# LACHLAN STAR LIMITED

## ABN 88 000 759 535

# UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
# For the three months ended
# 30 September 2014

The accompanying unaudited consolidated interim financial statements for the three months ended 30 September 2014 has been prepared by management. Readers are cautioned that these financial statements contain forward-looking information as described in the associated Management Discussion & Analysis. All amounts are stated in Australian dollars, except as otherwise stated.

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## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | 3 months ended | |
|---|---|---|
| | **30-Sept-14 $000** | **30-Sept-13 $000** |
| **Revenue from continuing operations** | | |
| Revenue | 21,205 | 24,696 |
| Finance income | - | 1 |
| Profit on sale of non-core properties | 3,779 | - |
| | 24,984 | 24,697 |
| **Expenses** | | |
| Cost of sales | (22,085) | (24,162) |
| *Other expenses from ordinary activities* | | |
| Impairment loss | (2,101) | - |
| Corporate compliance and management | (366) | (335) |
| Occupancy costs | (6) | (18) |
| Foreign exchange gain / (loss) | 1,194 | (379) |
| New venture expenditure written off | (6) | (4) |
| Other expenses | (13) | (12) |
| Finance expense | (258) | (612) |
| Fair value (loss) / gain on liabilities carried at fair value | (398) | 153 |
| Profit / (loss) before income tax | 945 | (672) |
| Income tax | - | - |
| **Profit / (loss) for the period** | 945 | (672) |
| **Other comprehensive income for the period net of income tax** | | |
| *Items that may be reclassified to profit or loss* | | |
| Exchange difference on translation of foreign operations | 1,276 | (439) |
| **Total comprehensive income for the period** | 2,221 | (1,111) |
| | Cents | Cents |
| Basic profit / (loss) per share (cents per share) | 0.6 | (0.7) |
| Diluted profit / (loss) per share (cents per share) | 0.6 | (0.7) |

*The consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the notes to the consolidated interim financial report.*

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | 30 Sept 2014 $000 | 30 June 2014 $000 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | 569 | 1,932 |
| Trade and other receivables | 6,048 | 3,481 |
| Inventories | 22,216 | 19,880 |
| **Total current assets** | 28,833 | 25,293 |
| | | |
| **Non-current assets** | | |
| Trade and other receivables | 673 | 251 |
| Mine development properties | 13,648 | 14,967 |
| Property, plant and equipment | 17,164 | 17,839 |
| Exploration and evaluation | 2,775 | 2,775 |
| **Total non-current assets** | 34,260 | 35,832 |
| | | |
| **Total assets** | 63,093 | 61,125 |
| | | |
| **Current liabilities** | | |
| Trade and other payables | 20,991 | 21,202 |
| Borrowings | 8,166 | 7,710 |
| **Total current liabilities** | 29,157 | 28,912 |
| | | |
| **Non-current liabilities** | | |
| Borrowings | 10,561 | 11,490 |
| Provisions | 6,226 | 5,790 |
| **Total non-current liabilities** | 16,787 | 17,280 |
| | | |
| **Total liabilities** | 45,944 | 46,192 |
| | | |
| **Net assets** | 17,149 | 14,933 |
| | | |
| **Equity** | | |
| Contributed equity | 224,517 | 224,522 |
| Reserves | 7,848 | 6,572 |
| Accumulated losses | (215,216) | (216,161) |
| **Total equity** | 17,149 | 14,933 |

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Contributed equity $000 | Accumulated losses $000 | Share based payments reserve $000 | Foreign exchange reserve $000 | Total $000 |
|---|---|---|---|---|---|
| **Balance at 1 July 2013** | 215,076 | (199,676) | 129 | 7,085 | 22,614 |
| Other comprehensive income | - | - | - | (439) | (439) |
| Loss for the period | - | (672) | - | - | (672) |
| Total comprehensive loss for the period | - | (672) | - | (439) | (1,111) |
| **Balance at 30 September 2013** | 215,076 | (200,348) | 129 | 6,646 | 21,503 |
| **Balance at 1 July 2014** | 224,522 | (216,161) | 210 | 6,362 | 14,933 |
| Other comprehensive income | - | - | - | 1,276 | 1,276 |
| Profit for the period | - | 945 | - | - | 945 |
| Total comprehensive profit for the period | - | 945 | - | 1,276 | 2,221 |
| *Transactions with owners in their capacity as owners:* | | | | | |
| Share issue costs | (5) | - | - | - | (5) |
| **Balance at 30 September 2014** | 224,517 | (215,216) | 210 | 7,638 | 17,149 |

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

| | 3 months ended | |
|---|---|---|
| | **30-Sept-14 $000** | **30-Sept-13 $000** |
| **Cash flows from operating activities** | | |
| Receipts from customers and GST recovered | 21,013 | 23,404 |
| Payments to suppliers and employees | (21,193) | (20,019) |
| Interest received | - | 2 |
| Interest paid | (243) | (619) |
| **Net cash inflows (used in) / from operating activities** | (423) | 2,768 |
| **Cash flows from investing activities** | | |
| Payments for mine development | (564) | (4,350) |
| Payments for acquisition of property, plant and equipment | (24) | (1,480) |
| Sale of property, plant and equipment | 1,620 | - |
| **Net cash flows from / (used in) investing activities** | 1,032 | (5,830) |
| **Cash flows from financing activities** | | |
| Proceeds from issue of ordinary shares | - | 187 |
| Repayment of borrowings | (2,017) | (804) |
| Receipt of borrowings | - | 779 |
| Payment of share issue costs | (5) | - |
| **Net cash flows (used in) / from financing activities** | (2,022) | 162 |
| **Net (decrease) in cash and cash equivalents** | (1,413) | (2,900) |
| Effect of exchange rate fluctuations on cash held | 50 | (38) |
| Cash and cash equivalents at the beginning of the period | 1,932 | 2,811 |
| **Cash and cash equivalents / (cash overdrawn) at the end of the period** | 569 | (127) |

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

## 1. SUMMARY OF ACCOUNTING POLICIES

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

Lachlan Star Limited ("Lachlan" or the "Company") is a public company incorporated and domiciled in Australia and listed on the Australian Securities Exchange ("ASX") and the Toronto Stock Exchange ("TSX").

These consolidated interim financial statements of the Company and its controlled entities ("group" or "consolidated entity") for the period ended 30 September 2014 are general purpose financial statements prepared in accordance with applicable accounting standards including AASB 134 'Interim Financial Reporting', Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB') and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

These consolidated interim financial statements do not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the group as in the full financial report. It is recommended that these interim consolidated financial statements be read in conjunction with the annual financial report for the year ended 30 June 2014, and any public announcements made by the Company since 1 July 2014 in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and the ASX Listing Rules.

These consolidated interim financial statements have been prepared on an historical cost basis, except for available-for-sale financial assets and derivative financial instruments which have been measured at fair value. All amounts are presented in Australian dollars unless stated otherwise.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

*Going concern*

This financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the ordinary course of business. As at 30 September 2014 the consolidated entity had cash reserves of $569,000 (30 June 2014: $1,932,000) and a net current asset deficiency of $324,000 (30 June 2014: deficiency of $3,619,000), having recorded a net profit after tax for the period of $945,000 (30 September 2013: loss of $672,000) including a non-cash impairment loss of $2,101,000 (30 September 2013: $Nil) and a profit on the sale of non-core properties of $3,779,000 (30 September 2013: $Nil). The consolidated entity had net cash outflows from operations for the period of $423,000 (30 September 2013: $2,768,000 net inflows). Notwithstanding the above, the financial report has been prepared on a going concern basis, which the directors consider to be appropriate, based on:

(i) On 16 October 2014 the Company announced a non-brokered private placement ("Placement") to Hamilton Place Associates LLC ("Hamilton") of 16,403,486 fully paid ordinary shares at an issue price of US$0.0697 per ordinary share for proceeds of US$1,143,426. The shares were issued on 17 October 2014. Hamilton has also agreed to a prepaid gold loan working capital facility of at least US$4,000,000 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. The facility is dependent upon Lachlan Star having US$4,000,000 in consolidated cash and cash equivalents at 30 November 2014

(ii) Receipt of the remaining US$2,000,000 from the sale of non-core properties. During the period the Company sold non-core properties to Compañía Minera Teck Carmen de Andacollo ("CDA") for US$3,000,000 on completion of the transfer of one group of mining properties and US$500,000 for the grant of a five year purchase option that would result in additional proceeds of US$1,500,000 if CDA exercises such option to purchase further mining properties. Of the US$3,500,000 initial proceeds, US$1,500,000 has been received and US$2,000,000 is included in trade and other receivables. This US$2,000,000 is in escrow pending the completion of legal transfers and is expected to be received prior to 31 December 2014

## 1. SUMMARY OF ACCOUNTING POLICIES (continued)

(iii) the company achieving operational and cost targets at the CMD Gold Mine and the spot gold price not remaining under US$1,200 per ounce for a sustained period of time

(iv) the Company will endeavour, if required, to raise additional funds through debt, asset sales, or equity

The directors believe that the group can be successful in implementing these initiatives as required and, accordingly, have prepared the financial statements on a going concern basis. Notwithstanding this belief, as there is a risk that the group may not be successful in implementing its initiatives or the implementation of alternative options which may be available to the group and, in particular, that the gold price may remain below US$1,200 per ounce for a sustained period of time. This constitutes a material uncertainty which may cast a significant doubt about the group's ability to continue as a going concern and therefore whether it will realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report. No adjustments have been made relating to the recoverability or classification of recorded assets and liabilities that might be necessary should the group not continue as a going concern.

*Rounding of amounts*

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

*Use of estimates and judgements*

The preparation of the financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year and judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements, are:

(i) Provisions

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

(ii) Functional currency

Companies in the consolidated entity determine their functional currencies based on the primary economic environment in which they 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, Dayton Chile Exploraciones Mineras Limitada (“DCEM”), Minera Andacollo Spa, Minera La Laja Spa, and Minera Rosario Spa the above indicators are mixed and the functional currency is not obvious. Management used its judgment to determine which factors are most important and concluded the US dollar is the functional currency for those companies. For Lachlan Star Limited and its other subsidiaries management have determined that the Australian dollar is the functional currency for those companies given their recurring revenue and expenditure is mostly in Australian dollars.

## 1. SUMMARY OF ACCOUNTING POLICIES (continued)

(iii) Income taxes

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

In addition, the group will recognise 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.

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

Management has estimated the recovery of gold in the leach pad at the CMD Gold Mine based on recovery rates experienced after the September 2000 shutdown. Management evaluate this estimate on an ongoing basis for any changes that may result in adjustments to the financial statements.

(v) 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 December 2012 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, known as the JORC Code. The JORC Code requires the use of reasonable investment assumptions to calculate reserves.

As the economic assumptions used to estimate reserves change from period to period, and as additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the group's financial results and financial position in a number of ways, including recognition of deferred tax on mineral rights, deferred mining expenditure and capitalisation of mine development costs, impairment and units of production method of depreciation and amortisation.

(vi) 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.

## 1. SUMMARY OF ACCOUNTING POLICIES (continued)

(vii) Impairment

AASB 136 *Impairment of Assets* requires a company to make a formal estimate of recoverable amount if an indicator of impairment is present. An impairment indicator exists for the consolidated entity, being a Company market capitalisation of $11.07 million at 30 September 2014 compared to consolidated net asset carrying values of $19.25 million at 30 September 2014 prior to any current period impairment charge.

The recoverability of the carrying amount of the Company's one cash generating unit, being the CMD Gold Mine, 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'. Recoverable amount assessments are principally based on discounted cash flow analysis which requires the use of estimates and judgements in relation to a range of inputs including (a) quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction; (b) discount rates; (c) timing of future production; (d) future exchange rates and commodity prices; and (e) future costs of production and capital expenditure. Regard has been given to external consensus forecasts of key assumptions where available.

Recoverable amount is based on fair value less costs to sell. Fair value was determined by a discounted cash flow analysis covering projected production from 2014 to 2017 using a post-tax discount rate of 10.4% and resulted in an impairment loss of $2.10 million which has been attributed to property, plant and equipment and mine development properties.

The assumption to which the recoverable amount is most sensitive is the gold price. The following gold prices, being the median financial institution consensus forecasts as at 5 November 2014, were used as inputs in the discounted cash flow analysis:

| | **2014** | **2015** | **2016** | **2017** |
|---|---|---|---|---|
| Gold price US$ / oz | 1296 | 1300 | 1300 | 1300 |

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, including the potential for the impairment loss recognized in the current and /or prior year to partially or totally reverse.

*Adoption of new and revised Accounting Standards*

In the period ended 30 September 2014 the Company has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group's operations and effective for reporting periods beginning on or after 1 July 2014. It has been determined that there is no impact of the new and revised Standards and Interpretations on the Company and, therefore, no change is necessary to the Company's accounting policies.

The Company has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the period ended 30 September 2014. As a result of this review it has been determined that there is no material impact of the new and revised Standards and Interpretations on the Company and, therefore, no change necessary to the Company's accounting policies.

## 2. CONTINGENT ASSETS AND LIABILITIES

There have been no changes of a material nature in contingent liabilities or contingent assets since the last annual reporting date.

## 3. SUBSEQUENT EVENTS

On 16 October 2014 the Company announced a non-brokered Placement to Hamilton of 16,403,486 fully paid ordinary shares at an issue price of US$0.0697 per ordinary share for proceeds of US$1.14 million. The shares were issued on 17 October 2014. Hamilton has also agreed to a prepaid gold loan working capital facility of at least US$4 million to the Company's subsidiary, CMD, with such working capital advance and associated terms and conditions to be finalized no later than 31 December 2014. The facility is dependent upon Lachlan Star having US$4 million in consolidated cash and cash equivalents at 30 November 2014.

Associated with the Placement Mr Peter Babin, a Manager of Hamilton, was appointed Non-Executive Chairman of Lachlan Star and Mr Scott Perry (the former Chairman) stood down as a director. Mr Babin was one of the vendors of the CMD Gold Mine to Lachlan Star in December 2010 and was a director of the Company from that date until November 2013.

The gold price has fallen from US$1,216 per ounce at 30 September 2014 to US$1,164.50 per ounce as at 12 November 2014. Should the gold price remain below US$1,200 per ounce for a sustained period of time this constitutes a material uncertainty 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 the financial report.

Other than these no other matter or circumstance has arisen since 30 September 2014 that in the opinion of the directors has significantly affected, or may significantly affect in future financial years:

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

## 4. TRADE AND OTHER RECEIVABLES

Trade and other receivables at 30 September 2014 include $3.36 million for VAT and the sale of gold, of which over $3.1 million has been received subsequent to period end. In addition, current receivables include US$2m from the sale of non-core properties in the Quarter and which is expected to be received by 31 December 2014.

## 5. INVENTORIES

Inventories at 30 September 2014 include $1.17 million relating to doré produced but not sold, and to which title passed to Johnson Matthey on 3 October 2014.

## 6. RELATED PARTY DISCLOSURES

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

Subsequent to period end, on 16 October 2014 the Company announced a non-brokered Placement to Hamilton of 16,403,486 fully paid ordinary shares at an issue price of US$0.0697 per ordinary share for proceeds of US$1.14 million. Associated with the Placement Mr Peter Babin, a Manager of Hamilton, was appointed Non-Executive Chairman of Lachlan Star.

## 7. PROPERTY PLANT AND EQUIPMENT

| | Fixture and Fittings $000 | Vehicles $000 | Land and buildings $000 | Mine Plant $000 | Total $000 |
|---|---|---|---|---|---|
| *Cost:* | | | | | |
| 1 July 2014 | 570 | 48 | 83 | 48,698 | 49,399 |
| Effect of movements in exchange rates | 44 | 4 | 7 | 4016 | 4,071 |
| Additions | - | - | - | 24 | 24 |
| 30 September 2014 | 614 | 52 | 90 | 52,738 | 53,494 |
| *Accumulated depreciation:* | | | | | |
| 1 July 2014 | 178 | 48 | - | 31,334 | 31,560 |
| Depreciation charge for period | 9 | - | - | 752 | 761 |
| Impairment loss | - | - | - | 1,171 | 1,171 |
| Effect of movements in exchange rates | 15 | 4 | - | 2,819 | 2,838 |
| 30 September 2014 | 202 | 52 | - | 36,076 | 36,330 |
| Carrying amount at beginning of period | 392 | - | 83 | 17,364 | 17,839 |
| Carrying amount at end of period | 412 | - | 90 | 16,662 | 17,164 |
| *Cost:* | | | | | |
| 1 July 2013 | 588 | 51 | 86 | 46,831 | 47,556 |
| Effect of movements in exchange rates | (18) | (3) | (3) | (1,384) | (1,408) |
| Additions | - | - | - | 3,251 | 3,251 |
| 30 June 2014 | 570 | 48 | 83 | 48,698 | 49,399 |
| *Accumulated depreciation:* | | | | | |
| 1 July 2013 | 154 | 51 | - | 22,000 | 22,205 |
| Depreciation charge for period | 30 | - | - | 4,111 | 4,141 |
| Impairment loss | - | - | - | 5,902 | 5,902 |
| Effect of movements in exchange rates | (6) | (3) | - | (679) | (688) |
| 30 June 2014 | 178 | 48 | - | 31,334 | 31,560 |
| Carrying amount at beginning of period | 434 | - | 86 | 24,831 | 25,351 |
| Carrying amount at end of period | 392 | - | 83 | 17,364 | 17,839 |

## 8. CONTRIBUTED EQUITY

| | Number | $000 |
|---|---|---|
| *Ordinary shares* | | |
| 1 July 2014 | 147,632,273 | 224,522 |
| Share issue costs | - | (5) |
| 30 September 2014 | 147,632,273 | 224,517 |
| | | |
| 1 July 2013 | 99,107,273 | 215,076 |
| Issue of shares for cash | 47,500,000 | 9,684 |
| Costs of issue of shares | - | (451) |
| Share based payments | 1,025,000 | 213 |
| 30 June 2014 | 147,632,273 | 224,522 |

The following unissued ordinary shares of the Company were under option at period end.

| Expiry date | Exercise price | Number 01/07/14 | Issued | Expired / cancelled | Number 30/09/14 |
|---|---|---|---|---|---|
| 25/11/14 | $1.50 | 25,000 | - | - | 25,000 |
| 22/05/15 | $2.10 | 100,000 | - | - | 100,000 |
| 22/05/15 | $2.50 | 100,000 | - | - | 100,000 |
| 2/10/15 | CDN$0.30 | 432,870 | - | - | 432,870 |
| 7/11/15 | CDN$0.30 | 1,097,561 | - | - | 1,097,561 |
| 29/11/15 | $0.25 | 1,200,000 | - | - | 1,200,000 |
| | | 2,955,431 | - | - | 2,955,431 |

## 9. SEGMENT INFORMATION

*(a) Description of segments*

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

(*b) Segment information provided to the board of directors*

The board of directors assesses the performance of the segment based on financial performance indicators. Financial information for the segment is set out below:

## 9. SEGMENT INFORMATION (continued)

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

| | | 3 months ended September 30, 2014 | 3 months ended September 30, 2013 |
|---|---|---|---|
| CMD Gross Operating (Loss) / Profit (unaudited) | US$000 | (65) | 3,533 |
| A$ / US exchange rate for the period | | 0.926 | 0.916 |
| CMD Gross Operating (Loss) / Profit (unaudited) | A$000 | (71) | 3,859 |
| Profit on sale of non-core properties | A$000 | 3,779 | - |
| Impairment loss | A$000 | (2,101) | - |
| Process inventory and inventory provision adjustment | A$000 | 471 | (1,919) |
| Depreciation and amortisation | A$000 | (1,524) | (1,857) |
| Foreign exchange gain / (loss) | A$000 | 1,194 | (379) |
| Fair value (loss) / gain on liabilities carried at fair value | A$000 | (398) | 153 |
| Net finance (expense) | A$000 | (16) | (157) |
| New venture expenditure written off | A$000 | (6) | (4) |
| Other head office related costs | A$000 | (383) | (368) |
| Consolidated Profit / (Loss) Before Income Tax (unaudited) | A$000 | 945 | (672) |

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

| | | 3 months ended 30 September 2014 | 3 months ended 30 September 2013 |
|---|---|---|---|
| Cash cost per ounce | US$ | 779 | 971 |
| Ounces poured | | 15,272 | 17,056 |
| Cash costs | US$000 | 11,898 | 16,572 |
| A$ / US exchange rate for the period | | 0.926 | 0.916 |
| Cash costs | A$000 | 12,846 | 18,101 |
| Doré and inventory provision adjustment | A$000 | (55) | (1,397) |
| Depreciation and amortization | A$000 | 1,524 | 1,857 |
| Waste costs expensed and amortised | A$000 | 6,976 | 4,625 |
| Royalties | A$000 | 403 | 454 |
| Other | A$000 | 48 | 86 |
| Copper / silver net revenue | A$000 | 343 | 436 |
| | | | |
| Cost of sales (unaudited) | A$000 | 22,085 | 24,162 |

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

| | 30 Sept 2014 $000 | 30 June 2014 $000 |
|---|---|---|
| Chile | 31,081 | 33,054 |
| Australia | 3,179 | 2,778 |
| | 34,260 | 35,832 |

## 10. CHANGES IN ESTIMATES

*Site restoration*

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

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

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

| | **3 months 30 Sept 2014 $000** | **12 months 30 June 2014 $000** |
|---|---|---|
| *Non-current* | | |
| Opening | 5,042 | 5,035 |
| Effect of movements in exchange rates | 411 | (161) |
| Change in estimate | - | 168 |
| Closing | 5,453 | 5,042 |

## 11. CAPITAL COMMITMENTS

There were no capital commitments at period end.

## 12. FINANCIAL RISK MANAGEMENT

*Fair values*

The carrying amounts of consolidated financial assets and financial liabilities shown in the statement of financial position approximate their fair values.

AASB 13 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the group's financial assets and liabilities measured and recognised at fair value. There were no financial assets measured and recognised at fair value at 30 September 2014 or 30 June 2014.

| **30 September 2014** | **Level 1<br>$000** | **Level 2<br>$000** | **Level 3<br>$000** | **Total<br>$000** |
|---|---|---|---|---|
| *Financial liabilities* | | | | |
| Borrowings | - | 3,899 | 32 | 3,931 |
| | - | 3,899 | 32 | 3,931 |

| **30 June 2014** | **Level 1<br>$000** | **Level 2<br>$000** | **Level 3<br>$000** | **Total<br>$000** |
|---|---|---|---|---|
| *Financial liabilities* | | | | |
| Borrowings | - | 3,986 | 46 | 4,032 |
| | - | 3,986 | 46 | 4,032 |

Level 2 borrowings comprise a gold loan payable to Sprott Resource Lending Partnership which has a fair value based on the forward price of gold discounted at period end. Level 3 borrowings comprise contingent consideration payable for the CMD Gold Mine which has a fair value determined using discounted cash flow analysis. The following tables present the change in these instruments:

| **30 September 2014** | **Contingent consideration<br>$000** | **Gold loan<br>$000** | **Total<br>$000** |
|---|---|---|---|
| 1 July 2004 | 46 | 3,986 | 4,032 |
| Fair value loss | - | 398 | 398 |
| Repayment of borrowings | (14) | (485) | (499) |
| 30 September 2014 | 32 | 3,899 | 3,931 |

| **30 June 2014** | **Contingent consideration<br>$000** | **Gold loan<br>$000** | **Total<br>$000** |
|---|---|---|---|
| 1 July 2003 | 306 | - | 306 |
| Additions | - | 3,710 | 3,710 |
| Fair value (gain) / loss | (200) | 276 | 76 |
| Repayment of borrowings | (48) | - | (48) |
| Accretion | 3 | - | 3 |
| Foreign exchange | (15) | - | (15) |
| 30 June 2014 | 46 | 3,986 | 4,032 |