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 9, 2012 and provides an analysis of the Company's performance and financial condition for the three months ending September 30, 2012 (the "**Quarter**" or "**September 2012 Quarter**").

The MD&A should be read in conjunction with the Company's audited consolidated financial statements and notes thereto (including the Directors' Report) for the year ended 30 June 2012 and the Company's unaudited consolidated financial statements for the Quarter.

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

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

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

The A$/US$ exchange rate used for the purposes of converting the statement of financial position of CMD and DCEM as at September 30, 2012 was A$1.00 = US$1.038. The average A$/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, 2012 was A$1.00 = US$1.039. Details of average and period end exchange rates that impact the Group are set out in the section "*Financial Instruments and Related Risks*" of this MD&A.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

In making and providing the forward-looking information included in this MD&A, the Company has made numerous assumptions. These assumptions include, among other things, assumptions about the prices of gold, silver and copper, anticipated costs and expenditures, the availability of credit, future production and recovery, that the supply and demand for gold, silver and copper develops as expected, that there is no unanticipated fluctuation in interest rates and foreign exchange rates and that there is no further material deterioration in general economic conditions. Although management believes that the assumptions made and the expectations represented by such information are reasonable, there can be no assurance that the forward-looking information will prove to be accurate. By its nature, forward-looking information is based on assumptions and involves known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements, or industry results, to be materially different from future results, performance or achievements expressed or implied by such forward-looking information. Such risks, uncertainties and other factors include, among other things: fluctuations in metal prices, limited mine life, dependency on developing new mineral reserves, the fact that mineral reserve and mineral resource estimates are estimates only, environmental risks and hazards, global financial conditions, the effect of possible shortages and price volatility on operations and equipment, the speculative nature of mineral exploration, development, mining and processing, mineral exploration and mining risks, insurance and uninsured risks, the need for additional capital, the uncertain profitability of extraction of mineral resources, the financial and economic reliability of operating estimates and Lachlan's mine plan, the fact that such mine plan for the CMD Gold Mine is not based on a feasibility study, competition for properties, the impact of licences, permits and government regulation, litigation, currency and liquidity risk, Lachlan's limited operating history, credit risk and interest rate risk, changing political, legal and economic conditions, hedging and derivatives, dependence on key personnel, title to properties, labour and employment relations, dilution, the risk that no dividends will ever be paid on shares, conflicts of interests, inability to manage indebtedness and internal control over financial reporting. See the "*Risk Factors*" section in the Company's 2012 Annual Information Form (the "**AIF**"), available under the Company's profile on SEDAR at www.sedar.com, for further discussion of the risks facing the Company.

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

CAUTION REGARDING NON-GAAP AND NON-IFRS MEASURES

The Company has included in this document certain terms or performance measures, including the C1 cash costs, cash costs of gold per ounce, and CMD Gold Mine Gross Operating Profit that are not defined in Canadian generally accepted accounting principles ("**GAAP**") or in IFRS. These non-GAAP and non-

IFRS measures do not have any standardized meaning within Canadian GAAP or IFRS and therefore may not be comparable to similar measures presented by other companies. The Company believes that these non-GAAP and non-IFRS measures provide additional information that is useful in evaluating the Company's performance. The data presented is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with Canadian GAAP and IFRS. These non-GAAP and non-IFRS measures should be read in conjunction with the financial statements (or other financial information) of the Company.

ADDITIONAL INFORMATION

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

OVERALL PERFORMANCE

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

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

Since acquiring the CMD Gold Mine on December 24, 2010, the gold spot price has increased from US$1,380.50/ounce to US$1,776 / ounce as at September 30, 2012. Subsequent to September 30, 2012, the gold spot price has fallen and is US$1,715/ounce as at November 7, 2012.

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

Lachlan owns a 100% beneficial interest in the Compañía Minera Dayton project (the "**CMD Gold Mine**"), which it acquired on December 24, 2010. The Group produced 10,374 ounces of gold in the September 2012 Quarter versus 10,080 ounces of gold in the June 2012 quarter.

The CMD Gold Mine is a bulk tonnage heap leach operation that at the time of acquisition was operating at an annualised stacking rate of 1.5 Mtpa compared to the installed crushing and stacking capacity of 8 Mtpa. During the course of the Quarter, the stacking rates increased to an annualized 4.8 Mtpa as of September 30, 2012.

Current mineral reserve estimates for the CMD Gold Mine at 30 September 2012, with allowance for depletion due to exploitation of the Probable Mineral Reserve, was 5.2 Mt of probable mineral reserves at a grade of 0.8 g/t gold for 136,000 ounces of gold. The mineral resource estimate is 151.5 Mt of indicated mineral resources for 2,058,000 ounces of gold and 113.9 Mt of inferred mineral resources for 1,354,000 ounces of gold (mineral resources are not additive to mineral reserves). These estimates have been prepared in accordance with National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* ("**NI 43-101**").

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

Lachlan owns a 100% interest in the Bushranger exploration-stage copper and gold deposit (the "**Bushranger Copper Project**") located approximately 25km south of Oberon in the Lachlan Fold Belt in New South Wales, Australia. Given Lachlan's acquisition of the CMD Gold Mine and its focus on the operation and continued development of that project, the Bushranger Copper Project is not considered to be a core asset of the Company.

On 29 September 2011 the Company announced that it had entered into a Farm In Agreement ("the Agreement") with Newmont Exploration Pty Ltd, a wholly owned subsidiary of Newmont Mining Corporation ("Newmont") covering the Bushranger Copper Project in New South Wales. The main terms of the Agreement, as amended, are:

(i) Newmont will have an 18 month option period ("Option Period") to evaluate the Bushranger Copper Project, during which time it must spend a minimum of $0.25 million. As at September 30, 2012 Newmont had spent $0.18 million on the Bushranger Copper Project.

(ii) At any time during that 18 month period Newmont can elect to exercise the option and earn a 51% interest in the Bushranger Copper Project by spending a total of A$1 million (including expenditures during the Option Period) over a period of 2 years and 6 months from the date of the Agreement (the Farm In Period)

(iii) 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 during the Joint Venture.

EXPLORATION AND EVALUATION

The Group's exploration and evaluation expenditures for the Quarter comprised $0.83 million of exploration at the CMD Gold Mine (classified as mine development expenditure in the consolidated statement of financial position) and $Nil at the Bushranger Copper Project.

CORPORATE

Under the guidance of Bira De Oliveira, the Company's highly experienced Spanish speaking Chief Operating Officer who was appointed in the June 2012 quarter, the Company has continued to build on its management capabilities within Chile. In addition, the following appointments were also made during the Quarter:

a) Mauricio Martinez (General Manager) – Mauricio is a Chilean mining engineer with over 30 years' experience in open-pit mine planning, production scheduling and operations management. Mauricio has relevant international exposure and occupied the position of General Manager in the past with junior Canadian gold mining companies. Mauricio is a results-oriented professional with exceptional leadership and management skills and a solid track record of success improving safety standards, mining production, cost efficiency and continuous improvement initiatives.

b) James Van Gundy (Engineering Manager) – James has over 30 years' experience in both fixed plant and mobile fleet maintenance and was most recently employed as Maintenance Manager at Minefinders Corporation's Dolores mine in Mexico which utilised the same Komatsu truck fleet as the new fleet for the CMD Gold Mine. James is a fluent Spanish speaker and has strengths in maintenance planning and MARC Contract management

c) Jody Snare (Drilling & Blasting Superintendent) – Jody has over 20 years' experience in open pit operations and was most recently the Senior Production Superintendent for Leighton Asia in Northern Sumatra. Prior to this he was the Operations General Foreman for the Washington Group Ontario and Operations Manager for the Washington Group Bolivia at the San Cristobal Mine. Jody has a working knowledge of Spanish and has strengths in improving mining operations best practices.

Mr Gaston di Parodi, the General Manager of the CMD Gold Mine, resigned during the Quarter.

OUR PEOPLE

The number of employees at Quarter end decreased to 258 from 270 at June 30, 2012. The majority of employees are Chilean nationals, with over 250 based at or near to the CMD Gold Mine.

RESULTS OF OPERATIONS

The CMD Gold Mine currently has an estimated 5.2 Mt of Probable Mineral Reserves at a grade of 0.8 g/t gold, for 136,000 oz gold, and an estimated 151.5 Mt of indicated mineral resources for 2,058,000 oz gold and 113.9 Mt of inferred mineral resources for 1,354,000 oz gold (the mineral resources are not additive to the mineral reserves). The CMD Gold Mine currently has a mine life of three years, which is followed by continuing gold production from the leach pads for an additional two years. Processing plant throughput is currently approximately 11,000 tonnes per day. Current maximum gold production is approximately 7,000 oz gold per month.

During the Quarter, the Company spent a total of $0.83 million on resource definition drilling and $Nil million on exploration drilling. All drill rigs were demobilized from site during the Quarter.

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 $16.25 million, cost of sales was $18.94 million, and net sales were ($2.69) million.

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 915,000 ounces of gold since operations commenced. There are at least six known gold deposits in the CMD Gold Mine: Toro/Socorro, Tres Perlas, Churrumata, El Sauce, Las Loas and Chisperos.

Operations

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

Table 1 – CMD Gold Mine Key Performance Indicators

Item	Unit	3 months ended September 30 2012	3 months ended June 30 2012	% Change Variance
Ore Mined	Dmt	1,108,088	890,561	24%
Waste Mined	Dmt	4,399,305	3,109,018	42%
Total Mined	Dmt	5,507,393	3,999,580	38%
Waste:Ore Ratio	t:t	4.0	3.5	13%
Ore grade Mined	Au g/t	0.50	0.55	-8%
Gold Mined	Au oz	17,969	15,815	14%
Ore stacked	Dmt	980,762	868,010	13%
Stacked Grade	Au g/t	0.51	0.55	-7%
Gold Stacked	Au oz	16,220	15,290	6%
Average stacking rate	dmt/d	10,660	9,539	12%
Gold Produced	Au oz	10,374	10,080	3%
Mining Cost/t moved	US$/t	$2.18	$2.46	-11%
Mining Cost/t ore	US$/t	$10.86	$11.03	-2%
Process Cost/t ore stacked	US$/t	$8.18	$9.14	-10%
G+A Cost/t ore	US$/t	$1.88	$1.80	4%
Total Cost/t ore	US$/t	$20.92	$21.97	-5%
Average Sales Price	USD/oz	$1,629	$1,613	1%
Cash Cost	USD/oz	$1,166	$1,144	2%
Non Cash Process Inventory Adjustment	USD/oz	($245)	($167)	47%
C1 Cash Cost(1)	USD/oz	$921	$977	-6%
CMD Gold Mine Gross Operating Profit / (Loss) (unaudited)(2)	US$million	($4.57)	($2.85)	-59%

Notes:

1. C1 cash costs are a non-GAAP measure and non-IFRS measure that may not be consistent from company to company. In this instance, it is defined as all site production costs but excludes all waste expenditure, depreciation and amortisation and royalties. A reconciliation of C1 cash costs to the IFRS measure Cost of Sales is provided in Table 4 below.
2. CMD Gross operating profit equals revenues less cost of sales (including waste expensed and amortised), interest and other site expenses and excluding foreign exchange movements, depreciation, exploration and process inventory adjustments. A reconciliation of CMD Gold Mine Gross Operating Profit / (Loss) to the IFRS measure consolidated Profit / (Loss) Before Income Tax is provided in Table 2 below.
3. Percentages may not calculate exactly due to rounding.

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

		3 months ended September 30, 2012	3 months ended June 30, 2012
CMD Gross Operating (Loss) / Profit (unaudited)	US$000	(4,572)	(2,850)
A$ / US exchange rate for the period		1.039	1.012
CMD Gross Operating (Loss) / Profit (unaudited)	A$000	(4,399)	(2,816)
Process Inventory and ROM pad adjustment	A$000	3,036	1,155
Depreciation and amortisation	A$000	(1,426)	(1,154)
Foreign exchange gain / (loss)	A$000	(1,363)	195
Revaluation of deferred consideration	A$000	(217)	(4)
Net finance income / (expense)	A$000	81	(96)
New venture expenditure written off	A$000	(75)	(260)
Other head office related costs	A$000	(527)	(566)
Other	A$000	-	141
Consolidated (Loss) Before Income Tax (unaudited)	A$000	(4,890)	(3,405)

The inventory adjustment for the Quarter primarily reflects the increase in the gold inventory contained within the leach pad from stacking more recoverable gold than was sold.

The Group's expenditure for the Quarter includes $10.12 million of mine development and exploration costs at the CMD Gold Mine in Chile, of which $2.42 million has been capitalised.

Gold production for the September 2012 Quarter was 10,374 ounces, which was a 3% increase in gold sales quarter on quarter. In addition, 4,387 ounces of silver was produced. These sales represent 100% of production sold at spot prices.

Gold ounces stacked for the September 2012 Quarter was up 6% on the June quarter. Gold ounces mined during the Quarter were up 14% on the previous quarter, with a large stockpile of ore built up during the Quarter.

The CMD Gold Mine gross operating loss (as defined above) was (US$4.57) million for the Quarter. This result was primarily driven by the reduced gold pours (refer to *Processing* section below) and the increased costs associated with building up leachpad inventory.

C1 cash costs, which exclude waste costs expensed or amortised and royalties, decreased during the quarter to US$921 per ounce of gold sold (a decrease of 6% quarter on quarter). The inventory adjustment of (US$245) per ounce reflects the increase in the gold inventory contained within the leach pad from stacking more gold than was produced (refer to *Mining* and *Processing* sections below).

Table 3 below shows the cash costs for the last four quarters and the impact of the inventory valuation adjustment (all numbers US$ per ounce).

Table 3 – Cash Cost (US$ per ounce) and inventory adjustments

Item	Quarter ending September 30 2012	Quarter ending June 30 2012	Quarter ending March 31 2012	Quarter ending Dec 31 2011
Cash costs with inventory adjustment ($/oz)	921	977	945	799
Cash costs without inventory adjustment ($/oz)	1,166	1,144	835	900
Inventory adjustment effect ($/oz)	(245)	(167)	110	(101)

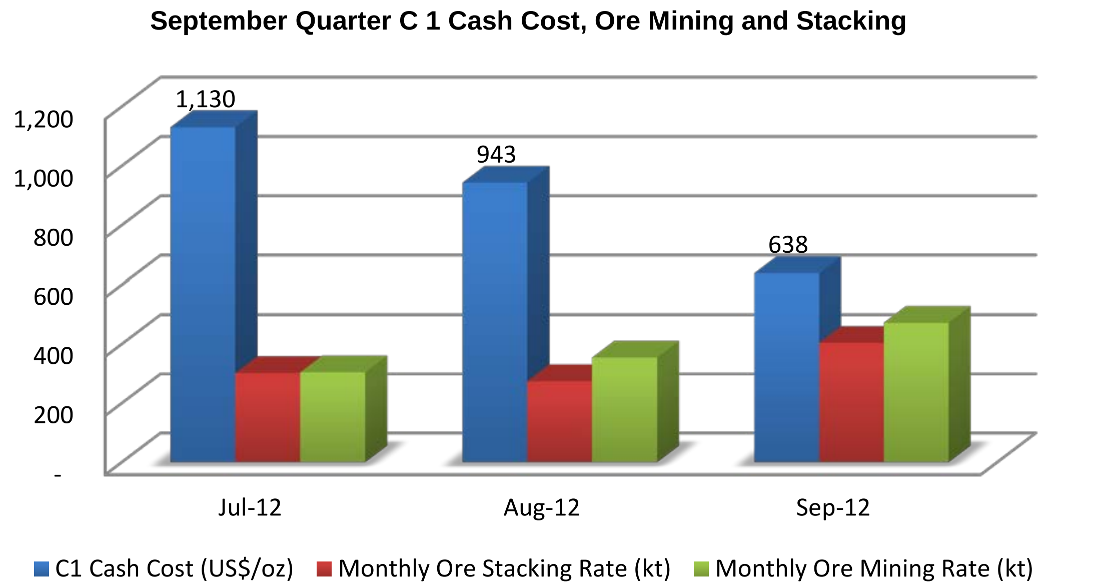
A reconciliation of C1 cash costs to the IFRS measure Cost of Sales is provided in Table 4 below.

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

		3 months ended September 30, 2012	3 months ended June 30, 2012
Cash cost per ounce	US$	921	977
Ounces poured		10,374	10,080
Cash costs	US$000	9,554	9,848
A$ / US exchange rate for the period		1.039	1.012
Cash costs	A$000	9,186	9,731
Process inventory provision and ROM stockpile adjustment	A$000	(587)	426
Depreciation and amortization	A$000	1,425	1,375
Waste costs expensed and amortised	A$000	8,127	6,490
Royalties	A$000	582	386
Other	A$000	65	52
Copper / silver net revenue	A$000	144	(22)
Cost of sales (unaudited)	A$000	18,942	18,438

C1 cash costs for the month of September were reduced to a record low under Lachlan's ownership of US$638 per ounce (see Figure 1). This was a result of ore tonnages mined and stacked increasing rapidly over the period and cost reductions in the mining and process costs.

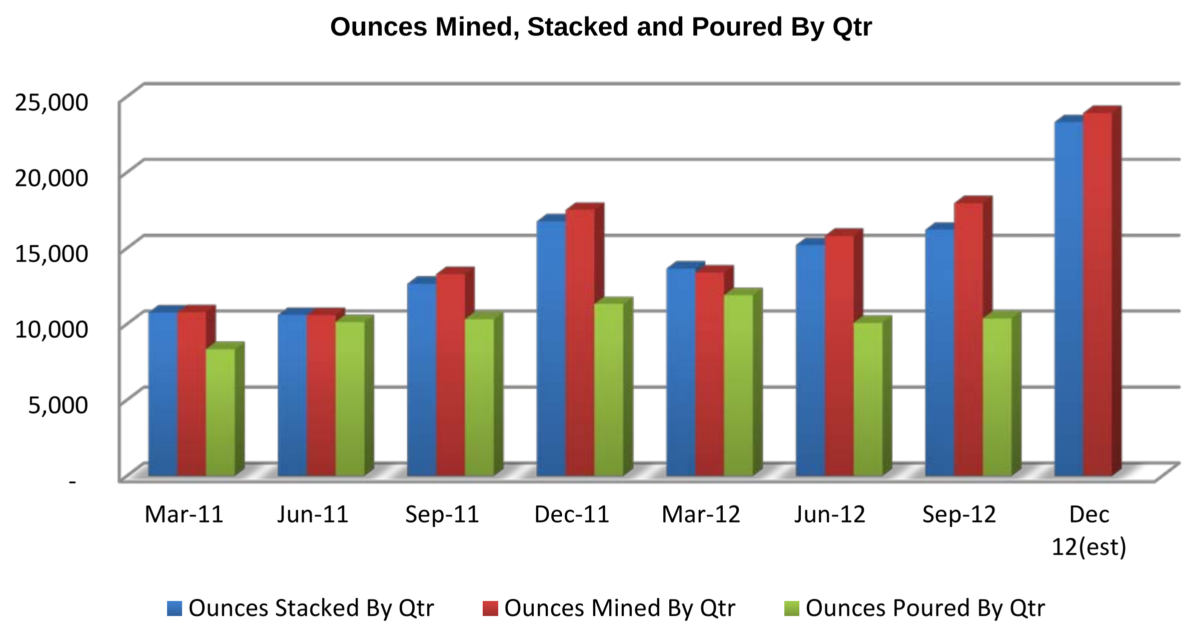
Figure 1 – September 2012 Quarter C1 Cash Costs, Ore Mining and Stacking Rates



Total costs per tonne of ore stacked decreased 5% quarter on quarter to US$20.92 per tonne despite the higher waste:ore ratio for the Quarter.

The CMD Gold Mine has a leaching cycle of 3 to 5 months for the initial circa 65% recovery on the dynamic pad, translating into a 3 to 5 month lag on ounces stacked to ounces poured. This effect can clearly be seen in Figure 2 and the rapid increase in ounces stacked in the September and December (forecast) quarters will translate into increased gold pours as discussed in the processing section below. The key leading indicator for production is ounces stacked and much of the work during 2012 has been aimed at delivering that growth profile.

Figure 2 – Quarterly Ounces Mined, Stacked and Gold Pours

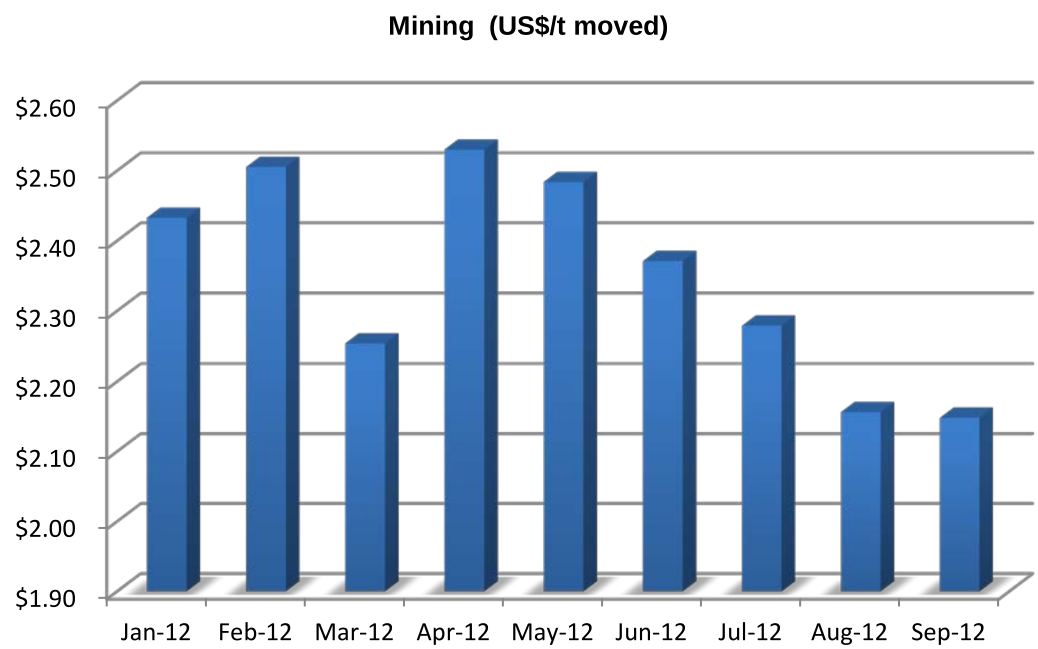


Mining

Total ore mined for the Quarter was 1.11 million tonnes for 17,969 contained Au ounces, with the waste to ore ratio for the Quarter increasing slightly to 4.0 to 1 (from 3.5 to 1 in the previous quarter). Ore was principally sourced from the Toro, Churrumata and Tres Perlas pits.

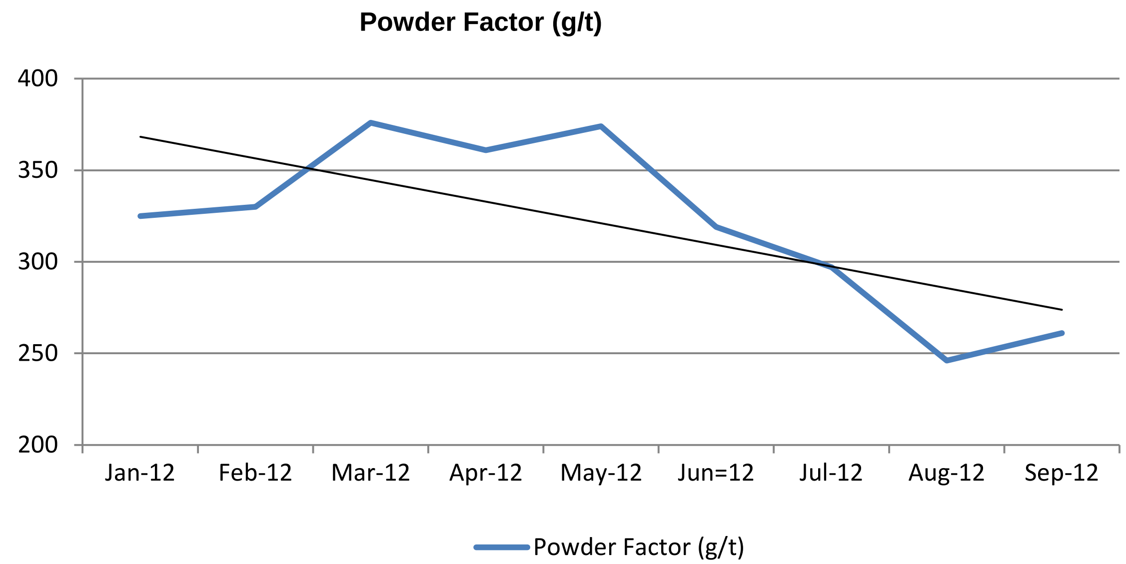
Unit mining costs decreased to US$2.18/t moved (an 11 % decrease quarter on quarter) and the mining cost per tonne of ore reduced 2% to US$10.86. The Company has implemented a continuous improvement program in order to improve the efficiency and cost of the mining operation, particularly in the drill and blast area, with emphasis on dilution control, fragmentation and loading efficiency. This program, combined with a focus on shorter haulage distances has achieved some excellent results as can be seen in Figure 3 with the mining cost/t moved reduced materially over the past 5 months. Mining costs in the month of September have been reduced to US$2.15/t moved, down from US$2.53/t moved in April. This improvement has occurred whilst still using mining contractors and before the impact of the owner mining fleet has been realised.

Figure 3 – Mining cost/t moved



Improved drill and blast practices had a major positive impact on mining costs (see Figure 4), with the powder factor reduced by 20% over 2012 despite improved rock breakage and sizing being achieved.

Figure 4 – Powder Factor



Mining at the Tres Perlas pit commenced in earnest in the Quarter using a contractor with a small truck fleet, prior to the delivery of the Company's Komatsu 100t truck fleet in the December 2012 quarter. The Tres Perlas pit will be the main source of ore for the operations going forward. Tres Perlas is a thick (100-200m) orebody that commences at surface and is located adjacent to the crushing plant.

Pre-production waste stripping has mostly been completed at the Tres Perlas pit with the waste:ore ratio reducing substantially from 17.5:1 in the previous quarter to 2.6:1 in the September 2012 Quarter. Mining in October has demonstrated this trend continuing, with a month to date waste to ore ratio of 1.8:1 as at 24 October. The Life of Mine waste to ore ratio for the Tres Perlas pit is expected to be around 1:1.

Mining at the Toro pits drove the increased waste to ore ratio whilst access to the Chisperos pit continued to be restricted. Production from the Chisperos pit was affected by proximity restrictions imposed as a result of damage to a power line in March. Initially a 200m wide exclusion zone was imposed around the power line, which restricted access to most of the Chisperos pit. Following detailed discussions with regulators, this has been reduced to 100m, which has allowed partial access to the pit. The Company has agreed with the owner of the power line to relocate the line 220m further west to enable the restriction zone to be moved completely outside the pit. The new power line has been built and will be energised in the near future, with full access restored to the pit at that time.

Chisperos is the highest grade pit at the CMD Gold Mine, with a remaining Probable Reserve of 0.80 million tonnes at 1.2 g/t Au.

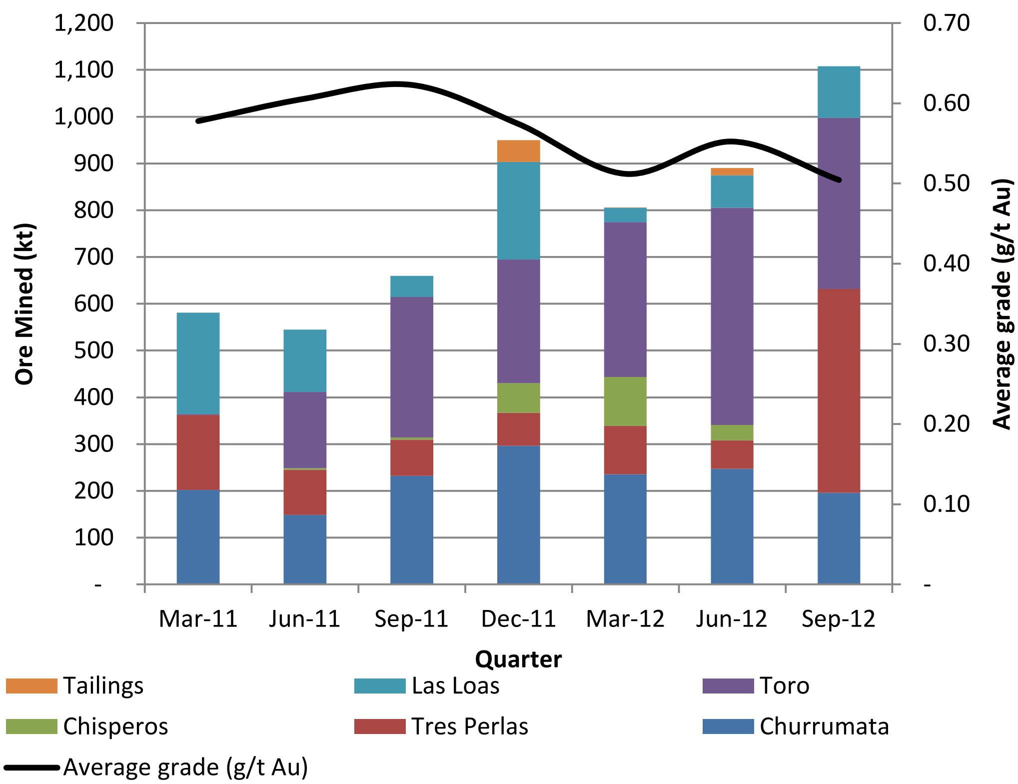
Table 5 details the ore and waste movement in the Quarter by pit.

Table 5 – Quarterly mine production by pit

Item	Unit	Churrumata	Tres Perlas	Chisperos	Toro	Las Loas	Total
Ore Mined	Kt	196	436	-	366	110	1,108
Au Grade	g/t	0.50	0.38	-	0.64	0.58	0.50
Contained Au	Oz	3,128	5,303	-	7,497	2,041	17,969
Waste Mined	Kt	1,273	1,125	-	1,278	723	4,399
Total Mined	Kt	1,469	1,560	-	1,645	833	5,507
Strip Ratio	W:O	6.5	2.6	-	3.5	6.6	4.0

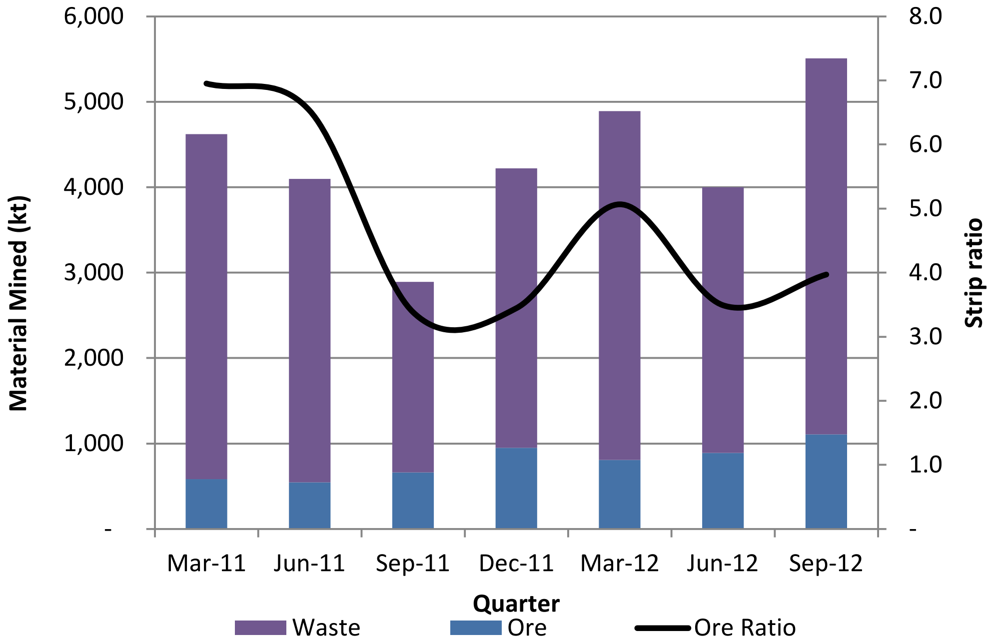
Figure 5 illustrates the ore tonnages mined from each pit over the past 18 months, and shows the increasing importance of the Tres Perlas deposit as a source of ore over the September 2012 Quarter.

Figure 5 – Mine Production by Pit



Total mining movements have increased over the Quarter with the mining team achieving record total movement under the Company's ownership in the September 2012 Quarter, as seen in Figure 6. This has been achieved prior to commencement of the owner mining fleet, which is expected to further boost total movement capacity.

Figure 6 – Total material movement and waste to ore ratio



Owner Mining

The Company has continued to work to improve the reliability of the production profile by employing a number of small contracting companies to mitigate third party risk. The Company is looking to reduce its reliance on contracting companies and has signed a purchase agreement with Komatsu Chile for the purchase of a mining fleet, comprising HD785 (91 tonne) trucks, WA900 loaders and ancillary equipment and the implementation of a maintenance and repair contract.

The implementation of this large scale mining fleet is progressing to plan. All the equipment is in Chile and the delivery of 7 trucks (HD785), 2 loaders (WA900), 1 dozer (D275), 1 wheel dozer (WD500) and 1 grader (GD675) is scheduled for prior to mid December 2012. Construction of the maintenance facilities is underway and the Maintenance and Repair (MARC) Contract has been signed with Komatsu.

In addition, the Company has purchased a fleet of seven Mercedes Benz trucks and two Komatsu WA600 loaders to be used for the dynamic leach pad rehandle that has predominately been carried out by contractors. This equipment is now in operation at the mine and is expected to deliver costs savings of up to US$20 per ounce.

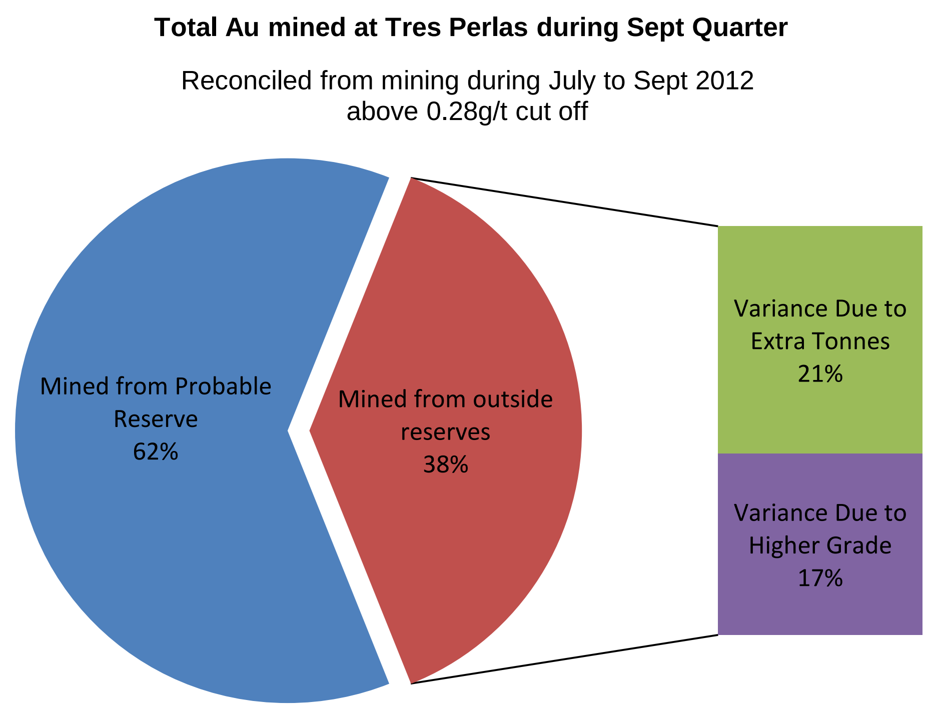
The Company expects the owner mining strategy to deliver savings of up to US$150 per ounce of gold over its current mining costs once implementation has been completed.

Mine Reconciliation

The Tres Perlas pit is the deposit that will form the bulk of the mine plan going forward. Reconciliation of this pit during the Quarter was excellent. Stockpiling of the low grade portion for ROM leaching only commenced in mid-August and it is therefore difficult to provide a full reconciliation for this material for the Quarter, but mining broadly appears to deliver the scheduled tonnes and grade of this material.

For the crushed ore fraction (+0.28 g/t Au), mining has delivered 20% higher grade and 34% more tonnes than the September 2012 Coffey Mining Indicated and Inferred Mineral Resource estimate. Mined gold production was 61% greater than that estimated from the total mineral resource model. Figure 7 illustrates the variance analysis.

Figure 7 - Reconciliation of Au Mined to Contained Au in the Mineral Resource



The Toro and Churrumata pits reconciled well against the September 2012 Coffey Mining Indicated and Inferred Mineral Resource estimate, with 91% and 103% of the total Mineral Resource ounces actually mined.

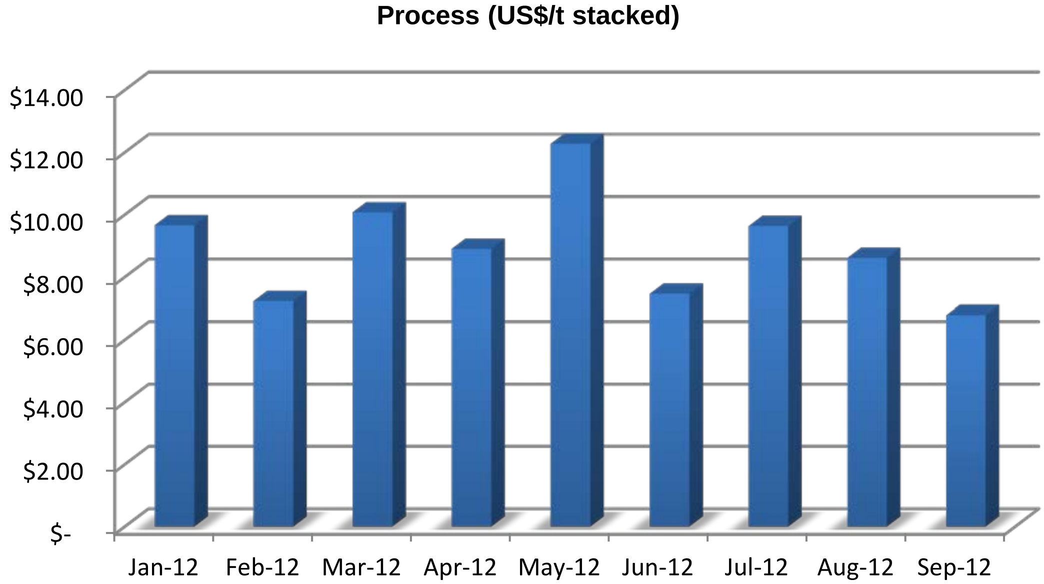
The Las Loas pit continued to underperform and delivered 67% of the total gold ounces of the Mineral Resource estimate at a higher waste to ore ratio (6.6:1) than planned. This is not considered material given that the pit had been scheduled to be completed by the end of December 2012. In light of the underperformance the Company has decided to suspend operations at Las Loas from the end of October.

Ore Processing

Crushed ore tonnes stacked increased over the previous quarter by 13%. The ROM ore mined has been stockpiled pending completion of the leach pad and has not been included in the ore tonnes stacked figures during the Quarter.

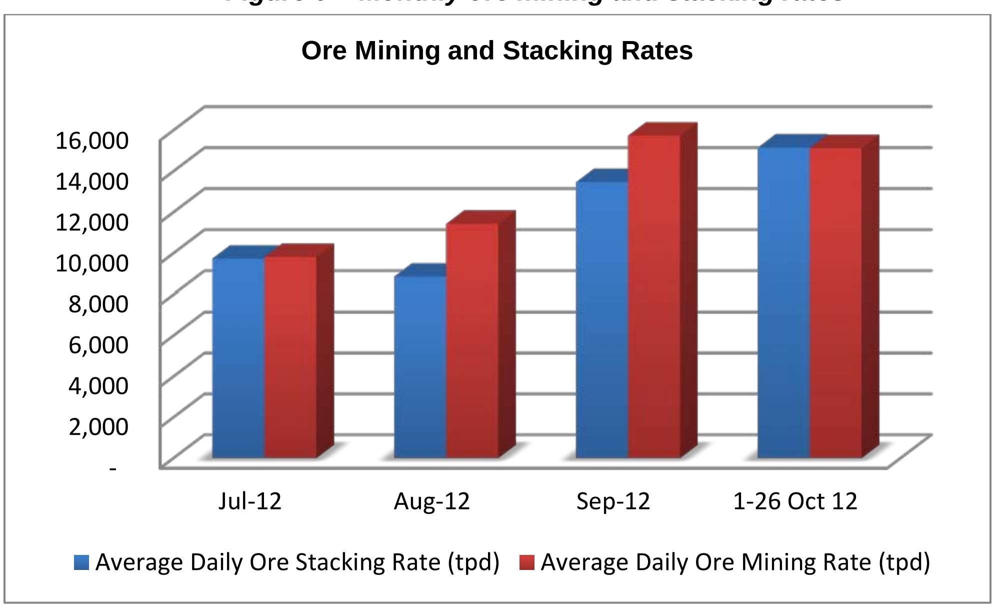
The increased stacking rates combined with a focus on cost control resulted in a 10% decrease quarter on quarter in the process costs per tonne of ore to $8.18 per tonne stacked (Refer Figure 8). Of particular note is the record low processing costs in the month of September of US$6.78/t, which coincided with record ore tonnes crushed and stacked of 404,434 tonnes. This clearly demonstrates the inverse relationship between processing costs and stacking rates.

Figure 8 – Monthly process cost per tonne stacked



During the month of August the Company carried out a three day shut down on the plant for ongoing maintenance on the crushing plant which resulted in a week of limited throughput. This was considered necessary in order to set the plant up for the scheduled increase in ore tonnages. As shown in Figure 9, this had a small negative impact on stacking rates in August, but once the maintenance was completed stacking rates have increased rapidly as a result of better plant availability and high ore mining tonnages. This trend has continued into October with an average daily stacking rate of 15,000 tpd to the 25th of October. These figures exclude the ROM ore that would add another 2,500 to 3,000 tpd once stacked.

Figure 9 – Monthly ore mining and stacking rates



The continuous improvement program has focused on delivering higher production with lower costs and this has delivered some significant improvements. Two key drivers of the cost savings have been the cyanide consumption and power use, both of which have been reduced materially during the Company's ownership as seen in Figures 10 and 11 respectively.

Figure 10 – Cyanide Consumption

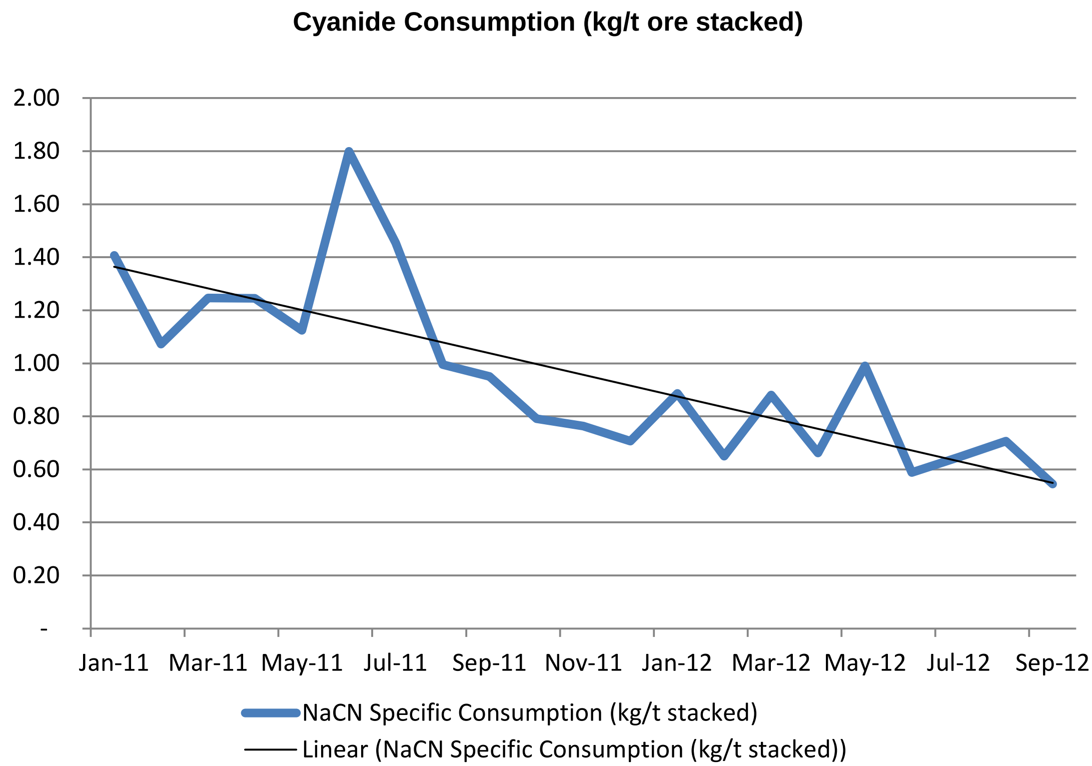
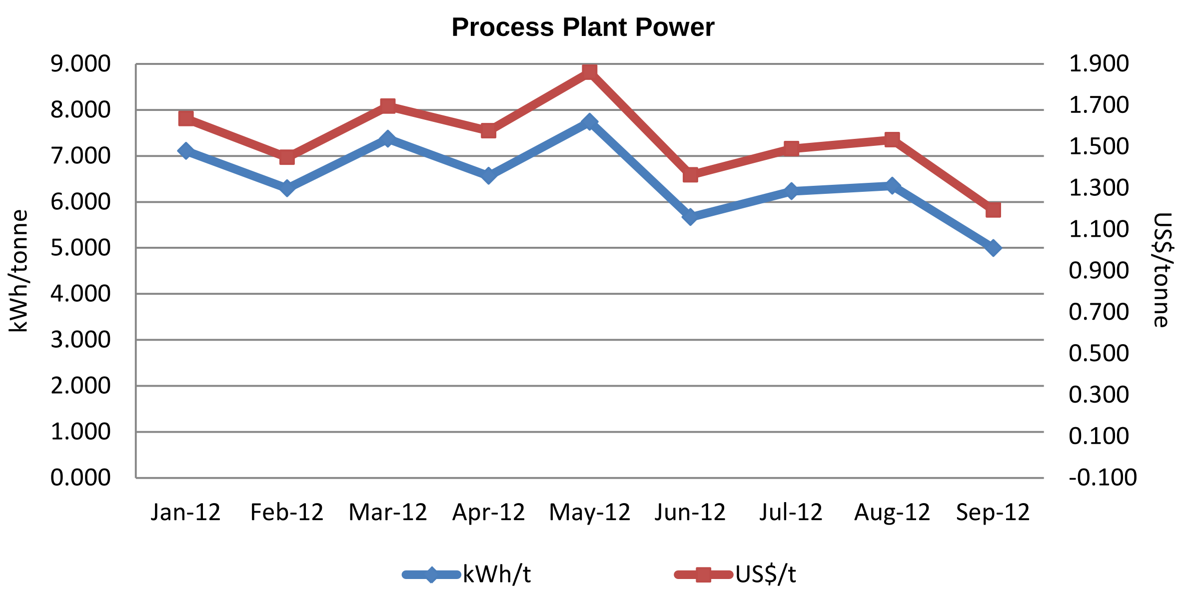


Figure 11 – Power consumption and cost



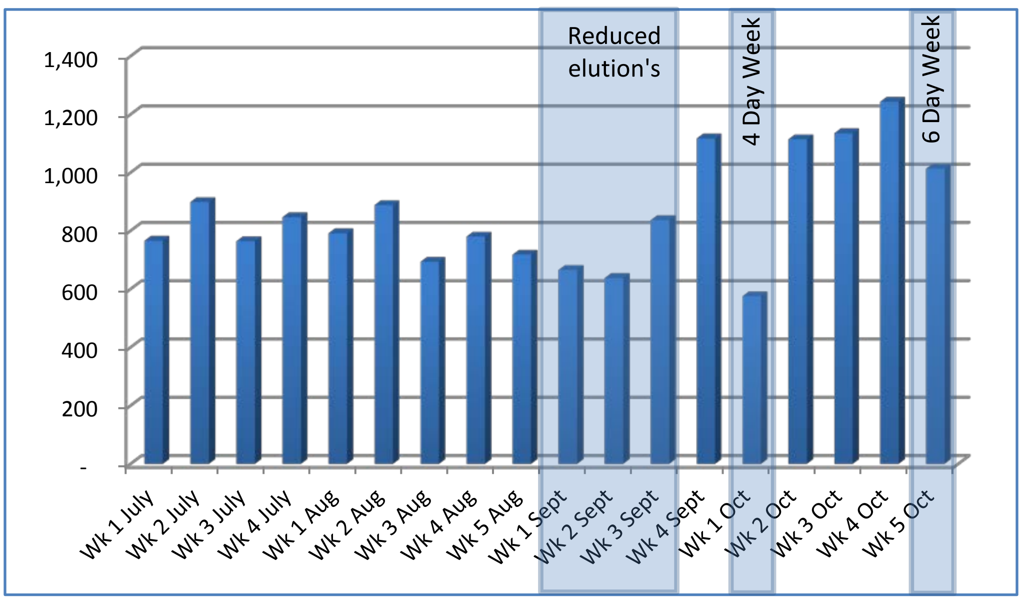
Gold pours were up 3% on the previous quarter, however they were negatively impacted by several factors that have now been mostly resolved. During late August through to late September several failures of an oil heater in the elution circuit reduced the number of elutions that could be completed over a period of 4 weeks. This resulted in reduced gold pours over this period. A new oil heater has been ordered and is expected to be installed by mid November. In the interim the heater is maintained each week and has not experienced availability issues since late September.

The Company has been reducing cyanide consumption gradually throughout the last 2 years, and during early September addition rates were as low as 0.45 g/t ore, which appears to be below the level required for fast leaching. Cyanide consumption rates have been stabilised around 0.55 kg/t ore and this appears to have increased gold recovery from the pads.

Finally, the ore from Tres Perlas has been partially oxidised, unlike the majority of the ore at the CMD Gold Mine, which is fresh rock. The oxidised material has required additional irrigation to saturate the ore and return liquor to the plant. This resulted in a two to three week increase in leaching times for this material.

The impact of these items can be seen in Figure 12, which shows the weekly gold pours over the September 2012 Quarter and month of October.

Figure 12 – Weekly Gold Pours (ounces)



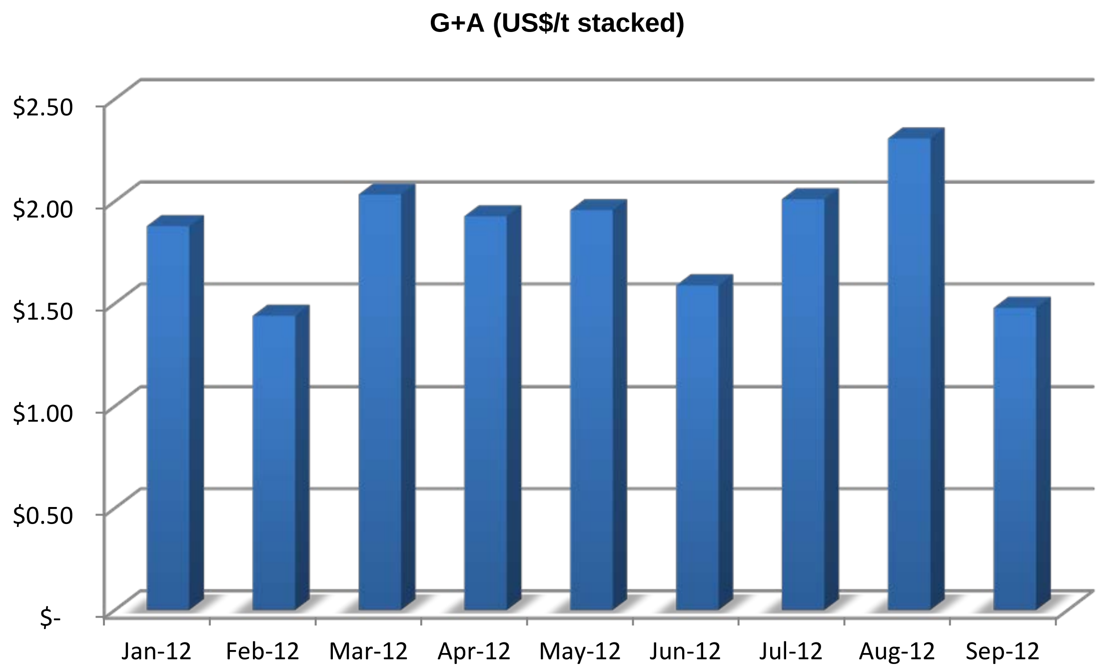
As can be seen in Figure 12, the weekly gold pours have increased rapidly since the end of September (with the first week of October being a 4 day week and the last week of October a 6 day week) and have now increased to between 1,100 and 1,240 ounces a week which equates to an annualised run rate of 57,000 to 64,000 ounces.

The Company utilises a dynamic pad system whereby ores are leached for circa 120 days on the dynamic pad in a single lift to recover approximately 65% of the gold and then moved to a final pad for leaching to recover an additional 10-12% of the gold. The current final pad is Phase 4 which contains approximately 1.4 Mt of ore that has not been leached for approximately 6 months. Irrigation of the Phase 4 pad was commenced in early October and the first gold from this pad was recovered in the last week of October's gold pour. The Phase 4 pad is expected to provide some additional gold production of between 100 and 150 ounces a week going forward.

General and Administration (G+A)

Unit rates for G+A were stable quarter on quarter with a slight increase to $1.88 per tonne of ore (up 4% quarter on quarter). Figure 13 illustrates the history of G+A costs over the year that clearly shows that as stacked tonnages increased in the month of September the G+A costs were reduced to a low of US$1.48/t stacked. This excludes the ROM ore that was stockpiled during the quarter, which will further reduce the G+A unit rates.

Figure 13 –G&A cost per tonne



The decrease in G+A unit rates has been achieved despite an increase in senior management on site (which has contributed to the improvements seen in increased throughput rates and reduced costs in the mining and process areas) and a substantial spending program on safety and training over the past 6 months.

Dump Leach and Two Stage Crush Trials

The second trial of Run of Mine (ROM) leaching and coarse ore (two stage crushed) leaching ran through the entire Quarter. The ore for this trial was sourced from the Tres Perlas area and consisted of approximately 7,500 tonnes for each trial. Leaching of both trials have been completed, and the finalisation of both trials is pending the crushing and systematic sampling and assaying of the residual material to determine the contained gold in the “tail”. As a consequence of the excellent mine performance over September and October, priority has been given to production crushing high grade ore, and there has been no opportunity to complete the trials. At the end of October it is planned to complete the ROM trial as a priority once crushing operations are resumed after planned maintenance. The Company will announce the results of the ROM trial once the results have been completed in early November.

Exploration

Exploration activities were slowed during the Quarter with a focus on collation of the previous 6 months exploration results and switching the targeting to drilling to near surface, higher grade mineralisation adjacent to current pits that can be mined in the next 12 to 18 months. Significant results included:

Chisperos Deposit

- 21.2m grading 3.33 g/t Au from 82m downhole DDH 2012-125
- 17m grading 1.10 g/t Au from 21m downhole RCH 2012-126
- 13m grading 1.94 g/t Au from 21m downhole RCH 2012-127

Tres Perlas Deposit –Gold

- 20.9m grading 2.19 g/t Au from 17.7m downhole in DDH 2012-128
- 45m grading 1.01 g/t Au from 146m downhole in RCH 2012-123
- 3m grading 8.09 g/t Au from 120m downhole in DDH 2012-128
- 40m grading 0.86 g/t Au from 45m downhole in DDH 2012-141

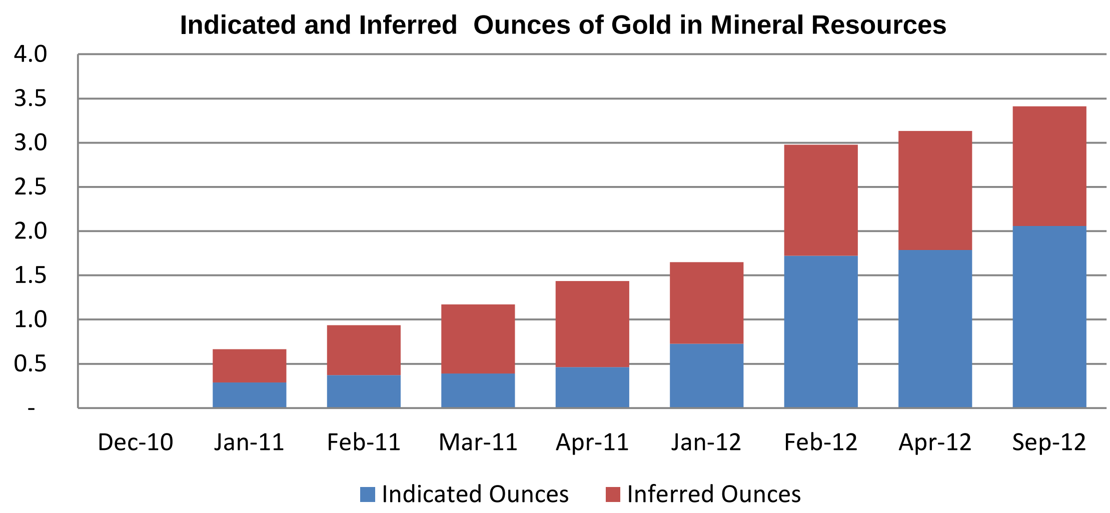
Toro Deposit

- 7m grading 2.92 g/t Au from 57m downhole RCH 2012-142
- 14m grading 1.00 g/t Au from 106m downhole RCH 2012-143
- 11m grading 1.77 g/t Au from 143m downhole RCH 2012-148

All rigs have been demobilised from site during the Quarter and the focus of the management team for the next 6 months will be to increase gold production given the large mineral resource base defined on the project in the past 18 months.

A mineral resource update for the Tres Perlas deposit was completed by Coffey Mining in September 2012, which resulted in a 15% increase in Indicated mineral resources to 2.06 million ounces of contained gold whilst Inferred mineral resources were maintained at 1.35 million ounces of contained gold. The rapid growth in mineral resources since Lachlan Star assumed ownership of the CMD Gold Mine is shown in Figure 14.

Figure 14 –Mineral Resource Growth



HEALTH AND SAFETY

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

AUSTRALIA

BUSHRANGER COPPER PROJECT

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

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

- Newmont will have an 18 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 18 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 and 6 months from the date of the Newmont Farm In Agreement (the "**Farm In Period**").
- At the completion of the Farm In Period, the Company and Newmont will form a joint venture owned 49% and 51% respectively, with both parties funding exploration and development on a pro rata basis. Either party may elect to dilute its interest during the joint venture.

Newmont have commenced a mapping and sampling program. Limited results have been received at the time of reporting as the work is ongoing and results will be reported as received. As at September 30, 2012 Newmont had spent $0.18 million on the Bushranger Copper Project.

FINANCIAL PERFORMANCE

The financial performance of the Group was affected by the continued development of the CMD Gold Mine. The financial performance of the Company is closely linked to the price of gold as the CMD Gold Mine economics are most sensitive to movements in the gold price. Previous economic analysis on the CMD Gold Mine's mineral reserve estimate has indicated a break-even cut-off grade of between 0.3 and 0.4 g/t gold at a gold price of US$1,250/ounce (see "*Mineral Reserves*", above). If the gold price drops below US$1,250/ounce, that may render the continued operation of the CMD Gold Mine uneconomic based on the current mineral reserves.

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

The mining contract term is the earlier of 24 months and the mining of 22.6Mt of material at the CMD Gold Mine. The price is fixed in Chilean Pesos and has approximately 11 months to run, with the Company able to terminate the contract with 6 months' notice without penalty.

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

The supply price for cyanide has increased approximately 40% between 2011 and 2012. The Company is contracted with the cyanide supplier at a lower price, however a global shortage of cyanide has resulted in the supplier being unable to supply cyanide at the contracted price. The Company has reserved its rights under the supply contract but in the interim is paying the higher price to ensure cyanide supply is maintained. The Company expects that the higher cyanide supply price will be incurred during the remainder of 2012 and 2013 given the global cyanide shortage and that there is potential for further cost increases on its cyanide supply.

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

The following table sets out the intended use of the net proceeds along with the use of proceeds from the Company's August, 2011 (as disclosed in the Company's November, 2011 prospectus) and April 2012 (as disclosed in the Company's April, 2012 prospectus) special warrant offerings, the total funds allocated to each intended use of proceeds, and the amount actually spent as of September 30, 2012 (other than working capital):

Use of net proceeds (all at CMD Gold Mine)	**November 2011(1)**	**April 2012(2)**	**Total**	**Spent(3)**
	(CDN$ millions)			
Exploration and resource definition drilling	6.17	4.00	10.17	9.41
Mine pre-stripping	3.06	-	3.06	5.81
Plant and leach pad liners	0.51	4.60	5.11	3.35
Accumulation of mineral inventory on the leach pad	3.06	-	3.06	1.96
Claims acquisition	-	1.00	1.00	-
Land acquisition	-	1.50	1.50	0.04
Permitting and studies	-	0.25	0.25	0.53
Total	12.80	11.35	24.15	21.10

(1) As set out in "Use of Proceeds" in the Company's November 22, 2011 prospectus
(2) As set out in "Use of Proceeds" in the Company's April 26, 2012 prospectus
(3) August 2011 to September 30, 2012

SUMMARY OF QUARTERLY RESULTS

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

Financial Condition

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

Financial position as at:	Sept-30 2012 A$000	June-30 2012 A$000	Mar-31 2012 A$000	Dec-31 2011 A$000	Sep-30 2011 A$000	Jun-30 2011 A$000	Mar-31 2011 A$000	Dec-31 2010 A$000
Cash and cash equivalents	8,336	17,412	12,715	14,474	16,123	4,515	5,350	6,490
Total assets	93,077	95,246	83,084	82,673	80,607	61,132	67,315	70,904
Total liabilities	34,192	33,005	34,304	31,857	30,047	30,958	34,919	38,762
Net assets	58,885	62,241	48,780	50,816	50,560	30,174	32,396	32,142

Cash and cash equivalents

As at September 30, 2012 the Group had cash reserves of $8.34 million, a decrease of $9.08 million from June 30, 2012. See "*Cash flow*" section below.

Since the end of the Quarter the Company has received $6.29 million from the exercise of 5,240,576 share warrants and options. The Group's cash reserves were $11.52 million at November 8, 2012, of which $7.64 million was held in A$.

Trade and other receivables

Trade and other receivables have increased marginally by $0.11 million since June 30, 2012.

The A$ / US$ exchange rate increased from 1:1.0161 at June 30, 2012 to 1:1.0381 at September 30, 2012 meaning an decrease of $0.08 million in the value of trade and other receivables which are presented in the CMD financial statements in US$.

Inventories

Inventories have increased by $4.35 million over the Quarter, comprising a $4.66 million increase in CMD inventories offset by a $0.31 million decrease as a result of the A$ / US$ exchange rate increasing from 1:1.0161 at June 30, 2012 to 1:1.0381 at September 30, 2012.

The $4.66 million increase in CMD inventory primarily consists of an increase of 1,472 recoverable ounces in the leachpad with an associated cost of US$2.27 million, a US$0.27 million increase attributable to the increased average cost per ounce on the leachpad, a $0.43 million increase from the reversal of a provision against leachpad inventory, $0.18 million recognised for the ROM pad value, a $0.73 million increase relating to the purchase of concentrate and electrolytic mud from a third party, a $1.00 million increase in stores inventory, and a reduction from $0.05 million of amortization of the fair value recognized on acquisition of the CMD Gold Mine in December 2010.

Mine development properties

Mine development properties increased by $0.37 million over the Quarter, comprising expenditure of $2.42 million, a $0.78 million decrease as a result of the A$ / US$ exchange rate increasing from 1:1.0161 at June 30, 2012 to 1:1.0381 at September 30, 2012, and amortisation of $1.27 million.

Of the $2.42 million expenditure, $0.83 million relates to exploration at the CMD Gold Mine and $1.59 million to capitalized waste.

Property, plant and equipment

Property, plant and equipment decreased by $0.32 million over the Quarter, comprising expenditure of $0.66 million at the CMD Gold Mine, a $0.32 million decrease as a result of the A$ / US$ exchange rate increasing from 1:1.0161 at June 30, 2012 to 1:1.0381 at September 30, 2012, offset by a depreciation charge of $0.66 million.

Expenditure in the September 2012 Quarter of $0.66 million mainly related to construction of MARC facilities for the owner mining fleet, a power line, and leach pad construction.

Deferred tax asset

The deferred tax asset increased by $2.39 million in the Quarter, comprising an income tax credit of $2.61 million (refer "*Income tax*" below) and a $0.22 million decrease as a result of the A$ / US$ exchange rate increasing from 1:1.0161 at June 30, 2012 to 1:1.0381 at September 30, 2012.

Total liabilities

As at September 30, 2012, the Group had total liabilities of $34.19 million compared to $33.00 million at June 30, 20112, an increase of $1.19 million.

There was a US$0.64 million increase in CMD trade and other payables in the Quarter in addition to a net increase in borrowings of $0.94 million, offset by a $0.42 million decrease as a result of the A$ / US$ exchange rate increasing from 1:1.0161 at June 30, 2012 to 1:1.0381 at September 30, 2012.

Trade and other payables have increased in the Quarter primarily as the result of the net purchase of $0.73 million of concentrate, electrolytic mud, and consumables, together with increased operating activities on site in the September 2012 Quarter.

As at September 30, 2012, the Group had $7.76 million in debt obligations consisting of bank loans, leases, and deferred consideration due to the vendors of the CMD Gold Mine. During the Quarter CMD drew down bank facilities totaling US$1.35 million.

Contributed equity

The contributed equity decrease of $0.02 million in the Quarter is shown below:

	Number	$000
Ordinary shares		
1 July	86,380,017	204,436
Share issue costs	-	(23)
30 September	86,380,017	204,413

Reserves

Negative reserves of $0.94 million consist of a $0.42 million share based payments reserve, which reflects the fair value of share options at their date of issue, offset by a negative balance of $1.36 million in the foreign exchange reserve.

The movement of $1.06 million in the foreign exchange reserve balance since June 30, 2012 comprises $0.71 million from the translation of CMD financial statements, which are presented in US$, to A$ on consolidation, and the foreign exchange effect of the fair value uplift on acquisition of the CMD Gold Mine, together with a $0.35 million unrealized foreign exchange loss on an intercompany balance. The movement in the foreign exchange reserve reflects the A$ / US$ exchange rate increasing from 1:1.0161 at June 30, 2012 to 1:1.0381 at September 30, 2012.

Accumulated losses

The Quarter's increase of $2.28 million in accumulated losses is explained under the heading "*Operating Results*" below.

Cash flow

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

Cash flows for the three months ended:	Sept-30 2012 A$000	Jun-30 2012 A$000	Mar-31 2012 A$000	Dec-31 2011 A$000	Sep-30 2011 A$000	Jun-30 2011 A$000	Mar-31 2011 A$000	Dec-31 2010 A$000
Operating activities	(6,912)	(3,071)	7,599	1,726	2,313	(581)	(782)	(7)
Investing activities	(3,085)	(6,708)	(7,383)	(3,776)	(2,871)	(2,617)	1,499	(8,428)
Financing activities	922	14,654	(1,963)	426	12,116	1,280	(1,787)	11,391

The Operating Activities outflow of $6.91 million in the Quarter reflects the net cash outflow from operations at the CMD Gold Mine of $6.37 million, corporate overhead of $0.71 million, and net interest income of $0.17 million. The net cash outflow from operations at the CMD Gold Mine reflects the increase of $4.66 million in inventories over the Quarter, refer "*Inventories*" above. As at September 30, 2012 the CMD Gold Mine had a trade receivable of $2.26 million relating to the sale of gold, of which over 95% was received in October.

Investing activities in the Quarter of $3.08 million reflect $0.66 million property, plant and equipment costs, and exploration / capitalised development work at the CMD Gold Mine of $2.42 million.

Financing activities of $0.92 million in the Quarter reflect net borrowings of $0.94 million offset by capital raising expenditure of $0.02 million. Borrowing repayments of $0.38 million comprised $0.14 million of bank / lease debt and $0.24 million of deferred consideration to the vendors of the CMD Gold Mine.

Operating Results

The quarter-on-quarter movements in the operating results of the Group over the last eight quarters are shown below. The Company became a reporting issuer when it listed on the TSX on October 19, 2011.

Operating results for the three months ended:	Sept-30 2012 A$000	June-30 2012 A$000	Mar-31 2012 A$000	Dec-31 2011 A$000	Sep-30 2011 A$000	June-30 2011 A$000	Mar-31 2011 A$000	Dec-31 2010 A$000
Revenue	16,249	15,892	19,332	18,737	18,248	13,485	11,549	1,184
Other income	68	615	(537)	103	975	317	3,794	259
Cost of sales	(18,942)	(18,514)	(19,303)	(17,562)	(17,124)	(15,707)	(14,454)	(1,364)
Total net operating expenses	(21,207)	(19,912)	(19,872)	(18,116)	(18,366)	(17,302)	(15,267)	(2,311)
Net (loss) / profit before tax	(4,890)	(3,405)	(1,077)	724	857	(3,500)	76	(868)
Net (loss) / profit after tax	(2,277)	(3,124)	(1,110)	1,941	3,289	(3,196)	382	(868)
Basic (loss) / profit per share (cents)	(2.6)	(4.1)	(1.5)	3.1	5.8	(5.8)	0.7	(4.0)
Diluted (loss) / profit per share (cents)	(2.6)	(4.1)	(1.5)	3.1	5.8	(5.8)	0.7	(4.0)

A review of the quarter ended September 30, 2012 as compared to the quarter ended September 30, 2011 is provided below.

Revenue

	Quarter ended Sept-30 2012 $000	**Quarter ended Sept-30 2011 $000**
Sale of gold	16,244	18,131
Sale of silver (net of refining)	5	(5)
Sale of copper	-	122
	16,249	18,248

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

Revenue for the September 2012 Quarter includes 10,374 ounces of gold at an average achieved sale price of US$1,629 per ounce (September 2011 Quarter: 11,108 ounces of gold at an average achieved sale price of US$1,718 per ounce).

Other income

Other income of $0.07 million for the Quarter consists of interest income. The September 2011 Quarter other income included $0.92 million of foreign exchange gains. From September 2012 Quarter onwards foreign exchange gains and losses are classified in total net operating expenses.

Cost of sales

	Quarter ended Sept-30 2012 $000	**Quarter ended Sept-30 2011 $000**
Depreciation and amortisation	1,806	1,157
Gold in process and ROM inventory adjustment	(3,036)	3,006
Mine operational expenses	10,751	6,191
Reagents	2,958	1,776
Utilities, maintenance	3,259	2,934
Personnel expenses	1,881	1,305
Royalties	583	280
Other expenses	740	475
	18,942	17,124

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. Such costs have increased from the September 2011 Quarter to the September 2012 Quarter due to additional amortisation of CMD exploration costs.

Deferred stripping (waste) costs are capitalised in any month where the actual stripping ratio exceeds the life of mine average stripping ratio, in which case costs relating to the waste tonnes mined over and above the life of mine stripping ratio are capitalised. In months where waste tonnes mined fall below the life of mine stripping ratio all waste costs are expensed. Cost of sales for the September 2012 Quarter includes $8.13 million (September 2011 Quarter: $4.92 million) waste costs expensed and amortised.

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.

The September 2012 Quarter depreciation and amortisation charge of $1.81 million (September 2011 Quarter: $1.16 million) includes $0.45 million (September 2011 Quarter: $0.44 million) relating to amortisation on the uplift in fair values of assets recognized on acquisition of the CMD Gold Mine and $0.43 million (September 2011 Quarter: $0.22 million) waste amortisation.

Gold in leach pad inventories are valued based on the historical recovery of ounces from the pads using a rolling average of costs incurred, including leaching costs. Movements in the value of leach pad inventories are included in cost of sales. During the September 2012 Quarter 1,472 recoverable ounces were added to the leachpad (September 2011 Quarter: 1,648 reduction in recoverable ounces).

The gold in process and ROM inventory adjustment for the September 2012 Quarter includes the reversal of a $0.43 million provision set up at June 30, 2012 to write the cost of the leachpad down to net realizable value (September 2011 Quarter: $Nil).

Corporate compliance and management

Corporate compliance and management costs of $0.42 million for the Quarter (September 2011 Quarter: $0.66 million) reflect costs associated with the management of the CMD Gold Mine, corporate office costs, and the costs of a listed company on the ASX and TSX.

Occupancy costs

Occupancy costs of $0.01 million for the Quarter (September 2011 Quarter: $0.03 million) relate to the occupancy costs of the Company's head office in Perth and reflect the recharge of 50% of the office costs to a sub tenant.

Foreign exchange gain / loss

The foreign exchange loss of $1.36 million arises from unrealised losses on the Company's holdings of US$ and CDN$ cash and cash equivalents, and foreign exchange losses on payables denominated in Chilean Pesos translated to the functional currency of CMD, being US$. During the Quarter the US$: Chilean Peso exchange rate fell from 1:501 to 1:474.5.

The September 2011 Quarter $0.92 million of foreign exchange gains is included in other income.

New venture expenditure written off

Expenditure of $0.08 million for the Quarter (September 2011 Quarter: $0.06 million) reflects Lachlan's expenditure on investigating new venture opportunities.

Finance expense

Finance expense of $0.08 million for the Quarter (September 2011 Quarter: $0.37 million) consists of bank and financial institution interest, together with 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 2012 Quarter loss of $0.22 million compares to the September 2011 Quarter loss of $0.12 million.

Income tax

The income tax credit for the Quarter of $2.61 million (September 2011 Quarter: credit of $2.43 million) consists of:

(i) $2.53 million credit (September 2011 Quarter: credit of $2.17 million) related to the recognition of a deferred tax asset in respect of income tax losses and timing differences of CMD. Of this $2.53 million, $1.80 million relates to an in increase in the deferred asset arising from an increase in the first category tax rate in Chile from 17% to 20%, and $0.73 million to the CMD loss for the Quarter.

During the September 2011 Quarter the Company adopted a revised internal July 2011 NPV model containing higher mineralised material which supported recognition of an increase in the deferred tax asset in that quarter.

(ii) $0.08 million (September 2011 Quarter: credit of $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

The September 2012 Quarter $1.06 million foreign exchange reserve movement is a result of the A$ / US$ exchange rate increasing from 1:1.0161 at June 30, 2012 to 1:1.0381 at September 30, 2012. The movement is required to be shown on the face of the statement of comprehensive income as a reconciling item to total comprehensive income.

Earnings per Share

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

LIQUIDITY, CAPITAL RESOURCES AND COMMITMENTS

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

Gross proceeds of $32.03 million were raised from the issue of Ordinary Shares during the financial year ending June 30, 2012.

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

The following table sets forth information regarding the Group's contractual obligations as at September 30, 2012:

	Payments Due				
Contractual Obligations	**Total**	**Less than 1 Year**	**1 - 2 years**	**3 - 5 Years**	**After 5 Years**
	$ million	**$ million**	**$ million**	**$ million**	**$ million**
Exploration commitments[1]	$0.10	$0.10	---	—	—
Borrowings[2]	$7.76	$6.87	$0.89	---	—
Trade And Other Payables	$20.35	$20.35	—	—	—
Provisions[3]	$6.07	—	—	$6.07	—
Other[4]	$54.52	$28.58	$14.17	$11.77	—

Notes:

(1) The Company's mineral rights in Chile are not subject to minimum expenditures on exploration activities.

(2) See the discussion in the sections entitled "*Total liabilities*" under the heading "Financial Condition" above. The Group had no unused banking facilities at September 30, 2012 but secured an undrawn US$2.5 million facility subsequent to Quarter end.

(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, 2012 at the CMD Gold Mine, primarily for mining, power, explosives and cyanide.

(5) The total capital requirement for the owner mining fleet is US$20.4 million (see "*Commitments*" below), most of which was committed in October. The only part of this commitment included in the above table is $1.1 million in respect of borrowings for the Mercedes fleet.

The net proceeds of (i) the Special Warrants Placement and expenses in qualifying the Units and Compensation Options of approximately $13.91 million received in the September 30, 2011 Quarter (ii) the Special Warrants Placement and expenses in qualifying the Units and Compensation Options of approximately $15.75 million received in the June 30, 2012 Quarter (iv) the $6.29 million received by the Company from the exercise of 5,240,576 options and warrants subsequent to Quarter end (v) an undrawn US$2.5 million bank facility secured subsequent to Quarter end (vi) the finance facilities negotiated for the purchase of the owner operated mining fleet (see "*Commitments*" below) are anticipated to be sufficient, together with cashflows from operations, 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 expended on operating activities in the September 2012 Quarter was $6.91 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.

COMMITMENTS

The Company has continued to work to improve the reliability of the production profile by employing a number of small contracting companies to mitigate third party risk. The Company is looking to reduce its reliance on contracting companies and has signed a purchase agreement with Komatsu Chile for the purchase of a mining fleet, comprising HD785 (91 tonne) trucks, WA900 loaders and ancillary equipment and the implementation of a maintenance and repair contract.

The implementation of this large scale mining fleet is progressing to plan. All the equipment is in Chile and the delivery of 7 trucks (HD785), 2 loaders (WA900), 1 dozer (D275), 1 wheel dozer (WD500) and 1 grader (GD675) is scheduled for delivery prior to mid December 2012. Construction of the maintenance facilities is underway and the Maintenance and Repair (MARC) Contract has been signed with Komatsu.

In addition, the Company has purchased a fleet of seven Mercedes Benz trucks and two Komatsu WA600 loaders to be used for the dynamic leach pad rehandle that has predominately been carried out by contractors. This equipment is now in operation at the mine and is expected to deliver costs savings of up to US$20 per ounce.

The total capital requirement for the owner mining fleet is US$20.4 million. The Company has received credit committee approved leasing facilities from Komatsu and Chilean banks for a total of US$20.0 million of this amount, with the remaining US$0.4 million to be financed from the Company's cash balances. Of the US$20.0 million in finance facilities, US$18.7 million is repayable over a 48 month term, and the remaining US$1.3 million over a 12 month term. Interest rates are a combination of fixed and variable depending on the facility.

The Company expects the owner mining strategy to deliver savings of up to US$150 per ounce of gold over its current mining costs once implementation has been completed.

OFF BALANCE SHEET ARRANGEMENTS

There are no material off-balance sheet arrangements as at September 30, 2012.

TRANSACTIONS WITH RELATED PARTIES

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

The Group recharged $19,575 during the Quarter (June 30 2012 Quarter: $3,994) on an arm's length basis to Nevada Iron Limited, a company of which Mr Michael McMullen is Chairman, for administration staff, office rent and car parking under an office sublease effective 11 June 2012.

The Group acquired the CMD Gold Mine on December 24, 2010. One of the vendors is a substantial shareholder of Lachlan Star and another, Peter Babin, is a director of the Company.

CRITICAL ACCOUNTING ESTIMATES

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

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

Impairment

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 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, 2012 the spot gold price was US$1,776 per ounce.

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 profit or loss 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 judgement to determine which factors are most important and concluded the U.S. dollar is the functional currency for those companies. Management has determined that the Australian dollar is the functional currency for Lachlan and its other subsidiaries given their revenue and expenditure are mostly in Australian dollars.

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

Recovery of ounces of gold in leach pad inventories

Management has estimated the recovery of gold in the leach pad at the CMD Gold Mine based on recovery rates experienced after 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.

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

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

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

Reserve estimates

Reserves are estimates of the amount of product that can be economically and legally extracted from the consolidated entity's properties. In order to calculate reserves, estimates and assumptions are required about a range of geological, technical and economic factors. Estimating the quality and/or grade of reserves requires the size, shape and depth of ore bodies to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements and calculations to interpret the data. The group is required to determine and report ore reserves in Australia under the principles incorporated in the 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 recognition of deferred tax on mineral rights, 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” and “Property, plant and equipment” 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, 2012. There have been no significant changes in such policies in the 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, 2012. 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, foreign exchange risk and price risk), liquidity risk, and commodity price risk. This note presents qualitative and quantitative information about the Group's exposure to each of the above risks, their objectives, policies and procedures for managing risk, and the management of capital. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

The Group's overall risk management approach focuses on the unpredictability of financial markets and seeks to 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 to sustain future development of the business. Given the stage of the Group's development there are no formal targets set for return on capital. There were no changes to the Group's approach to capital management during the Quarter. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Credit risk

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

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

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

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

Market risk

(i) Interest rate risk

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

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

(ii) Foreign exchange risk

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

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

	Average for Quarter ended 30 September 2012	**As at September 30 2012**
A$ / US$	1.039	1.038
A$ / CDN$	1.035	1.021
US$ / Peso	483	474
A$ / Peso	502	493

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

Liquidity risk

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

Commodity price risk

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

CONTINGENT ASSETS AND LIABILITIES

In June 2011, CMD 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 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.

SUBSEQUENT EVENTS

Subsequent to period end, and to the date of this report, 5,240,576 share options and warrants have been exercised resulting in exercise proceeds of A$6.29 million being received by the Company.

Other than described above, since September 30, 2012 the directors of the Company are not aware of any other matter or circumstance that has not been discussed in this MD&A that has significantly or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent quarters.

OUTSTANDING SECURITIES DATA

The Company presently has 91,620,593 Ordinary Shares that are issued and outstanding.

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

Security or Instrument Name	Number	Exercise or Conversion Price (if applicable) ($)	Expiry Date (dd/mm/yy)
Stock Options	375,002	$1.50	18/11/2012
Stock Options	166,669	$1.20	20/12/2013
Stock Options	166,669	$1.50	20/12/2013
Placement Options	3,280,842	$1.20	20/05/2013
Broker Options	89,939	$1.20	20/05/2013
Broker Options / Warrants	5,970,900	$1.20	26/08/2013
Stock Options	650,000	$1.20	25/11/2013
Stock Options	150,000	$1.50	25/11/2013
Stock Options	50,000	$1.50	25/11/2014
Broker Options / Warrants	329,250	CDN$1.60	3/04/2014

5,240,576 Ordinary Shares have been issued on the exercise of options / warrants since September 30, 2012 and up to the date of this MD&A. No options / warrants over Ordinary Shares have been issued since September 30, 2012 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 judgements in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion between two or more people, or by unauthorized override of the control. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

Competent Persons Statement

The information in this Management Discussion and Analysis that relates to the mineral resources of Tres Perlas, Chisperos, Las Loas, El Sauce, Churrumata and Toro/Socorro is based on information compiled by David Slater, who is a Chartered Professional Member of The Australasian Institute of Mining and Metallurgy. Mr. Slater is employed full time by Coffey Mining Pty Ltd. The information in this

Management Discussion and Analysis that relates to exploration results for the CMD Gold Mine and Bushranger Copper Project is based on information approved by Declan Franzmann, who is a Chartered Professional Fellow of The Australasian Institute of Mining and Metallurgy. Mr. Franzmann is employed by Citraen Pty Ltd and is an officer of the Company. Each of Mr. Slater and Mr. Franzmann has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking, to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves" and to qualify as a "Qualified Person" under NI 43-101. Each of Mr. Slater and Mr. Franzmann consents to the inclusion in this Management Discussion and Analysis of the matters based on his information in the form and context in which it appears.

The information in this report that relates to the CMD Gold Mine Reserve is based on information approved by Declan Franzmann, who is a Chartered Professional Fellow of The Australasian Institute of Mining and Metallurgy. Mr. Franzmann is employed by Citraen Pty Ltd and is an officer of the Company. Mr. Franzmann has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking, to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves" and to qualify as a "Qualified Person" under NI 43-101. Mr. Franzmann consents to the inclusion in this Management Discussion and Analysis of the matters based on his information in the form and context in which it appears.

GLOSSARY OF MINING TERMS

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

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