

LIONTOWN RESOURCES LIMITED

ABN 39 118 153 825

**Annual Financial Report
30 June 2010**

LIONTOWN RESOURCES

Corporate Directory

Directors

T R B Goyder Chairman
D R Richards Managing Director
D A Jones Non-executive Director
V P Gauci Non-executive Director
A W Kiernan Non-executive Director
C R Williams Non-executive Director

Company Secretary

R K Hacker

Principal Place of Business & Registered Office

Level 2 1292 Hay Street
WEST PERTH WA 6005
Tel: (08) 9322 7431
Fax: (08) 9322 5800
Web: www.ltresources.com.au
Email: info@ltresources.com.au

Auditors

HLB Mann Judd
Level 4 130 Stirling Street
PERTH WA 6000

Share Registry

Computershare Investor Services Pty Limited
Level 2 Reserve Bank Building
45 St Georges Terrace
PERTH WA 6000
Tel: 1300 557 010

Home Exchange

Australian Securities Exchange Limited
Exchange Plaza
2 The Esplanade
PERTH WA 6000

ASX Code

Share Code: LTR

Liontown Resources Limited

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Liontown Resources Limited

Directors' Report

The Directors present their report together with the financial report of Liontown Resources Limited ('Liontown Resources' or 'the Company') for the financial year ended 30 June 2010 and the independent auditor's report thereon.

1. Directors

The Directors of the Company at any time during or since the end of the financial year are:

T R B Goyder
Chairman

Tim has over 30 years experience in the resource industry. Tim has been involved in the formation and management of a number of private and publicly-listed companies and is currently Executive Chairman of Chalice Gold Mines Limited and a Director of Uranium Equities Limited and Strike Energy Limited.

D R Richards BSc (Hons), MAIG
(appointed 1 May 2010)

David has over 30 years experience in mineral exploration in Australia, S.E. Asia and western U.S.A. His career includes exploration and resource definition for a variety of gold and base metal deposit styles and he led the team that discovered the multi-million ounce, high grade Vera-Nancy gold deposits in North Queensland. He has held senior positions with Battle Mountain Australia Inc, Delta Gold Limited and AurionGold Limited and was Managing Director of ASX-listed Glengarry Resources Limited from 2003-2009.

D A Jones
PhD, AusIMM, RPGeo
Non-executive Director

Doug has 30 years experience in international mineral exploration, having worked extensively in Australia, Africa, South America and Europe. His career has covered exploration for volcanic and sediment-hosted zinc-copper-lead, gold in a wide range of geological settings and IOCG style copper-gold. This included a period with Pancontinental Mining, spent working on the Mt Windsor Volcanics, host to the Liontown deposit. He is also the Managing Director of Chalice Gold Mines Limited and is a director of AIM-listed Minera IRL Limited.

V P Gauci
B.Eng (Hons)
Non-executive Director

Vince was previously Managing Director of Pancontinental Mining Ltd and MIM Holdings Ltd. Vince graduated from the University of NSW with an Honours Degree in B.Eng (Mining) and has been active for many years in the resource industry both in Australia and overseas. Vince is currently the Chairman of Runge Limited and is a director of Newcrest Mining Limited. He is also involved in a number of community and research programs, including his role as Chairman of the Broken Hill Community Foundation.

A W Kiernan
LLB
Non-executive Director

Tony is a lawyer and general corporate advisor with extensive experience in the administration and operation of listed public companies. Tony is Chairman of BC Iron Limited, Uranium Equities Limited, Venturix Resources Limited and is a director of Chalice Gold Mines Limited. Tony was formerly a director of North Queensland Metals Limited and Solbec Pharmaceuticals Limited (now named FYI Limited) in the previous 3 years.

C R Williams
BSc (Hons)
Non-executive Director

Craig is a geologist with over 30 years experience in mineral exploration and development. Craig co-founded Equinox Minerals Limited in 1993 where he is currently President, Chief Executive Officer and Director. He has been directly involved in several significant discoveries, including the Ernest Henry Deposit in Queensland and a series of gold deposits in Western Australia. In addition to his technical capabilities, Craig also has extensive corporate management and financing experience.

Liontown Resources Limited

Directors' Report

2. Company secretary

R K Hacker
B.Com, ACA, ACIS

Richard has significant professional and corporate experience in the energy and resources sector in Australia and the United Kingdom. Richard has previously worked in senior finance roles with global energy companies including Woodside Petroleum Limited and Centrica Plc. Prior to this, Richard worked with leading accounting practices. Richard is a Chartered Accountant and Chartered Secretary and is also Chief Financial Officer and Company Secretary of Chalice Gold Mines Limited.

3. Directors' meetings

During the year, five Directors' meetings were held. The number of these meetings attended by each of the Directors of the Company during the year are:

| Director | Number of board meetings attended | Number of meetings held during the time the Director held office during the year |
|--------------|-----------------------------------|--|
| T R B Goyder | 4 | 5 |
| D R Richards | 1 | 1 |
| D A Jones | 5 | 5 |
| V P Gauci | 5 | 5 |
| A W Kiernan | 5 | 5 |
| C R Williams | 3 | 5 |

4. Principal activities

The principal activities of the Company during the course of the financial year were mineral exploration and evaluation.

The Company made a profit after tax for the year of \$310,965, primarily as a result of recording a gain on sale of exploration and evaluation assets of \$1,141,713 and a gain on sale of investments of \$431,481.

Liontown Resources Limited

Directors' Report

5. Review of Operations

During or since the end of the financial year Liontown Resources Limited focused on the following areas:

Mount Windsor - Queensland, Australia

- The Company successfully negotiated a substantial joint venture agreement with ASX-listed Ramelius Resources Limited whereby Ramelius can earn 60% equity in the Project by spending \$7M over 4 years.
- The joint venture agreement commits Ramelius to spending a minimum \$1.25M before June 30 2011 which will accelerate exploration on the Project and ensure the timely testing of targets originally identified by Liontown.
- 45 targets were defined within the Mt Windsor JV tenements with potential to host breccia, intrusion or epithermal related gold mineralisation. Field checking highlighted 4 priority targets which have been the focus of exploration during the year.
- Induced Polarisation surveys planned by Liontown were commenced subsequent to the end of the year. Preliminary results have defined chargeable and resistive anomalies at the G20 and G22 targets which are consistent with pipe like breccia bodies. These anomalies will be priority drill targets in 2010-2011.
- Numerous targets located under cover remain to be investigated during the coming year highlighting the prospectivity of the Project.
- The Queensland government awarded Liontown a grant of \$132,000 as part of its Collaborative Drilling Initiative. The money is yet to be received and will be directed towards drill testing of two targets (G20 and G22) defined by Liontown.

Panhandle - Queensland, Australia

- The Panhandle Project is a newly established, wholly owned, strategic land holding in North Queensland covering 1,152km². The Project is highly prospective for the same styles of mineralisation being targeted at Mt Windsor as well high sulphidation gold-silver mineralisation similar to that discovered at Mt Carlton some 20km to the north.
- A number of prospective areas have been defined by previous explorers including the Quartz Ridge and Powerline prospects where strongly anomalous gold and silver values in rock chips will be followed up in 2010-2011.

Corporate

- The Company finished the year in a financially healthy position. Funds were raised by the sale of Kagara Limited shares issued as part consideration for its purchase of the Liontown base metal deposit and the placement of 20M Liontown shares at 5 cents per share to raise \$1M.

6. Significant changes in the state of affairs

There are no significant changes in the state of affairs, other than as noted elsewhere in this annual financial report.

7. Remuneration report - audited

This report outlines remuneration arrangements in place for Directors and executives of Liontown Resources.

Liontown Resources Limited

Directors' Report

7.1 Principles of compensation

The broad remuneration policy of the Company is to ensure that remuneration levels for executive directors, secretaries and other key management personnel are set at competitive levels to attract and retain appropriately qualified and experienced personnel. This is particularly important in view of the significant impact that each individual can make within a small executive team for an exploration and development company such as Liontown Resources.

Remuneration offered by Liontown Resources is therefore geared to attracting talented employees through a combination of fixed remuneration and long term incentives, calibrated and individually tailored to be competitive in the external market to offer incentive to join and remain with the Company.

Fixed compensation

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits), as well as employer contributions to superannuation funds.

Remuneration levels are reviewed annually through a process that considers the person's responsibilities, expertise, duties and personal performance.

Long-term incentives

Options may be issued under the Employee Share Option Plan to directors, employees and consultants of the Company and must be exercised within 3 months of termination. The ability to exercise the options is usually based on the option holder remaining with the Company for at least one year. Other than the vesting period, there is no performance hurdle required to be achieved by the Company to enable the options to be exercised.

The Company believes that the issue of share options in the Company aligns the interests of Directors, employees and shareholders alike.

Performance related compensation

The Company currently has no formal performance related remuneration policy which governs the payment of annual cash bonuses upon meeting pre-determined performance targets. However, the board may consider performance related remuneration in the form of cash or share options when they consider these to be warranted.

Employment contracts

The following table sets out the contractual provisions of executive Directors and key management personnel.

| Name and Job Title | Employment Contract Duration | Notice Period | Termination Provisions |
|-----------------------------------|------------------------------|--|--|
| Executive Director | | | |
| D R Richards Managing Director | Unlimited | 3 months by the Company and the employee | In the case of a take-over, and if Mr Richards is not offered a similar position and terms of employment, the Company must pay Mr Richards 6 months' salary to terminate his contract. |

Non-executive directors

The Board recognises the importance of attracting and retaining talented Non-executive Directors and aims to remunerate these Directors in line with fees paid to Directors of companies in the mining and exploration industry of a similar size and complexity.

Total compensation for all Non-executive Directors is not to exceed \$300,000 per annum.

Liontown Resources Limited

Directors' Report

7.2 Directors' and executive officers' remuneration (audited)

| Key Management Personnel | | Short-term payments | | | Post-employment payments | | Share-based payments | Total \$ | Value of options as proportion of remuneration (%) |
|--|-------------|----------------------|--------------------------|----------------|-----------------------------|----------------------|----------------------|----------------|--|
| | | Salary & fees \$ (B) | Non-monetary benefits \$ | Total \$ | Super-annuation benefits \$ | Termination benefits | Options (A) \$ | | |
| Directors | | | | | | | | | |
| T R B Goyder | 2010 | 45,872 | 2,463 | 48,335 | 4,128 | - | - | 52,463 | 0% |
| | 2009 | 45,872 | 2,524 | 48,396 | 4,128 | - | - | 52,524 | 0% |
| D R Richards (appointed 1 May 2010)(B) | 2010 | 37,500 | 414 | 37,914 | 3,375 | - | - | 41,289 | 0% |
| | 2009 | - | - | - | - | - | - | - | - |
| D A Jones | 2010 | 57,339 | 2,463 | 59,802 | 5,161 | - | 45,957 | 110,920 | 41% |
| | 2009 | 113,548 | 2,524 | 116,072 | 108,632 | - | 140,247 | 364,951 | 38% |
| V P Gauci | 2010 | 68,807 | 2,463 | 71,270 | 6,193 | - | 25,072 | 102,535 | 24% |
| | 2009 | 68,807 | 2,524 | 71,331 | 6,193 | - | 122,492 | 200,016 | 61% |
| A W Kiernan | 2010 | 32,110 | 2,463 | 34,573 | 2,890 | - | - | 37,463 | 0% |
| | 2009 | 32,110 | 2,524 | 34,634 | 2,890 | - | - | 37,524 | 0% |
| C R Williams | 2010 | 32,110 | 2,463 | 34,573 | 2,890 | - | - | 37,463 | 0% |
| | 2009 | 32,110 | 2,524 | 34,634 | 2,890 | - | - | 37,524 | 0% |
| Former Directors | | | | | | | | | |
| A R Bantock (resigned 1 August 2008) | 2010 | - | - | - | - | - | - | - | - |
| | 2009 | 26,758 | 423 | 27,181 | 2,408 | 59,630 | - | 89,219 | 0% |
| Executive | | | | | | | | | |
| R K Hacker (C) | 2010 | - | 2,463 | 2,463 | - | - | 547 | 3,010 | 18% |
| | 2009 | - | 2,094 | 2,094 | - | - | 25,226 | 27,320 | 92% |
| Former Executives | | | | | | | | | |
| A M Reynolds (resigned 1 August 2008) | 2010 | - | - | - | - | - | - | - | - |
| | 2009 | - | 423 | 423 | - | - | - | 423 | - |
| Total Compensation | 2010 | 273,738 | 15,192 | 288,930 | 24,637 | - | 71,576 | 385,143 | |
| | 2009 | 319,205 | 15,560 | 334,765 | 127,141 | 59,630 | 287,965 | 809,501 | |

Liontown Resources Limited

Directors' Report

Notes in relation to the table of directors' and executive officers' remuneration

- A. The fair value of the options are calculated at the date of grant using a binomial option-pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options allocated to this reporting period. In valuing the options, market conditions have been taken into account.
- B. Subject to shareholder approval at the Company's next general meeting, Mr Richards will be granted 3 million options expiring on 1 May 2013 with an exercise price of 10 cents. Of these options, 1 million have vested immediately and 2 million will vest on 1 May 2011, subject to continuing employment.
- C. Company secretarial services were provided by Richard Hacker under a Corporate Services Agreement and fees were billed based on commercial terms with Chalice Gold Mines Limited. (Refer to note 21).

7.3 Equity instruments

7.3.1 Options and rights over ordinary shares granted as compensation

During the year, no options over ordinary shares in the Company were granted as compensation to key management personnel, however subject to shareholder approval at the Company's next general meeting; Mr Richards will be granted 3 million options expiring on 1 May 2013 with an exercise price of 10 cents.

All options that are issued to key management personnel are at no cost to the recipients.

7.3.2 Exercise of options granted as compensation

During the year, no shares were issued on the exercise of options previously granted as compensation.

Analysis of options and rights over ordinary shares granted as compensation

Details of the vesting profile of the options granted as remuneration to each Director of the Company and each of the named Company executives are outlined below.

| | Number granted | Date granted | % vested in year | Forfeited in year | Financial year in which grant vests |
|------------------|----------------|--------------|------------------|-------------------|-------------------------------------|
| Directors | | | | | |
| D A Jones | 1,000,000 | 01.12.07 | 100% | - | 2010 |
| | 1,000,000 | 02.12.08 | 100% | - | 2010 |
| | 1,000,000 | 02.12.08 | - | - | 2011 |
| | 1,000,000 | 02.12.08 | - | - | 2012 |
| V P Gauci | 1,000,000 | 01.12.07 | 100% | - | 2010 |
| Executive | | | | | |
| R K Hacker | 375,000 | 01.08.08 | 100% | - | 2010 |

Liontown Resources Limited

Directors' Report

| | Granted in year \$ (A) | Exercised in year \$ (B) | Forfeited in year \$ (C) |
|-------------------|------------------------------|--------------------------------|-----------------------------|
| Directors | | | |
| T R B Goyder | - | - | - |
| D R Richards | - | - | - |
| V P Gauci | - | - | - |
| D A Jones | - | - | - |
| A W Kiernan | - | - | - |
| C R Williams | - | - | - |
| Executives | | | |
| R K Hacker | - | - | - |

- A. The value of options granted in the year is the fair value of the options calculated at grant date using a binomial option-pricing model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period.
- B. The value of options exercised during the year is calculated as the market price of shares of the Company on ASX as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.
- C. The value of the options that lapsed during the year represents the benefit foregone and is calculated at the date the option lapsed using a binomial option-pricing model with no adjustments for whether the performance criteria have or have not been achieved.

8. Dividends

No dividends were declared or paid during the period and the Directors recommend that no dividend be paid.

9. Events subsequent to reporting date

During the year, Liontown sought a joint venture partner to assist with the high cost of better delineating and upgrading the Sheep Mountain Copper Molybdenum Project in Arizona, USA. A partner could not be secured and this combined with a decision to focus on gold exploration resulted in the Company withdrawing from the option agreements with the underlying lease holders subsequent to year end. An impairment loss of \$531,508 was recorded during the year to reflect the withdrawal from the project.

10. Likely developments

There are no likely developments that will impact on the company.

Liontown Resources Limited

Directors' Report

11. Directors' interests

The relevant interest of each Director in the shares, rights or options over such instruments issued by the Company and other related bodies corporate, as notified by the Directors to the ASX in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

| | Ordinary shares | Options over ordinary shares |
|---------------|-----------------|------------------------------|
| T R B Goyder | 58,511,444 | - |
| D R Richards* | 200,000 | - |
| D A Jones | 1,120,000 | 5,000,000 |
| V P Gauci | 1,405,216 | 2,000,000 |
| A W Kiernan | 2,436,091 | - |
| C R Williams | 615,783 | - |

* Subject to shareholder approval at the Company's next general meeting, Mr Richards will be granted 3 million options expiring on 1 May 2013 with an exercise price of 10 cents. Of these options, 1 million have vested immediately and 2 million will vest on 1 May 2011, subject to continuing employment.

12. Share options

Options granted to directors and officers of the Company

During or since the end of the period, no options were granted to directors and officers of the Company. Subject to shareholder approval at the Company's next general meeting, Mr Richards will receive 3,000,000 unlisted options with an exercise price of 10 cents and an expiry date of 1 May 2013.

Unissued shares under options

At the date of this report 7,810,000 unissued ordinary shares of the Company are under option on the following terms and conditions:

| Expiry date | Exercise price | Number of shares |
|-------------|----------------|------------------|
| 01.11.2010 | 0.35 | 310,000 |
| 01.12.2012 | 0.35 | 4,000,000 |
| 31.07.2013 | 0.20 | 500,000 |
| 30.11.2013 | 0.20 | 3,000,000 |

These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

During the period between balance date and the date of this report, 1,250,000 options granted to non-employees and 1,000,000 options granted to a consultant expired.

Shares issued on exercise of options

During or since the end of the year, the Company has not issued any ordinary shares as a result of the exercise of options.

13. Indemnification and insurance of directors and officers

The Company has agreed to indemnify all the Directors and officers who have held office of the Company during the year, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors and officers of the Company, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

Liontown Resources Limited

Directors' Report

During the year the Company paid insurance premiums of \$15,192 in respect of Directors and officers indemnity insurance contracts, for current and former Directors and officers. The insurance premiums relate to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

The amount of insurance paid is included in Directors' and executive officers' remuneration on page 7.

14. Non-audit services

During the year HLB Mann Judd, the Company's auditors, performed no other services in addition to their statutory duties.

15. Auditor's independence declaration

The auditor's independence declaration is set out on page 12 and forms part of the Directors' Report for the year ended 30 June 2010.

This report is made with a resolution of the Directors:



D R Richards
Managing Director

Dated at Perth the 28 day of September 2010

The information in this report that relates to Exploration Results is based on information compiled by Mr David Richards, a full time employee of Liontown Resources Limited, who is a Member of the Australian Institute of Geoscientists. Mr Richards has sufficient experience in the field of activity being reported to qualify as a Competent Person as defined in the 2004 edition of the Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves, and consents to the release of information in the form and context in which it appears here.

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Liontown Resources Limited for the year ended 30 June 2010 I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

This declaration is in respect of Liontown Resources Limited.



Perth, Western Australia
28 September 2010

L DI GIALONARDO
Partner, HLB Mann Judd

Liontown Resources Limited
Statement of comprehensive income
For the year ended 30 June 2010

| | Note | 2010 \$ | 2009 \$ |
|---|------|------------------|--------------------|
| Continuing Operations | | | |
| Revenue | 3(a) | 82,489 | 60,912 |
| Net gain on sale of exploration and evaluation assets | 3(b) | 1,141,713 | - |
| Net gain on sale of investments | 3(c) | 431,481 | - |
| Impairment of exploration and evaluation assets | 4 | (111,842) | (5,442,717) |
| Corporate administrative expenses | 3(d) | (701,368) | (1,218,546) |
| Finance costs | 7 | - | (14,403) |
| Profit/(Loss) before tax | | 842,473 | (6,614,754) |
| Income tax expense | 8 | - | - |
| Profit/(Loss) for the year from continuing operations | | 842,473 | (6,614,754) |
| Loss after tax from discontinued operations | 2 | (531,508) | - |
| Net Profit/(Loss) for the year | | 310,965 | (6,614,754) |
| Total comprehensive income/(loss) for the year after tax attributable to owners of the company | | 310,965 | (6,614,754) |
| Basic earnings per share attributable to ordinary equity holders | 9 | 0.002 | (0.06) |
| Basic earnings per share from continuing operations attributable to ordinary shareholders | 9 | 0.004 | (0.06) |
| Diluted earnings per share attributable to ordinary equity holders | 9 | 0.002 | (0.06) |

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 17 to 37.

Liontown Resources Limited
Statement of financial position
As at 30 June 2010

| | Note | 2010 \$ | 2009 \$ |
|-----------------------------------|------|------------------|------------------|
| Current assets | | | |
| Cash and cash equivalents | 10 | 3,118,759 | 1,019,772 |
| Trade and other receivables | 11 | 44,700 | 47,485 |
| Total current assets | | 3,163,459 | 1,067,257 |
| Non-current assets | | | |
| Financial assets | 12 | 50,450 | 67,238 |
| Exploration and evaluation assets | 13 | 925,950 | 1,598,577 |
| Property, plant and equipment | 14 | 132,756 | 175,156 |
| Total non-current assets | | 1,109,156 | 1,840,971 |
| Total assets | | 4,272,615 | 2,908,228 |
| Current liabilities | | | |
| Trade and other payables | 15 | 120,639 | 215,754 |
| Employee benefits | 16 | 3,144 | 8,974 |
| Total current liabilities | | 123,783 | 224,728 |
| Total liabilities | | 123,783 | 224,728 |
| Net assets | | 4,148,832 | 2,683,500 |
| Equity | | | |
| Issued capital | 17 | 20,280,242 | 19,200,242 |
| Accumulated losses | 17 | (17,507,395) | (17,818,360) |
| Reserves | 17 | 1,375,985 | 1,301,618 |
| Total equity | | 4,148,832 | 2,683,500 |

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 17 to 37.

Liontown Resources Limited
Statement of changes in equity
For the year ended 30 June 2010

| | Note | Issued capital | Accumulated losses | Share based payments reserve | Total equity |
|---|------|-------------------|---------------------|------------------------------|------------------|
| | | \$ | \$ | \$ | \$ |
| Balance at 1 July 2009 | | 19,200,242 | (17,818,360) | 1,301,618 | 2,683,500 |
| Issue of fully paid ordinary shares - share placement | | 1,000,000 | - | - | 1,000,000 |
| Transaction costs | | (50,000) | - | - | (50,000) |
| Fully paid ordinary shares -issued in lieu of outstanding directors' fees | | 130,000 | - | - | 130,000 |
| Share options vested | | - | - | 74,367 | 74,367 |
| Profit for the period | | - | 310,965 | - | 310,965 |
| Balance at 30 June 2010 | 17 | 20,280,242 | (17,507,395) | 1,375,985 | 4,148,832 |

| | Note | Share capital | Accumulated losses | Share based payments reserve | Total equity |
|--|------|-------------------|---------------------|------------------------------|------------------|
| | | \$ | \$ | \$ | \$ |
| Balance at 1 July 2008 | | 18,016,886 | (11,203,606) | 998,851 | 7,812,131 |
| Issue of fully paid ordinary shares - capital raisings | | 1,252,250 | - | - | 1,252,250 |
| Transaction costs | | (68,894) | - | - | (68,894) |
| Share options vested | | - | - | 302,767 | 302,767 |
| Loss for the period | | - | (6,614,754) | - | (6,614,754) |
| Balance at 30 June 2009 | 17 | 19,200,242 | (17,818,360) | 1,301,618 | 2,683,500 |

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 17 to 37.

Liontown Resources Limited
Statement of cash flows
For the year ended 30 June 2010

| | Note | 2010 \$ | 2009 \$ |
|--|------|------------------|------------------|
| Cash flows from operating activities | | | |
| Cash paid to suppliers and employees | | (559,107) | (717,010) |
| Interest received | | 69,134 | 42,343 |
| Other | | (766) | 30,542 |
| Net cash used in operating activities | 20 | (490,739) | (644,125) |
| Cash flows from investing activities | | | |
| Proceeds from sale of property, plant and equipment | | - | 137,237 |
| Proceeds from sale of investments | | 2,681,481 | - |
| Proceeds from sale of exploration and evaluation assets | | - | 1,582,500 |
| Payments for exploration and evaluation | | (1,055,960) | (1,802,009) |
| Acquisition of property, plant and equipment | | (4,036) | (12,498) |
| Net cash from/(used in) investing activities | | 1,621,485 | (94,770) |
| Cash flows from financing activities | | | |
| Net proceeds from issue of shares | | 950,000 | 1,183,357 |
| Lodgement of bank guarantee and security deposits | | 18,241 | 3,840 |
| Funds held on trust | | - | (6,272) |
| Repayment of borrowings | | - | (157,634) |
| Net cash from financing activities | | 968,241 | 1,023,291 |
| Net increase in cash and cash equivalents | | 2,098,987 | 284,396 |
| Cash and cash equivalents at the beginning of the period | | 1,019,772 | 735,376 |
| Cash and cash equivalents at 30 June | 10 | 3,118,759 | 1,019,772 |

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 17 to 37.

Liontown Resources Limited

Notes to the financial statements

For the year ended 30 June 2010

1. Significant accounting policies

Liontown Resources is an ASX listed public company domiciled in Australia at Level 2, 1292 Hay Street, West Perth, Western Australia. The financial report of the Company is for the year ended 30 June 2010.

The financial report was authorised for issue by the Directors on the 28th day of September 2010.

(a) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

(b) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standards and Interpretations and complies with other requirements of the law. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale investments, which have been measured at fair value. The financial report is presented in Australian dollars.

The Company is a listed public company, incorporated in Australia and operating in Australia and United States of America. The principle activity is mineral exploration and evaluation.

The Company has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Company had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

(c) Adoption of new and revised standards

In the year ended 30 June 2010, the Company has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2009.

During the year, certain accounting policies have changed as a result of new or revised accounting standards which became operative for the annual reporting period commencing on 1 July 2009.

The affected policies and standards are:

- Segment reporting - new AASB 8 *Operating Segments*

The Company has reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2010. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Company accounting policies.

(d) Significant accounting judgements, estimates and assumptions

The financial statements are prepared on a going concern basis. At balance date, the Company had an excess of current assets over current liabilities of \$3,039,676.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by the Company.

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Notes to the financial statements
For the year ended 30 June 2010

The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

- (i) **Recoverability of exploration expenditure**
The carrying amount of exploration and evaluation expenditure is dependent on the future successful outcome from exploration activity or alternatively the sale of the respective areas of interest.
 - (ii) **Shared-based payment transactions**
The Company measures the cost of equity-settled share-based payments at fair value at the grant date using a binomial formula taking into account the terms and conditions upon which the instruments were granted.
- (e) **Segment reporting**
Operating segments are reported in a manner consistent with internal reporting provided to the Board of Directors who are responsible for allocated resources and assessing the performance of the operating segments.
- The Company has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB 114 *Segment Reporting*. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has not resulted in a change in the number of reportable segments presented by the Company as operating segments are reported in a manner that is consistent with internal reporting provided to the chief operating decision maker, which is considered to be the Board of Directors.
- (f) **Revenue recognition**
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.
- (i) **Sale of goods and interests in exploration assets**
Revenue is recognised when the significant risks and rewards of ownership of the goods/exploration assets have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be reliably measured. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods/exploration assets to the buyer.
 - (ii) **Services rendered**
Revenue from services rendered is recognised in the statement of comprehensive income in proportion to the stage of completion of the transaction at balance date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably.
 - (iii) **Interest received**
Interest income is recognised in the statement of comprehensive income as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognised in the statement of comprehensive income using the effective interest method.
- (g) **Expenses**
- (i) **Operating lease payments**
Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the statement of comprehensive income as an integral part of the total lease expense and spread over the lease term.
 - (ii) **Finance lease payments**
Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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(iii) **Financing costs**

Financing costs comprise interest payable on borrowings calculated using the effective interest method and interest receivable on funds invested.

(h) **Depreciation**

Depreciation is charged to the statement of comprehensive income on a diminishing value basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. Depreciation rates used in the current and comparative periods are as follows:

- plant and equipment 5%-50%

The residual value, if not insignificant, is reassessed annually.

(i) **Income tax**

Income tax in the statement of comprehensive income comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on all temporary differences at balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(j) **Goods and Services Tax**

Revenue, 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. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office ('ATO') is included as a current asset or liability in the statement of financial position.

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

(k) **Impairment**

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

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Recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is the present value of the future cash flows expected to be derived from the asset or cash generating unit. In estimating value in use, a pre-tax discount rate is used which reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cashflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Impairment losses are recognised in the statement of comprehensive income unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the statement of comprehensive income. Receivables with a short duration are not discounted.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of six months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(m) Trade and other receivables

Trade and other receivables are stated at cost less impairment losses (see accounting policy (k)).

(n) Non-current assets held for sale and discontinued operations

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up to date in accordance with applicable AIFRS. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in profit or loss, even when there is a revaluation. The same applies to gains and losses on subsequent re-measurement.

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. A disposal group that is to be abandoned also may qualify.

(o) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

An item of plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

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For the year ended 30 June 2010

(p) **Financial assets**

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value, through profit or loss, directly attributable transactions costs. The Company determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year end.

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

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

(ii) **Held-to-maturity investments**

If the Company has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

(iii) **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iv) **Available-for-sale investments**

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

(q) **Exploration, Evaluation, Development and Tenement Acquisition Costs**

Exploration, evaluation, development and tenement acquisition costs in relation to separate areas of interest for which rights of tenure are current, are capitalised in the period in which they are incurred and are carried at cost less accumulated impairment losses. The cost of acquisition of an area of interest and exploration expenditure relating to that area of interest is carried forward as an asset in the statement of financial position so long as the following conditions are satisfied:

- 1) the rights to tenure of the area of interest are current; and
- 2) at least one of the following conditions is also met:
 - (i) the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or

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- (ii) exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation expenditure is assessed for impairment when facts and circumstances suggest that their carrying amount exceeds their recoverable amount. Where this is the case an impairment loss is recognised. Where a decision is made to proceed with development, accumulated expenditure will be amortised over the life of the reserves associated with the area of interest once mining operations have commenced.

(r) **Trade and other payables**

Trade and other payables are stated at cost.

(s) **Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit and loss when the liabilities are derecognised.

(i) **Leases**

Finance leases, which transfer substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of minimum lease payments.

(t) **Employee benefits**

(i) **Superannuation**

Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of comprehensive income as incurred.

(ii) **Share-based payment transactions**

The Company provides benefits to employees (including Directors) in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

The Company currently provides benefits under an Employee Share Option Plan.

The cost of these equity-settled transactions with employees and Directors is measured by reference to the fair value at the date at which they are granted.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ('market conditions'). The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

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The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects:

- (i) the extent to which the vesting period has expired; and
- (ii) the number of awards that, in the opinion of the Directors, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

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

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

- (iii) **Wages, salaries, annual leave, sick leave and non-monetary benefits**
Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Company expects to pay as at reporting date including related on-costs, such as, workers compensation insurance and payroll tax.

- (u) **Provisions**
A provision is recognised in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

- (v) **Share capital**
 - (i) **Ordinary share capital**
Ordinary shares and partly paid shares are classified as equity.
 - (ii) **Transaction costs**
Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

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Notes to the financial statements
For the year ended 30 June 2010

2. Segment reporting

Geographical segments

The Company operated in two distinct geographical segments, Australia and United States of America. These segments were determined based on the location of the Company's assets.

The Company's geographical segment in United States of America was in Arizona (the Sheep Mountain Project) which was acquired by the Company in 2008. This segment is designated as a discontinued operation as the Company has not renewed the option to acquire this project and as such total exploration expenditure for this segment has been impaired and no further costs will arise in the future.

The following table presents expenditure and asset information regarding geographical segments for the years ended 30 June 2010 and 30 June 2009.

| 2010 | Continuing operations | Discontinued operations | Total |
|---------------------|-----------------------|-------------------------|-------------|
| | Australia | Arizona | |
| | \$ | \$ | \$ |
| Segment revenue | 1,655,683 | - | 1,655,683 |
| Segment expenses | (813,210) | (531,508) | (1,344,718) |
| Segment result | 842,473 | (531,508) | 310,965 |
| Segment assets | 4,272,615 | - | 4,272,615 |
| Segment liabilities | (123,783) | - | (123,783) |
| | 4,148,832 | - | 4,148,832 |
| 2009 | | | |
| | Continuing operations | Continuing operations | Total |
| | Australia | Arizona | |
| | \$ | \$ | \$ |
| Segment revenue | 60,912 | - | 60,912 |
| Segment expenses | (6,675,666) | - | (6,675,666) |
| Segment result | (6,614,754) | - | (6,614,754) |
| Segment assets | 2,526,072 | 382,156 | 2,908,228 |
| Segment liabilities | (224,728) | - | (224,728) |
| | 2,301,344 | 382,156 | 2,683,500 |

3. Revenue and Expenses

(a) Revenue

| | Note | 2010 | 2009 |
|-------------------------------------|------|--------|--------|
| | | \$ | \$ |
| Interest received | | 70,747 | 44,102 |
| Gain on sale of plant and equipment | | - | 3,437 |
| Other | | 11,742 | 13,373 |
| | | 82,489 | 60,912 |

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Notes to the financial statements
For the year ended 30 June 2010

(b) Net gain on disposal of exploration and evaluation assets

| | Note | 2010 \$ | 2009 \$ |
|--|------|------------------|------------|
| Proceeds from sale of exploration and evaluation assets | | 2,250,000 | - |
| Carrying value of exploration and evaluation assets sold | 13 | (1,108,287) | - |
| | | <u>1,141,713</u> | <u>-</u> |

During the year the Company sold the Liontown base metal deposit to Kagara Ltd. The consideration received was \$2,250,000 of Kagara Ltd shares (based on a 5 day VWAP) for 2,244,837 shares and a further \$2,250,000 upon either a decision to mine or the sale of the purchased assets by Kagara. The deferred consideration has not been recorded as revenue because it is not probable or virtually certain that the event will occur.

(c) Net gain on sale of investments

| | 2010 \$ | 2009 \$ |
|-----------------------------------|----------------|------------|
| Proceeds from sale of investments | 2,681,481 | - |
| Carrying value of investments | (2,250,000) | - |
| | <u>431,481</u> | <u>-</u> |

The Company received 2,244,837 Kagara Ltd shares as consideration for the sale of the Liontown base metal deposit (refer to note 3 (b)). These shares were subsequently sold during the year resulting in a net gain on sale of \$431,481.

(d) Corporate administrative expenses

| | 2010 \$ | 2009 \$ |
|---|----------------|------------------|
| Depreciation and amortisation | 46,435 | 78,603 |
| Insurance | 28,656 | 35,283 |
| Legal fees | 29,673 | 36,082 |
| Office costs | 11,940 | 26,467 |
| Personnel expenses | 299,590 | 693,505 |
| Regulatory and compliance | 83,688 | 86,551 |
| Corporate and administration service fees | 144,000 | 217,725 |
| Other | 57,386 | 44,330 |
| | <u>701,368</u> | <u>1,218,546</u> |

4. Impairment losses

| | 2010 \$ | 2009 \$ |
|--|----------------|------------------|
| Impairment loss on exploration and evaluation assets | 111,842 | 5,442,717 |
| | <u>111,842</u> | <u>5,442,717</u> |

Exploration and evaluation assets

The Company has also recorded an impairment loss of \$531,508 at 30 June 2010 which is attributable to the Sheep Mountain Project, due to the Company electing not to renew its option to acquire the project subsequent to year end. The project has been treated as a discontinued operation at 30 June 2010 as disclosed in note 2.

Liontown Resources Limited
Notes to the financial statements
For the year ended 30 June 2010

5. Personnel expenses

| | Note | 2010 \$ | 2009 \$ |
|--|------|----------------|----------------|
| Wages and salaries | | 9,807 | 37,396 |
| Directors' fees ⁽¹⁾ | | 195,000 | 195,000 |
| Other associated personnel expenses | | 1,685 | 15,472 |
| Defined contribution superannuation fund contributions | | 8,536 | 136,749 |
| Annual leave | | 10,195 | 6,121 |
| Equity-settled transactions | 16 | 74,367 | 302,767 |
| | | <u>299,590</u> | <u>693,505</u> |

⁽¹⁾ During the year Directors received shares in lieu of fees for the previous financial year. This was approved by shareholders at the Company's annual general meeting held in November 2009.

6. Auditor's remuneration

| | 2010 \$ | 2009 \$ |
|---------------------------------------|---------------|---------------|
| Audit services | | |
| HLB Mann Judd | | |
| Audit and review of financial reports | <u>26,215</u> | <u>26,370</u> |

7. Finance costs

| | 2010 \$ | 2009 \$ |
|------------------|------------|---------------|
| Interest expense | <u>-</u> | <u>14,403</u> |

8. Income tax

| | 2010 \$ | 2009 \$ |
|--|------------|------------|
| Current tax expense | - | - |
| Deferred tax expense | - | - |
| Total income tax expense reported in the statement of comprehensive income | <u>-</u> | <u>-</u> |

Numerical reconciliation of income tax expense to prima facie tax payable

| | | |
|---|------------------|--------------------|
| Profit/(Loss) from continuing operations before income tax expense | 310,965 | (6,614,754) |
| Tax at the Australian corporate rate of 30% | 93,290 | (1,984,426) |
| Tax effect of amounts which are not tax deductible (taxable) in calculating taxable income: | | |
| Non-deductible expenses | 22,537 | 90,971 |
| Blackhole expenditure tax deductible | (66,091) | (63,091) |
| Origination and reversal of temporary differences | (201,009) | (1,671,133) |
| | <u>(151,273)</u> | <u>(3,627,679)</u> |
| Current year tax benefits not recognised | 151,273 | 3,627,679 |
| Income tax expense reported in the statement of comprehensive income | <u>-</u> | <u>-</u> |

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Notes to the financial statements
For the year ended 30 June 2010

Deferred tax assets and liabilities not recognised are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---------|---------|-------------|---------|-----------|-------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Exploration and evaluation assets | | - | 277,865 | 479,573 | 277,865 | 479,573 |
| Assets held for sale | - | - | - | - | - | - |
| Provision for employee benefits | (943) | (2,692) | - | - | (943) | (2,692) |
| Blackhole expenditure | (2,178) | (2,178) | - | - | (2,178) | (2,178) |
| Other items | (5,551) | (4,501) | - | - | (5,551) | (4,501) |
| | (8,672) | (9,371) | 277,865 | 479,573 | 269,193 | 470,202 |
| Current tax losses used to offset net deferred tax liability | | | | | (151,273) | (3,627,679) |
| Previous tax losses used to offset net deferred tax liability | | | | | 117,920 | 3,157,477 |
| Net deferred tax assets and liabilities | | | | | - | - |
| Tax Losses | | | | | | |
| Unused tax losses for which no deferred tax asset has been recognised | | | | | 7,677,733 | 7,841,190 |
| Potential tax benefit at 30% tax rate | | | | | 2,303,320 | 2,352,357 |

9. Earnings per share
Basic and diluted earnings per share

The calculation of basic and diluted earnings per share for the year ended 30 June 2010 was based on the profit attributable to ordinary shareholders of \$310,965 [2009: loss of \$6,614,754], continuing profit attributable to ordinary shareholders of \$842,473 [2009: loss of \$6,614,754] and a weighted average number of ordinary shares outstanding during the year ended 30 June 2010 of 199,765,913 [2009: 109,235,216] calculated as follows:

| | 2010 | 2009 |
|--|-------------|-------------|
| Profit/(Loss) attributable to ordinary shareholders (diluted) | | |
| | \$ | \$ |
| Profit/(Loss) attributable to ordinary shareholders | 310,965 | (6,614,754) |
| Profit/(Loss) attributable to ordinary shareholders (diluted) | 310,965 | (6,614,754) |
| Weighted average number of ordinary shares (diluted) | | |
| Weighted average number of ordinary shares at 30 June | 199,765,913 | 109,235,216 |
| Weighted average number of ordinary shares (diluted) at 30 June | 199,765,913 | 109,235,216 |

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Notes to the financial statements
For the year ended 30 June 2010

10. Cash and cash equivalents

| | 2010 | 2009 |
|--|-----------|-----------|
| | \$ | \$ |
| Bank accounts | 3,107,925 | 1,009,256 |
| Term deposits | 10,634 | 10,316 |
| Petty cash | 200 | 200 |
| Cash and cash equivalents in the statement of cash flows | 3,118,759 | 1,019,772 |

11. Trade and other receivables

| | 2010 | 2009 |
|-------------------------|--------|--------|
| | \$ | \$ |
| Current | | |
| Other trade receivables | 28,932 | 29,908 |
| Prepayments | 15,768 | 17,577 |
| | 44,700 | 47,485 |

12. Financial assets

| | 2010 | 2009 |
|-------------------------------------|--------|--------|
| | \$ | \$ |
| Non-current | | |
| Bond in relation to office premises | - | 18,972 |
| Bank guarantee | 29,946 | 28,494 |
| Security deposits | 13,500 | 13,500 |
| Funds held on trust | 7,004 | 6,272 |
| | 50,450 | 67,238 |

13. Exploration and evaluation expenditure

Costs carried forward in respect of areas of interest in the exploration and evaluation phases (at cost):

| | 2010 | 2009 |
|--|---------------|-------------|
| | \$ | \$ |
| Balance at beginning of year | 1,598,577 | 5,514,309 |
| Expenditure incurred during the year | 1,079,010 | 1,526,985 |
| Impairment loss | (643,350) | (5,442,717) |
| Carrying value of exploration and evaluation assets sold | 4 (1,108,287) | - |
| | 925,950 | 1,598,577 |

The recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phases are dependent on the successful development and commercial exploitation or sale of the respective areas.

14. Property, plant and equipment

| | 2010 | 2009 |
|----------------------------------|-----------|-----------|
| | \$ | \$ |
| At cost | 342,124 | 338,089 |
| Less: accumulated depreciation | (209,368) | (162,933) |
| | 132,756 | 175,156 |
| Plant and equipment | | |
| Carrying amount at 1 July | 175,156 | 391,719 |
| Additions | 4,035 | 12,498 |
| Disposals/written off | - | (150,458) |
| Depreciation | (46,435) | (78,603) |
| Carrying amount at end of period | 132,756 | 175,156 |

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Notes to the financial statements
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15. Trade and other payables

| | 2010 | 2009 |
|------------------|---------|---------|
| | \$ | \$ |
| Trade payables | 57,692 | 64,874 |
| Accrued expenses | 62,947 | 150,880 |
| | 120,639 | 215,754 |

16. Employee benefits

| | 2010 | 2009 |
|----------------------------|-------|-------|
| | \$ | \$ |
| Liability for annual leave | 3,144 | 8,974 |
| Total employee benefits | 3,144 | 8,974 |

Share based payments

Employee Share Option Plan

The Company has an Employee Share Option Plan ('ESOP') in place. Under the terms of the ESOP, the Board may offer free options to full-time or part-time employees (including persons engaged under a consultancy agreement) and executive and non-executive Directors.

Each option entitles the holder, on exercise, to one ordinary fully paid share in the Company. There is no issue price for the options. The exercise price for the options is such price as determined by the Board.

An option may only be exercised after that option has vested and any other conditions imposed by the Board on exercise satisfied. The Board may determine the vesting period, if any.

There are no voting or dividend rights attached to the options. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the issued ordinary shares when the options have been exercised.

There were no share options granted to employees for the year ended 30 June 2010.

The number and weighted average exercise prices of shares options are as follows:

| | Weighted average exercise price (\$) | Number of options |
|--|---|----------------------|
| | 2010 | 2010 |
| Outstanding at the beginning of the period | 0.27 | 12,885,000 |
| Forfeited during the period | 0.25 | (4,825,000) |
| Granted during the period to consultant | 0.10 | 1,000,000 |
| Outstanding at the end of the period | 0.26 | 9,060,000 |
| Exercisable at the end of the period | 0.31 | 6,060,000 |

The options outstanding at 30 June 2010 has a weighted average exercise price of \$0.26 (2009:\$0.27) and a weighted average contractual life of 4 years.

During the year, no share options were exercised.

The fair value of the options is estimated at the date of grant using a binomial option-pricing model.

The following table provides the assumptions made in determining the fair value of the options granted during the year.

Liontown Resources Limited
Notes to the financial statements
For the year ended 30 June 2010

| | | |
|---|-------------|-------------|
| Fair value of share options and assumptions | 2010 | 2009 |
| Share price at grant date (weighted average) | 0.05 | 0.03 |
| Exercise price (weighted average) | 0.10 | 0.20 |
| Expected volatility (expressed as weighted average volatility used in the modelling under binominal option-pricing model) | 100% | 152% |
| Option life (expressed as weighted average life used in the modelling under binominal option-pricing model) | 4 years | 5 years |
| Expected dividends | Nil | Nil |
| Risk-free interest rate | 4.64% | 4.3% |

Share options are granted under service conditions. Non-market performance conditions are not taken into account in the grant date fair value measurement of the services received.

| | | |
|--|-------------|-------------|
| | 2010 | 2009 |
| | \$ | \$ |
| Share options granted in 2009 - equity settled | - | 302,767 |
| Share options granted in 2010 - equity settled | 74,367 | - |
| Total expense recognised as personnel expenses | 74,367 | 302,767 |

17. Capital and reserves

Reconciliation of movement in capital and reserves attributable to equity holders of the company

| | Share capital (a) \$ | Accumulated losses \$ | Share based payments reserve \$ | Total equity \$ |
|---|----------------------------|--------------------------|------------------------------------|--------------------|
| 2010 | | | | |
| Balance at 1 July 2009 | 19,200,242 | (17,818,360) | 1,301,618 | 2,683,500 |
| Issue of fully paid ordinary shares - share placement | 1,000,000 | - | - | 1,000,000 |
| Transaction costs | (50,000) | - | - | (50,000) |
| Fully paid ordinary shares -issued in lieu of director's fees | 130,000 | - | - | 130,000 |
| Share options vested | - | - | 74,367 | 74,367 |
| Profit for the period | - | 310,965 | - | 310,965 |
| Balance at 30 June 2010 | 20,280,242 | (17,507,395) | 1,375,985 | 4,148,832 |
| | | | | |
| | Share capital (a) \$ | Accumulated losses \$ | Share based payments reserve \$ | Total equity \$ |
| 2009 | | | | |
| Balance at 1 July 2008 | 18,016,886 | (11,203,606) | 998,851 | 7,812,131 |
| Issue of fully paid ordinary shares - capital raising | 1,252,250 | - | - | 1,252,250 |
| Transaction costs | (68,894) | - | - | (68,894) |
| Share options vested | - | - | 302,767 | 302,767 |
| Loss for the period | - | (6,614,754) | - | (6,614,754) |
| Balance at 30 June 2009 | 19,200,242 | (17,818,360) | 1,301,618 | 2,683,500 |

Liontown Resources Limited
Notes to the financial statements
For the year ended 30 June 2010

| (a) Share capital | 2010 No. | 2009 No. |
|--|-------------|-------------|
| On issue at 1 July | 187,200,018 | 90,850,009 |
| Issue of fully paid ordinary shares - entitlements issue | - | 93,600,009 |
| Issue of fully paid ordinary shares - share placement | 20,000,000 | 2,750,000 |
| Fully paid ordinary shares - issued in lieu of director's fees | 2,873,563 | - |
| On issue at 30 June | 210,073,581 | 187,200,018 |

Ordinary shares

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company, the ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds on liquidation.

(b) Share options

| | 2010 No. | 2009 No. |
|-----------------------------------|-------------|-------------|
| On issue at 1 July | 15,635,000 | 14,685,000 |
| Options issued during the year | 1,000,000 | 4,750,000 |
| Options forfeited during the year | (6,325,000) | (3,800,000) |
| On issue at 30 June | 10,310,000 | 15,635,000 |

At 30 June the Company had 10,310,000 unlisted options on issue under the following terms and conditions:

| Number | Expiry Date | Exercise Price |
|-----------|------------------|----------------|
| 250,000 | 6 August 2010 | 0.35 |
| 310,000 | 1 November 2010 | 0.35 |
| 4,000,000 | 1 December 2010 | 0.35 |
| 1,250,000 | 14 July 2010 | 0.23 |
| 1,000,000 | 31 January 2014 | 0.10 |
| 500,000 | 31 July 2013 | 0.20 |
| 3,000,000 | 30 November 2013 | 0.20 |

(c) Nature and purpose of reserves

Share based payments reserve

This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration. Refer to note 7 in the Directors' report for further details of these plans

18. Financial instruments

(a) Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders.

The capital structure of the Company consists of equity attributable to equity holders, comprising issued capital, reserves and accumulated losses as disclosed in note 17.

The Board reviews the capital structure on a regular basis and considers the cost of capital and the risks associated with each class of capital. The Company will balance its overall capital structure through new share issues as well as the issue of debt, if the need arises.

Liontown Resources Limited
Notes to the financial statements
For the year ended 30 June 2010

(b) **Market risk exposures**

Market risk is the risk that changes in market prices such as foreign exchange rates, equity prices and interest rates will affect the Company's income or value of its holdings of financial instruments.

Foreign exchange rate risk

The Company currently has no significant exposure to foreign exchange rates.

Equity prices

The Company currently has no significant exposure to equity price risk.

Interest rate risk exposures

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

| 30 June 2010 | Note | 1 year or less \$ | Over 1 to 5 years \$ | Floating interest \$ | Non- interest bearing \$ | Total \$ | Weighted average int. rate |
|--|------|-------------------------|----------------------------|----------------------------|-----------------------------------|-------------|----------------------------------|
| Financial assets | | | | | | | |
| Bank balances | 10 | - | - | 3,107,925 | - | 3,107,925 | 0.03% |
| Term deposits | 10 | 10,634 | - | - | - | 10,634 | 5.80% |
| Bank guarantee | 12 | 29,946 | - | - | - | 29,946 | 6.00% |
| Petty cash | 10 | - | - | - | 200 | 200 | - |
| Trade and other receivables | 11 | - | - | - | 24,473 | 24,473 | - |
| Security deposits, bonds, funds held on trust | 12 | - | - | - | 20,504 | 20,504 | - |
| Financial liabilities | | | | | | | |
| Trade payables and accrued expenses | 15 | - | - | - | 120,639 | 120,639 | - |

| 30 June 2009 | Note | 1 year or less \$ | Over 1 to 5 years \$ | Floating interest \$ | Non- interest bearing \$ | Total \$ | Weighted average int. rate |
|--|------|-------------------------|----------------------------|----------------------------|-----------------------------------|-------------|----------------------------------|
| Financial assets | | | | | | | |
| Bank balances | 10 | - | - | 1,009,256 | - | 1,009,256 | 0.75% |
| Term deposits | 10 | 10,316 | - | - | - | 10,316 | 3.70% |
| Bank guarantee | 12 | 28,494 | - | - | - | 28,494 | 4.00% |
| Petty cash | 10 | - | - | - | 200 | 200 | - |
| Trade and other receivables | 11 | - | - | - | 29,908 | 29,908 | - |
| Security deposits, bonds, funds held on trust | 12 | - | - | - | 38,744 | 38,744 | - |
| Financial liabilities | | | | | | | |
| Trade payables and accrued expenses | 15 | - | - | - | 215,754 | 215,754 | - |

A change of 100 basis points in interest rates on bank balances and term deposits at the reporting date would have increased the profit by \$7,059.

Liontown Resources Limited
Notes to the financial statements
For the year ended 30 June 2010

(c) **Credit risk exposure**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk is not significant and currently arises principally from sundry receivables which represent an insignificant proportion of the Company's activities.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at reporting date to recognised financial assets is the carrying amount, net of any allowance for doubtful debts, as disclosed in the notes to the financial statements.

(d) **Liquidity risk exposure**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Board actively monitors the Company's ability to pay its debts as and when they fall due by regularly reviewing the current and forecast cash position based on the expected future activities.

The Company has non-derivative financial liabilities which include trade and other payables of \$120,639 all of which are due within 60 days.

(e) **Net fair values of financial assets and liabilities**

The carrying amounts of all financial assets and liabilities approximate the net fair values.

19. **Capital and other commitments**

Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the Company is required to perform minimum exploration work to meet the minimum expenditure requirements specified by various State governments. These obligations are subject to renegotiation when application for a mining lease is made and at other times. The amounts stated are based on the maximum commitments. The Company may in certain situations apply for exemptions under relevant mining legislation. These obligations are not provided for in the financial report and are payable:

| | 2010 | 2009 |
|--------------------|---------|-----------|
| | \$ | \$ |
| Within 1 year | 130,000 | 536,000 |
| Within 2 - 5 years | - | 4,360,000 |
| Later than 5 years | - | - |
| | 130,000 | 4,896,000 |

Remuneration commitments

Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at balance date but not recognised as liabilities, payable:

| | 2010 | 2009 |
|------------------|------|--------|
| | \$ | \$ |
| within 1 year | - | 50,000 |
| within 2-5 years | - | - |
| | - | 50,000 |

Liontown Resources Limited
Notes to the financial statements
For the year ended 30 June 2010

| 20. Reconciliation of cash flows from operating activities | 2010 | 2009 |
|--|------------------|------------------|
| Cash flows from operating activities | \$ | \$ |
| Profit/(Loss) for the period | 310,965 | (6,614,754) |
| Adjustments for: | | |
| Depreciation and amortisation | 46,435 | 78,603 |
| Interest on finance leases | - | 14,403 |
| (Profit)/ loss on sale of investments | (431,481) | 13,221 |
| (Profit)/ loss on sale of exploration and evaluation assets | (1,141,713) | 3,012 |
| Impairment losses | 643,350 | 5,442,717 |
| Shares issued to Directors | 130,000 | - |
| Equity-settled share-based payment expenses | 74,367 | 302,767 |
| Operating loss before changes in working capital and provisions | (368,077) | (760,031) |
| (Increase)/ decrease in trade and other receivables | (1,090) | 60,186 |
| Increase/ (decrease) in trade creditors and accruals | (115,742) | 75,260 |
| Increase in provisions | (5,830) | (19,540) |
| Net cash used in operating activities | (490,739) | (644,125) |

21. Key management personnel

The following were key management personnel of the Company at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Executive Directors

T R B Goyder (Chairman)

D R Richards

Appointed 1 May 2010

Non-executive Directors

DA Jones

V P Gauci

A W Kiernan

C R Williams

Executive

R K Hacker (Company Secretary)

The key management personnel compensation is as follows:

| | 2010 | 2009 |
|------------------------------|----------------|----------------|
| | \$ | \$ |
| Short-term employee benefits | 288,930 | 334,765 |
| Post-employment benefits | 24,637 | 186,771 |
| Equity-settled transactions | 71,576 | 287,965 |
| | 385,143 | 809,501 |

Individual Directors' and executives' compensation disclosures

The Company has transferred the detailed remuneration disclosures to the Directors' Report in accordance with Corporations Amendment Regulations 2006 (No. 4). These remuneration disclosures are provided in the Remuneration Report section of the Directors' Report under Details of Remuneration and are designated as audited.

Loans to key management personnel and their related parties

No loans were made to key management personnel and their related parties.

Liontown Resources Limited
Notes to the financial statements
For the year ended 30 June 2010

Other key management personnel transactions with the Company

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-Director related entities on an arm's length basis.

The aggregate amounts recognised during the year relating to key management personnel and their related parties were as follows:

| | Transaction | Note | Amounts payable/ (receivable) | Amounts payable/ (receivable) |
|-------------------------------|-------------------------------|-------|----------------------------------|----------------------------------|
| | | | 2010 | 2009 |
| Key management persons | | | \$ | \$ |
| A W Kiernan | Legal and consulting services | (i) | 25,200 | 43,044 |
| T G Goyder | Office premises | | - | (3,146) |
| Other related parties | | | | |
| Chalice Gold Mines Limited | Corporate Services | (ii) | 168,734 | 217,725 |
| Chalice Gold Mines Limited | Corporate Services | (iii) | (40,689) | (74,405) |
| Uranium Equities Limited | Office premises | | - | (2,000) |

- (i) The Company used the legal and consulting services of Mr Kiernan during the year. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.
- (ii) The Company receives corporate services including accounting and company secretarial services under a Corporate Services Agreement with Chalice Gold Mines Limited. Messrs Goyder, Kiernan and Jones were all Directors of Chalice Gold Mines Limited during the year, and Mr Hacker was the Company Secretary. Amounts billed are based on a proportionate share of the cost to Chalice Gold Mines Limited of providing the services and have normal payment terms.
- (iii) During the year, Chalice Gold Mines utilised the services of Dr Jones in the role of Managing Director. Amounts were billed by Liontown Resources Limited based on a proportionate share of its cost of employing Dr Jones and are due and payable under normal payment terms.

Amounts payable to key management personnel at reporting date arising from these transactions were as follows:

| Assets and liabilities arising from the above transactions | 2010 | 2009 |
|--|-----------------|-----------------|
| | \$ | \$ |
| Current payables | (23,632) | (18,300) |
| Trade debtors | - | - |
| | <u>(23,632)</u> | <u>(18,300)</u> |

Liontown Resources Limited
Notes to the financial statements
For the year ended 30 June 2010

Options and rights over equity instruments granted as compensation

The movement during the reporting period in the number of options over ordinary shares in Liontown Resources held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

| | Held at 1 July 2009 | Granted as compensation | Exercised | Expired/ Forfeited | Held at 30 June 2010 | Vested during the year | Vested and exercisable at 30 June 2010 |
|-----------------------------|---------------------------|----------------------------|-----------|-----------------------|----------------------------|------------------------------|---|
| T R B Goyder | 750,000 | - | - | (750,000) | - | - | - |
| D R Richards* | - | - | - | - | - | - | - |
| D A Jones | 5,000,000 | - | - | - | 5,000,000 | 2,000,000 | 3,000,000 |
| V P Gauci | 2,000,000 | - | - | - | 2,000,000 | 1,000,000 | 2,000,000 |
| A W Kiernan | 750,000 | - | - | (750,000) | - | - | - |
| C R Williams | 750,000 | - | - | (750,000) | - | - | - |
| Former Directors | | | | | | | |
| A R Bantock | 1,250,000 | - | - | (1,250,000) | - | - | - |
| Executive | | | | | | | |
| R K Hacker | 500,000 | - | - | - | 500,000 | 375,000 | 500,000 |

* Subject to shareholder approval at the Company's next general meeting, Mr Richards will be granted 3 million options expiring on 1 May 2013 with an exercise price of 10 cents. Of these options, 1 million have vested immediately and 2 million will vest on 1 May 2011, subject to continuing employment.

| | Held at 1 July 2008 | Granted as compensation | Exercised | Expired/ Forfeited | Held at 30 June 2009 | Vested during the year | Vested and exercisable at 30 June 2009 |
|-----------------------------|---------------------------|----------------------------|-----------|-----------------------|----------------------------|------------------------------|---|
| T R B Goyder | 750,000 | - | - | - | 750,000 | - | 750,000 |
| D A Jones | 2,000,000 | 3,000,000 | - | - | 5,000,000 | 1,000,000 | 1,000,000 |
| V P Gauci | 2,000,000 | - | - | - | 2,000,000 | 1,000,000 | 1,000,000 |
| A W Kiernan | 750,000 | - | - | - | 750,000 | - | 750,000 |
| C R Williams | 750,000 | - | - | - | 750,000 | - | 750,000 |
| Former Directors | | | | | | | |
| A R Bantock | 4,000,000 | - | - | (2,750,000) | 1,250,000 | - | 1,250,000 |
| Executive | | | | | | | |
| R K Hacker | 500,000 | 500,000 | - | (500,000) | 500,000 | 125,000 | 125,000 |
| Former Executive | | | | | | | |
| A Reynolds | 150,000 | - | - | (150,000) | - | - | - |

Liontown Resources Limited
Notes to the financial statements
For the year ended 30 June 2010

Movements in ordinary shares

The movement during the reporting period in the number of ordinary shares in Liontown Resources held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

| | Held at 1 July 2009 | Additions | Received on exercise of options | Sales | Held at 30 June 2010 |
|-------------------|---------------------------|-----------|---------------------------------------|-----------|----------------------------|
| Directors | | | | | |
| T R B Goyder | 48,736,689 | 4,515,755 | - | - | 53,252,444 |
| D R Richards | - | - | - | - | - |
| D A Jones | 1,120,000 | - | - | - | 1,120,000 |
| V P Gauci | 300,000 | 1,105,216 | - | - | 1,405,216 |
| A W Kiernan | 1,920,308 | 515,783 | - | - | 2,436,091 |
| C R Williams | 100,000 | 515,783 | - | - | 615,783 |
| Executives | | | | | |
| R K Hacker | 1,102,000 | 402,000 | - | (542,000) | 962,000 |

No shares were granted to key management personnel during the reporting period as compensation, except for those shares granted to Directors in lieu of directors' fees for 2009.

22. Subsequent events

During the year, Liontown sought a joint venture partner to assist with the high cost of better delineating and upgrading the Sheep Mountain Copper Molybdenum Project in Arizona, USA. A partner could not be secured and this combined with a decision to focus on gold exploration resulted in the Company withdrawing from the option agreements with the underlying lease holders subsequent to year end. An impairment loss of \$531,508 was recorded during the year to reflect the withdrawal from the project (see note 2).

Liontown Resources Limited

Director's declaration

- 1 In the opinion of the Directors of Liontown Resources Limited ('the Company'):
 - (a) the financial statements, notes and additional disclosures of the company are in accordance with the Corporations Act 2001 including:
 - (i) giving a true and fair view of the financial position of the Company as at 30 June 2010 and of its performance for the year then ended; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
 - (c) the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.
- 2 This declaration has been made after receiving the declaration required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2010.

This declaration is signed in accordance with a resolution of the Directors:



D R Richards
Managing Director
Dated this day 28 September 2010

INDEPENDENT AUDITOR'S REPORT

**To the members of
LIONTOWN RESOURCES LIMITED**

Report on the Financial Report

We have audited the accompanying financial report of Liontown Resources Limited, which comprises the statement of financial position as at 30 June 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the company as set out on pages 13 to 38.

Directors' Responsibility for the Financial Report

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

In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the financial statements of Liontown Resources Limited comply with International Financial Reporting Standards.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company'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 company'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.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

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 Liontown Resources Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1(a).

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 5 to 9 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 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

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

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

Di Giallonardo

Perth, Western Australia
28 September 2010

L DI GIALLONARDO
Partner

Liontown Resources Limited

Corporate Governance Report

Liontown Resources is committed to a high level of corporate governance in accordance with the Corporations Act and ASX Listing Rules. The Company's Corporate Governance Statement details the principles and practices adopted and can be found on the Company website (www.ltresources.com.au).

The following information is supplementary to the Corporate Governance Statement and addresses the principles which are not met:

Directors and Management

Details of each director's qualifications, experience and special responsibilities, their attendance at board meetings and the company secretary's qualifications and experience are disclosed on pages 3 and 4.

During the year the Company undertook reviews of the Board composition and executive management in accordance with sections 1.1 and 1.2 of the Corporate Governance Statement.

During the year, Dr Jones stepped down as Managing Director of the Company and was replaced by Mr David Richards. Dr Jones remains on the Board as a non-executive director. The Company considers that Mr Williams and Mr Gauci as independent directors.

Whilst the majority of directors are not considered to be independent directors, the Board believes that the individuals on the Board can make, and do make, quality and independent judgements in the best interests of the Company on all relevant issues. The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the appointment and further expense of an independent non-executive chairman and additional independent non-executive directors.

Committees

With the exception of the Audit Committee, which was established in August 2009, the Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of any other separate or special committees, such as a nomination committee or remuneration committee, at this time. The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards.

A copy of the Audit Committee Charter can be found on the Company website (www.ltresources.com.au) under the Corporate Responsibility section.

Risk Management

The Managing Director and Chief Financial Officer have assured the Board that the declaration provided in accordance with s295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Management has also reported to the Board that the Company's management of material business risks is effective.

Liontown Resources Limited

Corporate Governance Report

ASX Corporate Governance Council Recommendations

| | | | CGS Reference * | Comply |
|--|---|--|-----------------------|------------------|
| Principle 1: Lay solid foundations for management and oversight | | | | |
| 1.1 | Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions. | | 1.1 | ✓ |
| 1.2 | Companies should disclose the process for evaluating the performance of senior executives. | | 1.1 | ✓ |
| 1.3 | Companies should provide the information indicated in the Guide to reporting on Principle 1. | | | ✓ |
| Principle 2: Structure the Board to add value | | | | |
| 2.1 | A majority of the Board should be independent directors. | | 1.2 | × |
| 2.2 | The chair should be an independent director. | | 1.2 | × |
| 2.3 | The roles of chair and chief executive officer should not be exercised by the same individual. | | 1.2 | ✓ |
| 2.4 | The Board should establish a nomination committee. | | 1.3 | × |
| 2.5 | Companies should disclose the process for evaluating the performance of the board, its committees and individual directors. | | 1.1 | ✓ |
| 2.6 | Companies should provide the information indicated in the Guide to reporting on Principle 2. | | | ✓ |
| Principle 3: Promote ethical and responsible decision-making | | | | |
| 3.1 | Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> the practices necessary to maintain confidence in the Company' integrity. the practices necessary to take into account their legal obligations and the reasonable expectations of their Shareholders. the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. | | 2.1 2.2 | ✓ |
| 3.2 | Companies should establish a policy concerning trading in Company securities by directors, senior executives and employees and disclose the policy or a summary of that policy. | | 2.3 | ✓ |
| 3.3 | Companies should provide the information indicated in the Guide to reporting on Principle 3. | | | ✓ |
| Principle 4: Safeguard integrity in financial reporting | | | | |
| 4.1 | The board should establish an audit committee. | | 1.3 | ✓ |
| 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 chair, who is not chair of the board has at least three members | | 1.3 | ✓ ✓ ✓ ✓ |
| 4.3 | The audit committee should have a formal charter. | | 1.3 | ✓ |
| 4.4 | Companies should provide the information indicated in the Guide to reporting on Principle 4. | | | ✓ |

Liontown Resources Limited

Corporate Governance Report

| | | | |
|---|---|----------------|---|
| Principle 5: Make timely and balanced disclosure | | | |
| 5.1 | Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior level for that compliance and disclose those policies or a summary of those policies. | 3.1 | ✓ |
| 5.2 | Companies should provide the information indicated in the Guide to reporting on Principle 5. | | ✓ |
| Principle 6: Respects and rights of shareholders | | | |
| 6.1 | Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy. | 3.2 | ✓ |
| 6.2 | Companies should provide the information indicated in the Guide to reporting on Principle 6. | | ✓ |
| Principle 7: Recognise and manage risk | | | |
| 7.1 | Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies. | 4.1 | ✓ |
| 7.2 | The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks. | 4.2 | ✓ |
| 7.3 | The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. | 4.2 | ✓ |
| 7.4 | Companies should provide the information indicated in the Guide to reporting on Principle 7. | | ✓ |
| Principle 8: Remunerate fairly & responsibly | | | |
| 8.1 | The board should establish a remuneration committee. | 1.3 | × |
| 8.2 | Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives. | 5, Rem. Report | ✓ |
| 8.3 | Companies should provide the information indicated in the Guide to reporting on Principle 8. | | ✓ |

* Refer Corporate Governance Statement on the Company's website at www.ltresources.com.au.

Liontown Resources Limited

ASX Additional Information

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

Shareholdings

Substantial shareholders

The number of shares held by substantial shareholders and their associated interests as at 22 September 2010 were:

| Shareholder | Number of ordinary shares held | Percentage of capital held % |
|--|--------------------------------|---------------------------------|
| Timothy R B Goyder | 58,511,444 | 27.72 |
| Balfes (QLD) Pty Ltd | 13,150,000 | 6.23 |
| Graham Kluck Management & Investment Pty Ltd | 12,705,332 | 6.02 |

Class of Shares and Voting Rights

At 22 September 2010 there were 884 holders of the ordinary shares of the Company.

The voting rights to the ordinary shares set out in the Company's Constitution are:

"Subject to any rights or restrictions for the time being attached to any class or Classes of shares -

- at meetings of members or classes of members each member entitled to vote in person or by proxy or attorney: and
- on a show of hands every person who is a member has one vote and on a poll every person in person or by proxy or attorney has one vote for each ordinary share held."

Holders of options do not have voting rights.

Distribution of equity security holders as at 22 September 2010:

| Category | Number of equity security holders | |
|------------------|-----------------------------------|------------------------|
| | Ordinary Shares | Unlisted Share Options |
| 1 - 1,000 | 68 | 0 |
| 1,001 - 5,000 | 192 | 0 |
| 5,001 - 10,000 | 127 | 0 |
| 10,000 - 100,000 | 367 | 1 |
| 100,001 and over | 130 | 5 |
| Total | 884 | 6 |

The number of shareholders holding less than a marketable parcel at 22 September 2010 was 326.

Liontown Resources Limited
ASX Additional Information

Twenty largest Ordinary Fully Paid Shareholders
as at 22 September 2010

| Name | Number of ordinary shares held | Percentage of capital held % |
|---|--------------------------------|------------------------------|
| Plato Prospecting Pty Ltd | 58,511,444 | 27.72 |
| Balfes (QLD) Pty Ltd | 13,150,000 | 6.23 |
| Graham Kluck Management & Investment Pty Ltd | 12,705,332 | 6.02 |
| Equinox Resources Limited | 9,000,000 | 4.26 |
| Calm Holdings Pty Ltd | 8,192,008 | 3.88 |
| Lujeta Pty Ltd | 8,042,648 | 3.81 |
| Colbern Fiduciary Nominees Pty Ltd | 7,700,000 | 3.65 |
| Albion Bay Pty Ltd | 6,390,000 | 3.03 |
| ABN Amro Clearing Sydney Nominees Pty Ltd | 5,058,702 | 2.39 |
| Claw Pty Ltd | 4,500,000 | 2.13 |
| Calama Holdings Pty Ltd | 4,000,000 | 1.89 |
| Merrill Lynch (Australia) Nominees Pty Ltd | 3,764,267 | 1.78 |
| BT Portfolio Services Limited | 3,500,000 | 1.66 |
| Lost Ark Nominees Pty Ltd | 2,800,000 | 1.33 |
| Pindan Exploration Company Pty Ltd | 2,750,000 | 1.30 |
| Dr Lynette Hui Ching Wong | 2,500,000 | 1.18 |
| Mr Michael Joseph Tuite & Mrs Helen Elizabeth Tuite | 2,436,091 | 1.15 |
| Central Manhattan Pty Ltd | 1,885,563 | 0.89 |
| Melita Station Pty Ltd | 1,626,854 | 0.77 |
| Define Consulting Pty Ltd | 1,451,772 | 0.69 |
| V P Investments Pty Ltd | 1,405,216 | 0.66 |
| Total | 161,369,897 | 76.42 |