# 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 May 15, 2012 and provides an analysis of the Company's performance and financial condition for the three months ended March 31, 2012 (the "**Quarter**" or "**March 2012 Quarter**").

The MD&A should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended 30 June 2011 and the Company's unaudited consolidated interim 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 Compania Minera Dayton ("**CMD**") and Dayton Chile Exploraciones Mineras Limitada ("**DCEM**"), management has determined that the U.S. dollar is the functional currency for those companies. For a more detailed discussion on functional currency, please refer to the section "*Critical Accounting Estimates – Functional Currency*" in this MD&A.

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

The A$/US$ exchange rate used for the purposes of converting the statement of financial position of CMD and DCEM as at March 31, 2012 was A$1.00 = US$1.0387. The average A$/US$ exchange rate used for the purposes of converting the statement of financial performance of CMD and DCEM for the three months to March 31, 2012 was A$1.00 = US$1.0552. 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 2011 Annual Information Form (the "**AIF**") 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 the C1 cash costs, cash costs of gold per ounce, 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 by the Corporations Act with a primary listing on the Australian Securities Exchange (the "**ASX**") and a secondary listing on 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 has resulted in the Company significantly expanding its workforce and having operating revenues. The focus of the Company has 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 increased from US$1,380.50/ounce to US$1,662.50/ounce as at March 31, 2012. Subsequent to March 31, 2012, the gold spot price has fallen and is US$1,558.50/ounce as at May 14, 2012.

*CMD Gold Mine, Chile* (refer to "*CMD Gold Mine, Chile*", 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. The Group produced 11,906 ounces of gold in the March 2012 Quarter versus 11,326 ounces of gold in the December 31, 2011 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 million Mtpa compared to the installed crushing and stacking capacity of 8 Mtpa. During the course of the Quarter, the stacking rates decreased to an annualized 3.2 Mtpa as of March 31, 2012.

Current mineral resource estimates for the CMD Gold Mine are 6.0 Mt of probable mineral reserves at a grade of 0.8 g/t gold for 157,000 ounces of gold, 133.9 Mt of indicated mineral resources for 1,788,000 ounces of gold and 118.8 Mt of inferred mineral resources for 1,342,000 ounces of gold (mineral resources are not additive to mineral reserves). These estimates have been prepared in accordance with National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* ("**NI 43-101**").

*Bushranger Copper Project, Australia* (refer to "*Bushranger Copper Project, Australia*", below, for more detail)

Lachlan owns a 100% 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 entered into a farm in agreement (the "**Newmont Farm In Agreement**") for the Bushranger Copper Project with a subsidiary of Newmont Mining Corporation ("**Newmont**") providing for the potential acquisition by Newmont of a 51% interest in the Bushranger Copper Project.

Newmont did not carry out any material work on the Bushranger Copper Project in the March 2012 Quarter.

## EXPLORATION AND EVALUATION

The Group's exploration and evaluation expenditures for the Quarter comprised $2.53 million of exploration at the CMD Gold Mine (classified as mine property expenditure in the consolidated statement of financial position) and $Nil at the Bushranger Copper Project.

## CORPORATE

(i) Special Warrants Placement

Pursuant to an agency agreement (the "**Agency Agreement**") dated August 26, 2011 between Lachlan and Dundee Securities Ltd. and Salman Partners Inc., as agents (the "**Agents**"), on August 26, 2011 the Company completed a private placement (the "**Special Warrants Placement**") of 18,400,000 special warrants (the "**Special Warrants**") primarily to institutional investors, including Canadian institutional investors, at a price of $0.82 per Special Warrant for gross proceeds of $15.09 million. The proceeds of the Special Warrants Placement were held in escrow, pending satisfaction of certain escrow release conditions, which conditions were satisfied on September 26, 2011 and the net proceeds of the Special Warrants Placement were released to the Company on that date.

Each Special Warrant converted, as described below, for no additional consideration, into one unit (a "**Unit**") comprised of one Ordinary Share and one-half of one ordinary share purchase warrant (each whole ordinary share purchase warrant being a "**Warrant**"). Each Warrant entitles the holder to purchase one Ordinary Share (each, a "**Warrant Share**") for a purchase price of $1.20 (subject to adjustment in certain events) at any time prior to 5:00 p.m. (Vancouver time) on August 26, 2013.

Pursuant to the Agency Agreement, the Company also issued 1,104,000 special broker warrants (the "**Special Broker Warrants**") to the Agents as partial compensation for services provided by the Agents. Each Special Broker Warrant converted, as described below, for no additional consideration, into one compensation option of the Company (a "**Compensation Option**"). Each Compensation Option entitles the holder, upon due exercise and payment to the Company of additional consideration of $1.20, to acquire a unit (a "**Compensation Unit**") comprised of one Ordinary Share (a "**Compensation Share**") and one-half of one Warrant at any time prior to 5:00 p.m. (Vancouver time) on August 26, 2013.

The escrow release conditions for the gross proceeds of the Special Warrants Placement included approval by the shareholders of the Company (the "**Shareholders**") of the issuance of the Ordinary Shares issuable pursuant to the conversion of the Special Warrants and the exercise of the Warrants underlying the Special Warrants, the Compensation Options and the Warrants underlying the Compensation Options.

The Special Warrants automatically converted into Units and the Special Broker Warrants automatically converted into Compensation Options upon the Company obtaining a receipt for a final prospectus on 22 November 2011 qualifying the distribution of the Units and the Compensation Options, at which time the Ordinary Shares forming part of each Unit, the Warrant Shares and the Compensation Shares became free-trading.

Lachlan is using the net proceeds from the Special Warrant Placement for the continued development of the CMD Gold Mine and for general working capital purposes.

(ii) Special Warrants Placement

Lachlan announced on March 8, 2012 that it had entered into an agreement with a syndicate of underwriters, led by Macquarie Capital Markets Canada Ltd., and including Dundee Securities Ltd., Raymond James Ltd., and GMP Securities L.P. (collectively the "**Underwriters**"), pursuant to which the Underwriters agreed to purchase, on a bought deal private placement basis, 11,000,000 common shares (the "**Common Shares**") of the Company at a price of CDN$1.60 per Common Share, for gross proceeds of CDN$17,600,000 (the "**Offering**").

Lachlan announced on March 12, 2012 that the Offering had been restructured so that the Company will issue, and the Underwriters will purchase, on a bought deal private placement basis, 10,975,000 special warrants (the "**Special Warrants**") at a price of CDN$1.60 per Special Warrant, for gross proceeds of CDN$17,560,000 (the "**Offering**"). Each Special Warrant entitles the holder to acquire, upon exercise and for no additional consideration, one Ordinary Share of the Company.

As partial consideration for their services in connection with the Offering, the agents were granted options to acquire an aggregate of 329,250 Ordinary Shares at a strike price of CDN$1.60 and an expiry date of 3 April 2014.

The Offering closed and the net proceeds were received on April 3, 2012 subsequent to the receipt of all necessary approvals, including the approval of the TSX. The Company obtained a receipt for a final prospectus on April 27, 2012. The Special Warrants converted into Ordinary Shares and the agent options were issued on 4 May 2012.

The Company intends to use the net proceeds from the Offering for the continued development of the Company's CMD Gold Mine and for general working capital purposes.

(iii) Lachlan commenced trading on the Toronto Stock Exchange under code LSA on October 19, 2011.

**RESULTS OF OPERATIONS**

The CMD Gold Mine currently has an estimated 6.0 Mt of probable mineral reserves at a grade of 0.8 g/t gold, for 157,000 oz gold, and an estimated 133.9 Mt of indicated mineral resources for 1,788,000 oz gold and 118.8 Mt of inferred mineral resources for 1,342,000 oz gold (the mineral resources are not additive to the mineral reserves). The CMD Gold Mine currently has a mine life of three years, which is followed by continuing gold production from the leach pads for an additional two years. Processing plant throughput is currently approximately 11,000 tonnes per day. Current maximum gold production outlined in the life of mine is approximately 11,000 oz gold per month. The Company has budgeted $10.17 million for resource definition and exploration drilling over the period from August 2011 to August 2012 to upgrade inferred mineral resources to a higher confidence level and for exploration drilling to locate and define additional mineralisation not currently included in mineral resources. The Company also plans expenditures of approximately $3.06 million related to pre-stripping at the Chisperos deposit and $5.11 million for the installation of additional leach pad liners and other plant expenditure.

The CMD Gold Mine currently has an estimated 6.0 Mt of probable mineral reserves at a grade of 0.8 g/t During the Quarter, the Company spent a total of $1.80 million on resource definition drilling, and an additional $0.73 million on exploration drilling. The pre-strip of the Chisperos deposit continued with costs of $2.68 million incurred for this activity.

The Bushranger Copper Project is no longer considered to be a core asset of the Company and in September 2011 the Company entered into the Newmont Farm In Agreement providing for the potential acquisition by Newmont of a 51% interest in the Bushranger Copper Project.

Total sales during the Quarter from the CMD Gold Mine were $19,332,000, cost of sales was $19,303,000, and net sales were $29,000. See “*Operating Results”* below.

**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 900,000 ounces of gold since operations commenced. There are at least six known gold deposits in the CMD Gold Mine: Toro/Socorro, Tres Perlas, Churrumata, El Sauce, Las Loas and Chisperos.

**Operations**

Table 1 below compares key performance indicators, including production and recovery rates and costs, for the three months ended March 31, 2012 as compared to the three months ended December 30, 2011 for the CMD Gold Mine.

***Table 1 – CMD Gold Mine Key Performance Indicators***

| Item | Unit | 3 months ended 31-Mar-12 | 3 months ended 31-Dec-11 | % Change |
|---|---|---|---|---|
| Ore Mined | dmt | 812,921 | 949,491 | -14% |
| Waste Mined | dmt | 4,085,469 | 3,271,021 | 25% |
| Total Mined | dmt | 4,898,390 | 4,220,512 | 16% |
| Waste:Ore Ratio | t:t | 5.0 | 3.45 | 46% |
| Ore grade | Au g/t | 0.51 | 0.57 | -10% |
| Gold Mined | Au oz | 13,396 | 17,528 | -24% |
| Ore stacked | dmt | 803,094 | 967,145 | -17% |
| Stacked Grade | Au g/t | 0.51 | 0.54 | -5% |
| Gold Stacked | Au oz | 13,274 | 16,835 | -21% |

| | | | | |
|---|---|---|---|---|
| Average stacking rate | dmt/d | 8,825 | 10,512 | -16% |
| Gold Produced | Au oz | 11,906 | 11,326 | 5% |
| | | | | |
| Mining Cost/t moved | US$/t | $2.39 | $2.23 | 7% |
| Mining Cost/t ore | US$/t | $11.99 | $9.93 | 21% |
| Process Cost/t ore stacked | US$/t | $8.86 | $6.91 | 28% |
| G+A Cost/t ore | US$/t | $1.76 | $1.45 | 21% |
| Total Cost/t ore | US$/t | $22.61 | $18.30 | 24% |
| | | | | |
| Average Sales Price | USD/oz | $1,682 | $1,663 | 1% |
| Cash Cost | USD/oz | $835 | $900 | -7% |
| Non Cash Process Inventory Adjustment | USD/oz | $110 | -$101 | 209% |
| C1 Cash Cost | USD/oz | $945 | $799 | 18% |
| CMD Gold Mine Gross Operating Profit (Unaudited) | US$m | $2.66 | $1.12 | 137% |

Notes:
1. C1 cash costs are a non-GAAP measure and non-IFRS measure that may not be consistent from company to company. In this instance, it is defined as all site production costs but excludes all waste expenditure, depreciation and amortisation and royalties. A reconciliation of C1 cash costs to the IFRS measure Cost of Sales is provided in Table 4 below.
2. CMD Gross operating profit equals revenues 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 to the IFRS measure consolidated Profit Before Income Tax is provided in Table 2 below.
3. Percentages may not calculate exactly due to rounding.

***Table 2 – Reconciliation of unaudited CMD Gross Operating Profit to unaudited consolidated Profit Before Income Tax***

| | | 3 months ended 31 March 2012 | 3 months ended 31 Dec 2011 |
|---|---|---|---|
| CMD Gross Operating Profit (unaudited) | US$000 | 2,656 | 1,120 |
| A$ / US exchange rate for the period | | 1.0552 | 1.0124 |
| | | | |
| CMD Gross Operating Profit (unaudited) | A$000 | 2,518 | 1,107 |
| Process Inventory adjustment | A$000 | (1,237) | 1,130 |
| Depreciation and amortisation | A$000 | (1,355) | (1,195) |
| Foreign exchange (loss) | A$000 | (657) | (76) |
| Revaluation of deferred consideration | A$000 | 19 | 291 |
| Interest income | A$000 | 120 | 179 |
| Other head office costs | A$000 | (485) | (712) |
| | | | |
| Consolidated Profit Before Income Tax (unaudited) | A$000 | (1,077) | 724 |

Gold production for the March Quarter was 11,906 ounces, which was sold at an average sales price of US$1,682 per ounce. This represents a 1% increase in gold sales price from the previous quarter. In addition, 4,642 ounces of silver was produced and sold at an average price of US$35.33 per ounce. These sales represent 100% of production sold at spot prices.

The CMD Gold Mine gross operating profit (as defined above) was US$2.66 million for the March quarter, a 137% increase quarter on quarter. C1 cash costs, which exclude waste costs expensed or amortised and royalties, increased during the quarter to US$945 per ounce of gold sold (an increase of 18% quarter on quarter), which was due to reduced ore tonnage and lower grade of ore processed during the quarter, and the higher cost of cyanide.

The inventory adjustment of US$110 reflects the decrease in the gold inventory contained within the leach pad from producing more gold than was stacked, predominately during the month of March (refer to mining and process sections below).

Table 3 below shows the cash costs for the June, September and December 2011 and March 2012 quarters and the impact of the inventory valuation adjustment (all numbers US$ per ounce):

***Table 3 - Cash Cost (US$/oz) and inventory adjustments***

| | **Quarter Ended March 31, 2012** | **Quarter Ended December 31, 2011** | **Quarter Ended September 30, 2011** | **Quarter Ended June 30, 2011** |
|---|---|---|---|---|
| Cash costs with inventory adjustment | 945 | 799 | 953 | 841 |
| Cash costs without inventory adjustment | 835 | 900 | 755 | 704 |
| Inventory adjustment effect | 110 | (101) | 198 | 137 |

***Table 4 – Reconciliation of cash cost (US$/oz) per ounce to unaudited Cost of Sales***

| | | 3 months ended 31 March 2012 | 3 months ended 31 Dec 2011 |
|---|---|---|---|
| Cash cost per ounce | US$ | 945 | 799 |
| Ounces poured | | 11,906 | 11,326 |
| Cash costs | US$000 | 11,257 | 9,046 |
| A$ / US exchange rate for the period | | 1.0552 | 1.0124 |
| | | | |
| Cash costs | A$000 | 10,668 | 8,935 |
| Depreciation and amortization | A$000 | 1,355 | 1,195 |
| Waste costs expensed and amortised | A$000 | 6,365 | 6,749 |
| Royalties | A$000 | 353 | 475 |
| Other | A$000 | 64 | (74) |
| Copper / silver net revenue | A$000 | 498 | 282 |
| | | | |
| Cost of sales (unaudited) | A$000 | 19,303 | 17,562 |

Total costs per tonne of ore stacked increased 24% quarter on quarter, mostly driven by the increase in the waste stripping ratio, but also the lower throughput which impacted on the unit costs for General and Administration (G+A) and processing costs, up 21% and 28% respectively.

**Mining**

Total ore mined for the Quarter was 812,921 tonnes for 13,396 contained Au ounces. Seventy percent of the ore mined was sourced from the Churrumata and Toro pits

Continued waste stripping at Chisperos progressed well for most of the Quarter with a total of 1.4 million tonnes mined (compared to 1.2 million tonnes in the December 2011 quarter). Towards the end of March blasting within the pit damaged an adjacent power line several times. The power line supplies electricity to a small community located to the south of the CMD Gold Mine. As a consequence, mining was suspended at Chisperos whilst a generator was sourced and installed to supply electrical power to the village. This resulted in below budgeted ore mining for the month of March.

Given the highly encouraging drill results and mineral resource upgrades at Tres Perlas, the decision was made to advance waste stripping at that pit ahead of the previously planned schedule. Approximately 1 million tonnes of material was mined from Tres Perlas in the Quarter and this mining was at much higher production rates than previously budgeted. Combined with Chisperos this resulted in an increase in overall strip ratio for the quarter to 5:1. This waste stripping prepares Tres Perlas for ore mining in subsequent months.

Only limited mining was carried out at the Las Loas pit as the short term contractor engaged to mine that pit completed their contract during the quarter.

The operating waste:ore ratio for the CMD Gold Mine (excluding pre strip) was approximately 3:1 for the Quarter. Table 5 details the ore and waste movement by pit.

***Table 5 – Mine production by pit***

| Item | Unit | Churrumata | Tres Perlas | Chisperos | Toro | Las Loas | Tailings | Total |
|---|---|---|---|---|---|---|---|---|
| Ore mined | kt | 238 | 103 | 106 | 334 | 31 | 1 | 813 |
| Au grade | g/t | 0.51 | 0.42 | 0.54 | 0.53 | 0.54 | 0.65 | 0.51 |
| Contained Au | oz | 3,911 | 1,399 | 1,837 | 5,694 | 539 | 17 | 13,396 |
| Waste mined | kt | 504 | 972 | 1,326 | 1,162 | 121 | - | 4,085 |
| Total Mined | kt | 742 | 1,075 | 1,431 | 1,496 | 153 | 1 | 4,898 |
| Strip ratio | W:O | 2.1 | 9.4 | 12.6 | 3.5 | 3.9 | - | 5.0 |

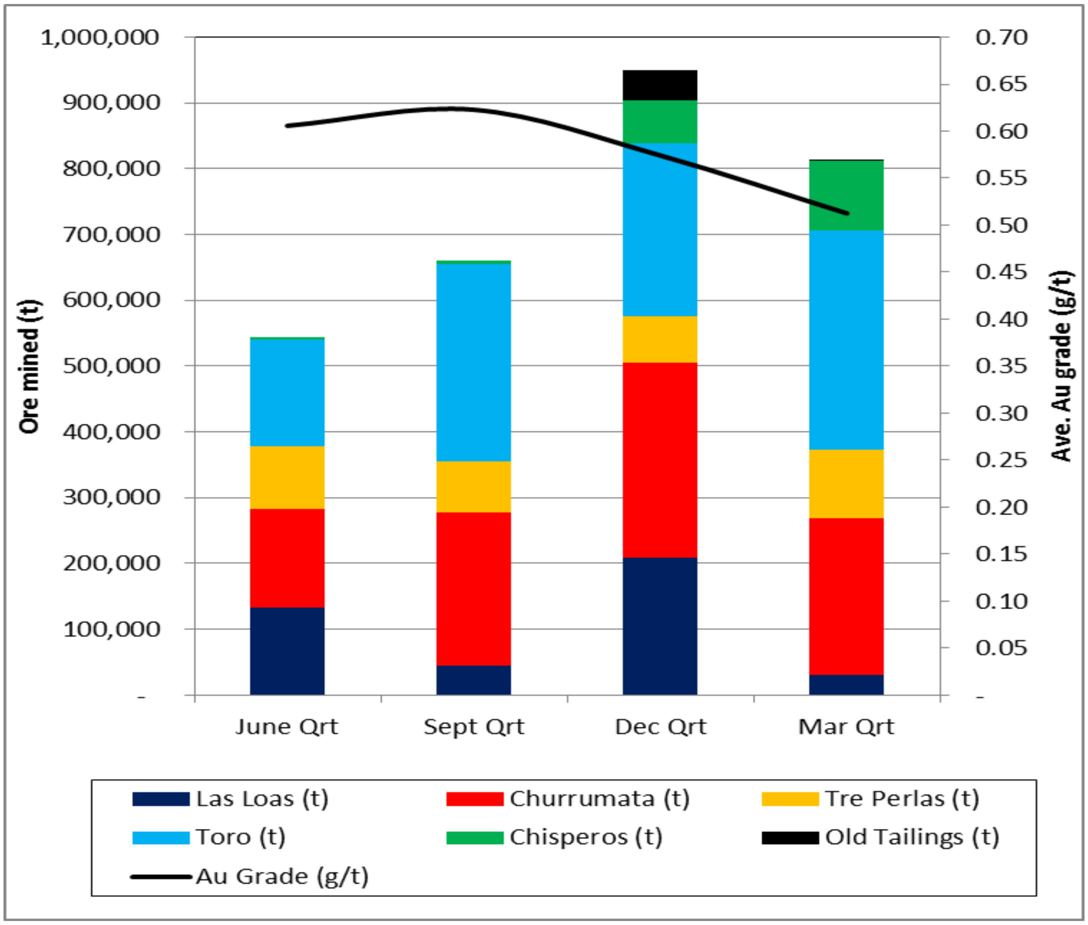


**Figure 1 – Mine Production by Pit**

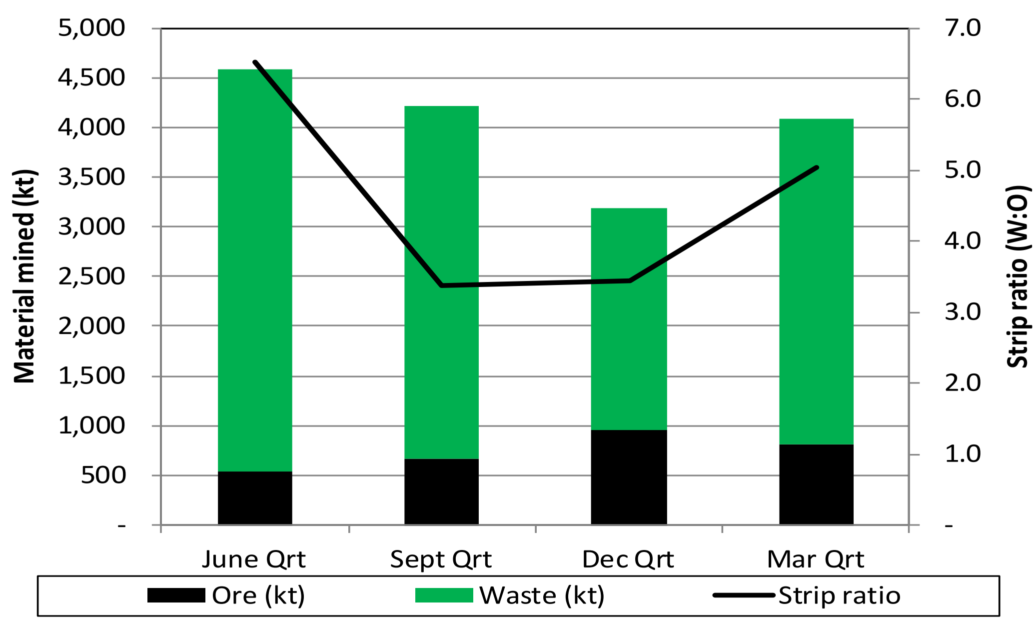


**Figure 2 – Total material movement and strip ratio**

Unit mining costs increased to US$2.39/t moved (a 7 % increase quarter on quarter). During the Quarter the Company employed three mining contractors at the site, one on a long term basis and the other two on short term contracts. Both of the short term contracts had unit rates higher than the longer term contract given the shorter duration, and at the time of reporting both short term contracts have been completed.

**Ore Reconciliation**

New mineral resource models were completed by Coffey Mining during the Quarter. During the March Quarter a total of 813kt of ore was mined at an average grade of 0.51g/t Au. Reconciliation using the new mineral resource models showed that 438kt of ore (54%) was mined from the Indicated mineral resource, 156kt of ore (19%) was mined from the Inferred mineral resource and 219kt of ore (27% was mined from outside the mineral resource (refer to Figure 3).

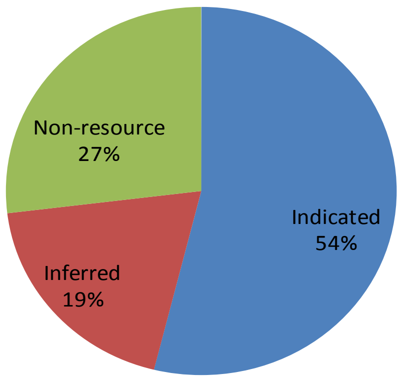


**Figure 3 - Reconciliation of Ore Tonnages Mined to Mineral Resource Tonnage**

The reconciliation of the new mineral resource models is better than the previous models, however only slightly over half of the ore tonnes mined in the Quarter was from the Indicated mineral resource. The Company considers this positive and drilling is ongoing to further define the mineral resources.

**Ore Processing**

Ore stacked decreased over the previous quarter by 17%, which had a negative impact on process costs per tonne of ore stacked (up 28 % quarter on quarter).

The average ore stacking rate for the quarter decreased by 16% quarter on quarter which was the main driver for the increase in the cost per tonne stacked over the previous quarter. In addition, the supply cost for cyanide increased over the quarter by approximately 40 %, which further increased the process costs as shown in Figure 4.

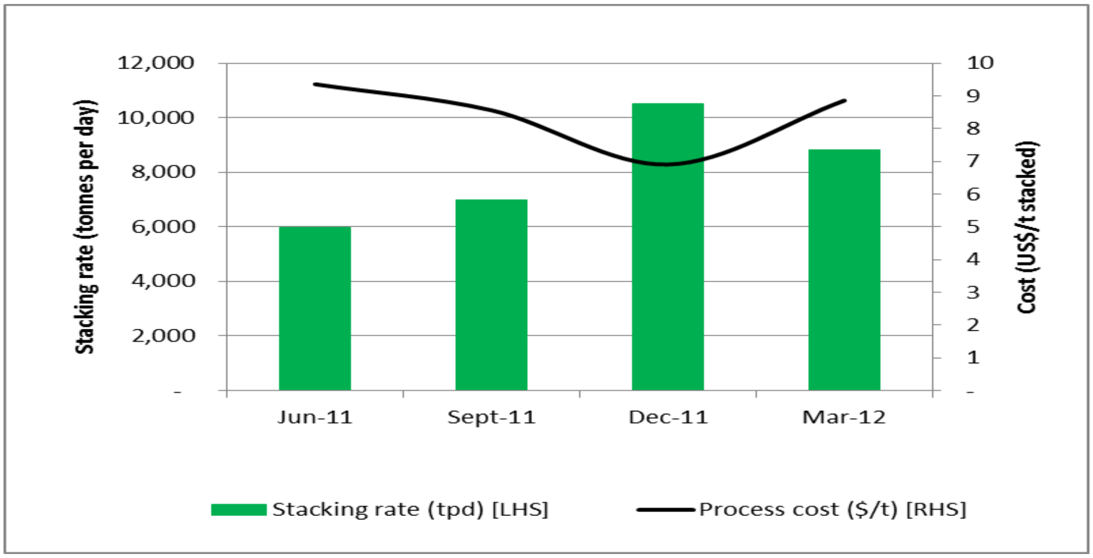


**Figure 4 – Ore stacked versus cost per tonne stacked**

Stacked tonnages were under budget for the month of March due to lower ore mining and the need to feed the ROM and coarse crush test piles through the plant to establish the residual grades. The latter resulted in a substantial ROM ore stockpile being built up at the end of March that has now been crushed and stacked in April.

The increased cyanide supply price is as a direct result of a global cyanide shortage. The Company is contracted for 2012 at a lower cyanide price, however the cyanide market tightness has resulted in the supplier charging a higher price for guaranteed delivery. The Company has elected to pay this price in order to ensure supply, whilst reserving its rights under the original contract. The impact of the higher supply price is approximately US$0.80/t of ore stacked during the March Quarter.

A review of the process plant and associated infrastructure has highlighted several capital projects that are considered to have the potential to reduce operating costs. These include:

*Solar Power Station* – The Company has entered a power purchase agreement (PPA) with private company Solairedirect. Solairedirect will construct a 1MW, photo voltaic solar power station adjacent to the CMD Gold Mine and provide power to the mine. The supply is at a discount to the cost of power from the Chile grid. Additionally, this facility will assist CMD to reduce the carbon footprint of the mine. The option exists to expand the solar power station to 7MW in the future. Construction of the first 1MW is expected to begin in August 2012.

*Diesel Power Station* -The mine has recently installed a 2MVA diesel powered generator, bringing total generating capacity at the mine to 5MW. This is sufficient to service the entire processing facility, giving CMD the flexibility to source power from the grid or internally.

*Crushing Plant* - Spending on primary grizzly, secondary and tertiary screens and a Nordberg 7 foot mainframe for the tertiary crushers to allow the complete refurbishment of all the tertiary crushers without loss of production capacity. The replacement and overhaul program will reduce maintenance requirements on the plant and improve availability;

*Sampling system* - Replacement of the conveyor sampling system, reducing maintenance requirements;

*Leach pad booster pumps* - Replacement of the leach solution pumps to fewer, more efficient pumps. This will reduce operating costs;

*Regeneration Kiln* - Replacement of the carbon regeneration kiln, improving energy efficiency whilst increasing the capacity of the carbon regeneration system. This will reduce cost and reduce the quantity of gold in circuit through more efficient adsorption;

*Sample preparation* - Purchase sample preparation equipment to reduce the cost of the grade control process.

**General and Administration (G+A)**

Unit rates for G+A increased (up 21% quarter on quarter) as stacked tonnes decreased as shown in Figure 5.

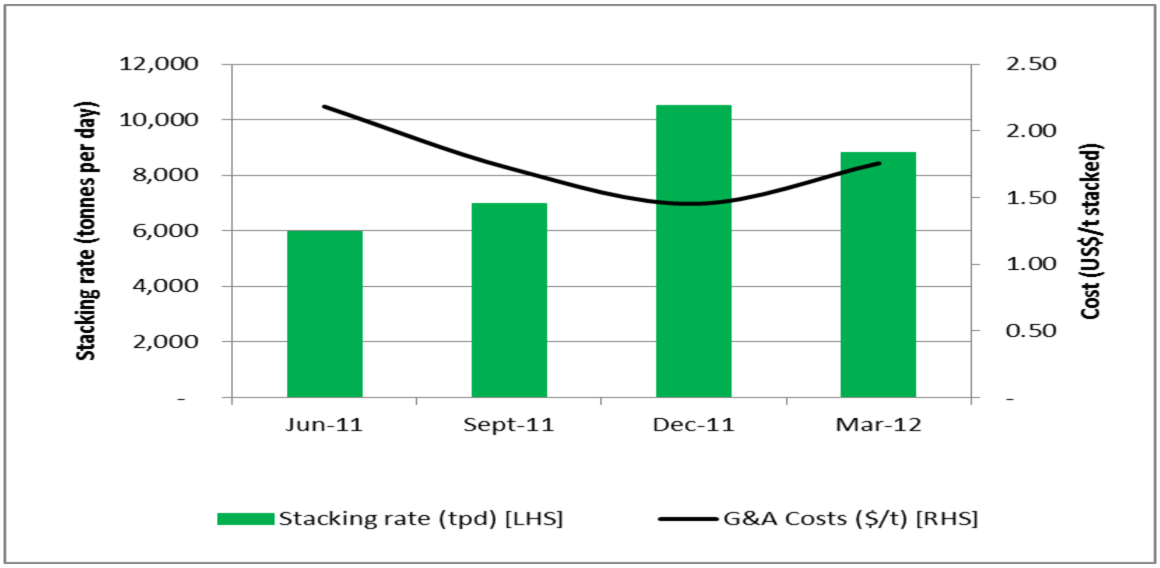


**Figure 5 – Ore stacked versus G&A cost per tonne**

**Dump Leach and Two Stage Crush Trials**

The first trial of Run of Mine (ROM) leaching and coarse ore (two stage crushed) leaching was concluded during the Quarter.

Table 6 provides a summary of the results of Trial 1 and Figure 7 compares the leach kinetics for both process routes for Trial 1. After adjustments for final reconciled head and tail grades, the ROM Trial achieved a recovery of 46.5% over 103 days, whilst the Coarse Crushed Trial recovery was 66.5% in 110 days.

***Table 6 – Trial 1 results and Trial 2 preliminary results***

| Trial | Days Under Leach | Recovery |
|---|---|---|
| ROM 1 | 103 | 46.5% |
| Crushed 1 | 110 | 66.5% |

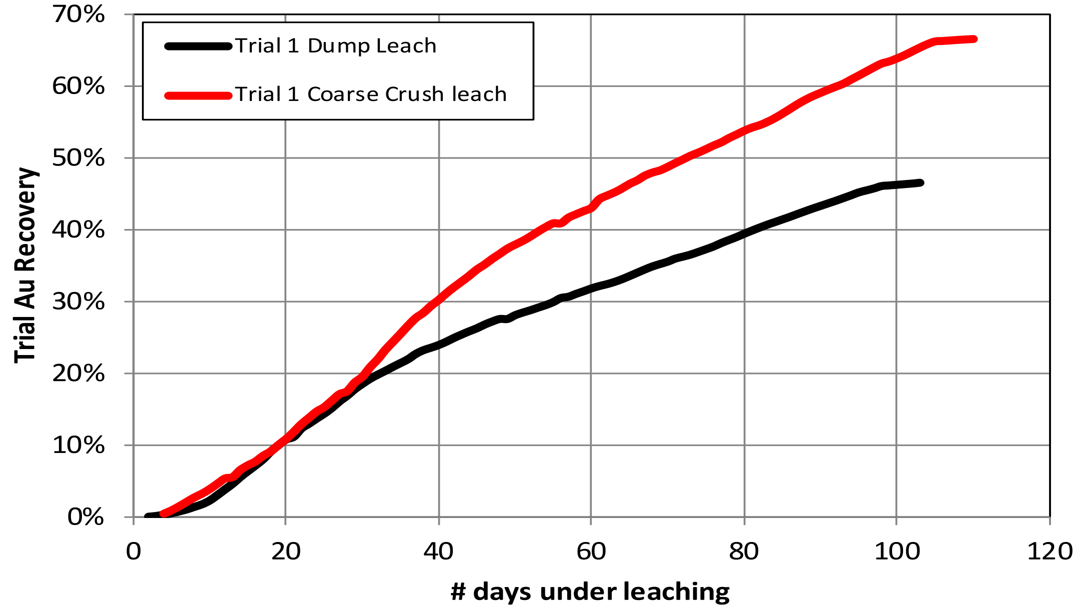


**Figure 6 – Results of Trial 1**

The Company considers these results very encouraging given the ultimate recovery of 75% achieved for the current three stage crush process over 2 years.

Work is continuing on the second large scale test work for both ROM leaching and coarse ore leaching. The ore for this test was sourced from Tres Perlas, and leaching will continue for approximately another 30 days. The test material will then be flushed with water and allowed to dry. Once sufficiently dry to pass through the crushing circuit, the material will be crushed and systematically sampled to determine the residual gold grade. This will allow the final recovery to be accurately estimated. The Trial 2 results to date are broadly similar to the Trial 1 results.

Areas for new leach pad and waste dump construction have been identified and steps put in place to secure those that fall outside the current CMD Gold Mine freehold land.

**Mineral Resources**

An updated NI 43101 Technical Report has been completed by Coffey Mining and lodged for the April 2012 mineral resource estimate by Coffey Mining. This updates the Tres Perlas and Toro mineral resources, with the Indicated mineral resource now containing 1,788,000 ounces of gold and the Inferred mineral resources containing a further 1,342,000 ounces of gold as shown in Table 7.

***Table 7– Comparison of April 2012 and April 2011 CMD Gold Mine Global Mineral Resource Estimates***

| Classification | April 2011 Mineral Resource (koz) | April 2012 Mineral Resource (koz) | K oz's Change | % Change |
|---|---|---|---|---|
| Indicated | 461 | 1,788 | 1,327 | 288% |
| Inferred | 676 | 1,342 | 666 | 99% |

Global mineral resources are now in excess of 3 million ounces of gold. Figure 7 illustrates the rapid growth in the CMD Gold Mine global resource base since the Company took ownership in December 2010, as well as the increasing confidence levels of the mineral resource estimates.

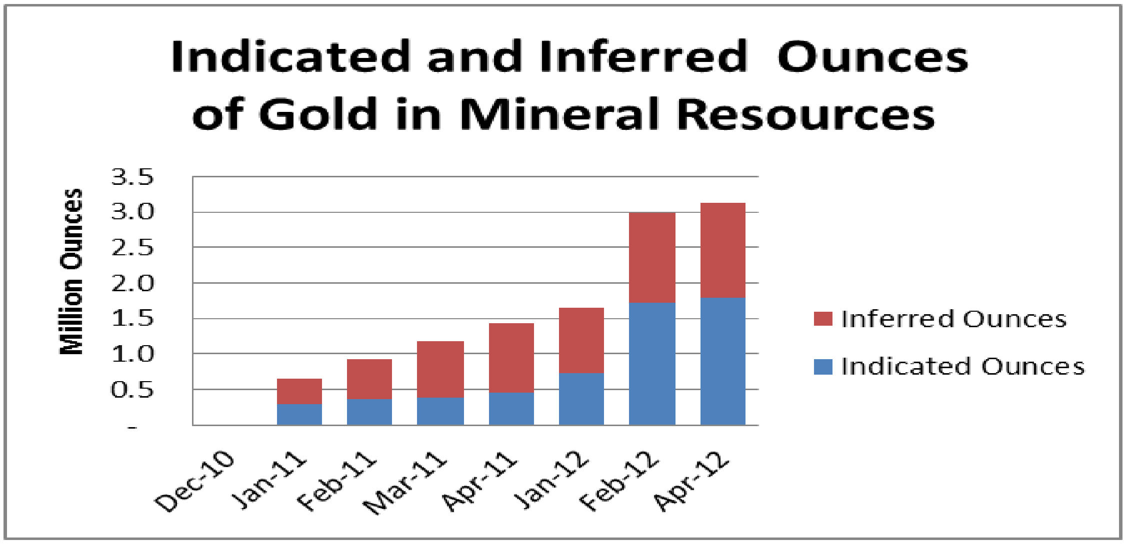


**Figure 7 – CMD Gold Mine Global Mineral Resource Growth**

**Exploration**

A total of 11,590 m drilling was completed during the March Quarter with $2.53 million spent on exploration in the period, a record under Lachlan Star ownership.

The exploration focus has remained around the Tres Perlas area for the Quarter, with drilling focussed on targeting the gaps between the El Sauce, Natalia, Tres Perlas and Churrumata deposits previously modelled separately with the goal of joining the mineralisation together. This has been very successful in adding significant gold ounces to the mineral resources as evidenced by the rapid growth in the mineral resource base over the past 6 months.

**Workforce**

During the March 2012 Quarter, the Group increased its head count from 251 to 253. The majority of employees are comprised of Chilean nationals (249) based at or near the CMD Gold Mine.

## AUSTRALIA

## BUSHRANGER COPPER PROJECT

The Bushranger Copper Project is located in New South Wales, approximately 25km south of the town of Oberon.

On September 29, 2011 the Company entered into the Newmont Farm In Agreement providing for the potential acquisition by Newmont of a 51% interest in the Bushranger Copper Project. The material terms of the Newmont Farm In Agreement are:

- Newmont will have a 12 month option period (the "**Option Period**") to evaluate the Bushranger Copper Project, during which time it must spend a minimum of $250,000.

- At any time during that 12 month period, Newmont can elect to exercise the option, and 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 two years from the date of the Newmont Farm In Agreement (the "**Farm In Period**").

- At the completion of the Farm In Period, the Company and Newmont will form a joint venture owned 49% and 51% respectively, with both parties funding exploration and development on a pro rata basis. Either party may elect to dilute its interest during the joint venture.

Newmont did not carry out any material work on the Bushranger Copper Project in the March 2012 Quarter.

## FINANCIAL PERFORMANCE

The financial performance of the Group was affected by ongoing exploration activities being conducted on its properties and 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. Previous economic analysis on the CMD Gold Mine's mineral reserve estimate has indicated a break-even cut-off grade of between 0.3 and 0.4 g/t gold at a gold price of US$1,250/ounce (see "*Mineral Reserves*", above). If the gold price drops below US$1,250/ounce, that may render the continued operation of the CMD Gold Mine uneconomic based on the current mineral reserves. The CMD Gold Mine mineral reserves are in the process of being re estimated based upon the updated mineral resource models, with the goal being to increase the scale of the operation and reduce cut-off grades.

Generally, the mining industry has experienced cost increases related to inflation of cost inputs. The main cost inputs for the CMD Gold Mine are mining contractor rates and cyanide prices. The Company entered into new contracts for both of these inputs during calendar 2011, which incorporated cost increases over the previous contracts and are included in the current period key performance indicators (see Table 1, above).

The mining contract term is the earlier of 24 months and the mining of 22.6Mt of material at the CMD Gold Mine. The price is fixed in Chilean Pesos and has approximately 18 months to run, with the Company able to terminate the contract with 6 months notice without penalty.

The cyanide supply contract is denominated in US dollars and expires January 1, 2013. The gold mining industry is experiencing a general shortage of cyanide supply and whilst the Company is contracted for its full consumption in calendar 2012, the potential for shortfalls or price increases exists due to factors outside the Company's control. The Company has mitigated this risk where possible through the buildup of additional cyanide stockpiles and by broadening its cyanide supply base.

The supply price for cyanide has increased approximately 40% quarter on quarter. The Company is contracted with the cyanide supplier at a lower price, however a global shortage of cyanide has resulted in the supplier being unable to supply cyanide at the contracted price. The Company has reserved its rights under the supply contract but in the interim is paying the higher price to ensure cyanide supply is maintained. The Company expects that the higher cyanide supply price will be incurred during the remainder of 2012 given the global cyanide shortage.

As approximately 80% of the CMD Gold Mine costs are denominated in Chilean pesos, the Group is affected by changes in the Peso/US dollar exchange rate. See the discussion under "*Financial Instruments and Related Risks - Market risk – (ii) Foreign Exchange Risk*", below.

The following table summarizes the Company's recent financings and use of proceeds as disclosed at the time of the financing. There has been no change in such uses of proceeds.

| **Financing** | **Gross Proceeds** | **Use of Proceeds** |
|---|---|---|
| December 2010/January 2011 non-renounceable rights offering and concurrent private placement | $11.34 million | Fund the acquisition of the CMD Gold Mine |
| May 2011 private placement | $2.85 million | Working capital and exploration of the CMD Gold Mine |
| August 2011 Special Warrants Placement | $15.09 million | Continued development of the CMD Gold Mine and working capital |
| March 2012 Special Warrants Placement | CDN$17.56 million | Continued development of the CMD Gold Mine and working capital |

## SUMMARY OF QUARTERLY RESULTS

Not all prior period information has been prepared or presented on a basis consistent with the most recent interim financial information. The Company became a reporting issuer upon its listing on TSX on October 19, 2011. Prior to that date it had no obligation to prepare quarterly consolidated interim financial statements.

### Financial Condition

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

| **Financial position as at:** | **Mar-31 2012 A$000** | **Dec-31 2011 A$000** | **Sep-30 2011 A$000** | **Jun-30 2011 A$000** | **Mar-31 2011 A$000** | **Dec-31 2010 A$000** | **Sep-30 2010 A$000** | **Jun-30 2010 A$000** |
|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 12,715 | 14,474 | 16,123 | 4,515 | 5,350 | 6,490 | 3,522 | 3,856 |
| Total assets | 83,084 | 82,673 | 80,607 | 61,132 | 67,315 | 70,904 | 7,228 | 7,946 |
| Total liabilities | 34,304 | 31,857 | 30,047 | 30,958 | 34,919 | 38,762 | 60 | 141 |
| Net assets | 48,780 | 50,816 | 50,560 | 30,174 | 32,396 | 32,142 | 7,168 | 7,805 |

*Cash and cash equivalents*

As at March 31, 2012 the Group had cash reserves of $12.72 million, a decrease of $1.76 million from December 31, 2011 and an increase of $8.20 million from June 30, 2011. See "*Cash flow*" section below. The Group's cash reserves were $24.07 million at April 30, 2012, of which $22.78 million was held in A$.

*Trade and other receivables*

Trade and other receivables have increased by $0.50 million since June 30, 2011.

Accounts receivable in CMD were $1.32 million higher at March 31, 2011 than June 30, 2011. The last gold pour of the year on June 30, 2011 was not collected by Johnson Matthey until July 1 and therefore was not been treated as a June 2011 financial year sale. That sale had a value of $1.11 million and therefore June 30, 2011 trade receivables were lower than they might otherwise have been.

VAT receivable in CMD increased $0.52 million over the same period as a result of additional expenditure towards the end of the Quarter.

The termination of a mining contact resulted in mine plant of $1.49 million that was classified as a receivable at June 30, 2011 being reclassified as property plant and equipment in the nine months to March 31, 2012.

In addition, the A$ / US$ exchange rate decreased from 1:1.0597 at June 30, 2011 to 1:1.0387 at March 31, 2012 meaning an increase of $0.07 million in the value of trade and other receivables which are presented in the CMD financial statements in US$.

*Inventories*

Inventories have decreased by $2.41 million from June 30, 2011, comprising a $2.72 million reduction in CMD inventories offset by a $0.31 million increase as a result of the A$ / US$ exchange rate decreasing from 1:1.0597 at June 30, 2011 to 1:1.0387 at March 31, 2012.

The $2.41 million decrease in CMD inventory primarily consists of a decrease of 2,936 ounces in the leachpad with an associated cost of $4.08 million, a $0.88 million increase attributable to the increased average cost per ounce on the leachpad, a $1.01 million increase relating to the purchase of concentrate and electrolytic mud from a third party that is being processed and sold, and a $0.39 million reduction in stores inventory.

*Mine development properties*

Mine development properties increased by $9.24 million over the nine months, mainly comprising expenditure of $11.33 million, a $0.44 million increase as a result of the A$ / US$ exchange rate decreasing from 1:1.0597 at June 30, 2011 to 1:1.0387 at March 31, 2012, and amortisation of $2.49 million.

Of the $11.33 million expenditure, $6.41 million relates to exploration at the CMD Gold Mine, $4.06 million capitalized waste, and $0.85 million to the capitalization of mobilization costs.

*Property, plant and equipment*

Property, plant and equipment increased by $2.64 million over the nine months, comprising expenditure of $2.70 million at the CMD Gold Mine, a $0.11 million increase as a result of the A$ / US$ exchange rate decreasing from 1:1.0597 at June 30, 2011 to 1:1.0387 at March 31, 2012, the reclassification of $1.49 million that was classified as a receivable at June 30, 2011 (see "*Trade and other receivables*" above), offset by a depreciation charge of $1.66 million.

Expenditure in the March 2012 Quarter mainly related to work on the conveyor systems.

*Deferred tax asset*

The deferred tax asset increased by $3.75 million in the nine months, mainly comprising an income tax credit of $3.62 million (refer "*Income tax*" below) and a $0.14 million increase as a result of the A$ / US$ exchange rate decreasing from 1:1.0597 at June 30, 2011 to 1:1.0387 at March 31, 2012.

The availability of tax losses at June 2011 was determined using the Company's internal December 2010 net present value ("NPV") model; the higher mineralised material and cash flow shown in the Company's internal July 2011 NPV model mean that the justification for recognizing an increased deferred tax asset for CMD's income tax losses was satisfied in the nine months with a consequent increase in the deferred tax asset.

In addition, a review of historical income tax returns for CMD carried out in the December 2011 Quarter revealed an understatement of tax losses claimed in prior years of US$3.35 million with a consequent increase in the deferred tax asset in the December 2011 Quarter.

*Total liabilities*

As at March 31, 2012, the Group had total liabilities of $34.30 million compared to $30.96 million at June 30, 2011, an increase of $3.34 million.

A $6.59 million increase in CMD trade and other payables in the nine months and a $0.56 million increase as a result of the A$ / US$ exchange rate decreasing from 1:1.0597 at June 30, 2011 to 1:1.0387 at March 31, 2012 has been offset by a net repayment of borrowings of $3.41 million.

Trade and other payables have increased in the nine months primarily as the result of the costs associated with an additional 1.05 million tonnes mined in the last 2 months of the quarter (February and March 2012) compared to last 2 months of the previous period (May and June 2011), almost $0.7 million additional exploration costs over the same period, delayed payment of $2.02 million of creditors from March 2012 into April 2012, and the purchase of over $1 million of concentrate and electrolytic mud from a third party (included in inventories). As CMD processes the concentrate and electrolytic mud and sells the gold and silver the third party will be paid and CMD will deduct its commission. The concentrate is processed within one month but the electrolytic mud takes over 6 months. This arrangement is expected to continue throughout 2012.

As at March 31, 2012, Lachlan had $7.17 million in debt obligations consisting of bank loans, leases, and deferred consideration due to the vendors of the CMD Gold Mine. During the Quarter CMD drew down bank facilities totaling US$0.28 million.

*Contributed equity*

The contributed equity increase of $14.11 million over the nine months is shown below:

| | Ordinary shares (number) | $000 |
|---|---|---|
| July 1, 2011 | 56,967,517 | 174,796 |
| Issue of ordinary shares | 18,400,000 | 15,088 |
| Cost of issue of ordinary shares | - | (1,227) |
| Share based payments | - | 253 |
| March 31, 2012 | 75,367,517 | 188,910 |

As noted in the "*Corporate*" section above, 18,400,000 Special Warrants automatically converted into Units and 1,104,000 Special Broker Warrants automatically converted into Compensation Options during the nine months. A Unit comprised one Ordinary Share and one-half of one ordinary share purchase warrant and a Compensation Options entitles the holder, upon due exercise and payment to the Company of additional consideration of $1.20, to acquire a Compensation Unit comprised of one Ordinary Share a "Compensation Share and one-half of one Warrant at any time prior to 5:00 p.m. (Vancouver time) on August 26, 2013.

The net proceeds received from the issue of these Special Warrants were recognized in Contributed Equity in the September 30, 2011 Quarter. The conversion of the Special Warrants and the Special Broker Warrants resulted in the issue of 18,400,000 fully paid Ordinary Shares and 10,856,000 warrants / options. In addition, 850,000 options with various terms and exercise prices were issued to employees, consultants and directors during the 9 months subsequent to shareholder approval received on 30 November 2011.

Lachlan announced on March 12, 2012 that the Company would issue, and the Underwriters would purchase, on a bought deal private placement basis, 10,975,000 Special Warrants at a price of

CDN$1.60 per Special Warrant, for gross proceeds of CDN$17,560,000. Each Special Warrant entitles the holder to acquire, upon exercise and for no additional consideration, one Ordinary Share of the Company. As partial consideration for their services in connection with the Offering, the agents were granted options to acquire an aggregate of 329,250 Ordinary Shares at a strike price of CDN$1.60 and an expiry date of 3 April 2014. The Offering closed and the net proceeds were received on April 3, 2012. The impact of this transaction will be recognised in the June 30, 2012 quarterly financial statements.

The share based payment movement mainly relates to a transfer from the share based payments reserve on the expiry of share options during the September 31, 2011 Quarter.

*Reserves*

Negative reserves of $0.94 million consist of a $0.35 million share based payments reserve, which reflects the fair value of share options at their date of issue, offset by a negative balance of $1.29 million in the foreign exchange reserve.

The reduction in the share based payments reserve in the nine months mainly reflects a transfer of $0.25 million to contributed equity on the expiry of 375,002 share options.

The movement of $0.62 million in the foreign exchange reserve balance since June 30, 2011 comprises $0.50 million from the translation of CMD financial statements, which are presented in US$, to A$ on consolidation, and the foreign exchange effect of the fair value uplift on acquisition of the CMD Gold Mine, together with a $0.12 million unrealized foreign exchange gain on an intercompany balance. The movement in the foreign exchange reserve reflects the A$ / US$ exchange rate decreasing from 1:1.0597 at June 30, 2011 to 1:1.0387 at March 31, 2012.

*Accumulated losses*

The March 2012 Quarter increase of $1.11 million in accumulated losses is explained under the heading "*Operating Results*" below.

**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: | Mar-31 2002 A$000 | Dec-31 2011 A$000 | Sep-30 2011 A$000 | Jun-30 2011 A$000 | Mar-31 2011 A$000 | Dec-31 2010 A$000 | Sep-30 2010 A$000 | Jun-30 2010 A$000 |
|---|---|---|---|---|---|---|---|---|
| Operating activities | 7,599 | 1,726 | 2,313 | (581) | (782) | (7) | (287) | (70) |
| Investing activities | (7,383) | (3,776) | (2,871) | (2,617) | 1,499 | (8,428) | (47) | (2) |
| Financing activities | (1,963) | 426 | 12,116 | 1,280 | (1,787) | 11,391 | - | - |

From the September 30, 2011 Quarter onwards the numbers are derived from the quarterly interim financial reports. Prior quarter numbers have been derived from the Company's quarterly cash flow lodged with the ASX as adjusted to reflect exploration and capitalised development costs in "investing activities".

The Operating Activities inflow of $7.60 million in the March 2012 Quarter reflects the net cash flow generated from operations at the CMD Gold Mine of $8.47 million, net of new ventures and royalties of $0.42 million, corporate overhead of $0.48 million, and net interest expense of $0.03 million. Net cash flow generated from operations at the CMD Gold Mine reflects the delayed payment of $2.02 million of creditors from March 2012 into April 2012 as noted in the Total Liabilities section above.

Investing activities in the March 2012 Quarter of $7.38 million reflect $1.26 million property, plant and equipment costs and exploration / capitalised development work at the CMD Gold Mine of $6.12 million.

Financing activities in the March 2012 Quarter reflect net borrowing repayments during the Quarter of $1.91 million comprising of the net repayment of bank loans, leases, and payments under the terms of the sale agreement with the vendors of the CMD Gold Mine, and equity raising costs of $0.05 million.

**Operating Results**

The quarter-on-quarter movements in the operating results of the Group over the last seven quarters are shown below. The Company became a reporting issuer when it listed on the TSX on October 19, 2011. Prior to that date it had no obligation to prepare quarterly consolidated interim financial statements and, other than as set out below, none have been prepared, and it would be impracticable to do so now.

| *Operating results for the three months ended:* | **Mar-31 2012 A$000** | **Dec-31 2011 A$000** | **Sep-30 2011 A$000** | **June-30 2011 A$000** | **Mar-31 2011 A$000** | **Dec-31 2010 A$000** | **Sep-30 2010 A$000** |
|---|---|---|---|---|---|---|---|
| Revenue | 19,332 | 18,737 | 18,248 | 13,485 | 11,549 | 1,184 | - |
| Other income | (537) | 103 | 975 | 317 | 3,794 | 259 | 40 |
| Cost of sales | (19,303) | (17,562) | (17,124) | (15,707) | (14,454) | (1,364) | - |
| Total net operating expenses | (19,872) | (18,116) | (18,366) | (17,302) | (15,267) | (2,311) | (677) |
| Net (loss) / profit before tax | (1,077) | 724 | 857 | (3,500) | 76 | (868) | (637) |
| Net (loss) / profit after tax | (1,110) | 1,941 | 3,289 | (3,196) | 382 | (868) | (637) |
| Basic (loss) / profit per share (cents) | (1.5) | 3.1 | 5.8 | (5.8) | 0.7 | (4.0) | (3.5) |
| Diluted (loss) / profit per share (cents) | (1.5) | 3.1 | 5.8 | (5.8) | 0.7 | (4.0) | (3.5) |

The Group's after tax loss for the March 2012 Quarter was $1.11 million after recognising the following items of revenue and expense:

*Revenue*

| | **Quarter ended Mar-31 2012 $000** | **Quarter ended Dec-31 2011 $000** |
|---|---|---|
| Sale of gold | 18,835 | 18,455 |
| Sale of silver | 300 | 116 |
| Sale of copper | 197 | 166 |
| | 19,332 | 18,737 |

Revenue is from the sale of metals, mainly gold, by the CMD Gold Mine, acquired on December 24, 2010. Revenue for the March 2012 Quarter includes 11,906 ounces of gold at an average achieved sale price of US$1,682 per ounce (December 2011 Quarter: 11,326 ounces of gold at an average achieved sale price of US$1,663 per ounce).

*Other income*

Other income of ($0.54) million relates to a foreign exchange loss of $0.66 million offset by $0.12 million interest income. The foreign exchange loss arises from unrealised losses on the Company's holdings of US$ cash and cash equivalents, and payables denominated in Chilean Pesos translated to the functional currency of CMD, being US$.

*Cost of sales*

| | Quarter ended Mar-31 2012 $000 | Quarter ended Dec-31 2011 $000 |
|---|---|---|
| Depreciation and amortisation | 1,602 | 1,389 |
| Gold in process inventory adjustment | 1,237 | (1,130) |
| Mine operational expenses | 8,736 | 8,959 |
| Reagents | 2,071 | 2,247 |
| Utilities, maintenance | 3,471 | 3,635 |
| Personnel expenses | 1,464 | 1,693 |
| Royalties | 369 | 475 |
| Other expenses | 353 | 294 |
| | 19,303 | 17,562 |

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

Depreciation and amortisation costs are calculated on the units of production method whereby costs are amortised according to gold production as a percentage of estimated ounces of gold recoverable from mineralised material in the mine plan.

Deferred stripping (waste) costs are capitalised in any month where the actual stripping ratio exceeds the life of mine average stripping ratio, in which case costs relating to the waste tonnes mined over and above the 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 March 2012 Quarter includes $6.37 million (December 2011 Quarter: $6.75 million) waste costs expensed and amortised.

The March 2012 Quarter depreciation and amortisation charge of $1.60 million includes $0.47 million relating to amortisation on the uplift in fair values of assets recognized on acquisition of the CMD Gold Mine and $0.30 million waste amortisation. The acquisition of CMD was treated as a business acquisition under IFRS requiring a fair valuation of consideration paid and assets, liabilities and contingent liabilities acquired. The resultant uplift in fair values of property, plant and equipment and mine properties on acquisition are subject to amortisation over estimated life of mine on the same basis as the underlying asset.

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.

*Corporate compliance and management*

Corporate compliance and management costs of $0.43 million (December 2011 Quarter: $0.72 million) reflect costs associated with the management of the CMD Gold Mine, corporate office costs, and the costs of a listed company on the ASX and TSX.

*Occupancy costs*

Occupancy costs of $0.03 million (December 2011 Quarter: $0.03 million) relate to the occupancy costs of the Company’s head office in Perth.

*New venture expenditure written off*

The March 2012 Quarter expenditure of $0.07 million (December 2011 Quarter: $0.07 million) reflects Lachlan’s expenditure on investigating new venture opportunities.

*Finance expense*

Finance expense of $0.01 million (December 2011 Quarter: $0.03 million) consists of bank and financial institution interest, together with the unwinding of discounts on provisions and the foreign exchange gain / loss on financial liabilities.

*Fair value loss on deferred consideration*

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

(a) 2.5% of the value of the gold produced from the existing open pit inventory contained within the pit designs and other specific deposits with mineralisation that may be economically exploited using open pit methods (collectively, the "Mineral Inventory") between January 1, 2011 and December 31, 2014; and

(b) 25% of the value of the gold produced from the Mineral Inventory between January 1, 2011 and December 31, 2014 over and above 119,000 ounces.

The March 2012 Quarter loss of $0.02 million (December 2011 Quarter: $0.29 million gain) arises mainly from a higher forecast gold price for future periods than forecast at December 30, 2011.

*Income tax*

The tax charge for the March 2012 Quarter of $0.03 million consists of:

(i) $0.12 million charge related to the reduction in a deferred tax asset in respect of income tax losses and timing differences of CMD.

(ii) $0.09 million credit relating to the deferred tax impact of the unwinding of the fair value adjustments taken up on the acquisition of the CMD Gold Mine. These fair value adjustments created a difference between the carrying value of the assets in the Company's financial statements and the assets' tax value, and resulted in the recognition of a deferred tax liability on acquisition. As the fair value uplift is amortised the difference between the carrying value of the assets in Lachlan's financial statements and the assets tax value will reduce and the deferred tax liability will reverse.

*Exchange difference on translation of foreign operations*

The March 2012 Quarter $0.92 million foreign exchange reserve movement is a result of the A$ / US$ exchange rate increasing from 1:0.176 at December 31, 2011 to 1:1.0387 at March 31, 2012. The movement is required to be shown on the face of the statement of comprehensive income as a reconciling item to total comprehensive income.

*Earnings per Share*

Earnings per share reflects the underlying result for the Quarter. For the purposes of calculating diluted earnings per share in the March 2012 Quarter the Special Warrants Offering in March 2012 (see the "*Corporate*" section above) has not been included in the denominator on the basis the ordinary shares were not issued until April 2012.

**LIQUIDITY, CAPITAL RESOURCES AND COMMITMENTS**

During the last three years, the Group has accessed equity capital markets as its primary source of funding to finance its activities.

Gross proceeds of $14.20 million were raised from the issue of Ordinary Shares during the financial year ending June 30, 2011 (excluding the issue of 1 billion shares on a pre-share consolidation basis to the vendors of the CMD Gold Mine). Refer to the "*Contributed equity"* section above for details of shares and options issued during the Quarter.

See also, under the heading "*Financial Condition*", above, the table summarizing the movements in the financial position of the Group over the last eight quarters and the discussion of cash and cash equivalents.

The following table sets forth information regarding the Group's contractual obligations as at March 31, 2012:

| | Payments Due | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** | **Total** | **Less than 1 Year** | **1 - 2 years** | **2 - 5 Years** | **5 Years** |
| | **$ million** | **$ million** | **$ million** | **$ million** | **$ million** |
| Exploration commitments[1] | $0.00 | $0.00 | --- | — | — |
| Borrowings[2] | $7.17 | $5.36 | $1.75 | $0.06 | — |
| Trade And Other Payables | $21.18 | $21.18 | — | — | — |
| Provisions[3] | $5.93 | — | — | $5.93 | — |
| Other[4] | $75.42 | $35.57 | $24.04 | $15.81 | — |

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 did not have any overdraft facility at March 31, 2012
(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 March 31, 2012 at the CMD Gold Mine, primarily for mining, power, explosives and cyanide.
(5) A conditional purchase order has been placed with Komatsu Chile to secure a 100t truck fleet and associated equipment with an approximate capital cost of US$22 million. Delivery is expected towards the end of calendar 2012. The potential commitment is not included in the table above.

The net proceeds of (i) the Special Warrants Placement and expenses in qualifying the Units and Compensation Options of approximately $13.91 million received in the September 30, 2011 Quarter (ii) the Special Warrants Placement and expenses in qualifying the Units and Compensation Options of approximately $15.75 million received in the April 30, 2012 Quarter are anticipated to be sufficient to finance the current exploration program and operations and to meet all other contractual, corporate and administrative costs for the Company for the ensuing 18 months. The actual expenditures for exploration and drilling will depend on a number of factors including the success of the drilling or exploration program, as the case may be.

The Company expects to be able to finance its working capital requirements and planned growth and development activities from existing cash balances, finance facilities and cash flows from operations. However, further financing may be required to fund any unforeseen increases in capital or operational expenditure at the CMD Gold Mine. It is anticipated that further funds would be obtained by additional debt or equity raisings. Net cash generated from operating activities in the March 2012 Quarter was $7.60 million. Expenses will be financed from cash flow from operations to the extent possible.

The Company has elected to move to owner mining for the larger of its pits, and discussions are underway with financiers to lease an owner mining fleet.

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

**OFF BALANCE SHEET ARRANGEMENTS**

There are no material off-balance sheet arrangements as at March 31, 2012.

## TRANSACTIONS WITH RELATED PARTIES

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

The Group did not have any other material transactions with related parties during the March 2012 Quarter.

## 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 judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements, are:

*Impairment*

The recoverability of the carrying amount of property, plant and equipment and mine development properties has been reviewed by the Group. 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'. In determining fair value less costs to sell, future cash flows are based on estimates of (a) quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction; (b) future production levels and sales; (c) timing of future production; (d) future exchange rates and commodity prices; and (e) future cash costs of production and capital expenditure.

Recoverable amount is most sensitive to forecast commodity prices. 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.

At March 31, 2012 recoverable amount was tested using the following forward gold prices from data supplied by Bloomberg:

| **2012** | **2013** | **2014** | **2015** | **2016** |
|---|---|---|---|---|
| US$1,675 | US$1,682 | US$1,673 | US$1,694 | US$1,719 |

The forward gold price for 2017 and 2018, in which periods only 12,977 ounces of gold are forecast to be sold, was assumed as US$1,778. At May 10, 2012 the spot gold price was US$1,592 per ounce, as reported by Bloomberg.

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 "Cost of sales" in the Consolidated Statement of Comprehensive Income.

*Provisions*

The Group 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.

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

*Functional currency*

The financial performance and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at exchange rates prevailing at statement of financial position date; and
- income and expenses are translated at transaction date or average exchange rates for the period, whichever is more appropriate

Resulting exchange differences arising on translation of foreign operations are recognised in other comprehensive income and are transferred directly to the Group's foreign currency translation reserve as a separate component of equity. These differences are recognised in other comprehensive income upon disposal of the foreign operation.

Companies in the Group 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 and DCEM, 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 U.S. dollar is the functional currency for those companies. Management has determined that the Australian dollar is the functional currency for Lachlan and its other subsidiaries given their 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 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 a shutdown of operations that occurred in September 2000, prior to its acquisition by Lachlan. The recovery assumption is also supported by the feasibility study prepared by the previous operator of the CMD Gold Mine in the 1990s. Management evaluates this estimate on an ongoing basis for any changes that may result in adjustments to the financial statements. To date no such changes have been identified giving rise to a revision in the estimate. However, the Company has not formally updated the original feasibility study and has evaluated and planned for the operation of the CMD Gold Mine on the basis of its known operating costs, which are well-known given the period of time the mine has been in operation.

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 Comprehensive Income.

*Income taxes*

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

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

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

*Mineral reserve estimates*

Mineral reserves are estimates of the amount of product that can be economically and legally extracted from the Group's properties. In order to calculate mineral 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 mineralised 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 mineral reserves in Australia under the principles incorporated in the Australasian Code for Reporting of Mineral Resources and Ore Reserves December 2004, known as the JORC Code.  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.

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 determination of mineral reserves, recognition of deferred tax on mineral rights and exploration recognised in acquisitions, deferred mining expenditure and capitalisation of mine development costs, and units of production method of depreciation and amortisation.

The financial statement line items affected by this critical accounting estimate are “Mine development properties” in the Consolidated Statement of Financial Position and “Cost of sales” in the Consolidated Statement of 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, 2011. There have been no significant changes in such policies in the March 2012 Quarter,

In the March 2012 Quarter, 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, 2011. As a result of this review, the Directors have determined that there is no change necessary to Group accounting policies.

The International Accounting Standards Board published IFRIC *20 Stripping Costs in the Production Phase of a Surface Mine* on October 19, 2011*.* The interpretation, which has an effective date for annual periods beginning on or after January 1, 2013, sets out the accounting for overburden waste removal (stripping) costs in the production phase of a surface mine. The main requirements of the interpretation are as follows:

- Waste removal costs (stripping costs) incurred in the production phase of a surface mining are accounted for in accordance with IAS 2 *Inventories* to the extent they relate to current period production.

- Production stripping costs are recognized as a non-current asset (“stripping activity asset”) if all the following criteria are met (i) it is probable that future economic benefits will flow to the entity (ii) the entity can identify the component of the ore body to which access has been improved (iii) the costs incurred can be measured reliably. The stripping activity asset is amortised over the useful life of the component of the ore body to which access has been improved.

- When the costs of a stripping activity asset versus current period inventory are not separately identifiable, costs are allocated based on a production method.

- Application of the interpretation is on a prospective basis, with transitional adjustments being recognized in opening retained earnings.

The Company is currently reviewing how this interpretation may impact its record keeping and accounting policies in future periods.

**FINANCIAL INSTRUMENTS AND RELATED RISKS**

The Group’s activities expose it to credit risk, market risk (including interest rate risk, and foreign exchange risk), liquidity risk, and commodity price risk. This section 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 minimise 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 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 is subject to externally imposed capital requirements.

*Credit risk*

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

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

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

There has been no significant change in the Company's exposure to credit risk or its objectives and policies for managing this risk during the 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 (A$). The Group does not hedge this risk, however it continues to monitor these exchange rates so that this currency exposure is maintained at an acceptable level. There is a natural hedge in place to the extent US$ costs are covered by US$ revenues.

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

| | **Average for Quarter ended March 31, 2012** | **As at March 31, 2012** |
|---|---:|---:|
| A$ / US$ | 1.0552 | 1.0387 |
| US$ / Peso | 492.1 | 486.5 |
| A$ / Peso | 519.3 | 505.3 |

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 either the current or prior period, but is continually under review. There has been no significant change in the Company's exposure to commodity price risk or its objectives and policies for managing this risk during the Quarter.

**SUBSEQUENT EVENTS**

(i) On 4 April 2012 the Company announced that it had completed an Offering of Special Warrants raising gross proceeds of CDN$17,560,000 through the issuance of 10,975,000 Special Warrants, priced at CDN$1.60 per Special Warrant.

As partial consideration for their services in connection with the Offering, the agents were granted options to acquire an aggregate of 329,250 ordinary shares at a strike price of CDN$1.60 and an expiry date of 3 April 2014. The Offering closed and the net proceeds were received on April 3, 2012 subsequent to the receipt of all necessary approvals, including the approval of the TSX. The Company obtained a receipt for a final prospectus on April 27, 2012. The Special Warrants converted into Ordinary Shares and the agent options were issued on 4 May 2012.(ii) Subsequent to the end of the quarter, the Company has carried out a detailed review of the best method to optimise mining costs and to further support the expansion of the CMD Gold Mine and determined that:

- the optimal way forward is to convert a portion of the mining operations to owner mining
- the mining contractors on site be rationalised from three to one contractor which will deliver an immediate saving on mining unit rates

The new mining strategy is expected to deliver cash cost savings of US$100-US$150 per ounce.

*Owner Mining*

The increased Tres Perlas mineral resource base underpins the Company's decision to move to owner mining for the fleet to be used at this pit. After negotiations with several fleet suppliers, a conditional purchase order has been placed with Komatsu Chile to secure a 100t truck fleet and associated equipment. Delivery is expected towards the end of calendar 2012.

Based on the review of maintenance, fuel and operator costs, the expected operating cost for owner mining is in the range of US$1.70 to US$1.80/t moved. This compares to the March quarterly mining costs of US$2.39/t moved by contractors with small fleet.

The Company already conducts some of the drill and blast and ore rehandle operations at the CMD Gold Mine and this move is an extension of the same strategy. It is planned to increase management capacity prior to delivery of the mine fleet to ensure maximum positive impact from the commencement of owner mining.

*Mining Contractors*

The mining contractors on site have been rationalised from three to one contractor, which will deliver an immediate saving on mining unit rates. The two contractors who have finished were on short term contracts that incorporated relatively high unit rates as a result of the short term duration of these contracts. These contractors had their previous contracts extended whilst the third contractor became established and reduced any changeover risk to total movement rates. The remaining contractor has approximately 18 months to run on its contract and will continue to be utilised in the smaller pits where their smaller truck fleet is more suited.

(iii) The Company has recruited Mr Ubirata (Bira) De Oliveira to the role of Chief Operating Officer (COO). Reporting to the Managing Director, Mr De Oliveira will be responsible for Lachlan Star's operations and business development in Latin America. Mr De Oliveira is a professional engineer with formal qualifications in Mining Engineering, Minerals Processing, and Project Management. He is currently completing a PhD in Management - Leadership and Organisational Change in the USA. These formal qualifications are backed by more than 35 years operational experience in Latin America and West Africa in base metals and gold mines.

Most recently Mr De Oliveira was Chief Operating Officer for CuCo Resources Limited, a private Canadian company with copper and cobalt operations in the Democratic Republic of Congo. His mine operations pedigree also includes:

- General Manager of First Quantum Minerals Ltd, Frontier Operations in the DRC;
- General Manager of First Quantum Minerals Ltd, Guelb Moghrein Operations in Mauritania; and
- Operations Manager at AngloGold Ashanti's Sadiola Hill Gold Mine in Mali.

Before moving to Africa in 2005, Mr De Oliveira fulfilled a variety of consulting, mine management and technical engineering roles in the gold and industrial minerals sectors of Venezuela, Uruguay, and Brazil. He is fluent in Spanish, Portuguese, English and French.

Mr De Oliveira's skill set will enhance Lachlan Star's Corporate Management Team and strengthen our presence in Latin America. His management and technical background will augment the CMD Gold Mine management team as we shape the operation into a lower cost gold producer through expansion of the mine and implementation of owner mining.

Other than described above, since the end of the March 2012 Quarter, 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 years.

**OUTSTANDING SECURITIES DATA**

The Company presently has 86,380,017 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 | 375,002 | $1.50 | 18/11/2012 |
| Stock Options | 166,667 | $1.20 | 31/12/2012 |
| Stock Options | 166,669 | $1.20 | 20/12/2013 |
| Stock Options | 166,669 | $1.50 | 20/12/2013 |
| Placement Options(1) | 3,400,009 | $1.20 | 20/05/2013 |
| Broker Options(1) | 197,081 | $1.20 | 20/05/2013 |
| Broker Options / Warrants(2) | 10,818,500 | $1.20 | 26/08/2013 |
| Stock Options | 650,000 | $1.20 | 25/11/2013 |
| Stock Options | 150,000 | $1.50 | 25/11/2013 |
| Stock Options | 50,000 | $1.50 | 25/11/2014 |
| Broker Options / Warrants(2) | 329,250 | CDN$1.60 | 3/04/2014 |

Notes:

(1) May 2011 private placement.

(2) These securities were issued or issuable pursuant to the Special Warrants Placements. See "*Corporate*", above.

10,975,000 Ordinary Shares and 329,250 options have been issued since March 31, 2012 and up to the date of this MD&A, see "*Corporate"* above.

**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 judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion between two or more people, or by unauthorized override of the control. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

**Competent Persons Statement**

The information in this Management Discussion and Analysis that relates to the Mineral Resources of Tres Perlas, Chisperos, Las Loas, El Sauce, Churrumata and Toro/Socorro is based on information compiled by David Slater, who is a Chartered Professional Member of The Australasian Institute of Mining and Metallurgy. Mr. Slater is employed full time by Coffey Mining Pty Ltd. The information in this Management Discussion and Analysis that relates to exploration results is based on information approved by Declan Franzmann, who is a Chartered Professional Member of The Australasian Institute of Mining and Metallurgy. Mr. Franzmann is employed by Citraen Pty Ltd and is an officer of the Company. Each of Mr. Slater and Mr. Franzmann has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking, to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves" and to qualify as a "Qualified Person" under NI 43-101. Each of Mr. Slater and Mr. Franzmann consents to the inclusion in the news release 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 |