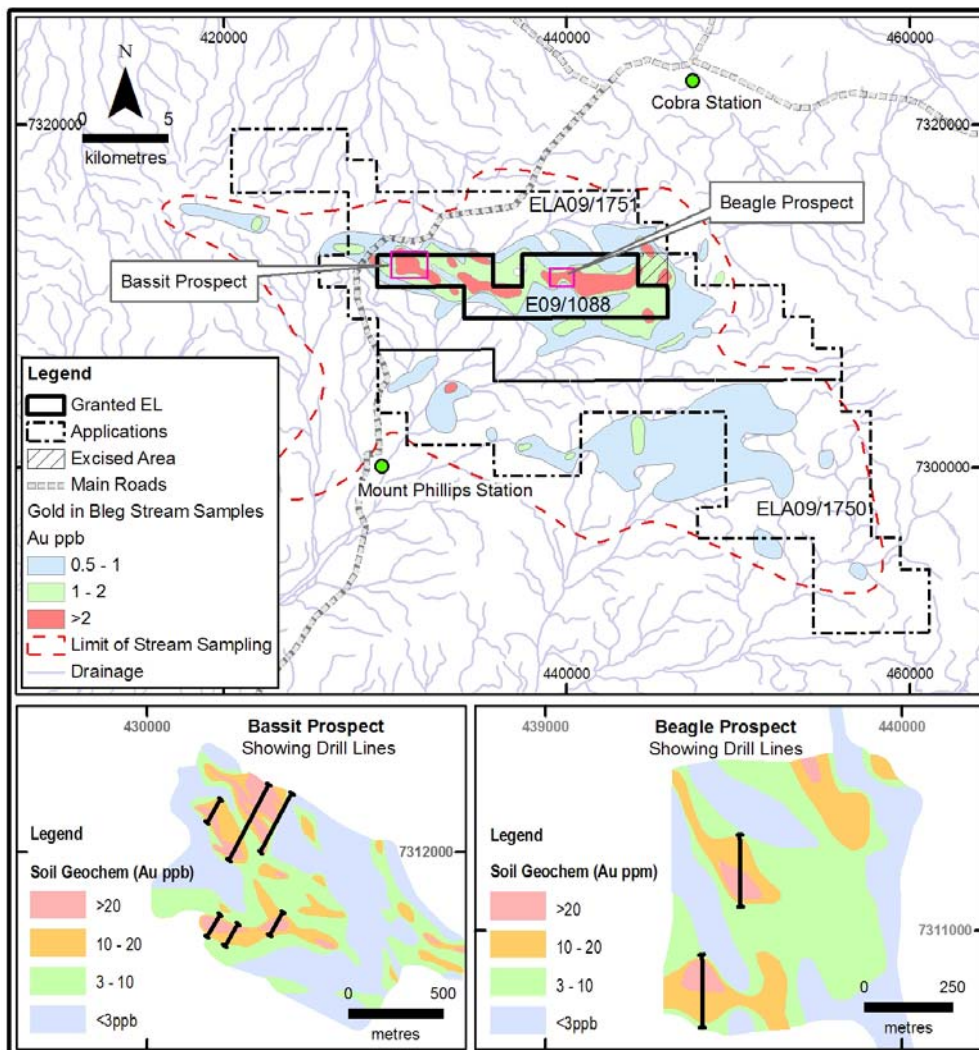


Figure 3 Summary of work completed

Current Exploration

The sample sites of this historical soil sampling have been located on the ground and RC drilling program of approximately 2200m has been completed. This drilling tested approximately 9 coincident gold and copper soil anomalies, many with peak values greater than 100ppb gold and 250ppm copper. The location of the drill lines is shown in the Bassit and Beagle sub sets in the attached Figure X. The results for this drilling are expected to be received during September.

In addition to the drilling, an infill stream sediment sampling program to better define the anomalous response in the area east of the Beagle Prospect ahead of soil sampling to define additional drill targets has been completed, with results expected to be received shortly.

Reconnaissance geological mapping and rock chip sampling on exploration licence application E52/1751 has delineated a quartz vein system that has returned values up to 7.8g/t gold along a strike length of 350m. The company is intending to undertake the necessary clearances to enable drill testing of this mineralised vein system upon the granting of the tenement.

Mt JAMES GOLD PROJECT—WESTERN AUSTRALIA

Gascoyne Resources Limited 100%

E52/2343 - 46km²

Background

The Mt James project is located in the southern part of the Gascoyne Complex. It is 85 km north east of Glenburgh and approximately 75 km south of Mt Augustus to the west of the Landor-Mt Augustus Road. Gold mineralisation was identified at several locations in 1988 as a result of RAB drilling that followed up stream sediment and subsequent soil sampling. The main prospect is the West Point grid area where low-grade gold mineralisation was identified over a strike extent of 3.6km within which RAB drilling returned values 14m @ 1.6g/t gold and 4m @ 8g/t gold. Similar results were returned at the Clever Mary Prospect 5km to the east.

The tenement area is underlain with quartz-mica schists with subordinate mafic schist and minor BIF/chert, gneiss and quartzite and granitoids in a similar setting to the Glenburgh Deposits. North West trending shear directions are evident in the aeromagnetic data.

Previous Exploration

At the West Point grid area RAB drilling to a maximum depth of 40m was conducted on 14 lines across a 3km strike so as to test gold in soil anomalies. Subsequently 10 RC holes were drilled to a maximum hole length of 90m to evaluate some of the RAB drilling results. In 2007 a soil sampling program on 400m spaced lines with sample interval of 40m was conducted across the licence, excluding the western portion where transported soils and overburden preclude the usefulness of this technique. This program identified the previously recognised prospect areas and additionally a zone of enhanced and anomalous gold to the south of and sub-parallel to the West Point grid in an area of transported overburden. It also identified anomalous gold in soils at West Point that do not appear to have been subject to drilling.

Current Exploration

Recent geological assessment of the area suggests that the results of some portions of soil sampling are unreliable due to a variable amount of transported cover. As a result of this geological assessment, additional geochemical sampling, using auger or vacuum drilling, is being planned across zones of anomalous and enhanced gold in soil values outlined in the 2007 soil sampling program. Geological assessments are also to be conducted at the drilled areas at the West Point and Clever Mary prospect areas with a view to targeting additional drilling.

BUSTLER WELL GOLD PROJECT—WESTERN AUSTRALIA

Gascoyne Resources Limited 100%

E52/2348 - 71km²

Background

The Bustler Well project is located 65 kilometres south of Mt Augustus on the Landor-Mt Augustus Road, and only 15 km north east of the Mt James project in the southern part of the Gascoyne Complex. At a location referred to as the “Old Pit Area” minor historical gold workings based on quartz-veined schistose arkose were drilled in 1988 and 1989 with high grade gold values returned from surface and drill sampling. This provides the main exploration focus for the project.

Regional aeromagnetic data shows the Bustler Well project area to be located on a major regional shear system.

Previous Exploration

Sampling of the minor historical gold workings at the Old Pit Area returned assay results up to 81.1g/t Au along with channel samples from pits returning numerous significant results including a channel sample result of 10m @ 2.6 g/t Au within a narrow quartz vein/shear. Subsequent RC drilling at the Old Pit Area returned several narrow high grade gold intersections including;

- 1m @ 37.4 g/t Au from 20 metres (BR1)
- 2m @ 9.1 g/t Au from 10 metres (BR2)
- 3m @ 7.6 g/t Au from 17 metres (BR3).
- 3m @ 7.2 g/t Au from 47 metres (BR15)
- 2m @ 4.3 g/t Au from 72 metres (BR15)

The mineralised system is open to the south east.

Current Exploration

Stream sediment sampling from the early 1990's identified anomalous gold values in streams particularly along strike from the Old Pit Area with a maximum value of 1.9ppb gold downstream from this area. A detailed stream sediment sampling program to delineate zones of anomalous gold has been completed. Follow up soil sampling programs to provide additional drill targets will be undertaken once results from the stream sediment program are received and areas prioritised.

The information in this announcement that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr M Dunbar who is a full time employee of Gascoyne Resources Limited and a Member of The Australasian Institute of Mining and Metallurgy. Mr Dunbar has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Dunbar consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

CORPORATE GOVERNANCE

The directors of Gascoyne Resources Limited believe that effective corporate governance improves company performance, enhances corporate social responsibility and benefits all stakeholders. Governance practices are not a static set of principles and the company assesses its governance practices on an ongoing basis. Changes and improvements are made in a substance over form manner, which appropriately reflect the changing circumstances of the company as it grows and evolves. Accordingly, the Board has established a number of practices and policies to ensure that these intentions are met and that all shareholders are fully informed about the affairs of the Company.

The Company has a corporate governance section on the website at www.gascoyneresources.com.au. The section includes details on the company's governance arrangements and copies of relevant policies and charters.

ASX Corporate Governance Council Best Practice Principles and Recommendations (2nd Edition)

For ease of comparison to the recommendations, the Corporate Governance statement addresses each of the 8 principles in turn. Where the company has not followed a recommendation this is identified with the reasons for not following the recommendation. This disclosure is in accordance with ASX listing rule 4.10.3.

The following table outlines which of the ASX recommendations the Company has not complied with. Reasons for non-compliance are explained in this report.

| ASX Recommendation | Description |
|--------------------|--|
| 2.4 | The board should establish a separate nomination committee |
| 4.1 | The board should establish a separate audit committee |
| 4.2 | The audit committee should be structured so that it: <ul style="list-style-type: none"> • consists only of non-executive directors • consists of a majority of independent directors • is chaired by an independent director, who is not chair of the board • has at least 3 members |
| 8.1 | The board should establish a separate remuneration committee |

PRINCIPLE 1 - LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT BY THE BOARD

The board operates in accordance with broad principles set out in its charter which is available from the corporate governance section of the company's website.

Broadly the key responsibilities of the board are:

1. Setting the strategic direction of the company with management and monitoring management implementation of that strategy;
2. Evaluating, approving and monitoring major capital expenditure, capital management and all major corporate transactions;
3. Approving the annual operating budget, annual shareholders report and annual financial accounts;
4. Appointing, monitoring, managing the performance of, and if necessary terminating the employment of the Chief Executive Officer;
5. Approving and monitoring the company's risk management framework;
6. Ensuring compliance with the Corporations Act 2001, ASX listing rules and other relevant regulations.

All directors and key executives reporting to the CEO of the company have been given formal letters of appointment outlining key terms and conditions of their appointment.

Performance evaluations for senior executives are carried out annually by either the Chief Executive Officer or the Board. Performance during the previous 12 months is assessed against relevant performance indicators, and role expectations and goals are set for the following year. Performance evaluations have been completed for all executives during the reporting period in accordance with approved processes.

Gascoyne Resources Limited Annual Report 2010

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

Board Members

Details of board members, their experience, expertise, qualifications, term in office and independence status are set-out in the Directors' Report. Currently the board consists of three directors of which Mr Graham Riley and Mr John den Dryver are considered independent within the ASX's definition. The board charter is available from the company's website.

The board has formalised various policies on securities trading, disclosure and codes of conduct, which assist in providing a stronger governance framework for the Company. These of course are in addition to the Company's requirements under the Corporations Act 2001 and ASX Listing Rules.

Board structure and composition will be reviewed as and when the company's strategic directions and activities change. The Company will only recommend the appointment of additional Directors to your board where it believes the expertise and value added outweighs the additional cost.

A copy of the Director Nomination and Induction Policy is available from the corporate governance section of the company's website.

Nomination Committee

The company does not comply with ASX recommendation 2.4 in that there is no separate nomination committee. Given the board comprises three directors it has been decided that there are no efficiencies to be gained from forming a separate nomination committee. The current board members carry out the roles that would otherwise be undertaken by a nomination committee and each director excludes himself from matters in which he has a personal interest.

Each Director completes an annual formal evaluation of the Board's performance including the Chief Executive Officer. The Chairman conducts an informal evaluation of the board members at least once per annum.

Further information on the performance assessment process for the board and senior executives can be found in the Directors' Report. Details of director's attendance at board, audit committee and remuneration committee meetings are detailed in the Directors' Report.

A copy of the Nomination Committee Charter is available from the corporate governance section of the company's website.

Independent Advice

A director of the Company is entitled to seek independent professional advice (including but not limited to legal, accounting and financial advice) at the Company's expense on any matter connected with the discharge of his or her responsibilities, in accordance with the procedures and subject to the conditions set out in the board's charter

PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Code of Conduct

The board has adopted a code of business conduct. A copy of the code is made available to all employees of the company.

This code expresses certain basic principles that the Company and employees should follow in all dealings related to the Company. They should show the highest business integrity in their dealings with others, including preserving the confidentiality of other peoples' information and should conduct the Company's business in accordance with law and principles of good business practice.

A copy of the code of conduct is available from the corporate governance section of the company's website.

Securities Trading Policy

A formal Securities Trading Policy has been adopted whereby as certain key executives ("Restricted Persons") are prevented from trading in the company's shares 2 weeks prior to the announcement of quarterly, half-year and the full-year reports. This is a restriction over and above the requirement to not trade in the Company's securities when in possession of inside information.

A copy of the Securities Trading Policy is available from the corporate governance section of the company's website.

Gascoyne Resources Limited Annual Report 2010

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

The Chief Executive Officer and Chief Financial Officer have made the following certifications to the board;

- That the company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the company and group and are in accordance with relevant accounting standards;
- That the reports were founded on a sound system of financial risk management and internal compliance and control.

Audit Committee

The company does not comply with ASX recommendations 4.1 and 4.2 in that there is no separate audit committee, and it is not comprised only of non-executive Directors. Given the board comprises three directors it has been decided that there are no efficiencies to be gained from forming a separate audit committee. The current board members carry out the roles that would otherwise be undertaken by an audit committee.

The charter sets out the roles and responsibilities of the audit committee and contains information on the procedures for the selection and rotation of the external auditor. A full copy of the Audit Committee Charter is available from the corporate governance section of the Company's website.

The board believes the audit committee structure is appropriate given the company's size. The composition of the audit committee will be assessed on an ongoing basis in light of the company's overall board structure and strategic direction.

PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

Continuous Disclosure

The board has a formal disclosure policy outlining procedures for compliance with ASX continuous disclosure requirements. The policy is based upon the Company's desire to promote fair markets, honest management and full and fair disclosure. The disclosure requirements must be complied with in accordance with their spirit, intention and purpose.

The purpose of the policy is to:

- summarise the Company's disclosure obligations;
- explain what type of information needs to be disclosed;
- identify who is responsible for disclosure; and
- explain how individuals at the Company can contribute.

The Company Secretary is responsible for ensuring disclosure of information to the ASX.

A copy of the Disclosure Policy is available from the corporate governance section of the company's website.

PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

Shareholder Communication Strategy

The board has adopted a formal shareholder communication guidelines policy.

All information disclosed to the ASX is posted on the company's website as soon as it is disclosed to the ASX. When analysts are briefed on aspects of the group's operations, the material used in the presentation is released to the ASX and posted on the company's website. Procedures are in place to determine where price sensitive information has been inadvertently disclosed, and if so, this information is released to the ASX.

The external auditor attends the annual general meeting and is available to respond to questions about the conduct of the audit and content of the independent audit report.

A full copy of the shareholder communication policy is available from the corporate governance section of the company's website.

Gascoyne Resources Limited Annual Report 2010

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

Risk assessment and management

The company does not have a separate Risk Management committee. Given the current size of the company and board, the directors believe there are no efficiencies in forming a separate committee and the board as a whole performs this role.

The company does not have a single specific risk management policy, but rather, financial and operating risks are addressed through individual approved policies and procedures covering financial, contract management, safety and environmental activities of the company. In addition to financial audits, the company's operations in Australia are subjected to annual Risk Management reviews in accordance with the relevant Risk Management Standard. The company engages an insurance brokering firm as part of the company's annual assessment of the coverage for insured assets and risks. The results of all the various reviews and insurances are reported to the board at least annually.

The integrity of Gascoyne's financial reporting relies upon a sound system of risk management and control. Accordingly, the Chief Executive Officer and Chief Financial Officer, to ensure management accountability, are required to provide a statement in writing to the board that the financial reports of Gascoyne are based upon a sound risk management policy.

The board believes that it has a thorough understanding of the Company's key risks and is managing them appropriately. A copy of the company's risk management committee charter is available from the corporate governance section of the company's website.

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

Remuneration committee

The Company does not comply with ASX recommendation 8.1 in that it has not established a separate remuneration committee. Given the current size of the company and board, the directors believe there are no efficiencies in forming a separate committee and the board as a whole performs this role. The board of directors reviews and approves recommendations in terms of compensation and incentive plan arrangements for directors and senior executives, having regard to market conditions and the performance of individuals and the consolidated entity.

Remuneration Policies

The Company's remuneration policies are detailed in the Remuneration report in the Directors' Report.

Non-Executive Director Remuneration

Non-executive directors are remunerated by way of director's fees. Apart from compulsory superannuation entitlements, non-executive directors are not eligible to receive retirement benefits.

A copy of the Remuneration Policy is available from the corporate governance section of the company's website.

DIRECTORS' REPORT

In respect of the financial year ended 30 June 2010, the Directors of Gascoyne Resources Limited, (the consolidated entity), submit the financial report. In order to comply with the provisions of the Corporations Act 2001, the Director's report as follows:

DIRECTORS

The following persons held office as Directors of Gascoyne Resources Limited during or since the end of the financial year and up to the date of this report:

Graham Riley B.Juris LLB

Non Executive Chairman - Appointed 19 October 2009

Mr Riley, B.Juris LLB, is a qualified legal practitioner, having gained his Bachelor of Laws and Bachelor of Jurisprudence Degrees. After 10 years legal practice as a partner of a commercial firm in Perth, he resigned to pursue private interests in the resources and exploration sector. Graham has been responsible for the foundation and growth of a number of petroleum and mining companies and is currently Chairman of Giralia Resources NL and Buru Energy Limited. He was a Non Executive Director of Adelphi Energy Limited, ARC Energy and was the Chairman of Red Hill Iron Limited.

Gordon Dunbar BSc (Hons), MSc, FAusIMM, FAIG

Managing Director - Appointed 25 September 2009

Mr Dunbar is a consulting geologist with 40 years experience in the Australian minerals industry managing project development, mineral exploration and evaluation programmes, mine geology, financial studies, production assessment and monitoring joint venture projects. Gordon's experience includes exploration and mining geology roles at Kambalda with WMC, the evaluation of the Golden Grove base metal deposit in WA, the Chief Geologist at Rosebery Mine in Tasmania and management roles with BP Australia undertaking financial studies, monitoring the evaluation of the Olympic Dam deposit and as Exploration manager for BP Minerals.

Gordon formed his own consulting group in 1990 to provide advice on exploration, evaluation, mining geology, project assessment and pre-feasibility studies, particularly those involving gold, base metals and nickel. He has worked on projects within Australia and Internationally.

John den Dryver BE (Mining) MSc FAusIMM (CP)

Non-Executive Director - Appointed 25 September 2009

Mr den Dryver is a mining engineer with some 30 years mining experience in operational and corporate management. John joined Mount Isa Mines in 1973. In 1982, John joined North Flinders Mines as the Company Mining Engineer. He became the Operations Manager for North Flinders after the mine was commissioned in 1986 and over the next 10 years managed the operations as well as developing the further discoveries in this region including the Callie Mine. In 1987 he was invited to join the Board of North Flinders to become Executive Director-Operations. In 1997 after Normandy Mining took over North Flinders, John was appointed Executive General Manager-Technical leading a team of specialist geologists, mining engineers and metallurgists in operational support, technical review and due-diligence activities. In 2003, after the takeover of Normandy by Newmont Corporation, John set up his own mining consultancy business.

Greg J Wheeler BCom; FCA; SF Fin; GAICD

Non - Executive Director – Appointed 25 September 2009, Resigned 19 October 2009

Mr Wheeler is a Fellow of the Institute of Chartered Accountants in Australia and the Financial Services Institute of Australasia, and has operated in many of the major accounting practices for the past 25 years in Australia and overseas. Greg was a Partner at the Chartered Accounting practices of Grant Thornton [1990 to 1999] and Deloitte Touche Tohmatsu [1999 to 2002], before establishing his own consulting firm in 2002. His skills include:- company and business valuations, advice to directors/shareholders; shareholder wealth strategies, capital raisings and broker presentations, acquisitions and divestitures, corporate governance; commercial negotiations and risk assessment and mitigation.

DIRECTORSHIPS OF OTHER LISTED COMPANIES

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

| Name | Company | Period of directorship |
|-----------------|----------------------------|--------------------------------|
| John den Dryver | Adelaide Resources Limited | 18 April 2005 – current |
| | Helix Resources Limited | 25 October 2004 - current |
| Gordon Dunbar | Helix Resources Limited | 18 July 2006 - current |
| Graham Riley | Giralia Resources NL | 30 June 1998 – current |
| | Buru Energy NL | 22 May 2008 - current |
| Greg J Wheeler | Adelphi Energy NL | 10 January 2005 – 16 July 2010 |
| | Helix Resources Limited | 25 October 2004 - current |

COMPANY SECRETARY

Joneen McNamara ACIS

Mrs McNamara is an Accountant and has completed Chartered Secretaries Australia's Graduate Diploma in Applied Corporate Governance. She is a member of the Institute of Chartered Secretaries and Administrators.

Gascoyne Resources Limited Annual Report 2010

PRINCIPAL ACTIVITIES

The principal activity of the Group constituted by Gascoyne Resources Limited and the entities it controlled during the period consisted of gold and base metal mineral exploration. There has been no significant change in the nature of these activities during the period from date of incorporation [25 September 2009] to the date of this report.

FINANCIAL RESULTS

The net consolidated loss of the Consolidated entity for the financial period, after provision for income tax was \$2,614,967.

DIVIDENDS

No dividend has been paid or is recommended for the current period.

REVIEW OF OPERATIONS

The Consolidated entity's activities are contained in releases to the ASX on a quarterly basis and contained on our website at www.gascoyneresources.com.au.

The Company's strategy continues to be corporate and geological expertise to target and secure mineral assets, and then create and extract value for the benefit of our shareholders.

Mineral Asset Project Highlights include:-

After a period delay in obtaining heritage clearance on key areas of our projects, the company has been busy carrying out drilling on the Glenburgh and Bassit Bore projects, while advancing the other projects with surface geochemical sampling. Highlights include;

Glenburgh:

Drilling of approximately 2000m of Reverse circulation drilling was successful in extending the known mineralisation at the Icon deposit by approximately 100m to the east, and extended one of the mineralised surfaces at Zone 102 a further 50m. Additional shallow drilling is planned to extend the known mineralisation at Glenburgh, with the aim to substantially add resources to the project. A number of anomalous geochemical trends have also been identified and will be a focus for the coming year as the company looks to add to the resource base.

Bassit Bore:

Testing of 9 of the historical coincident copper and gold soil anomalies have been drilled. Results have as yet not been received; however as soon as they are received and assessed, they will be released. In addition to the drilling, a further 95 stream sediment samples were collected to better define the historical stream sediment anomalies. This will allow more targeted soil sampling to be undertaken. This will be planned as soon as the results are received and assessed.

Bustler Well:

The Bustler Well tenement was granted during the year. Compilation of the historical data has been undertaken. This highlighted a broad zone of low level stream sediment anomalism, which is coincident with a regional structure that is interpreted to run through the tenement. A programme of stream sediment sampling, 124 samples in total, was completed over this area. This will allow targeted soil sampling to be undertaken in the anomalous areas, as soon as the results are received and assessed.

Mt James:

The Mt James tenement was granted during the year. A detailed assessment of the historical data has been undertaken. This highlighted a number of sporadic low level soil anomalies, which have as yet not been followed up. Geological field assessment of these zones highlighted that the area has a variable amount of transported cover, which could be causing the soil sampling results to be inconsistent and unrepresentative of underlying geological units. As a result, shallow drilling is being planned to test these areas, as well as to better define the mineralisation intersected at the known prospects.

Corporate

The Consolidated entity reported a loss of \$2,614,967 during the year after writing off \$2.114m of carried forward exploration costs.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

In the opinion of the Directors, other than disclosed elsewhere in this Report, there were no significant changes in the state of affairs of the Consolidated entity that occurred during the period under review.

SUBSEQUENT EVENTS

Other than the sale of the unmarketable shares on behalf of the holders of less than \$500 worth of shares (on the 30th of April), which was completed on the 5th of August, the Directors are not aware of any other matter or circumstance that has arisen since 30 June 2010 which has significantly affected, or may significantly affect, the operations of the Consolidated entity, the results of those operations, or the state of affairs of the Consolidated entity, in future financial years.

FUTURE DEVELOPMENTS

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

Gascoyne Resources Limited Annual Report 2010

REMUNERATION REPORT

The Company's Executive Officers' remuneration policy is set to ensure that remuneration packages properly reflect the duties and responsibilities of the senior executives and are sufficient to attract, retain and motivate personnel of the requisite quality. The policy is administered by the Remuneration Committee, which is comprised of all board members. The Executive Officers of the Company are employed under Service Agreements which are all identical in their contents and only differ in remuneration levels. They have durations of twenty four months and renew automatically unless terminated by either the Company by giving a minimum of twelve months notice to the individual; or by the individual by giving six months notice to the Company. Whilst the level of remuneration is not dependent on the satisfaction of any performance condition, the performance of Executives is reviewed on an annual basis.

Non-executive Directors are remunerated by fees determined by the Board within the aggregate Directors' fee pool limit of \$250,000. The pool limit is not at present fully utilised. In setting the fees, account is taken of the responsibilities inherent in the stewardship of the Company and the demands made of Directors in the discharge of their responsibilities. Advice is taken from independent consultancy sources where appropriate to ensure remuneration accords with market practice.

The company has largely adopted the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations* and decided to remunerate its non-executive directors on an ongoing basis with no accrual or entitlement to a retirement benefit.

Remuneration packages contain the following key elements:

- a) Primary benefits – salary / fees and performance based bonuses;
- b) Post employment benefits – prescribed retirement benefit; and
- c) Equity – share options granted under the executive share option plan as disclosed in note [17](#) to the financial statements.

The following table discloses the remuneration of the directors and executives of the company:

| 2010 | Primary | | | Post Employment | | | Equity | | Total | |
|---------------------------------------|----------------|---------------------------|--------------|-----------------|----------------------|---------------------------|----------------|-------------------|----------|----------------|
| | Salary & Fees | Performance Based Payment | Non Monetary | Super-annuation | Pre-scribed Benefits | Other Retirement Benefits | Options | % of Remuneration | | Other Benefits |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | % | \$ | \$ |
| Key Management Personnel | | | | | | | | | | |
| G Riley | 22,935 | - | - | 2,065 | - | - | 20,800 | 45.4 | - | 45,800 |
| G Dunbar | 22,747 | - | - | 46,003 | - | - | 39,000 | 36.1 | - | 107,750 |
| J den Dryver | 16,055 | - | - | 1,445 | - | - | 20,800 | 54.3 | - | 38,300 |
| G J Wheeler | - | - | - | - | - | - | 20,800 | 100 | - | 20,800 |
| M Dunbar | 44,037 | - | - | 3,963 | - | - | - | - | - | 48,000 |
| J McNamara | 15,362 | - | - | 1,383 | - | - | 13,000 | 43.7 | - | 29,745 |
| Total Key Management Personnel | 121,136 | - | - | 54,859 | - | - | 114,400 | | - | 290,395 |

Gascoyne Resources Limited Annual Report 2010

KEY MANAGEMENT PERSONNELS' SHARE OPTIONS

Pursuant to approval at Shareholders' meetings, executives and employees are entitled to subscribe for ordinary shares on the terms agreed to by the Shareholders. At the date of this report current directors and executives are entitled to purchase an aggregate of 2,200,000 ordinary shares of Gascoyne Resources Limited according to the following terms:

| Key Management Personnel | Number of Executive Options Held | Issuing Entity | Exercise Price | Expiry Date | Number of ordinary shares under option |
|--------------------------|----------------------------------|--------------------|----------------|-------------|--|
| G Riley | 400,000 | Gascoyne Resources | \$0.25 | 30.11.2011 | 400,000 |
| G Dunbar | 750,000 | Gascoyne Resources | \$0.25 | 30.11.2011 | 750,000 |
| J den Dryver | 400,000 | Gascoyne Resources | \$0.25 | 30.11.2011 | 400,000 |
| J McNamara | 250,000 | Gascoyne Resources | \$0.25 | 30.11.2011 | 250,000 |
| G J Wheeler | 400,000 | Gascoyne Resources | \$0.25 | 30.11.2011 | 400,000 |
| Total | 2,200,000 | | | | 2,200,000 |

DIRECTORS' SHARE AND OPTION HOLDINGS

| Director | *Fully Paid Ordinary Shares | *Staff Options |
|--------------|-----------------------------|----------------|
| G Riley | 327,559 | 400,000 |
| G Dunbar | 136,379 | 750,000 |
| J den Dryver | - | 400,000 |

* Directors' interests in ordinary shares and options of the parent entity are shown at the date of this Directors' Report.

OFFICERS' INDEMNITY AND INSURANCE

During the year the Company paid an insurance premium to insure the Directors and Officers of the Company and related bodies corporate. The Officers of the Company covered by the insurance policy include the Directors named in this report.

The Directors' and Officers' Liability insurance provides cover against all costs and expenses that may be incurred in defending civil or criminal proceedings that fall within the scope of the indemnity and that may be brought against the officers in their capacity as officers of the Company or a related body corporate. The insurance policy does not contain details of the premium paid in respect of individual officers of the Company. Disclosure of the nature of the liability cover and the amount of the premium is subject to a confidentiality clause under the insurance policy.

The Company has entered into an agreement with the Directors and Officers to indemnify them against any claim and related expenses, which arise as a result of work completed in their respective capacities.

The Company has not otherwise, during or since the financial year indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

ENVIRONMENTAL REGULATIONS

The Consolidated entity is subject to environmental regulations under laws of the Commonwealth and State. The Consolidated entity has a policy of complying with its environmental performance obligations and at the date of this report, is not aware of any breach of such regulations.

Gascoyne Resources Limited Annual Report 2010

MEETINGS OF DIRECTORS

The number of meetings held during the year by Company Directors (including meetings of committees of Directors) and the number of those meetings attended by each Director was:

| | Board of Directors' Meetings | | Remuneration Committee Meetings | | Audit Committee Meetings | |
|--------------|------------------------------|----------|---------------------------------|----------|--------------------------|----------|
| | Held | Attended | Held | Attended | Held | Attended |
| G Riley | 2 | 1 | 1 | 1 | 1 | 1 |
| G Dunbar | 2 | 2 | 1 | 1 | 1 | 1 |
| J den Dryver | 2 | 2 | 1 | 1 | 1 | 1 |
| G J Wheeler | - | - | - | - | - | - |

NON-AUDIT SERVICES

The directors are satisfied that the provision of non-audit services, during the year, by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. Details of amounts paid or payable to the auditor for non-audit services provided during the period by the auditor are outlined in note [26](#).

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 19 of the financial report.

Dated at Perth this 2nd day of September 2010.

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

On behalf of the Directors.



G Riley
Chairman

AUDITOR'S INDEPENDENCE DECLARATION



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Auditor's Independence Declaration To the Directors of Gascoyne Resources Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Gascoyne Resources Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink that reads "Grant Thornton".

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A handwritten signature in black ink that reads "J W Vibert".

J W Vibert
Director – Audit & Assurance

Perth, 2 September 2010

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INDEPENDENT AUDIT REPORT



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Independent Auditor's Report To the Members of Gascoyne Resources Limited

Report on the financial report

We have audited the accompanying financial report of Gascoyne Resources Limited (the "Company"), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes to the financial report and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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INDEPENDENT AUDIT REPORT



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion,:

- a the financial report of Gascoyne Resources Limited is in accordance with the Corporations Act 2001, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Report on the remuneration report

We have audited the Remuneration Report included in page 16 of the directors' report for the year ended 30 June 2010. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 308A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

INDEPENDENT AUDIT REPORT



Auditor's opinion on the remuneration report

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

A handwritten signature in black ink that reads "Grant Thornton".

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A handwritten signature in black ink that reads "J W Vibert".

J W Vibert
Director – Audit & Assurance

Perth, 2 September 2010

DIRECTORS' DECLARATION

The Directors of the company declare that:

1. the financial statements and notes, as set out on pages 24 to 45 are in accordance with the Corporations Act 2001 and:-
 - a. comply with Accounting Standards; and
 - b. give a true and fair view of the financial position as at 30 June 2010 and of the performance for the year ended on that date of the company and consolidated group.
 - c. complies with International Financial Reporting Standards as disclosed in Note 1.
2. the Chief Executive Officer and Chief Finance Officer have each declared that:-
 - a. the financial records of the company for the financial year have been properly maintained in accordance with s 286 of the Corporations Act 2001;
 - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
 - c. the financial statements and notes for the financial year give a true and fair view;
3. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

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

On behalf of the Directors



G Riley
Chairman

Signed at Perth this 2nd day of September 2010.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010

| | Note | CONSOLIDATED 2010 |
|---------------------------------|--------------------|----------------------|
| | | \$ |
| Current Assets | | |
| Cash and cash equivalents | 2 | 4,379,664 |
| Trade and Other Receivables | 3 | 50,595 |
| Total Current Assets | | 4,430,259 |
| Non-Current Assets | | |
| Property, plant & equipment | 6 | 85,632 |
| Exploration and Evaluation | 7 | 3,800,001 |
| Other | 5 | 50,000 |
| Total Non-Current Assets | | 3,935,633 |
| Total Assets | | 8,365,892 |
| Current Liabilities | | |
| Trade and Other Payables | 8 | 395,929 |
| Provisions | 9 | 5,225 |
| Total Liabilities | | 401,154 |
| Net Assets | | 7,964,738 |
| Equity | | |
| Share Capital | 10 | 10,465,305 |
| Other Reserves | 11 | 114,400 |
| Accumulated Losses | 12 | (2,614,967) |
| Total Equity | | 7,964,738 |

Notes to the financial statements are included on pages 28 to 45

STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

| | | CONSOLIDATED |
|------|---|--------------------|
| | | 2010 |
| | | \$ |
| Note | | |
| | Revenue from Continuing Operations | 135,046 |
| | Employment Costs | (170,544) |
| | Audit and Accountancy | (22,292) |
| | Corporate Marketing | (1,818) |
| | Directors' Fees | (42,500) |
| | Depreciation | (4,055) |
| | Impairment of Exploration and Evaluation Assets | (2,114,010) |
| | I T Costs | (6,064) |
| | Overhead Allocation to Exploration | 37,550 |
| | Premises Costs | (56,368) |
| | Professional Services | (2,043) |
| | Stamp Duty | (290,000) |
| | Travel expenses | (495) |
| | Other General and Admin expenses | (77,374) |
| | Loss before income tax | (2,614,967) |
| | Income tax expense | - |
| | Loss for the year | (2,614,967) |
| | Other Comprehensive Income | |
| | Other comprehensive income | - |
| | Income tax relating to comprehensive income | - |
| | Other comprehensive income, afer tax | - |
| | Total Comprehensive Loss attributable to members of Gascoyne Resources Limited | (2,614,967) |
| | Basic (cents per share) | (4.27) |
| | Diluted (cents per share) | (4.27) |

Notes to the financial statements are included on pages 28 to 45

**STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010**

| | Note | CONSOLIDATED 2010 \$ |
|---|----------------------|----------------------------|
| Cash Flow From Operating Activities | | |
| Payments to suppliers and employees | | (158,515) |
| Interest received | | 126,572 |
| Net cash used in operating activities | 2(b) | (31,943) |
| Cash Flow From Investing Activities | | |
| Payments for capitalised exploration & evaluation expenditure | | (314,011) |
| Payment for property, plant & equipment | | (89,687) |
| Payments for security deposits | | (50,000) |
| Net cash used in investing activities | | (453,698) |
| Cash Flow From Financing Activities | | |
| Proceeds from issue of shares/options | | 5,404,920 |
| Share issue costs paid | | (539,615) |
| Net cash provided by financing activities | | 4,865,305 |
| Net increase in cash held | | 4,379,664 |
| Cash and cash equivalents at beginning of financial year | | - |
| Cash and cash equivalents at End of Financial Year | 2(a) | 4,379,664 |

Notes to the financial statements are included on pages 28 to 45

**STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010**

| CONSOLIDATED 2010 | Share Capital | | | Total |
|--|-------------------|-----------------|-----------------------|------------------|
| | Ordinary | Options Reserve | Accumulated Losses | |
| | \$ | \$ | \$ | |
| Total equity at the beginning of the financial year | - | - | - | - |
| Shares issued during the financial year | 11,004,920 | - | - | 11,004,920 |
| Share Issue Costs | (539,615) | - | - | (539,615) |
| Issue of Employee Incentive Options | - | 114,400 | - | 114,400 |
| Loss attributable to members of the parent entity | - | - | (2,614,967) | (2,614,967) |
| Total equity at the end of the financial year | 10,465,305 | 114,400 | (2,614,967) | 7,964,738 |

Notes to the financial statements are included on pages 28 to 45

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

1. SUMMARY OF ACCOUNTING POLICIES

Financial Reporting Framework

The financial report is a general-purpose financial report that has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and complies with other requirements of the law. The financial report includes financial statements for the Consolidated Entity (Group) consisting of Gascoyne Resources Limited and its subsidiaries.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

Accounting policies

Material accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified where applicable by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property. A summary of the Consolidated entity's significant accounting policies is set out below.

a) Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Gascoyne Resources Limited at the end of the reporting period. A controlled entity is any entity over which Gascoyne Resources Limited has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 4 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

b) Cash and Cash Equivalents

Cash on hand and in banks and short term deposits are stated at nominal value. For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within 90 days, net of outstanding bank overdrafts.

c) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in subsidiaries where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Gascoyne Resources Limited Annual Report 2010

Tax consolidation

Gascoyne Resources Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under tax consolidation legislation. Each entity in the Group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the 'stand-alone taxpayer' approach to allocation. Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the head entity. The Group notified the Australian Taxation Office that it had formed an income tax consolidated group to apply from 1 July 2009. The tax consolidated group has entered a tax funding arrangement whereby each company in the Group contributes to the income tax payable by the Group in proportion to their contribution to the Group's taxable income. Differences between the amounts of net tax assets and liabilities derecognised and the net amounts recognised pursuant to the funding arrangement are recognised as either a contribution by, or distribution to the head entity.

d) Property, Plant and Equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The depreciation rates used for each class of depreciable assets are:

| | |
|---------------------|---------------------|
| Plant and equipment | Straight line 40% |
| Motor Vehicles | Straight line 22.2% |

e) Exploration and evaluation

Exploration, evaluation and development 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 of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

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

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

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.

f) Business Combinations

Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The acquisition method requires that for each business combination one of the combining entities must be identified as the acquirer (ie parent entity). The business combination will be accounted for as at the acquisition date, which is the date that control over the acquiree is obtained by the parent entity. At this date, the parent shall recognise, in the consolidated accounts, and subject to certain limited exceptions, the fair value of the identifiable assets acquired and liabilities assumed. In addition, contingent liabilities of the acquiree will be recognised where a present obligation has been incurred and its fair value can be reliably measured.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements. Consideration may comprise the sum of the assets transferred by the acquirer, liabilities incurred by the acquirer to the former owners of the acquiree and the equity interests issued by the acquirer.

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

g) Impairment of Non-financial Assets

Non-financial assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable

Gascoyne Resources Limited Annual Report 2010

amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

h) Non-derivative financial instruments

Financial instruments are initially measured at cost on trade date, which includes transaction costs. Subsequent to initial recognition, these instruments are measured as set out below.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The policy of management is to designate a financial asset if there exists the possibility it will be sold in the short term and the asset is subject to frequent changes in fair value. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Consolidated entity provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the statement of financial position.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Consolidated entity's management has the positive intention and ability to hold to maturity.

(iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date - the date on which the Consolidated entity commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Consolidated entity has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the statement of comprehensive income in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non monetary securities classified as available-for-sale are recognised in equity in the available-for-sale investments revaluation reserve.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the statement of comprehensive income as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Consolidated entity establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Consolidated entity assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss - is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income.

i) Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably. Provision is made in respect of wages and salaries, annual leave and other employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Provision made in respect of long service leave which is not expected to be settled within 12 months is measured as the present value of the estimated future cash outflows to be made by the Consolidated entity in respect of services provided by the employees up to reporting date.

Share-based payments

Share-based compensation benefits are provided to employees via various Share Option Plans.

Gascoyne Resources Limited Annual Report 2010

The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital. The market value of shares issued to employees for no cash consideration under the Share Plans is recognised as an employee benefits expense with a corresponding increase in equity when the employees become entitled to the shares.

j) Revenue Recognition

Revenue from the disposal of assets is recognised when the Consolidated entity has passed control of the goods or other assets to the buyer. Interest on bank deposits is recognised as income as it accrues.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument and is net of GST.

k) Accounts Payable

Trade payables and other accounts payable are recognised when the Consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

l) Receivables

Other receivables are recorded at amounts due less any specific provision for doubtful debts.

m) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

n) Fair Value Estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Consolidated entity is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Consolidated entity uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Consolidated entity for similar financial instruments.

o) Provisions

Mine restoration and rehabilitation costs are provided for at the present value of future expected expenditures required to settle the Consolidated entity's obligations on commencement of commercial production, discounted using a rate specified to the liability. When this provision is recognised a corresponding asset is also recognised as part of the development costs of the mine to the extent that it is considered that the provision gives access to future economic benefits. On an ongoing basis, the rehabilitation liability is re-measured at each reporting period in line with the changes in the time value of money (recognised as an expense in the statement of comprehensive income and an increase in the provision), and additional disturbances or changes in rehabilitation costs will be recognised as additions or changes to the corresponding asset and rehabilitation liability.

Gascoyne Resources Limited Annual Report 2010

Provisions for legal claims are recognised when the Consolidated entity has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

p) Critical Accounting Estimates and Other Accounting Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group is of the view that there are no critical accounting estimates and judgements in this financial report, other than accounting estimates and judgements in relation to the carrying value of mineral exploration expenditure and value of incentive options issued to Directors and employees

Exploration and Evaluation Expenditure

The Group capitalises expenditure relating to exploration and evaluation where it is considered likely to be recoverable or where the activities have not reached a stage which permits a reasonable assessment of the existence of resources or reserves. While there are certain areas of interest from which no reserves have been extracted, the directors are of the continued belief that such expenditure should not be written off since feasibility studies in such areas have not yet concluded. Such capitalised expenditure is carried at the end of the reporting period at \$6.149m.

q) Adoption of New and Revised Accounting Standards

During the current year the Group adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of Gascoyne Resources Limited.

AASB 8: Operating Segments

In February 2007 the Australian Accounting Standards Board issued AASB 8 which replaced AASB 114: Segment Reporting. As a result, some of the required operating segment disclosures have changed with the addition of a possible impact on the impairment testing of goodwill allocated to the cash generating units (CGUs) of the entity. Below is an overview of the key changes and the impact on the Group's financial statements.

Measurement impact

Identification and measurement of segments — AASB 8 requires the 'management approach' to the identification measurement and disclosure of operating segments. The 'management approach' requires that operating segments be identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker, for the purpose of allocating resources and assessing performance. This could also include the identification of operating segments which sell primarily or exclusively to other internal operating segments. Under AASB 114, segments were identified by business and geographical areas, and only segments deriving revenue from external sources were considered.

The adoption of the 'management approach' to segment reporting has resulted in the identification of reportable segments largely consistent with the prior year

Under AASB 8, operating segments are determined based on management reports using the 'management approach', whereas under AASB 114 financial results of such segments were recognised and measured in accordance with Australian Accounting Standards. This has resulted in changes to the presentation of segment results, with inter-segment sales and expenses such as depreciation and impairment now being reported for each segment rather than in aggregate for total group operations, as this is how they are reviewed by the chief operating decision maker.

Disclosure impact

AASB 8 requires a number of additional quantitative and qualitative disclosures, not previously required under AASB 114, where such information is utilised by the chief operating decision maker. This information is now disclosed as part of the financial statements.

AASB 101: Presentation of Financial Statements

In September 2007 the Australian Accounting Standards Board revised AASB 101 and as a result, there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the Group's financial statements.

Disclosure impact

Terminology changes — the revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.

Gascoyne Resources Limited Annual Report 2010

Reporting changes in equity — the revised AASB 101 requires all changes in equity arising from transactions with owners, in their capacity as owners, to be presented separately from non-owner changes in equity. Owner changes in equity are to be presented in the statement of changes in equity, with non-owner changes in equity presented in the statement of comprehensive income. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the statement of changes in equity.

Statement of comprehensive income — the revised AASB 101 requires all income and expenses to be presented in either one statement, the statement of comprehensive income, or two statements, a separate income statement and a statement of comprehensive income. The previous version of AASB 101 required only the presentation of a single income statement.

The Group's financial statements now contain a statement of comprehensive income.

Other comprehensive income — The revised version of AASB 101 introduces the concept of 'other comprehensive income' which comprises of income and expenses that are not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

r) New standards and interpretations which may impact the Company not yet adopted

Whilst amendments to the Accounting Standards and Australian Accounting Interpretations have been considered, the Group does not anticipate early adoption of any of the reporting requirements and does not expect these requirements to have any material effect on the Group's financial statements.

Gascoyne Resources Limited Annual Report 2010

2. NOTES TO THE CASH FLOW STATEMENT

a) Reconciliation of Cash

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

| | CONSOLIDATED |
|-------------------|------------------|
| | 2010 |
| | \$ |
| Cash at Bank | 1,379,664 |
| Cash on deposit | 3,000,000 |
| Total Cash | 4,379,664 |

b) Reconciliation of loss after income tax to cash flows used in operations

| | CONSOLIDATED |
|--|-----------------|
| | 2010 |
| | \$ |
| Loss after income tax | (2,614,967) |
| Non-cash flows in Loss | |
| Depreciation | 4,055 |
| Impairment of Exploration and evaluation | 2,114,010 |
| Issuance of employee options | 114,400 |
| Changes in Net Assets and Liabilities | |
| (Increase)/Decrease in Assets | |
| (Increase) in trade and other receivables | (50,595) |
| Increase/(Decrease) in Liabilities | |
| Increase in trade and other payables | 395,929 |
| Increase in Provisions | 5,225 |
| Net Cash used in Operations | (31,943) |

c) Non-cash Transactions

Nil.

3. TRADE AND OTHER RECEIVABLES

| | CONSOLIDATED |
|----------------------------------|---------------|
| | 2010 |
| | \$ |
| Prepayments - Insurances | 15,727 |
| Interest Receivable | 8,474 |
| Other | 26,394 |
| Total Current Receivables | 50,595 |

Gascoyne Resources Limited Annual Report 2010

4. FINANCIAL ASSETS

Shares in subsidiaries

| Name | Country of Incorporation | Percentage Held |
|---------------------------------|--------------------------|-----------------|
| | | 2010 |
| Gascoyne Resources (WA) Pty Ltd | Australia | 100% |

5. OTHER ASSETS

| | CONSOLIDATED |
|----------------------------------|--------------|
| | 2010 |
| | \$ |
| Non-Current | |
| Security Deposits | 50,000 |
| Total Other Assets – Non-Current | 50,000 |

6. PROPERTY, PLANT AND EQUIPMENT

| 2010 | CONSOLIDATED | | |
|---------------------------------|-------------------|----------------|--------|
| | Plant & Equipment | Motor Vehicles | Total |
| | \$ | \$ | \$ |
| Gross Carrying Amount | | | |
| Balance at 30 June 2009 | - | - | - |
| Additions | 5,455 | 84,232 | 89,687 |
| Disposals | - | - | - |
| Balance at 30 June 2010 | 5,455 | 84,232 | 89,687 |
| Accumulated Depreciation | | | |
| Balance at 30 June 2009 | - | - | - |
| Depreciation | 497 | 3,558 | 4,055 |
| Balance at 30 June 2010 | 497 | 3,558 | 4,055 |
| Net Book Value | | | |
| 30 June 2010 | 4,958 | 80,674 | 85,632 |

7. EXPLORATION AND EVALUATION EXPENDITURE (NON-CURRENT)

| | CONSOLIDATED |
|--|--------------|
| | 2010 |
| | \$ |
| Balance at beginning of the financial year | - |
| Expenditure incurred during the year | 5,914,011 |
| Impairment losses | (2,114,010) |
| Balance at the end of the financial year | 3,800,001 |

Gascoyne Resources Limited Annual Report 2010

The Directors' assessment of carrying amount was after consideration of prevailing market conditions; previous expenditure carried out on the tenements; and the potential for mineralisation based on both the entity's and independent geological reports. The ultimate value of these assets is dependent upon recoupment by commercial development or the sale of the whole, or part, of the Consolidated entity's interests in those areas for an amount at least equal to the carrying value. There may exist, on the Consolidated entity's exploration properties, areas subject to claim under native title or containing sacred sites or sites of significance to Aboriginal people. As a result, exploration properties or areas within the tenements may be subject to exploration and mining restrictions.

| CONSOLIDATED | |
|--|------------|
| 2010 | |
| \$ | |
| 8. TRADE AND OTHER PAYABLES (CURRENT) | |
| Trade payables | 395,929 |
| 9. PROVISIONS | |
| Current | |
| Employee Benefits | 5,225 |
| Balance at end of financial year | 5,225 |
| 10. SHARE CAPITAL | |
| 61,149,600 Fully Paid Ordinary Shares | 10,465,305 |
| Balance at end of financial year | 10,465,305 |

Fully paid ordinary shares have no par value, carry one vote per share and carry the right to dividends.

| | 2010 | |
|--|------------|------------|
| | No. | \$ |
| Fully Paid Ordinary Shares | | |
| Balance at beginning of financial year | - | - |
| Issue of shares on incorporation | 100 | 20 |
| Issue of shares to Helix at 2.5 cents each to raise seed capital | 4,000,000 | 100,000 |
| Issue of shares to Giralia at 2.5 cents each to raise seed capital | 3,000,000 | 75,000 |
| Issue of shares to Giralia to acquire Gascoyne regional tenements(i) | 12,000,000 | 2,400,000 |
| Issue of shares to Helix to acquire Glenburgh tenements (ii) | 16,000,000 | 3,200,000 |
| Issue of shares at 20 cents each per the Prospectus | 26,149,500 | 5,229,900 |
| Share Issue Costs | | (539,615) |
| Balance at end of financial year | 61,149,600 | 10,465,305 |

- (i) Giralia distributed "in-specie" 14.6 million Gascoyne shares to its shareholders on a pro-rata basis pursuant to approval by shareholders at a general meeting on 8th February 2010.
- (ii) Helix distributed "in-specie" 16 million Gascoyne shares to its shareholders on a pro-rata basis pursuant to approval by shareholders at a general meeting on 8th February 2010.

Share Based Payments

The following share based payments were made during the financial year:

Gascoyne Resources Limited Annual Report 2010

16,000,000 fully paid ordinary shares issued to Helix Resources Limited at an issue price of \$0.20 for purchase of its Glenburgh tenements. These shares are restricted from trading until 11 December 2011.

12,000,000 fully paid ordinary shares issued to Giralia Resources Limited at an issue price of \$0.20 for purchase of its Gascoyne regional tenements. These shares are restricted from trading until 11 December 2011.

Capital Management

Management controls the capital of the Consolidated entity in order to maximise the return to shareholders and ensure that the Consolidated entity can fund its operations and continue as a going concern.

Management effectively manages the Consolidated entity's capital by assessing the Consolidated entity's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of expenditure and debt levels, distributions to shareholders and share and option issues.

There have been no changes in the strategy adopted by management to control the capital of the Consolidated entity since the prior year.

Employee Options

2,200,000 employee options were issued in November 2009 as detailed in section 7.6 of the Prospectus.

Value at Grant Date 20th October 2009 [Issuance Date 20th November 2009]

A Black & Scholes calculation of the notional value of the Incentive Options is outlined below based on the following assumptions:

- a. the Incentive Options expire on 30 November 2011 and are exercisable at \$0.25 each;
- b. a share price of \$0.14. This has been determined after considering the previous issue of shares at 2.5 cents, the net assets of the Company and the risk attached to ASX listing of GCY at the IPO issue price of 20 cents per share;
- c. a volatility factor of 90% based on similar industry participants given GCY was unlisted at option grant date;
- d. an interest rate of 5%;
- e. no discount factor has been applied for the ASX escrow conditions and restrictive attaching conditions;
- f. the valuations ascribed to the Incentive Options may not necessarily represent the market price of the Incentive Options at the date of the valuation; and
- g. the valuation date for the Incentive Options was 20th October 2009.

The notional value determined for each Incentive Option was \$0.052. There are 2,200,000 employee options outstanding at 30 June 2010.

11. OTHER RESERVES

| | CONSOLIDATED |
|--|--------------|
| | 2010 |
| | \$ |
| Options Reserve | |
| Balance at beginning of financial year | - |
| Issue of Employee Incentive Options | 114,400 |
| Balance at end of financial year | 114,400 |

The Options Reserve records items recognised as expenses on valuation of employee incentive options.

12. ACCUMULATED LOSSES

| | |
|---|-------------|
| Balance at beginning of financial year | - |
| Net Loss attributable to members of the parent entity | (2,614,967) |
| Balance at end of financial year | (2,614,967) |

Gascoyne Resources Limited Annual Report 2010

13. REVENUE

Loss before Income Tax includes the following items of revenue and expense:

| | CONSOLIDATED |
|--------------------------------|--------------|
| | 2010 |
| | \$ |
| Operating Activities | |
| Interest Revenue | 135,046 |
| Total Operating Revenue | 135,046 |

14. LOSS FOR THE YEAR

Expenses

| | CONSOLIDATED |
|---|------------------|
| | 2010 |
| | \$ |
| Depreciation of non-current assets: Property, plant and equipment | 4,055 |
| Impairment of exploration and evaluation expenditure | 2,114,010 |
| Operating lease rental expenses: Minimum lease payments | 56,368 |
| Loss for the year | 2,614,967 |

15. COMMITMENTS

a) Operating Lease Commitments

| | |
|---|--------|
| Not later than 1 year | 24,000 |
| Later than 1 year but not later than 2 years | - |
| Later than 2 years but not later than 5 years | - |
| | 24,000 |

The Company has an office arrangement with Helix Resources Limited on normal terms & conditions requiring 3 months notice.

b) Exploration Expenditure Commitments

In order to maintain current rights of tenure to exploration tenements, the Consolidated entity is required to perform minimum exploration work to meet the requirements specified by various State governments. These obligations can be reduced by selective relinquishment of exploration tenure or application for expenditure exemptions. Due to the nature of the company and Consolidated entity's operations in exploring and evaluating areas of interest, it is very difficult to forecast the nature and amount of future expenditure. It is anticipated that expenditure commitments for the next twelve months will be tenement rentals of \$26,000 and exploration expenditure of \$200,000.

16. KEY MANAGEMENT PERSONNELS' REMUNERATION

Please refer to the disclosures contained in the Remuneration Report section of the Directors' Report.

The totals of remuneration paid to key management personnel of the Group during the year are as follows:

| | 2010 |
|--------------------------------|----------------|
| | \$ |
| Short term employment benefits | 121,136 |
| Post-employment benefits | 54,859 |
| Other long-term benefits | - |
| Termination benefits | - |
| Share based payments | 114,400 |
| Total | 290,395 |

Gascoyne Resources Limited Annual Report 2010

17. EXECUTIVE SHARE OPTION PLAN

As at 30 June 2010 the Company had issued 2,200,000 share options. Share options carry no rights to dividends and no voting rights. The difference between the total market value of options issued during the financial year, at the date of issue, and the total amount received from executives and employees is not recognised in the financial statements except for the purposes of determining key management personnel's remuneration in respect of that financial year. The amounts are disclosed in remuneration in respect of the financial year in which the entitlement was earned.

Further details are disclosed below:

| Executive Share Option Plan | 2010 No. | Weighted average exercise price |
|--|-------------|------------------------------------|
| Balance at beginning of financial year | - | - |
| Cancelled during the financial year | - | - |
| Expired during the financial year | - | - |
| Granted during the financial year (i) | 2,200,000 | \$0.25 |
| Exercised during the financial year | - | - |
| Balance at end of financial year (ii) | 2,200,000 | \$0.25 |

(i) Granted during the financial year

Granted during the year ended 30 June 2010

| Options - Series | No. | Grant Date | Expiry Date | Exercise Price \$ | Fair Value Received \$ |
|--------------------|-----------|------------|-------------|----------------------|---------------------------|
| Issued 20 Oct 2009 | 2,200,000 | 20/10/09 | 30/11/11 | \$0.25 | - |
| | 2,200,000 | | | | |

(ii) Balance at end of the financial year

| Options Series | No. | Vested | Unvested | Grant Date | Expiry Date | Exercise Price \$ | Fair value at grant date |
|--------------------|-----------|-----------|----------|------------|-------------|-------------------------|-----------------------------|
| Issued 20 Oct 2009 | 2,200,000 | 2,200,000 | - | 20/10/09 | 30/11/11 | \$0.25 | \$0.05 per option |
| | 2,200,000 | 2,200,000 | - | | | | |

Fair value of consideration received is measured as the nominal value of cash receipts on conversion. The fair value of shares at the date of their issue is measured as the market value at close of trade on the date of their issue. Employee share options carry no rights to dividends and no voting rights. In accordance with the terms of the executive share option plan, options may be exercised at any time from the date the vesting period ends to the date of their expiry.

The difference between the total market value of options issued during a financial year, at the date of issue, and the total amount received from executives and employees is not recognised in the financial statements except for the purposes of determining key management personnel's remunerations in respect of that financial year as disclosed in note 16 to the financial statements. The amounts are disclosed in remuneration in respect of the financial years over which the entitlement was earned.

Consideration received on the exercise of executive options is recognised in contributed equity. During the financial year no options were exercised, hence no amount was recognised in contributed equity arising from the exercise of executive options.

18. RELATED PARTY AND DIRECTORS' DISCLOSURES

a) Transactions with related parties

The loss from ordinary activities before income tax includes the following items of expenses that resulted from transactions other than remuneration with related parties. Transactions between related parties are on normal commercial terms and conditions unless otherwise stated.

Helix Resources provided professional services to the value of \$168,785 payable within 30 days from date of invoice (net of GST). There was a balance outstanding at 30 June 2010 of \$6,103.

Gascoyne Resources Limited Annual Report 2010

Giralia Resources provided professional services to the value of \$97,500 payable within 30 days from the date of invoice (net of GST). There was no balance outstanding at 30 June 2010.

b) Key Management Personnels' Equity Holdings

Fully paid ordinary shares issued by Gascoyne Resources Limited

| | Balance @ 1/7/09 | Granted as remuneration | Received on exercise of options | Net other change | Balance @ 30/6/10 | Balance held nominally |
|---------------------------------|---------------------|----------------------------|---------------------------------------|---------------------|----------------------|---------------------------|
| | No. | No. | No. | No. | No. | No. |
| Key Management Personnel | | | | | | |
| G Riley | - | - | - | 327,559 | 327,559 | - |
| J den Dryver | - | - | - | - | - | - |
| G Dunbar | - | - | - | 136,379 | 136,379 | - |
| G J Wheeler | - | - | - | - | -* | - |
| J McNamara | - | - | - | 31,500 | 31,500 | - |
| Total | - | - | - | 495,438 | 495,438 | - |

* G J Wheeler balance is at date of resignation 19 October 2009

Executive Share Options issued by Gascoyne Resources Limited

| | Bal @ 1/7/09 | Granted as remuneration | Exercised | Other change | Bal @ 30/6/10 | Bal vested @ 30/6/10 | Vested but not exercisable | Vested and exercisable | Options vested during year |
|---------------------------------|-----------------|----------------------------|-----------|-----------------|------------------|-------------------------|----------------------------------|---------------------------|-------------------------------------|
| | No. | No. | No. | No. | No. | No. | No. | No. | No. |
| Key Management Personnel | | | | | | | | | |
| G Riley | - | 400,000 | - | - | 400,000 | 400,000 | 400,000 | - | - |
| J denDryver | - | 400,000 | - | - | 400,000 | 400,000 | 400,000 | - | - |
| G Dunbar | - | 750,000 | - | - | 750,000 | 750,000 | 750,000 | - | - |
| J McNamara | - | 250,000 | - | - | 250,000 | 250,000 | - | 250,000 | - |
| G J Wheeler | - | 400,000 | - | - | 400,000 | 400,000 | 400,000 | - | - |
| Total | - | 2,200,000 | - | - | 2,200,000 | 2,200,000 | 1,950,000 | 250,000 | - |

Each executive share option converts into 1 ordinary share of Gascoyne Resources Limited on exercise. No amounts are paid or payable by the recipient on receipt of the option.

During the financial year, no executive share options were exercised by key management personnel.

Further details of the options granted during the year are contained in note [16](#) and [17](#) to the financial statements.

Gascoyne Resources Limited Annual Report 2010

| 19. INCOME TAX | CONSOLIDATED |
|---|--------------|
| | 2010 |
| | \$ |
| Accounting loss before tax from continuing operations | (2,614,967) |
| Accounting loss before tax from discontinuing operations | - |
| Accounting loss before tax | (2,614,967) |
| Income Tax Expense to Accounting Loss | |
| Tax expense at the statutory income tax rate of 30% | (784,490) |
| Sundry non-deductible/assessable (deductible/assessable) expenses | |
| - employee incentive options | 34,320 |
| - capital raising costs put to equity | (32,377) |
| - utilisation of prior year tax losses | |
| Benefit of tax losses not brought to account | 782,547 |
| Income tax expense | 0 |
| Statement of Comprehensive Income | |
| Current income tax charge | (1,918,330) |
| <u>Deferred income tax</u> | |
| Relating to origination and reversal of temporary differences | 1,135,783 |
| Current year tax losses not recognised in the current period | 782,547 |
| Income tax expense reported in statement of comprehensive income | 0 |
| Unrecognised Deferred Tax Balances: | |
| Unrecognised deferred tax asset losses | 1,918,330 |
| Unrecognised deferred tax assets other | 6,760 |
| Unrecognised deferred tax liabilities | (1,142,543) |
| Net Unrecognised deferred tax assets | 782,547 |

Gascoyne Resources Limited Annual Report 2010

20. SEGMENT INFORMATION

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed on the basis it is a mineral exploration company operating in the geographical region of Australia. The mineral assets held via outright are considered one business segment and the minerals currently being targeted include gold and base metals in Western Australia.

21. EARNINGS PER SHARE

| CONSOLIDATED | |
|--|---------------------------|
| 2010 | |
| Cents Per share | |
| Basic loss per share | (4.27) |
| Diluted loss per share | (4.27) |
| Basic Loss per Share | |
| The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows: | |
| | 2010 |
| | \$ |
| Earnings / (loss) (a) | (2,614,967) |
| | 2010 |
| | No. |
| Weighted average number of ordinary shares (b) | 61,149,600 |
| (a) Earnings used in the calculation of basic earnings per share is net loss after tax of \$2,614,967. | |
| (b) The executive share options are not considered to be potential ordinary shares and are therefore excluded from the weighted average number of shares used in the calculation of basic earnings per share. Where dilutive, potential ordinary shares are included in the calculation of diluted earnings per share (refer below). | |
| Diluted Loss per Share | |
| The earnings and weighted average number of ordinary and potential ordinary shares used in the calculation of diluted earnings per share are as follows: | |
| | 2010 |
| | \$ |
| Earnings (a) | (2,614,967) |
| | 12 months to 30 June 2010 |
| | No. |
| Weighted average number of ordinary shares and potential ordinary shares (b) | 61,149,600 |
| (a) Earnings used in the calculation of diluted loss per share is net loss after tax of \$2,614,967. | |
| (b) The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share: | |
| | 2010 |
| | No. |
| Executive options | 2,200,000 |

Gascoyne Resources Limited Annual Report 2010

22. INTEREST IN JOINT VENTURES

The parent entity has not entered into any unincorporated joint ventures.

23. FINANCIAL INSTRUMENTS

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

The Consolidated entity's exposure to interest rate risk and effective weighted average interest rate for classes of financial assets is set out below:

| | Floating Interest Rate Maturity | | | | | Total |
|--|---------------------------------|---------------------|------------------|------------------|----------------------|-----------|
| | Average Interest Rate | Fixed Interest Rate | Less than 1 year | More than 1 Year | Non Interest Bearing | |
| | % | \$ | \$ | \$ | \$ | |
| 2010 | | | | | | |
| Financial Assets | | | | | | |
| Other Receivables | | - | - | - | 50,595 | 50,595 |
| Cash and cash equivalent assets | 5.2% | 1,379,664 | 3,000,000 | - | - | 4,379,664 |
| Security deposits and deposits at financial institutions | 6.0% | - | 50,000 | - | - | 50,000 |
| | | 1,379,664 | 3,050,000 | - | 50,595 | 4,480,259 |
| Financial Liabilities | | | | | | |
| Trade Payables (all payable within 30 days) | | - | - | - | 395,929 | 395,929 |
| | | - | - | - | 395,929 | 395,929 |

None of the classes of financial assets and liabilities are readily traded on organised markets in standardised form.

Financial Risk Exposures and Management

The main risks the Consolidated entity is exposed to through its financial instruments are interest rate risk, liquidity risk and credit risk. The Board is responsible for financial risk management.

Interest Rate Risk

Interest rate risk is managed by investing cash with major financial institutions in both cash on deposit and term deposit accounts.

Interest Rate Risk Sensitivity Analysis

At 30 June 2010, the effect on loss and equity as a result of a 2% increase in the interest rate, with all other variables remaining constant would be a decrease in loss by \$43,800 and an increase in equity by \$43,800. The effect on loss and equity as a result of a 2% decrease in the interest rate, with all other variables remaining constant would be an increase in loss by \$43,800 and a decrease in equity by \$43,800.

Liquidity Risk

The Consolidated entity manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

The Consolidated entity's operations require it to raise capital on an on-going basis to fund its planned exploration program and to commercialise its tenement assets. If the Consolidated entity does not raise capital in the short term, it can continue as a going concern by reducing planned but not committed exploration expenditure until funding is available and/or entering into joint venture arrangements where exploration is funded by the joint venture partner.

Credit Risk

Credit Risk refers to the risk that counterparty will default on, its contractual obligations resulting in financial loss to the Consolidated entity. The Consolidated entity has adopted the policy of only dealing with credit worthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The Consolidated entity measures risk on a fair value basis.

The maximum credit risk on financial assets of the Consolidated entity which have been recognised on the statement of financial position, other than investments in shares, is generally the carrying amount, net of any provisions for doubtful debts.

Financial Instruments Measured at Fair Value

The financial instruments recognised at fair value in the statement of financial position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- quoted prices in active markets for identical assets or liabilities (Level 1);

Gascoyne Resources Limited Annual Report 2010

- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

24. EMPLOYEE ENTITLEMENTS

The aggregate employee entitlement liability recognised and included in the financial statements is as follows:

| | CONSOLIDATED 2010 \$ |
|--|----------------------------|
| Provision for employee entitlements: | |
| Current (Note 9) | 5,225 |
| | |
| | No |
| Number of employees at end of financial year | 4 |

25. CONTINGENT LIABILITIES

The Company may be required to issue bank guarantees to secure tenement holdings. The Company currently has bank guarantees to the value of \$50,000.

26. REMUNERATION OF AUDITORS

| | 2010 \$ |
|--|------------|
| a) Auditor of the Parent Entity | |
| Auditing the financial report | 20,000 |
| | 20,000 |

The auditor of Gascoyne Resources Limited for the 2010 financial year is Grant Thornton Audit Pty Ltd.

Gascoyne Resources Limited Annual Report 2010

27. GASCOYNE RESOURCES LIMITED PARENT COMPANY INFORMATION

| | 2010 |
|-----------------------------------|------------------|
| | \$ |
| Assets | |
| Current Assets | 4,430,259 |
| Non-current Assets | 3,935,633 |
| Total Assets | 8,365,892 |
| Liabilities | |
| Current Liabilities | 401,154 |
| Non-current Liabilities | - |
| Total Liabilities | 401,154 |
| Equity | |
| Issued Capital | 10,465,305 |
| Accumulated Losses | (2,614,967) |
| Reserves | |
| Options Reserve | 114,400 |
| Total Equity | 7,964,738 |
| Financial Performance | |
| Loss for the year | (2,614,967) |
| Other comprehensive income | - |
| Total Comprehensive Income | - |

28. SUBSEQUENT EVENTS

The Directors are not aware of any matter or circumstance that has arisen since 30 June 2010 which has significantly affected, or may significantly affect, the operations of the Consolidated entity, the results of those operations, or the state of affairs of the Consolidated entity, in future financial years.

29. ADDITIONAL COMPANY INFORMATION

Gascoyne Resources Limited is a listed public company, incorporated and operating in Australia.

Registered Office
Suite 7, 29 Ord Street
WEST PERTH WA 6005
Tel (08) 9481 3434

Principal Place of Business
Suite 7, 29 Ord Street
WEST PERTH WA 6005
Tel (08) 9481 3434

The financial report for Gascoyne Resources Limited for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on the 2nd day of September 2010.

AS AT 24th AUGUST 2010
NUMBER OF SHARES HELD

| Spread of Holdings | Number of Shareholders | Number of Shares |
|--------------------|------------------------|-------------------|
| 1-1000 | 599 | 223,853 |
| 1,001-5,000 | 325 | 855,961 |
| 5,001-10,000 | 293 | 2,176,168 |
| 10,001-100,000 | 566 | 15,972,549 |
| 100,001 and over | 106 | 41,921,069 |
| Total | 1,889 | 61,149,600 |

| | | |
|--|-----|-----------|
| Number of shareholders holding less than a marketable parcel | 995 | 1,470,196 |
|--|-----|-----------|

PERCENTAGE HELD BY 20 LARGEST SHAREHOLDERS

| Shareholder | Number of Shares | % of Issued Capital |
|---|-------------------|---------------------|
| 1 Helix Resources Limited | 3,999,999 | 6.54 |
| 2 Giralia Resources Limited | 3,602,000 | 5.89 |
| 3 UBS Wealth Management Australia Nominees | 1,905,848 | 3.12 |
| 4 Yandal Investments Pty Ltd | 1,821,410 | 2.98 |
| 5 HSBC Custody Nominees (Australia) Pty Ltd | 1,715,201 | 2.80 |
| 6 Stanley Allan MacDonald | 1,673,179 | 2.74 |
| 7 Rubicon Nominees Pty Ltd | 1,584,180 | 2.59 |
| 8 William Henry Hernstadt | 1,526,148 | 2.50 |
| 9 AMCIC Giraf Holdings B.V. | 1,433,272 | 2.34 |
| 10 Gee Vee Pty Ltd | 1,254,028 | 2.05 |
| 11 Jason Stanley MacDonald | 1,201,662 | 1.97 |
| 12 Citicorp Nominees Pty Ltd | 1,062,742 | 1.74 |
| 13 Breamlea Pty Ltd | 815,128 | 1.33 |
| 14 ANZ Nominees Ltd | 802,657 | 1.31 |
| 15 National Nominees Ltd | 729,322 | 1.19 |
| 16 Paso Holdings Pty Ltd | 574,825 | 0.94 |
| 17 Bayana Pty Ltd | 513,923 | 0.84 |
| 18 William Jansing Lee | 508,190 | 0.83 |
| 19 Warramboe Holdings Pty Ltd | 500,000 | 0.82 |
| 20 Syracuse Capital Pty Ltd | 480,000 | 0.78 |
| Top 20 Total | 27,703,714 | 45.30 |

VOTING RIGHTS

One vote for each ordinary share held in accordance with the Company's Constitution.

Gascoyne Resources Limited Annual Report 2010

SUBSTANTIAL SHAREHOLDERS

| Shareholder | Number of Shares | % of Issued Capital |
|---------------------------|------------------|---------------------|
| Helix Resources Limited | 3,999,999 | 6.54 |
| Giralia Resources Limited | 3,602,000 | 5.89 |

DIRECTORS' INTEREST IN SHARE CAPITAL

| Director | Fully Paid Ordinary Shares | Listed Options | Staff Options |
|--------------|----------------------------|----------------|---------------|
| G Riley | 327,559 | - | 400,000 |
| J den Dryver | - | - | 400,000 |
| G Dunbar | 136,379 | - | 750,000 |
| Total | 463,938 | - | 1,550,000 |

TENEMENT SCHEDULE

| Tenement | Name | Mineral | Ownership |
|------------|--------------|---------|-------------------------|
| EL09/1088 | Bassit Bore | Gold | 100% Gascoyne Resources |
| ELA09/1750 | Bassit Bore | Gold | 100% Gascoyne Resources |
| ELA09/1751 | Bassit Bore | Gold | 100% Gascoyne Resources |
| EL09/1079 | Glenburgh | Gold | 100% Gascoyne Resources |
| EL09/1325 | Glenburgh | Gold | 100% Gascoyne Resources |
| ELA09/1764 | Glenburgh | Gold | 100% Gascoyne Resources |
| EL52/2343 | Mt James | Gold | 100% Gascoyne Resources |
| EL52/2348 | Bustler Well | Gold | 100% Gascoyne Resources |

Abbreviations and Definitions used in Schedule:

| | | | |
|----|---------------------|-----|---------------------------------|
| EL | Exploration Licence | ELA | Exploration Licence Application |
|----|---------------------|-----|---------------------------------|

CORPORATE DIRECTORY

Directors

| | |
|-----------------|------------------------|
| Graham Riley | Non-Executive Chairman |
| John den Dryver | Non-Executive Director |
| Gordon Dunbar | Managing Director |

Australian Business Number

57 139 522 900

Head and Registered Office

Suite 7, 29 Ord Street

West Perth Western Australia 6005

PO Box 825 West Perth Western Australia 6872

Telephone: +61 8 9481 3434

Facsimile: +61 8 9321 3909

Email: admin@gascoyneresources.com.au Website: www.gascoyneresources.com.au

Share Registry

Advanced Share Registry

150 Stirling Highway

Nedlands Western Australia 6009

PO Box 1156 Nedlands Western Australia 6909

Telephone: +61 8 9389 8033

Facsimile: +61 8 9389 7871

Auditor

Grant Thornton Audit Pty Ltd

Level 1, 10 Kings Park Road

West Perth Western Australia 6005

Telephone: +61 8 9480 2000

Facsimile: +61 8 9322 7787

Stock Exchange

The Company Securities are quoted on the Australian Stock Exchange Limited

CODE: GCY