

7 May 2008

LACHLAN STAR LIMITED ENTERS INTO AGREEMENT TO ACQUIRE HOLFONTEIN COAL PROJECT, SOUTH AFRICA

Summary

As indicated in the March quarterly report, Lachlan Star has identified the South African coal industry as presenting significant opportunities to enhance shareholder value. The Company is therefore pleased to announce that it has reached agreement with Coal of Africa Limited to acquire 100% of the Holfontein Coal Project in South Africa. The initial consideration for the acquisition is A\$15 million, payable in a mix of cash and shares. Additional payments may be required if certain key milestones are satisfied.

The Holfontein Coal Project contains an Indicated Resource of 60 Mt of coal on the Holfontein Farm. This Indicated Resource was 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 also 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 with 50km of the Project and there is excellent road and rail access to the site. Application for a New Order Mining Right ("NOMR") for the Holfontein Farm and further prospecting rights have 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 Coal Project and to examine other investment opportunities.

The Company intends to continue its stated strategy of developing the Holfontein Coal 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.

Transaction Summary

The initial consideration for the acquisition is a payment of A\$15 million, with a minimum cash consideration of A\$9 million. This payment will be made upon transfer of the Project tenements to Lachlan Star's nominated subsidiary (expected to occur within 4 to 6 months). Any share component of the initial payment will be satisfied through the issue of shares at an equivalent price to any equity raising undertaken by the company to fund the acquisition (refer below).

The cash component of the initial consideration will be satisfied from existing cash reserves (\$1.6 million), with the balance from a proposed placement of 300 million shares at an issue price of \$0.03 each. The placement will be carried out in two tranches as follows:

- Tranche 1 -100 million shares immediately to raise \$3 million
- Tranche 2 -200 million shares to raise \$6 million upon receipt of shareholder approval, such approval to be sought at the same meeting to be convened for the approval of the Holfontein Coal Project acquisition.

This capital raising is being managed by Euroz Securities Limited. The shares are to be placed to institutional and sophisticated clients of Euroz Securities.

These funds, in conjunction with the Company's existing cash balance, will provide sufficient funding to settle the first phase of the Holfontein transaction and to provide working capital to advance that project and the Bushranger Project.

In addition to the initial consideration, there are a series of milestone payments related to the granting of the NOMR and production targets which may become payable. The milestones for these payments and the payment terms are as follows:

- A cash payment of A\$1 million and a share payment of A\$2 million (to be priced at the 30 day VWAP prior to payment) upon grant of the NOMR.
- A cash payment of A\$2 million and a share payment of A\$3 million (to be priced at the 30 day VWAP prior to payment) upon the production of an aggregate of 500,000 tonnes of saleable coal.
- A cash payment of A\$1 million and a share payment of A\$1 million (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 Lachlan Star 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 or debt funding (either straight debt or by way of convertible note).

The transaction is conditional upon:

- Approval from all relevant regulatory bodies in South Africa for the transfer of title to Lachlan's nominated subsidiary;
- Assignment of Coal of Africa's rights under the Wildebeestfontein Agreement dated 3 December 2007 to Lachlan Star;
- Shareholder approval by Lachlan's shareholders of the transaction; and
- Legal due diligence.

Holfontein Coal Project

The Holfontein Coal Project is located 118 km east of Johannesburg near the town of Secunda as shown in Figure 1. The Project includes the Holfontein farm and an option agreement covering the adjoining Wildebeestfontein Farm to the west as shown in Figure 2.

The Holfontein Coal Project is situated in the traditional coal mining area south and west of Witbank where coal mining has taken place for over a hundred years. It is on the main road between Kinross and Trichard in Mpumalanga and a main line railway siding is situated on the property at Leven which can be upgraded for export purposes.

The Project hosts the two main coal seams mined in the area, namely the 4 and 5 Seam. The 4 Seam is typically thicker and suitable for direct feed to nearby power stations after washing. The 5 Seam is a thin high quality, low phosphorus semi soft coking coal suitable for either domestic use or export.

GeoCoal Services of South Africa has completed resource estimates for the Project as shown in the tables below:

Holfontein – 5 Seam Indicated Resource (SAMREC)	
Block #	Gross insitu tonnes
Block 01	1,934,584
Block 02	4,799,250
Block 03	17,370,559
Block 04	6,009,691
5 Seam Total	30,114,084

Holfontein – 4 Seam Inferred Resource (SAMREC)	
Block #	Gross insitu tonnes
Block 01	26,997,016
Block 02	3,203,772
4 Seam Total	30,200,789

Several economic studies have been carried out on the potential to develop the Project which indicate that, subject to additional studies, the Project has the potential to be developed to mine both coking and thermal coal.



The Company plans to advance the Project as quickly as possible to enable a development decision to be taken. There have been well publicised shortages of thermal coal in South Africa and the Company views this as a ready market for the 4 Seam product. The 5 Seam coking coal is also in high demand both domestically and in the export market.

Recent coal price increases have significantly enhanced the potential economic returns from the Holfontein Coal Project, with coking coal settlements in excess of US\$300/t. Thermal coal prices for domestic supply are lower than international benchmarks (recent settlements of US\$130/t), however these prices are increasing rapidly to ensure adequate coal supply for power generation. The Company considers the underlying supply-demand fundamentals to be excellent for the foreseeable future and intends to continue expanding in the South African coal industry.

For further information please contact:

Declan Franzmann, Managing Director, 0438 758 960
declan.franzmann@lachlanstar.com.au

About Lachlan Star Limited

Lachlan Star Limited is an emerging minerals exploration and development company headquartered in Perth, Western Australia. The company is focused on acquiring and developing assets within the gold, copper and bulk commodities sectors within Australia and overseas. The company has a board of directors and management team with an impressive track record of advancing resource projects through to production.

Lachlan Star's current projects include the Bushranger copper and gold project in NSW and the Princhester magnesite deposit in QLD.

Visit: www.lachlanstar.com.au

The information in this report that relates to the Mineral Resource for the Holfontein Coal Project is based on information compiled by David van Wyk, who is a registered natural scientist (Pr. Sci. Nat No. 401964/83. Mr van Wyk is employed full time by GeoCoal Services.

Mr van Wyk has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2000 Edition of the "South African Code for Reporting Mineral Resources and Mineral Reserves (The SAMREC Code)". Mr van Wyk consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.



Figure 1: Holfontein Coal Project Location

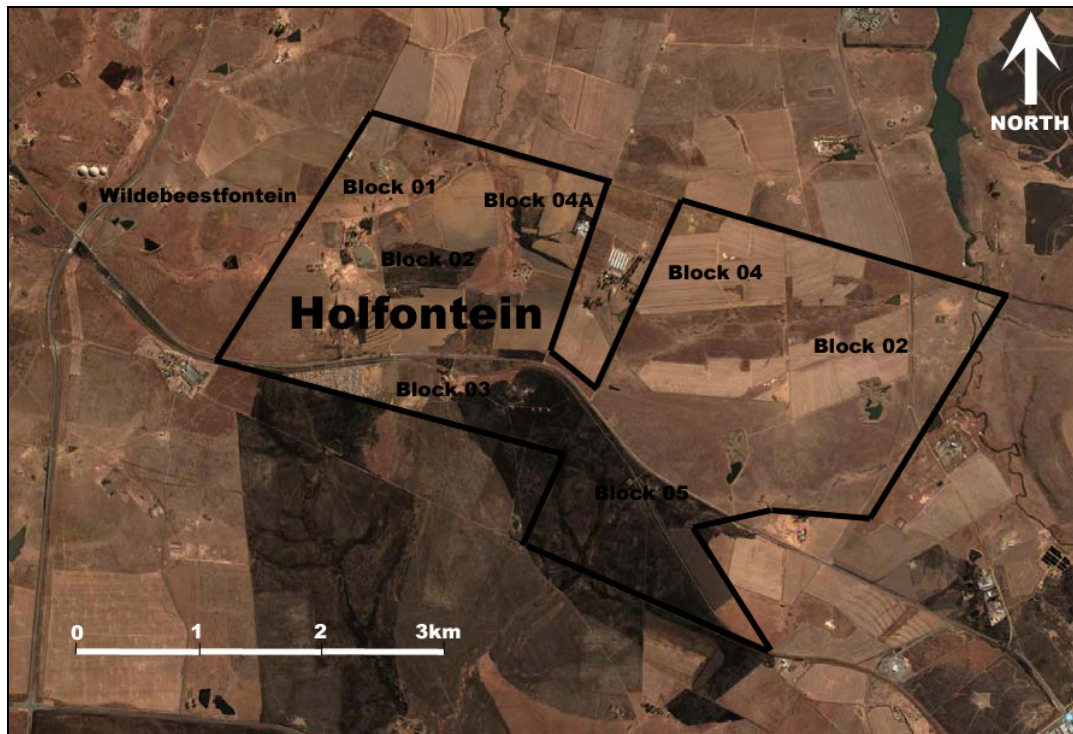


Figure 2: Holfontein Resource Blocks