

LACHLAN STAR LIMITED



**ANNUAL INFORMATION FORM
FOR THE
FINANCIAL YEAR ENDED JUNE 30, 2011**

October 19, 2011

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CORPORATE STRUCTURE

Name, Address and Incorporation

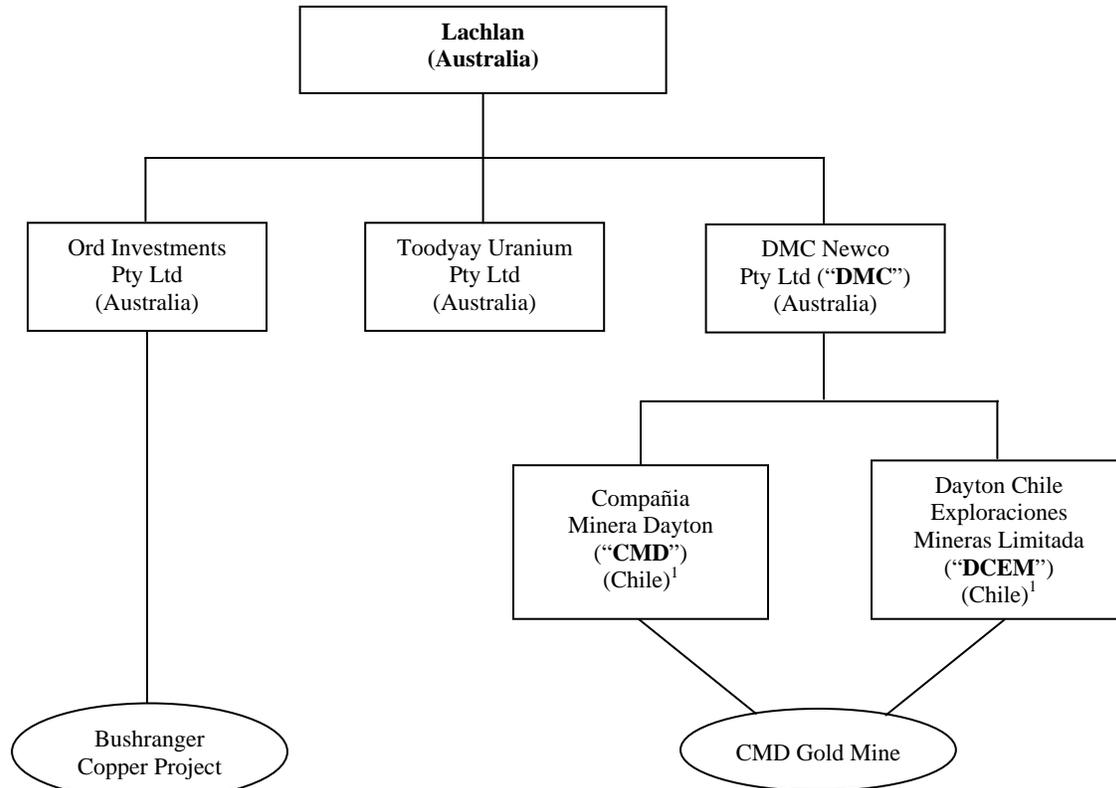
Lachlan Star Limited (“**Lachlan**” or the “**Company**”) was originally incorporated in New South Wales as Devex Limited on February 23, 1970 and was first listed on the Australian Securities Exchange (the “**ASX**”) on July 28, 1971. On November 28, 1997 the Company changed its name to Gympie Gold Limited. Gympie Gold Limited entered into administration on December 30, 2003 and went through a Deed of Company Arrangement with its creditors under Australian law in early 2006. The Company was recapitalised and relisted on the ASX on April 4, 2006 as Toodyay Resources Limited. The Company then changed its name to Lachlan Star Limited on December 17, 2007, following the acquisition of the Bushranger exploration stage copper and gold project (the “**Bushranger Copper Project**”) and the assumption of management control by the current management. Lachlan is registered under the Corporations Act 2001 (Cth) (Australia) (the “**Corporations Act**”).

The Company listed on the Toronto Stock Exchange (the “**TSX**”) on October 19, 2011.

Lachlan’s registered and head office is located at Lower Ground Floor, 57 Havelock St, West Perth, Western Australia 6005.

Intercorporate Relationships

The following indicates the corporate structure of the Company and its subsidiaries and the jurisdiction of incorporation of each entity. Unless otherwise noted, subsidiaries are 100% beneficially owned.



Note: Lachlan’s wholly-owned subsidiary, DMC, is the registered holder of 99.998% of the shares of CMD and 99.929% of the shares of DCEM. Under Chilean law, Chilean companies must have at least two shareholders. In order to comply with this requirement, 0.002% of the shares of CMD and 0.0709% of the shares of DCEM are held by Lachlan’s Chilean lawyer in trust for DMC.

Unless the context otherwise requires, references in this Annual Information Form (“AIF”) to the “Company” or “Lachlan” are references to Lachlan Star Limited and its subsidiaries.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain information in this AIF, including all statements that are not historical facts, constitutes forward-looking information within the meaning of applicable Canadian securities laws. Such forward-looking information includes, but is not limited to, information which reflects management’s expectations regarding Lachlan’s future growth; results of operations (including, without limitation, future production at the Compañía Minera Dayton mineral project (the “CMD Gold Mine”); performance (both operational and financial) and the development of the Company’s business prospects (including the timing and development of new deposits and the success of exploration activities at the CMD Gold Mine) and opportunities. Often, this information includes words such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate” or “believes” or variations of such words and phrases or statements that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved.

In making and providing the forward-looking information included in this AIF, the Company has made numerous assumptions. These assumptions include, among other things, assumptions about the prices of gold, silver and copper, anticipated costs and expenditures, the availability of credit, future production and recovery, that the supply and demand for gold, silver and copper develops as expected, that there is no unanticipated fluctuation in interest rates and foreign exchange rates and that there is no further material deterioration in general economic conditions. Although management believes that the assumptions made and the expectations represented by such information are reasonable, there can be no assurance that the forward-looking information will prove to be accurate. By its nature, forward-looking information is based on assumptions and involves known and unknown risks, uncertainties and other factors that may cause the Company’s actual results, performance or achievements, or industry results, to be materially different from future results, performance or achievements expressed or implied by such forward-looking information. Such risks, uncertainties and other factors include, among other things: fluctuations in metal prices, limited mine life, dependency on developing new mineral reserves, the fact that mineral reserve and mineral resource estimates are estimates only, environmental risks and hazards, global financial conditions, the effect of possible shortages and price volatility on operations and equipment, the speculative nature of mineral exploration, development, mining and processing, mineral exploration and mining risks, insurance and uninsured risks, the need for additional capital, the uncertain profitability of extraction of mineral resources, the financial and economic reliability of operating estimates and Lachlan’s mine plan, the fact that such mine plan for the CMD Gold Mine is not based on a feasibility study, competition for properties, the impact of licences, permits and government regulation, litigation, currency and liquidity risk, Lachlan’s limited operating history, credit risk and interest rate risk, changing political, legal and economic conditions, hedging and derivatives, dependence on key personnel, title to properties, labour and employment relations, dilution, the risk that no dividends will ever be paid on shares, conflicts of interests, inability to manage indebtedness and internal control over financial reporting. See “*Risk Factors*” below for further discussion of the risks facing the Company.

This AIF contains additional information on risks, uncertainties and other factors relating to the forward-looking information. Although the Company has attempted to identify factors that could cause actual actions, events or results to differ materially from those disclosed in the forward-looking information, there may be other factors which cause actual results, performances, achievements or events not to be as anticipated, estimated or intended. Also, many of the factors are beyond the Company’s control. Accordingly, readers should not place undue reliance on forward-looking information. The Company undertakes no obligation to reissue or update forward-looking information as a result of any new information or events after the date of this AIF except as may be required by law. All forward-looking information disclosed in this document is qualified by this cautionary statement.

Additional information about the Company and its activities, including financial information, is available in the Company’s financial statements and in other documents available under the Company’s profile on SEDAR at www.sedar.com and on the ASX at www.asx.com.au and on the Company’s website at www.lachlanstar.com.au.

DESCRIPTION AND GENERAL DEVELOPMENT OF THE BUSINESS

General Description and Three Year History

Lachlan is engaged in the acquisition, exploration and development of assets within the gold, copper and bulk commodities sectors in Chile and Australia.

Lachlan's material mineral project is the CMD Gold Mine, which it acquired in December 2010. The CMD Gold Mine is a production-stage heap leach gold mine in Andacollo, Chile, which is located approximately 350km north of Santiago.

Lachlan also holds:

- through Ord Investments Pty Ltd, a 100% interest in the Bushranger Copper Project, an exploration stage copper and gold deposit located approximately 25km south of Oberon in the Lachlan Fold Belt in New South Wales, Australia;
- the Princhester project (the "**Princhester Project**"), an exploration stage magnesite deposit located approximately 80km north-west of Rockhampton in Queensland, Australia; and
- a 100% interest in Toodyay Uranium Pty Ltd, a dormant subsidiary that has no assets or active business as at the date hereof.

For the financial year ended June 30, 2010, Lachlan did not own any production stage mineral properties and therefore, did not earn any revenue from mining activities. Its net loss after tax was A\$4.64 million after recognising \$0.18 million of finance income and a share of the net loss of Luiiri Gold Limited ("**Luiiri**"), a company in which Lachlan had an investment of \$3.46 million (see discussion under "*Investment in Luiiri Gold Limited*" below).

For the financial year ended June 30, 2011, the Company's net loss after tax was A\$4.32 million. Of Lachlan's total consolidated revenue from continuing operations, 86.5%, or A\$26.22 million, was derived from the sale of metals from the CMD Gold Mine. In addition, the Company recognised A\$3.86 million in profit on the sale of its shares in Luiiri Gold Limited and A\$0.24 million of finance income.

Lachlan's overall strategy is to acquire advanced stage development or operating mines in the gold and copper sectors in jurisdictions with low political risk. Lachlan currently plans to focus on expanding the production capacity of the CMD Gold Mine over the next two to three years to in the order of 100,000 ounces of gold per annum.

Lachlan's strategy for the Bushranger Copper Project is to advance the asset sufficiently to attract a partner to fund further exploration and, potentially, development. The Princhester Project is dormant and no further work is planned on the project.

Lachlan's ordinary shares ("**Ordinary Shares**") are listed for trading on the ASX under the symbol "LSA" and on the Toronto Stock Exchange (the "**TSX**") under the symbol "LSA".

The CMD Gold Mine

On December 24, 2010 Lachlan acquired 100% of the shares of DMC Newco Pty Ltd, an Australian company that in turn owns 100% beneficial interest of two Chilean companies, Compañía Minera Dayton and Dayton Chile Exploraciones Mineras Limitada. Together, these two companies own a 100% beneficial interest in the CMD Gold Mine.

The CMD Gold Mine is an operating open pit heap leach gold mine that commenced production in 1995 and has produced approximately 850,000 ounces of gold since operations commenced. There are at least six known gold deposits in the CMD Gold Mine: Toro/Socorro, Tres Perlas, Churrumata, El Sauce, Las Loas and Chisperos. The gold and minor by-product silver produced from the CMD Gold Mine is sold on a weekly basis to Johnson Matthey

USA and priced on spot referenced to the weekly London PM fix price. Minor copper cyanide is also produced on an irregular basis and this is sold to a nearby copper mine as produced and priced on a shipment by shipment basis.

As at August 31, 2011 the CMD Gold Mine had an estimated 6.0 Mt of probable mineral reserves at a grade of 0.8 g/t gold, for 157,000 oz gold, and as at April 1, 2011 had an estimated 23.36 Mt of indicated mineral resources for 461,000 oz gold and 46.33 Mt of inferred mineral resources for 976,000 oz gold (the mineral resources are not additive to the mineral reserves). The CMD Gold Mine currently has a mine life of three years, which is followed by continuing gold production from the leach pads for an additional two years. Currently, processing plant throughput is approximately 6,200 tonnes per day. Current maximum gold production outlined in the life of mine is approximately 11,000 oz gold per month. The Company has budgeted A\$2.03 million for resource definition drilling over the period extending from August 2011 to May 2012 to upgrade inferred mineral resources to a higher confidence level, and has budgeted A\$4.02 million over the same period for exploration drilling, to locate and define additional mineralisation not currently included in mineral resources. The Company also plans expenditures of approximately A\$3.50 million related to pre-stripping at the Chisperos deposit and installation of additional leach pad liners.

The Bushranger Copper Project

Lachlan owns a 100% interest in the Bushranger Copper Project, which is an exploration-stage copper and gold deposit located approximately 25km south of Oberon in the Lachlan Fold Belt in New South Wales, Australia. In 2009, Lachlan undertook exploration reconnaissance, including mapping and rock chip sampling of the northern area of the tenement, with a particular focus at the Arundle prospect, and limited field work. In 2010, the Company completed a ground magnetic survey over the Swatchfield prospect, which identified a large magnetic anomaly, and existing geochemical data was plotted against the magnetic anomaly in order to identify drill targets. In the quarter ended December 30, 2010, a strategic review was carried out to determine the optimal route for the Company to realize value from this project. In the second half of fiscal 2011, Lachlan carried out a scoping study and completed a drilling program, which indicated that the project is potentially economic. Given Lachlan's acquisition of the CMD Gold Mine and its focus on the operation and continued development of that project, the Bushranger Copper Project is not considered to be a core asset of the Company. On September 30, 2011, the Company entered into a farm in agreement (the "**Newmont Farm In Agreement**") with Newmont Exploration Pty Ltd, a wholly owned subsidiary of Newmont Mining Corporation ("**Newmont**") covering the Bushranger Copper Project. The terms of the Newmont Farm In Agreement are:

- Newmont will have a 12 month option period (the "**Option Period**") to evaluate the Bushranger Copper Project, during which time it must spend a minimum of A\$250,000.
- At any time during that 12 month period, Newmont can elect to exercise the option, and earn a 51% interest in the Bushranger Copper Project by spending a total of A\$1 million (including expenditures during the Option Period) over a period of 2 years from the date of the Newmont Farm In Agreement (the "**Farm In Period**").
- At the completion of the Farm In Period, the Company and Newmont will form a joint venture owned 49% and 51% respectively, with both parties funding exploration and development on a pro rata basis. Either party may elect to dilute its interest during the joint venture.

The Princhester Project

Lachlan owns three mining leases at the Princhester Project which cover several magnesite deposits. To date, Lachlan has not undertaken any drilling or sampling activities at the site and is progressively relinquishing the leases as they fall due for renewal.

Investment in Exco Resources Limited

In the year ended June 30, 2009 Lachlan invested A\$0.47 million in Exco Resources Limited ("**Exco**"), an ASX-listed resource company with advanced copper and gold projects in Queensland and South Australia. Lachlan exited its investment position in Exco in the year ended June 30, 2010 for a small profit after it determined that the investment did not meet Lachlan's investment criteria.

Investment in Luiiri Gold Limited

In the year ended June 30, 2009 Lachlan reached an agreement to invest a total of A\$3.00 million in Luiiri, which had gold projects in Zambia, and became the largest shareholder in Luiiri, holding approximately 28% of Luiiri's share capital. Luiiri was successfully listed on the ASX on November 19, 2009, at which time Lachlan invested a further A\$1.80 million in Luiiri. On June 15, 2010, Luiiri entered into a dispute with the Zambian government regarding title to its gold projects. As a result of Lachlan's concerns over this dispute and Luiiri's ability to manage its affairs, over the latter part of 2010 and the first half of 2011, Lachlan disposed of its interest in Luiiri for aggregate gross proceeds of A\$4.70 million.

Financing and Other Developments

In December 2010 and January 2011 Lachlan completed a non-renounceable rights offering for aggregate gross proceeds of A\$5.40 million and concurrent private placement of 594.2 million Ordinary Shares at A\$0.01 per share for aggregate gross proceeds of A\$5.94 million. Pursuant to the rights offering, each existing shareholder was able to acquire additional fully paid Ordinary Shares on the basis of one new share for every two shares held as at November 25, 2010. The issue price of A\$0.01 represented a discount of 5.5% from the Company's five day weighted average share price on the ASX immediately before the announcement of the offering on November 17, 2010. The proceeds of the rights offering and placement were used to finance part of the initial cash consideration for the acquisition of the CMD Gold Mine and to fund ongoing working capital and exploration of the CMD Gold Mine.

On May 20 and 27, 2011 Lachlan completed a private placement of 204 million Ordinary Shares and 204 million placement options ("**Placement Options**") at A\$0.014 per share for aggregate gross proceeds of A\$2.85 million. Each Placement Option entitles the holder to acquire one Ordinary Share for A\$0.02 (now 3,400,009 Placement Options exercisable at A\$1.20 each on a post-consolidation basis, see the discussion in the following paragraph) until two years from the date of issue. A further 9,806,229 broker options were issued on the same terms as the Placement Options (being 163,438 broker options on a post-consolidation basis). A further 33,643 broker options were issued pursuant to this transaction following the share consolidation discussed in the following paragraph, for an aggregate of 197,081 broker options exercisable at A\$1.20 each. The proceeds of the private placement were used for mine pre-strip and general working capital at the CMD Gold Mine.

On June 10, 2011 the Company's shareholders (the "**Shareholders**") approved a 1 for 60 share consolidation. In accordance with the ASX Listing Rules, the unlisted options on issue were consolidated in the same ratio and option prices were adjusted in the inverse ratio. Shareholders and option holders whose holdings would have resulted in a fractional entitlement post-consolidation had their post-consolidation holdings rounded up to the next whole number. Prior to the consolidation, there were 3,418,001,057 Ordinary Shares and 288,806,229 options (including the Placement Options) outstanding. Following the consolidation, there were 56,967,517 Ordinary Shares and 4,813,456 options (including 3,400,009 Placement Options) outstanding. The share consolidation was undertaken to bring Lachlan's share structure more closely in line with its peer group of Latin American gold producers.

In July 2011, Lachlan entered into an agreement with Teck Resources Limited ("**Teck**") to crush copper ore from Teck's Carmen de Andacollo Copper Mine, adjacent to the CMD Gold Mine, for processing on leach pads. Crushing commenced on July 23, 2011 and was completed on August 23, 2011. A total of 163,000 tonnes of ore was crushed for Teck, with a daily crusher throughput of up to 1,300 tonnes per hour (which is an annualized rate of approximately 10Mtpa). The Company continues to crush ore for Teck on an *ad hoc* basis as Teck ore is available and can be processed without impacting the crushing of material from the CMD Project.

In June 2011, Lachlan terminated its contract with its primary mining contractor at the CMD Gold Mine, Maestranza Martinez Torres Limitada ("**Martimech**"). The termination and associated change over of explosives supply resulted in reduced mining during the latter part of June. Consequently, the quantity of gold poured in the quarter ended June 30, 2011 was 2,383 ounces greater than gold mined and stacked on the leach pad. The reduction in leach pad ounces over the quarter upwardly distorted the June quarter cash cost (with inventory adjustment), which was US\$841 per oz compared to US\$783 per oz in the quarter ended March 30, 2011. The reduction of ore mined in June also negatively impacted the processing cost per tonne for the quarter, with a 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 mineralized material, as compared to US\$9.62 per tonne for the month of May 2011. The disruption to operations

in June production is considered to be a onetime event. Gold produced in the last week of July 2011 was up 31% over the previous week and back to levels seen at the end of May 2011.

An interim contractor, Maquinarias Real S.A., mobilised to site and recommenced mining at the Las Loas pit on August 26, 2011. On September 30, 2011, Lachlan signed a contract with a replacement mining contractor, E-Mining Minería y Construcción S.A. (“**E Mining**”). E Mining mobilised to the CMD Gold Mine site before the end of September 2011 and commenced mining at the Chisperos deposit during late September 2011. The E Mining contract term is the earlier of 24 months from the date of entering into the contract with E Mining or the mining of 22.6Mt of material at the CMD Gold Mine.

Pursuant to an agency agreement (the “**Agency Agreement**”) dated August 26, 2011 between Lachlan and Dundee Securities Ltd. and Salman Partners Inc. (the “**Agents**”), on August 26, 2011, the Company completed a private placement of 18,400,000 special warrants (the “**Special Warrants**”) primarily to institutional investors, including Canadian institutional investors, at a price of A\$0.82 per Special Warrant for gross proceeds of A\$15.09 million (the “**Special Warrants Placement**”). The proceeds of the Special Warrants Placement were held in escrow, pending satisfaction of the escrow release conditions, as discussed below.

Each Special Warrant will convert, as described below, for no additional consideration, into one unit (a “**Unit**”) comprised of one Ordinary Share and one-half of one share purchase warrant (each whole share purchase warrant being a “**Warrant**”). Each Warrant will entitle the holder to purchase one Ordinary Share (each, a “**Warrant Share**”) for a purchase price of A\$1.20 (subject to adjustment in certain events) at any time prior to 5:00 p.m. (Vancouver time) on August 26, 2013.

Pursuant to the Agency Agreement, the Company also issued 1,104,000 special broker warrants (the “**Special Broker Warrants**”) to the Agents as partial compensation for services provided by the Agents. Each Special Broker Warrant will convert, as described below, for no additional consideration, into one compensation option of the Company (a “**Compensation Option**”). Each Compensation Option will entitle the holder, upon due exercise and payment to the Company of consideration of A\$1.20, to acquire a unit (a “**Compensation Unit**”) comprised of one Ordinary Share (a “**Compensation Share**”) and one-half of one Warrant at any time prior to 5:00 p.m. (Vancouver time) on August 26, 2013.

The escrow release conditions for the gross proceeds of the Special Warrants Placement included approval by the Shareholders of the issuance of the Ordinary Shares issuable pursuant to the conversion of the Special Warrants and the exercise of the Warrants underlying the Special Warrants, the Compensation Options and the Warrants underlying the Compensation Options. The requisite Shareholder approvals were obtained at a general meeting of the Company held on September 26, 2011 and other conditions were satisfied and the gross proceeds were released to the Company on that date.

The Special Warrants will automatically convert into Units and the Special Broker Warrants will automatically convert into Compensation Options upon Lachlan receiving a receipt from the British Columbia Securities Commission, as principal regulator, on its behalf and on behalf of other applicable Canadian securities commissions or securities regulatory authorities for a final prospectus qualifying the distribution of the Units and the Compensation Options. Once the receipt for the final prospectus is obtained, the Warrant Shares and the Compensation Shares will also be free-trading. The Company is required to use its best efforts to file a preliminary prospectus in each province of Canada in which Special Warrants were distributed pursuant to the Special Warrants Placement and obtain a receipt for a final prospectus on or before December 27, 2011. If the Company does not meet this deadline, each Special Warrant shall thereafter entitle the holder to receive upon exercise, for no additional consideration, 1.1 Units (instead of one Unit) (for an aggregate of 20,240,000 Units instead of 18,400,000 Units) and there will be no change in the number of Special Broker Warrants or Compensation Options.

Lachlan plans to use the net proceeds from the Special Warrants Placement for the continued development of the CMD Gold Mine and for general working capital purposes.

Specialized Skill and Knowledge

Most aspects of Lachlan’s business require specialized skills and knowledge. This includes skills and knowledge in the areas of geology, exploration and development, environmental issues and accounting. Lachlan has a number of

employees with extensive experience in mining, geology, exploration and development globally and in Chile specifically.

Competitive Conditions

The mineral exploration and development business is a competitive business. The Company competes with a number of other entities in the search for and acquisition of mineral properties and qualified employees and for financing. Many of these entities have greater financial resources and/or more advanced properties than the Company. As a result of this competition, Lachlan may be unable to acquire attractive properties in the future on terms it considers acceptable or attract or retain qualified personnel. As well, there can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company.

Cycles

The Company is an exploration and development corporation currently focused on gold. As a result, gold prices can have a direct impact on the Company's business. Declining prices can, for example, impact operations by requiring a re-assessment of the feasibility of a particular project. See "*Risk Factors — Fluctuations in Metal Prices*" and "*Risk Factors — Currency Risk and Liquidity Risk*".

Environmental Protection

The operations of the Company are primarily located in Chile, South America and are subject to laws and regulations of Chile concerning the environment. The Company is required to submit and adhere to environmental plans lodged in relation to all of its licence areas. The financial and operational effects of environmental protection requirements on capital expenditures, earnings and the competitive position of Lachlan are not expected to be material during the current financial year. However, environmental protection requirements may cause additional capital expenditures and reductions in earnings that will affect the competitive position of Lachlan in the future.

Employees

As of June 30, 2011, Lachlan had four full-time employees and consultants at its offices in Perth, Western Australia, Brisbane, Queensland and Johannesburg, South Africa, and 201 employees at the CMD Gold Mine.

Foreign Operations

The Company is incorporated under the laws of a foreign jurisdiction and resides outside of Canada. In addition, the Company's projects are located in Chile and Australia and as such, are exposed to various levels of political, economic and other risks and uncertainties associated with operating in a foreign jurisdiction. Lachlan's revenue stream is highly dependent on its gold mining operations in Chile. See "*Risk Factors — Changing Political, Legal and Economic Conditions*".

Bankruptcy and Similar Procedures

There were no bankruptcy, receivership or other similar proceedings against Lachlan or any of its subsidiaries within the three most recently complete financial years and no such proceedings are proposed for the current financial year.

Social or Environmental Policies

The Company seeks to conduct its activities to the highest standards and industry best practices of environmental obligation, including compliance with all environmental laws, policies, regulations and plans, and conducts extensive on-going monitoring, to keep any environmental impacts to a minimum and to rectify or rehabilitate those that necessarily occur as part of the exploration programmes conducted. See "*Risk Factors — Environmental Risks and Hazards*".

Lachlan has adopted a written corporate code of conduct and a code of conduct for directors and key executives. Copies of these codes may be obtained from the Company upon request. The board of directors of the Company (the “**Board**”) monitors compliance with the code of business conduct by requiring employees and consultants to report breaches of the Code and then dealing appropriately with reported breaches. In accordance with the provisions of the code of business conduct and applicable corporate law, the directors ensure that any director or executive officer who has a material interest in proposed transactions or agreements involving the Company disclose such interest prior to consideration of the relevant matter by the directors and abstain from voting on approval of such transactions, as appropriate.

RISK FACTORS

Fluctuations in Metal Prices

The profitability of Lachlan’s operations is significantly affected by changes in the market price of gold. The market price of gold fluctuates on a daily basis and is affected by numerous factors beyond Lachlan’s control. The price of gold can be subject to volatile price movements, and future serious price declines could cause continued commercial production to be impractical. Industry factors that may affect the price of gold include: the level of demand for gold as an investment; central bank lending, sales and purchases of gold; speculative trading; industrial and jewellery demand; and costs of and levels of global production by gold producers. The price of gold may also be affected by macroeconomic factors, including: expectations of the future rate of inflation; the strength of, and confidence in, the US dollar (the currency in which the price of gold is generally quoted) and other currencies; interest rates; and global or regional political or economic uncertainties.

If the market price of gold dropped and the price realized by Lachlan on gold sales decreased significantly and remained at such a level for any substantial period, Lachlan’s profitability and cash flow would be negatively affected. In such circumstances, Lachlan may determine that it is not economically feasible to continue commercial production at the CMD Gold Mine or the development of some or all of its current projects, which could have an adverse impact on Lachlan’s financial performance and results of operations. Under such circumstances, Lachlan might curtail or suspend some or all of its exploration activities, with the result that depleted mineral reserves are not replaced. In addition, the market value of Lachlan’s gold inventory might be reduced and existing mineral reserves might be reduced to the extent that they cannot be mined and processed economically at the prevailing gold price.

Limited Mine Life

Lachlan can only confirm mineralisation capable of supporting economic mining operations from the CMD Gold Mine until 2014, which will be followed by continued gold production from the leach pads for an additional two years. Continued revenue beyond this period will depend on the Company’s ability to develop new mineral reserves at the CMD Gold Mine, which cannot be assured.

Dependency on Development of New Mineral Reserves

Because mines have limited lives, Lachlan must continually replace and expand its mineral reserves as they are depleted by production at its operations in order to maintain or grow its total mineral reserve base. The life-of-mine estimate for the CMD Gold Mine is based on a number of factors and assumptions and may prove to be incorrect. Lachlan’s ability to maintain or increase its annual production of gold will significantly depend on its ability to expand mineral reserves at the CMD Gold Mine and to identify and bring new mines into production. Once a site with mineralization is discovered, it may take many years from the initial phases of drilling until production is possible, during which time the economic feasibility of the project may change. Substantial expenditures are required to establish mineral reserves and to construct mining and processing facilities. As a result of these uncertainties, there is no assurance that current or future exploration programs will be successful. There is a risk that depletion of mineral reserves will not be offset by discoveries. As a result, the mineral reserve base of Lachlan may decline if mineral reserves are mined without adequate replacement and Lachlan may not be able to sustain production beyond the current mine life, based on current production rates.

Mineral Reserve and Mineral Resource Estimates

The figures for mineral reserves and mineral resources presented herein, including the anticipated tonnages and grades that will be achieved or the indicated level of recovery that will be realized, are estimates and no assurances can be given as to their accuracy. Such estimates are, in large part, based on interpretations of geological data obtained from drill holes and other sampling techniques. Actual mineralization or geological formations may be different from those predicted. Mineral reserve and mineral resource estimates are materially dependent on the prevailing gold price and the cost of recovering and processing minerals at the individual mine sites. Market fluctuations in the price of gold or increases in recovery costs, as well as various short-term operating factors, may cause a mining operation to be unprofitable in any particular accounting period.

Prolonged declines in the market price of gold may render reserves containing relatively lower grades of gold mineralization uneconomic to exploit and could materially reduce Lachlan's mineral reserves and mineral resources. Should such reductions occur, material write downs of Lachlan's investment in mining properties or the discontinuation of development or production might be required, and there could be material delays in the development of new projects, increased net losses and reduced cash flow. The estimates of mineral reserves and mineral resources attributable to a specific property are based on accepted engineering and evaluation principles. The estimated amount of contained metal in proven and probable mineral reserves does not necessarily represent an estimate of a fair market value of the evaluated properties.

There are numerous uncertainties inherent in estimating quantities of mineral reserves and mineral resources. The estimates in this AIF are based on various assumptions relating to gold prices and exchange rates during the expected life of production, mineralization of the area to be mined, the projected cost of mining, and the results of additional planned development work. Actual future production rates and amounts, revenues, taxes, operating expenses, environmental and regulatory compliance expenditures, development expenditures, and recovery rates may vary substantially from those assumed in the estimates. Any significant change in these assumptions, including changes that result from variances between projected and actual results, could result in material downward revision to current estimates.

Environmental Risks and Hazards

Mining, like many other extractive natural resource industries, is subject to potential risks and liabilities associated with the effects on the environment resulting from mineral exploration and production. Environmental liability may result from mining activities conducted by other parties prior to Lachlan's ownership of a property. The payment of such liabilities would reduce funds otherwise available and could have a material adverse effect on Lachlan. Should Lachlan be unable to fully fund the cost of remedying an environmental problem, Lachlan might be required to suspend operations or enter into interim compliance measures pending completion of the required remedy, which could have a material adverse effect on the operations and business of Lachlan.

Global Financial Conditions

Global financial conditions have continued to be characterized by increased volatility due to concerns in respect of European sovereign debt levels, activities in the Middle East and the continued issues relating to economic recovery in the United States. This uncertainty has resulted in the following conditions, which may have an impact on the operations and cash flows of the Company:

- volatility in commodity prices and foreign exchange rates;
- continued uncertainty in the credit markets affecting the ability of some companies to access capital;
- increased counterparty risk; and
- volatility in the prices of publicly traded entities.

These conditions may impact Lachlan's ability to obtain debt financing in the future on favourable terms.

Shortages and Price Volatility – Operations and Equipment

Lachlan is dependent on various commodities (such as diesel fuel, electricity, steel, concrete and cyanide) and equipment to conduct its operations. The shortage of such commodities, equipment and parts, or a significant

increase in their cost, could have a material adverse effect on the Company's ability to carry out its operations and therefore limit, or increase the cost of, production. The Company is also dependent on access to and supply of water to carry out its mining operations, and such access and supply may not be readily available or may change. Market prices of commodities can be subject to volatile price movements which can be material, occur over short periods of time and be affected by factors that are beyond Lachlan's control. If the costs of certain commodities consumed or otherwise used in connection with Lachlan's operations and development projects were to increase significantly, and remain at such levels for a substantial period, Lachlan may determine that it is not economically feasible to continue commercial production at, or the development of, the CMD Gold Mine or other properties, which could have an adverse impact on Lachlan's financial performance and results of operations.

Speculative Nature of Mineral Exploration, Development, Mining and Processing

The exploration for and development of mineral deposits involves significant risks that even a combination of careful evaluation, experience and knowledge may not eliminate or adequately mitigate. While the discovery of an ore body may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. Major expenditures may be required to locate and establish mineral reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. Whether a mineral deposit will be commercially viable depends on a number of factors, including: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal prices, which are highly cyclical; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, allowable production, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in Lachlan and its subsidiaries not receiving an adequate return on invested capital. There is no assurance that commercial quantities of ore will be discovered on any of the Company's exploration properties. There is no assurance that, even if commercial quantities of ore are discovered, a mineral property will be brought into commercial production. In addition, assuming discovery of a commercial ore body, depending on the type of mining operation involved, several years can elapse from the initial phase of drilling until commercial operations are commenced. Most of the above factors are beyond Lachlan's control.

Mining operations involve a high degree of risk. Such operations are subject to all the hazards and risks normally encountered in the exploration for and development and production of copper and other base or precious metals, including unusual and unexpected geologic formations, water conditions, surface or underground conditions, seismic activity, cave-ins, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability, mechanical equipment performance problems, the unavailability of materials and equipment, accidents, labour force disruptions, force majeure factors, unanticipated transportation costs and weather conditions. Mining and processing operations are subject to hazards such as equipment failure or failure of retaining dams around tailings disposal areas, which may result in environmental pollution and consequent liability. Any of these factors can materially and adversely affect, among other things, the development of properties, production quantities and rates, costs and expenditures and production commencement dates.

Lachlan's processing facilities are dependent on continuous mine feed to remain in operation. Insofar as the CMD Gold Mine may not maintain material stockpiles of ore or material in process, any significant disruption in either mine feed or processing throughput, whether due to equipment failures, adverse weather conditions, supply interruptions, labour force disruptions or other causes, may have an immediate adverse effect on results of operations. A significant reduction in mine feed or processing throughput at the CMD Gold Mine could cause the unit cost of production to increase to the point where the Company could determine that some or all of its reserves were uneconomic to exploit.

Mineral Exploration and Mining Risks

The operations of Lachlan are subject to the hazards and risks normally incidental to exploration, development, and production activities of precious metals mining properties, any of which could result in damage to life or property, environmental damage and possible legal liability for such damage. The activities of Lachlan may be subject to prolonged disruptions due to weather conditions depending on the location of operations in which Lachlan has interests. Hazards and risks, such as unusual or unexpected formations, faults and other geologic structures, rock bursts, pressures, cave-ins, flooding, pit wall failures, ground and slope failures and inventory theft, could have an

adverse impact on Lachlan's operations. Severe weather conditions, including those resulting from global climate change, may adversely impact Lachlan's operations.

Further, few mining properties that are explored are ultimately developed into producing mines. Major expenses are required to establish reserves by drilling and to construct mining and processing facilities. Large amounts of capital are frequently required to purchase necessary equipment. Delays due to equipment malfunction or inadequacy may adversely affect Lachlan's results of operations. It is impossible to ensure that the current or proposed exploration programs on properties in which Lachlan has an interest will result in profitable commercial mining operations.

Mining, processing, development, and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources, and water supply are important determinants which affect capital and operating costs. Lack of such infrastructure or unusual or infrequent weather phenomena, sabotage, terrorism, government, or other interference in the maintenance or provision of such infrastructure could adversely affect Lachlan's operations, financial condition, and results of operations.

Available insurance does not cover all the potential risks associated with a mining company's operations. Lachlan may also be unable to maintain insurance to cover insurable risks at economically feasible premiums, and insurance coverage may not be available in the future or may not be adequate to cover any resulting loss. Moreover, insurance against risks associated with exploration and production, such as the validity and ownership of unpatented mining claims and mill sites and environmental pollution or other hazards, is not generally available to Lachlan or to other companies in the mining industry on acceptable terms. As a result, Lachlan might become subject to liability for environmental damage or other hazards for which it is completely or partially uninsured, or for which it elects not to insure because of premium costs or other reasons. Losses from these events may cause Lachlan to incur significant costs that could have a material adverse effect upon its financial condition and results of operations.

Need for Additional Capital

The mining, processing, development, and exploration of the CMD Gold Mine or other properties may require substantial additional financing. Failure to obtain sufficient financing may result in the delay or indefinite postponement of exploration, development or production at the CMD Gold Mine or other properties, or even a loss of property interest therein. Additional capital or other types of financing may not be available if needed or, if available, the terms of such financing may be unfavourable to Lachlan.

Uncertain Profitability of Extraction of Mineral Resources

Mineral resources that are not mineral reserves do not have demonstrated economic viability. Due to the uncertainty of measured, indicated and inferred mineral resources, these mineral resources may never be upgraded to proven and probable mineral reserves. In addition, while Lachlan is presently mining inferred mineral resources, inferred mineral resources are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. There can be no certainty that Lachlan's inferred mineral resources will be converted to indicated or measured mineral resource status or that the mining of such inferred mineral resources prior to their conversion to a higher category will prove to be economic or profitable. Investors are cautioned not to assume that any part of mineral deposits in these categories will ever be converted into mineral reserves or recovered.

Reliability of Operating Estimates and Mine Plan – No Feasibility Study

Lachlan's expected operating costs and expenditures, production schedules, economic returns and other projections of results from its mining projects which are referred to in this AIF and in the CMD Technical Report (as defined herein), are determined and, if applicable, valued based on assumed or estimated future metal prices, cut-off grades, operating costs, capital costs, expenditures and other factors that may prove to be inaccurate. For example, significant declines in market prices for base and precious metals or extended periods of inflation would have an adverse effect on the economic projections. In addition, material reductions in estimates of mineralization or increases in capital costs and expenditures, or in Lachlan's ability to maintain a projected budget, could also have a material adverse effect on projected production schedules and economic returns, as well as on Lachlan's overall results of operations or financial condition.

A feasibility study has not been prepared to support Lachlan's mine plan for the CMD Gold Mine. The mine plan includes plans to mine mineralization that is currently classified as inferred mineral resources. No assurance can be given that the operation of the CMD Gold Mine on this basis will prove to be economic or profitable.

Competition for Properties

The mineral exploration and mining business is competitive in all of its phases. Lachlan competes with numerous other companies and individuals, including competitors with greater financial, technical and other resources than Lachlan, in the search for and the acquisition of attractive mineral properties. The ability of Lachlan to operate successfully in the future will depend not only on its ability to develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for mineral exploration. Lachlan may be unable to compete successfully with its competitors in acquiring such properties or prospects on terms it considers acceptable, or at all.

Licences, Permits and Government Regulation

Lachlan's mining and processing operations and exploration activities are subject to various laws and regulations governing the protection of the environment, exploration, development, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, mine safety, and other matters. The legal and political circumstances outside of North America may cause these risks to be different from, and in many cases, greater than, comparable risks associated with operations within North America. New laws and regulations, amendments to existing laws and regulations, or more stringent enforcement of existing laws and regulations could have a material adverse impact on Lachlan, increase costs, cause a reduction in levels of production and/or delay or prevent the development of new mining properties. Compliance with these laws and regulations is part of the business and requires significant expenditures. Changes in regulations and laws, including those pertaining to the rights of leaseholders or the payment of royalties, net profit interests or similar amounts, could adversely affect Lachlan's operations or substantially increase the costs associated with those operations. Lachlan is unable to predict what legislation or revisions may be proposed that might affect its business or when any such proposals, if enacted, might become effective.

Lachlan requires licenses and permits from various governmental authorities to exploit its properties, and the process for obtaining licenses and permits from governmental authorities often takes an extended period of time and is subject to numerous delays and uncertainties. Such licenses and permits are subject to change in various circumstances. Failure to comply with applicable laws and regulations may result in injunctions, fines, suspensions or revocations of permits and licenses and other penalties. There can be no assurance that Lachlan has been or will be at all times in compliance with all such laws and regulations and with its licenses and permits or that Lachlan has all required licenses and permits in connection with its operations. Lachlan may be unable to obtain on a timely basis or maintain in the future all necessary licenses and permits that may be required to explore and develop its properties, commence construction or operation of mining facilities and properties under exploration or development or to maintain continued operations that economically justify the cost.

Litigation

The Company could become involved in disputes with other parties in the future which result in litigation. If Lachlan is unable to resolve these disputes favourably, this may have a material adverse impact on its financial condition, cash flow and results of operations.

Currency Risk and Liquidity Risk

Currency fluctuations may affect the revenues which Lachlan will realize from its operations because gold is sold in the world market in U.S. dollars. The costs of Lachlan are incurred principally in U.S. dollars and Chilean pesos. The Chilean peso fluctuates in line with a basket of currencies currently consisting of the U.S. dollar, the Euro and the Japanese yen. The Central Bank of Chile from time to time re-weights the percentage of emphasis placed on a given currency in the basket and may from time to time replace one world currency in the basket with another world currency. The appreciation of non-U.S. dollar currencies against the U.S. dollar increases the cost of gold production in U.S. dollar terms.

Presently, Lachlan does not hedge its currency risk. Lachlan may, however, in the future decide to transact currency hedging to reduce the risk associated with currency fluctuations. Currency hedging involves risks and may require margin activities. Sudden fluctuations in currencies could result in margin calls that could have an adverse effect on Lachlan's financial position if Lachlan were to undertake currency hedging. While the Chilean peso is currently convertible into Canadian and U.S. dollars, it may not always be convertible in the future. The majority of Lachlan's cash assets is held in Australian dollars.

Liquidity risk is the risk that Lachlan will not be able to meet its financial obligations as and when they fall due. Lachlan'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. Lachlan has an undrawn US\$0.30 million line of credit and its current carrying amount for trade and other payables as of September 30, 2011 was A\$14.70 million.

Limited Operating History

Lachlan has a limited operating history and there can be no assurance of its ability to operate the CMD Gold Mine profitably. The Company has only recently commenced commercial production on one property and prior to such production recorded only losses from its exploration activities. There are risks and uncertainties associated with managing the potential future growth of the Company. There can be no assurance that additional losses will not occur in the near future or that the Company will be profitable in the future. The Company's operating expenses and capital expenditures may increase in future years as needed consultants, personnel and equipment associated with advancing exploration, development and commercial production of its properties are added. The amounts and timing of expenditures will depend on the progress of ongoing exploration and development, the results of consultants' analyses and recommendations, the rate at which exploration losses are incurred, the execution of any joint venture agreements with strategic partners, Lachlan's acquisition of additional properties and other factors, many of which are beyond the Company's control. The development of the Company's non-production or exploration properties will require the commitment of substantial resources to conduct the time-consuming exploration and development of properties. There can be no assurance that Lachlan will generate any revenues from those properties. There can be no assurance that underlying assumed levels of expenses will prove to be accurate.

Credit Risk and Interest Rate Risk

Credit risk arises from the non-performance by counterparties of contractual financial obligations and includes risk in areas of Lachlan's business such as: cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. As of the date of this AIF, Lachlan's maximum exposure to credit risk as of September 30, 2011 was A\$8.24 million. The Company manages credit risk by limiting its cash transactions to financial institutions considered to have a suitable credit rating.

The significance and management of the interest rate risk to Lachlan is dependent on a number of factors, including:

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

Lachlan does not currently use derivative financial instruments to hedge financial risk exposure and therefore it is exposed to daily movements in interest rates. Lachlan manages interest rate risk by maintaining an appropriate mix between fixed and floating rate investments.

Changing Political, Legal and Economic Conditions

Lachlan's most significant property is located in Chile and, as such, a substantial portion of Lachlan's business is exposed to various degrees of political, economic and other risks and uncertainties. These risks and uncertainties vary from country to country and include, but are not limited to: terrorism; hostage taking; extreme fluctuations in currency exchange rates; high rates of inflation; labour unrest; the risks of civil unrest; expropriation and nationalization; renegotiation or nullification of existing concessions, licenses, permits and contracts; illegal mining;

changes to policies and regulations impacting the mining sector; restrictions on foreign exchange and repatriation; and changing political conditions, currency controls, and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.

Although Chile has a mature and stable political system and enjoys one of the best country risk ratings of the region, there is always the potential for changes in mining policies or shifts in political attitude towards foreign investment in natural resources. Changes, even if minor in nature, may adversely affect the Corporation's operations.

Future political and economic conditions in countries in which Lachlan operates may result in these governments adopting different policies respecting foreign investment, and development and ownership of mineral resources. Any changes in such policies may result in changes in laws affecting ownership of assets, foreign investment, mining exploration and development, taxation, rates of exchange, gold sales, environmental protection, labour relations, price controls, repatriation of income, and return of capital, which may affect both the ability of Lachlan to undertake exploration and development activities in respect of future properties in the manner currently contemplated, as well as its ability to continue to explore, develop, and operate those properties to which it has rights relating to exploration, development, and operation. Future governments in these countries may adopt substantially different policies, which might extend to, as an example, expropriation of assets.

Tax regimes in the countries in which Lachlan operates may be subject to differing interpretations and are subject to frequent change. Lachlan's interpretation of taxation law as applied to its transactions and activities may not coincide with that of the tax authorities. As a result, transactions may be challenged by tax authorities and Lachlan's operations may be assessed, which could result in significant additional taxes, penalties and interest.

Hedging and Derivatives

Presently, Lachlan does not hedge for commodity risk. Lachlan may, however, in the future determine to acquire gold hedge (or derivative product) obligations. Lachlan may also in the future determine to employ hedge/derivative products in respect of other commodities, interest rates and/or currencies. Hedge (or derivative) products are used to manage the risks associated with gold price volatility, changes in commodity prices, interest rates, foreign currency exchange rates and energy prices. If Lachlan determines to use derivative instruments, this will involve certain inherent risks, including: (a) credit risk - the risk of default on amounts owing to Lachlan by the counterparties with which Lachlan has entered into such transactions; (b) market liquidity risk - the risk that Lachlan has entered into a derivative position that cannot be closed out quickly, by either liquidating such derivative instrument or by establishing an offsetting position; and (c) unrealized mark-to-market risk - the risk that, in respect of certain derivative products, an adverse change in market prices for commodities, currencies or interest rates will result in Lachlan incurring an unrealized mark-to-market loss in respect of such derivative products.

In the case of a gold forward sales program, if entered into by Lachlan in the future, if the metal price rises above the price at which future production has been committed under a forward sales hedge program, Lachlan may have an opportunity loss. However, if the metal price falls below that committed price, revenues will be protected to the extent of such committed production. There can be no assurance that Lachlan will be able to achieve future realized prices for gold that exceed the spot price as a result of any forward sales hedge program it may decide to enter into.

Dependence on Key Personnel

In order to operate successfully, Lachlan must find and retain qualified employees. Lachlan and other companies in the mining industry compete for personnel and Lachlan is not always able to fill positions in a timely manner. In addition, due to the numerous development projects currently underway in multiple countries, the mining industry has experienced a high rate of employee turnover and the risk of failing to attract and retain appropriate numbers of qualified personnel is elevated. If Lachlan is unable to attract and retain qualified personnel or fails to establish adequate succession planning strategies, Lachlan's operations could be adversely affected.

In addition, Lachlan has a relatively small executive management team and if the services of a number of these executives were no longer available, Lachlan and its business could be adversely affected. Lachlan does not carry key-man life insurance with respect to its executives.

Title to Properties

The validity of mining claims which constitute most of Lachlan's property holdings may, in certain cases, be uncertain and is subject to being contested. Lachlan's titles, particularly its titles to undeveloped properties, may be defective. Certain of Lachlan's mining properties are subject to various royalty and land payment agreements. At present, any failure by Lachlan to meet its payment obligations under these agreements would not result in the loss of related property interests. Certain of Lachlan's properties may be subject to the rights or the asserted rights of various community stakeholders, including indigenous people. The presence of community stakeholders may also impact on the Company's ability to develop or operate its mining properties. In certain circumstances, consultation with such stakeholders may be required and the outcome may affect the Company's ability to develop or operate its mining properties. If a dispute were to arise, it might result in reduced access to properties or a delay in operations.

Labour and Employment Relations

Production at the CMD Gold Mine is dependent upon the efforts of, and maintaining good relationships with, employees of Lachlan. Relations between Lachlan and its employees may be impacted by changes in labour relations which may be introduced by, among others, employee groups, unions, and the relevant governmental authorities in the jurisdictions where Lachlan carries on business. Adverse changes in such legislation or in the relationship between Lachlan and its employees may have a material adverse effect on Lachlan's business, results of operations, and financial condition.

The results of Lachlan's operations could be adversely affected by its acquisition strategy and Lachlan may not realize the anticipated benefits of recent acquisitions.

As part of Lachlan's business strategy, it has sought, and will continue to seek, to acquire new mining and development opportunities in the mining industry. Any acquisition that Lachlan may choose to complete which may be of a significant size may change the scale of Lachlan's business and operations, and may expose Lachlan to new geographical, political, operational, financial and geological risks. Lachlan's success depends on its ability to: identify appropriate acquisition candidates; negotiate acceptable arrangements, including arrangements to finance acquisitions; and integrate the acquired businesses and their personnel. Lachlan may be unable to complete any acquisition or business arrangement that it pursues on favourable terms. Any acquisitions or business arrangements completed may not ultimately benefit Lachlan's business and could impair its results of operations, profitability and financial results. Acquisitions and business arrangements are accompanied by risks including, without limitation: a significant change in commodity prices after Lachlan has committed to complete the transaction and established the purchase price or exchange ratio; an acquired material ore body may prove to be below expectations; Lachlan may have difficulty integrating and assimilating the operations, technologies and personnel of any acquired companies, realizing anticipated synergies and maximizing the financial and strategic position of the combined enterprise, and maintaining uniform standards, policies and controls across the organization to support the expansion of Lachlan's operations resulting from these acquisitions; the integration of the acquired business or assets may divert management's attention and disrupt Lachlan's ongoing business and its relationships with employees, customers, suppliers and contractors; and the acquired business or assets may have unknown liabilities which may be significant. If Lachlan chooses to raise debt capital to finance any such acquisition, Lachlan's leverage will be increased. If Lachlan chooses to use equity as consideration for such acquisition, existing Shareholders may suffer dilution. Alternatively, Lachlan may choose to finance any such acquisition with its existing resources. There can be no assurance that Lachlan would be successful in overcoming these risks or any other problems encountered in connection with such acquisitions.

Dilution

Lachlan may undertake additional offerings of Ordinary Shares and of securities convertible into Ordinary Shares in the future. The increase in the number of Ordinary Shares issued and outstanding and the possibility of sales of such shares may have a depressive effect on the price of Ordinary Shares. In addition, as a result of such additional Ordinary Shares, the voting power of Lachlan's existing Shareholders will be diluted.

No Dividends

Lachlan has never paid a dividend on its Ordinary Shares, and does not expect to do so in the foreseeable future. Any future determination to pay dividends will be at the discretion of the Board and will depend upon Lachlan's capital requirements, results of operations and such other factors as the Board considers relevant. Accordingly, it is likely that investors will not receive any return on their investment in the Ordinary Shares other than possible capital gains.

Conflicts of Interest

Certain directors of Lachlan are, and may continue to be, involved in the mining and mineral exploration industry through their direct and indirect participation in corporations, partnerships or joint ventures that are potential competitors of the Company. Situations may arise in connection with potential acquisitions or investments where the other interests of these directors may conflict with the interests of Lachlan. Directors of the Company with such conflicts of interest will be subject to, and will follow the procedures set out in, applicable corporate and securities legislation, regulations, rules and policies.

Level of Indebtedness

Although Lachlan has been successful in paying its debt in the past, there can be no assurance that it can continue to do so. Lachlan's level of indebtedness now or in the future could have important consequences for its operations and the value of its Ordinary Shares including: (a) limiting Lachlan's ability to borrow additional amounts for working capital, capital expenditures, debt service requirements, execution of Lachlan's growth strategy or other purposes; (b) limiting Lachlan's ability to use operating cash flow in other areas because of its obligations to service debt; (c) increasing Lachlan's vulnerability to general adverse economic and industry conditions, including increases in interest rates; (d) limiting Lachlan's ability to capitalize on business opportunities and to react to competitive pressures and adverse changes in government regulation; and (e) limiting Lachlan's ability to refinance indebtedness or increasing the costs associated therewith.

Lachlan expects to obtain the funds to pay its expenses and to pay principal and interest on its debt by utilizing cash flow from operations and the net proceeds of the Special Warrants Placement. Lachlan's ability to meet these payment obligations on an ongoing basis will depend on its future financial performance, which will be affected by financial, business, economic and other factors. Lachlan will not be able to control many of these factors, such as economic conditions in the markets in which it operates. Lachlan cannot be certain that its future cash flow from operations will be sufficient to allow it to pay principal and interest on Lachlan's debt and meet its other obligations. If cash flow from operations is insufficient or if there is a contravention of its debt covenants, Lachlan may be required to refinance all or part of its existing debt, sell assets, borrow more money or issue additional equity. There can be no assurance that Lachlan will be able to refinance all or part of its existing debt on terms that are commercially reasonable.

Financial Control System

Lachlan has invested resources to document and assess its system of internal controls over financial reporting and it is continuing its evaluation of such internal controls. Internal controls over financial reporting are procedures designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance with respect to the reliability of financial reporting and financial statement preparation.

THE CMD GOLD MINE

The following is the summary of the technical report produced by Coffey Mining Pty Ltd (“**Coffey Mining**”) dated effective August 1, 2011 entitled “CMD Gold Mine, Andacollo, Chile: Independent Technical Report” (the “**CMD Technical Report**”) prepared in accordance with National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* (“**NI 43-101**”). The detailed disclosure of the CMD Technical Report is incorporated into this AIF by reference.

Introduction

Coffey Mining Pty Ltd (Coffey Mining) has been commissioned by Lachlan Star Limited (Lachlan Star) to prepare an Independent Technical Report on the CMD Gold Mine in the country of Chile, South America, in order to provide a disclosure of the Mineral Resources, Mineral Reserves and the Production Property Economic Analysis. This report complies with disclosure and reporting requirements set forth in the National Instrument 43-101 Standards of Disclosure for Mineral Projects (NI 43-101), Companion Policy 43-101CP, and Form 43-101F1.

Location

The CMD Gold Mine property is located on the outskirts of the town of Andacollo in the Province of Elqui in Chile’s Region IV, at latitude of 30° 13’ 35” south and a longitude of 71° 5’ 30” west (UTM 6.665.300N, 298.000E) and comprises 1,164ha of mining rights over two areas designated as “the Old Pits” and “Las Loas” and 77ha of prospecting rights around the mining rights.

Ownership

Lachlan Star Limited has 100% beneficial interest in mineral holdings mined by the CMD Gold Mine through its 100% ownership of DMC Newco Pty Ltd, which owns 99.998% of Compañía Minera Dayton (CMD) and 99.929% of Dayton Chile Exploraciones Mineras Limitada (DCEM). The company lawyer resident in Chile owns the remaining shares in both companies to comply with the Chilean requirement of having more than one shareholder. Figure 4.7_1 shows the ownership organisation structure. CMD Gold Mine refers to the assets owned by CMD and DCEM.

Geology

The CMD Gold Mine is located in the lower Cretaceous volcano-plutonic arc that forms the coastal range. The arc is typical of volcanic arcs that form at subduction zones as a response to partial melting of the subducted crust.

The mineralization at the CMD Gold Mine is hosted by the Quebrada Marquesa Formation, which comprises a sequence of intermediate and felsic volcanics and volcanogenic sediments as lava flow, pyroclastic and epiclastic units. The stratigraphy strikes generally north and dips to the east at shallow angles.

Mineralization

The dacite units at the CMD Gold Mine contain generally bulk tonnage, low-grade mineralization. This apparent stratigraphic control on the mineralization occurs as a result of the alteration of the originally porous dacite units by hydrothermal fluids, probably associated with cooling of the Andacollo Porphyry. Less porous rocks such as andesites and dykes were not altered as strongly as the dacite “mantos”.

Project Status

The CMD Gold Mine is an operating gold mine consisting of a series of open pit mining areas, crushing, heap leach and processing facilities with associated infrastructure. The CMD Gold Mine currently has a mining life of 3 years which is followed by continuing gold production from the leach pads for an additional 2 years. An exploration program is underway with a view to expanding production and lengthening the mine life through conversion of the Inferred Mineral Resources to Indicated Mineral Resources or Measured Mineral Resources and the discovery of new mineralization.

Mineral Resources

Mineral Resource estimates for the CMD Gold Mine have been generated by Coffey Mining on the basis of exploration data analytical results available up to March 16, 2011. The resource model was derived via geological interpretation and modelling of the mineralized zones. Various mineralized bodies have been estimated via Ordinary Kriging (OK) grade estimation technique.

The summarized Mineral Resource Estimates, as shown in Table 1.7_1 and Section 14, have been determined as at April 1, 2011 and has been prepared and reported in accordance with NI 43-101. The resource estimate has been classified as an Indicated and Inferred Mineral Resources based on the confidence of the input data, geological interpretation, and grade estimation. Furthermore, the resource classification is also consistent with the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves of December 2004 (the Code) as prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Mineral Council of Australia (JORC). A summary of the Mineral Resources as at April 1, 2011 is provided in Table 1.7_1.

Deposit	Resource Category	Lower Cutoff (Au g/t)	Tonnes (Mt)	Grade (Au g/t)	Metal (koz Au)
Tres Perlas/Natalia	Indicated	0.3	15.6	0.50	252
	Inferred	0.3	19.4	0.53	333
Chisperos	Indicated	0.3	1.0	1.10	36
	Inferred	0.3	1.4	0.95	43
Toro Cabanas/Socorro	Indicated	0.3	3.3	0.80	84
	Inferred	0.3	8.2	0.72	188
Churumata	Indicated	0.3	0.6	0.82	16
	Inferred	0.3	8.7	0.78	219
Las Loas	Indicated	0.3	2.86	0.79	73
	Inferred	0.3	1.53	0.77	37
El Sauce	Inferred	0.3	7.10	0.69	156

Mineral Reserves and Production Property Economic Assessment

The cashflow model has been generated on a pre-tax basis. The CMD Gold Mine has available tax losses of approximately US\$76 million and a capital repatriation credit of a further US\$85 million. The large tax loss available as a deduction against future profits means that, the issue of tax is immaterial unless the life of mine can be extended for a very long period or the gold price increases significantly.

The financial performance over the life of mine for the Probable Mineral Reserve shows production of 126K ozs of gold over the mine life and a NPV of \$35 million at a discount rate of 10%.

For the Probable Mineral Reserve Case, the payback period for undiscounted net free cash flow is 17 months, whereas at a discount rate of 10% and 15% this is respectively 18 months and 19 months, reflecting the low capital impost on the Project. A summary of the Mineral Reserves as at August 1, 2011 is described in Table 1.8_1. It should be noted that the Mineral Resources are not additive to the Mineral Reserves.

Table 1.8_1
CMD Gold Mine
Summary of Mineral Reserves Estimated as at August 1, 2011

Deposit	Probable Mineral Reserves		
	Tonnes [Mt]	Au Grade [g/t]	Ounces (koz Au)
Tres Perlas	3.0	0.7	69
Chisperos	0.8	1.2	29
Churrumata	0.3	0.9	8
Las Loas	1.0	0.8	25
Toro/Socorro	0.9	0.8	25
Total	6.0	0.8	157

Conclusions

The geological understanding of the CMD Gold Mine has evolved greatly since the commencement of the Lachlan Star exploration program in 2011. The knowledge acquired to date and exploration success over the last six months confirms the economic potential of the CMD Gold Mine and surrounding areas.

Recommendations

A total of A\$2.03 million has been budgeted over the period August 2011 to May 2012 for mineral resource definition drilling at the CMD Gold Mine. The aim of this program is to upgrade the Inferred category mineral resources to a higher confidence level which would enable it to be included in the economic assessment of the CMD Gold Mine.

In addition a total of A\$4.02 million has been budgeted over the period August 2011 to August 2012 for exploration drilling at the CMD Gold Mine. The aim of this program is to locate and define additional mineralisation not currently included in the mineral resources. The CMD Gold Mine has had a lack of exploration over the past decade, and there are numerous near mine targets that require follow up for both gold and copper-gold styles of mineralisation. Recent drilling at the Veneros, Mariposa and Toro deposits has returned encouraging results and follow up drilling of these areas is planned.

Coffey Mining considers that the proposed exploration and mineral resource development strategy of the Company is entirely appropriate and reflects the potential of the CMD Gold Mine.

DIVIDENDS

Lachlan has not, within the last three years, declared or paid any dividends on its Ordinary Shares, and does not currently have a policy with respect to the payment of dividends. For the foreseeable future, Lachlan anticipates that it will retain future earnings and other cash resources for the operation and development of its business. The payment of dividends in the future will depend on the earnings, if any, the financial condition of the Company, the requirements of the Corporations Act, and such other factors as the directors of Lachlan consider appropriate.

DESCRIPTION OF CAPITAL STRUCTURE

Under the Corporations Act and its Constitution, the Company is not limited in the number of Ordinary Shares it can issue. However, under the ASX listing rules, in order for a corporation listed on the ASX to issue an amount of securities greater than 15% of the total number of existing shares then issued and outstanding, the corporation must seek shareholder approval.

At the date of this AIF, Lachlan has 56,967,517 fully paid Ordinary Shares, 4,847,099 unlisted Ordinary Share options (including the 3,400,009 Placement Options), 18,400,000 Special Warrants, and 1,104,000 Compensation

Options issued and outstanding. No other shares in the capital of Lachlan of any other classes or other securities are issued or outstanding.

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 do not carry any pre-emptive, subscription, redemption or conversion rights, nor do they contain any sinking fund or purchase fund provisions. All securities are issued with the approval of the directors.

See also “*Description and General Development of the Business –General Description and Three Year History*”.

Unlisted options issued, granted, exercised and expired since the beginning of the Company’s most recent financial year are as follows:

Note	Expiry Date	Original Exercise Price (A\$)	Post Consolidation Exercise Price (A\$)	Pre Consolidation Number 01/07/10	Issued	Expired	Pre Consolidation Number	Post Consolidation Number	Issued Post Consolidation	Post Consolidation Number
1.	20/04/11	\$0.035		2,500,000	-	2,500,000	-	-	-	-
2.	18/11/11	\$0.02	\$1.20	22,500,000	-	-	22,500,000	375,002	-	375,002
2.	18/11/12	\$0.025	\$1.50	22,500,000	-	-	22,500,000	375,002	-	375,002
3.	31/12/12	\$0.02	\$1.20	-	10,000,000	-	10,000,000	166,667	-	166,667
4.	20/12/13	\$0.02	\$1.20	-	10,000,000	-	10,000,000	166,669	-	166,669
4.	20/12/13	\$0.025	\$1.50	-	10,000,000	-	10,000,000	166,669	-	166,669
5.	20/05/13	\$0.02	\$1.20	-	213,806,229	-	213,806,229	3,563,447	33,643	3,597,090
	Total:			47,500,000	243,806,229	2,500,000	288,806,229	4,813,456	33,643	4,847,099

Notes:

1. Issued to General Manager – Projects as remuneration.
2. 45,000,000 options were issued to directors and management in accordance with Shareholder approval received at the Company’s annual general meeting held in November 2009.
3. 10,000,000 options were issued to Argonaut Investments Pty Ltd as part of a capital raising fee, as ratified by Shareholders at the Company’s extraordinary general meeting held in June 2011.
4. 20,000,000 options were issued to management at the CMD Gold Mine to incentivize them and align their interests with Shareholders, as ratified by Shareholders at the Company’s extraordinary general meeting held in December 2010.
5. 204,000,000 options were issued as a free attaching option to the 204,000,000 Ordinary Shares issued in May 2011. In addition, 9,806,229 options (pre consolidation) were issued to brokers as part of their capital raising fees. An additional 33,643 options were issued to brokers as part of their capital raising fees post the share and option consolidation on June 10, 2011.

All options on issue at July 1, 2011 and the date of this report vested on the grant date. Since July 1, 2011 there has been no forfeiture or vesting of options granted in previous periods.

The Board has also determined to issue an aggregate of 850,000 options to selected directors and officers and staff of the Company. In compliance with the ASX Listing Rules and the TSX Company Manual, the Shareholders will consider approving the grant of such options at the annual general meeting of the Company scheduled to be held on November 30, 2011.

The following table summarizes the terms of the options to be issued, subject to shareholder approval, to Named Executive Officers (as defined herein), directors and staff of the Company. All options will vest immediately upon being granted.

Option-based awards

Name	Number of securities underlying unexercised options	Option exercise price (A\$)	Option expiration date	Value of unexercised in-the- money options (A\$)
Michael McMullen ⁽¹⁾⁽²⁾	75,000	1.20	November 25, 2013	
Scott Perry ⁽²⁾	150,000	1.20	November 25, 2013	
Scott Perry ⁽²⁾	150,000	1.50	November 25, 2013	
Declan Franzmann ⁽¹⁾⁽²⁾	100,000	1.20	November 25, 2013	
Peter Babin ⁽²⁾	75,000	1.20	November 25, 2013	
Robert Anderson ⁽¹⁾	75,000	1.20	November 25, 2013	
Kees Dekker ⁽¹⁾	75,000	1.20	November 25, 2013	
Guido Rojas Fuenzalida	25,000	1.20	November 25, 2013	
Guido Rojas Fuenzalida	25,000	1.50	November 25, 2014	
Gunther Ahlborn Klein	25,000	1.20	November 25, 2013	
Gunther Ahlborn Klein	25,000	1.50	November 25, 2014	
Sarah Beardmore	50,000	1.20	November 25, 2013	
Total	850,000			

Notes:

- (1) Indicates a Named Executive Officer of the Company.
(2) Indicates a director of the Company.

MARKET FOR SECURITIES

Trading Price and Volume

The Ordinary Shares are currently listed on the ASX under the trading symbol “LSA” and are listed on the TSX under the trading symbol “LSA”.

The following table sets forth the reported high and low sale prices and the trading volume for the Ordinary Shares on the ASX on a monthly basis for the year ended June 30, 2011. Prices and trading volume of the Ordinary Shares on the TSX has not been provided, given the Company has just been listed on the TSX. Volumes and share prices for the full year have been adjusted to reflect the 1 for 60 share consolidation as approved by Shareholders on June 10, 2011.

Month	Volume	High	Low
Jul-10	334,091	70	47
Aug-10	301,742	52	47
Sep-10	391,585	58	47
Oct-10	318,423	58	47
Nov-10	584,612	66	47
Dec-10	2,458,955	102	60
Jan-11	4,420,158	102	84
Feb-11	3,616,562	96	84
Mar-11	1,057,134	90	72
Apr-11	1,326,299	90	78
May-11	750,309	78	66
Jun-11	483,604	75	66

Prior Sales

Since the beginning of the financial year ended June 30, 2011, the following options of Lachlan not listed or quoted on a marketplace were issued:

Issue Date	Expiry Date	Original Exercise Price (A\$)	Post Consolidation Exercise Price (A\$)	Issued Pre Consolidation Number	Issued Post Consolidation Number
23/12/10	31/12/12	\$0.02	\$1.20	10,000,000	166,667
04/01/11	20/12/13	\$0.02	\$1.20	10,000,000	166,669
04/01/11	20/12/13	\$0.025	\$1.50	10,000,000	166,669
23/05/11	20/05/13	\$0.02	\$1.20	170,552,287	2,842,545
27/05/11	20/05/13	\$0.02	\$1.20	43,253,942	720,902
04/07/11 ¹	20/05/13		\$1.20		33,643
Total:				243,806,229	4,097,095

Note:

1. These options were issued after the date of the share consolidation. Please see the discussion under “*Financing and Other Developments*” regarding the May 2011 private placement.

PRINCIPAL HOLDERS OF VOTING SECURITIES

As at the date of this AIF, Lachlan has an aggregate of 56,967,517 listed fully paid Ordinary Shares issued and outstanding. There are no restrictions on voting rights attached to the Ordinary Shares of Lachlan.

As at the date of this AIF, to the knowledge of the directors and senior officers of Lachlan, no person beneficially owns, directly or indirectly, or exercises control or direction over, Ordinary Shares carrying more than 10% of the voting rights attaching to all issued and outstanding Ordinary Shares of the Company, except as follows:

Name	Designation of Class	Number	Percentage
James W. Stuckert	Ordinary Shares	8,820,850	15.48%

DIRECTORS AND OFFICERS**Names, Addresses, Occupations and Security Holdings**

Lachlan’s Constitution provides that one-third of the directors, excluding the Managing Director, shall retire by rotation annually. Retiring directors are eligible for re-election at the annual general meeting.

The following sets forth at the date of this AIF the name of each director and executive officer of Lachlan, their province or state and country of residence, their position(s) with the Company, their principal occupation during the preceding five years, and the date they first became a director of the Company.

Name and Residence	Position with the Company	Principal Occupation During Past Five Years	Director Since	Ordinary Shares beneficially owned directly or indirectly
Directors				
Michael J. McMullen ⁽²⁾ Western Australia, Australia	Executive Chairman	Geologist and consultant through his private family trust, Wildeville Pty Ltd as Trustee for the McMullen Family Trust (2005 to present). Formerly Managing Director and CEO of Northern Iron Limited (May 2007 to November 2010), director of Luiiri Gold Limited (September 2009 to November 2010) and Executive Technical Director of Tritton Resources Limited (December 2003 to August 2006).	September 26, 2007	2,476,712 (4.35%)
Declan T. Franzmann Queensland, Australia	Managing Director	Mining engineer through his private consulting company, Citraen Pty Ltd. (2005 to present). Formerly Executive Director of Lachlan (September 26, 2007 to August 31, 2008) and non-executive director of Lachlan (September 1, 2008 – November 30, 2010), and director of Every Day Mine Services Limited (March 2007 to November 2010) and Luiiri Gold Limited (August 2009 to November 2010).	September 26, 2007 ⁽¹⁾	1,217,320 (2.14%)
Peter B. Babin ⁽²⁾ Colorado, USA	Non-Executive Director	Attorney. Chief Executive Officer of CaIX Minerals, LLC (February 2011 to present); Manager, Satuit LLC (January 2004 to present). Formerly Director of DMC Newco Ltd (January 2009 to December 24, 2010, including Managing Director from August 2009 to May 2010), an unlisted Australian entity that was acquired by the Company on December 24, 2010.	December 24, 2010	3,322,384 (5.83%)
Scott G. Perry ⁽²⁾ Ontario, Canada	Non-Executive Director	Executive Vice-President and Chief Financial Officer at AuRico Gold Inc (February 2008 to present). Formerly Chief Financial Officer and director of Highland Gold Mining Limited (December 2006 to January 2008).	September 9, 2011	Nil (0%) ⁽³⁾
Executive Officers				
Robert A. Anderson Western Australia, Australia	Chief Financial Officer and Company Secretary	Chartered Accountant consulting through his private consulting company, Hyndford Holdings Pty Ltd. (2002 to present); Company Secretary of Carnarvon Petroleum Limited (November 2005 to present). Formerly Chief Financial Officer of Northern Iron Limited (May 2007 to September 2010); Company Secretary of Northern Iron Limited (May 2007 to December 2010); Chief Financial Officer of Carnarvon Petroleum Limited (November 2005 to May 2010)	Not applicable	393,080 (0.69%)

Notes:

- (1) There is currently no set date when this term of office will expire.
- (2) Indicates a member of the audit committee of the Board (the “**Audit Committee**”).
- (3) The Board has determined to issue 300,000 options to Mr. Perry. Option issuances to directors are subject to shareholder approval under ASX Listing Rules and the Shareholders will consider approving the grant of options to Mr. Perry at the annual general meeting of the Company in November 2011.

As of the date of this AIF, the directors and executive officers of Lachlan, as a group, beneficially owned, controlled or directed, directly or indirectly, 7,409,496 Ordinary Shares of Lachlan representing approximately 13.01% of the issued and outstanding Ordinary Shares, and held options to acquire an additional 400,002 Ordinary Shares, representing approximately 8.31% of the options and 0.65% of the Ordinary Shares on a fully-diluted basis. This does not include the 300,000 options proposed to be granted to Mr. Perry, as that grant requires shareholder approval, as indicated in note (3) to the above table.

Corporate Cease Trade Orders and Bankruptcies

No director or executive officer of the Company is, as at the date hereof or has been within the ten years prior to the date hereof, a director, chief executive officer or chief financial officer of any company that was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days issued: (1) while that person was acting as director, chief executive officer or chief financial officer; or (2) after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in that capacity.

No director or executive officer of Lachlan nor, to the knowledge of Lachlan, any Shareholder holding a sufficient number of securities of Lachlan to materially affect the control of Lachlan: (a) is, as at the date hereof, or has been within the ten years before the date hereof, a director or executive officer of any company (including Lachlan) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (b) has, within the ten years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of such director, executive officer or Shareholder.

Penalties or Sanctions

No director or executive officer of the Company or, to the Company’s knowledge, a Shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities authority, or has had any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

The directors and officers of Lachlan are, or may become, directors or officers of other companies with businesses which may conflict with the business of the Company. Directors are required to act honestly and in good faith with a view to the best interest to the Company and to abstain from voting in connection with the matter. To the best of the Company’s knowledge, there are no known existing or potential conflicts of interest between the Company and any director or officer of the Company as a result of their outside business interest at the date hereof. However, certain of the directors and officers serve as directors and/or officers of other companies. Accordingly, conflicts of interest may arise which would influence these persons in evaluating possible acquisitions or in generally acting on behalf of the Company.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

To the knowledge of the Company, there are no legal proceedings or regulatory actions material to the Company to which the Company is a party or to which any of its properties is or was subject during the financial period ended June 30, 2011, nor are there any such proceedings known to the Company to be contemplated, except as set out below.

In June 2011, the Company terminated the contract of one of its mining contractors in Chile, Martimech, for non performance under the terms of the mining contract. The Company has recently been made aware that Martimech intends to seek the appointment of an arbitrator under Chilean law who would be called to decide about the early termination of the contract. The Company remains confident that the contract was terminated in accordance with its terms. The Company intends to defend itself vigorously if this arbitration is brought, including considering bringing a counterclaim against Martimech.

There have been no penalties or sanctions imposed against the Company by a court relating to securities legislation or by a securities regulatory authority nor are there any other penalties or sanctions imposed by a court or regulatory body against the Company that would likely be considered important to a reasonable investor making an investment decision and the Company has not entered into any settlement agreements with a court or securities regulatory authority during the financial period ended June 30, 2011.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL CONTRACTS

Except as described below, no director or executive officer of the Company or a person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the issued and outstanding shares of the Company or any associate or affiliate of any of the foregoing persons or companies has any material interest, direct or indirect, in any transaction within the three most recently completed financial years of the Company or during the current financial year, that has materially affected or is reasonably expected to materially affect the Company.

At the date of this AIF, Mr. Stuckert has a beneficial interest in 15.48% of the issued and outstanding Ordinary Shares. He obtained this interest when the Company acquired all of the issued and outstanding shares of DMC (and thus acquired the CMD Gold Mine) in December 2010. Mr. Stuckert owned approximately 53% of the shares of DMC, which resulted in Mr. Stuckert being issued 529,251,000 Ordinary Shares at A\$0.015 per share, for an aggregate value of A\$7,938,765, upon closing of the acquisition. Prior to this transaction, Mr. Stuckert held no Ordinary Shares, and the transaction was completed on an arm's length basis.

Mr. Babin, a director of the Company, acquired his beneficial interest in 5.83% of the issued and outstanding Ordinary Shares when the Company acquired all of the issued and outstanding shares of DMC (and thus acquired the CMD Gold Mine) in December 2010. Mr. Babin owned approximately 20% of the shares of DMC, which resulted in Mr. Babin being issued 199,343,000 Ordinary Shares at A\$0.015 per share, for an aggregate value of A\$2,990,145, upon closing of the acquisition. Prior to this transaction, Mr. Babin held no Ordinary Shares, and the transaction was completed on an arm's length basis.

TRANSFER AGENT AND REGISTRAR

The Australian transfer agent and registrar for the Ordinary Shares is Computershare Investor Services Pty Limited, having an address at Level 2, 45 St Georges Terrace, Perth, WA Western Australia 6000.

The Canadian transfer agent and registrar for the Ordinary Shares is Equity Financial Trust Company at its principal offices in Toronto, Ontario and Vancouver, British Columbia.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the only material contracts into which the Company has entered since the beginning of the most recently completed financial year, or before the most recently completed financial year but are still in effect, are as follows:

1. Agency Agreement regarding the private placement of 18,400,000 Special Warrants and providing for the payment to the Agents of a commission in the aggregate amount of A\$905,280 and expenses and the issue of an aggregate of 1,104,000 Special Broker Warrants. See “*Description and General Development of the Business - General Description and Three Year History - Financing and Other Developments*”;
2. Special Warrant Indenture dated August 26, 2011 between the Company and Equity Financial Trust Company as special warrant agent providing for the issue of 18,400,000 Special Warrants. See “*Description and General Development of the Business - General Description and Three Year History - Financing and Other Developments*”; and
3. Warrant Indenture dated August 26, 2011 between the Company and Equity Financial Trust Company as warrant agent providing for the issue of up to 10,672,000 Warrants. See “*Description and General Development of the Business - General Description and Three Year History - Financing and Other Developments*”.

Copies of the above material contracts are available under the Company’s profile on SEDAR at www.sedar.com.

EXPERTS

Information of a scientific or technical nature regarding the CMD Gold Mine included in this AIF is based upon the CMD Technical Report. The CMD Technical Report was prepared for Coffey Mining by Mr. David Slater and Mr. Paul Thompson, each a “Qualified Person” as such term is defined in NI 43-101. Each of Messrs. Slater and Thompson consents to the inclusion in this AIF of the matters based on his information in the form and context in which it appears.

As at the date hereof, each of Mr. Slater, Mr. Thompson, their associates and their affiliates, beneficially owns, directly or indirectly, or has received or is entitled to receive, less than one percent of the outstanding securities of Lachlan.

STATEMENT OF EXECUTIVE COMPENSATION

Named Executive Officers

Lachlan’s compensation practices are designed to attract, motivate and retain highly qualified employees and executives to manage the business of the Company by rewarding individual and corporate performance and aligning the interests of the Named Executive Officers (as defined in Form 51-102F6 — *Statement of Executive Compensation*) (the “**Named Executive Officers**” or “**NEOs**”) with the Shareholders.

As at June 30, 2011, the Company had the following six NEOs:

- Michael McMullen (Executive Chairman);
- Declan Franzmann (Managing Director, effective December 1, 2010);
- Robert Anderson (Chief Financial Officer and Company Secretary);
- Kees Dekker (General Manager – Projects);
- Gaston di Parodi (General Manager CMD Gold Mine, effective December 24, 2010 on acquisition of the CMD Gold Mine); and
- Roberto Pardo (Finance Manager CMD Gold Mine, effective December 24, 2010 on acquisition of the CMD Gold Mine).

Compensation Discussion and Analysis

The objective of the Company’s compensation strategy is to compensate NEOs such that they are motivated to pursue the long-term growth and success of the Company and there is a clear relationship between performance and compensation. The Company’s compensation policies for NEOs are expected to remain the same once it becomes a reporting issuer in Canada.

Lachlan aims to reward NEOs with a level of remuneration commensurate with their position and responsibilities within the Company and so as to: (a) align the interests of the NEOs with the interests of the Shareholders; (b) ensure rewards are consistent with the strategic goals and performance of the Company; and (c) ensure total remuneration is competitive.

The elements of compensation earned, awarded or paid to the NEOs can include annual compensation in the form of a base salary including the superannuation (pension) contribution required under the *Superannuation Guarantee (Administration) Act 1992* (Cth) (the “**Superannuation Act**”), fixed allowances/benefits and, short term cash bonuses and long term incentives through the grant of options.

A NEO’s base salary is set so as to provide a base level of remuneration which is both appropriate to the position and competitive. Formal benchmarking to other companies is not performed.

Fixed remuneration is reviewed annually by the Board and the process consists of a review of companywide, business unit and individual performance, relevant comparative remuneration in the market and in the Company and, where appropriate, external advice on policies and practice.

As required under Superannuation Act, NEOs who are employees receive superannuation (pension) contributions which are a percentage of base salary.

Compensation arrangements can 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 Company’s performance (including earnings and the growth in share price), and the amount of any incentives within each executive’s remuneration.

When setting executive compensation for the financial year ended June 30, 2011, the Board did not take into consideration changes in the Company’s financial performance and in Shareholder wealth. No dividends were paid or declared.

The objective of the Company’s long term incentive policy is to reward executives and senior managers in a manner which aligns an element of their remuneration with the creation of shareholder wealth, as measured by increases in the price and value of the Company’s Ordinary Shares. Given the speculative nature of the Company’s activities and the small executive team responsible for its running, it is believed that the performance of the Company’s executives and the performance and value of the Company’s Ordinary Shares are closely related. As such, options are designed to only be of benefit to the NEOs if they perform to the level whereby the value of the Company increases sufficiently to warrant exercising the options granted.

Grants of long term incentives are generally determined by reference to market conditions, industry practice, and the amount of cash compensation paid to that NEO. Given the evolving nature of the Company’s business, the Company’s overall compensation plan is under constant review so as to continue to address its objectives.

The process for determining executive compensation is based predominately on Board discussion with currently no formal key performance indicators set by the Board for the executives. The Managing Director and Chairman regularly review the compensation packages of the executive team, and make recommendations to the Board with respect to these packages. Approval of the executive compensation packages is by Board approval, and in the case where an executive is also a director, that executive is not eligible to vote on the relevant compensation package.

The executive management services that Mr. McMullen, Mr Anderson, and Mr Franzmann provide to the Company are provided through Wildeville Enterprises Pty Ltd. (“**Wildeville**”), Hyndford Holdings Pty Ltd. (“**Hyndford**”), and Citraen Pty Ltd (“**Citraen**”), respectively. See “*Statement of Executive Compensation — External Management Companies*”.

Mr. Dekker is engaged through an employment agreement with no fixed expiry date. Termination by the Company is with one month’s notice or payment in lieu thereof. Termination by the employee is with one month’s notice. The

annual salary of 1.2 million South African rand is reduced on a pro rata basis based on the number of hours Mr Dekker provides services to third parties.

Mr. di Parodi is engaged by CMD through an employment agreement with no fixed expiry date. Termination by the Company is with one month's notice or payment in lieu thereof. Termination by the employee is with two month's notice.

Mr. Pardo is engaged by CMD through an employment agreement with no fixed expiry date. Termination by the Company is with one month's notice or payment in lieu thereof. Termination by the employee is with two month's notice.

Option-Based Awards

The Company does not have an employee stock option plan. However, the Company does from time to time issue options to purchase Ordinary Shares to selected directors, officers and employees. The Board has sole discretion to determine to whom option grants should be made and to determine the terms and conditions of any such options. The number and terms of outstanding options are taken into consideration when determining whether and how many new options should be granted. Under ASX listing rules, grants of options to directors are subject to Shareholder approval. Until such time as the Company adopts a stock option plan that is approved by the Shareholders, under the TSX Company Manual, all grants of stock options will be subject to Shareholder approval, subject to limited exceptions set out in the TSX Company Manual.

Previous grants of option-based awards are taken into account when considering new grants and option strike prices are typically set at a minimum premium of 25% above the five-day volume weighted average price of the Ordinary Shares prior to the Company approving the option issue.

Incentive Plan Awards - NEOs

The following table provides information regarding the incentive plan awards for each NEO outstanding as of June 30, 2011. There were no share based awards outstanding at this date.

Name	Option-based awards			Value of unexercised in-the-money options (A\$)
	Number of securities underlying unexercised options	Option exercise price (A\$)	Option expiration date	
Michael McMullen	66,667	1.20	November 18, 2011	Nil
Michael McMullen	66,667	1.50	November 18, 2012	Nil
Declan Franzmann	66,667	1.20	November 18, 2011	Nil
Declan Franzmann	66,667	1.50	November 18, 2012	Nil
Robert Anderson	66,667	1.20	November 18, 2011	Nil
Robert Anderson	66,667	1.50	November 18, 2012	Nil
Kees Dekker	66,667	1.20	November 18, 2011	Nil
Kees Dekker	66,667	1.50	November 18, 2012	Nil
Gaston di Parodi	33,334	1.20	December 20, 2013	Nil
Gaston di Parodi	33,334	1.50	December 20, 2013	Nil
Roberto Pardo	25,000	1.20	December 20, 2013	Nil
Roberto Pardo	25,000	1.50	December 20, 2013	Nil

The Board has also determined to issue further options, subject to Shareholder approval, to Michael McMullen, Declan Franzmann, Robert Anderson and Kees Dekker. See "*Description of Capital Structure*".

Incentive Plan Awards — Value Vested or Earned During the Year

All unlisted options issued to NEOs during the year ended June 30, 2011 vested immediately. There were no share based awards or non-equity incentive plan compensation that were granted or vested during the year.

All options on issue vested on the grant date. The exercise price is set at a premium to the prevailing share price as determined by the Board. There are no performance goals attached to options. The exercise price of the options granted during the most recently completed financial year was higher than the closing market price on the grant date.

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one Ordinary Share of the Company with full dividend and voting rights.

Pension Plan Benefits

The Company does not have a pension plan and has not provided any pension plan benefits to its NEOs.

Directors' Compensation

The following table sets forth the amount of all compensation provided to the directors of the Company for the year ended June 30, 2011.

Name	Fees earned (A\$)	All Other Compensation (A\$) ⁽¹⁾	Total (\$A)
Michael McMullen (Executive Chairman)	272,500	-	272,500
Declan Franzmann (Managing Director)	295,500	-	295,500
Thomas Duckworth (Non-Executive Director) ⁽²⁾	-	30,000	30,000
Peter Babin (Non-Executive Director) ⁽³⁾	15,658	-	15,658

Notes:

- (1) "All Other Compensation" is comprised of superannuation entitlement under Australian law. See "*Compensation Discussion and Analysis*", above.
- (2) Mr. Duckworth retired as a director on September 9, 2011.
- (3) Mr. Babin was appointed a director on December 24, 2010.

Narrative Discussion

During the most recently completed financial year, each non-executive director received fees for services rendered during that year as shown in the above table. Directors are also reimbursed for all reasonable expenses incurred in their capacity of directors. Generally, directors of Lachlan do not receive additional amounts for committee participation or special assignments, however, should the non-executive directors provide services in excess of those expected of such a position, the Company will provide reasonable remuneration for those services. There are no other arrangements under which directors were compensated for their services as directors or as consultants or experts during the Company's most recently completed financial year.

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, at a reasonable cost to the Company.

The ASX listing rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by the Shareholders in a general meeting. An amount not exceeding that amount is then divided between the directors as agreed. The latest determination was at a general meeting on November 7, 2001 when Shareholders approved aggregate remuneration of A\$250,000 per year.

Non-executive directors may also be awarded options with the approval of Shareholders. The issue of options to non-executive directors is considered an appropriate method of providing sufficient incentive and reward whilst maintaining cash reserves.

The Board reviews the remuneration packages for the non-executive directors on an annual basis. The Board considers fees paid to non-executive directors of comparable companies when undertaking the annual review process. Comparable companies considered were Dragon Mining Limited and BCD Resources NL.

Incentive Plan Awards – Directors

The following table provides information regarding the incentive plan awards for each director, other than those included as NEOs in the section “*Incentive Plan Awards – NEOs*” above, outstanding as of June 30, 2011. There were no other share based awards outstanding at this date.

Name	Option-based awards			Value of unexercised in-the-money options (A\$)
	Number of securities underlying unexercised options	Option exercise price (A\$)	Option expiration date	
Thomas Duckworth	66,667	1.20	November 18, 2011	Nil
Thomas Duckworth	66,667	1.50	November 18, 2012	Nil

Note:

(1) Mr. Duckworth retired as a director on September 9, 2011.

The Board has also determined to issue further options, subject to Shareholder approval, to Peter Babin and Scott Perry. See “*Description of Capital Structure*”.

There was no vesting of director option based awards during the year ending June 30, 2011.

External Management Companies

None of Mr. McMullen, Mr. Anderson and Mr. Franzmann is an employee of the Company as their services to the Company are provided through consultancy agreements (each a “**consultancy agreement**”) with Wildeville, Hyndford, and Citraen, respectively. The consultancy agreements have the common material terms described below.

The consultancy agreements do not contain any change of control provisions.

The Company may terminate the consultancy agreement immediately by notice to the consultant company if the consultant company or the individual providing the consulting services on behalf of the consulting company (the “**consultant**”) is guilty of misconduct (including, without limitation, wilful misconduct, fraud or dishonesty) in relation to the affairs of the Company, or the consultant company or the consultant is charged with any offence which, in the reasonable opinion of the Board, has injured, or would tend to injure, the reputation or business of the Company, or the consultant company is guilty of any material or persistent default, breach, non-observance or non-performance of any of the terms or conditions of this agreement, or the consultant company goes into liquidation (except voluntary liquidation for the purpose of amalgamation or reconstruction) or has an administrator appointed to it, or a receiver or receiver and manager is appointed over the whole or any part of its undertaking or assets or if the consultant commits an act of bankruptcy or ceases for any reason to be eligible to hold office as a director of a company, or becomes permanently incapacitated by accident or illness from performing the services set out in the consultancy agreement, or by giving one month’s notice and paying to the consultant company a lump sum termination payment equal to twelve months consultancy fee.

For the purposes of the above paragraph, incapacity rendering the consultant unable to perform the services set out in the consultancy agreement (the “**Services**”) for a period aggregating more than three months in any six month period or for any period beyond three consecutive months, is taken to be permanent incapacity, but these periods may be reviewed at the discretion of the Company.

The consultant company may terminate the consultancy agreement immediately by notice to the Company if the Company enters into liquidation (except voluntary liquidation for the purpose of amalgamation or reconstruction) or has an administrator appointed to it, or a receiver or receiver and manager is appointed over the whole or any part of the undertaking or assets of the Company, or the Company requires the consultant company over a period aggregating more than 30 days in any two month period or for any period beyond 60 consecutive days to perform tasks or services which are materially different to the Services and substantially inconsistent with the consultant’s experience, expertise or qualifications, in which event the Company shall pay to the consultant company a lump sum termination payment equal to twelve months consultancy fee; by giving 28 days’ notice if the Company fails to pay

any money due to the consultant company under this agreement within 14 days after a notice from the consultant company demanding such payment, in which event the Company shall pay to the consultant company a lump sum termination payment equal to twelve months consultancy fee; by giving not less than three months' prior notice of termination unless agreed otherwise with the Board.

Nothing contained in or implied by the consultancy agreement prevents the consultant company from providing or agreeing to provide to any other person, firm or company services the same as or similar to the Services provided that the provision of such services does not in any way impair or hinder the performance by the Consultant of its duties under the consultancy agreement.

Current consultancy fees payable under the consultancy agreement with Wildeville are \$360,000 per annum plus GST. The consultancy agreement expires on July 31, 2012.

Current consultancy fees payable under the consultancy agreement with Hyndford are \$220,000 plus GST per annum. The consultancy agreement expires on July 31, 2012.

Current consultancy fees payable under the consultancy agreement with Citraen are \$420,000 plus GST per annum. The consultancy agreement expires on October 31, 2013.

Termination and Change of Control Benefits

The terms of the NEOs' consultancy agreements relating to termination provisions are set out in sections "*External Management Companies*", above. Currently, there are no contracts, agreements, plans or arrangements that provide for payments to an NEO at, following or in connection with change in control of the Company.

The termination payment applicable to the employment agreement with Mr. Dekker is one month's salary. The termination payments for Messrs. di Parodi and Pardo are one month's salary plus accrued long service entitlements, which vary with length of service.

The estimated maximum amount payable for a termination event on June 30, 2011 would have been:

<u>Name</u>	<u>Termination payable</u>
	(A\$)
Michael McMullen	360,000
Declan Franzmann	420,000
Robert Anderson	220,000
Kees Dekker	14,475
Gaston di Parodi	127,637
Roberto Pardo	257,494

EQUITY COMPENSATION PLANS

The Company does not have a formal equity compensation plans. However, the Company does from time to time issue options to purchase Ordinary Shares to selected directors, officers and employees. The Board has sole discretion to determine to whom option grants should be made and the terms and conditions of any such options. The number and terms of outstanding options are taken into consideration when determining whether and how many new options should be granted. Pursuant to the listing rules of the ASX, all option grants to directors are subject to approval of the Shareholders. Pursuant to the TSX Company Manual, all security based compensation arrangements will require the approval of Shareholders, subject to limited exceptions, until such time, if any, as the Company adopts and the Shareholders approve a formal stock option plan. The following table summarizes the Company's stock option arrangements in place with respect to its directors, officers and employees as of June 30, 2011.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Plan Category	(a)	(b)	(c)
Equity compensation plans approved by securityholders	1,413,447	A\$1.31	Nil
Equity compensation plans not approved by securityholders	Nil	Nil	Nil
Total	1,413,447	A\$1.31	Nil

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

Other than as described below, no directors or executive officers or employees, or former executive officers, directors or employees, of the Company or any of its subsidiaries are indebted to the Company or any of its subsidiaries.

Aggregate Indebtedness (US\$)

<u>Purpose</u>	To the Company or its	
	<u>Subsidiaries</u>	<u>To Another Entity</u>
(a)	(b)	(c)
Share purchases	Nil	Nil
Other	US\$21,225	Nil

In August 2010 CMD granted an interest free, unsecured loan to a senior employee in the amount of US\$21,225. This loan is repayable on or before December 31, 2011.

The Company does not have any securities purchase programme or any other lending or credit support programme.

AUDIT COMMITTEE

Audit Committee Charter

The purpose of the Audit Committee is to assist the Board in fulfilling its obligations and responsibilities relating to financial reporting, internal controls, corporate governance and the internal and external audit processes.

The full text of the charter of Lachlan's Audit Committee is attached to this AIF as Appendix A. This Charter was adopted by the Board on September 19, 2011. The Company recognizes that it is not currently in compliance with the Charter as only two of the three members of the Audit Committee are independent directors within the meaning of National Instrument 52-110 — *Audit Committee* ("NI 52-110"). It is the Company's intention to appoint another financially literate and independent director to the Board and Audit Committee as soon as possible.

Composition of the Audit Committee

The Audit Committee members are Mr. Babin and Mr. Perry, who are independent directors within the meaning of NI 52-110, and Mr. McMullen, who is Executive Chairman and not an independent director within the meaning of NI 52-110. The Company is not currently required to comply with NI 52-110 as the Company is a "designated foreign issuer" within the meaning of National Instrument 71-102 – *Continuous Disclosure and Other Exemptions Relating to Foreign Issuers*. However, it is the Company's intention to appoint another financially literate and independent director to the Board and Audit Committee as soon as possible.

External Auditor Service Fees

The following table provides details of the aggregate fees billed by Lachlan's external auditor, PricewaterhouseCoopers ("PWC") for each of the last two financial years.

	Financial year ended June 30, 2011	Financial year ended June 30, 2010
	(A\$)	(A\$)
Audit fees	244,915	42,200
Audit-related fees	Nil	Nil
Tax fees	55,300	-
All other fees	19,800	-
	<u>320,015</u>	<u>42,200</u>

Audit fees were paid for professional services rendered by PWC for the audit and audit review the Lachlan's annual and half yearly and financial statements, including those of its subsidiaries. In the case of CMD, these include fees for the audit and audit review of previous financial periods which had not previously been subject to audit and audit review.

Tax fees were paid in respect of a taxation due diligence report prepared in relation to the acquisition of the CMD Gold Mine. All other fees relate to the review of documents and financial reports related to the Company's application for listing on the TSX.

AUDITOR

The auditors of the Company are PWC, having an address at QV1, 250 St Georges Terrace, Perth, Western Australia, 6000.

GLOSSARY OF MINING TERMS

The following is a glossary of mining terms that are used in this AIF.

<u>Abbreviation</u>	<u>Definition</u>	<u>Abbreviation</u>	<u>Definition</u>
Au	gold	Mt	million tonnes
g/t	grams per tonne	OK	Ordinary Kriging
ha	hectare, being a unit of area defined as 10,000 square metres	oz	troy ounce
koz	1,000 ounces	tonne	metric tonne, being a unit of mass equal to 1,000 kilograms

**APPENDIX A
LACHLAN STAR LIMITED
AUDIT COMMITTEE CHARTER**

In this Charter, a reference to the “Company” means Lachlan Star Limited and the economic entity constituted by Lachlan Star Limited and the entities that it controls from time to time.

1. PURPOSE AND OBJECTIVE

The Audit Committee (“Committee”) is a committee of the board of directors (“Board”) of the Company. The Committee’s purpose is to assist the Board in fulfilling its obligations and responsibilities relating to financial reporting, internal controls, corporate governance and the internal and external audit processes.

2. AUTHORITY

- 2.1. The Board authorizes the Committee to investigate any activity within its terms of reference or involving financial accounting and financial reporting and internal controls.
- 2.2. The Board authorizes the Committee to seek any information it requires from any employee and from external parties, to engage external legal or professional advice and to ensure the attendance of Company officers at meetings, as the Committee deems appropriate.
- 2.3. The Committee shall receive appropriate funding, as determined by the Committee, for payment of compensation to the external auditors and to any legal or other advisers employed by the Committee, and for payment of ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.
- 2.4. The Committee may communicate directly with the internal and external auditors.

3. COMPOSITION, PROCEDURES AND ORGANIZATION

- 3.1. The Committee shall consist of at least three independent, non-executive members of the Board.
- 3.2. Except as permitted by all applicable legal and regulatory requirements:
 - (a) each member of the Committee shall be “independent” as defined in accordance with Canadian National Instrument 52-110 – Audit Committees; and
 - (b) each member of the Committee shall be “financially literate” with the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company’s financial statements.
- 3.3. The Board shall review Committee membership on an annual basis and at other times as the Board may deem appropriate. The Board may at any time remove or replace any member of the Committee and may fill any vacancy in the Committee.
- 3.4. The members of the Committee shall be entitled to receive such remuneration for acting as members of the Committee as the Board may from time to time determine.

4. ROLES AND RESPONSIBILITIES

The roles and responsibilities of the Committee are as follows:

- 4.1. Oversee the accounting and financial reporting processes of the Company and the audits of the financial statements of the Company.

- 4.2. Review with management its philosophy with respect to controlling corporate assets and information systems, the staffing of key functions and its plans for enhancements.
- 4.3. Prepare a statement, in accordance with applicable law, for inclusion in the Company's annual report that describes the Committee's composition, activities and responsibilities.
- 4.4. Review the terms of reference and effectiveness of any internal audit process, and the working relationship between internal financial personnel and the external auditor.
- 4.5. Gain an understanding of the current areas of greatest financial risk and whether management is managing these effectively.
- 4.6. Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements, reviewing with management and the external auditor where appropriate.
- 4.7. Review any legal matters which could significantly impact the financial statements as reported on by the Company's legal counsel and meet with outside counsel whenever deemed appropriate.
- 4.8. Review the annual financial statements and the results of the audit with management and the external auditors prior to the release or distribution of such statements, and obtain an explanation from management of all significant variances between comparative reporting periods.
- 4.9. Review the interim financial statements with management prior to the release or distribution of such statements, and obtain an explanation from management of all significant variances between comparative reporting periods.
- 4.10. Assess the fairness of the financial statements and disclosures, and obtain explanations from management on whether:
 - (a) actual financial results for the financial period varied significantly from budgeted or projected results;
 - (b) applicable generally accepted accounting principles have been consistently applied;
 - (c) there are any actual or proposed changes in accounting or financial reporting practices; and
 - (d) there are any significant, complex and/or unusual events or transactions such as related party transactions or those involving derivative instruments and consider the adequacy of disclosure thereof.
- 4.11. Review all public disclosure concerning audited or unaudited financial information before its public release and approval by the Board, including management's discussion and analysis, financial information contained in any prospectus, private placement offering document, annual report, annual information form, takeover bid circular, and any annual and interim earnings press releases, and determine whether they are complete and consistent with the information known to Committee members.
- 4.12. Determine whether the auditors are satisfied that the financial statements have been prepared in accordance with applicable generally accepted accounting principles.
- 4.13. Focus on judgmental areas, for example those involving valuation of assets and liabilities and other commitments and contingencies.
- 4.14. Review audit issues related to the Company's material associated and affiliated companies that may have a significant impact on the Company's equity investment.
- 4.15. Ascertain whether any significant financial reporting issues were discussed by management and the external auditor during the fiscal period and the method of resolution.

- 4.16. Review and resolve any significant disagreement between management and the external auditors in connection with the preparation of the financial statements.
- 4.17. Recommend to the Board the selection of the firm of external auditors to be proposed for election as the external auditors of the Company.
- 4.18. Review and approve the proposed audit plan and the external auditors' proposed audit scope and approach with the external auditor and management and ensure no unjustifiable restriction or limitations have been placed on the scope.
- 4.19. Explicitly approve, in advance, all audit and non audit engagements of the external auditors; provided, however, that non audit engagements may be approved pursuant to a pre approval policy established by the Committee that: (i) is detailed as to the services that may be pre approved, (ii) does not permit delegation of approval authority to the Company's management, and (iii) requires that the delegate or management inform the Committee of each service approved and performed under the policy. Approval for minor non audit services is subject to applicable securities laws.
- 4.20. If it so elects, delegate to one or more members of the Committee the authority to grant the pre approvals referred to in paragraph 4.19. The delegate's decisions regarding approval of services shall be reported by such delegate to the full Committee at each regular Committee meeting.
- 4.21. Subject to the grant by the shareholders of the authority to do so, if required, review the appropriateness and reasonableness of the compensation to be paid to the external auditors and make a recommendation to the Board regarding such compensation.
- 4.22. Oversee the independence of the external auditors. Obtain from the external auditors a formal written statement delineating all relationships between the external auditors and the Company. Actively engage in a dialogue with the external auditors with respect to any disclosed relationships or services that impact the objectivity and independence of the external auditor.
- 4.23. Review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Company.
- 4.24. Review the performance of the external auditors, and in the event of a proposed change of auditor, review all issues relating to the change, including the information to be included in any notice of change of auditor as required under applicable securities laws, and the planned steps for an orderly transition.
- 4.25. Review the post-audit or management letter containing the recommendations of the external auditor and management's response and subsequent follow-up to any identified weakness.
- 4.26. Review the evaluation of internal controls and management information systems by the external auditor, and, if applicable, the internal audit process, together with management's response to any identified weaknesses and obtain reasonable assurance that the accounting systems are reliable and that the system of internal controls is effectively designed and implemented.
- 4.27. Gain an understanding of whether internal control recommendations made by external auditors have been implemented by management.
- 4.28. Review the process under which the Managing Director and the Chief Financial Officer evaluate and report on the effectiveness of the Company's design of internal control over financial reporting and disclosure controls and procedures.
- 4.29. Obtain regular updates from management and the Company's legal counsel regarding compliance matters, as well as certificates from the Chief Financial Officer as to required statutory payments and bank covenant compliance and from senior operating personnel as to permit compliance.

- 4.30. Establish a procedure for the:
- (a) confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters, and
 - (b) receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters.
- 4.31. Meet separately with the external auditors to discuss any matters that the Committee or auditors believe should be discussed privately.
- 4.32. Endeavour to cause the receipt and discussion on a timely basis of any significant findings and recommendations made by the external auditors.
- 4.33. Ensure that the Board is aware of matters which may significantly impact the financial condition or affairs of the business.
- 4.34. Review and assess the adequacy of this Charter from time to time and recommend any changes to the Board for approval.
- 4.35. Review and assess the adequacy of insurance coverage, including directors' and officers' liability coverage.
- 4.36. If it deems necessary, institute special investigations and, if it deems appropriate, hire special counsel or experts to assist, and set the compensation to be paid to such special counsel or other experts.
- 4.37. Perform other functions as requested by the full Board.

5. MEETINGS

- 5.1. The Committee shall elect from its members a Chairman, who shall not also be the chairman of the Board. The Chairman shall have the duties and responsibilities set out in Schedule A hereto.
- 5.2. The secretary of the Committee (the "Secretary") will be the company secretary or such other person appointed by the Board.
- 5.3. A record of the minutes of, and the attendance at, each meeting of the Committee shall be kept and maintained by the Secretary. The Secretary shall ensure the minutes are maintained in a secure environment and shall ensure approved minutes are circulated to the Board forthwith.
- 5.4. The Committee shall meet at least once in each financial reporting period, each such meeting being designed to coincide with the Company's reporting of its interim and annual financial results. Therefore, if pursuant to applicable regulatory or stock exchange requirements the Company is required by to report financial results on an annual and half-yearly basis, the Committee shall meet at least twice per year, and if the Company is required to report financial results on an annual and quarterly basis, the Committee shall meet at least four times per year. The Committee shall hold additional Committee meetings as and when the Committee may otherwise deem appropriate.
- 5.5. No business may be transacted by the Committee except at a meeting at which a quorum is present. Two Committee members shall constitute quorum.
- 5.6. The times and places where meetings of the Committee shall be held and the procedures at such meetings shall be as determined, from time to time, by the Committee. Committee meetings may be held in person or over the telephone or as the Committee may otherwise deem fit.

- 5.7. Notice of each meeting of the Committee shall be given to each member of the Committee. Members may waive notice of any meeting. Attendance at a meeting shall be deemed to constitute waiver of notice, unless specific objection to notice is raised at the commencement of the meeting.
- 5.8. The Committee may invite such other persons to attend its meetings, including the managing director, the chief financial officer, the company secretary, general counsel and the external auditor, as it deems necessary.

SCHEDULE A**DUTIES OF THE CHAIRMAN OF THE AUDIT COMMITTEE**

In addition to the duties and responsibilities set out in the Charter of the Audit Committee, the Chairman of the Audit Committee has the duties and responsibilities described below:

1. Provide overall leadership to facilitate the effective functioning of the Committee, including:
 - (a) overseeing the structure, composition, membership and activities delegated to the Committee;
 - (b) chairing every meeting of the Committee and encouraging free and open discussion at meetings of the Committee;
 - (c) scheduling and setting the agenda for Committee meetings with input from other Committee members, the Chair of the Board of Directors and management as appropriate;
 - (d) facilitating the timely, accurate and proper flow of information to and from the Committee;
 - (e) arranging for management, internal and external auditors and others to attend and present at Committee meetings as appropriate;
 - (f) arranging sufficient time during Committee meetings to fully discuss agenda items;
 - (g) encouraging Committee members to ask questions and express viewpoints during meetings; and
 - (h) taking all other reasonable steps to ensure that the responsibilities and duties of the Committee, as outlined in its Charter, are well understood by the Committee members and executed as effectively as possible.
2. Foster ethical and responsible decision making by the Committee and its individual members.
3. Encourage the Committee to meet in separate, regularly scheduled, non-management, closed sessions with the independent auditors.
4. Following each meeting of the Committee, report to the Board of Directors on the activities, findings and any recommendations of the Committee.
5. Carry out other such duties as may reasonably be requested by the Board of Directors.