

MANAGEMENT DISCUSSION AND ANALYSIS

This Management Discussion and Analysis (“**MD&A**”) for Lachlan Star Limited (“**Lachlan**” or the “**Company**”) and its subsidiaries (collectively, the “**Group**”) is dated November 14, 2011 and provides an analysis of the Company’s performance and financial condition for the three months ended September 30, 2011 (the “**Quarter**” or “**September 2011 Quarter**”).

The MD&A should be read in conjunction with the Company’s unaudited consolidated interim financial statements for the three months ended September 30, 2011.

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 and “US\$” denotes United States dollars.

The A\$/US\$ exchange rate used for the purposes of converting the statement of financial position of CMD and DCEM as at September 30, 2011 was A\$1.00 = US\$0.9793. The average A\$/US\$ exchange rate used for the purposes of converting the statement of financial performance of CMD and DCEM for the three months to September 30, 2011 was A\$1.00 = US\$1.0527. Details of average and period year 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 and cash costs of gold per ounce, 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\$1,620/ounce as at September 30, 2011. Subsequent to September 30, 2011, the gold spot price has seen further gains and is US\$1,773/ounce as at November 11, 2011.

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 has produced 10,330 ounces of gold in the September 2011 Quarter versus zero ounces of gold during the quarter ended September 30, 2010.

The CMD Gold Mine is a bulk tonnage heap leach operation that at the time of acquisition was operating at an annualised production rate of 1.5 million Mtpa compared to the installed crushing and stacking capacity of 8 Mtpa. During the course of the Quarter, the Company progressively increased production rates to an annualized 3.0 Mtpa as of September 30, 2011 compared to its announced intention to achieve a 3.5 Mtpa annualised run rate by the end of the 2011 calendar year. As of October 31, 2011, the Company had achieved production rates to an annualized 3.7Mtpa.

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, 23.36 Mt of indicated mineral resources for 461,000 ounces of gold and 46.33 Mt of inferred mineral resources for 976,000 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**”). For more information, please refer to the technical report entitled “CMD Gold Mine, Andacollo, Chile: Independent Technical Report” (the “**CMD Technical Report**”) dated August 1, 2011, available under the Company’s profile on SEDAR at www.sedar.com.

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.

EXPLORATION AND EVALUATION

The Group's exploration and evaluation expenditures for the Quarter comprised \$2.05 million of exploration at the CMD Gold Mine (classified as mine property expenditure in the consolidated statement of financial position) and \$0.03 million 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 will convert, 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 will entitle 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 will convert, as described below, for no additional consideration, into one compensation option of the Company (a "**Compensation Option**"). Each Compensation Option will entitle 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 will automatically convert into Units and the Special Broker Warrants will automatically convert into Compensation Options upon the Company obtaining a receipt for a final prospectus qualifying the distribution of the Units and the Compensation Options. Once the receipt for the final prospectus is obtained, in addition to the Ordinary Shares forming part of each Unit, the Warrant Shares and the Compensation Shares will also be free-trading. The Company is required to use its best efforts to file a preliminary prospectus in each province of Canada in which Special Warrants were distributed pursuant to the Special Warrant Placement and obtain a receipt for a final prospectus on or before December 27, 2011. If the Company does not meet this deadline, each Special Warrant shall thereafter entitle the holder to receive upon exercise, for no additional consideration, 1.1 Units (instead of one Unit) and there will be no change in the number of Special Broker Warrants or Compensation Options. The Company received a receipt from the British Columbia Securities Commission, as principal regulator, for its preliminary short form prospectus qualifying the distribution of the Units and the Compensation Options on November 9, 2011. The Company's ability to obtain a receipt for a final short form prospectus, and the timing to obtain such a receipt, will depend on its ability to satisfactorily address any comments from the British Columbia Securities Commission during the regulatory review process. The Company is not able at this time to give any guidance on the expected timing or likelihood of obtaining such a receipt.

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

(ii) Board Changes

The following changes in the board of directors of the Company (the “**Board**”) have occurred during or since the end of the most recent financial year.

Mr. Scott Perry was appointed a director on September 9, 2011. Mr. Perry brings a wealth of experience to the Company and is currently the Executive Vice President and Chief Financial Officer of AuRico Gold Inc. (“**AuRico**”), a TSX and New York Stock Exchange listed company with gold mining operations in Mexico, Canada and Australia and a market capitalisation of approximately C\$3 billion. He has a Bachelor of Commerce from Curtin University as well as a Certified Public Accountant designation. Mr. Perry commenced his career with Newmont in Australia before moving to Barrick Gold Corporation (“**Barrick**”) where he rose to be the Chief Financial Officer for Barrick’s Russian and Central Asian division, culminating in the secondment as Chief Financial Officer and board member of Highland Gold Mining Ltd., a London listed company with gold operations in Russia. Mr. Perry took up his role with AuRico in early 2008, where his focus has been on financial reporting, execution of the business plans, investor relations and corporate mergers and acquisitions activity. Mr. Perry is a resident of Toronto and well known in the investor community in North America and will add North American depth to the Lachlan team.

Mr. Thomas Duckworth retired from the Board on September 9, 2011. Mr. Duckworth, who has been a director of the Company since September 26, 2007, stepped down as part of his retirement plans.

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 23.36 Mt of indicated mineral resources for 461,000 oz gold and 46.33 Mt of inferred mineral resources for 976,000 oz gold (the mineral resources are not additive to the mineral reserves) (see the CMD Technical Report). 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 8,500 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 \$2.03 million for resource definition drilling over the period from August 2011 to May 2012 to upgrade inferred mineral resources to a higher confidence level, and has budgeted \$4.02 million over the same period for exploration drilling to locate and define additional mineralisation not currently included in mineral resources. The Company also plans expenditures of approximately \$3.0 million related to pre-stripping at the Chisperos deposit and installation of additional leach pad liners.

During the Quarter, the Company spent a total of \$0.81 million on resource definition drilling, and an additional \$1.24 million on exploration drilling. The pre-strip of the Chisperos deposit was also commenced with costs of \$0.52 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 \$18,248,000, cost of sales was \$17,124,000, and net sales were \$1,124,000. 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 850,000 ounces of gold since operations commenced. There are at least six known gold deposits in the CMD Gold Mine: Toro/Socorro, Tres Perlas, Churumata, 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 September 30, 2011 as compared to the three months ended June 30, 2011 for the CMD Gold Mine.

Table 1 – CMD Gold Mine Key Performance Indicators

Item	Unit	3 months ended	3 months ended	% Change
		30-Sep-11	30-Jun-11	
Ore Mined	dmt	671,411	544,335	23%
Waste Mined	dmt	2,163,339	3,553,839	-39%
Total Mined	dmt	2,834,750	4,098,174	-31%
Waste:Ore Ratio	t:t	3.22	6.53	-51%
Ore grade	Au g/t	0.62	0.61	2%
Gold Mined	Au oz	13,290	10,603	25%
Ore stacked	dmt	641,588	544,335	18%
Stacked Grade	Au g/t	0.63	0.61	4%
Gold Stacked	Au oz	13,032	10,603	23%
Average stacking rate	dmt/d	6,974	5,982	17%
Gold Produced	Au oz	10,330	10,134	2%
Mining Cost/t moved	US\$/t	\$2.30	\$1.89	22%
Mining Cost/t ore	US\$/t	\$9.72	\$14.23	-32%
Process Cost/t ore stacked	US\$/t	\$8.41	\$9.36	-10%
G+A Cost/t ore	US\$/t	\$1.69	\$2.18	-23%
Total Cost/t ore	US\$/t	\$19.82	\$25.77	-23%
Average Sales Price	USD/oz	\$1,713	\$1,510	13%
Cash Cost	USD/oz	\$755	\$704	7%
Non Cash Process Inventory Adjustment	USD/oz	\$198	\$137	45%
C1 Cash Cost	USD/oz	\$953	\$841	13%
CMD Gold Mine Gross Operating Profit (Unaudited)	US\$m	\$4.08	\$0.92	343%

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 depreciation and amortization and royalties.
2. 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.
3. Percentages may not calculate exactly due to rounding.

Cost per tonne of ore stacked decreased 23% quarter on quarter, a substantial improvement mostly attributable to reduced waste:ore ratios and reductions in process and General Administration (G+A) costs.

Gold sales of 11,108 ounces are recorded in the financial statements for the September 2011 Quarter at an average sales price of US\$1,718 per ounce of gold. In addition, total silver production of 3,488 ounces

was also achieved, with an average sales price of US\$38.92 per ounce of silver. These sales represent 100% of production sold at spot prices and the Company's production profile remains unhedged.

The last gold pour for the last financial year occurred on June 30, 2011 with the gold being collected by Johnson Matthey on July 1, 2011. Consequently, the cash cost calculation for the September 2011 Quarter does not reflect this pour, whereas the financial statements for the Quarter do as it met the definition of a sale under the Company's accounting policies. The reconciliation between the two is as follows:

	Ounces gold
September 2011 Quarter production for cash cost calculation	10,330
September 2011 Quarter sales for financial statements	11,108
Variance	778

C 1 cash costs, which exclude waste costs expensed or amortised and royalties, increased during the Quarter to US\$953 per ounce of gold sold up from \$841 per ounce the previous quarter. The US\$953 per ounce cash cost calculation incorporates a non-cash process inventory adjustment of US\$198 per ounce as a result of certain changes to the process methods that have resulted in the recovery of additional historical ounces from the leach pad inventory. These ounces are required to be valued at their historical cost, with the result that a total of 870 ounces of gold at a cost of US\$1,444 per ounce have been included in the cash costs. Almost all of the costs associated with recovering this gold were incurred in previous periods. Table 2 below sets out the cash costs for the March, June and September 2011 quarters and the impact of the inventory valuation adjustment (all numbers US\$ per ounce):

Table 2 - Cash Cost (US\$/oz) and inventory adjustments

	<u>Quarter Ended September 30, 2011</u>	<u>Quarter Ended June 30, 2011</u>	<u>Quarter Ended March 31, 2011</u>
Cash costs with inventory adjustment	953	841	783
Cash costs without inventory adjustment	755	704	802
Inventory adjustment effect	198	137	(19)

During the Quarter, ore was sourced from the Las Loas, Churrumata, Tres Perlas, Toro and Chisperos pits. Ore production by mine area is shown in Figure 1 for the March, June and September 2011 quarters.

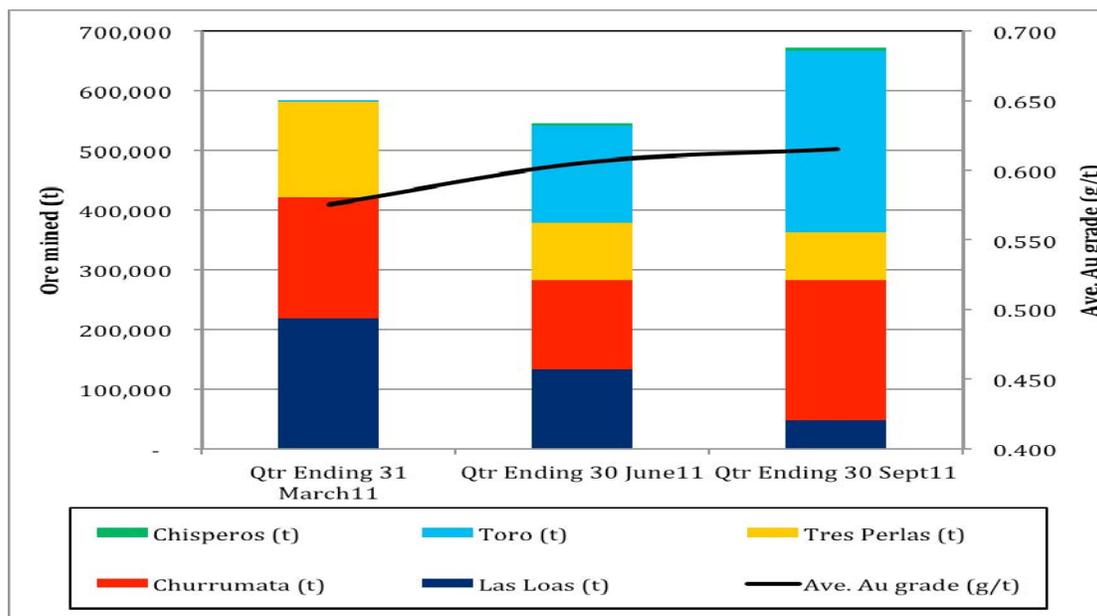


Figure 1 – Mine production by area and average gold grade

Ore mined increased by 23% on the previous quarter to a record tonnage under Lachlan's ownership.

The Company is focused on maximising ore mining through the exploitation of lower waste to ore ratio pits in the Toro area. During the Quarter, the waste to ore ratio was reduced to 3.22:1 as shown in Figure 2, with total waste movement of 2.2 Mt during the Quarter. This has been achieved with increasing gold grades over the year to date.

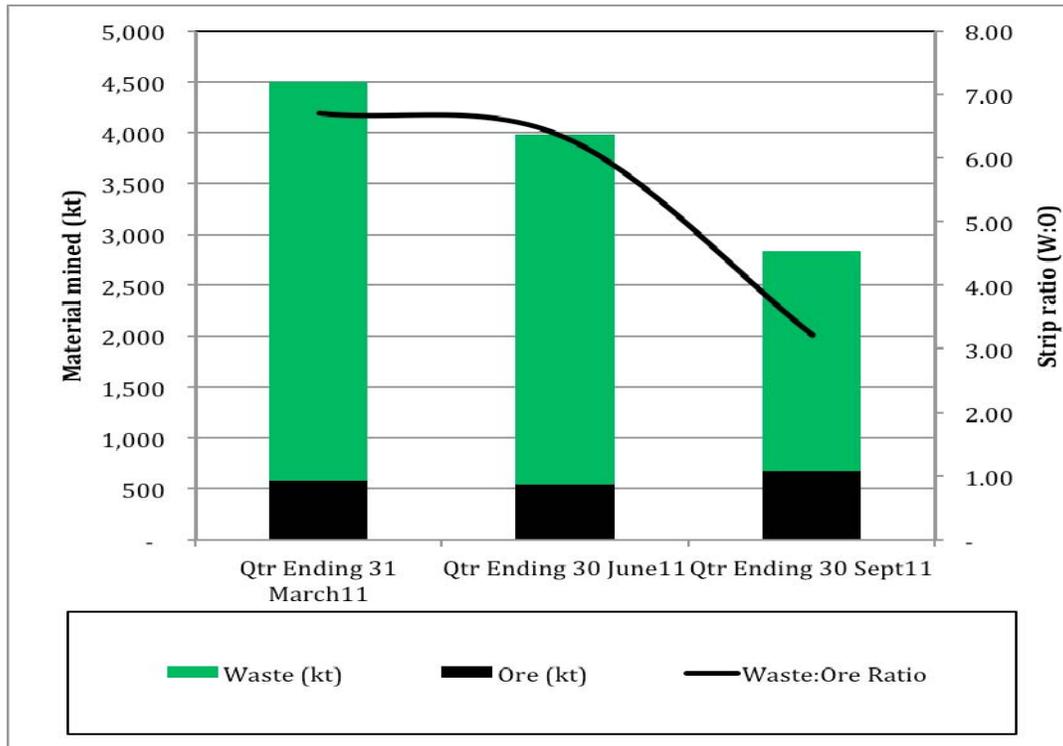


Figure 2 – Total mine movement and strip ratio

The waste to ore ratio was further reduced in October to an average of 2.6 to 1. This has been achieved despite the commencement of the pre strip at Chisperos. In September the Company signed a contract with a new mining contractor and mining of the Chisperos pit commenced in late September.

Mining of the Tres Perlas and Churrumata pits has continued to show much lower waste:ore ratios than budgeted (2.9:1), with 213,000 tonnes of ore mined from these two pits in October at an average waste:ore ratio of 1.4:1. The upper levels of the Chisperos pit have also materially outperformed budget, with 25,000 tonnes of ore mined at an average waste:ore ratio of 11:1 for the pit to date compared to budgeted pre strip waste movement of 170,000 tonnes of waste and no ore.

Mining of the Toro pits has identified a new style of gold mineralisation previously unrecognised in the form of mineralised andesite. The andesite was previously considered to not contain economic gold grades, however sampling of the blast hole drilling at Toro indicates this is not the case and during the Quarter andesite previously thought to be waste has been crushed and stacked on the leach pad with grades of approximately 0.4 to 0.5 g/t Au. The andesite unit is thought to be analogous to the andesite being mined at the adjacent Teck Carmen Andacollo mine.

Unit mining costs increased to US\$2.30/t moved (a 22 % increase quarter on quarter), which was driven by one off costs incurred in July and August associated with the changeover of the mining and explosives contracts and the Chilean peso strengthening by 4% over the Quarter.

Mining costs had been reduced to US\$1.93/t moved for the month of September, which is closer to budgeted rates of US\$1.86/t moved.

The material reduction in waste:ore ratios translated into a 41% reduction in mining cost per tonne of ore to US\$9.72/t.

Ore Processing

The average stacking rate for the Quarter increased by 17% quarter on quarter to the highest since the Company took ownership of the mine. This has reduced the process costs as shown in Figure 3.

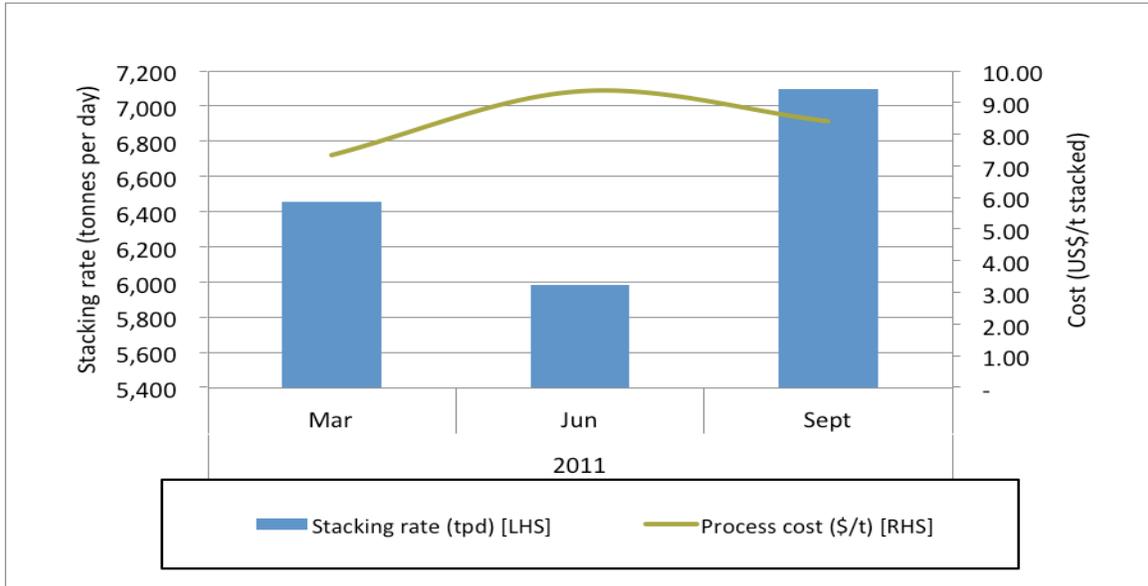


Figure 3 – Ore stacked versus cost per tonne stacked

Despite the increased utilisation of the process circuit, there is still significant unused capacity available. The Company elected to contract crush copper ore for Teck’s adjoining mine during the Quarter and into October, with a total of 260,000 tonnes of material crushed. Crushing rates of 1,300 tonnes per day were regularly achieved when sufficient ore was available.

General and Administration (G+A)

As shown in Figure 4, unit rates for G+A have continued to fall as stacked tonnes increase. All G+A costs are essentially fixed, and increasing stacked tonnages are forecast to further reduce the G+A unit rates.

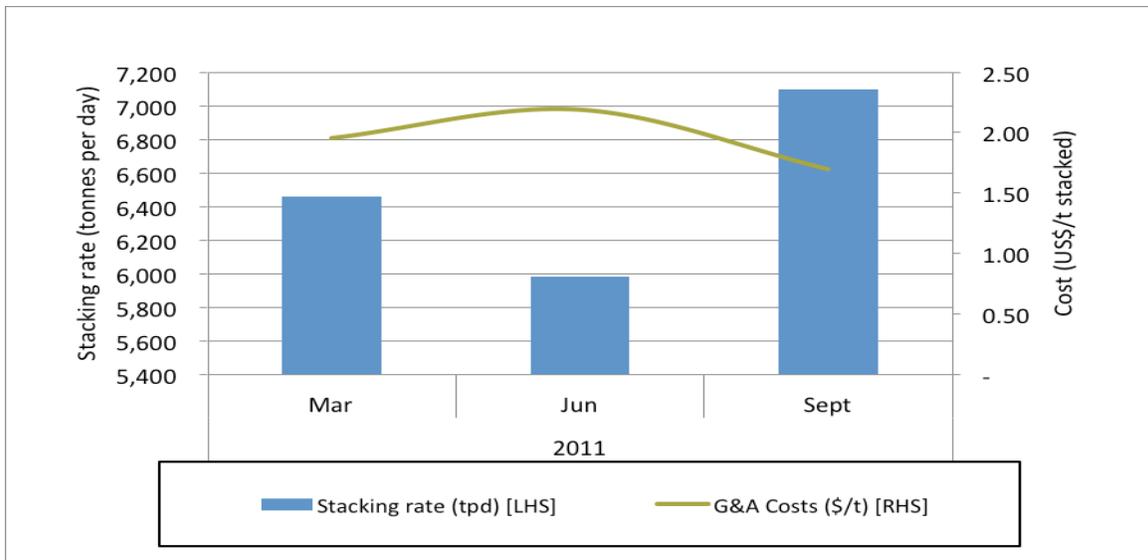


Figure 4 – Ore stacked versus G&A cost per tonne

Mineral Resources

Exploration drilling was increased significantly in early 2011. By April 2011, mineral resources for six deposits had been estimated in accordance with NI 43-101.

The CMD Gold Mine mineral resource estimate is detailed below at a cut-off grade of 0.3 g/t gold.

Table 3 - CMD Gold Mine Mineral Resource Estimates

CMD Gold Mine Mineral Resources (April 2011) above 0.3 g/t gold						
Deposit	Indicated			Inferred		
	Tonnes (Mt)	Gold Grade (g/t)	Ounces (koz gold)	Tonnes (Mt)	Gold Grade (g/t)	Ounces (koz gold)
Las Loas	2.86	0.8	73	1.5	0.8	37
El Sauce				7.1	0.7	156
Toro/Socorro	3.3	0.8	84	8.1	0.7	188
Tres Perlas	15.6	0.5	252	19	0.5	333
Churumata	0.6	0.8	16	8.7	0.8	219
Chisperos	1.0	1.1	36	1.4	1.0	43
Total	23.4	0.6	461	46.3	0.7	976

Exploration drilling has continued throughout the Quarter, with two reverse circulation (RC) drills and one diamond drill working continuously. The Company anticipates that a mineral resource and reserve update will be completed towards the end of 2011.

A total of 13,975 m drilling was completed bringing the total drilling in calendar 2011 to 23,623 m. The 2011 calendar year program is estimated to be 33,000 m in total.

Exploration has been focused on the Toro area for the majority of the Quarter, with drilling focused on converting the Inferred mineral resources to a higher confidence level as well as step out exploration drilling.

Mineral Reserves

Economic analysis on this 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\$1250/ounce. The mineral reserves in Table 4 are included in the indicated mineral resource estimates shown in Table 3.

Table 4 - Summary of Mineral Reserves Estimated as at August 1, 2011

CMD Gold Mine Summary of Mineral Reserves Estimated as at August 1, 2011			
Deposit	Probable Mineral Reserves		
	Tonnes (Mt)	Gold Grade (g/t)	Ounces (koz gold)
Tres Perlas	3.0	0.7	69
Chisperos	0.8	1.2	29
Churumata	0.3	0.9	8
Las Loas	1.0	0.8	25
Toro/Socorro	0.9	0.8	25
Total	6.0	0.8	157

No previous mineral reserve estimate has been produced for the CMD Gold Mine.

Given the long production history, the cost parameters used in the mineral reserve estimation are now well established and as such their inclusion can be reasonably justified. The gold price used in the estimate was US\$1,250/ounce, which is regarded as conservative when compared to the current gold spot price.

These mineral reserves form the basis of the detailed mine planning for the CMD Gold Mine. The mineral reserves are to be mined over a period of three years, with a further two years of gold production from the ore stacked on each of the pads. The mine model does not include any contribution from the 976,000 ounces of gold at an average grade of 0.7g gold estimated to be contained in the inferred mineral resources.

Updated exploration information will be incorporated into a new mineral resource estimate when sufficient data has been gathered.

The exploration program is aimed at defining sufficient mineralisation to support a larger mining operation that would utilize the excess capacity in the crushing and stacking plant.

Workforce

During the September 2011 Quarter, the Group increased its head count from 210 to 230 as a result of increased activities at the operating CMD Gold Mine. The majority of employees is comprised of Chilean nationals (226) and 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. In 2010, the Company completed a ground magnetic survey over part of the Bushranger Copper Project, which identified a large magnetic anomaly, and existing geochemical data was plotted against the magnetic anomaly in order to identify drill targets. In the quarter ended December 31, 2010, a strategic review was carried out to determine the optimal route for the Company to realize value from this project. In the second half of fiscal 2011, Lachlan carried out a scoping study and completed a drilling program, which indicated that the project is potentially economic. With the acquisition by the Company of the CMD Gold Mine, the Company's focus has changed to the operation and further development of that project, with the result that the Bushranger Copper Project is no longer considered to be a material property of the Company.

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.

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. 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.

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. The cyanide supply contract is denominated in US dollars and expires January 1, 2013. As approximately 80% of the CMD Gold Mine costs are denominated in Chilean pesos, the Group is more 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
Special Warrants Placement	\$15.09 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 and, other than for the September 2010 quarter, none were prepared, and it would be impracticable to do so now.

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:	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	Mar-31 2010 A\$000	Dec-31 2009 A\$000
Cash and cash equivalents	16,123	4,515	5,350	6,490	3,522	3,856	3,928	4,086
Total assets	80,607	61,132	N/A	70,904	7,228	7,946	N/A	11,617
Total liabilities	30,047	30,958	N/A	38,762	60	141	N/A	78
Net assets	50,560	30,174	N/A	32,142	7,168	7,805	N/A	11,539

Cash and cash equivalents

As at September 30, 2011 the Group had cash reserves of \$16.12 million, an increase of \$11.61 million from June 30, 2011. See “*Cash flow*” section below. The Group’s cash reserves were \$14.75 million at October 31, 2011, held 91% in A\$ and 9% in US\$.

Trade and other receivables

Trade and other receivables increased by \$0.57 million over the Quarter. The last gold pour of the year on June 30, 2011 was not collected by Johnson Matthey until July 1 and therefore has 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. The termination of a mining contract has also resulted in mine plant of \$1.38 million that was classified as a receivable at June 30, 2011 being reclassified as property plant and equipment in the September 2011 Quarter.

In addition, the A\$ / US\$ exchange rate fell from 1:1.0597 at June 30, 2011 to 1:0.979 at September 30, 2011 meaning an increase in the A\$ value of trade and other receivables presented in the CMD financial statements in US\$.

Inventories

Inventories fell by \$1.61 million over the Quarter, primarily comprising a \$3.10 million reduction in CMD inventories offset by a \$1.28 million increase as a result of the A\$ / US\$ exchange rate falling from 1:1.0597 at June 30, 2011 to 1:0.979 at September 30, 2011. The \$3.10 million fall in CMD inventory consists of a reduction of 1,648 ounces in the leachpad with a cost of A\$2.33 million, and \$0.77 million attributable to the reduced average cost per ounce on the leachpad, which reflects the cost efficiencies achieved in the September 2011 Quarter.

The reduction in ounces on the leachpad over the Quarter is a result of certain changes to the process methods that have resulted in the recovery of additional historical ounces from the leachpad inventory.

Mine development properties

Mine development properties increased by \$3.36 million over the Quarter, comprising expenditure of \$2.25 million, a \$1.68 million increase as a result of the A\$ / US\$ exchange rate falling from 1:1.0597 at June 30, 2011 to 1:0.979 at September 30, 2011, amortisation of \$0.33 million, and a reduction in the decommissioning cost from an increase in the discount rate applied of \$0.24 million. Of the expenditure, \$2.05 million relates to exploration at the CMD Gold Mine.

Property, plant and equipment

Property, plant and equipment increased by \$2.35 million over the Quarter, comprising expenditure of \$0.59 million at the CMD Gold Mine, a \$1.38 million reclassification from receivables to property plant and equipment as described in the *Trade and other receivables* section above, a \$0.97 million increase as a result of the A\$ / US\$ exchange rate falling from 1:1.0597 at June 30, 2011 to 1:0.979 at September 30, 2011, offset by a depreciation charge of \$0.59 million.

Deferred tax asset

The net deferred tax asset increased by \$3.15 million in the Quarter, mainly comprising an income tax credit of \$2.43 million (refer “*Income tax*” below) and a \$0.56 million increase as a result of the A\$ / US\$ exchange rate falling from 1:1.0597 at June 30, 2011 to 1:0.979 at September 30, 2011.

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 September 2011 Quarter reporting period with a consequent increase in the deferred tax asset.

Total liabilities

As at September 30, 2011, the Group had total liabilities of \$30.05 million (June 30, 2011: \$30.96 million). The net repayment of borrowings of \$1.80 million and a A\$1.21 million reduction in CMD Gold Mine trade and other payables has been offset by a \$2.11 million increase as a result of the A\$ / US\$ exchange rate falling from 1:1.0597 at June 30, 2011 to 1:0.979 at September 30, 2011.

As at September 30, 2011, Lachlan had \$9.38 million in debt obligations consisting of bank loans, finance leases, and deferred consideration due to the vendors of the CMD Gold Mine.

Contributed equity

The contributed equity increase of \$13.91 million over the Quarter is attributable to net proceeds from the issue of Special Warrants, refer to “*Corporate*” section above. Movements in contributed equity over the Quarter are shown below:

	Ordinary shares (number)	\$000
July 1, 2011	56,967,517	174,795
Gross Proceeds from issue of Special Warrants	-	15,088
Cost of issue of Special Warrants	-	(1,174)
Share based payment	-	(9)
September 30, 2011	<u>56,967,517</u>	<u>188,700</u>

The cost of issue of Special Warrants above includes \$0.91 million in broker's commission.

Reserves

Reserves of \$1.88 million consist of a \$0.61 million share based payments reserve, which reflects the fair value of share options at the date of issue, together with a balance of \$1.27 million in the foreign exchange reserve.

The increase in the share based payments reserve in the September 2011 Quarter was \$0.01 million for the Warrants associated with the issue of the Special Broker Warrants on August 26, 2011 (refer to “*Corporate*” section above).

The movement of \$3.18 million in the foreign exchange reserve balance during the Quarter comprises \$2.54 million from the translation of CMD financial statements to A\$, which are presented in US\$, on consolidation, and the foreign exchange effect of the fair value uplift on acquisition of the CMD Gold Mine, together with a \$0.64 million unrealized foreign exchange gain on an intercompany balance. The significant increase in the foreign exchange reserve reflects the A\$ / US\$ exchange rate falling from 1:1.0597 at June 30, 2011 to 1:0.979 at September 30, 2011.

Accumulated losses

The September 2011 Quarter reduction of \$3.29 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.

	Sep-30	Jun-30	Mar-31	Dec-31	Sep-30	Jun-30	Mar-31	Dec-31
Cash flows for the three months ended:	2011	2011	2011	2010	2010	2010	2010	2009
	A\$000	A\$000	A\$000	A\$000	A\$000	A\$000	A\$000	A\$000
Operating Activities	2,313	(581)	(782)	(7)	(287)	(70)	(189)	(157)
Investing Activities	(2,871)	(2,617)	1,499	(8,428)	(47)	(2)	31	(1,415)
Financing Activities	12,116	1,280	(1,787)	11,391	-	-	-	-

The September 2011 Quarter numbers are derived from the interim financial report for the 3 months ending September 30, 2011. 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 \$2.31 million in the September 2011 Quarter reflects the net cash flow generated from operations at the CMD Gold Mine of \$3.54 million, net of new ventures and royalties of \$0.71 million, corporate overhead of \$0.56 million, and net interest income of \$0.04 million.

Investing activities in the September 2011 Quarter of \$2.87 million relate to \$0.59 million property, plant and equipment costs incurred at the CMD Gold Mine site, \$0.03 million exploration expenditure at the Bushranger Copper Project, and exploration / capitalised development work at the CMD Gold Mine of \$2.25 million.

Financing activities in the September 2011 Quarter reflect the issue of the Special Warrants on August 26, 2011 and the release of the funds from escrow on September 26, 2011, refer to the "Corporate" section above. Gross proceeds of \$15.09 million were offset by transaction costs (broker commission and legal costs) that have been charged to date of \$1.17 million. In addition, there were net borrowing repayments during the Quarter of \$1.80 million comprising of repayments of bank loans, leases, and payments under the terms of the sale agreement with the vendors of the CMD Gold Mine.

Operating Results

The operating results of the Group for the September 2011 Quarter 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 for the September 2010 quarter, none were prepared, and it would be impracticable to do so now.

Operating results for the three months ended:	Sep-30	Sep-30
	2011	2010
	A\$000	A\$000
Revenue	18,248	-
Other income	975	40
Cost of sales	(17,124)	-
Total net operating expenses	(18,366)	(677)
Net profit / (loss) before tax	857	(637)
Net profit / (loss) after tax	3,289	(637)
Basic profit / (loss) per share (cents)	5.8	(3.5)
Diluted profit / (loss) per share (cents)	5.1	(3.5)

The Group's after tax profit for the September 2011 Quarter was \$3.51 million after recognising the following items of revenue and expense:

Revenue

	\$000
Sale of gold	18,131
Sale of silver (net of refining)	(5)
Sale of copper	122
	<u>18,248</u>

Revenue is from the sale of metals, mainly gold, by the CMD Gold Mine, acquired on December 24, 2010. Revenue for the September 2011 Quarter includes 11,108 ounces of at an average achieved sale price of US\$1,718 per ounce.

Other income

Other income of \$0.97 million relates to a foreign exchange gain of \$0.92 million and \$0.05 million interest income on bank deposits. The foreign exchange gain arises from unrealised gains 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

	\$000
Depreciation and amortisation	1,157
Gold in process inventory adjustment	3,006
Mine operational expenses	6,191
Reagents	1,776
Utilities, maintenance	2,934
Personnel expenses	1,305
Royalties	280
Other expenses	475
	<u>17,124</u>

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 includes \$4.92 million waste costs expensed and amortised.

The depreciation and amortisation charge of \$1.16 million includes \$0.44 million relating to amortisation on the uplift in fair values of assets recognized on acquisition of the CMD Gold Mine and \$0.22 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 \$0.66 million reflect costs associated with the management of the CMD Gold Mine and costs of the legal and financial due diligence associated with listing the Company on the TSX.

Occupancy costs

Occupancy costs of \$0.03 million relate to the rental cost on the Company's head office in Perth.

New venture expenditure written off

The September 2011 Quarter expenditure of \$0.06 million reflects Lachlan's expenditure on investigating new venture opportunities.

Finance expense

Finance expense of \$0.37 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 September 2011 Quarter expense of \$0.12 million arises from a higher forecast gold price for future periods offset by a lower number of ounces paid in the September 2011 Quarter than forecast at June 30, 2011.

Income tax

The tax credit for the September 2011 Quarter of \$2.43 million primarily consists of:

- (i) net \$2.17 million related to the recognition of a deferred tax asset in respect of income tax losses and timing differences of CMD. A deferred tax asset was not recognized for all the subsidiary's income tax losses at June 30, 2011 as they were not supported by the Company's internal December 2010 NPV model in use at that time. During the quarter, the Company adopted a revised internal July 2011 NPV model containing higher mineralised material which supported recognition of an additional deferred tax asset.
- (ii) \$0.26 million 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

For an explanation of the \$3.18 million foreign exchange reserve movement refer to the “Reserves” section above. 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 the issue of the Special Warrants (see the “Corporate” section above) has been included in the denominator.

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). During the September 2011 Quarter, the Company issued 18.4 million Special Warrants for gross proceeds of \$15.09 million as described in the “Corporate” section of this MD&A. As discussed above, the net proceeds were released to the Company upon the satisfaction of certain release conditions, which occurred on September 26, 2011.

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 September 30, 2011:

Contractual Obligations	Payments Due				
	Total	Less than	1 - 2 years	2 - 5 Years	5 Years
	\$ million	1 Year	1 - 2 years	2 - 5 Years	5 Years
		\$ million	\$ million	\$ million	\$ million
Exploration commitments ⁽¹⁾	\$0.10	\$0.05	\$0.05	—	—
Borrowings ⁽²⁾	\$9.38	\$7.07	\$2.31	—	—
Trade And Other Payables	\$14.83	\$14.83	—	—	—
Provisions ⁽³⁾	\$5.95	—	—	\$5.95	—
Other ⁽⁴⁾	\$79.38	\$37.90	\$26.03	\$15.45	—

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 has recently obtained unsecured credit facilities of US\$ 1 million, which facilities are drawn and repayable within 12 months, and has an overdraft facility of 150,000,000 Chilean pesos which is as yet undrawn.
- (3) Provisions relate to Chilean site restoration and employee termination obligations.
- (4) Other relates to future commitments arising out of contracts in place as at September 30, 2011 at the CMD Gold Mine, primarily for mining, power, explosives and cyanide.

The net proceeds of the Special Warrants Placement, and expenses in qualifying the Units and Compensation Options, of approximately \$13.81 million 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 ending in the September 2011 Quarter was \$2.31 million. Expenses will be financed from cash flow from operations to the extent possible.

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 September 30, 2011.

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 September 2011 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 September 30, 2011 recoverable amount was tested using the following forward gold prices from data supplied by Bloomberg:

2011	2012	2013	2014	2015	2016
US\$1,623	US\$1,630	US\$1,637	US\$1,651	US\$1,684	US\$1,740

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\$1,740. At October 31, 2011 the spot gold price was US\$1,715 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, expenditure and financing 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 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 benefit" in the Consolidated Statement of Comprehensive Income. During the September 2011 Quarter, the Group increased its deferred tax asset and recognized a net income tax benefit of \$2.43 million in respect of tax losses and timing differences for which the future use was supported by the July 2011 NPV model.

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 September 2011 Quarter,

In the September 2011 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. The Group has no significant concentration of credit risk. 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 September 30, 2011	As at September 30, 2011
A\$ / US\$	1.053	0.979
US\$ / Peso	471.6	514.4
A\$ / Peso	496.0	503.8

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, other than a larger percentage (approximately 80%) of the CMD Gold Mine costs are now denominated in Chilean Pesos.

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

Since the end of the September 2011 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 56,967,517 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) (\$) ⁽¹⁾	Expiry Date (dd/mm/yy)
Stock Options	375,002	\$1.20	18/11/2011
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
Special Warrants ⁽²⁾	20,240,000	n/a	n/a
Warrants ⁽²⁾	10,120,000	\$1.20	26/08/2013
Special Broker Warrants ⁽²⁾	1,104,000	\$1.20	26/08/2013
Warrants underlying Special Broker Warrants ⁽²⁾	552,000	\$1.20	26/08/2013

Notes:

- (1) May 2011 private placement.
- (2) These securities are issued or issuable pursuant to the Special Warrants Placement. See "Corporate", above.
- (3) The Company also proposes to issue a further 650,000 options with an exercise price of A\$1.20 expiring November 25, 2013, 150,000 options with an exercise price of A\$1.50 expiring November 25, 2013 and 50,000 options with an exercise price of A\$1.50 expiring November 25, 2014 to certain directors, officers and employees, subject to Shareholder approval. Shareholder approval is being sought at the annual general meeting of the Company scheduled to be held on November 30, 2011.

No new shares or options have been issued since September 30, 2011 and up to the date of this MD&A.

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.

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

LACHLAN STAR LIMITED

ABN 88 000 759 535

UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the 3 months ended
30 September 2011

The accompanying unaudited consolidated interim financial statements for the period ended 30 September 2011 have been prepared by management. Readers are cautioned that these financial statements contain forward-looking information as described in the associated Management Discussion & Analysis. All amounts are stated in Australian dollars, except as otherwise stated.

LACHLAN STAR LIMITED
30 SEPTEMBER 2011 UNAUDITED INTERIM FINANCIAL STATEMENTS

CONTENTS

Consolidated Statement of Comprehensive Income	3
Consolidated Statement of Financial Position	4
Consolidated Statement of Changes in Equity	5
Consolidated Statement of Cash Flows	6
Notes to the Consolidated Financial Statements	7-16

LACHLAN STAR LIMITED
30 SEPTEMBER 2011 UNAUDITED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 30 September 2011

	2011	2010
	\$000	\$000
Revenue from continuing operations		
Revenue	18,248	-
Other income		
Finance income	51	40
Foreign exchange gain	924	-
Expenses		
Cost of sales	(17,124)	-
Other expenses from ordinary activities		
Corporate compliance and management	(655)	(141)
Occupancy costs	(26)	(25)
New venture expenditure written off	(60)	(79)
Other expenses	(13)	-
Share of net (loss) of associate accounted for using the equity method	-	(432)
Finance expense	(370)	-
Fair value (loss) / gain on deferred consideration	(118)	-
Profit / (loss) before income tax	857	(637)
Income tax benefit	2,432	-
Profit / (loss) for the period	3,289	(637)
Other comprehensive income for the period net of income tax		
Exchange difference on translation of foreign operations	3,183	-
Total comprehensive profit / (loss) for the period	6,472	(637)
Basic earnings per share (cents per share)	5.8	(3.5)
Diluted earnings per share (cents per share)	5.1	(3.5)

The consolidated statement of comprehensive income should be read in conjunction with the notes to the consolidated interim financial report.

LACHLAN STAR LIMITED
30 SEPTEMBER 2011 UNAUDITED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 September 2011 \$000	Audited 30 June 2011 \$000
Current assets			
Cash and cash equivalents		16,123	4,515
Trade and other receivables		3,935	3,379
Inventories		8,060	8,675
Total current assets		<u>28,118</u>	<u>16,569</u>
Non-current assets			
Trade and other receivables		378	350
Inventories		5,880	6,876
Exploration and evaluation		2,768	2,734
Mine development properties		24,110	20,752
Property, plant and equipment	7	11,810	9,459
Goodwill		189	189
Deferred tax asset	6	7,354	4,203
Total non-current assets		<u>52,489</u>	<u>44,563</u>
Total assets		<u>80,607</u>	<u>61,132</u>
Current liabilities			
Trade and other payables		14,711	14,679
Borrowings		7,073	7,476
Total current liabilities		<u>21,784</u>	<u>22,155</u>
Non-current liabilities			
Borrowings		2,310	3,111
Provisions		5,953	5,692
Total non-current liabilities		<u>8,263</u>	<u>8,803</u>
Total liabilities		<u>30,047</u>	<u>30,958</u>
Net assets		<u>50,560</u>	<u>30,174</u>
Equity			
Contributed equity	8	188,700	174,795
Reserves		1,878	(1,314)
Accumulated losses		(140,018)	(143,307)
Total equity		<u>50,560</u>	<u>30,174</u>

The consolidated statement of financial position should be read in conjunction with the notes to the consolidated interim financial report.

LACHLAN STAR LIMITED
30 SEPTEMBER 2011 UNAUDITED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Contributed equity \$000	Accumulated losses \$000	Share based payments reserve \$000	Foreign exchange reserve \$000	Total \$000
Balance at 1 July 2010	146,145	(138,989)	649	-	7,805
Loss for the three months	-	(637)	-	-	(637)
Total comprehensive loss for the three months	-	(637)	-	-	(637)
Balance at 30 September 2010	146,145	(139,626)	649	-	7,168
Balance at 1 July 2011	174,795	(143,307)	602	(1,916)	30,174
Other comprehensive income	-	-	-	3,183	3,183
Profit for the three months	-	3,289	-	-	3,289
Total comprehensive profit for the three months	-	3,289	-	3,183	6,472
<i>Transactions with owners in their capacity as owners:</i>					
Special Warrants issued for cash	15,088	-	-	-	15,088
Special Warrants issue costs	(1,174)	-	-	-	(1,174)
Share based payments	(9)	-	9	-	-
Balance at 30 September 2011	188,700	(140,018)	611	1,267	50,560

The consolidated statement of changes in equity should be read in conjunction with the notes to the consolidated interim financial report.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended 30 September 2011

	2011	2010
	\$000	\$000
Cash flows from operating activities		
Receipts from customers and GST recovered	17,187	15
Payments to suppliers and employees	(14,840)	(344)
Interest received	44	42
Interest paid	(78)	-
Net cash flows from / (used in) operating activities	<u>2,313</u>	<u>(287)</u>
Cash flows from investing activities		
Payments for exploration and evaluation	(33)	(47)
Payments for mine development	(2,247)	-
Payments for acquisition of property, plant and equipment	(591)	-
Net cash flows used in investing activities	<u>(2,871)</u>	<u>(47)</u>
Cash flows from financing activities		
Proceeds from issue of Special Warrants	15,088	-
Payment of Special Warrants issue costs	(1,174)	-
Repayment of borrowings	(1,913)	-
Receipt of borrowings	115	-
Net cash flows from financing activities	<u>12,116</u>	<u>-</u>
Net increase / (decrease) in cash and cash equivalents	11,558	(334)
Effect of exchange rate fluctuations on cash held	50	-
Cash and cash equivalents at the beginning of the period	4,515	3,856
Cash and cash equivalents at the end of the period	<u>16,123</u>	<u>3,522</u>

The consolidated statement of cashflows should be read in conjunction with the notes to the consolidated interim financial report

1. SUMMARY OF ACCOUNTING POLICIES

(i) Basis of preparation of financial report and statement of compliance

Lachlan Star Limited ("Lachlan" or the "Company") is a public company incorporated and domiciled in Australia and listed on the Australian Securities Exchange ("ASX") and listed on the Toronto Stock Exchange ("TSX") on 19 October 2011. During the period ended 30 September 2011 Lachlan conducted operations in Australia and Chile.

These consolidated interim financial statements of the Company and its controlled entities ("Group" or "consolidated entity") for the period ended 30 September 2011 are general purpose financial statements prepared in accordance with applicable accounting standards including AASB 134 'Interim Financial Reporting', Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB') and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

These consolidated interim financial statements do not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the Group as in the full financial report. It is recommended that these interim consolidated financial statements be read in conjunction with the annual financial report for the year ended 30 June 2011, the interim financial report for the half-year ended 31 December 2010 and any public announcements made by the Company during the period ended 30 September 2011 in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and the ASX Listing Rules. The accounting policies adopted are consistent with those of the previous financial year.

These consolidated interim financial statements have been prepared on an historical cost basis, except for available-for-sale financial assets and derivative financial instruments which have been measured at fair value.

All amounts are presented in Australian dollars unless stated otherwise.

Rounding of amounts

The Company is a company of the kind referred to in Class Order 98/0100 issued by the Australian Securities and Investments Commission relating to the rounding off of amounts in the financial report. Amounts in the financial report have been rounded-off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

Use of estimates and judgements

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 as follows:

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(ii) Use of estimates and judgements (continued)

(i) Impairment

The recoverability of the carrying amount of property, plant and equipment and mine development properties has been reviewed by the consolidated entity. In conducting the review, the recoverable amount has been assessed by reference to the higher of 'fair value less costs to sell' and 'value in use'. In determining value in use, future cash flows are based on estimates of:

- quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- future production levels and sales;
- timing of future production;
- future exchange rates and commodity prices; and
- future cash costs of production and capital expenditure.

Recoverable amount is most sensitive to the discount rate used in the discounted cash flow model as well as 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.

(ii) Provisions

The consolidated entity has recognised a provision for environmental restoration. This provision has been measured based on management's estimates of the probable amount of monetary 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.

(iii) Functional currency

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

For Compania Minera Dayton ("CMD") and Dayton Chile Exploraciones Mineras Limitada ("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 US dollar is the functional currency for those companies.

For the Company, Lachlan Star Limited, and its other subsidiaries management have determined that the Australian dollar is the functional currency for those companies given that their revenues and expenditures will mostly be in Australian dollars.

(iv) Recovery of ounces of gold in leach pad inventories

Management has estimated the recovery of gold in the leach pad at the CMD Gold Mine based on recovery rates experienced after the September 2000 shutdown. Management evaluate this estimate on an ongoing basis for any changes that may result in adjustments to the financial statements. To date no such changes have been identified giving rise to a revision in the estimate.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(ii) Use of estimates and judgements (continued)

(v) Income taxes

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

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

(vi) Reserve estimates

Reserves are estimates of the amount of product that can be economically and legally extracted from the consolidated entity's properties. In order to calculate reserves, estimates and assumptions are required about a range of geological, technical and economic factors. Estimating the quality and/or grade of reserves requires the size, shape and depth of ore bodies to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements and calculations to interpret the data. The group is required to determine and report ore reserves in Australia under the principles incorporated in the Australasian Code for Reporting of Mineral Resources and Ore Reserves December 2004, known as the JORC Code. The JORC Code requires the use of reasonable investment assumptions to calculate reserves.

As the economic assumptions used to estimate reserves change from period to period, and as additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the group's financial results and financial position in a number of ways, including determination of ore 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.

(vii) 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.

(viii) Contributed equity

The directors believe the Company will obtain a receipt for a final prospectus (refer Note 8) on or before 27 December 2011 and accordingly the gross proceeds for the Special Warrants have been treated as contributed equity at 30 September 2011.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(ii) Accounting policies

(i) Contributed equity

During the quarter the Company issued Special Warrants and Special Broker Warrants for gross proceeds of \$15,088,000 as described in Note 8. These will be converted, under certain conditions, into Ordinary shares and Warrants in the Company.

The fair value of the Special Broker Warrants determined in accordance with AASB2 *Share-based Payment* has been recognized in the September 2011 Quarter.

(ii) Mine properties

The units of production depreciation method is used so as to write off costs in proportion to the depletion of estimated recoverable ounces. For clarity, this refers to estimated ounces of gold recoverable from mineralised material in the mine plan.

(iii) Property, plant and equipment

The units of production depreciation method is used so as to write off costs in proportion to the depletion of estimated recoverable ounces. For clarity, this refers to estimated ounces of gold recoverable from mineralised material in the mine plan.

(iii) Adoption of new and revised Accounting Standards

In the period ended 30 September 2011, 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 1 July 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 19 October 2011. The interpretation, which has an effective date for annual periods beginning on or after 1 January 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 and has not determined when it will adopt this interpretation.

2. CONTINGENT ASSETS AND LIABILITIES

In June 2011, the Group terminated the contract of one of its mining contractors in Chile, "Maestranza Martinez Torres y Cia. Ltda" (Martimec) for non performance under the terms of their mining contract. The Company has recently been made aware that Martimec intends to seek the appointment of an arbitrator under Chilean law who would be called to rule on the early termination of the contract. The Company remains confident that the contract was terminated in accordance with its terms. The Company intends to defend itself vigorously if this arbitration is brought, including considering bringing a counterclaim against Martimec.

Other than this, there have been no changes of a material nature in contingent liabilities or contingent assets since the last annual reporting date.

3. CAPITAL COMMITMENTS

	2011	2010
	\$000	\$000
<i>Exploration and evaluation</i>		
Within 1 year	53	105
More than one and less than two years	53	-
	<u>106</u>	<u>105</u>

4. RELATED PARTY DISCLOSURES

The consolidated entity acquired the CMD Gold Mine on 24 December 2010 (refer Note 10). Two of the vendors are substantial shareholders of Lachlan Star and one of them, Peter Babin, is a director of the Company.

The consolidated entity did not have any other transactions with related parties during the period other than remuneration to directors and their related parties. Lachlan Star Limited is the ultimate parent entity.

5. SUBSEQUENT EVENTS

Trading of Lachlan's shares on the TSX commenced on 19 October 2011.

Other than this no matter or circumstance has arisen since 30 September 2011 that in the opinion of the directors has significantly affected, or may significantly affect in future financial years:

- (i) the consolidated entity's operations, or
- (ii) the results of those operations, or
- (iii) the consolidated entity's state of affairs

6. DEFERRED TAX

The deferred tax asset increased by \$3.15 million in the quarter, mainly comprising an income tax credit of \$2.43 million and a \$0.56 million increase as a result of the A\$ / US\$ exchange rate falling from 1:1.0597 at June 30, 2011 to 1:0.979 at September 30, 2011.

The tax credit for the quarter of \$2.43 million primarily consists of net \$2.17 million related to the recognition of a deferred tax asset in respect of income tax losses and timing differences of a subsidiary, Compañía Minera Dayton ("CMD"). A deferred tax asset was not recognized for all CMD's income tax losses at June 30, 2011 as they were not supported by the Company's internal December 2010 net present value model ("NPV") in use at that time. During the quarter, the Company adopted a revised internal July 2011 NPV model containing higher tonnage of mineralised material that supported recognition of an additional deferred tax asset.

LACHLAN STAR LIMITED
NOTES TO THE 30 SEPTEMBER 2011 UNAUDITED INTERIM FINANCIAL STATEMENTS

7. PROPERTY PLANT AND EQUIPMENT

	Fixture and fittings \$000	Vehicles \$000	Mine plant \$000	Total \$000
<i>Cost:</i>				
1 July 2011	180	39	11,364	11,583
Effect of movements in exchange rates	2	1	1,139	1,142
Reclassified from receivables	-	-	1,384	1,384
Additions	-	-	591	591
30 September 2011	<u>182</u>	<u>40</u>	<u>14,478</u>	<u>14,700</u>
<i>Accumulated depreciation:</i>				
1 July 2011	64	39	2,021	2,124
Depreciation charge for the period	5	-	588	593
Effect of movements in exchange rates	1	1	171	173
30 September 2011	<u>70</u>	<u>40</u>	<u>2,780</u>	<u>2,890</u>
Carrying amount beginning of period	<u>116</u>	-	<u>9,343</u>	<u>9,459</u>
Carrying amount end of period	<u>112</u>	-	<u>11,698</u>	<u>11,810</u>
<i>Cost:</i>				
1 July 2010	48	-	-	48
Acquired in business combination	123	39	11,422	11,584
Effect of movements in exchange rates	-	-	(705)	(705)
Additions	9	-	647	656
30 June 2011	<u>180</u>	<u>39</u>	<u>11,364</u>	<u>11,583</u>
<i>Accumulated depreciation:</i>				
1 July 2010	6	-	-	6
Depreciation charge for period	58	39	2,146	2,243
Effect of movements in exchange rates	-	-	(125)	(125)
30 June 2011	<u>64</u>	<u>39</u>	<u>2,021</u>	<u>2,124</u>
Carrying amount beginning of period	<u>41</u>	-	-	<u>41</u>
Carrying amount at end of period	<u>116</u>	-	<u>9,343</u>	<u>9,459</u>

In March 2009 CMD signed an agreement with a mining contractor, Martimec, principally relating to the extraction of ore and waste material and delivery of the material to waste dumps in the case of waste and the crushing plant in the case of ore. Under this contract CMD agreed to purchase certain mining equipment (principally haul trucks and excavators) in its own capacity and provide this equipment to the aforementioned contractor for the contractor's use in performing its obligations to the consolidated entity under the contract. In return for making this equipment available to the mining contractor, CMD received a reduced rate per cubic metre of material moved by the contractor. The contract provided that on its conclusion at the end of a 31 month period the contractor has an option to purchase all of the equipment at a nominal price. CMD determined that the arrangement with its mining contractor in substance contained a lease and that such lease transferred the risks and rewards of ownership to the mining contractor and hence at 30 June 2011 this leasing arrangement was classified as a finance lease.

On 28 June 2011 CMD terminated the Martimec contract due to several contract breaches by Martimec. The directors are confident that CMD holds legal title to the equipment which was provided to Martimec for their use under the contract and that the eventual proceeds from the sale of this equipment or benefits which will be gained from its use in CMD's operations will at least match the carrying value at 30 September 2011.

As a consequence the carrying value of the Martimec equipment of \$1,384,000 has been transferred from trade and other receivables to property, plant and equipment during the quarter.

8. CONTRIBUTED EQUITY

(i) Issued and paid up share capital	2011	2011	2010	2010
	Number	\$000	Number	\$000
<i>Fully paid ordinary shares</i>				
1 July 2011	56,967,517	174,795	1,079,867,371	146,105
Proceeds from issue of Special Warrants	-	15,088	-	-
Cost of issue of Special Warrants	-	(1,174)	-	-
Share based payment	-	(9)	-	-
30 September 2011	56,967,517	188,700	1,079,867,371	146,105

A 1 for 60 share consolidation was approved by shareholders on 10 June 2011.

On 29 August 2011 the Company announced that it had completed a private placement (the “**Offering**”) of special warrants (“**Special Warrants**”).

The Offering raised gross proceeds of \$15,088,000 through the issuance of 18,400,000 Special Warrants, priced at \$0.82 per Special Warrant. The Offering was completed by a syndicate of Agents led by Dundee Securities Ltd., and including Salman Partners Inc., pursuant to the terms of an agency agreement (the “**Agency Agreement**”) dated 26 August 2011.

Each Special Warrant will be exercisable for no additional consideration into one unit (a “**Unit**”), each Unit consisting of one ordinary share (an “**Ordinary Share**”) and one-half an Ordinary Share purchase warrant (each full warrant being a “**Warrant**”) and each Warrant entitling the holder to purchase one Ordinary Share (each, a “**Warrant Share**”) upon payment of \$1.20 for a period of 24 months following closing of the Offering. As partial consideration for their services in connection with the Offering, the Agents were granted 1,104,000 special broker warrants (“**Special Broker Warrants**”) which, are exercisable for no additional consideration into compensation options (“**Compensation Options**”), each Compensation Option entitling the holder to purchase a unit (a “**Compensation Unit**”) upon payment of \$1.20 for a period of 24 months following closing of the Offering, each Compensation Unit being comprised of one Ordinary Share (each, a “**Compensation Share**”) and one-half of one Warrant.

The Special Warrants are issued pursuant to and governed by a Special Warrant Indenture between the Company and Equity Financial Trust Company, as Special Warrant Agent. The Warrants are issued pursuant to and governed by a Warrant Indenture between the Company and Equity Financial Trust Company, as Warrant Agent.

The proceeds of the Offering were released from escrow on receipt of shareholder approval at a general meeting of the Company held on 26 September 2011. Lachlan Star plans to use the net proceeds from the Offering for the continued development of the consolidated entity’s CMD Gold Mine and for general working capital purposes.

The Special Warrants will automatically be exercised into Units and the Special Broker Warrants will automatically be exercised into Compensation Options upon Lachlan receiving a receipt from the British Columbia Securities Commission, as principal regulator, on its behalf and on behalf of other applicable Canadian securities commissions or securities regulatory authorities, for a final prospectus qualifying the distribution of the Units and the Compensation Options. Once the receipt for the final prospectus is obtained, the Warrant Shares and the Compensation Shares will also be free-trading. The Company is required to use its best efforts to file a preliminary prospectus in each province of Canada in which Special Warrants were distributed pursuant to the Offering and obtain a receipt for a final prospectus on or before December 27, 2011. If the Company does not meet this deadline, each Special Warrant shall thereafter entitle the holder to receive upon exercise, for no additional consideration, 1.1 Units (instead of one Unit) (for an aggregate of 20,240,000 Units instead of 18,400,000 Units) and there will be no change in the number of Special Broker Warrants or Compensation Options.

8. CONTRIBUTED EQUITY (continued)

(i) Shares under option

The following unissued ordinary shares of the Company are under option.

Expiry Date	Exercise price	Number 1/07/2011	Number Issued	Number 30/09/2011
18/11/2011	\$1.20	375,002	-	375,002
18/11/2012	\$1.50	375,002	-	375,002
31/12/2012	\$1.20	166,667	-	166,667
20/12/2013	\$1.20	166,669	-	166,669
20/12/2013	\$1.50	166,669	-	166,669
20/05/2013	\$1.20	3,563,447	33,643	3,597,090
		<u>4,813,456</u>	<u>33,643</u>	<u>4,847,099</u>

9. SEGMENT INFORMATION

(a) Description of segments

The consolidated entity reports one segment, being gold mining, exploration and evaluation, and corporate to the chief operating decision maker, being the board of Lachlan Star Limited, in assessing performance and determining the allocation of resources. In determining operating segments, the consolidated entity has had regard to the information and reports the chief operating decision maker uses to make strategic decisions regarding resources.

(b) Segment information provided to the board of directors

The Board of Directors has assessed the performance of the gold mining segment based on selected operational performance indicators. The relative unaudited information for the 3 months ended 30 September 2011 was as follows:

	Unit	
Ore Mined	dmt	671,411
Waste Mined	dmt	2,163,339
Total Mined	dmt	2,834,750
Waste:Ore Ratio	t:t	3.22
Ore grade	Au g/t	0.62
Gold Mined	Au oz	13,290
Ore stacked	dmt	641,588
Stacked Grade	Au g/t	0.63
Gold Stacked	Au oz	13,032
Average stacking rate	dmt/d	6,974
Gold Produced	Au oz	10,330
Mining Cost/t moved	US\$/t	\$2.30
Mining Cost/t ore	US\$/t	\$9.72
Process Cost/t ore stacked	US\$/t	\$8.41
G+A Cost/t ore	US\$/t	\$1.69
Total Cost/t ore	US\$/t	\$19.82
Average sales price	US\$/oz	\$1,713
Cash cost	US\$/oz	\$755
Non cash process inventory adjustment	US\$/oz	\$198
C1 Cash Cost	US\$/oz	\$953

9. SEGMENT INFORMATION (continued)

In the prior period directors measured performance based on net cash inflow / (outflow). The segment information provided to the board of directors for the reportable segments for the prior year is as follows:

	Exploration and evaluation 2010 \$000	Corporate 2010 \$000	Consolidated 2010 \$000
Net cash (outflow)	(47)	(287)	(334)

The consolidated entity derives 100% of its revenue from the sale of metals to one customer in one geographic region, Chile. The geographic location of non-current assets at 30 September 2011, other than deferred tax, is set out in the table below:

	2011 \$000	2010 \$000
Australia	2,796	39
Chile	42,339	-
Zambia	-	962
	<u>45,135</u>	<u>1,001</u>

10. CHANGES IN ESTIMATES

(i) Site restoration

Provision for the cost of site restoration is recognised at the time that an environmental disturbance occurs or a constructive obligation is determined. Costs included in the provision encompass all closure and rehabilitation activity expected to occur progressively over the life of the operation and at the time of closure in connection with disturbances as at the reporting date. Estimated costs included in the determination of the provision reflect the risks and probabilities of alternative estimates of cash flows required to settle the obligation. The expected rehabilitation costs are estimated based on the cost of external contractors performing the work or the cost of performing the work internally depending on management's intention.

The timing of the actual rehabilitation expenditure is dependent upon a number of factors including the currently approved life of the CMD Gold Mine and changes in local environmental regulations. Expenditures may occur before and after closure and can continue for an extended period of time depending on rehabilitation requirements. The site restoration provision is measured at the expected value of future cash flows, discounted to their present value. The unwinding of the discount is included in finance costs and results in an increase in the amount of the provision.

The provision is updated each quarter for the effect of a change in the discount rate and exchange rate, when applicable, and the change in estimate is added or deducted from the related asset and depreciated prospectively over the asset's useful life. Significant judgments and estimates are involved in forming expectations of future activities and the amount and timing of the associated cash flows. Those expectations are formed based on existing environmental and regulatory requirements or, if more stringent, those of the consolidated entity's environmental policies that give rise to a constructive obligation.

	2011 \$000	2010 \$000
<i>Non-current</i>		
1 July	4,876	-
Effect of movements in exchange rates	386	-
Accretion	18	-
Change in discount rate	(206)	-
30 September	<u>5,074</u>	-

10. CHANGES IN ESTIMATES (continued)

(ii) *Deferred consideration*

In November 2010 the Company reached agreement with the five shareholders of Oro Chile LLC (“the Vendors”) to acquire 100% of DMC Newco Pty Ltd (“DMC Newco”), a company that in turn owns 100% of two Chilean companies, Compañía Minera Dayton (“CMD”) and Dayton Chile Exploraciones Mineras Limitada (“DCEM”). CMD and DCEM collectively own a 100% interest in the Compañía Minera Dayton Project located in Andacollo, approximately 350km north of Santiago in Chile (“CMD Gold Mine”). The transaction settled on 24 December 2010. The consideration for the purchase included deferred consideration payments relating to the achievement of specified gold production, which may become payable. The payment terms are as follows:

- a) 2.5% of the value of the gold produced from the existing open pit inventory contained within the pit designs and other specific deposits with mineralisation that may be economically exploited using open pit methods (the “Mineral Inventory” collectively) between 1 January 2011 and 31 December 2014; and
- b) 25% of the value of the gold produced from the Mineral Inventory between 1 January 2011 and 31 December 2014 over and above 119,000 ounces

The movement in deferred consideration, classified under Borrowings in the Statement of Financial Position, is shown below:

	2011 \$000	2010 \$000
1 July	2,864	-
Effect of movements in exchange rates	61	-
Accretion	57	-
Paid	(301)	-
Fair value loss	118	-
30 September	<u>2,799</u>	-
Current	1,619	-
Non-current	<u>1,180</u>	-
	<u>2,799</u>	-