

**LACH DRUMMOND RESOURCES LIMITED**

**ABN 22 073 653 175**

**FINANCIAL REPORT**

**FOR THE FINANCIAL PERIOD ENDED**

**30 JUNE 2005**

**LACH DRUMMOND RESOURCES LIMITED**  
**ABN 22 073 653 175**

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**LACH DRUMMOND RESOURCES LIMITED**  
**ABN 22 073 653 175**

**COMPANY DIRECTORY**

<b>DIRECTORS:</b>	Mr Adam Sierakowski Mr Richard Monti Mrs Nadine Donovan
<b>COMPANY SECRETARY:</b>	Mrs Nadine Donovan
<b>REGISTERED AND PRINCIPAL OFFICE:</b>	Level 12, BGC Centre 28 The Esplanade PERTH WA 6000 Telephone: (08) 9324 3011 Facsimile: (08) 9324 3055
<b>SHARE REGISTRY:</b>	Advanced Share Registry Services 110 Stirling Highway NEDLANDS WA 6009 Telephone: (08) 9389 8033 Facsimile: (08) 9389 7871
<b>BANKERS:</b>	HSBC Bank Australia Limited 188 St George's Terrace PERTH WA 6000
<b>AUDITORS:</b>	Horwath Audit (WA) Pty Ltd 128 Hay Street SUBIACO WA 6008
<b>SOLICITORS:</b>	Price Sierakowski Level 24 44 St George's Terrace PERTH WA 6000
<b>DOMICILE AND COUNTRY OF INCORPORATION:</b>	Australia
<b>LEGAL FORM OF ENTITY:</b>	Listed Public Company
<b>ASX CODE:</b>	LDR

# LACH DRUMMOND RESOURCES LIMITED

ABN 22 073 653 175

## OPERATIONS REPORT

### Mineral exploration projects

#### **Yule River JV (LDR 100%, Troy Resources NL manager with right to earn up to 70%)**

Work carried out by Troy Resources NL during the year included interpretation of aeromagnetic data and completion of six wide-spaced air-core drill traverses over the entire length of the Yule River Shear. Drilling has defined a 9km long by 400m-500m wide zone of anomalous gold (up to 5m at 244 ppb Au) with associated copper, arsenic and lead. The mineralization is open along strike and coincides with a major NNW jog within the Yule River Shear zone. These results are considered highly significant especially as they were generated from a wide-spaced, "first pass" drilling programme.

Follow up work is currently being planned to identify any possible higher grade zones of gold mineralisation within this zone.

#### **Other Projects**

LDR holds 100% of the Gulgong, Penny West and Pajingo South projects.

Assessment of the Gulgong project has confirmed the Red Hill South soil anomaly as a high priority target. This anomaly is a 1,100m long gold-arsenic-potassium anomaly located along strike and to the south of the historic red hill workings. No follow-up work has been completed to date. A reconnaissance field trip of the Gulgong project has been scheduled for September 2005. Follow-up work programmes and budgets for the Red Hill South anomaly consisting of detailed mapping, in-fill soil sampling and drilling have been compiled.

Extensive exploration has previously been carried out on the Penny West and Pajingo South projects and the Company is currently undertaking assessment of this work in order to generate targets for follow up exploration.

**LACH DRUMMOND RESOURCES LIMITED**  
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**SCHEDULE OF MINERAL TENEMENTS**

<b>TENEMENT NAME</b>	<b>TENEMENT NUMBERS</b>	<b>LOCATION</b>	<b>PERCENTAGE INTEREST HELD</b>
Penny West	E 57/530	WA	100%
	E 57/533	WA	100%
	E 57/589	WA	100%
Gulgong	EL 5856	NSW	100%
Pajingo South	EPM 13667	QLD	100%
Yule River	E 47/1131	WA	100% (Troy Resources NL earning 70%)
	E 47/1210	WA	100% (Troy Resources NL earning 70%)
	E 47/1240	WA	100% (Troy Resources NL earning 70%)
	E 45/2478	WA	100% (Troy Resources NL earning 70%)

**LACH DRUMMOND RESOURCES LIMITED**  
**ABN 22 073 653 175**

**DIRECTORS' REPORT**

The directors present their report together with the financial report of Lach Drummond Resources Limited ("the Company") and of the consolidated entity, being the Company and its controlled entity, for the period 9 May 2005 to 30 June 2005 and auditor's report thereon.

**Directors**

The directors of the Company at any time during or since the end of the financial period are:

*Mr Adam Sierakowski – Chairman, Non-Executive Director*  
Appointed 9 May 2005

Mr Sierakowski was admitted as a Barrister and Solicitor in Western Australia in March 1994 practising in various law firms between 1992 and 1998 in the areas of Corporate Law, Insolvency, Bankruptcy and Corporate Litigation.

Mr Sierakowski established Price Sierakowski with Paul Price in May 1999. Throughout his career he has been involved in providing services to both international and Australian companies in numerous capital raisings including IPOs, rights issues and private and public raisings. He has also provided advice to clients in takeovers, mergers and acquisitions, managed investments, ASIC and ASX compliance, corporate governance and commercial contract drafting.

Mr Sierakowski also was a director of Arafura Resources NL from July 2002 to December 2003.

*Mr Richard Monti – Executive Director, Operations*  
Appointed 9 May 2005

Mr Monti has qualifications in geology (Bachelor of Science with Honours from the University of Western Australia) and finance (Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia). He has gained broad experience over an 18 year career working in the technical, marketing and financial fields of the international exploration and mining industry. This experience includes exposure to a number of commodities including nickel, base metals, gold, coal, iron ore, tin-tantalum, platinum group metals and industrial and heavy minerals.

Mr Monti has worked for a number of international Australian companies including Anaconda Nickel, RTZ Exploration, the North Group and the Normandy Group. During a seven year term at Anaconda Nickel he held General Manager positions in technical, commercial and marketing fields.

Mr Monti has also held directorships in recent times on Australian Stock Exchange listed Peninsula Minerals Limited (November 2003 to April 2005) and Yilgarn Gold Limited (December 2001 to August 2002).

*Mrs Nadine Donovan – Executive Director, Finance / Company Secretary*  
Appointed 9 May 2005

Mrs Donovan graduated with a Bachelor of Business (Accounting and Finance) from Edith Cowan University and is CPA qualified. She has 12 years' experience in financial accounting and corporate compliance with publicly listed entities. Mrs Donovan's experience has included the biotechnology, power generation and oil and gas industries. During her career she has been involved in financial

accounting, budget and tax management, financial modelling, compliance and regulatory ASX and ASIC reporting requirements and assisted in the restructure and re-listing processes.

Mrs Donovan has held board positions on ASX and NASDAQ listed biotechnology company pSivida Limited (January 2003 to July 2004) and ASX listed biomaterials company Colltech Australia Limited during its period leading up to listing (August 2003 to November 2003). She is the former company secretary for both these companies.

Unless indicated otherwise, all directors held their position as a director throughout the entire financial period and up to the date of this report.

### **Directors' meetings**

The number of directors' meetings and number of meetings attended by each of the directors of the Company during the financial period were as follows.

	<b>Held</b>	<b>Attended</b>
Mr A Sierakowski	3	3
Mr R Monti	3	3
Mrs N Donovan	3	3

### **Principal activity**

The principal activity of the consolidated entity during the period was exploration and evaluation of mineral interests.

There has been no significant change in the nature of these activities during the period.

### **Results and review of operations**

During the financial period the consolidated entity continued its exploration activities as detailed in its quarterly reports released to the Australian Stock Exchange.

The loss of the consolidated entity for the financial period after provision for income tax was \$21,419.

Following a meeting of shareholders on 30 March 2005, on 9 May 2005 the Company announced that its Deed of Company Arrangement had been fully effectuated and the Deed Administrators had resigned, effective 9 May 2005. The Company also announced the resignation of the previous Board and the appointment of Mr Adam Sierakowski, Mr Richard Monti and Mrs Nadine Donovan as directors of the Company.

The Company also announced on 9 May 2005 the issue of 280,000,000 ordinary shares and 40,000,000 unlisted options, issued pursuant to a prospectus.

On 24 May 2005 the Company was reinstated to official quotation on the Australian Stock Exchange.

### **Significant changes in the state of affairs**

In the opinion of the directors, there were no matters that significantly affected the state of affairs of the consolidated entity during the financial period in review, other than those matters referred to in the review of operations.

### **Dividends**

The directors recommend that no amount be paid by way of dividend. No dividend has been paid or declared since the start of the financial period.

### **Unissued shares under option**

At the date of this report unissued ordinary shares of the Company under option are:

<i>Expiry date</i>	<i>Exercise Price</i>	<i>Number</i>
31 December 2006	\$0.42	9,843,321
31 December 2008	\$0.01	40,000,000

These options do not entitle the holder to participate in any other share issue of the Company or any other body corporate.

### **Environmental regulation**

The Company has a policy of at least complying, but in most cases exceeding its environment performance obligations. No environmental breaches have been notified by any government agency during the financial period ended 30 June 2005. The Board believes that the consolidated entity has adequate systems in place for the management of its environmental regulations.

### **Events subsequent to balance date**

On 19 July 2005 the Company announced that it had executed formal documentation in order to pursue an oil and gas opportunity in Kentucky in the US.

The Company has agreed, subject to due diligence and shareholder approval, to acquire Golden Fleece Petroleum Inc. ("GFP"), a Texas based oil and gas company, which has the right to earn a 50% interest in Home Run. Home Run is a 20,000 acre natural gas project located within the Appalachian Basin, one of the oldest and most prolific natural gas producing areas in the US. The project crosses the Elliott and Morgan Counties in East Kentucky and is located adjacent to existing production units within a larger Area of Mutual Interest of approximately 50,000 acres. The Company will provide as consideration \$215,000 in cash, 18,000,000 ordinary shares, 12,000,000 unlisted options exercisable at \$0.01 per share on or before 31 December 2008 and 15,000,000 unlisted options exercisable at \$0.025 per share on or before 31 December 2008.

Under the terms of the farm-in agreement, the Company, through GFP will contribute up to US\$2,000,000 to earn a 50% interest in Home Run.

GFP will contribute in the following manner:

- US\$200,000 to complete four existing wells within the target zones, ("Wells 1-4");
- US\$800,000 to drill and complete 5 wells ("Wells 5-9"); and
- At GFP's option, US\$1,000,000 to drill and complete a further 5 wells ("Wells 10-14").

GFP will receive 50% of the Net Revenue from Wells 1-4 and 75% of the Net Revenue received from Wells 5-9 and Wells 10-14 until it has received US\$1,800,000 ("the Payout"). Following the Payout, GFP will receive 50% of the Net Revenue and will maintain its 50% interest in the project by drilling a minimum of 4 wells per year until the project has been fully developed. Additional wells drilled during a 12 month period may be credited to the next year's drilling obligations. Should GFP at any time following the Payout elect not to continue with its drilling obligations, it retains a 50% interest in all previous wells drilled.

On 1 August 2005, the Company announced that it had received firm commitments to subscribe for 100 million shares at \$0.035 per share, raising a planned \$3,500,000, subject to shareholder approval and the successful conclusion of the Golden Fleece Petroleum Inc acquisition.

## **Strategy and future performance**

Information about the business strategies of the consolidated entity and its prospects for the future has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

## **Remuneration report**

This report outlines the remuneration arrangements in place for directors and executives of Lach Drummond Resources Limited.

### *Director and executive details*

The directors of Lach Drummond Resources Limited during the financial period were:

- Mr A Sierakowski, Non-Executive Chairman (appointed 9 May 2005)
- Mr R Monti, Executive Director – Operations (appointed 9 May 2005)
- Mrs N Donovan, Executive Director – Finance and Company Secretary (appointed 9 May 2005)

The Company does not employ any executives.

### *Remuneration policy*

The Board recognises that the Company operates in a global environment. To prosper, the Company must be able to attract, motivate and retain suitably qualified executives.

The key principles that underpin the Company's remuneration policy are:

- That rewards reflect the competitive market in which the Company operates;
- That demanding key performance indicators apply to delivering results across the Company and to a significant portion of the total reward;
- That rewards to executives be linked to the creation of value to shareholders;
- That executives be rewarded for both financial and non-financial performance; and
- That remuneration arrangements ensure equity between executives and facilitate the deployment of human resources.

The Company's reward structure at the date of this report consists of base salary with the potential in the future to combine this with short-term and long-term incentive plans. Details of the policy applied in each component are outlined below.

### *Base Salary*

Base salaries are quantified by reference to the scope and nature of an individual's role, performance and experience. The Board actively seeks market data to benchmark salary levels. Particular consideration is given to mobility and location.

### *Incentive Plans*

An employee share option plan (ESOP) may be considered in the future by the Board, where eligible persons are issued with options over the ordinary shares of the Company. The object of a plan will be to assist in the recruitment, reward, retention and motivation of employees and officers of the Company.

Details of the nature and amount of each element of the emolument of each director of the Company are shown below:

	Primary	Post Employment	Other benefits	Total
	Salary and fees \$	Superannuation \$	\$	\$
Mr A Sierakowski	-	-	-	-
Mr R Monti	1,742	157	-	1,899
Mrs N Donovan	-	-	-	-
Total	1,742	157	-	1,899

### *Company performance*

In considering the Company's performance and its effect on shareholder wealth, the Board have regard to a broad range of factors, some of which are financial and others of which relate to the progress on the Company's projects, acquisitions of new projects etc. The Board also gives consideration to the Company's result and cash consumption for the period. It does not utilise earnings per share as a performance measure or contemplate payment of any dividends in the short to medium term given that all efforts are currently being expended to build the business and establish self-sustaining revenue streams. The Company is of the view that any adverse movement in the Company's share price should not be a punitive factor in assessing the performance of individuals.

### **Directors' interests**

The following table sets out each director's relevant interest in shares and options in shares of the Company as at the date of this report:

	Ordinary Shares	Listed options over ordinary shares
Mr A Sierakowski	7,000,000	2,000,000
Mr R Monti	1,000,000	1,000,000
Mrs N Donovan	3,000,000	2,000,000

### **Reporting period**

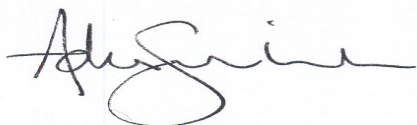
As a result of the Company's recapitalisation on 9 May 2005 and subsequent relisting, the information supplied in the annual report covers the period from 9 May 2005 to 30 June 2005.

### **Auditor's independence declaration**

The auditor's independence declaration is included on page 11 of the financial report.

Dated this 15<sup>th</sup> day of September 2005.

Signed in accordance with a resolution of the directors.



**ADAM SIERAKOWSKI**  
Director

## **AUDITOR'S INDEPENDENCE DECLARATION**

The Board of Directors  
Lach Drummond Resources Ltd  
Level 12 BGC Centre,  
28 The Esplanade,  
PERTH, AUSTRALIA, 6000

## **AUDITOR'S INDEPENDENCE DECLARATION**

This declaration is made in connection with our audit of the financial report of Lach Drummond Resources Limited for the period 9 May 2005 to 30 June 2005 and in accordance with the provisions of the Corporations Act 2001.

We declare that, to the best of our knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to this audit;
- No contraventions of the Code of Professional Conduct of the Institute of Chartered Accountants in Australia in relation to this audit.

Yours faithfully  
**HORWATH**  
Audit (WA) Pty Ltd

**GLYN O'BRIEN**  
Director

**LACH DRUMMOND RESOURCES LIMITED**  
ABN 22 073 653 175

**CORPORATE GOVERNANCE STATEMENT**  
**FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2005**

This statement outlines the main corporate governance practices in place for the period 24 May 2005 to 30 June 2005, which comply with the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations, unless otherwise stated.

The Corporate Governance policy was adopted by the Board on 24 May 2005 and therefore has not been applied for the entire financial period.

### **Board of Directors**

#### *Role of the Board*

The Board guides and monitors the business and affairs of Lach Drummond Resources Limited on behalf of the shareholders by whom they are elected and to whom they are accountable. It is a requirement of the Board that the Company maintains at all times the highest standards of ethics and integrity.

Details of the Board's charter is located under the corporate governance section of the Company's website ([www.ldr.com.au](http://www.ldr.com.au)).

As the Board acts on behalf of and is accountable to the shareholders, the Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. The Board seeks to discharge those responsibilities in a number of ways.

The Board has delegated responsibility for the operations of the consolidated entity to the Executive Director – Operations, and the administration to the Company Secretary. The Board ensures that the delegates are appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess their performance.

The Board is also responsible for ensuring the management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved.

#### *Board Process*

To assist in the execution of its responsibilities, the Board has established an audit committee. This committee has written mandates and operating procedures, which are reviewed on a regular basis. It has also been delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the consolidated entity.

The Board has decided at this time not to establish a separate nomination committee or a separate remuneration committee, due to the current size of the entity and its operations and therefore is not in compliance with ASX Best Practice Recommendation 2.4 or 9.2. The Board will review the requirement for such committee's as the scale of operations and structure increase. Therefore the Board will be responsible for selecting candidates for the position of director, as well as for

determining and reviewing compensation arrangements for the directors themselves and the chief executive officer and the executive team.

In order to ensure that the Board discharges its responsibilities in an appropriate manner, the performance of all directors is reviewed annually by the chairperson.

The Board of directors aims to ensure that the shareholders, on behalf of whom they act, are informed of all information necessary to assess the performance of the directors. As such the directors have also established a communication strategy policy.

The Board currently has in place a policy to hold a minimum of six meetings per financial year, plus any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

#### *Director Education*

Currently all new directors/executives receive executive agreements, copies of policies, copy of the Company's Constitution and copy/access to all Board minutes.

#### *Independent Professional Advice*

The Board has procedures to allow each director, in the furtherance of their duties, to seek independent professional advice at the Company's expense. The director must seek the prior approval of the Chairman, and agree to make the advice available to all directors if appropriate.

#### *Composition of the Board*

The names of the directors of the Company in office at the date of this report are set out in the Directors' report on page 6 of this report.

The composition of the Board is determined in accordance with the following principles and guidelines:

- the Board should comprise at least three directors;
- the Board should comprise directors with an appropriate range of qualifications and expertise; and
- the Board shall meet regularly and follow meeting guidelines set down to ensure all directors are made aware of, and have available all necessary information, to participate in an informed discussion of all agenda items.

The Board acknowledges that it currently does not comply with ASX Best Practice Recommendation 2.1 that majority of the Board should be independent directors, due to its current size and operations. This will be reviewed as the scale of operations of the Company increases.

The Board also acknowledges that the chairperson should be independent and this is not the case as the chairperson provides separate consulting legal advice. This will be reviewed as the scale of operations of the Company increases.

### **Remuneration Report**

The Remuneration Report is set out on pages 9 and 10 and forms part of the directors' report for the financial period ended 30 June 2005

## Audit Committee

The audit committee has a documented charter, approved by the Board.

It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes. This includes the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the consolidated entity to the audit committee.

The audit committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial statements.

The audit committee is also responsible for nomination of the external auditor and reviewing the adequacy of the scope and quality of the annual statutory audit and half year statutory audit or review.

The members of the audit committee during the period 24 May 2005 to 30 June 2005 were:

Mrs Nadine Donovan *B Bus. CPA* – Chairperson  
Mr Adam Sierakowski – Member  
Mr Richard Monti – Member

The Board acknowledges that the audit committee is not made up of only non-executive directors, nor is a majority of the committee independent directors. This is due to its current size and operations of the Company. The structure of the audit committee will be reviewed as the Company structure changes.

The audit committee did not meet during the period ended 30 June 2005.

The Director – Operations and Director – Finance / Company Secretary have declared in writing to the Board that the financial records of the Company for the period 9 May 2005 to 30 June 2005 have been properly maintained, the Company's financial reports for the period ended 30 June 2005 present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.

The responsibilities for the audit committee include:

- ensuring appropriate group accounting policies and procedures are defined, adopted and maintained;
- ensuring that group operating and management reporting procedures, and the system of internal control, are of a sufficiently high standard to provide timely, accurate and relevant information as a sound basis for management of the group's business;
- reviewing the group financial statements prior to their approval by the Board;
- reviewing the scope of work including approval of strategic and annual audit plans and effectiveness of both the external and internal audit functions across the group;
- monitoring the proper operation of and issues raised through subsidiary company audit and compliance committees;
- ensuring that appropriate processes are in place to ensure compliance with all legal requirements affecting the Group;
- ensuring that all internal and industry codes of conduct and standards of corporate behaviour are being complied with;

- appointment of, on recommendation by the Managing Director, a person(s) responsible for Internal Audit functions as specified from time to time by, and in accordance with, the committee's Terms of Reference;
- responsible for making recommendations to the Board of directors on the appointment, reappointment or replacement (subject, if applicable, to shareholder ratification), monitoring of effectiveness, and independence of the external auditors; and
- actioning any other business processes or functions which may be referred to it by the Board of directors.

The full audit committee's charter is available under the corporate governance section of the Company's website, along with information on procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners.

## **Risk Management**

The Board oversees the establishment, implementation and annual review of the Company's risk management system. The Company's risk approach links its vision and values, objectives and strategies, and procedures and training.

The Company employs executives and retains consultants each with the requisite experience and qualification to enable the Company to manage its risks.

The Board appoints the audit committee to monitor and assess the accounting, financial and internal controls of the Company.

The Director – Operations and Director – Finance / Company Secretary have declared in writing to the Board that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively for the period 9 May 2005 to 30 June 2005.

The Board recognises that the main types of risks applicable to the Company are:

- Share Markets
- Exploration, Development and Mining Risk
- Currency Risk
- Insurance Risks
- Commercialisation Risks
- Competition Risks
- Environment Risks / Native Title Risks
- Economic and Government Risks

The Board recognises and acknowledges that this is not an all inclusive list and that other risks may exist.

Risks to the Company are reviewed at regular Board and audit committee meetings.

Full details of the Company's "Risk Policy and Internal Compliance and Control Systems" is available for viewing under the corporate governance section of the Company's website.

## **Ethical Standards**

All directors, officers, employees and consultants are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the consolidated entity.

### *Code of Conduct & Trading in general Company securities by directors and employees*

All directors and employees, upon commencement of their employment with the Company are given a copy of the relevant Company's Corporate Governance Policies, which include policies on "Code of Conduct" and "Securities Trading", and are expected to adhere strictly to them. The Board reviews and updates these policies as and when required.

All employees and directors are prevented from trading in the Company's securities immediately prior to the date that half year results and full year results are announced.

The full policies are available for viewing under the corporate governance section of the Company's website.

## **Continuous Disclosure**

The Board has established policies and procedures in order to comply with its continuous and periodic disclosure requirements under the *Corporations Act 2001* (Cth) and the ASX Listing Rules. The Board adopted a formal Continuous Disclosure Policy on 24 May 2005, a summary of which is available from the corporate governance section of the Company's website.

The Company Secretary is responsible for the disclosure of material information to the ASX and ASIC and maintains a procedural methodology for disclosure, as well as for record keeping.

Lach Drummond's Continuous Disclosure Policy requires all management to inform a Director or in their absence the Company Secretary of any potentially material information or proposal as soon as practicable after they become aware of that information. The Policy also sets out what renders information material.

The Board reviews the Company's compliance with this policy as required and will update it from time to time, if necessary.

## **Communication with shareholders**

The Board's formal policy on communicating with shareholders, is provided through using a comprehensive "Communications Strategy Policy", which includes identifying matters that have a material affect on the price of the Company's securities, notifying them to the ASX, posting them to the ASX, posting them on the Company's website, and issuing media releases. This policy supplements Lach Drummond's Continuous Disclosure Policy.

More details of these policies are available from the corporate governance section of the Company's website.

In summary the "Communications Strategy Policy" operates as follows:

- All information released to the ASX is posted on the Company's website as soon as practicable following confirmation of receipt by the ASX;

- The full annual report is issued to all shareholders (unless a shareholder has specifically requested not to receive the document) to summarise and inform shareholders of the Company's previous year's operations and financial performance; and
- Through the Notice of General Meeting, the Company encourages all shareholders and other interested parties to attend the Annual General Meeting (AGM) as it gives them an opportunity to ask questions and meet key personnel. An update of the Company's activities is also provided through a presentation at the AGM.
- The Company's external auditor will be requested to attend the AGM and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report

The Board reviews the Company's compliance with this policy as required and will update it from time to time, if necessary.

**LACH DRUMMOND RESOURCES LIMITED**  
**ABN 22 073 653 175**

**STATEMENTS OF FINANCIAL PERFORMANCE**  
**FOR THE PERIOD 9 MAY 2005 TO 30 JUNE 2005**

	Note	Consolidated 2005 \$	Company 2005 \$
Revenues from other ordinary activities	2	7,346	7,346
Employee expenses		(6,441)	(6,441)
Office administration		(9,258)	(9,258)
Registry and statutory fees		(3,289)	(3,289)
Professional fees		(9,720)	(9,720)
Other expenses from ordinary activities		(214)	(214)
		<hr/>	<hr/>
Loss from ordinary activities before related income tax expense		(21,576)	(21,576)
Income tax (expense) / benefit relating to ordinary activities	4	-	-
		<hr/>	<hr/>
Loss from ordinary activities after related income tax expense		(21,576)	(21,576)
		<hr/>	<hr/>
<b>Net loss attributable to members of the parent entity</b>		<b>(21,576)</b>	<b>(21,576)</b>
		<hr/>	<hr/>
<b>Total changes in equity from non- owner related transactions attributable to members of the parent entity</b>	12	<b>(21,576)</b>	<b>(21,576)</b>
		<hr/> <hr/>	<hr/> <hr/>
Basic loss per share (cents)	5	(0.007)	(0.007)
		<hr/> <hr/>	<hr/> <hr/>

**The statements of financial performance are to be read in conjunction  
with the notes to the financial statements set out on pages 21 to 33.**

**LACH DRUMMOND RESOURCES LIMITED**  
**ABN 22 073 653 175**

**STATEMENTS OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2005**

	Note	Consolidated 2005 \$	Company 2005 \$
<b>CURRENT ASSETS</b>			
Cash assets	6	991,823	991,823
Receivables	7	8,248	8,248
Other	8	550	550
<b>TOTAL CURRENT ASSETS</b>		<b>1,000,621</b>	<b>1,000,621</b>
<b>NON-CURRENT ASSETS</b>			
Receivables	7	-	2,651
Exploration expenditure	9	142,401	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>142,401</b>	<b>2,651</b>
<b>TOTAL ASSETS</b>		<b>1,143,022</b>	<b>1,003,272</b>
<b>CURRENT LIABILITIES</b>			
Payables	10	21,368	21,368
<b>TOTAL CURRENT LIABILITIES</b>		<b>21,368</b>	<b>21,368</b>
<b>TOTAL LIABILITIES</b>		<b>21,368</b>	<b>21,368</b>
<b>NET ASSETS</b>		<b>1,121,654</b>	<b>981,904</b>
<b>EQUITY</b>			
Contributed equity	11	1,883,480	1,883,480
Accumulated losses	12	(761,826)	(901,576)
<b>TOTAL EQUITY</b>		<b>1,121,654</b>	<b>981,904</b>

**The statements of financial position are to be read in conjunction  
with the notes to the financial statements set out on pages 21 to 33.**

**LACH DRUMMOND RESOURCES LIMITED**  
**ABN 22 073 653 175**

**STATEMENTS OF CASH FLOWS**  
**FOR THE PERIOD 9 MAY 2005 TO 30 JUNE 2005**

	Note	Consolidated 2005 \$	Company 2005 \$
<b>Cash flows from operating activities</b>			
Cash payments in the course of operations		(16,352)	(16,352)
Payments for exploration and evaluation		(2,651)	-
Interest received		7,346	7,346
		<hr/>	<hr/>
Net cash used in operating activities	15(b)	(11,657)	(9,006)
		<hr/>	<hr/>
<b>Cash flows from investing activities</b>			
Loans to controlled entity		-	(2,651)
		<hr/>	<hr/>
Net cash used in investing activities		-	(2,651)
		<hr/>	<hr/>
<b>Cash flows from financial activities</b>			
Proceeds from issue of shares and options		1,500,000	1,500,000
Capital raising costs		(166,520)	(166,520)
Repayment of debt		(330,000)	(330,000)
		<hr/>	<hr/>
Net cash provided by financing activities		1,003,480	1,003,480
		<hr/>	<hr/>
Net increase in cash held		991,823	991,823
Cash at the beginning of the financial period		-	-
		<hr/>	<hr/>
Cash at the end of the financial period	15(a)	991,823	991,823
		<hr/> <hr/>	<hr/> <hr/>

**The statements of cash flows are to be read in conjunction with  
the notes to the financial statements set out on pages 21 to 33.**

**LACH DRUMMOND RESOURCES LIMITED**  
ABN 22 073 653 175

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 30 JUNE 2005**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

The significant policies which have been adopted in the preparation of this financial report are:

**(a) Basis of preparation**

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of non-current assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy, are consistent with those of previous years.

**(b) Principles of consolidation**

*Controlled entities*

The financial statements of controlled entities are included from the date control commences until the date control ceases.

*Transactions eliminated on consolidation*

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

**(c) Revenue recognition**

*Interest revenue*

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

**(d) Goods & 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 ("ATO"). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

**(e) Taxation**

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain. The tax effects of capital losses are not recorded unless realisation is virtually certain.

**(f) Earnings per share**

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity (other than ordinary shares and converting preference shares classified as ordinary shares of EPS calculation purposes), by weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

**(g) Receivables**

The collectibility of debts is assessed at balance date and specific provision is made for any doubtful accounts.

**(h) Exploration expenditure**

Exploration and evaluation costs are accumulated in respect of each separate area of interest.

Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or, where exploration and evaluation activities in the area of interest have not yet reach a stage that permits reasonable assessment of the existence of economically recoverable reserves.

When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period in which the decision is made.

**(i) Payables**

Liabilities are recognised for amounts to be paid in the future for goods and services received.

(j) **Employee entitlements**

*Wages, salaries, annual leave and sick leave*

Liabilities for employee entitlements to wages, salaries, annual leave and sick leave expected to be settled within 12 months of the year-end represent present obligations resulting from employees' services provided up to the reporting date, calculated at undiscounted amounts based on current wage and salary rates that the consolidated entity expects to pay as at reporting date, including related on-costs.

*Superannuation*

The Company and other controlled entities contribute to several defined contribution superannuation plans. Contributions are charged against income as they are made.

(k) **Comparative information**

As a result of the Company's recapitalisation and relisting on 9 May 2005, the non-disclosure of comparative information has been made in accordance with ASIC Class Order 98/1416. Consequently the information supplied in the annual report covers the period from 9 May 2005 to 30 June 2005.

	<b>Consolidated 2005 \$</b>	<b>Company 2005 \$</b>
<b>2. REVENUE FROM ORDINARY ACTIVITIES</b>		
<i>From other operating activities</i>		
Interest		
- Other parties	7,346	7,346
	<u>7,346</u>	<u>7,346</u>
<b>3. AUDITORS' REMUNERATION</b>		
<b>Audit services</b>		
Auditors of the Company – Horwath		
- audit of financial reports	5,024	5,024
	<u>5,024</u>	<u>5,024</u>
<b>4. TAXATION</b>		
<b>(a) Income tax expense</b>		
Prima facie income tax benefit calculated at 30% (2004: 30%) on the loss from ordinary activities	6,473	6,473
Future income tax benefit not brought to account	(6,473)	(6,473)
	<u>(6,473)</u>	<u>(6,473)</u>
Income tax expense on profit from ordinary activities	-	-
	<u>-</u>	<u>-</u>

	<b>Consolidated 2005 \$</b>	<b>Company 2005 \$</b>
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**4. TAXATION (continued)**

**(b) Future income tax benefit not taken to account**

The potential future income tax benefit in the Company, arising from tax losses and timing differences has not been recognised as an asset because recovery of tax losses is not virtually certain and recovery of timing differences is not assured beyond any reasonable doubt:

Tax losses carried forward	<u>2,070,617</u>	<u>879,777</u>
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The potential future income tax benefit will only be obtained if:

- (i) the relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised;
- (ii) the relevant company continues to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the relevant company in realising the benefit.

It should be noted that given the recent recapitalisation of the Company and the Company's resultant likely failure of the Continuity of Ownership Test, the Company must pass the Same Business Test in order to be able to utilise its tax losses. Any change in the Company's activities subsequent to balance date (refer to Note 21) may cause the Company to fail this test and render the losses undeductible.

**5. EARNINGS PER SHARE**

***Classification of securities as ordinary shares***

The consolidated entity has only one category of ordinary shares included in basic earnings per share.

***Classification of securities as potential ordinary shares***

There are currently no securities to be classified as dilutive potential ordinary shares on issue and therefore no diluted earnings per share has been calculated or disclosed.

	<b>Consolidated 2005 Number</b>
Weighted average number of ordinary shares used in the calculation of basic earnings per share	<u>300,191,569</u>
	<b>\$</b>
Basic loss	<u>(21,576)</u>

	<b>Consolidated 2005 \$</b>	<b>Company 2005 \$</b>
<b>6. CASH ASSETS</b>		
Cash	991,823	991,823
	<u>991,823</u>	<u>991,823</u>
<b>7. RECEIVABLES</b>		
<b>Current</b>		
Other debtors	8,248	8,248
	<u>8,248</u>	<u>8,248</u>
<b>Non-Current</b>		
Loan – controlled entity	-	2,651
	<u>-</u>	<u>2,651</u>
<p>The Company has made a loan to a controlled entity. The principal asset of the controlled entity is capitalised exploration expenditure. The ultimate recovery of the consolidated entity's capitalised exploration expenditure and thus the recovery of the Company's loan to its controlled entity is primarily dependent upon the successful development and commercial exploitation, or alternatively sale of the applicable areas of interest.</p>		
<b>8. OTHER</b>		
<b>Current</b>		
Prepayments	550	550
	<u>550</u>	<u>550</u>
<b>9. EXPLORATION EXPENDITURE</b>		
<p>Exploration and evaluation costs carried forward in respect of mining areas of interest.</p>		
Exploration expenditure, at independent valuation	559,000	-
Provision (i)	(419,250)	-
Capitalised expenditure	2,651	-
	<u>142,401</u>	<u>-</u>

(i) This provision represents 75% of the deemed value of the tenements as required under clause 4.3(d)(i) of the Reconstruction Deed.

The ultimate recovery of capitalised exploration expenditure is primarily dependent upon the successful development and commercial exploitation, or alternatively, sale of the areas of interest.

	<b>Consolidated 2005 \$</b>	<b>Company 2005 \$</b>
<b>10. PAYABLES</b>		
<b>Current</b>		
Trade creditors (a)	2,968	2,968
Other creditors	1,736	1,736
Accruals	16,664	16,664
	<u>21,368</u>	<u>21,368</u>

(a) All payables are unsecured, non-interest bearing and at call.

## 11. CONTRIBUTED EQUITY

### Issued and paid-up capital

300,191,569 fully paid ordinary shares	1,883,480	1,883,480
--	-----------	-----------

	<b>Number</b>	<b>\$</b>
<b>Movements in issued and paid-up capital</b>		
Balance at beginning of period	42,403,760	27,210,978
Share issues:		
- Capital consolidation on a 10:21 basis	(22,212,191)	-
- Reduction of capital	-	(27,210,978)
- Issue of ordinary shares at 1 cent each pursuant to Deed of Company Arrangement	10,000,000	100,000
- Issue of ordinary shares at 0.375 cents each pursuant to placement	120,000,000	450,000
- Issue of ordinary shares at 1 cent each pursuant to Prospectus	150,000,000	1,500,000
- Capital raising costs	-	(166,520)
Balance at end of period	<u>300,191,569</u>	<u>1,883,480</u>

### *Terms and conditions*

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

## 11. CONTRIBUTED EQUITY (continued)

	Number	Number
<b>Options over ordinary shares</b>		
Exercise price	\$0.42	\$0.01
Expiration date	31 Dec 2006	31 Dec 2008
On issue at beginning of period	20,671,573	-
Issued during the period	-	40,000,000
Exercised during the period	-	-
Capital consolidation on a 10:21 basis	(10,828,252)	-
	<u>9,843,321</u>	<u>40,000,000</u>
Outstanding at end of period	<u>9,843,321</u>	<u>40,000,000</u>
	<b>Consolidated</b>	<b>Company</b>
	<b>2005</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>

## 12. ACCUMULATED LOSSES

Accumulated losses at beginning of period	(740,250)	(880,000)
Net loss attributable to members of the parent entity	(21,576)	(21,576)
	<u>(761,826)</u>	<u>(901,576)</u>
Accumulated losses at the end of the period	<u>(761,826)</u>	<u>(901,576)</u>

## 13. SEGMENT REPORTING

The consolidated entity operates predominantly in the mining exploration industry in Australia.

## 14. DIRECTOR AND EXECUTIVE DISCLOSURES

### (a) Remuneration policy

The Board recognises that the Company operates in a global environment. To prosper, the Company must be able to attract, motivate and retain suitably qualified executives.

The key principles that underpin the Company's remuneration policy are:

- That rewards reflect the competitive market in which the Company operates;
- That demanding key performance indicators apply to delivering results across the Company and to a significant portion of the total reward;
- That rewards to executives be linked to the creation of value to shareholders;
- That executives be rewarded for both financial and non-financial performance; and
- That remuneration arrangements ensure equity between executives and facilitate the deployment of human resources.

#### 14. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

##### (a) Remuneration policy (continued)

The Company's reward structure combines base salary and short-term and long-term incentive plans. The cost and value of components of the remuneration package are considered as a whole and are designed to ensure an appropriate balance between fixed and variable performance-related components, linked to short-term and long-term objectives and to reflect market competitiveness. Details of the policy applied in each component are outlined below.

##### *Base Salary*

Base salaries are quantified by reference to the scope and nature of an individual's role, performance and experience. The Board actively seeks market data to benchmark salary levels. Particular consideration is given to mobility and location.

##### *Incentive Plans*

An employee share option plan (ESOP) may be considered in the future by the Board, where eligible persons are issued with options over the ordinary shares of the Company. The object of a plan will be to assist in the recruitment, reward, retention and motivation of employees and officers of the Company.

##### (b) Directors' remuneration

Details of the nature and amount of each element of the emolument of each director of the Company are shown below:

	Primary	Post Employment	Other benefits	Total
	Salary and fees \$	Super- annuation \$	\$	\$
Mr A Sierakowski	-	-	-	-
Mr R Monti	1,742	157	-	1,899
Mrs N Donovan	-	-	-	-
Total	1,742	157	-	1,899

##### (c) Equity holdings

##### *Equity holdings and transactions*

The movement during the reporting period in the number of ordinary shares in the Company held, directly, indirectly or beneficially, by each specified director, including their personally-related entities, is as follows:

	Held at 9 May 2005 Number	Purchases Number	Sales Number	Held at 30 June 2005 Number
Mr A Sierakowski	-	7,000,000	-	7,000,000
Mr R Monti	-	1,000,000	-	1,000,000
Mrs N Donovan	-	3,000,000	-	3,000,000

#### 14. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

##### (c) Equity holdings (continued)

###### *Listed option holdings*

The movement during the reporting period in the number of options over ordinary shares in the Company held, directly, indirectly or beneficially, by each specified director, including their personally-related entities, is as follows:

	<b>Held at 9 May 2005 Number</b>	<b>Granted as remuneration Number</b>	<b>Net other changes Number</b>	<b>Held at 30 June 2005 Number</b>
Mr A Sierakowski	-	-	2,000,000	2,000,000
Mr R Monti	-	-	1,000,000	1,000,000
Mrs N Donovan	-	-	2,000,000	2,000,000

##### (d) Other transactions with specified directors

During the financial period the Company paid or incurred amounts payable for legal services totalling \$62,168 to Price Sierakowski, an entity related to Mr A Sierakowski. These payments were at normal commercial rates.

During the financial period the Company paid or incurred amounts payable for consulting services totalling \$2,083 to Blackwood Consulting Pty Ltd, an entity related to Mrs N Donovan. These payments were at normal commercial rates.

#### 15. NOTES TO THE STATEMENTS OF CASH FLOWS

##### (a) Cash

For the purposes of the statements of cash flows, cash includes cash on hand and in banks and deposits at call, net of outstanding bank overdrafts.

Cash at the end of the period as shown in the statement of cash flows is reconciled to the related item in the statement of financial position as follows:

	<b>Consolidated 2005 \$</b>	<b>Company 2005 \$</b>
Cash at bank	991,823	991,823

Cash at bank attracts floating interest at current market rates.

## 15. NOTES TO THE STATEMENTS OF CASH FLOWS (continued)

### (b) Reconciliation of operating loss after income tax to net cash used in operating activities

	Consolidated 2005 \$	Company 2005 \$
Operating loss after income tax	(21,419)	(21,419)
<b>Changes in assets and liabilities</b>		
(Increase) in receivables	(8,248)	(8,248)
(Increase) in prepayments	(550)	(550)
(Increase) in exploration expenditure	(2,651)	-
Increase in creditors	21,211	21,211
	<u>(11,657)</u>	<u>(9,006)</u>
Net cash (used in) operating activities	<u>(11,657)</u>	<u>(9,006)</u>

## 16. COMMITMENTS

### (a) Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the consolidated entity is required to perform minimum exploration work to meet the minimum expenditure requirements specified by various State governments. These obligations may be subject to renegotiation, or exemption to the spending can be applied for. These obligations are not provided for in the financial report and are payable:

Within one year	<u>417,000</u>	<u>-</u>
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## 17. EMPLOYEE ENTITLEMENTS

The aggregate employee benefit liability recognised and included in the financial statements is as follows:

Accrued wages and salaries	10	1,742	1,742
Accrued superannuation	10	532	532
		<u>2,274</u>	<u>2,274</u>

### Superannuation

Under government regulations the Company is legally required to contribute 9% of employees' gross income to an approved superannuation fund. The Company makes the required contribution to each employee's nominated superannuation fund.

## 17. EMPLOYEE ENTITLEMENTS (continued)

	Consolidated 2005 Number	Company 2005 Number
<b>Number of employees</b>		
Number of employees at period end	1	1

## 18. FINANCIAL INSTRUMENTS

### (a) Interest rate risk exposures

The consolidated entity is exposed to interest rate risk through primary financial assets and liabilities. The carrying amounts of financial assets and financial liabilities (including derivatives) held at balance date approximate their estimated net fair values and are given below. Short term instruments where carrying amounts approximate net fair values, are omitted. The net fair value of a financial asset or a financial liability is the amount at which the asset could be exchanged, or liability settled in a current transaction between willing parties after allowing for transaction costs.

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

	Notes	Floating interest rate	Fixed interest rate	Non- interest bearing	Total	Weighted rate
<b>2005</b>						
<b>Financial assets</b>						
Cash	6	991,823	-	-	991,823	3.90%
Receivables	7	-	-	8,248	8,248	-
<b>Financial liabilities</b>						
Trade creditors		-	-	2,968	2,968	-
Other creditors	10	-	-	1,736	1,736	-

### (b) Net fair values of financial assets and liabilities

The net fair values of the financial assets and liabilities at balance date of Lach Drummond Resources Limited approximate the carrying amounts in the financial statements, except where specifically stated.

## 19. CONTROLLED ENTITY

The consolidated financial statements at 30 June 2005 include the following controlled entity.

Name	Place of incorporation	Financial year end	% of shares held	
			2005	2004
<b>Parent entity</b>				
Lach Drummond Resources Limited	Australia	30 June 2005		
<b>Controlled entity</b>				
LDR Operations Pty Ltd	Australia	30 June 2005	100	100

## **20. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

### **Management of the transition to AIFRS**

Lach Drummond Resources Limited will be required to prepare financial statements that comply with Australian equivalents to International Financial Reporting Standards (“AIFRS”) for annual reporting periods beginning on or after 1 January 2005. Accordingly, the Company’s first half-year report prepared under AIFRS will be for the half-year reporting period ended 31 December 2005, and its first annual financial report prepared under AIFRS will be for the year ended 30 June 2006.

The Company has commenced a review of accounting policies in preparation for managing the transition to AIFRS. Priority has been given to considering the preparation of an opening balance sheet in accordance with AIFRS as at 9 May 2005, the Company’s transition date to AIFRS. This will form the basis of accounting for AIFRS in the future and is required when the Company prepares its first fully AIFRS compliant financial report for the year ended 30 June 2006.

### **The likely impacts of AIFRS on the results and financial position of the Company and the consolidated entity**

The Company’s review has determined that the transition to AIFRS will not have an effect on the opening balance sheet as at 9 May 2005, or on the Statement of Financial Performance, Statement of Financial Position or Cash Flow Statement for the financial period 9 May 2005 to 30 June 2005. This determination has been made based on the directors’ accounting policy decisions current at the date of this financial report. Readers of the financial report should note that further developments in AIFRS (for example, the release of further pronouncements by the Australian Accounting Standards Board and the Urgent Issues Group), if any, may result in changes to the accounting policy decisions made by the directors and, consequently, the likely impacts to the Company’s financial statements.

The directors may, at any time until the completion of the consolidated entity’s first AIFRS compliant financial report, elect to revisit, and where considered necessary, revise the accounting policies applied in performing the Company’s AIFRS implementation review.

## **21. SUBSEQUENT EVENTS**

On 19 July 2005 the Company announced that it had executed formal documentation in order to pursue an oil and gas opportunity in Kentucky in the US.

The Company has agreed, subject to due diligence and shareholder approval, to acquire Golden Fleece Petroleum Inc. (“GFP”), a Texas based oil and gas company, which has the right to earn a 50% interest in Home Run. Home Run is a 20,000 acre natural gas project located within the Appalachian Basin, one of the oldest and most prolific natural gas producing areas in the US. The project crosses the Elliott and Morgan Counties in East Kentucky and is located adjacent to existing production units within a larger Area of Mutual Interest of approximately 50,000 acres. The Company will provide as consideration \$215,000 in cash, 18,000,000 ordinary shares, 12,000,000 unlisted options exercisable at \$0.01 per share on or before 31 December 2008 and 15,000,000 unlisted options exercisable at \$0.025 per share on or before 31 December 2008.

## **21. SUBSEQUENT EVENTS (continued)**

Under the terms of the farm-in agreement, the Company, through GFP will contribute up to US\$2,000,000 to earn a 50% interest in Home Run.

GFP will contribute in the following manner:

- US\$200,000 to complete four existing wells within the target zones, (“Wells 1-4”);
- US\$800,000 to drill and complete 5 wells (“Wells 5-9”); and
- At GFP’s option, US\$1,000,000 to drill and complete a further 5 wells (“Wells 10-14”).

GFP will receive 50% of the Net Revenue from Wells 1-4 and 75% of the Net Revenue received from Wells 5-9 and Wells 10-14 until it has received US\$1,800,000 (“the Payout”). Following the Payout, GFP will receive 50% of the Net Revenue and will maintain its 50% interest in the project by drilling a minimum of 4 wells per year until the project has been fully developed. Additional wells drilled during a 12 month period may be credited to the next year’s drilling obligations. Should GFP at any time following the Payout elect not to continue with its drilling obligations, it retains a 50% interest in all previous wells drilled.

On 1 August 2005, the Company announced that it had received firm commitments to subscribe for 100 million shares at \$0.035 per share, raising a planned \$3,500,000, subject to shareholder approval and the successful conclusion of the Golden Fleece Petroleum Inc acquisition.

**LACH DRUMMOND RESOURCES LIMITED**  
ABN 22 073 653 175

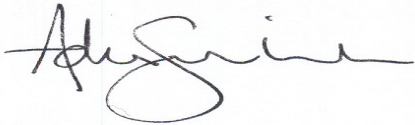
**DIRECTORS' DECLARATION**

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and
- (c) the directors have been given the declarations required by s 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s295(5) of the Corporations Act 2001.

On behalf of the Directors



**ADAM SIERAKOWSKI**  
Director

Perth, 15<sup>th</sup> September 2005



**Horwath Audit (WA) Pty Ltd**

ABN 79 112 284 787

Chartered Accountants

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**Independent audit report to members of Lach Drummond Resources Limited**

**Scope**

*The financial report and directors' responsibility*

The financial report comprises the statement of financial performance, statement of financial position, statement of cash flows, and accompanying notes to the financial statements for both Lach Drummond Resources Limited (the company) and its Consolidated entity, and the directors' declaration for the period 9 May 2005 to 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

*Audit approach*

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

**Directors: Glyn O'Brien CA Anthony Bevan CA**

*Horwath Audit (WA) Pty Ltd conducts its practice independently of all other firms of chartered accountants who are members of Horwath International in Australia*

## **Independence**

We are independent of the company and group, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

In accordance with ASIC Class Order 05/83 we declare that, to the best of our knowledge and belief, the auditor's independence declaration set out on page 11 of the financial report has not changed as at the date of providing this audit opinion.

## **Audit opinion**

In our opinion, the financial report of Lach Drummond Resources Limited is in accordance with:

(a) 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 2005 and of their performance for the period 9 May 2005 to 30 June 2005; and
- (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

Dated the 15<sup>th</sup> day of September 2005.

**HORWATH**  
Audit (WA) Pty Ltd

HORWATH.  
GLYN O'BRIEN

**GLYN O'BRIEN**  
Director



**Horwath Audit (WA) Pty Ltd**

ABN 79 112 284 787

*Chartered Accountants*

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The Board of Directors  
Lach Drummond Resources Ltd  
Level 12 BGC Centre,  
28 The Esplanade,  
PERTH, AUSTRALIA, 6000

**AUDITOR'S INDEPENDENCE DECLARATION**

This declaration is made in connection with our audit of the financial report of Lach Drummond Resources Limited for the period 9 May 2005 to 30 June 2005 and in accordance with the provisions of the Corporations Act 2001.

We declare that, to the best of our knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to this audit;
- No contraventions of the Code of Professional Conduct of the Institute of Chartered Accountants in Australia in relation to this audit.

Yours faithfully  
**HORWATH**  
Audit (WA) Pty Ltd

HORWATH.  
*Glyn O'Brien*

**GLYN O'BRIEN**  
Director

**Directors: Glyn O'Brien CA Anthony Bevan CA**

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