LACHLAN STAR LIMITED

Quarterly Report for the Period Ending 30 September 2014

HIGHLIGHTS

OPERATIONAL PERFORMANCE

- Zero LTA during the quarter.
- Zero environmental incidents.
- Continuing productive relationship with neighbouring communities.
- Stable mining performance consistent with performance levels of previous two quarters.
- Total cost of tonnes stacked of US$15.18/tonne of ore and a 3% reduction over the previous quarter.
- C1 Cash Cost of US$779 per ounce of gold produced representing a 21% reduction in C1 cash cost on the prior year corresponding period.

CORPORATE

- On September 15th, the Company announced that its Chilean subsidiary, Compañía Minera Dayton, sold certain mining properties to Compañía Minera Carmen de Andacollo (“CDA”).
- On September 26th, the Company announced an updated Resource and Ore Reserve Statement for the Compañía Minera Dayton Gold Mine (CMD) in Chile.
- Albeit post-quarter, on October 16th, the Company announced a non-brokered private placement to Hamilton Place Associates LLC for proceeds of US$1.14 million and the appointment of a new Chairman. Mr Scott Perry resigned from the board and Mr Peter Babin was appointed as the new Non-Executive Chairman of the Company.

CMD GOLD MINE (100%, CHILE)

Production, Unit Costs and Sales

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

Table 1 – CMD Gold Mine Operating Summary

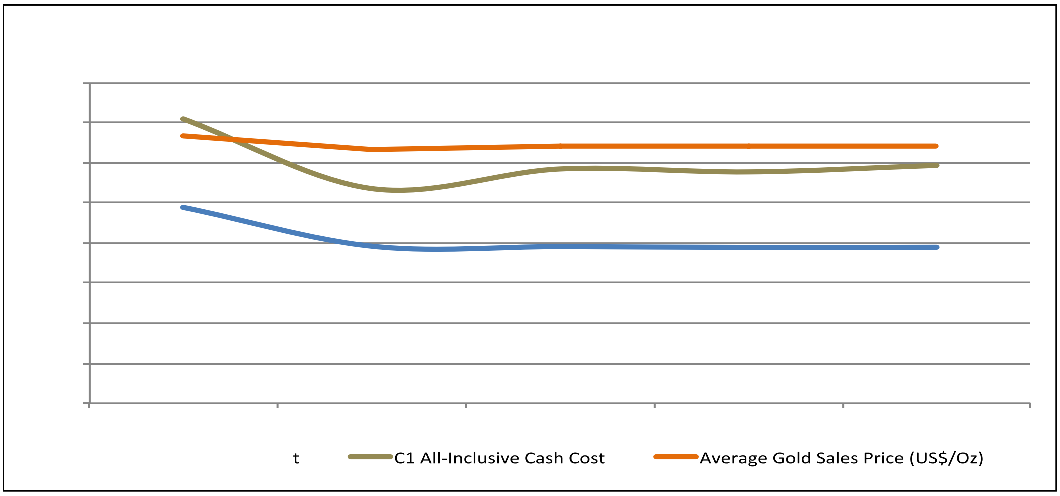
Item	Unit	Sep´14 Quarter	Jun´14 Quarter	Variance (%)
Ore Mined	Dmt	1,252,176	1,235,391	1%
Waste Mined	Dmt	2,195,027	2,248,344	-2%
Total Mined	Dmt	3,447,203	3,483,734	-1%
Waste : Ore Ratio	t:t	1.75	1.82	-4%
Ore grade Mined	Au g/t	0.58	0.57	1%
Gold Mined	Au oz	23,192	22,565	3%
Ore stacked	Dmt	1,192,201	1,205,593	-1%
Stacked Grade	Au g/t	0.53	0.56	-5%
Gold Stacked	Au Oz	20,217	21,549	-6%
Average stacking rate	dmt/d	12,959	13,248	-2%
Silver Produced	Ag Oz	10,707	13,258	-19%
Gold Produced	Au Oz	15,272	15,422	-1%
Mining Cost/t moved	US$/t	2.69	2.42	11%
Mining Cost/t ore	US$/t	7.41	6.82	9%
Process Cost/t ore stacked	US$/t	6.34	7.28	-13%
G+A Cost/t ore	US$/t	1.43	1.48	-3%
Total Cost/t ore	US$/t	15.18	15.58	-3%
Average Sales Price	USD/Oz	1,280	1,285	0%
C1 Cash Cost (exclusive of Process Inventory & Stockpile Adjustments)	USD/Oz	807	864	-7%
Non Cash Process Inventory & Stockpile Adjustment	USD/Oz	-28	-70	-59%
C1 Cash Cost (inclusive of Process Inventory & Stockpile Adjustments/exclusive of Royalties)	USD/Oz	779	794	-2%
C1 All-Inclusive Cash Cost	USD/Oz	1,188	1,155	3%
CMD Gold Mine Gross Operating Profit / (Loss) (Unaudited)	**US$million**	**-0.07**	**-0.17**	**-62%**

Notes:

1. C1 Cash Cost and C1 All-Inclusive Cash Cost are non-GAAP measures and non-IFRS measures that may not be consistent from company to company. In this instance, C1 Cash Cost is defined as all site production costs including process inventory and stockpile adjustments, but excludes all waste expenditure, depreciation and amortisation, and royalties. C1 All-Inclusive Cash Cost is C1 Cash Cost plus waste expenditure and royalties.
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
3. Percentages may not calculate exactly due to rounding.

The parity between C1 Cash Cost, C1 All-Inclusive Cash Cost, and the average gold sales price for the last five quarters is illustrated in Figure 1.

Figure 1 – CMD Gold Mine C1 Cash Costs and Average Gold Sales Price: September´13, December'13, March´14, June´14 and September´14 Quarters

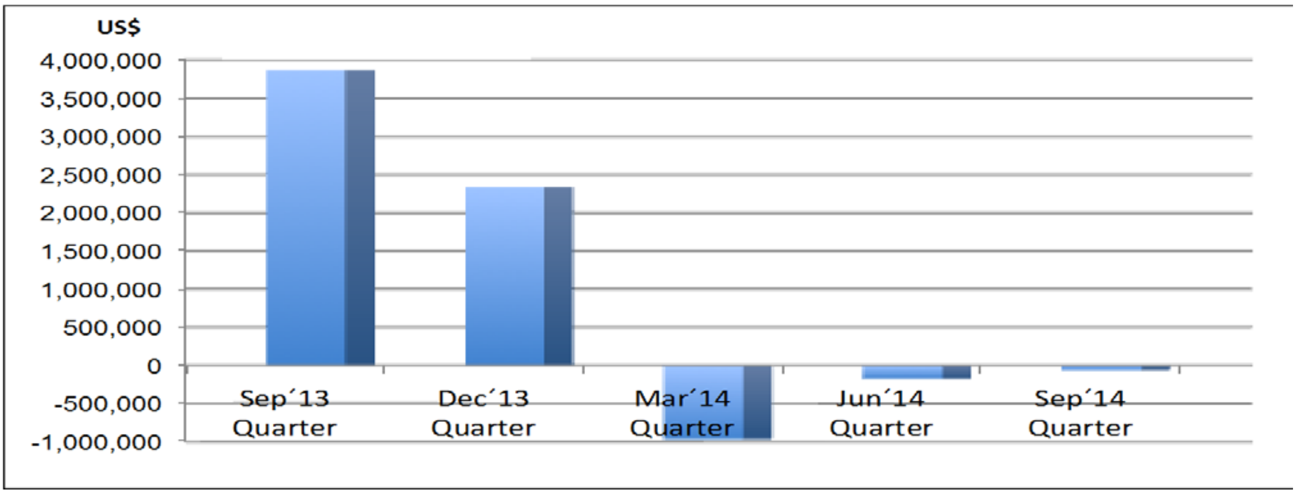


Gold production for the September quarter was 15,272 ounces, representing a 1% decrease on the previous quarter. All production was sold at spot prices, with an average sale price of US$1,280 per gold ounce.

Gold ounces stacked for the September quarter were down 6% on the previous quarter due to a 5% decrease in stacked grade, in spite of a 1% increase in open pit mine ore production, but a slightly lower plant availability resulted in a 1% reduction in tonnes stacked. CMD continues to expect increased levels of open pit ore production in the following quarter, which in addition to improved crushing and stacking performance, should result in higher gold production levels going forward.

The CMD Gold Mine Gross Operating Profit (as defined above) was a loss of US$0.07 million for the quarter (refer to Table 1 and Figure 2), continuing on a positive trend. September quarter sales were US$0.35 million lower than in the June 2014 quarter.

Figure 2 – CMD Gold Mine US$ Gross Operating Profit/(Loss): September´13, December'13, March´14, June´14 and September´14 Quarters



C1 Cash Cost, which exclude waste costs expensed or amortised and royalties, remained consistent quarter over quarter at US$779 per ounce of gold produced. For a fourth consecutive quarter, this is again the lowest C1 Cash Cost for the CMD Gold Mine since the December 2011 quarter (US$799 per ounce).

The inventory adjustment of US$28 per ounce for the quarter comprises a credit of $44 per ounce for the ounces drawn from the leach pad and $72 per ounce for the increased average cost of ounces on the leach pad.

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

Item	September´14 Quarter	June´14 Quarter	March´14 Quarter	December´13 Quarter
C1 Cash costs with inventory adjustment less royalties (US$/Oz)	779	794	761	781
C1 Cash costs without inventory adjustment (US$/Oz)	807	864	910	808
Inventory adjustment effect (US$/Oz)	-28	-70	-149	-27

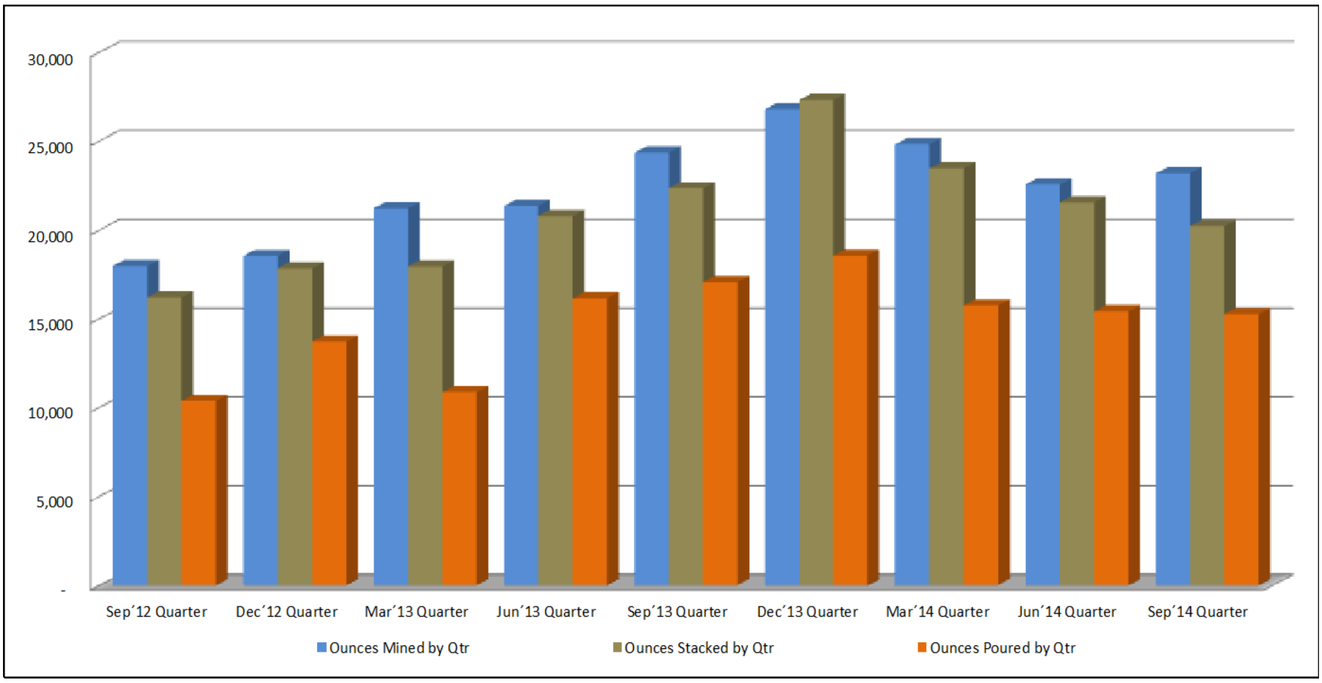
Total costs per tonne of ore stacked decreased 3% quarter on quarter to US$15.18 per tonne, which is one of the lowest unitary cost results achieved under the Company´s ownership. The decrease in total costs per tonne was driven by:

- a 4% decrease in the waste to ore ratio;
- a 13% decrease in process costs per tonne stacked, even considering the 1% fall in stacked tonnes;
- a 3% decrease in administration costs per tonne stacked, even considering the 1% fall in stacked tonnes;
- a 9% increase in mining cost per tonne of ore, due to a higher participation of 3rd party high-grade ore purchases (higher US$/tonne ore).

Figure 3 illustrates the ounces mined, stacked and produced by quarter since the third quarter of 2012.

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

Figure 3 – Quarterly Ounces Mined, Stacked and Gold Produced

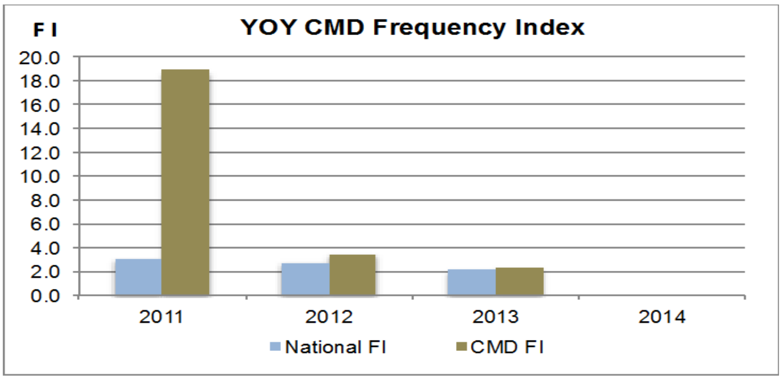


Safety

Safety is a key focus for management at the CMD Gold Mine and this can be seen in Figure 4 below. The CMD Gold Mine has been operating for 700,000 hours LTA free since January 2014.

The Frequency Index (FI) reflects exclusively CMD records, not including mining contractors.

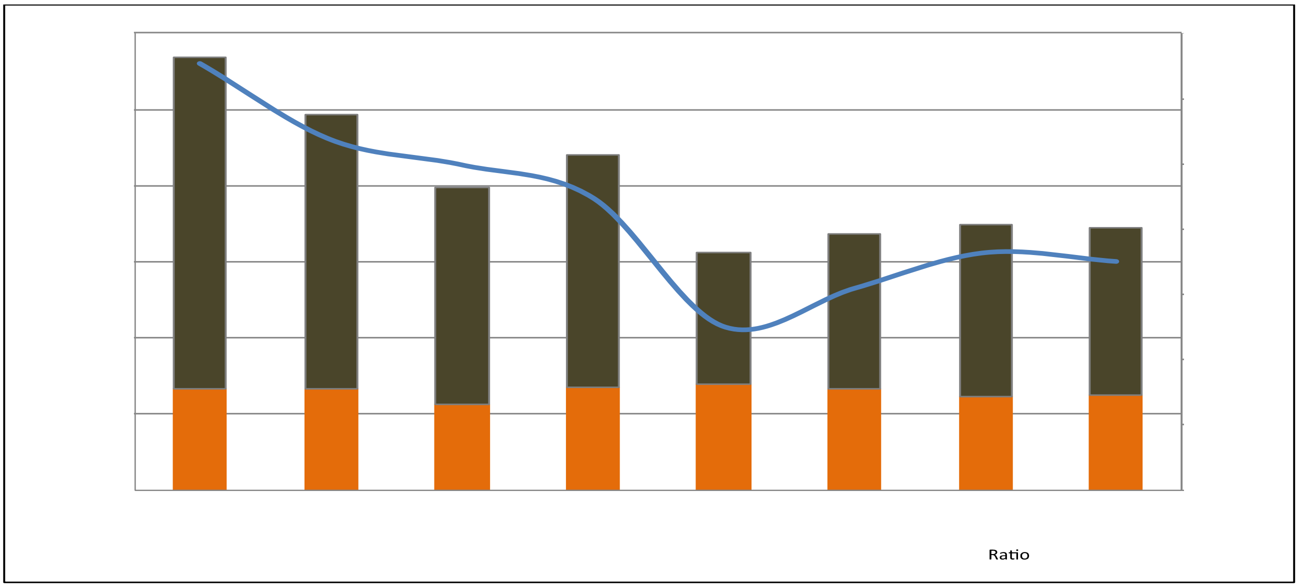
Figure 4 – CMD Gold Mine Safety Statistics



Mining

Total ore mined for the September quarter was 1.25 million tonnes for 23,192 contained Au ounces, an increase of 1.4% and 2.9% respectively. The waste to ore ratio decreased during the quarter to 1.75 to 1 (from 1.82 to 1 in the previous quarter) as the pushback development in Tres Perlas Phase 7 is advancing well. Ore was principally sourced from the Tres Perlas (39%) and Churrumata (33%) pits, and third party ore purchases (27%). Figure 5 shows the mining rate and waste to ore ratio by quarter for the last 8 quarters.

Figure 5 – Material Mined and Waste to Ore Ratio by Quarter

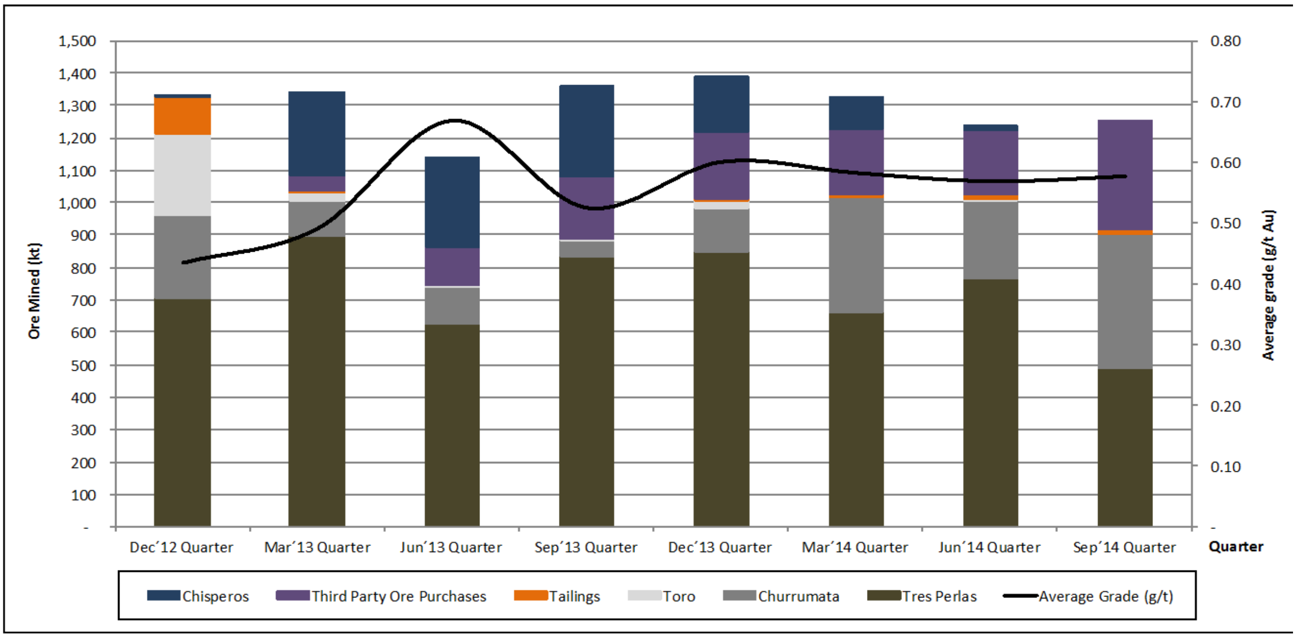


The mining plan still maintained focus on the Tres Perlas pit (39% of total ore mined), but with increased activity in the development of the Churrumata Phase 4 (Cerro Mercedes) pit, all using the Company's mining fleet. Total quarterly ore production from Tres Perlas decreased to 33% of the total ounces mined due to a increase in mining in Churrumata (27% of ounces mined) and also an increase in 3rd party ore purchases, which contributed with 38% of the total ounces mined during the period, as illustrated in Figure 6.

Mining of old tailings deposits inside CMD property totalled 15,506 tonnes during the quarter. Due to its fine size distribution, this material needs to be carefully blended with the normal crushed ore in order to not impact negatively on the leach pad percolation.

Third party ore purchases showed a remarkable increase of 67% over previous quarter reaching 336,259 tonnes during the quarter with a slightly lower grade than the previous quarter.

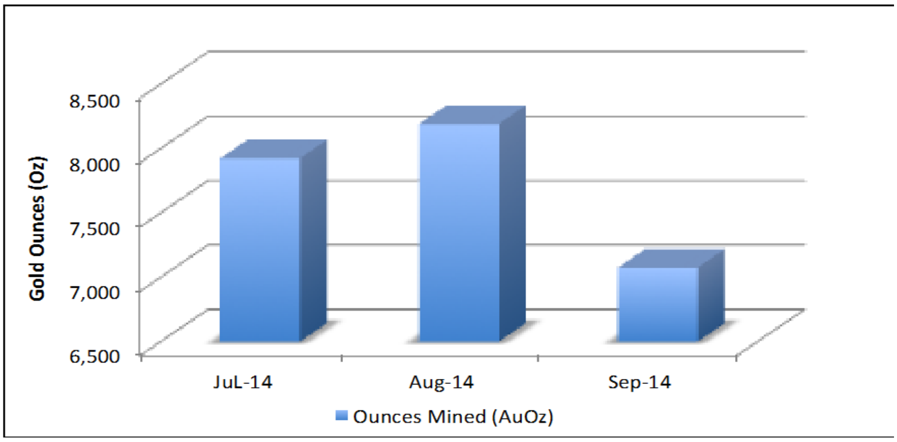
Figure 6 – Ore Mined by Pit and Quarter



As seen in Figure 7, the ounces mined during the September quarter fluctuated during the period. Mining of the Tres Perlas pit continues to the north (Phase 7) and in the deeper parts of the pit (Phase 6), though grades experienced a decrease in both pits during the month of September, negatively impacting total ounces mined in this specific month. Similarly, Churrumata also returned lower than expected grades (average 0.45 g/t) in the September month, which had a negative impact on total ounces mined in the period.

On September 9th at 10:30AM (local time) a Fall Of Ground (FOG) occurred at the Tres Perlas Phase 7 pit in the Northwest wall, affecting the main hauling ramp at RL 1015. No injuries to people and no property damage occurred. The FOG, a 100,000 tonnes wedge slippage, compromised 6 benches below RL 1015 and caused an immediate negative impact on the mining schedule of 2,400 Au ounces. Production activities were stopped for 2 days until a thorough assessment was made to clear access to the zone. Plans were put in place in order to minimize the ounces lost until the end of the fiscal year.

Figure 7 – September´14 Quarter Ounces Mined



Average mined grades experienced a slight increase quarter on quarter, from 0.57 g/t to 0.58 g/t Au, an increment of 1.4% quarter on quarter, even considering that the September month was characterized by lower than forecasted grades. The 67% increase quarter on quarter in 3rd party ore purchases highly contributed to the 3% increased on total ounces mined over the previous quarter.

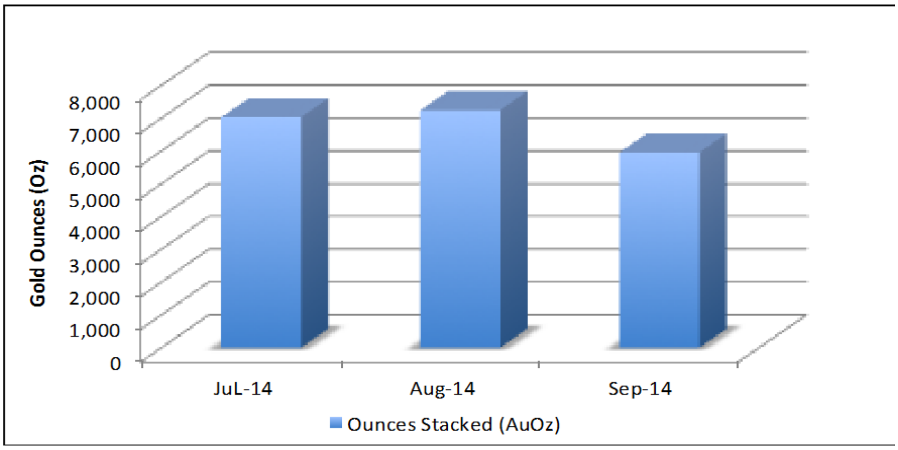
The Company continues to strengthen its relationships with small miners in the area and ore purchasing continues, with 39% of the ounces mined during the quarter being sourced from third parties and the re-processing of historical tailings. This provides a net positive effect to employment and economic sustainability within the region, as well as a source of ore that can prolong the ultimate life of the operation. The Company has also realised value in mixing on-site old tailings with new ore, resulting in decreased mining costs and production outside of the mineral reserve base.

Processing

Due to lower than forecast plant throughputs, ore tonnage stacked was down 1% and negative reconciliation mine-plant brought the grade stacked 5% down quarter on quarter. Consequently, gold ounces stacked were also down 6%, quarter on quarter. Figure 8 shows ounces stacked during the September quarter.

The reduced ounces stacked were basically the result of lower plant throughput, caused by ore shortage in the September month, associated with lower plant availability as well. CMD expects ounces stacked to increase in the next quarter returning higher gold production levels going forward, which will be achieved through projected improved performance of the crushing and stacking plants, based on previous quarters' historical performance.

Figure 8 – September´14 Quarter Ounces Stacked



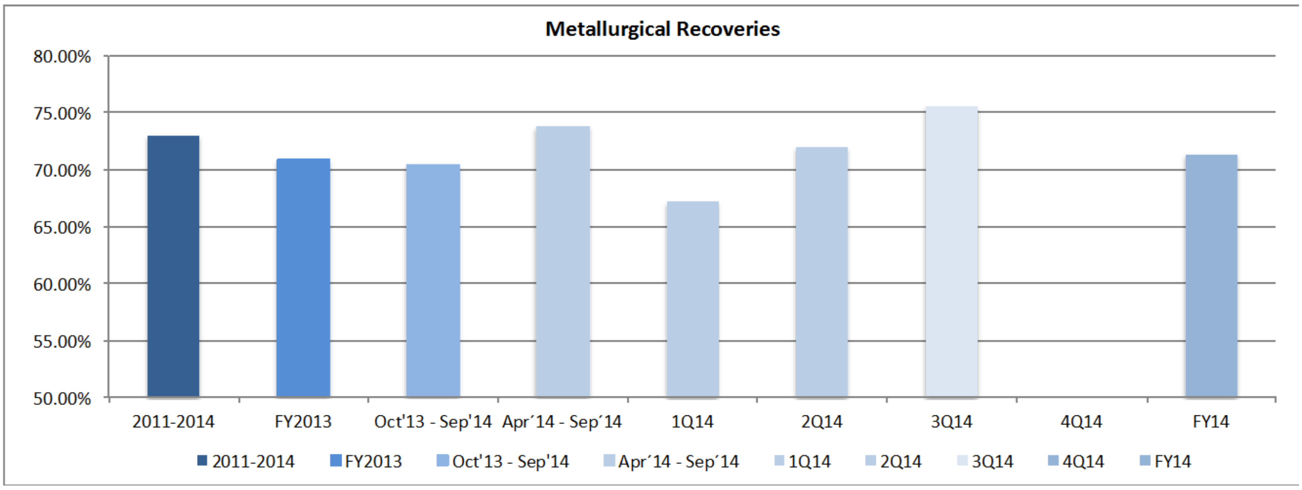
As seen in Table 3 and Figure 9, metallurgical recoveries have experienced substantial improvements quarter on quarter for the last 3 previous quarters, moving from 67% in the March quarter to 76% in September quarter. In addition, it is already above the historical metallurgical recovery for the period January 2011 – September 2014 (73%).

The increases in metallurgical recoveries have been achieved through the addition of a pre-cyanidation circuit, improved ADR efficiencies and a more favourable ore blend. Leaching cycle time has been reduced to 90 days.

Table 3 – Metallurgical Recoveries

			Last 12 months	Last 6 months					
	2011-2014	FY2013	Oct'13 - Sep'14	Apr'14 - Sep'14	1Q14	2Q14	3Q14	4Q14	FY14
Historical Metallurgical Recovery Jan11 - Sep14	72.99%	70.83%	70.38%	73.71%	67.20%	71.98%	75.55%		71.37%

Figure 9 – Metallurgical Recoveries



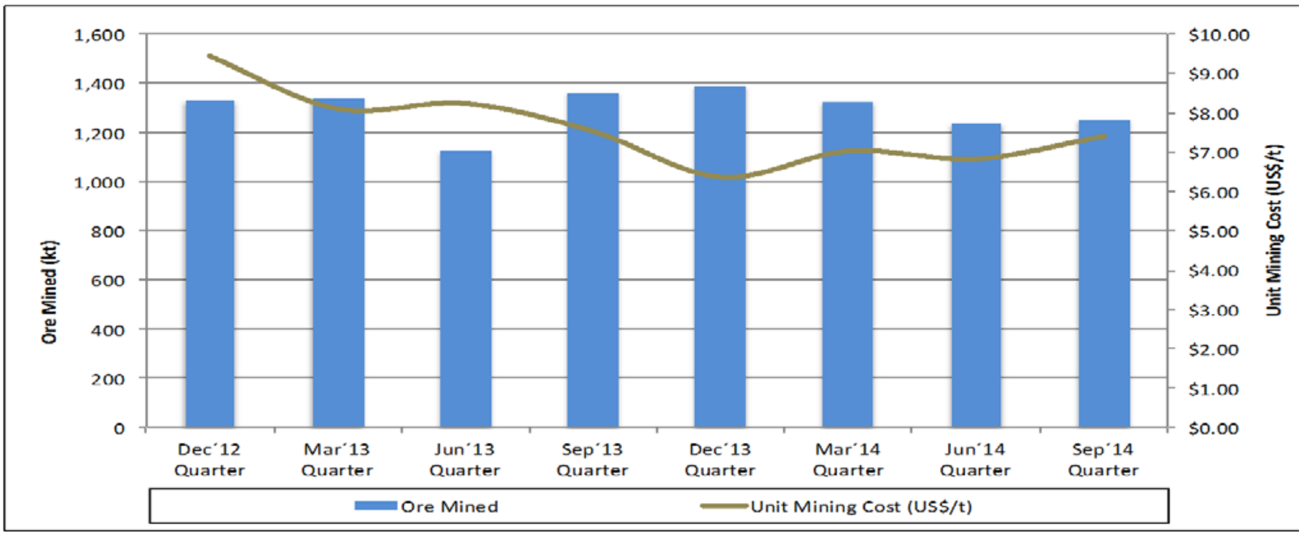
PROJECT COSTS

Mining

Mining unit costs increased by 11% up to US$2.69 per tonne moved (from US$2.42 per tonne the previous quarter), due to the impact of 1% lower total tonnes moved associated with the higher tariffs paid for ore purchases in relation with their higher grades. The mining cost per tonne of ore increased by 9% up to US$7.41, in spite of the 4% lower waste to ore ratio experienced 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 10 illustrates the quarterly history of mining costs per ore tonne over the last 8 quarters.

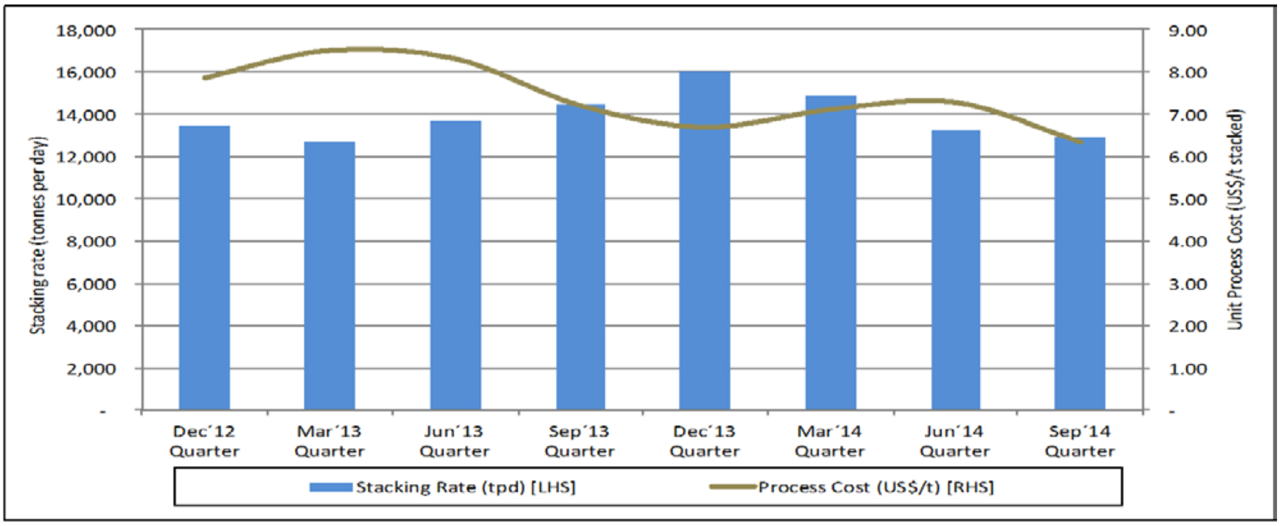
Figure 10 – Ore mined and mining cost per tonne of ore



Ore Processing

Process costs decreased to US$6.34 per tonne stacked which was a 13% decrease quarter on quarter (Refer Figure 11), even considering the 1% reduced tonnes stacked in the period. The main drivers for the lower process costs in the September quarter, which historically is one of the lowest, were mainly driven by lower NaCN consumption, lower power costs and lower make-up process water consumption.

Figure 11 – Process cost per tonne stacked



General and Administration (G&A)

G&A costs decreased by 3% quarter on quarter to US$1.43 per tonne in spite of the lower tonnage stacked.

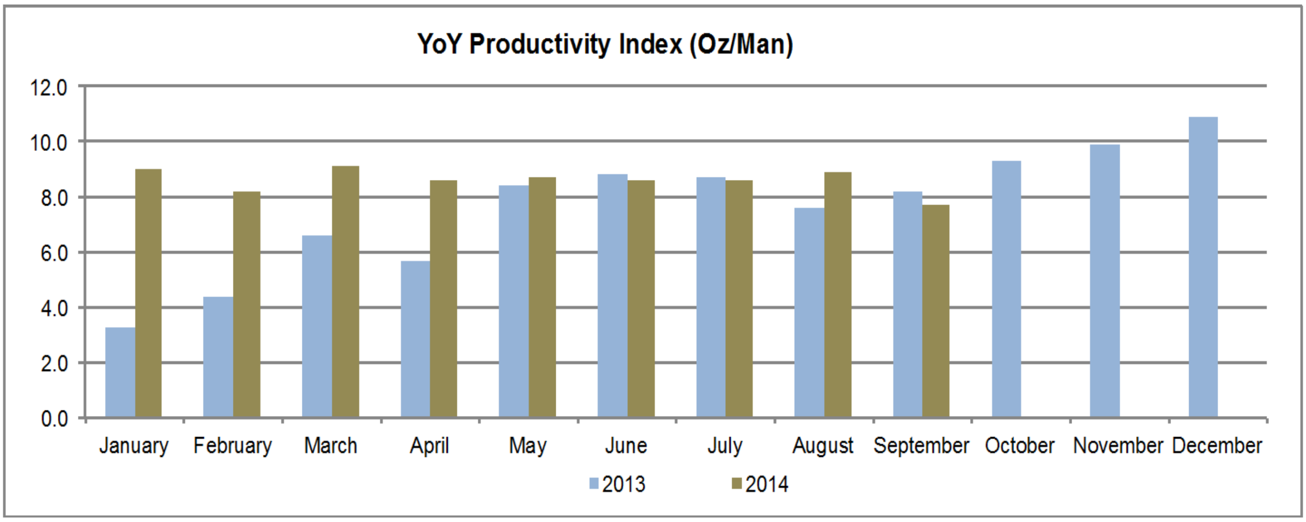
Exploration

No exploration activities were undertaken during the quarter.

Cost Review

The continuous improvement projects and cost reduction initiatives have continued to deliver significant savings over the past year, as evidenced by the fall in the C1 Cash Cost and the material reductions in unit operating costs. Figure 12 illustrates the ounces produced per employee over the last 21 months.

Figure 12 – Productivity Index (Ounces/Employee)



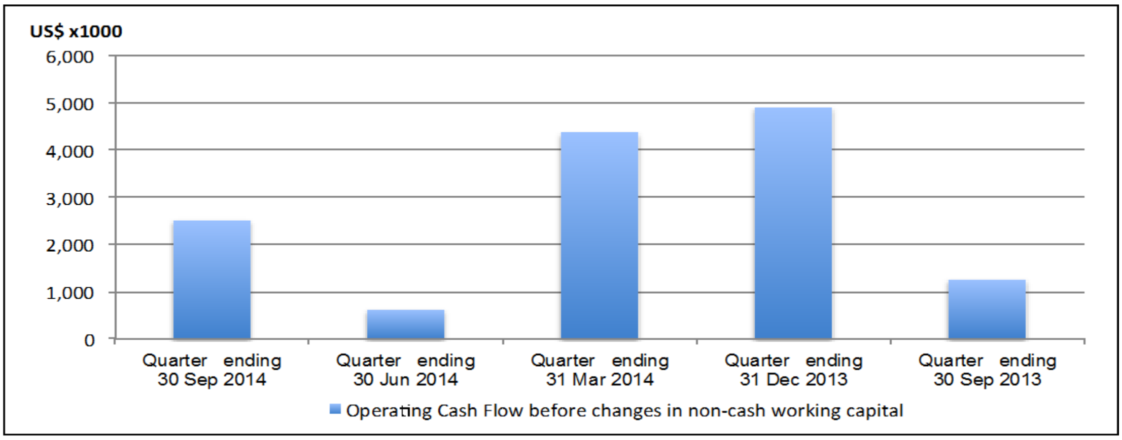
CMD Gold Mine Operations Summary

Consolidated operating cash flow before changes in non-cash working capital of A$2.51 million for the quarter was the fifth consecutive positive quarter for this metric, as indicated in Table 4 and Figure 13.

Table 4 – Quarterly operating cash flow before changes in non-cash working capital

Item	Quarter ending 30 Sep 2014	Quarter ending 30 Jun 2014	Quarter ending 31 Mar 2014	Quarter ending 31 Dec 2013	Quarter ending 30 Sep 2013
Operating Cash Flow before changes in non-cash working capital	2,513	623	4,367	4,901	1,257

Figure 13 – Quarterly operating cash flow before changes in non-cash working capital



Despite the improved operating performance of the CMD Gold Mine the Company's share price has fallen from A$0.20 to approximately A$0.075 over the last 12 months, a devaluation of 63%. The gold price has decreased from US$1,316 per ounce to US$1,216 per ounce over the same period, a decrease of 8% and, as Figure 14 illustrates, the market capitalisation of the Company expressed in gold ounces has fallen from 13,500 ounces a year ago to 7,930 ounces at the end of the quarter, a devaluation of 41%. In the same period, gold production has fallen 10%, as indicated in Figure 15.

Figure 14 – Market Capitalisation in Gold Ounces and Gold Price

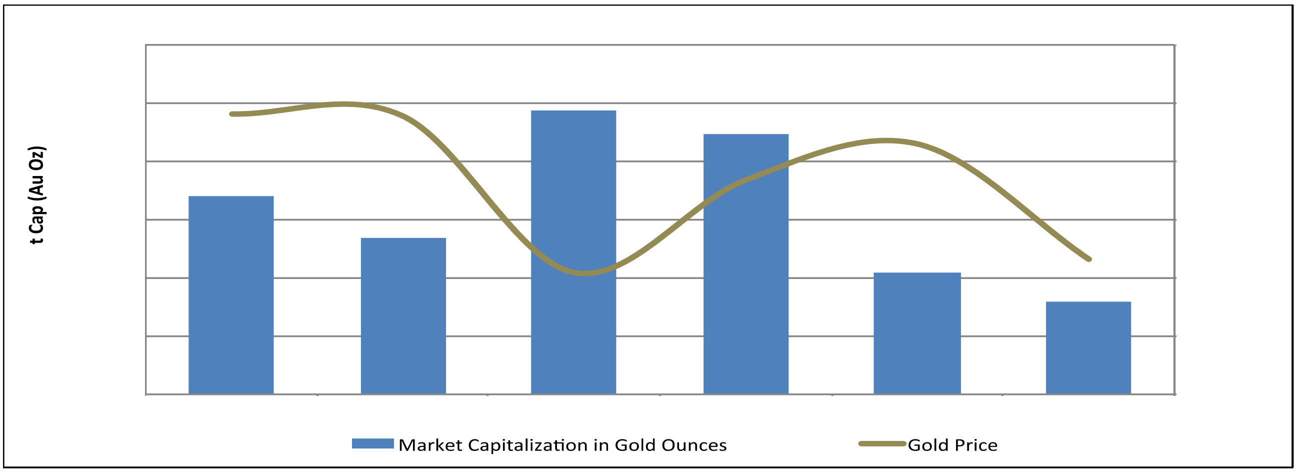
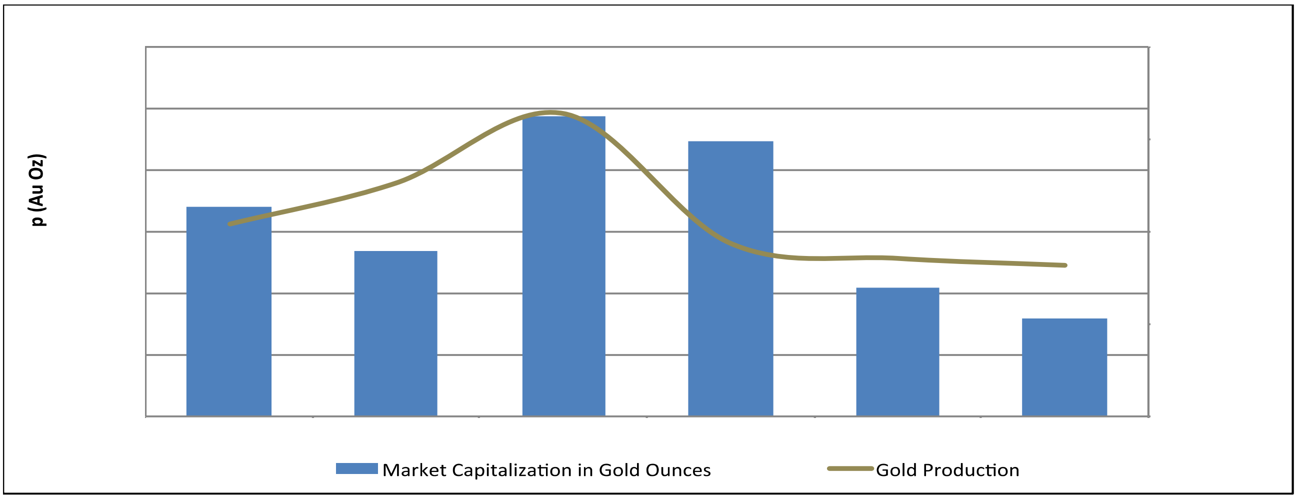


Figure 15 – Market Capitalisation in Gold Ounces and Gold Produced



BUSHRANGER (Lachlan 49%, Anglo American 51%)

On 8 July 2014 Anglo American provided notice of their intention to form a Joint Venture under the Bushranger Farm-in 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.

CORPORATE

On September 15th, the Company announced that its Chilean subsidiary, Compañía Minera Dayton, sold certain mining properties to Compañía Minera Carmen de Andacollo ("CDA"). The properties sold adjoin CDA's mining properties and are non-core to Dayton's gold mining operations. Dayton received US$1.5 million at the signature of the agreement and will receive US$2 million on completion of the transfer of one group of mining properties to CDA, inclusive of 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. US$2 million of the sale proceeds is in escrow pending the completion of legal transfers and is expected to be received by CMD no later than 31 December 2014.

On September 26th, the Company announced an updated Resource and Ore Reserve Statement for the Compañía Minera Dayton Gold Mine (CMD) in Chile. CMD's total Mineral Resources reduced 27% over the last year to 169.47 million tonnes grading 0.44 g/t Au (inclusive of ore reserves) reflecting the new resource modeling efforts, which revised the geological interpretation and considered structural features for the deposit, not modeled in the prior 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 total Ore Reserves for the CMD Gold Mine has decreased by 30% from the previous Ore Reserve reported in 2013 after accounting for mining depletion of 110,000 ounces. The principal reason for the decrease is associated with the exclusion of low grade ore, reflecting a decreased conversion of resource to ore reserve under the revised open pit mine plan using the revised resources modelling parameters.

On October 16th, the Company announced that it has agreed on a non brokered private placement to Hamilton Place Associates LLC of 16,403,486 fully paid ordinary shares at an issue price of US$0.0697 per ordinary share for proceeds of US$1.14 million. The issue is within the Company's existing share issue capacity without shareholder approval. Hamilton has also agreed to a prepaid gold loan working capital facility of at least US$4 million to the Company's subsidiary, Compañía Minera Dayton (CMD), with such working capital advance and associated terms and conditions to be finalized no later than 31 December 2014. Upon completion of this Placement Mr Peter Babin, a Manager of Hamilton was appointed Non-Executive Chairman of Lachlan Star, effective immediately. Upon the appointment of Mr Babin, Mr Scott Perry stood down from the Board of Lachlan Star to focus exclusively on his role as CEO of AuRico Gold.

COMMENTS

Bira De Oliveira, Chief Executive Officer, commented on the quarterly report "Keeping the safety awareness at its highest level all the times is sustaining the positive trend towards an accident-free working environment and avoiding production disruptions. The strategy adopted for this fiscal year focusing on free cash flow and prioritizing margin over production with a parallel reduction in capex, has paid its dividends. The operational performance delivered during this quarter compared with the same period of 2013 showed a 10% decrease in gold produced but a 16% reduction in C1 All-Inclusive Cash Cost highlighting the consistency of the improvements in the key operating metrics for the CMD Gold Mine".

For and on behalf of the Board

Bira De Oliveira
Chief Executive Officer

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Competency Statements

The information in this report 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). 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 undertaking 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 the report of the matters based on his information in the form and context in which it appears.

The information in this report 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). 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, 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 undertaking 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 the report of the matters based on his information in the form and context in which it appears.

Caution Regarding Forward Looking Information:

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

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