



ANNUAL REPORT 2008



Liontown

RESOURCES LIMITED

DIRECTORS

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

COMPANY SECRETARY

R K Hacker

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ASX CODE

Share Code: LTR



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CHAIRMAN'S LETTER



Dear Shareholder

Liontown Resources Limited has completed another active year with particular focus on diamond drilling at the Liontown Deposit to define a JORC compliant Mineral Resource of 1.85M tonnes at 7.5% zinc, 2.4% lead, 0.6% copper, 28 g/t silver and 0.6 g/t gold containing 194,000 tonnes of in situ contained zinc-lead-copper metal. The Liontown Deposit is not presently economic as a stand-alone mining operation, and therefore the Company has shifted its focus to explore for additional base and precious metal mineralisation in the highly prospective surrounding tenements where the Company holds over 3,000 km². The regional exploration work has commenced with a focus on what is known as the Liontown Mineralised Corridor, extending to the east and west of the Liontown Deposit. Exploration progress to date and the potential of this project is described in more detail in the following Review of Operations.

As you would be aware, the share and commodity markets are experiencing tumultuous times, resulting in little investor interest in providing new capital for companies such as Liontown Resources. In fact, our market capitalisation over the last 9 months has fallen considerably, a situation which is not uncommon to other ASX listed resource companies.

This environment presents your Board with many challenges in financing ongoing exploration. Therefore, during the period, it was decided to sell the Cowan Nickel Project to Panoramic Resources Limited. Panoramic Resources also took a placement of shares equal to approximately 4% of the Company's issued capital. Total funds received were approximately \$2M.

The Fort Constantine South Project was also joint ventured to Exco Resources Limited, who have now commenced exploration and may earn up to a 70% interest by spending \$3.2M over 4.5 years.

Given the market conditions and the need to complete further exploration at the Mount Windsor Volcanics Project, it is likely the Company will seek a joint venture partner to fund this expenditure.

Through an additional initiative, the Company has been successful in acquiring the rights to a significant porphyry-copper-molybdenum project known as Sheep Mountain in Arizona, USA. This deposit currently contains a non-JORC compliant Resource as set out in the following Review of Operations.

Subsequent to the reporting period, Andrew Bantock, our founding Managing Director, resigned. The Board wishes to thank Andrew for his significant efforts in the Company's listing on the ASX and then subsequently managing it in its formative years. We wish him well in his future endeavours. Fortunately, our Exploration Director, Dr Doug Jones, a well respected and experienced geologist, has accepted the position of Managing Director. Doug has considerable experience both within Australia and internationally where he has overseen the acquisition and discovery of successful exploration and mining projects.

I take this opportunity to thank my fellow directors, shareholders and our staff for their support during a difficult 2008, and look forward to better times in 2009.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Tim Goyder', with a stylized flourish at the end.

TIM R B GOYDER
Chairman

HIGHLIGHTS

Mount Windsor – Queensland, Australia

- JORC compliant Mineral Resource estimate received for the Liontown Deposit of **1.85 million tonnes at 7.5% zinc, 2.4% lead, 0.6% copper, 28 g/t silver and 0.6 g/t gold**; approximately 40% of this categorised as Indicated, with the remainder Inferred.
- This equates to approximately 139,000 tonnes in-situ zinc, 194,000 tonnes in-situ zinc-lead-copper.
- 4 km Liontown Mineralised Corridor identified; comprising an area of high geological prospectivity defined by contiguous geochemical and geophysical anomalies and drill indicated mineralisation.
- An initial 6,680 metre RAB drilling program testing a number of areas along the 4 km Liontown Mineralised Corridor returned a number of encouraging intercepts, suggesting potential extensions to known mineralisation.

Fort Constantine South – Queensland, Australia

- A farm-in option was agreed with Exco Resources Limited (Exco) for the Fort Constantine South Project, whereby Exco has the right, upon spending \$0.2 million within the first year, to spend a further \$1.0 million over 18 months to earn 51% of the project, followed by the right to spend a further \$2.0M over 2 years to increase this interest to 70% of the project.

Sheep Mountain – Arizona, USA

- An option was entered into to acquire the Sheep Mountain Project in Arizona, USA; with tenements covering a significant porphyry copper-molybdenum system.
- A further option has been agreed over the Sheep Mountain West Project; also covering the Sheep Mountain porphyry system and associated supergene mineralisation.

Corporate

- \$3.2 million of new capital raised through a share placement to sophisticated investors in November 2007.
- Cowan Nickel Project sold to Panoramic Resources Ltd (Panoramic) with a concurrent share placement and option issue for total proceeds of \$2.0 million; with Panoramic becoming an approximate 4% (fully diluted) shareholder in the Company.

REVIEW OF OPERATIONS



Liontown Resources Limited project locations in Australia

Liontown Resources' exploration portfolio comprises over 3,000km² of tenements held directly and under option in Australia and the USA, including:

- over 100 km of strike in the Mount Windsor Volcanics geological sequence in a prolific production area south of Charters Towers in North Queensland;
- the Fort Constantine South Project in Queensland adjacent to both Xstrata plc's Ernest Henry copper-gold mine and Exco Resources NL's E1 copper-gold deposit; and
- option agreements over the Sheep Mountain Project in Arizona, USA, covering a porphyry copper-molybdenum system.



REVIEW OF OPERATIONS

1.0 Mount Windsor Volcanics Project (100% Liontown Resources Limited)

Liontown Resources' Mount Windsor Volcanics Project includes over 100 km of strike on over 3,000 km² of prospective ground south of Charters Towers in Queensland (Figure 1). This extends from within 5km of Kagara Limited's Thalanga Mine in the west, to due south of Resolute Mining Limited's Ravenswood Gold Mine in the east.

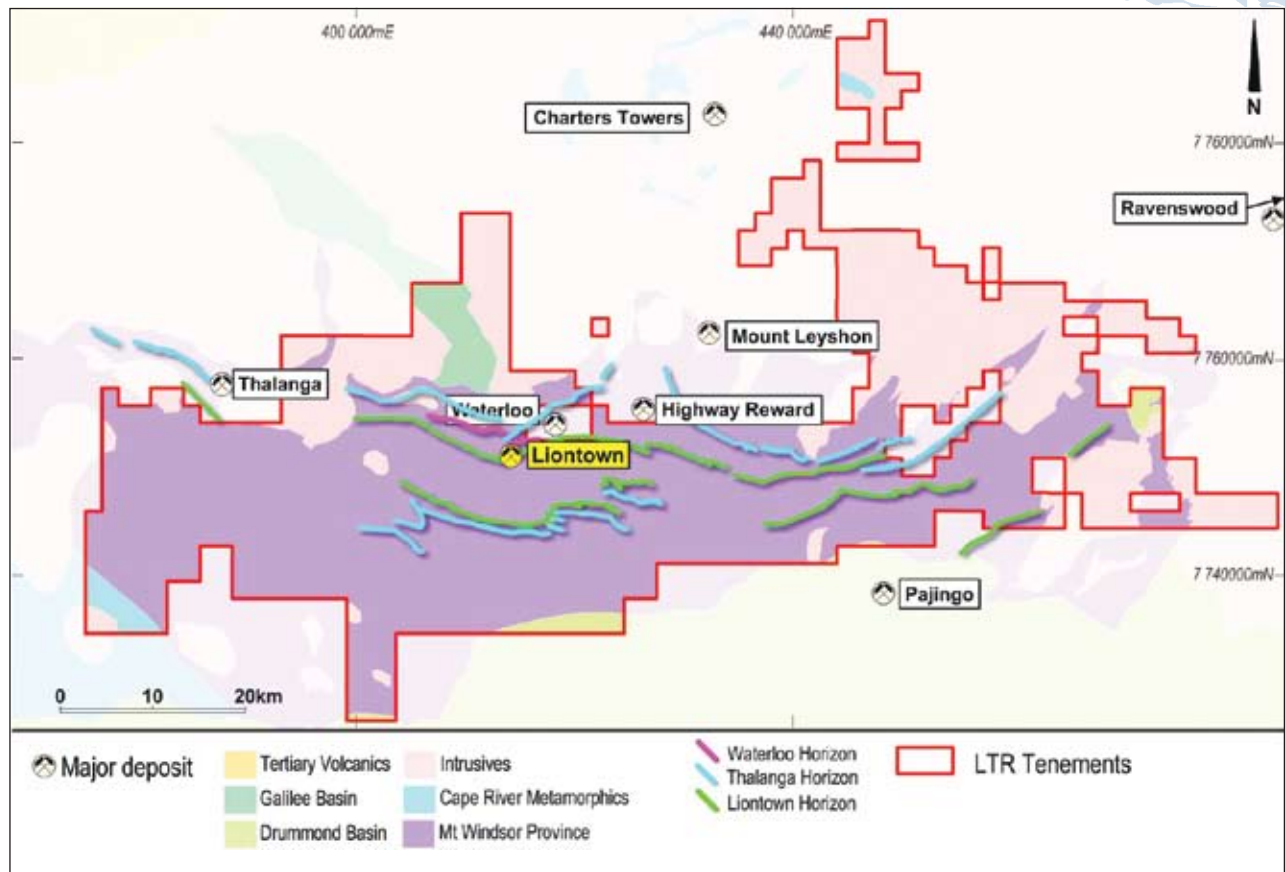


Figure 1: Liontown Resources' Mt Windsor Volcanics ground position, showing key mineralised horizons and highlighting 85% of Mount Windsor Volcanics held, adjacent producing mines and significant resources horizons

The Mount Windsor region has seen prolific minerals production, with a metal endowment of over 15 million ounces of gold, 350,000 tonnes of zinc, 300,000 tonnes of copper, 90,000 tonnes of lead and 200,000 ounces of silver.

Liontown Resources considers the Mount Windsor Volcanics Project area to be prospective for a range of deposit styles, including volcanic hosted massive sulphide ('VHMS') base metals deposits, as exhibited by Thalanga and Lontown, VHMS gold-copper deposits such as Highway-Reward, mesothermal epigenetic gold deposits such as at Charters Towers and Mount Leyshon and epithermal gold deposits similar to those at Pajingo. These deposits are all located within a 40 km radius of the Project.

Both the Mount Leyshon and Ravenswood-Pajingo structural corridors, regarded as being major controls on the gold mineralisation in the region, run through the Company's ground position.

REVIEW OF OPERATIONS



1.1 Liontown Mineral Resource

Liontown Resources completed a 13,440 metre predominantly diamond drilling program in November 2007, comprising 41 holes designed to validate historical drilling data and test for extensions to known mineralisation at the Liontown Deposit.

The information generated from this program was incorporated in a Resource model (Figure 2), and in December 2007 Independent Resource consultants McDonald Speijers provided an initial JORC compliant Mineral Resource estimate for the Liontown Deposit of 1.85 million tonnes @ 7.5% zinc, 2.4% lead, 0.6% copper, 28 g/t silver and 0.6 g/t gold.

This equates to 138,750 tonnes of contained zinc metal, or 194,250 tonnes of total contained zinc-lead-copper metal.

Approximately 40% of this Resource is categorised as Indicated, with the remainder Inferred. The estimate applied a 4% zinc equivalent cutoff and minimum horizontal width of 1.5 metres.

Approximately 11% of the Resource tonnage lies within an interpreted oxide zone above the main lodes. This is considered unlikely to be recoverable in a mining scenario.

For the purposes of the estimate, zinc equivalence was calculated by McDonald Speijers based on the following formula: $eZn\% = Zn\% + Pb\% + (Cu\% \times 3)$.

A breakdown of the Resource Estimate is presented in Table 3 below.

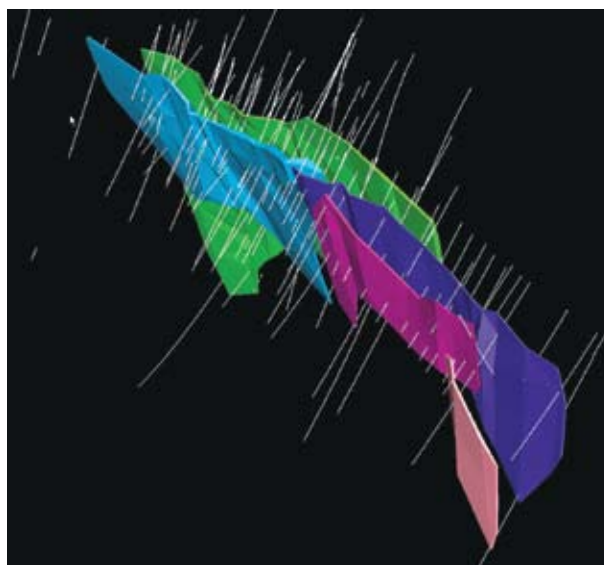


Figure 2: 3D image showing modelled mineralisation at the Liontown Deposit, from the northwest. Liontown Lode shown in green, Carrington Lode in blue, with other colours representing footwall copper-gold stringer lodes

Resource Class	Ore Tonnes	Zinc (%)	Lead (%)	Copper (%)	Gold (g/t)	Silver (g/t)
Primary sulphide resource						
Indicated	730,000	7.3	2.5	0.53	0.71	27
Inferred	910,000	7.6	2.2	0.46	0.33	28
Total	1,640,000	7.4	2.3	0.49	0.50	28
Oxidised mineralisation						
Inferred	205,000	7.4	3.1	1.12	0.96	31
Overall total	1,845,000	7.5	2.4	0.56	0.55	28

Table 3: Liontown JORC compliant Resource and Mineralisation estimates

REVIEW OF OPERATIONS

1.3 4 km Liontown Mineralised Corridor

A review of historical exploration by previous explorers on the Company's tenements, in particular past geochemical sampling from both soil sampling and RAB drilling campaigns, geophysical surveys and bedrock drilling both by Liontown Resources and previous explorers has identified the 4 km Liontown Mineralised Corridor (Figure 3).

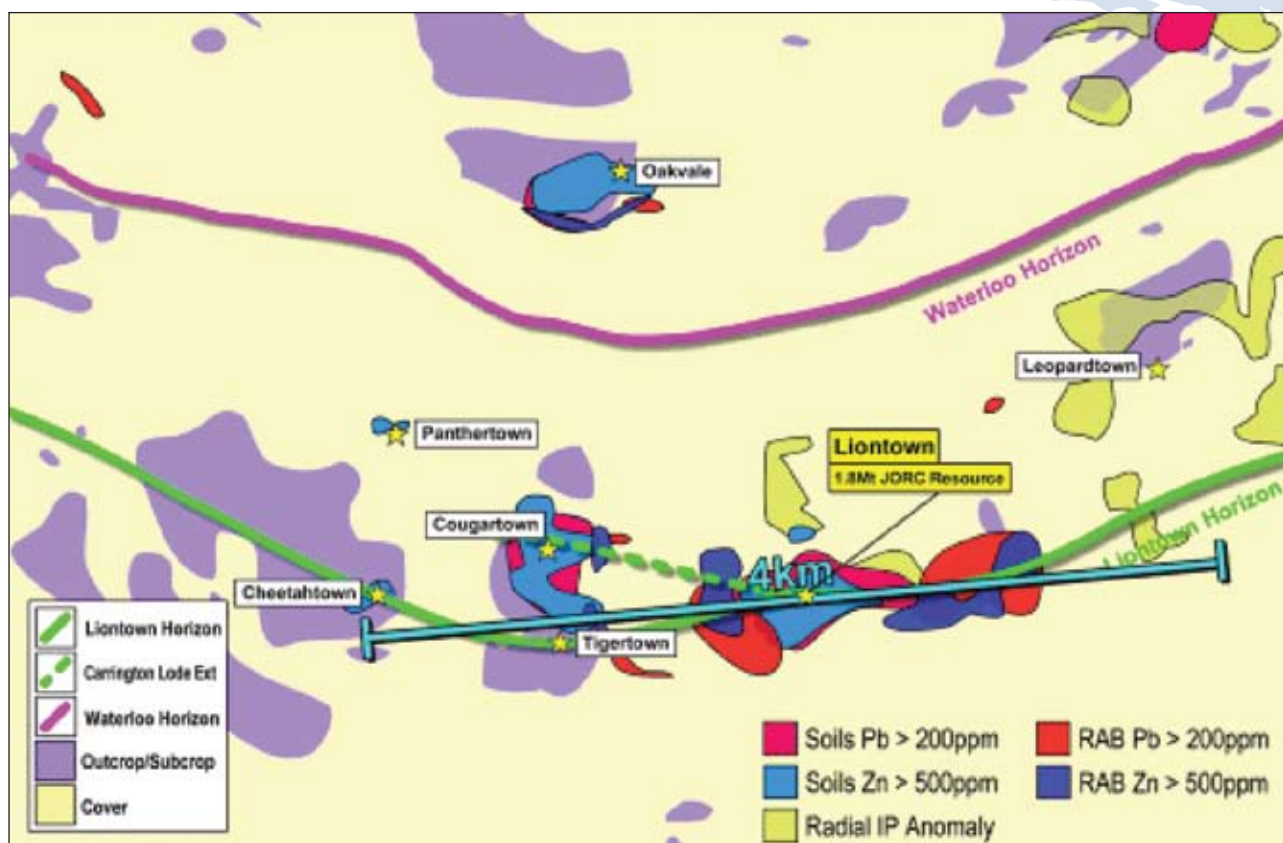


Figure 3: 4 km Lontown Mineralised Corridor, defined by contiguous geochemical and geophysical anomalies, lying within over 120 km of the Lontown Horizon which is interpreted to traverse Lontown Resources' tenements

The Lontown Mineralised Corridor lies on the Lontown Horizon which is interpreted to extend for over 100 km across Lontown Resources' tenements.

This horizon represents a favourable stratigraphic position for the development of volcanic hosted massive sulphide (VHMS) deposits within the host Mt Windsor Volcanics sequence as evidenced by the Lontown Deposit and other identified prospects.

Lontown Resources' tenements also feature substantial coverage of the Thalanga and Waterloo Horizons, which also host major base metal mineralisation and past producing mines, elsewhere in the district.

Lontown Resources undertook a limited scale (6,680 metre) RAB/Air core drilling program in June-July 2008, targeting extensions to the Lontown Deposit by identifying further non-outcropping mineralised deposits along strike.

Similar 'blind' occurrences were previously identified through follow up of RAB/Air core drilling lead (Pb) anomalies at Kagara Ltd's Thalanga Mine, approximately 40 km to the west of the Lontown Deposit, as illustrated by the long section image (Figure 4), and at Kagara Ltd's Waterloo Deposit approximately 5 km to the northeast.

REVIEW OF OPERATIONS

Liontown
RESOURCES LIMITED

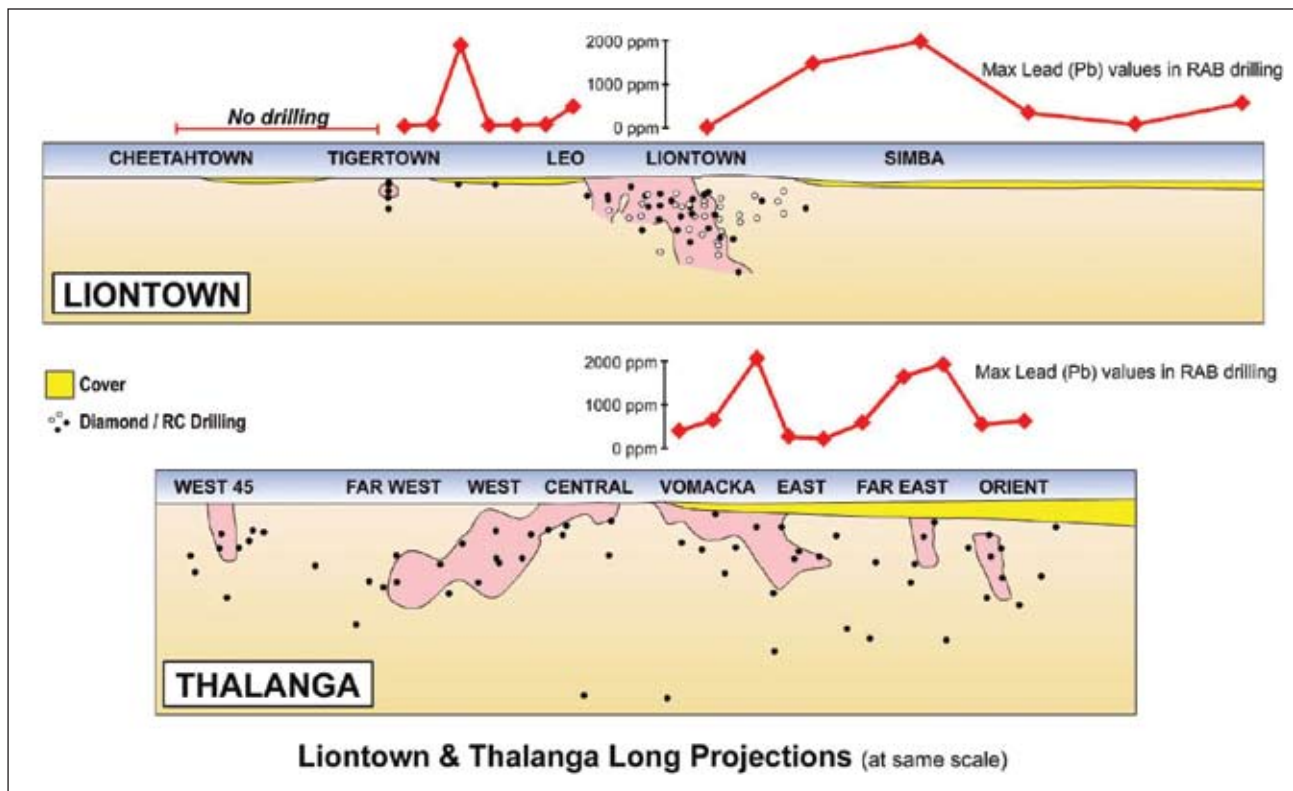


Figure 4: Same scale comparison of the Liontown Deposit and Kagara Ltd's nearby Thalanga Mine, highlighting lead (Pb) values in RAB drilling and relative lack of drilling of bedrock targets adjacent to the Liontown Deposit

Initial NITON XRF assays and the 2008 RAB drilling have confirmed previous indications of lead and zinc anomalism east of Liontown at the Simba Prospect that will require follow-up RC drilling.

Similarly, anomalous NITON XRF lead and zinc values in the projected position of the Waterloo Horizon between Liontown and Oakvale provide encouragement that this highly prospective horizon may extend through this area.

The RAB drilling at Tigertown and Cougartown has defined complex zinc, lead and gold anomalism that will also require further drilling.



Diamond drill rig operating at Liontown

REVIEW OF OPERATIONS

1.4 Gold Exploration Potential

Review of open-file, multi-client and proprietary aeromagnetics covering the central part of the Mount Windsor Volcanics reveals numerous kilometre-scale annular magnetic features consisting of weakly magnetised cores surrounded by highly magnetised rims.

This magnetic signature is similar to that displayed by the Mt Leyshon (2.5 million ounces past gold production) breccia system which lies just to the north. Mt Leyshon is postulated to lie on an east northeasterly trending structural corridor, the 'Mt Leyshon Corridor' which can be extrapolated southwestwards across the Company's ground, where several of the annular magnetic features are located within it (Figure 5).

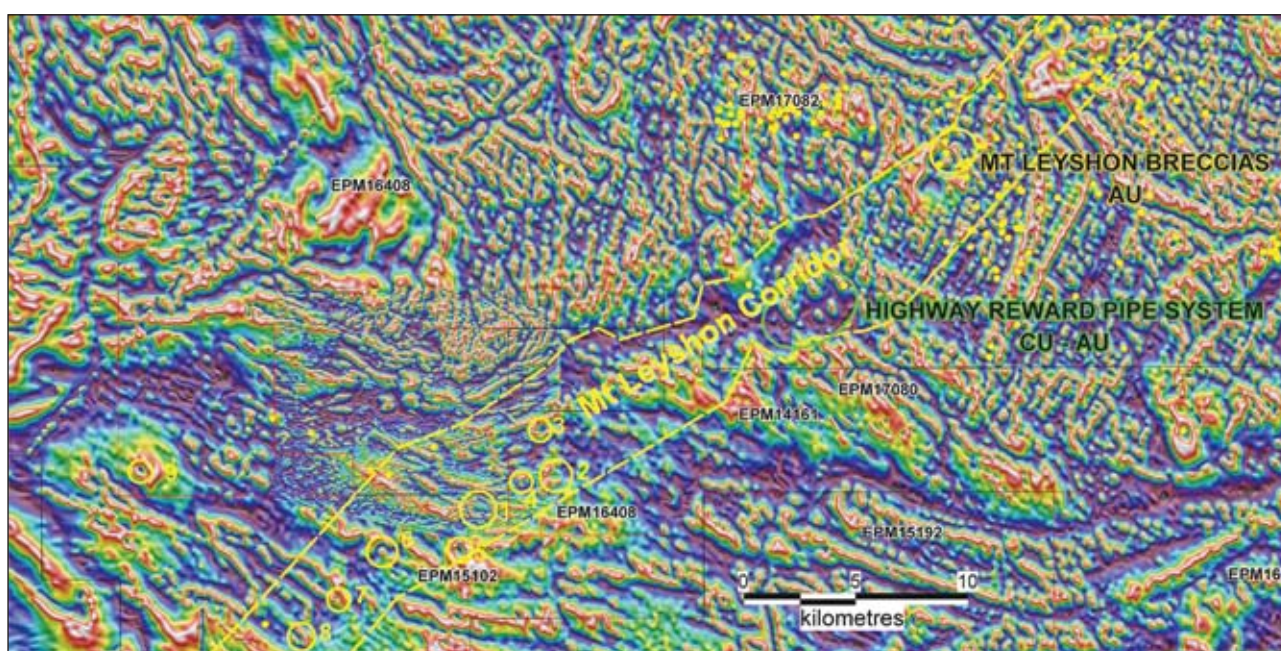


Figure 5: Reduced to poles (RTP) aeromagnetics image covering central area of Liontown Resources' tenements. The dashed yellow lines define limits of the 'Mt Leyshon Corridor' interpreted from magnetics. Yellow dots represent known gold occurrences. Yellow circles outline annular magnetic features possibly indicative of buried Leyshon-style breccia systems or high level intrusives.

Of the seven targets identified six lie beneath later 'Campaspe' cover at depths of up to 100 metres. However one of the targets (Mosquito Hill) is exposed and sampling of the brecciated, quartz-veined and ferruginous rocks in the core of the structure (Figure 6) has revealed highly anomalous levels of arsenic and other potential gold pathfinder elements as well as weakly anomalous gold (to 30 ppb).

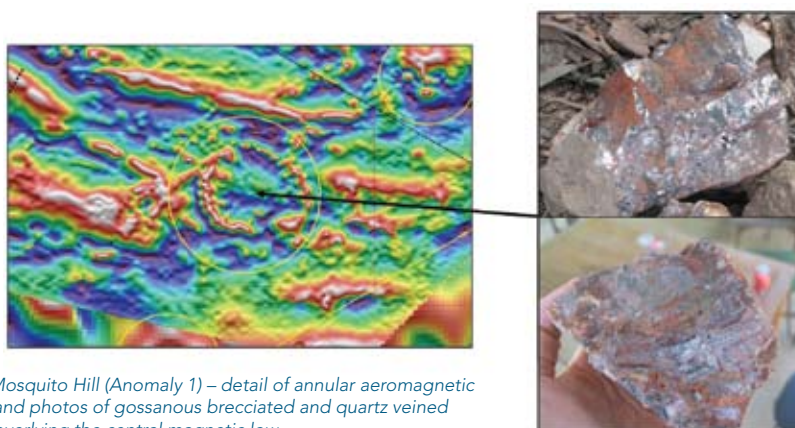


Figure 6: Mosquito Hill (Anomaly 1) – detail of annular aeromagnetic signature and photos of gossanous brecciated and quartz veined siltstones overlying the central magnetic low.

REVIEW OF OPERATIONS



2.0 Fort Constantine South Project (100% Liontown Resources Ltd, with Exco Resources Limited holding an option to farm-in up to 70%)

The 100 km² Fort Constantine South Project, located in the Eastern Succession of the Mt Isa Inlier in northwest Queensland (Figure 7), comprises two tenements. The project lies within 5 km of both Xstrata plc's Ernest Henry copper-gold mine and Exco Resources NL's (Exco) E1 copper-gold deposits.

Exco has agreed to enter into an option for an exploration joint venture at the project whereby it can earn up to a 70% interest by spending \$3.2 million over 4.5 years.

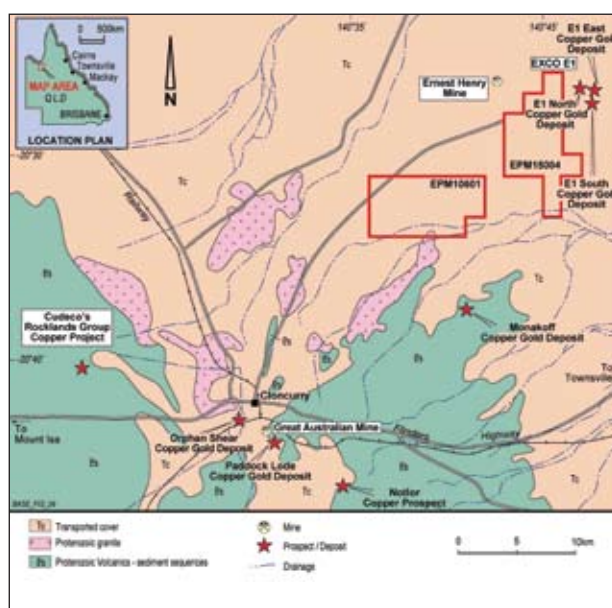


Figure 7: Fort Constantine South Project - regional location plan

Previous exploration has defined various targets, including areas of known copper anomalism requiring further work, untested magnetic anomalies, structural targets associated with jogs in meridional structures similar to the control on Ernest Henry, and gravity targets identifying possible hematite related alteration systems.

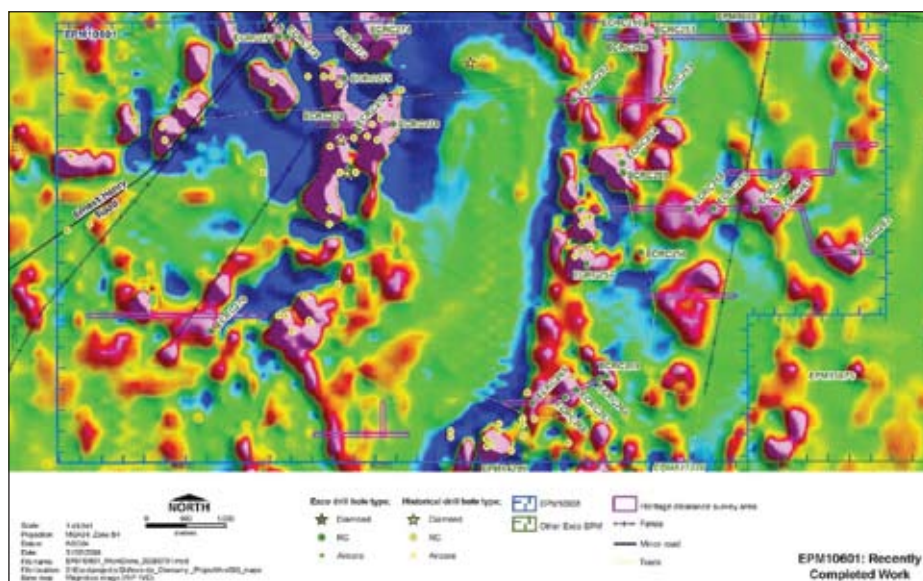


Figure 8: Fort Constantine South Project – joint venture RC drilling over Total Magnetic Intensity

REVIEW OF OPERATIONS

Exco commenced an initial RC drilling program at Fort Constantine South in June 2008, targeting a number of previously untested or partly tested magnetic anomalies on EPM10601 (shown in Figure 8). The program comprised 30 holes for 1,578 metres. Results were generally disappointing with the best intercept of 6m @ 0.46% Cu from 54-60m (end of hole) in ECRC250.

Further work is planned, including drilling of aeromagnetic targets on EPM15004.

3.0 Sheep Mountain Project (Liontown Resources holds an option to acquire 100% of the project)

In June 2008 Liontown Resources entered into an option agreement with Cheyenne, Wyoming based Lone Tree Exploration LLC ("LTE") to acquire the Sheep Mountain Project in Arizona, USA.

In August 2008 Liontown Resources added to this ground position by entering into a further option agreement with Reno, Nevada based MinQuest Inc ("MinQuest") to acquire tenements which adjoin the Sheep Mountain Project, to the west.

The combined Sheep Mountain Project (i.e. including both the LTE and the MinQuest option areas) is located approximately 80 km north northwest of Phoenix, and consists of 152 unpatented lode claims covering approximately 1,550 hectares in Yavapai Country, north central Arizona (Figure 9).

The claims cover a large porphyry copper-molybdenum deposit explored during the 1960's and 1980's by Phelps Dodge Corporation, Bear Creek Exploration (a subsidiary of RTZ-Kennecott) and Utah International (before its takeover by BHP). Collectively these companies drilled 56 core and rotary holes for a total of 22,865 metres.

Combined historical exploration expenditure on the project is estimated at over US\$10 million in today's dollar values.

An historical (i.e. non-JORC compliant) Resource estimate for mineralisation at the project was calculated in 1992 by internationally recognised consulting group Watts, Griffiths and McQuat Limited at 25.5 million tonnes grading 1.55% copper and 0.04% molybdenum, beneath volcanic cover of up to 600 metres.

Section 3.2 below provides further details of this historical estimate as required by ASX Companies Update 11/07. This estimate is not reported in accordance with the JORC Code and it is uncertain that further exploration will allow the resource to be reported in accordance with the JORC Code.

The options to acquire the Sheep Mountain Project claims represent a potentially significant asset for Liontown Resources, being the Company's first off-shore project, with previous exploration suggesting the presence of a major mineralised system. The relative value of the project will be determined by the success of further exploration, prevailing commodity prices and future development/operating costs.



Figure 9: Location of the Sheep Mountain Project

3.1 Geological Setting

Known hypogene (primary) mineralisation at Sheep Mountain consists of copper and molybdenum sulphide mineralisation extending over an area of approximately 4 by 1.5 km, developed in and marginal to a composite Laramide-age (Eocene) quartz monzonite to latite porphyry stock (Figure 10).

A supergene copper-molybdenum zone up to 50 metres thick is preserved over parts of the primary mineralisation. Distribution of these preserved remnants appears to be controlled by down-faulted blocks developed within a northwesterly post-Laramide fault system prior to deposition of more recent volcanics.

Similar Laramide-age porphyries in adjacent parts of the western USA and northern Mexico host giant porphyry copper and molybdenum deposits such as the Resolution (Magma), Bagdad, Inspiration, Miami and Morenci deposits in Arizona, the Bingham Canyon deposit in Utah, and the Cananea deposit in Mexico.

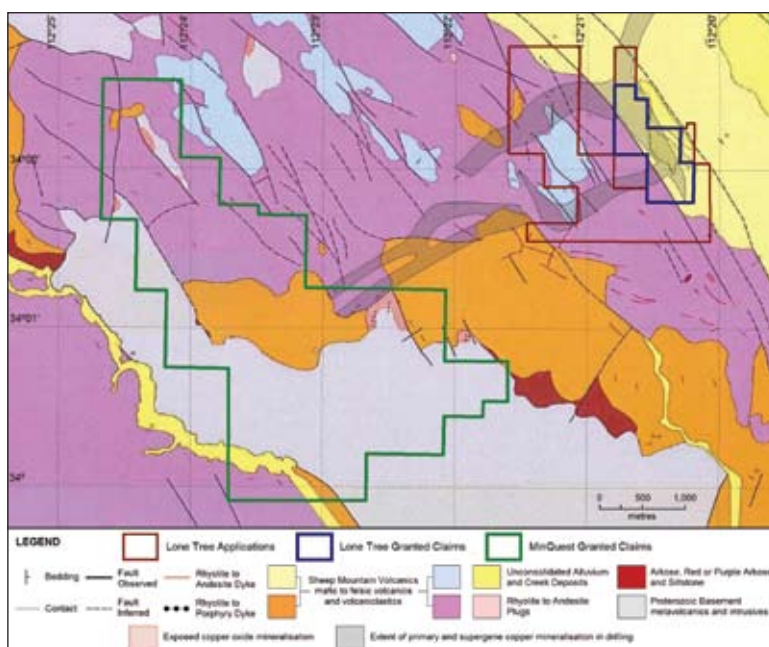


Figure 10: Geology of the Sheep Mountain district showing location of Lone Tree Exploration and MinQuest claims.

Although many of these deposits are or were mined by open pit methods, several are now mined by underground methods at considerable depths. For example, BHP Billiton's Kalamazoo Deposit was mined to a depth of 1,100 metres, and Rio Tinto is planning to block cave the Resolution Deposit at depths of over 2,100 metres.



View looking northwest along the Cow Creek fault zone, Sheep Mountain Project, which hosts the supergene resource at depth. This view is from the lower right of Figure 10, looking towards the upper left.

REVIEW OF OPERATIONS

The claims held under option with MinQuest cover the western extension of the Sheep Mountain mineralised system where post-mineral volcanic cover is thinner or stripped off. A number of northwesterly trending faults cross the area along which vertical movements have occurred. This may have preserved supergene copper mineralisation in down-faulted blocks, as has been postulated for the supergene deposit on the claims subject to the LTE option to the east.

Recent MinQuest drilling intersected up to 18 metres of oxide copper mineralisation grading 0.29% postulated to overlie a deeper supergene zone, a concept that requires further testing.



Outcrop of primary porphyry-style alteration and veining at Sheep Mountain West

3.2 Details as to Historical Non-JORC compliant Mineralisation Estimate for the Sheep Mountain Project, provided per ASX Companies Update 11/07

The Arizona Department of Mines and Mineral Resources (ADMMR) has published a report quoting a global geological resource for the Sheep Mountain property. This resource is based on drilling by Phelps Dodge and Utah International who drilled 43 and 8 holes respectively, on nominal 500 metre centres, locally closed in to 250 metre centres (Figure 11).

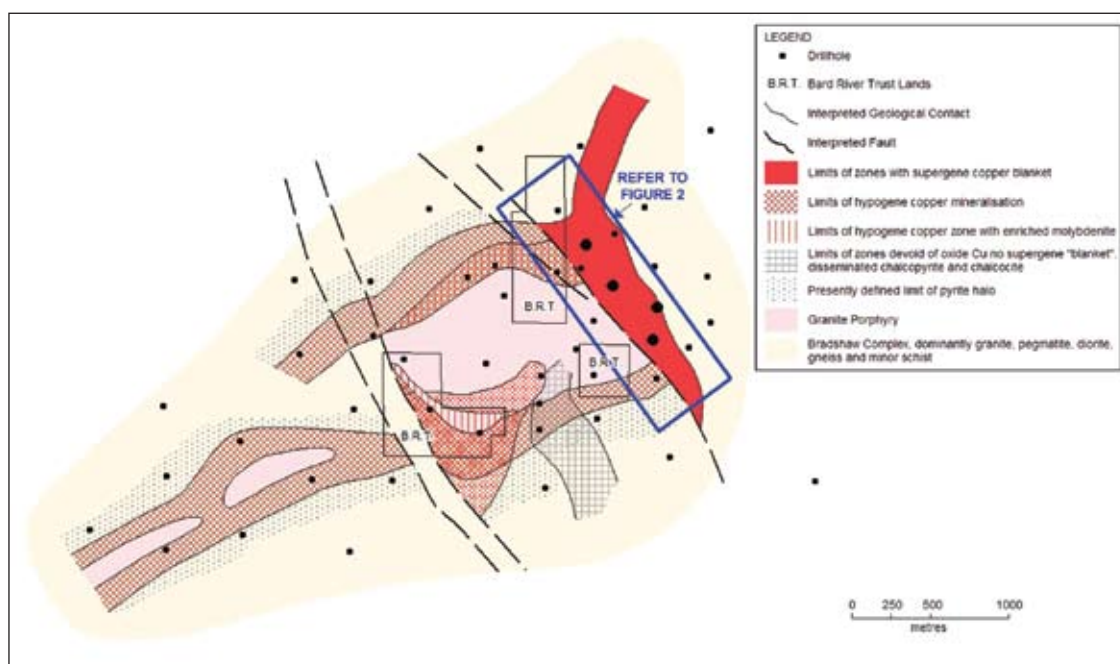


Figure 11: Geology and mineralisation of the Sheep Mountain Project showing location of existing Lone Tree Exploration claims, claim application areas and Phelps Dodge and Utah drilling (holes into the supergene zone bolded).

REVIEW OF OPERATIONS



Drill logs and assay certificates for the Phelps Dodge and Utah diamond drilling have been obtained by Liontown Resources and confirm that assaying was completed by AAS and colourimetry methods for copper and molybdenum respectively.

Although details of the resource estimation methods behind the ADMMR numbers are unknown, both Phelps Dodge and Utah were major participants in the exploration and mining of porphyry copper deposits, and therefore Liontown Resources is confident that both their exploration work and resource estimation methodologies were consistent with standard industry practice at that time.

The global resource quoted by the ADMMR includes a supergene resource (mineral inventory) of 25.5 million tonnes grading 1.55% copper and 0.04% molybdenum. This estimate was calculated in 1992 by internationally recognized consulting group Watts, Griffiths and McQuat Limited (WGM) for the then owners of the property, Orcana Resources Limited (Figure 12).

Mineralisation, consisting of a chalcocite-bornite-chalcopyrite-molybdenite-pyrite assemblage, was intersected in four widely spaced diamond drill holes over an elongate zone extending approximately 1,700 metres by 335 metres along the Cow Creek fault zone. The zone averages around 27 metres in thickness and lies beneath post-mineral volcanic cover up to 600 metres thick.

WGM based their estimate on a manual block model using weighted average grades for the 4 holes that intersected the zone.

Grades were based on 10 feet (3.04 metre) and 50 feet (15.25 metre) composites for copper and molybdenum respectively and it was assumed that mineralisation was developed as a continuous blanket between holes. A tonnage factor based on assumed specific gravities for the lithologies present was used.

Although not to JORC standard the WGM resource estimate appears to Liontown Resources to have been conducted by a competent geoscientist (PEng) to a standard consistent with industry practices at the time.

Despite the non-JORC standard of the resource estimates the historical exploration has clearly demonstrated the presence of a large resource of low grade hypogene porphyry copper-molybdenum mineralisation overlain in part by a moderate grade supergene copper-molybdenum deposit. This provides sufficient encouragement for Liontown Resources to conduct further exploration to confirm the historical results and provide information on both the hypogene and supergene mineralisation including geometry, grade and specific density, using sampling, assaying and QA/QC methodologies to a standard that will allow a Competent Person to provide a resource estimate consistent with the JORC code.

It is Liontown Resources' intention to first evaluate the supergene mineralisation before proceeding to an initial five hole, 5,000 metre, diamond drilling program, and dependent on the outcome, then proceed to a systematic drill-out of this resource. This drilling should commence during 2009. Assessment of previous exploration of the hypogene mineralisation will also be conducted to evaluate the broader potential of this large but lower grade mineralisation.

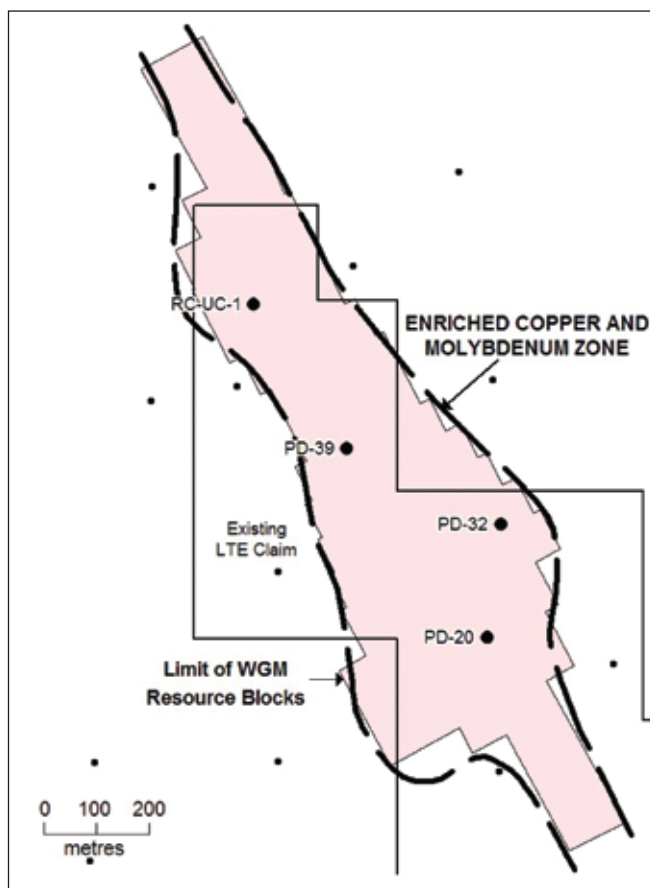


Figure 12: Supergene Cu-Mo zone as defined by Phelps Dodge and Utah drilling, and showing resource blocks used in WGM estimate.

REVIEW OF OPERATIONS

Based on available information, Liontown Resources believes the mineralisation quoted above, whilst clearly not JORC Code compliant Resources and originally compiled for the internal use of the companies involved, are relevant and material to the agreement reached with Lone Tree Exploration. Liontown Resources furthermore believes the resource estimates provided above are consistent with the reporting of foreign and pre-JORC resources under ASX Companies Updates 05/04 and 11/07. The ASX has previously granted a waiver to Listing Rule 5.6 to allow Liontown to report the historical foreign estimates of Resources and Reserves.

Dr Douglas A Jones, CP Geo, accepts responsibility for the accuracy of the information provided above.

The information in this report that relates to Exploration Results is based on information compiled by Dr Doug Jones, a full-time employee and Director of Liontown Resources Limited, who is a Member of the Australian Institute of Mining and Metallurgy and is a Registered Professional Geologist. Dr Jones 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.

The resource estimation and associated work related to the Liontown Deposit and described above has been carried out by Diederik Speijers of McDonald Speijers. Diederik is a Fellow of the Australasian Institute of Mining and Metallurgy and has the necessary experience in deposits of similar style to Liontown to be considered as a Competent Person under the December 2004 edition of the JORC Code and consents to the release of information in the form and context in which it appears here.



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A blue-toned photograph of a vast, flat landscape under a clear sky. In the distance, a few small figures are visible on the horizon. The overall mood is serene and expansive.

FINANCIAL REPORT 2008

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 2008 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 publicly-listed companies and is currently a Director of Chalice Gold Mines Limited and Uranium Equities Limited.

D A Jones
PhD, AusIMM, CPGeo
Managing 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 a director of AIM-listed Mineral IRL Limited.

V P Gauci
B.Eng (Hons)
Non-executive Director
(appointed 7 August 2007)

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 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 Solicitor with considerable experience in the administration and operation of listed public companies. He practices extensively in the areas of media, resources and information technology law. In addition to his legal practice Tony provides commercial and corporate advice to various entities. Tony is Chairman of Anglicare (WA) and BC Iron Limited. He is also a Director of Uranium Equities Limited and Chalice Gold Mines Limited.

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 and is a Director of TSX-V listed Alturas Minerals Corporation.

A R Bantock
B.Com, ACA
Former Managing Director
(resigned 1 August 2008)

J R McIntyre
BSc (Hons), MAIG
Executive Director
(Resigned 17 July 2007)

DIRECTORS REPORT

2. Company secretary

R K Hacker

B.Com, ACA, ACIS
(resigned 7 April 2008,
appointed 1 August 2008)

Richard has 15 years 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 both a Chartered Accountant and Chartered Secretary and is also Company Secretary of Chalice Gold Mines Limited and Uranium Equities Limited.

A M Reynolds

B.Com, CFTP, SAFin
(appointed 7 April 2008,
resigned 1 August 2008)

3. Directors' meetings

During the year, ten 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	10	10
A R Bantock	10	10
D A Jones	10	10
V P Gauci	10	10
A W Kiernan	9	10
C R Williams	8	10

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 loss after tax for the year of \$10.3 million, primarily as a result of recording an impairment loss in relation to the Company's exploration and evaluation assets.

5. Review of Operations

During and since the end of the financial year Liontown Resources Limited:

- Received a JORC compliant Mineral Resource estimate for the Liontown Deposit of 1.85 million tonnes at 7.5% zinc, 2.4% lead, 0.6% copper, 28 g/t silver and 0.6 g/t gold; approximately 40% of this categorised as Indicated, with the remainder Inferred. This equates to approximately 139,000 tonnes in-situ zinc, 194,000 tonnes in-situ zinc-lead-copper.
- Identified a 4 kilometre Liontown Mineralised Corridor; comprising an area of high geological prospectivity defined by contiguous geochemical, drill indicated and geophysical anomalies.
- Undertook an initial 6,680 metre RAB drilling program testing a number of areas along the 4 kilometre Liontown Mineralised Corridor which returned a number of encouraging intercepts, suggesting potential extensions to known mineralisation.
- Entered into a farm-in option with Exco Resources Limited (Exco) for the Fort Constantine South Project, whereby Exco has the right, upon spending \$0.2 million within the first year, to spend a further \$1.0 million over 18 months to earn 51% of the project, followed by the right to spend a further \$2.0M over 2 years to increase this interest to 70% of the project. Exco commenced drilling at Fort Constantine South in June 2008, completing 30 RC holes for a total of 1576 metres.
- Entered into an option to acquire the Sheep Mountain Project in Arizona, USA; with tenements covering a significant porphyry copper-molybdenum system. A further option has been agreed over the Sheep Mountain West Project; also covering the Sheep Mountain porphyry system and associated supergene mineralisation.
- Raised \$3.2 million of new capital through a share placement to sophisticated investors in November 2007.
- Sold the Cowan Nickel Project to Panoramic Resources Ltd (Panoramic) with a concurrent share placement and option issue for total proceeds of \$2.0 million; with Panoramic becoming an approximate 4% (fully diluted) shareholder in the Company.

6. Significant changes in the state of affairs

No significant changes in the state of affairs of the Company, other than those stated above or in the Financial Report, occurred during or since the end of the financial year.

7. Remuneration report - audited

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

7.1 Principles of compensation

The broad remuneration policy of the Company is to ensure that remuneration levels for executive Directors, officers and senior managers are set at competitive levels to attract and retain appropriately qualified and experienced personnel. This is particularly important in view of the strong demand for experienced technical and financial personnel currently being experienced in the Australian and international resources industry, driven by increased world demand for commodities, and the significant impact that each individual can make within a small executive team for an exploration and development company such as at 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.

DIRECTORS REPORT

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, including motor vehicles), 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 Directors			
A R Bantock Former Managing Director (Resigned 1 August 2008)	Unlimited	3 months by the Company and the employee	Other than for misconduct, the Company must pay Mr Bantock 12 months salary to terminate his contract. In the case of a take-over, and if Mr Bantock is not offered a similar position and terms of employment, the Company must pay Mr Bantock 12 months salary to terminate his contract.
D A Jones Managing Director	Unlimited	3 months by the Company and the employee	In the case of a take-over, and if Dr Jones is not offered a similar position and terms of employment, the Company must pay Dr Jones 12 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.

DIRECTORS REPORT



7.2 Directors' and executive officers' remuneration (audited)

		Short-term payments			Post-employment payments	Share-based payments		Value of options as proportion of remuneration (%)
		Salary & fees \$	Non-monetary benefits \$	Total \$	Superannuation benefits \$	Options (A) \$	Total \$	
Key Management Personnel								
Directors								
T R B Goyder	2008	45,872	2,295	48,167	4,128	35,257	87,552	40%
	2007	29,017	2,263	31,280	2,612	39,998	73,890	54%
A R Bantock	2008	160,551	2,295	162,846	14,450	58,762	236,058	25%
	2007	80,275	2,263	82,538	7,225	66,665	156,428	43%
D A Jones	2008	143,600	1,905	145,505	64,734	121,335	331,574	37%
	2007	-	-	-	-	-	-	-
V P Gauci	2008	62,076	2,063	64,139	5,587	121,335	191,061	63%
	2007	-	-	-	-	-	-	-
A W Kiernan	2008	32,110	2,295	34,405	2,890	35,257	72,552	49%
	2007	20,312	2,263	22,575	1,828	39,998	64,401	62%
C R Williams	2008	32,110	2,295	34,405	2,890	35,257	72,552	49%
	2007	20,312	1,439	21,751	1,828	39,998	63,577	63%
Former Director								
J R McIntyre (resigned 17 July 2007)	2008	6,718	1,524	8,242	-	58,762	67,004	88%
	2007	68,119	9,349	77,468	6,881	66,665	151,014	44%
Executives								
A M Reynolds (appointed 17 March 2008)	2008	-	660	660	-	-	660	0%
	2007	-	-	-	-	-	-	-
Former Executive								
R K Hacker (Company Secretary)	2008	-	1,792	1,792	-	23,505	25,297	93%
	2007	-	2,263	2,263	-	26,667	28,930	92%
Total Compensation	2008	483,037	17,124	500,161	94,679	489,470	1,084,310	
	2007	218,035	19,840	237,875	20,374	279,991	538,240	

Note: Company secretarial services are provided by Richard Hacker and Andrew Reynolds under a Corporate Services Agreement on commercial terms with Chalice Mines Limited. (Refer to note 24)

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. The following factors and assumptions were used in determining the fair value of options on grant date:

Grant Date	Expiry Date	Fair value per option	Exercise price	Price of ordinary shares on grant date	Expected volatility	Risk free interest rate	Dividend yield
01.12.07	01.12.12	0.15	0.35	0.25	87%	6.30%	Nil
01.12.07	01.12.12	0.10	0.50	0.25	80%	6.35%	Nil
01.12.07	01.12.12	0.12	0.35	0.25	80%	6.35%	Nil
23.04.08	23.04.11	0.04	0.20	0.08	99%	7.00%	Nil

Details of performance related remuneration

Detail of the Company's policy in relation to the proportion of remuneration that is performance related is discussed at 7.1 above.

7.3 Equity instruments

7.3.1 Options and rights over ordinary shares granted as compensation

Details of options over ordinary shares in the Company that were granted as compensation to key management personnel during the reporting period and details of options that vested during the reporting period are as follows:

	Number of options granted during 2008	Grant date	Number of options vested during 2008	Fair value per option at grant date \$	Exercise price \$	Expiry date
Directors						
A R Bantock	1,250,000	01.12.07	-	-	0.35	01.12.2012
A R Bantock	1,500,000	01.12.07	-	-	0.50	01.12.2012
D A Jones	2,000,000	01.12.07	-	-	0.35	01.12.2012
V P Gauci	2,000,000	01.12.07	-	-	0.35	01.12.2012
Executive						
A M Reynolds	150,000	23.04.08	-	-	0.20	23.04.2011

All options were issued at no cost to the recipients. Andrew Bantock and Andrew Reynolds options were forfeited on termination of their employment contracts on 1 August 2008.

DIRECTORS REPORT



7.3.2 Exercise of options granted as compensation

During the reporting 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					
T R B Goyder	750,000	18.12.06	100%	-	2008
A R Bantock	1,250,000	18.12.06	100%	-	2008
	1,250,000	01.12.07	-	-	2009
	1,500,000	01.12.07	-	-	2010
D A Jones	1,000,000	01.12.07	-	-	2009
	1,000,000	01.12.07	-	-	2010
V P Gauci	1,000,000	01.12.07	-	-	2009
	1,000,000	01.12.07	-	-	2010
A W Kiernan	750,000	18.12.06	100%	-	2008
C R Williams	750,000	18.12.06	100%	-	2008
Former Director					
J R McIntyre	1,250,000	18.12.06	100%	-	2008
Executive					
A M Reynolds	75,000	23.04.08	-	-	2009
	75,000	23.04.08	-	-	2010
Former Executive					
R K Hacker	500,000	18.12.06	100%	-	2008

Following the resignation of Andrew Bantock and Andrew Reynolds on 1 August 2008, 2,900,000 options have been forfeited. Subject to shareholder approval at the Company's next General Meeting, the Managing Director, Doug Jones, will receive 3,000,000 options, exercisable at \$0.20 and with a five year term.

DIRECTORS REPORT

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each Company Director and each of the named Company executives is detailed below.

	Granted in year \$ (A)	Value of options Exercised in year \$ (B)	Forfeited in year \$ (C)	Total option value in year \$
Directors				
A R Bantock	333,215	-	-	333,215
D A Jones	268,899	-	-	268,899
V P Gauci	268,899	-	-	268,899
Executive				
A M Reynolds	5,580	-	-	5,580

(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

On 16 July 2008, the Company received \$1,582,500 in cash on completion of the sale and purchase of the Cowan Nickel Project, Junction South Joint Venture and Logan's Find to Pindan Exploration Company Pty Ltd (a wholly-owned subsidiary of Panoramic Resources Limited). A deposit of \$100,000 had been received prior to balance sheet date.

As part of the sale and purchase, Pindan Exploration Company Pty Ltd also subscribed to 2,750,000 shares in Liontown Resources Limited at an issue price of \$0.115 per share, raising \$316,250.

On 1 August 2008, Andrew Bantock resigned as Chief Executive and Managing Director of Liontown Resources. Dr Doug Jones has been appointed as the Company's new Chief Executive and Managing Director.

10. Likely developments

The Company will continue activities in the exploration and evaluation of minerals tenements with the objective of developing a significant minerals business.

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	18,429,002	750,000
D A Jones	60,000	2,000,000
V P Gauci	150,000	2,000,000
A W Kiernan	460,154	750,000
C R Williams	100,000	750,000

12. Share options

Options granted to directors and officers of the Company

During or since the end of the period, the Company granted options for no consideration over unissued ordinary shares in the Company to the following Directors and to the most highly remunerated officers of the Company as part of their remuneration:

	Number of options granted	Exercise price	Expiry date
Directors			
A R Bantock	1,250,000	0.35	01.12.2012
A R Bantock	1,500,000	0.50	01.12.2012
D A Jones	2,000,000	0.35	01.12.2012
V P Gauci	2,000,000	0.35	01.12.2012
Officer			
R K Hacker	500,000	0.20	31.07.2013
A M Reynolds	150,000	0.20	23.04.2011

Following the resignation of Andrew Bantock and Andrew Reynolds on 1 August 2008, 2,900,000 options have been forfeited. Subject to shareholder approval at the Company's next General Meeting, Doug Jones will receive 3,000,000 options, exercisable at \$0.20 and with a five year term.

DIRECTORS REPORT

Unissued shares under options

At the date of this report 13,035,000 unissued ordinary shares of the Company are under option on the following terms and conditions:

Expiry date	Exercise price	Number of shares
18.12.2009	0.25	4,975,000
31.12.2009	0.25	1,500,000
14.07.2010	0.225	1,250,000
06.08.2010	0.35	250,000
01.11.2010	0.35	310,000
23.04.2011	0.20	250,000
01.12.2012	0.35	4,000,000
31.07.2013	0.20	500,000

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

Shares issued on exercise of options

During or since the end of the period, 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.

During the period the Company paid insurance premiums of \$15,702 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 executives remuneration on page 21.

DIRECTORS REPORT



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 28 and forms part of the Directors' Report for the year ended 30 June 2008.

This report is made with a resolution of the Directors:

TIM R B GOYDER
Chairman

Dated at Perth the 26th day of September 2008



AUDITORS INDEPENDENCE DECLARATION



Auditor's Independence Declaration

As lead auditor for the audit of the financial report of Liontown Resources Limited for the year ended 30 June 2008, 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
26 September 2008

A handwritten signature in black ink, reading 'L Di Giallonardo'.

L DI GIALLONARDO
Partner, HLB Mann Judd

HLB Mann Judd (WA Partnership)
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Partners: Terry M Hlilansop, Lina Christodoulou, Wayne M Clark, Lucio Di Giallonardo, Colin D Emmett, Trevor G Huddy, Norman G Neill, Peter J Speechley

HLB Mann Judd (WA Partnership) is a member of  International and the HLB Mann Judd National Association of independent accounting firms

INCOME STATEMENT

For the year ended 30 June 2008



	Note	2008 \$	2007 \$
Other income	3	180,150	133,175
Total income		180,150	133,175
Impairment losses	4	(8,197,372)	(1,892)
Net loss on sale of available-for-sale investments		(86,714)	-
Exploration costs not capitalised		(320,962)	(39,286)
Corporate administrative expenses	5	(1,871,379)	(963,814)
Finance costs	8	(12,279)	(5,387)
Loss before tax		(10,308,556)	(877,204)
Income tax expense	9	-	-
Loss for the period		(10,308,556)	(877,204)
Basic earnings per share attributable to ordinary equity holders	10	(0.12)	(0.02)
Diluted earnings per share attributable to ordinary equity holders	10	(0.12)	(0.02)

The income statement is to be read in conjunction with the notes to the financial statements set out on pages 33 to 56.

BALANCE SHEET

As at 30 June 2008

	Note	2008 \$	2007 \$
Current assets			
Cash and cash equivalents	11	735,376	3,122,703
Trade and other receivables	12	99,453	798,196
Assets held for sale	13	1,682,500	-
Total current assets		2,517,329	3,920,899
Non-current assets			
Financial assets	14	62,916	60,312
Exploration and evaluation assets	15	5,514,309	11,087,435
Property, plant and equipment	16	391,719	153,430
Total non-current assets		5,968,944	11,301,177
Total assets		8,486,273	15,222,076
Current liabilities			
Trade and other payables	17	502,398	656,114
Interest-bearing loans and borrowings	18	46,695	-
Employee benefits	19	28,514	14,553
Total current liabilities		577,607	670,667
Non-current liabilities			
Interest-bearing loans and borrowings	18	96,535	-
Total non-current liabilities		96,535	-
Total liabilities		674,142	670,667
Net assets		7,812,131	14,551,409
Equity			
Issued capital	20	18,016,886	14,977,361
Accumulated losses	20	(11,203,606)	(895,050)
Reserves	20	998,851	469,098
Total equity		7,812,131	14,551,409

The balance sheet is to be read in conjunction with the notes to the financial statements set out on pages 33 to 56.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2008



	Note	Share capital \$	Accumulated losses \$	Share based payments reserve \$	Total equity \$
Balance at 1 July 2007		14,977,361	(895,050)	469,098	14,551,409
Issue of fully paid ordinary shares - capital raising		3,199,500	-	-	3,199,500
Transaction costs		(159,975)	-	-	(159,975)
Share options vested		-	-	529,753	529,753
Loss for the period		-	(10,308,556)	-	(10,308,556)
Balance at 30 June 2008	20	18,016,886	(11,203,606)	998,851	7,812,131

	Note	Share capital \$	Accumulated losses \$	Share based payments reserve \$	Total equity \$
Balance at 1 July 2006	2		(17,846)	-	(17,844)
Issue of fully paid ordinary shares - tenement acquisition		3,400,000	-	-	3,400,000
Issue of fully paid ordinary shares - initial public offering		7,000,000	-	-	7,000,000
Issue of fully paid ordinary shares - share conversion		5,400,002	-	-	5,400,002
Transaction costs		(822,643)	-	-	(822,643)
Share options vested		-	-	469,098	469,098
Loss for the period		-	(877,204)	-	(877,204)
Balance at 30 June 2007	20	14,977,361	(895,050)	469,098	14,551,409

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 33 to 56.

CASH FLOW STATEMENT

For the year ended 30 June 2008

	Note	2008 \$	2007 \$
Cash flows from operating activities			
Cash paid to suppliers and employees		(1,194,851)	(521,950)
Interest paid		-	(5,141)
Interest received		130,559	132,998
Other		(85,991)	-
Net cash used in operating activities	23	(1,150,283)	(394,093)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		31,091	-
Proceeds from sale of investments		533,286	-
Deposit received on sale of exploration and evaluation assets		100,000	-
Payments for exploration and evaluation		(4,676,720)	(2,584,063)
Acquisition of property, plant and equipment		(215,637)	(144,917)
Net cash used in investing activities		(4,227,980)	(2,728,980)
Cash flows from financing activities			
Net proceeds from issue of shares		3,039,525	6,336,340
Lodgement of bank guarantee and security deposits		(1,000)	(60,312)
Proceeds from borrowings		-	296,074
Repayment of borrowings		(47,589)	(328,104)
Net cash from financing activities		2,990,936	6,243,998
Net increase/ (decrease) in cash and cash equivalents		(2,387,327)	3,120,925
Cash and cash equivalents at the beginning of the period		3,122,703	1,778
Cash and cash equivalents at 30 June	11	735,376	3,122,703

The cash flow statement is to be read in conjunction with the notes to the financial statements set out on pages 33 to 56.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008



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 2008.

The financial report was authorised for issue by the Directors on the 26th day of September 2008.

(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.

In the year ended 30 June 2008, 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 2007. It has been determined by the Company that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to its accounting policies.

(c) 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 \$1,939,722. Subsequent to balance date, the Company has raised \$316,250 via a share placement to Pindan Exploration Company Pty Ltd.

Notwithstanding the positive working capital position at balance date and increase in cash reserves subsequent to balance date as noted above, the Company has forecast that it will need to seek additional funding in the coming year in order to meet its operating expenditure and planned exploration expenditure for the next twelve months from the date of signing these financial statements. These arrangements may include a further capital raising or entering into the sale or joint venture of assets.

Any inability to raise further funding through a capital raising or entering into the sale or joint venture of assets may have a material adverse effect on the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary if the Company does not continue as a going concern.

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.

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:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

(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.

(d) Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(e) 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

Revenue is recognised when the significant risks and rewards of ownership of the goods 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 to the buyer.

(ii) Services rendered

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet 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 income statement as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognised in the income statement using the effective interest method.

(f) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

Liontown
RESOURCES LIMITED

1. Significant accounting policies continued

(f) Expenses continued

(iii) Financing costs

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

(g) Depreciation

Depreciation is charged to the income statement 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. The estimated useful lives in the current and comparative periods are as follows:

■ plant and equipment	7%-40%
■ fixtures and fittings	11%-22%
■ motor vehicles	18.75%

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

(h) Income tax

Income tax in the income statement comprises current and deferred tax. Income tax is recognised in the income statement 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 sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation 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 sheet 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.

(i) 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 balance sheet.

Cash flows are included in the cash flow statement 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

(j) Impairment

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

Recoverable amount is the greater of fair value less costs to sell and value in use. 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 income statement 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 income statement. Receivables with a short duration are not discounted.

(k) 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 cash flow statement.

(l) Trade and other receivables

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

(m) 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.

(n) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008



1. Significant accounting policies continued

(o) 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 balance sheet 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.

(p) 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 balance sheet so long as the following conditions are satisfied:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

- 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
 - (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. Should a project or an area of interest be abandoned, the expenditure will be written off in the period in which the decision is made. 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.

(q) Trade and other payables

Trade and other payables are stated at cost.

(r) 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.

(s) Employee benefits

(i) Superannuation

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008



1. Significant accounting policies continued

(s) Employee benefits continued

(ii) Share-based payment transactions continued

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').

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.

(t) Provisions

A provision is recognised in the balance sheet 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

(u) 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.

2. Segment reporting

The Company currently only operates in one business segment and one geographical segment being the mining and exploration industry in Australia.

3. Other Income

	Note	2008 \$	2007 \$
Interest received		132,223	133,175
Corporate and administration fees		17,249	-
Gain on sale of plant and equipment		19,406	-
Other		11,272	-
		180,150	133,175

4. Impairment losses

Impairment loss on assets held for sale	13	3,298,676	1,892
Impairment loss on exploration and evaluation assets	15	4,898,696	-
		8,197,372	1,892

Assets held for sale

On 16 July 2008, the Company completed an agreement to sell its interest in the Cowan Nickel Project, Junction South Project and Logan's Find Project to Pindan Exploration Company Pty Ltd (a wholly-owned subsidiary of Panoramic Resources Limited) for \$1,682,500.

Prior to entering the agreement to sell the abovementioned projects, the assets were recorded as exploration and evaluation assets totalling \$4,981,176. An impairment loss of \$3,298,676 has been recorded to recognise the difference between the carrying value and the eventual sale proceeds of \$1,682,500 (refer to note 13).

Exploration and evaluation assets

The Company has recorded an impairment loss in relation to the Mount Windsor Volcanics Project of \$4,898,696. Following recent significant decreases in base metal prices and a reduced capability to raise capital in a difficult financial environment, an assessment of the carrying value of the Company's core assets has been undertaken. Whilst the Mount Windsor Volcanics Project (including the Liontown Deposit) remains an asset of significant value, the commercialisation of the project will be contingent upon future exploration success in the region and sustainable future metal prices.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008



5. Corporate administrative expenses

	Note	2008 \$	2007 \$
Accounting fees		27,890	5,450
Annual report costs		16,170	-
ASIC fees		1,350	1,412
ASX fees		35,509	48,609
Audit fees	7	15,860	21,300
Consulting fees		-	6,190
Depreciation and amortisation	16	105,875	18,202
Insurance		38,339	26,408
Legal fees		53,468	38,910
Loss on sale of equipment		-	1,531
Advertising, sponsorship and marketing		40,969	8,940
Personnel expenses	6	1,092,021	578,246
Printing and stationery		8,429	12,548
Rent and outgoings		16,777	7,234
Share registry		16,426	33,272
Travel and accommodation		62,106	11,506
Corporate and administration service fees		258,000	96,500
Other		82,190	47,556
		1,871,379	963,814

6. Personnel expenses

Wages and salaries		161,250	118,260
Directors' fees		187,663	75,909
Other associated personnel expenses		56,173	42,866
Defined contribution superannuation fund contributions		143,221	23,681
Increase in liability for annual leave		13,961	7,415
Equity-settled transactions	19	529,753	310,115
		1,092,021	578,246

7. Auditor's remuneration

Audit services			
HLB Mann Judd			
Audit and review of financial reports		15,860	21,300

8. Finance costs

Interest expense		12,279	5,387
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

9. Income tax

	2008 \$	2007 \$
Current tax expense	-	-
Deferred tax expense	-	-
Total income tax expense reported in the income statement	-	-

Numerical reconciliation of income tax expense to prima facie tax payable

Loss from continuing operations before income tax expense	(10,308,556)	(877,204)
Tax at the Australian corporate rate of 30%	(3,092,567)	(263,161)
Tax effect of amounts which are not tax deductible (taxable) in calculating taxable income:		
Non-deductible expenses	160,367	93,440
Blackhole expenditure tax deductible	(58,956)	(49,359)
Origination and reversal of temporary differences	1,347,686	(3,491,719)
	(1,643,470)	(3,710,799)
Current year tax benefits not recognised	1,643,470	3,710,799
Income tax expense reported in the income statement	-	-

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2008	2007	2008	2007	2008	2007
Exploration and evaluation assets	-	-	1,654,292	3,326,230	1,654,292	3,326,230
Assets held for sale	-	-	504,750	186,000	504,750	186,000
Provision for employee benefits	(8,554)	(4,366)	-	-	(8,554)	(4,366)
Blackhole expenditure	(5,553)	(1,342)	-	-	(5,553)	(1,342)
Accrued expenses	-	(14,856)	-	-	-	(14,856)
Other items	(3,600)	-	-	53	(3,600)	53
	(17,707)	(20,564)	2,159,042	3,512,283	2,141,335	3,491,719
Current tax losses used to offset net deferred tax liability					(1,643,470)	(3,491,719)
Previous tax losses used to offset net deferred tax liability					(497,865)	-
Net deferred tax assets and liabilities					-	-
Tax Losses						
Unused tax losses for which no deferred tax asset has been recognised					1,002,927	12,378,180
Potential tax benefit at 30% tax rate					300,878	3,713,454

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008



10. Earnings per share

Basic and diluted earnings per share

The calculation of basic and diluted earnings per share for the year ended 30 June 2008 was based on the loss attributable to ordinary shareholders of \$10,308,556 [2007: \$877,204] and a weighted average number of ordinary shares outstanding during the year ended 30 June 2008 of 87,148,913 [2007: 42,638,361] calculated as follows:

	2008 \$	2007 \$
Loss attributable to ordinary shareholders (diluted)		
Loss attributable to ordinary shareholders	10,308,556	877,204
Loss attributable to ordinary shareholders (diluted)	10,308,556	877,204
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares at 30 June	87,148,913	42,638,361
Effect of share options on issue	-	-
Weighted average number of ordinary shares (diluted) at 30 June	87,148,913	42,638,361

11. Cash and cash equivalents

	2008 \$	2007 \$
Bank accounts	735,376	3,122,703
Cash and cash equivalents in the cash flow statement	735,376	3,122,703

12. Trade and other receivables

Current

Other trade receivables	71,923	157,801
Prepayments	27,530	20,395
Other current receivable - sale of exploration assets	-	620,000
	99,453	798,196

13. Assets held for sale

	Note		
Assets transferred from exploration and evaluation assets	15	4,981,176	-
Impairment loss	4	(3,298,676)	-
		1,682,500	-

On 2 May 2008, the Company entered into an agreement to sell its Cowan Nickel Project, Junction South Project and Logan's Find Project to Panoramic Resources Limited for \$1,682,500. An impairment loss of \$3,298,676 has been recorded to reflect the value of the consideration received in relation to the sale assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

14. Financial assets

Non-current

Bond in relation to office premises

Bank guarantee

Security deposits

2008 \$	2007 \$
18,972	18,972
26,604	25,000
17,340	16,340
62,916	60,312

15. Exploration and evaluation expenditure

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

Acquisition of tenements

Expenditure incurred during the year

Impairment loss

Exploration costs not capitalised

Transferred to assets held for sale

Note	2008 \$	2007 \$
	11,087,435	-
	-	9,415,248
	4,627,708	2,333,365
4	(4,898,696)	-
	(320,962)	(39,286)
13	(4,981,176)	(621,892)
	5,514,309	11,087,435

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 exploration or sale of the respective areas.

16. Property, plant and equipment

At cost

Less: accumulated depreciation

2008 \$	2007 \$
518,369	171,572
(126,650)	(18,142)
391,719	153,430

Plant and equipment

Carrying amount at 1 July

Additions

Disposals/written off

Depreciation

Carrying amount at end of period

153,430	-
360,459	173,163
(16,295)	(1,531)
(105,875)	(18,202)
391,719	153,430

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008



17. Trade and other payables

	2008 \$	2007 \$
Trade payables	207,320	547,714
Accrued expenses	195,078	108,400
Deposits	100,000	-
	502,398	656,114

18. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings. For more information about the Company's exposure to interest rate risk, see note 21.

Current liabilities

Hire purchase liabilities	46,695	-
Non-current liabilities		
Hire purchase liabilities	96,535	-

Hire purchase facility

The Company's hire purchase liabilities are secured by the assets under hire purchase of \$126,350 (2007: Nil). In the event of default, these assets revert to the financier.

	2008		
	Minimum hire purchase payments \$	Interest \$	Principal \$
Less than one year	57,980	11,284	46,696
Between one and five years	104,080	7,545	96,535
More than five years	-	-	-
	162,060	18,829	143,231

	2007		
	Minimum hire purchase payments \$	Interest \$	Principal \$
Less than one year	-	-	-
Between one and five years	-	-	-
More than five years	-	-	-
	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

19. Employee benefits

	2008 \$	2007 \$
Liability for annual leave	28,514	14,553
Total employee benefits	28,514	14,553

Share based payments

(a) 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.

Share options were granted to employees on the following terms and conditions during the year:

Grant date	Number of instruments	Vesting conditions	Contractual life of options
06 August 2007	250,000	No vesting conditions	3 years
01 November 2007	1,560,000	1 year continual services	3 years
01 December 2007	6,750,000	1 year continual services	3 years
23 April 2008	400,000	1 year continual services	3 years

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008



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

	Weighted average exercise price \$ 2008	Number of options 2008
Outstanding at the beginning of the period	0.25	5,725,000
Forfeited during the period	0.33	1,500,000
Exercised during the period	-	-
Granted during the period	0.37	8,960,000
Outstanding at the end of the period	0.32	13,185,000
Exercisable at the end of the period	0.35	250,000

The options outstanding at 30 June 2008 have an exercise price of \$0.32 (2007:\$0.25) and a weighted average contractual life of 3 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 gives the assumptions made in determining the fair value of the options granted in the year to 30 June 2008.

Fair value of share options and assumptions	2008	2007
Share price at grant date (weighted average)	0.23	\$0.20
Exercise price (weighted average)	0.37	\$0.25
Expected volatility (expressed as weighted average volatility used in the modelling under binominal option-pricing model)	82%	80%
Option life (expressed as weighted average life used in the modelling under binomial option-pricing model)	3 years	3 years
Expected dividends	Nil	Nil
Risk-free interest rate	6.23%	6.06%

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.

	2008 \$	2007 \$
Share options granted in 2008 - equity settled	529,753	310,115
Total expense recognised as personnel expenses	529,753	310,115

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

20. Capital and reserves

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

	Share capital (a) \$	Accumulated losses \$	Share based payments reserve \$	Total equity \$
2008				
Balance at 1 July 2007	14,977,361	(895,050)	469,098	14,551,409
Issue of fully paid ordinary shares – capital raising	3,199,500	-	-	3,199,500
Transaction costs	(159,975)	-	-	(159,975)
Share options vested	-	-	529,753	529,753
Loss for the period	-	(10,308,556)	-	(10,308,556)
Balance at 30 June 2008	18,016,886	(11,203,606)	998,851	7,812,131

	Share capital (a) \$	Accumulated losses \$	Share based payments reserve \$	Total equity \$
2007				
Balance at 1 July 2006	2	(17,846)	-	(17,844)
Issue of fully paid ordinary shares – tenement acquisition	3,400,000	-	-	3,400,000
Issue of fully paid ordinary shares – initial public offering	7,000,000	-	-	7,000,000
Issue of fully paid ordinary shares – share conversion	5,400,002	-	-	5,400,002
Transaction costs	(822,643)	-	-	(822,643)
Share options vested	-	-	469,098	469,098
Loss for the period	-	(877,204)	-	(877,204)
Balance at 30 June 2007	14,977,361	(895,050)	469,098	14,551,409

(a) Share capital

	2008 No.	2007 No.
On issue at 1 July	79,000,009	2
Issue of fully paid ordinary shares – capital raising	11,850,000	-
Issue of fully paid ordinary shares – tenement acquisition	-	17,000,000
Issue of fully paid ordinary shares – initial public offering	-	35,000,000
Issue of fully paid ordinary shares – share conversion	-	27,000,007
On issue at 30 June	90,850,009	79,000,009

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008



(b) Share options

	2008 No.	2007 No.
On issue at 1 July	7,225,000	-
Options issued during the year	8,960,000	7,225,000
Options forfeited during the year	(1,500,000)	-
On issue at 30 June	14,685,000	7,225,000

At 30 June the Company had 14,685,000 unlisted options on issue under the following terms and conditions:

Number	Expiry Date	Exercise Price
5,475,000	18 December 2009	0.25
1,500,000	31 December 2009	0.25
250,000	6 August 2010	0.35
310,000	1 November 2010	0.35
5,250,000	1 December 2010	0.35
1,500,000	1 December 2010	0.50
400,000	23 April 2011	0.20

21. 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 retained earnings as disclosed in note 20.

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

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 2008	Note	1 year or less \$	Over 1 to 5 years \$	Floating interest \$	Non-interest bearing \$	Total \$	Weighted average int. rate
Financial assets							
Bank balances	11	-	-	735,176	-	735,176	2.9%
Bank guarantee – term deposits	14	26,604	-	-	-	26,604	8.1%
Petty cash	11	-	-	-	200	200	-
Trade and other receivables	12	-	-	-	71,923	71,923	-
Security deposits	14	-	-	-	36,312	36,312	-
Financial liabilities							
Trade payables and accrued expenses	17	-	-	-	502,398	502,398	-

30 June 2007	Note	1 year or less \$	Over 1 to 5 years \$	Floating interest \$	Non-interest bearing \$	Total \$	Weighted average int. rate
Financial assets							
Bank balances	11	-	-	3,122,503	-	3,122,503	2.6%
Bank guarantee – term deposits	14	25,000	-	-	-	25,000	6.4%
Petty cash	11	-	-	-	200	200	-
Trade and other receivables	12	-	-	-	777,801	777,801	-
Security deposits	14	-	-	-	35,312	35,312	-
Financial liabilities							
Trade payables and accrued expenses	17	-	-	-	656,114	656,114	-

A change of 100 basis points in interest rates on bank balances and term deposits at the reporting date would have increased/ (decreased) profit and loss by \$7,522.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008



(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 balance sheet date to recognised financial assets is the carrying amount, net of any provision 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 \$402,398 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.

22. 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:

	2008 \$	2007 \$
Within 1 year	535,000	997,325
Within 2 – 5 years	1,380,000	2,742,343
Later than 5 years	-	382,184
	1,915,000	4,121,852

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

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:

	2008 \$	2007 \$
within 1 year	425,000	425,000
within 2-5 years	-	-
	425,000	425,000

Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

within 1 year	68,581	67,242
within 2-5 years	41,032	119,828
	109,613	187,070

23. Reconciliation of cash flows from operating activities

Cash flows from operating activities

	2008 \$	2007 \$
Loss for the period	(10,308,556)	(877,204)
Adjustments for:		
Depreciation and amortisation	105,875	18,202
Exploration costs not capitalised	320,962	39,286
Interest on finance leases	12,279	246
(Profit)/ loss on sale of assets	(19,406)	1,531
Impairment losses	8,197,372	1,892
Equity-settled share-based payment expenses	529,753	310,115
Loss on sale of securities	86,714	-
Other income	(8,185)	-
Operating loss before changes in working capital and provisions	(1,083,192)	(505,932)
(Increase)/ decrease in trade and other receivables	94,890	(178,196)
Increase/ (decrease) in trade creditors and accruals	(175,942)	275,482
Increase in provisions	13,961	14,553
Net cash used in operating activities	(1,150,283)	(394,093)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008



24. 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

A R Bantock

D A Jones

Appointed 4 September 2007

Former Executive Director

J R McIntyre

Resigned 17 July 2007

Non-executive Directors

T R B Goyder (Chairman)

V P Gauci

Appointed 7 August 2007

A W Kiernan

C R Williams

Executive

A Reynolds (Company Secretary)

Appointed 17 March 2008

Former Executive

R K Hacker (Company Secretary)

Resigned 11 April 2008

The key management personnel compensation included in 'personnel expenses' (see note 6) is as follows:

	2008 \$	2007 \$
Short-term employee benefits	500,161	237,876
Post-employment benefits	94,679	20,373
Equity-settled transactions	489,470	279,991
	1,084,310	538,240

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

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:

			Amounts payable/ (receivable)	Amounts payable/ (receivable)
			2008	2007
			\$	\$
Note				

- (i) The Company used the legal services of Mr Kiernan and Christensen Vaughan (a company to which Mr Kiernan is a consultant) during the year. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.
- (ii) Uranium Equities Limited and Mr Goyder contribute to the rental cost of the Company's office premises in West Perth. Messrs Goyder, Bantock and Kiernan were all Directors of Uranium Equities Limited during the year and Mr Hacker and Mr Reynolds were the Company Secretaries. Amounts billed are based on the underlying usage of the premises by each party, reflecting its proportionate share of the rate charged by the lessor of the premises and have normal payment terms.
- (iii) The Company receives corporate services including accounting and company secretarial services under a Corporate Services Agreement with Chalice Gold Mines Limited. Messrs Goyder, Bantock, Kiernan and McIntyre were all Directors of Chalice Gold Mines Limited during the year, and Mr Hacker and Mr Reynolds were the Company Secretaries. 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.

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

	2008 \$	2007 \$
Assets and liabilities arising from the above transactions		
Current payables	(27,610)	(27,011)
Trade debtors	4,200	2,420
	(23,410)	(24,591)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008



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 30 June 2007	Granted as compensation	Exercised	Held at 30 June 2008	Vested during the year	Vested and exercisable at 30 June 2008
T R B Goyder	750,000	-	-	750,000	750,000	-
A R Bantock	1,250,000	2,750,000	-	4,000,000	1,250,000	-
D A Jones	-	2,000,000	-	2,000,000	-	-
V P Gauci	-	2,000,000	-	2,000,000	-	-
A W Kiernan	750,000	-	-	750,000	750,000	-
C R Williams	750,000	-	-	750,000	750,000	-
Former Directors						
J R McIntyre	1,250,000	-	-	1,250,000	1,250,000	-
Executive						
A Reynolds	-	150,000	-	150,000	-	-
Former Executive						
R K Hacker	500,000	-	-	500,000	500,000	-

Following the resignation of Andrew Bantock and Andrew Reynolds on 1 August 2008, 2,900,000 options have been forfeited. Subject to shareholder approval at the Company's next General Meeting, the Managing Director, Doug Jones, will receive 3,000,000 options, exercisable at \$0.20 and with a five year term.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

Movements in ordinary shares

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

	Held at 1 July 2007	Additions	Received on exercise of options	Sales	Held at 30 June 2008
Directors					
T R B Goyder	15,721,002	2,708,000	-	-	18,429,002
A R Bantock	3,063,544	-	-	-	3,063,544
D A Jones	-	60,000	-	-	60,000
V P Gauci	-	150,000	-	-	150,000
A W Kiernan	460,154	-	-	-	460,154
C R Williams	100,000	-	-	-	100,000
Former Executives					
J R McIntyre	431,379	-	-	-	431,379
Executives					
A M Reynolds	-	-	-	-	-
Former Executives					
R K Hacker	-	-	-	-	-

No shares were granted to key management personnel during the reporting period as compensation.

25. Subsequent events

On 16 July 2008, the Company received \$1,582,500 in cash on completion of the sale and purchase of the Cowan Nickel Project, Junction South Joint Venture and Logan's Find Project to Pindan Exploration Company Pty Ltd (a wholly-owned subsidiary of Panoramic Resources Limited). A deposit of \$100,000 had been received prior to balance date. The total carrying value of these projects of \$1,682,500 at balance date has been shown in the balance sheet as a current asset, "assets held for sale".

As part of the sale and purchase, Pindan Exploration Company Pty Ltd also subscribed to 2,750,000 shares in Liontown Resources Limited at an issue price of \$0.115 per share, raising \$316,250.

DIRECTORS' DECLARATION



Directors' declaration

- 1 In the opinion of the Directors of Liontown Resources Limited ('the Company'):
 - (a) the financial statements and notes including the remuneration disclosures that are contained in sections 7.1, 7.2 and 7.3 of the Remuneration Report in the Directors' Report, set out on pages 19 to 24, 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 2008 and of its performance, as represented by the results of its operations and its cash flows, for the period ended on that date; and
 - (ii) complying with Australian Accounting Standards 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.
- 2 The Directors have been given the declarations by the Chief Executive Officer (or equivalent) and Chief Financial Officer (or equivalent) for the period ended 30 June 2008 pursuant to Section 295A of the Corporations Act 2001.

Dated at Perth the 26th day of September 2008

Signed in accordance with a resolution of the Directors:

TIM R B GOYDER
Chairman

INDEPENDENT AUDITOR'S REPORT



Accountants | Business and Financial Advisers

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 ("the company"), which comprises the balance sheet as at 30 June 2008, the income statement, statement of changes in equity, cash flow statement and notes to the financial statements for the year then ended, and the directors' declaration.

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 state that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. 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 controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. 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 opinion.

Independence

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

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HLB Mann Judd (WA Partnership) is a member of  HLB International and the HLB Mann Judd National Association of independent accounting firms

INDEPENDENT AUDITOR'S REPORT



Accountants | Business and Financial Advisers

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 2008 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1 (a).

Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1(c) to the financial report which indicates that the Company has forecast that it will be required to raise further capital or complete the sale or joint venture of assets in the coming year in order to meet its operating expenditure and planned exploration expenditure for the next twelve months from the date of signing these financial statements. If the Company is unable to raise additional capital or complete the sale or joint venture of assets, there is significant uncertainty whether the company will continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2008. 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 2008 complies with Section 300A of the Corporations Act 2001.

HLB MANN JUDD
Chartered Accountants

L DI GIALLONARDO
Partner

Perth, Western Australia
26 September 2008

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CORPORATE GOVERNANCE STATEMENT

Corporate Governance is a matter of high importance in the Company and is undertaken with due regard to all of the Company's stakeholders and its role in the community. The key corporate governance practices of the Company are summarised below.

1. Board of Directors

1.1 Role of the Board and Management

The Board represents shareholders' interests in continuing a successful business, which seeks to optimise medium to long-term financial gains for shareholders. The Board believes that this focus will ultimately result in the interests of all stakeholders being appropriately addressed when making business decisions.

The Board is responsible for ensuring that the Company is managed in such a way to best achieve this desired result. Given the current size and operations of the business, the Board currently undertakes an active, not passive, role.

The Board is responsible for evaluating and setting the strategic directions for the Company, establishing goals for management and monitoring the achievement of these goals. The Managing Director is responsible to the Board for the day-to-day management of the Company.

The Board has sole responsibility for the following:

- appointing and removing the Managing Director and approving senior executive remuneration;
- determining the strategic direction of the Company and measuring performance of management against approved strategies;
- review of the adequacy of resources for management to properly carry out approved strategies and business plans;
- adopting operating and capital expenditure budgets at the commencement of each financial year and monitoring the progress against them;
- monitoring capital and cash flow requirements;
- approving and monitoring financial and other reporting to regulatory bodies, shareholders and other organisations;
- determining that satisfactory arrangements are in place for auditing the Company's financial affairs; and
- ensuring that risk management and internal controls, policies and compliance systems consistent with the Company's objectives, external best practice and the Company's size and scope of operations are in place and that the Company and its officers act legally, ethically and responsibly on all matters.

The Board's role and the Company's corporate governance practices are being continually reviewed and improved as required.

1.2 Composition of the Board and New Appointments

The Company's Constitution provides that the number of Directors shall not be less than three and not more than seven. There is no requirement for any share holding qualification.

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. The Board believes that the individuals on the Board can make, and do make, quality and independent judgments in the best interests of the Company on all relevant issues.

CORPORATE GOVERNANCE STATEMENT



The composition of the Board is reviewed periodically in view of the underlying scale, scope and complexity of the Company's operations. Changes are made where appropriate.

The membership of the Board and its activities are subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the Board shall include quality of the individual, background of experience and achievement, compatibility with other Board members, credibility within the Company's scope of activities, intellectual ability to contribute to Board's duties and physical ability to undertake the Board's duties and responsibilities.

Directors are initially appointed by the full Board subject to election by shareholders at the next general meeting. Under the Company's Constitution the tenure of Directors (other than Managing Director, and only one Managing Director where the position is jointly held) is subject to reappointment by shareholders not later than the third anniversary following his last appointment. Subject to the requirements of the Corporations Act 2001, the Board does not subscribe to the principle of retirement age and there is no maximum period of service as a Director. A Managing Director may be appointed for any period and on any terms the Directors think fit and, subject to the terms of any agreement entered into, the Board may revoke any appointment.

1.3 Committees of the Board

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

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

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

1.4 Conflicts of Interest

In accordance with the Corporations Act and the Company's Constitution, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists, the Director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

1.5 Independent Professional Advice

The Board has determined that individual Directors have the right in connection with their duties and responsibilities as Directors, to seek independent professional advice at the Company's expense. The engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably. If appropriate, any advice so received will be made available to all Board members.

CORPORATE GOVERNANCE STATEMENT

2. Ethical Standards

The Board acknowledges the need for continued maintenance of a professional standard of corporate governance practice and ethical conduct by all Directors and employees of the Company.

2.1 Code of Conduct for Directors

The Board has adopted a Code of Conduct for Directors to promote ethical and responsible decision-making by the Directors. The code is based on a code of conduct for Directors prepared by the Australian Institute of Company Directors.

The principles of the code are:

- A Director must act honestly, in good faith and in the best interests of the company as a whole.
- A Director has a duty to use due care and diligence in fulfilling the functions of office and exercising the powers attached to that office.
- A Director must use the powers of office for a proper purpose, in the best interests of the Company as a whole.
- A Director must recognise that the primary responsibility is to the Company's shareholders as a whole but should, where appropriate, have regard for the interest of all stakeholders of the Company.
- A Director must not make improper use of information acquired as a Director.
- A Director must not take improper advantage of the position of Director.
- A Director must not allow personal interests, or the interests of any associated person, to conflict with the interests of the Company.
- A Director has an obligation to be independent in judgment and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken as a Board.
- Confidential information received by a Director in the course of the exercise of Directorial duties remains the property of the Company and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by the Company, or the person from whom the information is provided, or is required by law.
- A Director should not engage in conduct likely to bring discredit upon the Company.
- A Director has an obligation at all times, to comply with the spirit, as well as the letter of the law and with the principles of the Code.

The principles are supported by guidelines as set out by the Australian Institute of Company Directors for their interpretation. Directors are also obliged to comply with the Company's Code of Ethics and Conduct, as outlined below.

CORPORATE GOVERNANCE STATEMENT



2.2 Code of Ethics and Conduct

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

All employees and Directors are expected to:

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

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

2.3 Dealings in Company Securities

The Company's share trading policy imposes basic trading restrictions on all employees of the Company with 'inside information', and additional trading restrictions on the Directors of the Company and employees who possess inside information.

'Inside information' is information that:

- is not generally available; and
- if it were generally available, it would, or would be likely to influence investors in deciding whether to buy or sell the Company's securities.

If an employee possesses inside information, the person must not:

- trade in the Company's securities;
- advise others or procure others to trade in the Company's securities; or
- pass on the inside information to others – including colleagues, family or friends – knowing (or where the employee or Director should have reasonably known) that the other persons will use that information to trade in, or procure someone else to trade in, the Company's securities.

CORPORATE GOVERNANCE STATEMENT

This prohibition applies regardless of how the employee or Director learns the information.

In addition to the above, Directors must notify the Company Secretary as soon as practicable, but not later than 5 business days, after they have bought or sold the Company's securities or exercised options. In accordance with the provisions of the Corporations Act and the Listing rules of the ASX, the Company on behalf of the Directors must advise the ASX of any transactions conducted by them in the securities of the Company.

Breaches of this policy will be subject to disciplinary action, which may include termination of employment.

2.4 Interests of Other Stakeholders

The Company's objective is to maximise returns to shareholders through the continued exploration and development of current projects and the identification and acquisition of quality mining and/or exploration projects.

To assist in meeting its objective, the Company conducts its business within the Code of Ethics and Conduct, as outlined in 2.2 above.

3. Disclosure of Information

3.1 Continuous Disclosure to ASX

The continuous disclosure policy requires all executives and Directors to inform the Managing Director or in his absence the Company Secretary of any potentially material information as soon as practicable after they become aware of that information.

Information is material if it is likely that the information would influence investors who commonly acquire securities on ASX in deciding whether to buy, sell or hold the Company's securities.

Information is not material and need not be disclosed if:

- a) a reasonable person would not expect the information to be disclosed or is material but due to a specific valid commercial reason is not to be disclosed; and
- b) the information is confidential; or

one of the following applies:

- It would breach a law or regulation to disclose the information;
- The information concerns an incomplete proposal or negotiation;
- The information comprises matters of supposition or is insufficiently definite to warrant disclosure;
- The information is generated for internal management purposes;
- The information is a trade secret;
- It would breach a material term of an agreement, to which the company is a party, to disclose the information;
- It would harm the Company's potential application or possible patent application; or
- The information is scientific data that release of which may benefit the Company's potential competitors.

CORPORATE GOVERNANCE STATEMENT



The Managing Director is responsible for interpreting and monitoring the Company's disclosure policy and where necessary informing the Board. The Company Secretary is responsible for all communications with ASX.

3.2 Communication with Shareholders

The Company places considerable importance on effective communications with shareholders.

The Company's communication strategy requires communication with shareholders and other stakeholders in an open, regular and timely manner so that the market has sufficient information to make informed investment decisions on the operations and results of the Company. The strategy provides for the use of systems that ensure a regular and timely release of information about the Company to shareholders.

Mechanisms employed include:

- announcements lodged with ASX;
- ASX Quarterly Cash Flow Reports;
- Half Yearly Report;
- presentations at the Annual General Meeting/General Meetings; and
- Annual Report.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and understanding of the Company's strategy and goals.

The Company also posts all reports, ASX and media releases and copies of significant business presentations on the Company's website.

4. Risk Management

4.1 Identification of Risk

The Board is responsible for overseeing the Company's risk management and control framework.

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

Arrangements put in place by the Board to monitor risk management include:

- monthly reporting to the Board in respect of operations and the financial position of the Company;
- Budgetary expenditure controls;
- Monthly reporting to the Board on status of tenure to tenements;
- Review of insurance requirements annually and as needed; and
- Regular reporting on adherence to health and safety guidelines and policies.

CORPORATE GOVERNANCE STATEMENT

4.2 Integrity of Financial Reporting

From the date the Company listed on the ASX, the Company's Managing Director and Chief Financial Officer (or equivalent) will report in writing to the Board that:

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

4.3 Role of Auditor

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

5. Performance Review

The Board has adopted a self-evaluation process to measure its own performance during each financial year. Ongoing review is undertaken in relation to the composition and skills mix of the Directors of the Company.

Arrangements put in place by the Board to monitor the performance of the Company's executives include annual performance appraisal meetings with each individual to ensure that the level of reward is aligned with respective responsibilities and individual contributions made to the success of the Company.

6. Remuneration Arrangements

The broad remuneration policy of the Company is to ensure that remuneration levels for executive Directors, secretaries and senior managers are set at competitive levels to attract and retain appropriately qualified and experienced personnel. This is a particularly important policy in view of the strong demand for experienced technical and financial personnel currently being experienced in the Australian and international resources industry, driven by increased world demand for commodities, and the significant impact that each individual can make within a small executive team for an exploration and development company such as at Lione Resources. In short, the labour market is tight and key people make a difference to exploration and growth outcomes.

Remuneration packages offered by Lione Resources are 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 good incentive to join and remain with the Company.

The remuneration of Non-executive Directors is determined by the Board as a whole having regard to the level of fees paid to Non-executive Directors by other companies of similar size in the industry.

The aggregate amount payable to the Company's Non-executive Directors must not exceed the maximum annual amount approved by the Company's shareholders.



CORPORATE GOVERNANCE STATEMENT

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.

ASX Corporate Governance Council: Principles of Good Corporate Governance and Best Practice Recommendations

Council Principle 1:

Lay solid foundations for management and oversight

Council Recommendation 1.1:

Formalise and disclose the functions reserved to the board and those delegated to management.

The Company complies with this recommendation. Refer Section 1.1 of Corporate Governance Statement.

Council Principle 2

Structure the board to add value

Council Recommendation 2.1:

A majority of the board should be independent Directors.

The Board considers that Mr Gauci, Mr Williams and Mr Kiernan are independent Directors in accordance with Recommendation 2.1. Whilst the remainder of the Board are not independent, the Board believes that all the individuals on the Board can make, and do make, quality and independent judgments in the best interests of the Company on all relevant issues. Directors having a conflict of interest in relation to a particular item of business must absent themselves from the Board Meeting before commencement of discussion on the topic.

Refer Section 1.2 of Corporate Governance Statement.

Council Recommendation 2.2:

The chairperson should be an independent Director.

Council Recommendation 2.3:

The roles of the Chairperson and Chief Executive Officer should not be exercised by the same individual.

The Company's Chairman, Mr Goyder, acts in a non-executive capacity but is considered by the Board not to be independent in terms of the ASX Corporate Governance Council's definition of independent Director. However the Board believes that the Chairman is able to and does bring quality and independent judgment to all relevant issues falling within the scope of the role of a Chairman.

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the expense of the appointment of an independent Non-executive Chairman.

Refer Section 1.2 of Corporate Governance Statement.

CORPORATE GOVERNANCE STATEMENT

Council Recommendation 2.4:

The board should establish a nomination committee.

The Board considers that the Company is not currently of a size to justify the formation of a nomination committee. The Board as a whole undertakes the process of reviewing the skill base and experience of existing Directors to enable identification of attributes required in new Directors. Where appropriate, independent consultants are engaged to identify possible new candidates for the Board.

The Board acknowledges this does not comply with recommendation 2.4 of the ASX Corporate Governance Guidelines. If the Company's activities increase in size, scope and nature, the appointment of a nomination committee will be reviewed by the Board and implemented if appropriate.

Refer Section 1.3 of Corporate Governance Statement.

Council Principle 3:

Promote ethical and responsible decision-making

Council Recommendation 3.1:

Establish a code of conduct to guide the Directors, the Chief Executive Officer (or equivalent), the Chief Financial Officer (or equivalent) and any other key executives as to:

3.1.1 the practices necessary to maintain confidence in the company's integrity;

3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practice.

The Company complies with this recommendation. Refer Sections 2.1 and 2.2 of Corporate Governance Statement.

Council Recommendation 3.2:

Disclose the policy concerning trading in company securities by Directors, officers and employees.

The Company complies with this recommendation. Refer Section 2.3 of Corporate Governance Statement.

Council Principle 4:

Safeguard integrity in financial reporting

Council Recommendation 4.1:

Require the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.

The Company complies with this recommendation.

Council Recommendation 4.2:

The board should establish an audit committee.

The Board considers that the Company is not currently of a size to justify the formation of an audit committee. The Board as a whole undertakes the selection and proper application of accounting policies, the identification and management of risk and the review of the operation of the internal control systems.

CORPORATE GOVERNANCE STATEMENT



The Board acknowledges this does not comply with recommendation 4.2 of the ASX Corporate Governance Guidelines. If the Company's activities increase in size, scope and nature, the appointment of a audit committee will be reviewed by the Board and implemented if appropriate.

Council Recommendation 4.3:

Structure the audit committee so that it consists of:

- only non-executive Directors;
- a majority of independent Directors;
- an independent chairperson, who is not chairperson of the board;
- at least three members.

Refer Recommendation 4.2.

Council Recommendation 4.4

The audit committee should have a formal operating charter.

Refer Recommendation 4.2.

Council Principle 5:

Make a timely and balanced disclosure

Council Recommendation 5.1:

Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.

The Company complies with this recommendation. Refer Section 3.1 of Corporate Governance Statement.

Council Principle 6:

Respect the rights of shareholders

Council Recommendation 6.1:

Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.

The Company complies with this recommendation. Refer Section 3.2 of Corporate Governance Statement.

Council Recommendation 6.2:

Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Company complies with this recommendation. Refer Section 4.3 of Corporate Governance Statement.

CORPORATE GOVERNANCE STATEMENT

Council Principle 7:

Recognise and manage risk

Council Recommendation 7.1:

The Board or appropriate board committee should establish policies on risk oversight and management.

The Company complies with this recommendation. Refer Section 4.1 of Corporate Governance Statement.

Council Recommendation 7.2

The Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) should state in writing that:

7.2.1 the statement given in accordance with best practice recommendation 4.1 is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board;

7.2.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The Company complies with this recommendation. Refer Section 4.1 of Corporate Governance Statement.

Council Principle 8:

Encourage enhanced performance

Council Recommendation 8.1:

Disclose the process for performance evaluation of the board, its committees and individual Directors, and key executives.

The Company complies with this recommendation. Refer Section 5 of Corporate Governance Statement.

Council Principle 9:

Remunerate fairly and responsibly

Council Recommendation 9.1:

Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to Directors and key executives and corporate performance.

The Company complies with this recommendation. Refer Section 6 of Corporate Governance Statement.

Council Recommendation 9.2

The board should establish a remuneration committee.

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of a remuneration committee. The Board as a whole is responsible for the remuneration arrangements for Directors and executives of the Company.

The Board acknowledges that this does not comply with recommendation 9.2 of the ASX Corporate Governance Guidelines. If the Company's activities increase in size, scope and nature, the appointment of a remuneration committee will be reviewed by the Board and implemented if appropriate. Refer Section 1.3 of Corporate Governance Statement.



CORPORATE GOVERNANCE STATEMENT

Council Recommendation 9.3

Clearly distinguish the structure of Non-executive Directors' remuneration from that of executives.

The Company complies with this recommendation. Refer Section 6 of Corporate Governance Statement.

Council Recommendation 9.4

Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.

The Company complies with this recommendation. The Company currently has in place an Employee Share Option Plan. Any issue of options made to eligible participants is made in accordance with that plan.

Council Principle 10:

Recognise the legitimate interests of stakeholders

Council Recommendation 10.1:

Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.

The Company complies with this recommendation. Refer Section 2.4 of Corporate Governance Statement.

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 25 September 2008 were:

Shareholder	Number of ordinary shares held	Percentage of capital held %
Timothy R B Goyder	18,429,002	19.69
Resolute Limited	12,249,094	13.09

Class of Shares and Voting Rights

At 25 September 2008 there were 922 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 25 September 2008:

Number of equity security holders		
Category	Ordinary Shares	Unlisted Share Options
1 – 1,000	67	-
1,001 – 5,000	249	-
5,001 – 10,000	132	-
10,000 – 100,000	392	3
100,001 and over	82	8
Total	922	11

The number of shareholders holding less than a marketable parcel at 25 September 2008 was 336.

ASX ADDITIONAL INFORMATION



Twenty largest Ordinary Fully Paid Shareholders as at 25 September 2008

Name	Number of ordinary shares held	Percentage of capital held %
Plato Prospecting Pty Ltd	17,142,988	18.32
Resolute Limited	12,249,094	13.09
Equinox Resources Limited	9,000,000	9.62
National Nominees	4,794,919	5.12
Define Consulting Pty Ltd	3,063,544	3.27
Pindan Exploration Company Pty Ltd	2,750,000	2.94
Merrill Lynch (Australia) Nominees Pty Ltd	2,500,000	2.67
Graham Kluck Management & Investment Pty Ltd	2,297,733	2.45
Balfes (QLD) Pty Ltd	1,500,000	1.60
Tara Management Pty Ltd	1,464,026	1.56
Gremlyn Pty Ltd	1,250,000	1.34
J P Morgan Nominees Australia Limited	1,168,911	1.25
Albion Bay Pty Ltd	1,100,000	1.18
Nefco Nominees Pty Ltd	1,029,010	1.10
Plato Prospecting Pty Ltd (Super Fund)	936,014	1.00
Calm Holdings Pty Ltd	888,002	0.95
Aimwin Pty Ltd	800,000	0.85
Penally Management Limited	762,678	0.81
Gurravembi Investments Pty Ltd	700,000	0.75
HSBC Custody Nominees (Australia) Limited	500,009	0.53
Total	65,896,928	70.40





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