LACHLAN STAR LIMITED

ABN 88 000 759 535

INTERIM FINANCIAL REPORT
31 DECEMBER 2010

CORPORATE DIRECTORY

Directors

Michael James McMullen (Executive Chairman)
Declan Thomas Franzmann (Executive Director)
Thomas Ernest Duckworth (Non-Executive Director)
Peter Bartley Babin (Non-Executive Director)

Company Secretary

Robert Alexander Anderson

Auditors

PricewaterhouseCoopers
QV1, 250 St Georges Terrace
Perth WA 6000

Bankers

Westpac Banking Corporation
109 St Georges Terrace
Perth WA 6000

Registered Office

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West Perth WA 6005
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Share Registry

Computershare Investor Services Pty Limited
Level 2
45 St Georges Terrace
Perth, WA 6000 Australia

Investor Enquiries: 1300 850 505 (within Australia)
Investor Enquiries: +61 3 9415 4000 (outside Australia)
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Stock Exchange Listing

Securities of Lachlan Star Limited are listed on the Australian Stock Exchange.

ASX Code: LSA - Ordinary shares

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DIRECTORS' REPORT

The directors present their report together with the consolidated financial report for the half-year ended 31 December 2010, and the independent review report thereon.

Directors

The directors of the Company in office at any time during or since the end of the half-year and up to the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Michael McMullen
Declan Franzmann
Thomas Duckworth
Peter Babin (appointed 24 December 2010)

Review of operations

The consolidated entity's loss for the half-year ended 31 December 2010 was $1,505,493 (2009: loss of $843,501) after recognising:

- a share of the net loss of an associate (Luiri Gold Limited) of $594,473 (2009: profit $4,585)
- exploration and new venture expenditure written off of $538,817 (2009: $54,963)
- depreciation of $320,597 (2009: $1,013)
- non-cash expense of $Nil (2009: $553,448) in relation to share based payments.

The Company's strategy is to be exposed to a variety of commodities across several geographic regions. The commodities targeted by the Company are copper and gold, and the geographic regions of interest New South Wales and the Americas.

Projects within the gold sector provide the Company with an exposure to the rising gold price. Gold assets that will have costs predominately in US$ are the main focus for the Company as this will provide the most direct exposure to the US$ gold price, which increased from US$1,234 to US$1,405 per ounce over the half-year. Projects within the copper sector provide the Company with an exposure to the strong demand from China and from the rest of Asia, Europe and the Americas.

Luiri Gold Limited

The Company had invested a total of $4.8 million in Luiri Gold Limited ("Luiri"), a TSX Venture exchange listed company with gold projects in Zambia. The investment consisted of a $3 million placement / conversion of a convertible note, $1.8 million as part of Luiri's' listing of CHESS Depositary Interests ("CDI's") on the Australian Stock Exchange in November 2009, and some on-market purchases.

On 29 July 2010 Luiri announced that it had received a letter from the Zambian government stating that it had cancelled LML 48 (Luiri's main asset) and that Luiri was appealing that decision to the Ministry of Mines in accordance with the Mining Act. Luiri announced on 15 September 2010 that the Zambian High Court had awarded a stay of the decision of the Minister of Mines and Minerals Development to cancel its Large Scale Mining Licence pending the hearing of a High Court appeal lodged by Luiri. At the same time Luiri announced that the Zambian Department of Mines had granted Luiri a one year extension to LPL209, the prospecting licence that surrounds LML48.

Given issues relating to title and the slow progress of the technical aspects of Luiri's assets, Lachlan Star called a Special General Meeting to remove the incumbent Luiri management. Proxy voting indicated that the required two thirds majority to make management changes would not be forthcoming and the meeting request was withdrawn.

Given the Company's dissatisfaction with Luiri management, and its inability to instigate change through a Luiri shareholders' meeting, it sold 1.65 million Luiri CDI's on-market during the half year for gross proceeds of $273,877. Subsequent to the end of the half-year, on 14 February 2011, the Company announced that it had sold 26 million Luiri CDI's at a price of $0.15 each for gross proceeds of $3.9 million via a bookbuild to Australian and European shareholders.

The Company currently holds 248,081 Luiri CDI's and no Luiri shares. Cumulative Luiri CDI and share sale proceeds are $4.65 million at an average sale price of $0.151 per share, compared to an average $0.154 per share acquisition cost. Sale proceeds will be partly used for exploration at the Company's 100% owned CMD gold mine in Chile.

Acquisition of CMD

On 24 December 2010 the Company completed the acquisition of the Compania Minera Dayton ("CMD") gold mine in Chile and joined the ranks of gold producers. This has been achieved without the risk associated with the exploration and development phases of a mine development and for a relatively modest initial outlay of US$9 million cash plus 1 billion Lachlan Star shares. As part of this transaction the Company raised gross proceeds of $11.25 million through share placements and a non-renounceable rights issue.

The CMD gold mine is located in Chile, approximately 350km north of Santiago and at an elevation of 1,000 metres. Access to the project is excellent via a sealed road. The mine was developed in 1995 and has produced over 835,000 ounces of gold plus minor copper and silver since opening. It is located immediately adjacent to Teck Resources Limited's large Andacollo copper-gold mine.

Gold production is currently sourced from the Churrumata, Tres Perlas and Las Loas open pits with gold recovered via a large heap leach facility that is running at around one third of available plant capacity.

Initial exploration results include:

- 12 m at 6.9 g/t Au from 9 m down hole in CHU 18 within a broader intersection of 22m at 3.9 g/t Au from 8 m down hole at the Churrumata deposit.
- 20 m at 2.3 g/t Au from 4 m down hole in TR 12 at the Toro deposit
- 15 m at 1.0 g/t Au from surface in CHU 19 at the Churrumata deposit
- 8 m at 1.2 g/t Au from 36 m in TR 08 at the Toro deposit

Coffey Mining ("Coffey") were engaged during the period to estimate JORC compliant Resources for the CMD project. Subsequent to the end of the half-year Coffey provided combined resource estimates of 1.2 million ounces for the Tres Perlas, Chisperos, Toro and Churrumata deposits as shown in Table 1. These resources do not incorporate results from the current drill program.

Table 1
CMD
Mineral Resources (March 2011) above 0.3 g/t Au

	Indicated			Inferred			Total		
Deposit	**Tonnes (Mt)**	**Grade (Au)**	**Ounces (Kozs)**	**Tonnes (Mt)**	**Grade (Au)**	**Ounces (Kozs)**	**Tonnes (Mt)**	**Grade (Au)**	**Ounces (Kozs)**
Toro/Socorro	3.3	0.8	84	8.1	0.7	188	11.4	0.7	272
Tres Perlas	15.6	0.5	252	19	0.5	333	35	0.5	585
Churrumata	0.6	0.8	16	8.7	0.8	219	9.3	0.8	235
Chisperos	1.0	1.1	36	1.4	1.0	43	2.4	1.0	79
Total	**20.5**	**0.6**	**388.0**	**37.2**	**0.6**	**783.0**	**58.1**	**0.6**	**1,171.0**

Work is ongoing to increase gold production and to optimise the CMD operation. A number of initiatives have been commenced that are forecast to result in increased gold production in coming months.

A new leach pad liner (pad 3b) has been installed and ore has been stacked on the new pad from late January

2011. The impact of the new liner will be to improve the leach kinetics of the ore as the gold rich solution will have a much shorter ore column to percolate through. There will be a slight dip in gold production in the March quarter due to switching pads, followed by a ramp up in gold recovery in the June and September quarters of 2011 as pad 3b has more ore stacked and irrigated.

The Las Loas pit has been redesigned to include an intermediate pit in order to reduce the strip ratio over the first half of 2011. A re-assessment of the ultimate pit design is being undertaken to determine the optimal depth for the final pit and the potential for underground mining.

Bushranger Copper Project - EL 5574 (100%)

The Bushranger copper project is located in the Lachlan Fold Belt of New South Wales and contains an Indicated and Inferred resource of 125,000 tonnes of copper and 1.6 million ounces of silver as shown in Table 2 below.

Table 2
Bushranger Resource (November 2006)

Cut Off (%Cu)	Category	Tonnes (Mt)	Cu Grade (%)	Contained Cu(t)	Au Grade (g/t)	Contained Au(oz)	Ag Grade (g/t)	Contained Ag(oz)
0.3	Indicated	14.1	0.5	66,654	0.04	18,084	2.1	949,402
	Inferred	13.6	0.4	58,308	0.05	21,798	1.6	697,531
	Total	**27.7**	**0.5**	**124,962**	**0.04**	**39,882**	**1.9**	**1,646,933**

The Company has carried out a strategic review of this project, including a Scoping Study, which is currently being finalised and the results of which will be announced shortly.

Events subsequent to reporting date

On 14 February 2011 the Company announced that it had sold 26 million Luiri CDI's at a price of $0.15 each for gross proceeds of $3.9 million via a bookbuild to Australian and European shareholders.

Other than this no matter or circumstance has arisen since 31 December 2010 that in the opinion of the directors has significantly affected, or may significantly affect in future financial years:

(i) the consolidated entity's operations, or
(ii) the results of those operations, or
(iii) the consolidated entity's state of affairs.

Auditor's Independence Declaration

The lead auditor's Independence Declaration, as required under section 307C of the Corporations Act 2001, is set out on page 8 and forms part of the directors' report for the half-year ended 31 December 2010.

Signed in accordance with a resolution of the directors.

MJ McMullen
Executive Chairman
Perth**,** 15 March 2011

Competent Person's Statement

The information in this report that relates to the Mineral Resources of Tres Perlas, Chisperos, Churrumata and Toro/Socorro is based on information compiled by David Slater, who is a Member of The Australasian Institute of Mining and Metallurgy. David Slater is employed full time by Coffey Mining Pty Ltd. David Slater 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 Mineral Resources and Reserves". David Slater consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The information in this report that relates to Exploration Results for Churrumata and Toro/Socorro, and Mineral Resources for Bushranger, is based on information compiled by Mr Michael McMullen, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr McMullen is employed by McMullen Geological Services Pty Ltd. Mr McMullen 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 McMullen consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Auditor's Independence Declaration

As lead auditor for the review of Lachlan Star Limited for the half year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Lachlan Star Limited and the entities it controlled during the period.

Pierre Dreyer
Partner
PricewaterhouseCoopers

Perth
15 March 2011

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 31 December 2010

	Half-year 31 December 2010 $	Half-year 31 December 2009 $
Revenue	1,183,955	-
Raw materials and consumables	(1,048,431)	-
Profit on sale of shares in associate	233,669	-
Finance income	65,695	93,207
Finance expense	(14,735)	-
Depreciation	(320,597)	(1,013)
Corporate compliance and management	(314,879)	(220,687)
Financial assets fair valued through profit and loss	-	(19,038)
Loss on dilution of associate	-	(36,445)
Share based payment expense	-	(553,448)
Occupancy costs	(45,115)	(15,751)
Exploration and new venture expenditure written off	(538,817)	(54,963)
Share of net (loss) / profit of associate accounted for using the equity method	(594,473)	4,585
Other expenditure	(111,765)	(39,948)
Loss before income tax	(1,505,493)	(843,501)
Income tax expense	-	-
Loss for the period	(1,505,493)	(843,501)
Other comprehensive income for the period net of income tax	-	-
Total comprehensive loss for the period	(1,505,493)	(843,501)
Basic loss per share from continuing operations (cents per share)	(0.1)	(0.1)
Diluted loss per share from continuing operations (cents per share)	(0.1)	(0.1)

The consolidated statement of comprehensive income should be read in conjunction with the notes to the consolidated interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	31 December 2010 $	30 June 2010 $
Current assets			
Cash and cash equivalents		6,489,989	3,855,725
Other receivables		3,053,514	126,204
Inventories		9,293,721	-
Assets classified as held for sale		716,993	-
Total current assets		19,554,217	3,981,929
Non-current assets			
Inventories		5,469,279	-
Exploration and evaluation		2,576,486	2,527,209
Property, plant and equipment		11,500,247	41,253
Investments accounted for using the equity method		-	1,395,528
Mine development properties		23,051,000	-
Deferred tax asset		8,600,000	-
Goodwill		152,800	-
Total non-current assets		51,349,812	3,963,990
Total assets		70,904,029	7,945,919
Current liabilities			
Trade and other payables		14,490,648	140,924
Borrowings		8,456,777	-
Total current liabilities		22,947,425	140,924
Non -current liabilities			
Provisions		3,929,000	-
Borrowings		6,732,223	-
Deferred tax liability		5,153,000	-
Total non-current liabilities		15,814,223	-
Total liabilities		38,761,648	140,924
Net assets		32,142,381	7,804,995
Equity			
Contributed equity	6	171,990,357	146,145,042
Reserves		646,148	648,584
Accumulated losses		(140,494,124)	(138,988,631)
Total equity		32,142,381	7,804,995

The consolidated statement of financial position should be read in conjunction with the notes to the consolidated interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the half-year ended 31 December 2010

	Contributed equity $	Accumulated losses $	Share based payments reserve $	Total $
Balance at 1 July 2009	146,105,016	(134,350,871)	75,349	11,829,494
Total comprehensive loss for the half-year	-	(843,501)	-	(843,501)
	146,105,016	(135,194,372)	75,349	10,985,993
Transactions with owners in their capacity as owners:				
Share based payments reserve	-	-	553,448	553,448
Balance at 31 December 2009	146,105,016	(135,194,372)	628,797	11,539,441
Balance at 1 July 2010	146,145,042	(138,988,631)	648,584	7,804,995
Total comprehensive loss for the half-year	-	(1,505,493)	-	(1,505,493)
	146,145,042	(140,494,124)	648,584	6,299,502
Transactions with owners in their capacity as owners:				
Issue of ordinary shares	26,249,337	-	-	26,249,337
Cost of issue of ordinary shares	(372,605)	-	-	(372,605)
Issue of share options	10,000	-	-	10,000
Share based payments reserve	(41,417)	-	(2,436)	(43,853)
Balance at 31 December 2010	171,990,357	(140,494,124)	646,148	32,142,381

The consolidated statement of changes in equity should be read in conjunction with the notes to the consolidated interim financial report.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2010

	Notes	Half-year 31 December 2010 $	Half-year 31 December 2009 $
Cash flows from operating activities			
Cash receipts from customers		1,936,572	-
Goods and Services Tax refunds from the Australian Taxation Office		20,531	25,310
Payments to suppliers and employees		(2,003,483)	(465,848)
Interest received		67,739	100,191
Interest paid		(14,735)	-
Net cash flows from / (used in) operating activities		6,624	(340,347)
Cash flows from investing activities			
Exploration and evaluation expenditure		(29,277)	(13,900)
Acquisition of property, plant and equipment		(802)	(39,442)
Sale of property, plant and equipment		-	7,712
Acquisition of subsidiary, net of cash acquired	8	(8,683,535)	-
Acquisition of investment in associate		-	(4,477,254)
Proceeds from sale of investment in associate		273,877	-
Net cash flows used in investing activities		(8,439,737)	(4,522,884)
Cash flows from financing activities			
Sale of financial assets		-	487,565
Repayment of borrowings		(179,920)	-
Proceeds from issue of ordinary shares		11,249,337	-
Proceeds from issue of share options		10,000	-
Costs of issue of ordinary shares		(12,040)	-
Net cash flows from financing activities		11,067,377	487,565
Net increase / (decrease) in cash and cash equivalents		2,634,264	(4,375,666)
Cash and cash equivalents at beginning of the half-year		3,855,725	8,461,832
Cash and cash equivalents at end of the half-year		6,489,989	4,086,166

The consolidated statement of cashflows should be read in conjunction with the notes to the consolidated interim financial report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Reporting entity

Lachlan Star Limited (”Lachlan” or “Company”) is a company domiciled in Australia.

The consolidated interim financial report of the Company as at and for the six months ending 31 December 2010 comprises the Company and its subsidiaries (together referred to as the “consolidated entity’).

2. Basis of preparation of financial report

Statement of compliance

The consolidated interim financial report is a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001 and Accounting Standard AASB 134: “*Interim Financial Reporting*”.

The consolidated interim financial report does not include all of the information required in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the consolidated entity as in the annual financial report. It is recommended that this financial report be read in conjunction with the annual financial report as at and for the year ended 30 June 2010 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Going concern

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the ordinary course of business.

As at 31 December 2010, the consolidated entity had cash reserves of $6,489,989 and a net current asset deficiency of $3,393,208, having recorded a six month net loss after tax of $1,505,493.

Notwithstanding the above, the financial report has been prepared on a going concern basis, which the directors consider to be appropriate, based on:

- the net asset deficiency arises from net liabilities associated with the acquisition of DMC Newco Pty Ltd and its subsidiaries (see note 8) on 24 December 2010. The Company is of the opinion that operating cash flows from the Chilean gold mine will be positive in 2011

- the expectation that the operating subsidiary will be able to maintain its creditor holding periods in Chile

- the expectation that the Company, if required, would be able to raise additional funds through debt or equity raisings

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Basis of preparation of financial report (continued)

Use of estimates and judgements

The preparation of the financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year and judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements, are as follows:

(i) Impairment

The recoverability of the carrying amount of property, plant and equipment and mine development properties has been reviewed by the consolidated entity. In conducting the review, the recoverable amount has been assessed by reference to the higher of 'fair value less costs to sell' and 'value in use'. In determining value in use, future cash flows are based on estimates of:

- quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- future production levels and sales;
- timing of future production;
- future exchange rates and commodity prices; and
- future cash costs of production and capital expenditure.

Recoverable amount is most sensitive to the discount rate used in the discounted cash flow model as well as forecast commodity prices. Variations to the expected future cash flows, and timing thereof, could result in significant changes to the impairment test results, which could in turn impact future financial results.

(ii) Provisions

The consolidated entity has recognised a provision for environmental restoration. This provision has been measured based on management's estimates of the probable amount of resources that will be required to settle the obligation and the timing of settlement. Such estimates are subjective and there may be a future need to revise the book value of the provision as a result of changes in estimates.

(iii) Functional currency

Companies in the consolidated entity have to determine their functional currencies based on the primary economic environment in which each entity operates. In order to do that management has to analyse several factors, including which currency mainly influences sales prices of product sold by the entity, which currency influences the main expenses of providing services, in which currency the entity has received financing, and in which currency it keeps its receipts from operating activities.

For Compania Minera Dayton ("CMD") and Dayton Chile Exploraciones Mineras Limitada ("DCEM") the above indicators are mixed and the functional currency is not obvious. Management used its judgment to determine which factors are most important and concluded the US dollar is the functional currency for those companies.

For the Company, Lachlan Star Limited, and its other subsidiaries management have determined that the Australian dollar is the functional currency for those companies given that their revenue and expenditure will mostly be in Australian dollars.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Accounting policies

The accounting policies applied by the consolidated entity in this consolidated interim financial report are the same as those applied by the consolidated entity in its consolidated financial report as at and for the year ended 30 June 2010 and the corresponding interim reporting period. The accounting policies set out below have been adopted in respect of the business combination which occured during the half-year:

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less any estimated selling costs. Cost includes those costs incurred in bringing each component of inventory to its present location and condition.

(ii) Mine properties

Mine property and development assets include costs transferred from exploration and evaluation assets once technical feasibility and commercial viability of an area of interest are demonstrable, together with subsequent costs to develop the asset to the production phase. Where the directors decide that specific costs will not be recovered from future development, those costs are charged to the statement of comprehensive income during the financial period in which the decision is made.

Depreciation of mine development properties is calculated on a unit of production basis so as to write off the costs in proportion to the depletion of the estimated recoverable reserves.

(iii) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. Leases which transfer to a lessee substantially all the risks and benefits incidental to ownership of the leased asset are classified as finance leases. Other lease agreements are treated as operating leases.

Finance leases are capitalised at the inception of the lease at the fair value of the leased assets or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income except for borrowing costs related to the financing of assets constructed for own use (during the construction period). Capitalised leased assets used in mining operations are expensed on a unit of production basis so as to write off the costs in proportion to the depletion of the estimated recoverable reserves or over the life of the lease.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

(iv) Foreign currency – foreign operations

The financial performance and position of foreign operations whose functional currency is different from the consolidated entity's presentation currency are translated as follows:

- assets and liabilities are translated at exchange rates prevailing at statement of financial position date.
- income and expenses are translated at transaction date or average exchange rates for the period, whichever is more appropriate

Exchange differences arising on translation of foreign operations are transferred directly to the consolidated entity's foreign currency translation reserve as a separate component of equity. These differences are recognised in the statement of comprehensive income upon disposal of the foreign operation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Accounting policies (continued)

(v) Provisions

Provisions are recognised when the consolidated 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. Provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The amount of the provision for future restoration and rehabilitation costs is capitalised and depreciated in accordance with the policy set out in (ii) above. The unwinding of the effect of discounting on the provision is recognised as an interest expense.

(vi) Financial liabilities

Financial liabilities within the scope of AASB 139 are classified as financial liabilities at fair value through the profit or loss, borrowings, or as derivatives as hedging instruments in an effective hedge, as appropriate. The consolidated entity determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of borrowings, less directly attributable transaction costs. The subsequent measurement of financial liabilities depend on their classification.

Financial liabilities at fair value through the profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the consolidated entity that are not designated as hedging instruments in hedge relationships as defined by AASB 139. Gains or losses on liabilities held for trading are recognised in the statement of comprehensive income.

After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include recent arm’s length market transactions, references to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, or other valuation models.

(vii) Intangible assets

Goodwill

Goodwill (or negative goodwill) arises on the acquisition of subsidiaries, associates and jointly controlled entities. Goodwill represents the excess of the cost of acquisition over the consolidated entity’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill) it is recognised immediately in profit or loss.

Goodwill is not amortised and is subsequently measured at cost less accumulated impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Contingent assets and liabilities

There have been no changes of a material nature in contingent liabilities or contingent assets since the last annual reporting date other than those set out in Note 8 (2009: $Nil).

5. Subsequent events

On 14 February 2011, the Company announced that it had sold 26 million Luiri CDI's at a price of $0.15 each for gross proceeds of $3.9 million via a bookbuild to Australian and European shareholders.

Other than this no matter or circumstance has arisen since 31 December 2010 that in the opinion of the directors has significantly affected, or may significantly affect in future financial years:

(i) the consolidated entity's operations, or
(ii) the results of those operations, or
(iii) the consolidated entity's state of affairs

6. Contributed equity

	2010 Number	2010 $	2009 Number	2009 $
Ordinary shares				
1 July	1,079,867,371	146,145,042	1,079,867,371	146,105,016
Issue of ordinary shares for cash	1,124,933,686	11,249,337	-	-
Issue of shares on acquisition of subsidiary	1,000,000,000	15,000,000		
Cost of issue of ordinary shares	-	(372,605)	-	-
Issue of share options	-	10,000	-	-
Share based payments	-	(41,417)	-	-
31 December	3,204,801,057	171,990,357	1,079,867,371	146,105,016

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Segment information

(a) Description of segments

The consolidated entity reports three segments being gold mining, exploration and evaluation, and corporate to the chief operating decision maker, being the board of Lachlan Star Limited, in assessing performance and determining the allocation of resources. In determining operating segments, the consolidated entity has had regard to the information and reports the chief operating decision maker uses to make strategic decisions regarding resources.

(b) Segment information provided to the board of directors

The board of directors assesses the performance of the operating segments based on a measure of net cash inflow / (outflow). The segment information provided to the board of directors for the reportable segments for the half-year is as follows:

	Exploration and evaluation 2010 ($)	Gold mining 2010 ($)	Corporate 2010 ($)	Consolidated 2010 ($)
Net cash inflow / (outflow)	(29,277)	319,000	2,344,541	2,634,264

	Exploration and evaluation 2009 ($)	Gold mining 2009 ($)	Corporate 2009 ($)	Consolidated 2009 ($)
Net cash inflow / (outflow)	8,868	-	(4,384,534)	(4,375,666)

A reconciliation of net cash inflow / (outflow) to loss before income tax is provided as follows:

	2010 ($)	2009 ($)
Net cash inflow / (outflow)	2,634,264	(4,375,666)
Exploration and evaluation expenditure	29,277	13,900
Acquisition of subsidiary, net of cash acquired	8,683,535	-
Acquisition of property, plant and equipment	802	39,442
Sale of property, plant and equipment	-	(7,712)
Loan repayments	179,920	-
Profit on sale of shares in associate	233,669	-
Acquisition of investment in associate	-	4,477,254
Sale of financial assets	-	(487,565)
Proceeds from sale of shares in associate	(273,877)	-
Issue of share capital and options	(11,259,336)	-
Costs of issue of share capital	12,040	-
Depreciation	(320,597)	(1,013)
Share based payments expense	-	(553,448)
Financial assets fair valued through profit and loss	-	(6,429)
Other income	-	(12,609)
Loss on dilution of associate	-	(36,445)
Share of net (loss) / profit of associate accounted for using the equity method	(594,473)	4,585
Increase in receivables	52,543	45,346
(Increase) / decrease in payables	(886,998)	64,105
Increase / (decrease) in annual leave provision	3,738	(7,246)
Loss before income tax	(1,505,493)	(843,501)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Business combination

In November 2010 the Company reached agreement with the five shareholders of Oro Chile LLC ("the Vendors") to acquire 100% of DMC Newco Pty Ltd ("DMC Newco"), a company that in turn owns 100% of two Chilean companies, Compañía Minera Dayton ("CMD") and Dayton Chile Exploraciones Mineras Limitada ("DCEM"). CMD and DCEM collectively own a 100% interest in the Compañía Minera Dayton Project located in Andacollo, approximately 350km north of Santiago in Chile ("CMD Project").

The initial consideration for the acquisition of the CMD Project was a payment of US$24 million (assuming an exchange rate of 1:1 for the AUD/USD), consisting of cash consideration of US$9 million and the issue to the vendors of 1,000,000,000 shares in the Company at a deemed issue price of $0.015 per share ("Initial Consideration"). The Initial Consideration was paid upon transfer of the shares in DMC Newco, the Australian holding company for the CMD project, to Lachlan Star Limited.

In addition to the Initial Consideration, there are a series of deferred consideration payments, some of which relate to the achievement of specified gold production, which may become payable. The payment terms are as follows:

a) 2.5% of the value of the gold produced from the existing open pit inventory contained within the pit designs and other specific deposits with mineralisation that may be economically exploited using open pit methods (the "Mineral Inventory" collectively) between 1 January 2011 and 31 December 2014; and

b) 25% of the value of the gold produced from the Mineral Inventory between 1 January 2011 and 31 December 2014 over and above 119,000 ounces; and

c) repayment of a shareholder loan of US$1.3 million starting in July 2011 at US$100,000/month; and

d) US$0.5 million in cash payable on 1 January 2013; and

e) US$0.5 million in cash payable on 1 April 2013.

The transaction has been accounted for as a business combination in accordance with AASB 3 *Business Combinations*. The total cost of the acquisition, comprising the Initial Consideration and the five components of the deferred consideration listed above, was $29,693,800.

The fair value of vendor shares is based on the market value of the shares at the time of issue.

Components (a) and (b) above, being deferred contingent consideration, were fair valued at the discounted amounts of forecast future payments based on most probable gold production using a 8% discount rate. Components (c), (d) and (e) above of the deferred consideration were fair valued at the discounted amounts of contractual future payments using a 10% discount rate.

The fair value and gross contractual amount of trade and other receivables acquired is $3,624,000.

As a means of financing the initial cash consideration the Company undertook:

- a non-renounceable rights issue of fully paid ordinary shares in Lachlan to existing shareholders which raised $5.4 million before issue costs ("Rights Issue"). The Rights Issue was at a price of $0.01 per share on the basis of one new share for every two shares held

- a placement ("Placement") of 550,000,000 fully paid ordinary shares to institutional and other exempt investors at an issue price of $0.01 per share, being no less than 80% of the 5 day volume weighted average price prior to the share issue

Acquisition-related costs of $229,351 have been expensed as "exploration and new venture expenditure written off". Costs directly attributable to raising equity have been recognised as a deduction against equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Business combination (continued)

The consolidated entity has recognised the fair value of the identifiable assets and liabilities of the CMD Project based on the best information available as at the reporting date. The acquisition date of the CMD Project was 24 December 2010. The fair values presented in the table below are provisional, given the proximity of the acquisition date to period end, and may be adjusted if new information becomes available within 12 months from the acquisition date.

Details of the purchase consideration, the fair value of net assets acquired and goodwill are as follows. There were no business acquisitions in the corresponding half-year period.

	Provisional fair value at acquisition date ($)
Acquisition date fair value of consideration transferred	
Shares issued, at fair value at share issue date	15,000,000
Cash and cash equivalents	9,010,800
Deferred cash and cash equivalents	909,000
Contingent consideration	3,653,000
Owners loan to be repaid	1,121,000
Total purchase consideration	29,693,800
Assets and liabilities recognised at fair value	
Cash and cash equivalents	327,265
Trade and other receivables	3,624,000
Inventories	14,763,000
Mineral properties	23,246,000
Deferred tax asset	8,600,000
Property, plant and equipment	11,584,000
Trade and other payables	(13,835,265)
Deferred tax liability	(5,153,000)
Borrowings	(9,686,000)
Provisions	(3,929,000)
	29,541,000
Goodwill	152,800
Net assets acquired	29,693,800
Cash outflow on acquisition	
Cash and cash equivalents	9,010,800
Net cash acquired in the acquisition	(327,265)
Outflow of cash – investing activities	8,683,535

Goodwill represents the prospective value that may arise from future exploration activities. None of the goodwill is expected to be deductible for tax purposes.

The acquired business contributed $1,183,955 of revenues and a net profit after tax of $76,000 to the consolidated entity from the acquisition date of 24 December 2010 to 31 December 2010.

Pro forma half-year information

If the business combination had taken place on 1 July 2010 the loss for the consolidated entity for the half-year ending 31 December 2010 is estimated as $15,635,434, and the consolidated revenue for the half-year ending 31 December 2010 is estimated as $22,819,425.

This pro forma information is provided for comparative purposes only and takes into account the assumed amortisation of acquired mineral properties together with any related income tax effects. It should not be viewed as indicative of operations that would have occurred if the acquisition had been made at the beginning of the half- year, nor is it indicative of future results of operations of the combined entities.

DIRECTORS' DECLARATION

In the opinion of the directors of Lachlan Star Limited (the "Company"):

(a) the financial statements and notes as set out on pages 9 to 20 are in accordance with the *Corporations Act 2001* including:

(i) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2010 and of its performance for the half-year ended on that date; and

(ii) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory reporting requirements; and

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

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

MJ McMullen

MJ McMullen
Executive Chairman

Perth
15 March 2011

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Independent auditor's review report to the members of Lachlan Star Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Lachlan Star Limited, which comprises the statement of financial position as at 31 December 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Lachlan Star Group (the consolidated entity). The consolidated entity comprises both Lachlan Star Limited (the company) and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Lachlan Star Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Independent auditor's review report to the members of Lachlan Star Limited (continued)

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

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Lachlan Star Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001.*

PricewaterhouseCoopers

PricewaterhouseCoopers

Pierre Dreyer
Partner

Perth
15 March 2011