

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 November 13, 2014 and provides an analysis of the Company’s performance and financial condition for the three months ending September 30, 2014 (the “Quarter” or “September 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 June 30, 2014 and the Company’s unaudited consolidated financial statements for the Quarter.

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 Compañía 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 and 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 September 30, 2014 was A\$1.00 = US\$0.8727. 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 September 30, 2014 was A\$1.00 = US\$0.9261. 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 cost, C1 all-inclusive cash cost of gold per ounce, 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\$1,216 / ounce as at September 30, 2014. Subsequent to September 30, 2014, the gold spot price has decreased and was US\$1,164.50 / ounce as at November 12, 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 September Quarter was 15,272 ounces, a 1% decrease on the June 2014 quarter (15,422 ounces). In addition, 10,707 ounces of silver was produced during the Quarter. All production was sold at spot prices, with an average sale price of US\$1,280 per gold ounce for the Quarter.

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 1.19 Mt for the Quarter. Gold ounces stacked in the Quarter of 20,217 ounces were down 6% 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 September 29, 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 January 10, 2014 Newmont’s interest has been assigned to Anglo American.

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 May 24, 2014.

On July 8, 2014 Anglo American provided notice that they had met the minimum expenditure requirements and their intention to form a Joint Venture with both parties funding exploration and development on a pro rata basis. 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 September 30, 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 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.

CORPORATE

On September 15, 2014 the Company announced that its Chilean subsidiary, CMD, sold certain mining properties to Compañía Minera Carmen de Andacollo ("CDA"). The properties sold adjoin CDA's mining properties and are non-core to CMD's gold mining operations. CMD 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 December 31, 2014.

On September 26, 2014 the Company announced an updated Resource and Ore Reserve Statement for the CMD Gold Mine 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.

Subsequent to period end, on 16 October 2014 the Company announced a non-brokered private placement to Hamilton Place Associates LLC ("Hamilton") 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 shares were issued on October 17, 2014. 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 December 31, 2014. The facility is dependent upon Lachlan Star having US\$4 million in consolidated cash and cash equivalents at November 30, 2014.

Associated with the placement Mr Peter Babin, a Manager of Hamilton, was appointed Non-Executive Chairman of Lachlan Star and Mr Scott Perry (the former Chairman) stood down as a director. Mr Babin was one of the vendors of the CMD Gold Mine to Lachlan Star in December 2010 and was a director of the Company from that date until November 2013.

OUR PEOPLE

The number of employees at Quarter end increased to 438 from 428 at June 30, 2014. The majority of employees are Chilean nationals, with 437 based at or near to the CMD Gold Mine.

RESULTS OF OPERATIONS

Total sales during the Quarter from the CMD Gold Mine were \$21.20 million, cost of sales was \$22.08 million, and net sales were negative \$0.88 million. Operating cash flow before changes in non-cash

working capital was positive \$2.51 million for the Quarter. The Bushranger Copper Project is not considered to be a core asset of the Company, 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 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 September 30, 2014 as compared to the three months ended June 30, 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	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	tt	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. 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.

A reconciliation of CMD Gold Mine Gross Operating (Loss) / Profit to the IFRS measure consolidated Profit / (Loss) Before Income Tax is provided in Table 2 below.

Table 2 – Reconciliation of unaudited CMD Gross Operating Profit / (Loss) to unaudited consolidated Profit Before Income Tax (Quarter on Quarter)

		3 months ended September 30, 2014	3 months ended June 30, 2014
CMD Gross Operating (Loss) (unaudited)	US\$000	(65)	(174)
A\$ / US exchange rate for the period		0.926	0.933
CMD Gross Operating (Loss) (unaudited)	A\$000	(70)	(186)
Profit on sale of non-core properties	A\$000	3,779	-
Impairment loss	A\$000	(2,101)	(10,853)
Process inventory and inventory provision adjustment	A\$000	471	1,349
Depreciation and amortisation	A\$000	(1,524)	(1,655)
Foreign exchange gain / (loss)	A\$000	1,194	(49)
Fair value (loss) on liabilities carried at fair value	A\$000	(399)	(262)
Net finance (expense)	A\$000	(16)	(116)
New venture expenditure written off	A\$000	(6)	(3)
Other head office related costs	A\$000	(383)	(645)
Consolidated Profit / (Loss) Before Income Tax (unaudited)	A\$000	945	(12,420)

A reconciliation of C1 cash costs to the IFRS measure Cost of Sales is provided in Table 3 below.

Table 3 – Reconciliation of cash cost (US\$/oz) per ounce to unaudited Cost of Sales (Quarter on Quarter)

		3 months ended September 30, 2014	3 months ended June 30, 2014
Cash cost per ounce	US\$	779	794
Ounces poured		15,272	15,422
Cash costs	US\$000	11,898	12,244
A\$ / US exchange rate for the period		0.926	0.933
Cash costs	A\$000	12,846	13,125
Doré and inventory provision adjustment	A\$000	(55)	(130)
Depreciation and amortization	A\$000	1,524	1,655
Waste costs expensed and amortised	A\$000	6,976	6,333
Royalties	A\$000	403	386
Other	A\$000	48	(66)
Copper / silver net revenue	A\$000	343	254
Cost of sales (unaudited)	A\$000	22,085	21,557

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.

Table 4 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 4 – 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

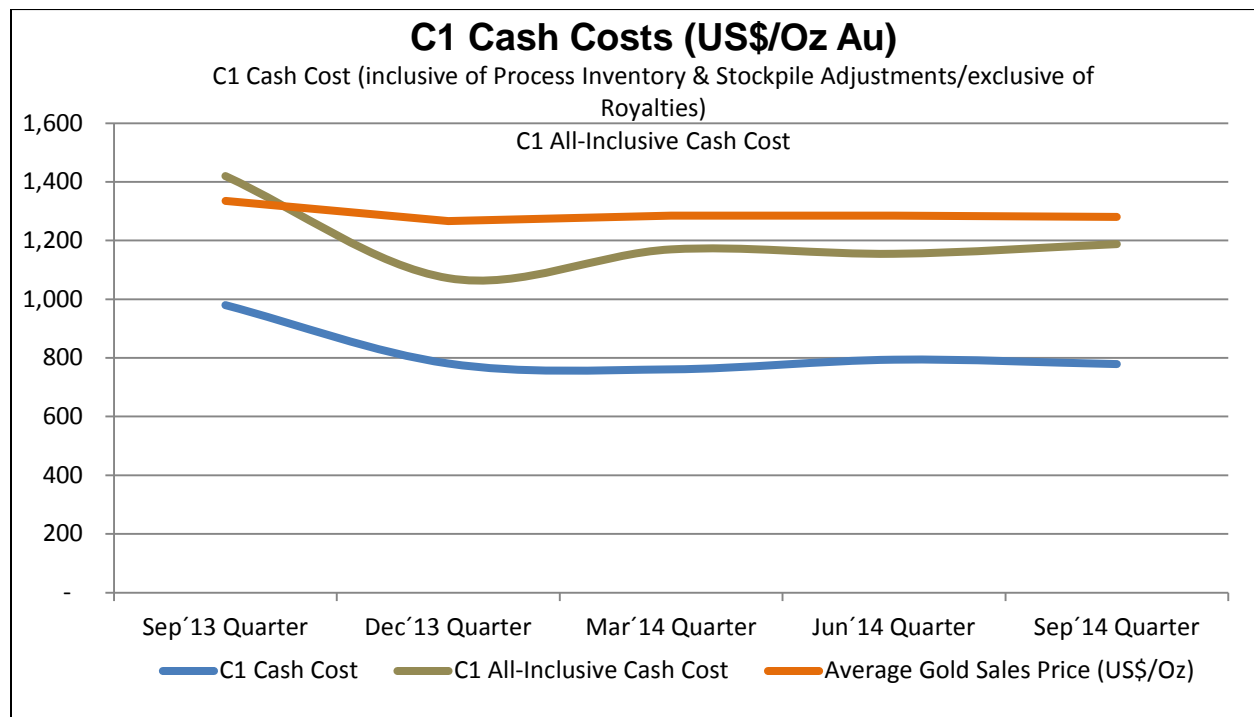
The inventory adjustment of US\$28 per ounce in the Quarter reflects a credit of \$44 per ounce for the ounces drawn from the leach pad and \$72 per ounce for the increased average cost of ounces on the leach pad.

Operating cash flow before changes in non-cash working capital was positive \$2.51 million for the Quarter and continues the trend of positive quarterly results as seen from Table 5.

Table 5 – Quarterly cash flow before changes in non-cash working capital

Item	Quarter ending 30 Sept 2014	Quarter ending 30 June 2014	Quarter ending 31 Mar 2014	Quarter ending 31 Dec 2013
Cash flow before changes in non-cash working capital (A\$000)	2,513	623	4,367	4,901

A comparison 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.

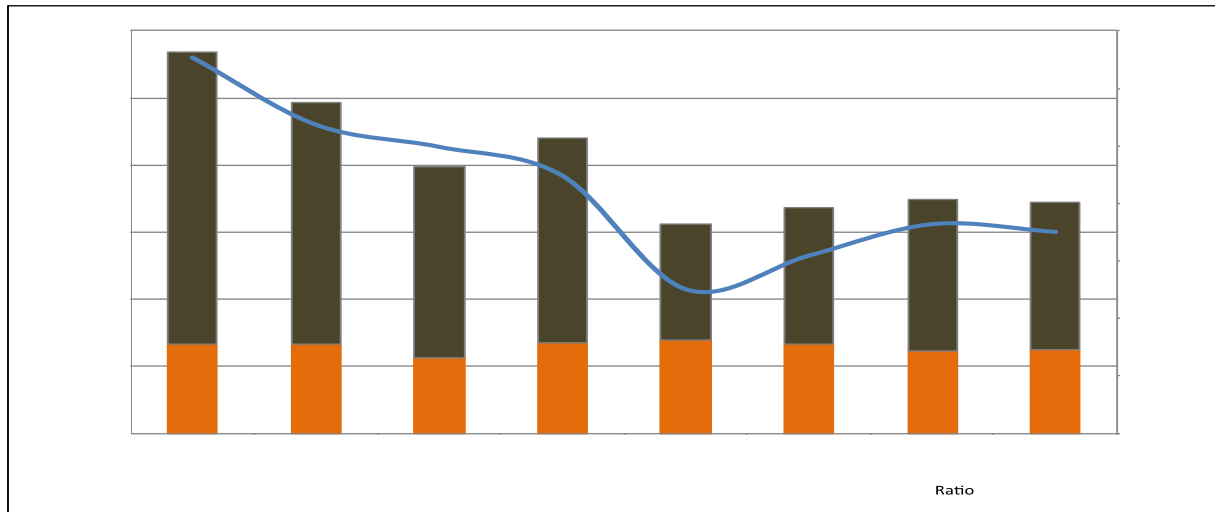
Figure 1 - C1 cash cost, C1 all-inclusive cash cost, and the average gold sales price

Mining

Total ore mined for the Quarter was 1.25 million tonnes for 23,192 contained Au ounces, a decrease of 1% and 3% respectively over the June 2014 Quarter. The waste to ore ratio decreased to 1.75 to 1 from 1.82 to 1 over the same period. Ore was sourced from the Tres Perlas (39%) and Churumata (33%) pits, and third party ore purchases / tailings (28%).

Figure 2 shows the mining rate and waste to ore ratio by quarter for the last 8 quarters.

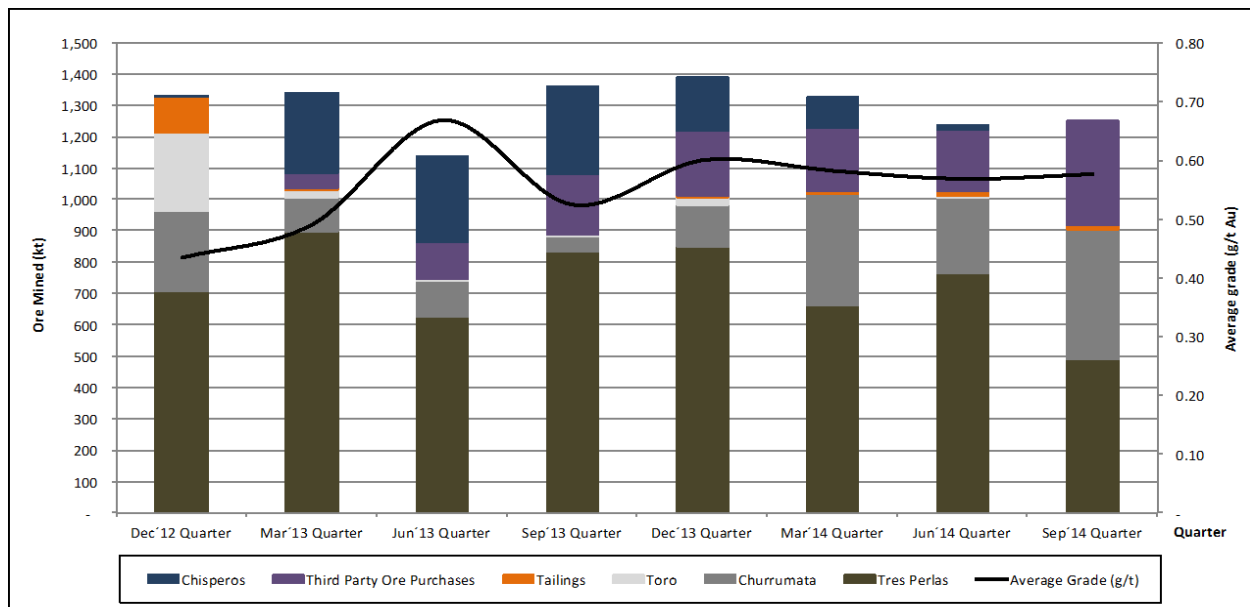
Figure 2– Material mined and waste to ore ratio by quarter



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, both using the Company's mining fleet.

Total quarterly 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 third party ore purchases, which contributed 38% of the total ounces mined during the period, as illustrated in Figure 3.

Figure 3 – Ore Mined by Pit and Quarter

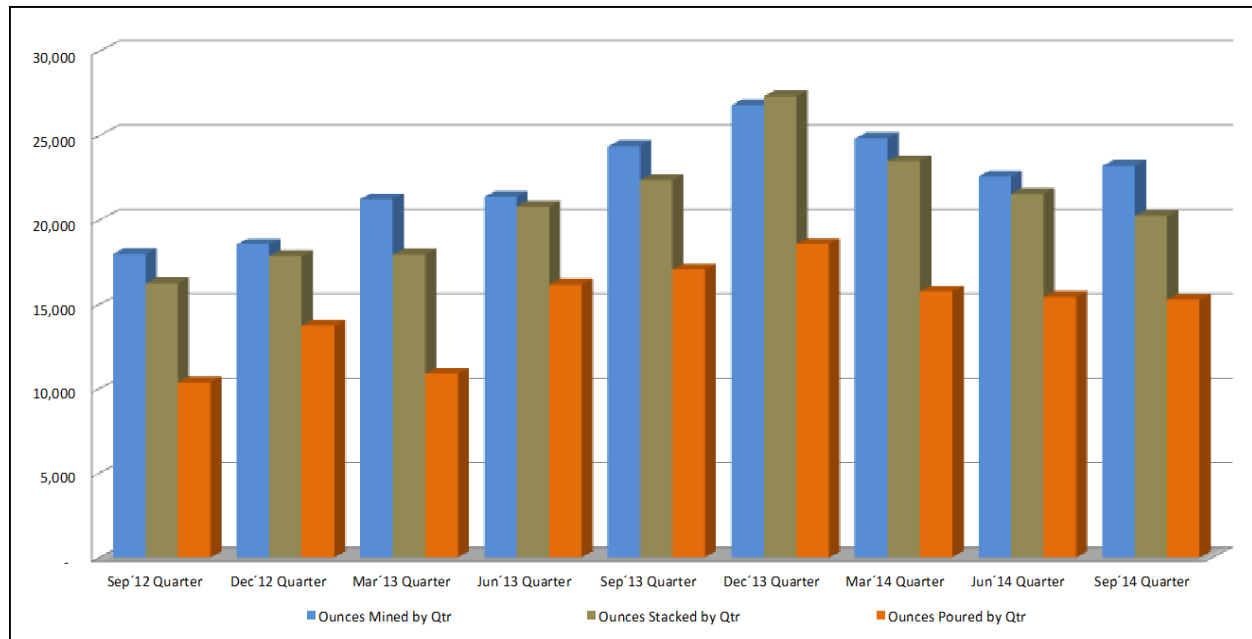


Mining of old tailings deposits inside CMD property totalled 15,506 tonnes during the Quarter. Due to its fine size distribution, this material needs to be carefully blended with the normal crushed ore in order to not impact negatively on the leach pad percolation.

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

Figure 4 illustrates the ounces mined, stacked and produced by quarter since the September 2012 quarter.

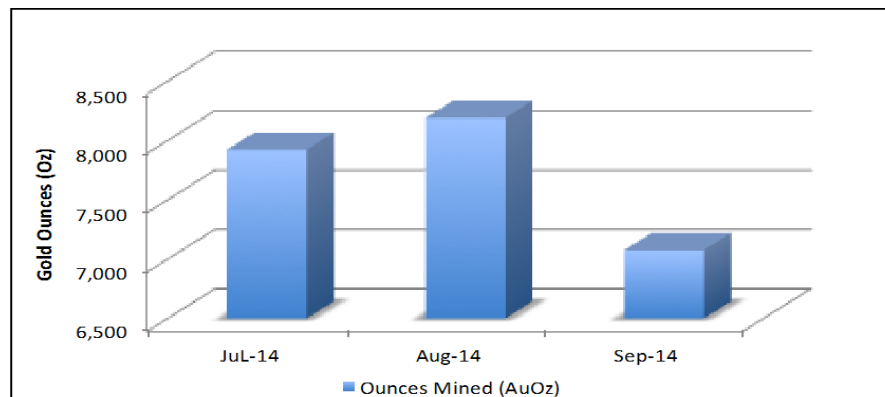
Figure 4 – Gold ounces mined, stacked and produced by quarter



As seen in Figure 5, the ounces mined during the 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 that month. Similarly, Churumata 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 9, 2014 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 attempt to minimize the ounces lost until the end of the calendar year.

Figure 5 – September '14 Quarter Ounces Mined



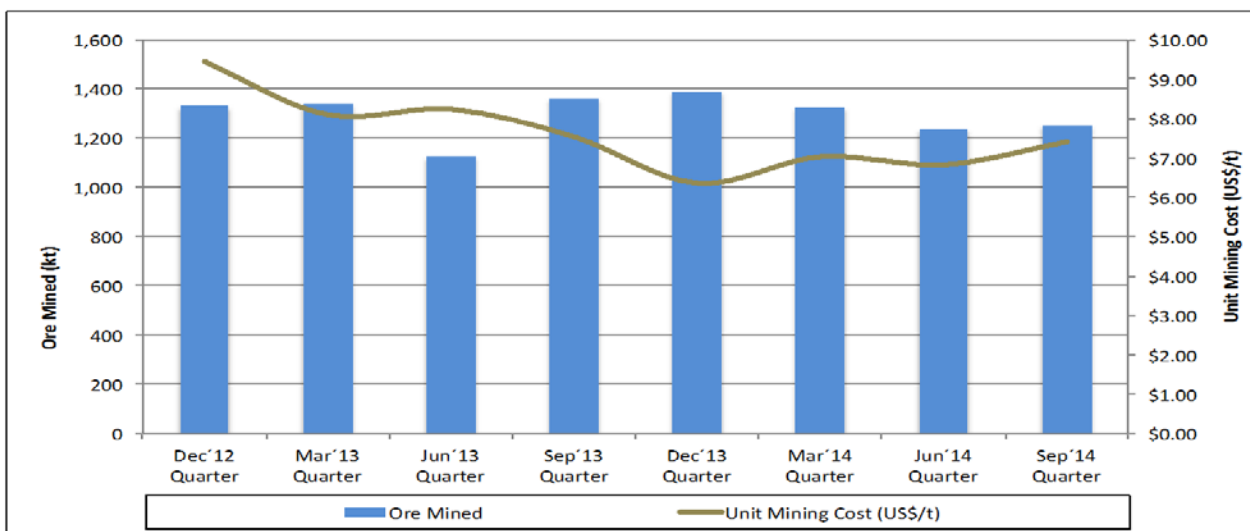
Average mined grades experienced a slight increase quarter on quarter, from 0.57 g/t to 0.58 g/t Au, an increment of 1.4%, even considering that the September month was characterized by lower than forecasted grades. The 67% increase quarter on quarter third party ore purchases contributed significantly to the 3% increased on total ounces mined over the June 2014 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.

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

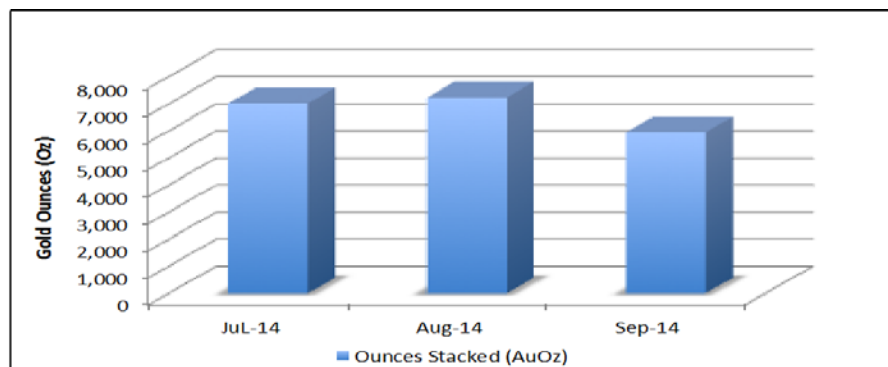
Total costs per tonne of ore stacked decreased 3% quarter on quarter to US\$15.18 per tonne, which is one of the lowest unitary cost results achieved under the Company's ownership. The decrease in total costs per tonne was driven by (i) a 4% decrease in the waste to ore ratio; (ii) a 13% decrease in process costs per tonne stacked, even considering the 1% fall in stacked tonnes; (iii) a 3% decrease in administration costs per tonne stacked, even considering the 1% fall in stacked tonnes; (iv) a 9% increase in mining cost per tonne of ore, due to a higher participation of third party high-grade ore purchases (higher US\$/tonne ore).

Figure 6 – Ore mined and mining cost per tonne of ore



Processing

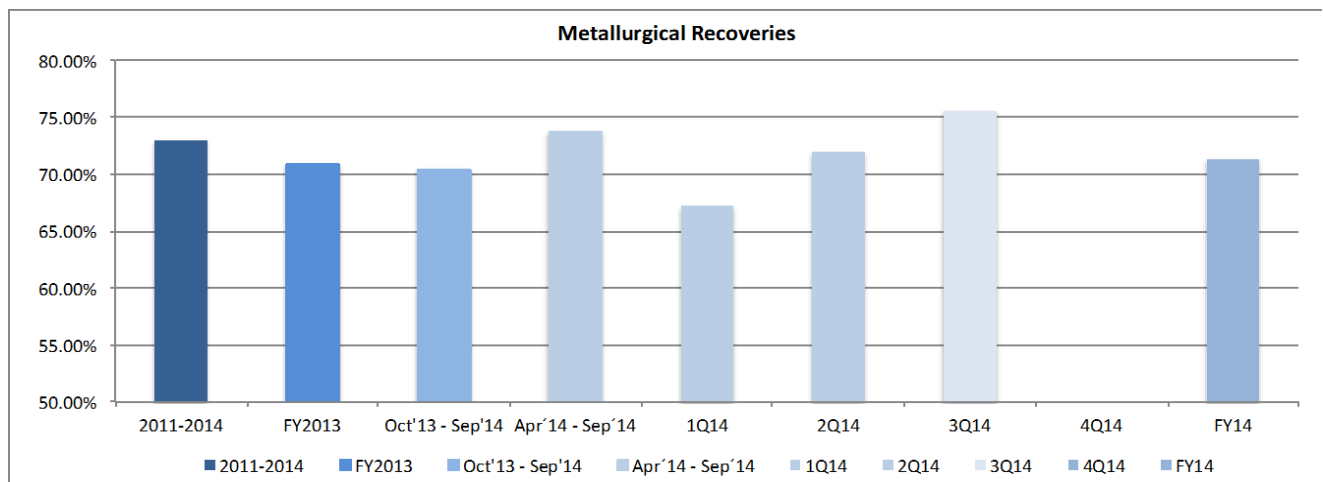
Due to lower than forecast plant throughputs, ore tonnage stacked was down 1% and negative reconciliation mine-plant brought the grade stacked 5% down quarter on quarter. Consequently, gold ounces stacked were also down 6%, quarter on quarter. Figure 7 shows ounces stacked during the September Quarter. 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.

Figure 7 – September'14 Quarter Ounces Stacked

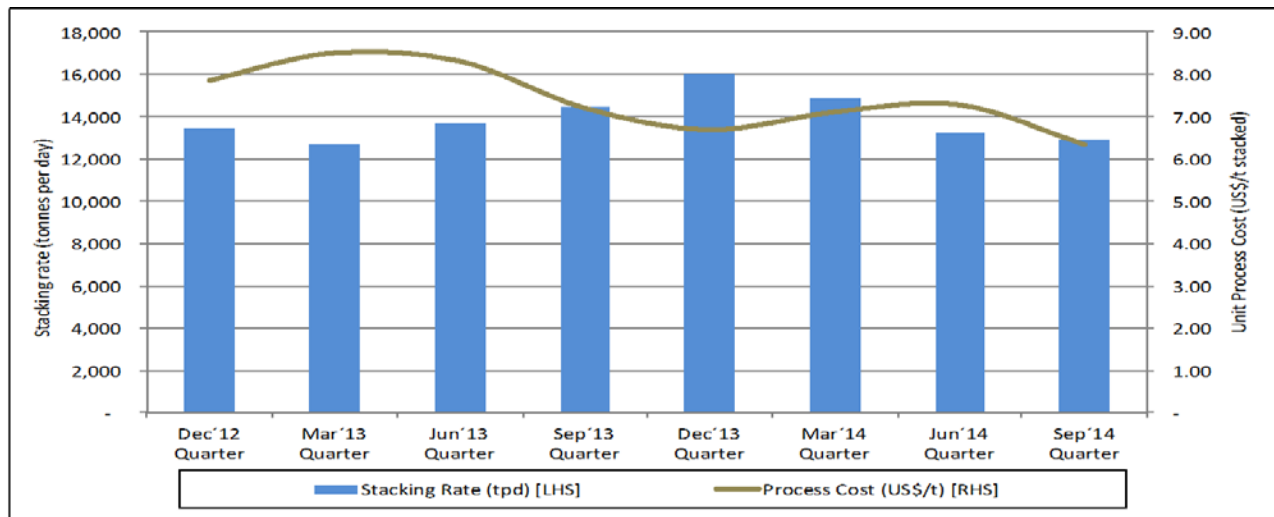
As seen in Table 6 and Figure 8, metallurgical recoveries have experienced substantial improvements quarter on quarter, moving from 67% in the March 2014 quarter to 76% in September Quarter. In addition, it is above the historical metallurgical recovery for the period January 2011 – September 2014 (73%). 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 6 – 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 8– Metallurgical Recoveries

Process costs decreased to US\$6.34 per tonne stacked which was a 13% decrease quarter on quarter (Refer Figure 9), 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 9 – Process cost per tonne stacked

General and Administration (G&A) costs

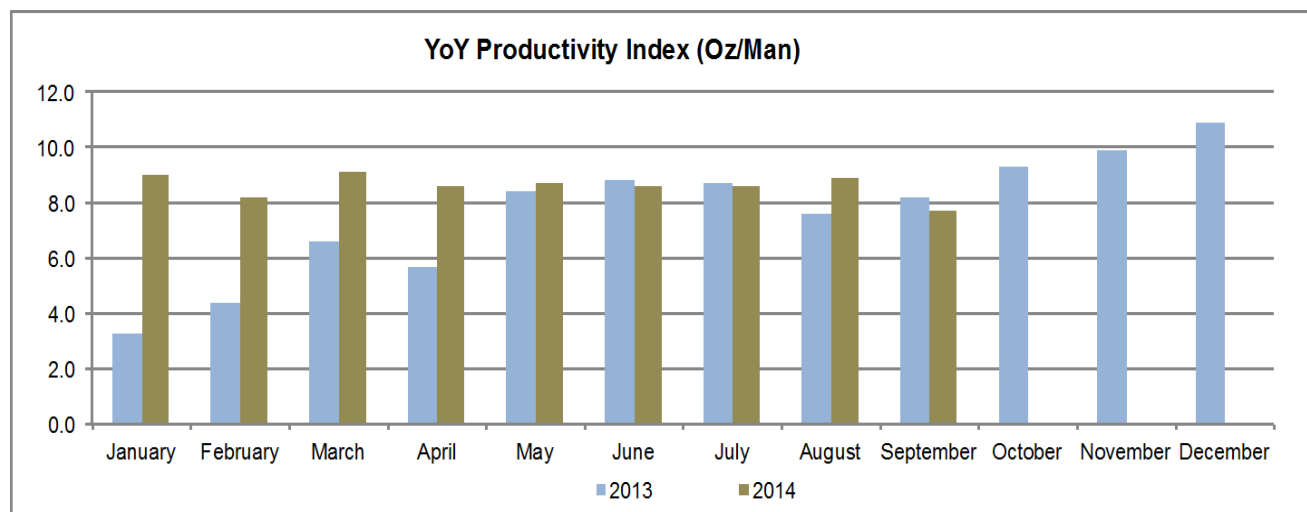
G&A costs decreased by 3% quarter on quarter to US\$1.43 per tonne in spite of the lower tonnage stacked.

Exploration

Only \$0.05 million of exploration was carried out in the Quarter at the CMD Gold Mine.

Cost Summary

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 10 illustrates the ounces produced per employee over the last 21 months.

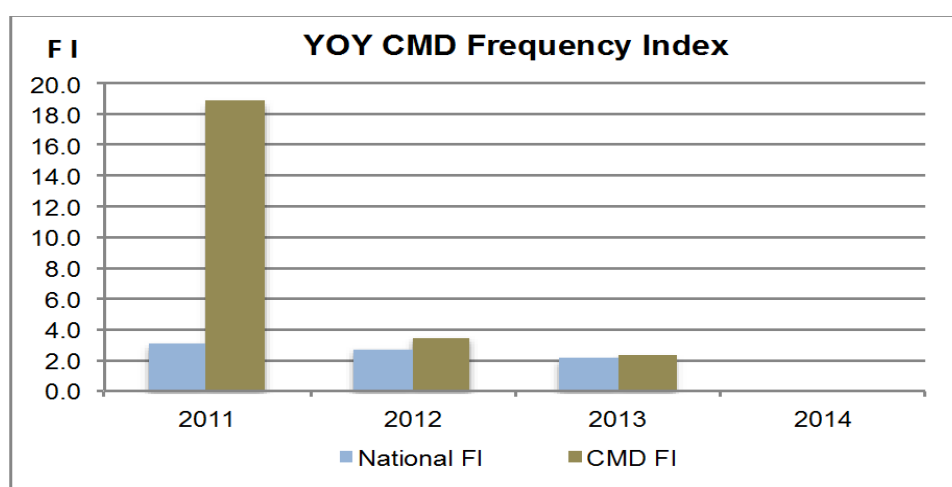
Figure 10 – Productivity Index (Ounces/Employee)

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 this can be seen in Figure 11 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 11 – 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 September 29, 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 January 10, 2014 Newmont's interest has been assigned to Anglo American.

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 May 24, 2014.

On July 8, 2014 Anglo American provided notice that they had met the minimum expenditure requirements and their intention to form a Joint Venture with both parties funding exploration and development on a pro rata basis. 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 September 30, 2014 Consolidated Statement of Financial Position.

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. 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.

On September 15, 2014 the Company announced that its Chilean subsidiary, CMD, sold certain mining properties to CDA. The properties sold adjoin CDA’s mining properties and are non-core to CMD’s gold mining operations. CMD 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 December 31, 2014.

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.

	Sept-30	June-30	Mar-31	Dec-31	Sept-30	Restated	Restated	Restated
	2014	2014	2014	2013	2013	June-30	Mar-31	Dec-31
Financial position as at:	A\$000	A\$000	A\$000	A\$000	A\$000	2013	2013	2012
						A\$000	A\$000	A\$000
Cash and cash equivalents	569	1,932	2,175	4,623	-	2,811	3,103	7,489
Total assets	63,093	61,125	77,104	85,140	79,379	80,178	108,938	97,074
Total liabilities	45,944	46,192	45,943	51,875	57,876	57,564	55,151	39,421
Net assets	17,149	14,933	31,161	33,265	21,503	22,614	53,787	57,653

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 July 1, 2012. For further details refer to the *Changes in Accounting Policies, 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 September 30, 2014 the Group had cash reserves of \$0.57 million, a decrease of \$1.36 million from June 30, 2014. For more information on this movement see the *Cash Flow* section below.

Trade and other receivables

Trade and other receivables have increased by \$2.99 million since June 30, 2014, primarily as a result of the US\$2 million (A\$2.29 million) owing from CDA in respect of the sale of non-core properties in September 2014. The A\$ / US\$ exchange rate decreased from 1:0.944 at June 30, 2014 to 1:0.873 at September 30, 2014 meaning an increase of \$0.30 million in the value of trade and other receivables which are presented in the CMD financial statements in US\$.

Inventories

Inventories have increased by \$2.34 million since June 30, 2014 primarily as a result of the A\$ / US\$ exchange rate decreasing from 1:0.944 at June 30, 2014 to 1:0.873 at September 30, 2014 meaning an increase of \$1.62 million in the value of inventories which are presented in the CMD financial statements in US\$.

The other \$0.72 million increase in CMD inventory reflects an decrease of 624 recoverable ounces in the leachpad with an associated cost of US\$0.68 million, a US\$1.11 million increase attributable to the increased average cost per ounce on the leachpad, a US\$0.05 million increase in doré in process inventory, a US\$0.07 million decrease in ore stockpiles and copper, and a US\$0.21 million increase in stores inventory.

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 September 30, 2014.

Mine development properties

Mine development properties have decreased by \$1.32 million since June 30, 2014, comprising capitalisation of \$0.56 million offset by a depreciation charge of \$2.04 million, an impairment charge of \$0.93 million and a \$1.09 million increase as a result of the A\$ / US\$ exchange rate decreasing from 1:0.944 at June 30, 2014 to 1:0.873 at September 30, 2014.

Of the \$0.56 million capitalised, \$0.05 million relates to exploration at the CMD Gold Mine and \$0.51 million to capitalized deferred stripping.

Property, plant and equipment

Property, plant and equipment has decreased by \$0.68 million since June 30, 2014, comprising expenditure of \$0.02 million at the CMD Gold Mine offset by a depreciation charge of \$0.76 million, an impairment charge of \$1.17 million and a \$1.23 million increase as a result of the A\$ / US\$ exchange rate decreasing from 1:0.944 at June 30, 2014 to 1:0.873 at September 30, 2014.

Total liabilities

As at September 30, 2014, the consolidated entity had total liabilities of \$45.94 million compared to \$46.19 million at June 30, 2014, a decrease of \$0.25 million. There was a \$0.21 million decrease in trade and other payables in addition to a net decrease in borrowings of \$0.47 million. Total liabilities increased by \$2.81 million as a result of the A\$ / US\$ exchange rate decreasing from 1:0.944 at June 30, 2014 to 1:0.873 at September 30, 2014. As at September 30, 2014, the consolidated entity had \$18.63 million in debt obligations mainly consisting of bank loans, a gold loan, and property, plant and equipment leases.

Contributed equity

The contributed equity movement since June 30, 2014 is shown below:

	2014 Number	2014 \$000
<i>Ordinary shares</i>		
1 July	147,632,273	224,522
Costs of issue of shares	-	(5)
30 September	<u>147,632,273</u>	<u>224,517</u>

Reserves

Reserves of \$7.85 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 \$7.64 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 \$1.30 million increase in the foreign exchange reserve balance since June 30, 2014.

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:	Sept-30 2014 A\$000	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
Operating activities	(423)	2,615	3,272	828	2,768	2,794	(883)	(1,228)
Investing activities	1,032	(832)	(3,281)	(2,548)	(5,830)	(4,638)	(19,680)	(9,210)
Financing activities	(2,022)	(1,986)	(2,351)	6,369	162	1,763	16,158	9,591

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 July 1, 2012. For further details refer to the *Changes in Accounting Policies, Including Initial Adoption* or Note 1(ii)(iii) and Note 30 to the consolidated financial statements for the year ending June 30, 2014.

The operating activities outflow of \$0.42 million for the Quarter reflects the net cash inflow from operations at the CMD Gold Mine of \$0.74 million net of corporate overhead of \$0.54 million, a cash deposit paid of \$0.38 million and net interest expense of \$0.24 million.

Investing activity net cash inflows in the Quarter of \$1.03 million reflect the \$1.62 million first installment received from the sale of non-core properties to CDA net of property plant and equipment costs and capitalised development work at the CMD Gold Mine of \$0.59 million.

Financing activities net outflows of \$2.02 million in the Quarter primarily reflect the repayment of borrowings. Borrowing repayments include bank / lease debt of \$1.52 million and \$0.49 million for the gold loan with Sprott Resource Lending Partnership ("Gold Loan").

Operating Results

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

					Restated			
<i>Operating results for the three months ended:</i>	Sept-30	June-30	Mar-31	Dec-31	Sept-30	June-30	Mar-31	Dec-31
	2014 A\$000	2014 A\$000	2014 A\$000	2013 A\$000	2013 A\$000	2013 A\$000	2013 A\$000	2012 A\$000
Revenue	21,205	21,346	23,478	25,397	24,696	22,182	17,576	21,623
Other income	1	7	17	5	1	6	29	46
Cost of sales	(22,085)	(21,557)	(23,467)	(23,941)	(24,162)	(27,555)	(20,058)	(25,489)
Profit on sale of non-core properties	3,779	-	-	-	-	-	-	-
Impairment loss	(2,101)	(10,853)	-	-	-	(26,947)	-	-
Total net operating expenses	(20,261)	(33,773)	(24,575)	(24,830)	(25,369)	(54,776)	(21,521)	(25,870)
Net profit / (loss) before tax	945	(12,420)	(1,080)	572	(672)	(32,588)	(3,916)	(4,201)
Net profit / (loss) after tax	945	(15,180)	(1,080)	447	(672)	(43,742)	(3,718)	(3,621)
Basic profit / (loss) per share (cents)	0.6	(10.2)	(0.7)	0.2	(0.7)	(33.4)	(4.3)	(4.7)
Diluted profit / (loss) per share (cents)	0.6	(10.2)	(0.7)	0.2	(0.7)	(33.4)	(4.3)	(4.7)

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 July 1, 2012. For further details refer to the *Changes in Accounting Policies, Including Initial Adoption* or Note 1(ii)(iii) and Note 30 to the consolidated financial statements for the year ending June 30, 2014.

Review of the Quarter ended September 30, 2014 as compared to the Quarter ended September 30, 2013

Revenue

	Quarter ended Sept-30 2014 \$000	Quarter ended Sept-30 2013 \$000
Sale of gold	21,046	24,463
Sale of silver (net of refining)	38	233
Sale of copper	121	-
	<u>21,205</u>	<u>24,696</u>

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

Revenue for the September Quarter includes 15,225 ounces of gold at an average achieved sale price of US\$1,280 per ounce (September 2013 Quarter: 16,779 ounces of gold at an average achieved sale price of US\$1,335 per ounce).

Profit on sale of non-core properties

During the Quarter the Company sold non-core properties to CDA for US\$3 million on completion of the transfer of one group of mining properties and 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 was received during the Quarter and the remaining US\$2 million is in escrow pending the completion of legal transfers and is expected to be received prior to December 31, 2014.

Cost of sales

	Quarter ended Sept-30 2014 \$000	Quarter ended Sept-30 2013 \$000
Depreciation and amortisation	2,666	3,042
Gold in process, doré and stockpile adjustments	(524)	1,401
Mine operational expenses	7,260	4,340
Reagents	3,218	3,389
Utilities, maintenance	4,882	7,123
Personnel expenses	3,495	3,799
Royalties	403	454
Other expenses	685	614
	<u>22,085</u>	<u>24,162</u>

Cost of sales relates to costs attributable to the operation of the CMD Gold Mine.

The increase in mine operational expenses from the September 2013 Quarter to the September 2014 Quarter primarily arises from (i) the September 2014 Quarter includes \$5.83 million of waste costs direct expensed (September 2013 Quarter: \$3.44 million). The increase is a result of higher ore body life of mine average stripping ratios being used to calculate waste capitalisation in the current Quarter; (ii) an increase of US\$1.43 million in third party ore purchases; and (iii) a US\$0.31 million reduction in blasting costs

Utilities and maintenance costs have decreased from the September 2013 Quarter to the September 2014 Quarter as a result of a 26% fall in power costs and a 39% fall in maintenance of crushing/mining equipment costs in US\$.

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 September 2014 Quarter includes \$6.98 million (September 2013 Quarter: \$4.63 million) waste costs expensed and amortised.

The September 2014 Quarter depreciation and amortisation charge of \$2.67 million (September 2013 Quarter: \$3.04 million) includes \$1.15 million (September 2013 Quarter: \$1.19 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 September Quarter 624 recoverable ounces were drawn from the leachpad (September 2013 Quarter: 290 ounces drawn from the leachpad).

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. An impairment indicator exists for the consolidated entity, being a Company market capitalisation of \$11.07 million at September 30, 2014 compared to consolidated net asset carrying values of \$19.25 million at September 30, 2014 prior to any current period 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 based on 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 \$2.10 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 median financial institution consensus forecasts as at November 5, 2014, were used as inputs in the discounted cash flow analysis:

	2014	2015	2016	2017
Gold price US\$ / oz	1296	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 \$0.37 million for the Quarter (September 2013 Quarter: \$0.33 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.

Foreign exchange gain / loss

The foreign exchange gain of \$1.19 million for the Quarter (September 2013 Quarter: \$0.38 million loss) primarily arises from 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 9.1% from 1:552 to 1:602.

Finance expense

Finance expense of \$0.26 million for the Quarter (September 2013 Quarter: \$0.61 million) consists of bank and financial institution interest. Finance costs have fallen from the September 2013 Quarter as a result of the conversion of the Credit Facility with Sprott Resource Lending Partnership ("Sprott") to a Gold Loan effective June 30, 2014. From that date repayments are not partly recognised as interest

expense, instead changes in the fair value of the gold loan are classified under the line “fair value (loss) / gain on liabilities carried at fair value” in the statement of profit or loss and other comprehensive income.

Fair value (loss) / gain on liabilities carried at fair value

The September 2014 Quarter loss of \$0.40 million (September 2013 Quarter: \$0.15 million gain) reflects the revaluation of the Gold Loan over the period. The September 2013 quarter gain relates to the fair value gain on the deferred consideration due to the vendors of the CMD Gold Mine.

Exchange difference on translation of foreign operations

The \$1.28 million increase in the foreign exchange reserve balance comprises a \$5.59 million credit from the translation of CMD financial statements, which are presented in US\$, to A\$ on consolidation offset by a \$4.31 million unrealized foreign exchange loss on an intercompany balance. 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 all options have an exercise price in excess of the Company's September 30, 2014 share price the outstanding share options are not considered to be dilutive and diluted profit per share is the same as basic profit 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 \$9.68 million were raised from the issue of Ordinary Shares during the year ending June 30, 2014, \$10.21 million 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 with Sprott of which CDN\$0.5 million was repaid on October 9, 2013. The terms of the Credit Facility were amended in February 2014 such that the remaining Credit Facility of CDN\$4.5 million would be partly repaid through the payment of 12 monthly principal repayments of CDN\$0.18 million commencing March 31, 2014, the repayment of CDN\$1 million by September 30, 2014, and the payment of an extension fee.

The terms of the Credit Facility were further amended in June 2014 such that the CDN\$3.75 million outstanding balance of the Credit 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 September 30, 2014 as well as the final principal repayment due on February 19, 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 October 31, 2016. A total of 300,000 shares were issued to Sprott in June 2014 as an extension fee in respect of this amendment.

On September 15, 2014 the Company announced that its Chilean subsidiary, CMD, had sold certain non-core mining properties to 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 December 31, 2014.

Subsequent to period end, on October 16, 2014 the Company announced a non-brokered private placement to Hamilton 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 shares were issued on October 17, 2014. Hamilton

has also agreed to a prepaid gold loan working capital facility of at least US\$4 million to the Company's subsidiary, CMD, with such working capital advance and associated terms and conditions to be finalized no later than December 31, 2014. The facility is dependent upon Lachlan Star having US\$4 million in consolidated cash and cash equivalents at November 30, 2014.

See under the headings “*Financial Condition*” and “*Cash Flow*” 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 September 30, 2014:

Contractual Obligations	Payments Due				
	Total	Less than 1 Year	1 - 2 years	3 - 5 Years	After 5 Years
	\$ million	\$ million	\$ million	\$ million	\$ million
Exploration commitments ⁽¹⁾	--	--	---	—	—
Borrowings ⁽²⁾	\$18.73	\$8.18	\$8.33	\$2.22	—
Trade And Other Payables	\$20.96	\$20.96	—	—	—
Provisions ⁽³⁾	\$6.23	—	—	\$6.23	—
Other ⁽⁴⁾	\$30.89	\$20.45	\$9.07	\$1.37	—

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 November 13, 2014, however Hamilton has agreed to a prepaid gold loan working capital facility of at least US\$4 million to the Company's subsidiary, CMD, with such working capital advance and associated terms and conditions to be finalized no later than December 31, 2014. The facility is dependent upon Lachlan Star having US\$4 million in consolidated cash and cash equivalents at November 30, 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 September 30, 2014 at the CMD Gold Mine, primarily for mining related supplies, fleet maintenance, power, and cyanide.

The net proceeds from (i) the US\$3.5 million sale of non-core mining properties to CDA as described above (ii) the US\$4 million anticipated working capital facility from Hamilton 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 quantum of any additional funding, if required, should be known on finalization of the 2015 mine plan.

The Company intends to finance its working capital requirements and planned growth and development activities where possible from existing cash balances, finance facilities noted above and cash flows from operations. Expenses will be financed from cash flow from operations to the extent possible. Net cash outflows from operating activities in the September Quarter were \$0.42 million.

Further financing may be required to fund increases in capital expenditure or for operational expenditure or working capital purposes at the CMD Gold Mine. Sources of further funds could include asset sales, or additional debt or equity raisings.

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. Should the Company not be able to secure

additional financing, if required, or should the gold price remain below US\$1,200 per ounce for a sustained period of time, these constitute material uncertainties which may cast a significant doubt about the group's ability to continue as a going concern and therefore whether it will realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report. No adjustments have been made relating to the recoverability or classification of recorded assets and liabilities that might be necessary should the group not continue as a going concern.

See “*Risk Factors — Need for Additional Capital*” and “*Risk Factors —Fluctuations in Metal Prices*” 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 Quarter end.

OFF BALANCE SHEET ARRANGEMENTS

There are no material off-balance sheet arrangements as at September 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.

Subsequent to period end, on October 16, 2014 the Company announced a non-brokered private placement to Hamilton 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. Associated with the placement Mr Peter Babin, a Manager of Hamilton, was appointed Non-Executive Chairman of Lachlan Star.

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. An impairment indicator exists for the consolidated entity, being a Company market capitalisation of \$11.07 million at September 30, 2014 compared to consolidated net asset carrying values of \$19.25 million at September 30, 2014 prior to any current period 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 based on 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 \$2.10 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 median financial institution consensus forecasts as at November 5, 2014, were used as inputs in the discounted cash flow analysis:

	2014	2015	2016	2017
Gold price US\$ / oz	1296	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 CMD, 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 will recognise 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 items affected by this critical accounting estimate is "Deferred tax asset" and "Deferred tax liability" 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 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.

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 Company has 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. 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 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. Receivables at September 30, 2014 also include US\$2 million currently held in escrow from the sale of no-core properties to CDA and expected to be received on the completion of legal transfers by December 31, 2014.

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 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 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 were as follows:

	Average quarter ended 30 Sept 2014	As at 30 Sept 2014
A\$ / US\$	0.926	0.873
A\$ / CDN\$	1.01	0.974
US\$ / Peso	577	602
A\$ / Peso	534	526

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 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 the current period but is continually under review.

The gold spot price has decreased from US\$1,315 / ounce at June 30, 2014 to US\$1,216 / ounce as at September 30, 2014. Subsequent to September 30, 2014, the gold spot price has decreased and was US\$1,164.50 / ounce as at November 12, 2014. Should the gold price remain below US\$1,200 per ounce for a sustained period of time this constitutes a material uncertainty which may cast a significant doubt about the group's ability to continue as a going concern and therefore whether it will realize its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

CONTINGENT ASSETS AND LIABILITIES

There have been no changes of a material nature in contingent liabilities or contingent assets since the last annual reporting date.

SUBSEQUENT EVENTS

On October 16, 2014 the Company announced a non-brokered private placement to Hamilton 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 shares were issued on October 17, 2014. 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 December 31, 2014. The facility is dependent upon Lachlan Star having US\$4 million in consolidated cash and cash equivalents at November 30, 2014.

Associated with the placement Mr Peter Babin, a Manager of Hamilton, was appointed Non-Executive Chairman of Lachlan Star and Mr Scott Perry (the former Chairman) stood down as a director. Mr Babin was one of the vendors of the CMD Gold Mine to Lachlan Star in December 2010 and was a director of the Company from that date until November 2013.

The gold price has fallen from US\$1,216 per ounce at September 30, 2014 to US\$1,164.50 per ounce as at November 12, 2014. Should the gold price remain below US\$1,200 per ounce for a sustained period of time this constitutes a material uncertainty which may cast a significant doubt about the group's ability to continue as a going concern and therefore whether it will realize its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

Since September 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 164,035,759 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

On October 16 2014 the Company announced a non-brokered private placement to Hamilton 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 shares were issued on October 17, 2014. Other than this, since September 30, 2014 and up to the date of this MD&A, the Company has not issued any other 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 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). The information in the report to which this Statement refers, being the Company's ASX announcement of Annual Statement of Mineral Resources and Ore Reserves dated 26 September 2014 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 undertaken 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 Alvarado 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). The information in the report to which this Statement refers, being the Company's ASX announcement of Annual Statement of Mineral Resources and Ore Reserves dated 26 September 2014 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, 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 undertaken 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.

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