

## MANAGEMENT DISCUSSION AND ANALYSIS

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This Management Discussion and Analysis (“**MD&A**”) for Lachlan Star Limited (“**Lachlan**” or the “**Company**”) and its subsidiaries (collectively, the “**Group**”) is dated February 14, 2012 and provides an analysis of the Company’s performance and financial condition for the three months ended December 31, 2011 (the “**Quarter**” or “**December 2011 Quarter**”).

The MD&A should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto for the year ended 30 June 2011 and the Company’s unaudited consolidated interim financial statements for the Quarter.

The consolidated financial statements have been prepared in accordance with Australian Accounting Standards (“**AASs**”) (including Australian Accounting Interpretations), as adopted by the Australian Accounting Standards Board (“**AASB**”), other authoritative pronouncements of the AASB, and Urgent Issues Group Interpretations. Compliance with AASs ensures that the consolidated financial report of Lachlan complies with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board.

The functional currency of each of the Group’s entities is measured using the currency of the primary economic environment in which that entity operates (the “functional” currency). The consolidated financial statements are presented in Australian dollars which is the parent entity’s functional and presentation currency. For subsidiaries Compania Minera Dayton (“**CMD**”) and Dayton Chile Exploraciones Mineras Limitada (“**DCEM**”), management has determined that the U.S. dollar is the functional currency for those companies. For a more detailed discussion on functional currency, please refer to the section “*Critical Accounting Estimates – Functional Currency*” in this MD&A.

Unless otherwise stated, all dollar figures in this MD&A are Australian dollars, “A\$” or “\$” denotes Australian dollars and “US\$” denotes United States dollars.

The A\$/US\$ exchange rate used for the purposes of converting the statement of financial position of CMD and DCEM as at December 31, 2011 was A\$1.00 = US\$1.0176. The average A\$/US\$ exchange rate used for the purposes of converting the statement of financial performance of CMD and DCEM for the three months to December 31, 2011 was A\$1.00 = US\$1.0124. Details of average and period year end exchange rates that impact the Group are set out in the section “*Financial Instruments and Related Risks*” of this MD&A.

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain information in this MD&A, 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 CMD Gold Mine (as defined herein); 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 MD&A, 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 the "*Risk Factors*" section in the Company's 2011 Annual Information Form (the "**AIF**") for further discussion of the risks facing the Company.

This MD&A 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 MD&A except as may be required by law. All forward-looking information disclosed in this document is qualified by this cautionary statement.

## CAUTION REGARDING NON-GAAP AND NON-IFRS MEASURES

The Company has included in this document certain terms or performance measures, including the C1 cash costs and cash costs of gold per ounce, that are not defined in Canadian generally accepted accounting principles ("**GAAP**") or in IFRS. These non-GAAP and non-IFRS measures do not have any standardized meaning within Canadian GAAP or IFRS and therefore may not be comparable to similar measures presented by other companies. The Company believes that these non-GAAP and non-IFRS

measures provide additional information that is useful in evaluating the Company's performance. The data presented is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with Canadian GAAP and IFRS. These non-GAAP and non-IFRS measures should be read in conjunction with the financial statements (or other financial information) of the Company.

#### **ADDITIONAL INFORMATION**

Additional information relating to the Company, including public announcements and the Company's AIF, is available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.lachlanstar.com.au](http://www.lachlanstar.com.au).

## OVERALL PERFORMANCE

Lachlan is a gold production and copper exploration company with a 100% beneficial interest in an operating gold mine in Chile and a copper exploration project in Australia. The Company is a public company governed by the Corporations Act with a primary listing on the Australian Securities Exchange (the “**ASX**”) and a secondary listing on the Toronto Stock Exchange (the “**TSX**”).

During the financial year ended June 30, 2011, the Company acquired the CMD Gold Mine in Chile and became a gold producer. This has resulted in the Company significantly expanding its workforce and having operating revenues. The focus of the Company has changed from investment and exploration to the development and operation of the CMD Gold Mine.

Since acquiring the CMD Gold Mine on December 24, 2010, the gold spot price has increased from US\$1,380.50/ounce to US\$1,531/ounce as at December 31, 2011. Subsequent to December 31, 2011, the gold spot price has seen further gains and is US\$1,720/ounce as at February 13, 2012.

*CMD Gold Mine, Chile* (refer to “*CMD Gold Mine, Chile*”, below, for more detail)

Lachlan owns a 100% beneficial interest in the Compañía Minera Dayton project (the “**CMD Gold Mine**”), which it acquired on December 24, 2010. The Group has produced 11,326 ounces of gold in the December 2011 Quarter versus 847 ounces of gold from the date of acquisition on December 24, 2010 to December 31, 2010.

The CMD Gold Mine is a bulk tonnage heap leach operation that at the time of acquisition was operating at an annualised stacking rate of 1.5 million Mtpa compared to the installed crushing and stacking capacity of 8 Mtpa. During the course of the Quarter, the Company progressively increased stacking rates to an annualized 4.0 Mtpa as of December 31, 2011 compared to its announced intention to achieve a 3.5 Mtpa annualised run rate by the end of the 2011 calendar year.

Current mineral resource estimates for the CMD Gold Mine are 6.0 Mt of probable mineral reserves at a grade of 0.8 g/t gold for 157,000 ounces of gold, 37.56 Mt of indicated mineral resources for 725,000 ounces of gold and 49.75 Mt of inferred mineral resources for 923,000 ounces of gold (mineral resources are not additive to mineral reserves). These estimates have been prepared in accordance with National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* (“**NI 43-101**”).

*Bushranger Copper Project, Australia* (refer to “*Bushranger Copper Project, Australia*”, below, for more detail)

Lachlan owns a 100% interest in the Bushranger exploration-stage copper and gold deposit (the “**Bushranger Copper Project**”) located approximately 25km south of Oberon in the Lachlan Fold Belt in New South Wales, Australia. 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 29, 2011, the Company entered into a farm in agreement (the “**Newmont Farm In Agreement**”) for the Bushranger Copper Project with a subsidiary of Newmont Mining Corporation (“**Newmont**”) providing for the potential acquisition by Newmont of a 51% interest in the Bushranger Copper Project.

Work by Newmont on the Bushranger Copper Project in the December 2011 Quarter was limited to data review in preparation for fieldwork in the March 2012 Quarter.

## EXPLORATION AND EVALUATION

The Group's exploration and evaluation expenditures for the Quarter comprised \$1.81 million of exploration at the CMD Gold Mine (classified as mine property expenditure in the consolidated statement of financial position) and \$Nil at the Bushranger Copper Project.

## CORPORATE

### (i) Special Warrants Placement

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

Each Special Warrant converted, as described below, for no additional consideration, into one unit (a "**Unit**") comprised of one Ordinary Share and one-half of one ordinary share purchase warrant (each whole ordinary share purchase warrant being a "**Warrant**"). Each Warrant entitles the holder to purchase one Ordinary Share (each, a "**Warrant Share**") for a purchase price of \$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 converted, as described below, for no additional consideration, into one compensation option of the Company (a "**Compensation Option**"). Each Compensation Option entitles the holder, upon due exercise and payment to the Company of additional consideration of \$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 Company (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 Special Warrants automatically converted into Units and the Special Broker Warrants automatically converted into Compensation Options upon the Company obtaining a receipt for a final prospectus on 22 November 2011 qualifying the distribution of the Units and the Compensation Options, at which time the Ordinary Shares forming part of each Unit, the Warrant Shares and the Compensation Shares became free-trading.

Lachlan is using the net proceeds from the Special Warrant Placement for the continued development of the CMD Gold Mine and for general working capital purposes.

Lachlan commenced trading on the Toronto Stock Exchange under code LSA on October 19, 2011.

## RESULTS OF OPERATIONS

The CMD Gold Mine currently has an estimated 6.0 Mt of probable mineral reserves at a grade of 0.8 g/t gold, for 157,000 oz gold, and an estimated 37.56 Mt of indicated mineral resources for 725,000 oz gold and 49.75 Mt of inferred mineral resources for 923,000 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. Processing plant throughput is currently approximately 11,000 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 \$2.03 million for resource definition drilling over the period from August 2011 to May 2012 to upgrade inferred mineral resources to a higher confidence level, and has budgeted \$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 \$3.0 million related to pre-stripping at the Chisperos deposit and installation of additional leach pad liners.

During the Quarter, the Company spent a total of \$1.1 million on resource definition drilling, and an additional \$0.71 million on exploration drilling. The pre-strip of the Chisperos deposit continued with costs of \$2.3 million incurred for this activity.

The Bushranger Copper Project is no longer considered to be a core asset of the Company and in September 2011, the Company entered into the Newmont Farm In Agreement providing for the potential acquisition by Newmont of a 51% interest in the Bushranger Copper Project.

Total sales during the Quarter from the CMD Gold Mine were \$18,737,000, cost of sales was \$17,562,000, and net sales were \$1,175,000. See "Operating Results" below.

## CHILE

### CMD GOLD MINE

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, Chile. The CMD Gold Mine commenced production in 1995 and has produced approximately 860,000 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.

### Operations

Table 1 below compares key performance indicators, including production and recovery rates and costs, for the three months ended December 31, 2011 as compared to the three months ended September 30, 2011 for the CMD Gold Mine.

**Table 1 – CMD Gold Mine Key Performance Indicators**

Item	Unit	3 months ended 31-Dec-11	3 months ended 30-Sep-11	% Change
Ore Mined	dmt	949,491	671,411	41%
Waste Mined	dmt	3,271,021	2,163,339	51%
Total Mined	dmt	4,220,512	2,834,750	49%
Waste:Ore Ratio	t:t	3.45	3.22	7%
Ore grade	Au g/t	0.57	0.62	-7%
Gold Mined	Au oz	17,528	13,290	32%
Ore stacked	dmt	967,145	641,588	51%
Stacked Grade	Au g/t	0.54	0.63	-14%
Gold Stacked	Au oz	16,835	13,032	30%
Average stacking rate	dmt/d	10,512	6,974	51%

<b>Gold Produced</b>	<b>Au oz</b>	<b>11,326</b>	<b>10,330</b>	<b>10%</b>
<b>Mining Cost/t moved</b>	<b>US\$/t</b>	<b>\$2.23</b>	<b>\$2.30</b>	<b>-3%</b>
<b>Mining Cost/t ore</b>	<b>US\$/t</b>	<b>\$9.93</b>	<b>\$9.72</b>	<b>2%</b>
<b>Process Cost/t ore stacked</b>	<b>US\$/t</b>	<b>\$6.91</b>	<b>\$8.41</b>	<b>-18%</b>
<b>G+A Cost/t ore</b>	<b>US\$/t</b>	<b>\$1.45</b>	<b>\$1.69</b>	<b>-14%</b>
<b>Total Cost/t ore</b>	<b>US\$/t</b>	<b>\$18.30</b>	<b>\$19.82</b>	<b>-8%</b>
<b>Average Sales Price</b>	<b>USD/oz</b>	<b>\$1,663</b>	<b>\$1,713</b>	<b>-3%</b>
<b>Cash Cost</b>	<b>USD/oz</b>	<b>\$900</b>	<b>\$755</b>	<b>19%</b>
<b>Non Cash Process Inventory Adjustment</b>	<b>USD/oz</b>	<b>-\$101</b>	<b>\$198</b>	<b>-151%</b>
<b>C1 Cash Cost</b>	<b>USD/oz</b>	<b>\$799</b>	<b>\$953</b>	<b>-16%</b>
<b>CMD Gold Mine Gross Operating Profit (Unaudited)</b>	<b>US\$m</b>	<b>\$1.12</b>	<b>\$4.08</b>	<b>-73%</b>

## Notes:

1. C1 cash costs are a non-GAAP measure and non-IFRS measure that may not be consistent from company to company. In this instance, it is defined as all site production costs but excludes depreciation and amortisation and royalties.
2. Gross operating profit equals revenues less cost of sales (including waste expensed and amortised), interest and other site expenses and excluding foreign exchange movements, depreciation, exploration and process inventory adjustments.
3. Percentages may not calculate exactly due to rounding.

Total costs per tonne of ore stacked decreased 8% quarter on quarter, despite a slight increase in the waste:ore ratio. The increase in ore stacking rates led to reductions in process and General and Administration (G+A) costs, down 18% and 14% respectively.

Gold production for the December 2011 Quarter was 11,326 ounces, which was sold at an average sales price of US\$1,663 per ounce. In addition, 4,074 ounces of silver was produced and sold at an average price of US\$31.70 per ounce. These sales represent 100% of production sold at spot prices and the Company's production profile remains unhedged.

The CMD Gold Mine gross operating profit (as defined above) was US\$1.12 million for the December 2011 Quarter, a 73% decrease quarter on quarter. This reduction is due to increased waste movement associated with the Chisperos pre strip (US\$2.30 million), a lower realised gold price (US\$0.79 million) and additional processing of ore from which gold will be recovered in future periods (US\$1.4 million).

C 1 cash costs, which exclude waste costs expensed or amortised and royalties, decreased during the Quarter to US\$799 per ounce of gold sold down from \$953 per ounce the previous quarter (a decrease of 16% quarter on quarter). Increased production levels and reduced process and G+A unit costs primarily contributed to this good result.

The inventory adjustment of negative US\$101 reflects the costs of stacking more ounces of gold than poured during the Quarter. During the June and September quarters the Company has poured more ounces than stacked, drawing down the leach pad inventory. During the December 2011 Quarter, more ounces have been stacked than poured (after taking into account recovery estimates), and the inventory adjustment reflects these costs of ounces to be recovered in future periods

Table 2 below shows the cash costs for the March, June, September and December quarters and the impact of the inventory valuation adjustment (all numbers US\$ per ounce):

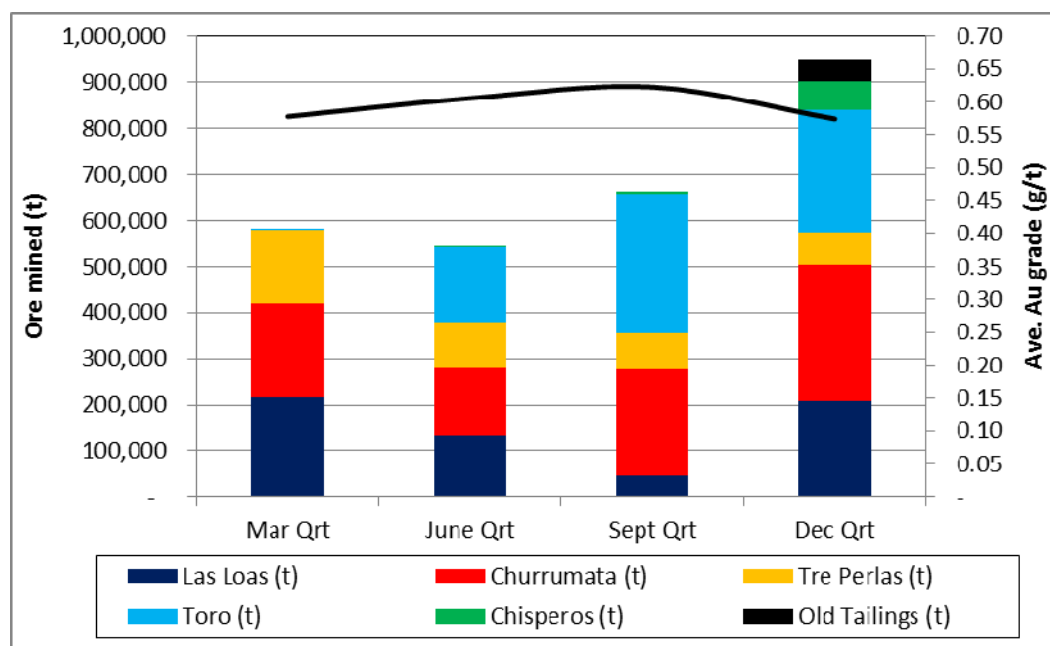
**Table 2 - Cash Cost (US\$/oz) and inventory adjustments**

	<u>Quarter Ended December 31, 2011</u>	<u>Quarter Ended September 30, 2011</u>	<u>Quarter Ended June 30, 2011</u>	<u>Quarter Ended March 31, 2011</u>
Cash costs with inventory adjustment	799	953	841	873
Cash costs without inventory adjustment	900	755	704	802
Inventory adjustment effect	(101)	198	137	(19)

## Mining

During the quarter, 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 March, June, September and December 2011 quarters.

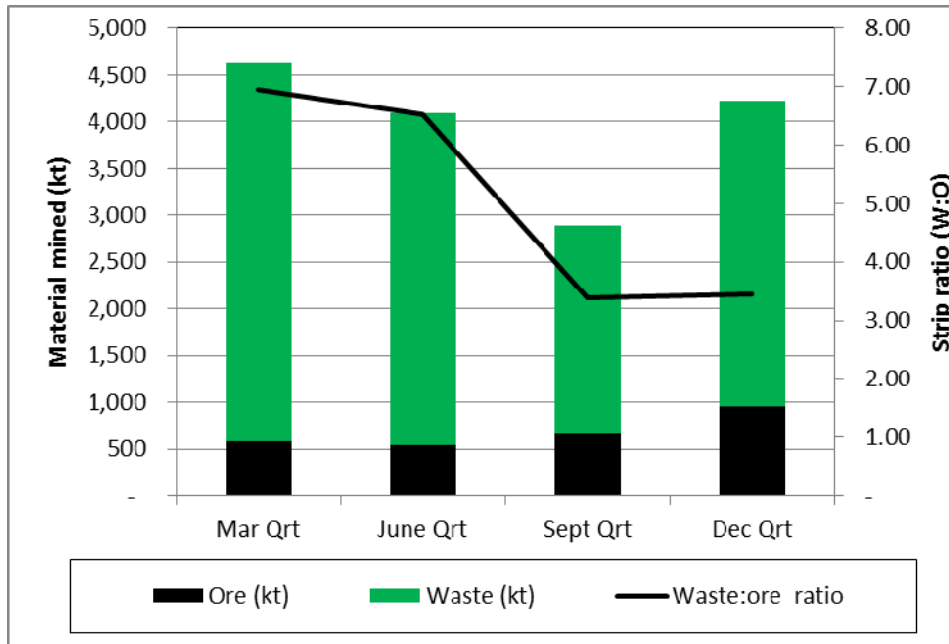


**Figure 1 – Mine production by area and average gold grade**

Ore mined increased by 41% on the previous quarter and was another record under Lachlan's ownership. The average ore grade declined by 7% as a result of mining additional lower grade mineralisation that was thought to be waste, mostly in the Toro pits.

During the December 2011 Quarter the waste to ore ratio increased slightly to 3.45:1 as shown in Figure 2, with total waste movement of 3.3 Mt during the Quarter.

The slight increase in the waste:ore ratio was achieved despite a major prestrip at the Chisperos pit. The operating waste:ore ratio for the Quarter after deducting the pre strip was 2.38:1.



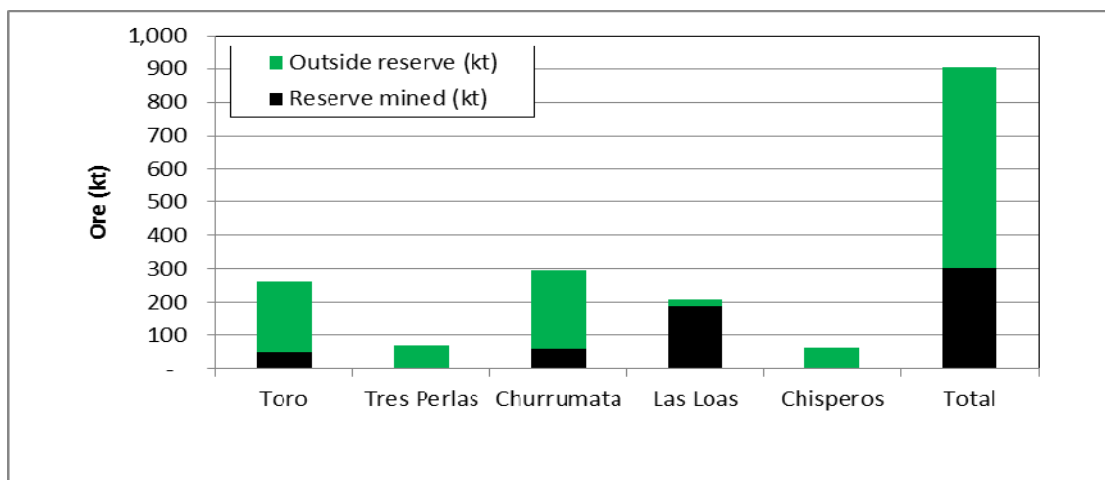
**Figure 2 – Total mine movement and waste:ore ratio**

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 and estimated to be less than 15:1 in January). Once this pre-strip has been completed the strip ratio is anticipated to decrease further.

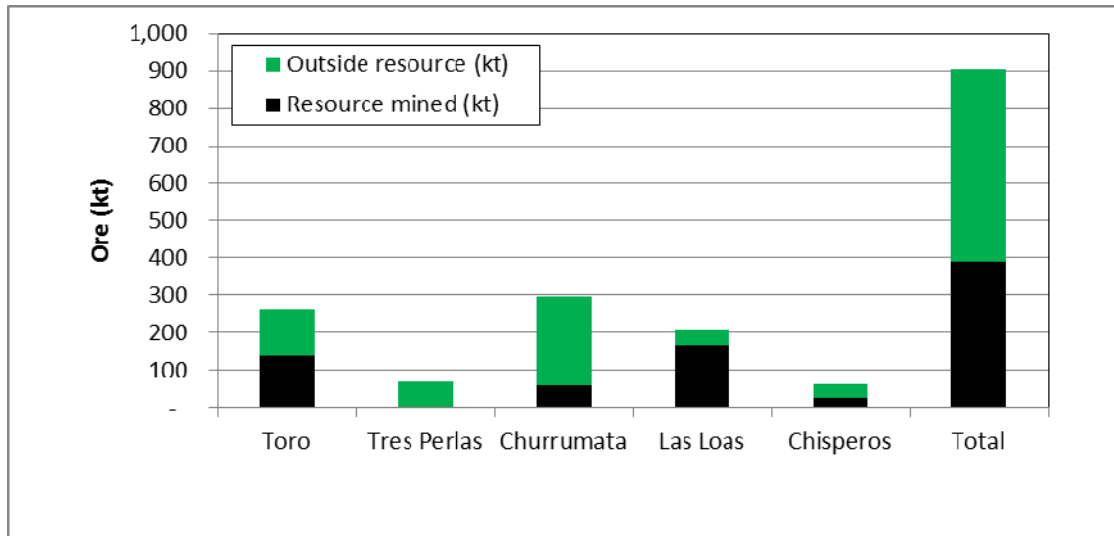
Mining of the Tres Perlas and Churrumata pits has continued to show much lower waste:ore ratios than budgeted, with 367,000 tonnes of ore mined from these two pits in the December 2011 Quarter at an average waste:ore ratio of 2:1.

### Mine Reconciliation

The trend of mining a majority of the ore from outside the mineral reserve and resource seen during the majority of 2011 has continued into the December 2011 Quarter. As illustrated in Figures 3 and 4 respectively, 67% of the ore mined in the December 2011 Quarter was sourced from outside the mineral reserve, and 57% of the ore was mined from outside the mineral resource.



**Figure 3 – Mineral reserve reconciliation (December 2011 quarter)**



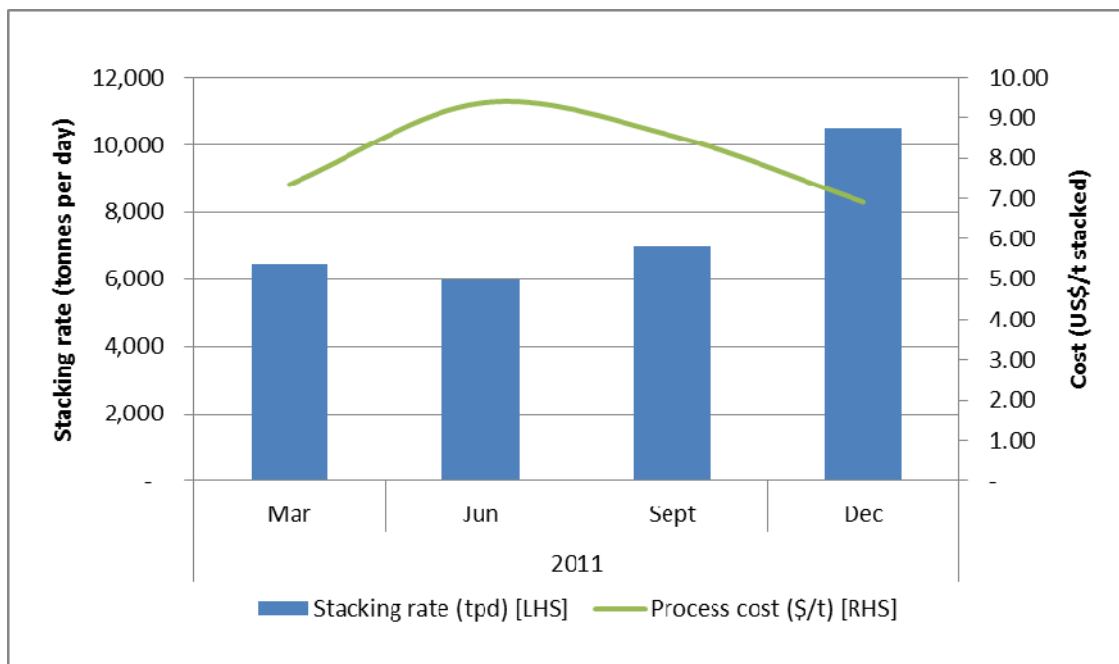
**Figure 4 – Mineral resource reconciliation (December 2011 quarter)**

Unit mining costs decreased to US\$2.23/t moved (a 3 % decrease quarter on quarter), which is still 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 increased over the previous quarter by 51%, which had a positive impact on process costs per tonne of ore stacked (down 18 % quarter on quarter).

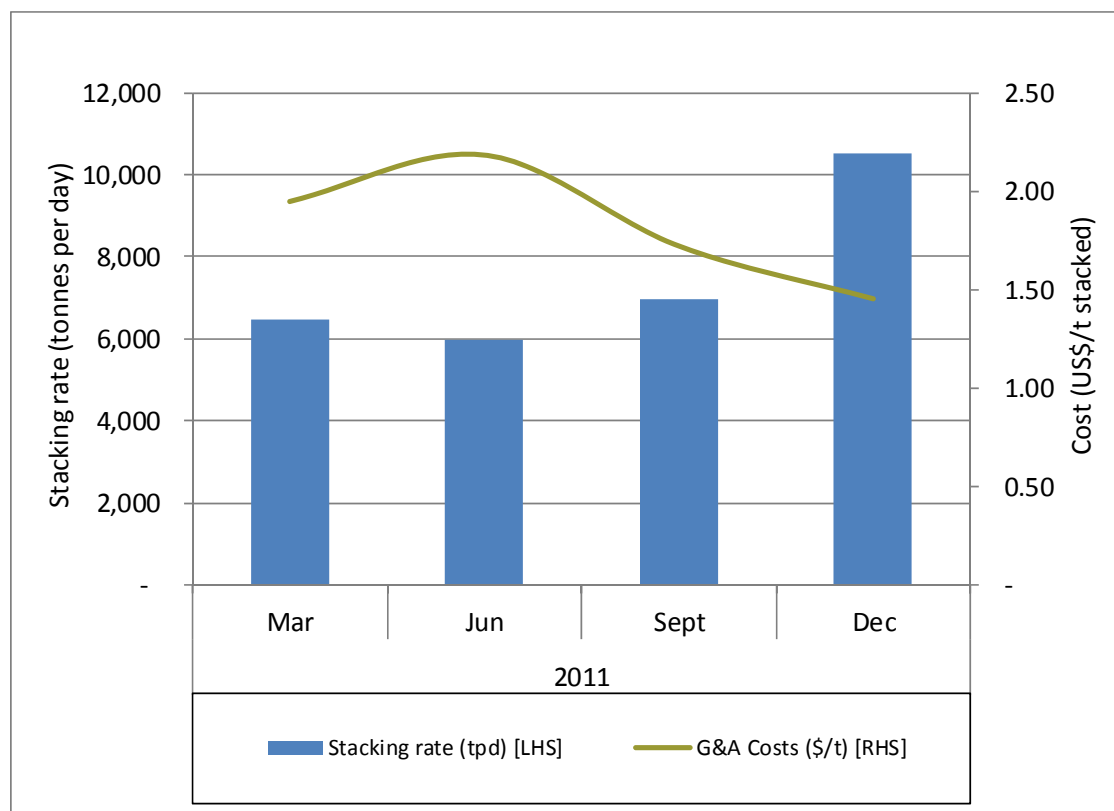
The average stacking rate for the quarter increased by 51% quarter on quarter to a new record since the Company took ownership of the mine. This has reduced the process costs as shown in Figure 5, despite the additional costs associated with rehandling ore for the dynamic leaching.



**Figure 5 – Ore stacked versus cost per tonne stacked**

### General and Administration (G+A)

Unit rates for G+A have continued to fall (down 14% quarter on quarter) as stacked tonnes increase as shown in Figure 6. All G+A costs are essentially fixed, and increasing stacked tonnages are forecast to further reduce the G+A unit rates.



**Figure 6 – 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 2011 Quarter. 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 have 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. 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 3.

**Table 3 – Comparison of New and Previous Toro Mineral Resource Estimates**

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

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 4.

**Table 4 – CMD Gold Mine Coffey Mineral Resources (Jan 2012) <sup>1</sup>**

Deposit	Indicated			Inferred		
	Tonnes (Mt)	Grade(Au)	Ounces (Kozs)	Tonnes (Mt)	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
Churrumata	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>

<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 6,255 m drilling was completed during the Quarter, bringing the total drilling in calendar 2011 to 31,036m. The 2012 calendar year program is estimated to be approximately 33,000 m in total.

The exploration focus has been moved to the Tres Perlas area for the majority of the 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 Churrumata deposits previously modelled separately with the goal of joining the mineralisation together.

### Workforce

During the December 2011 Quarter, the Group increased its head count from 230 to 251 as a result of increased activities at the operating CMD Gold Mine. The majority of employees are comprised of Chilean nationals (248) based at or near the CMD Gold Mine.

## AUSTRALIA

### BUSHRANGER COPPER PROJECT

The Bushranger Copper Project is located in New South Wales, approximately 25km south of the town of Oberon.

On September 29, 2011 the Company entered into the Newmont Farm In Agreement providing for the potential acquisition by Newmont of a 51% interest in the Bushranger Copper Project. The material 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 \$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 \$1 million (including expenditures during the Option Period) over a period of two 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.

Newmont have commenced a data review on the Bushranger Copper Project and plan to commence field work in the March 2012 quarter. Newmont spent \$0.02 million on the Bushranger Copper Project in the Quarter.

### FINANCIAL PERFORMANCE

The financial performance of the Group was affected by ongoing exploration activities being conducted on its properties and the continued development of the CMD Gold Mine. The financial performance of the Company is closely linked to the price of gold as the CMD Gold Mine economics are most sensitive to movements in the gold price. Previous economic analysis on the CMD Gold Mine’s mineral reserve estimate has indicated a break-even cut-off grade of between 0.3 and 0.4 g/t gold at a gold price of US\$1,250/ounce (see “*Mineral Reserves*”, above). If the gold price drops below US\$1,250/ounce, that may render the continued operation of the CMD Gold Mine uneconomic based on the current mineral reserves. The CMD Gold Mine mineral reserves will be re estimated upon receipt of the remaining updated mineral resource models, with the goal being to increase the scale of the operation and reduce cut-off grades.

Generally, the mining industry has experienced cost increases related to inflation of cost inputs. The main cost inputs for the CMD Gold Mine are mining contractor rates and cyanide prices. The Company entered into new contracts for both of these inputs during calendar 2011, which incorporated cost increases over the previous contracts and are included in the current period key performance indicators (see Table 1, above).

The mining contract term is the earlier of 24 months and the mining of 22.6Mt of material at the CMD Gold Mine. The price is fixed in Chilean pesos.

The cyanide supply contract is denominated in US dollars and expires January 1, 2013. The gold mining industry is experiencing a general shortage of cyanide supply and whilst the Company is contracted for its full consumption in calendar 2012, the potential for shortfalls or price increases exists due to factors outside the Company’s control. The Company has mitigated this risk where possible through the buildup of additional cyanide stockpiles and by broadening its cyanide supply base.

As approximately 80% of the CMD Gold Mine costs are denominated in Chilean pesos, the Group is affected by changes in the Peso/US dollar exchange rate. See the discussion under “*Financial Instruments and Related Risks - Market risk – (ii) Foreign Exchange Risk*”, below.

The following table summarizes the Company’s recent financings and use of proceeds as disclosed at the time of the financing. There has been no change in such uses of proceeds.

<b>Financing</b>	<b>Gross Proceeds</b>	<b>Use of Proceeds</b>
December 2010/January 2011 non-renounceable rights offering and concurrent private placement	\$11.34 million	Fund the acquisition of the CMD Gold Mine
May 2011 private placement	\$2.85 million	Working capital and exploration of the CMD Gold Mine
Special Warrants Placement	\$15.09 million	Continued development of the CMD Gold Mine and working capital

## **SUMMARY OF QUARTERLY RESULTS**

Not all prior period information has been prepared or presented on a basis consistent with the most recent interim financial information. The Company became a reporting issuer upon its listing on TSX on October 19, 2011. Prior to that date it had no obligation to prepare quarterly consolidated interim financial statements and, other than set out below, none were prepared, and it would be impracticable to do so now.

### **Financial Condition**

The quarter-on-quarter movements in the financial position of the Group over the last eight quarters are shown below.

<b>Financial position as at:</b>	<b>Dec-31 2011 A\$000</b>	<b>Sep-30 2011 A\$000</b>	<b>Jun-30 2011 A\$000</b>	<b>Mar-31 2011 A\$000</b>	<b>Dec-31 2010 A\$000</b>	<b>Sep-30 2010 A\$000</b>	<b>Jun-30 2010 A\$000</b>	<b>Mar-31 2010 A\$000</b>
Cash and cash equivalents	14,474	16,123	4,515	5,350	6,490	3,522	3,856	3,928
Total assets	82,673	80,607	61,132	N/A	70,904	7,228	7,946	N/A
Total liabilities	31,857	30,047	30,958	N/A	38,762	60	141	N/A
Net assets	50,816	50,560	30,174	N/A	32,142	7,168	7,805	N/A

#### *Cash and cash equivalents*

As at December 31, 2011 the Group had cash reserves of \$14.47 million, a decrease of \$1.65 million from September 30, 2011. See “*Cash flow*” section below. The Group’s cash reserves were \$13.24 million at January 31, 2012, of which \$11.06 million was held in A\$. The Group had a receivable of US\$2.46 million from Johnson Matthey at quarter end from the sale of gold.

#### *Trade and other receivables*

Trade and other receivables have increased by \$1.26 million since June 30, 2011.

The last gold pour of the year on June 30, 2011 was not collected by Johnson Matthey until July 1 and therefore was not been treated as a June 2011 financial year sale. That sale had a value of \$1.11 million and therefore June 30, 2011 trade receivables were lower than they might otherwise have been. The last shipment in December (shipped on December 30, 2011) was for \$1.70 million.

Accounts receivable in CMD were \$2.11 million higher at December 31, 2011 than June 30, 2011. VAT receivable in CMD increased \$0.52 million over the same period as a result of additional expenditure towards the end of the Quarter.

The termination of a mining contact has resulted in mine plant of \$1.49 million that was classified as a receivable at June 30, 2011 being reclassified as property plant and equipment in the December 2011 half-year.

In addition, the A\$ / US\$ exchange rate decreased from 1:1.0597 at June 30, 2011 to 1:1.0176 at December 31, 2011 meaning an increase of \$0.14 million in the value of trade and other receivables presented in the CMD financial statements in US\$.

#### *Inventories*

Inventories decreased by \$0.58 million from June 30, 2011, comprising a \$1.22 million reduction in CMD inventories offset by a \$0.64 million increase as a result of the A\$ / US\$ exchange rate decreasing from 1:1.0597 at June 30, 2011 to 1:1.0176 at December 31, 2011.

The \$1.22 million decrease in CMD inventory primarily consists of an decrease of 684 ounces in the leachpad with a cost of A\$0.98 million, a \$1.02 million reduction attributable to the reduced average cost per ounce on the leachpad which reflects the cost efficiencies achieved in the half-year, a \$1.03 million increase relating to the purchase of concentrate and electrolytic mud from a third party that will be processed and sold in 2012, and a \$0.18 million reduction in stores inventory partly due to the delivery of a cyanide shipment in January 2012 that was scheduled in December 2011.

#### *Mine development properties*

Mine development properties increased by \$4.59 million over the half-year, mainly comprising expenditure of \$5.21 million, an \$0.96 million increase as a result of the A\$ / US\$ exchange rate decreasing from 1:1.0597 at June 30, 2011 to 1:1.0176 at December 31, 2011, and amortisation of \$1.53 million.

Of the \$5.21 million expenditure, \$3.86 million relates to exploration at the CMD Gold Mine, \$0.87 million capitalized waste, and \$0.47 million to the capitalization of mobilization costs.

#### *Property, plant and equipment*

Property, plant and equipment increased by \$2.28 million over the half-year, comprising expenditure of \$1.40 million at the CMD Gold Mine, a \$0.40 million increase as a result of the A\$ / US\$ exchange rate decreasing from 1:1.0597 at June 30, 2011 to 1:1.0176 at December 31, 2011, the reclassification of \$1.49 million that was classified as a receivable at June 30, 2011 (see "Trade and other receivables" above), offset by a depreciation charge of \$1.02 million.

Expenditure in the period included repair of site trucks and additions to the leachpad.

#### *Deferred tax asset*

The deferred tax asset increased by \$4.00 million in the half-year, mainly comprising an income tax credit of \$3.65 million (refer "Income tax" below) and a \$0.28 million increase as a result of the A\$ / US\$ exchange rate decreasing from 1:1.0597 at June 30, 2011 to 1:1.0176 at December 31, 2011.

The availability of tax losses at June 2011 was determined using the Company's internal December 2010 net present value ("NPV") model; the higher mineralised material and cash flow shown in the Company's internal July 2011 NPV model mean that the justification for recognizing an increased deferred tax asset for CMD's income tax losses was satisfied in the December 2011 half-year with a consequent increase in the deferred tax asset

In addition, a review of historical income tax returns for CMD carried out in the December 2011 Quarter revealed an understatement of tax losses claimed in prior years of US\$3.35 million with a consequent increase in the deferred tax asset in the Quarter.

#### *Total liabilities*

As at December 31, 2011, the Group had total liabilities of \$31.86 million compared to \$30.96 million at June 30, 2011, an increase of \$0.9 million.

A \$1.22 million increase in CMD trade and other payables in the half-year and a \$1.06 million increase as a result of the A\$ / US\$ exchange rate decreasing from 1:1.0597 at June 30, 2011 to 1:1.0176 at December 31, 2011 has been offset by the net repayment of \$1.37 million of borrowings.

Trade and other payables increased in December as the result of the purchase of over \$1 million of concentrate and electrolytic mud from a third party (included in inventories), and increased exploration and operational supplies. As CMD processes the concentrate and electrolytic mud and sells the gold and silver the third party will be paid and CMD will deduct its commission. The concentrate will be processed within one month, but the electrolytic mud will take over 6 months. This arrangement is expected to continue throughout 2012.

As at December 31, 2011, Lachlan had \$9.40 million in debt obligations consisting of bank loans, finance leases, and deferred consideration due to the vendors of the CMD Gold Mine. During the Quarter CMD drew down 2 bank facilities totaling US\$2.7 million.

#### *Contributed equity*

The contributed equity increase of \$14.12 million over the half-year is shown below:

	Ordinary shares (number)	\$000
July 1, 2011	56,967,517	174,796
Issue of ordinary shares	18,400,000	15,088
Cost of issue of ordinary shares	-	(1,225)
Share based payments	-	253
December 31, 2011	<u>75,367,517</u>	<u>188,912</u>

As noted in the "Corporate" section above, 18,400,000 Special Warrants automatically converted into Units and 1,104,000 Special Broker Warrants automatically converted into Compensation Options during the Quarter. A Unit comprised one Ordinary Share and one-half of one ordinary share purchase warrant and a Compensation Options entitles the holder, upon due exercise and payment to the Company of additional consideration of \$1.20, to acquire 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 net proceeds received from the issue of the Special Warrants were recognized in Contributed Equity in the September 30, 2011 Quarter.

The result of this conversion was the issue of 18,400,000 fully paid Ordinary Shares and 10,856,000 warrants / options during the Quarter. In addition, 850,000 options with various terms and exercise prices were issued to employees, consultants and directors during the Quarter subsequent to shareholder approval received on 30 November 2011.

The share based payment mainly relates to a transfer from the share based payments reserve on the expiry of share options during the Quarter.

### Reserves

Negative reserves of \$0.02 million consist of a \$0.35 million share based payments reserve, which reflects the fair value of share options at their date of issue, together with a negative balance of \$0.37 million in the foreign exchange reserve.

The reduction in the share based payments reserve in the half-year mainly reflects a transfer of \$0.25 million to contributed equity on the expiry of 375,002 share options.

The movement of \$1.55 million in the foreign exchange reserve balance since June 30, 2011 comprises \$1.24 million from the translation of CMD financial statements to A\$, which are presented in US\$, on consolidation, and the foreign exchange effect of the fair value uplift on acquisition of the CMD Gold Mine, together with a \$0.31 million unrealized foreign exchange gain on an intercompany balance. The increase in the foreign exchange reserve reflects the A\$ / US\$ exchange rate decreasing from 1:1.0597 at June 30, 2011 to 1:1.0176 at December 31, 2011.

### Accumulated losses

The December 2011 Quarter reduction of \$1.94 million in accumulated losses is explained under the heading "Operating Results" below.

### Cash flow

The quarter-on-quarter movements in the cash flow of the Group over the last eight quarters are shown below.

	Dec-31 2011 A\$000	Sep-30 2011 A\$000	Jun-30 2011 A\$000	Mar-31 2011 A\$000	Dec-31 2010 A\$000	Sep-30 2010 A\$000	Jun-30 2010 A\$000	Mar-31 2010 A\$000
Cash flows for the three months ended:								
Operating Activities	1,726	2,313	(581)	(782)	(7)	(287)	(70)	(189)
Investing Activities	(3,776)	(2,871)	(2,617)	1,499	(8,428)	(47)	(2)	31
Financing Activities	426	12,116	1,280	(1,787)	11,391	-	-	-

The December 2011 Quarter and September 2011 Quarter numbers are derived from the interim financial reports for the 3 months ending December 31, 2011 and the 3 months ending September 30, 2011 respectively. Prior quarter numbers have been derived from the Company's quarterly cash flow lodged with the ASX as adjusted to reflect exploration and capitalised development costs in "investing activities".

The *Operating Activities* inflow of \$1.73 million in the December 2011 Quarter reflects the net cash flow generated from operations at the CMD Gold Mine of \$3.04 million, net of new ventures and royalties of \$0.37 million, corporate overhead of \$0.78 million, and net interest expense of \$0.16 million.

*Investing activities* in the December 2011 Quarter of \$3.78 million relate to \$0.81 million property, plant and equipment costs incurred at the CMD Gold Mine site and exploration / capitalised development work at the CMD Gold Mine of \$2.97 million.

*Financing activities* in the December 2011 Quarter reflect net borrowing repayments during the Quarter of \$0.43 million comprising of the net repayment of bank loans, leases, and payments under the terms of the sale agreement with the vendors of the CMD Gold Mine. Financing activities in the September 2011 Quarter reflect the issue of the Special Warrants on August 26, 2011 and the release of the funds from escrow on September 26, 2011, being gross proceeds of \$15.09 million offset by transaction costs (broker commission and legal costs) of \$1.17 million.

### Operating Results

The operating results of the Group for the December 2011 Quarter are shown below. The Company became a reporting issuer when it listed on the TSX on October 19, 2011. Prior to that date it had no

obligation to prepare quarterly consolidated interim financial statements and, other than as set out below, none have been prepared, and it would be impracticable to do so now.

<i>Operating results for the three months ended:</i>	<b>Dec-31 2011 A\$000</b>	<b>Sep-30 2011 A\$000</b>	<b>Dec-31 2010 A\$000</b>	<b>Sep-30 2010 A\$000</b>
Revenue	18,737	18,248	1,184	-
Other income	103	975	259	40
Cost of sales	(17,562)	(17,124)	(1,364)	-
Total net operating expenses	(18,116)	(18,366)	(2,311)	(677)
Net profit / (loss) before tax	724	857	(868)	(637)
Net profit / (loss) after tax	1,941	3,289	(868)	(637)
Basic profit / (loss) per share (cents)	3.1	5.8	(4.0)	(3.5)
Diluted profit / (loss) per share (cents)	3.1	5.8	(4.0)	(3.5)

The Group's after tax profit for the December 2011 Quarter was \$1.94 million after recognising the following items of revenue and expense:

#### *Revenue*

	<b>Dec-31 2011 \$000</b>	<b>Sep-30 2011 \$000</b>
Sale of gold	18,455	18,131
Sale of silver (net of refining)	116	(5)
Sale of copper	166	122
	<u>18,737</u>	<u>18,248</u>

Revenue is from the sale of metals, mainly gold, by the CMD Gold Mine, acquired on December 24, 2010. Revenue for the December 2011 Quarter includes 11,326 ounces of gold at an average achieved sale price of US\$1,663 per ounce (September 2011 Quarter: 11,108 ounces of gold at an average achieved sale price of US\$1,718 per ounce).

#### *Other income*

Other income of \$0.1 million relates to a foreign exchange gain of \$0.18 million and net \$0.08 million interest expense. The foreign exchange gain arises from unrealised gains on the Company's holdings of US\$ cash and cash equivalents, and payables denominated in Chilean Pesos translated to the functional currency of CMD, being US\$.

#### *Cost of sales*

	<b>Dec-31 2011 \$000</b>	<b>Sep-30 2011 \$000</b>
Depreciation and amortisation	1,389	1,157
Gold in process inventory adjustment	(1,130)	3,006
Mine operational expenses	8,959	6,191
Reagents	2,247	1,776
Utilities, maintenance	3,635	2,934
Personnel expenses	1,693	1,305
Royalties	475	475
Other expenses	294	280
	<u>17,562</u>	<u>17,124</u>

Cost of sales relates to costs attributable to the operation of the CMD Gold Mine.

Depreciation and amortisation costs are calculated on the units of production method whereby costs are amortised according to gold production as a percentage of estimated ounces of gold recoverable from mineralised material in the mine plan.

Deferred stripping (waste) costs are capitalised in any month where the actual stripping ratio exceeds the life of mine average stripping ratio, in which case costs relating to the waste tonnes mined over and above the life of mine stripping ratio are capitalised. In months where waste tonnes mined fall below the life of mine stripping ratio all waste costs are expensed. Cost of sales for the December Quarter includes \$6.75 million (September 2011 Quarter: \$4.92 million) waste costs expensed and amortised.

The December 2011 Quarter depreciation and amortisation charge of \$1.39 million includes \$0.46 million relating to amortisation on the uplift in fair values of assets recognized on acquisition of the CMD Gold Mine and \$0.24 million waste amortisation. The acquisition of CMD was treated as a business acquisition under IFRS requiring a fair valuation of consideration paid and assets, liabilities and contingent liabilities acquired. The resultant uplift in fair values of property, plant and equipment and mine properties on acquisition are subject to amortisation over estimated life of mine on the same basis as the underlying asset.

Gold in leach pad inventories are valued based on the historical recovery of ounces from the pads using a rolling average of costs incurred, including leaching costs. Movements in the value of leach pad inventories are included in cost of sales.

#### *Corporate compliance and management*

Corporate compliance and management costs of \$0.72 million (September 2011 Quarter: \$0.66 million) reflect costs associated with the management of the CMD Gold Mine and costs of the legal and financial due diligence associated with listing the Company on the TSX.

#### *Occupancy costs*

Occupancy costs of \$0.03 million (September 2011 Quarter: \$0.03 million) relate to the rental cost on the Company's head office in Perth.

#### *New venture expenditure written off*

The December 2011 Quarter expenditure of \$0.07 million (September 2011 Quarter: \$0.06 million) reflects Lachlan's expenditure on investigating new venture opportunities.

#### *Finance expense*

Finance expense of \$0.03 million (September 2011 Quarter: \$0.37 million) consists of bank and financial institution interest, together with the unwinding of discounts on provisions and the foreign exchange gain / loss on financial liabilities.

#### *Fair value loss on deferred consideration*

The acquisition cost for the CMD Gold Mine included contingent deferred consideration payments relating to the achievement of specified gold production, in particular:

- (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 (collectively, the "Mineral Inventory") between January 1, 2011 and December 31, 2014; and

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

The December 2011 Quarter gain of \$0.29 million (September 2011 Quarter: \$0.12 million loss) arises from a lower number of ounces paid in the December 2011 Quarter than forecast at September 30, 2011, in addition to a lower forecast gold price for future periods than forecast at September 30, 2011.

#### *Income tax*

The tax credit for the December 2011 Quarter of \$1.22 million consists of:

- (i) net \$1.13 million related to the recognition of a deferred tax asset in respect of income tax losses and timing differences of CMD. A review of historical income tax returns for CMD carried out in the quarter revealed an understatement of tax losses claimed in prior years of US\$3.35 million.
- (ii) \$0.09 million relating to the deferred tax impact of the unwinding of the fair value adjustments taken up on the acquisition of the CMD Gold Mine. These fair value adjustments created a difference between the carrying value of the assets in the Company's financial statements and the assets' tax value, and resulted in the recognition of a deferred tax liability on acquisition. As the fair value uplift is amortised the difference between the carrying value of the assets in Lachlan's financial statements and the assets tax value will reduce and the deferred tax liability will reverse.

#### *Exchange difference on translation of foreign operations*

The December 2011 Quarter \$1.64 million foreign exchange reserve movement is a result of the A\$ / US\$ exchange rate increasing from 1:0.9793 at September 30, 2011 to 1:1.0176 at December 31, 2011. The movement is required to be shown on the face of the statement of comprehensive income as a reconciling item to total comprehensive income.

#### *Earnings per Share*

Earnings per share reflects the underlying result for the Quarter. For the purposes of calculating diluted earnings per share in the September 2011 Quarter the issue of the Special Warrants (see the "Corporate" section above) has been included in the denominator.

### **LIQUIDITY, CAPITAL RESOURCES AND COMMITMENTS**

During the last three years, the Group has accessed equity capital markets as its primary source of funding to finance its activities.

Gross proceeds of \$14.20 million were raised from the issue of Ordinary Shares during the financial year ending June 30, 2011 (excluding the issue of 1 billion shares on a pre-share consolidation basis to the vendors of the CMD Gold Mine). Refer to the "Contributed equity" section above for details of shares and options issued during the Quarter.

See also, under the heading "Financial Condition", above, the table summarizing the movements in the financial position of the Group over the last eight quarters and the discussion of cash and cash equivalents.

The following table sets forth information regarding the Group's contractual obligations as at December 31, 2011:

Contractual Obligations	Payments Due				
	Total	Less than 1 Year	1 - 2 years	2 - 5 Years	5 Years
	\$ million	\$ million	\$ million	\$ million	\$ million
Exploration commitments <sup>(1)</sup>	\$0.00	\$0.00	---	—	—
Borrowings <sup>(2)</sup>	\$9.40	\$6.67	\$2.73	—	—
Trade And Other Payables	\$16.45	\$16.45	—	—	—
Provisions <sup>(3)</sup>	\$6.00	—	—	\$6.00	—
Other <sup>(4)</sup>	\$80.36	42.55	\$23.89	\$13.92	—

Notes:

- (1) The Company's mineral rights in Chile are not subject to minimum expenditures on exploration activities.
- (2) See the discussion in the sections entitled "*Total liabilities*" under the heading "Financial Condition" above. The Group had an overdraft facility of 150,000,000 Chilean pesos at December 31, 2011 which was drawn in January 2012
- (3) Provisions relate to Chilean site restoration and employee termination obligations.
- (4) Other relates to future commitments arising out of contracts in place as at December 31, 2011 at the CMD Gold Mine, primarily for mining, power, explosives and cyanide.

The net proceeds of the Special Warrants Placement and expenses in qualifying the Units and Compensation Options of approximately \$13.91 million received in the September 30, 2011 Quarter are anticipated to be sufficient to finance the current exploration program and operations and to meet all other contractual, corporate and administrative costs for the Company for the ensuing 18 months. The actual expenditures for exploration and drilling will depend on a number of factors including the success of the drilling or exploration program, as the case may be.

The Company expects to be able to finance its working capital requirements and planned growth and development activities from existing cash balances, finance facilities and cash flows from operations. However, further financing may be required to fund any unforeseen increases in capital or operational expenditure at the CMD Gold Mine. It is anticipated that further funds would be obtained by additional debt or equity raisings. Net cash generated from operating activities in the December 2011 Quarter was \$1.73 million. Expenses will be financed from cash flow from operations to the extent possible.

Based on the economics of the CMD Gold Mine the Company believes that it will be able to raise such funds through additional financings if required. However, there is no assurance additional financing will be available, as and when required, or if available, that it will be on terms acceptable to the Company. See "*Risk Factors — Need for Additional Capital*" in the Company's AIF, available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.lachlanstar.com.au](http://www.lachlanstar.com.au).

#### OFF BALANCE SHEET ARRANGEMENTS

There are no material off-balance sheet arrangements as at December 31, 2011.

#### TRANSACTIONS WITH RELATED PARTIES

Remuneration (including salaries, directors' fees and the issue of share options) was paid or is payable to the directors of the Company in the normal course of business. The Company pays its non-executive directors consulting fees for extra services, if any, performed outside of normally expected non-executive duties. These transactions are made on commercial terms and conditions and at market rates.

The Group did not have any other material transactions with related parties during the December 2011 Quarter.

## CRITICAL ACCOUNTING ESTIMATES

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:

### *Impairment*

The recoverability of the carrying amount of property, plant and equipment and mine development properties has been reviewed by the Group. In conducting the review, the recoverable amount has been assessed by reference to the higher of 'fair value less costs to sell' and 'value in use'. In determining fair value less costs to sell, future cash flows are based on estimates of (a) quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction; (b) future production levels and sales; (c) timing of future production; (d) future exchange rates and commodity prices; and (e) future cash costs of production and capital expenditure.

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

At December 31, 2011 recoverable amount was tested using the following forward gold prices from data supplied by Bloomberg:

2012	2013	2014	2015	2016
US\$1,583	US\$1,589	US\$1,601	US\$1,620	US\$1,689

The forward gold price for 2017 and 2018, in which periods only 12,977 ounces of gold are forecast to be sold, was assumed as US\$1,689. At January 31, 2011 the spot gold price was US\$1,737.60 per ounce, as reported by Bloomberg.

The financial statement line items affected by this critical accounting estimate are "Property, plant and equipment" and "Mine development properties" in the Consolidated Statement of Financial Position, and "Cost of sales" in the Consolidated Statement of Comprehensive Income.

### *Provisions*

The Group 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.

The financial statement line items affected by this critical accounting estimate are "Provisions" in the Consolidated Statement of Financial Position and "Cost of sales" in the Statement of Comprehensive Income.

### *Functional currency*

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

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

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

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

For subsidiaries CMD and 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 U.S. dollar is the functional currency for those companies. Management has determined that the Australian dollar is the functional currency for Lachlan and its other subsidiaries given their revenue, expenditure and financing is mostly in Australian dollars.

The financial statement line items affected by this critical accounting estimate is "Reserves" and all assets and liabilities of foreign operations whose functional currency is different from the Group's presentation currency in the Consolidated Statement of Financial Position, and "Foreign exchange loss" in the Consolidated Statement of Comprehensive Income.

### *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 a shutdown of operations that occurred in September 2000, prior to its acquisition by Lachlan. The recovery assumption is also supported by the feasibility study prepared by the previous operator of the CMD Gold Mine in the 1990s. Management evaluates 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. However, the Company has not formally updated the original feasibility study and has evaluated and planned for the operation of the CMD Gold Mine on the basis of its known operating costs, which are well-known given the period of time the mine has been in operation.

The financial statement line items affected by this critical accounting estimate are "Inventories" in the Consolidated Statement of Financial Position and "Cost of sales" in the Consolidated Statement of Comprehensive Income.

### *Income taxes*

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

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

The financial statement line item affected by this critical accounting estimate is “Deferred tax asset” in the Consolidated Statement of Financial Position and the “Income tax benefit” in the Consolidated Statement of Comprehensive Income.

#### *Mineral reserve estimates*

Mineral reserves are estimates of the amount of product that can be economically and legally extracted from the Group's properties. In order to calculate mineral 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 mineralised bodies to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements and calculations to interpret the data. The Group is required to determine and report mineral 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 Group is also required to determine and report mineral reserves in Canada pursuant to NI 43-101. Both the JORC Code and NI 43-101 require the use of reasonable investment assumptions to calculate reserves.

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

The financial statement line items affected by this critical accounting estimate are “Mine development properties” in the Consolidated Statement of Financial Position and “Cost of sales” in the Consolidated Statement of Comprehensive Income.

#### *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.

The financial statement line items affected by this critical accounting estimate are “Exploration and evaluation” in the Consolidated Statement of Financial Position and “Exploration and evaluation expenditure” in the Consolidated Statement of Comprehensive Income.

### **CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**

The Company's key accounting policies and the adoption of new and revised accounting standards are provided in Note 1 to the Company's consolidated financial statements for the year ended June 30, 2011. There have been no significant changes in such policies in the December 2011 Quarter,

In the December 2011 Quarter, 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 July 1, 2011. As a result of this review, the Directors have determined that there is no change necessary to Group accounting policies.

The International Accounting Standards Board published IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* on October 19, 2011. The interpretation, which has an effective date for annual periods beginning on or after January 1, 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.

## **FINANCIAL INSTRUMENTS AND RELATED RISKS**

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

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

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

### *Credit risk*

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

Cash transactions are limited to financial institutions considered to have a suitable credit rating. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the

statement of financial position at balance date. The carrying amount of the Group's financial assets represents the maximum credit exposure.

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

There has been no significant change in the Company's exposure to credit risk or its objectives and policies for managing this risk during the Quarter.

#### *Market risk*

##### (i) Interest rate risk

The significance and management of the risks to the Group is dependent on a number of factors including interest rates (current and forward) and the currencies that are held; level of cash and liquid investments and borrowings; maturity dates of investments and loans; and the proportion of investments and borrowings with fixed rate or floating rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate investments.

There has been no significant change in the Company's exposure to interest rate risk or its objectives and policies for managing this risk during the Quarter.

##### (ii) Foreign exchange risk

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

The major exchange rates relevant to the Group for the Quarter were as follows:

	<b>Average for Quarter ended December 31, 2011</b>	<b>As at December 31, 2011</b>
A\$ / US\$	1.0124	1.0176
US\$ / Peso	512.2	520.7
A\$ / Peso	518.3	529.9

There has been no significant change in the Company's exposure to foreign exchange rate risk or its objectives and policies for managing this risk during the Quarter.

#### *Liquidity risk*

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The Group'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. There has been no significant change in the Company's exposure to liquidity rate risk or its objectives and policies for managing this risk during the Quarter

#### *Commodity price risk*

Commodity price risk is the risk of financial loss resulting from movements in the price of the Group's commodity output, being mainly gold, which is denominated in US\$. This risk has not been hedged in either the current or prior period, but is continually under review. There has been no significant change in the Company's exposure to commodity price risk or its objectives and policies for managing this risk during the Quarter

## SUBSEQUENT EVENTS

Since the end of the December 2011 Quarter, the directors of the Company are not aware of any other matter or circumstance that has not been discussed in this MD&A, that has significantly or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent years.

## OUTSTANDING SECURITIES DATA

The Company presently has 75,367,517 Ordinary Shares that are issued and outstanding. The Company presently has the following issued and outstanding securities that are convertible into Ordinary Shares:

<b>Security or Instrument Name</b>	<b>Number</b>	<b>Exercise or Conversion Price (if applicable) (\$)<sup>(1)</sup></b>	<b>Expiry Date (dd/mm/yy)</b>
Stock Options	375,002	\$1.50	18/11/2012
Stock Options	166,667	\$1.20	31/12/2012
Stock Options	166,669	\$1.20	20/12/2013
Stock Options	166,669	\$1.50	20/12/2013
Placement Options <sup>(1)</sup>	3,400,009	\$1.20	20/05/2013
Broker Options <sup>(1)</sup>	197,081	\$1.20	20/05/2013
Broker Options / Warrants <sup>(2)</sup>	10,856,000	\$1.20	26/08/2013
Stock Options	650,000	\$1.20	25/11/2013
Stock Options	150,000	\$1.50	25/11/2013
Stock Options	50,000	\$1.50	25/11/2014

Notes:

- (1) May 2011 private placement.
- (2) These securities were issued or issuable pursuant to the Special Warrants Placement. See "Corporate", above.

No new shares or options have been issued since December 31, 2011 and up to the date of this MD&A.

## CONTROLS AND PROCEDURES

The Company maintains information systems, procedures and controls to provide reasonable assurance that information used internally and disclosed externally is complete and reliable. The Company continues to review and develop internal controls, including disclosure controls and procedures for financial reporting that are appropriate for the nature and size of the Company's business. Access to material information regarding the Company is facilitated by the small size of the Company's senior management team and workforce. The Company is continuing to develop appropriate controls for the nature and size of the Company's business.

Any internal controls, no matter how well conceived and operated, can provide absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion between two or more people, or by unauthorized override of the control. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

### GLOSSARY OF MINING TERMS

The following is a glossary of mining terms used in this MD&A:

<b>Term</b>	<b>Definition</b>	<b>Term</b>	<b>Definition</b>
Au	gold	dmt	dry metric tonne
dmt/d	dry metric tonnes per day	g/t	grams per tonne
kt	thousand tonnes	Koz	thousand ounces
Mt	million tonnes	Mtpa	million tonnes per annum
oz	Troy ounce	t	tonnes
t:t	tonne to tonne	tonne	metric tonne, being a unit of mass equal to 1,000 kilograms
US\$/oz	United States dollars per ounce	US\$/t	United States dollars per tonne

**LACHLAN STAR LIMITED**

**ABN 88 000 759 535**

**UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**For the period ended**  
**31 December 2011**

The accompanying unaudited consolidated interim financial statements for the period ended 31 December 2011 have been prepared by management. Readers are cautioned that these financial statements contain forward-looking information as described in the associated Management Discussion & Analysis. All amounts are stated in Australian dollars, except as otherwise stated.

**LACHLAN STAR LIMITED**  
**31 DECEMBER 2011 UNAUDITED INTERIM FINANCIAL STATEMENTS**

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**LACHLAN STAR LIMITED**  
**31 DECEMBER 2011 UNAUDITED INTERIM FINANCIAL STATEMENTS**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	3 months ended		6 months ended	
	31-Dec-11 \$000	31-Dec-10 \$000	31-Dec-11 \$000	31-Dec-10 \$000
<b>Revenue from continuing operations</b>				
Revenue	18,737	1,184	36,985	1,184
<b>Other income</b>				
Finance income	179	26	230	66
Foreign exchange (loss) / gain	(76)	-	848	-
Profit on sale of shares in associates	-	234	-	234
Fair value gain on deferred consideration	291	-	173	-
	19,131	1,444	38,236	1,484
<b>Expenses</b>				
Cost of sales	(17,562)	(1,364)	(34,686)	(1,364)
Other expenses from ordinary activities				
Corporate compliance and management	(719)	(174)	(1,374)	(315)
Share based payments expense	(2)	-	(2)	-
Occupancy costs	(27)	(20)	(53)	(45)
New venture expenditure written off	(68)	(460)	(128)	(539)
Other expenses	(4)	(117)	(17)	(117)
Finance expense	(25)	(15)	(395)	(15)
Share of net loss of associate accounted for using the equity method	-	(162)	-	(594)
	724	(868)	1,581	(1,505)
Income tax benefit	1,217	-	3,649	-
<b>Profit / (loss) for the period</b>	1,941	(868)	5,230	(1,505)
<b>Other comprehensive income for the period net of income tax</b>				
Exchange difference on translation of foreign operations	(1,636)	-	1,547	-
<b>Total comprehensive income for the period</b>	305	(868)	6,777	(1,505)
Basic earnings per share (cents per share)	3.1	(4.0)	8.8	(7.6)
Diluted earnings per share (cents per share)	3.1	(4.0)	8.8	(7.6)

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

**LACHLAN STAR LIMITED**  
**31 DECEMBER 2011 UNAUDITED INTERIM FINANCIAL STATEMENTS**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

		<b>31 December</b>	<b>30 June</b>
	<b>Notes</b>	<b>2011</b>	<b>2011</b>
		<b>\$000</b>	<b>\$000</b>
<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	5	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	7	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.*

**LACHLAN STAR LIMITED**  
**31 DECEMBER 2011 UNAUDITED INTERIM FINANCIAL STATEMENTS**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	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.*

**LACHLAN STAR LIMITED**  
**31 DECEMBER 2011 UNAUDITED INTERIM FINANCIAL STATEMENTS**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	3 months ended		6 months ended	
	31-Dec-11	31-Dec-10	31-Dec-11	31-Dec-10
	\$000	\$000	\$000	\$000
<b>Cash flows from operating activities</b>				
Receipts from customers and GST recovered	18,340	1,942	35,527	1,957
Payments to suppliers and employees	(16,526)	(1,659)	(31,366)	(2,003)
Interest received	155	26	199	68
Interest paid	(243)	(15)	(321)	(15)
<b>Net cash flows from operating activities</b>	<b>1,726</b>	<b>294</b>	<b>4,039</b>	<b>7</b>
<b>Cash flows from investing activities</b>				
Payments for exploration and evaluation	(1)	18	(35)	(29)
Payments for mine development	(2,966)	-	(5,213)	-
Payments for acquisition of property, plant and equipment	(809)	(1)	(1,399)	(1)
Net proceeds from sale of investment in associate	-	274	-	274
Payments for acquisition of subsidiary, net of cash acquired	-	(8,684)	-	(8,684)
<b>Net cash flows used in investing activities</b>	<b>(3,776)</b>	<b>(8,393)</b>	<b>(6,647)</b>	<b>(8,440)</b>
<b>Cash flows from financing activities</b>				
Proceeds from issue of ordinary shares	-	11,249	15,088	11,249
Proceeds from issue of share options	-	10	-	10
Repayment of borrowings	(2,191)	(180)	(4,104)	(180)
Receipt of borrowings	2,617	-	2,732	-
Payment of share issue costs	-	(12)	(1,174)	(12)
<b>Net cash flows from financing activities</b>	<b>426</b>	<b>11,067</b>	<b>12,542</b>	<b>11,067</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(1,624)</b>	<b>2,968</b>	<b>9,934</b>	<b>2,634</b>
Effect of exchange rate fluctuations on cash held	(25)	-	25	-
Cash and cash equivalents at the beginning of the period	16,123	3,522	4,515	3,856
<b>Cash and cash equivalents at the end of the period</b>	<b>14,474</b>	<b>6,490</b>	<b>14,474</b>	<b>6,490</b>

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

## **1. SUMMARY OF ACCOUNTING POLICIES**

### **(i) Basis of preparation of financial report and statement of compliance**

Lachlan Star Limited ("Lachlan" or the "Company") is a public company incorporated and domiciled in Australia and listed on the Australian Securities Exchange ("ASX") and listed on the Toronto Stock Exchange ("TSX") on 19 October 2011. During the period ended 31 December 2011 Lachlan conducted operations in Australia and Chile.

These consolidated interim financial statements of the Company and its controlled entities ("Group" or "consolidated entity") for the period ended 31 December 2011 are general purpose financial statements prepared in accordance with applicable accounting standards including AASB 134 'Interim Financial Reporting', Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB') and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

These consolidated interim financial statements do not include full disclosures of the type normally included 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 Group as in the full financial report. It is recommended that these interim consolidated financial statements be read in conjunction with the annual financial report for the year ended 30 June 2011, the interim financial report for the half-year ended 31 December 2010 and any public announcements made by the Company during the period ended 31 December 2011 in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and the ASX Listing Rules. The accounting policies adopted are consistent with those of the previous financial year.

These consolidated interim financial statements have been prepared on an historical cost basis, except for available-for-sale financial assets and derivative financial instruments which have been measured at fair value.

All amounts are presented in Australian dollars unless stated otherwise.

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

#### *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 judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements, are as follows:

#### **(i) 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 monetary 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.

## **1. SUMMARY OF ACCOUNTING POLICIES (continued)**

### (ii) 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.

### (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 judgement 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, revenues and expenditures 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) 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.

### (vi) Income taxes

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

## 1. SUMMARY OF ACCOUNTING POLICIES (continued)

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

### (vii) Reserve estimates

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

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

### (ii) Adoption of new and revised Accounting Standards

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.

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.

## **2. CONTINGENT ASSETS AND LIABILITIES**

In June 2011, the Group 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.

## **3. RELATED PARTY DISCLOSURES**

The consolidated entity acquired the CMD Gold Mine on 24 December 2010 (refer Note 9). 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 quarter.

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

## **4. 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

## **5. DEFERRED TAX**

The deferred tax asset increased by \$4.00 million in the half-year, 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 June 30, 2011 to 1:1.0176 at December 31, 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.

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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	319	41	14,571	14,931
<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	80	41	3,076	3,197
Carrying amount beginning of period	116	-	9,343	9,459
Carrying amount end of period	239	-	11,495	11,734
<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	180	39	11,364	11,583
<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	64	39	2,021	2,124
Carrying amount beginning of period	42	-	-	42
Carrying amount at end of period	116	-	9,343	9,459

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. 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	<u>75,367,517</u>	<u>188,912</u>	<u>3,204,801,057</u>	<u>171,990</u>
31 December post share consolidation	<u>75,367,517</u>	<u>188,912</u>	<u>53,413,351</u>	<u>171,990</u>

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 Saloman 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.

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

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**7. CONTRIBUTED EQUITY (continued)**

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

Expiry Date	Exercise price	Number 1/07/2011	Issued	Expired	Number 31/12/2011
18/11/2011	\$1.20	375,002		(375,002)	-
18/11/2012	\$1.50	375,002	-	-	375,002
31/12/2012	\$1.20	166,667	-	-	166,667
20/12/2013	\$1.20	166,669	-	-	166,669
20/12/2013	\$1.50	166,669	-	-	166,669
20/05/2013	\$1.20	3,563,447	33,643	-	3,597,090
26/08/2013	\$1.20	-	10,856,000	-	10,856,000
25/11/2013	\$1.20	-	650,000	-	650,000
25/11/2013	\$1.50	-	150,000	-	150,000
25/11/2014	\$1.50	-	50,000	-	50,000
		<u>4,813,456</u>	<u>11,739,643</u>	<u>(375,002)</u>	<u>16,178,097</u>

**8. 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*

The Board of Directors has assessed the performance of the gold mining segment based on selected operational performance indicators.

	3 months to 30 September 2011		3 months to 31 December 2011	
	Unit		Unit	
Ore Mined	dmt	671,411	dmt	949,491
Waste Mined	dmt	2,163,339	dmt	3,271,021
Total Mined	dmt	2,834,750	dmt	4,220,512
Waste:Ore Ratio	t:t	3.22	t:t	3.45
Ore grade	Au g/t	0.62	Au g/t	0.57
Gold Mined	Au oz	13,290	Au oz	17,528
Ore stacked	dmt	641,588	dmt	967,145
Stacked Grade	Au g/t	0.63	Au g/t	0.54
Gold Stacked	Au oz	12,959	Au oz	16,835
Average stacking rate	dmt/d	6,974	dmt/d	10,512
Gold Produced	Au oz	10,330	Au oz	11,326
Mining Cost/t moved	US\$/t	\$2.30	US\$/t	\$2.23
Mining Cost/t ore	US\$/t	\$9.72	US\$/t	\$9.93
Process Cost/t ore stacked	US\$/t	\$8.41	US\$/t	\$6.91
G+A Cost/t ore	US\$/t	\$1.69	US\$/t	\$1.45
Total Cost/t ore	US\$/t	\$19.82	US\$/t	\$18.30
Average sales price	US\$/oz	\$1,713	US\$/oz	\$1,663

**8. SEGMENT INFORMATION (continued)**

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

	Exploration and evaluation 2010 \$000	Gold Mining 2010 \$000	Corporate 2010 \$000	Consolidated 2010 \$000
<i>6 months to 31 December</i>				
Net cash (outflow)	(29)	319	2,345	2,635

The consolidated entity derives 100% of its revenue from the sale of metals to one customer and operates 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>

**9. 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 judgements 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 \$000	30 June 2011 \$000
<i>Non-current</i>		
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>

**9. 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>