

LACHLAN STAR LIMITED

ABN 88 000 759 535

ANNUAL FINANCIAL REPORT

30 JUNE 2008

CORPORATE DIRECTORY

Directors

MJ McMullen (Executive Chairman)
DT Franzmann (Managing Director)
HJL Bohannan (Non-Executive Director)
TE Duckworth (Non-Executive Director)

Company Secretary

RA Anderson

Auditors

PricewaterhouseCoopers
QV1, 250 St Georges Terrace
Perth WA 6000

Bankers

Westpac Banking Group Limited
109 St Georges Terrace
Perth WA 6000

Registered Office

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3 Ord Street
West Perth WA 6005
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Share Registry

Computershare Investor Services Pty Limited
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Perth, WA 6000 Australia

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Stock Exchange Listing

Securities of Lachlan Star Limited are listed on ASX Limited.

ASX Code: LSA - ordinary shares

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Dear Shareholder

The new board and management of Toodyay Resources Ltd were appointed to the Company on 15 October 2007 and subsequently changed the Company's name to Lachlan Star Limited ("Lachlan").

The first item of business was the establishment of an exploration strategy for the newly acquired Bushranger Project. It was recognised that the potential of the Bushranger Project was significant, with 127,000 tonnes of copper metal contained within an Indicated and Inferred Resource. The exploration strategy has focused on the discovery of higher grade resources within the project area.

After renewing the landowner access agreements in the later part of 2007, an induced polarisation survey (IP) was commissioned and commenced in February 2008. This survey identified a number of areas of potential concentration of sulphide mineralisation and these locations were drilled in April 2008. Five reverse circulation (RC) holes were drilled and the nature of the IP anomalies was determined to be mostly pyrite and pyrrhotite, although sufficient chalcopyrite mineralisation was also present to indicate that the exploration effort is worth continuing.

On 7 May 2008, the Company announced that it had entered an agreement to purchase the Holfontein Coal Project in South Africa. The project launched Lachlan into a new commodity sector, and on the back of the announcement, the company completed a \$9 million capital placement. With an Indicated and Inferred Resource of 60 million tonnes, Lachlan intends to develop the project into a mine. The Holfontein Project is seen as the corner stone of the Company's entry into the South African coal industry. The unprecedented demand for coal has seen a significant shift in benchmark coal price, both internationally and domestically, and the lack of investment in the South African coal sector has created many opportunities.

On 22 July 2008 the Company announced that it had reached agreement with Universal Pulse Trading 132 (Pty) Ltd to purchase up to 74% of the Alexander Coal Project in South Africa. Subsequent to that announcement Lachlan Star was notified that there are inconsistencies with the tenure of the New Order Prospecting Rights held by Universal Pulse. The Alexander Project consists of two Prospecting Rights, MP 30/5/1/1/2/1523 (PR) and MP 30/5/1/1/2/1626 (PR). As a precautionary measure whilst investigation of the status of the Prospecting Right is undertaken, Universal Pulse has ceased drilling operations and Lachlan Star has deferred the completion of a resource update and geotechnical work for the Project.

In the year ahead, the company's goals include:

- Completion of technical studies to confirm a development decision for the Holfontein Project;
- Further acquisition of South African coal projects; and
- Continued exploration at the Bushranger Project in New South Wales.

This year promises to be a definitive one for Lachlan Star, and is likely to see the commencement of a corporate transformation from junior explorer to coal miner. Whilst there is much work to be done, Lachlan Star has established the nucleus of its management team in South Africa, and will develop this team with an emphasis on good people producing great results.

Sincerely,



Declan Franzmann
Managing Director

18 September 2008

The Company's activities during the year revolved around the acquisition of the Bushranger copper exploration project in NSW and the Holfontein coal project in South Africa.

Bushranger

On 9 August 2007 the Company announced that it had reached agreement to acquire 100% of the issued capital of Ord Investments Pty Ltd ("Ord"), a copper exploration company. Lachlan, formerly Toodyay Resources Limited, had the right to acquire Ord and Ord had the right to acquire, from Straits Resources Limited (Straits), an advanced copper exploration project called Bushranger, which is contained within the 129km² EL5574, located 25km south of the town of Oberon, New South Wales.

Bushranger lies within the highly prospective Ordovician Volcanics of the Lachlan Fold Belt which host the North Parkes, Lake Cowal, Cadia and Ridgeway porphyry copper and gold deposits. A JORC compliant Indicated and Inferred Resource has been defined at the Racecourse Prospect containing 124,000 tonnes of copper at a grade of 0.45% copper.

The consideration for the acquisition of Ord and Bushranger was the issue of 359,475,352 fully paid ordinary shares in Lachlan Star Limited.

The acquisition was subject to a number of conditions precedents, including completion of the acquisition of Bushranger by Ord and the shareholders of Lachlan approving the transaction, which occurred on 26 September 2007.

Holfontein

In May 2008 the Company announced that it had reached agreement with Coal of Africa Limited ("CZA") to acquire 100% of the Holfontein Coal Project in South Africa ("Holfontein Project"). The initial consideration for the acquisition is \$15 million, payable in a mix of cash and shares upon transfer of the Holfontein Project tenements to Lachlan Star's nominated subsidiary, which is expected to occur prior to December 2008. The share component of the initial payment is to be satisfied through the issue of up to 200 million shares at a deemed price of \$0.03 each as approved by shareholders on 18 June 2008.

The cash component of the initial consideration will be satisfied from existing cash reserves, including a placement of 300 million shares at an issue price of \$0.03 each as approved by shareholders in June 2008. These funds will provide sufficient funding to proceed to settlement of the first phase of the Holfontein transaction and to provide working capital to advance that project and the Bushranger Project.

Additional payments to CZA may be required if certain key milestones are satisfied:

1. a cash payment of \$1 million and a payment of \$2 million to be satisfied by the issue of Shares (to be priced at the 30 day VWAP prior to payment) upon grant of the New Order Mining Right ("NOMR");
2. a cash payment of \$2 million and a payment of \$3 million to be satisfied by the issue of Shares (to be priced at the 30 day VWAP prior to payment) upon the production of an aggregate of 500,000 tonnes of saleable coal; and
3. a cash payment of \$1 million and a payment of \$1 million to be satisfied by the issue of Shares (to be priced at the 30 day VWAP prior to payment) upon the production of an aggregate of 1,500,000 tonnes of saleable coal.

In the event the Company is required to make any of the milestone payments the method of financing will be determined at the time depending on the prevailing market conditions and may take the form of a rights issue, further placement, debt funding (either straight debt or by way of convertible note), or from future cash flows.

Completion of the acquisition is conditional upon:

1. approval from all relevant regulatory bodies in South Africa for the transfer of title to the Company's nominated subsidiary;
2. assignment of CZA's rights under the Wildebeestfontein Option Agreement dated 3 December 2007 (pursuant to which CZA has an option to acquire the adjoining Wildebeestfontein Farm) to the Company; and
3. completion of satisfactory legal due diligence by the Company.

As a result of the transaction, and assuming a share component of \$6 million, CZA will become the largest shareholder in the Company, with approximately 15.75%.

Holfontein (continued)

The Holfontein Project contains an Indicated Resource of 30 Mt and an Inferred Resource of 30 Mt of coal on the Holfontein Farm. These Indicated and Inferred Resources were categorised using the South African Code for Reporting of Mineral Resources and Mineral Reserves ("SAMREC"). The upper seam is of a high quality with low sulphur and phosphorous and high energy values. The lower seam is a lower quality sub-bituminous coal suitable for local power generation, or as a feedstock to the Coal to Liquids ("CTL") (SASOL) industry.

Additionally, the purchase includes an option agreement covering the adjoining Wildebeestfontein Farm which includes significant coal mineralisation that has not been incorporated into a resource estimate.

There are four power stations within 50km of the Holfontein Project and there is excellent road and rail access to the site. Application for a NOMR for the Holfontein Farm and further prospecting rights has been lodged with South Africa's Department of Minerals and Energy.

The recent appointment of a Regional Manager - Southern Africa based in Johannesburg will enable the Company to rapidly advance the Holfontein Project and to examine other investment opportunities within the region.

The Company intends to continue its stated strategy of developing the Holfontein Project, continuing exploration at the Bushranger Copper Project and growing the Company through further acquisitions within the resource sector, with a strategic focus in the bulk commodities (coal), copper and gold sectors.

Financial performance

The consolidated entity's loss for the year ended 30 June 2008 was \$5,876,014 (2007: loss of \$534,105), after recognising an impairment loss on the Bushranger exploration and evaluation asset of \$5,214,594.

This impairment loss reflects the writedown of an asset acquired during the period and recognised using the fair value of consideration paid to acquire the asset, to a value that reflects the fair value of the asset supported by an arms length purchase of the asset and additional costs incurred.

The current period loss includes the results of Ord from its date of acquisition on 15 October 2007.

The directors present their report together with the financial report of Lachlan Star Limited ("Company") and of the Group, being the Company and its subsidiaries, and the auditor's report thereon.

Lachlan Star Limited is a listed public company incorporated and domiciled in Australia.

Directors

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

Declan Thomas Franzmann
Managing Director

Age 40. Appointed a director on 26 September 2007.

Declan is a mining engineer with more than 16 years mining experience. His previous experience includes operational and technical roles at underground and open pit mines throughout Australia, Indonesia and West Africa.

Mr Franzmann operates a consulting company providing mine engineering and geology services to a variety of companies and is a Non Executive Director of Every Day Mine Services Limited, a listed mine service company based in Cobar.

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

Everyday Mine Services Limited	Since March 2007
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Michael James McMullen
Executive Chairman

BSc (Geology)

Age 38. Appointed a director on 26 September 2007.

Mick McMullen is a geologist with in excess of 15 years experience in exploration, financing, development and operation of mining projects. During that time he has worked in Australia, Africa, Europe, Asia and South America. He has acted as technical adviser to many of the major resource banks for project financing and mergers & acquisitions and has worked on several corporate finance transactions on the ASX, AIM, JSE and TSX markets.

He was formerly a founding shareholder and executive director of Tritton Resources Limited, a company that developed a copper mine in Australia prior to being acquired by Straits Resources. He was most recently a partner and the Manager of Audits at RSG Global Consulting Pty Ltd.

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

Northern Iron Limited	Since May 2007
Tritton Resources Limited	From December 2003 to August 2006

Directors (continued)

Hamish John Lindsey Bohannan
Non-Executive Director

B(Eng)Sc Hons Mining, M (Eng)Sc Rock Mechanics, MBA,
FAusIMM, CE, MAICD
Age 52. Appointed a director on 26 September 2007.

Mr Bohannan is a mining engineer with over 30 years experience in the minerals industry. His former roles include Managing Director of Gallery Gold, Executive General Manager of Operations for Iluka, General Manager for both the Leinster and Kambalda Nickel Operations of WMC, and Executive General Manager of Operations for Mt Lyell. Mr Bohannan has recently been appointed the Managing Director of Bathurst Resources Limited. Prior to that he was the Managing Director of Braemore Resources, an AIM listed company with nickel and platinum assets. He has detailed knowledge of the requirements for developing and operating a mine, as well as extensive understanding of the debt and equity markets.

Mr Bohannan is Chairman of the Audit Committee.

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

Braemore Resources Plc	From 10 November 2006 to 17 April 2008
Tectonic Resources Limited	From February 2007 (Chairman)
Bathurst Resources Limited	From 8 September 2008

Thomas Ernest Duckworth
Non-Executive Director

B Sc., ARSM, FIMM, C Eng, F Aus IMM.
Age 70. Appointed a director on 26 September 2007.

Mr Duckworth is a metallurgist with over 47 years experience. His previous roles include responsibility for all process aspects of the Tritton mine development and ongoing refinements to that process plant, engineering, process design and commissioning of the Hellyer Base Metal process plant in Tasmania, founding director of Signet Engineering, responsibility for the Process Design for the Cannington base metal process plant, and Chief Metallurgist for BP Seltrust, including responsibility for the Teutonic Bore process plant.

During the past three years Mr Duckworth has not been a director of any other listed entity.

Mr Duckworth is a member of the Audit Committee.

David Christian Steinepreis
Executive Chairman

Age 51. Resigned as a director on 15 October 2007.

Paul Robert Hearne
Executive Director

Age 52. Resigned as a director on 15 October 2007.

Gary Christian Steinepreis
Executive Director

Age 41. Resigned as a director on 23 October 2007.

Company Secretary

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

Directors' meetings

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

	(a)	(b)
MJ McMullen	3	4
DT Franzmann	3	4
TE Duckworth	3	4
HJL Bohannon	2	4
GC Steinepreis	1	1
DC Steinepreis	1	1
PR Hearne	1	1

(a) Number of meetings attended

(b) Number of meetings held during period of office

Audit Committee

Names and qualifications of Audit Committee members

The Committee is to include at least 2 members. Current members of the committee are Mr Hamish Bohannon (Chair) and Mr Thomas Duckworth.

Qualifications of Audit Committee members are provided in the Directors section of this directors' report.

Audit Committee meetings

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

	(a)	(b)
MJ McMullen	1	1
TE Duckworth	1	1

(a) Number of meetings attended

(b) Number of meetings held during period of office

Remuneration Committee

The Board considers that the Company is not currently of a size to justify the existence of a Remuneration Committee and therefore there were no Remuneration Committee meetings during the reporting period.

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

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

Identification of independent directors

The independent directors are identified in the Corporate Governance Statement section of this Annual Report as set out on pages 47 to 49.

Remuneration report

The Remuneration Report is set out on pages 13 to 16 and forms part of this Directors' Report.

Dividends

No dividends were paid during the year and the directors do not recommend payment of a dividend in respect of the current financial year (2007: Nil).

Auditor's independence declaration

The auditor's independence declaration under Section 307C of the Corporations Act is set out on page 17 and forms part of the directors' report for the financial year ended 30 June 2008.

Insurance of directors and officers

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

Non-audit services

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

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

	Consolidated 2008 (\$)	Consolidated 2007 (\$)
<i>Statutory audit:</i>		
Audit and review of financial reports	25,500	25,500
<i>Services other than statutory audit:</i>		
Acquisition accounting advice	12,000	-
Taxation services	24,600	-
	36,600	-

Directors' interests

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

Name	Ordinary shares	Options over ordinary shares
MJ McMullen	99,434,464	-
DT Franzmann	52,039,171	-
TE Duckworth	12,259,326	-
HJL Bohannan	22,240,855	-

Share options

Options granted to directors and officers of the consolidated entity

There were no options over unissued ordinary shares of the Company granted to directors and executive officers during the reporting period.

Shares under option

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

Expiry Date	Exercise price	01/07/07	Issued	Number Exercised	Expired	30/6/08
31/12/08	\$0.01	20,000,000	-	6,041,667	-	13,958,333
19/05/08	\$6.30	66,666	-	-	66,666	-
30/01/08	\$6.45	33,333	-	-	33,333	-
30/11/07	\$16.65	153,333	-	-	153,333	-
05/11/07	\$11.25	99,333	-	-	99,333	-
		<u>20,352,665</u>	<u>-</u>	<u>6,041,667</u>	<u>352,665</u>	<u>13,958,333</u>

No options have been granted since the end of the reporting period. There have been 2,375,000 options with an exercise price of \$0.01 exercised since the end of the reporting period.

During the reporting period there was no forfeiture or vesting of options granted in previous periods.

Operating and financial review

An operating and financial review of the consolidated entity for the financial year ended 30 June 2008 is set out on pages 4 and 5 and forms part of this report.

Environmental regulation and performance

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

No environmental breaches have been notified by any government agency during the year ended 30 June 2008.

Significant changes in state of affairs

Acquisition of Bushranger EL

On 9 August 2007 the Company announced that it had reached agreement to acquire 100% of the issued capital of Ord Investments Pty Ltd ("Ord"), a copper exploration company.

Lachlan, formerly Toodyay Resources Limited, had the right to acquire Ord and Ord had the right to acquire, from Straits Resources Limited (Straits), an advanced copper exploration project called Bushranger, which is contained within the 75km² EL5574, located 25km south of the town of Oberon, New South Wales.

Bushranger lies within the highly prospective Ordovician Volcanics of the Lachlan Fold Belt which host the North Parkes, Lake Cowal, Cadia and Ridgeway porphyry copper and gold deposits. A JORC compliant Indicated and Inferred Resource has been defined at the Racecourse Prospect containing 124,000 tonnes of copper at a grade of 0.45% copper.

The consideration for the acquisition of Ord and Bushranger was the issue of 359,475,352 fully paid ordinary shares in Lachlan Star Limited.

The acquisition was subject to a number of conditions precedent, including completion of the acquisition of Bushranger by Ord and the shareholders of Lachlan approving the transaction, which occurred on 26 September 2007.

Significant changes in state of affairs (continued)

Agreement to purchase Holfontein Coal Project

In May 2008 the Company announced that it had reached agreement with Coal of Africa Limited ("CZA") to acquire 100% of the Holfontein Coal Project in South Africa ("Holfontein Project"). The initial consideration for the acquisition is \$15 million, payable in a mix of cash and shares upon transfer of the Holfontein Project tenements to Lachlan Star's nominated subsidiary, and expected to occur prior to December 2008. Additional payments may be required if certain key milestones are satisfied.

Additionally, the purchase includes an option agreement covering the adjoining Wildebeestfontein Farm which includes significant coal mineralisation that has not been incorporated into a resource estimate.

Completion of the acquisition remains conditional upon:

1. approval from all relevant regulatory bodies in South Africa for the transfer of title to the Company's nominated subsidiary;
2. assignment of CZA's rights under the Wildebeestfontein Option Agreement dated 3 December 2007 (pursuant to which CZA has an option to acquire the adjoining Wildebeestfontein Farm) to the Company; and
3. completion of satisfactory legal due diligence by the Company

As a result of the transaction, and assuming a deemed share component of \$6 million, CZA will become the largest shareholder in the Company, with approximately 15.75%.

Equity issues

On 23 August 2007 the Company issued and allotted 1,666,667 ordinary shares on exercise of 1,666,667 unlisted options at an exercise price of 1 cent per option exercised, raising \$16,667.

On 15 October 2007 the Company issued and allotted 359,475,352 ordinary shares to shareholders of Ord and Straits to acquire 100% of the issued capital of Ord.

On 23 October 2007 Lachlan completed a placement of \$1,000,000 by the issue of 50,000,000 fully paid ordinary shares at an issue price of 2 cents per share to clients of Euroz Securities Limited, Stripe Capital Pty Ltd, and to Straits to fund exploration activities and for working capital purposes.

On 15 May 2008 Lachlan completed a placement of \$3,000,000 by the issue of 100,000,000 fully paid ordinary shares at an issue price of 3 cents per share to clients of Euroz Securities Limited, to part fund the acquisition of the Holfontein Coal Project.

On 22 May 2008 the Company issued and allotted 2,000,000 ordinary shares on exercise of 2,000,000 unlisted options at an exercise price of 1 cent per option exercised, raising \$20,000.

On 28 May 2008 the Company issued and allotted 2,375,000 ordinary shares on exercise of 2,375,000 unlisted options at an exercise price of 1 cent per option exercised, raising \$23,750.

On 3 June 2008 Lachlan completed a placement of \$50,000 by the issue of 2,500,000 fully paid ordinary shares at an issue price of 2 cents per share in accordance with the terms of a remuneration agreement.

On 20 June 2008 Lachlan completed a placement of \$6,000,000 by the issue of 200,000,000 fully paid ordinary shares at an issue price of 3 cents per share to clients of Euroz Securities Limited, to part fund the acquisition of the Holfontein Coal Project.

At a shareholders' meeting on 18 June 2008 the Company received approval to issue up to a further 200,000,000 shares at a deemed issue price of 3 cents per share to Coal of Africa Limited to satisfy the balance of the initial consideration for the acquisition of the Holfontein Coal Project.

Likely developments

The likely developments for the 2009 financial year are contained in the operating and financial review as set out on pages 4 and 5.

The directors are of the opinion that further information as to the likely developments in the operations of the consolidated entity would prejudice the interests of the consolidated entity and it has accordingly not been included.

Indemnity of directors

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

Proceedings on behalf of the Company

No person has applied for leave to the Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Principal activities

During the course of the 2008 financial year the consolidated entity's principal continuing activities were directed towards mineral exploration.

Events subsequent to reporting date

On 22 July 2008 the Company announced that it had reached agreement with Universal Pulse Trading 132 (Pty) Ltd to purchase up to 74% of the Alexander Coal Project in South Africa.

Subsequent to that announcement Lachlan Star was notified that there are inconsistencies with the tenure of the New Order Prospecting Rights held by Universal Pulse. The Alexander Project consists of two Prospecting Rights, MP 30/5/1/1/2/1523 (PR) and MP 30/5/1/1/2/1626 (PR).

As a precautionary measure whilst investigation of the status of the Prospecting Right is undertaken, Universal Pulse has ceased drilling operations and Lachlan Star has deferred the completion of a resource update and geotechnical work for the Project.

No consideration for the acquisition will be payable until such time as tenure has been confirmed and the other conditions precedent satisfied. A further announcement will be made once the South African Department of Minerals and Energy has formally notified Universal Pulse as to the status of the Prospecting Right.

Other than the above no matter or circumstance has arisen since 1 July 2008 that in the opinion of the directors has significantly affected, or may significantly affect in future financial years:

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

Remuneration report

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

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

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

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

Principles used to determine the nature and amount of compensation

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

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

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

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

Given the change in the Board and management during the year, the Board did not have regard to the consolidated entity's performance and change in shareholder wealth occurring in the current financial year and previous three financial years. No dividends were paid or declared during this period (2007: Nil).

On 17 September the Board adopted a policy that prohibits those that are granted share-based payments as part of their remuneration from entering into other arrangements that limit their exposure to losses that would result from share price decreases. The Company requires all executives and directors to sign annual statements of compliance with this policy throughout the period.

Fixed compensation

Fixed compensation consists of base compensation as well as any employer contributions to superannuation funds. Base compensation may be supplemented by an element of equity based compensation. There was no equity-based compensation during the period under review.

Non-executive directors

Total remuneration for all non-executive directors, last voted upon by shareholders at a General Meeting in November 2001, is not to exceed \$250,000 per annum. A non-executive director's base fee is currently \$30,000 per annum. The Chairman receives \$150,000 per annum. Non-executive directors do not receive any performance related remuneration. Directors' fees cover all main Board activities and membership of Board committees. The Company does not have any terms or schemes relating to retirement benefits for non-executive directors. Non-executive directors receive share-based compensation at the discretion of the Board, and subject to approval by shareholders.

Remuneration report (continued)

Service contracts

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

- (i) Declan Franzmann, Managing Director, is engaged through a Consultancy Agreement expiring 14 October 2010. Termination by the Company is with 12 months notice or payment in lieu thereof. Termination by the consultant is with 3 months notice.
- (ii) Robert Anderson, Company Secretary and Chief Financial Officer, is engaged through a Consultancy Agreement expiring 31 July 2010. Termination by the Company is with 6 months notice or payment in lieu thereof. Termination by the consultant is with 3 months notice.
- (iii) Michael McMullen, Executive Chairman, is engaged through a Consultancy Agreement expiring 31 July 2010. Termination by the Company is with 12 months notice or payment in lieu thereof. Termination by the consultant is with 3 months notice.
- (iv) Kees Dekker, Regional Manager –Southern Africa, is engaged through an employment agreement with no fixed expiry date. Termination by the Company is with 1 month's notice or payment in lieu thereof. Termination by the consultant is with 1 month's notice.

Directors' and executive officers' remuneration, Company and consolidated

Details of the nature and amount of each major element of the remuneration of each director of the Company and each of the named Company and group executives receiving the highest remuneration are set out on the following page.

LACHLAN STAR LIMITED
ANNUAL REPORT 30 JUNE 2008
DIRECTORS' REPORT

Remuneration report (continued)

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

	Short Term	Post Employment	Share-based payments				
Name	Salary and fees (\$)	Superannuation Contributions (\$)	Shares (\$)	Options (\$)	Total (\$)	Proportion of Remuneration Performance Related (%)	Value of Options as a % of Remuneration (%)
Directors							
<i>Non-Executive</i>							
Mr TE Duckworth, appointed 26/9/07							
2008	-	\$22,973	-	-	\$22,973	-	-
Mr HJL Bohannon, appointed 26/9/07							
2008	-	\$22,973	-	-	\$22,973	-	-
<i>Executive</i>							
MJ McMullen (Chairman), appointed 26/9/07							
2008	\$137,500	-	-	-	\$137,500	-	-
Mr DT Franzmann (Managing Director), appointed 26/9/07							
2008	\$137,500	-	-	-	\$137,500	-	-
Mr GC Steinepreis, resigned 23/10/07							
2008	\$15,000	-	-	-	\$15,000	-	-
2007	\$60,000	-	-	-	\$60,000	-	-
Mr DC Steinepreis, resigned 15/10/07							
2008	\$15,000	-	-	-	\$15,000	-	-
2007	\$60,000	-	-	-	\$60,000	-	-
Mr PR Hearne, resigned 15/10/07							
2008	\$15,000	-	-	-	\$15,000	-	-
2007	\$60,000	-	-	-	\$60,000	-	-
Executive Officers							
Mr RA Anderson (CFO/Company Secretary), appointed 15/10/07							
2008	\$91,667	-	-	-	\$91,667	-	-
Mr K Dekker (Regional Manager – Southern Africa), appointed 01/06/08							
2008	\$12,871	-	-	-	\$12,871	-	-
Total compensation: key management personnel (Company and Consolidated)							
2008	\$424,538	\$45,946	-	-	\$470,484		
2007	\$180,000	-	-	-	\$180,000		

Messrs McMullen, Duckworth, Bohannon, Franzmann, Anderson and Dekker did not receive any director or executive officer remuneration in the prior period. Directors' fees are paid or payable to the director or a director related entity.

Remuneration report (continued)

Equity instruments

(i) Shares

No shares of the Company were granted as compensation to key management personnel during the reporting period (2007: Nil).

(ii) Options over equity instruments granted as compensation

There were no options over ordinary shares in the Company granted as compensation to key management personnel during the reporting period (2007: Nil). No options have been granted since the end of the financial year, nor have any options held by key management personnel been exercised during or since the end of the reporting period.

During the reporting period there was no forfeiture or vesting of options granted in previous periods.

Options that expired during the period are set out on page 10.

(iii) Analysis of movements in options

There was no movement during the reporting period, by value, of options over ordinary shares for each Company director and Company and group executive during their period in office and granted as part of remuneration.

Signed in accordance with a resolution of the directors.

A handwritten signature in dark ink, reading "Declan Franzmann", followed by a period. The signature is written in a cursive, flowing style.

DT Franzmann
Managing Director

Perth, 18th September 2008

PricewaterhouseCoopers
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Auditor's Independence Declaration

As lead auditor for the audit of Lachlan Star Limited for the year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been:

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

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



Pierre Dreyer
Partner
PricewaterhouseCoopers

Perth
18 September 2008

INCOME STATEMENTS

For the year ended 30 June 2008

		Consolidated		Company	
	Notes	2008 \$	2007 \$	2008 \$	2007 \$
Other revenue	4	114,634	38,912	112,981	38,912
Impairment writedown on exploration asset	7	(5,214,594)	-	-	-
Impairment writedown on financial asset	11	-	-	(5,289,507)	-
Impairment writedown on receivable	10	-	-	(2,054)	-
Corporate compliance costs		(75,980)	(92,592)	(75,980)	(92,592)
Corporate management fees		(351,362)	(180,000)	(299,279)	(180,000)
Occupancy costs		(34,009)	(77,093)	(25,694)	(77,093)
Exploration and new venture expenditure		(141,596)	(150,405)	(141,596)	(150,405)
Travel expenditure		(23,830)	(25,236)	(23,830)	(25,236)
General administration costs		(149,277)	(47,691)	(131,055)	(47,691)
Loss before income tax		(5,876,014)	(534,105)	(5,876,014)	(534,105)
Income tax expense	8	-	-	-	-
Loss from operations attributable to members of the parent entity		(5,876,014)	(534,105)	(5,876,014)	(534,105)
Basic and diluted loss per share from operations (cents per share)	9	(0.88)	(0.15)		

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

BALANCE SHEETS

As at 30 June 2008

		Consolidated		Company	
	Notes	2008	2007	2008	2007
		\$	\$	\$	\$
Current assets					
Cash and cash equivalents	17(b)	9,862,678	1,188,740	9,835,534	1,188,740
Other receivables	10	153,927	89,081	2,578,119	89,081
Total current assets		10,016,605	1,277,821	12,413,653	1,277,821
Non-current assets					
Exploration and evaluation	12	2,417,521	-	-	-
Other financial assets	11	-	-	1	1
Property, plant and equipment	13	12,736	-	-	-
Total non-current assets		2,430,257	-	1	1
Total assets		12,446,862	1,277,821	12,413,654	1,277,822
Current liabilities					
Trade and other payables	14	308,833	23,930	275,625	23,931
Total current liabilities		308,833	23,930	275,625	23,931
Total liabilities		308,833	23,930	275,625	23,931
Net assets		12,138,029	1,253,891	12,138,029	1,253,891
Equity					
Contributed equity	16	146,081,187	129,320,833	146,081,187	129,320,833
Reserves		465	667	465	667
Accumulated losses		(133,943,623)	(128,067,609)	(133,943,623)	(128,067,609)
Total equity		12,138,029	1,253,891	12,138,029	1,253,891

The above balance sheets should be read in conjunction with the accompanying notes to the financial statements.

STATEMENTS OF CHANGES IN EQUITY

For the year ended 30 June 2008

Consolidated

	Contributed Equity \$	Accumulated losses \$	Share based payments reserve \$	Total \$
Balance at 1 July 2006	129,220,500	(127,533,504)	1,000	1,687,996
Shares issued for cash, net of transaction costs	100,333	-	-	100,333
Premium received on option issue	-	-	(333)	(333)
Loss for the period / total recognised income and expense for the period	-	(534,105)	-	(534,105)
Balance at 30 June 2007	129,320,833	(128,067,609)	667	1,253,891
Shares issued for cash, net of transaction costs	9,570,645	-	-	9,570,645
Premium received on option issue	202	-	(202)	-
Shares issued on acquisition of subsidiary	7,189,507	-	-	7,189,507
Loss for the period / total recognised income and expense for the period	-	(5,876,014)	-	(5,876,014)
Balance at 30 June 2008	146,081,187	(133,943,623)	465	12,138,029

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

STATEMENTS OF CHANGES IN EQUITY

For the year ended 30 June 2008

Company

	Contributed Equity \$	Accumulated losses \$	Share based payments reserve \$	Total \$
Balance at 1 July 2006	129,220,500	(127,533,504)	1,000	1,687,996
Shares issued for cash, net of transaction costs	100,333	-	-	100,333
Premium received on option issue	-	-	(333)	(333)
Loss for the period / total recognised income and expense for the period	-	(534,105)	-	(534,105)
Balance at 30 June 2007	129,320,833	(128,067,609)	667	1,253,891
Shares issued for cash, net of transaction costs	9,570,645	-	-	9,570,645
Premium received on option issue	202	-	(202)	-
Shares issued on acquisition of subsidiary	7,189,507	-	-	7,189,507
Loss for the period / total recognised income and expense for the period	-	(5,876,014)	-	(5,876,014)
Balance at 30 June 2008	146,081,187	(133,943,623)	465	12,138,029

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

CASHFLOW STATEMENTS

For the year ended 30 June 2008

		Consolidated		Company	
	Notes	2008	2007	2008	2007
		\$	\$	\$	\$
Cash flows from operating activities					
Receipts from customers and GST recovered		263,185	-	52,141	-
Payments to suppliers and employees		(886,865)	(556,307)	(575,519)	(556,307)
Interest received		160,629	38,912	158,975	38,912
Net cash flows used in operating activities	17(a)	(463,051)	(517,395)	(364,403)	(517,395)
Cash flows from investing activities					
Exploration and evaluation expenditure		(490,921)	-	-	-
Acquisition of property, plant and equipment		(6,985)	-	-	-
Cash acquired on acquisition of subsidiary	6	28,470	-	-	-
Net advances to related entity		-	-	(595,228)	-
Net cash flows used in investing activities		(469,436)	-	(595,228)	-
Cash flows from financing activities					
Proceeds from share placements		10,050,000	-	10,050,000	-
Proceeds from exercise of share options		84,167	100,000	84,167	100,000
Payment of share issue costs		(527,742)	-	(527,742)	-
Net cash flows from financing activities		9,606,425	100,000	9,606,425	100,000
Net increase / (decrease) in cash and cash equivalents		8,673,938	(417,395)	8,646,794	(417,395)
Cash and cash equivalents at the beginning of the financial year		1,188,740	1,606,135	1,188,740	1,606,135
Cash and cash equivalents at the end of the financial year	17(b)	9,862,678	1,188,740	9,835,534	1,188,740

For non-cash financing activities refer to Note 6. There were no non-cash investing activities during the year.

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

1. Reporting entity

This financial report covers both the separate financial statements of Lachlan Star Limited as an individual entity and the consolidated financial statements for the consolidated entity consisting of Lachlan Star Limited and its subsidiaries. The functional and presentation currency of the financial report is Australian dollars. The financial report was authorised for issue by the directors on 18th September 2008.

The Company changed its name from Toodyay Resources Limited to Lachlan Star Limited during the reporting period.

Lachlan Star Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Lachlan Star Limited
Level 3, 3 Ord Street
Perth WA 6005

2. Basis of preparation of the financial report

Statement of compliance

The financial report is a general purpose financial report prepared in accordance with Australian Accounting Standards ("AASBs") (including Australian Accounting Interpretations), as adopted by the Australian Accounting Standards Board ("AASB"), other authoritative pronouncements of the AASB, Urgent Issues Group Interpretations, and the Corporations Act 2001. Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report of Lachlan Star Limited complies with International Financial Reporting Standards. Comparative information is reclassified where appropriate to enhance comparability.

Basis of measurement

The financial report is prepared on a historical cost basis.

Going concern

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

The Company and consolidated entity have incurred a loss from operations of \$5,876,014 (after impairment writedowns) for the year ended 30 June 2008 (2007: company and consolidated loss of \$534,105). The consolidated entity has a commitment to make a cash payment of \$9 million on settlement of the Sale Agreement to purchase the Holfontein Coal Project.

The ability of the Company and consolidated entities to continue as going concerns, including their ability to pay their debts as and when they fall due, is dependent upon:

- availability of equity financing and / or
- availability of debt financing and / or
- management of cash costs and / or
- the sale of its assets

The directors believe that that equity and / or debt financing will be available to cover exploration and development commitments, and, accordingly, the report has been prepared on a going concern basis. Consequently, no adjustments have been made relating to the recoverability of and classification of recorded asset amounts or the amounts and classification of liabilities.

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

Use of estimates and judgements

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

Key estimate – impairment

The company and consolidated entity assess impairment at each reporting date by evaluating specific conditions that may lead to the impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

Key estimate - exploration, evaluation and development of mineral resources

Determining the carrying amount may require management to (i) estimate whether the project is in the exploration and evaluation or development phase, and; (ii) make assumptions regarding the expected future cash generation of the assets, discount rates to be applied, and the expected period of benefits.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report. The accounting policies have been applied consistently by all entities in the consolidated entity.

(a) Basis of consolidation

Subsidiaries

The consolidated financial report comprises the financial statements of the Company and its controlled entities. A controlled entity is any entity controlled by the Company whereby the parent entity has the power to control the financial and operating policies of an entity so as to obtain benefits from its activities. All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those applied by the parent entity.

Where a subsidiary enters or leaves the consolidated entity during the year, its operating results are included or excluded from the date control was obtained or until the date control ceased.

Investments in subsidiaries are carried at cost in the Company's financial statements.

(b) Recoverable amount of assets and impairment testing

Assets that have an indefinite useful life are not subject to depreciation and are tested annually for impairment by estimating their recoverable amount.

Assets that are subject to depreciation are reviewed annually to determine whether there is any indication of impairment. Where such an indicator exists, a formal assessment of recoverable amount is then made. Where this is in excess of carrying amount, the asset is written down to its recoverable amount.

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

3. Significant accounting policies (continued)

(c) Other receivables

Other receivables are stated at fair value.

(d) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments that are operating in other economic environments.

(e) Income tax

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

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is recognised in the income statement except where it relates to items recognised directly in equity, in which case it is recognised in equity. Deferred income tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and tax losses. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company / group intends to settle its current tax assets and liabilities on a net basis.

The Company and its 100% owned Australian tax resident subsidiaries have not formed a tax consolidated group.

(f) Exploration and evaluation expenditure

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

Each area of interest is assessed for impairment to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Impairment testing is carried out in accordance with Note 3(b). Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made. Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mine properties.

(g) Share based payments – shares and options

The fair value of shares and share options granted as compensation is recognised as an expense with a corresponding increase in equity. Fair value is measured at grant date and recognised over the period during which the grantees become unconditionally entitled to the shares or share options. The fair value of share grants at grant date is determined by the share price at that time. The fair value of share options at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, any vesting and performance criteria, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk free rate for the term of the option. Upon the exercise of the option, the balance of the share-based payments reserve relating to the option is transferred to share capital.

3. Significant accounting policies (continued)

(h) Comparative figures

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

(i) Property, plant and equipment

Recognition and measurement

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Impairment

The carrying amount of property, plant and equipment is reviewed at each balance date to determine whether there are any objective indicators of impairment that may indicate the carrying values may not be recoverable in whole or in part. Impairment testing is carried out in accordance with Note 3(b).

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

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

Depreciation and impairment

Depreciation on plant and equipment is calculated on a straight line basis over the expected useful life to the consolidated entity commencing from the time the asset is held ready for use. The consolidated depreciation expense during the period was \$1,366 (2007: \$Nil).

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

(j) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to an equity transaction are shown as a deduction from equity, net of any recognised income tax benefit.

(k) Earnings per share

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

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

3. Significant accounting policies (continued)

(l) Investments and other financial assets

The consolidated entity determines the classification of its financial instruments at initial recognition and re-evaluates this designation at each reporting date.

Fair value is the measurement basis, with the exception of held-to-maturity investments and loans and receivables which are measured at amortised cost. Fair value is inclusive of transaction costs. Changes in fair value are either taken to the income statement or to an equity reserve (refer below).

Fair value is determined based on current bid prices for all quoted investments. If there is not an active market for a financial asset fair value is measured using established valuation techniques.

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

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

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method, less any impairment losses.

(iii) Held-to-maturity investments

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

(iv) Available-for-sale financial assets

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

(m) Cash and cash equivalents

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

3. Significant accounting policies (continued)

(n) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(o) Trade and other payables

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

(p) Revenue recognition

Interest revenue on funds invested is recognised as it accrues, using the effective interest rate method.

(q) Borrowing costs

Interest expenses comprise interest expense on borrowings and the unwinding of the discount on provisions.

(r) Foreign currency

Functional and presentation currency

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.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the exchange rate at balance sheet date. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction.

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

3. Significant accounting policies (continued)

(s) New standards and interpretations not yet adopted

The AASB has issued a number of new Accounting Standards and Interpretations and amendments which are available for early adoption.

The Company and consolidated entity have not early adopted any of these accounting standards or amendments as they are not expected to have a material impact on the financial results or position of the Company or consolidated entity. They may have an effect on the disclosures of the Company and consolidated entity, however a detailed assessment of the potential impact has not been undertaken at the date of this report.

The following Australian Accounting Standards have been issued or amended and are applicable to the parent and consolidated group but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date.

AASB Amendment	Standards Affected	Outline of Amendment	Application Date of Standard	Application Date for Group
AASB 2007-3 Amendments to Australian Accounting Standards	AASB 5	Non current Assets held for sale and discontinued operations	1.1.2009	1.7.2009
	AASB 6	Exploration for and Evaluation of Mineral Resources		
	AASB 102	Inventories		
	AASB 107	Cash Flow Statements		
	AASB 119	Employee Benefits		
	AASB 127	Consolidated and Separate Financial Statements		
	AASB 134	Interim Financial Reporting		
	AASB 136	Impairment of Assets		
	AASB 1023	General Insurance Contracts		
	AASB 1038	Life Insurance Contracts		
AASB 8 Operating Segments	AASB 114	Segment reporting	1.1.2009	1.7.2009
AASB 123 Borrowing Costs	AASB 123	Borrowing Costs	1.1.2009	1.7.2009

3. Significant accounting policies (continued)

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

AASB Amendment	Standards Affected	Outline of Amendment	Application Date of Standard	Application Date for Group
AASB 2007-6 Amendments to Australian Accounting Standards	AASB 1	First Time adoption of AIFRS	1.1.2009	1.7.2009
	AASB 101	Presentation of Financial Statements		
	AASB 107	Cash Flow Statements		
	AASB 111	Construction Contracts		
	AASB 116	Property, Plant and Equipment		
	AASB 138	Intangible Assets		
AASB 2007-8 Amendments to Australian Accounting Standards	AASB 101	Presentation of Financial Statements	1.1.2009	1.7.2009
AASB 101	AASB 101	Presentation of Financial Statements	1.1.2009	1.7.2009

Revised AASB 3 Business Combinations, AASB 127 Consolidated and Separate Financial Statements and AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127

Revised accounting standards for business combinations and consolidated financial statements were issued in March 2008 and are operative for annual reporting periods beginning on or after 1 July 2009, but may be applied earlier. The consolidated entity has not yet decided when it will apply the revised standards. However, the new rules generally apply only prospectively to transactions that occur after the application date of the standard. Their impact will therefore depend on whether the consolidated entity or parent entity will enter into any business combinations or other transactions that affect the level of ownership held in the controlled entities in the year of initial application. For example, under the new rules:

- all payments (including contingent consideration) to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments subsequently re-measured at fair value through income;
 - all transaction cost will be expensed;
 - the Group will need to decide whether to continue calculating goodwill based only on the parent's share of net assets or whether to recognise goodwill also in relation to the non-controlling (minority) interest; and
- when control is lost, any continuing ownership interest in the entity will be remeasured to fair value and a gain or loss recognised in profit or loss.

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
4. Other revenue				
Interest income	114,634	38,912	112,981	38,912
	<u>114,634</u>	<u>38,912</u>	<u>112,981</u>	<u>38,912</u>

5. Auditors' remuneration

Audit and review services:

Auditors of the Company	25,500	25,500	25,500	25,500
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Other services:

Auditors of the Company:

Acquisition accounting advice	12,000	-	12,000	-
Taxation services	24,600	-	24,600	-
	<u>62,100</u>	<u>25,500</u>	<u>62,100</u>	<u>25,500</u>

6. Acquisition of assets

On 9 August 2007 the Company announced that it had reached agreement to acquire 100% of the issued capital of Ord Investments Pty Ltd ("Ord"), a copper exploration company.

Since Ord Investments Pty Ltd ("Ord") did not qualify as a "business" as defined in AASB 3 *Business Combinations* at the date of purchase, the acquisition has been treated as an asset acquisition in accordance with AASB 116 *Property, Plant and Equipment*.

Lachlan issued 264,475,352 shares to the shareholders of Ord for a total value of \$5,289,507 to acquire 100% of the issued share capital of Ord, and furthermore issued 95 million ordinary shares to Straits Resources Limited ("Straits") for a total value of \$1,900,000 to support Ord in acquiring the Bushranger EL from Straits. The total fair value of consideration paid by Lachlan to acquire 100% of Ord and the Bushranger EL from Straits was \$7,189,507, allocated as follows:

	(\$)
Cash	28,470
Other receivables	220,009
Property, plant and equipment	7,117
Exploration and evaluation	7,125,324
Trade and other payables	<u>(191,413)</u>
Net assets acquired	<u>7,189,507</u>

7. Impairment of assets

The current period consolidated entity impairment loss of \$5,214,594 (2007: Nil) reflects the writedown of an exploration and evaluation asset acquired during the period and recognised using the fair value of the consideration paid to acquire the asset, to a value that reflects the fair value of the asset supported by an arms length purchase price and additional costs incurred. The impairment provision has been shown separately in the income statement. Movements in the provision for impairment are as follows:

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Balance at beginning of financial year	-	-	-	-
Impairment provision recognised during the year	5,214,594	-	-	-
Balance at end of financial year	<u>5,214,594</u>	<u>-</u>	<u>-</u>	<u>-</u>

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
8. Income tax expense				
<i>Numerical reconciliation of income tax expense to prima facie tax expense:</i>				
Loss before income tax expense	(5,876,014)	(534,105)	(5,876,014)	(534,105)
Prima facie income tax benefit on pre-tax loss at the Australian income tax rate of 30% (2007: 30%)	(1,762,804)	(160,232)	(1,762,804)	(160,232)
Tax effect of:				
Impairment writedowns	1,564,377	-	1,587,468	-
Non deductible costs	41,032	970	41,032	970
Current year tax benefit not brought to account	157,395	159,262	134,304	159,262
Income tax expense	-	-	-	-
<i>Unrecognised net deferred tax assets</i>				
Deferred tax assets have not been recognised in respect of the following items (refer Note 3(e)):				
Deductible temporary differences	194,989	-	183,102	-
Tax losses	361,143	274,109	357,310	274,109
	556,132	274,109	540,412	274,109

9. Earnings per share

	Number	
	2008	2007
<i>Weighted average number of ordinary shares:</i>		
1 July	359,475,352	349,475,352
Shares issued on acquisition of subsidiary	256,064,635	-
Share placements for cash	53,616,438	-
Shares issued on exercise of options	1,869,635	2,536,986
30 June (basic and diluted)	671,026,060	352,012,338

Loss attributable to ordinary shareholders for basic and diluted loss per share: (\$5,876,014) (\$534,105)

All potential ordinary shares, being options to acquire ordinary shares, are not considered dilutive in the calculation of earnings per share from continuing operations as the exercise of the options would not decrease the earnings per share or increase the loss per share.

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
10. Other receivables				
<i>Current</i>				
Other receivables	153,927	89,081	84,945	89,081
Amounts receivable from related party	-	-	2,495,228	-
Impairment writedown on related party receivable	-	-	(2,054)	-
	<u>153,927</u>	<u>89,081</u>	<u>2,578,119</u>	<u>89,081</u>

As at 30 June 2008 related receivables of the Company with a nominal value of \$2,495,228 (2007: Nil) were impaired. The amount of the provision was \$2,054 (2007: Nil). The receivable relates to the loan to the Company's subsidiary, Ord Investments Pty Ltd. The receivable has been written down to its recoverable amount. The receivable of \$2,495,228 is unsecured, does not carry interest, and has no fixed date of repayment. The impairment provision has been shown separately in the income statement. Movements in the provision for impairment are as follows:

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Balance at beginning of financial year	-	-	-	-
Impairment provision recognised during the year	-	-	2,054	-
Balance at end of financial year	<u>-</u>	<u>-</u>	<u>2,054</u>	<u>-</u>

11. Other financial assets

<i>Non-current</i>				
Investment in controlled entities – at cost	-	-	5,289,508	1
Impairment writedown	-	-	(5,289,507)	-
	<u>-</u>	<u>-</u>	<u>1</u>	<u>1</u>

As at 30 June 2008 the Company' investment in a controlled entity with a nominal value of \$5,289,507 (2007: Nil) was impaired. The amount of the provision was \$5,289,507 (2007: Nil). The investment relates to the investment in the Company's subsidiary, Ord Investments Pty Ltd. The investment in the controlled entity has been written down to its recoverable amount. The net assets of the subsidiary are used to determine the recoverable amount. The impairment provision has been shown separately in the income statement. Movements in the provision for impairment are as follows:

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Balance at beginning of financial year	-	-	-	-
Impairment provision recognised during the year	-	-	5,289,507	-
Balance at end of financial year	<u>-</u>	<u>-</u>	<u>5,289,507</u>	<u>-</u>

12. Exploration and evaluation

Balance at beginning of financial year	-	-	-	-
Additions	7,632,115	-	-	-
Impairment loss	(5,214,594)	-	-	-
Balance at end of financial year	<u>2,417,521</u>	<u>-</u>	<u>-</u>	<u>-</u>
Carrying amount	<u>2,417,521</u>	<u>-</u>	<u>-</u>	<u>-</u>

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	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
13. Property, plant and equipment				
<i>Cost:</i>				
Balance at beginning of financial year	-	-	-	-
Acquired on acquisition of subsidiary	7,117	-	-	-
Additions	6,985	-	-	-
Balance at end of financial year	<u>14,102</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Accumulated depreciation:</i>				
Balance at beginning of financial year	-	-	-	-
Depreciation charge for year	1,366	-	-	-
Balance at end of financial year	<u>1,366</u>	<u>-</u>	<u>-</u>	<u>-</u>
Carrying amount	<u>12,736</u>	<u>-</u>	<u>-</u>	<u>-</u>

14. Trade and other payables

<i>Current</i>				
Trade payables – third parties	172,688	-	155,351	-
Trade payables – related parties	15,000	-	15,000	-
Non-trade payables and accrued expenses	121,145	23,930	105,274	23,931
	<u>308,833</u>	<u>23,930</u>	<u>275,625</u>	<u>23,931</u>

All trade and other payables are expected to be settled with 12 months. Information on the group and parent entity's exposure to currency risk is provided in note 24.

15. Capital and other commitments

Capital expenditure commitments within 1 year

Exploration and evaluation	<u>76,000</u>	<u>-</u>	<u>76,000</u>	<u>-</u>
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The consolidated entity has a commitment to make a cash payment of \$9 million on settlement of the Sale Agreement to purchase the Holfontein Coal Project.

	Company and Consolidated		Company and Consolidated	
	2008	2007	2008	2007
	Number	\$	Number	\$
16. Capital and reserves				
<i>Contributed equity:</i>				
1 July	359,475,352	129,320,833	349,475,352	129,220,500
Options exercised at \$0.01 per share	6,041,667	60,417	10,000,000	100,000
Share based payments reserve	-	202	-	333
Shares issued on acquisition of subsidiary	359,475,352	7,189,507	-	-
Placement for cash at \$0.02 per share	52,500,000	1,050,000	-	-
Placement for cash at \$0.03 per share	300,000,000	9,000,000	-	-
Share issue costs	-	(539,772)	-	-
30 June	<u>1,077,492,371</u>	<u>146,081,187</u>	<u>359,475,352</u>	<u>129,320,833</u>
<i>Accumulated losses</i>				
	Consolidated	Consolidated	Company	Company
	2008	2007	2008	2007
	\$	\$	\$	\$
1 July	(128,067,609)	(127,533,504)	(128,067,609)	(127,533,504)
Loss for the period	(5,876,014)	(534,105)	(5,876,014)	(534,105)
30 June	<u>(133,943,623)</u>	<u>(128,067,609)</u>	<u>(133,943,623)</u>	<u>(128,067,609)</u>

16. Capital and reserves (continued)

Ordinary shares have the right to one vote per share at meetings of the Company, to receive dividends as declared and, in the event of a winding-up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of, and amounts paid up on, shares held. The Company does not have authorised capital or par value in respect of its issued shares.

Share based payments reserve

Movements in the share based payments reserve are set out in the Statements of Changes in Equity on pages 20 and 21. This reserve represents the fair value at grant of share options issued. The fair value is recognised as an expense over the vesting period. The reserve is reversed to contributed equity when shares are issued on exercise of the options.

17. Reconciliation of cash flows from operating activities

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<i>(a) Cash flows from operating activities</i>				
Loss for the period	(5,876,014)	(534,105)	(5,876,014)	(534,105)
Depreciation	1,366	-	-	-
Impairment writedown on exploration asset	5,214,594	-	-	-
Impairment writedown on financial asset	-	-	5,289,507	-
Impairment writedown on receivable	-	-	2,054	-
<i>Changes in assets and liabilities:</i>				
(Increase) / decrease in other receivables	(34,838)	26,463	4,135	26,463
Increase / (decrease) in trade and other payables	231,841	(9,753)	215,915	(9,753)
<i>Net cash flows used in operating activities</i>	<u>(463,051)</u>	<u>(517,395)</u>	<u>(364,403)</u>	<u>(517,395)</u>
<i>(b) Reconciliation of cash and cash equivalents</i>				
Cash at bank and at call	<u>9,862,678</u>	<u>1,188,740</u>	<u>9,835,534</u>	<u>1,188,740</u>

(c) Risk exposure

The Group and the parent entity's exposure to interest rate risk is discussed in note 24. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

18. Consolidated entities

Name	Country of Incorporation	Ownership interest	
		2008	2007
<i>Legal parent</i>			
Lachlan Star Limited	Australia		
<i>Legal subsidiary</i>			
Ord Investments Pty Ltd	Australia	100%	-
Toodyay Uranium Pty Ltd	Australia	100%	100%

19. Related party disclosures

Ultimate parent

Lachlan Star Limited is the ultimate parent entity.

Wholly-owned subsidiaries

During the year ended 30 June 2008 loans from the Company to its subsidiaries totalled \$2,495,228 (2007: \$Nil). The carrying value of loans to controlled entities at 30 June 2008 was \$2,493,174 (2007: \$Nil). These loans are currently unsecured, non-interest bearing, and have no fixed terms of repayment.

During the year the Company acquired 100% of the share capital of Ord Investments Pty Ltd (see Note 6).

Transactions with related parties

The Company did not have any other transactions with related parties during the current or prior year other than remuneration to directors and their related parties, as disclosed in the Remuneration Report as set out on pages 13 to 16, and as disclosed in Note 22.

Other related party balances

At 30 June 2008 an amount of \$15,000 (2007: \$Nil) is included in Company and consolidated "trade and other payables" for outstanding director fees and expenses.

20. Events subsequent to reporting date

On 22 July 2008 the Company announced that it had reached agreement with Universal Pulse Trading 132 (Pty) Ltd to purchase up to 74% of the Alexander Coal Project in South Africa.

Subsequent to that announcement Lachlan Star was notified that there are inconsistencies with the tenure of the New Order Prospecting Rights held by Universal Pulse. The Alexander Project consists of two Prospecting Rights, MP 30/5/1/1/2/1523 (PR) and MP 30/5/1/1/2/1626 (PR).

As a precautionary measure whilst investigation of the status of the Prospecting Right is undertaken, Universal Pulse has ceased drilling operations and Lachlan Star has deferred the completion of a resource update and geotechnical work for the Project.

No consideration for the acquisition will be payable until such time as tenure has been confirmed and the other conditions precedent satisfied. A further announcement will be made once the South African Department of Minerals and Energy has formally notified Universal Pulse as to the status of the Prospecting Right.

Other than the above no matter or circumstance has arisen since 1 July 2008 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.

21. Segment information

Geographical segment – primary reporting segment

The consolidated entity operates in mineral exploration and evaluation in Australia and South Africa.

Business segment – secondary reporting segment

The consolidated entity operates in one business segment only, being mineral exploration and evaluation.

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21. Segment information (continued)

Geographical Segments – primary format

	Australia		South Africa		Consolidated	
	2008 (\$)	2007 (\$)	2008 (\$)	2007 (\$)	2008 (\$)	2007 (\$)
Revenue						
Other revenue	114,634	38,912	-	-	114,634	38,912
Total revenue	114,634	38,912	-	-	114,634	38,912
Segment result						
Result from operations	(5,739,569)	(534,105)	(136,445)	-	(5,876,014)	(534,105)
Total segment result	(5,739,569)	(534,105)	(136,445)	-	(5,876,014)	(534,105)
Assets						
Property, plant and equipment	12,736	-	-	-	12,736	-
Other	12,434,126	1,277,821	-	-	12,434,126	1,277,821
Total segment assets	12,446,862	1,277,821	-	-	12,446,862	1,277,821
Liabilities						
Total segment liabilities	243,024	23,930	65,809	-	308,033	23,930
Other segment information:						
Capital and exploration expenditure	7,639,100	-	-	-	7,639,100	-
Depreciation	1,366	-	-	-	1,366	-
Impairment loss	5,214,594	-	-	-	5,214,594	-

22. Key management personnel disclosures

(a) Key management personnel compensation

Key management personnel compensation included in employee benefits expense, directors emoluments, share based payments and administration expenses are as follows:

	Consolidated		Company	
	2008(\$)	2007(\$)	2008(\$)	2007(\$)
Short term benefits	424,538	180,000	372,455	180,000
Post employment	45,946	-	45,946	-
	<u>470,484</u>	<u>180,000</u>	<u>418,401</u>	<u>180,000</u>

Information regarding individual directors and executives compensation is provided in the Remuneration Report as set out on pages 13 to 16.

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

(b) Other key management personnel transactions

A former director, Mr David Steinepreis, is associated with the entity Ord Street Services. Ord Street Services provided office accommodation and serviced office facilities for the Company and consolidated entity based on normal commercial terms and conditions in the amount of \$20,694 (2007:\$77,093). The services were provided on a month to month basis and ceased in September 2007.

Amounts payable to key management personnel at reporting date in respect of outstanding fees and expenses are as follows:

	Consolidated		Company	
	2008(\$)	2007(\$)	2008(\$)	2007(\$)
<i>Current</i>				
Trade and other payables	29,296	-	29,296	-

(c) Share options

There was no movement during the reporting period in the number of options in Lachlan Star Limited held, directly, indirectly or beneficially by each key management person during their period of appointment, including their related parties.

2008	Held at 01/07/07	Exercised	Held at 30/06/08 or date of resignation
Directors			
DC Steinepreis	5,333,333	-	5,333,333
GC Steinepreis	8,333,333	-	8,333,333

2007	Held at 01/07/06	Exercised	Held at 30/06/07
Directors			
DC Steinepreis	5,333,333	2,000,000	3,333,333
GC Steinepreis	8,333,333	-	8,333,333

Information regarding individual directors' and executives' compensation is provided in the Remuneration Report as set out on pages 13 to 16.

22. Key management personnel disclosures (continued)

(d) Shares

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

2008	Held at 01/07/07 or date of appointment	Net acquired	Acquired on acquisition of subsidiary	Held at 30/6/08 or date of resignation
Directors				
DT Franzmann	50,000	500,000	51,489,171	52,039,171
MJ McMullen	247,027	1,107,922	98,079,515	99,434,464
TE Duckworth	-	-	12,259,326	12,259,326
HJL Bohannan	-	1,400,000	20,840,855	22,240,855
DC Steinepreis *	16,509,583	-	-	16,509,583
GC Steinepreis *	30,176,250	-	-	30,176,250
PR Hearne *	6,350,000	-	-	6,350,000
Executive Officers				
RA Anderson	100,000	-	12,259,326	12,359,326
K Dekker	-	2,500,000	-	2,500,000

* resigned during the course of the current financial year

2007	Held at 01/07/06	Net acquired on exercise of options	Acquired on acquisition of subsidiary	Held at 30/06/07
Directors				
DC Steinepreis	14,509,583	2,000,000	-	16,509,583
GC Steinepreis	30,176,250	-	-	30,176,250
PR Hearne	6,350,000	-	-	6,350,000

23. Share based payments

The number and weighted average exercise price of share options is as follows:

	Weighted average exercise price 2008	Number of options 2008	Weighted average exercise price 2007	Number of options 2007
Outstanding 1 July	\$0.22	20,352,665	\$0.20	30,468,262
Exercised during the period	\$0.01	6,041,667	\$0.01	10,000,000
Expired during the period	\$12.21	352,665	\$13.90	115,597
Outstanding 30 June	\$0.01	13,958,333	\$0.22	20,352,665
Exercisable at 30 June	\$0.01	13,958,333	\$0.22	20,352,665

All options on issue at 30 June 2008 have an exercise price of \$0.01 and expire on 31 December 2008.

The weighted average share price at the date of exercise for share options exercised during the period was \$0.045 (2007: \$0.03)

24. Financial risk management

The consolidated entity's activities expose it to market risk including interest rate risk, credit risk and liquidity risk.

This note presents qualitative and quantitative information about the Company's and consolidated entity's exposure to each of the above risks, their objectives, policies and procedures for managing risk, and the management of capital. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

The consolidated entity's overall risk management approach focuses on the unpredictability of financial markets and seeks to minimise the potential adverse effects on the financial performance of the consolidated entity. The consolidated entity does not currently use derivative financial instruments to hedge financial risk exposures and therefore it is exposed to daily movements in interest rates.

The consolidated entity uses various methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and ageing analysis for credit risk.

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

The group is not currently exposed to currency risk or commodity price risk. These risks will be reassessed as the Company progresses development of the Holfontein Coal Project in South Africa.

(a) Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in a financial loss to the Company or consolidated entity. Neither the parent nor consolidated entity has any trade receivables at June 2008 or June 2007 and 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 balance sheet. The carrying amount of the consolidated entity's financial assets represents the maximum credit exposure.

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

	Consolidated		Company	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
<i>Carrying amount:</i>				
Other receivables	153,927	89,081	2,578,119	89,081
Cash and cash equivalents	9,862,678	1,188,740	9,835,534	1,188,740
	<u>10,016,605</u>	<u>1,277,821</u>	<u>12,413,653</u>	<u>1,277,821</u>

24. Financial risk management (continued)

(b) Interest rate risk

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

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

The risk is managed by the consolidated entity and parent entity by maintaining an appropriate mix between fixed and floating rate investments.

The consolidated entity's exposure to interest rate risk is considered minimal. The effective interest rates of income-earning financial assets at the reporting date are as follows. There were no interest-bearing financial liabilities.

	Variable rate instruments at call 2008 (\$)	Weighted average effective interest rate 2008	Variable rate instruments at call 2007 (\$)	Weighted average effective interest rate 2007
<i>Consolidated</i>				
<i>Financial assets</i>				
Cash and cash equivalents	9,862,678	7.5%	1,188,740	3%
<i>Company</i>				
<i>Financial assets</i>				
Cash and cash equivalents	9,835,534	7.5%	1,188,740	3%

At the reporting date the interest rate profile of the Company's and the consolidated entity's interest bearing financial instruments was:

	Consolidated carrying amount		Company carrying amount	
	2008 (\$)	2007 (\$)	2008 (\$)	2007 (\$)
<i>Variable rate instruments</i>				
Financial assets	9,862,678	1,188,740	9,835,434	1,188,740

Sensitivity analysis

A 10% increase or decrease of in the weighted average year-end interest rate, being 75 basis points (2007: 30 basis points), would have increased / (decreased) equity and profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2007:

	Consolidated		Company	
	Equity \$	Profit and loss \$	Equity \$	Profit and loss \$
30 June 2008 increase	73,856	73,856	73,825	73,825
30 June 2008 decrease	(73,856)	(73,856)	(73,825)	(73,825)
30 June 2007 increase	3,566	3,566	3,566	3,566
30 June 2007 decrease	(3,566)	(3,566)	(3,566)	(3,566)

24. Financial risk management (continued)

(c) Fair values

The fair values of financial assets and financial liabilities, together with their carrying amounts shown in the balance sheet, are as follows:

	Carrying amount 2008 (\$)	Fair value 2008 (\$)	Carrying amount 2007(\$)	Fair value 2007(\$)
<i>Consolidated</i>				
Loans and receivables	153,927	153,927	89,081	89,081
Cash and cash equivalents	9,862,678	9,862,678	1,188,740	1,188,740
Trade and other payables	(308,833)	(308,833)	(23,930)	(23,930)
	<u>9,707,772</u>	<u>9,707,772</u>	<u>1,253,891</u>	<u>1,253,891</u>
<i>Company</i>				
Loans and receivables	2,578,119	2,578,119	89,081	89,081
Cash and cash equivalents	9,835,534	9,835,534	1,188,740	1,188,740
Trade and other payables	(275,625)	(275,625)	(23,931)	(23,931)
	<u>12,138,028</u>	<u>12,138,028</u>	<u>1,253,890</u>	<u>1,253,890</u>

All trade and other receivables / payables have a life of less than one year, and therefore their notional amount is deemed to reflect their fair value. The basis for determining fair values is disclosed in Note 3(l).

(d) Liquidity risk

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as and when they fall due. The consolidated entity's approach to managing this risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due under a range of financial conditions. Neither the Company nor the consolidated entity currently has any available lines of credit.

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

	Carrying amount \$	Contractual cashflows \$	6 months or less \$
<i>Consolidated 2008</i>			
Trade and other payables	308,833	308,833	308,833
	<u>308,833</u>	<u>308,833</u>	<u>308,833</u>
<i>Company 2008</i>			
Trade and other payables	275,625	275,625	275,625
	<u>275,625</u>	<u>275,625</u>	<u>275,625</u>
<i>Consolidated 2007</i>			
Trade and other payables	23,930	23,930	23,930
	<u>23,930</u>	<u>23,930</u>	<u>23,930</u>
<i>Company 2007</i>			
Trade and other payables	23,931	23,931	23,931
	<u>23,931</u>	<u>23,931</u>	<u>23,931</u>

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DIRECTORS' DECLARATION

- (1) In the opinion of the directors of Lachlan Star Limited:
- (a) the financial statements and notes set out on pages 18 to 42 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2008 and of their performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2008.

Signed in accordance with a resolution of the directors.

A handwritten signature in dark ink, reading "Declan Franzmann", followed by a period. The signature is written in a cursive, flowing style.

DT Franzmann
Managing Director

Perth, 18th September 2008

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

Report on the financial report

We have audited the accompanying financial report of Lachlan Star Limited (the company), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Lachlan Star Limited and the Lachlan Star Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Lachlan Star Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

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

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 16 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of Lachlan Star Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.



PricewaterhouseCoopers



Pierre Dreyer
Partner

Perth
18 September 2008

Introduction

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

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

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

Statement and Charters

- Corporate Governance Statement
- Board Charter
- Audit Committee Charter

Policies and Procedures

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

As the Company and its activities grow, the Board may implement additional corporate governance structures and committees.

The Company's corporate governance Policies are available on the Company's website at www.lachlanstar.com.au.

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

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

Statement concerning availability of independent professional advice

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

Number of Audit Committee meetings and names of attendees

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

Names and qualifications of Audit Committee members

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

Explanations for departures from best practice recommendations

From 1 July 2007 to 30 June 2008 (the "Reporting Period") the Company complied with each of the eight Corporate Governance Principles and the corresponding Recommendations as published by the ASX Corporate Governance Council ("ASX Principles and Recommendations"), other than in relation to the matters specified below:

Principle Reference	Recommendation Reference	Notification of Departure	Explanation for Departure
2	2.1	The Board did not comprise a majority of independent directors. The Board currently consists of two independent and two non-independent directors.	The Board considers that the Company is not currently of a size or complexity to require a third independent director. If the Company's activities increase in size, scope and/or nature the appointment of a third independent director will be considered by the Board.
2	2.2	The Chairman is not an independent director.	The Board considers that the Company is not currently of a size or complexity to require an independent Chairman. If the Company's activities increase in size, scope and/or nature the appointment of an independent Chairman will be considered by the Board.
2	2.4	A separate Nomination Committee has not been formed.	The Board considers that the Company is not currently of a size to justify the formation of a Nomination Committee. The Board as a whole undertakes the process of reviewing the skills base and experience of existing directors to enable identification or attributes required in new directors. Where appropriate independent consultants are engaged to identify possible new candidates for the Board.
4	4.3	The Audit Committee only comprises the Company's two independent non-executive directors. Recommendation 4.3 states that the Audit Committee should contain at least three members.	The Board considers that the Company is not currently of a size or complexity to require a third member of the Audit Committee. If the Company's activities increase in size, scope and/or nature the appointment of a third Audit Committee member will be considered by the Board.

Explanations for departures from best practice recommendations (continued)

Principle Reference	Recommendation Reference	Notification of Departure	Explanation for Departure
8	8.1	A formal performance evaluation of the Board was not carried out during the Reporting Period	Given the change in Board and management in September 2007 this was not considered necessary in the Reporting Period. A review of the functioning of the Board in general did occur by way of an informal review by the Chairman during the regular Board meetings.
9	9.2	A separate Remuneration Committee has not been formed.	The Board considers that the Company is not currently of a size to justify the formation of a Remuneration Committee. The Board as a whole is responsible for the remuneration arrangements for directors and executives of the Company. If the Company's activities increase in size, scope and/or nature the appointment of a Remuneration Committee will be reviewed by the Board and implemented if appropriate.

Principles 1 to 8 state that the Company should make publicly available a number of its corporate governance documents and procedures, ideally by posting it to the Company's website in a clearly marked corporate governance section. This occurred in the last quarter of the Reporting Period.

Existence and terms of any schemes for retirement benefits for non-executive directors

The Company does not have any terms or schemes relating to retirement benefits for non-executive directors.

Company's remuneration policies

The Company's remuneration policies are set out in the Remuneration Report on pages 13 to 16.

The Company has separate remuneration policies for executive and non-executive directors.

Non-executive directors receive a fixed fee and, when appropriate, share options. Executive directors receive a salary or fee and, when appropriate, performance based remuneration and share options.

Identification of independent directors

The Company's two independent directors are considered to be Mr Tom Duckworth and Mr Hamish Bohannon.

Neither of these directors was considered to have a material relationship with the Company or another group member during the Reporting Period as professional advisor, consultant, supplier, customer, or through any other contractual relationship, nor did they have any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company. The Board considers "material" in this context to be where any director related business relationship represents the lesser of at least 5% of the Company's or the director-related business's revenue.

LACHLAN STAR LIMITED
ANNUAL REPORT 30 JUNE 2008
ADDITIONAL SHAREHOLDER INFORMATION

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

a) Shareholdings as at 8 September 2008

Substantial shareholders

The following shareholders have lodged substantial shareholder notices with ASX:

Name of Shareholder	Number of shares	% held
Wildeville Enterprises Pty Ltd	99,434,464	9.23%
Straits Resources Limited	97,000,000	8.98%

Voting Rights

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

Twenty Largest Shareholders

	Number of shares	% held
Wildeville Enterprises Pty Ltd <McMullen Family A/C>	99,429,560	9.21
Straits Exploration (Australia) Pty Ltd	97,000,000	8.98
Zero Nominees Pty Ltd	92,967,304	8.61
Citraen Pty Ltd <Franzmann Family A/C>	52,039,171	4.82
Macquarie Bank Limited Metals And Energy Capital Division	26,518,653	2.46
Ashwath Mehra	24,518,653	2.27
RBC Dexia Investor Services Australia Nominees Pty Limited <MLCI A/C>	21,579,751	2.00
Mr Hamish Bohannan + Ms Julie Bohannan <Putsborough Super Fund A/C>	20,840,855	1.93
Oakhurst Enterprises Pty Ltd	20,000,000	1.85
Helmet Nominees Pty Ltd <Tim Weir Family Fund A/C>	13,971,111	1.29
Helmet Nominees Pty Ltd	13,200,000	1.22
Emerald Corporation Pty Ltd <F R Blakiston No2 A/C>	12,750,000	1.18
Mrs Lucinda Natalie-Anne Anderson	12,359,326	1.14
Mr Thomas Ernest Duckworth + Mrs Jennifer Audrey Duckworth <Superannuation A/C>	12,259,326	1.14
Ruby Commercial Ltd	11,000,000	1.02
Haifa Pty Ltd	10,000,000	0.93
Ice Cold Investments Pty Ltd	8,166,666	0.76
HSBC Custody Nominees (Australia) Limited	6,345,787	0.59
Mr Marcello Cardaci <M D Cardaci Family A/C>	6,250,000	0.58
Oakhurst Enterprises Pty Ltd	6,176,250	0.57
Total	567,372,413	52.55

a) Shareholdings as at 8 September 2008 (continued)

Distribution of equity security holders

Size of Holding			Number of shareholders	Number of fully paid shares
1	to	1,000	497	156,286
1,001	to	5,000	119	243,048
5,001	to	10,000	22	175,959
10,001	to	100,000	561	31,355,342
100,001	and over		732	1,047,941,736
			<u>1,931</u>	<u>1,079,867,371</u>

The number of shareholders holding less than a marketable parcel of ordinary shares is 705.

b) Unlisted option holdings as at 8 September 2008

		Unlisted \$0.01 options expiring 31 December 2008
Number on issue		11,583,333
Number of holders		4

Those holding more than 20% of the class:

Name of Shareholder	Unlisted \$0.01 options expiring 31 December 2008
Mr Gary Christian Steinepreis	5,000,000

c) On-market buyback

There is no current on-market buyback.

d) Interest in mining and exploration permits

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