LACHLAN STAR LIMITED

Quarterly Report for the Period Ending 30 June 2014

HIGHLIGHTS

OPERATIONAL PERFORMANCE

- Zero Lost Time Accidents (LTA) during the quarter.
- Zero environmental incidents.
- Stable mining performance with total cost of tonnes stacked of US$15.58/tonne of ore and C1 cash cost of US$778 per ounce of gold produced, the C1 cash cost being consistent with performance levels of the previous two quarters and representing a 32% reduction on the prior year corresponding period.
- Positive operating cash flow before changes in non-cash working capital of A$1.06 million for the quarter and a total of A$12.64 million for the year ended 30 June 2014.

CORPORATE

- The remaining CDN$3.75 million Credit Facility with Sprott Resource lending Partnership "("Sprott") was renegotiated and the debt facility was converted into a twenty eight month gold loan, effective 30 June 2014.

- Subsequent to period end Anglo American Exploration (Australia) Pty Ltd ("Anglo American") gave notice to the Company that it had satisfied the minimum earn-in requirements in accordance with the Bushranger Exploration Farm-in and Joint Venture Agreement and exercised its right to form a Joint Venture with the Company.

CMD GOLD MINE (100%, CHILE)

Production, Unit Costs and Sales

Production from the CMD Gold Mine is summarised in Table 1 below. Unless otherwise noted, all currency disclosures are in US dollars and all weights and measures are in metric units.

Table 1 – CMD Gold Mine Operating Summary

Item	Unit	June'14 Quarter	March'14 Quarter	Variance (%)
Ore Mined	Dmt	1,235,391	1,324,830	-7%
Waste Mined	Dmt	2,248,344	2,049,765	10%
Total Mined	Dmt	3,483,734	3,374,595	3%
Waste : Ore Ratio	t:t	1.82	1.55	18%
Ore grade Mined	Au g/t	0.57	0.58	-3%
Gold Mined	Au oz	22,565	24,834	-9%
Ore stacked	Dmt	1,205,593	1,337,324	-10%
Stacked Grade	Au g/t	0.56	0.55	2%
Gold Stacked	Au Oz	21,549	23,475	-8%
Average stacking rate	dmt/d	13,248	14,859	-11%
Silver Produced	Ag Oz	13,258	11,752	13%
Gold Produced	Au Oz	15,422	15,747	-2%
Mining Cost/t moved	US$/t	$2.42	$2.76	-12%
Mining Cost/t ore	US$/t	$6.82	$7.03	-3%
Process Cost/t ore stacked	US$/t	$7.28	$7.11	2%
G+A Cost/t ore	US$/t	$1.48	$1.20	23%
Total Cost/t ore	US$/t	$15.58	$15.34	2%
Average Sales Price	USD/Oz	$1,285	$1,285	0%
Cash Cost (exclusive of Process Inventory & Stockpile Adjustments)	USD/Oz	$864	$910	-5%
Non Cash Process Inventory & Stockpile Adjustment	USD/Oz	-$86	-$127	-33%
C1 Cash Cost (inclusive of Process Inventory & Stockpile Adjustments)	USD/Oz	$778	$782	0%
C1 Inclusive Cash Cost	USD/Oz	$1,155	$1,170	-1%
CMD Gold Mine Gross Operating Profit / (Loss) (Unaudited)*	**US$million**	-$0.17	-$0.26	-34%

* Revenues and dore in process plus ore stockpiles less cost of sales (including waste expensed and amortised), interest and other site expenses and excluding foreign exchange movements, depreciation, exploration and process inventory adjustments

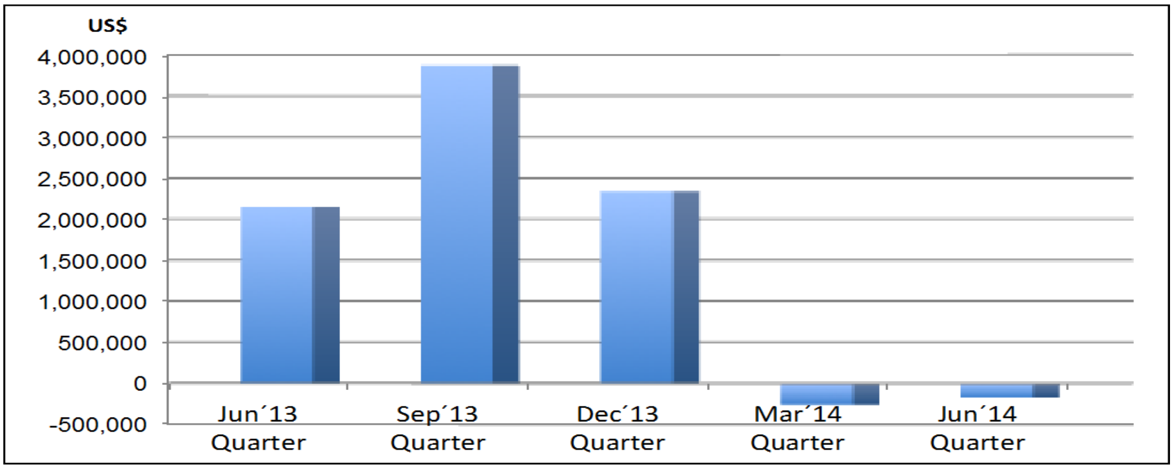
Gold production for the June quarter was 15,422 ounces, representing a 2% decrease on the previous quarter. All production was sold at spot prices, with an average sale price of US$1,285 per gold ounce.

Gold ounces stacked for the June quarter were down 8% on the previous quarter in spite of a 2% increase in stacked grade, due to a 7% reduction in open pit mine ore production (inclusive of 3rd party ore purchases) caused by inclement weather resulting in a 10% reduction in tonnes stacked.

CMD expects increased levels of open pit ore production next quarter, which will result in improved crushing and stacking performance, resulting in higher gold production levels going forward.

The CMD Gold Mine Gross Operating Profit (as defined above) was a loss of US$0.17 million for the quarter (refer to Table 1 and Figure 1). The March 2014 quarter was negatively impacted by an additional US$1.31 million deferred stripping write off adjustment for the Churrumata pit. June quarter sales were US$3.65 million lower than in December 2013 quarter mainly due to a 2,820 ounce reduction in gold production.

Figure 1 – CMD Gold Mine US$ Gross Operating Profit/(Loss): June´13, September´13, December13, March´14 and June´14 Quarters



C1 cash costs, which exclude waste costs expensed or amortised and royalties, remained consistent quarter over quarter at US$778 per ounce of gold produced. For a third consecutive quarter, this is again the lowest C1 cash cost for the CMD Gold Mine since the December 2011 quarter (US$799 per ounce).

The inventory adjustment of US$86 per ounce for the quarter comprises a credit of $12 per ounce for the additional ounces added to the leach pad and $110 per ounce for the increased average cost of ounces on the leach pad, as well as a credit of $12 per ounce for the movement in stockpiles.

Table 2 below shows the cash costs for each quarter over the past year, and the impact of the inventory valuation adjustment, stated in and shown like that in table.

Table 2 – Cash Cost (US$ per ounce) and inventory adjustments

Item	June´14 Quarter	March´14 Quarter	December´13 Quarter	September´13 Quarter
C1 Cash costs with inventory adjustment (US$/Oz)	778	782	784	980
Cash costs without inventory adjustment (US$/Oz)	864	910	808	821
Inventory adjustment effect (US$/Oz)	(86)	(127)	(24)	159

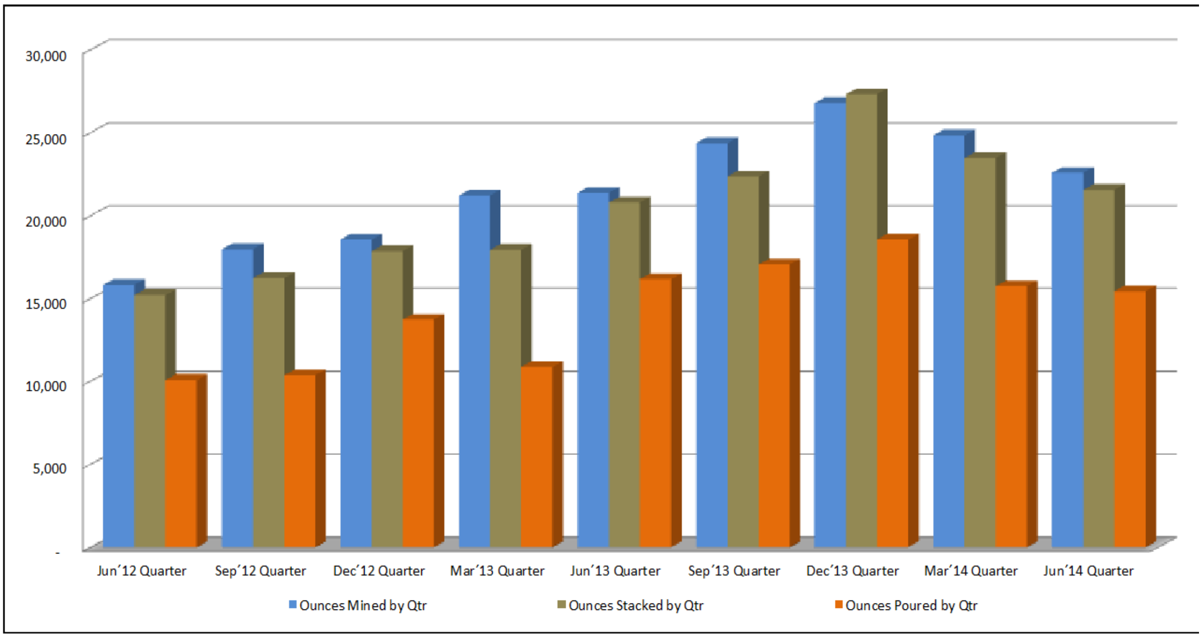
Total costs per tonne of ore stacked increased 2% quarter on quarter to US$15.58 per tonne, still representing some of the lowest unitary cost performance under the Company´s ownership. The increase in total costs per tonne was driven by:

- a 18% increase in the waste to ore ratio;
- a 2% increase in process costs per tonne stacked;
- a 23% increase in administration costs per tonne stacked as a result of the 10% fall in stacked tonnes;
- offset by a 3% decrease in mining cost per tonne of ore.

Figure 2 illustrates the ounces mined, stacked and produced by quarter since the June quarter of 2012.

CMD expects increased levels of open pit ore production next quarter, which will result in improved crushing and stacking performance, resulting in higher gold production levels.

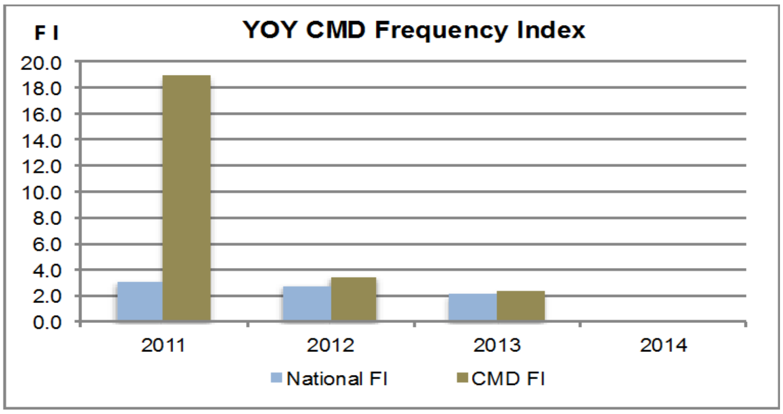
Figure 2 – Quarterly Ounces Mined, Stacked and Gold Produced



Safety

Safety is a key focus for management at the CMD Gold Mine and the results of this can be seen in Figure 3 below. The Frequency Index (FI) reflects exclusively CMD records, not including mining contractors.

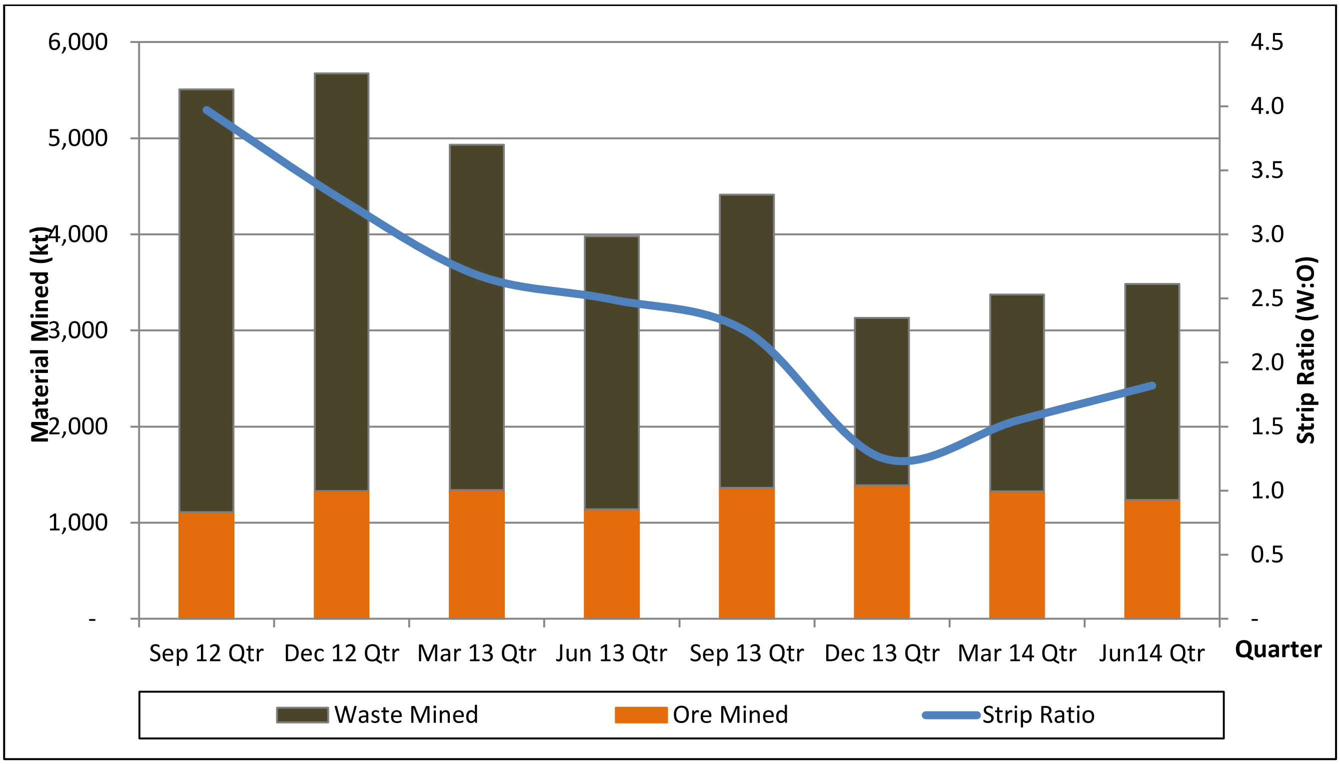
Figure 3 – CMD Gold Mine Safety Statistics



Mining

Total ore mined for the quarter was 1.24 million tonnes for 22,565 contained Au ounces, a decrease of 6.8% and 9.1% respectively. The waste to ore ratio increased during the quarter to 1.82 to 1 (from 1.55 to 1 in the previous quarter) due to pushback development in Tres Perlas Phases 7 and 8. Ore was principally sourced from the Tres Perlas (62%) and Churrumata (19%) pits, and third party ore purchases (16%). Figure 4 shows the mining rate and waste to ore ratio by quarter for the last 8 quarters.

Figure 4 – Material Mined and Waste to Ore Ratio by Quarter



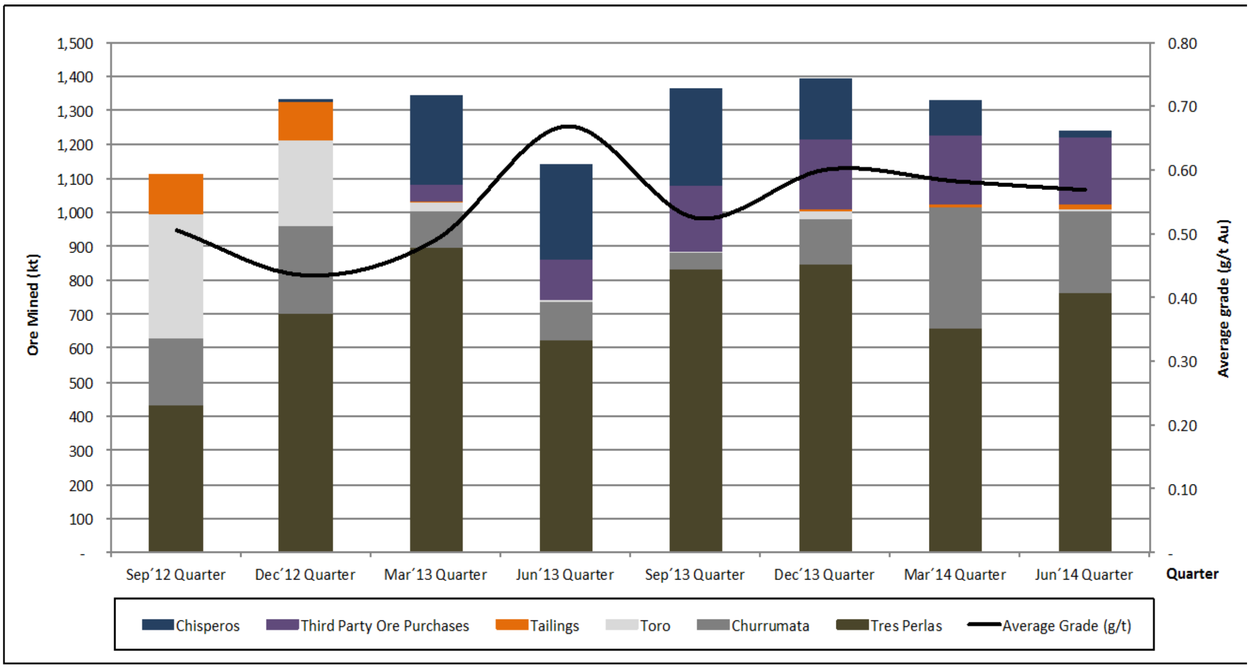
Mining was focussed on the Tres Perlas pit (62% of total ore mined) using the Company's mining fleet, with total quarterly ore production from Tres Perlas increasing to 57% of the total ounces mined, due to a decrease in mining in Churrumata and also a decrease in mining in Chisperos, which was completed in April, as illustrated in Figure 5.

Mining at Tres Perlas has the ability to deliver more tonnage than can currently be processed through the plant, and the pit is shutdown whenever stockpiles exceed 100,000 tonnes of ore in front of the plant. In spite of inclement weather the total tonnes mined during the quarter was 3% higher than previous quarter.

Mining of old tailings deposits inside CMD property totalled 13,055 tonnes during the quarter. Due to its fine size distribution, this material needs to be carefully blended with the normal crushed ore in order to do not impact negatively in the leach pad percolation.

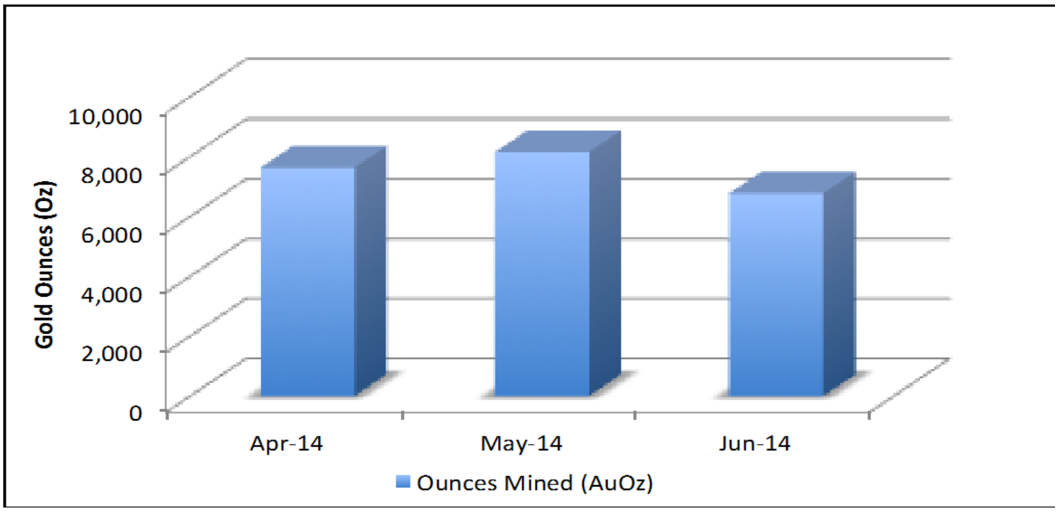
Third party ore purchases remained levelled at 200,918 tonnes during the quarter with similar grade to the previous quarter.

Figure 5 – Ore Mined by Pit and Quarter



As seen in Figure 6, the ounces mined during the June quarter fluctuated during the period. As mining of the Tres Perlas pit continues to the north (Phase 7 and 8) and in the deeper parts of the pit (Phase 6), the grade continues to increase as expected. Churrumata returned lower than expected grades (average 0.48 g/t) in the quarter, which had a negative impact on ounces mined in the period.

Figure 6 – June´14 Quarter Ounces Mined



Average mined grades experienced a slight decrease from 0.58 g/t to 0.57 g/t Au, a reduction of 3% quarter on quarter. Grades from the Churrumata pit were significantly lower than budget in the quarter, and the impact of Chisperos being depleted was felt, which was not compensated by a corresponding increased tonnage and grade of ore purchases.

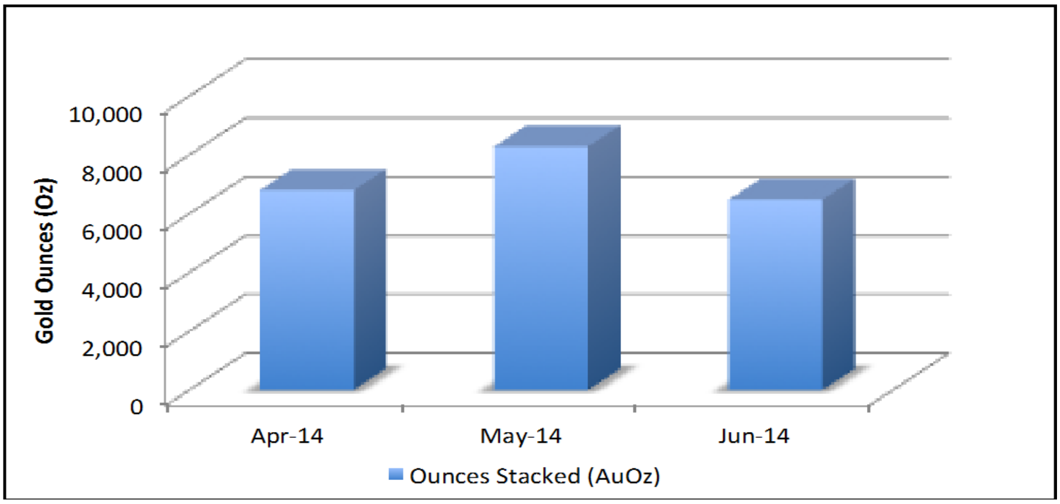
The Company continues to strengthen its relationships with small miners in the area and ore purchasing continues, with 25% of the ounces mined during the quarter being sourced from third parties and the re-processing of historical tailings. This provides a net positive effect to employment and economic sustainability within the region, as well as a source of ore that can prolong the ultimate life of the operation. The Company has also realised value in mixing on-site old tailings with new ore, resulting in decreased mining costs and production outside of the mineral reserve base.

Processing

Ore tonnage stacked was down 10% quarter on quarter due to the reasons explained above.

Consequently, gold ounces stacked were also down 8%, as seen in Figure 7. The reduced ounces stacked were basically the result of lower plant throughput, caused by ore shortage, as plant availability was maintained. CMD expects ounces stacked to increase in the next quarter returning higher gold production levels going forward, which will be achieved through projected improved performance of the crushing and stacking plants.

Figure 7 – June´14 Quarter Ounces Stacked



Metallurgical recovery was optimized last year and has been stable during the past two quarters. This has been achieved through the addition of a pre-cyanidation circuit, improved ADR efficiencies and a more favourable ore blend.

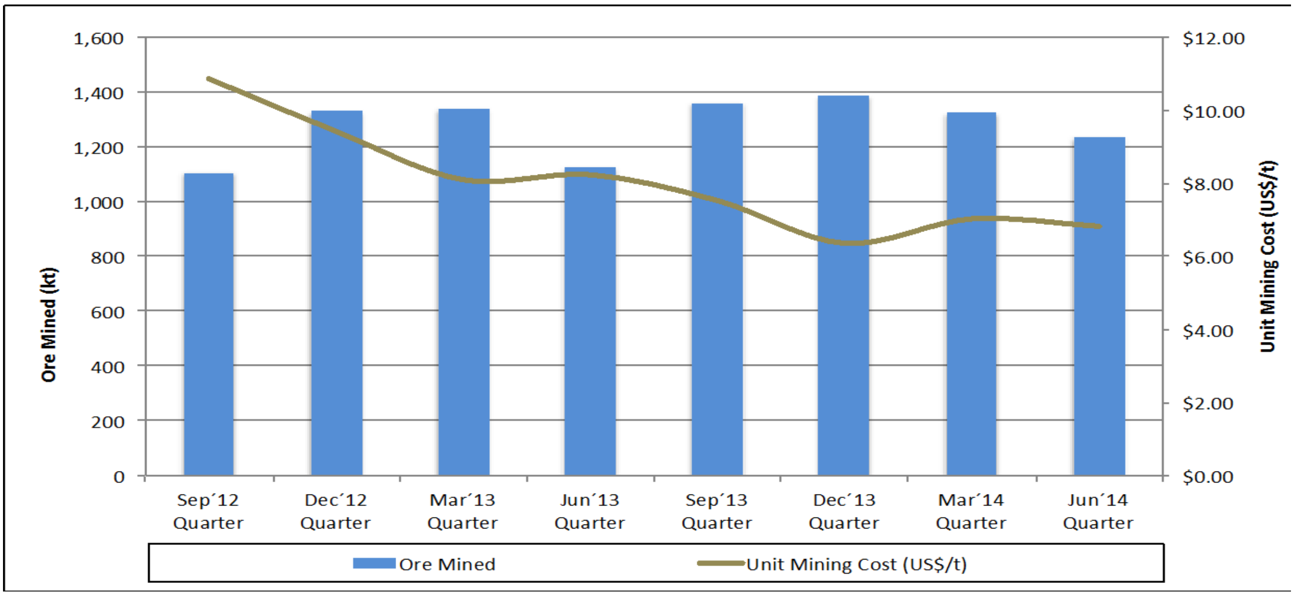
PROJECT COSTS

Mining

Mining unit costs decreased by 12% down to US$2.42 per tonne mined (from US$2.76 per tonne the previous quarter), due to the impact of 3% higher total tonnes moved offsetting the higher tariffs paid for ore purchases associated with their higher grades. Also, the mining cost per tonne of ore decreased by 3% to US$6.82, in spite of the 18% higher waste to ore ratio in the period. The mining unit rate includes the cost of buying third party ore that has no waste to ore ratio associated with it.

Figure 8 illustrates the quarterly history of mining costs per ore tonne over the last 8 quarters.

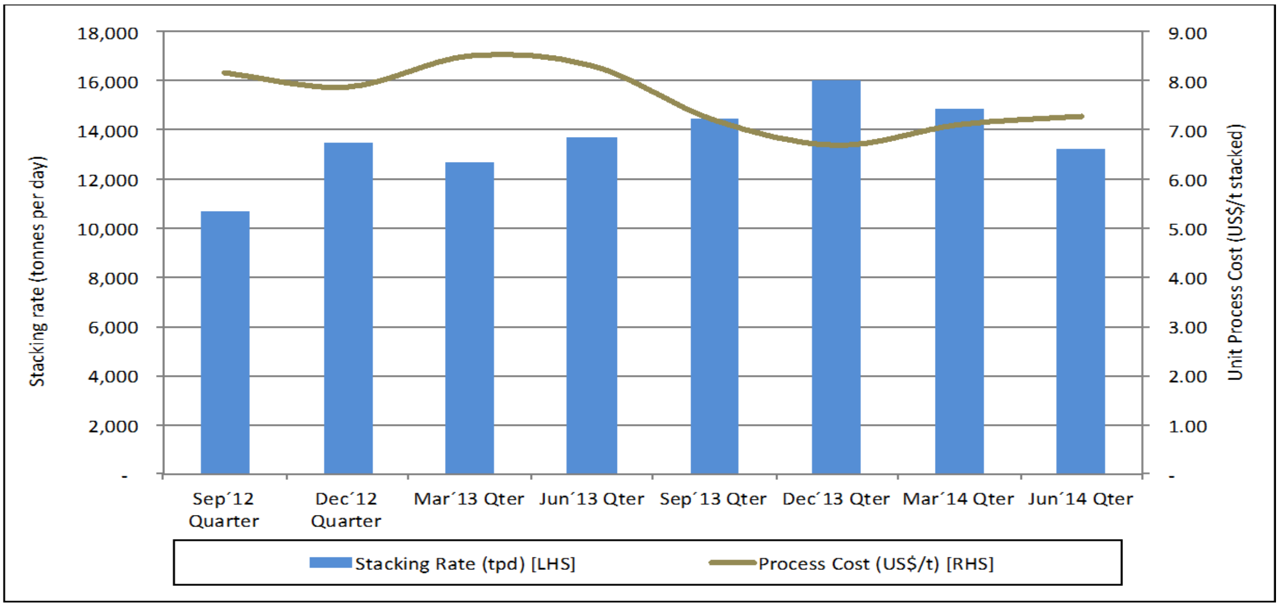
Figure 8 – Ore mined and mining cost per tonne of ore



Ore Processing

Process costs increased to US$7.28 per tonne stacked which was a 2% increase quarter on quarter (Refer Figure 9). Reduced tonnes stacked in the period were the main drivers for the higher process costs as other metrics were in line with plan.

Figure 9– Process cost per tonne stacked



General and Administration (G&A)

G&A costs increased by 23% quarter on quarter to US$1.48 per tonne mostly due to the lower tonnage stacked.

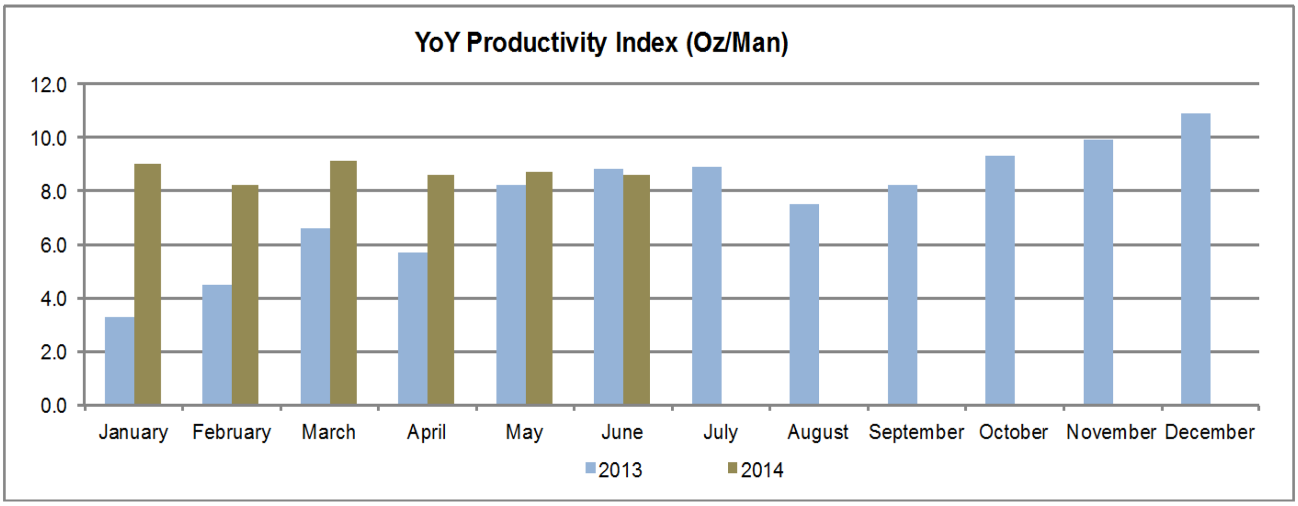
Exploration

No exploration activities were undertaken during the quarter.

Cost Review

The cost review exercise has continued to deliver significant savings over the past year, as evidenced by the fall in the C1 cash costs and the material reductions in unit operating costs. Figure 10 illustrates the ounces produced per employee over the last 18 months.

Figure 10– Productivity Index (Ounces/Employee)



Operations Summary

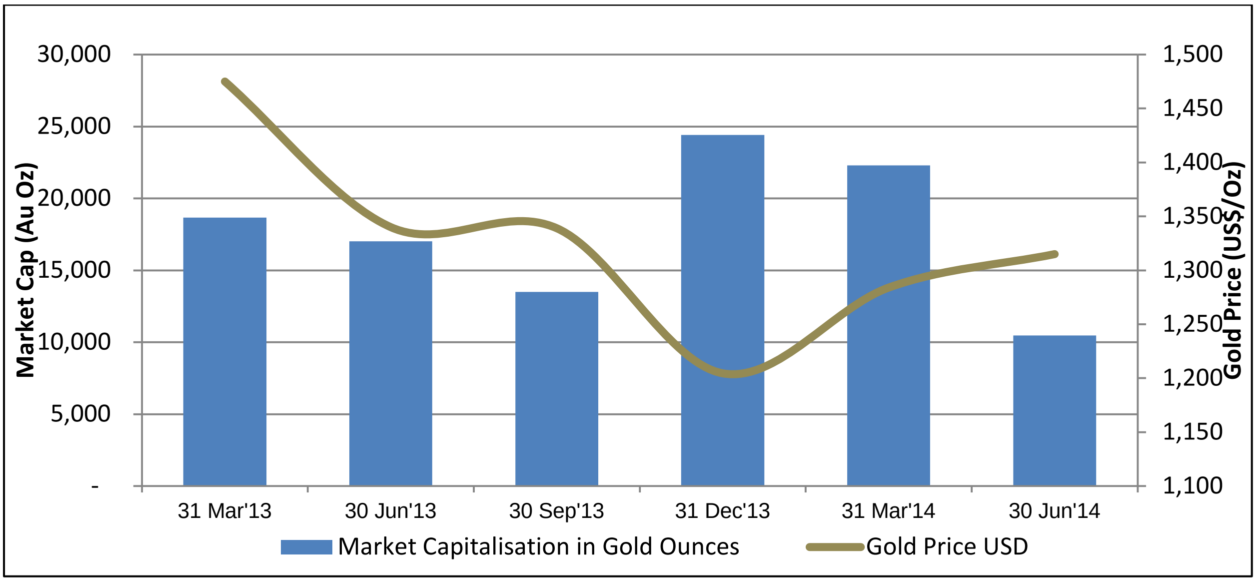
Consolidated operating cash flow before changes in non-cash working capital of A$1.06 million for the quarter was the fifth consecutive positive quarter for this metric and, as seen from Table 3, a total of A$12.64 million for the year ended 30 June 2014.

Table 3 – Quarterly operating cash flow before changes in non-cash working capital

Item	Quarter ending 30 June 2014	Quarter ending 31 Mar 2014	Quarter ending 31 Dec 2013	Quarter ending 30 Sept 2013	Total year ending 30 June 2014
Operating cash flow before changes in non-cash working capital (A$000)	1,056	4,900	5,192	1,488	12,636

Despite the improved operating performance of the CMD Gold Mine the Company's share price has fallen from A$0.19 to approximately A$0.09 over the last 12 months. The gold price has fallen from US$1,339 per ounce to US$1,315 per ounce over the same period and, as Figure 11 illustrates, the market capitalisation of the Company expressed in gold ounces has fallen from 17,000 ounces a year ago to 10,000 ounces at the end of the quarter.

Figure 11 – Market Capitalisation in Gold Ounces and Gold Price



BUSHRANGER (Lachlan 49%, Anglo American 51%)

Subsequent to period end Anglo American gave notice to the Company that it has satisfied the minimum earn-in requirements in accordance with the Bushranger Exploration Farm-in and Joint Venture Agreement and is exercising its right to form a Joint Venture with the Company.

The initial participating interests in the Joint Venture will be:

- Anglo American 51%
- Lachlan 49%

Anglo American has recently completed an airborne magnetic and radiometric survey, a MIMDAS IP survey and has re-logged historic drill core from the Racecourse and Footrot Prospects which includes spectral logging of core and RC chips. Much of the work is likely to result in a re-interpretation of the copper mineralisation potential on the tenement.

The Joint Venture participants will now work towards developing a programme and budget for the upcoming year.

CORPORATE

During May 20th to 22nd the Company provided updated corporate information for shareholders and potential investors, through a road show presentation in Toronto.

Debt Facility Conversion

The remaining CDN$3.75 million Credit Facility with Sprott was renegotiated and the debt facility was converted into a twenty eight month gold loan, effective 30 June 2014.

The terms of the renegotiation include the conversion of the Facility to a Gold Loan resulting in the removal of a both a CDN$1 million bullet payment due by 30 September 2014 as well as the final principal repayment of CDN$2.44 million due on 19 February 2015.

Monthly principal and interest payments will be replaced by a monthly Gold Loan payment based on a fixed number of gold ounces multiplied by the monthly closing gold price. The term of the Gold Loan has been extended to 31 October 2016. As a consequence approximately $1.8 million of the Company's borrowings will be converted from current to non-current liabilities.

COMMENTS

Bira De Oliveira, Chief Executive Officer, commented on the quarterly report "Safety is paramount and the latest records demonstrated the positive trend towards an accident-free working environment. Main focus has been on free cash flow, prioritizing margin over production with a parallel reduction in capex. Our focus on cash flow is highlighted. The operational performance delivered during this quarter compared with the same period of 2013 showed a 5% decrease in gold produced but a 32% reduction in C1 cash cost highlighting the consistency of the improvements in the key operating metrics for the CMD Gold Mine".

For and on behalf of the Board

Bira De Oliveira
Chief Executive Officer

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Caution Regarding Forward Looking Information:

This report contains forward-looking information, which is based on assumptions and judgments of management regarding future events and results. Such forward-looking information includes but is not limited to information with respect to future exploration and drilling, procurement of financing and procurement of necessary regulatory approvals.

Forward-looking information involves known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any anticipated future results, performance or achievements expressed or implied by such forward-looking information. Such factors include, among others, the actual market price of gold, the actual results of current exploration, the actual results of future exploration, changes in project parameters as plans continue to be evaluated, as well as those factors disclosed in the Company's publicly filed documents. The Company believes that the assumptions and expectations reflected in the forward-looking information are reasonable. Assumptions have been made regarding, among other things, the Company's ability to carry on its exploration and development activities, the timely receipt of required approvals, the price of gold, the ability of the Company to operate in a safe, efficient and effective manner and the ability of the Company to obtain financing as and when required and on reasonable terms. Readers should not place undue reliance on forward-looking information. Lachlan Star does not undertake to update any forward-looking information, except in accordance with applicable securities laws.