MANAGEMENT DISCUSSION AND ANALYSIS

This Management Discussion and Analysis ("**MD&A**") for Lachlan Star Limited ("**Lachlan**" or the "**Company**") and its subsidiaries (collectively, the "**Group**") is dated September 29, 2014 and provides an analysis of the Company's performance and financial condition for the year ended June 30, 2014 (the "**Year**" or "**June 2014 Year**") and the quarter ending June 30, 2014 (the "**Quarter**" or "**June 2014 Quarter**").

The MD&A should be read in conjunction with the Company's audited consolidated financial statements and notes thereto (including the Directors' Report) for the year ended 30 June 2014. Capitalised terms used and not defined below have the meanings given to them in the Directors' Report and the audited Financial Report and the notes thereto.

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

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

Unless otherwise stated, all dollar figures in this MD&A are Australian dollars. "A$" or "$" denotes Australian dollars, "US$" denotes United States dollars, and CDN$ denotes Canadian dollars.

The A$/US$ exchange rate used for the purposes of converting the statement of financial position of CMD and DCEM as at June 30, 2014 was A$1.00 = US$0.944. The average A$/US$ exchange rate used for the purposes of converting the statement of financial performance of CMD and DCEM for the three months to June 30, 2014 was A$1.00 = US$0.933 and for the year to June 30, 2014 was A$1.00 = US$0.918. Details of average and period end exchange rates that impact the Group are set out in the section "*Financial Instruments and Related Risks*" of this MD&A.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain information in this MD&A, including all statements that are not historical facts, constitutes forward-looking information within the meaning of applicable Canadian securities laws. Such forward-looking information includes, but is not limited to, information which reflects management's expectations regarding Lachlan's future growth; results of operations (including, without limitation, future production at the CMD Gold Mine (as defined herein); performance (both operational and financial) and the development of the Company's business prospects (including the timing and development of new deposits and the success of exploration activities at the CMD Gold Mine) and opportunities. Often, this information includes words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate" or "believes" or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved.

In making and providing the forward-looking information included in this MD&A, the Company has made numerous assumptions. These assumptions include, among other things, assumptions about the prices of gold, silver and copper, anticipated costs and expenditures, the availability of credit, future production and recovery, that the supply and demand for gold, silver and copper develops as expected, that there is no unanticipated fluctuation in interest rates and foreign exchange rates and that there is no further material deterioration in general economic conditions. Although management believes that the assumptions made and the expectations represented by such information are reasonable, there can be no assurance that the forward-looking information will prove to be accurate. By its nature, forward-looking information is based on assumptions and involves known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements, or industry results, to be materially different from future results, performance or achievements expressed or implied by such forward-looking information. Such risks, uncertainties and other factors include, among other things: fluctuations in metal prices, limited mine life, dependency on developing new mineral reserves, the fact that mineral reserve and mineral resource estimates are estimates only, environmental risks and hazards, global financial conditions, the effect of possible shortages and price volatility on operations and equipment, the speculative nature of mineral exploration, development, mining and processing, mineral exploration and mining risks, insurance and uninsured risks, the need for additional capital, the uncertain profitability of extraction of mineral resources, the financial and economic reliability of operating estimates and Lachlan's mine plan, the fact that such mine plan for the CMD Gold Mine is not based on a feasibility study, competition for properties, the impact of licences, permits and government regulation, litigation, currency and liquidity risk, Lachlan's limited operating history, credit risk and interest rate risk, changing political, legal and economic conditions, hedging and derivatives, dependence on key personnel, title to properties, labour and employment relations, dilution, the risk that no dividends will ever be paid on shares, conflicts of interests, inability to manage indebtedness and internal control over financial reporting. See the "*Risk Factors*" section in the Company's 2014 Annual Information Form (the "**AIF**"), available under the Company's profile on SEDAR at www.sedar.com, for further discussion of the risks facing the Company.

This MD&A contains additional information on risks, uncertainties and other factors relating to the forward-looking information. Although the Company has attempted to identify factors that could cause actual actions, events or results to differ materially from those disclosed in the forward-looking information, there may be other factors which cause actual results, performances, achievements or events not to be as anticipated, estimated or intended. Also, many of the factors are beyond the Company's control. Accordingly, readers should not place undue reliance on forward-looking information. The Company undertakes no obligation to reissue or update forward-looking information as a result of any new information or events after the date of this MD&A except as may be required by law. All forward-looking information disclosed in this document is qualified by this cautionary statement.

CAUTION REGARDING NON-GAAP AND NON-IFRS MEASURES

The Company has included in this document certain terms or performance measures, including C1 cash costs, C1 inclusive cash costs, cash costs of gold per ounce, mine cash margin, operating cash flow before changes in non-cash working capital, and CMD Gold Mine Gross Operating Profit that are not defined in Canadian generally accepted accounting principles ("**GAAP**") or in IFRS. These non-GAAP and non-IFRS measures do not have any standardized meaning within Canadian GAAP or IFRS and therefore may not be comparable to similar measures presented by other companies. The Company believes that these non-GAAP and non-IFRS measures provide additional information that is useful in evaluating the Company's performance. The data presented is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with Canadian GAAP and IFRS. These non-GAAP and non-IFRS measures should be read in conjunction with the financial statements (or other financial information) of the Company.

ADDITIONAL INFORMATION

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

OVERALL PERFORMANCE

Lachlan is a gold production and copper exploration company with a 100% beneficial interest in an operating gold mine in Chile and a copper exploration project in Australia. The Company is a public company governed in Australia by the Corporations Act 2001, with a listing on both the Australian Securities Exchange (the "**ASX**") and the Toronto Stock Exchange (the "**TSX**").

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

Since acquiring the CMD Gold Mine on December 24, 2010, the gold spot price has decreased from US$1,380.50 / ounce to US$1,315 / ounce as at June 30, 2014. Subsequent to June 30, 2014, the gold spot price has decreased and was US$1,219.75 / ounce as at September 19, 2014.

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

Lachlan owns a 100% beneficial interest in the Compañía Minera Dayton project (the "**CMD Gold Mine**"), which it acquired on December 24, 2010.

Gold production for the June Quarter was 15,422 ounces, a 2% decrease on the March 2014 quarter (15,747 ounces). In addition, 13,258 ounces of silver was produced during the Quarter. Production of 66,784 ounces of gold was achieved in the June 2014 Year versus 51,148 ounces of gold in the June 2013 Year. All production was sold at spot prices, with an average sale price of US$1,285 per gold ounce for the Quarter and US$1,292 for the Year.

The CMD Gold Mine is a bulk tonnage heap leach operation that at the time of acquisition was operating at an annualised stacking rate of 1.5 Mtpa compared to the installed crushing and stacking capacity of 8 Mtpa. Ore stacked was 5.35 Mt for the June 30, 2014 Year. Gold ounces stacked in the June 2014 Quarter of 21,549 ounces were down 8% compared to the previous quarter.

Bushranger Copper Project, Australia

Lachlan owns a 49% interest in the Bushranger exploration-stage copper and gold deposit (the "Bushranger Copper Project") located approximately 25km south of Oberon in the Lachlan Fold Belt in New South Wales, Australia. Given Lachlan's acquisition of the CMD Gold Mine and its focus on the operation and continued development of that project, the Bushranger Copper Project is not considered to be a core asset of the Company.

On 29 September 2011 the Company announced that it had entered into a Farm In Agreement ("the Agreement") with Newmont Exploration Pty Ltd, a wholly owned subsidiary of Newmont Mining Corporation ("Newmont") covering the Bushranger Copper Project in New South Wales. Under a Deed of Novation between Newmont, Lachlan's subsidiary Ord Investments Pty Ltd and Anglo American Exploration (Australia) Pty Ltd ("Anglo American") dated 10 January 2014 Newmont's interest has been assigned to Anglo American.

The main terms of the Agreement, as amended, are:

(i) Newmont had an 18 month option period ("Option Period") to evaluate the Bushranger Copper Project, during which time it must spend a minimum of $0.25 million. Newmont, having exceeded this expenditure, elected to exercise their option to earn a 51% interest in the Bushranger Copper Project by spending a total of $1 million (including expenditures during the Option Period) over a period of 2 years and 6 months from the date of the Agreement (the Farm In Period), extended for Anglo American to 24 May 2014. Expenditure by Newmont and Anglo American on the Bushranger Copper Project under the Agreement at the end of the period was $1.03 million.

(ii) At the completion of the Farm In Period, the Company and Anglo American will form a Joint Venture owned 49% and 51% respectively, with both parties funding exploration and development on a pro rata basis. Anglo American provided notice that they had met the minimum expenditure requirements and their intention to form a Joint Venture on 8 July 2014.

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 have developed a programme and budget for the upcoming year. The Company has elected to dilute further by not participating in this programme. The Exploration Licence expires in June 2015.

EXPLORATION AND EVALUATION

The Group's exploration and evaluation expenditures for the Quarter comprised US$0.05 million of exploration at the CMD Gold Mine (classified as mine development expenditure in the consolidated statement of financial position) and $Nil at the Bushranger Copper Project.

The Group's exploration and evaluation expenditures for the Year comprised US$0.36 million of exploration at the CMD Gold Mine (classified as mine development expenditure in the consolidated statement of financial position) and $Nil at the Bushranger Copper Project.

CORPORATE

In February 2013 the Company drew CDN$5 million under a secured credit facility ("Facility") with Sprott Resource Lending Partnership ("Sprott") of which CDN$0.5 million was repaid on 9 October 2013. The terms of the Facility were amended in February 2014 such that the remaining Facility of CDN$4.5 million would be partly repaid through the payment of 12 monthly principal repayments of CDN$0.18 million commencing 31 March 2014, the repayment of CDN$1 million by 30 September, 2014, and the payment of an extension fee.

The terms of the Facility were further amended in June 2014 such that the CDN$3.75 million outstanding balance of the Facility was converted to a gold loan. The terms of the amendment include the removal of both the 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 are replaced by a monthly gold loan payment based on a fixed number of gold ounces multiplied by the higher of the monthly closing gold price and US$1,200, and the term of the gold loan has been extended to 31 October 2016. A total of 300,000 shares were issued to Sprott as an extension fee in respect of this amendment.

On 30 September 2013 the Company announced that it had entered into subscription agreements with accredited North American and European investors to raise a total of CDN$8 million at an issue price of CDN$0.20 a share from the issuance of 40 million ordinary shares. The placement was completed in two tranches, the second one subsequent to shareholder approval which was obtained on 4 November 2013. Finder's fees totalling 3% cash and 1,155,431 warrants were paid in respect of this share issue. The net proceeds of the private placement were used to prepay CDN$0.5 million against the outstanding Sprott Facility and to fund development and working capital at the Company's 100% owned CMD Gold Mine in Chile.

On 30 September 2013 the Company announced that it had promoted its Chief Operating Officer (Bira de Oliveira) to the vacant position of Chief Executive Officer ("CEO"). Mr de Oliveira joined the Company in May 2012 and since then has been largely responsible for building a team of professionals at the CMD Gold Mine that has been responsible for the substantial improvement in production and costs over that time.

In November 2013 the Company completed a placement of 7,500,000 shares raising gross proceeds of CDN$1.5 million at CDN$0.20 per share with finder's fee totalling 5% cash and 375,000 warrants.

Mr Mick McMullen transitioned from Executive Chairman to a non-executive director effective 6 January 2014 to pursue other interests and Mr Scott Perry was appointed Non-Executive Chairman. Mr McMullen resigned as a Non-Executive director on 6 April 2014.

On 17 February 2014 Lachlan announced the appointment of Mr Anthony Cipriano as a non-executive director and Audit Committee Chairman.

OUR PEOPLE

The number of employees at Quarter end increased to 428 from 420 at March 31, 2014. The majority of employees are Chilean nationals, with 422 based at or near to the CMD Gold Mine.

RESULTS OF OPERATIONS

Total sales during the Quarter from the CMD Gold Mine were $21.35 million, cost of sales was $22.45 million, and net sales were negative $1.10 million. Total sales during the Year from the CMD Gold Mine were $94.92 million, cost of sales was $93.13 million, and net sales were $1.79 million.

Operating cash flow before changes in non-cash working capital was positive $0.62 million for the Quarter, and positive $11.15 million for the Year.

The Bushranger Copper Project is no longer considered to be a core asset of the Company and in September 2011 the Company entered into a Farm In Agreement, refer *Bushranger Copper Project, Australia* above.

CHILE

CMD GOLD MINE

Lachlan's material mineral project is the CMD Gold Mine, which it acquired in December 2010. The CMD Gold Mine is a production-stage heap leach gold mine in Andacollo, Chile, which is located approximately 350km north of Santiago, Chile. The CMD Gold Mine commenced production in 1995 and has produced approximately 1,000,000 ounces of gold since operations commenced. It is located immediately adjacent to Teck Resources Limited's large Carmen de Andacollo copper-gold mine.

Operations

Table 1 below compares key performance indicators, including production and recovery rates and costs, for the three months ended June 30, 2014 as compared to the three months ended March 31, 2014 for the CMD Gold Mine. Unless otherwise noted, all currency disclosures are in Australian dollars and all weights and measures are in metric units.

Table 1 – CMD Gold Mine Key Performance Indicators (Quarter on Quarter)

Item	Unit	3 months ended June 30 2014	3 months ended March 31 2014	% Change
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	15,757	-2%
Mining Cost/t moved	US$/t	$2.42	$2.76	-12%
Mining Cost/t ore	US$/t	$6.82	$7.03	03%
Process Cost/t ore stacked	US$/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	USD/oz	$864	$910	-5%
Non Cash Process Inventory Adjustment	USD/oz	-$70	-$149	-53%
C1 Cash Cost(1)	USD/oz	$794	$761	4%
CMD Gold Mine Gross Operating (Loss) (unaudited)(2)	US$million	- $0.17	-$0.97	-82%

Notes:

1. C1 cash costs are a non-GAAP measure and non-IFRS measure that may not be consistent from company to company. In this instance, it is defined as all site production costs but excludes all waste expenditure, depreciation and amortisation and royalties. A reconciliation of C1 cash costs to the IFRS measure Cost of Sales is provided in Table 3 below.
2. CMD Gross Operating Profit equals revenues and doré 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. A reconciliation of CMD Gold Mine Gross Operating Profit / (Loss) to the IFRS measure consolidated Profit / (Loss) Before Income Tax is provided in Table 2 below.
3. Percentages may not calculate exactly due to rounding.

Gold production for the June Quarter was 15,422 ounces, a 2% decrease on the March 2014 quarter (15,747 ounces). In addition, 13,258 ounces of silver was produced during the Quarter.

Estimated production for 2014 calendar year from the CMD gold mine in Chile is in the range 60,000 to 65,000 Ag/oz. Efforts continue to maximise ore production and optimise operating efficiencies where possible to meet to the top end of, or exceed, this estimate.

Table 2 below compares key performance indicators, including production and recovery rates and costs, for the Year as compared to the year ended June 30, 2013 for the CMD Gold Mine. Unless otherwise noted, all currency disclosures are in Australian dollars and all weights and measures are in metric units.

Table 2 – CMD Gold Mine Key Performance Indicators (Year on Year)

Item	Unit	Year ended June 30 2014	(Restated) Year ended June 30 2013	% Change
Ore Mined	dmt	5,310,390	4,914,544	8%
Waste Mined	dmt	9,091,543	15,188,827	-40%
Total Mined	dmt	14,401,933	20,103,371	-28%
Waste:Ore Ratio	t:t	1.71	3.09	-45%
Ore grade	Au g/t	0.58	0.50	15%
Gold Mined	Au oz	98,545	79,098	25%
Ore stacked	dmt	5,349,978	4,616,983	16%
Stacked Grade	Au g/t	0.55	0.51	8%
Gold Stacked	Au oz	94,701	72,803	30%
Average stacking rate	dmt/d	14,657	12,649	16%
Silver Produced	Ag oz	61,973	25,132	147%
Gold Produced	Au oz	66,784	51,143	31%
Mining Cost/t moved	US$/t	$2.56	$2.23	15%
Mining Cost/t ore	US$/t	$6.94	$9.42	-26%
Process Cost/t ore stacked	US$/t	$7.06	$8.21	-14%
G+A Cost/t ore	US$/t	$1.27	$1.69	-25%
Total Cost/t ore	US$/t	$15.27	$19.32	-21%
Average Sales Price	USD/oz	$1,292	$1,579	-18%
Cash Cost	USD/oz	$848	$1,101	-23%
Non Cash Process Inventory Adjustment	USD/oz	-$20	-$31	35%
C1 Cash Cost	USD/oz	$828	$1,070	-23%
CMD Gold Mine Gross Operating Profit / (Loss) (unaudited)	US$ million	$4,400	-$6,899	164%

Production of 66,784 ounces of gold was achieved in the June 2014 Year versus 51,148 ounces of gold in the June 2013 Year. All production was sold at spot prices, with an average sale price of US$1,285 per gold ounce for the Quarter and US$1,292 for the Year.

A reconciliation of CMD Gold Mine Gross Operating (Loss) / Profit to the IFRS measure consolidated Profit Before Income Tax is provided in Tables 3 and 4 below.

Table 3 – Reconciliation of unaudited CMD Gross Operating Profit / (Loss) to unaudited consolidated Profit Before Income Tax (Quarter on Quarter)

		3 months ended 30 June, 2014	3 months ended 31 March, 2014
CMD Gross Operating Profit / (Loss) (unaudited)	US$000	(174)	(971)
A$ / US average exchange rate for the period		0.933	0.896
CMD Gross Operating Profit / (Loss) (unaudited)	A$000	(186)	(1,084)
Inventory adjustment	A$000	1,349	2,637
Depreciation and amortization (other than deferred stripping amortization)	A$000	(1,655)	(1,870)
Foreign exchange gain / (loss)	A$000	(49)	744
Fair value on liabilities carried at fair value	A$000	(262)	(7)
Net finance expense	A$000	(116)	(297)
New venture expenditure written off	A$000	(3)	(3)
Cost of derivatives	A$000	-	-
Other head office related costs	A$000	(645)	(1,200)
Impairment loss	A$000	(10,853)	-
Consolidated (Loss) Before Income Tax	A$000	(12,420)	(1,080)

Table 4 – Reconciliation of unaudited CMD Gross Operating Profit / (Loss) to unaudited consolidated Profit Before Income Tax (Year on Year)

		Year ended 30 June, 2014	(Restated) Year ended 30 June, 2013
CMD Gross Operating Profit / (Loss) (unaudited)	US$000	4,400	(6,899)
A$ / US average exchange rate for the period		0.925	1.054
CMD Gross Operating Profit / (Loss) (unaudited)	A$000	4,756	(6,543)
Inventory adjustment	A$000	3,021	(51)
Depreciation and amortization (other than deferred stripping amortization)	A$000	(7,423)	(9,127)
Unwinding of discount on provision	A$000	-	(38)
Foreign exchange gain / (loss)	A$000	826	(831)
Fair value on liabilities carried at fair value	A$000	(76)	670
Net finance expense	A$000	(717)	(554)
New venture expenditure written off	A$000	(10)	(142)
Cost of derivatives	A$000	(885)	-
Other head office related costs	A$000	(2,239)	(2,516)
Impairment loss	A$000	(10,853)	(26,946)
Consolidated (Loss) Before Income Tax	A$000	(13,600)	(46,078)

The CMD Gold Mine Gross Operating Profit of US$4.40 million was a US$11.30 million improvement on the prior period and was primarily driven by the 30.6% increase in gold ounces produced and continuing cost reductions. The result was achieved despite an 18.2% fall in the average gold price.

A reconciliation of C1 cash costs to the IFRS measure Cost of Sales is provided in Tables 5 and 6 below.

Table 5 – Reconciliation of cash cost (US$/oz) per ounce to unaudited Cost of Sales (Quarter on Quarter)

		3 months ended June 30, 2014	3 months ended March 31, 2014
Cash cost per ounce	US$	794	761
Ounces produced		15,421	15,747
Cash costs	US$000	12,244	11,983
A$ / US exchange rate for the period		0.933	0.896
Cash costs	A$000	13,125	13,354
Inventory adjustments (doré and stockpiles)	A$000	(130)	452
Depreciation and amortization	A$000	1,655	1,870
Waste costs expensed or amortised	A$000	6,333	6,755
Royalties	A$000	386	490
Other	A$000	(66)	29
Copper / silver net revenue	A$000	254	517
Cost of sales (unaudited)	A$000	21,557	23,467

Table 6 – Reconciliation of cash cost (US$/oz) per ounce to unaudited Cost of Sales (Year on Year)

		Year ended 30 June, 2014	(Restated) Year ended 30 June, 2013
Cash cost per ounce	US$	828	1,070
Ounces poured		66,784	51,143
Cash costs	US$000	55,297	54,737
A$ / US average exchange rate for the period		0.919	1.023
Cash costs	A$000	60,196	53,515
Inventory adjustments (doré and stockpiles)	A$000	(160)	(1,102)
Depreciation and amortization (other than deferred stripping amortization)	A$000	7,423	9,127
Waste costs expensed and amortised	A$000	22,933	27,024
Royalties	A$000	1,821	1,874
Process inventory provision	A$000	(1,090)	1,006
Other	A$000	137	426
Copper / silver net revenue	A$000	1,867	656
Cost of Sales	A$000	93,127	92,526

Depreciation of production phase stripping costs and property, plant and equipment is calculated on a unit of production basis so as to write off the costs in proportion to the depletion of estimated recoverable ounces. Depreciation and amortization costs, and waste costs expensed and amortised, decreased over the year as the result of the adoption of an internal mine plan with a lower LOM strip ratio from January 2013 and an increased mineral reserve announced in August 2013 that was a 160% increase over the previous estimate.

Table 7 below shows the cash costs for each quarter over the past year, and the impact of the inventory valuation adjustment (all numbers in US$ per ounce).

Table 7 – Cash Cost (US$ per ounce) and inventory adjustments

Item	Quarter ending 30 June 2014	Quarter ending 31 March 2014	Quarter ending 31 December 2013	Quarter ending 30 September 2013	12 months to June 2014
Cash costs with inventory adjustment ($/oz)	794	761	781	971	828
Cash costs without inventory adjustment ($/oz)	864	910	808	821	848
Inventory adjustment effect ($/oz)	(70)	(149)	(27)	150	(20)

The inventory adjustment of US$20 per ounce over the year reflects the increase in the gold inventory contained within the leach pad from stacking more recoverable gold than was sold (US$60 per ounce), the reduction in the average inventory value per ounce (negative US$34 per ounce), and the stockpile movement (negative US$6 per ounce).

Operating cash flow before changes in non-cash working capital was positive $0.62 million for the Quarter and continues the trend of positive quarterly results as seen from Table 8.

Table 8 – Quarterly 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
Cash flow before changes in non-cash working capital (A$000)	623	4,367	4,901	1,257

Total ore mined for the year was 5.31 million tonnes for 98,545 contained Au ounces, an increase of 8.1% and 24.6% respectively. The waste to ore ratio decreased to 1.71 to 1 from 3.09 to 1 in the previous year. Ore was principally sourced from the Tres Perlas (59%) and Churrumata (15%) pits, and third party ore purchases (15%).

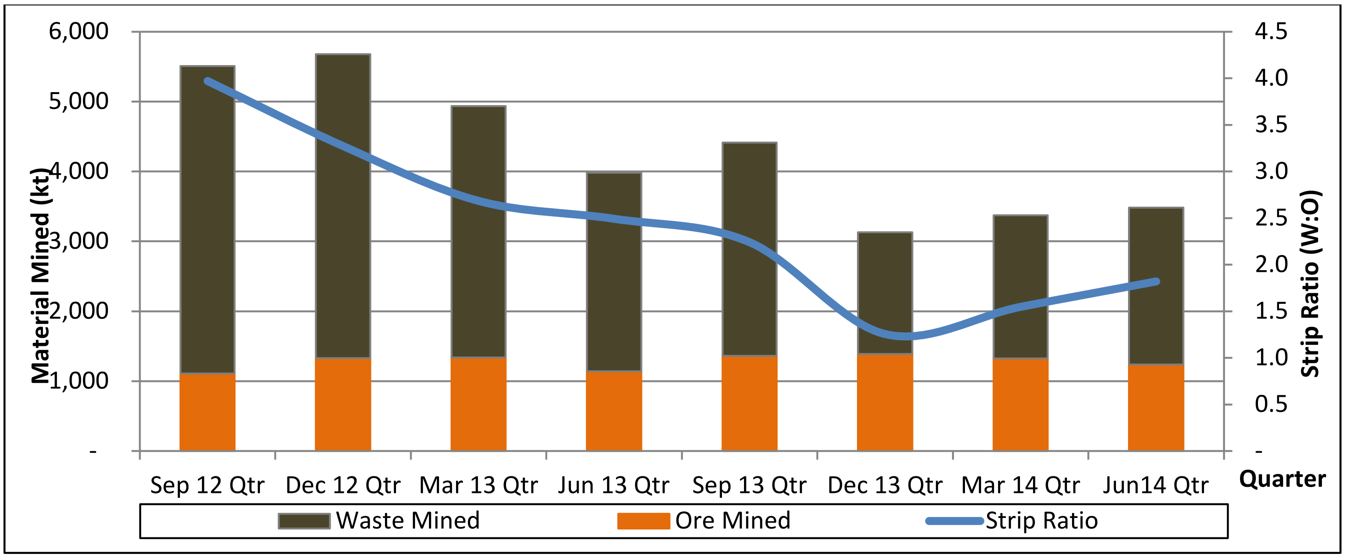
Table 9 details the ore and waste movement in the year by pit.

Table 9 – Annual mine production by pit

Item	Unit	Churrumata	Tres Perlas	Chisperos	Toro	Other Sources	Total
Ore Mined	kt	778	3,108	562	32	830	5,310
Au Grade	g/t	0.50	0.48	0.86	0.52	0.81	0.58
Contained Au	oz	12,507	48,437	15,481	534	21,586	98,545
Waste Mined	kt	2,326	5,643	649	355	118	9,092
Total Mined	kt	3,105	8,751	1,210	387	948	14,402
Strip Ratio	W:O	2.99	1.82	1.16	11.12	0.1	1.71

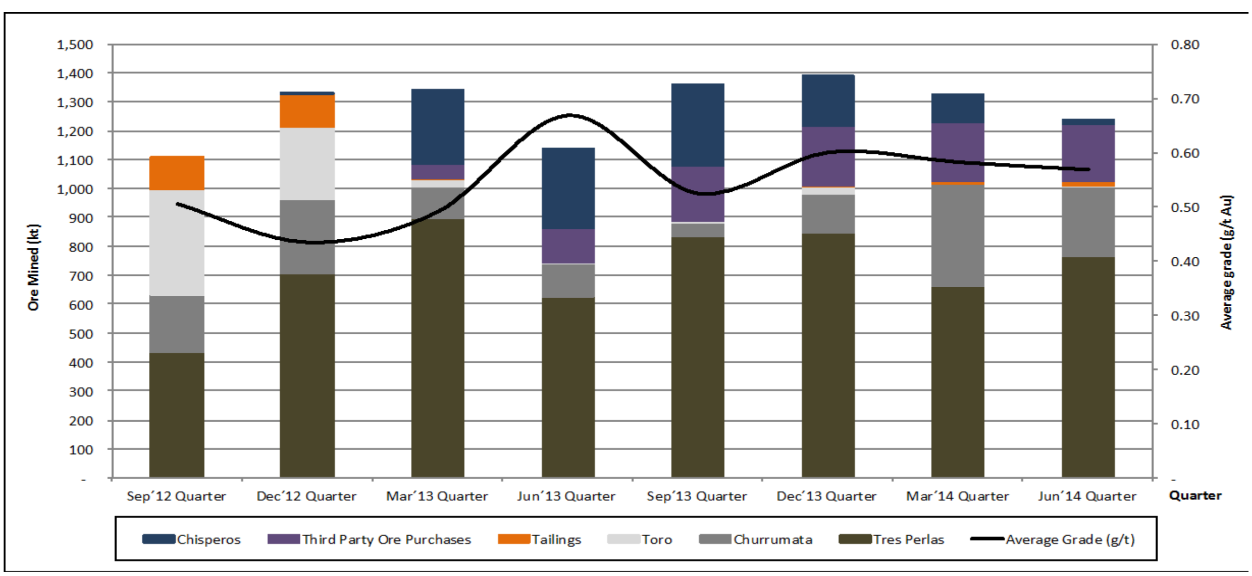
Figure 1 shows the mining rate and waste to ore ratio by quarter for the last 8 quarters.

Figure 1 – Material Mined and Waste to Ore Ratio by Quarter



Mining of old tailings deposits inside CMD property totalled 29,856 tonnes for the year. Due to its fine size distribution, this material needs to be carefully blended with the normal crushed ore in order to not impact negatively in the leach pad percolation. Third party ore purchases were 800,203 tonnes during the period at grade of 0.81 g/t Au, up from 166,798 tonnes in the prior period at a grade of 0.67 g/t Au.

Figure 2 – Ore Mined by Pit and Quarter



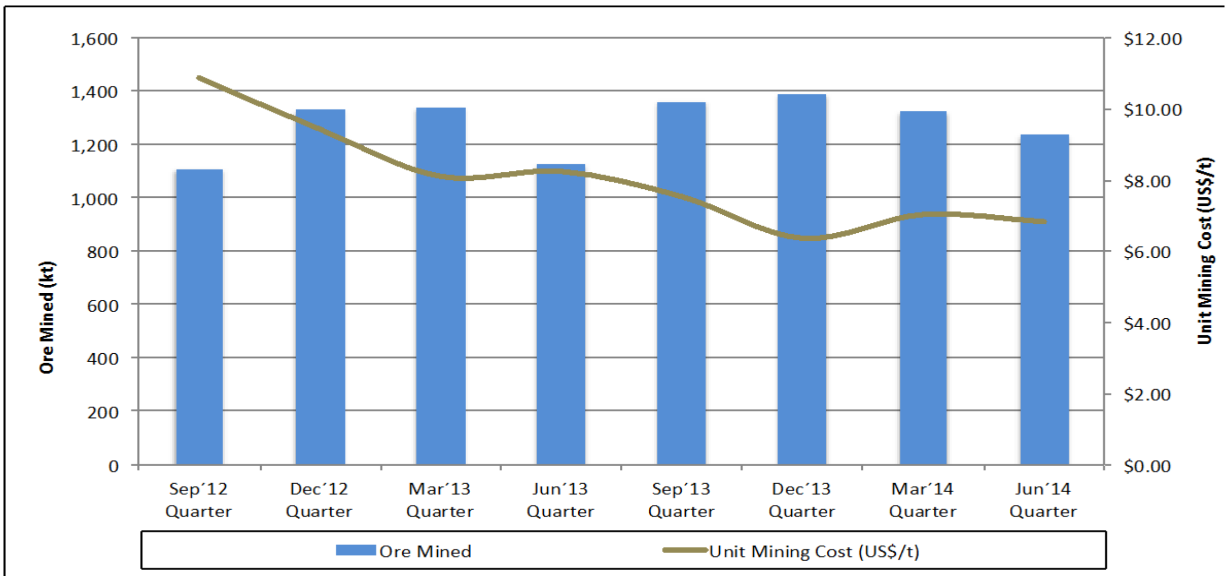
Average mined grades experienced an increase from 0.50 g/t to 0.58 g/t Au over the year, assisted by the grade of ore purchases.

The Company continues to strengthen its relationships with small miners in the area and ore purchasing continues, with 25% of the ounces mined in the June 2014 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.

Mining unit costs increased by 14.8% up to US$2.56 per tonne mined (from US$2.23 per tonne the previous year), due to the impact of 8.1% higher total tonnes moved being more than offset by the higher tariffs paid for ore purchases associated with their higher grades. Also, the mining cost per tonne of ore decreased by 26.3% to US$6.94 as a result of the 44.6% lower 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 3 illustrates the quarterly history of mining costs per ore tonne over the last 8 quarters.

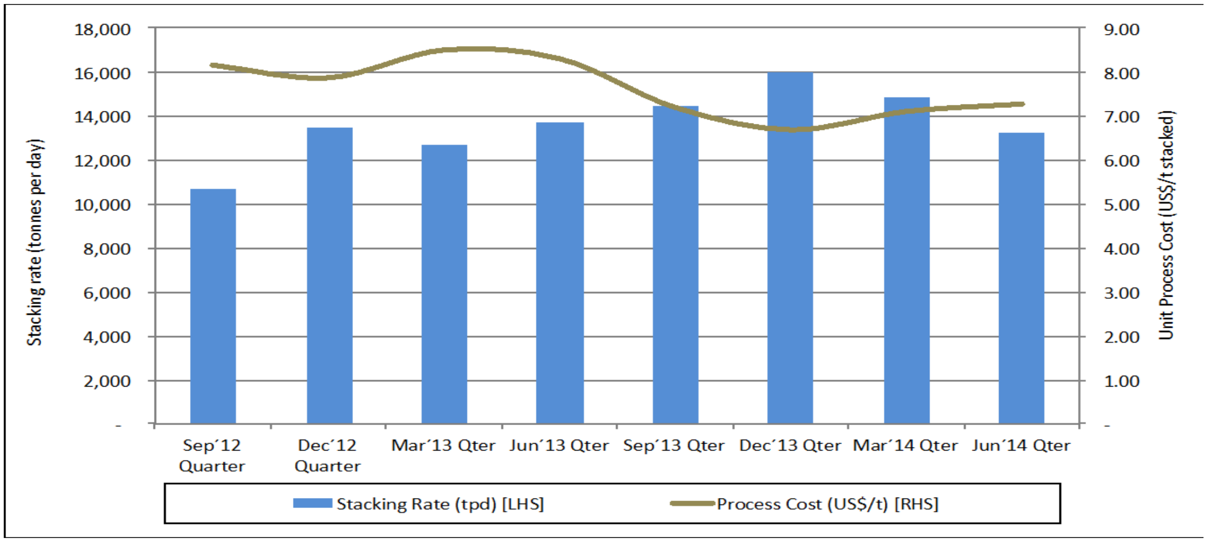
Figure 3 – Ore mined and mining cost per tonne of ore



Processing

Ore tonnage stacked was up 15.9% year on year as a result of the switch to owner mining and the productivity improvements on site. Consequently, in conjunction with the higher ore grades, gold ounces stacked were up 30.1% over the same period. Metallurgical recovery was optimized in 2013 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. Process costs decreased to US$7.06 per tonne stacked which was a 14% decrease year on year. Increased tonnes stacked in the period was the main driver for the lower process costs.

Figure 4– Process cost per tonne stacked



General and Administration (G&A)

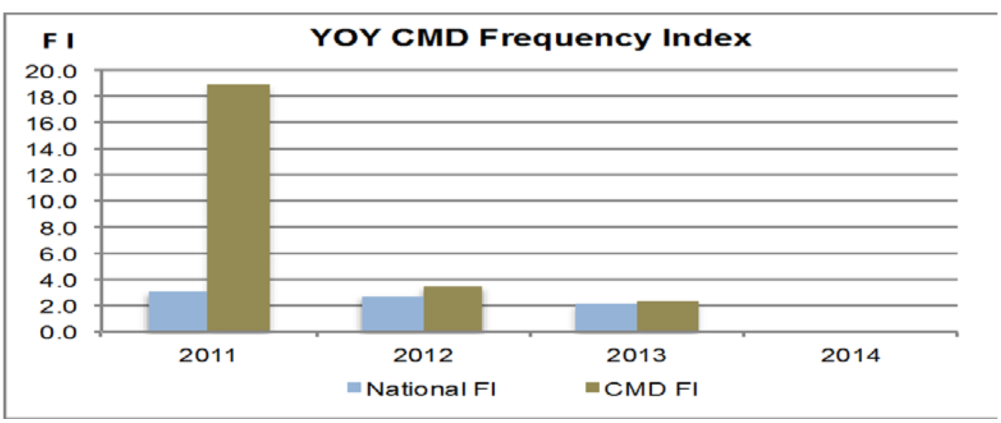
G&A costs decreased by 24.7% year on year to US$1.27 per tonne stacked due to the higher tonnage stacked and a 13% reduction in CMD G&A costs.

HEALTH AND SAFETY

The Company is committed to achieving the highest performance in occupational health and safety to create and maintain a safe and healthy workplace. The Company's approach to health and safety management is guided by its policy where the safety, health and well-being of employees, contractors and the community are a core value to the Company's operations. A healthy workforce contributes to business success. Lachlan's aim, to achieve this objective, is for zero injuries.

Safety is a key focus for management at the CMD Gold Mine and the results of this can be seen in Figure 1 below. The Frequency Index (FI) exclusively reflects CMD records, not including mining contractors.

Figure 1 – CMD Gold Mine Safety Statistics



AUSTRALIA

BUSHRANGER COPPER PROJECT - EL 5574 (49%)

Lachlan owns a 49% interest in the Bushranger exploration-stage copper and gold deposit (the "Bushranger Copper Project") located approximately 25km south of Oberon in the Lachlan Fold Belt in New South Wales, Australia. Given Lachlan's acquisition of the CMD Gold Mine and its focus on the operation and continued development of that project, the Bushranger Copper Project is not considered to be a core asset of the Company.

On 29 September 2011 the Company announced that it had entered into a Farm In Agreement ("the Agreement") with Newmont Exploration Pty Ltd, a wholly owned subsidiary of Newmont Mining Corporation ("Newmont") covering the Bushranger Copper Project in New South Wales. Under a Deed of Novation between Newmont, Lachlan's subsidiary Ord Investments Pty Ltd and Anglo American Exploration (Australia) Pty Ltd ("Anglo American") dated 10 January 2014 Newmont's interest has been assigned to Anglo American.

The main terms of the Agreement, as amended, are:

(i) Newmont had an 18 month option period ("Option Period") to evaluate the Bushranger Copper Project, during which time it must spend a minimum of $0.25 million. Newmont, having exceeded this expenditure, elected to exercise their option to earn a 51% interest in the Bushranger Copper Project by spending a total of $1 million (including expenditures during the Option Period) over a period of 2 years and 6 months from the date of the Agreement (the Farm In Period), extended for Anglo American to 24 May 2014. Expenditure by Newmont and Anglo American on the Bushranger Copper Project under the Agreement at the end of the period was $1.03 million.

(ii) At the completion of the Farm In Period, the Company and Anglo American will form a Joint Venture owned 49% and 51% respectively, with both parties funding exploration and development on a pro rata basis. Anglo American provided notice that they had met the minimum expenditure requirements and their intention to form a Joint Venture on 8 July 2014. This has not impacted the carrying value of the exploration asset in the 30 June 2014 Consolidated Statement of Financial Position.

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. The Exploration Licence expires in June 2015.

FINANCIAL PERFORMANCE

The financial performance of the Group was affected by the continued development of the CMD Gold Mine. The financial performance of the Company is closely linked to the price of gold as the CMD Gold Mine economics are most sensitive to movements in the gold price. Generally, the mining industry has experienced cost increases related to inflation of cost inputs. The main cost inputs for the CMD Gold Mine are labour, fuel, electricity, general mining costs and cyanide prices. The Company moved to a predominately owner mining operator model at in January 2013 which has reduced mining cost pressure.

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

The Company raised CDN$9.5 million in October and November 2013 from the issue of 47,500,000 shares to prepay CDN$0.5 million of the Sprott Resources Lending Partnership Loan Facility ("**Sprott**

Facility"), mine development costs and for working capital purposes. As at June 30, 2014 the Company had spent $1.43 million of the proceeds to repay the Sprott Facility and most of the remainder of the proceeds on mine development costs and for working capital purposes, including $0.89 million for the purchase of gold put options.

SELECTED FINANCIAL INFORMATION

The following table sets forth selected financial information of, as at and for the periods indicated.

	2014 $000 Audited Actual	**(Restated) 2013 $000 Audited Actual**	**2012 $000 Audited Actual**
Total Revenue from continuing operations	94,917	77,630	72,209
Net (loss) / profit for the period before impairment loss	(5,632)	(26,896)	996
Impairment (loss)	(10,853)	(26,946)	-
Net (loss) / profit for the period	(16,485)	(53,842)	996
(Loss) / profit per share basic (cents per share)	(8.2)	(58.9)	1.4
(Loss) / profit per share diluted (cents per share)	(8.2)	(58.9)	1.4
Cash and cash equivalents	1,932	2,811	17,412
Total assets	61,125	80,178	91,724
Total non-current financial liabilities	11,490	13,767	1,384
Cash dividends declared (cents per share)	-	-	-

Notes:

1. Options over Ordinary Share are not considered to be dilutive in the calculation of earnings per share if they would not increase the loss per share.
2. The 2014 net loss for the period includes an impairment loss of $10.85 million (2013: $26.95 million) (refer "*Impairment loss*" below)) and an income tax expense of $2.89 million (2013: $7.76 million expense).

SUMMARY OF QUARTERLY RESULTS

Financial Condition

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

Financial position as at:	**June-30 2014 A$000**	**Mar-31 2014 A$000**	**Dec-31 2013 A$000**	**Sept-30 2013 A$000**	**Restated June-30 2013 A$000**	**Restated Mar-31 2013 A$000**	**Restated Dec-31 2012 A$000**	**Restated Sept-30 2012 A$000**
Cash and cash equivalents	1,932	2,175	4,623	-	2,811	3,103	7,489	8,336
Total assets	61,125	77,104	85,140	79,379	80,178	108,938	97,074	89,136
Total liabilities	46,192	45,943	51,875	57,876	57,564	55,151	39,421	34,192
Net assets	14,933	31,161	33,265	21,503	22,614	53,787	57,653	54,944

Notes:

1. Certain comparative information from July 1, 2012 has been restated as a result of the adoption of IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, which has been applied prospectively to production stripping costs incurred on or after 1 July 2012. For further details refer to the *Changes in Accounting Polices, Including Initial Adoption* or Note 1(ii)(iii) and Note 30 to the consolidated financial statements for the year ending June 30, 2014.

Cash and cash equivalents

As at 30 June 2014 the Group had cash reserves of $1.93 million, a decrease of $0.88 million from 30 June 2013 as set out in the Statement of Cash Flows. The $9.48 million net cash flow from operating activities reflects the $14.27 million generated from the CMD Gold Mine during the year less $2.01 million net interest expense and $2.61 million corporate costs. Cash flows used in investing activities of $12.49 million comprises $9.24 million expenditure on capitalized mine development costs and $3.25 million expenditure on property, plant and equipment. Net cash flows of $2.19 million were received from financing activities, comprising $9.23 million from the issue of shares net of costs, and net $7.04 million repayment of borrowings.

Trade and other receivables

Trade and other receivables have decreased by $0.64 million since 30 June 2013. The A$ / US$ exchange rate increased from 1:0.915 at 30 June 2013 to 1:0.944 at 30 June 2014 meaning a decrease of $0.13 million in the value of trade and other receivables which are presented in the CMD financial statements in US$.

Inventories

Inventories have decreased by $0.33 million since 30 June 2013 mainly including a $0.63 million decrease as a result of the A$ / US$ exchange rate increasing from 1:0.915 at 30 June 2013 to 1:0.944 at 30 June 2014. The static CMD inventory reflects an increase of 3,228 recoverable ounces in the leachpad with an associated cost of US$4.03 million, a US$2.28 million decrease attributable to the reduced average cost per ounce on the leachpad, a US$0.16 million increase in doré in process inventory, a US$1.00 million increase from the reversal of a leachpad inventory provision to writedown to net realizable value, a US$0.52 million decrease in ore stockpiles and copper, and a US$2.07 million decrease in stores inventory due to lower stock holding periods.

With the optimization of the leaching recovery cycle the metallurgical records support the assumed recovery of 100% of the recoverable ounces on the leachpad within 12 months and therefore the treatment of 100% of inventories as current assets at 30 June 2014.

Mine development properties

Mine development properties have decreased by $6.71 million since 30 June 2013, comprising capitalisation of $9.41 million offset by a depreciation charge of $10.56 million, an impairment charge of $4.95 million and a $0.61 million decrease as a result of the A$ / US$ exchange rate increasing from 1:0.915 at 30 June 2013 to 1:0.944 at 30 June 2014.

Of the $9.41 million capitalised, $0.36 million relates to exploration at the CMD Gold Mine, $0.17 million to an increase in the rehabilitation provision, and $8.88 million to capitalized deferred stripping.

Property, plant and equipment

Property, plant and equipment has decreased by $7.51 million since 30 June 2013, comprising expenditure of $3.25 million at the CMD Gold Mine offset by a depreciation charge of $4.14 million, an impairment charge of $5.90 million and a $0.72 million decrease as a result of the A$ / US$ exchange rate increasing from 1:0.915 at 30 June 2013 to 1:0.944 at 30 June 2014.

Deferred tax asset

The 30 June 2013 deferred tax asset of $2.98 million has been written off at 30 June 2014 primarily as a result of the de-recognition of a deferred tax asset in respect of income tax losses and timing differences relating to the CMD Gold Mine.

Total liabilities

As at 30 June 2014, the consolidated entity had total liabilities of $46.19 million compared to $57.56 million at 30 June 2013, a decrease of $11.37 million. There was a $3.58 million decrease in trade and other payables, partly as a result of the transition to owner operated mining, in addition to a net decrease in borrowings of $7.64 million. Total liabilities decreased by $1.60 million as a result of the A$ / US$ exchange rate increasing from 1:0.915 at 30 June 2013 to 1:0.944 at 30 June 2014. As at 30 June 2014, the consolidated entity had $19.20 million in debt obligations consisting of bank loans, a gold loan, leases, and deferred consideration due to the vendors of the CMD Gold Mine.

Contributed equity

The contributed equity increase of $9.45 million since 30 June 2013 is shown below:

	2014 Number	**2014 $000**
Ordinary shares		
1 July	99,107,273	215,076
Issue of shares for cash	47,500,000	9,684
Costs of issue of shares	-	(451)
Share based payments	1,025,000	213
30 June	147,632,273	224,522

Reserves

Reserves of $6.57 million consist of a $0.21 million share based payments reserve, which reflects the fair value of share options at their date of issue, together with a balance of $6.36 million in the foreign exchange reserve resulting from the translation of CMD financial statements, which are presented in US$, to A$ on consolidation. There is a $0.72 million reduction in the foreign exchange reserve balance since 30 June 2013.

Cash flow

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

Cash flows for the three months ended:	**June-30 2014 A$000**	**Mar-31 2014 A$000**	**Dec-31 2013 A$000**	**Sept-30 2013 A$000**	**Restated June-30 2013 A$000**	**Restated Mar-31 2013 A$000**	**Restated Dec-31 2012 A$000**	**Restated Sept-30 2012 A$000**
Operating activities	2,615	3,272	828	2,768	2,794	(883)	(1,228)	(7,106)
Investing activities	(832)	(3,281)	(2,548)	(5,830)	(4,638)	(19,680)	(9,210)	(2,872)
Financing activities	(1,986)	(2,351)	6,369	162	1,763	16,158	9,591	922

Notes:

1. Certain comparative information from July 1, 2012 has been restated as a result of the adoption of IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, which has been applied prospectively to production stripping costs incurred on or after 1 July 2012. For further details refer to *the Changes in Accounting Polices, Including Initial Adoption* or Note 1(ii)(iii) and Note 13 to the unaudited consolidated interim financial statements for the 3 and 9 months ending March 31, 2014.

The operating activities inflow of $2.65 million for the Quarter reflects the net cash inflow from operations at the CMD Gold Mine of $3.34 million net of corporate overhead of $0.28 million, and net interest expense of $0.41 million. Investing activities in the Quarter of $0.83 million reflect property, plant and equipment costs and capitalised development work at the CMD Gold Mine. Financing activities net outflows of $1.99 million in the Quarter reflect the repayment of borrowings.

The operating activities inflow of $9.48 million for the Year reflects the net cash inflow from operations at the CMD Gold Mine of $14.07 million net of corporate overhead of $2.61 million, and net interest expense of $1.98 million. Investing activities in the Year of $12.49 million reflect property, plant and equipment costs of $9.24 million and capitalised development work at the CMD Gold Mine of $3.25 million. Financing activities net inflows of $2.19 million in the Year reflect $9.23 million from the proceeds of share issues less $7.04 million net repayment of borrowings. The net reduction in borrowings of $7.04 million during the Year comprises $0.78 million of new borrowings and $7.82 million of repayments. Borrowing repayments included bank / lease debt of $6.53 million and $1.24 million for the Sprott Credit Facility.

Operating Results

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

Operating results for the three months ended:	**June-30 2014 A$000**	**Mar-31 2014 A$000**	**Dec-31 2013 A$000**	**Sept-30 2013 A$000**	**Restated June-30 2013 A$000**	**Restated Mar-31 2013 A$000**	**Restated Dec-31 2012 A$000**	**Restated Sept-30 2012 A$000**
Revenue	21,346	23,478	25,397	24,696	22,182	17,576	21,623	16,249
Other income	7	17	5	1	6	29	46	68
Cost of sales	(21,557)	(23,467)	(23,941)	(24,162)	(27,555)	(20,058)	(25,489)	(19,426)
Impairment loss	(10,853)	-	-	-	(26,947)	-	-	-
Total net operating expenses	(33,773)	(24,575)	(24,830)	(25,369)	(54,776)	(21,521)	(25,870)	(21,691)
Net (loss) / profit before tax	(12,420)	(1,080)	572	(672)	(32,588)	(3,916)	(4,201)	(5,374)
Net (loss) / profit after tax	(15,180)	(1,080)	447	(672)	(43,742)	(3,718)	(3,621)	(2,761)
Basic (loss) / profit per share (cents)	(10.2)	(0.7)	0.2	(0.7)	(33.4)	(4.3)	(4.7)	(2.6)
Diluted (loss) / profit per share (cents)	(10.2)	(0.7)	0.2	(0.7)	(33.4)	(4.3)	(4.7)	(2.6)

Review of the financial year ended June 30, 2014 as compared to the financial year ended June 30, 2013, and the quarter ended June 30, 2014 as compared to the quarter ended June 30, 2013

The consolidated entity's loss after tax for the year ended 30 June 2014 was $16.49 million (2013: loss $53.84 million) after recognising:

- a profit before impairment loss and tax of $15.25 million (2013: loss of $2.46 million) from gold mining operations at the consolidated entity's CMD Gold Mine in Chile, after royalties and site based administration, but before $14.14 million (2013: $13.78 million) depreciation and amortization.
- an impairment loss of $10.85 (2013: $26.95 million) against the CMD Gold Mine assets (refer Note 1(a)(i) to the financial statements).
- a $0.83 million foreign exchange gain (2013: loss of $0.83 million) arising primarily from gains on the Company's holdings of US$ and CDN$ cash, and payables denominated in Chilean Pesos translated to the functional currency of CMD, being US$.
- an increase in finance expense to $2.18 million (2013: $1.41 million) arising from a full year of finance costs associated with the mine fleet purchased in December 2013.
-
- a $0.89 million expense (2013: $Nil) for the purchase of gold put options covering the period January 2014 to June 2014.
- a decrease in corporate compliance and management costs to $1.80 million (2013: $2.19 million)
- an income tax expense of $2.89 million (2013: expense of $7.76 million) relating to the de-recognition of a deferred tax asset in respect of income tax losses attributable to the CMD Gold Mine due to the degree of uncertainty whether future taxable amounts would be available to utilise temporary differences and tax losses.

The prior year numbers are stated after the application of IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine,* applicable in Australia as Interpretation 20*.* The interpretation, which is applicable to the Company for the financial period commencing 1 July 2013, sets out the accounting for overburden waste removal (stripping) costs in the production phase of a surface mine. The interpretation must be applied retrospectively from the date of transition, being 1 July 2012.

Revenue

	Year ended Jun-30 2014 $000	**Year ended Jun-30 2013 $000**	**Quarter ended Jun-30 2014 $000**	**Quarter ended Jun-30 2013 $000**
Sale of gold	93,783	77,598	21,266	21,939
Sale of silver (net of refining)	663	32	96	243
Sale of copper	471	-	(16)	-
	94,947	77,630	21,346	22,182

Revenue is from the sale of metals, mainly gold, by the CMD Gold Mine, acquired on December 24, 2010.

Revenue for the June 2013 Quarter includes 15,932 ounces of gold at an average achieved sale price of US$1,377 per ounce (June 2012 Quarter: 10,080 ounces of gold at an average achieved sale price of US$1,613 per ounce). Revenue for the June 2013 Year includes 50,389 ounces of gold at an average achieved sale price of US$1,579 per ounce (June 2012 Year: 44,465 ounces of gold at an average achieved sale price of US$1,669 per ounce).

Other income

Other income of $0.15 million for the Year consists of $0.15 million of interest income (June 2012: $0.58 million). The 2012 Year other income included $0.39 million of foreign exchange gains and $0.19 million fair value gain on deferred consideration. From September 2012 Quarter onwards foreign exchange gains and losses and the fair value gain on deferred consideration are classified in total net operating expenses.

Cost of sales

	Year ended Jun-30 2014 $000	(Restated) Year ended Jun-30 2013 $000	Quarter ended Jun-30 2014 $000	(Restated) Quarter ended Jun-30 2013 $000
Depreciation and amortisation	14,138	13,775	2,629	4,233
Gold in process, doré and stockpile adjustments	(2,778)	(1,127)	(1,283)	4,520
Mine operational expenses	22,347	31,997	6,633	4,746
Reagents	16,076	14,448	3,955	3,791
Utilities, maintenance	23,701	17,440	4,818	5,807
Personnel expenses	15,375	11,220	3,853	3,598
Royalties	1,821	1,874	386	392
Other expenses	2,447	2,899	566	468
	93,127	92,526	21,557	27,555

Cost of sales relates to costs attributable to the operation of the CMD Gold Mine. The June Quarter includes $5.36 million of waste costs direct expensed (June 2013 Quarter: $3.12 million). The June Year includes $16.22 million of waste costs direct expensed (June 2013 Year: $22.32 million),

Utilities and maintenance costs have increased over the year as a result of the higher maintenance costs associated with the 16% increase in stacked tonnes year on year. The use of direct employees for the CMD mining fleet is the main reason for the increase in personnel costs, compared to the 2013 Year when the fleet was only in operation for 6 months of the year.

The fall in mine operational expenses over the year is a direct result of the 28% reduction in mined tonnes, including a reduction of over 1.6 million tonnes of waste, and the switch from mining contractors to a an owner operated mining fleet.

The cost of sales on all line items expressed in A$ are higher in the Quarter and the Year compared to the corresponding prior year periods as a result of the average A$/US$ exchange rate depreciating 6.0% from the June 2013 Quarter to the June 2014 Quarter, and depreciating 10.6% from the June 2013 Year to the June 2014 Year.

The International Accounting Standards Board published IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* on 19 October 2011, applicable in Australia as Interpretation 20. The interpretation, which is applicable to the Company for the financial period commencing July 1, 2013, sets out the accounting for overburden waste removal (stripping) costs in the production phase of a surface mine. The interpretation must be applied retrospectively and the group has to write off existing stripping cost asset balances to retained earnings on the date of transition (July 1, 2012) unless they relate to an identifiable component of the ore body. For further details refer to the Note 1(ad) and Note 30 to the audited consolidated financial statements for the year ending June 30, 2014.

Deferred stripping (waste) costs are capitalised in any month where the actual stripping ratio exceeds the ore body life of mine average stripping ratio, in which case costs relating to the waste tonnes mined over and above the ore body life of mine stripping ratio are capitalised. In months where waste tonnes mined fall below the life of mine stripping ratio all waste costs are expensed. Cost of sales for the June 2014 Quarter includes $6.33 million (June 2013 Quarter: $3.82 million) and the June 2014 Year $22.93 million (June 2013 Year: $27.02 million) waste costs expensed and amortised.

The June 2014 Quarter depreciation and amortisation charge of $2.63 million (June 2013 Quarter: $4.23 million) includes $0.97 million (June 2013 Quarter: $0.70 million) waste amortisation. The June 2014 Year depreciation and amortisation charge of $14.14 million (June 2013 Year: $13.78 million) includes $6.72 million (June 2013 Year: $4.71 million) waste amortisation.

Gold in leach pad inventories are valued based on the historical recovery of ounces from the pads using a rolling average of costs incurred, including leaching costs. Movements in the value of leach pad inventories are included in cost of sales. During the June 2014 Quarter 208 recoverable ounces were drawn from the leachpad (June 2013 Quarter: 984 decrease in recoverable ounces). During the June 2014 Year 3,228 recoverable ounces were added to the leachpad (June 2013 Year: 2,183 increase in recoverable ounces).

Impairment loss

AASB 136 *Impairment of Assets* requires a company to make a formal estimate of recoverable amount if an indicator of impairment is present. Impairment indicators exist for the consolidated entity, being a loss for the period and a Company market capitalisation of CDN$12.55 million on TSX at 19 September 2014 compared to consolidated net asset carrying values of $25.79 million at 30 June 2014 prior to any current year impairment charge.

The recoverability of the carrying amount of the Company's one cash generating unit, being the CMD Gold Mine, has been reviewed by the consolidated entity. In conducting the review, the recoverable amount has been assessed by reference to the higher of 'fair value less costs to sell' and 'value in use'. Recoverable amount assessments are principally based on discounted cash flow analysis which requires the use of estimates and judgements in relation to a range of inputs including (a) quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction; (b) discount rates; (c) timing of future production; (d) future exchange rates and commodity prices; and (e) future costs of production and capital expenditure. Regard has been given to external consensus forecasts of key assumptions where available.

Recoverable amount is fair value less costs to sell. Fair value was determined by a discounted cash flow analysis covering projected production from 2014 to 2017 using a post-tax discount rate of 10.4% and resulted in an impairment loss of $10.85 million which has been attributed to property, plant and equipment and mine development properties.

The assumption to which the recoverable amount is most sensitive is the gold price. The following gold prices, being the "medium" financial institution consensus forecasts, were used as inputs in the discounted cash flow analysis:

	2014	**2015**	**2016**	**2017**
Gold price US$ / oz	1298	1300	1300	1300

Variations to the expected future cash flows, and timing thereof, could result in significant changes to the impairment test results which could in turn impact future financial results, including the potential for the impairment loss recognized in the current and /or prior year to partially or totally reverse.

Corporate compliance and management

Corporate compliance and management costs of $1.80 million for the Year (June 2013 Year: $2.19 million) reflect costs associated with the management of the CMD Gold Mine, corporate office costs, and the costs of a listed company on the ASX and TSX.

Occupancy costs

Occupancy costs of $0.05 million for the Year (June 2013 Year: $0.05 million) relate to the occupancy costs of the Company's head office in Perth and the recharge of 50% of the office costs to a sub tenant.

Foreign exchange gain / loss

The foreign exchange gain of $0.83 million for the Year (June 2013 Year: $0.83 million loss) arises from net unrealised losses on the Company's holdings of US$ and CDN$ cash and cash equivalents, a net gain on its CDN$ borrowings, and foreign exchange gains on payables denominated in Chilean Pesos translated to the functional currency of CMD, being US$. During the Quarter the US$: Chilean Peso exchange rate strengthened from 1:550 to 1:552, and during the Year the US$: Chilean Peso exchange rate strengthened from 1:508 to 1:552

Cost of derivatives

During the December 2013 Quarter the Company purchased gold put options at a cost of $0.89 million in respect of 3,000 gold ounces per month from January to June 2014 with a strike price of US$1,200 per ounce. These put options were to protect approximately half of the Company's projected production at the price of US$ 1,200 per ounce for the first half of 2014 while allowing the Company to take full benefit of any prices above that level. None of the put options were exercised.

Finance expense

Finance expense of $0.40 million for the Quarter (June 2013 Quarter: $0.64 million) and $2.18 million for the Year (June 2013 Year: $1.41 million) consist of bank and financial institution interest, together with the foreign exchange gain / loss on financial liabilities. Finance costs have increased over the previous Year as a result of the loans and leases associated with the purchase of the new mine fleet at the CMD Gold Mine.

Fair value on liabilities carried at fair value

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

a) 2.5% of the value of the gold produced from the existing open pit inventory contained within the pit designs and other specific deposits with mineralisation that may be economically exploited using open pit methods (the "Mineral Inventory" collectively) between 1 January 2011 and the Payment End Date, being the later of (i) 31 December 2014, or (ii) the end of the thirtieth full month following the end of the month in which the Company (or its successor in interest) has completed the mining of all of the estimated reserves contained, as of 24 December 2010, within the pits the subject of the Deferred Consideration Agreement provided that if such date is after 31 December 2014 due to any action or circumstance that was not willingly and knowingly caused by the Company, the Payment End Date shall be 31 December 2014; and

b) 25% of the value of the gold produced from the Mineral Inventory between 1 January 2011 and the Payment End Date over and above 119,000 ounces

The June 2014 Quarter gain of $0.01 million (June 2013 Quarter: $0.11 million gain) and the June 2014 Year gain of $0.2 million (June 2013 Year: $0.67 million gain) reflects a re-assessment of the potential liability during these periods.

In addition there was a $0.28 million loss in the June 2014 Quarter and June 2014 Year (June 2013 Quarter and June 2013 Year: $Nil) being a non-cash cost adjustment to a loan carried at fair value.

Share based payments expense

Share based payments expense of $0.30 million for the Year (June 2013 Year: $0.21 million) consists of the share base expense associated with the award of shares based remuneration to employees and directors and the issue of shares to Sprott in respect of an extension to the Credit Facility.

Income tax

The income tax expense of $2.89 million for the Year (June 2013 Year: $7.76 million expense) consists of:

(i) $2.89 million expense (June 2013 Year: $9.75 million benefit) related to the de-recognition of a deferred tax asset in respect of income tax losses and timing differences of CMD (refer *Impairment loss* above).

(ii) $Nil million charge (June 2012 Year: $1.99 million benefit) relating to the deferred tax impact of the unwinding of the fair value adjustments taken up on the acquisition of the CMD Gold Mine. These fair value adjustments created a difference between the carrying value of the assets in the Company's financial statements and the assets' tax value, and resulted in the recognition of a deferred tax liability on acquisition. As the fair value uplift is amortised over time the difference between the carrying value of the assets in Lachlan's financial statements and the assets' tax value will reduce and the deferred tax liability reverse. At June 30, 2013 a 100% impairment loss was booked against these fair value adjustments.

Exchange difference on translation of foreign operations

The $0.72 million charge to the foreign exchange reserve balance in the year comprises a $1.50 million unrealized foreign exchange loss on an intercompany balance offset by a $0.78 million credit from the translation of CMD financial statements, which are presented in US$, to A$ on consolidation. The movement is required to be shown on the face of the statement of profit or loss and comprehensive income as a reconciling item to total comprehensive income.

Earnings per Share

Earnings per share reflects the underlying result for the period. Given there is a loss for the Quarter and Year the outstanding share options are not considered to be dilutive and diluted loss per share is the same as basic loss per share.

LIQUIDITY, CAPITAL RESOURCES AND COMMITMENTS

During the last three years, the Group has accessed equity capital markets and debt as its primary source of funding to finance its activities. Gross proceeds of $10.21 million were raised from the issue of Ordinary Shares and from the exercise of share options and warrants during the year ending June 30, 2013, and $32.07 million during the year ending June 30, 2012.

In February 2013 the Company drew CDN$5 million under a secured credit facility ("Facility") with Sprott Resource Lending Partnership ("Sprott") of which CDN$0.5 million was repaid on 9 October 2013. The terms of the Facility were amended in February 2014 such that the remaining Facility of CDN$4.5 million would be partly repaid through the payment of 12 monthly principal repayments of CDN$0.18 million commencing 31 March 2014, the repayment of CDN$1 million by 30 September, 2014, and the payment of an extension fee.

The terms of the Facility were further amended in June 2014 such that the CDN$3.75 million outstanding balance of the Facility was converted to a gold loan. The terms of the amendment include the removal of both the 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 are replaced by a monthly gold loan payment based on a fixed number of gold ounces multiplied by the higher of the monthly closing gold price and US$1,200, and the term of the gold loan has been extended to 31 October 2016. A total of 300,000 shares were issued to Sprott as an extension fee in respect of this amendment.

On 30 September 2013 the Company announced that it had entered into subscription agreements with accredited North American and European investors to raise a total of CDN$8 million at an issue price of

CDN$0.20 a share from the issuance of 40 million ordinary shares. The placement was completed in two tranches, the second one subsequent to shareholder approval which was obtained on 4 November 2013. Finder's fees totalling 3% cash and 1,155,431 warrants were paid in respect of this share issue. The net proceeds of the private placement were used to prepay CDN$0.5 million against the outstanding Sprott Facility and to fund development and working capital at the Company's 100% owned CMD Gold Mine in Chile.

In November 2013 the Company completed a placement of 7,500,000 shares raising gross proceeds of CDN$1.5 million at CDN$0.20 per share with finder's fee totalling 5% cash and 375,000 warrants.

On 15 September 2014 the Company announced that its Chilean subsidiary, CMD, had sold certain non-core mining properties to Compañía Minera Teck Carmen de Andacollo ("CDA"). The properties sold adjoin CDA's mining properties and are non-core to CMD's gold mining operations. CMD will receive US$3 million on completion of the transfer of one group of mining properties to CDA plus US$0.5 million for the grant of a five year purchase option that would result in additional proceeds of US$1.5 million if CDA exercises such option to purchase further mining properties. Of the US$3.5 million initial proceeds, US$1.5 million has been received and the remaining US$2 million is in escrow pending the completion of legal transfers and is expected to be received prior to 31 December 2014.

See under the heading "*Financial Condition*", above, the table summarizing the movements in the financial position of the Group over the last eight quarters and the discussion of cash and cash equivalents.
The following table sets forth information regarding the Group's contractual obligations as at June 30, 2014:

	Payments Due				
Contractual Obligations	**Total**	**Less than 1 Year**	**1 - 2 years**	**3 - 5 Years**	**After 5 Years**
	$ million	**$ million**	**$ million**	**$ million**	**$ million**
Exploration commitments(1)	--	--	---	—	—
Borrowings(2)	$19.20	$7.71	$6.78	$4.71	—
Trade And Other Payables	$21.20	$21.20	—	—	—
Provisions(3)	$5.79	—	—	$5.79	—
Other(4)	$32.83	$21.17	$10.23	$1.43	—

Notes:

(1) The Company's mineral rights in Chile are not subject to minimum expenditures on exploration activities.
(2) See the discussion in the sections entitled "*Total liabilities*" under the heading "Financial Condition" above. The Group had no unused banking facilities at September 25, 2014.
(3) Provisions relate to Chilean site restoration and employee termination obligations.
(4) "Other" relates to future commitments arising out of contracts in place as at June 30, 2014 at the CMD Gold Mine, primarily for mining related supplies, fleet maintenance, power, and cyanide.

The net proceeds from the US$3.5 million sale of non-core mining properties to CDA as described above are anticipated to be sufficient, together with cash flows from operations and additions to working capital as required, to finance the current exploration program and operations and to meet all other contractual, corporate and administrative costs for the Company for the ensuing 12 months. The actual expenditures for exploration and drilling will depend on a number of factors including the success of the drilling or exploration program, as the case may be.

The Company intends to finance its working capital requirements and planned growth and development activities from existing cash balances, finance facilities noted above and cash flows from operations. However, further financing may be required to fund increases in capital expenditure or for operational expenditure or working capital purposes at the CMD Gold Mine. Expenses will be financed from cash flow from operations to the extent possible. Net cash generated from operating activities in the June 2014

Quarter was $2.61 million and the June 2014 Year $9.48 million. It is anticipated that further funds would be obtained, if required, by asset sales, or additional debt or equity raisings.

Based on the economics of the CMD Gold Mine the Company believes that it will be able to raise such funds through additional financings if required. However, there is no assurance additional financing will be available, as and when required, or if available, that it will be on terms acceptable to the Company. See "*Risk Factors — Need for Additional Capital*" in the Company's 2014 AIF, available under the Company's profile on SEDAR at www.sedar.com and on the Company's website at www.lachlanstar.com.au.

COMMITMENTS

The Company had no capital commitments at year end.

OFF BALANCE SHEET ARRANGEMENTS

There are no material off-balance sheet arrangements as at June 30, 2014.

TRANSACTIONS WITH RELATED PARTIES

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

The consolidated entity recharged $29,180 (2013: $99,117) and was charged $25,614 (2013: $Nil) on an arm's length basis to / from Nevada Iron Limited, a company of which Mr Michael McMullen is Chairman, for office rent, administration staff, and car parking until Mr McMullen resigned as a director of the Company on 6 April 2014.

CRITICAL ACCOUNTING ESTIMATES

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

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year and judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements, are:

Impairment

AASB 136 *Impairment of Assets* requires a company to make a formal estimate of recoverable amount if an indicator of impairment is present. Impairment indicators exist for the consolidated entity, being a loss for the period and a Company market capitalisation of CDN$12.55 million on TSX at 19 September 2014 compared to consolidated net asset carrying values of $25.79 million at 30 June 2014 prior to any current year impairment charge.

The recoverability of the carrying amount of the Company's one cash generating unit, being the CMD Gold Mine, has been reviewed by the consolidated entity. In conducting the review, the recoverable amount has been assessed by reference to the higher of 'fair value less costs to sell' and 'value in use'. Recoverable amount assessments are principally based on discounted cash flow analysis which requires the use of estimates and judgements in relation to a range of inputs including (a) quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction; (b) discount rates; (c) timing of future production; (d) future exchange rates and commodity prices; and (e) future costs of production and capital expenditure. Regard has been given to external consensus forecasts of key assumptions where available.

Recoverable amount is fair value less costs to sell. Fair value was determined by a discounted cash flow analysis covering projected production from 2014 to 2017 using a post-tax discount rate of 10.4% and resulted in an impairment loss of $10.85 million for the June 2014 Year which has been attributed to property, plant and equipment and mine development properties.

The assumption to which the recoverable amount is most sensitive is the gold price. The following gold prices, being the "medium" financial institution consensus forecasts, were used as inputs in the discounted cash flow analysis:

	2014	**2015**	**2016**	**2017**
Gold price US$ / oz	1298	1300	1300	1300

Variations to the expected future cash flows, and timing thereof, could result in significant changes to the impairment test results which could in turn impact future financial results, including the potential for the impairment loss recognized in the current and /or prior year to partially or totally reverse.

The financial statement line items affected by this critical accounting estimate are "Property, plant and equipment" and "Mine development properties" in the Consolidated Statement of Financial Position, and "Impairment loss" in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Provisions

The consolidated entity has recognised a provision for environmental restoration. This provision has been measured based on management's estimates of the probable amount of resources that will be required to settle the obligation and the timing of settlement. Such estimates are subjective and there may be a future need to revise the book value of the provision as a result of changes in estimates.

Functional currency

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

For subsidiaries Compania Minera Dayton ("CMD"),Dayton Chile Exploraciones Mineras Limitada ("DCEM"), Minera Andacollo Spa, Minera La Laja Spa, and Minera Rosario Spa the above indicators are mixed and the functional currency is not obvious. Management used its judgment to determine which factors are most important and concluded the US dollar is the functional currency for those companies. For Lachlan Star Limited and its other subsidiaries management have determined that the Australian dollar is the functional currency for those companies given their recurring revenue and expenditure is mostly in Australian dollars.

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

Recovery of ounces of gold in leach pad inventories

Management has estimated the recovery of gold in the leach pad at the CMD Gold Mine based on recovery rates experienced after the September 2000 shutdown. Management evaluate this estimate on an ongoing basis for any changes that may result in adjustments to the financial statements.

The financial statement line items affected by this critical accounting estimate are “Inventories” in the Consolidated Statement of Financial Position and “Cost of sales” in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Income taxes

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

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

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

Reserve estimates

Reserves are estimates of the amount of product that can be economically and legally extracted from the consolidated entity's properties. In order to calculate reserves, estimates and assumptions are required about a range of geological, technical and economic factors. Estimating the quality and/or grade of reserves requires the size, shape and depth of ore bodies to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements and calculations to interpret the data. The group is required to determine and report ore reserves in Australia under the principles incorporated in the December 2012 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, known as the JORC Code. The JORC Code requires the use of reasonable investment assumptions to calculate reserves.

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

The Group is also required to determine and report mineral reserves in Canada pursuant to NI 43-101. Both the JORC Code and NI 43-101 require the use of reasonable investment assumptions to calculate reserves.

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

Exploration and evaluation expenditure

Expenditure which does not form part of the cash generating units assessed for impairment has been carried forward in accordance with Note 1(e) on the basis that exploration and evaluation activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in relation to the area are continuing. Exploration expenditure incurred that does not satisfy the policy stated above is expensed in the period in which it is incurred. Exploration expenditure that has been capitalised which no longer satisfies the policy stated above is written off in the period in which the decision is made.

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

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

The Company's key accounting policies and the adoption of new and revised accounting standards are provided in Note 1 to the Company's consolidated financial statements for the year ended June 30, 2014.

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* and AASB 2011-12 *Amendments to Australian Accounting Standards arising from IFRIC 20* are effective 1 July 2013. IFRIC 20 (applied in Australia as Interpretation 20) sets out the accounting for overburden waste removal (stripping) costs in the production phase of a surface mine. It states that these costs can only be recognised as an asset if they can be attributed to an identifiable component of the ore body, the costs relating to the improved access to that component can be measured reliably and it is probable that future economic benefits associated with the stripping activity (improved access to the ore body) will flow to the entity. The costs will be amortised over the life of the identified component of the ore body. This is different to the consolidated entity's previous accounting policy which was to capitalise stripping costs based on a combined pit waste-to-ore stripping ratio and amortise the costs over the life of the mine. IFRIC 20 has been applied prospectively to the Company's production stripping costs incurred on or after 1 July 2012 resulting in the restatement of comparatives for the year ending 30 June 2013. Capitalised deferred stripping costs of $3.99 million that are not related to an identifiable component of an ore body at 30 June 2012 have been written off against retained earnings at that date. The financial effect of these accounting policy changes on the previously presented financial statements as at 1 July 2012 and 30 June 2013 are set out in Note 30 to these financial statements.

The Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after July 1, 2014. As a result of this review, the directors have determined that there is no change necessary to Group accounting policies at this time.

FINANCIAL INSTRUMENTS AND RELATED RISKS

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

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

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

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. Exposure to credit risk is considered minimal but is monitored on an ongoing basis.

Cash transactions are limited to financial institutions considered to have a suitable credit rating. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position at balance date. The carrying amount of the Group's financial assets represents the maximum credit exposure.

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

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

Market risk

(i) Interest rate risk

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

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

(ii) Foreign exchange risk

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

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

	Average year ended 30 June 2014	**As at 30 June 2014**	**Average quarter ended 30 June 2014**
A$ / US$	0.918	0.944	0.933
A$ / CDN$	0.983	1.007	1.018
US$ / Peso	533	552	555
A$ / Peso	489	521	518

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

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The Group's approach to managing this risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due under a range of financial conditions. There has been no significant change in the Company's exposure to liquidity rate risk or its objectives and policies for managing this risk during the Quarter.

Commodity price risk

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

CONTINGENT ASSETS AND LIABILITIES

In June 2011, a subsidiary terminated the contract of one of its mining contractors in Chile, "Maestranza Martinez Torres y Cia. Ltda" (Martimec") for non-performance under the terms of their mining contract. Martimec requested the appointment of an arbitrator under Chilean law who would be called to rule on the early termination of the contract. Subsequent to the appointment of the arbitrator, Martimec was declared bankrupt under applicable Chilean law. The contractor submitted a claim, and the subsidiary presented a well-founded counterclaim. The Company remains confident that the contract was terminated in accordance with its terms. The Company intends to defend itself vigorously if this arbitration proceeds. The decision pertaining to the continuation of the arbitration proceedings is now subject to approval by the creditors of Martimec, and the parties to the litigation are discussing possible termination of the lawsuit on terms of common agreement

A mining contractor has submitted a claim against a subsidiary for compensation as a result of their mining contract not being renewed in August 2013. The subsidiary considers this an ambit claim and has submitted a strong and well-founded response, the purpose of which is to obtain a favourable ruling that completely rejects the former contractor´s claim. The process is now in the stage of mandatory conversation by the parties, before the arbitrator, to evaluate possible terms for termination of the lawsuit.

A subsidiary has issued a bank guarantee for US$2,426,165 to Komatsu Cummins Chile Arrienda S.A. as security for the financing of the mining fleet.

SUBSEQUENT EVENTS

On 8 July 2014 Anglo American provided notice of their intention to form a Joint Venture under the Bushranger Farmin Agreement, diluting the Company's interest in the Bushranger Copper Project from 100% to 49%. The Company has elected to dilute further by not participating in the upcoming exploration programme. This has not impacted the carrying value of the exploration asset in the 30 June 2014 Consolidated Statement of Financial Position.

On 26 September 2014 the Company announced its annual review of its Mineral Reserves and Ore Resources. The NI 43-101 compliant Mineral Resource inventory for the CMD Gold Mine of 169.5 Mt grading 0.44 g/t Au was a 27% reduction in tonnes from the previous Mineral Resource reported in 2013. The decrease reflects the new resource modeling efforts which revised the geological interpretation, and considered structural features for the deposit not modeled in the previous year. The new model depleted the ore mined during the period and does not include the Las Loas deposit, which officially ceased operations in March 2013.

The NI 43-101 compliant Ore Reserves for the CMD Gold Mine have decreased by 30% from the previous Ore Reserve reported in 2013 after accounting for mining depletion.The principal reason for the decrease was the new pit design and the exclusion of the low grade ore, reflecting a decreased conversion of resource to ore reserve under the revised open pit mine plan using the revised resources modeling parameters.

On 15 September 2014 the Company announced that its Chilean subsidiary, CMD, had sold non-core certain mining properties to Compañía Minera Teck Carmen de Andacollo ("CDA"). The properties sold adjoin CDA's mining properties and are non-core to CMD's gold mining operations. CMD will receive US$3 million on completion of the transfer of one group of mining properties to CDA plus US$0.5 million for the grant of a five year purchase option that would result in additional proceeds of US$1.5 million if CDA exercises such option to purchase further mining properties.

Since June 30, 2014 the directors of the Company are not aware of any other matter or circumstance that has not been discussed in this MD&A that has significantly or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent quarters.

OUTSTANDING SECURITIES DATA

The Company presently has 147,332,273 Ordinary Shares that are issued and outstanding.

The Company presently has the following issued and outstanding securities that are convertible into Ordinary Shares:

Security or Instrument Name	Number	Exercise or Conversion Price (if applicable) ($)	Expiry Date (dd/mm/yy)
Stock Options	25,000	$1.50	25/11/2014
Stock Options	100,000	$2.10	22/05/2015
Stock Options	100,000	$2.50	22/05/2015
Warrants	432,870	CDN$0.30	2/10/2015
Warrants	1,097,561	CDN$0.30	6/11/2015
Stock Options	1,200,000	A$0.25	29/11/2015

Since June 30, 2014 and up to the date of this MD&A, the Company has not issued any shares or warrants / options.

CONTROLS AND PROCEDURES

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

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

Competent Persons Statement

The information in this Management Discussion and Analysis that relates to Mineral Resources is based on, and fairly represents, information compiled by Mr Sergio Alvarado, a Competent Person who is a Registered Member of the Comisión Calificadora de Competencias en Recursos y Reservas Mineras de Chile (Chilean Mining Commission). The information in the report that relates to Mineral Resources is based on information compiled by Mr Alvarado. Mr Alvarado, who is General Manager with Geoinvestment, is a professional geologist with 25 years of experience in geology and geotechnical engineering. Mr Alvarado is independent of the Company. Mr Alvarado has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertakening to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' and to qualify as a "Qualified Person" under NI 43-101. Mr Alvardo consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

The information in this Management Discussion and Analysis that relates to Ore Reserves is based on, and fairly represents, information compiled by Mr Enrique Quiroga, a Competent Person who is a Registered Member of the Comisión Calificadora de Competencias en Recursos y Reservas Mineras de Chile (Chilean Mining Commission). The information in the report that relates to Ore Reserves is based on information compiled by Mr Quiroga. Mr Quiroga, who is General Manager with Q&Q Ltd., is a professional mining engineer with over 30 years of experience in mine optimisation, design, and scheduling, cost estimation and cash flow analysis. Mr Quiroga is independent of the Company. Mr Quiroga has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertakening to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' and to qualify as a "Qualified Person" under NI 43-101. Mr Quiroga consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

GLOSSARY OF MINING TERMS

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

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