

**LACHLAN STAR LIMITED**

**ABN 88 000 759 535**

**INTERIM FINANCIAL REPORT  
31 DECEMBER 2011**

**CORPORATE DIRECTORY**

**Directors**

Michael James McMullen (Executive Chairman)  
Declan Thomas Franzmann (Executive Director)  
Peter Bartley Babin (Non-Executive Director)  
Scott Graeme Perry (Non-Executive Director)

**Company Secretary**

Robert Alexander Anderson

**Auditors**

PricewaterhouseCoopers  
QV1, 250 St Georges Terrace  
Perth WA 6000

**Bankers**

Westpac Banking Corporation  
109 St Georges Terrace  
Perth WA 6000

**Registered Office**

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**Share Registry**

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

Investor Enquiries: 1300 850 505 (within Australia)  
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**Stock Exchange Listing**

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

ASX Code: LSA - Ordinary shares  
TSX Code: LSA - Ordinary shares

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## **DIRECTORS' REPORT**

The directors present their report consisting of Lachlan Star Limited and the entities it controlled at the end of or during the half-year ended 31 December 2011 together with the consolidated financial report for the half-year ended 31 December 2011, and the independent review report thereon.

### **Directors**

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

Michael McMullen  
Declan Franzmann  
Peter Babin  
Scott Perry (appointed 9 September 2011)  
Thomas Duckworth (resigned 9 September 2011)

### **Review of operations**

The consolidated entity's profit for the half-year ended 31 December 2011 was \$5,230,000 (2010: loss of \$1,505,000) after recognising:

- pre-tax profit of \$2,299,000 (2010: loss of \$180,000) from operations at the CMD Gold Mine in Chile after charging depreciation and amortisation of \$2,546,000 (2010: \$316,000)
- a foreign exchange gain of \$848,000 (2010: \$Nil), primarily related to the strengthening of the US\$ to the Chilean Peso over the period
- finance income of \$230,000 (2010: \$66,000) earned on cash held on hand during the period
- an income tax credit of \$3,649,000 (2010: \$Nil) arising from the recognition of a deferred tax asset in respect of tax losses and temporary differences of a Chilean subsidiary company

The Company's primary focus is on gold and copper in Chile. Projects within the gold sector provide the Company with an exposure to the gold price, which increased from US\$1,505 to US\$1,531 per ounce over the half-year. Projects within the copper sector provide the Company with an exposure to the strong demand from China and from the rest of Asia, Europe and the Americas.

### *CMD*

On 24 December 2010 the Company completed the acquisition of the Compania Minera Dayton ("CMD") Gold Mine ("CMD Gold Mine") in Chile and joined the ranks of gold producers. The CMD Gold Mine is located approximately 350km north of Santiago and at an elevation of 1,000 metres. Access to the project is excellent via a sealed road. The mine was developed in 1995 and has produced over 860,000 ounces of gold plus minor copper and silver since opening. It is located immediately adjacent to Teck Resources Limited's large Andacollo copper-gold mine.

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Table 1 contains the Key Performance Indicators (KPI's) for the December 2011 and June 2011 half-years.

Item	Unit	6 months ended	6 months ended
		31-Dec-11	30-Jun-11
Ore Mined	dmt	1,620,902	1,128,072
Waste Mined	dmt	5,434,360	7,594,498
Total Mined	dmt	7,055,262	8,722,570
Waste:Ore Ratio	t:t	3.35	6.73
Ore grade Mined	Au g/t	0.59	0.59
Gold Mined	Au oz	30,818	21,376
Ore stacked	dmt	1,608,733	1,128,072
Stacked Grade	Au g/t	0.58	0.60
Gold Stacked	Au oz	29,794	21,382
Average stacking rate	dmt/d	8,743	6,164
Gold Produced	Au oz	21,656	18,482
Mining Cost/t moved	US\$/t	\$2.26	\$1.79
Mining Cost/t ore	US\$/t	\$9.85	\$13.81
Process Cost/t ore stacked	US\$/t	\$7.51	\$8.30
G+A Cost/t ore	US\$/t	\$1.55	\$2.06
Total Cost/t ore	US\$/t	\$18.91	\$24.16
Average Sales Price	USD/oz	\$1,687	\$1,461
Cash Cost	USD/oz	\$831	\$815
Non Cash Process Inventory Adjustment	USD/oz	\$42	\$67
C1 Cash Cost	USD/oz	\$872	\$881

*Table 1 - KPIs*

C1 cash costs, which exclude waste costs expensed or amortised and royalties, decreased during the December half-year to US\$872 per ounce of gold sold, down from \$881 per ounce in the June 2011 half-year, a decrease of 1.0%. Increased production levels and reduced process and General and Administration ('G&A') unit costs primarily contributed to this improved result.

The inventory adjustment for the December half-year reflects the drawdown of ounces from the leachpad from pouring more ounces of gold than were stacked during the period.

Total costs per tonne of ore stacked decreased 21.7% from the June half-year to the December half-year. The increase in ore stacking rates led to reductions in process and G&A costs per tonne, down 9.6% and 24.7% respectively from the June half-year to the December half-year. Mining cost per tonne of ore fell 28.7% over the same period due to the 43.7% increase in tonnes of ore mined.

The CMD Gold Mine was acquired on 24 December 2010 and therefore there are no comparative production or cash cost numbers presented for that operation for the 6 months ended 31 December 2010..

**Mining**

Ore was sourced from the Las Loas, Churumata, Tres Perlas, Toro and Chisperos pits, as well as mining of remnant tailings. Ore production by mine area is shown in Figure 1 for the June and December 2011 half-years.

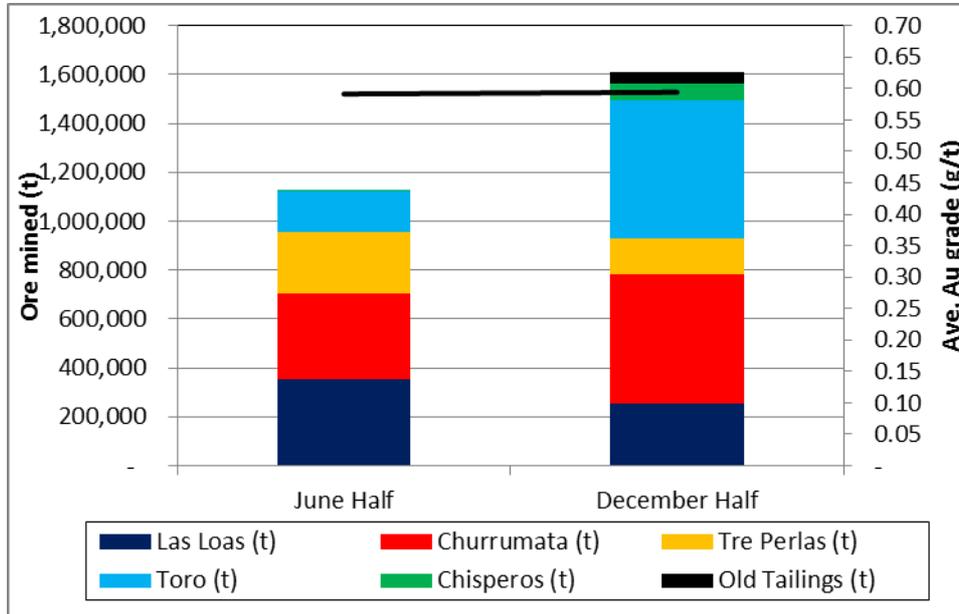


Figure 1 – Mine production by area and average gold grade

Ore mined increased by 43.7% from the June to the December half-years and was a record under Lachlan’s ownership. The average ore grade remained constant at 0.59 g/t Au.

During the December half-year the waste to ore ratio decreased to 3.35:1 from 6.73:1 in the June half-year as shown in Figure 2, with total waste movement of 5.4 Mt during the period. The material decrease in the waste:ore ratio was achieved despite a major prestrip at the Chisperos pit. The operating waste:ore ratio for the December half-year after deducting the pre strip was 2.79:1.

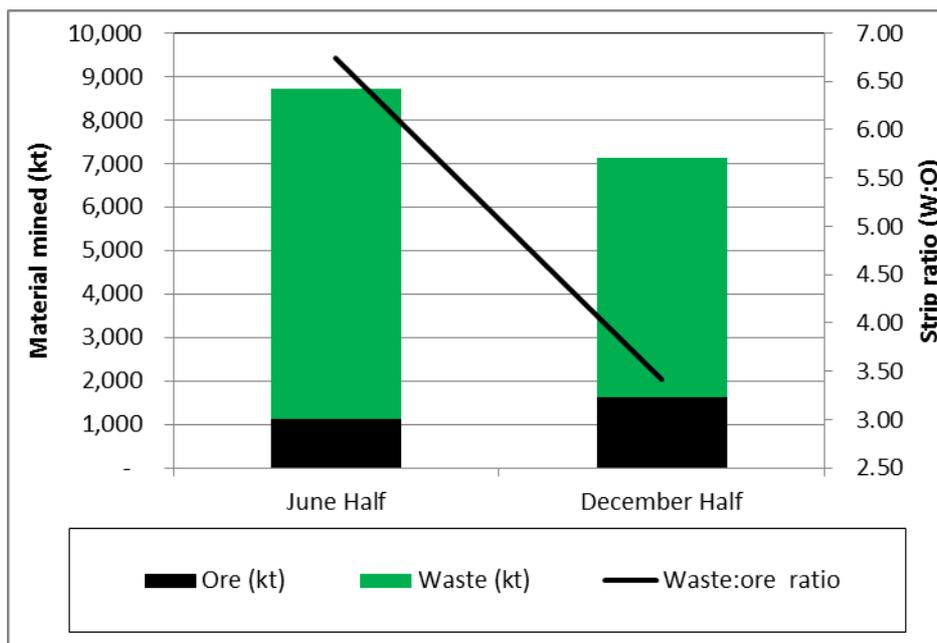


Figure 2 – Total mine movement and waste:ore ratio

The Company expects that the overall waste:ore ratio will continue to remain at similar levels throughout the March 2012 quarter. The strip ratio for the operation is at present mostly driven by the pre-strip of the Chisperos Pit, which peaked at 26:1 in November and is rapidly declining (17.5:1 in December 2011 and 13:1 in January 2012). Once this pre-strip has been completed the strip ratio is anticipated to decrease further.

**Mine Reconciliation**

The trend of mining a majority of the ore from outside both the mineral reserve and resource continued into the December half. As illustrated in Figures 3 and 4 respectively, 75% of the ore mined in the December half-year was sourced from outside the mineral reserve, and 60% of the ore was mined from outside the mineral resource.

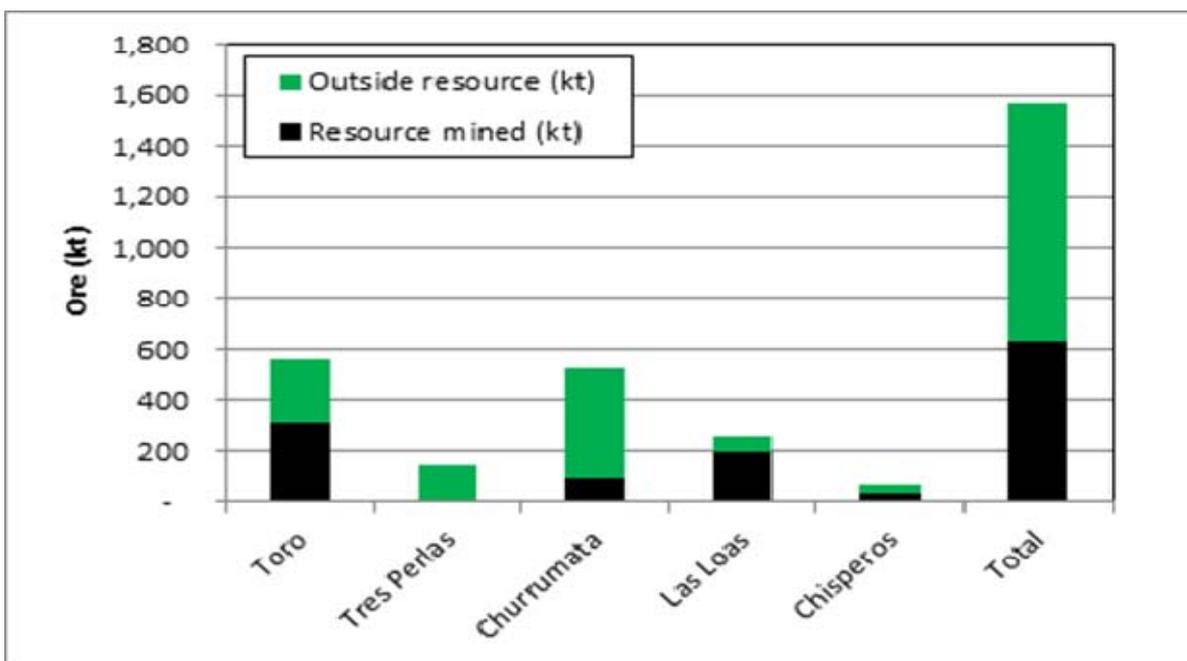


Figure 3 – Mineral resource reconciliation (December half-year)

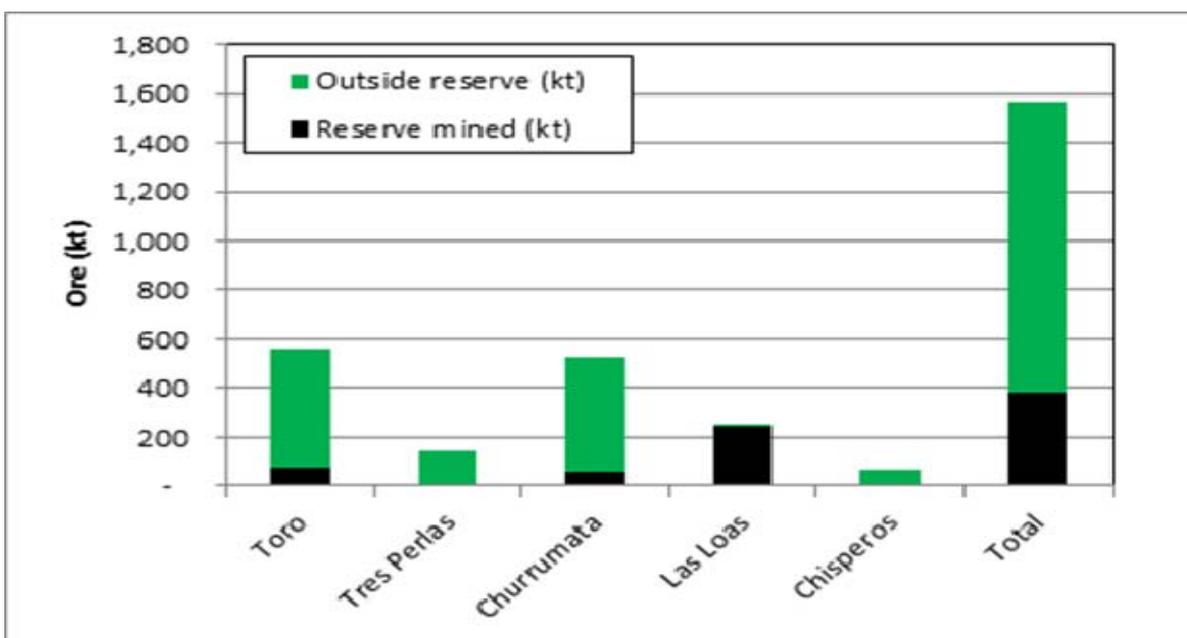


Figure 4 – Mineral reserve reconciliation (December half-year)

Unit mining costs increased to US\$2.26/t moved in the December half-year (a 26.5% increase from the June half-year) which is considered to be higher than achievable. Mining cost reduction is a major focus for the Company given the impact on total costs per tonne of ore stacked.

Ore Processing

Ore stacked in the December half-year increased 42.6% over the June half-year, which had a positive impact on process costs per tonne of ore stacked (down 9.6 % from the June half-year) as shown in Figure 5, despite the additional costs associated with rehandling ore for the dynamic leaching (refer below).

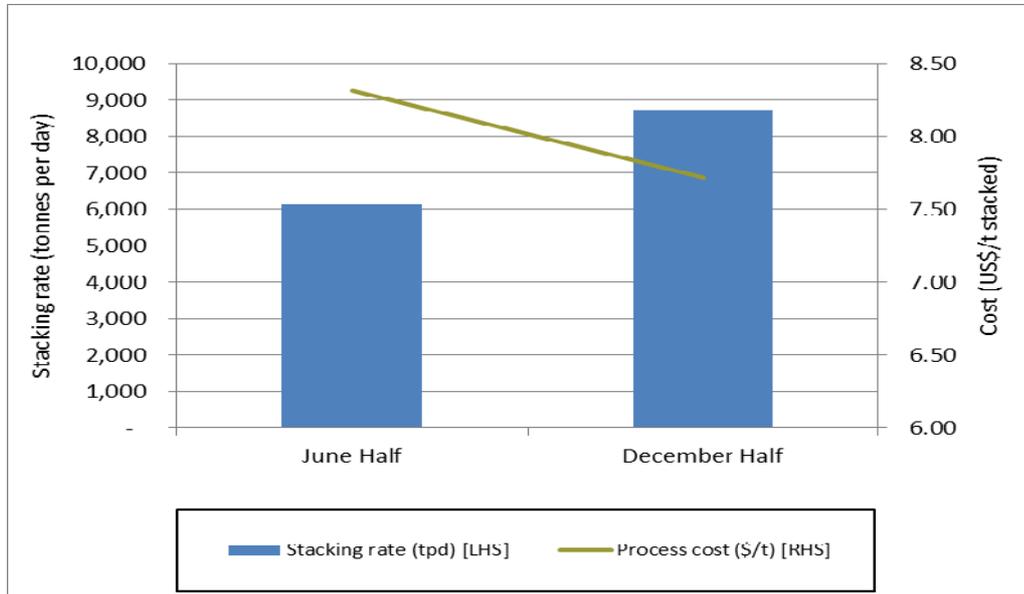


Figure 5 – Ore stacked versus cost per tonne stacked

The trial of the new interlift liner commenced on Pad 3 b in early 2011 has been very successful in increasing the speed of gold recovery (leach kinetics) and reducing cyanide consumption. Gold recoveries on Pad 3 b are now averaging approximately 65% within 120 days, compared to approximately 2 years to recover 65% when the Company bought the CMD Gold Mine. Given the success of the new liner, the Company has converted Pad 3 b to a dynamic leach system, where ore is leached for 120 to 150 days to recover 65% of the gold, and then moved to another pad to recover the final amount of gold (in the order of 75% total recovery) over a longer period. New ore is then stacked on Pad 3 b to repeat the process. As can be seen in Figure 6, the dynamic leaching system results in significantly faster gold leaching rates, effectively bringing forward revenues.

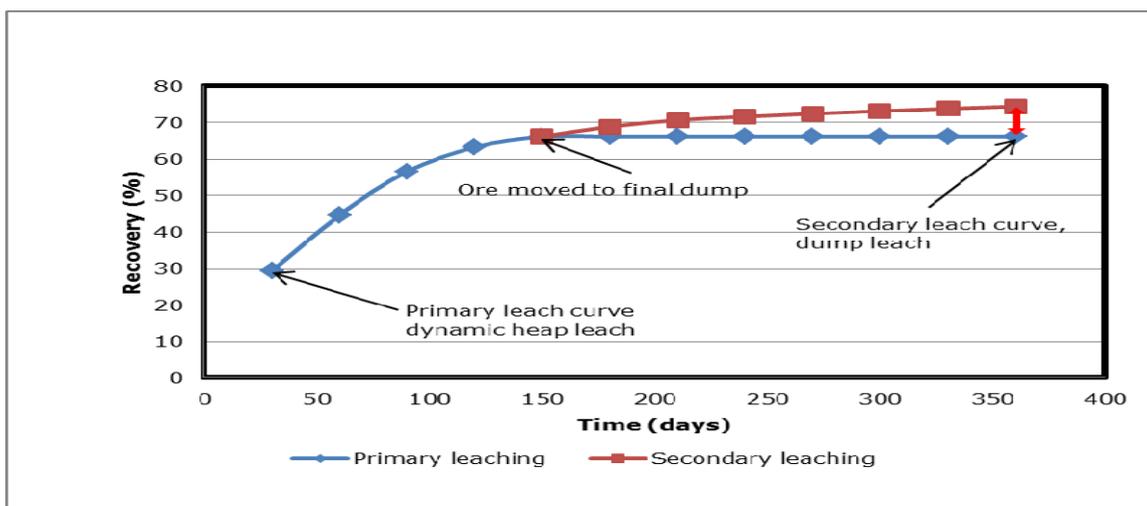
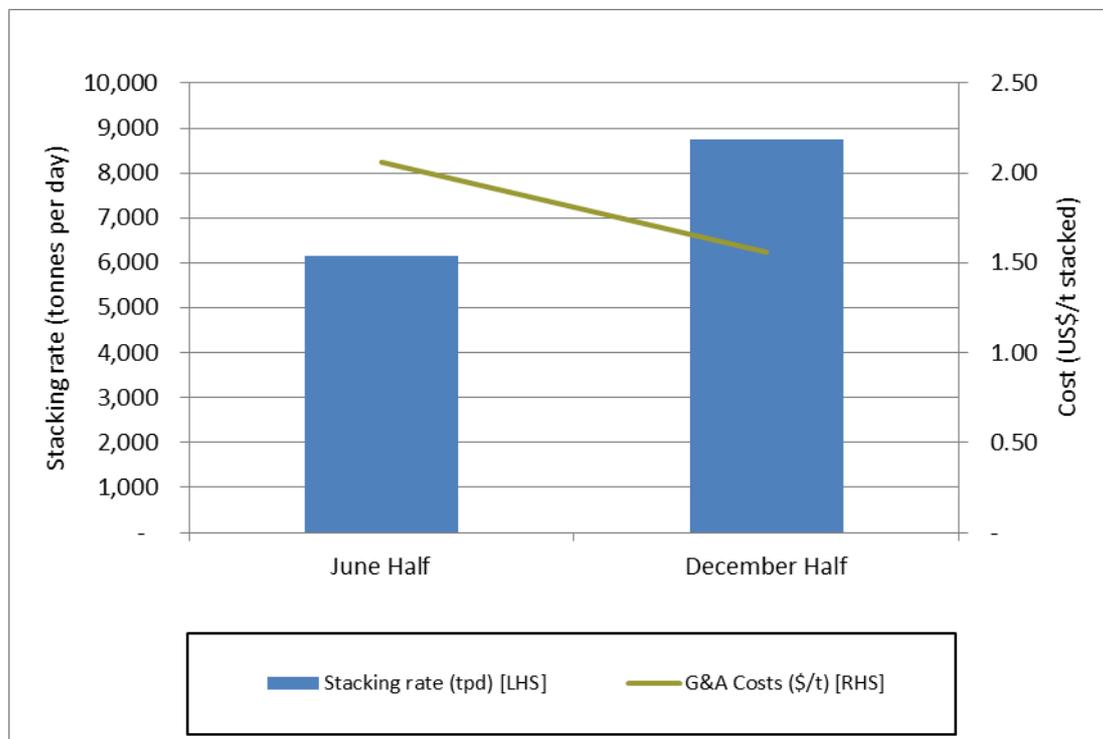


Figure 6 – Dynamic leaching recovery curve

Some additional costs are incurred during the rehandle process, however these are more than offset by the faster gold recovery, and a potential 2% to 3% overall increase in gold recovery associated with restacking the ore.

**General and Administration (G&A)**

Unit rates for G&A have continued to fall (down 24.6% from the June half-year) as stacked tonnes increase, as shown in Figure 7. Most G&A costs are fixed, and increasing stacked tonnages are forecast to further reduce the G&A unit rates.



*Figure 7 – Ore stacked versus G&A cost per tonne*

**Dump Leach Trials**

As part of the Company’s commitment to continuous improvement, a Run of Mine (ROM) dump (i.e. blasted rock with no crushing) and a coarse crush leaching trial was commenced during the December half-year. Approximately 15,000 tonnes of material will be leached for 120 days to ascertain the overall recovery. Final results of this trial are expected in the March quarter of 2012, once leaching and systematic sampling of the residual material has been completed.

Initial indications are that ROM dump leach recoveries of over 50% are achievable. Additional trials are underway to assess the variability of the recovery from across the CMD Gold Mine site.

**Mineral Resources**

Following the 2011 drill program, Coffey Mining has been engaged to update the mineral resources for the CMD Gold Mine. At the time of reporting, one new resource has been estimated for the Toro deposit.

Mining of the Toro pits has identified a new style of gold mineralisation previously unrecognised in the form of mineralised andesite. The andesite was previously considered to not contain economic gold grades, however sampling of the blast hole drilling at Toro indicates this is not the case and during the quarter andesite previously thought to be waste has been crushed and stacked on the leach pad with grades of approximately 0.4 to 0.5 g/t Au. The andesite unit is thought to be analogous to the andesite being mined at the adjacent Teck Carmen Andacollo mine.

The new Toro deposit mineral resource contains 348,000 ounces of gold in the Indicated category, which is a 314% increase over the previous Indicated mineral resource (84,000 ounces). In addition, a further 135,000 ounces of gold are contained in the Inferred category, which is a decrease of 28% compared to the previous Inferred mineral resource (188,000 ounces) as shown in Table 2.

Classification	Old Mineral Resource (koz)	New Mineral Resource (koz)	% Change
Indicated	84	348	314%
Inferred	188	135	-28%

*Table 2 – Comparison of New and Previous Toro Mineral Resource Estimates*

Total mineral resources for the CMD Gold Mine now contain 725,000 ounces of gold in the Indicated category and 923,000 ounces of gold in the Inferred category as shown in Table 3.

Deposit	Tonnes (Mt)	Indicated		Tonnes(Mt)	Inferred	
		Grade(Au)	Ounces (Kozs)		Grade(Au)	Ounces (Kozs)
Las Loas	2.86	0.8	73	1.5	0.8	37
El Sauce	0	-	0	7.1	0.7	156
Toro	17.5	0.6	348	11.6	0.36	135
Tres Perlas	15.6	0.5	252	19	0.5	333
Churumata	0.6	0.8	16	8.7	0.8	219
Chisperos	1.0	1.1	36	1.4	1.0	43
<b>Total</b>	<b>37.6</b>	<b>0.6</b>	<b>725</b>	<b>49.8</b>	<b>0.6</b>	<b>923</b>

*Table 3 – CMD Gold Mine Mineral Resources*

<sup>1</sup> Reported above 0.3 g/t Au all except Toro deposit, which is reported above 0.15 g/t Au

The new mineral resource for the Toro deposit is the first of the 2012 mineral resources updates for the CMD Gold Mine. The Toro deposit is open along strike to both the north and south, and across strike to the east and west in several areas. In addition, there remains substantial potential to expand the mineral resources through infill drilling between the Toro Central and Socorro pits, where there is currently insufficient drilling data to extrapolate the resource between the pits.

### Exploration

A total of 20,230 metres of drilling was completed during the December half-year, bringing the total drilling in calendar 2011 to 31,036 metres. The 2012 calendar year program is estimated to be approximately 33,000 metres in total.

The exploration focus has moved to the Tres Perlas area for the majority of the December quarter, with drilling focussed on expanding the mineralisation down dip and along strike of the current mineral resources. In addition, the drilling has targeted the gaps between the El Sauce, Natalia, Tres Perlas and Churumata deposits previously modelled separately with the goal of joining the mineralisation together.

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*Bushranger Copper Project - EL 5574 (100%)*

On 29 September 2011 the Company announced that it had entered into a Farm In Agreement (“the Agreement”) with Newmont Exploration Pty Ltd, a wholly owned subsidiary of Newmont Mining Corporation (“Newmont”) covering the Bushranger Copper Project in New South Wales. The main terms of the Agreement are:

- (i) Newmont will have a 12 month option period (“Option Period”) to evaluate the Bushranger Copper Project, during which time it must spend a minimum of A\$250,000
- (ii) 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 Agreement (the Farm In Period)
- (iii) 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 during the Joint Venture

As at 31 December 2011 Newmont had spent \$24,889 on the Bushranger Copper Project.

*Corporate*

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

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

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

The proceeds of the Offering were released from escrow on receipt of shareholder approval at a general meeting of the Company held on 26 September 2011. Lachlan Star is using the net proceeds from the Offering for the continued development of the consolidated entity’s CMD Gold Mine and for general working capital purposes.

The Company filed a preliminary prospectus in each province of Canada in which Special Warrants were distributed pursuant to the Offering and obtained a receipt for a final prospectus which qualified for sale the Ordinary Shares and Warrants underlying the Special Warrants.

The Company commenced trading on the Toronto Stock Exchange on 19 October 2011.

**Events subsequent to reporting date**

Trade and other receivables at 31 December 2011 include \$2,412,000 relating to the sale of gold, the majority of which has been received subsequent to period end.

Other than this, no matter or circumstance has arisen since 31 December 2011 that in the opinion of the directors has significantly affected, or may significantly affect in future financial years:

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

### **Rounding of amounts**

The Company is a company of the kind referred to in Class Order 98/0100 issued by the Australian Securities and Investments Commission relating to the rounding off of amounts in the Directors' Report and financial report.

Amounts in the Directors' Report and financial report have been rounded-off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

### **Auditor's Independence Declaration**

The lead auditor's Independence Declaration, as required under section 307C of the Corporations Act 2001, is set out on page 13 and forms part of the directors' report for the half-year ended 31 December 2011.

Signed in accordance with a resolution of the directors.



**MJ McMullen**  
**Executive Chairman**  
Perth, 14 February 2012

### **Competent Persons Statement**

*The information in this interim financial report that relates to the Mineral Resources of Tres Perlas, Chisperos, Las Loas, El Sauce, Churrumata and Toro/Socorro is based on information compiled by David Slater, who is a Chartered Professional Member of The Australasian Institute of Mining and Metallurgy. Mr. Slater is employed full time by Coffey Mining Pty Ltd. The information in this interim financial report that relates to exploration results is based on information approved by Declan Franzmann, who is a Chartered Professional Member of The Australasian Institute of Mining and Metallurgy. Mr. Franzmann is employed by Citraen Pty Ltd and is an officer of the Company. Each of Mr. Slater and Mr. Franzmann has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking, to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves" and to qualify as a "Qualified Person" under NI 43-101. Each of Mr. Slater and Mr. Franzmann consents to the inclusion in this interim financial report of the matters based on his information in the form and context in which it appears.*



## Auditor's Independence Declaration

As lead auditor for the review of Lachlan Star Limited for the half year ended 31 December 2011, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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

A handwritten signature in black ink that reads 'Douglas Craig'.

Douglas Craig  
Partner  
PricewaterhouseCoopers

Perth  
14 February 2012

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 31 December 2011

	Half-year 31 December 2011 \$000	Half-year 31 December 2010 \$000
<b>Revenue from continuing operations</b>		
Revenue	36,985	1,184
Other income		
Finance income	230	66
Foreign exchange gain	848	-
Profit on sale of shares in associate	-	234
Fair value gain on deferred consideration	173	-
	<u>38,236</u>	<u>1,484</u>
<b>Expenses</b>		
Cost of sales	(34,686)	(1,364)
Other expenses from ordinary activities		
Corporate compliance and management	(1,374)	(315)
Share based payments expense	(2)	-
Occupancy costs	(53)	(45)
New venture expenditure written off	(128)	(539)
Other expenses	(17)	(117)
Finance expense	(395)	(15)
Share of net loss of associate accounted for using the equity method	-	(594)
	<u>-</u>	<u>(594)</u>
Profit / (loss) before income tax	1,581	(1,505)
Income tax benefit	3,649	-
	<u>5,230</u>	<u>(1,505)</u>
<b>Profit / (loss) for the period</b>	<b>5,230</b>	<b>(1,505)</b>
<b>Other comprehensive income for the period net of income tax</b>		-
Exchange difference on translation of foreign operations	1,547	-
	<u>1,547</u>	<u>-</u>
<b>Total comprehensive income for the period</b>	<b>6,777</b>	<b>(1,505)</b>
Basic profit / (loss) per share	8.8	(7.6)
Diluted profit / (loss) per share	8.8	(7.6)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	31 December 2011 \$000	30 June 2011 \$000
<b>Current assets</b>			
Cash and cash equivalents		14,474	4,515
Trade and other receivables		4,637	3,379
Inventories		8,836	8,675
<b>Total current assets</b>		<u>27,947</u>	<u>16,569</u>
<b>Non-current assets</b>			
Trade and other receivables		355	350
Inventories		6,133	6,876
Exploration and evaluation		2,769	2,734
Mine development properties		25,346	20,752
Property, plant and equipment	6	11,734	9,459
Goodwill		189	189
Deferred tax asset	7	8,200	4,203
<b>Total non-current assets</b>		<u>54,726</u>	<u>44,563</u>
<b>Total assets</b>		<u>82,673</u>	<u>61,132</u>
<b>Current liabilities</b>			
Trade and other payables		16,453	14,680
Borrowings		6,666	7,476
<b>Total current liabilities</b>		<u>23,119</u>	<u>22,156</u>
<b>Non-current liabilities</b>			
Borrowings		2,734	3,111
Provisions		6,004	5,691
<b>Total non-current liabilities</b>		<u>8,738</u>	<u>8,802</u>
<b>Total liabilities</b>		<u>31,857</u>	<u>30,958</u>
<b>Net assets</b>		<u>50,816</u>	<u>30,174</u>
<b>Equity</b>			
Contributed equity	8	188,912	174,796
Reserves		(18)	(1,314)
Accumulated losses		(138,078)	(143,308)
<b>Total equity</b>		<u>50,816</u>	<u>30,174</u>

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

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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the half-year ended 31 December 2011

	Contributed equity \$000	Accumulated losses \$000	Share based payments reserve \$000	Foreign exchange reserve \$000	Total \$000
<b>Balance at 1 July 2010</b>	146,145	(138,989)	649	-	7,805
Loss for the half-year	-	(1,505)	-	-	(1,505)
Total comprehensive loss for the half -year	-	(1,505)	-	-	(1,505)
Share of movement in share based payment reserve of associate	-	-	(44)	-	(44)
<i>Transactions with owners in their capacity as owners:</i>					
Shares issued for cash	11,249	-	-	-	11,249
Shares issued to vendors on acquisition of the CMD Gold Mine	15,000	-	-	-	15,000
Share issue costs	(373)	-	-	-	(373)
Proceeds on issue of share options	10	-	-	-	10
Share based payments	(41)	-	41	-	-
<b>Balance at 31 December 2010</b>	171,990	(140,494)	646	-	32,142
<b>Balance at 1 July 2011</b>	174,796	(143,308)	602	(1,916)	30,174
Other comprehensive income	-	-	-	1,547	1,547
Profit for the half-year	-	5,230	-	-	5,230
Total comprehensive income for the half -year	-	5,230	-	1,547	6,777
<i>Transactions with owners in their capacity as owners:</i>					
Shares issued for cash	15,088	-	-	-	15,088
Share issue costs	(1,225)	-	-	-	(1,225)
Share based payments	253	-	(251)	-	2
<b>Balance at 31 December 2011</b>	188,912	(138,078)	351	(369)	50,816

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the half-year ended 31 December 2011

	Half-year 31 December 2011 \$000	Half-year 31 December 2010 \$000
<b>Cash flows from operating activities</b>		
Receipts from customers and GST recovered	35,527	1,957
Payments to suppliers and employees	(31,366)	(2,003)
Interest received	199	68
Interest paid	(321)	(15)
<b>Net cash flows from operating activities</b>	<u>4,039</u>	<u>7</u>
<b>Cash flows from investing activities</b>		
Payments for exploration and evaluation	(35)	(29)
Payments for mine development	(5,213)	-
Payments for acquisition of property, plant and equipment	(1,399)	(1)
Net proceeds from sale of investment in associate	-	274
Payments for acquisition of subsidiary, net of cash acquired	-	(8,684)
<b>Net cash flows used in investing activities</b>	<u>(6,647)</u>	<u>(8,440)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issue of ordinary shares	15,088	11,249
Proceeds from issue of share options	-	10
Repayment of borrowings	(4,104)	(180)
Receipt of borrowings	2,732	-
Payment of share issue costs	(1,174)	(12)
<b>Net cash flows from financing activities</b>	<u>12,542</u>	<u>11,067</u>
<b>Net increase in cash and cash equivalents</b>	9,934	2,634
Effect of exchange rate fluctuations on cash held	25	-
Cash and cash equivalents at the beginning of the half-year	4,515	3,856
<b>Cash and cash equivalents at the end of the half-year</b>	<u>14,474</u>	<u>6,490</u>

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

## **1. Reporting entity**

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

The consolidated interim financial report of the Company as at and for the six months ended 31 December 2011 comprises the Company and its subsidiaries (together referred to as the "consolidated entity").

## **2. Basis of preparation of financial report**

### *Statement of compliance*

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

The consolidated interim financial report does not include all of the information required in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the consolidated entity as in the annual financial report. It is recommended that this financial report be read in conjunction with the annual financial report as at and for the year ended 30 June 2011 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

### *Going concern*

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

### *Use of estimates and judgements*

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

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

#### (i) Impairment

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

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

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

**2. Basis of preparation of financial report (continued)**

(ii) Provisions

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

(iii) Functional currency

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

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

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

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

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

(v) Income taxes

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

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

## **2. Basis of preparation of financial report (continued)**

### (vi) Reserve estimates

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

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

### (vii) Exploration and evaluation expenditure

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

## **3. Accounting policies**

In the period ended 31 December 2011 the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2011. As a result of this review the Directors have determined that there is no change necessary to Group accounting policies.

The accounting policies applied by the consolidated entity in this consolidated interim financial report are the same as those applied by the consolidated entity in its consolidated financial report as at and for the year ended 30 June 2011 and the corresponding interim reporting period.

### (i) *Mine properties*

The units of production depreciation method is used so as to write off costs in proportion to the depletion of estimated recoverable ounces. For clarity, this refers to estimated ounces of gold recoverable from mineralised material in the mine plan.

### (ii) *Property, plant and equipment*

The units of production depreciation method is used so as to write off costs in proportion to the depletion of estimated recoverable ounces. For clarity, this refers to estimated ounces of gold recoverable from mineralised material in the mine plan.

### **3. Accounting policies (continued)**

The International Accounting Standards Board published IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* on 19 October 2011. The interpretation, which has an effective date for annual periods beginning on or after 1 January 2013, sets out the accounting for overburden waste removal (stripping) costs in the production phase of a surface mine. The main requirements of the interpretation are as follows:

- Waste removal costs (stripping costs) incurred in the production phase of a surface mining are accounted for in accordance with IAS 2 *Inventories* to the extent they relate to current period production.
- Production stripping costs are recognized as a non-current asset ("stripping activity asset") if all the following criteria are met (i) it is probable that future economic benefits will flow to the entity (ii) the entity can identify the component of the ore body to which access has been improved (iii) the costs incurred can be measured reliably. The stripping activity asset is amortised over the useful life of the component of the ore body to which access has been improved.
- When the costs of a stripping activity asset versus current period inventory are not separately identifiable, costs are allocated based on a production method.
- Application of the interpretation is on a prospective basis, with transitional adjustments being recognized in opening retained earnings.

The Company is currently reviewing how this interpretation may impact its record keeping and accounting policies in future periods and has not determined when it will adopt this interpretation.

### **4. Contingent assets and liabilities**

In June 2011, a subsidiary terminated the contract of one of its mining contractors in Chile, "Maestranza Martinez Torres y Cia. Ltda" (Martimec) for non-performance under the terms of their mining contract. The Company has been made aware that Martimec intends to seek the appointment of an arbitrator under Chilean law who would be called to rule on 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 Martimec.

Other than this, there have been no changes of a material nature in contingent liabilities or contingent assets since the last annual reporting date.

### **5. Subsequent events**

Trade and other receivables at 31 December 2011 include \$2,412,000 relating to the sale of gold, the majority of which has been received subsequent to period end.

Other than this, no matter or circumstance has arisen since 31 December 2011 that in the opinion of the directors has significantly affected, or may significantly affect in future financial years:

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

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**6. Property plant and equipment**

	Fixture and fittings \$000	Vehicles \$000	Mine plant \$000	Total \$000
<i>Cost:</i>				
1 July 2011	180	39	11,364	11,583
Effect of movements in exchange rates	5	2	450	457
Reclassified from receivables	-	-	1,487	1,487
Additions	134	-	1,270	1,404
31 December 2011	<u>319</u>	<u>41</u>	<u>14,571</u>	<u>14,931</u>
<i>Accumulated depreciation:</i>				
1 July 2011	64	39	2,021	2,124
Depreciation charge for the period	14	-	1,004	1,018
Effect of movements in exchange rates	2	2	51	55
31 December 2011	<u>80</u>	<u>41</u>	<u>3,076</u>	<u>3,197</u>
Carrying amount beginning of period	<u>116</u>	<u>-</u>	<u>9,343</u>	<u>9,459</u>
Carrying amount end of period	<u>239</u>	<u>-</u>	<u>11,495</u>	<u>11,734</u>
<i>Cost:</i>				
1 July 2010	48	-	-	48
Acquired in business combination	123	39	11,422	11,584
Effect of movements in exchange rates	-	-	(705)	(705)
Additions	9	-	647	656
30 June 2011	<u>180</u>	<u>39</u>	<u>11,364</u>	<u>11,583</u>
<i>Accumulated depreciation:</i>				
1 July 2010	6	-	-	6
Depreciation charge for period	58	39	2,146	2,243
Effect of movements in exchange rates	-	-	(125)	(125)
30 June 2011	<u>64</u>	<u>39</u>	<u>2,021</u>	<u>2,124</u>
Carrying amount beginning of period	<u>42</u>	<u>-</u>	<u>-</u>	<u>42</u>
Carrying amount at end of period	<u>116</u>	<u>-</u>	<u>9,343</u>	<u>9,459</u>

In March 2009 CMD signed an agreement with a mining contractor, Martimec, principally relating to the extraction of ore and waste material and delivery of the material to waste dumps in the case of waste and the crushing plant in the case of ore. Under this contract CMD agreed to purchase certain mining equipment (principally haul trucks and excavators) in its own capacity and provide this equipment to the aforementioned contractor for the contractor's use in performing its obligations to the consolidated entity under the contract. In return for making this equipment available to the mining contractor, CMD received a reduced rate per cubic metre of material moved by the contractor. The contract provided that on its conclusion at the end of a 31 month period the contractor has an option to purchase all of the equipment at a nominal price. CMD determined that the arrangement with its mining contractor in substance contained a lease and that such lease transferred the risks and rewards of ownership to the mining contractor and hence at 30 June 2011 this leasing arrangement was classified as a finance lease.

On 28 June 2011 CMD terminated the Martimec contract due to several contract breaches by Martimec. The directors are confident that CMD holds legal title to the equipment which was provided to Martimec for their use under the contract and that the eventual proceeds from the sale of this equipment or benefits which will be gained from its use in CMD's operations will at least match the carrying value at 31 December 2011.

As a consequence the carrying value of the Martimec equipment of \$1,487,000 has been transferred from trade and other receivables to property, plant and equipment during the period.

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**7. Deferred tax**

The deferred tax asset increased by \$4.00 million in the period, mainly comprising an income tax credit of \$3.65 million and a \$0.35 million increase as a result of the A\$ / US\$ exchange rate falling from 1:1.0597 at 30 June , 2011 to 1:1.0176 at 31 December, 2011.

The tax credit for the half-year of \$3.65 million primarily consists of net \$3.30 million related to the recognition of a deferred tax asset in respect of income tax losses and temporary differences of a subsidiary, Compañía Minera Dayton (“CMD”). During the half-year the Company adopted a revised internal NPV model containing a higher tonnage of mineralised material which, together with a revision to prior year tax returns, supported recognition of an additional deferred tax asset.

**8. Contributed equity**

	2011 Number	2011 \$000	2010 Number	2010 \$000
<i>Ordinary shares</i>				
1 July	56,967,517	174,796	1,079,867,371	146,145
Issue of ordinary shares for cash	18,400,000	15,088	1,124,933,686	11,249
Issue of shares on acquisition of subsidiary	-	-	1,000,000,000	15,000
Cost of issue of ordinary shares	-	(1,225)	-	(373)
Issue of share options	-	-	-	10
Share based payments	-	253	-	(41)
31 December pre share consolidation	75,367,517	188,912	3,204,801,057	171,990
31 December post share consolidation	75,367,517	188,912	53,413,351	171,990

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

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

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

Each Special Warrant was exercised for no additional consideration into one unit (a “Unit”), each Unit consisting of one ordinary share (an “Ordinary Share”) and one-half an Ordinary Share purchase warrant (each full warrant being a “Warrant”) and each Warrant entitling the holder to purchase one Ordinary Share (each, a “Warrant Share”) upon payment of \$1.20 for a period of 24 months following closing of the Offering. As partial consideration for their services in connection with the Offering, the Agents were granted 1,104,000 special broker warrants (“Special Broker Warrants”) which were exercised for no additional consideration into compensation options (“Compensation Options”), each Compensation Option entitling the holder to purchase a unit (a “Compensation Unit”) upon payment of \$1.20 for a period of 24 months following closing of the Offering, each Compensation Unit being comprised of one Ordinary Share (each, a “Compensation Share”) and one-half of one Warrant.

The Special Warrants were issued pursuant to and governed by a Special Warrant Indenture between the Company and Equity Financial Trust Company, as Special Warrant Agent. The Warrants are issued pursuant to and governed by a Warrant Indenture between the Company and Equity Financial Trust Company, as Warrant Agent.

The proceeds of the Offering were released from escrow on receipt of shareholder approval at a general meeting of the Company held on 26 September 2011. Lachlan Star is using the net proceeds from the Offering for the continued development of the consolidated entity’s CMD Gold Mine and for general working capital purposes.

The Special Warrants were automatically exercised into Units and the Special Broker Warrants were automatically exercised 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 in November 2011.

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**9. Segment information**

*(a) Description of segments*

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

*(b) Segment information provided to the board of directors*

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

	Unit	3 months to 31 December 2011	3 months to 30 September 2011
Ore Mined	dmt	949,491	671,411
Waste Mined	dmt	3,271,021	2,163,339
Total Mined	dmt	4,220,512	2,834,750
Waste:Ore Ratio	t:t	3.45	3.22
Ore grade Mined	Au g/t	0.57	0.62
Gold Mined	Au oz	17,528	13,290
Ore stacked	dmt	967,145	641,588
Gold Stacked	Au oz	16,835	12,959
Gold Produced	Au oz	11,326	10,330
Mining Cost/t moved	US\$/t	\$2.23	\$2.30
Mining Cost/t ore	US\$/t	\$9.93	\$9.72
Process Cost/t ore stacked	US\$/t	\$6.91	\$8.41
G+A Cost/t ore	US\$/t	\$1.45	\$1.69
Total Cost/t ore	US\$/t	\$18.30	\$19.82
Average Sales Price	USD/oz	\$1,663	\$1,713

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

	Exploration and evaluation 2010 (\$000)	Gold Mining 2010 (\$000)	Corporate 2010 (\$000)	Consolidated 2010 (\$000)
Net cash inflow / (outflow)	(29)	319	2,344	2,634

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**9. Segment information (continued)**

A reconciliation of net cash inflow to loss before income tax for the corresponding half-year is as follows:

	2010 (\$000)
Net cash inflow	2,634
Exploration and evaluation expenditure	29
Acquisition of subsidiary, net of cash acquired	8,684
Acquisition of property, plant and equipment	1
Loan repayments	180
Profit on sale of shares in associate	234
Proceeds from sale of shares in associate	(274)
Issue of share capital and options	(11,259)
Costs of issue of share capital	12
Depreciation	(321)
Share of net (loss) of associate accounted for using the equity method	(594)
Increase in receivables	52
(Increase) in payables	(887)
(Decrease) in annual leave provision	4
Loss before income tax	<u>(1,505)</u>

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

	31 December 2011 \$000	30 June 2011 \$000
Chile	43,724	37,592
Australia	2,802	2,768
	<u>46,526</u>	<u>40,360</u>

**10. Related party disclosures**

The consolidated entity acquired the CMD Gold Mine on 24 December 2010 (refer Note 11). One of the vendors is a substantial shareholder of Lachlan Star and another, Peter Babin, is a director of the Company.

A loan to an executive officer of a subsidiary amounting to US\$21,225 was repaid during the period.

The consolidated entity did not have any other transactions with related parties during the period other than remuneration to directors and their related parties. Lachlan Star Limited is the ultimate parent entity.

## **11. Business combination**

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

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

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

- a) 2.5% of the value of the gold produced from the existing open pit inventory contained within the pit designs and other specific deposits with mineralisation that may be economically exploited using open pit methods (the “Mineral Inventory” collectively) between 1 January 2011 and 31 December 2014; and
- b) 25% of the value of the gold produced from the Mineral Inventory between 1 January 2011 and 31 December 2014 over and above 119,000 ounces; and
- c) repayment of a shareholder loan of US\$1.3 million starting in July 2011 at US\$100,000/month; and
- d) US\$0.5 million in cash payable on 1 January 2013; and
- e) US\$0.5 million in cash payable on 1 April 2013.

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

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

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

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

- a non-renounceable rights issue of fully paid ordinary shares in Lachlan to existing shareholders which raised \$5.4 million before issue costs (“Rights Issue”). The Rights Issue was at a price of \$0.01 per share on the basis of one new share for every two shares held
- a placement (“Placement”) of 550,000,000 fully paid ordinary shares to institutional and other exempt investors at an issue price of \$0.01 per share, being no less than 80% of the 5 day volume weighted average price prior to the share issue

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**11. Business combination (continued)**

The consolidated entity has recognised the fair value of the identifiable assets and liabilities of the CMD Gold Mine. The acquisition date of the CMD Gold Mine was 24 December 2010. The fair values at 31 December 2011 presented in the table below are final given the reporting date is in excess of 12 months from the acquisition date. There were no business acquisitions in the reporting period.

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

	<b>Provisional fair value at acquisition date as at 31 December 2010 \$000</b>	<b>Fair value at acquisition date as at 30 June 2011 \$000</b>	<b>Fair value at acquisition date as at 31 December 2011 \$000</b>
<i>Acquisition date fair value of consideration transferred</i>			
Shares issued, at fair value at share issue date	15,000	15,000	15,000
Cash and cash equivalents	9,011	9,011	9,011
Deferred cash and cash equivalents	909	909	909
Contingent consideration	3,653	3,653	3,653
Owners loan to be repaid	1,121	1,121	1,121
Total purchase consideration	<u>29,694</u>	<u>29,694</u>	<u>29,694</u>
<i>Assets and liabilities recognised at fair value</i>			
Cash and cash equivalents	327	327	327
Trade and other receivables	3,624	5,903	5,903
Inventories	14,763	16,354	16,354
Mineral properties	23,246	20,724	20,724
Deferred tax asset	8,600	7,058	7,058
Property, plant and equipment	11,584	11,584	11,584
Trade and other payables	(13,835)	(15,207)	(15,207)
Deferred tax liability	(5,153)	(3,065)	(3,065)
Borrowings	(9,686)	(8,314)	(8,314)
Provisions	(3,929)	(5,859)	(5,859)
	<u>29,541</u>	<u>29,505</u>	<u>29,505</u>
Goodwill	153	189	189
Net assets acquired	<u>29,694</u>	<u>29,694</u>	<u>29,694</u>
<i>Cash outflow on acquisition</i>			
Cash and cash equivalents	9,011	9,011	9,011
Net cash acquired in the acquisition	(327)	(327)	(327)
Outflow of cash – investing activities	<u>8,684</u>	<u>8,684</u>	<u>8,684</u>

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

**12. Changes in estimates**

(i) *Site restoration*

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

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

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

	31 December 2011	30 June 2011
<i>Non-current</i>	\$000	\$000
Opening	4,876	-
Effect of movements in exchange rates	200	(276)
Acquired in business acquisition	-	5,084
Accretion	19	24
Change in discount rate	(48)	44
Closing	<u>5,047</u>	<u>4,876</u>

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**12. Changes in estimates (continued)**

*(ii) Deferred consideration*

In November 2010 the Company reached agreement with the five shareholders of Oro Chile LLC (“the Vendors”) to acquire 100% of DMC Newco Pty Ltd (“DMC Newco”), a company that in turn owns 100% of two Chilean companies, Compañía Minera Dayton (“CMD”) and Dayton Chile Exploraciones Mineras Limitada (“DCEM”). CMD and DCEM collectively own a 100% interest in the Compañía Minera Dayton Gold Mine located in Andacollo, approximately 350km north of Santiago in Chile (“CMD Gold Mine”). The transaction settled on 24 December 2010. The consideration for the purchase included deferred consideration payments relating to the achievement of specified gold production, which may become payable. The payment terms are as follows:

- a) 2.5% of the value of the gold produced from the existing open pit inventory contained within the pit designs and other specific deposits with mineralisation that may be economically exploited using open pit methods (the “Mineral Inventory” collectively) between 1 January 2011 and 31 December 2014; and
- b) 25% of the value of the gold produced from the Mineral Inventory between 1 January 2011 and 31 December 2014 over and above 119,000 ounces

The movement in deferred consideration, classified under Borrowings in the Statement of Financial Position, is shown below:

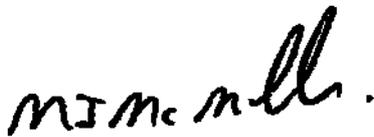
	31 December 2011 \$000	30 June 2011 \$000
Opening	2,864	-
As part consideration for business acquisition	-	3,653
Effect of movements in exchange rates	(48)	-
Accretion	129	79
Paid	(645)	(457)
Fair value gain	(173)	(411)
Closing	<u>2,127</u>	<u>2,864</u>
Current	992	1,628
Non-current	<u>1,135</u>	<u>1,236</u>
	<u>2,127</u>	<u>2,864</u>

**DIRECTORS' DECLARATION**

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

- (a) the financial statements and notes as set out on pages 14 to 29 are in accordance with the *Corporations Act 2001* including:
  - (i) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2011 and of its performance for the half-year ended on that date; and
  - (ii) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory reporting requirements; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



**MJ McMullen**  
Executive Chairman

Perth  
14 February 2012



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

### **Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Lachlan Star Limited, which comprises the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Lachlan Star Limited (the consolidated entity). The consolidated entity comprises both Lachlan Star Limited (the company) and the entities it controlled during that half-year.

#### *Directors' responsibility for the half-year financial report*

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

#### *Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Lachlan Star Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

#### *Independence*

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

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

### *Conclusion*

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*PricewaterhouseCoopers*  
PricewaterhouseCoopers

*Douglas Craig*  
Douglas Craig  
Partner

Perth  
14 February 2012