



LACHLAN STAR LIMITED

**Quarterly Report for the Period
Ending 31 December 2012**

HIGHLIGHTS

CMD GOLD MINE (100%, CHILE)

- 13,722 ounces of gold produced in the quarter, an increase of 32% quarter on quarter and a record under Lachlan Star's ownership;
- Record gold stacked of 17,855 ounces, an increase of 10% on the previous quarter;
- Record ore mined of 1.32 million tonnes, an increase of 20% on the previous quarter;
- Record ore stacked of 1.24 million tonnes, an increase of 26% on the previous quarter;
- Mining costs reduced to \$9.43 per tonne of ore (including waste stripping), an improvement of 13% on the previous quarter;
- Processing costs reduced to \$7.88 per tonne stacked, an improvement of 4 % on the previous quarter;
- G&A costs reduced to \$1.68 per tonne of ore, an improvement of 10 % on the previous quarter;
- Total costs reduced to \$18.99 per tonne of ore stacked, an improvement of 9% on the previous quarter;
- Delivery of owner mining fleet completed during December 2012 in line with guidance;
- Owner mining fleet operating at time of reporting well in excess of assumed production rates
- Over half of the drill and blast drilling now completed by the Company's own drill fleet;
- Full mining access established in Chisperos (highest grade pit) in January and reconciliation to date shows a 28% increase in tonnes at 24% higher grade than the Probable Mineral Reserve;
- Record ore mining rates achieved in late January, including 24,052 tonnes of ore mined in one day.

BUSHRANGER COPPER PROJECT (100%, Newmont earning 51%, NSW)

Under the terms of the Bushranger Farm-in and Joint Venture Agreement, Newmont completed:

- 34 line kilometres of Induced Polarisation (IP) survey;
- 58km² of geological mapping.

CORPORATE

- Transition of senior management with the retirement of Managing Director, Mr Declan Franzmann to non executive director and increased responsibility for Mr Bira de Oliveira, Chief Operating Officer

CMD GOLD MINE (100% CHILE)

Production, Unit Costs and Sales

Production from the CMD Gold Mine is summarised in Table 1 below.

Table 1 – CMD Gold Mine Operating Summary

Item	Unit	3 months ended 31-Dec-12	3 months ended 30-Sep-12	% Change Variance
Ore Mined	Dmt	1,328,690	1,108,088	20%
Waste Mined	Dmt	4,347,712	4,399,305	-1%
Total Mined	Dmt	5,676,402	5,507,393	3%
Waste:Ore Ratio	t:t	3.3	4.0	-18%
Ore grade Mined	Au g/t	0.43	0.50	-14%
Gold Mined	Au oz	18,545	17,969	3%
Ore stacked	Dmt	1,239,672	980,762	26%
Stacked Grade	Au g/t	0.45	0.51	-12%
Gold Stacked	Au oz	17,855	16,220	10%
Average stacking rate	dmt/d	13,475	10,660	26%
Gold Produced	Au oz	13,722	10,374	32%
Mining Cost/t moved	US\$/t	\$2.21	\$2.18	1%
Mining Cost/t ore	US\$/t	\$9.43	\$10.86	-13%
Process Cost/t ore stacked	US\$/t	\$7.88	\$8.18	-4%
G+A Cost/t ore	US\$/t	\$1.68	\$1.88	-10%
Total Cost/t ore	US\$/t	\$18.99	\$20.92	-9%
Average Sales Price	USD/oz	\$1,742	\$1,629	7%
Cash Cost	USD/oz	\$1,062	1,166	-9%
Non Cash Process Inventory Adjustment	USD/oz	-\$35	-\$246	-86%
C1 Cash Cost	USD/oz	\$1,026	\$921	11%
CMD Gold Mine Gross Operating Profit / (Loss) (Unaudited)*	US\$ million	-\$1.84	-\$4.54	-59%

*revenues and dore in process 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

Gold production for the December quarter was a record under the Company's ownership at 13,722 ounces, which was a 32% increase on the September quarter. In addition, 4,993 ounces of silver was produced. All production was sold at spot prices, with an average sale price of US\$1,742 per gold ounce.

Gold ounces stacked for the December quarter was up 10% on the previous quarter, also a record under the Company's ownership. The previous highest quarterly gold production and ounces stacked under the Company's ownership was in the December 2011 quarter.

The CMD Gold Mine gross operating loss (as defined above) was US\$1.84 million for the quarter. This result was a 59% improvement on the previous quarter and was primarily driven by a working capital build up as ore crushing and stacking increased 26% over the previous quarter. Total process costs increased by US\$1.7 million quarter on quarter as a result of the higher tonnages stacked.

C1 cash costs, which exclude waste costs expensed or amortised and royalties, increased to US\$1,026 per ounce of gold sold (an increase of 11% quarter on quarter). The main driver of the slight increase in C1 cash costs was the 12% decline in ore grade stacked due to mining through the transitional zone in Tres Perlas and high grade ore from Chisperos only becoming available in January 2013.

The inventory adjustment of (US\$35) per ounce reflects the increase in the average cost per ounce of gold inventory contained within the leach pad.

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

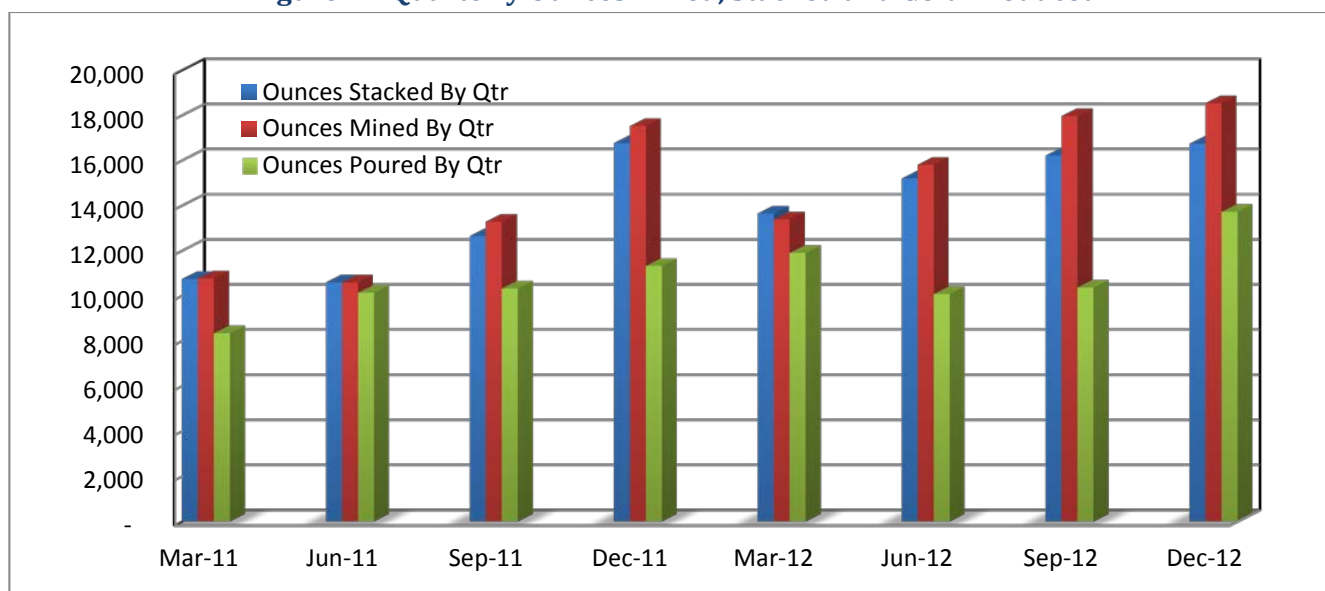
Table 2 – Cash Cost (US\$ per ounce) and inventory adjustments

Item	Quarter ending 31 Dec 2012	Quarter ending 30 Sept 2012	Quarter ending 30 June 2012	Quarter ending 31 March 2012	Quarter ending 31 Dec 2011
Cash costs with inventory adjustment (\$/oz)	1,026	921	977	945	799
Cash costs without inventory adjustment (\$/oz)	1,062	1,166	1,144	835	900
Inventory adjustment effect (\$/oz)	(35)	(246)	(167)	110	(101)

Total costs per tonne of ore stacked decreased 9% quarter on quarter to US\$18.99 per tonne, reflecting a decrease in process cost (-4%) and G&A costs (-10%) and a significant (18%) decrease in the waste to ore ratio. The total costs per tonne (including waste stripping) are the second lowest under the Company's ownership with the December 2011 quarter being the lowest at US\$18.54.

Figure 1 illustrates the ounces mined, stacked and produced by quarter since the Company bought the CMD Gold Mine two years ago. As can be seen from Figure 1, the Company has successfully been implementing its strategy of increasing production at the mine and the December 2012 quarter result is a good result considering the Company only established limited access to the high grade Chisperos pit in late December and no material ore was mined from this pit in the quarter.

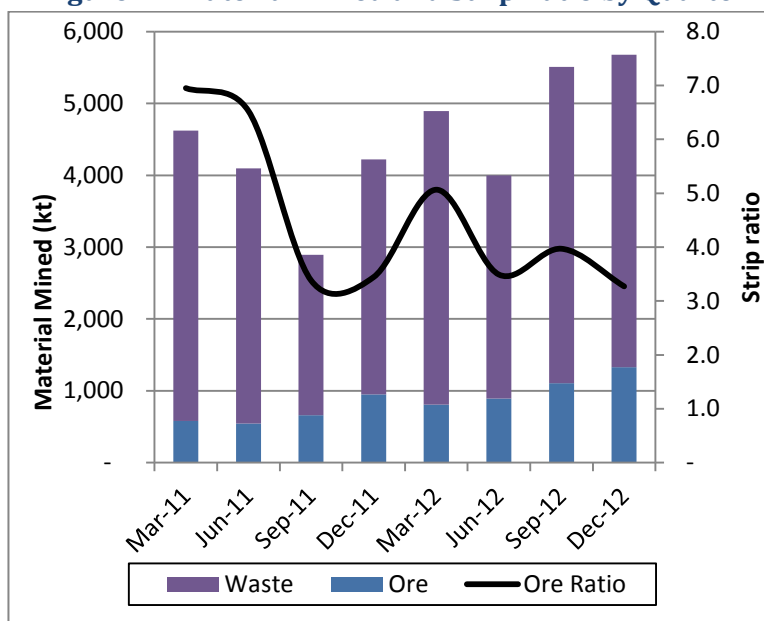
Figure 1 – Quarterly Ounces Mined, Stacked and Gold Produced



Mining

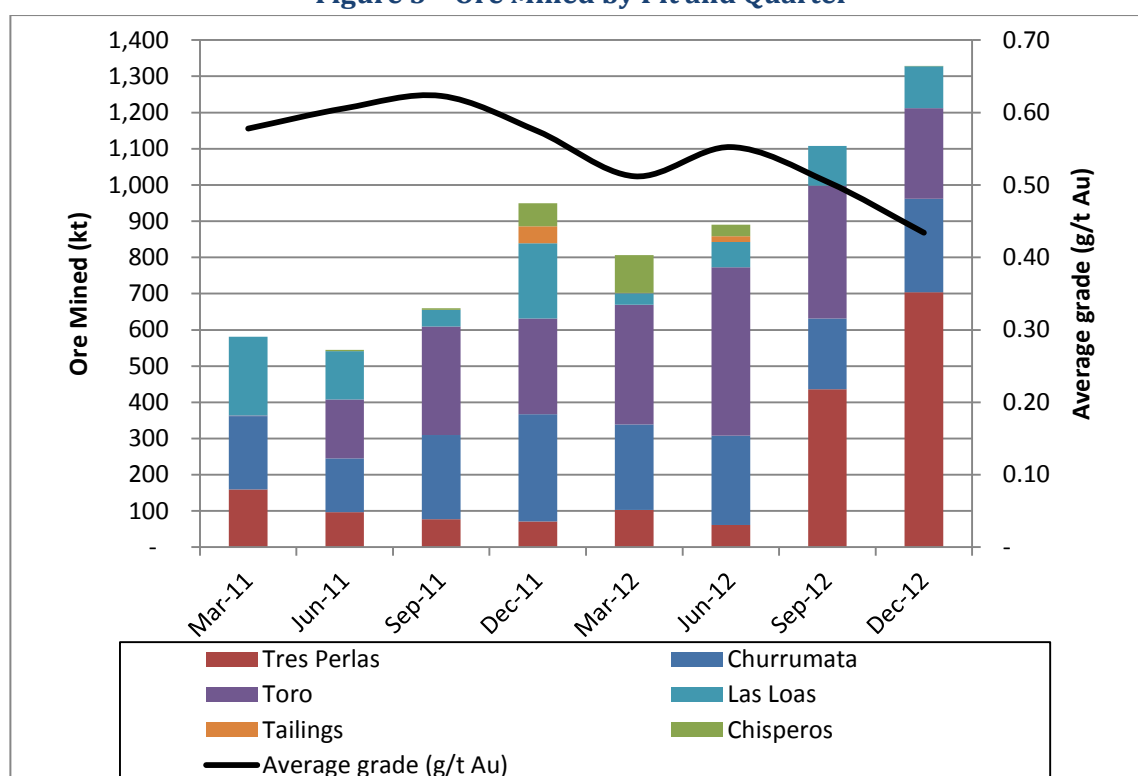
Total ore mined for the quarter was 1.33 million tonnes for 18,545 contained Au ounces, with the waste to ore ratio for the quarter decreasing to 3.3 to 1 (from 4.0 to 1 in the previous quarter). Ore was principally sourced from the Tres Perlas, Toro, Churrumata and Las Loas pits. Figure 2 shows the mining rate and strip ratio by quarter since the Company acquired the project.

Figure 2 – Material Mined and Strip Ratio by Quarter



The Company continued the strategy of increasing ore mining rates by increasing focus on the Tres Perlas Pit, with total quarterly ore production from Tres Perlas increasing to 53% of the total ore mined, as illustrated in Figure 3. The Tres Perlas pit will be the main source of ore for future operations and is a thick (100-200m) orebody that commences at surface and is located adjacent to the crushing plant. The Life of Mine waste ratio for the Tres Perlas pit is expected to be around 1:1.

Figure 3 – Ore Mined by Pit and Quarter



As previously announced, mining at Chisperos recommenced during the December quarter, and subsequent to the quarter, the adjacent power line was been moved and full mining activity recommenced. 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 (refer to Table 6 –CMD Gold Mine Mineral Reserves).

The Company expects that mined gold grades will increase with the ramp up of production from Chisperos, assisted by the higher grade reconciliation from the Tres Perlas Pit (refer next section).

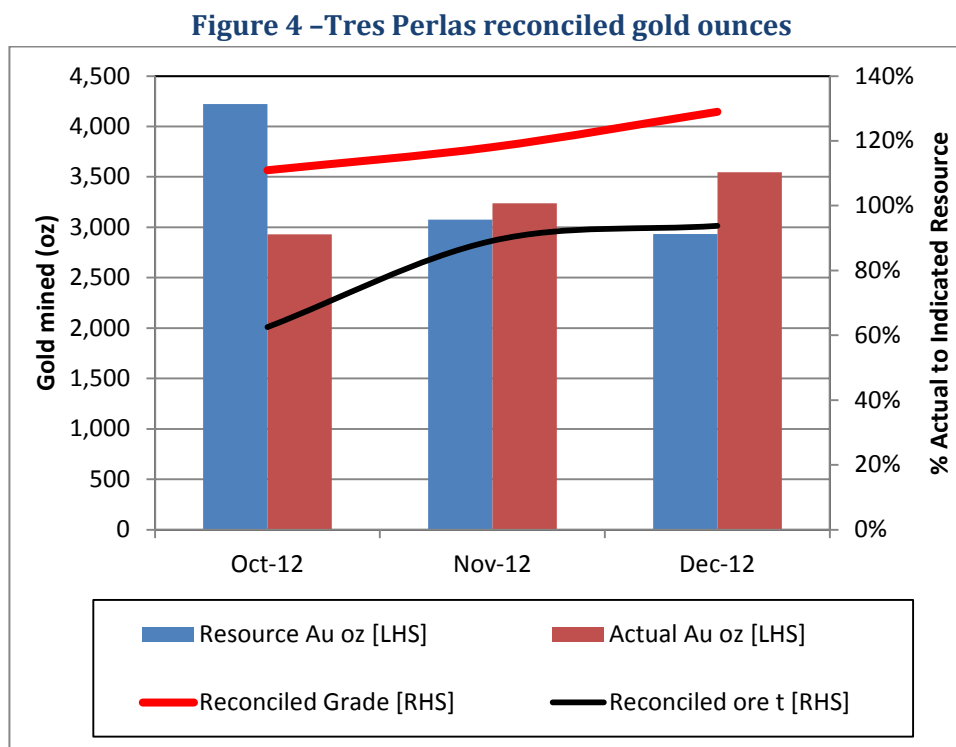
Table 3 details the ore and waste movement in the December quarter by pit.

Table 3 – Quarterly mine production by pit

Item	Unit	Churrumata	Tres Perlas	Chisperos	Toro	Las Loas	Total
Ore Mined	Kt	257	704	1	250	115	1,329
Au Grade	g/t	0.48	0.37	0.53	0.50	0.55	0.43
Contained Au	Oz	3,953	8,480	21	4,054	2,038	18,545
Waste Mined	Kt	1,560	1,777	0	664	347	4,348
Total Mined	Kt	1,817	2,481	1	915	463	5,676
Strip Ratio	W:O	6.1	2.5	0.0	2.7	3.0	3.3

Mine Reconciliation

The Tres Perlas pit is the deposit that will form the bulk of the mine plan going forward. Figure 4 shows the reconciliation for Tres Perlas by month during the quarter.



Reconciliation of mining the Tres Perlas pit during 2012 has shown a positive reconciliation of 125 % of ounces, driven by 117% higher gold grade and 107% of ore tonnage being mined compared to the the mineral resource estimate.

The trend for the Tres Perlas pit since mining began in 2012 has been a generally increasing grade overcall with depth, which has been the main driver for the 25% additional ounces mined in excess of the mineral resource to date. A 17% overcall in grade for a low grade, bulk tonnage deposit is significant. This trend has been established over a 6 month period, with a 29% overcall in the month of December being particularly pleasing.

Processing

During the quarter an additional dynamic pad leach cell was constructed (Cell 10) to increase the capacity available in the dynamic leach. Inclusion of Cell 10 increased the total available primary leach capacity to more than 1.8 million tonnes, which will allow primary leaching residence time in excess of 3 months as stacking rates increase to around 450,000 tonnes per month.

Figure 5 - Construction of Cell 10



Figure 6 - Construction of Cell 10



During the quarter, an independent conveyor loading hopper was also added adjacent to the fine ore stockpile (see Figure 7 and Figure 8). The purpose of this infrastructure is to allow the systematic and controlled addition of historic tailing material from various dumps around the mine. The tailings grade between 0.8 and 1g/t Au, and can be added to the crushed ore feed at up to 10% of the total feed to increase stacked grades without any adverse effect on solution percolation rates.

Figure 7 – Loading Hopper



Figure 8 – Tailing added to crushed ore



PROJECT COSTS

Mining

Unit mining costs increased slightly to US\$2.21/t moved (from \$2.18 the previous quarter) and the mining cost per tonne of ore reduced 13% to \$9.43 as a result of the lower strip ratio as shown in Figure 2 above. Figure 9 and Figure 10 illustrate the quarterly history of mining costs over 2012.

The slight increase in mining unit costs was driven mainly by a large increase in broken rock within the pits, with the Company ending the quarter with over 500,000 t of broken rock in the pits, the highest ever tonnage of blasted material. Additional costs totalling US\$7.1c/t mined have been expensed associated with:

- Broken rock inventory (equal to US\$4.2c/t mined);
- Komatsu MARC contract and labour (equal to US\$2.9c/t mined).

Removing these expensed items would reduce the average mining cost for the quarter to \$2.14/t mined, which is the lowest operating mining cost achieved by the operation since the June 2011 quarter.

Figure 9 – Total material mined and unit mining cost

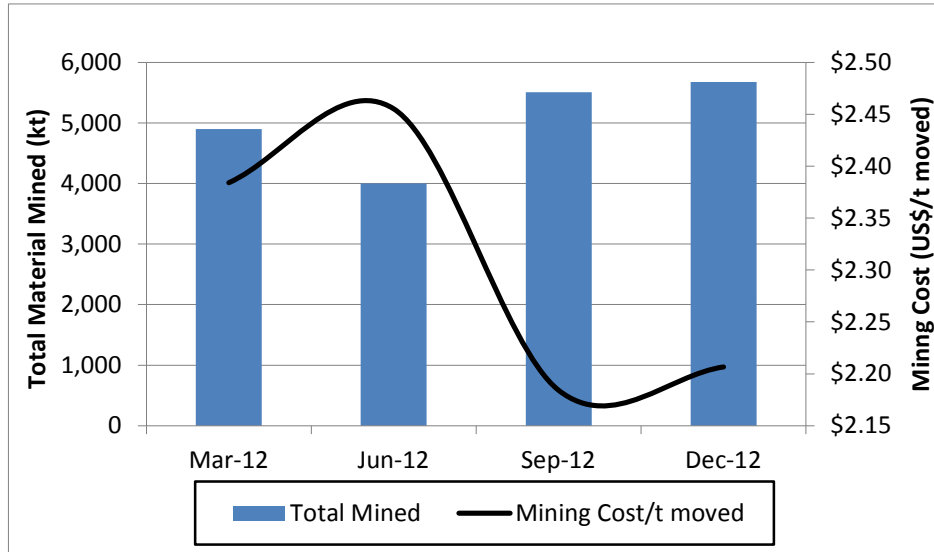
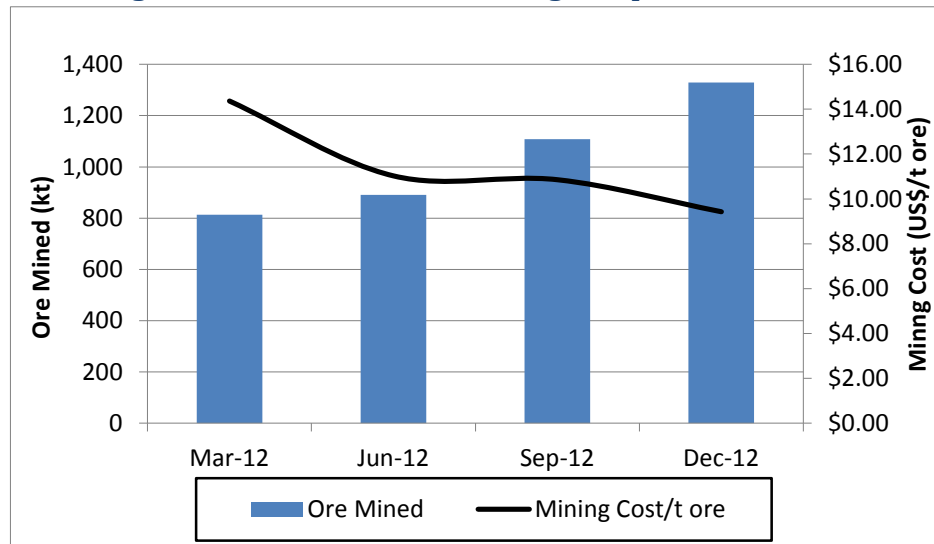


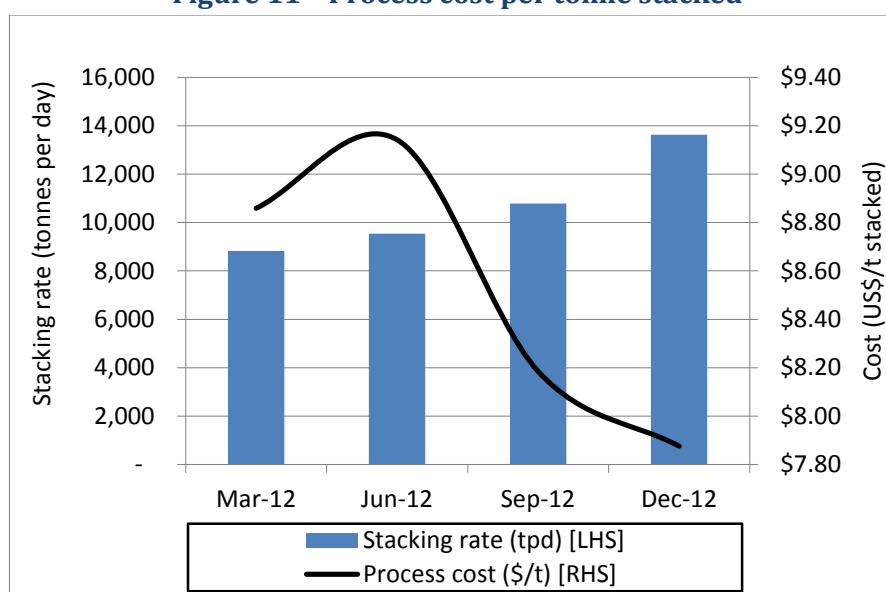
Figure 10 – Ore mined and mining cost per tonne of ore



Ore Processing

Crushed ore tonnes stacked increased over the previous quarter by 13% to 1.24 million tonnes. The increased stacking rates combined with a focus on cost control resulted in a 4% decrease quarter on quarter in the process costs per tonne of ore to \$7.88 per tonne stacked (Refer Figure 11). This continues to demonstrate the trend of lower processing costs at higher stacking rates.

Figure 11 – Process cost per tonne stacked

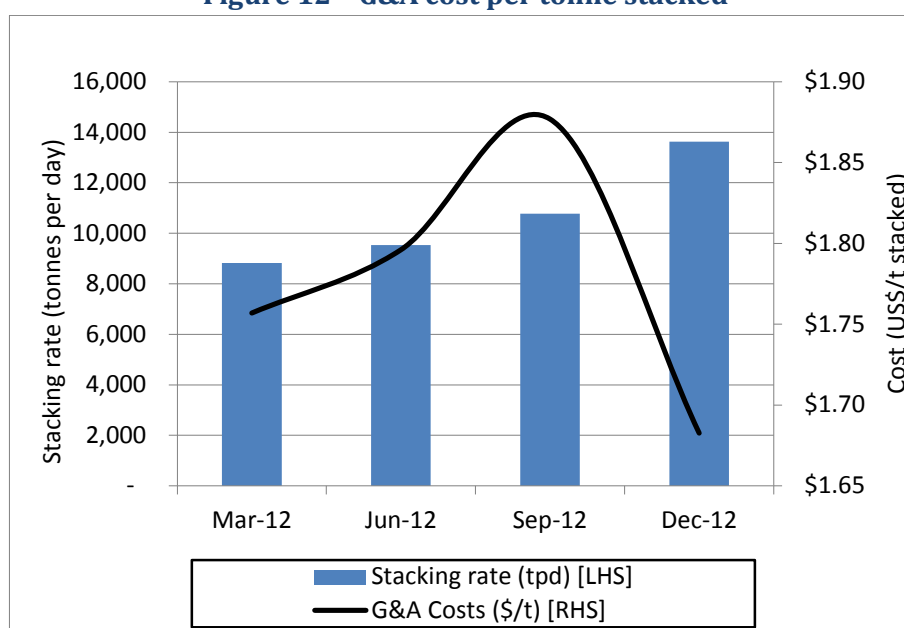


The process cost in the December 2012 quarter is the lowest since the December 2011 quarter, and is a good result considering that cyanide prices have more than doubled since that period.

General and Administration (G&A)

Unit rates for G&A were reduced by 10% quarter on quarter with to \$1.68 per tonne of ore. Figure 12 illustrates the history of G&A costs over the year.

Figure 12 – G&A cost per tonne stacked



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 throughput rates and reduced costs in the mining and process areas) and a substantial spending program on safety and training over the year, particularly in the lead up to the implementation of the new Komatsu fleet. The G&A costs include all of the Company's costs within Chile including legal and compliance costs, travel and procurement.

Exploration

No exploration was carried out during the quarter at the CMD Gold Mine.

JANUARY UPDATE

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, however significant steps of reducing this risk was achieved during the quarter with the commissioning of the first elements of the owner mining fleet. As of 29 January 2013, the Company was operating 6 trucks (HD785) with one truck waiting final commissioning after replacement of a faulty part by Komatsu. In addition, 2 loaders (WA900), 1 dozer (D275), 1 wheel dozer (WD500), grader (GD675) are operating at the Tres Perlas Pit, with all recruitment and training of operators and supervisors completed.

The Company has also been carrying out more of the drill and blast function, with the owner operated drill fleet now operating 3 x DM30 IR and 2 x Tamrock/Terex drill rigs that have been bought and/or leased over the past year. The Company is now drilling over half the drill metres for blasting and expects this proportion to gradually increase. The costs for the Company's drilling operations are approximately two thirds that associated with drilling by contractors.

The focus of operations is the continued efficiency improvements as the new workforce gains competency and consolidates into a mining team.

Implementation of the new fleet has gone very smoothly, with the truck fleet already operating at above 100% of the assumed long-term productivity and the loaders at approximately 90% of the assumed long-term productivity. This is well in excess of the productivity assumed for the month of January, and the smooth implementation reflects very positively on the new management team.

The Komatsu truck fleet has started to deliver results, with a significant increase in ore tonnages being mined over the last week. Over a three-day period from 23 January, a total of 61,462 tonnes of ore was mined, including a record daily ore tonnage of 24,052 tonnes on 24 January, which eclipsed the previous record set on 7 September 2006 (22,960 tonnes of ore).

The Company expects the owner mining strategy to deliver savings of up to US\$100-US\$150 per ounce of gold over its current mining costs once implementation has been completed.

Figure 13 – Loading at Tres Perlas



Figure 14 - Dumping into the Primary Crusher



Chisperos

As announced on 15 January 2013, the Company has regained full access to the high grade Chisperos pit after a hiatus of nine months due to blasting restrictions (Figure 15). Limited ore is starting to be mined from this pit as the mining had previously been halted just as the pre strip was being completed.

Figure 15 - Chisperos Pit – Mining Recommended



Up to 25 January 2013, reconciliation of this pit was indicating that 28% more ore tonnes were mined at 24% higher grade than in the Probable Mineral Reserve.

Process Improvements

On the 8th January pre-cyanidation of crushed ore was added to the heap leach process. As shown in Figure 16, this process adds barren cyanide solution onto ore on the conveyor belt prior to stacking. This means that the ore is wet before it is stacked, and the Company expects that this will result in faster leach kinetics and potential for a small increase in overall recovery.

Figure 16 – Pre-cyanidation of crushed ore



BUSHRANGER COPPER PROJECT (100%, Newmont earning 51%)

Newmont continued exploration activities under the Farm-in and Joint Venture Agreement. Work completed during the quarter included:

- Induced Polarisation (IP) survey completed - 34 line kilometres;
- 58km² of geology mapping;
- Rock chip sampling; and
- Assaying of un-sampled portions of BRC043 returning 22m at 0.2% Cu.

CORPORATE

Retirement of Managing Director

Mr Declan Franzmann will retire from his current role of Managing Director and revert to a non-executive director role at the end of April 2013. The Company's Chief Operating Officer (COO), (Mr Bira de Oliveira) will assume responsibility for the Company's operations during Mr Franzmann's notice period to ensure a smooth transition.

Mr Franzmann has had operational control of the CMD Gold Mine since the Company bought the mine, and has done an excellent job of turning the asset around in that time, as evidenced by the record December quarterly results announced today. He was instrumental in recruiting Mr de Oliveira for the COO role and building the operating team that the Company now has in Chile.

Mr Franzmann has been the Company's Managing Director from September 2007 to October 2008 at which point he reverted to a non-executive director role until December 2010, when he assumed the Managing Director role again as the CMD Gold Mine acquisition closed. He will continue to be available for ongoing consulting work as and if required to ensure that the Company's COO is fully supported going forward, particularly in the mine design and planning areas, which are his speciality.

Mr de Oliveira's particular focus is on continuous improvement of operations and this is the phase that the Company has entered over the past two quarters and will continue to be the focus for the Company during the remainder of 2013.

Site Management

The Company instituted significant changes within the management team of the CMD Gold Mine during the September and December quarters. The dedication and enthusiasm of these key individuals, including the COO (Mr Bira de Oliveira), General Manager (Mr Mauricio Martinez), Mining Manager (Mr Gabriel Urrea), Geology Manager (Mr Guido Rojas) and Process Manager (Mr Edgardo Falcon) have been key to achieving the results of the December quarter.

The positions of Engineering Manager and Drill and Blast Superintendent, previously announced as being filled, have been vacated within the terms of the respective employment contract and the probationary period allowed therein. These positions have since been filled locally with the Engineering Manager (Mr. Jaimie Neyra) commencing in early January and the Drill and Blast superintendent recruited and to commence in early March.

Capital Structure

During the quarter 5,240,576 options were exercised for proceeds of \$6,288,691. A total of 375,002 options expired unexercised during the quarter and 275,000 options were issued subsequent to shareholder approval received at the Company's November 2012 AGM.

Sentry Select Capital Corp. increased their holding in the Company to 16.1% after the exercise of their options.

At the end of the quarter (and at the date of this report) the Company had the share structure detailed in Table 4.

Table 4 – Capital Structure

	<i>Number</i>	<i>Exercise price</i>	<i>Exercise Date</i>
Issued Shares	91,620,593		
Unlisted Options	166,669	\$1.20	20/12/13
	166,669	\$1.50	20/12/13
	3,370,781	\$1.20	20/05/13
	5,970,900	\$1.20	26/08/13
	650,000	\$1.20	25/11/13
	150,000	\$1.50	25/11/13
	50,000	\$1.50	25/11/14
	329,250	CDN\$1.60	03/04/14
	75,000	\$1.50	21/11/14
	100,000	\$2.10	22/05/15
	100,000	\$2.50	22/05/15

COMMENTS

Mick McMullen, Executive Chairman, commented on the quarterly report “the record gold produced in the December quarter was a great result for the Company and we continue to build ounces stacked over a period of time. The December 2012 and March 2013 quarters will be transformational for the Company with the delivery and operation of the large owner mining fleet and the resumption of mining in Chisperos.

I would like to thank Declan Franzmann for his tireless efforts over the past two years, which have involved an enormous amount of time away from his family and a rigorous travel schedule. The hiring of our Chilean based COO last May was a crucial step in being able to align our management in the same time zone as our principal asset and the vast majority of our shareholders.

The focus of the Company now moves from delineation of resources and mine design to execution on the plan, and I have every confidence in both Bira de Oliveira and the team he has built in Chile to do this.”

For and on behalf of the Board

Mick McMullen

Chairman

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

Mick McMullen

Chairman

Lachlan Star

Tel: +61(0)8 9481 0051

Email: mick.mcmullen@lachlanstar.com.au

Table 5 – CMD Gold Mine Indicated and Inferred Mineral Resource¹

CMD Gold Mine Mineral Resources (September 2012)						
Deposit	Indicated			Inferred		
	Tonnes (Mt)	Grade (Au)	Ounces (kozs)	Tonnes (Mt)	Grade (Au)	Ounces (kozs)
Las Loas (April 2011)	2.9	0.8	73	1.5	0.8	38
Toro (Feb 2012)	17.5	0.6	348	11.6	0.4	135
Tres Perlas (Sept 2012)	130.1	0.4	1,602	99.4	0.4	1,138
Chisperos (April 2011)	1.0	1.1	36	1.4	1.0	43
Total	151.5	0.4	2,058	113.9	0.4	1,354

1. Reported above 0.15 g/t Au for all except Las Loas and Chisperos deposits which are reported above 0.30 g/t Au
2. Table contains rounding and may not sum precisely

Table 6 –CMD Gold Mine Mineral Reserves

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

Competent Persons Statement

The information in the news release that relates to the Mineral Resources of Tres Perlas, Chisperos, Las Loas, El Sauce, Churumata 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 the news release that relates to exploration results 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 the news release of the matters based on his information in the form and context in which it appears.

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.