LACHLAN STAR LIMITED

Quarterly Report for the Period Ending 31 December 2014

HIGHLIGHTS

OPERATIONAL PERFORMANCE

- Zero LTA during the quarter.
- Zero environmental incidents.
- Total cost of tonnes stacked of US$15.14/tonne of ore and a 0.3% reduction over the previous quarter.
- C1 Cash Cost of US$853 per ounce of gold produced representing a 10% increase on the prior quarter and a 9% increase in C1 cash cost on the prior year corresponding period.
- Declaration of Environmental Impact (DIA) for the period 2015-2020 approved in early December

CORPORATE

- On 16 October the Company announced a non-brokered private placement to Hamilton Place Associates LLC for proceeds of US$1.14 million and the appointment of a new Chairman. Mr. Scott Perry resigned from the board and Mr. Peter Babin was appointed as the new Non-Executive Chairman of the Company.
- HPA also agreed to a prepaid gold loan working capital facility of at least US$4 million to the Company's subsidiary, Compañía Minera Dayton (CMD), with such working capital advance and associated terms and conditions to be finalized no later than 31 December 2014. On 2 January 2015 the Company announced that it remained in discussion with HPA regarding the availability of a working capital facility. The Company granted HPA, at their request, an

extension from the 31 December 2014 funding deadline to 20 January 2015 to finalise a definitive financing agreement for consideration by the Company. This has yet to be received, however the Company is advised that HPA's negotiations with potential financiers are continuing with a number of commercial aspects still to be worked through. HPA remains confident that a financing Letter of Intent will be forthcoming by 3 February and that a definitive financing agreement will be available for the Company's review and execution no later than Friday, 13 February. For further information please see the "Corporate" section of this quarterly report.

- The US$2 million of the sale proceeds retained in escrow, pending the completion of legal transfers of a group of mining properties to Compañia Minera Teck Carmen de Andacollo, was received by CMD on 28 November 2014.

CMD GOLD MINE (100%, CHILE)

Production, Unit Costs and Sales

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

Table 1 – CMD Gold Mine Operating Summary

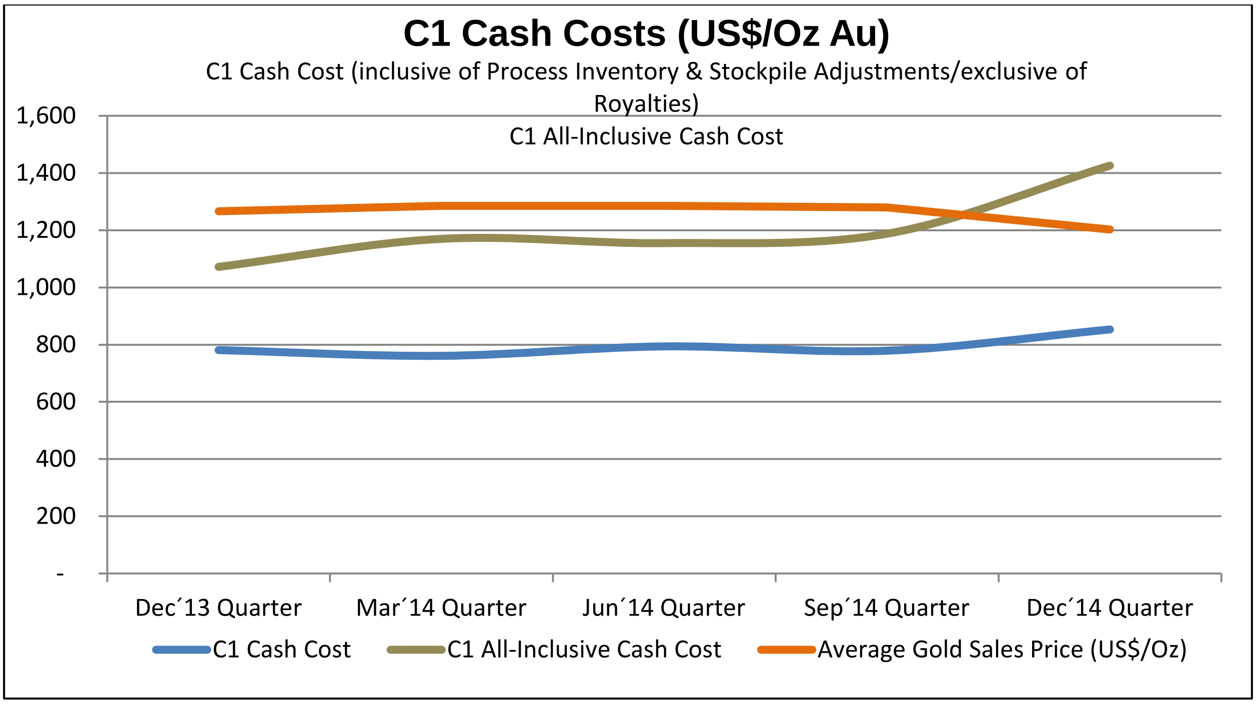
Item	Unit	Dec´14 Quarter	Sep´14 Quarter	Variance (%)
Ore Mined	Dmt	1,200,343	1,252,176	-4%
Waste Mined	Dmt	3,016,238	2,195,027	37%
Total Mined	Dmt	4,216,581	3,447,203	22%
Waste : Ore Ratio	t:t	2.51	1.75	43%
Ore grade Mined	Au g/t	0.58	0.58	1%
Gold Mined	Au oz	22,513	23,192	-3%
Ore stacked	Dmt	1,173,207	1,192,201	-2%
Stacked Grade	Au g/t	0.52	0.53	-2%
Gold Stacked	Au Oz	19,592	20,217	-3%
Average stacking rate	dmt/d	12,752	12,959	-2%
Silver Produced	Ag Oz	5,224	10,707	-51%
Gold Produced	Au Oz	11,956	15,272	-22%
Mining Cost/t moved	US$/t	2.06	2.69	-23%
Mining Cost/t ore	US$/t	7.24	7.41	-2%
Process Cost/t ore stacked	US$/t	6.47	6.34	2%
G+A Cost/t ore	US$/t	1.43	1.43	0%
Total Cost/t ore	US$/t	15.14	15.18	0%
Average Sales Price	USD/Oz	1,203	1,280	-6%
C1 Cash Cost (exclusive of Process Inventory & Stockpile Adjustments)	USD/Oz	978	807	21%
Non Cash Process Inventory & Stockpile Adjustment	USD/Oz	-125	-28	341%
C1 Cash Cost (inclusive of Process Inventory & Stockpile Adjustments/exclusive of Royalties)	USD/Oz	853	779	10%
C1 All-Inclusive Cash Cost	USD/Oz	1,426	1,188	20%
CMD Gold Mine Gross Operating Profit / (Loss) (Unaudited)*	**US$million**	**-4.52**	**-0.07**	**6809%**

Notes:

1. C1 Cash Cost and C1 All-Inclusive Cash Cost are non-GAAP measures and non-IFRS measures that may not be consistent from company to company. In this instance, C1 Cash Cost is defined as all site production costs including process inventory and stockpile adjustments, but excludes all waste expenditure, depreciation and amortisation, and royalties. C1 All-Inclusive Cash Cost is C1 Cash Cost plus waste expenditure and royalties.
2. CMD Gross Operating Profit equals revenues and doré in process plus ore stockpiles less cost of sales (including waste expensed and amortised), interest, and other site expenses and excluding foreign exchange movements, depreciation, exploration and process inventory adjustments
3. Percentages may not calculate exactly due to rounding.

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

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

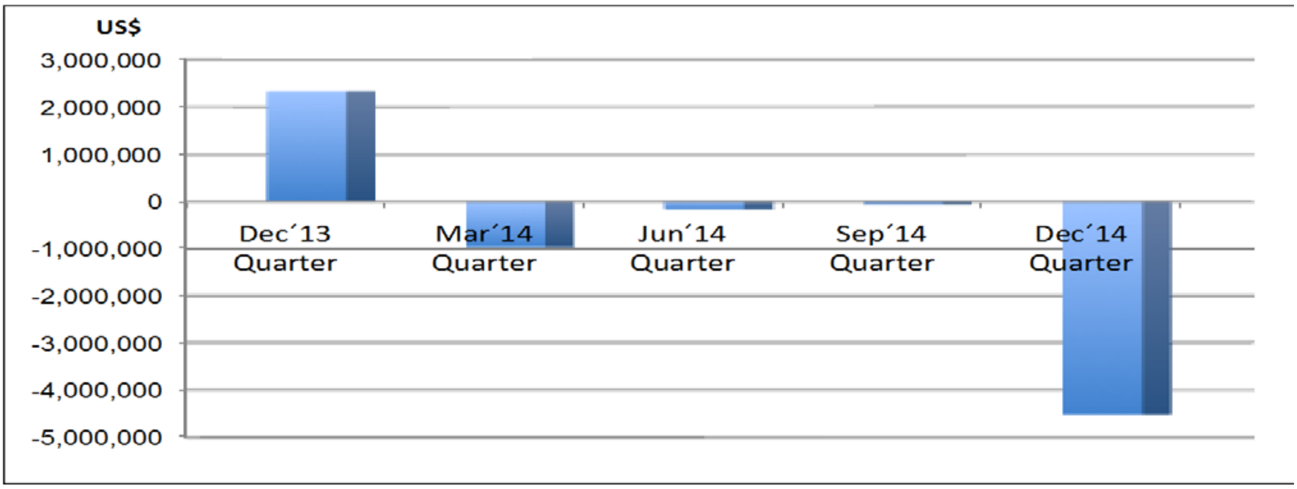


Gold production for the December quarter was 11,956 ounces, representing a 22% decrease on the previous quarter, even though ounces stacked only fell 3% during the same period. This is associated with a drop in metallurgical recoveries in the period (from 75.6% in September quarter down to 60.6% in the December quarter, as indicated in Table 3 and Figure 9) due to a higher incidence of ore coming from Churrumata with higher Cu content. All production was sold at spot prices, with an average sale price of US$1,203 per gold ounce.

Gold ounces stacked for the December quarter were down 3% on the previous quarter due to a 2% decrease in stacked grade and a 2% decrease in ore stacked due to 4% decrease in ore production.

The CMD Gold Mine Gross Operating Profit (as defined above) was a loss of US$4.52 million for the quarter (refer to Table 1 and Figure 2), due to the 22% fall in gold production from the September quarter and a 43% increase in the strip ratio during the quarter. December quarter gold sales were US$5.13 million (26%) lower than in the September 2014 quarter.

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



C1 Cash Cost, which excludes waste costs expensed or amortised and royalties, increased quarter over quarter to US$853 per ounce of gold produced breaking a sequence of four consecutive low cost quarters, staying higher than the lowest C1 Cash Cost for the CMD Gold Mine achieved in the March 2014 quarter (US$761 per ounce), due to the increase in the strip ratios during the quarter.

The inventory adjustment of US$125 per ounce for the quarter comprises $250 per ounce for the ounces added to the leach pad, a credit of$100 per ounce for the reduced average cost of ounces on the leach pad, and a credit of $25 per ounce for the reduction in stockpiles

Table 2 below shows the cash costs for each quarter over the past year, and the impact of the inventory valuation adjustment (all numbers in US$ per ounce).

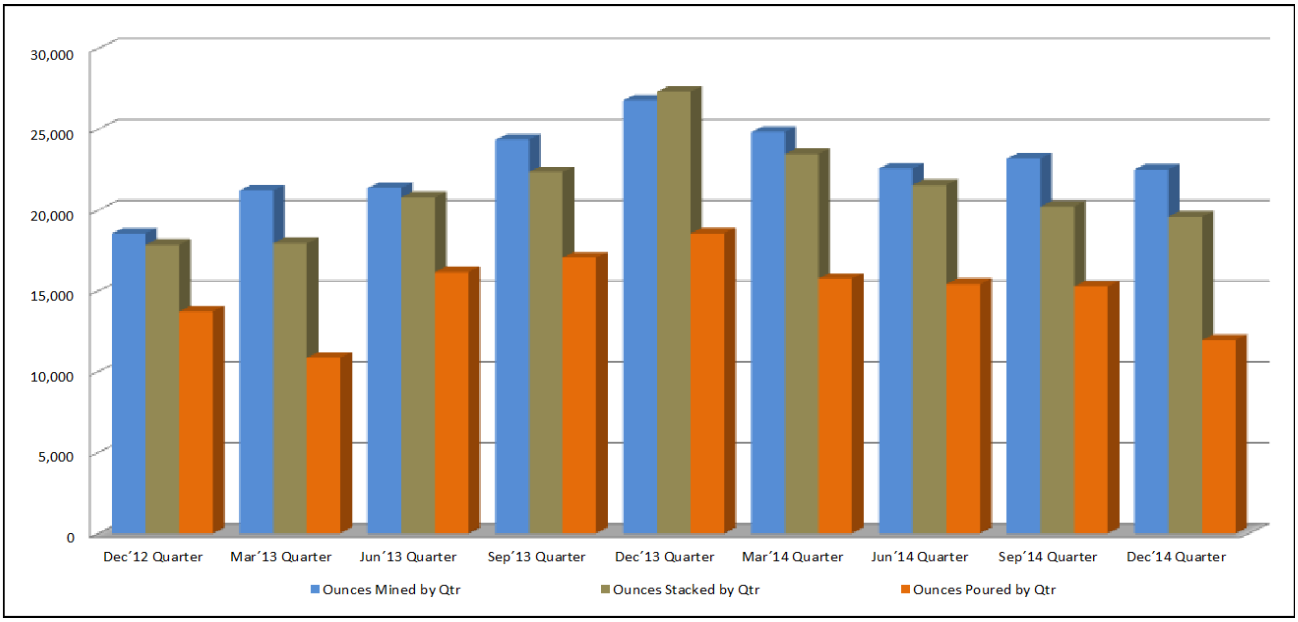
Table 2 – Cash Cost (US$ per ounce) and inventory adjustments

Item	December´14 Quarter	September´14 Quarter	June´14 Quarter	March´14 Quarter
C1 Cash costs with inventory adjustment less royalties (US$/Oz)	853	779	794	761
C1 Cash costs without inventory adjustment (US$/Oz)	978	807	864	910
Inventory adjustment effect (US$/Oz)	-125	-28	-70	-127

Total costs per tonne of ore stacked decreased US$0.04 quarter on quarter to US$15.14 per tonne, which is again one of the lowest unitary cost results achieved under the Company´s ownership. The decrease in total costs per tonne was driven by a 23% decrease in mining cost per tonne of material moved and a 2% decrease in mining cost per tonne of ore, due to a lower participation of 3rd party high-grade ore purchases (higher US$/tonne ore) during the period.

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

Figure 3 – Quarterly Ounces Mined, Stacked and Gold Produced

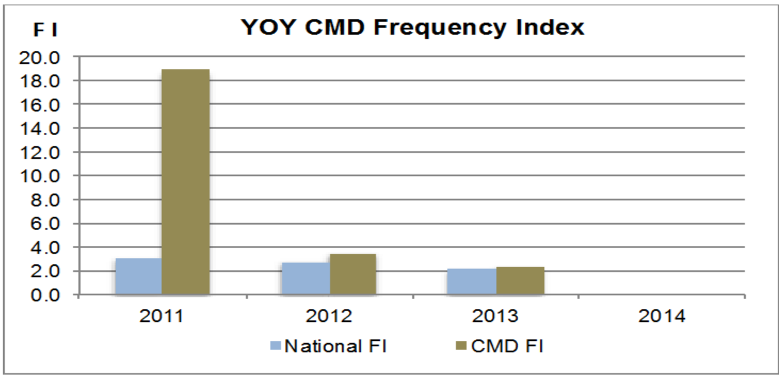


Safety

Safety is a key focus for management at the CMD Gold Mine and this can be seen in Figure 4 below. The CMD Gold Mine has been operating for 894,729 man-hours LTA free since January 2014.

The Frequency Index (FI) reflects exclusively CMD records, not including mining contractors. (Note: the Chilean regulatory authority will only release the 2014 National FI during the July´15 quarter).

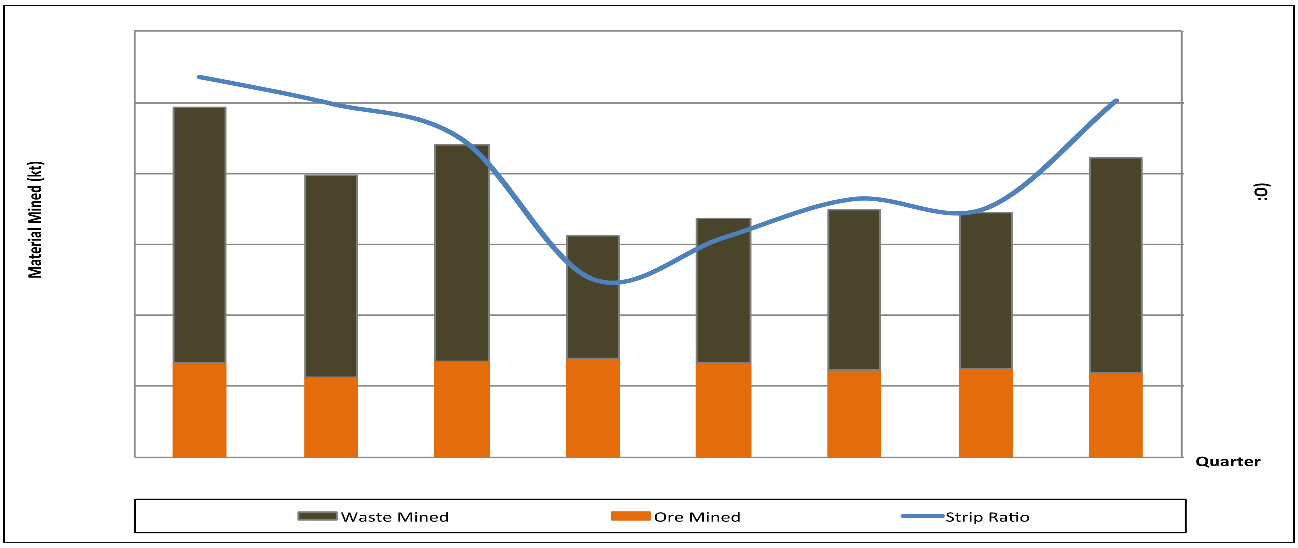
Figure 4 – CMD Gold Mine Safety Statistics



Mining

Total ore mined for the December quarter was 1.2 million tonnes for 22,513 contained Au ounces, a decrease of 4% and 3% respectively. The waste to ore ratio increased substantially during the quarter to 2.51 to 1 (from 1.75 to 1 in the previous quarter) as the result of the re-design of the pushback development in Tres Perlas Phase 7 after the slope failure occurred in early September. Ore was principally sourced from the Churrumata (54%) pit with small contribution from the Tres Perlas (11%), and third party ore purchases (29%). Figure 5 shows the mining rate and waste to ore ratio by quarter for the last 8 quarters.

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

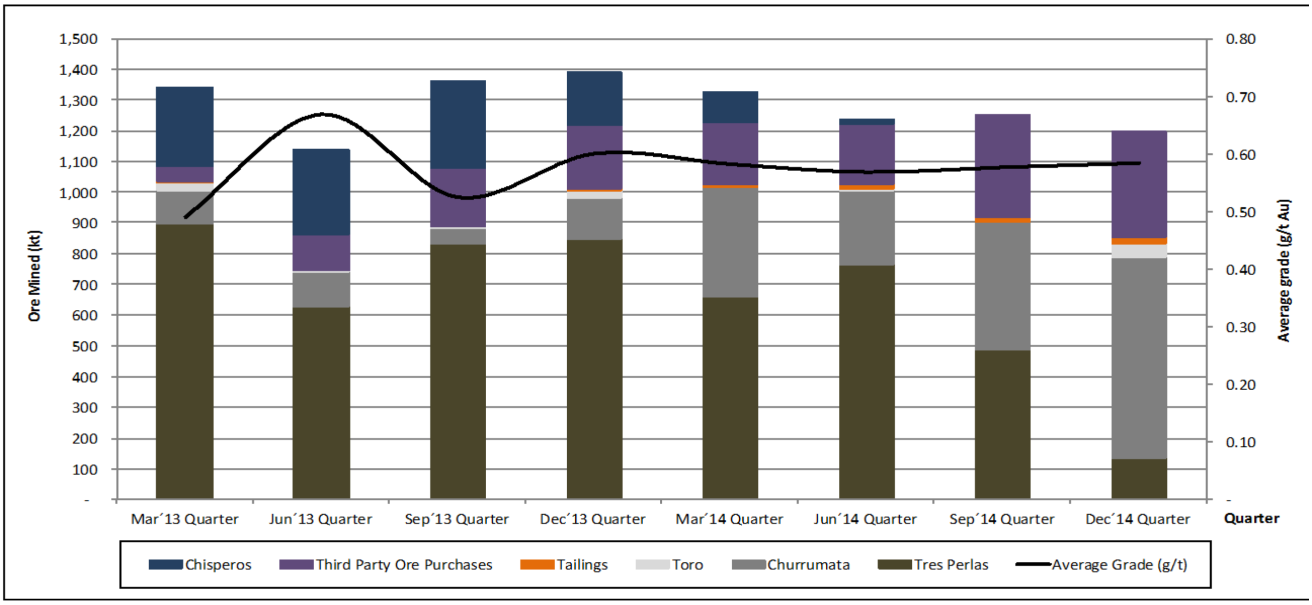


Following the trend started during late previous quarter after the slope failure event, the mining plan shifted focus from the Tres Perlas pit (11% of total ore mined) due to the higher strip ratio and increased the activity in the development of the Churrumata Phase 4 (Cerro Mercedes) pit, all using the Company's mining fleet. Total quarterly ore production from Tres Perlas decreased to only 8% of the total ounces mined as the result of the increase in mining in Churrumata (45% of ounces mined) and also an increase in 3rd party ore purchases, which contributed with 42% of the total ounces mined during the period, as illustrated in Figure 6.

Mining of old tailings deposits inside CMD property totalled 19,440 tonnes during the quarter. Due to its fine size distribution, this material needs to be carefully blended with the normal crushed ore in order to not impact negatively on the leach pad percolation.

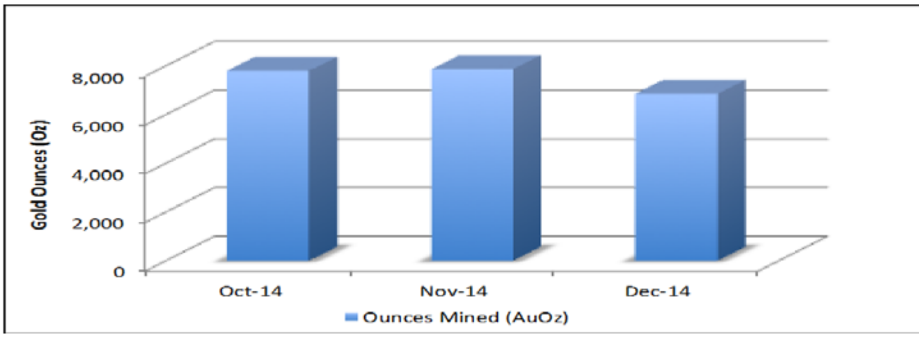
Third party ore purchases showed a small increase of only 3% over previous quarter reaching 345,777 tonnes during the quarter with a slightly higher grade (0.84 g/t) than the previous quarter (0.80 g/t).

Figure 6 – Ore Mined by Pit and Quarter



As seen in Figure 7, the ounces mined during the December quarter fluctuated during the period. Mining of the Tres Perlas pit continues to the north (Phase 7) and going deeper in Churrumata, though grades experienced a decrease in Tres Perlas pit during December quarter, negatively impacting total ounces mined in this specific month. Conversely, the Churrumata pit returned slightly higher than expected grades (average 0.49 g/t) in the December quarter, which had a positive impact on total ounces mined in the period.

Figure 7 – December´14 Quarter Ounces Mined



Average mined grades stayed at same levels quarter on quarter. The 3% increase quarter on quarter in 3rd party ore purchases didn´t impact on total ounces mined over the previous quarter.

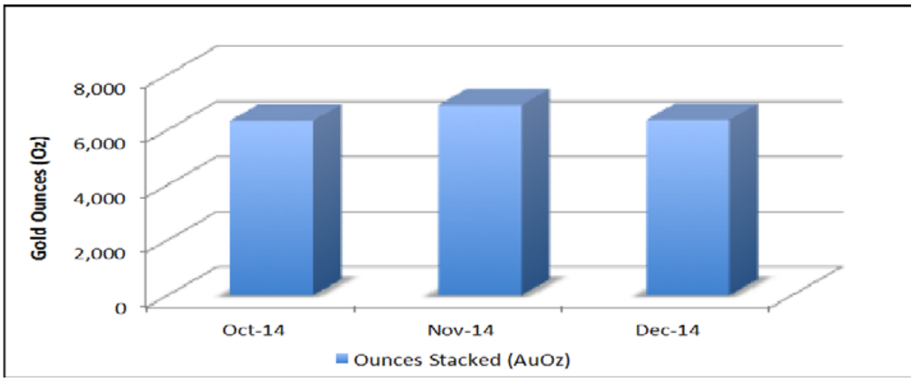
The Company continues to strengthen its relationships with small miners in the area and ore purchasing continues, with 39% of the ounces mined during the quarter being sourced from third parties and the re-processing of historical tailings. This provides a net positive effect to employment and economic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

Processing

Due to lower than forecast plant throughputs, ore tonnage stacked was down 2% and negative reconciliation mine-plant brought the grade stacked 2% down quarter on quarter. Consequently, gold ounces stacked were down 3%, quarter on quarter. Figure 8 shows ounces stacked during the December quarter.

The reduced ounces stacked were basically the result of lower plant throughput, caused by ore shortage in the December month, in spite of the higher plant availability.

Figure 8 – December´14 Quarter Ounces Stacked

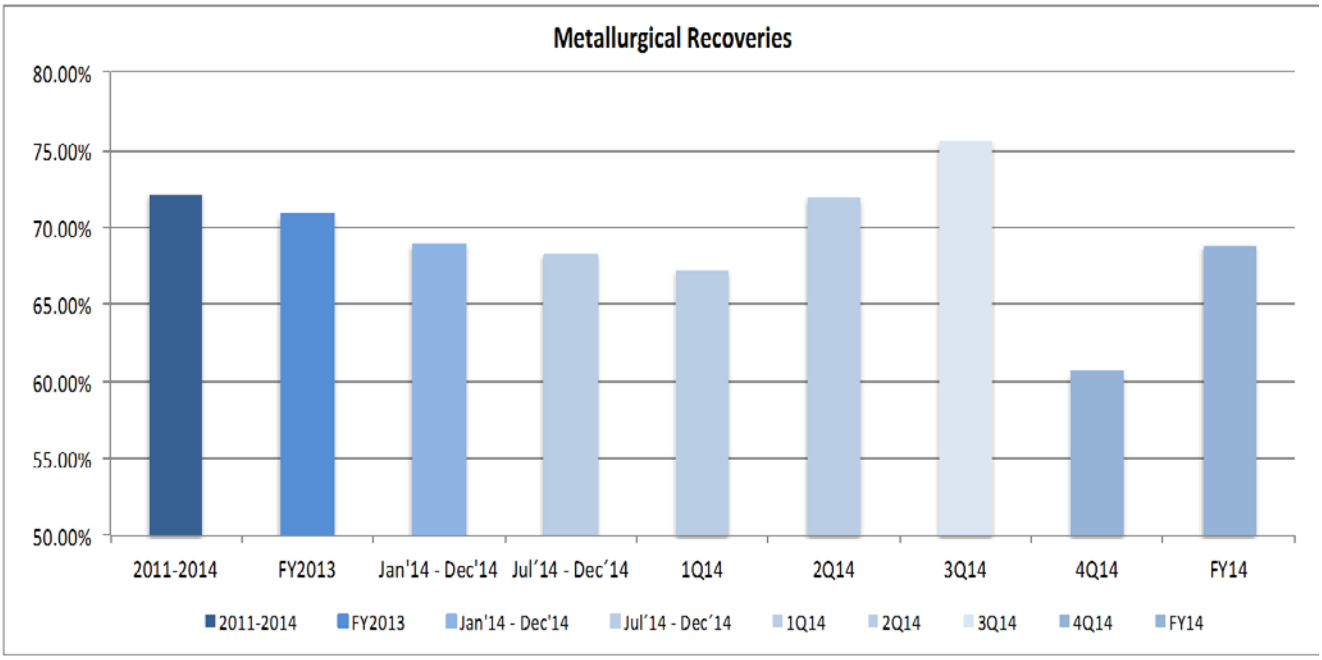


As seen in Table 3 and Figure 9, metallurgical recoveries have experienced some difficulties quarter on quarter and interrupted its upward cycle experienced during the previous two quarters, rendering one of the worst metallurgical recoveries during the Company ownership. As the result of such lower performance, caused by the high Cu content in the ore coming from Churrumata, the historical metallurgical recovery for the period January 2011 – September 2014 decreased to 72% from 73% in the last quarter. CMD´s metallurgical staff reported that these low recoveries are temporary as the contribution of ore coming from Churrumata pit decreases as well as Cu in solution.

Table 3 – Metallurgical Recoveries

	2011-2014	FY2013	Last 12 months Jan'14 - Dec'14	Last 6 months Jul'14 - Dec'14	1Q14	2Q14	3Q14	4Q14	FY14
Historical Metallurgical Recovery Jan11 - Dec14	72.14%	70.83%	68.86%	68.17%	67.20%	71.98%	75.55%	60.61%	68.86%

Figure 9 – Metallurgical Recoveries



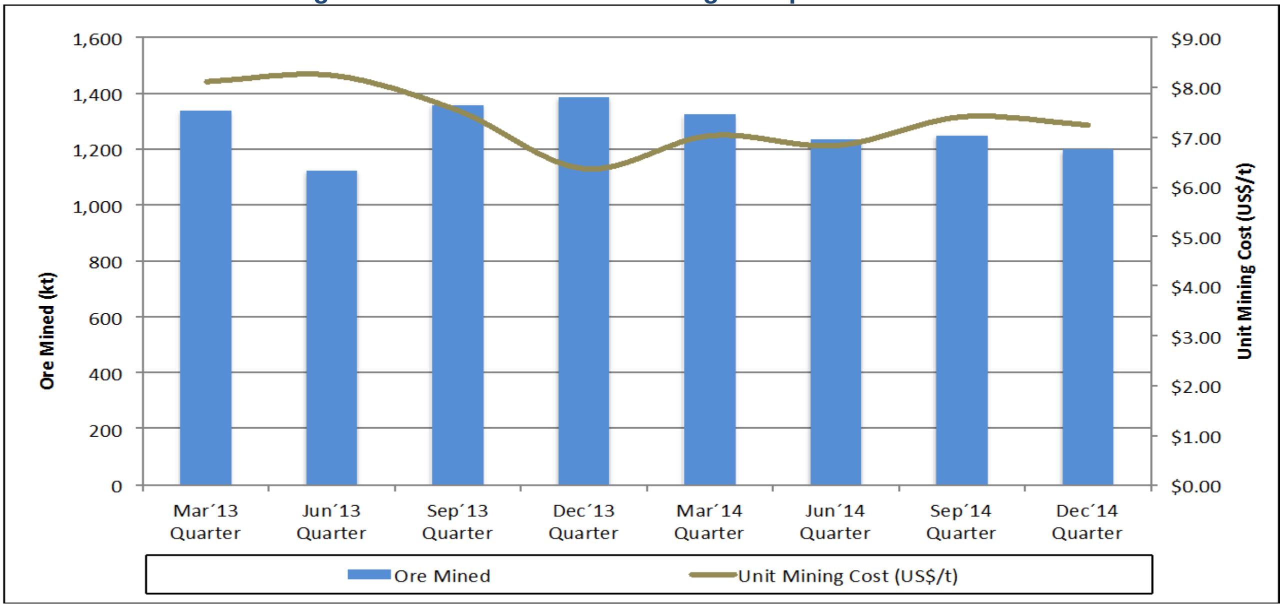
PROJECT COSTS

Mining

Mining unit costs decreased by 23% down to US$2.06 per tonne moved (from US$2.69 per tonne the previous quarter), due to the impact of the higher tonnes moved coming from the Churrumata pit. The unitary mining cost per tonne of ore decreased by 2% down to US$7.24 (from US$7.41 in previous quarter) due to the efficiencies gained with the 22% increase in total material mined in the period. The mining unit rate includes the cost of buying third party ore that has no waste to ore ratio associated with it.

Figure 10 illustrates the quarterly history of mining costs per ore tonne over the last 8 quarters.

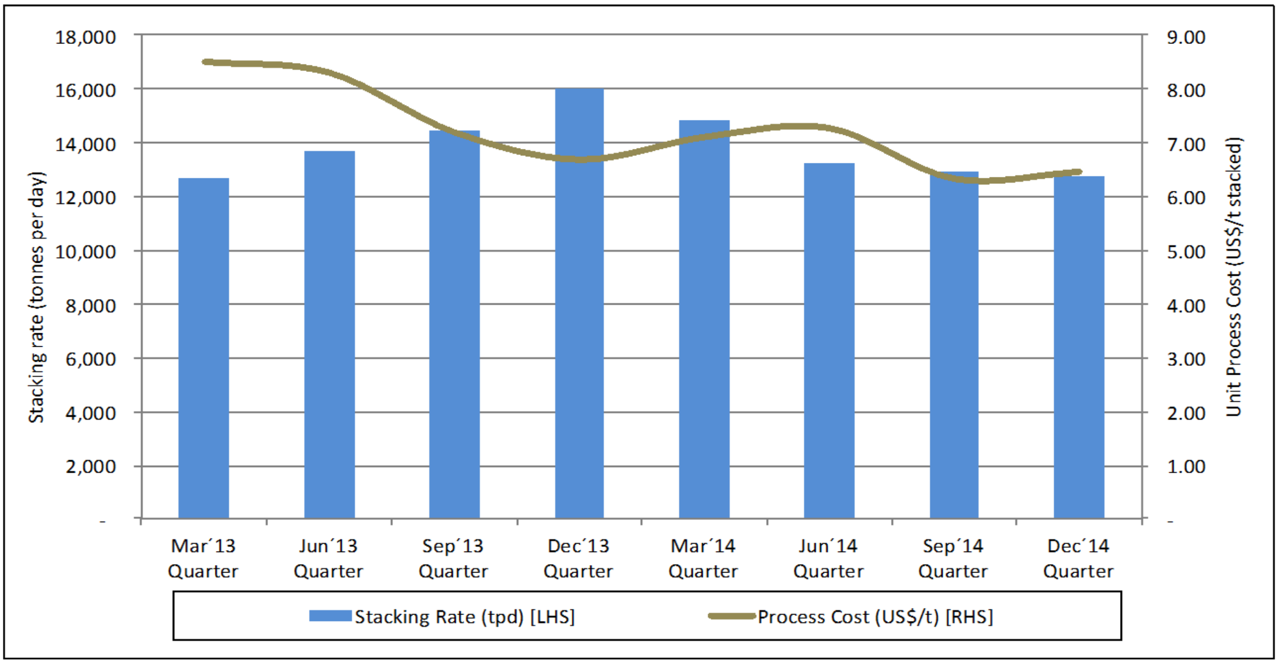
Figure 10 – Ore mined and mining cost per tonne of ore



Ore Processing

Process costs increased to US$6.47 per tonne stacked, which was a 2% increase quarter on quarter (Refer Figure 11), even considering the 2% reduced tonnes stacked in the period. The main drivers for the slightly higher process costs in the December quarter, which historically is yet one of the lowest, were mainly the higher NaCN consumption and higher make-up process water consumption.

Figure 11 – Process cost per tonne stacked



General and Administration (G&A)

G&A costs decreased were maintained levelled quarter on quarter at US$1.43 per tonne in spite of the lower tonnage stacked.

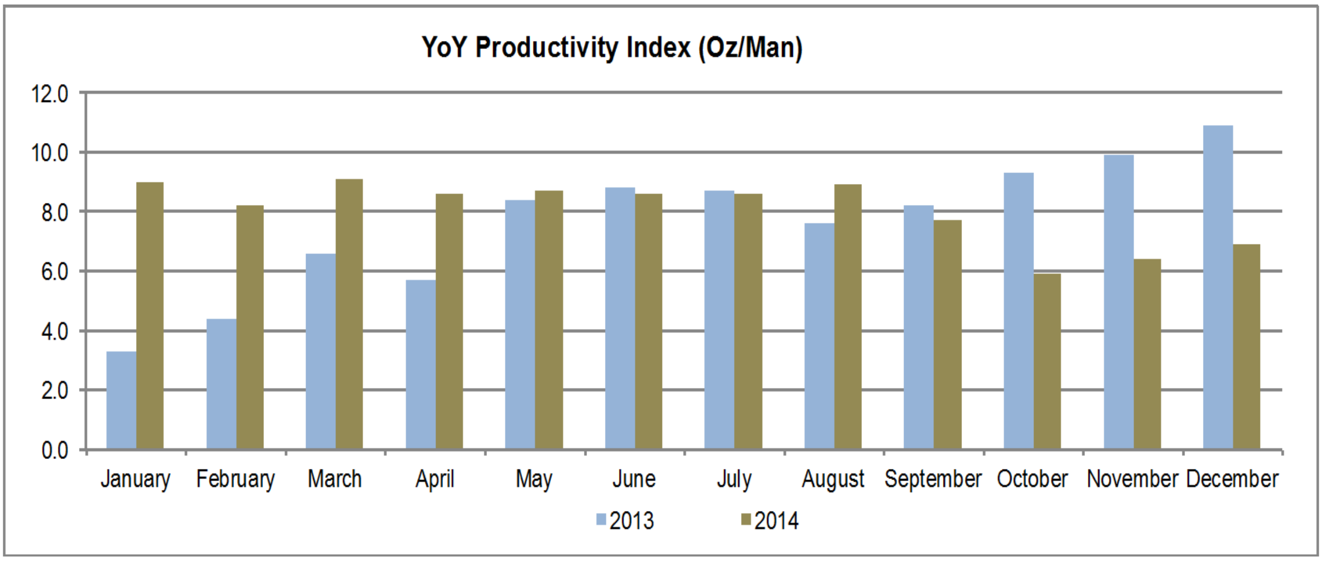
Exploration

No exploration activities were undertaken during the quarter.

Cost Review

The continuous improvement projects and cost reduction initiatives have continued to deliver significant savings over the past year, nonetheless these achievements are not reflected and evidenced by any fall in the C1 Cash Cost and the material reductions in unit operating costs, due to the reduced gold production levels negatively impacted by the lower metallurgical recoveries during the December quarter. Figure 12 illustrates the ounces produced per employee over the last 24 months.

Figure 12 – Productivity Index (Ounces/Employee)



CMD Gold Mine Operations Summary

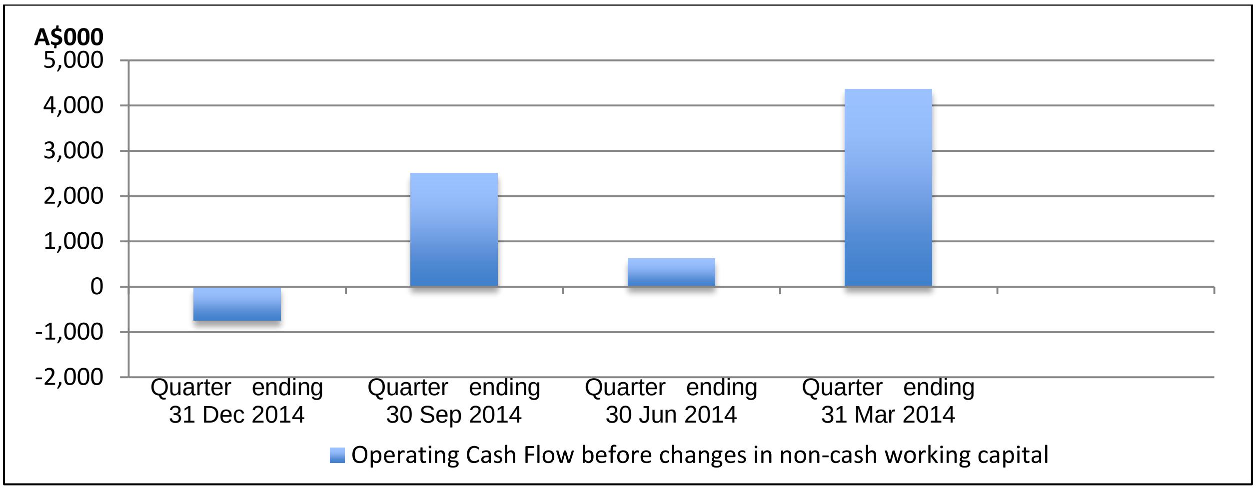
The Declaration of Environmental Impact (DIA) for the period 2015-2020 was approved in early December. The DIA in Chile is equivalent to the License to Operate and the necessary document to permit a smooth running of operations for the licensed period. The DIA approved encompasses OP and UG operations, Leach Pads, and other ancillary facilities pertaining to the overall CMD operations. CMD is currently working on all necessary sectorial permitting including detailed safety and environmental plans, mining production plans and designs, and ore processing and gold processing scheduling, which will be submitted to the regional authorities in due time during the first quarter of 2015.

Consolidated operating cash flow before changes in non-cash working capital was negative A$0.75 million for the quarter, as indicated in Table 4 and Figure 13.

Table 4 – Quarterly operating cash flow before changes in non-cash working capital (A$000)

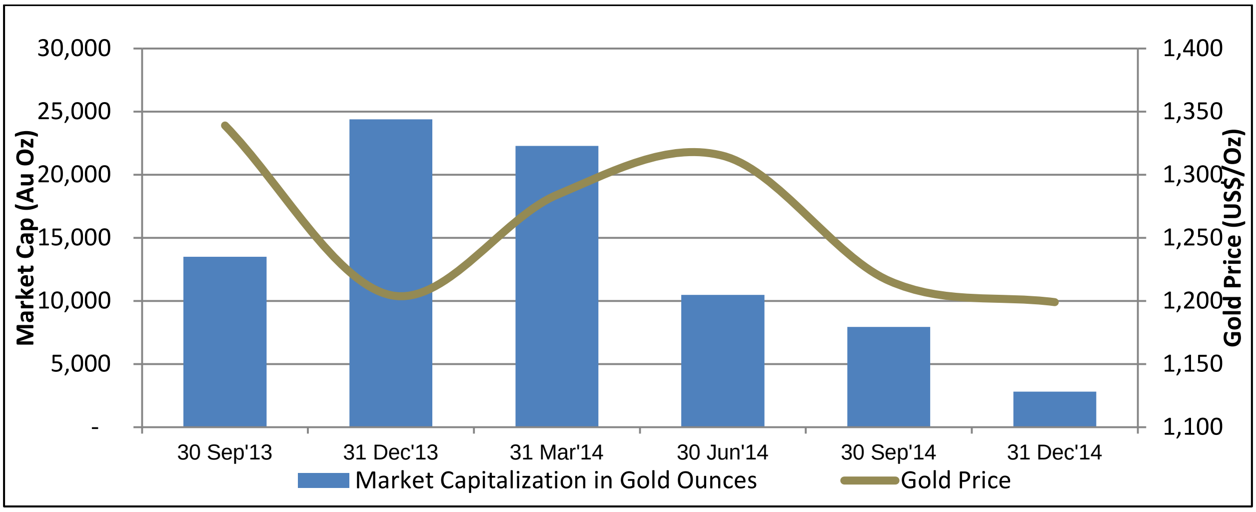
Item	Quarter ending 31 Dec 2014	Quarter ending 30 Sep 2014	Quarter ending 30 Jun 2014	Quarter ending 31 Mar 2014
Operating Cash Flow before changes in non-cash working capital	-748	2,513	623	4,367

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



The Company's share price has fallen from A$0.20 to approximately A$0.025 during 2014, a fall of 88%. The gold price has decreased marginally from US$1,205 per ounce to US$1,199 per ounce over the same period and, as Figure 14 illustrates, the market capitalisation of the Company expressed in gold ounces has fallen from 24,400 ounces a year ago to 2,800 ounces, a fall of 88% and a valuation equivalent to less than 3 weeks production, at the end of the quarter. Gold production has fallen 7% from 2013 to 2014.

Figure 14 – Market Capitalisation in Gold Ounces and Gold Price



BUSHRANGER (Lachlan 49%, Anglo American 51%)

As reported previously, Anglo American provided notice of their intention to form a Joint Venture under the Bushranger Farm-in Agreement, diluting the Company's interest in the Bushranger Copper Project from 100% to 49%. The company has elected to dilute further by not participating in the current exploration programme. Project updates during the December quarter: (i) the transfer of 51% interest of the licence to AAEA has been lodged with the NSW Government, (ii) a seven drill-holes, 4,500 metre diamond drill programme was completed, (iii) a down-hole Induced Polarisation (IP) was completed on three drill-holes, and (iv) a soil orientation survey was completed over the Racecourse Prospect.

CORPORATE

On 15 September the Company announced that its Chilean subsidiary, Compañía Minera Dayton, sold certain mining properties to Compañía Minera Carmen de Andacollo ("CDA"). The US$2 million of the sale proceeds retained in escrow, pending the completion of legal transfers of a group of mining properties to Compañia Minera Teck Carmen de Andacollo, was received by CMD on 28 November 2014.

On 16 October the Company announced a non-brokered private placement to Hamilton Place Associates LLC ("HPA") for proceeds of US$1.14 million and the appointment of a new Chairman. Mr. Scott Perry resigned from the board and Mr. Peter Babin was appointed as the new Non-Executive Chairman of the Company. HPA also agreed to a prepaid gold loan working capital facility of at least US$4 million to the Company's subsidiary, Compañía Minera Dayton (CMD), with such working capital advance and associated terms and conditions to be finalized no later than 31 December 2014. On 2 January 2015 the Company announced that it remained in discussion with HPA regarding the availability of a working capital facility. The Company granted HPA, at their request, an extension from the 31 December 2014 funding deadline to 20 January 2015 to finalise a definitive financing agreement for consideration by the Company. This has yet to be received, however the Company is advised that HPA's negotiations with potential financiers is continuing with a number of commercial aspects still to be worked through. HPA remains confident that a financing Letter of Intent will be forthcoming by 3 February and that a definitive financing agreement will be available for the Company's review and execution no later than Friday, 13 February.

The extended time taken by HPA to provide the Company with a definitive financing agreement has arisen because the minimum US$4 million financing facility is insufficient to allow CMD to proceed with its "Base Case" 2015 budget programme, which is now projected to produce over 70,000 oz. Au in the 2015 calendar year. The significantly lower gold production of 11,956 Au oz. in the December 2014 quarter, being only 53% of budget and 78% of the September 2014 quarter production, resulted in an unaudited CMD Gross Operating Loss of over US$4.5 million for the December 2014 quarter. The funding required for CMD to proceed with its "Base Case" 2015 budget programme is estimated at US$10 million, an amount HPA has been attempting to secure since early December 2014. Financing discussions have been enhanced by the recent strengthening of the gold price and the fall in the diesel fuel price.

The Company believes that the provision to HPA of this additional brief extension of time, at HPA's request, is in the best interests of the Company and all of its stakeholders. The Company anticipates updating the market as to the availability of funding from HPA in early February.

There is no assurance additional financing will be available as and when required or, if available, that it will be on terms acceptable to the Company. Should the Company not be able to secure additional financing as required, and/or should the gold price remain below US$1,200 per ounce for a sustained period of time, these constitute material uncertainties which may cast a significant doubt about the group's ability to continue as a going concern and therefore whether it will realize its assets and discharge its liabilities in the normal course of business and at the amounts stated in its latest financial statements.

Subsequent to approval by shareholders at the Company's November 2014 AGM the Company issued to directors and management 1,357,500 fully paid ordinary shares, 2,300,000 options with an exercise price of A$0.125 per share and an expiry date of 27 November 2016, and 150,000 options with an exercise price of A$0.25per share and an expiry date of 27 November 2016.

COMMENTS

Bira De Oliveira, Chief Executive Officer, commented on the quarterly report: "I´m proud to report that CMD delivered an outstanding safety record this year achieving nearly 1 million man-hour LTA free. The operational performance delivered during this quarter compared with the same period of 2013 showed a 36% decrease in gold produced and a 33% increase in C1 All-Inclusive Cash Cost due to the high level of Cu in ore mined and the unpredicted slope failure that occurred early in September 2014. We remain confident that, once the Company's funding requirements are met, CMD´s metrics will continue to improve further".

For and on behalf of the Board

Bira De Oliveira
Chief Executive Officer

For further information please visit www.lachlanstar.com.au or contact

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Caution Regarding Forward Looking Information:

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

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