LACHLAN STAR LIMITED

ABN 88 000 759 535

ANNUAL REPORT

30 JUNE 2011

CORPORATE DIRECTORY

Directors

MJ McMullen (Executive Chairman)
DT Franzmann (Managing Director)
TE Duckworth (Non-Executive Director)
PB Babin (Non-Executive Director)

Company Secretary

RA Anderson

Auditors

PricewaterhouseCoopers
QV1, 250 St Georges Terrace
Perth WA 6000

Bankers

Westpac Banking Corporation
109 St Georges Terrace
Perth WA 6000

Registered Office

Lower Ground Floor
57 Havelock Street
West Perth WA 6005

Telephone:	+61 8 9481 0051
Facsimile:	+61 8 9481 0052
Email:	admin@lachlanstar.com.au
Website:	www.lachlanstar.com.au

Share Registry

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

Investor Enquiries:	1300 850 505 (within Australia)
Investor Enquiries:	+61 3 9415 4000 (outside Australia)
Facsimile:	+61 3 9473 2500

Securities Exchange Listing

Securities of Lachlan Star Limited are listed on ASX Limited

ASX Code: LSA - ordinary shares

CONTENTS

Financial performance

The consolidated entity's loss after taxation for the year ended 30 June 2011 was $4,318,858 (2010: loss $4,637,760) after recognising:

- a loss of $40,478 (2010: $Nil) from gold mining operations at the consolidated entity's CMD Gold Mine (see below) in Chile, including royalties and site based administration, but excluding $5,265,928 depreciation and amortisation. This result is attributable to the period from project acquisition on 24 December 2010 to 30 June 2011.
- a net profit of $3,856,074 on the sale of shares in Luiri Gold Limited ("Luiri"). This profit is stated after reversing on sale the consolidated entity's $4,089,021 share of the net loss of Luiri recognised in the current and prior financial periods (refer Note 28 of the consolidated financial statements).
- new venture expenditure written off of $1,201,845 (2010: $156,694), including costs associated with due diligence performed in relation to the acquisition of the CMD Gold Mine in Chile.
- a non-cash expense of $37,132 (2010: $553,448) attributable to the cost of share based payments.
- a $566,405 foreign exchange loss (2010: $Nil) arising primarily from unrealised losses on the Company's holdings of US$ cash and cash equivalents and the translation to A$ of US$ denominated deferred consideration for the acquisition of the CMD Gold Mine.
- an increase in corporate compliance and management costs to $902,890 (2010: $429,085) associated with the increased level of activities resulting from the purchase of the CMD Gold Mine.

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

Projects within the gold sector provide the consolidated entity with an exposure to the rising gold price. Gold assets that will have costs predominately in US$ are the main focus for the consolidated entity as this will provide the most direct exposure to the US$ gold price, whose spot price increased from US$1,373 at the date of the acquisition of the CMD Gold Mine on 24 December 2010 to US$1,505 per Au ounce over the year. Projects within the copper sector provide the consolidated entity with an exposure to the strong demand from China and from the rest of Asia, Europe and the Americas.

CMD Gold Mine

On 24 December 2010 the Company completed the acquisition of the Compania Minera Dayton gold mine ("**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 (pre the 1 for 60 share consolidation approved by shareholders on 10 June 2011, 16.67 million post consolidation) 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 850,000 ounces of gold plus minor copper and silver since opening. It is located immediately adjacent to Teck Resources Limited's ("**Teck**") large Andacollo copper-gold mine.

Gold production is currently sourced from the Churrumata, Tres Perlas, Toro 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.

Production, Unit Costs and Sales

Production from the CMD Gold Mine since 24 December 2010 is summarised in Table 1 below:

Table 1 – CMD Production data

Month	Ore processed (kt)	Au Grade (g/t)	Contained Au (oz)
Dec-10	35	0.66	739
Jan-11	173	0.54	3,014
Feb-11	209	0.61	4,120
Mar-11	199	0.57	3,618
Apr-11	191	0.57	3,528
May-11	221	0.64	4,511
Jun-11	133	0.60	2,558
Total	1,161	0.59	22,088

Gold sales of 18,595 ounces are recorded in the financial statements at an average sales price of US$1,453 per Au ounce. In addition, total silver production of 5,376 ounces was also achieved, with an average sales price of US$36 per Ag ounce. These sales represent 100% of production sold at spot prices and the consolidated entity's production profile remains unhedged.

The last gold pour for the financial year occurred on 30 June 2011 with the gold being collected by Johnson Matthey on 1 July 2011. Consequently, the cash cost calculation for the June 2011 quarter reflects this pour, whereas the financial statements do not as it does not meet the definition of a sale under the consolidated entity's accounting policies. The reconciliation between the two is as follows:

	Ounces Au
June 2011 quarter production for cash cost calculation	10,134
June 2011 quarter sales for financial statements	9,356
Variance	778

Cash costs for the June 2011 half year, which exclude waste costs expensed or amortised and royalties, averaged US$815 per ounce of gold. The US$815 cash cost calculation incorporates a reduction in the leach pad valuation over the period.

The termination of one mining contractor during June 2011 and the associated changeover of explosives supply resulted in reduced mining during the latter part of June. Consequently, the quantity of gold poured was 2,383 ounces greater than gold mined and stacked (at assumed recovery rates) on the leach pad in the June quarter. The reduction in leach pad ounces upwardly distorted the June quarter cash cost. The disruption to operations in June production is considered to be a one off event for the reasons identified.

Table 2 below sets out the disclosed cash costs for the March and June quarters and the impact of the inventory valuation adjustment (all numbers US$ per ounce):

Table 2 – Cash Cost (US$/oz) and inventory adjustments

	June qtr	March qtr	Half Year
Cash costs with inventory adjustment	841	783	815
Cash costs without inventory adjustment	704	802	749
Inventory adjustment effect	137	(19)	66

The consolidated entity's expenditure for the year includes $14.3 million of mine development and exploration costs at the CMD Gold Mine in Chile since it was acquired on 24 December 2010, of which $4.2 million has been capitalised.

Mining

During the period since acquisition ore was sourced from the Las Loas, Churrumata, Tres Perlas and Toro pits. Notably, three new pits were started at Toro during the June quarter, namely Toro Central, Toro 3 and Toro 6. These pits represent a progression of the strategy to lower the overall strip ratio of the mining operation and to reduce grade volatility by increasing the proportion of ore sourced from the Indicated and Inferred Resource. Ore production by mine area is shown in Figure 1 for the first half of calendar 2011.

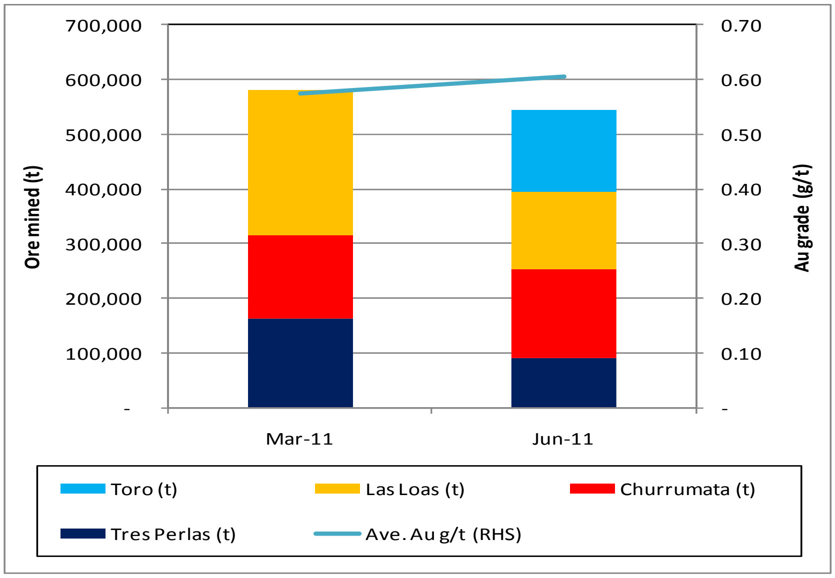

Figure 1 – Mine production by area

There was a 7% reduction in ore mined in the June quarter as a result of poor performance of the mining contractor at Las Loas, and the termination of that mining contract in June. This was offset by excellent performance of the mining contractor at the Tres Perlas, Churrumata and Toro pits. Production from these areas increased by 28% from the March quarter to 402,000 tonnes of ore despite the changeover of explosives supplier in June.

The consolidated entity has signed a letter of intent with a replacement mining contractor and anticipates mobilisation of that contractor to site by the end of September 2011 to commence mining at the Chisperos deposit. A third smaller contractor was mobilised in August 2011 to recommence mining at the Las Loas pit.

The consolidated entity is focused on maximising ore mining through the exploitation of lower waste to ore ratio pits in the Toro area. During the June quarter the waste to ore ratio was reduced to 6.5 as shown in Figure 2, with total waste movement of 3.6Mt during the second quarter.

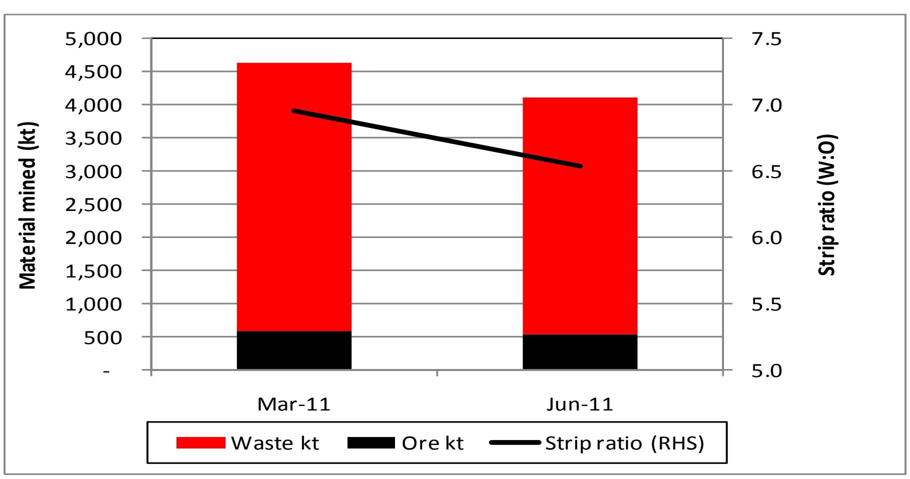

Figure 2 – Total mine movement and strip ratio

The consolidated entity expects that the overall waste to ore ratio will continue to decline through the current emphasis on mining shallower, more massive manto style resources and the completion of significant waste stripping requirements at Las Loas during the March and June quarters.

The waste to ore ratio was further reduced in July and August to 3.5 to 1 and 3.2 to 1 respectively. Average mined grade has continued to increase, with the grade for July being 0.64 g/t Au and for August being 0.74 g/t Au.

Mine Reconciliation

From January to June 2011 61% (687kt) of all ore mined was outside the Coffey Resource estimate (refer Table 3 on page 8). Figure 3 illustrates the proportion of ore mined within and outside the Coffey Resource.

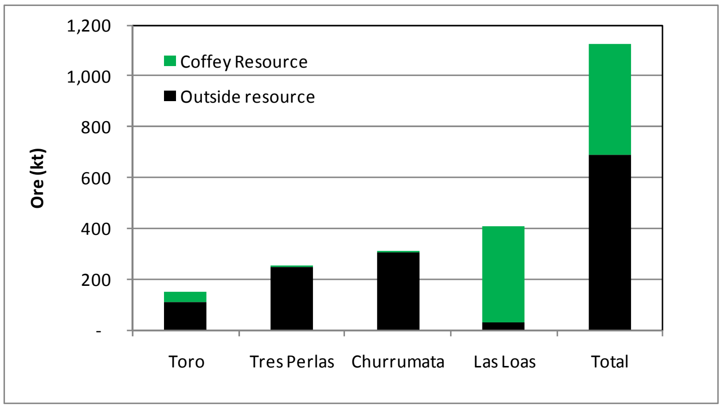

Figure 3 – Resource reconciliation (January to June 2011)

During the June quarter, 247,000 tonnes of ore (45%) was mined from within the Coffey Resource, whilst 297,000 tonnes of ore (55%) was mined from areas with no established JORC resource. This was an increase in ore mined from the Resource, up from 33% in the pervious quarter, as shown in Figure 4. The proportion of ore mining undertaken in areas outside of JORC Resource is anticipated to decrease over the next six months as new drilling results are incorporated into the resource models.

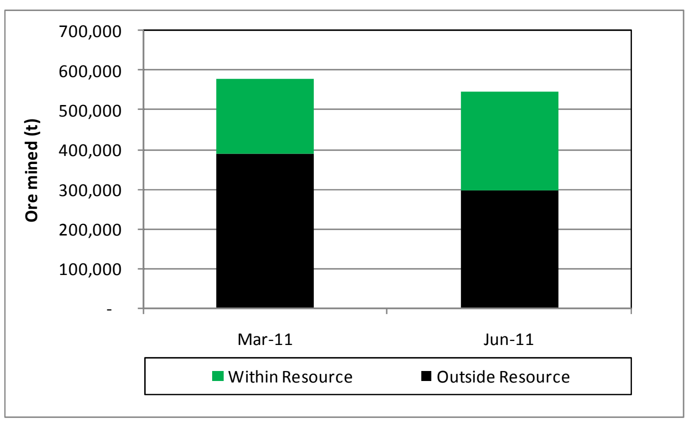

Figure 4 – Resource reconciliation by quarter

The Las Loas deposit reconciled well, both in terms of grade and ore tonnage, whilst mining at the Dayton pits (Toro, Tres Perlas and Churrumata) included ore mostly sourced from outside the Resource. This is shown in Figure 4 and is a result of a lack of exploration drilling coverage adjacent to the active pits.

It is the consolidated entity's strategy to upgrade the Inferred Resource into an Indicated Resource category, whilst expanding the resource base in and around the present mining areas. The strategy is to progressively drill outward from the current mining areas.

Ore Processing

The crushing and stacking capacity of the CMD Gold Mine is approximately 8 Mtpa, compared to the annualised production rate of 1.5 Mtpa that the operation was running at when acquired by the Company. Increasing the production rate to utilise the spare capacity of the plant has been the main goal of the Company during the year.

Processing and G&A costs for the month of May were US$9.62 per tonne of ore, which was broadly in line with budgeted costs and reflected crusher throughput of 220,000 tonnes for the month.

Crusher throughput was lower than planned in the June quarter due to termination of the mining contractor at the Las Loas pit and the change over of explosive supply for the entire mine site.

The reduction of ore mined in June negatively impacted on the processing cost per tonne for the June quarter. Figure 5 shows the effect of this, with the reduction in the average daily crushing rates to 6,000 tonnes and an increase in general, administration and processing costs to US$11.54 per tonne of ore.

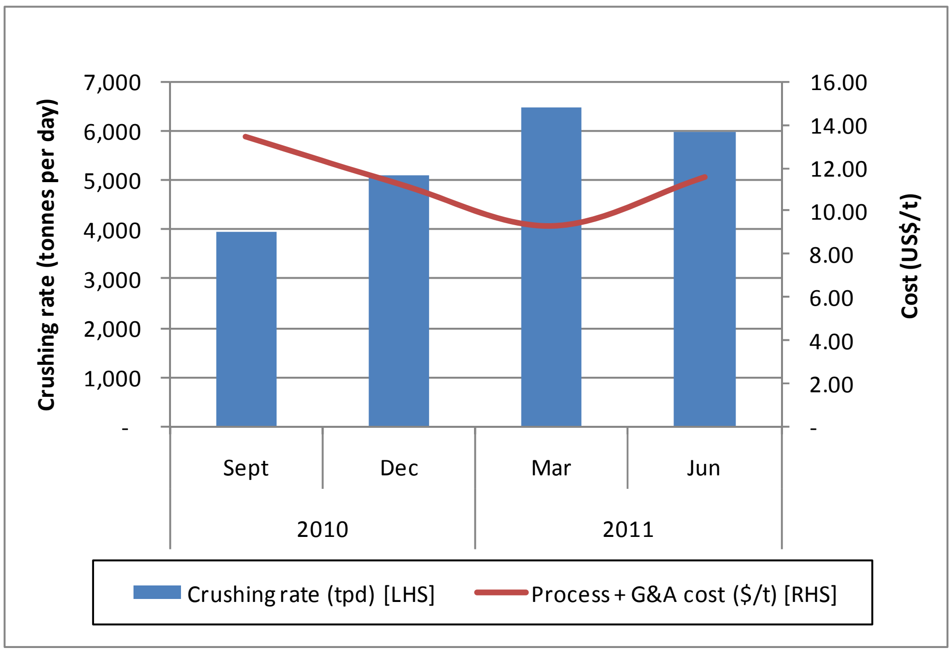

Figure 5 – Crusher throughput vs processing and G&A costs

The increase in the unit rate ($/t) for processing and G&A costs was a direct result of the reduction in ore throughput in June. It is the Company's plan to continue to increase ore production, and that a reduction in unit processing costs will be achieved as crusher throughput increases as can be seen from Figure 5. By August the crusher throughput had been increased to 235,000 tonnes for the month.

Resources and Exploration

Exploration drilling at the CMD Gold Mine has been limited for the past decade, and a major focus of the Company is to explore aggressively for near surface gold mineralisation that can be mined in the near term at low waste to ore ratios. Up to four drills have been working continuously on the CMD Gold Mine since acquisition, resulting in a series of Mineral Resource estimates compiled by Coffey Mining ("Coffey") between January and April.

Coffey have provided combined resource estimates of 1.44 million ounces for the Tres Perlas, Chisperos, Toro, Churrumata, Las Loas and El Sauce deposits as shown in Table 3.

Table 3 –CMD Gold Mine Resource Estimates

CMD Gold Mine

Mineral Resources (April 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)**
Las Loas	2.86	0.8	73	1.5	0.8	37	4.4	0.8	110
El Sauce				7.1	0.7	156	7.1	0.7	156
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	**23.4**	**0.6**	**461**	**45.8**	**0.7**	**976**	**69.6**	**0.6**	**1,437**

The Company anticipates that a resource update will be completed during the December quarter of calendar 2011. Highlights from drilling announced previously but not included in the resource estimates include:

- Toro Deposit
    - 29m grading 1.76 g/t Au (from 25m downhole) and 55m grading 1.01 g/t Au (from 123m downhole) in DDH 2011-74;
    - 10m grading 3.35 g/t Au from 16m downhole in RCH 2011-15;
    - 30m grading 1.30 g/t Au from 11m downhole in DDH 2011-64, including 6 m @ 4.06 g/t Au from 35m downhole;
    - 14m grading 1.15 g/t Au from 50m downhole in RCH 2011-75
- Tres Perlas Deposit gold results
    - 9m grading 7.40 g/t Au from 101m downhole in DDH 2011-49;
    - 8m grading 0.62 g/t Au from 83m downhole in DDH 2011-49

- Veneros Prospect
  - 6m grading 3.1 g/t Au from 22m downhole in DTH 2011-41;
  - 8m grading 1.2 g/t Au from 29m downhole in DTH 2011-43;
  - 15m grading 0.8 g/t Au from 7m downhole in DTH 2011-53;
  - 15m grading 0.7 g/t Au from 15m downhole in DTH 2011-48;
  - 6m grading 0.9 g/t Au from 14m downhole in DTH 2011-40;
  - 6m grading 0.6 g/t Au from 27m downhole in DTH 2011-45

A review of the copper–gold mineralisation found at the adjacent Teck Carmen de Andacollo mine during the June quarter led to the completion of a first pass exploration drilling program along the common claim boundary. Encouraging results received include:

- 30m grading 0.53% Cu and 0.14g/t Au from 35m downhole in DDH 2011-49;
- 29m grading 0.48% Cu from 76m downhole in DDH 2011-44;
- 10m grading 0.37% Cu and 0.07 g/t Au from 30m downhole in RCH 2011-39;
- 4m grading 0.51 % Cu and 0.27 g/t Au from 120m downhole in RCH 2011-39

Mine Plan and Reserves

Following the estimation of the mineral resources by Coffey, a detailed mine planning exercise was completed by consolidated entity staff to update the mine plan. This culminated in July 2011 with the initial JORC Compliant Probable Mineral Reserve for the CMD Gold Mine of 157,000 ounces of gold. The Reserves have been estimated at a gold price of US$1,250/ounce and using operating cost and metallurgical recovery factors from the current operation.

In addition to the Reserves, the consolidated entity has completed mine planning studies on the total resource base (including the Inferred Resource). This was done in order to quantify the amount of Inferred Resource with the economic potential to be included in the reserve estimate when sufficient work has been completed, subject to results, to upgrade the Inferred Resource to the Measured or Indicated Resource category. The Indicated and Inferred Resource (not included in the Probable Reserve) contained within these conceptual pit shells amounted to an additional 299,000 ounces of gold. Drilling of the Inferred Resource is ongoing.

Crushing of Copper Ore for Teck

The consolidated entity recently entered a short term agreement with the neighbouring copper mine (Carmen de Andacollo) to crush copper ore for processing on their leach pads. On 23 July campaign crushing of Teck ore commenced, with daily crusher throughput of up to 1,300 tonnes per hour (annualised rate of in excess of 10 Mtpa) being achieved through the primary and secondary crushers.

Contract crushing for the initial one month period has now been completed with a total of 163,260 tonnes of ore crushed for Teck.

Luiri Gold Limited

The consolidated entity had invested a total of $4.8 million in 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 LML48 (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 Lachlan's dissatisfaction with Luiri management, and its inability to instigate change through a Luiri shareholders' meeting, it sold all its Luiri CDI's and shares during the year for gross proceeds of $4.7 million at an average sale price of $0.151 per share, compared to the average $0.154 per share cash acquisition cost. Sale proceeds are being partly used for exploration at the consolidated entity's 100% owned CMD gold mine in Chile.

Bushranger Copper Project - EL 5574 (100%)

The Bushranger Copper Project is located in New South Wales, approximately 25km south of the town of Oberon. The project contains 185,000 tonnes of copper in resources.

Table 4
Bushranger Resource - 0.2% Cu Cut Off

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)
0.2	Indicated	24.9	0.4	94,620	0.04	32,022	1.6	1,288,870
	Inferred	27.6	0.3	91,080	0.04	35,494	1.2	1,091,435
	Total	**52.5**	**0.4**	**185,700**	**0.04**	**67,515**	**1.4**	**2,380,305**

In March, the Company announced the results of a Scoping Study for the Bushranger Copper Project.

The Scoping Study was completed to an accuracy level of +/- 30% and used costs sourced from an operating copper mine in New South Wales that were amended to reflect the Bushranger mineralisation, metallurgy, infrastructure, proposed throughput rate and location.

Given the preliminary nature of the Scoping Study, all resource categories were used for the pit optimization.
The resource tonnage and contained copper increases rapidly as the cut-off grade is reduced. The economic cut-off grade derived from the Scoping Study is 0.20% copper and 0.15% copper at copper prices of US$7,500/t and US$10,000/t, respectively.

The 2Mtpa throughput rate selected provides a mine life of between 5 and 11.5 years for the two price scenarios examined. Given the relatively low grade nature of the mineralisation, and the larger resource base available at lower cut-off grades, there may be merit in examining a higher throughput scenario that would reduce process and overhead costs, thus lowering the cut-off grade required for mineralisation to be economic.

The capital costs for the concentrator and infrastructure were estimated from a database of similar projects and recent construction of projects in eastern Australia and are considered to be accurate to a +/-30% level. The net operating cash flows are on a pre-capital cost basis, with the capital cost estimate for a 2Mtpa concentrator and associated infrastructure being $98 million.

Table 5 contains the results of the Scoping Study.

Table 5
Bushranger Scoping Study Results

Cu Price (US$/t)	Mineral Inventory (Mt)	Cu Grade (%)	Waste (Mt)	Waste:Ore Ratio	Net Operating Cash Flow (A$M)
7,500	10.6	0.43	28.7	2.7	112
10,000	23.1	0.39	87.8	3.8	344

During May and June the consolidated entity completed a four hole drilling program totalling 567m at the Racecourse Prospect, which hosts the copper resource. The purpose of the program was to test the continuation of mineralisation both along strike and the shallower up-dip potential.

Summary of results include:

BRC043:
- 13m grading 0.25% copper from 94m, including 2m @ 0.68% Cu;
- 1m grading 0.32g/t gold from 133m;

BRC044 (not in resource):
- 76m grading 0.20% copper from 0m;
- 1m grading 1.02g/t gold from 42m

BRC045 (not in resource):
- 6m grading 0.16% copper from 0m;
- 61m @ 0.19% copper from 13m;
- 1m @ 0.32g/t gold from 5m;
- 1m @ 2.17g/t gold from 73m;
- 1m @ 0.46g/t gold from 175m

BRC046 (not in resource):
- 55m @ 0.20% copper from 0m;
- 9m @ 0.18% copper from 64m;
- 1m @ 1.24g/t gold from 70m;
- 1m @ 0.29g/t gold from 83m

Drill holes BRC 044, BRC 045 and BRC 046 indicate that the copper mineralisation continues to surface in zones that range from 55m to 75 m thick. These holes are located outside the current resource estimate that contains 185,700 tonnes of copper (Refer to Table 4 on page 10) and suggest that the near surface mineralisation is more extensive than in the current resource estimate.

The consolidated entity spent $0.2m on exploration at Bushranger in the year under review.

Competent Person's Statement

The information in this report that relates to the Mineral Resources of Tres Perlas, Chisperos, Churrumata and Toro/Socorro and Las Loas 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 the CMD Gold Mine and Bushranger Copper Project, and Mineral Resources for the Bushranger Copper Project, 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.

The information in this report that relates to the Scoping Study of the Bushranger Copper Project and the CMD Gold Mine Reserve is based on information compiled by Declan Franzmann, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Franzmann is employed by Citraen Pty Ltd. Mr Franzmann 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 Franzmann consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The directors present their report together with the financial report of the consolidated entity, being Lachlan Star Limited ("Company" or "Lachlan") and its subsidiaries ("consolidated entity" or "group"), at the end of and for the year ended 30 June 2011. Lachlan Star Limited is a listed public company incorporated and domiciled in Australia.

Directors

The names and details of the Company's directors in office at any time during the financial year and up to the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Michael James McMullen
Executive Chairman

BSc (Geology)
Age 41. Appointed 26 September 2007.

Mr McMullen is a geologist with in excess of 18 years experience in exploration, financing, development and operation of mining projects. During that time he has worked in Australia, Africa, Europe, Asia and South America. He has acted as technical adviser to many of the major resource banks for project financing and mergers and acquisitions and has worked on several corporate finance transactions on the ASX, AIM, JSE and TSX markets.

He was formerly a founding shareholder and executive director of Tritton Resources Limited, a company that developed a copper mine in Australia prior to being acquired by Straits Resources Limited. He was most recently the Managing Director and CEO for Northern Iron Limited, a company that redeveloped an iron ore mine in Norway.

During the past three years Mr McMullen has held the following listed company directorships:

Luiri Gold Limited	From September 2009 to November 2010
Northern Iron Limited	From May 2007 to November 2009

Declan Thomas Franzmann
Managing Director (effective 1 December 2010, prior to which he was a Non-Executive Director)

Age 43. Appointed 26 September 2007.

Mr Franzmann is a mining engineer with more than 19 years mining experience. His previous experience includes operational and technical roles at underground and open pit mines throughout Australia, Asia and Africa. He operates a consulting company providing mine engineering and geology services to a variety of companies. Mr Franzmann was a member of the Audit Committee until 11 January 2011.

During the past three years Mr Franzmann has held the following listed company directorships:

Every Day Mine Services Limited	From March 2007 to November 2010
Luiri Gold Limited	From August 2009 to November 2010

Thomas Ernest Duckworth
Non-Executive Director

B Sc., ARSM, FIMM, C Eng, F Aus IMM.
Age 73. Appointed 26 September 2007.

Mr Duckworth is a metallurgist with over 50 years working experience in resource development and engineering. Recent roles have been as a metallurgical consultant for iron, gold and base metal projects in Australia and Europe with previous major roles in the metallurgical development of a number of base metal projects including Hellyer, Cannington, Rapu Rapu and Tritton. He has been an independent consultant for 17 years prior to which he was a founding director of Signet Engineering, and previous to that held positions as Chief Metallurgist for BP\Seltrust in Australia and Group Metallurgist for Selection Trust in London. His experience covers the plant design and processing of most minerals including diamonds and coal in all five continents and he has held previous directorships in listed resource companies.

During the past three years Mr Duckworth has not been a director of any other listed entity. Mr Duckworth is a member of the Audit Committee, and became Chairman of that committee on 19 November 2009.

Peter Bartley Babin
Non-Executive Director

Juris Doctor (Law)
Age 57. Appointed 24 December 2010.

Mr Babin is an attorney admitted to practice in several of the United States, with more than 25 years' experience in the acquisition, disposition, financing and operations of precious metals mining projects and other natural resources projects.

He was most recently the Managing Director of DMC Newco Ltd, an unlisted Australian entity whose wholly-owned subsidiary, Compañia Minera Dayton (a Chilean mining company), was acquired by Lachlan Star on 24 December 2010. Mr Babin is also currently the chief executive officer of CalX Minerals LLC, a Colorado entity that produces chemical-grade pulverised limestone, for use as an explosives suppressant in underground coal mines.

Mr Babin has not been a director of any other listed company since April 2003, when he resigned from the board of directors of Royal Gold Inc.

Mr Babin became a member of the Audit Committee effective 11 January 2011.

Company Secretary

Mr Robert Anderson was appointed Company Secretary on 15 October 2007. Mr Anderson is a Chartered Accountant who has previously held company secretarial positions in both ASX-listed and private companies.

Audit Committee

Names and qualifications of Audit Committee members

Members of the Committee are Mr Thomas Duckworth (Chairman) and Mr Peter Babin. Qualifications of Audit Committee members are provided in the Directors section of this directors' report. The board anticipates adding a third director, who will be independent, to this committee in the 2012 financial year.

Audit Committee meetings

The number of Audit Committee meetings and the number of meetings attended by each of the members during the reporting period are as follows:

	(a)	(b)
DT Franzmann	1	1
TE Duckworth	2	2
PB Babin	1	1

(a) Number of meetings attended
(b) Number of meetings held during period of office

Remuneration report

The Remuneration Report is set out on pages 19 to 23 and forms part of this Directors' Report.

Environmental regulation and performance

The consolidated entity's exploration and mining activities are concentrated in Australia and Chile. Environmental obligations are regulated under both State and Federal Laws.

One environmental breach has been notified by a government agency during the year ended 30 June 2011, with respect to a small discharge of cyanide bearing solution on 13 June 2011. The affected soil was removed and stockpiled on the leach pad area and the area remediated. As at the time of reporting, the relevant governmental agency was still investigating the incident and the consolidated entity is cooperating fully with the investigation. The directors are of the opinion that the outcome of the cyanide discharge is not likely to be material to the CMD gold mine operation and that adequate measures have been put in place to prevent a similar discharge in the future.

Directors' meetings

The number of directors' meetings and the number of meetings attended by each of the directors of the Company during the reporting period are as follows:

	(a)	(b)
MJ McMullen	9	9
DT Franzmann	9	9
TE Duckworth	9	9
PB Babin	4	4

(a) Number of meetings attended
(b) Number of meetings held during period of office

Remuneration Committee

The Board considers that the Company is not currently of a size to justify the existence of a Remuneration Committee.

The Board as a whole is responsible for the remuneration arrangements for directors and executives of the Company. If the Company's activities increase in size, scope and/or nature the formation of a Remuneration Committee will be considered by the Board and implemented if appropriate.

The Board considers remuneration packages and policies applicable to the executive directors, senior executives, and non-executive directors. It is also responsible for share option schemes, incentive performance packages, and retirement and termination entitlements.

Identification of independent directors

The independent directors are identified in the Corporate Governance Statement section of this Annual Report as set out on pages 73 to 75.

Auditor's independence declaration

The auditor's independence declaration under Section 307C of the Corporations Act 2001 is set out on page 24 and forms part of the directors' report for the financial year ended 30 June 2011.

Insurance of directors and officers

During the financial year the Company paid a premium to insure the directors and officers of the Company and its controlled entities. The policy prohibits the disclosure of the nature of the liabilities covered and the amount of the premium paid.

Significant changes in state of affairs

On 24 December 2010 the Company completed the acquisition of the CMD Gold Mine in Chile (refer to the Operating and Financial Review as set out on pages 3 to 12 of this report and Note 30 to the Consolidated Financial Statements.

During the year the Company sold 100% of its shareholding in Luiri, refer page 10 of this report and Note 28 to the Consolidated Financial Statements.

Other than this there have been no significant changes in the state of affairs of the consolidated entity during the period under review.

Likely developments

The likely developments for the 2012 financial year are contained in the operating and financial review as set out on pages 3 and 12. The directors are of the opinion that further information as to likely developments in the operations of the consolidated entity would prejudice the interests of the consolidated entity and accordingly it has not been included.

Non-audit services

The Board has considered the non-audit services provided during the year by the auditors and, in accordance with advice provided by the Audit Committee, is satisfied that the provision of those non-audit services is compatible with, and did not compromise, the auditors' independence requirements of the Corporations Act 2001.

Details of the amounts paid or payable to the auditor of the consolidated entity for non-audit services provided during the year are set out below:

	2011($)	2010($)
Review of financial reports	34,800	-
Taxation advice	55,300	-
	90,100	-

Operating and financial review

An operating and financial review of the consolidated entity for the financial year ended 30 June 2011 is set out on pages 3 and 12 and forms part of this report.

Directors' interests

At the date of this report, the relevant interests of the directors in securities of the Company are as follows:

Name	Ordinary shares	Options over ordinary shares
MJ McMullen	2,409,453	133,334
DT Franzmann	1,217,320	133,334
TE Duckworth	220,989	133,334
PB Babin	3,322,384	-

Indemnity of directors

Deeds of Access and Indemnity have been executed by the parent entity with each of the current directors and Company Secretary. The deeds require the Company to indemnify each director and the Company Secretary against any legal proceedings, to the extent permitted by law, made against, suffered, paid or incurred by the director or Company Secretary pursuant to, or arising from or in any way connected with the director or Company Secretary being an officer of the Company or its subsidiaries.

Proceedings on behalf of the consolidated entity

No person has applied for leave to the Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

Dividends

No dividends were paid during the year and the directors do not recommend payment of a dividend in respect of the reporting period (2010: Nil).

Share options

Options granted to directors and officers of the consolidated entity

The following options over unissued ordinary shares of the Company were granted to key management personnel during the current and prior periods.

On 10 June 2011 shareholders approved a 1 for 60 share consolidation. In accordance with ASX Listing Rules the unlisted options on issue were consolidated in the same ratio and the option price adjusted in the inverse ratio. The 2011 options listed below were issued prior to the option consolidation.

2011

Executive Officer	Expiry date	Exercise price	Date Issued	Vesting date	Number
G di Parodi	20/12/13	$0.02	04/01/11	04/01/11	2,000,000
G di Parodi	20/12/13	$0.025	04/01/11	04/01/11	2,000,000
R Pardo	20/12/13	$0.02	04/01/11	04/01/11	1,500,000
R Pardo	20/12/13	$0.025	04/01/11	04/01/11	1,500,000

2010

Director	Expiry date	Exercise Price	Date Issued	Vesting date	Number
MJ McMullen	18/11/11	$0.02	20/11/09	20/11/09	4,000,000
MJ McMullen	18/11/12	$0.025	20/11/09	20/11/09	4,000,000
TE Duckworth	18/11/11	$0.02	20/11/09	20/11/09	4,000,000
TE Duckworth	18/11/12	$0.025	20/11/09	20/11/09	4,000,000
DT Franzmann	18/11/11	$0.02	20/11/09	20/11/09	4,000,000
DT Franzmann	18/11/12	$0.025	20/11/09	20/11/09	4,000,000

Executive Officer	Expiry date	Exercise Price	Date issued	Vesting date	Number
K Dekker	18/11/11	$0.02	20/11/09	20/11/09	4,000,000
K Dekker	18/11/12	$0.025	20/11/09	20/11/09	4,000,000
RA Anderson	18/11/11	$0.02	20/11/09	20/11/09	4,000,000
RA Anderson	18/11/12	$0.025	20/11/09	20/11/09	4,000,000

Shares under option

The following unissued ordinary shares of the Company are under option.

Expiry date	Original exercise price	Post consolidation exercise price	Number 01/07/10	Issued	Expired	Original number 30/06/11	Post consolidation number 30/06/11
20/04/11	$0.035	-	2,500,000	-	2,500,000	-	-
18/11/11	$0.02	$1.20	22,500,000	-	-	22,500,000	375,002
18/11/12	$0.025	$1.50	22,500,000	-	-	22,500,000	375,002
31/12/12	$0.02	$1.20	-	10,000,000	-	10,000,000	166,667
20/12/13	$0.02	$1.20	-	10,000,000	-	10,000,000	166,669
20/12/13	$0.025	$1.50	-	10,000,000	-	10,000,000	166,669
20/05/13	$0.02	$1.20	-	213,806,229	-	213,806,229	3,563,447
			47,500,000	246,806,229	2,500,000	288,806,229	4,813,456

No options have been granted since the end of the reporting period other than those arising from the issue of the Special Warrants described under the subsequent events section of this Directors Report. There have been no options exercised since the end of the reporting period. During the reporting period there was no forfeiture or vesting of options granted in previous periods.

Principal activities

During the course of the 2011 financial year the consolidated entity's principal continuing activities were directed towards mineral extraction, exploration and investment in the minerals sector.

Events subsequent to reporting date

On 29 August 2011 the Company announced that it had completed a private placement of special warrants ("**Special Warrants**" or "**Offering").**

The Offering raised gross proceeds of $15,088,000 through the issuance of 18,400,000 Special Warrants, priced at $0.82 per Special Warrant. The Offering was completed by a syndicate of Agents led by Dundee Securities Ltd., and including Salman Partners Inc., pursuant to the terms of an agency agreement (the "**Agency Agreement**") dated 26 August 2011.

Upon satisfaction of all escrow release conditions, each Special Warrant will be exercisable for no additional consideration into one unit (a "**Unit**"), each Unit consisting of one ordinary share (an "**Ordinary Share**") and one-half option ("**Warrant**") with a strike price of $1.20 for a period of 24 months following closing of the Offering. As partial consideration for their services in connection with the Offering, the Agents were granted options to acquire an aggregate of 1,104,000 Special Warrants at a strike price of $1.20.

The Company will use its best efforts to file a preliminary prospectus in each province of Canada in which Special Warrants were distributed pursuant to the Offering and obtain a receipt for a final prospectus on or before 27 December 2011, which will qualify for sale the Ordinary Shares and Warrants underlying the Special Warrants. In the event such deadline is not met by the Company, each Special Warrant shall thereafter entitle the holder to receive upon exercise, for no additional consideration, 1.1 Units (instead of one Unit).

The proceeds of the Offering will be held in escrow pending the receipt of necessary shareholder approvals, which are to be sought at a general meeting of the Company to be held on 26 September 2011. Release of the proceeds from escrow is also subject to certain escrow release conditions including: (i) shareholder approval for the issue of the Ordinary Shares underlying the Special Warrants and Warrants at the upcoming general meeting; (ii) no material adverse change in the business of the Company; and (iii) no material breaches of the covenants and obligations of the Company contained in the Agency Agreement and certain other Offering documents.

Lachlan Star plans to use the net proceeds from the Offering for the continued development of the consolidated entity's CMD Gold Mine and for general working capital purposes.

Other than this no other matter or circumstance has arisen since 30 June 2011 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.

Remuneration report

The information provided in this remuneration report has been audited as required by section 308 (3C) of the Corporations Act 2001.

Principles used to determine the nature and amount of compensation

The Board determines remuneration policies and practices, evaluates the performance of senior management, and considers remuneration for those senior managers. The Board assesses the appropriateness of the nature and amount of remuneration on an annual basis by reference to industry and market conditions, and with regard to the consolidated entity's financial and operating performance.

Total non-executive directors' fees are approved by shareholders and the Board is responsible for the allocation of those fees amongst the individual members of the Board.

The value of remuneration is determined on the basis of cost to the Company and consolidated entity.

Remuneration of directors and executives is referred to as compensation, as defined in Accounting Standard AASB 124.

Compensation levels for key management personnel of the Company and consolidated entity are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The Board obtains, when required, independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally.

Compensation arrangements include a mix of fixed and performance based compensation. A component of share-based compensation is awarded at the discretion of the Board, subject to shareholder approval when required.

Compensation structures take into account the overall level of compensation for each director and executive, the capability and experience of the directors and senior executives, the executive's ability to control the financial performance of the relative business or geographical segment, the consolidated entity's performance (including earnings and the growth in share price), and the amount of any incentives within each executive's remuneration.

Given the consolidated entity's focus on new projects during the year, the Board did not have regard to the consolidated entity's financial performance and / or change in shareholder wealth occurring in the current financial year and previous three financial years in setting remuneration. No dividends were paid or declared during this period (2010: Nil).

The Board has adopted a policy that prohibits those that are granted share-based payments as part of their remuneration from entering into other arrangements that limit their exposure to losses that would result from share price decreases. The Company requires all executives and directors to sign annual statements of compliance with this policy throughout the period.

Fixed compensation

Fixed compensation consists of base compensation as well as any employer contributions to superannuation funds. Base compensation may be supplemented by an element of equity based compensation.

Non-executive directors

Total remuneration for all non-executive directors, last voted upon by shareholders at a General Meeting in November 2001, is not to exceed $250,000 per annum. A non-executive director's base fee is currently $30,000 per annum. The Executive Chairman currently receives $360,000 per annum.

Non-executive directors do not receive any performance related remuneration, however they are paid an hourly rate for work performed over and above their non-executive duties. Directors' fees cover all main Board activities and membership of Board committees. The Company does not have any terms or schemes relating to retirement benefits for non-executive directors. Non-executive directors receive share-based compensation at the discretion of the Board, and subject to approval by shareholders.

Remuneration report (continued)

Short-term bonus

Performance linked compensation is awarded when key management personnel have met the expectation of the Board which, as a whole, is responsible for the remuneration arrangements of the directors and executives of the Company. The short term bonus is an "at risk" bonus provided in the form of cash. The award of the cash bonus is at the Board's discretion.

Service contracts

The contract duration, period of notice, and termination conditions for key management personnel are as follows:

(i) Declan Franzmann, Managing Director, is engaged through a Consultancy Agreement expiring 31 October 2013. Termination by the Company is with 12 months notice or payment in lieu thereof. Termination by the consultant is with 3 months notice.

(ii) Robert Anderson, Company Secretary and Chief Financial Officer, is engaged through a Consultancy Agreement expiring 31 July 2012. Termination by the Company is with 12 months notice or payment in lieu thereof. Termination by the consultant is with 3 months notice.

(iii) Michael McMullen, Executive Chairman, is engaged through a Consultancy Agreement expiring 31 July 2012. Termination by the Company is with 12 months notice or payment in lieu thereof. Termination by the consultant is with 3 months notice.

(iv) Kees Dekker, Regional Manager – Southern Africa, is engaged through an employment agreement with no fixed expiry date. Termination by the Company is with 1 month's notice or payment in lieu thereof. Termination by the consultant is with 1 month's notice.

(v) Gaston di Parodi, General Manager – CMD Gold Mine, is engaged through an employment agreement with no fixed expiry date. Termination by CMD is with 1 months notice or payment in lieu thereof in addition to accrued service entitlements. Termination by the employee is with 2 months notice.

(vi) Roberto Pardo, Finance and Administration Manager – CMD Gold Mine, is engaged through an employment agreement with no fixed expiry date. Termination by CMD is with 1 month's notice or payment in lieu thereof in addition to accrued service entitlements. Termination by the employee is with 2 months notice.

Directors' and other key management personnel remuneration, Company and consolidated entity

Details of the nature and amount of each major element of the remuneration of each director of the Company and each of the named Company and key management personnel receiving the highest remuneration are set out on the following page. The fair value of options is calculated at the date of grant using the Black-Scholes Option Pricing Model. The following factors and assumptions were used in determining the fair value of options issued during the current and prior periods.

2011 Grant date	Expiry date	Fair value per option	Exercise price at issue date	Price of shares at grant date	Expected volatility	Risk free interest rate	Dividend yield
04/01/2011	20/12/2013	$0.003	$0.02	$0.017	21%	6%	0%
04/01/2011	20/12/2013	$0.001	$0.025	$0.017	21%	6%	0%

2010 Grant date	Expiry date	Fair value per option	Exercise price at issue date	Price of shares at grant date	Expected volatility	Risk free interest rate	Dividend yield
20/11/2009	18/11/2011	$0.011	$0.02	$0.02	110%	5.25%	0%
20/11/2009	18/11/2012	$0.012	$0.025	$0.02	110%	5.25%	0%

Remuneration report (continued)

Directors' and executive officers' remuneration, Company and consolidated entity (continued)

Name	Short term Salary and fees ($)	Share based Options ($)	Post employment Superannuation contributions ($)	Other ($)	Total ($)	Proportion of remuneration performance related (%)	Value of options as a % of remuneration (%)
Directors							
Non-Executive							
Mr TE Duckworth							
2011	-	-	$30,000	-	$30,000	-	-
2010	-	$98,391	$30,000	-	128,391	-	76.6%
Mr PB Babin (appointed 24 December 2010)							
2011	$15,658	-	-	-	$15,658		
Mr HJL Bohannan (resigned 19 November 2009)							
2010	-	-	$11,610	-	$11,610	-	-
Executive							
Mr DT Franzmann (Managing Director)							
2011	$295,500	-	-	-	$295,500	-	-
2010	$35,055	$98,391	-	-	$133,446	-	73.7%
MJ McMullen (Executive Chairman)							
2011	$272,500	-	-	-	$272,500	-	-
2010	$150,000	$98,391	-	-	$248,391	-	39.6%
Executive Officers							
Mr RA Anderson (CFO/Company Secretary)							
2011	$170,000	-	-	-	$170,000	-	-
2010	$100,000	$98,391	-	-	$198,391	-	49.6%
Mr K Dekker (General Manager – Projects)							
2011	$151,941	-	-	-	$151,941	-	-
2010	$116,598	$98,391	-	-	$214,989	-	45.8%
Mr G di Parodi (General Manager – CMD Gold Mine)							
2011 (from 24 December 2010)	$132,986	$7,427	-	$960	$141,373	-	5.25%
Mr R Pardo (Finance and Administration Manager – CMD Gold Mine)							
2011 (from 24 December 2010)	$107,644	$5,570	-	-	$113,214	-	4.92%
Total compensation: key management personnel (Company and consolidated entity)							
2011	$1,146,229	$12,997	$30,000	$960	$1,190,186		
2010	$401,653	$491,955	$41,610	-	$935,218		

Mr Franzmann was a non-executive director from 1 July 2009 to 30 November 2010. Directors and Executive Officers fees are paid to the director, executive, or their related entity.
"Other" for Mr Parodi represents the notional interest that would have been charged on his loan on an arms length basis, refer Note 25 of the consolidated financial statements.

Remuneration report (continued)

Equity instruments

(i) Shares

No shares of the Company were granted as compensation to key management personnel during the reporting period (2010: Nil).

(ii) Options over equity instruments granted as compensation

The following options over unissued ordinary shares of the Company were granted to key management personnel during the current and prior reporting periods.

2011

Executive Officer	Expiry Date	Exercise price	Date issued	Vesting date	Number
G di Parodi	20/12/13	$0.02	04/01/11	04/01/11	2,000,000
G di Parodi	20/12/13	$0.025	04/01/11	04/01/11	2,000,000
R Pardo	20/12/13	$0.02	04/01/11	04/01/11	1,500,000
R Pardo	20/12/13	$0.025	04/01/11	04/01/11	1,500,000

2010

Director	Expiry Date	Exercise Price	Date issued	Vesting date	Number
MJ McMullen	18/11/11	$0.02	20/11/09	20/11/09	4,000,000
MJ McMullen	18/11/12	$0.025	20/11/09	20/11/09	4,000,000
TE Duckworth	18/11/11	$0.02	20/11/09	20/11/09	4,000,000
TE Duckworth	18/11/12	$0.025	20/11/09	20/11/09	4,000,000
DT Franzmann	18/11/11	$0.02	20/11/09	20/11/09	4,000,000
DT Franzmann	18/11/12	$0.025	20/11/09	20/11/09	4,000,000

Executive Officer	Expiry Date	Exercise Price	Date issued	Vesting date	Number
K Dekker	18/11/11	$0.02	20/11/09	20/11/09	4,000,000
K Dekker	18/11/12	$0.025	20/11/09	20/11/09	4,000,000
RA Anderson	18/11/11	$0.02	20/11/09	20/11/09	4,000,000
RA Anderson	18/11/12	$0.025	20/11/09	20/11/09	4,000,000

No options have been granted since the end of the financial year, nor have any options held by key management personnel been exercised during or since the end of the reporting period. During the reporting period there was no forfeiture or vesting of options granted in previous periods.

On 10 June 2011 shareholders approved a 1 for 60 share consolidation. In accordance with ASX Listing Rules the unlisted options on issue were consolidated in the same ratio and the option price adjusted in the inverse ratio. Options issued during 2011, as set out above, were issued prior to 10 June 2011.

Details of options that expired during the period are set out on page 17 of this report.

Remuneration report (continued)

Equity instruments (continued)

(ii) Options over equity instruments granted as compensation (continued)

The movement during the current and prior reporting period, by value, of options over ordinary shares for each company director and key management person and granted as part of remuneration is detailed below:

2011		Value of Options		
Executive Officer	Granted in year ($)	Exercised in year ($)	Forfeited in year ($)	Total value in year ($)
G di Parodi	7,427	-	-	7,427
R Pardo	5,570	-	-	5,570

2010		Value of Options		
Director	Granted in year ($)	Exercised in year ($)	Forfeited in year ($)	Total value in year ($)
MJ McMullen	98,391	-	-	98,391
TE Duckworth	98,391	-	-	98,391
DT Franzmann	98,391	-	-	98,391

		Value of Options		
Executive Officer	Granted in year ($)	Exercised in year ($)	Forfeited in year ($)	Total value in year ($)
K Dekker	98,391	-	-	98,391
RA Anderson	98,391	-	-	98,391

The value of options granted during the year is the fair value of the options at grant date using the Black-Scholes Option Pricing Model. The value of options exercised during the year is calculated as the market price of shares of the Company on ASX Limited as at close of trading on the date the options were exercised, after deducting the price paid to exercise the options or repay the loan.

Loans to directors and executive officers

The terms and conditions relating to loans to directors and executive officers are set out in Note 25 to the Financial Statements.

Signed in accordance with a resolution of the directors.

MJ McMullen.

MJ McMullen
Executive Chairman

Perth 8 September 2011

Auditor's Independence Declaration

As lead auditor for the audit of Lachlan Star Limited for the year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Pierre Dreyer
Partner
PricewaterhouseCoopers

Perth
8 September 2011

PricewaterhouseCoopers, ABN 52 780 433 757
QV1, 250 St Georges Terrace, PERTH WA 6000, GPO Box D198, PERTH WA 6840
T: +61 8 9238 3000, F: +61 8 9238 3999, www.pwc.com.au

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

	Notes	2011 $	2010 $
Revenue from continuing operations			
Revenue	2	26,218,708	-
Finance income		239,024	182,153
Profit on sale of shares in associate	28	3,856,074	-
		30,313,806	182,153
Expenses			
Cost of sales	3	(31,525,114)	-
Other expenses from ordinary activities			
Corporate compliance and management		(902,890)	(429,085)
Financial assets fair valued through profit and loss	28	7,932	(17,012)
Share based payments expense		(37,132)	(553,448)
Occupancy costs		(96,689)	(59,577)
Foreign exchange loss	4	(373,602)	-
New venture expenditure written off		(1,201,845)	(156,694)
Other expenses		(294,484)	(109,569)
Finance expense	4	(636,000)	-
Share of net loss of associate accounted for using the equity method	28	(594,473)	(3,458,083)
Loss on dilution of associate		-	(36,445)
Fair value gain on deferred consideration		411,636	-
Loss before income tax		(4,928,855)	(4,637,760)
Income tax benefit	7	609,997	-
Loss for the period	23 (c)	(4,318,858)	(4,637,760)
Other comprehensive income for the period net of income tax			
Exchange difference on translation of foreign operations		(1,916,080)	-
Total comprehensive loss for the period		(6,234,938)	(4,637,760)
Basic and diluted loss per share	6	(11.7)	(25.8)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	Notes	2011 $	2010 $
Current assets			
Cash and cash equivalents	22(b)	4,515,058	3,855,725
Trade and other receivables	8	3,379,346	126,204
Inventories	9	8,674,573	-
Total current assets		16,568,977	3,981,929
Non-current assets			
Trade and other receivables	8	350,537	-
Inventories	9	6,876,231	-
Exploration and evaluation	10	2,734,237	2,527,209
Mine development properties	11	20,751,962	-
Investments accounted for using the equity method	12	-	1,395,528
Property, plant and equipment	13	9,458,561	41,253
Goodwill	14	188,800	-
Deferred tax asset	15	4,202,652	-
Total non-current assets		44,562,980	3,963,990
Total assets		61,131,957	7,945,919
Current liabilities			
Trade and other payables	16	14,679,404	140,924
Borrowings	17	7,476,166	-
Total current liabilities		22,155,570	140,924
Non-current liabilities			
Borrowings	17	3,110,833	-
Provisions	18	5,691,431	-
Total non-current liabilities		8,802,264	-
Total liabilities		30,957,834	140,924
Net assets		30,174,123	7,804,995
Equity			
Contributed equity	23(a)	174,795,696	146,145,042
Reserves		(1,314,084)	648,584
Accumulated losses	23(c)	(143,307,489)	(138,988,631)
Total equity		30,174,123	7,804,995

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2011

	Contributed Equity $	Accumulated losses $	Share based payments reserve $	Foreign exchange reserve $	Total $
Balance at 1 July 2009	146,105,016	(134,350,871)	75,349	-	11,829,494
Loss for the year	-	(4,637,760)	-	-	(4,637,760)
Total comprehensive loss for the year	-	(4,637,760)	-	-	(4,637,760)
Share of movement in share based payment reserve of associate	-	-	59,813	-	59,813
Transactions with owners in their capacity as owners:					
Share based payments	40,026	-	513,422	-	553,448
Balance at 30 June 2010	146,145,042	(138,988,631)	648,584	-	7,804,995
Other comprehensive income	-	-		(1,916,080)	(1,916,080)
Loss for the year	-	(4,318,858)	-	-	(4,318,858)
Total comprehensive loss for the year	-	(4,318,858)	-	(1,916,080)	(6,234,938)
Share of movement in share based payment reserve of associate	-	-	(59,813)	-	(59,813)
Transactions with owners in their capacity as owners:					
Shares issued for cash	14,197,337	-	-	-	14,197,337
Shares issued to vendors on acquisition of CMD Gold Mine	15,000,000	-	-	-	15,000,000
Proceeds on issue of share options	10,000	-	-	-	10,000
Share issue costs	(580,590)	-		-	(580,590)
Share based payments	23,907	-	13,225	-	37,132
Balance at 30 June 2011	174,795,696	(143,307,489)	601,996	(1,916,080)	30,174,123

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes to the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2011

	Notes	2011 $	2010 $
Cash flows from operating activities			
Receipts from customers and GST recovered		26,538,612	49,537
Payments to suppliers and employees		(27,341,297)	(819,774)
Transaction costs relating to the acquisition of subsidiary		(368,805)	-
Interest received		169,605	192,764
Net cash flows used in operating activities	22(a)	(1,001,885)	(577,473)
Cash flows from investing activities			
Payments for exploration and evaluation		(187,028)	(37,436)
Payments for mine development		(4,208,188)	-
Payments for acquisition of property, plant and equipment		(656,245)	(44,646)
Proceeds from sale of property, plant and equipment		-	7,713
Payments for acquisition of investment in associate		-	(4,477,253)
Proceeds from sale of financial assets		-	522,988
Net proceeds from sale of investment in associate	28	4,605,248	-
Payments for acquisition of subsidiary, net of cash acquired	30	(8,683,800)	-
Net cash flows used in investing activities		(9,130,013)	(4,028,634)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		14,197,337	-
Proceeds from issue of share options		10,000	-
Repayment of borrowings		(3,818,597)	-
Receipt of borrowings		1,019,428	-
Payment of share issue costs		(580,590)	-
Net cash flows from financing activities		10,827,578	-
Net increase / (decrease) in cash and cash equivalents		695,680	(4,606,107)
Effect of exchange rate fluctuations on cash held		(36,347)	-
Cash and cash equivalents at the beginning of the year		3,855,725	8,461,832
Cash and cash equivalents at the end of the year	22(b)	4,515,058	3,855,725

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes to the financial statements.

1. Significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Lachlan Star Limited and its subsidiaries.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards ("AASs") (including Australian Accounting Interpretations), as adopted by the Australian Accounting Standards Board ("AASB"), other authoritative pronouncements of the AASB, Urgent Issues Group Interpretations, and the Corporations Act 2001. Compliance with Australian Accounting Standards ensures that the consolidated financial report of Lachlan Star Limited complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The functional and presentation currency of the Company is Australian dollars. The financial report was authorised for issue by the directors on 8 September 2011. Lachlan Star Limited is a company limited by shares, incorporated and domiciled in Australia.

Basis of measurement

The financial report is prepared on a historical cost basis as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit and loss.

Going concern

This 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 30 June 2011, the consolidated entity had cash reserves of $4,515,058 (2010: $3,855,725) and a net current asset deficiency of $5,586,593 (2010: $Nil), having recorded a net loss after tax of $4,318,858 (2010: $4,637,760) for the period. The consolidated entity also had net cash outflows from operations for the year of $1,001,885 (2010: $577,473).

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

- on 29 August 2011 the Company announced that it had completed a private placement raising gross proceeds of $15,088,000 through the issuance of 18,400,000 Special Warrants priced at $0.82 per Special Warrant. The proceeds of the Offering are being held in escrow pending the receipt of necessary shareholder approvals, which are to be sought at a general meeting of the Company to be held on 26 September 2011. Release of the proceeds from escrow is also subject to certain escrow release conditions including: (i) shareholder approval for the issue of the Ordinary Shares underlying the Special Warrants and Warrants at the upcoming general meeting; (ii) no material adverse change in the business of the Company; and (iii) no material breaches of the covenants and obligations of the Company contained in the Agency Agreement and certain other Offering documents. The directors believe the necessary shareholder approval will be received at the general meeting of the Company to be held on 26 September 2011.

- the net current asset deficiency mainly arises from net liabilities associated with the acquisition of DMC Newco Pty Ltd and its subsidiaries (see Note 30) on 24 December 2010.

1. Significant accounting policies (continued)

(a) Basis of preparation (continued)

Critical accounting 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:

(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 fair value less costs to sell, future cash flows are based on estimates of (a) quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction; (b) future production levels and sales; (c) timing of future production; (d) future exchange rates and commodity prices; and (e) future cash costs of production and capital expenditure.

Recoverable amount is most sensitive to 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. The fair value accounting for the CMD Gold Mine mine properties on acquisition on 24 December 2010 assumed the following forward gold prices from data supplied by Bloomberg:

2011	2012	2013	2014	2015
U$1,423	U$1,441	U$1,463	U$1,506	US1,564

At 30 June 2011 the spot gold price was US$1,505 per ounce.

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

1. Significant accounting policies (continued)

(a) Basis of preparation (continued)

Use of estimates and judgements (continued)

(iv) Recovery of ounces of gold in leach pad inventories

Management has estimated the recovery of gold in the leach pad at the CMD Gold Mine based on recovery rates experienced after the September 2000 shutdown. The recovery assumption is also supported by the mine's feasibility study. Management evaluate this estimate on an ongoing basis for any changes that may result in adjustments to the financial statements. To date no such changes have been identified giving rise to a revision in the estimate.

(v) Income taxes

The consolidated entity is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the provision for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The group estimates its tax liabilities based on the group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

In addition, the group has recognised deferred tax assets relating to carried forward tax losses to the extent it is believed there will be sufficient future taxable profits against which the unused tax losses can be utilised. However, utilisation of the tax losses also depends on the ability of a subsidiary, which is not part of the tax consolidated group, to be able to satisfactorily substantiate its tax losses at the time they are recouped. It is believed the subsidiary tax losses can be substantiated.

(vi) Reserve estimates

Reserves are estimates of the amount of product that can be economically and legally extracted from the consolidated entity's properties. In order to calculate reserves, estimates and assumptions are required about a range of geological, technical and economic factors. Estimating the quality and/or grade of reserves requires the size, shape and depth of ore bodies to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements and calculations to interpret the data. The group is required to determine and report ore reserves in Australia under the principles incorporated in the Australasian Code for Reporting of Mineral Resources and Ore Reserves December 2004, known as the JORC Code. The JORC Code requires the use of reasonable investment assumptions to calculate reserves.

As the economic assumptions used to estimate reserves change from period to period, and as additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the group's financial results and financial position in a number of ways, including determination of ore reserves, recognition of deferred tax on mineral rights and exploration recognised in acquisitions deferred mining expenditure and capitalisation of mine development costs, and units of production method of depreciation and amortisation.

(vii) Exploration and evaluation expenditure

Expenditure which does not form part of the cash generating units assessed for impairment has been carried forward in accordance with Note 1 (e) on the basis that exploration and evaluation activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in relation to the area are continuing. Exploration expenditure incurred that does not satisfy the policy stated above is expensed in the period in which it is incurred. Exploration expenditure that has been capitalised which no longer satisfies the policy stated above is written off in the period in which the decision is made.

1. Significant accounting policies (continued)

(b) Principles of consolidation

Subsidiaries

The consolidated financial report comprises the financial statements of the Company and its controlled entities. A controlled entity is any entity controlled by the Company whereby the parent entity has the power to control the financial and operating policies of an entity so as to obtain benefits from its activities. All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation. Where a subsidiary enters or leaves the consolidated entity during the year, its operating results are included or excluded from the date control was obtained or until the date control ceased. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those applied by the parent entity.

Associates

Associates are entities over which the consolidated entity has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. The consolidated entity's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The consolidated entity's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised as reduction in the carrying amount of the investment.

When the consolidated entity's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the consolidated entity does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealised gains on transactions between the consolidated entity and its associates are eliminated to the extent of the consolidated entity's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

(c) Recoverable amount of assets and impairment testing

Goodwill and assets that have an indefinite useful life are not subject to depreciation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they may be impaired, by estimating their recoverable amount.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where such an indicator exists, a formal assessment of recoverable amount is then made. Where this is less than carrying amount, the asset is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is the present value of the future cash flows expected to be derived from the asset or cash generating unit. In estimating value in use, a pre-tax discount rate is used which reflects the current market assessments of the time value of money and the risks specific to the asset. Any resulting impairment loss is recognised immediately in other comprehensive income.

1. Significant accounting policies (continued)

(d) Receivables

Trade and other receivables are initially stated at fair value and subsequently measured at amortised cost, less impairment losses. Trade receivables comprise amounts due from customers for metal sales in the ordinary course of business. The customer pays 95% of gold content three calendar days after receiving the shipment and the other 5% on settlement, normally 18 calendar days after it arrives at their refinery.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the impairment loss is recognised within other expenses in the statement of comprehensive income. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

(e) Exploration and evaluation expenditure

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

Each area of interest is assessed for impairment to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Impairment testing is carried out in accordance with Note 1(c).

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made. Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mine development properties.

(f) Intangible assets

Goodwill

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 it is recognised immediately in profit or loss.

Goodwill is not amortised and is subsequently measured at cost less accumulated impairment losses as determined in accordance with Note 1(c).

Goodwill is allocated to cash generating units for the purposes of impairment testing. The consolidated entity has one cash generating unit, the CMD Gold Mine in Chile.

1. Significant accounting policies (continued)

(g) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or business under common control, regardless of whether equity instruments or other assets are acquired.

The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the consolidated entity. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary.

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the consolidated entity recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the consolidated entity's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

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

Contingent consideration is classified as either equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(h) Earnings per share

The consolidated entity presents basic and diluted earnings per share ("EPS") for its ordinary shares. Basic EPS is calculated by dividing the result attributable to equity holders of the Company by the weighted number of shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all potential ordinary shares, which comprise share options granted.

1. Significant accounting policies (continued)

(i) Income tax

The charge for current income tax expense is based on the result for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by balance date.

Deferred tax is accounted for using the statements of financial position liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is recognised in the profit or loss except where it relates to items recognised directly in equity, in which case it is recognised in equity. Deferred income tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and tax losses. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the consolidated entity intends to settle its current tax assets and liabilities on a net basis.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law. The carrying amount of deferred tax assets is reviewed at each balance date and only recognised to the extent that sufficient future assessable income is considered probable.

(j) Share based payments

Fair value of shares and share options granted as compensation is recognised as an expense with a corresponding increase in equity. Fair value is measured at grant date and recognised over the period during which the grantees become unconditionally entitled to the shares or share options. Fair value of share grants at grant date is determined by the share price at that time. The fair value of share options at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, any vesting and performance criteria, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk free rate for the term of the option. Upon the exercise of the option, the balance of the share-based payments reserve relating to the option is transferred to contributed equity. There are no non-market conditions attached to share options granted.

(k) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (“GST”), or in Chile Value Added Tax (“VAT”), except where the amount of GST (or VAT) incurred is not recoverable from the Australian or Chilean Tax Office. In these circumstances the GST (or VAT) is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST (or VAT). Cash flows are presented in the cash flow statement on a gross basis, except for the GST (or VAT) component of investing and financing activities, which are disclosed as operating cash flows.

1. Significant accounting policies (continued)

(l) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(m) Employee benefits

Provision is made for the consolidated entity's liability for employee benefits and termination indemnities arising from services rendered by employees to balance date.

(i)Short-term benefits

Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

(ii) Long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period.

(iii) Share-based payments

Share-based compensation in the form of options is measured using an option pricing model and is expensed over the vesting period of the options with a corresponding credit to the share based payments reserve.

(iv) Termination Benefits

Liabilities for termination benefits, not in connection with the acquisition of an entity or operation, are recognised when a detailed plan for the terminations has been developed or where there is a contractual liability. The liabilities for termination benefits are recognised as provisions.

Liabilities for termination benefits expected to be settled within 12 months are measured at the amounts expected to be paid when they are settled. Amounts expected to be settled more than 12 months from the reporting date are measured as the estimated cash outflows, discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future payments, but only where the effect of discounting is material.

Employee benefit on-costs, including payroll tax, are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

(n) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to an equity transaction are shown as a deduction from equity, net of any recognised income tax benefit. A 1 for 60 share consolidation was approved by shareholders on 10 June 2011.

1. Significant accounting policies (continued)

(o) Foreign currency

Functional and presentation currency

The functional currency of each of the consolidated entity's entities is measured using the currency of the primary economic environment in which that entity operates (the "functional" currency). The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation 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 assets and liabilities are translated at the exchange rate at balance sheet date. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction.

Exchange differences arising on the translation of monetary items are recognised in the profit and loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognized in other comprehensive income.

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

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

1. Significant accounting policies (continued)

(p) Property, plant and equipment

Recognition and measurement

All property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. The cost of an item also includes the initial estimate of the costs of dismantling and removing an item and restoring the site on which it is located.

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 profit and loss during the financial year in which they are incurred.

Impairment

The carrying amount of property, plant and equipment is reviewed whenever there are any objective indicators of impairment that may indicate the carrying values may not be recoverable in whole or in part. Impairment testing is carried out in accordance with Note 1(c).

Where an asset does not generate cash flows that are largely independent it is assigned to a cash generating unit and the recoverable amount test applied to the cash generating unit as a whole.

If the carrying value of the asset is determined to be in excess of its recoverable amount, the asset or cash generating unit is written down to its recoverable amount.

Depreciation and impairment

Depreciation on plant and equipment is calculated on a straight line basis over expected useful life to the economic entity commencing from the time the asset is held ready for use. The following useful lives are used in the calculation of depreciation:

- Buildings – units of production
- Plant - units of production
- Vehicles - 3 years
- Fixtures and fittings- 3-5 years

The units of production depreciation method is calculated so as to write off costs in proportion to the depletion of the estimated recoverable reserves.

Assets held under a finance lease are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at least annually.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in other comprehensive income.

1. Significant accounting policies (continued)

(q) Borrowing costs

Borrowing costs comprise interest expense on borrowings and the unwinding of the discount on provisions.

(r) Investments and other financial assets

The group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting date.

Fair value is the measurement basis, with the exception of held-to-maturity investments and loans and receivables which are measured at amortised cost. Initial fair value is inclusive of transaction costs except for financial assets and liabilities at fair value through profit and loss. Changes in fair value are either taken to the profit and loss or to an equity reserve (refer below). Fair value is determined based on current bid prices for all quoted investments. If there is not an active market for a financial asset fair value is measured using established valuation techniques.

The consolidated entity assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets are impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists the cumulative loss is removed from equity and recognised in other comprehensive income.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are expected to be settled within 12 months, otherwise they are classified as non-current.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method, less any impairment losses. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

(iii) Held-to-maturity investments

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

(iv) Available-for-sale financial assets

Available for sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not included in any of the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity in an available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in other comprehensive income as gains and losses from investment securities.

1. Significant accounting policies (continued)

(s) Trade and other payables

Trade and other payables are initially stated at fair value and subsequently measured at amortised cost. The amounts are unsecured and usually paid within 45 days of recognition.

(t) Comparative figures

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

(u) Revenue recognition

Revenue is recognised and measured at the fair value of consideration received or receivable to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably.

Interest

Revenue is recognised as interest accrues using the effective interest rate method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(v) 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.

Supplies and consumables

Mine operating supplies represent commodity consumables and other raw materials used in the production process, as well as spare parts and other maintenance supplies that are not classified as capital items. Cost is determined using the weighted average cost method.

Gold in process and doré

Gold in process and doré represents ounces of recoverable gold included in leach pads and the carbon recovery circuit and doré which has been produced but not sold at period end. Cost is determined using the weighted average cost method. The cost of gold in process comprises raw materials, direct labor, other direct costs and related production overheads including plant depreciation (based on normal operating capacity).

1. Significant accounting policies (continued)

(w) Parent entity financial information

The financial information for the parent entity, Lachlan Star Limited, disclosed in Note 19 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Lachlan Star Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(ii) Tax consolidation

The Company and its wholly-owned Australian resident controlled entities have formed a tax-consolidated group and are therefore taxed as a single entity. Lachlan Star Limited is the head entity of the tax-consolidated group. In future periods the members of the group will, if required, enter into a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

(x) Mine development 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 other 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.

Production phase stripping costs

Waste stripping costs incurred during the production stage of a pit are accounted for as costs of the inventory produced during the year that the waste stripping costs were incurred, unless these costs provide a future economic benefit. Production phase stripping costs generate a future economic benefit when the related waste stripping activity: (i) provides access to ore to be mined in the future; (ii) increases the fair value of the mine (or pit) as access to future mineral reserves becomes less costly; (iii) increases the productive capacity or extends the productive life of the mine (or pit). For production phase stripping costs that generate a future economic benefit, the current year waste stripping costs are capitalised.

Depreciation of production phase stripping costs 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.

(y) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors.

1. Significant accounting policies (continued)

(z) 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 depreciated 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 other comprehensive income on a straight-line basis over the lease term.

Lease income from operating leases where the group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

(aa)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.

Site restoration

Provisions for the cost of site restoration are recognised at the time that an environmental disturbance occurs or a constructive obligation is determined. Costs included in the provision encompass all closure and rehabilitation activity expected to occur progressively over the life of the operation and at the time of closure in connection with disturbances as at the reporting date. Estimated costs included in the determination of the provision reflect the risks and probabilities of alternative estimates of cash flows required to settle the obligation. The expected rehabilitation costs are estimated based on the cost of external contractors performing the work or the cost of performing the work internally depending on management’s intention.

The timing of the actual rehabilitation expenditure is dependent upon a number of factors including the currently approved life of the CMD Gold Mine and changes in local environmental regulations. Expenditures may occur before and after closure and can continue for an extended period of time depending on rehabilitation requirements. The site restoration provision is measured at the expected value of future cash flows, discounted to their present value. The unwinding of the discount is included in finance costs and results in an increase in the amount of the provision.

The provision is updated each year for the effect of a change in the discount rate and exchange rate, when applicable, and the change in estimate is added or deducted from the related asset and depreciated prospectively over the asset’s useful life. Significant judgments and estimates are involved in forming expectations of future activities and the amount and timing of the associated cash flows. Those expectations are formed based on existing environmental and regulatory requirements or, if more stringent, those of the consolidated entity’s environmental policies that give rise to a constructive obligation.

The capitalised cost of closure and rehabilitation activities is recognised in mine development properties and amortised in accordance with Note 1(x).

1. Significant accounting policies (continued)

(ab) Contingencies

Contingent liabilities are defined as:

- possible obligations resulting from past events whose existence depends on future events;
- obligations that are not recognised because it is not probable that they will lead to an outflow of resources;
- obligations that cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the statement of financial position other than as part of a business combination, but are disclosed in the notes to the financial statements, with the exception of contingent liabilities where the probability of the liability occurring is remote.

(ac) Financial liabilities (including borrowings)

Financial liabilities within the scope of AASB 139 are classified as financial liabilities at fair value through the statement of income, borrowings, payables 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.

After initial recognition, borrowings and payables are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in other 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.

(ad) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The consolidated entity's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 9 *Financial Instruments,* AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective from 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard will affect in particular the consolidated entity's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. There will be no impact on the consolidated entity's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the consolidated entity does not have any such liabilities. The derecognition rules have been transferred from AASB 139 *Financial Instruments: Recognition and Measurement* and have not been changed. The consolidated entity has not yet decided when to adopt AASB 9.

1. Significant accounting policies (continued)

(ad) New standards and interpretations not yet adopted (continued)

(ii) IFRS 13 *Fair Value Measurement* (effective 1 January 2013) IFRS 13 was released in May 2011.

The AASB is expected to issue an equivalent Australian standard shortly. IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. The group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements.

The group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

(iii) Revised IAS 1 *Presentation of Financial Statements* (effective 1 July 2012)

In June 2011, the IASB made an amendment to IAS 1 *Presentation of Financial Statements*. The AASB is expected to make equivalent changes to AASB 101 shortly. The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. It will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The group intends to adopt the new standard from 1 July 2012.

(iv) AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013)

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 Related Party Disclosures, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the Corporations Act 2001. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The Corporations Act requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

(v) AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 D*isclosure of Interests in Other Entities* and revised AASB 127 *Separate Financial Statements* (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures. AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation – Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

AASB 127 is renamed Separate Financial Statements and is now a standard dealing solely with separate financial statements. Application of this standard by the group will not affect any of the amounts recognised in the financial statements,

The group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2. Revenue

	2011 $	2010 $
Sale of gold	26,152,165	-
Sale of silver (net of refining)	20,150	-
Sale of copper	46,393	-
	26,218,708	-

3. Cost of sales

Depreciation and amortisation	5,265,928	-
Gold in process inventory adjustment	95,726	-
Mine operational expenses	14,004,379	-
Reagents	3,510,328	-
Utilities, maintenance	4,787,773	-
Personnel expenses	2,255,125	-
Royalties	1,081,128	-
Other expenses	524,727	-
	31,525,114	-

4. Expenses

Loss before income tax includes the following specific expenses:

Finance costs		
Interest and finance charges	398,154	-
Provisions: unwinding of discount	45,043	-
Exchange losses on foreign currency borrowings	192,803	-
	636,000	-

.

Rental expense relating to operating leases		
Minimum lease payments	99,283	53,041
Total rental expenses relating to operating leases	99,283	53,041

Foreign exchange losses		
Net foreign exchange losses included in finance costs	192,803	-
Net foreign exchange losses shown as foreign exchange loss	373,602	-
Total foreign exchange loss	566,405	-

5. Auditors' remuneration

PWC Australia		
Statutory audit:		
Audit and review of financial reports	80,700	42,200
Other services:		
Review of financial reports	34,800	-
Taxation advice	55,300	-
Related practices of PWC Australia		
Statutory audit:		
Audit and review of financial reports	281,055	-
	451,855	42,200

6. Loss per share

	2011 Number	2010 Number
Weighted average number of ordinary shares:		
1 July	1,079,867,371	1,079,867,371
Shares issued	1,133,364,830	-
1 for 60 share consolidation	(2,176,344,997)	-
30 June (basic and diluted)	36,887,203	1,079,867,371
Loss attributable to ordinary shareholders for basic and diluted loss per share:	($4,318,858)	($4,637,760)

All potential ordinary shares, being options to acquire ordinary shares, are not considered dilutive in the calculation of 2011 or 2010 loss per share as the exercise of the options would not increase the loss per share.

The June 2010 loss per share has been restated to reflect the 1 for 60 share consolidation as approved by shareholders on 10 June 2011.

7. Income tax benefit

	2011 $	2010 $
Numerical reconciliation of income tax benefit to prima facie tax benefit:		
Loss before income tax	(4,928,855)	(4,637,760)
Prima facie income tax benefit on pre-tax loss at the Australian income tax rate of 30% (2010: 30%)	(1,478,656)	(1,391,328)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share based payments expense	11,140	166,034
Share of associate loss	178,342	1,048,571
(Reversal) of share of associate loss	(1,226,700)	-
Non deductible entertainment	84	-
	(2,515,790)	(176,723)
Difference in overseas tax rate	(639,427)	-
Current year tax benefit not brought to account	2,545,220	176,723
Income tax benefit	(609,997)	-

7. Income tax benefit (continued)

Tax losses

	2011 $	2010 $
Unused tax losses for which no deferred tax asset has been recognised	21,571,132	4,251,600
Potential tax benefit	4,064,598	1,275,480

Income tax benefit

	2011 $	2010 $
Current tax	-	-
Deferred tax	(609,997)	-
	(609,997)	-

Deferred income tax benefit included in income tax benefit comprises:

	2011 $	2010 $
(Increase) in deferred tax assets	(862,832)	-
Increase in deferred tax liabilities	252,835	-
	(609,997)	-

8. Receivables

	2011 $	2010 $
Current		
Trade receivables	795,017	-
Lease receivable (i)	1,374,938	-
Other receivables and prepayments - third parties	1,189,362	126,204
Other receivables and prepayments - related parties	20,029	-
	3,379,346	126,204
Non-current		
Other receivables and prepayments - third parties	350,537	-
	350,537	-

(i) Lease receivable

In March 2009 a subsidiary, Compañía Minera Dayton ("CMD"), signed an agreement with a new mining contractor, "Maestranza Martinez Torres y Cia. Ltda" (Martimec), principally relating to the extraction of ore and waste material and delivery of the material to waste dumps in the case of waste and the crushing plant in the case of ore. Under this contract CMD agreed to purchase certain mining equipment (principally haul trucks and excavators) in its own capacity and provide this equipment to the aforementioned contractor for the contractor's use in performing its obligations to the consolidated entity under the contract. In return for making this equipment available to the mining contractor, CMD received a reduced rate per cubic metre of material moved by the contractor. The contract provides that on its conclusion at the end of a 31 month period the contractor has an option to purchase all of the equipment at a nominal price.

CMD purchased this equipment on finance lease from local financial institutions. This liability is recognised within "borrowings" in the consolidated statement of financial position and is secured by the underlying equipment.

CMD has determined that the arrangement with its mining contractor in substance contains a lease and that such lease transfers the risks and rewards of ownership to the mining contractor and hence this leasing arrangement should be classified as a finance lease.

Finance lease receivable	2011 $	2010 $
Minimum lease payments		
Not later than 1 year	1,624,927	-
Total future minimum lease payments	1,624,927	-
Less future finance charges	(249,989)	-
Present value of future minimum lease payments	1,374,938	-

On 28 June 2011, the consolidated entity terminated the Martimec contract due to several contract breaches by Martimec. A replacement contractor is due to commence mobilisation in late September 2011.

The directors are confident that CMD holds legal title to the equipment which was provided to Martimec for their use under the contract and that the eventual proceeds from the sale of this equipment or benefits which will be gained from its use in CMD's operations will at least match the carrying value of the lease receivable at 30 June 2011.

9. Inventories

	2011 $	2010 $
Current		
Gold in process – at cost	6,431,265	-
Doré – at cost	1,060,142	-
Consumables – at cost	1,183,166	-
	8,674,573	-
Non-current		
Gold in process – at cost	6,876,231	-
	6,876,231	-
Total carrying value	15,550,804	-

A net inventory movement of $111,283 (2010: $Nil) was recognised as a credit in cost of sales during the period.

10. Exploration and evaluation

	2011 $	2010 $
Cost at beginning of period	7,741,803	7,724,367
Additions	207,028	17,436
Cost at end of financial period	7,948,831	7,741,803
Impairment provision	(5,214,594)	(5,214,594)
Carrying amount at end of period	2,734,237	2,527,209
Carrying amount at beginning of period	2,527,209	2,509,773

11. Mine development properties

	2011 $	2010 $
Cost		
Balance at beginning of period	-	-
Acquired in business combination	20,724,000	-
Effect of movements in exchange rates	(1,182,676)	-
Capitalised during the year	4,208,188	-
Balance at end of period	23,749,512	-
Accumulated amortisation		
Balance at beginning of period	-	-
Amortisation	3,028,257	-
Effect of movements in exchange rates	(30,707)	-
Balance at end of period	2,997,550	-
Carrying amount at beginning of period	-	-
Carrying amount at the end of period	20,751,962	-

12. Investments accounted for using the equity method

	2011 $	2010 $
Non-current		
Shares in associates (refer Note 28)	-	1,395,528
	-	1,395,528

13. Property plant and equipment

	Fixture and Fittings $	Vehicles $	Mine Plant $	Total $
2010				
Cost:				
Balance at beginning of period	14,102	-	-	14,102
Additions	44,646	-	-	44,646
Sales	(10,907)	-	-	(10,907)
Balance at end of period	47,841	-	-	47,841
Accumulated depreciation:				
Balance at beginning of period	4,180	-	-	4,180
Depreciation charge for period	5,602	-	-	5,602
Accumulated depreciation on sales	(3,194)	-	-	(3,194)
Balance at end of period	6,588	-	-	6,588
Carrying amount at beginning of period	9,992	-	-	9,992
Carrying amount at end of period	41,253	-	-	41,253
2011				
Cost:				
Balance at beginning of period	47,841	-	-	47,841
Acquired in business combination	122,640	38,850	11,422,510	11,584,000
Effect of movements in exchange rates	-	-	(705,311)	(705,311)
Additions	9,480	-	646,765	656,245
Balance at end of period	179,961	38,850	11,363,964	11,582,775
Accumulated depreciation:				
Balance at beginning of period	6,588	-	-	6,588
Depreciation charge for period	57,763	38,850	2,146,036	2,242,649
Effect of movements in exchange rates	-	-	(125,023)	(125,023)
Balance at end of period	64,351	38,850	2,021,013	2,124,214
Carrying amount beginning of period	41,253	-	-	41,253
Carrying amount at end of period	115,610	-	9,342,951	9,458,561

14. Goodwill

	2011 $	2010 $
Cost		
Balance at beginning of period	-	-
Recognised in business combination	188,800	-
Balance at end of period	188,800	-

Goodwill acquired in a business combination refers to the acquisition of the CMD Gold Mine, refer Note 30.

Goodwill is allocated to the consolidated entity's cash-generating units identified according to operating segment and country of operation. The goodwill is 100% attributable to the mining activities at the CMD Gold Mine in Chile. The recoverable amount of a cash-generating unit is determined based on fair value less cost to sell calculations. There is no indicator of impairment at 30 June 2011.

15. Deferred tax

The following deferred tax assets and liabilities have been brought to account and netted off in the statement of financial position. The balance comprises temporary differences attributable to:

Deferred tax asset	2011 $	2010 $
Equity raising costs	171,728	67,367
Tax losses	13,576,965	273,559
Site restoration	676,638	-
Termination provisions	146,015	-
Other	-	10,036
Carrying value of investment in associate	-	924,518
Net deferred tax asset	14,571,346	1,275,480
Deferred asset not recognized	(4,064,598)	(1,275,480)
	10,506,748	-
Deferred tax liability		
Property plant and equipment	1,890,961	-
Mine properties	2,521,882	-
Inventories	1,818,037	-
Other	73,216	
	6,304,096	-
Net deferred tax asset	4,202,652	-

A deferred tax asset has been recognised in respect of accumulated income tax losses attributable to the CMD Gold Mine in Chile. The consolidated entity's production and cash forecasts indicate partial recovery of those losses in future periods. This deferred tax asset has been partially offset by a deferred tax liability recognised on the uplift to fair values recognised on acquisition of the CMD Gold Mine in December 2010. The net deferred tax asset is expected to be recovered after more than one year.

A reconciliation of the movement in the year to June 2011 net deferred tax asset is a follows. There were no recognised deferred tax assets or liabilities at the start or end of the prior financial period.

	Tax losses $	Employee Benefits $	Site restoration $	Property plant and equipment $	Mine properties $	Inventories $	Total $
Opening	-	-	-	-	-	-	-
Credited to profit or loss	794,321	10,901	39,590	(64,019)	1,899	(172,695)	609,997
Acquired in business combination	10,061,607	154,241	714,757	(2,147,303)	(2,854,825)	(1,935,477)	3,993,000
Effect of movements in exchange rates	(1,245,049)	(19,127)	(77,709)	320,361	331,044	290,135	(400,345)
Closing	9,610,879	146,015	676,638	(1,890,961)	(2,521,882)	(1,818,037)	4,202,652

16. Trade and other payables

	2011 $	2010 $
Current		
Trade payables – third parties	10,487,669	42,426
Trade payables – related parties	106,500	41,358
Non-trade payables and accrued expenses	4,064,035	35,500
Employee benefits	21,200	21,640
	14,679,404	140,924

Information about the consolidated entity's exposure to foreign exchange risk is provided in Note 31.

17. Borrowings

Current		
Bank loans – unsecured	1,844,533	-
Other loans - vendors of the CMD Gold Mine – unsecured	2,728,373	-
Finance leases – secured	2,903,260	-
	7,476,166	-
Non-current		
Bank loans – unsecured	118,138	-
Other loans - vendors of the CMD Gold Mine – unsecured	2,250,329	-
Finance leases – secured	742,366	-
	3,110,833	-
Financing arrangements		
Finance available		
Bank loans	2,245,770	-
Other loans - vendors of the CMD Gold Mine	4,978,702	-
Finance leases	3,645,626	-
Finance available at balance date	10,870,098	-
Facilities utilised at balance date		
Bank loans	1,962,671	-
Other loans - vendors of the CMD Gold Mine	4,978,702	-
Finance leases	3,645,626	-
Finance utilised at balance date	10,586,999	-
Finance not utilised at balance date		
Bank loans	283,099	-
Other loans - vendors of the CMD Gold Mine	-	-
Finance leases	-	-
Finance not utilised at balance date	283,099	-

Finance leases are secured by the assets to which they relate. Bank loans are unsecured. Information about the consolidated entity's exposure to foreign exchange and interest rate risk is provided in Note 31.

18. Provisions

	2011 $	2010 $
Non-current		
Site restoration:		
Balance at beginning of the period	-	-
Acquired in business combination	5,084,000	-
Effect of movements in exchange rates	(276,379)	-
Accretion	24,038	-
Change in discount rate	43,961	-
Balance at end of the period	4,875,620	-
Termination:		
Balance at beginning of the period	-	-
Acquired in business combination	775,000	-
Effect of movements in exchange rates	(22,522)	-
Additional provision recognised	63,333	-
Balance at end of the period	815,811	-
Carrying value	5,691,431	-

19. Parent entity financial information

The individual financial statements for the parent entity show the following aggregate amounts:

Statement of Financial Position

Current assets	3,990,273	3,938,904
Total assets	35,444,172	11,380,078
	-	
Current liabilities	3,024,339	140,368
Total liabilities	5,270,049	140,368
Equity		
Contributed equity	174,795,697	146,145,042
Share based payments reserve	601,996	588,771
Accumulated losses	(145,223,570)	(135,494,103)
Net assets	30,174,123	11,239,710
Loss for the for the year	(6,234,938)	(1,143,232)
Total comprehensive loss for the year	(6,234,938)	(1,143,232)

The June 2011 loss for the year includes a $7,483,873 impairment provision against the carrying value of the investment in the CMD Gold Mine in the accounts of the parent entity.

The parent entity has provided a letter of support to its subsidiary company, Compañía Minera Dayton, advising of its intention to continue to provide financial support to that company for the year ending 30 June 2012. No liability was recognized by the parent entity in relation to this financial guarantee as the fair value of the guarantee is immaterial. The parent entity did not have any other contingent liabilities or capital commitments as at 30 June 2011 or 30 June 2010.

The Company and its wholly-owned Australian resident controlled entities have formed a tax-consolidated group and are therefore taxed as a single entity. Lachlan Star Limited is the head entity of the tax-consolidated group. In future periods the members of the group will, if required, enter into a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

20. Related party disclosures

Lachlan Star Limited is the ultimate parent entity.

The consolidated entity recharged $22,484 (2010: $22,311) on an arm's length basis to its associate, Luiri Gold Limited, for office rent, administration staff, and other direct costs paid on its behalf. At period end $Nil (2010: $4,662) is included in 'trade and other receivables" for outstanding costs and expenses. Luiri Gold Limited was not a related party at 30 June 2011.

The consolidated entity acquired the CMD Gold Mine on 24 December 2010 (see Note 30). Two of the vendors are substantial shareholders of Lachlan Star and one of these, Peter Babin, is a director of the Company.

The consolidated entity did not have any other transactions with related parties during the current or prior year other than remuneration to directors and their related parties, as disclosed in the Remuneration Report as set out on pages 19 to 23, and as disclosed in Note 25 Key Management Personnel disclosures.

Loans to and amounts due from related parties are set out in Note 8 and Note 16 respectively.

21. Capital and other commitments

	2011 $	2010 $
Exploration and evaluation		
Within 1 year	53,000	152,000
More than one and less than two years	53,000	-
	106,000	152,000
Operating leases		
Within 1 year	43,347	99,282
More than one and less than two years	-	43,347
	43,347	142,629

22. Reconciliation of loss after income tax to net cash flows used in operating activities

(a) Cash flows used in operating activities

Loss for the period	(4,318,858)	(4,637,760)
Foreign exchange	(23,681)	-
Fair value adjustments	(94,937)	-
Fair value gain on deferred consideration	(411,636)	-
Unwinding on interest on deferred consideration	(33,000)	-
Depreciation and amortisation	5,270,885	5,602
Financial assets fair valued through profit and loss	(7,932)	17,012
Profit on sale of associate	(3,856,074)	-
Share based payments expense	37,133	553,448
Loss on dilution of associate	-	36,445
Share of net loss of associate accounted for using the equity method	594,473	3,458,083
Changes in assets and liabilities:		
Decrease / (increase) in receivables	2,084,695	(15,948)
Increase in payables	229,104	5,645
(Increase) in deferred tax asset	(609,997)	-
Increase in provisions	163,196	-
(Increase) in inventories	(25,256)	-
Net cash flows used in operating activities	(1,001,885)	(577,473)

(b) Reconciliation of cash and cash equivalents

Cash at bank and at call	4,515,058	3,855,725

(c) Non cash financing and investing activities

The consolidated entity issued 1 billion shares to the vendors as part consideration for the acquisition of the CMD Gold Mine in December 2010, refer Note 30.

The consolidated entity's exposure to interest rate risk is discussed in Note 31. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

23. Capital and reserves

(a) Contributed equity:

	2011 Number	2011 $	2010 Number	2010 $
Ordinary shares				
1 July	1,079,867,371	146,145,042	1,079,867,371	146,105,016
Issue of shares for cash	1,338,133,686	14,197,337	-	-
Issue of shares in business combination	1,000,000,000	15,000,000	-	-
Cost of issue of shares	-	(580,590)	-	-
Issue of share options	-	10,000	-	-
Share based payments	-	23,907	-	40,026
	3,418,001,057	174,795,696	1,079,867,371	146,145,042
1 for 60 share consolidation	56,966,684	-	-	-
Shares rounded up on share consolidation	833	-	-	-
30 June	56,967,517	174,795,696	1,079,867,371	146,145,042

Ordinary shares have the right to one vote per share at meetings of the Company, to receive dividends as declared and, in the event of a winding-up of 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. Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

A 1 for 60 share consolidation was approved by shareholders on 10 June 2011.

(b) Share based payments reserve

Movements in the share based payments reserve are set out in the statement of changes in equity on page 27. This reserve represents the fair value at grant of share options issued. The fair value is recognised as an expense over the vesting period. The reserve is reversed to contributed equity when shares are issued on exercise of the options.

(c) Accumulated losses

	2011 ($)	**2010 ($)**
1 July	(138,988,631)	(134,350,871)
Loss for the year	(4,318,858)	(4,637,760)
30 June	(143,307,489)	(138,988,631)

(d) Foreign Exchange Translation Reserve

The foreign exchange translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity. The movement in the foreign exchange translation reserve is set out in the statement of changes in equity on page 27.

24. Segment information

(a) Description of segments

The consolidated entity reports one segment, 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

From 1 January 2011, subsequent to the acquisition of the CMD Gold Mine, the Board of Directors has assessed the performance of the gold mining segment based on selected operational performance indicators. The relative information for the 6 months ended 30 June 2011 was as follows:

Ore mined (tonnes)	1,128,072
Ore grade (g/t Au)	0.6
Gold mined (ounces)	21,376
Ore tonnes crushed	1,125,589
Average daily crushing rate (tonnes per day)	6,220
Gold produced (ounces)	18,482
C1 cash cost/ounce	US$815

In the prior year directors measured performance based on net cash inflow / (outflow). The segment information provided to the board of directors for the reportable segments for the prior year is as follows:

	Exploration and evaluation 2010 ($)	**Corporate 2010 ($)**	**Consolidated 2010 ($)**
Net cash inflow / (outflow)	(37,436)	(4,568,671)	(4,606,107)

A reconciliation of net cash outflow to loss before income tax for the prior year was as follows:

	2010 ($)
Net cash outflow	(4,606,107)
Exploration and evaluation expenditure	37,436
Acquisition of property, plant and equipment	44,646
Sale of property, plant and equipment	(7,713)
Acquisition of investment in associate	4,477,253
Sale of financial assets	(522,988)
Depreciation	(5,602)
Share based payments expense	(553,448)
Financial assets fair valued through profit and loss	(17,012)
Loss on dilution of associate	(36,445)
Share of net loss of associate accounted for using the equity method	(3,458,083)
Increase in receivables	15,948
(Increase) in payables	(5,645)
Loss before income tax	(4,637,760)

The consolidated entity derives 100% of its revenue from the sale of metals to one customer in one geographic region, Chile. The geographic location of non-current assets, other than deferred tax, is set out in the table below:

	2011 ($)	**2010 ($)**
Chile	37,592,415	-
Australia	2,767,913	2,568,462
Zambia	-	1,395,528
	40,360,328	3,963,990

The 2010 Zambian assets refer to the shareholding in Luiri, refer Note 28.

25. Key management personnel disclosures

Apart from the details disclosed in this note, no director has entered into a material contract with the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end.

(a) Key management personnel compensation

Key management personnel compensation is as follows:

	2011 ($)	2010 ($)
Short term benefits	1,146,229	401,653
Post employment	30,000	41,610
Share based payments	12,997	491,955
	1,189,226	935,218

Information regarding individual directors and executives compensation is provided in the Remuneration Report as set out on pages 19 to 23.

(b) Share options

The movement during the reporting period in the number of options in Lachlan Star Limited held, directly, indirectly or beneficially by each key management person are as follows:

2011 *Director*	Held at 01/07/10	Issued	Expired	Dilution resulting from 1 for 60 consolidation	Held at 30/06/11
MJ McMullen	8,000,000	-	-	(7,866,666)	133,334
TE Duckworth	8,000,000	-	-	(7,866,666)	133,334
DT Franzmann	8,000,000	-	-	(7,866,666)	133,334
Executive Officer					
RA Anderson	8,000,000	-	-	(7,866,666)	133,334
K Dekker	10,500,000	-	(2,500,000)	(7,866,666)	133,334
G di Parodi	-	4,000,000	-	(3,933,332)	66,668
R Pardo	-	3,000,000	-	(2,950,000)	50,000

2010 *Director*	Held at 01/07/09	Issued	Expired	Dilution resulting from 1 for 60 consolidation	Held at 30/06/10
MJ McMullen	-	8,000,000	-	-	8,000,000
TE Duckworth	-	8,000,000	-	-	8,000,000
DT Franzmann	-	8,000,000	-	-	8,000,000
Executive Officer					
RA Anderson	-	8,000,000	-	-	8,000,000
K Dekker	5,000,000	8,000,000	(2,500,000)	-	10,500,000

A 1 for 60 share consolidation was approved by shareholders on 10 June 2011. In accordance with the ASX Listing Rules the number of share options were consolidated on the same basis, and the exercise price amended in the inverse ratio.

25. Key management personnel disclosures (continued)

(c) Other key management personnel transactions

Amounts payable to and receivable from key management personnel at reporting date in respect of outstanding fees, expenses and loans are:

	2011 ($)	2010 ($)
Current		
Trade and other payables	106,500	78,042
Current		
Trade and other receivables	20,029	-

On August 2010 CMD granted an interest free loan to Mr Gaston di Parodi (CMD´s General Manager) for US$21,225 repayable on or before 31 December 2011. Interest that would have been charged on this loan on an arm's length basis from the date of acquisition of the CMD Gold Mine on 24 December to 30 June 2011 is $946.

(d) Shares

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

2011 ***Director***	**Held at 01/07/10 or date of appointment**	**Net acquired**	**Dilution resulting from 1 for 60 consolidation**	**Held at 30/6/11**
DT Franzmann	52,039,171	21,000,000	(71,821,851)	1,217,320
MJ McMullen	110,784,464	33,782,677	(142,157,688)	2,409,453
TE Duckworth	12,259,326	1,000,000	(13,038,337)	220,989
PB Babin	-	199,343,000	(196,020,616)	3,322,384
Executive Officer				
RA Anderson	15,689,326	7,895,382	(23,191,628)	393,080
K Dekker	2,500,000	27,000,000	(29,008,333)	491,667
G di Parodi	-	4,000,000	(3,933,333)	66,667
R Pardo	-	5,000,000	(4,916,666)	83,334

2010 ***Director***	**Held at 01/07/09**	**Net acquired**	**Dilution resulting from 1 for 60 consolidation**	**Held at 30/6/10 or date of resignation**
DT Franzmann	52,039,171	-	-	52,039,171
MJ McMullen	99,434,464	11,350,000	-	110,784,464
TE Duckworth	12,259,326	-	-	12,259,326
HJL Bohannan	22,240,855	-	-	22,240,855
Executive Officer				
RA Anderson	12,359,326	3,330,000	-	15,689,326
K Dekker	2,500,000	-	-	2,500,000

A 1 for 60 share consolidation was approved by shareholders on 10 June 2011.

26. Events subsequent to reporting date

On 29 August 2011 the Company announced that it had completed a private placement of special warrants ("**Special Warrants**" or "**Offering").**

The Offering raised gross proceeds of $15,088,000 through the issuance of 18,400,000 Special Warrants, priced at $0.82 per Special Warrant. The Offering was completed by a syndicate of Agents led by Dundee Securities Ltd., and including Salman Partners Inc., pursuant to the terms of an agency agreement (the "**Agency Agreement**") dated 26 August 2011.

Upon satisfaction of all escrow release conditions, each Special Warrant will be exercisable for no additional consideration into one unit (a "**Unit**"), each Unit consisting of one ordinary share (an "**Ordinary Share**") and one-half option ("**Warrant**") with a strike price of $1.20 for a period of 24 months following closing of the Offering. As partial consideration for their services in connection with the Offering, the Agents were granted options to acquire an aggregate of 1,104,000 Special Warrants at a strike price of $1.20.

The Company will use its best efforts to file a preliminary prospectus in each province of Canada in which Special Warrants were distributed pursuant to the Offering and obtain a receipt for a final prospectus on or before 27 December 2011, which will qualify for sale the Ordinary Shares and Warrants underlying the Special Warrants. In the event such deadline is not met by the Company, each Special Warrant shall thereafter entitle the holder to receive upon exercise, for no additional consideration, 1.1 Units (instead of one Unit).

The proceeds of the Offering will be held in escrow pending the receipt of necessary shareholder approvals, which are to be sought at a general meeting of the Company to be held on 26 September 2011. Release of the proceeds from escrow is also subject to certain escrow release conditions including: (i) shareholder approval for the issue of the Ordinary Shares underlying the Special Warrants and Warrants at the upcoming general meeting; (ii) no material adverse change in the business of the Company; and (iii) no material breaches of the covenants and obligations of the Company contained in the Agency Agreement and certain other Offering documents.

Lachlan Star plans to use the net proceeds from the Offering for the continued development of the Company's CMD Gold Mine and for general working capital purposes.

27. Consolidated entities

		Ownership interest	
Name	**Country of incorporation**	**2011**	**2010**
Legal parent			
Lachlan Star Limited	Australia		
Legal subsidiaries			
Ord Investments Pty Ltd	Australia	100%	100%
Toodyay Uranium Pty Ltd	Australia	100%	100%
DMC Newco Pty Ltd	Australia	100%	-
Compañía Minera Dayton	Chile	99.99%	-
Dayton Chile Exploraciones Mineras Limitada	Chile	99.93%	-

28. Investments in associates

(a) *Summarised financial information of associate*

The consolidated entity's share of the results of its associate, Luiri, at prior year end and to the date of its disposal, and its aggregated assets and liabilities at prior year end was as follows.

2011	**30 June 2011 ownership Interest (%)**			**6 months to 31 October 2010 revenues ($)**	**6 months to 31 October 2010 net loss ($)**
Luiri Gold Limited	-			11,220	(594,473)

2010	**30 June 2010 ownership Interest (%)**	**30 April 2010 assets ($)**	**30 April 2010 liabilities ($)**	**9 months to 30 April 2010 revenues ($)**	**9 months to 30 April 2010 net loss ($)**
Luiri Gold Limited	27.9	1,759,284	86,930	31,724	(3,458,083)

Luiri, which is incorporated in Canada, is listed on both ASX Limited and the TSX venture exchange in Canada. It is involved in the acquisition, exploration and development of mineral properties. Luiri's financial year end is 31 October. Luiri ceased being an associate of the consolidated entity in December 2010 when Lachlan announced it had entered into a lock-up agreement with respect to the sale of its Luiri shares. Equity accounting to the date Luiri ceased to be an associate is based on results for the 6 months to 31 October 2010.

The market value of the consolidated entity's listed investment in Luiri at 30 June 2010 was $5,572,133.

(b) Movements in carrying amounts

	2011 ($)	**2010 ($)**
Carrying amount at the beginning of the year	1,395,528	-
Loss on dilution	-	(36,445)
Share / CDI acquisition cost	-	4,477,253
Share / CDI disposal cost	(4,793,768)	-
Exercise of convertible note	-	300,000
Fair value on exercise of convertible note	-	52,990
Share of reserve movement of associate	(59,813)	59,813
Share of net loss of associate accounted for using the equity method	(594,473)	(3,458,083)
Reversal of share of net loss of associate accounted for using the equity method on share sale	4,052,526	-
Carrying amount at the end of the year	-	1,395,528

The share of net loss of the associate accounted for using the equity method for the both the current and prior period assumed no value was attributable to Luiri's mineral properties.

An analysis of the profit on sale of shares in associate recognised in the current period statement of comprehensive income is set out below:

Proceeds on sale of investment in associate	4,695,464
Costs of sale	(90,216)
Net proceeds on sale	4,605,248
Acquisition of investment in associate	(4,777,273)
Share of net loss of associate accounted for using the equity method	4,089,021
Fair value on exercise of convertible note	(52,990)
Financial assets fair valued through profit and loss	(7,932)
Profit on sale of shares in associate	3,856,074

29. Share based payments

A 1 for 60 share consolidation was approved by shareholders on 10 June 2011. In accordance with the ASX Listing Rules the number of share options were consolidated on the same basis, and the exercise price amended in the inverse ratio. The number and weighted average exercise price of share options is as follows:

	2011			2010		
	Weighted average exercise price	**Number of options**	**Expiry date**	**Weighted average exercise price**	**Number of options**	**Expiry date**
Outstanding 1 July	$0.0232	47,500,000		$0.03	5,000,000	
Expired during the period	$0.035	2,500,000		$0.025	2,500,000	
Issued during the period	$0.020	243,806,229		$0.0225	45,000,000	
Outstanding 30 June (pre consolidation)	$0.021	288,806,229		$0.0232	47,500,000	
Exercisable at 30 June (pre consolidation)	$0.021	288,806,229		$0.0232	47,500,000	
Outstanding 30 June (post consolidation)	$1.23	4,813,456		$0.0232	47,500,000	
Exercisable at 30 June (post consolidation)	$1.23	4,813,456		$0.0232	47,500,000	
Outstanding 30 June (pre consolidation):	$0.02	22,500,000	18/11/11	$0.02	22,500,000	18/11/11
	$0.025	22,500,000	18/11/12	$0.025	22,500,000	18/11/12
	$0.02	10,000,000	31/12/12	$0.035	2,500,000	20/04/11
	$0.02	10,000,000	20/12/13			
	$0.025	10,000,000	20/12/13			
	$0.02	213,806,229	20/05/13			
Outstanding 30 June (post consolidation):	$1.20	375,002	18/11/11			
	$1.50	375,002	18/11/12			
	$1.20	166,667	31/12/11			
	$1.20	166,669	20/12/13			
	$1.50	166,669	20/12/13			
	$1.20	3,563,447	20/05/13			

No share options were exercised during the current or prior period.The fair value of services received in return for options for the consolidated entity is measured by reference to the fair value of share options granted using the Black-Scholes model, as set out below.

Fair value of share options and related assumptions	**2011**	**2010**
Fair value at measurement date (cents)	0.2 to 0.7	1.2 to 1.3
Share price at date of issue (cents)	1.1 to 1.7	2.0
Exercise price (cents)	2.0 to 2.5	2.0 to 2.5
Expected volatility	21%	110%
Actual option life	24 to 36 months	24 to 36 months
Expected dividends	Nil	Nil
Risk-free interest rate	6%	5.25%
Share-based cost recognised	$48,547	$553,448

The current year volatility represents the Company's historic volatility over the year to the time of issue and is intended to reflect the movement of the Company's share price volatility towards its peers as its assets mature. Further details of options issued to directors and executives are set out in the Remuneration Report on pages 19 to 23.

30. 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 Gold Mine"). The transaction settled on 24 December 2010.

The initial consideration for the acquisition of the CMD Gold Mine was a payment of US$24 million, 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 Gold Mine, 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 $368,805 have been expensed as new venture expenditure written off. Costs directly attributable to raising equity have been recognised as a deduction against equity.

30. Business combination (continued)

The consolidated entity has recognised the fair value of the identifiable assets and liabilities of the CMD Gold Mine based on the best information available as at the reporting date. The acquisition date of the CMD Gold Mine was 24 December 2010. The acquisition date fair values presented in the table below are considered final.

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 period.

	Fair value of acquisition ($)
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	327,000
Trade and other receivables	5,903,000
Inventories	16,354,000
Mineral properties	20,724,000
Deferred tax asset	7,058,000
Property, plant and equipment	11,584,000
Trade and other payables	(15,207,000)
Deferred tax liability	(3,065,000)
Borrowings	(8,314,000)
Provisions	(5,859,000)
	29,505,000
Goodwill	188,800
Net assets acquired	29,693,800
Cash outflow on acquisition	
Cash and cash equivalents	9,010,800
Net cash acquired in the acquisition	(327,000)
Outflow of cash – investing activities	8,683,800

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 $26,218,708 of revenues and a net loss after tax of $5,784,276 to the consolidated entity from the acquisition date of 24 December 2010 to 30 June 2011.

Pro forma information

If the business combination had taken place on 1 July 2010 the loss after tax for the consolidated entity for the year ending 30 June 2011 is estimated as $1,615,259 and the consolidated revenue for the year ending 30 June 2011 is estimated as $47,734,576.

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 year, nor is it indicative of future results of operations of the combined entities.

31. Financial risk management

The consolidated entity's activities expose it to credit risk, market risk (including interest rate risk, foreign exchange risk and price risk), liquidity risk, and commodity price risk. This note presents qualitative and quantitative information about the consolidated entity's exposure to each of the above risks, their objectives, policies and procedures for managing risk, and the management of capital. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

The consolidated entity's overall risk management approach focuses on the unpredictability of financial markets and seeks to minimise the potential adverse effects on the financial performance of the consolidated entity. The consolidated entity does not currently use derivative financial instruments to hedge financial risk exposures and therefore it is exposed to daily movements in commodity prices, interest rates and exchange rates. The consolidated entity uses various methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rates and ageing analysis for credit risk.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence and to sustain future development of the business. Given the stage of the consolidated entity's development there are no formal targets set for return on capital. There were no changes to the consolidated entity's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the consolidated entity. The consolidated entity has no significant concentration of credit risk. Exposure to credit risk is considered minimal but is monitored on an ongoing basis.

Cash transactions are limited to financial institutions considered to have a suitable credit rating. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position at balance date. The carrying amount of the consolidated entity's financial assets represents the maximum credit exposure.

Receivables relate principally to amounts due to the consolidated entity by Johnson Matthey for shipments of doré pending final settlement. Johnson Matthey is considered to be of high credit quality and management has assessed the risk of default as minimal.

The consolidated entity's maximum exposure to credit risk at the reporting date was:

	2011	**2010**
	$	**$**
Carrying amount:		
Cash and cash equivalents	4,515,058	3,855,725
Trade and other receivables	3,729,883	126,204
	8,244,941	3,981,929

31. Financial risk management (continued)

(b) Market risk

(i) Interest rate risk

The significance and management of the risks to the consolidated entity is dependent on a number of factors including:

- interest rates (current and forward) and the currencies that are held;
- level of cash and liquid investments and borrowings;
- maturity dates of investments and loans; and
- proportion of investments and borrowings with fixed rate or floating rates.

The risk is managed by the consolidated entity maintaining an appropriate mix between fixed and floating rate investments. All cash assets are held in Australian dollars.

The consolidated entity's exposure to interest rate risk is considered minimal. The effective interest rates of financial assets and financial liabilities with interest obligations at the reporting date are as follows.

	Variable rate instruments at call 2011 ($)	**Fixed rate instruments 2011 ($)**	**Weighted average interest rate 2011**	**Variable rate instruments at call 2010 ($)**	**Fixed rate instruments 2010 ($)**	**Weighted average interest rate 2010**
Financial assets						
Cash and cash equivalents	3,844,149	-	2.52%	3,855,725	-	3.7%
Financial liabilities						
Borrowings	709,008	4,899,288	7.65%	-	-	-

The values above were the carrying amount of the consolidated entity's interest bearing financial instruments at 30 June 2011 and 30 June 2010.

Sensitivity analysis

A 10% increase or decrease in the weighted average year-end interest rate of variable rate instruments, being 32 basis points (2010: 37 basis points),would have increased / (decreased) equity by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2010:

	2011 $	**2010 $**
Increase		
Profit and loss	4,473	14,194
Decrease		
Profit and loss	(4,473)	(14,194)

The group's fixed rate borrowings and receivables are carried at amortised cost. They are not therefore subject to interest rate risk as defined in AASB 7.

31. Financial risk management (continued)

(b) Market risk (continued)

(ii) Foreign exchange risk

The consolidated entity is exposed to foreign exchange risk on metal sales proceeds and mining costs which are quoted in currencies (US$ and Chilean Peso) other than the functional currency of the Company, being the A$. The consolidated entity does not hedge this risk, however it continues to monitor these exchange rates so that this currency exposure is maintained at an acceptable level. There is a natural hedge in place to the extent US$ costs are covered by US$ revenues.

The major exchange rates relevant to the consolidated entity were as follows:

	Average year ended 30 June 2011	**As at 30 June 2011**	**Average year ended 30 June 2010**	**As at 30 June 2010**
A$ / US$	0.9894	1.0597	-	-
US$ / Peso	472.03	468.15	-	-
A$ / Peso	467.03	496.10	-	-

The consolidated entity's exposure to foreign exchange risk at statement of financial position date was as follows, based on carrying amounts in A$:

2011

	A$	**US$**	**Peso**	**C$**	**Totals**
Cash and cash equivalents	2,237,534	1,693,224	584,300	-	4,515,058
Trade and other receivables	241,905	2,613,730	874,248	-	3,729,883
Borrowings	-	(8,760,637)	(1,826,362)	-	(10,586,999)
Provisions	-	(4,899,479)	(791,952)	-	(5,691,431)
Trade and other payables	(280,103)	(510,183)	(13,873,258)	(15,860)	(14,679,404)
	2,199,336	(9,863,345)	(15,033,024)	(15,860)	(22,712,893)

2010

	A$	**US$**	**Peso**	**C$**	**Totals**
Cash and cash equivalents	3,855,725	-	-	-	3,855,725
Trade and other receivables	126,204	-	-	-	126,204
Trade and other payables	(140,924)	-	-	-	(140,924)
	3,841,005	-	-	-	3,841,005

Sensitivity

Had the Australian dollar weakened / strengthened by 10% against the US dollar for the year ended and as at 30 June, with all other variables held constant, the group's post-tax loss for the year would have been $364,483 lower / $445,479 higher (2010: $Nil lower / $Nil higher) and its foreign currency exchange reserve would be $2,822,933 lower / $3,666,735 higher, mainly as a result of the translation of a foreign subsidiary's results denominated in US$ and the foreign exchange gains/losses on translation of US$ denominated cash and cash equivalents held by the parent entity.

(iii) Price risk

The consolidated entity is not exposed to equity securities price risk at 30 June 2011.

31. Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as and when they fall due. The consolidated entity's approach to managing this risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due under a range of financial conditions.

The following are the contractual maturities of consolidated non- derivative financial liabilities:

	2011 $	2010 $
Trade and other payables:		
Carrying amounts	14,679,404	140,924
Contractual cashflows	14,679,404	140,924
Payable 6 months or less	14,679,404	140,924
Borrowings		
Carrying amounts	10,586,999	-
Contractual cashflows	11,926,110	-
Payable 6 months or less	3,615,301	-
6 to 12 months	4,090,647	-
1 to 5 years	4,220,162	-

(d) Commodity price risk

Commodity price risk is the risk of financial loss resulting from movements in the price of the consolidated entity's commodity output, being mainly gold, which is denominated in US$.

This risk has not been hedged in either the current or prior period, but is continually under review.

31. Financial risk management (continued)

(e) Fair values

The carrying amounts consolidated financial assets and financial liabilities shown in the statement of financial position approximate their fair values. The basis for determining fair values is disclosed in Note 1(r).

AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

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

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the group's financial assets and liabilities measured and recognised at fair value. There were no financial assets or financial liabilities measured and recognised at fair value at 30 June 2010, nor any financial assets measured and recognised at fair value at 30 June 2011.

2011	**Level 1 $**	**Level 2 $**	**Level 3 $**	**Total $**
Financial liabilities				
Borrowings	-	-	2,742,413	2,742,413
	-	-	2,742,413	2,742,413

Contingent consideration payable for the CMD Gold Mine (refer Note 30) has a fair value determined using discounted cash flow analysis and comprises Level 3 borrowings.

The following table presents the change in level 3 instruments for the year ended 30 June 2011.

2011	**Contingent consideration $**	**Total $**
Opening balance	-	-
Recognised in business combination	3,653,000	3,653,000
Fair value gain	(411,636)	(411,636)
Repayment of borrowings	(457,085)	(457,085)
Other decreases	(41,866)	(41,866)
Closing balance	2,742,413	2,742,413

(1) In the opinion of the directors of Lachlan Star Limited:

(a) the financial statements and notes set out on pages 25 to 69 are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the financial year ended on that date; and

(ii) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional 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 has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001.*

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Signed in accordance with a resolution of the directors.

MJ McMullen
Executive Chairman

Perth, 8 September 2011

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

Report on the financial report

We have audited the accompanying financial report of Lachlan Star Limited (the company), which comprises the statement of financial position as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Lachlan Star Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

PricewaterhouseCoopers, ABN 52 780 433 757
QV1,250 St Georges Terrace, PERTH WA 6000, GPO BOX D198, PERTH WA 6840
T +61 8 9238 3000, F +61 8 9238 3999, www.pwc.com.au

pwc

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

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 Lachlan Star Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 19 to 23 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Lachlan Star Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Pierre Dreyer
Partner

Perth
8 September 2011

Introduction

Lachlan Star Limited has in place corporate governance practices that are formally embodied in corporate governance policies and codes adopted by the Board ("the Policies"). The aim of the Policies is to ensure that the Company is effectively directed and managed, that risks are identified, monitored and assessed and that appropriate disclosures are made.

In preparing the Policies, the directors considered the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations" ("ASX Principles"). The Board has adopted these ASX Principles, subject to the departures noted below.

The directors incorporated the ASX Principles into the Policies to the extent that they were appropriate, taking into account the Company's size, the structure of the Board, its resources and its proposed activities. The Board has adopted the following Policies.

Statement and Charters

- Corporate Governance Statement
- Board Charter
- Audit Committee Charter

Policies and Procedures

- Code of Conduct
- Trading in Company Securities
- Shareholder Communication Strategy
- Continuous Disclosure Policy
- Safety Policy
- Environmental Policy
- Diversity Policy

As the Company and its activities grow, the Board may implement additional corporate governance structures and committees. The Company's corporate governance Policies are available on the Company's website at www.lachlanstar.com.au .

Skills, experience, expertise and term of office of each director

A profile of each director containing the applicable information is set out in the directors' report.

Statement concerning availability of independent professional advice

If a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of his/her office as a director then, provided the director first obtains approval for incurring such expense from the Chairman, the Company will pay the reasonable expenses associated with obtaining such advice.

Number of Audit Committee meetings and names of attendees

The number of Audit Committee meetings and names of attendees is set out in the directors' report.

Names and qualifications of Audit Committee members

The names and qualifications of Audit Committee members are set out in the directors' report

Explanations for departures from best practice recommendations

From 1 July 2010 to 30 June 2011 (the "Reporting Period") the Company complied with each of the eight Corporate Governance Principles and the corresponding Recommendations as published by the ASX Corporate Governance Council ("ASX Principles and Recommendations"), other than in relation to the matters specified below:

Principle Reference	Recommendation Reference	Notification of Departure	Explanation for Departure
2	2.2	The Chairman is not an independent director.	The Board considers that the Company is not currently of a size or complexity to require an independent Chairman. If the Company's activities increase in size, scope and/or nature the appointment of an independent Chairman will be considered by the Board.
2	2.3	The Chairman acts in the capacity of an executive.	The Board considers that the Company is currently of a size and complexity where the Chairman can act in an executive capacity. If the Company's activities increase in size, scope and/or nature the appointment of a non-executive Chairman will be considered by the Board.
2	2.4	A separate Nomination Committee has not been formed.	The Board considers that the Company is not currently of a size to justify the formation of a Nomination Committee. The Board as a whole undertakes the process of reviewing the skills base and experience of existing directors to enable identification or attributes required in new directors. Where appropriate independent consultants are engaged to identify possible new candidates for the Board.
4	4.2	The Audit Committee comprises the Company's two non-executive directors, only one of whom is independent.	The Board considers that the Company is not currently of a size or complexity to require either a third member of the Audit Committee or that all members of the committee need to be independent directors. If the Company's activities increase in size, scope and/or nature the appointment of a third Audit Committee member will be considered by the Board. It is directors' intention to appoint a third independent director to the Audit Committee during the year ending 30 June 2012.
8	8.1	A separate Remuneration Committee has not been formed.	The Board considers that the Company is not currently of a size to justify the formation of a Remuneration Committee. The Board as a whole is responsible for the remuneration arrangements for directors and executives of the Company. If the Company's activities increase in size, scope and/or nature the appointment of a Remuneration Committee will be reviewed by the Board and implemented if appropriate.

Performance evaluation of the Board, its committees and senior executives

The Board reviews and evaluates the performance of the Board and its committees, which involves consideration of all the Board's key areas of responsibility.

A performance evaluation of senior executives was undertaken during the year, in the case of the Managing Director by the Board, and in all other cases by the Executive Chairman.

Material business risks

Management has reported to the Board as to the effectiveness of the Company's management of its material business risks.

Company's remuneration policies

The Company's remuneration policies are set out in the Remuneration Report on pages 19 to 23.

The Company has separate remuneration policies for executive and non-executive directors. Non-executive directors receive a fixed fee and, when appropriate, share options. Executive directors receive a salary or fee and, when appropriate, performance based remuneration and share options. The Company does not have any terms or schemes relating to retirement benefits for non-executive directors.

Identification of independent directors

The Company's independent director is considered to be Mr Tom Duckworth.

He was not considered to have a material relationship with the Company or another group member during the Reporting Period as professional advisor, consultant, supplier, customer, or through any other contractual relationship, nor did they have any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company. The Board considers "material" in this context to be where any director related business relationship represents the lesser of at least 5% of the Company's or the director-related business revenue.

Equity based remuneration schemes

The Board has adopted a policy that prohibits those that are granted share-based payments as part of their remuneration from entering into other arrangements that limit their exposure to losses that would result from share price decreases. The Company requires all executives and directors to sign annual statements of compliance with this policy throughout the period.

Additional information required by the ASX Limited ("ASX") Listing Rules and not disclosed elsewhere in this report is set out below.

a) Shareholdings as at 31 August 2011

Substantial shareholders

The following shareholders have lodged substantial shareholder notices with ASX:

Name of Shareholder	Number of shares	% held
James W Stuckert	8,820,850	15.48%
Satuit LLC	3,322,294	5.83%

The number of shares represents the holding post the 1 for 60 share consolidation as approved by shareholders on 10 June 2011.

The holding of Satuit LLC above includes its 50% holding in Strategic Natural Resources LLC.

Voting Rights

The voting rights attaching to Ordinary Shares are governed by the Constitution. On a show of hands every person present who is a member or representative of a member shall have one vote and on a poll, every member present in person or by proxy or by attorney or duly authorised representative shall have one vote for each share held. No options have any voting rights.

Twenty Largest Shareholders

		Number of shares	% held
1.	Mr James W Stuckert <James W Stuckert Revocable A/C>	8,820,850	15.48
2.	JP Morgan Nominees Australia Limited <Cash Income A/C>	8,115,954	14.25
3.	HSBC Custody Nominees (Australia) Limited	4,537,421	7.96
4.	Satuit LLC/C	2,561,017	4.50
5.	Straits Exploration (Australia) Pty Ltd	2,425,000	4.26
6.	Mr S Oden Howell Jr	2,231,634	3.92
7.	Wildeville Enterprises Pty Ltd <Mcmullen Family A/C>	2,073,826	3.64
8.	Collwood Corporation/C	1,530,434	2.69
9.	Strategic Natural Resources LLC/C	1,522,734	2.67
10.	National Nominees Limited	1,477,608	2.59
11.	Citraen Pty Ltd <Franzmann Family A/C>	1,217,320	2.14
12.	JP Morgan Nominees Australia Limited	850,006	1.49
13.	Ashwath Mehra	769,755	1.35
14.	Zero Nominees Pty Ltd	605,885	1.06
15.	Hazardous Investments Pty Ltd	525,000	0.92
16.	Merrill Lynch (Australia) Nominees Pty Limited	470,983	0.83
17.	Macquarie Bank Limited	441,978	0.78
18.	UBS Wealth Management Australia Nominees Pty Ltd	352,338	0.62
19.	Mr Hamish Bohannan + Ms Julie Bohannan <Putsborough Super Fund A/C>	347,348	0.61
20.	Hyndford Holdings Pty Ltd	297,846	0.52
	Total	41,174,937	72.28

a) Shareholdings as at 31 August 2011 (continued)

Distribution of equity security holders

Size of Holding			Number of shareholders	Number of fully paid shares
1	to	1,000	890	218,420
1,001	to	5,000	540	1,404,985
5,001	to	10,000	156	1,153,494
10,001	to	100,000	225	7,521,580
100,001	and over		54	46,669,038
			1,865	56,967,517

The number of shareholders holding less than a marketable parcel of ordinary shares is 662.

b) Unlisted option holdings as at 31 August 2011

Exercise price	Expiry date	Number of options in class	Those holding more than 20% of the class	Number held by those holding 20%or more of the class
$1.20	18/11/11	375,002	-	-
$1.50	18/11/12	375,002	-	-
$1.20	31/12/12	166,667	Argonaut Investments Pty Ltd	166,667
$1.20	20/12/13	166,669	Gaston di Parodi	33,334
$1.50	20/12/13	166,669	Gaston di Parodi	33,334
$1.20	20/05/13	3,563,447	HSBC Custody Nominees (Australia) Limited	1,785,692

c) On-market buyback

There is no current on-market buyback.

d) Interest in mining and exploration permits

Exploration / Mining Lease	Location	% interest
ML 5831	Princhester, Queensland	100%
ML 5832	Princhester, Queensland	100%
EL 5574	Bushranger, New South Wales	100%

d) Interest in mining and exploration permits (continued)

Mining Concessions constituted and 100% owned by CMD

N°	Name	Mining Role	Measurement minutes / Judicial award registration			Current Ownership			Registry	Custodian of Mines
			Page	Number	Year	Page	Number	Year		
1	Loa del 1 al 18	4106-0417-5	43	12	1998	86	41	2007	Property	Andacollo
2	Montosa	4106-0192-3	1	1	2000	86	41	2007	Property	Andacollo
3	San Juan	4106-0193-1	1	1	2000	89	42	2007	Property	Andacollo
4	Rinconada	4106-0083-8	1	1	2000	86	41	2007	Property	Andacollo
5	Tres Vetas	4106-0483-3	1	1	2000	86	41	2007	Property	Andacollo
6	Luisa	4106-0190-7	1	1	2000	86	41	2007	Property	Andacollo
7	La Reina	4106-0191-5	1	1	2000	86	41	2007	Property	Andacollo
8	Tres Marías	4106-0189-3	1	1	2000	86	41	2007	Property	Andacollo
9	María Teresa Uno	4104-0953-4	1103	214	1996	86	41	2007	Property	Andacollo
10	María Teresa Cuatro al Seis	4104-0954-2	1108	215	1996	86	41	2007	Property	Andacollo
11	María Teresa Siete al Nueve	4104-0955-0	1113	216	1996	86	41	2007	Property	Andacollo
12	María Teresa 10 al 14	4104-0956-9	1119	217	1996	86	41	2007	Property	Andacollo
13	Matías Uno 1 al 7	4104-1010-9	7	2	1999	86	41	2007	Property	Andacollo
14	Matías Dos 1 al 8	4104-1011-7	80	19	1998	86	41	2007	Property	Andacollo
15	Anastassia Uno 1 al 2	4104-1027-3	20	4	1999	86	41	2007	Property	Andacollo
16	Juan Uno 1 al 6	4104-1012-5	1	1	1999	86	41	2007	Property	Andacollo
17	Juan Dos 1 al 2	4104-1013-3	87	20	1998	86	41	2007	Property	Andacollo
18	El Sauce dos del Uno al Dos	4104-1036-2	11	4	2001	86	41	2007	Property	Andacollo
19	El Sauce Dos 3 al 4	4104-1037-0	11	5	2001	86	41	2007	Property	Andacollo
20	El Sauce Dos 9 al 12	4104-1038-9	19	6	2001	86	41	2007	Property	Andacollo
21	Arenillas	4106-0215-6	49	25	2005	86	41	2007	Property	Andacollo
22	Matías Tres Uno	4104-1031-1	16	8	2000	197	168	2006	Discovery*	Andacollo
23	El Sauce Dos 17	4104-1039-7	35	17	2000	197	168	2007	Discovery*	Andacollo
24	San Carlos 2	4106-0188-5	1	1	2000	89	42	2007	Property	Andacollo

Mining Concessions constituted in Andacollo and 100% owned by CMD

N°	Name	Mining Role	Measurement minutes / Judicial award registration			Current Ownership			Registry	Custodian of Mines
			Page	Number	Year	Page	Number	Year		
1	Rosario 1 al 89 (1 al 34, 36 al 53, y 68 al 88)	4106-0373-k	118	41	1994	413	94	1994	Property	Andacollo
2	Rosario 90 al 93	4106-0539-2	147	46	1994	413	94	1994	Property	Andacollo
3	Rosario 94 al 101	4106-0376-4	151	47	1994	413	94	1994	Property	Andacollo
4	Rosario 102 al 129 (102 al 112, 116-119,124-126	4104-0641-1	155	48	1994	413	94	1995	Property	Andacollo
5	Rosario 139 al 140	4104-0642-k	163	49	1994	413	94	1994	Property	Andacollo
6	Rosario 141-170 (141, 144-148, 151- 170)	4104-0643-8	167	50	1994	413	94	1994	Property	Andacollo
7	Rosario 171-185 (171-180, 184-185)	4104-0644-6	173	51	1994	413	94	1995	Property	Andacollo
8	Rosario 186 al 193 (187, 189-192)	4104-0645-4	181	53	1994	413	94	1994	Property	Andacollo
9	Rosario 195	4106-0465-5	408	93	1994	413	94	1994	Property	Andacollo
10	Irene	4106-0383-7	133	42	1994	413	94	1994	Property	Andacollo
11	Don Ramón Ernesto	4106-0379-9	137	43	1994	413	94	1994	Property	Andacollo
12	Don Santiago y otras	4106-0380-2	140	44	1994	413	94	1994	Property	Andacollo
13	Gloria 2, 3 y 7	4106-0285-7	190	55	1994	413	94	1994	Property	Andacollo
14	Don Pedro	4106-0378-0	144	45	1994	413	94	1994	Property	Andacollo
15	Andacollo 1	4106-0377-2	55	19	1994	413	94	1994	Property	Andacollo
16	Andacollo 2	4104-0649-7	58	20	1994	413	94	1994	Property	Andacollo
17	Andacollo 3	4104-0650-0	61	21	1994	413	94	1994	Property	Andacollo
18	Andacollo 4	4104-0651-9	64	22	1994	413	94	1994	Property	Andacollo
19	Andacollo 5	4104-0652-7	67	23	1994	413	94	1994	Property	Andacollo
20	Andacollo 6	4104-0653-5	70	24	1994	413	94	1994	Property	Andacollo
21	Andacollo 7	4104-0654-3	73	25	1994	413	94	1994	Property	Andacollo
22	Andacollo 8	4104-0655-1	76	26	1994	413	94	1994	Property	Andacollo
23	Andacollo 9	4104-0656-k	79	27	1994	413	94	1994	Property	Andacollo
24	Andacollo 10	4104-0657-8	82	28	1994	413	94	1994	Property	Andacollo
25	Andacollo 11	4104-0658-6	85	29	1994	413	94	1994	Property	Andacollo
26	Andacollo 12	4104-0659-4	88	30	1994	413	94	1994	Property	Andacollo

27	Andacollo 13	4104-0660-8	90vta.	31	1994	413	94	1994	Property	Andacollo
28	Andacollo 14	4104-0661-6	93	32	1994	413	94	1994	Property	Andacollo
29	Andacollo 15	4104-0662-4	95vta.	33	1994	413	94	1994	Property	Andacollo
30	Andacollo 16	4104-0663-2	98	34	1994	413	94	1994	Property	Andacollo
31	Andacollo 17	4104-0664-0	s/i	s/i	s/i	413	94	1994	Property	Andacollo
32	Andacollo 18	4104-0665-9	103	36	1994	413	94	1994	Property	Andacollo
33	Andacollo 19	4104-0666-7	106	37	1994	413	94	1994	Property	Andacollo
34	Andacollo 20	4104-0667-5	109	38	1994	413	94	1994	Property	Andacollo
35	Andacollo 23	4104-0668-3	112	39	1994	413	94	1994	Property	Andacollo
36	Andacollo 30	4104-0672-1	177	52	1994	413	94	1994	Property	Andacollo
37	Flor de María	4106-0141-9	187	54	1994	413	94	1994	Property	Andacollo
38	India 1 al 4	4104-0680-2	204	57	1994	413	94	1994	Property	Andacollo
39	Indígena 2	4104-0681-0	198	56	1994	413	94	1994	Property	Andacollo
40	Rosario	4106-0137-0	115	40	1994	413	94	1994	Property	Andacollo
41	Madrid 1 al 7	4104-0768-k	270	69	1994				Property	Andacollo
42	Roma 1 al 6	4104-0773-6	281	71	1994				Property	Andacollo
43	Londres 1 al 5	4104-0774-4	276	70	1994				Property	Andacollo
44	Berlín 1 al 2	4104-0772-8	253	66	1994				Property	Andacollo
45	Bruselas 1 al 5	4104-0770-1	242	64	1994				Property	Andacollo
46	París 1 al 4	4104-0775-2	247	65	1994				Property	Andacollo
47	Lisboa 1 al 8	4104-0771-k	258	67	1994				Property	Andacollo
48	Abismo 1 al 4	4104-0767-1	215	59	1994				Property	Andacollo
49	Horno 1 al 5	4104-0880-2	225	61	1994				Property	Andacollo
50	Madero 1 al 5	4104-0811-2	220	60	1994				Property	Andacollo
51	Pique 1 al 32	4104-0810-4	236	63	1994				Property	Andacollo
52	Mapa 1 al 7	4104-0809-0	230	62	1994				Property	Andacollo
53	Cascada 1 al 6	4104-0827-9	210	58	1994				Property	Andacollo
54	Arrecife 1 al 10	4104-0826-0	264	68	1994				Property	Andacollo
55	Valladolid 1 al 5	4104-0864-3	321	78	1994				Property	Andacollo
56	Segovia 1 al 28	4104-0860-0	13	7	2005				Property	Andacollo
57	Guijón 1 al 2	4104-0867-8	367	86	1994				Property	Andacollo
58	Barcelona 1 al 3	4104-0859-9	326	79	1994				Property	Andacollo

59	Baleares 1 al 3	4104-0868-6	291	73	1994				Property	Andacollo
60	Castilla 1 al 29	4104-0866-k	331	80	1994				Property	Andacollo
61	Galicia 1 al 2	4104-0859-7	346	82	1994				Property	Andacollo
62	Zaragoza 1 al 14	4104-0855-4	315	77	1994				Property	Andacollo
63	Burgos 1 al 4	4104-0852-k	451	83	1994				Property	Andacollo
64	Jeréz 1 al 5	4104-0854-6	418	95	1994				Property	Andacollo
65	Málaga 1 al 8	4104-0853-0	402	92	1994				Property	Andacollo
66	Sevilla 1 al 5	4104-0857-0	356	84	1994				Property	Andacollo
67	Toledo 1 al 4	4104-0862-7	297	74	1994				Property	Andacollo
68	Murcia 1 al 5	4104-0856-2	309	76	1994				Property	Andacollo
69	Bilbao 1 al 4	4104-0863-5	286	72	1994				Property	Andacollo
70	Oviedo 1 al 13	4104-0870-8	379	88	1994				Property	Andacollo
71	Córdoba 1 al 11	4104-0869-4	340	81	1994				Property	Andacollo
72	Mallorca 1 al 5	4104-0861-9	361	85	1994				Property	Andacollo
73	Cádiz 1 al 11	4104-0865-1	372	87	1994				Property	Andacollo
74	Valencia 1 al 36	4104-0851-1	302	75	1994				Property	Andacollo
75	Cholita Uno 1	4104-0883-k	397	91	1994				Property	Andacollo
76	Cholita Dos 1 al 2	4104-0885-6	392	90	1994				Property	Andacollo
77	Cholita Tres 1 al 2	4104-0884-8	387	89	1994				Property	Andacollo
78	Patitas 1 al 5	4104-0898-8	423	96	1994				Property	Andacollo
79	Fragua 1 al 10	4106-0217-2	103	35	1997	116	37	1997	Property	Andacollo
80	Mercedes 4 al 7	4106-0564-3	646	114	1996	27	11	2007	Property	Andacollo
81	Mercedes 1 al 3	4106-0534-1	69	40	2000	23	7	2007	Property	Andacollo
82	Nerransula	4106-0195-8	46	32	2000	21	5	2007	Property	Andacollo
83	Nueva	4106-0546-5	60	37	2000	25	9	2007	Property	Andacollo
84	Rodrigo	4106-0532-5	73	41	2000	24	8	2007	Property	Andacollo
85	Toro	4106-0171-0	44	21	2000	28	12	2007	Discovery	Andacollo
86	Gabriela	4106-0533-3	66	39	2000	22	6	2007	Property	Andacollo
87	María Luz	4106-0531-7	63	38	2000	26	10	2007	Property	Andacollo

Mining Concessions constituted in Coquimbo and 100% owned by CMD

N°	Name	Mining Role	Measurement minutes / Judicial award registration			Current Ownership			Registry	Custodian of Mines
			Page	Number	Year	Page	Number	Year		
1	Estrellita Uno 1 al 3	4103-0578-k	91vta.	26	1995				Property	Coquimbo
2	Estrellita Dos 1	4103-0579-8	96	27	1995				Property	Coquimbo

Mining Concessions 100% owned by DCEM

N°	Name	Mining Role	Measurement minutes / Judicial award registration			Current Ownership			Registry	Custodian of Mines
			Page	Number	Year	Page	Number	Year		
1	Oropesa 1, 2, 3, 4, 5, 6, 7, 9, 10 y 12	4106-0216-4	998	177	1996	13	6	1998	Property	Andacollo
2	Cutana 3 al 7, 9 al 13, 15 al 16.	4106-0220-2	1014	183	1996	13	6	1998	Property	Andacollo
3	Pachuca	4106-0214-8	946	155	1996	13	6	1998	Property	Andacollo
4	San Antonio	4106-0166-4	989	172	1996	13	6	1998	Property	Andacollo
5	Urmeneta 1 al 4	4106-0265-2	1005	180	1996	13	6	1998	Property	Andacollo
6	Esperanza Dos y Tres	4106-0618-0	1061	197	1996	13	6	1998	Property	Andacollo
7	Diana 1 al 7	4106-0240-7	1026	186	1996	13	6	1998	Property	Andacollo
8	Atlántida 6	4106-0219-9	1051	193	1996	13	6	1998	Property	Andacollo
9	Santa Rosa 1 al 4, y Santa Rosa 6 al 10	4104-0224-5	979	168	1996	13	6	1998	Property	Andacollo
10	Sierra Maestra 1 al 40	4106-0293-8	1035	189	1996	13	6	1998	Property	Andacollo
11	Porvenir	4106-0439-6	955	159	1996	13	6	1998	Property	Andacollo

Mining Concessions in process of constitution and 100% owned by CMD

N°	Name	Mining Role	Measurement minutes / Judicial award registration			Current Ownership			Registry	Custodian of Mines
			Page	Number	Year	Page	Number	Year		
1	Nueva el Sauce dos 1 al 19		137	110	2007	198	169	2007	Property	Andacollo
2	Nueva Matías Tres 1 al 9		138	111	2007	198	169	2007	Property	Andacollo