

**Lefroy Resources Limited**

ACN 107 118 678

**ANNUAL FINANCIAL REPORT  
30 JUNE 2010**

**Lefroy Resources Limited**  
**ACN 107 118 678**

**CORPORATE DIRECTORY**

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**DIRECTORS**

Craig Bromley (Non-Executive Director)  
Thomas Kelly (Non-Executive Director)  
Carl Swensson (Non-Executive Director)

**COMPANY SECRETARY**

Jade Styants

**REGISTERED AND PRINCIPAL  
OFFICE**

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**AUDITORS**

Somes & Cooke  
1304 Hay Street  
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**SHARE REGISTRY**

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## Letter to Shareholders

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Dear Shareholders,

It is with pleasure that your board of directors delivers the 2010 Annual Financial Statements to you.

As you will be aware from our announcement on 5 July 2010, your company has entered into an agreement to acquire 100% of the Rio Pardo Iron Ore Project situated in the Minas Gerais Iron Province in Brazil. A brief summary of the transaction and project follows on pages 6 and 7 of this Annual Report. Further information is available in the 5 July 2010 announcement to the Australian Stock Exchange.

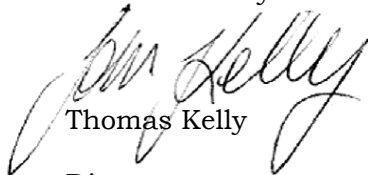
The agreement requires Lefroy's shareholders to approve the transaction at a shareholder's meeting. A notice of meeting and explanatory statement is being prepared such that shareholder's will be able to make an informed decision on the project at the requisite meeting, likely to be the annual general meeting.

This acquisition presents an opportunity for the company to acquire an exciting project in an emerging world class iron ore province that has a short and clear pathway to establishing feasibility and infrastructure requirements.

We urge all shareholders to read the notice of meeting when it becomes available and we thank shareholders for their support.

Lefroy Resources continues in the meantime to establish a suitable Joint Venture partner for its Chilean Uranium and Lithium exploration projects.

Yours sincerely



Thomas Kelly

Director

# Operations Report

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## Exploration Summary

- A second phase of drilling was completed over the Pampas Project. The results confirmed the highly encouraging results from the first phase of drilling, extending the mineralised zone to the north and south east. The anomaly remains unclosed.
- Research into the nature of the lithium mineralisation identified at Llamara and Cerro Soledad was completed. The results show the lithium to be in the form of a clay mineral, hectorite.
- Review of all exploration results to date.
- The search for a suitable joint venture partner to accelerate uranium exploration in Chile was initiated.

## Pampas

A second phase of reverse circulation drilling was completed at Pampas to follow up significant uranium intersections returned from the first phase of drilling. Drilling was targeted to the north, north east and south east of the initial drilling grid, following up unclosed intersections from the initial phase of drilling. Drilling was also designed to test under a barren sandstone unit to the immediate north of the initial drilling which masks the radiometric response of the anomalous units.

A total of 43 vertical, reverse circulation holes were drilled for 964m. Holes were generally short, averaging 20m in depth with a few holes drilled to 30m. In order to reduce the number of low grade or barren samples submitted to the laboratory, the samples were screened using a cut-off of 20evUppm level as determined by taking a differential spectrometer reading of the sample bag. This resulted in only a small number of samples being submitted to the laboratory.

The results from the second phase of drilling have returned some significant intersections, similar in tenor to the first phase of drilling. The results have extended the anomalous trend to the north and south east of the current radiometric grid and show that the prospective stratigraphy extends under the barren sandstone sequence to the immediate north of the current radiometric anomaly. The mineralisation remains unclosed and represents an excellent exploration target. The significant intersections from the results received to date are summarised in the table below.

<b>Drill Hole</b>	<b>From (m)</b>	<b>To (m)</b>	<b>Interval (m)</b>	<b>U ppm</b>
<b>PSRC61</b>	2	4	2	<b>34.60</b>
	9	11	2	<b>36.15</b>
<b>PSRC67</b>	28	32	4	<b>57.50</b>
	28	29	1	<b>80.00</b>
<b>PSRC68</b>	20	26	6	<b>257.00</b>
<b>PSRC68</b>	21	23	2	<b>488.00</b>
<b>PSRC74</b>	29	30	1	<b>20.70</b>
<b>PSRC76</b>	1	2	1	<b>85.30</b>

## Operations Report Continued

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<b>Drill Hole</b>	<b>From (m)</b>	<b>To (m)</b>	<b>Interval (m)</b>	<b>U ppm</b>
<b>PSRC79</b>	8	9	1	<b>10.75</b>
<b>PSRC81</b>	2	10	8	<b>39.60</b>
	5	8	3	<b>56.00</b>
<b>PSRC85</b>	8	19	11	<b>49.86</b>
	15	16	1	<b>188.50</b>
	15	19	4	<b>82.30</b>
<b>PSRC89</b>	15	17	2	<b>77.50</b>

**Table 1: Pampas 2nd Phase Drilling, Significant Results to Date**

### **Lithium Mineralogical Research**

Detailed particle size separation and XRD analysis has confirmed that the lithium identified at Llamara and Cerro Soledad is in the form of hectorite, a smectite clay species in which lithium replaces magnesium in the clay lattice. Assays on different size fractions of material subjected to investigation have shown that the lithium grade can be substantially upgraded from 1800 -2400ppm Li in the fine fractions and hence some beneficiation appears possible.

However the metallurgical treatment of hectorite remains to be shown to be commercially viable, although Western Lithium Corporation's Kings Valley hectorite project in Nevada is at feasibility stage. In considering the potential risks associated with pursuing new processes and considering that Lefroy's primary focus is uranium, no further work is anticipated on the potential lithium resource at Llamara and Cerro Soledad. However the size and tenor of the lithium mineralisation may be attractive to a lithium-focused Company and seeking a potential joint venture partner for this commodity is an option the Company is considering.

### **Project Review**

A complete review of exploration results to date has been undertaken during the year. In summary:

- Potentially economic grades of uranium from soil, rock and drill samples have been returned from Llamara, Cerro Soledad and Pampas projects.
- Only a small area (<10%) of the potential host sequence in these three projects has received any exploration and hence the potential for further mineralisation is considerable. Anomalies remain unclosed on all three projects.
- Despite high grade surface mineralisation being identified for over 14km of strike within the Salar Grande project, the mineralisation has not been effectively drill tested and considerable potential remains.
- While three areas of carnotite mineralisation have been recognized at Cardones, only preliminary reconnaissance has been undertaken at this project and the potential remains untested.

## Operations Report Continued

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Lefroy considers that the potential of its uranium projects is considerable and warrant further work. However the next stage of exploration requires escalated expenditure to allow aerial geophysical surveys to prioritise areas for exploration and further drilling. To share the risk Lefroy considers it prudent to seek a suitable resources joint venture partner to share future exploration expenditure. A number of potential companies have been approached and discussions are in train at the time of writing.

**Carl Swensson**  
**Director**  
**20 August 2010**

The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr Carl Swensson who is a Member of the AUSIMM. Mr. Swensson is a Director of the Company. Mr. Swensson has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr. Swensson consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

# Directors' Report

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Your director's present their report together with the consolidated financial report of Lefroy Resources Limited (**Company**), being the Company and its subsidiaries (**Consolidated Entity**), for the financial year ended 30 June 2010 and the auditor's report thereon.

## DIRECTORS

The names and details of the Directors in office during the financial year and until the date of this report are set out below. Directors have been in office the entire period unless otherwise stated.

- Craig Bromley (Non-Executive Director)
- Thomas Kelly (Non-Executive Director)
- Carl Swensson (Non-Executive Director)

## BOARD OF DIRECTORS

### **Mr Craig Bromley (Non-Executive Director)**

Mr Bromley has worked in the finance industry for more than 26 years. He holds a Bachelor of Commerce at the University of Western Australia. In 1983 Mr Bromley began a career in stockbroking with a local firm and later gained extensive experience in all facets of the industry working for a major international investment house. For the last ten years Mr Bromley has focused primarily on corporate finance and capital raisings and was a director of Montagu Stockbrokers Pty Ltd from 1998 to 2003. Mr Bromley is a member of the Company's Audit Committee and Remuneration Committee.

### **Mr Thomas Kelly (Non-Executive Director)**

Mr Kelly has more than 17 years corporate experience over a wide range of industries and projects. Mr Kelly holds a Bachelor Degree in Business and is a Senior Associate of the Financial Services Institute of Australasia. Mr Kelly has been involved with a number of publicly listed company restructures and venture capital style project start-ups. Mr Kelly is currently also a director of Royal Harry Gold Mines NL and an executive director of AIM listed Empyrean Energy Plc. Mr Kelly is a member of the Company's Audit Committee and Remuneration Committee.

### **Mr Carl Swensson (Non-Executive Director)**

Mr Swensson was formerly Chief Exploration Geologist for Normandy Mining Limited/Newmont and has held senior exploration positions with Bendigo Gold Associates and CRA. His experience covers a wide range of countries and commodities including Uranium, Gold, Nickel, Copper, Zinc, Lead, Tin, Tungsten and Diamonds.

## COMPANY SECRETARY

### **Ms Jade Styants**

Ms Styants is a Chartered Accountant with experience in corporate accounting for both the resource and manufacturing industries, having worked for major companies such as Anaconda Nickel Limited and Gillette International SARL. To date Ms Styants has been involved in a number of listings on both the AIM and the ASX exchange. Ms Styants is currently Company Secretary of ASX listed C @ Limited and AIM listed Empyrean Energy Plc.

## DIRECTORS' SHAREHOLDINGS

The following table sets out each director's relevant interest in shares and options of the Company as at the date of this report:

Director	Number Shares	Number Options
Craig Bromley	5,679,164	1,000,000
Thomas Kelly	7,578,657	3,000,000
Carl Swensson	186,858	3,000,000



# Directors' Report Continued

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## **DIRECTORS' REMUNERATION**

Information about the remuneration of directors is set out in the Remuneration Report of this Directors' Report, on page 9 to 12.

## **SHARE OPTIONS GRANTED TO DIRECTORS**

During the financial year 3,500,000 options exercisable at 10 cents each, expiring on 30 November 2012 were granted to the directors of the Company as part of their remuneration, as detailed below:

<b>Director</b>	<b>Number of Options Granted</b>
Craig Bromley	500,000
Thomas Kelly	1,500,000
Carl Swensson	1,500,000

## **PRINCIPAL ACTIVITIES**

The principal activities of the Consolidated Entity during the financial year comprised of mineral exploration in South America.

There were no other significant changes in the nature of the Consolidated Entity's activities during the financial year.

## **OPERATING RESULTS**

The Consolidated Entity's loss after providing for income tax for the year ended 30 June 2010 amounted to \$2,071,271 (2009: \$322,761).

## **DIVIDENDS PAID OR RECOMMENDED**

The directors of the Company do not recommend the payment of a dividend in respect of the current financial year ended 30 June 2010.

## **REVIEW OF OPERATIONS**

The Consolidated Entity's operations are discussed in the Operations Report on page 2.

## **SIGNIFICANT CHANGES IN STATE OF AFFAIRS**

All significant changes in the state of affairs of the Company during the year are discussed in detail in the Operations Report.

## **AFTER BALANCE DATE EVENTS**

Unless detailed below, no matters or circumstances have arisen since the period ended 30 June 2010 which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

As announced on 5 July 2010, the Company has entered into a Heads of Agreement (**Agreement**) to acquire a 100% interest in the Rio Pardo Iron Ore Project located in Brazil, which provides the Company with entry into an emerging world class iron ore province via a project that has excellent potential for short term valuation uplift from early drilling.

The Project is located in the North Minas Gerais Iron Province in Brazil, close to the town of Rio Pardo de Minas. The Project is situated within an emerging world class iron ore province that rivals Brazil's Iron Quadrangle in potential. This province contains a number of multibillion tonne iron ore deposits owned by Mineração Minas Bahia S.A. (**MIBA**), Honbridge Ltd (**Salinas**) and Vale do Rio Doce (**Vale**).

## Directors' Report Continued

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The Rio Pardo block of tenements covers 338.5km<sup>2</sup> just north and adjacent to ground held by MIBA and Salinas. Aeromagnetic surveys and ground traverses indicate that the MIBA ore zones continue into the Project ground. Initial work on the Project indicates a potential resource equivalent to that contained within the MIBA ground with the opportunity to add additional resources along a parallel trend.

The Project is 380kms from the port of Ilhéus and 160km from the town of Caetité. A major east west railway is currently being constructed by the Brazilian Federal Government between the port of Ilhéus and Figueirópolis with the section from Ilhéus to Caetité due for completion in mid 2011. A rail spur of 160km will need to be completed to connect this iron ore province to the major railroad being built at Caetité.

The Company has entered into the Agreement with Brilliant City Holdings Limited and Star Castle Holdings Limited (**the Acquisition Companies**) both Hong Kong incorporated companies which jointly hold the right to acquire 100% of the Rio Pardo Iron Ore Project. Under the Agreement, the Company agrees to acquire the Acquisition Companies for the issue of 72,198,501 fully paid ordinary shares in the Company, post consolidation, and the reimbursement of costs totaling \$250,000.

Furthermore, the Company has entered into a US\$1 million loan agreement with the Acquisition Companies. The interest rate applicable to the loan is 5% over the US Libor rate per annum calculated on the balance of the principal outstanding at the end of each calendar month. This loan payment was made on 16 July 2010 to satisfy the initial payment for the Rio Pardo Iron Ore Project, as detailed below.

The Acquisition Companies have an agreement with Dacal Mineração Ltda. (**Dacal**), a Brazilian incorporated entity to acquire 100% of the Rio Pardo Iron Ore Project. The initial payment of US\$1 million was made on 16 July 2010 and Dacal has since transferred full title of the tenements to Minas Norte Mineração Ltda., a Brazilian company owned 100% by the Acquisition Companies.

The Acquisition Companies can withdraw from ongoing obligations in relation to the Project at any time by transferring the tenements back to Dacal. If the Acquisition Companies do not withdraw they must pay a royalty of US\$1.00 per tonne of iron pellets produced over the life of mining on the Project and make the following scheduled payments (totalling US\$55 million) over five and a half years as follows:

Scheduled Payment (\$USD)	Due Date from 15 July 2010
\$5 million	12 months
\$5 million	18 months
\$10 million	30 months
\$10 million	42 months
\$10 million	54 months
\$15 million	66 months

Completion of the acquisition is conditional upon satisfaction of due diligence, execution of a formal share sale agreement, necessary shareholder and regulatory approvals and approval for consolidation of the Company's share capital on a one for two basis. The Company intends to hold a general meeting of shareholders to approve the change in nature and scale of activities, issue of shares to the vendors, 1:2 consolidation and any other necessary resolution required to give effect to the acquisition of the Rio Pardo Iron Ore Project.

The acquisition provides an exciting opportunity for the Company to acquire an excellent project within a developing world class iron ore province. Proximity to shared infrastructure, which is under construction, will allow the Project to develop quickly at a lower capital cost than competitors with large infrastructure requirements. A program is planned to quickly define a JORC compliant resource and quickly determine the size and scope of the Rio Pardo Iron Ore Project.

# Directors' Report Continued

## LIKELY DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

The directors are of the opinion that further information as to the likely developments in operations of the Consolidated Entity and the expected results of those operations, would be speculative and prejudicial to the interests of the Company and its shareholders.

## ENVIRONMENTAL ISSUES

The Board believe that the Consolidated Entity has adequate systems in place for the management of environmental requirements and is not aware of any breach of environmental requirements as they apply to the Consolidated Entity.

## MEETINGS OF DIRECTORS

During the financial year, 4 meetings (including committees of directors) were held. Attendances by each director during the year were as follows:

	Directors Meetings		Audit Committee *		Remuneration Committee **	
	Number Eligible to attend	Number Attended	Number Eligible to attend	Number Attended	Number Eligible to attend	Number Attended
<i>Non-Executive</i>						
Craig Bromley	2	2	1	1	1	1
Thomas Kelly	2	2	1	1	1	1
Carl Swensson	2	2	-	-	-	-

\* During the financial year Mr Kelly was chairman of the Audit Committee with Mr Bromley being a member.

\*\* During the financial year Mr Bromley was chairman of the Remuneration Committee with Mr Kelly being a member.

## OPTIONS

At the date of this report, the unissued ordinary shares of Lefroy Resources Limited under option are as follows:

Date of Expiry	Exercise Price	Number under Option
31/10/11	\$0.10	5,500,000
30/11/12	\$0.10	4,000,000
	<b>TOTAL</b>	<b>9,500,000</b>

## PROCEEDINGS ON BEHALF OF THE COMPANY

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

The Consolidated Entity was not a party to any such proceedings during the year.

## NON-AUDIT SERVICES

The Board of Directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

## Directors' Report Continued

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- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board

No fees for non-audit services were paid to the external auditors during the year ended 30 June 2010 (2009: nil).

### **AUDITORS INDEPENDENCE DECLARATION**

The auditors independence declaration for the year ended 30 June 2010 has been received and can be found on page 19.

### **REMUNERATION REPORT (AUDITED)**

This report details the nature and amount of remuneration for each director of Lefroy Resources Limited and for the executives receiving the highest remuneration.

#### **Remuneration Policy**

The remuneration policy of Lefroy Resources Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the economic entity's financial results. The Board of Lefroy Resources Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the economic entity, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for board members and senior executives of the economic entity is as follows:

- The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the remuneration committee and approved by the board after seeking professional advice from independent external consultants where necessary.
- All executives receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives.
- The Board reviews executive packages annually by reference to the economic entity's performance, executive performance and comparable information from industry sectors.

The performance of executives is measured against criteria agreed with each executive and is based predominantly on the forecast growth of the economic entity's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Executives are also entitled to participate in employee share and option arrangements.

The executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits.

## Directors' Report Continued

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Shares given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using the Black-Scholes methodology.

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting.

On 24 November 2008 at the Company's 2008 Annual General Meeting it was resolved to limit the amount of non-executive director's remuneration to an aggregate maximum of \$300,000 per annum. Fees for non-executive directors are not linked to the performance of the Company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company and are able to participate in the employee option plan.

### **Company performance, shareholder wealth and director and executive remuneration**

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. Each year the Board reviews Directors remuneration and will consider the issue options as part of the director's remuneration to encourage the alignment of personal interest and shareholder interests.

### **Indemnifying Directors and Officers**

The Company has made an agreement to indemnify all the Directors and Officers of the Company against all losses or liabilities incurred by each Director and Officer in their capacities as Directors and Officers of the Company. During the period ended 30 June 2010, the Company paid insurance premiums in respect of Directors' and Officers Liability Insurance for Directors and Officers of the Company. The liabilities insured are damages and legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the Directors and Officers in their capacity as Directors and Officers of the entity and related joint venture companies. On 18 June 2010, the Company paid an insurance premium of \$13,099 covering the period 30 April 2010 to 30 April 2011 (2009: \$12,541).

### **Key Management Personnel Remuneration Policy**

The Board's policy for determining the nature and amount of remuneration of key management for the economic entity is as follows:

The remuneration structure for key management personnel is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the Company. The contracts for service between the Company and key management personnel are on a continuing basis, the terms of which are not expected to change in the immediate future. There is no scheme to provide retirement benefits, other than statutory superannuation.

The employment conditions of key management personnel are formalised in contracts of employment. The Company may terminate an employment contract without cause by providing 3 months written notice or making payment in lieu of notice, based on the individual's annual salary. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the case of serious misconduct the Company can terminate employment at any time, and options not exercised before or on the date of termination will lapse.

The remuneration committee determines the proportion of fixed and variable compensation for each key management personnel. Please see the table below for the details of the nature and amount of each major element of remuneration for each key management personnel of the Company during the year:

# Directors' Report Continued

## Key Management Personnel Remuneration

2010 Key Management Person	Short-term Benefits		Post-employment Benefits	Share-based payment		Total \$	Performance Related %
	Salary \$	Other Fees \$	Superannuation \$	Equity \$	Options (a) \$		
<i>Non-Executive</i>							
Craig Bromley	36,000	-	3,240	-	5,813	45,053	12.90%
Thomas Kelly	36,000	-	3,240	-	17,438	56,678	30.77%
Carl Swensson (1)	12,000	142,000	1,080	-	17,438	172,518	10.11%
	<b>84,000</b>	<b>142,000</b>	<b>7,560</b>	-	<b>40,689</b>	<b>274,249</b>	<b>14.84%</b>
<i>Specified Executives</i>							
Jade Styants (2)	55,000	-	-	-	10,213	65,213	15.66%
	<b>55,000</b>	-	-	-	<b>10,213</b>	<b>65,213</b>	<b>15.66%</b>

(a) The fair value of the options are calculated at the date of grant using the Black-Scholes model and allocated to each reporting period 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.

- (1) Mr Swensson received \$12,000 in salary for Non-Executive duties. Consultancy fees of \$142,000 were paid to Swensson Resource Management Pty Ltd, of which Mr Swensson is a director and beneficiary.
- (2) Ms Styants received consultancy fees of \$55,000 paid to Jade Lauren Pty Ltd, of which Ms Styants is a director and beneficiary.

2009 Key Management Person	Short-term Benefits		Post-employment Benefits	Share-based payment		Total \$	Performance Related %
	Salary \$	Other Fees \$	Superannuation \$	Equity \$	Options (a) \$		
<i>Non-Executive</i>							
Craig Bromley	36,000	-	3,240	-	4,608	43,848	10.51%
Thomas Kelly (1)	36,000	18,000	3,240	-	13,822	71,062	19.45%
Carl Swensson (2)	36,000	171,000	3,240	-	13,822	224,062	6.17%
	<b>108,000</b>	<b>189,000</b>	<b>9,720</b>	-	<b>32,252</b>	<b>338,972</b>	<b>9.51%</b>
<i>Specified Executives</i>							
Jade Styants (3)	46,560	-	-	-	3,696	50,256	7.35%
	<b>46,560</b>	-	-	-	<b>3,696</b>	<b>50,256</b>	<b>7.35%</b>

(a) The fair value of the options are calculated at the date of grant using the Black-Scholes model and allocated to each reporting period 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.

- (1) Mr Kelly received \$36,000 in salary for Non-Executive duties. Consultancy fees of \$18,000 were paid to Apnea Holdings Pty Ltd, of which Mr Kelly is a director and beneficiary.
- (2) Mr Swensson received \$36,000 in salary for Non-Executive duties. Consultancy fees of \$171,000 were paid to Swensson Resource Management Pty Ltd, of which Mr Swensson is a director and beneficiary.
- (3) Ms Styants received consultancy fees of \$46,560 paid to Jade Lauren Pty Ltd, of which Ms Styants is a director and beneficiary.
- (4) The comparatives figures have been amended to exclude Mr Malcolm James who resigned on 17/04/09.

## Directors' Report Continued

### Options issued as part of remuneration for the year ended 30 June 2010

Options are issued to directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to directors and executives of Lefroy Resources Limited to increase goal congruence between executives, directors and shareholders.

### Options Granted as Remuneration

The service and performance criteria set to determine remuneration are included in this remuneration report. All options were granted for nil consideration.

2010			Terms and Conditions			
Key Management Personnel	Vested No.	Granted No.	Grant Date	Value per Option at Grant Date (\$)	Exercise Price (\$)	Last Exercise Date
<i>Non-Executive Directors</i>						
Craig Bromley	500,000	500,000	26/11/2009	0.0116	0.10	30/11/2012
Thomas Kelly	1,500,000	1,500,000	26/11/2009	0.0116	0.10	30/11/2012
Carl Swensson	1,500,000	1,500,000	26/11/2009	0.0116	0.10	30/11/2012
	<b>3,500,000</b>	<b>3,500,000</b>				
<i>Specified Executives</i>						
Jade Styants (1)	500,000	500,000	21/10/2009	0.0204	0.10	30/11/2012
	<b>500,000</b>	<b>500,000</b>				

(1) Options were issued to Ms Styants under the Lefroy Resources Limited Option Scheme.

2009			Terms and Conditions			
Key Management Personnel	Vested No.	Granted No.	Grant Date	Value per Option at Grant Date (\$)	Exercise Price (\$)	Last Exercise Date
<i>Non-Executive Directors</i>						
Craig Bromley	500,000	500,000	24/11/2008	0.0092	0.10	31/10/2011
Thomas Kelly	1,500,000	1,500,000	24/11/2008	0.0092	0.10	31/10/2011
Carl Swensson	1,500,000	1,500,000	24/11/2008	0.0092	0.10	31/10/2011
	<b>3,500,000</b>	<b>3,500,000</b>				
<i>Specified Executives</i>						
Jade Styants (1)	250,000	250,000	21/10/2008	0.0148	0.10	31/10/2011
	<b>250,000</b>	<b>250,000</b>				

(1) Options were issued to Ms Styants under the Lefroy Resources Limited Option Scheme.

### Shares Issued on Exercise of Compensation Options

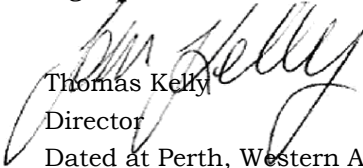
There were no compensation options exercised by directors or key management personnel during the year ended 30 June 2010.

*This is the end of the audited remuneration report.*

# Directors' Report Continued

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Signed in accordance with a resolution of the Board of Directors



Thomas Kelly  
Director

Dated at Perth, Western Australia, this 20th day of August 2010



# Corporate Governance Statement

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The Board of Directors is responsible for the overall corporate governance of the Company and the Consolidated Entity, and is committed to the principles underpinning best practice in corporate governance, applied in a manner that meets ASX standards and best addresses the Directors' accountability to shareholders.

However, whilst the Company will endeavour to comply with all of the guidelines under the ASX Corporate Governance Recommendations, the Board consider that the Company is not currently of a size, nor are its affairs of such complexity, to justify the additional expense of compliance with all recommendations. The Board will consider on an ongoing basis its corporate governance procedures and whether they are sufficient given the Company's nature of operations and size.

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

Unless disclosed below, all the best practice recommendations of the ASX Corporate Governance Council have been applied for the entire financial year ended 30 June 2010.

## **Board Composition**

When determining whether a Non-Executive Director is independent the director must not fail any of the following materiality thresholds:

- less than 10% of Company shares are held by the director and any entity or individual directly or indirectly associated with the director;
- is employed, or has previously been employed in an executive capacity by the Company or another group member, and there has not been a period of at least three years between ceasing such employment and serving of the board;
- has been a material professional adviser or a material consultant to the Company or another group member within the last three years, or an employee materially associated with the service provided;
- no sales are made to or purchases made from any entity directly or indirectly associated with the director; and
- none of the directors income or the income of an individual or entity directly or indirectly associated with the director is derived from a contract with any member of the economic entity other than income derived as a director of the entity.

The Board currently comprises three Non-Executive Directors, of which Mr Craig Bromley and Mr Thomas Kelly are both considered independent. Mr Carl Swensson currently carries out geological work for the Company, which is in addition to his role as a director of the Company, and is therefore not considered independent.

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report is detailed on page 5 of the Directors' Report.

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

## **Role of the Board**

The management and control of the business is vested in the Board. The Board's primary responsibility is to oversee the Company's business activities and management for the benefit of shareholders.

# Corporate Governance Statement Continued

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The Board strives to create shareholder value and ensure that shareholders' funds are safeguarded.

The key responsibilities to the Board include:

- setting objectives, goals and strategic direction with management with a view to maximising shareholder value;
- overseeing the financial position and monitoring the business and affairs of the Company;
- establishing corporate governance, ethical, environmental and health and safety standards;
- ensuring significant business risks are identified and appropriately managed; and
- ensuring the composition of the Board is appropriate, selecting directors for appointment to the Board and reviewing the performance of the Board and the contributions of individual directors.

The Board has delegated responsibilities and authorities to management to enable management to conduct the Company's day to day activities. Matters which are not covered by these delegations, such as approvals which exceed certain limits, require Board approval.

## **Audit Committee**

The names and qualifications of those appointed to the Audit Committee and their attendance at meetings of the committee are included in the Directors' Report.

## **Remuneration Committee**

The names of all the members of the Remuneration Committee and their attendance at meetings of the committee are detailed in the Directors' Report.

## **Nomination Committee**

The Board has formally adopted a Nomination Committee Charter however given the present size of the Company, has not formed a separate Committee. Instead the function will be undertaken by the full Board in accordance with the policies and procedures outlined in the Nomination Committee Charter. When the Company is of sufficient size, a separate Nomination Committee will be formed.

## **Remuneration Policies**

The remuneration policy, which sets the terms and conditions for the senior executives and management, was developed by the Remuneration Committee. The Remuneration Committee reviews executive and management packages annually by reference to Company performance, executive performance, comparable information from industry sectors and other listed companies and independent advice.

The Company's remuneration policy is to ensure remuneration packages properly reflect each person's duties and responsibilities and support the Company's business objectives by remunerating people in a manner that is competitive and can attract, retain and motivate people of the highest calibre.

Executives and management are also entitled to participate in the employee share and option arrangements.

The amount of remuneration for all directors and executives, including all monetary and non-monetary components, are detailed in the Directors' Report under the heading Key Management Personnel Remuneration. Shares given to executives are valued as the difference between the market price of those shares and the amount paid by the executive. Options are valued using the Black-Scholes methodology.

## Corporate Governance Statement Continued

The Board expects that the remuneration structure implemented will result in the Company being able to attract and retain the best executives to run the economic entity. It will also provide executives with the necessary incentives to work to grow long-term shareholder value.

The payment of bonuses, options and other incentive payments are reviewed by the Remuneration Committee annually as part of the review of executive and management remuneration and a recommendation is put to the Board for approval. The Board can exercise its discretion in relation to approving incentives, bonuses and options and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria.

There are no schemes for retirement benefits other than the statutory superannuation for non-executive directors.

### Independent Professional Advice

Each Director has the right to access all relevant Company information, and may seek independent professional advice at the Company's expense, in connection with their duties and responsibilities. The Director must first obtain the prior written approval of a non-executive director, not to be unreasonably withheld, before consulting with an advisor suitably qualified in the relevant field. A copy of the advice received by the Directors must be made available to all other members of the Board.

### Trading Policy

The Board has formally adopted a Trading Policy Charter which restricts directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the security's prices.

### Compliance to Best Practice Recommendations

Item	Best Practice Recommendation	Comment
<b>1.</b>	<b>Lay solid foundations for management and oversight</b>	
1.1	Formalise and disclose the functions reserved to the Board and those delegated to management.	<p>The Company's Corporate Governance Policy includes a Board Charter, which discloses the specific responsibilities of the Board and provides that the Board shall delegate responsibility for the day-to-day operations and administration of the Company to the Key Executives.</p> <p>As the Company is currently in a transitional phase, the duties of management are currently being handled by designated directors, as approved by the Board.</p> <p>The Company's Performance Evaluation Practices Policy sets out the evaluation process for board, director, board committees and senior executives/management of the Company.</p> <p>A copy of the Board Charter and the Performance Evaluation Practices Policy is available on the Company's website (<a href="http://www.lefroyresources.com.au">www.lefroyresources.com.au</a>).</p>
<b>2.</b>	<b>Structure the board to add value</b>	
2.1	A majority of the Board should be independent directors.	A majority of the Board is considered independent. Please refer to page 14 for further information.
2.2	The Chairperson should be an independent director.	A chairperson has not been appointed while the Company moves through its transition phase. At the commencement of each board meeting, a non-executive director is elected by the Board to act as Chairperson to the meeting.
2.3	The roles of Chairperson and Chief Executive Officer should not be exercised by the same individual.	As advised above at item 1.1 and 2.2 above, the Company is in a transitional phase and does not have a CEO. The duties of management are currently handled by designated directors.

## Corporate Governance Statement Continued

Item	Best Practice Recommendation	Comment
2.4	The Board should establish a Nomination Committee.	Please refer to page 15.
2.5	Process for evaluating the performance of the board, its committees and individual directors.	The Company's Performance Evaluation Practices Policy sets out the evaluation process for board, director, board committees and senior executives/management of the Company. A copy of the Board Charter and the Performance Evaluation Practices Policy is available on the Company's website ( <a href="http://www.lefroyresources.com.au">www.lefroyresources.com.au</a> ).
<b>3.</b>	<b>Promote ethical and responsible decision-making</b>	
3.1	Establish a code of conduct as to: (a) the practices necessary to maintain confidence in the Company's integrity; (b) the practices necessary to take into account legal obligations and the reasonable expectations or their stakeholders; and (c) the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	The Company's Corporate Governance Policy includes a Corporate Code of Conduct, which provides a framework for decisions and actions in relation to ethical conduct in employment. A copy of this policy is available on the Company's website ( <a href="http://www.lefroyresources.com.au">www.lefroyresources.com.au</a> ).
3.2	Establish a policy concerning trading in company securities by directors, senior officers and employees.	The Company's Corporate Governance Policy includes a Securities Trading Policy for buying and selling securities in the Company. A copy of this policy is available on the Company's website ( <a href="http://www.lefroyresources.com.au">www.lefroyresources.com.au</a> ).
<b>4.</b>	<b>Safeguard integrity in financial reporting</b>	
4.1	The Board should establish an Audit Committee.	An Audit Committee has been established. Please refer to page 15.
4.2	Structure the Audit Committee so that it consists of: (a) only non-executive directors; (b) a majority of independent directors; (c) an independent chairperson, who is not Chairperson of the Board; and (d) at least three members.	Due to the size of the Company, the Audit Committee consists of only two directors, who are both independent non-executive directors, of which the chairperson is not the Chairperson of the Board.
4.3	The Audit Committee should have a formal charter.	The Company's Corporate Governance Policy includes a formal charter for the audit committee. A copy of this policy is available on the Company's website ( <a href="http://www.lefroyresources.com.au">www.lefroyresources.com.au</a> ). The Audit Committee Charter also contains details on the procedure for the selection and appointment of the external auditor, and the rotation of external audit engagement partners.
<b>5.</b>	<b>Make timely and balanced disclosure</b>	
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 has a Continuous Disclosure Policy in place designed to ensure the factual presentation of the Company's position. A copy of this policy is available on the Company's website ( <a href="http://www.lefroyresources.com.au">www.lefroyresources.com.au</a> ).
<b>6.</b>	<b>Respect the rights of shareholders</b>	
6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage their participation at general meetings.	The Company has a Shareholder Communication Policy in place which set out procedures to provide shareholders with relevant information which includes identifying matters that may have a material effect on the price of the Company's securities, notifying them to the ASX, posting them on the Company's website and issuing media releases where required. A copy of this policy is available on the Company's website ( <a href="http://www.lefroyresources.com.au">www.lefroyresources.com.au</a> ).

## Corporate Governance Statement Continued

Item	Best Practice Recommendation	Comment
<b>7.</b>	<b>Recognise and manage risk</b>	
7.1	Establish policies on risk oversight and management of material business risk.	The Company's Corporate Governance Policy includes a Risk Management and Internal Compliance and Control Policy. Under this policy the Board determines the Company's "risk profile" and is responsible for overseeing and approving risk management strategy and policies for internal compliance and internal control.  A copy of this policy is available on the Company's website ( <a href="http://www.lefroyresources.com.au">www.lefroyresources.com.au</a> ).
7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and to report to the board on whether those risks are being managed effectively.	As advised above at item 1.1 the duties of management are currently handled by designated directors. The risk management and internal control system is reviewed annually in September, at the completion of the Financial Statements reporting.
7.3	The Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) should state to the Board in writing that declaration in accordance with section 295A of the Corporations Act is founded on the Company's risk management, internal compliance and control system is operating efficiently and effectively in all material respects.	The Board will request that the relevant Directors and Company Secretary provide such a statement at the relevant time.
<b>8.</b>	<b>Remunerate fairly and responsibly</b>	
8.1	The Board should establish a Remuneration Committee.	A Remuneration Committee has been established. Please refer to page 15.
8.3	Clearly distinguish the structure of Non-Executive Directors' remuneration from that of executives.	Please refer to page 15.



**Lefroy Resources Limited ACN 107 118 678 and controlled entities**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Lefroy Resources Limited and its controlled entities.

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

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

*Somes and Cooke*

Somes and Cooke

*J Talbot*

Jennifer Talbot

1304 Hay Street  
West Perth WA 6005  
20 August 2010

# Consolidated Statement of Comprehensive Income

FOR YEAR ENDED 30 JUNE 2010

	Notes	2010 \$	2009 \$
<b>Revenue</b>	2	139,243	275,584
Employee benefits expense	3	(146,560)	(196,980)
Employee share based payments	4	(50,902)	(128,532)
Depreciation and amortisation expenses	4	(15,236)	(21,260)
Exploration expenditure write off	4	(1,368,579)	(99,315)
Financial asset impairment	4	(387,229)	-
Other expenses from ordinary activities	4	(242,008)	(152,258)
<b>LOSS BEFORE INCOME TAX</b>		<b>(2,071,271)</b>	<b>(322,761)</b>
Income tax expense	5	-	-
<b>NET LOSS FOR THE PERIOD</b>		<b>(2,071,271)</b>	<b>(322,761)</b>
<b>Other Comprehensive Income</b>			
Changes in fair value of available for sale assets		(291,228)	(265,303)
Changes in foreign operations translation		63,291	(85,591)
		<b>(227,937)</b>	<b>(350,894)</b>
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>		<b>(2,299,208)</b>	<b>(673,655)</b>
Basic loss (cents per share)	17	(2.87)	(0.46)

Diluted loss per share is not shown as the Company does not have any potentially dilutive securities on issue.

The consolidated statement of comprehensive income is to be read in conjunction with the accompanying notes.

# Consolidated Statement of Financial Position

AS AT 30 JUNE 2010

	Notes	2010 \$	2009 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	6	3,101,941	4,089,335
Other		58,658	32,769
Trade and other receivables	7	164,332	207,067
<b>TOTAL CURRENT ASSETS</b>		<b>3,324,931</b>	<b>4,329,171</b>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	7	1,874	1,851
Financial assets	8	1,673,238	2,351,695
Property, plant and equipment	9	47,514	60,980
Exploration and evaluation expenditure	10	2,631,263	3,159,539
<b>TOTAL NON-CURRENT ASSETS</b>		<b>4,353,889</b>	<b>5,574,065</b>
<b>TOTAL ASSETS</b>		<b>7,678,820</b>	<b>9,903,236</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	11	45,951	22,061
<b>TOTAL CURRENT LIABILITIES</b>		<b>45,951</b>	<b>22,061</b>
<b>TOTAL LIABILITIES</b>		<b>45,951</b>	<b>22,061</b>
<b>NET ASSETS</b>		<b>7,632,869</b>	<b>9,881,175</b>
<b>EQUITY</b>			
Issued Capital	12	13,686,885	13,686,885
Reserves	13	277,481	588,079
Retained Earnings/(Losses)		(6,331,497)	(4,393,789)
<b>TOTAL EQUITY</b>		<b>7,632,869</b>	<b>9,881,175</b>

The consolidated statement of financial position is to be read in conjunction with the accompanying notes.



## Consolidated Statement of Changes in Equity

	Share Capital Ordinary \$	Option Reserve \$	Financial Assets Reserve \$	Foreign Currency Reserve \$	Accumulated Losses \$	Total \$
<b>BALANCE AT 19 FEBRUARY 2009 *</b>	<b>13,566,886</b>	<b>478,235</b>	<b>755,530</b>	-	<b>(4,236,881)</b>	<b>10,563,770</b>
Loss for period	-	-	-	-	(322,761)	(322,761)
Change in fair value of financial assets	-	-	(265,303)	-	-	(265,303)
Adjustment for foreign controlled entities translation	-	-	-	(85,591)	-	(85,591)
Shares issued during the year	119,999	-	-	-	-	119,999
Cost of share based payments (1)	-	144,461	-	-	-	144,461
Share based payments lapsed (2)	-	(439,253)	-	-	165,853	(273,400)
<b>BALANCE AT 30 JUNE 2009</b>	<b>13,686,885</b>	<b>183,443</b>	<b>490,227</b>	<b>(85,591)</b>	<b>(4,393,789)</b>	<b>9,881,175</b>
Loss for period	-	-	-	-	(2,071,271)	(2,071,271)
Change in fair value of financial assets	-	-	(291,228)	-	-	(291,228)
Adjustment for foreign controlled entities translation	-	-	-	63,291	-	63,291
Cost of share based payments (1)	-	50,902	-	-	-	50,902
Share based payments lapsed (2)	-	(133,563)	-	-	133,563	-
<b>BALANCE AT 30 JUNE 2010</b>	<b>13,686,885</b>	<b>100,782</b>	<b>198,999</b>	<b>(22,300)</b>	<b>(6,331,497)</b>	<b>7,632,869</b>

\* 19 February 2009 was the first date in which the Company became a consolidated entity

(1) Share based payment during the year comprised \$50,902 (2010: \$128,532) issued to directors and employees (Note 24a). During the year ended 30 June 2009 share based payments of \$15,929 was issued to shareholders of King Energy Pty Ltd as part of the acquisition of King Energy Pty Ltd.

(2) Share based payment lapsed during the year comprises \$133,563 issued to directors (Note 24a). During the year ended 30 June 2009 share based payment lapsed comprised \$273,400 issued pursuant to the acquisition of King Energy and \$272,807 for options issued to consultants, less amortised share based payments booked for the period of \$106,954.

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes

# Consolidated Statement of Cash Flows

FOR THE PERIOD ENDED 30 JUNE 2010

	Notes	2010 \$	2009 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Payments to suppliers and employees		(315,960)	(354,660)
Interest received		121,522	275,583
<b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>	15	<b>(194,438)</b>	<b>(79,076)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(1,910)	(12,056)
Tenement bonds refunded		84,168	-
Purchase of financial assets		-	(786,468)
Payment for subsidiary, net of cash acquired		-	(951,613)
Payments for exploration and evaluation		(875,001)	(76,283)
Effect of exchange rates on foreign currencies		-	(465,354)
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>		<b>(792,743)</b>	<b>(2,291,774)</b>
<b>NET DECREASE IN CASH HELD</b>		<b>(987,181)</b>	<b>(2,370,850)</b>
Cash and cash equivalents at beginning of period		<b>4,089,335</b>	<b>6,460,185</b>
Effect of exchange rates on cash holdings in foreign currencies		<b>(213)</b>	-
<b>CASH AT END OF FINANCIAL YEAR</b>	6	<b>3,101,941</b>	<b>4,089,335</b>

Non cash financing activities:

On 20 February 2009 the Company issued 3,000,000 fully paid ordinary shares and 1,500,000 options to shareholders of King Energy Pty Ltd (King Energy) to finalise consideration for the 100% acquisition of its uranium assets, through the purchase of King Energy.

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes.

# Notes to the Consolidated Financial Statements

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## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

### General Information

Lefroy Resources Limited (**Company**) is a public company listed on the Australian Securities Exchange (clicker: LEF), incorporated in Australia and operating in Australia and South America. The consolidated financial report of the Company for the financial year ended 30 June 2010 comprises the Company, and its subsidiaries King Energy Pty Ltd (registered in Australia) and S.L.M Arauco Minerals (Registered in Chile) (together referred to as the **Consolidated Entity**). The address of the Company's registered office is Suite 1, 64 Thomas Street, West Perth WA 6005, Australia. The Company is primarily involved in the exploration of minerals.

### Statement of compliance

The consolidated financial report is a general-purpose financial report which has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations and other requirements of the law. The consolidated financial report also complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standard Board.

### Basis of Preparation

The accounting policies set out below have been consistently applied to all years presented.

#### *Reporting Basis and Conventions*

The consolidated financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

The Directors have prepared the consolidated financial report on a going concern basis, as there are reasonable grounds to believe that the Company will be able to meet any obligations or liabilities as and when they become due and payable.

#### *Financial Statement Presentation*

The Consolidated Entity has applied the revised AASB101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Consolidated Entity had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

### Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgments incorporated into the consolidated financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the entity.

#### *Significant accounting estimates and assumptions*

The carrying amount of certain assets and liabilities are often determined based on estimates and assumptions of future events. 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 reporting period are:

#### **Impairment of capitalised exploration and evaluation expenditure**

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Consolidate Entity decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors that could impact the future recoverability include the level of reserves and resources, future technological changes, costs of drilling and production, production rates, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

# Notes to the Consolidated Financial Statements Continued

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## Accounting Policies

### (a) New Accounting Standards and interpretations issued but not yet effective

The following Australian Accounting Standards, amendments and interpretations have been identified as those which may impact the Consolidated Entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing the financial report.

- AASB 9 *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 will become mandatory for the Consolidated Entity's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Consolidated Entity has not yet determined the potential effect of the standard.
- AASB 124 *Related Party Disclosures* simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which become mandatory for the Consolidated Entity's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.
- AASB 2009-5 *Further amendments to Australian Accounting Standards arising from Annual Improvements Project* affects various AASB's resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Consolidated Entity's 30 June 2011 financial statements, are not expected to have a significant impact of the financial statements.
- AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions* clarifies the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. The amendments, which become mandatory for the Consolidated Entity's 30 June 2011 financial statements, are not expected to have a significant impact of the financial statements.
- AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issue* clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offer the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The amendments, which will become mandatory for the Consolidated Entity's 30 June 2011 financial statements, are not expected to have any impact on the financial statements.
- AASB 2009-12 *Amendments to Australian Accounting Standards* makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The amendments, which will become mandatory for the Consolidated Entity's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.
- AASB 2009-14 *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement* amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan. The amendments, which will become mandatory for the Consolidated Entity's 30 June 2012 financial statements, with retrospective application required. These amendments are not expected to have any impact on the financial statements.
- AASB Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The amendment will become mandatory for the Consolidated Entity's 30 June 2011 financial statements, with retrospective application required. The Consolidated Entity has not yet determined the potential effect of the Interpretation.
- All other pending Standards issued between the previous financial report and the current reporting dates have no application to the Company.

# Notes to the Consolidated Financial Statements Continued

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## **(b) Principles of Consolidation**

### ***i) Subsidiaries***

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Consolidated Entity.

### ***ii) Transactions eliminated on consolidation***

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

## **(c) Foreign Currency**

### ***i) Functional and presentation currency***

The functional currency of each of the Company and its subsidiaries is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

### ***ii) Foreign currency transactions and balances***

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the date when the fair values were determined.

### ***iii) Group Companies***

The financial results and position of foreign operations whose functional currency is different from the Consolidated Entities presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Consolidated Entities foreign currency reserve in the Statement of Financial Position. These differences are recognised in the income statement in the period in which the operation is disposed.

## **(d) Income Tax**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

Deferred income tax is provided on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it has become probable that future taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

# Notes to the Consolidated Financial Statements Continued

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Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

## **(e) Property, Plant and Equipment**

### *Property*

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less depreciation for buildings.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the re-valued amount of the asset.

### *Plant and equipment*

Plant and equipment are measured on the cost basis.

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

The cost of fixed assets constructed within the entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Consolidated Entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

### *Depreciation*

The depreciable amount of all fixed assets is depreciated on a straight-line basis over their useful lives to the entity commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable assets are:

<b>ASSET CLASS</b>	<b>DEPRECIATION PERIOD</b>
Plant and equipment	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When re-valued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

## **(f) Exploration and Development Expenditure**

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

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in

## Notes to the Consolidated Financial Statements Continued

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which the decision to abandon the area is made.

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

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

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

### **(g) Changes in Accounting Policy**

The Consolidated Entity has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control, joint control or significant influence from 1 July 2009 when a revised AASB 127 *Consolidated and Separate Financial Statements*, became operative. The revisions to AASB 127 contained consequential amendments to AASB 128 *Investments in Associates* and AASB 131 *Interest in Joint Ventures*.

Previously transactions with non-controlling interest were treated as transactions with parties external to the Consolidated Entity. Disposals therefore result in gains or losses in profit and loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Previously when the Consolidated Entity ceased to have control, joint control or significant influence over an entity, the carrying amount of the investment at the date of control, joint control or significant influence ceased because its costs for the purposes of subsequently accounting for the retained interest as associated, jointly controlled entity or financial assets.

The Consolidated Entity has applied the new policy prospectively to transactions occurring on or after 1 July 2009. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

### **(h) Business Combinations**

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Consolidated Entities share of the identified net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Consolidated Entities share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in future are discounted to their present value as at the date of exchange. The discount rate used is the entities incremental borrowing rate, being the rate at which similar borrowing could be obtained from an independent financier under comparable terms and conditions.

# Notes to the Consolidated Financial Statements Continued

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## **(i) Intangibles**

### *Goodwill*

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Negative goodwill arising on an acquisition is recognised directly in profit and loss.

### *Patents and trademarks*

Patents and trademarks are recognised at cost of acquisition. Patents and trademarks have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Patents and trademarks are amortised over their useful life.

### *Research and development*

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

## **(j) Financial Instruments**

### *Recognition*

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

### *Financial assets at fair value through profit and loss*

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

### *Held-to-maturity investments*

These investments have fixed maturities, and it is the entity's intention to hold these investments to maturity. Any held-to-maturity investments held by the entity are stated at amortised cost using the effective interest rate method.

### *Available-for-sale financial assets*

Available-for-sale financial assets include any financial assets not included in the above categories. These assets are reflected at fair value, with the exception of securities that are held in escrow (restricted) for greater than 12 months which are reflected at cost. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

### *Financial Liabilities*

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.



# Notes to the Consolidated Financial Statements Continued

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## *Derivative Instruments*

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated as hedges.

Lefroy Resources Limited designates certain derivatives as either;

- i) hedges of the fair value of recognised assets or liabilities or a firm commitment; or
- ii) hedges of highly probably forecast transactions (cash flow hedges).

At the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions is documented. Assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items, are also documented

### (i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedge asset or liability that are attributable to the hedged risk.

### (ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred to a hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in the hedge reserve in equity are transferred to the income statement in the periods when the hedged item will affect profit or loss.

## *Fair Value*

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

## *Impairment*

At each reporting date, the entity assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

### **(k) Impairment of Assets**

At each reporting date, the entity reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

### **(l) Employee Benefits**

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within 12 months have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than 12 months have been measured at the present value of the estimated future cash outflows to be made for those benefits

## *Defined superannuation schemes*

The executive directors and executives receive a superannuation guarantee contribution required by the

# Notes to the Consolidated Financial Statements Continued

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government, which is currently 9%, and do not receive any other retirement benefits.

## *Equity-settled compensation*

The entity operates a number of share-based compensation plans. These include both a share option arrangement and an employee share scheme. The bonus element over the exercise price of the employee services rendered in exchange for the grant of shares and options is recognised as an expense in the income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares of the options granted.

## **(m) Provisions**

Provisions are recognised when the entity has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

## **(n) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 3 months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the Consolidated Statement of Financial Position.

## **(o) Interest Revenue**

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

## **(p) Intra-Company Receivables**

The Company has intra-company receivables with its wholly owned subsidiaries. The directors have assessed the treatment of the receivable in relation to changes in foreign exchange movements (AASB 121) and believe that the subsidiary plans to repay the receivable in the foreseeable future by way of successful exploration or alternatively by sale of the asset.

## **(q) Segment Reporting**

Operating segments are now reported in a manner that is consistent with the internal reporting to the chief operating decision maker (**CODM**), which has been identified by the company as the Board of directors.

## *Change in Accounting Policy*

The Consolidated Entity adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB 114 *Segment Reporting*. The new standard requires a “management approach” under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is consistent with the internal reporting provided to the CODM. Comparatives for 2009 have been restated.

## **(r) Share Based Payments**

### *Share Options to Employees/Directors*

The Company has taken the issue of options to account by using the valuation determined by the Black-Scholes option pricing model as the basis for charging the expense to the income statement and the corresponding entry to the Option Reserve.

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

The fair value at grant date is independently determined using a Black-Scholes option pricing model that

## Notes to the Consolidated Financial Statements Continued

takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Upon exercise of options, the balance of the option reserve relating to those options is transferred to share capital.

### (s) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

### (t) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

### (u) Comparative Figures

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

### (v) Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the consolidated financial report and Directors' Report have been rounded off to the nearest dollar.

	2010 \$	2009 \$
<b>2. REVENUE</b>		
Interest received	139,243	275,584
Revenue from rendering of services	-	-
	<b>139,243</b>	<b>275,584</b>
<b>3. EMPLOYEE EXPENSE BENEFIT</b>		
Wages and salaries	84,000	138,000
Other personnel expenses	55,000	46,560
Superannuation costs	7,560	12,420
	<b>146,560</b>	<b>196,980</b>

## Notes to the Consolidated Financial Statements Continued

	2010 \$	2009 \$
<b>4. OPERATING EXPENSES</b>		
Employee share based payments	50,902	128,532
Depreciation of plant & equipment	15,236	21,260
Exploration expenditure written off	1,368,579	99,315
Rental expense on operating lease	10,798	6,803
Financial asset impairment	387,229	-
Other operating expenses	231,210	145,455
	<b>2,063,954</b>	<b>401,365</b>

### 5. INCOME TAX

#### a) The major components of income are:

Income Statement		
Current income tax	-	-
Current income tax charge/(benefit)	-	-
	-	-
Amounts charged or credited directly to other comprehensive income	87,368	79,591
Deferred income tax not brought to account	(87,368)	(79,591)
	-	-
Amounts Charges or Credited Directly to Equity	-	-
	-	-

A reconciliation between income tax expense and the product of accounting profit before income tax multiplied by the Consolidated Entity's applicable income tax rate is as follows:

Accounting loss before income tax	(2,071,271)	(322,761)
Prima facie tax on profit from ordinary activities before income tax (based on 30%)	621,381	96,828
Tax effect of:		
Non deductible prepayments	(17,597)	(9,831)
Non deductible share based payments	(15,271)	(38,560)
Exploration expenditure written off	(410,574)	-
Deductible exploration expenditure capitalised	252,091	537,288
Financial asset impairment	(116,168)	-
Deferred income tax not brought to account	(313,682)	(585,725)
<b>Income tax (benefit)/expense</b>	<b>-</b>	<b>-</b>

#### b) Tax Losses

Unused tax losses for which no deferred tax asset has been recognised.

Potential at 30% (2009: 30%)	5,282,214	4,967,752
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## Notes to the Consolidated Financial Statements Continued

The benefit of these losses has not been brought to account as realisation is not probable. The availability of these losses is subject to satisfying Australian taxation legislation requirements and will only be available if:

- i) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- ii) provisions relating to the deduction of losses from prior years imposed by tax legislation continues to be complied with; and
- iii) no changes in tax legislation adversely affect the Company in realising the benefit.

	2010 \$	2009 \$
<b>6. CASH AND CASH EQUIVALENTS</b>		
Cash at bank	1,627,138	414,498
Short-term bank deposits	1,474,803	3,674,837
	<b>3,101,941</b>	<b>4,089,335</b>
<b>7. TRADE AND OTHER RECEIVABLES</b>		
CURRENT		
Goods and services taxation receivable (i)	124,560	107,598
Bonds (security over exploration licences) (ii)	-	84,168
Other receivables	39,772	15,301
	<b>164,332</b>	<b>207,067</b>
NON CURRENT		
Bonds (security over operations office - Chile)	1,874	1,851
	<b>1,874</b>	<b>1,851</b>

Terms and conditions:

(i) Goods and services taxation is non-interest bearing and generally on 14 day terms at the end of each quarter.

(ii) The Company had in place cash bonds as a requirement for rehabilitation over the Tasmanian gold tenements. On 30 June 2008, these gold tenements were sold to Beaconsfield Gold NL. As a condition of the transfer of tenements, the Department of Mineral Resources Tasmania required the Company to maintain the bonds until Beaconsfield have finalised their replacement bonds. These cash bonds have been refunded.

### 8. FINANCIAL ASSETS

Available-for-sale financial assets (i)	1,673,238	2,351,695
	<b>1,673,238</b>	<b>2,351,695</b>

(i) Available-for-sale assets comprise investments in the ordinary issued capital of Torrens Energy Limited (Torrens) and the Beaconsfield Gold NL (Beaconsfield). As at 30 June 2010 the Company held 3,425,000 (2009: 3,425,000) ordinary shares in Torrens, with a market value of \$274,000 (2009: \$719,250) and 11,660,323 (2009: 11,660,323) ordinary shares in Beaconsfield, with a market value of \$1,399,238 (2009: \$1,632,445). There are no fixed returns or fixed maturity date attached to this investment.

## Notes to the Consolidated Financial Statements Continued

### 9. PROPERTY, PLANT & EQUIPMENT

	<b>Furniture &amp; Fittings \$</b>	<b>Computer Hardware \$</b>	<b>Computer Software \$</b>	<b>Plant &amp; Equipment \$</b>	<b>Total \$</b>
<b>Balance 1 July 2009</b>	-	2,922	6,253	51,805	60,980
Additions	-	-	1,910	-	1,910
Movement in foreign currency assets	-	-	-	(140)	(140)
Disposals	-	-	-	-	-
Depreciation for the year	-	(687)	(2,402)	(12,147)	(15,236)
Carrying value at 30 June 2010	-	<b>2,235</b>	<b>5,761</b>	<b>39,518</b>	<b>47,514</b>
<b>At 30 June 2010</b>					
Cost	-	7,578	9,495	71,614	88,687
Accumulated depreciation	-	(5,343)	(3,734)	(32,096)	(41,173)
Net carrying amount	-	<b>2,235</b>	<b>5,761</b>	<b>39,518</b>	<b>47,514</b>
<b>Balance 1 July 2008</b>	2,176	6,768	4,297	45,732	58,973
Additions	-	-	7,204	-	7,204
Fair value additions on acquisition of King Energy	-	1,680	-	20,772	22,452
Disposals	(2,090)	(1,168)	(1,184)	-	(4,442)
Expensed	-	-	(1,947)	-	(1,947)
Depreciation for the year	(86)	(4,358)	(2,117)	(14,699)	(21,260)
Carrying value at 30 June 2009	-	<b>2,922</b>	<b>6,253</b>	<b>51,805</b>	<b>60,980</b>
<b>At 30 June 2009</b>					
Cost	-	8,772	26,294	71,650	106,716
Accumulated depreciation	-	(5,850)	(20,041)	(19,845)	(45,736)
Net carrying amount	-	<b>2,922</b>	<b>6,253</b>	<b>51,805</b>	<b>60,980</b>

<b>2010 \$</b>	<b>2009 \$</b>
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### 10. EXPLORATION AND EVALUATION EXPENDITURE

Exploration and evaluation expenditure carried forward in respect of mining areas of interest:

<b>King Energy Project (Chile and Peru)</b>		
Opening balance	3,159,539	-
Exchange movement	(2,992)	
Fair value at acquisition (i)	-	1,845,228
Goodwill on acquisition (i)	-	1,368,579
Exploration expenditure capitalised	843,295	54,547
Exploration expenditure impaired (ii)	(1,368,579)	(108,815)
<b>Total Exploration and Evaluation Expenditure</b>	<b>2,631,263</b>	<b>3,159,539</b>

(i) The calculation of goodwill relates to the value placed on the mineral tenements purchased when the Company acquired King Energy Pty Ltd on 19 February 2009.

(ii) Goodwill work was impaired on the Chilean properties during the year ended 30 June 2010.

# Notes to the Consolidated Financial Statements Continued

Exploration work carried out on Peruvian tenements was impaired in entirety at 30 June 2009.

The ultimate recoupment of exploration expenditure carried forward is dependent on successful development and commercial exploitation or sale of the respective mining areas.

	2010 \$	2009 \$
<b>11. TRADE AND OTHER PAYABLES</b>		
CURRENT		
Trade Payables (i)	45,951	22,061
	<b>45,951</b>	<b>22,061</b>

(i) Trade creditors are non-interest bearing and are normally settled on 30 day terms.

## 12. ISSUED CAPITAL

### (a) Shares

A reconciliation of the movement in capital and reserves for the economic entity can be found in the Statement of Changes in Equity.

72,198,501 (2009: 72,198,501) fully paid ordinary shares	13,686,885	13,686,885
	<b>13,686,885</b>	<b>13,686,885</b>

Ordinary shares have the right to receive dividends as declared and in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. At the shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

### (b) Options

(i) For information relating to the Lefroy Resources Limited share option incentive plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at the 30 June 2010, refer to Note 24 Share-based Payments.

(ii) As at 30 June 2010, the unissued ordinary shares of the Company under option are as follows:

5,500,000 exercisable at 10 cents on or before 31 October 2011 (unlisted)

4,000,000 exercisable at 10 cents on or before 30 November 2012 (unlisted)

## 13. RESERVES

### a) Option Reserve

The option reserve is used to record the value of share based payments provided to employees, consultants and for options issued pursuant to any acquisitions or in exchange for services.

### b) Financial Asset Reserve

The financial assets reserve records the revaluation of available-for-sale financial assets.

### c) Foreign Currency Reserve

The foreign currency reserve records foreign currency differences arising from the translation of financial statements of all foreign controlled subsidiaries.

# Notes to the Consolidated Financial Statements Continued

## 14. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1(g).

Name of entity	Country of Incorporation	Class of security	Equity Holding at 30 June 2010	Equity Holding at 30 June 2009
King Energy Pty Ltd	Australia	Ordinary Share	100%	100%
S.L.M Arauco Minerals	Chile	Ordinary Share	100%	100%
S.L.M Rupac Minerals	Peru	Ordinary Share	0%	100%

## 15. CASH FLOW INFORMATION

### (a) Reconciliation of Cash Flow from Operations with Profit after Income Tax

	2010 \$	2009 \$
Loss after tax	(2,071,271)	(322,761)
Non cash flows in profit/(loss):		
Depreciation	15,236	21,260
Employee share options expensed	50,902	128,532
Exploration expenditure impaired	1,368,579	99,315
Financial asset impairment	387,229	-
Loss on disposal and property, plant and equipment	-	4,443
Expensed property, plant and equipment	-	1,947
Exchange movement	60,695	-
Changes in assets and liabilities:		
Increase in trade and other receivables	(34,875)	(5,034)
Increase / (decrease) in trade payables and accruals	29,067	(6,779)
<b>Cash Flow from Operations</b>	<b>(194,438)</b>	<b>(79,076)</b>

## 16. EXPENDITURE COMMITMENTS

### (a) Mineral Tenement Leases

Financial commitments for subsequent periods are contingent upon future exploration results and cannot be estimated.



# Notes to the Consolidated Financial Statements Continued

## 17. LOSS PER SHARE

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

	2010 \$	2009 \$
<b>a) Reconciliation of earnings to operating loss</b>		
Loss after tax	(2,071,271)	(322,761)
Loss used in the calculation of EPS	<b>(2,071,271)</b>	<b>(322,761)</b>
<b>b) Weighted average number of ordinary shares (WANOS)</b>		
WANOS used in calculating basic earnings per share	72,198,501	70,083,205
Weighted average number of options outstanding	7,927,397	6,094,945
WANOS used in calculating diluted earnings per share	<b>80,125,898</b>	<b>76,178,150</b>

## 18. AUDITOR'S REMUNERATION

Remuneration of the auditor for :

- auditing or reviewing the financial report
- corporate services

Balance at the end of period

31,730	22,250
-	-
<b>31,730</b>	<b>22,250</b>

## 19. KEY MANAGEMENT PERSONNEL COMPENSATION

(a) Names and positions held of key management personnel in office at anytime during the financial year are :

Craig Bromley	Non-Executive Director
Thomas Kelly	Non-Executive Director
Carl Swensson	Non-Executive Director
Jade Styants	Company Secretary

Key management personnel remuneration has been included in the Remuneration Report section of the Directors' Report.

# Notes to the Consolidated Financial Statements Continued

## (b) Options and Rights Holdings

### Number of Options Held by Key Management Personnel

	<i>Balance at 1 July 2009</i>	<i>Granted as Compensation</i>	<i>Options Exercised</i>	<i>Options Lapsed</i>	<i>Balance at 30 June 2010</i>
<i>Non-Executive</i>					
Craig Bromley	1,700,000	500,000	-	(1,200,000)	1,000,000
Thomas Kelly	2,700,000	1,500,000	-	(1,200,000)	3,000,000
Carl Swensson	1,500,000	1,500,000	-	-	3,000,000
<i>Specified Executives</i>					
Jade Styants	250,000	500,000	-	-	750,000
	<b>6,150,000</b>	<b>4,000,000</b>	<b>-</b>	<b>(2,400,000)</b>	<b>7,750,000</b>

All options held by Key Management Personnel at 30 June 2010 are exercisable.

## (c) Shareholdings

### Number of Shares held by Key Management Personnel

	<i>Balance at 1 July 2009</i>	<i>Granted as Compensation</i>	<i>Options Exercised</i>	<i>Net Change Other *</i>	<i>Balance at 30 June 2010</i>
<i>Non-Executive</i>					
Craig Bromley	5,179,164	-	-	500,000	5,679,164
Thomas Kelly	6,154,497	-	-	1,424,160	7,578,657
Carl Swensson	186,858	-	-	-	186,858
<i>Specified Executives</i>					
Jade Styants	-	-	-	-	-
<b>Total</b>	<b>11,520,519</b>	<b>-</b>	<b>-</b>	<b>1,924,160</b>	<b>13,444,679</b>

\* Net Change Other refers to shares purchased on market during the financial year.

All equity transactions with specified directors and specified executives have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

## 20. RELATED PARTY DISCLOSURES

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transactions with related parties:

### (a) Key Management Personnel

Swensson Resource Management Pty Ltd, an entity associated with Mr Carl Swensson was paid an amount of \$142,000 (2009: \$171,000) in respect to geological and exploration management services of Mr Swensson, with this amount being included in specified executives' remuneration.

Jade Lauren Pty Ltd, an entity associated with Ms Jade Styants was paid an amount of \$55,000 (2009: \$46,560) in respect to company secretarial and financial services of Ms Styants, with this amount being included in specified executives' remuneration.

# Notes to the Consolidated Financial Statements Continued

## 21. SEGMENT INFORMATION

AASB 8 requires operating segments to be identified on the basis of components of the consolidated entity that are regularly reviewed by the chief operating decision makers in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (AASB 114 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach. As a result, following the adoption of AASB8, the identification of the consolidated entity's reportable segments has changed. The Consolidated Entity has identified the following segments:

- Exploration (South America) – consists of the exploration expenditure involved in the search and discovery of minerals
- Investment (Australia) – consists of financial investments made in Australia
- Corporate (Australia) – includes corporate and other costs incurred by the parent entity

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics.

The Consolidated Entity's principal activities continue to be in mineral exploration and projects are managed on a project-by-project basis.

### (i) Segment Performance

#### Year ended 30 June 2010

	Exploration (South America)	Investment (Australia)	Corporate (Australia)	Total Consolidated Entity
External revenues	-	139,243	-	139,243
Inter-segment revenue	-	-	-	-
Share based payments	-	-	(50,902)	(50,902)
Depreciation and amortisation expense	(4,036)	-	(11,200)	(15,236)
Exploration expenditure write off	(1,368,579)	-	-	(1,368,579)
Other expenses	(1,630)	-	(386,938)	(388,568)
Reportable segment profit before income tax	<b>(1,374,245)</b>	<b>139,243</b>	<b>(449,040)</b>	<b>(1,684,042)</b>

#### Year ended 30 June 2009

	Exploration (South America)	Investment (Australia)	Corporate (Australia)	Total Consolidated Entity
External revenues	-	275,584	-	275,584
Inter-segment revenue	-	-	-	-
Share based payments	-	-	(128,532)	(128,532)
Depreciation and amortisation expense	(3,607)	-	(17,653)	(21,260)
Exploration expenditure write off	(99,315)	-	-	(99,315)
Other expenses	(18,423)	-	(330,815)	(349,238)
Reportable segment profit before income tax	<b>(121,345)</b>	<b>275,584</b>	<b>(477,000)</b>	<b>(322,761)</b>

# Notes to the Consolidated Financial Statements Continued

## (ii) Segment Assets and Liabilities

### Year ended 30 June 2010

	Exploration (South America)	Investment (Australia)	Corporate (Australia)	Total Consolidated Entity
<b>Assets</b>				
Current assets	214,495	3,078,875	31,561	3,324,931
Property, plant and equipment	13,204	-	34,310	47,514
Financial assets	-	1,673,238	-	1,673,238
Exploration and evaluation expenditure	2,631,263	-	-	2,631,263
Other non-current assets	1,874	-	-	1,874
<b>Total Segment Assets</b>	<b>2,860,836</b>	<b>4,752,113</b>	<b>65,871</b>	<b>7,678,820</b>
<b>Total Segment Liabilities</b>	<b>(10,735)</b>	<b>-</b>	<b>(35,216)</b>	<b>(45,951)</b>
<b>Net Assets Employed</b>	<b>2,850,101</b>	<b>4,752,113</b>	<b>30,655</b>	<b>7,632,869</b>

### Year ended 30 June 2009

	Exploration (South America)	Investment (Australia)	Corporate (Australia)	Total Consolidated Entity
<b>Assets</b>				
Current assets	274,686	3,962,015	92,470	4,329,171
Property, plant and equipment	17,380	-	43,600	60,980
Financial assets	-	2,351,695	-	2,351,695
Exploration and evaluation expenditure	3,159,539	-	-	3,159,539
Other non-current assets	1,851	-	-	1,851
<b>Total Segment Assets</b>	<b>3,453,456</b>	<b>6,313,710</b>	<b>136,070</b>	<b>9,903,236</b>
<b>Total Segment Liabilities</b>	<b>(11,336)</b>	<b>-</b>	<b>(10,725)</b>	<b>(22,061)</b>
<b>Net Assets Employed</b>	<b>3,442,120</b>	<b>6,313,710</b>	<b>125,345</b>	<b>9,881,175</b>

## (iii) Major Customers

The Consolidated Entity continues to carry out exploration activities in South America and at this time does not provide product or services.

## 22. FINANCIAL INSTRUMENTS

### (a) Financial Risk Management

The Consolidated Entity's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments and accounts receivable and payable. The main purpose of non-derivative instruments is to raise finance for Company operations.

It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

## Notes to the Consolidated Financial Statements Continued

### (i) Credit risk

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

The total credit risk exposure of the Company could be considered to include the difference between the carrying amount of the receivable and the realisable amount. At balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Statement of Financial Position. The carrying amount of the Company's financial assets represents the maximum credit exposure, as detailed below:

	Note	2010 \$	2009 \$
<b>Financial Assets</b>			
Cash	6	3,101,941	4,089,335
Trade and other receivables	7	166,206	208,918
Financial assets (non-current)	8	1,673,238	2,351,695
		<b>4,941,385</b>	<b>6,649,948</b>

The Company's maximum exposure to credit risk for trade and other receivables at the reporting date by geographical region was limited to only Australia.

At 30 June 2010 the Company's receivables comprised Trade Receivable of \$15,878 (2009: \$15,301), Accrued Interest of \$17,721 (2009: nil), GST and Tax refundable by the Australian Taxation Office of \$13,840 (2009: \$8,302), VAT receivable in Chile of \$116,893 (2009: \$99,296) and Chilean office rental deposit \$1,874 (2009:\$1,851). The previous financial year also included receivables of cash bonds held with Westpac Banking Corporation amounting to \$84,168.

Based on historical default rates, the Company believes that no impairment allowance is necessary in respect of trade and other receivables.

### (ii) Liquidity Risk

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

The following are contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting arrangements:

	Carrying Amount \$	Contractual Cash Flows \$	6 Months or less \$	6 - 12 Months \$	1 - 2 Years \$	2-5 Years \$
<b>2010</b>						
Trade and other payables	(45,951)	(45,951)	(45,951)	-	-	-
<b>2009</b>						
Trade and other payables	(22,061)	(22,061)	(22,061)	-	-	-

### (iii) Interest rate risk

The Consolidated Entity's exposure to market risk for changes in interest rates relates primarily to the Company's cash, trade receivables and short-term deposits. Cash includes funds held in term deposits and cheque accounts during the year, which earned variable interest at rates ranging between 0% to 4.75% (2009: 0% to 7.4%), depending on the bank account type and account balances. The Consolidated Entity has no loans or borrowings at 30 June 2010.

## Notes to the Consolidated Financial Statements Continued

At the reporting date the variable interest rate profile for the Company's interest-bearing financial instruments was:

	<b>Note</b>	<b>2010</b> \$	<b>2009</b> \$
Financial Assets	6	3,101,941	4,089,335

A change of 1% in the variable interest rates at the reporting date would have increased/decreased profit and loss by the amounts shown below. The analysis assumes that all other variables remain constant. This analysis is performed on the same basis for 2009.

1% Increase	31,019	40,893
1% Decrease	(31,019)	(40,893)

### (iv) Currency risk

The Consolidated Entity is exposed to foreign currency on purchases that are denominated in a currency other than Australian Dollars. The currency giving rise to this risk is primarily US Dollars. In respect of monetary assets and liabilities, the Company ensure that net exposure is kept to an acceptable level, by buying or selling foreign currency at spot rates where necessary to address short term imbalances.

At the 30 June 2010 the Consolidated Entity held \$3,078,876 (2009: \$3,962,015) assets in Australian dollars, with the balance of \$23,065 (2009:\$127,320) being held in United States dollars.

### (v) Fair values

The Directors consider that the carrying amount of financial assets and financial liabilities recorded in the consolidated financial statements represents their net fair values for both 30 June 2010 and 30 June 2009.

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

Level 1 – quoted prices in active markets for identical assets and liabilities

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs)

	<b>Level 1</b> \$	<b>Level 2</b> \$	<b>Level 3</b> \$	<b>Total</b>
<b>2010</b>				
<b>Financial assets:</b>				
Available-for-sale				
- listed investments	1,673,238	-	-	1,673,238
	1,673,238	-	-	1,673,238
<b>2009</b>				
<b>Financial assets:</b>				
Available-for-sale	2,351,695	-	-	2,351,695
- listed investments	2,351,695	-	-	2,351,695

# Notes to the Consolidated Financial Statements Continued

## 23. CONTINGENT LIABILITIES

The Board is not aware of any circumstances or information which leads them to believe there are any material contingent liabilities outstanding as at 30 June 2010.

## 24. SHARE BASED PAYMENTS

The following share-based payment arrangements existed at 30 June 2010:

### a) Directors and employees

Options details	Number options issued	Share Based Payments Expensed (\$)				
		Black Scholes Valuation	Balance at 30 June 2009	Expensed/ Amortised	Lapsed	Balance at 30 June 2010
<i>Issued during prior periods</i>						
Issued on 28/11/06	500,000	27,516	27,516	-	(27,516)	-
Issued on 04/10/07	2,650,000	106,047	106,047	-	(106,047)	-
Issued on 21/10/08	250,000	3,696	3,696	-	-	3,696
Issued on 24/11/08	3,750,000	34,556	34,556	-	-	34,556
		<b>171,815</b>	<b>171,815</b>	-	<b>(133,563)</b>	<b>38,252</b>
<i>Issued during the financial year (i)</i>						
Issued on 21/10/09	500,000	10,213	-	10,213	-	10,213
Issued on 26/11/09	3,500,000	40,689	-	40,689	-	40,689
		<b>50,902</b>	-	<b>50,902</b>	-	<b>50,902</b>

### i) Share based payments from option granted during the financial year

The Company has an incentive option scheme. Persons eligible to participate in the scheme include directors, employees and consultants. The number of options to be granted to eligible persons is at the discretion of the directors. Each option entitles the holder to subscribe for one ordinary fully paid share.

On 21 October 2009 500,000 share options were granted to the Company Secretary under the Lefroy Resources Limited share option incentive plan to take up ordinary shares at an exercise price of 10 cents, valued at \$10,213 using the black scholes model. The options are exercisable on or before 30 November 2011. At balance date no share option has been exercised.

On 26 November 2009, 500,000 share options were granted to Craig Bromley at an exercise price of 10 cents. The options are exercisable on or before 30 November 2011, valued at \$5,813 using the black scholes model. At balance date no share option has been exercised.

On 26 November 2009, 1,500,000 share options were granted to Thomas Kelly at an exercise price of 10 cents. The options are exercisable on or before 30 November 2011, valued at \$17,438 using the black scholes model. At balance date no share option has been exercised.

On 26 November 2009, 1,500,000 share options were granted to Carl Swensson at an exercise price of 10 cents. The options are exercisable on or before 30 November 2011, valued at \$17,438 using the black scholes model. At balance date no share option has been exercised.

In determining the number of options issued to directors and their terms, consideration was given to the relevant experience and role of each of the director, their respective overall remuneration terms, the current market price of the shares and the terms of option packages granted to directors of other companies within the resources industry. The options shall lapse upon the earlier of the expiry date or such other date as the Board determines in its discretion at the time of the grant of the options.

Included under employee benefits expense in the income statement for the Consolidated Entity is \$50,902 (2009: \$128,532) which relates, in full, to equity-settled share based payment transactions.

## Notes to the Consolidated Financial Statements Continued

	2010		2009	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of the year	7,150,000	\$0.25	3,150,000	\$0.25
Granted	4,000,000	\$0.10	4,000,000	\$0.10
Forfeited/Lapsed	(3,150,000)	\$0.25	-	-
Exercised	-	-	-	-
Outstanding and exercisable at year-end	8,000,000	\$0.10	7,150,000	\$0.17

The options outstanding at 30 June 2010 had a weighted average exercise price of \$0.10 (2009: \$0.17) and a weighted average remaining contractual life of 1.88 years at 30 June 2010.

All options granted to key management personnel are over ordinary shares in Lefroy Resources Limited, which confer a right of one ordinary share for every option held.

The fair value of the options granted during the year was calculated using the Black Scholes option pricing model applying the following inputs :

3,500,000 options granted 26/11/2009		500,000 options granted 21/10/2009	
Weighted average exercise price	\$0.10	Weighted average exercise price	\$0.10
Weighted average life of option	3 years	Weighted average life of option	3 years
Underlying share price	\$0.07	Underlying share price	\$0.095
Expected share price volatility	60%	Expected share price volatility	60%
Risk free interest rate	4.51%	Risk free interest rate	4.51%

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future tender which may not eventuate.

### b) Other Share Based Payments on Issue

As part of the acquisition of King Energy Pty Ltd, the Company issued various options to the vendors. Details of the options pursuant to the acquisition on issue during the year are detailed below:

Options details	Number options issued	Total valuation	Balance at 30 June 2009	Share Based Payments Expensed (\$)		
				Amortised expense	Lapsed	Balance at 30 June 2010
Issued on 20/02/09	1,500,000	11,628	11,628	-	-	11,628
		<b>11,628</b>	<b>11,628</b>	-	-	<b>11,628</b>



## Notes to the Consolidated Financial Statements Continued

### 25. PARENT ENTITY DISCLOSURE

As at, and throughout, the financial year ended 30 June 2010 the parent entity of the Consolidated Entity was Lefroy Resources Limited.

	2010 \$	2009 \$
<b>Results of the parent entity</b>		
Profit/(loss) for the period	(240,482)	(275,582)
Other comprehensive profit/(loss)	(678,457)	521,165
Total comprehensive profit/(loss) for the period	(918,939)	245,583
<b>Financial Position of parent entity at year end</b>		
Current assets	3,104,264	4,505,593
Total assets	9,639,690	10,483,235
Current liabilities	35,216	10,725
Total liabilities	35,216	10,725
<b>Total equity of the parent entity comprising of:</b>		
Issued Capital	13,686,885	13,686,885
Option premium reserve	100,782	183,443
Financial asset reserve	198,999	490,227
Retained earnings	(4,382,193)	(3,888,045)
Total Equity	9,604,474	10,472,510
<b>Other</b>		
Contingent liabilities	-	-

### 26. EVENTS AFTER BALANCE SHEET DATE

The Company announced on 5 July 2010 that it had entered into a Heads of Agreement (**Agreement**) to acquire a 100% interest in the Rio Pardo Iron Ore Project located in Brazil, through the following means:

The Agreement is with Brilliant City Holdings Limited and Star Castle Holdings Limited (**the Acquisition Companies**) both Hong Kong incorporated companies which jointly hold the right to acquire 100% of the Rio Pardo Iron Ore Project. The Acquisition Companies have an agreement with Dacal Mineração Ltda. (**Dacal**), a Brazilian incorporated entity to acquire 100% of the Rio Pardo Iron Ore Project.

The Company lent the Acquisition Companies an amount of \$1,143,772 (US\$1 million) on 16 July 2010. The interest rate applicable to the loan between the Company and the Acquisition Companies is 5% over the US Libor rate per annum calculated monthly on the balance of the principal outstanding at the end of each calendar month and payable quarterly. Should shareholder approval not be obtained for the acquisition of the Acquisition Companies then the loan and interest is repayable to the Company in full before 31 January 2011. This loan is secured over the assets of the Acquisition Companies.

This loan enabled the Acquisition Companies to pay Dacal an initial payment of \$US1 million. Dacal has since transferred full title of the tenements to Minas Norte Mineração Ltda., a Brazilian company owned 100% by the Acquisition Companies.

Completion of the acquisition is conditional upon satisfaction of due diligence, execution of a formal

## Notes to the Consolidated Financial Statements Continued

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share sale agreement, necessary shareholder and regulatory approvals and approval for the consolidation of the Company's share capital on a one for two basis (post consolidation).

Should the acquisition be completed successfully the Company will acquire 100% of the Acquisition Companies by the swapping of shares in the Acquisition Companies for 72,198,501 fully paid ordinary shares in the Company, post consolidation, and the reimbursement of costs totalling \$250,000.

The Acquisition Companies can withdraw from ongoing obligations in relation to the Project at any time by transferring the tenements back to Dacal.

If the Acquisition Companies do not withdraw they must pay a royalty of US\$1.00 per tonne of iron pellets produced over the life of mining on the Rio Pardo Iron Ore Project and make the following scheduled payments (totalling US\$55 million) over five and a half years as follows:

Scheduled Payment (\$USD)	Due Date from 15 July 2010
\$5 million	12 months
\$5 million	18 months
\$10 million	30 months
\$10 million	42 months
\$10 million	54 months
\$15 million	66 months

The Company proposes to fund these obligations through future capital raisings and or debt arrangements as and when required.

Other than detailed above, no matters or circumstances have arisen since the period ended 30 June 2010 which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

### **27. RETIREMENT BENEFIT OBLIGATIONS**

#### **a) Superannuation**

The Company contributes to a non-company sponsored superannuation fund. Contributions are made to an accumulation fund and are at least the minimum required by the law. There is no reason to believe that funds would not be sufficient to pay benefits as vested in the event of termination of the fund on termination of employment of each employee

# Directors Declaration

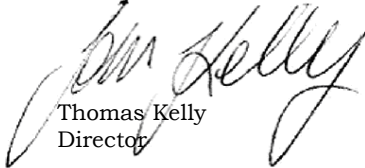
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In the opinion of the directors of Lefroy Resources Limited (**Company**):

- a) the financial statements and notes, and the Remuneration report in the Directors Report set out on pages 9 to 12, are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Company's and the Consolidated Entity's financial position as at 30 June 2010 and of their performance, for the financial year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1; and
- (c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by Section 295A of the Corporations Act 2001 by the financial officer for the financial year ended 30 June 2010.

Signed in accordance with a resolution of the directors.



Thomas Kelly  
Director

Perth, 20th August 2010



## **Lefroy Resources Limited ABN 96 107 118 678 and controlled entities**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LEFROY RESOURCES LIMITED**

#### **Report on the Financial Report**

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

#### *Director's 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 control 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, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reports Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

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

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

*Independence*

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

*Auditor's Opinion*

In our opinion:

- a. the financial report of Lefroy Resources Limited and Lefroy Resources Limited and Controlled Entities is in accordance with the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the company and consolidated entity's financial position as at 30 June 2010 and of their 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;
- b. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 9 to 12 of the report of the directors for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with s 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 Lefroy Resources Limited for the year ended 30 June 2010, complies with s 300A of the *Corporations Act 2001*.

*Somes and Cooke*

Somes and Cooke

*Talbot*

Jennifer Talbot

1304 Hay Street  
West Perth WA 6005  
20 August 2010

## ASX Additional Information

Additional information required by the Australian Securities Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 18 August 2010.

### (a) Distribution of equity securities as at 18 August 2010:

Listed Fully Paid Ordinary Shares	Number of Holders	Number of Shares
1 - 1,000	8	2,025
1,001 - 5,000	34	117,541
5,001 - 10,000	81	719,834
10,001 - 100,000	277	11,091,518
100,001 - and over	99	60,267,583
	<b>499</b>	<b>72,198,501</b>

### (b) Top twenty equity holders at 18 August 2010:

	Listed Fully Paid Ordinary Shares	Number of Shares	Percentage of Shares
1	MR PAUL GABRIEL SHARBANEE <THE SCORPION FUND A/C>	4,410,990	6.11%
2	APNEA HOLDINGS PTY LTD <KELLY FAMILY A/C>	4,112,182	5.70%
3	ANZ NOMINEES LIMITED <CASH INCOME A/C>	3,421,355	4.74%
4	MR DANIEL PAUL WISE <ARK INVESTMENTS A/C>	3,014,164	4.17%
5	APNEA HOLDINGS PTY LTD <KELLY FAMILY A/C>	2,903,975	4.02%
6	JOSE AUGUSTIN BAHAMONDES	2,818,195	3.90%
7	MR ABDUL AZIZ BIN MHD HUSSAIN <NO 2 ACCOUNT>	2,500,000	3.46%
8	FLUE HOLDINGS PTY LTD	2,179,164	3.02%
9	MR DANIEL PAUL WISE	2,157,500	2.99%
10	MS SUSAN JACQUELINE BROMLEY	2,000,000	2.77%
11	FLUE HOLDINGS PTY LTD <BROMLEY SUPERANNUATION A/C>	1,500,000	2.08%
12	BLACKMORT NOMINEES PTY LTD <41031 ACCOUNT>	1,450,000	2.01%
13	DR HENDRIK NAPP	1,200,000	1.66%
14	OCEAN VIEW WA PTY LTD	1,015,000	1.41%
15	FORREST INVESMENTS PTY LTD	1,000,000	1.39%
16	MR BRUCE CLEMENT PRESTON <SUPER FUND A/C>	819,302	1.13%
17	MARE GMBH	750,000	1.04%
18	MR ANDREW MONTEITH KNOWLES <KNOWLES FAMILY A/C>	750,000	1.04%
19	CAVE GLEN PTY LIMITED <SANDRA WISE SUPER FUND A/C>	700,000	0.97%
20	MR PETER ROY JONES	697,491	0.97%
		<b>39,399,318</b>	<b>54.57%</b>

## ASX Additional Information Continued

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(c) The number of shareholders holding less than a marketable parcel of ordinary shares is 69, totalling 301,900 ordinary shares.

**(d) Substantial shareholders**

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

	<b>Number of Shares</b>	<b>Percentage of Ordinary Shares</b>
Craig Bromley	5,679,164	7.87%
Thomas Kelly	7,578,657	10.50%
Daniel Wise	6,097,500	8.45%

**(e) Voting rights**

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

**(f) Unlisted Options**

There are 5,500,000 unlisted options over unissued shares on issue, in the class exercisable at 10 cents per share on or before 31 October 2011. There are 6 holders of this class of option.

There are 4,000,000 unlisted options over unissued shares on issue, in the class exercisable at 10 cents per share on or before 30 November 2012. There are 4 holders of this class of option.

**(g) Cash Usage**

Since the time of listing on the ASX, the entity has used its cash and assets in a form readily converted to cash that it had at the time of admission to the official list of the ASX in a manner which is consistent with its business objectives.

**(e) Schedule of Mining Tenements**

<b>Project Name</b>	<b>Location</b>	<b>Area (ha)</b>
Pampas	Chile	5,400
Solare	Chile	5,130
Llamaras	Chile	4,720
Soledad	Chile	8,400
Cardones	Chile	6,505