LACHLAN STAR LIMITED
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)

ABN 88 000 759 535

INTERIM FINANCIAL REPORT
31 DECEMBER 2014

CORPORATE DIRECTORY

DT Franzmann (Non-Executive Director)
AJ Cipriano (Non-Executive Director)

Company Secretary

RA Anderson

Auditors

PricewaterhouseCoopers
Brookfield Place, 125 St Georges Terrace
Perth WA 6840

Bankers

Macquarie Bank Limited
235 St Georges Terrace
Perth WA 6000

Registered Office

c/o KPMG
235 St Georges Terrace
Perth WA 6000
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Share Registries

Computershare Investor Services Pty Limited
Level 2
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Perth WA 6000

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Securities Exchange Listing

Securities of Lachlan Star Limited are listed on ASX Limited, currently suspended from trading

ASX Code: LSA - ordinary shares

CONTENTS

DIRECTORS' REPORT

The directors present their report consisting of Lachlan Star Limited) ("Lachlan" or "Company") and the entities it controlled at the end of or during the half-year ended 31 December 2014 together with the consolidated financial report for the half-year ended 31 December 2014, and the independent review report thereon.

Directors

The directors of the Company in office at any time during or since the end of the half-year and up to the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Declan Franzmann
Peter Drobeck (deceased 1 November 2017)
Anthony Cipriano
Peter Babin (appointed 17 October 2014, resigned 18 March 2015)
Scott Perry (resigned 16 October 2014)

Corporate

On 15 September 2014 the Company announced that its Chilean subsidiary CMD had sold certain mining properties to Compañía Minera Carmen de Andacollo ("CDA") for US$3.5 million in cash.

On 16 October 2014, the Company announced that it had agreed on a non-brokered private placement to Hamilton Place Associates LLC ("Hamilton") for proceeds of USD$1.14 million. Hamilton also agreed to a prepaid gold loan working capital facility to the Company's subsidiary CMD, with such working capital advance and associated terms and conditions to be finalised no later than 31 December 2014. This facility was dependent upon the Company having USD$4 million in cash and cash equivalents at 30 November 2014 and Hamilton's representatives having made a site visit to the CMD Gold Mine by that date.

As at 30 November 2014 the Company failed to meet the condition precedent of holding a minimum of USD$4 million cash as required by the working capital financing offer from Hamilton due to the temporary office closure of its customer Johnson Matthey on a public holiday, resulting in a payment not being received as expected. The Company did go on to meet the condition precedent with respect to the cash holding, albeit in the days after the required date.

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$0.25 per share and an expiry date of 27 November 2016. During the period a total of 175,000 options expired or were cancelled.

Subsequent Events

On 12 February 2015 the directors, other than Mr Peter Babin, concluded that the various Hamilton proposals were either too conditional or not capable of being progressed with an adequate degree of certainty and in a timeframe that would ensure the ongoing solvency of the Company and hence resolved to appoint Administrators on 13 February 2015.

At the date of the Administrators appointment the Company's only secured creditor was Sprott. Hamilton acquired the secured debt and associated security interests from Sprott on 19 February 2015. Hamilton took control of the shares in the Company's subsidiary DMC, the beneficial owner of the CMD Gold Mine, on 26 March 2015 and subsequently seized the DMC shares. On 17 April 2015 Hamilton transferred to itself 100% of the share capital of DMC in consideration for the forgiveness of its secured debt against the Company, thus gaining control of the Company's Chilean assets.

The second meeting of creditors was held on Friday 7 August 2015. Creditors of the Company resolved that the Company should execute a DOCA in accordance with the terms of a DOCA Proposal which had been received by the Administrators providing for the recapitalisation of the Company with the objective of having its shares re-quoted on the ASX.

The DOCA Proposal is conditional on a number of Conditions Precedent (the "DOCA Conditions Precedent") including, but not limited to, the granting of appropriate waivers by the ASX Limited ("ASX") with respect to the issuance of placement shares as contemplated by the DOCA, and the granting of a letter setting out the conditions upon which ASX will agree to the shares in the Company being reinstated to official quotation.

On 18 May 2016 the ASX provided in principle approval for the Company's securities to be reinstated to official quotation subject to the satisfaction of a number of conditions precedent (the "ASX Conditions Precedent") which are considered standard conditions for recapitalisations of this nature. The ASX has allowed until 13 February 2018 in order for the Company to comply with the ASX Conditions Precedent.

The above represents a key milestone in the recapitalisation of the Company pursuant to the DOCA. The DOCA proponent, Ascent Capital Holdings Pty Ltd ("Ascent"), and the Deed Administrators are now progressing towards the satisfaction of the ASX Conditions Precedent, including, but not limited to, the preparation for a meeting of shareholders to seek approval of the Company's recapitalisation proposal.

The Deed Administrators and Ascent are continuing to do all things possible to satisfy the remaining DOCA Conditions Precedent. Activities undertaken by the Parties in this respect include the following:

- Provision of available Company records by the Deed Administrators to Ascent, and facilitation of access to Company personnel for the purposes of Ascent's development of relevant submissions to the ASX in connection with the Conditions Precedent;
- The lodgement by Ascent of relevant submissions to the ASX in connection with the Conditions Precedent;
- Numerous discussions between Ascent and the ASX with respect to the Conditions Precedent, and the recapitalisation proposal contemplated by the DOCA generally;
- The engaging by Ascent of a qualified geologist to assist in the development a business case with respect to the Company's Princhester Mining Leases (which represent key assets of the Company) carried at nil value; and
- General meetings and correspondence as required between the Deed Administrators and Ascent.

ASIC have re-extended the due date for lodgement of the Company's outstanding financial statements together with any full year or interim financial account lodgements subsequently falling due within the extension period, from 30 June 2016 to the earlier of 30 November 2017, with a further extension requested to 31 December 2017, or such time as the Company lodges a disclosure document with ASIC in connection with the issue of securities as contemplated by the Deed of Company Arrangement. ASIC have also extended the period within which the Company must hold its AGM to 31 January 2018.

Other than these no other matter or circumstance has arisen since 31 December 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.

Independent Auditor's Review Report

The independent auditor's review report contains a disclaimer of conclusion.

Review of operations

During the period under review Lachlan was a gold production and copper exploration company with a 100% beneficial interest in an operating gold mine in Chile and a minority interest in a copper exploration project in Australia.

The consolidated entity's net loss after tax for the half-year ended 31 December 2014 was $35,790,000 (2013: $264,000 profit) after recognising:

- a pre-tax loss of $4,236,000 (2013: $1,822,000 profit) from operations at the CMD Gold Mine in Chile after charging $10,290,000 of waste costs direct expensed (2013: $6,054,000) but before an impairment loss of $33,928,000 (2013: $Nil) and before a $3,779,000 gain (2013: $Nil) on the sale of mining properties.
- depreciation and amortisation of $6,530,000 (2013: $6,970,000).

CMD

On 24 December 2010 the Company completed the acquisition of the Compania Minera Dayton ("CMD") Gold Mine ("CMD Gold Mine") in Chile and joined the ranks of gold producers. The CMD Gold Mine is located approximately 350km north of Santiago and at an elevation of 1,000 metres. The mine was developed in 1995 and has produced over 1 million ounces of gold plus minor copper and silver since opening. Table 1 contains the Key Performance Indicators (KPI's) at CMD Gold Mine for the December 2014 and December 2013 half-years.

Table 1 – KPI's

Item	Unit	6 months ended 31-Dec-14	6 months ended 31-Dec-13	Variance
Ore Mined	dmt	2,452,519	2,750,170	-11%
Waste Mined	dmt	5,211,328	4,793,434	9%
Total Mined	dmt	7,663,847	7,543,604	2%
Waste:Ore Ratio	t:t	2.12	1.74	22%
Ore grade Mined	Au g/t	0.58	0.58	0%
Gold Mined	Au oz	45,705	51,146	-11%
Ore stacked	dmt	2,365,408	2,807,061	-16%
Stacked Grade	Au g/t	0.52	0.55	-5%
Gold Stacked	Au oz	39,809	49,677	-20%
Average Stacking Rate	dmt/d	12,855	15,256	-16%
Silver Produced	Ag oz	15,931	36,963	-57%
Gold Produced	Au oz	27,229	35,616	-24%
Mining Cost/t moved	US$/t	$2.34	$2.53	-8%
Mining Cost/t ore	US$/t	$7.32	$6.94	5%
Process Cost/t ore stacked	US$/t	$6.40	$6.93	-8%
G+A Cost/t ore	US$/t	$1.43	$1.22	17%
Total Cost/t ore	US$/t	$15.15	$15.09	0%
Average Sales Price	USD/oz	$1,246	$1,299	-4%
Cash Cost	USD/oz	$882	$814	8%
Non Cash Inventory Adjustment	USD/oz	($71)	$64	-211%
C1 Cash Cost	USD/oz	$811	$878	-8%

Notes: C1 Cash Cost is a non-GAAP measures and non-IFRS measure 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.

The deterioration of US$10,789,000 in CMD Gross Operating Profit compared to the comparative period was driven primarily by a 16% decrease in ore stacked, a 22% increase in the waste:ore stripping ratio, a 5% fall in stacked grade, and consequently a 20% decrease in gold stacked and a 24% fall in gold produced. Total cost per tonne of ore remained steady over the same period. Ore production was impacted in early September 2014 by a Fall of Ground (FOG) at the Tres Perlas Phase 7 pit in the Northwest wall, affecting the main hauling ramp at RL 1015. There were no exploration activities at the CMD Gold Mine during the half year.

Bushranger Copper Project

Anglo American Exploration (Australia) Pty Ltd ("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 elected to dilute further by not participating in the 2014 exploration programme. During the period under review (i) the transfer of 51% interest of the licence to Anglo American was 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.

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 Directors' Report and financial report. Amounts in the Directors' Report and financial report have been rounded-off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

Auditor's Independence Declaration

The lead auditor's Independence Declaration, as required under section 307C of the *Corporations Act 2001*, is set out on page 8 and forms part of the directors' report for the half-year ended 31 December 2014.

Signed in accordance with a resolution of the directors.

Director

Perth, 19 December 2017

Auditor's Independence Declaration

As lead auditor for the review of Lachlan Star Limited for the half-year ended 31 December 2014, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Lachlan Star Limited and the entities it controlled during the period.

PricewaterhouseCoopers

PricewaterhouseCoopers

Douglas Craig

Douglas Craig
Partner

Perth
19 December 2017

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		6 months ended	
	Notes	31-Dec-14 $000	31-Dec-13 $000
Revenue from continuing operations			
Revenue		37,833	50,093
Finance income		-	6
		37,833	50,099
Gain on sale of mining properties		3,779	-
Foreign exchange gain		1,534	132
Fair value gain on liabilities carried at fair value		-	227
Expenses			
Cost of sales		(43,090)	(47,613)
Impairment loss	7	(33,928)	-
Other expenses from ordinary activities			
Corporate compliance and management		(783)	(894)
Fair value (loss) on liabilities carried at fair value		(561)	-
Share based payments expense		(31)	(317)
Occupancy costs		(12)	(42)
New venture expenditure written off		-	(4)
Other expenses		(42)	(58)
Finance expense		(489)	(1,140)
(Loss) / profit before income tax		(35,790)	390
Income tax expense		-	(126)
(Loss) / profit for the period		(35,790)	264
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		2,280	1,097
Total comprehensive income for the period		(33,510)	1,361
Basic (loss) / profit per share (cents per share)		(23,1)	0.1
Diluted (loss) / profit per share (cents per share)		(23.1)	0.1

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

	Notes	31 Dec 2014 $000	30 June 2014 $000
Current assets			
Cash and cash equivalents		429	1,932
Trade and other receivables		2,286	3,481
Inventories		25,752	19,880
Total current assets		28,467	25,293
Non-current assets			
Trade and other receivables		451	251
Mine development properties		-	14,967
Property, plant and equipment	8	2	17,839
Exploration and evaluation		2,775	2,775
Total non-current assets		3,228	35,832
Total assets		31,695	61,125
Current liabilities			
Trade and other payables		24,431	21,202
Borrowings		8,564	7,710
Total current liabilities		32,995	28,912
Non-current liabilities			
Borrowings		9,289	11,490
Provisions		6,667	5,790
Total non-current liabilities		15,956	17,280
Total liabilities		48,951	46,192
Net (liabilities) / assets		(17,256)	14,933
Equity			
Contributed equity	10	225,854	224,522
Reserves		8,841	6,572
Accumulated losses		(251,951)	(216,161)
Total equity		(17,256)	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 (Restated)	215,076	(199,676)	129	7,085	22,614
Other comprehensive income	-	-	-	1,097	1,097
Profit for the period	-	264	-	-	264
Total comprehensive profit for the period	-	264	-	1,097	1,361
Transactions with owners in their capacity as owners:					
Shares issued for cash	9,684	-	-	-	9,684
Share issue costs	(430)	-	-	-	(430)
Share based payments	80	-	237	-	317
Balance at 31 December 2013	224,410	(199,412)	366	8,182	33,546
Balance at 1 July 2014	224,522	(216,161)	210	6,362	14,933
Other comprehensive income	-	-	-	2,280	2,280
Loss for the period	-	(35,790)	-	-	(35,790)
Total comprehensive loss for the period	-	(35,790)	-	2,280	(33,510)
Transactions with owners in their capacity as owners:					
Shares issued for cash	1.308	-	-	-	1,308
Share issue costs	(18)	-	-	-	(18)
Share based payments	42	-	(11)	-	31
Balance at 31 December 2014	225,854	(251,951)	199	8,642	(17,256)

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

For the restated 1 July 2013 consolidated statement of changes in equity refer to Note 13.

CONSOLIDATED STATEMENT OF CASH FLOWS

	6 months ended	
	31-Dec-14 $000	31-Dec-13 $000
Cash flows from operating activities		
Receipts from customers and GST recovered	39,640	49,132
Payments to suppliers and employees	(38,298)	(43,650)
Interest received	-	6
Interest paid	(489)	(1,140)
Net cash inflows from operating activities	853	4,348
Cash flows from investing activities		
Sale of mining properties	3,779	-
Payments for mine development	(3,325)	(7,047)
Payments for acquisition of property, plant and equipment	(186)	(2,083)
Net cash flows generated from / (used in) investing activities	268	(9,130)
Cash flows from financing activities		
Proceeds from issue of ordinary shares	1,308	9,684
Repayment of borrowings	(4,012)	(3,502)
Receipt of borrowings	-	779
Payment of share issue costs	(18)	(430)
Net cash (outflows) / inflows from financing activities	(2,722)	6,531
Net (decrease) / increase in cash and cash equivalents	(1,601)	1,749
Effect of exchange rate fluctuations on cash held	98	63
Cash and cash equivalents at the beginning of the period	1,932	2,811
Cash and cash equivalents at the end of the period	429	4,623

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

1. Reporting entity

Lachlan Star Limited ("Lachlan" or "Company") is a company domiciled in Australia.

The consolidated interim financial report of the Company as at and for the six months ended 31 December 2014 comprises the Company and its subsidiaries (together referred to as the "consolidated entity' or "group").

2. Basis of preparation of financial report

Statement of compliance

The consolidated interim financial report is a general purpose financial report prepared in accordance with the requirements of the *Corporations Act 2001* and Accounting Standard AASB 134: "*Interim Financial Reporting*".

The consolidated interim financial report does not include all of the information required 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 consolidated entity as in the annual financial report. It is recommended that this financial report be read in conjunction with the annual financial report as at and for the year ended 30 June 2014 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The functional and presentation currency of the Company is Australian dollars. The financial report was authorised for issue by the directors on 19 December 2017. Lachlan Star Limited is a company limited by shares, incorporated and domiciled in Australia.

Going concern

The Company was delisted from the Toronto Stock Exchange on 25 March 2015 as a result of being placed into Administration.

The consolidated entity reported a net loss after taxation of $35,790,000 for the period and had a net current asset deficiency of $4,528,000 at balance date. The financial report has been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The Directors believe it is appropriate to prepare these accounts on a going concern basis because under the DOCA executed on 31 August 2015 the Company will, if wholly effectuated, extinguish all liabilities associated with the previous administration of the Company subject to the Conditions Precedents being satisfied, and is in the process of undertaking a capital raising of a minimum of A$1,828,953. However, the Company is also in a net liability position as at 31 December 2014 and its ability to continue as a going concern is dependant on being able to raise additional funds to recapitalise the Company.

2. Basis of preparation of financial report (continued)

Going concern (continued)

On 16 October 2014, the Company announced that it had agreed on a non-brokered private placement to Hamilton Place Associates LLC ("Hamilton") for proceeds of USD$1.14 million. Hamilton also agreed to a prepaid gold loan working capital facility to the Company's subsidiary CMD, with such working capital advance and associated terms and conditions to be finalised no later than 31 December 2014. This facility was dependent upon the Company having USD$4 million in cash and cash equivalents at 30 November 2014 and Hamilton's representatives having made a site visit to the CMD Gold Mine by that date.

As at 30 November 2014 the Company failed to meet the condition precedent of holding a minimum of USD$4 million cash as required by the working capital financing offer from Hamilton due to the temporary office closure of its customer Johnson Matthey on a public holiday, resulting in a payment not being received as expected. The Company did go on to meet the condition precedent with respect to the cash holding, albeit in the days after the required date.

On 2 January 2015 the Company announced that it remained in discussion with Hamilton regarding the availability of the working capital facility agreed to as part of the October 2014 share placement (refer Corporate above) however it noted that there was no assurance that additional financing would be available as and when required. The Company went on to advise that this, combined with a sustained gold price below USD$1,200 per ounce, may constitute material uncertainty with respect to the Company's and the Lachlan Star Group's ability to continue as a going concern.

On 12 February 2015 the directors, other than Mr Peter Babin, concluded that the various Hamilton proposals were either too conditional or not capable of being progressed with an adequate degree of certainty and in a timeframe that would ensure the ongoing solvency of the Company and hence resolved to appoint Administrators on 13 February 2015. Matthew David Woods and Hayden Leigh White of KPMG were appointed joint and several Administrators of the Company pursuant to section 436A of the Corporations Act 2001 (Cth) ("the Act").

At the date of the Administrators appointment the Company's only secured creditor was Sprott Resource Lending Partnership ("Sprott"). Hamilton acquired the secured debt and associated security interests from Sprott on 19 February 2015. Hamilton took control of the shares in the Company's subsidiary DMC Newco Pty Ltd ("DMC"), the beneficial owner of the CMD Gold Mine, on 26 March 2015 and subsequently seized the DMC shares. On 17 April 2015 Hamilton transferred to itself 100% of the share capital of DMC in consideration for the forgiveness of its secured debt against the Company, thus gaining control of the Company's Chilean assets.

Following a public expressions of interest campaign the Administrators received five proposals from proponents to restructure and recapitalise the Company via a Deed of Company Arrangement ("DOCA"). Following a period of negotiation with each proponent the Administrators selected Ascent Capital Holdings Pty Ltd ("Ascent") as the preferred proponent based on the likely return to creditors as well as an assessment of the relative completion risk. The Ascent DOCA proposal contemplates the recapitalisation of the Company by way of a capital raising ("DOCA Proposal").

The DOCA proposal also provides a mechanism which allows for the Administrators to negotiate and resolve a number of potential further asset recoveries ("the Claims") during the DOCA period within a finite period of time. Should no resolution of the Claims occur within this specified timeframe, then the DOCA Proposal also outlines a number of conditions precedent when once achieved, the Deed Administrators will form either a Creditors' Trust or a Creditors and Members' Trust and become its Trustees and those Claims will be assigned to the Trust for the benefit of creditors and potentially members.

The Second Meeting of Creditors was held on Friday 7 August 2015. Creditors of the Company resolved that the Company should execute a DOCA in accordance with the terms of a DOCA Proposal which was received by the Administrators providing for the recapitalisation of the Company with the objective of having its shares re-quoted on the ASX. The DOCA was executed on 31 August 2015. The DOCA Proposal is conditional on (amongst other things) shareholder approval.

2. Basis of preparation of financial report (continued)

The DOCA Proposal is conditional on a number of Conditions Precedent (the “DOCA Conditions Precedent”) including, but not limited to, the granting of appropriate waivers by the ASX with respect to the issuance of placement shares as contemplated by the DOCA, and the granting of a letter setting out the conditions upon which ASX will agree to the shares in the Company being reinstated to official quotation.

<u>Administration and Deed of Company Arrangement</u>

On 18 May 2016 the ASX provided in principle approval for the Company’s securities to be reinstated to official quotation subject to the satisfaction of a number of conditions precedent (the “ASX Conditions Precedent”) which are considered standard conditions for recapitalisations of this nature. The ASX has allowed until 13 February 2018 in order for the Company to comply with the ASX Conditions Precedent.

The above represents a key milestone in the recapitalisation of the Company pursuant to the DOCA. The DOCA proponent, Ascent, and the Deed Administrators are now progressing towards the satisfaction of the ASX Conditions Precedent, including, but not limited to, the preparation for a meeting of shareholders to seek approval of the Company’s recapitalisation proposal.

The Deed Administrators and Ascent are continuing to do all things possible to satisfy the remaining DOCA Conditions Precedent. Activities undertaken by the Parties in this respect include the following:

- Provision of available Company records by the Deed Administrators to Ascent, and facilitation of access to Company personnel for the purposes of Ascent’s development of relevant submissions to the ASX in connection with the Conditions Precedent;
- The lodgement by Ascent of relevant submissions to the ASX in connection with the Conditions Precedent;
- Numerous discussions between Ascent and the ASX with respect to the Conditions Precedent, and the recapitalisation proposal contemplated by the DOCA generally;
- The engaging by Ascent of a qualified geologist to assist in the development a business case with respect to the Company’s Princhester Mining Leases (which represent key assets of the Company); and
- General meetings and correspondence as required between the Deed Administrators and Ascent.

ASIC have re-extended the due date for lodgement of the Company’s outstanding financial statements together with any full year or interim financial account lodgements subsequently falling due within the extension period, from 30 June 2016 to the earlier of 30 November 2017, with a further extension requested to 31 December 2017, or such time as the Company lodges a disclosure document with ASIC in connection with the issue of securities as contemplated by the Deed of Company Arrangement. ASIC have also extended the period within which the Company must hold its AGM to 31 January 2018.

<u>Recapitalisation of the company</u>

The DOCA outlines a number of conditions precedent when once achieved, the Deed Administrators will form either a Creditors’ Trust or a Creditors and Members’ Trust and become its Trustees.

The DOCA contemplates the following:

- Ascent acting as Proponent for a capital raising for the Company which will provide for a cash injection into the Trust of $675,000;
- The issue and allotment of 20,000,000 ordinary shares at a deemed issue price of 0.5 cents per share for the benefit of Creditors’ claims into the Trust;
- The resolution or otherwise assignment of the Related Party Debt and Claims into the Trust;
- The Princhester and Bushranger assets to be retained by the Company to enable the Company to be reinstated on the ASX; and
- A consolidation of the issued capital of the Company on a 5:1 basis.

2. Basis of preparation of financial report (continued)

Going concern (continued)

Preparation of the financial report on a going concern basis

As a result of the matters outlined above, there is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. However, the directors believe that the Company will be successful in the above matters and, accordingly, have prepared the financial report on a going concern basis. The financial report does not contain any adjustments relating to the recoverability and classification of recorded assets or liabilities that might be necessary should the Group not be able to continue as a going concern.

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 judgements, 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) 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.

(iii) Functional currency

Companies in the consolidated entity have to determine their functional currencies based on the primary economic environment in which each entity operates. In order to do that management has to analyse several factors, including which currency mainly influences sales prices of product sold by the entity, which currency influences the main expenses of providing services, in which currency the entity has received financing, and in which currency it keeps its receipts from operating activities. For subsidiaries Compania Minera Dayton ("CMD"), Dayton Chile Exploraciones Mineras Limitada ("DCEM"), Minera Andacollo Spa, Minera La Laja Spa, Minera Rosario Spa and DMC Newco Pty Ltd 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 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 revenue and expenditure is mostly in Australian dollars.

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

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

2. Basis of preparation of financial report (continued)

Use of estimates and judgements (continued)

(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 Australasian Code for Reporting of Mineral Resources and Ore Reserves 2012, 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) 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 may 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.

2. Basis of preparation of financial report (continued)

Use of estimates and judgements (continued)

(vii) Impairment

AASB 136 requires a company to make a formal estimate of recoverable amount of an asset if an indicator of impairment is present.

An impairment loss of 100% against the carrying value of the CMD gold mine property, plant and equipment and mine development costs has been made as at 31 December 2014 as based on management assessment it was considered non-recoverable.

3. Accounting policies

In the period ended 31 December 2014 the group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2014. As a result of this review the directors have determined that there is no change necessary to group accounting policies.

The accounting policies applied by the consolidated entity in this consolidated interim financial report are the same as those applied by the consolidated entity in its consolidated financial report as at and for the year ended 30 June 2014 and the corresponding interim reporting period.

4. 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.

5. Related Party Disclosures

The consolidated entity did not have any transactions with related parties during the period other than (i) remuneration to directors and their related parties; (ii) the October 2014 share placement to Hamilton, a party associated with the former director Mr Peter Babin.

Lachlan Star Limited is the ultimate parent entity.

6. Subsequent events

On 12 February 2015 the directors, other than Mr Peter Babin, concluded that the various Hamilton proposals were either too conditional or not capable of being progressed with an adequate degree of certainty and in a timeframe that would ensure the ongoing solvency of the Company and hence resolved to appoint Administrators on 13 February 2015.

At the date of the Administrators appointment the Company's only secured creditor was Sprott. Hamilton acquired the secured debt and associated security interests from Sprott on 19 February 2015. Hamilton took control of the shares in the Company's subsidiary DMC, the beneficial owner of the CMD Gold Mine, on 26 March 2015 and subsequently seized the DMC shares. On 17 April 2015 Hamilton transferred to itself 100% of the share capital of DMC in consideration for the forgiveness of its secured debt against the Company, thus gaining control of the Company's Chilean assets.

The second meeting of creditors was held on Friday 7 August 2015. Creditors of the Company resolved that the Company should execute a DOCA in accordance with the terms of a DOCA Proposal which had been received by the Administrators providing for the recapitalisation of the Company with the objective of having its shares re-quoted on the ASX.

The DOCA Proposal is conditional on a number of Conditions Precedent (the "DOCA Conditions Precedent") including, but not limited to, the granting of appropriate waivers by the ASX Limited ("ASX") with respect to the issuance of placement shares as contemplated by the DOCA, and the granting of a letter setting out the conditions upon which ASX will agree to the shares in the Company being reinstated to official quotation.
On 18 May 2016 the ASX provided in principle approval for the Company's securities to be reinstated to official quotation subject to the satisfaction of a number of conditions precedent (the "ASX Conditions Precedent") which are considered standard conditions for recapitalisations of this nature. The ASX has allowed until 13 February 2018 in order for the Company to comply with the ASX Conditions Precedent.

The above represents a key milestone in the recapitalisation of the Company pursuant to the DOCA. The DOCA proponent, Ascent, and the Deed Administrators are now progressing towards the satisfaction of the ASX Conditions Precedent, including, but not limited to, the preparation for a meeting of shareholders to seek approval of the Company's recapitalisation proposal.

The Deed Administrators and Ascent are continuing to do all things possible to satisfy the remaining DOCA Conditions Precedent. Activities undertaken by the Parties in this respect include the following:

- Provision of available Company records by the Deed Administrators to Ascent, and facilitation of access to Company personnel for the purposes of Ascent's development of relevant submissions to the ASX in connection with the Conditions Precedent;
- The lodgement by Ascent of relevant submissions to the ASX in connection with the Conditions Precedent;
- Numerous discussions between Ascent and the ASX with respect to the Conditions Precedent, and the recapitalisation proposal contemplated by the DOCA generally;
- The engaging by Ascent of a qualified geologist to assist in the development a business case with respect to the Company's Princhester Mining Leases (which represent key assets of the Company) carried at nil value; and
- General meetings and correspondence as required between the Deed Administrators and Ascent.

ASIC have re-extended the due date for lodgement of the Company's outstanding financial statements together with any full year or interim financial account lodgements subsequently falling due within the extension period, from 30 June 2016 to the earlier of 30 November 2017, with a further extension requested to 31 December 2017, or such time as the Company lodges a disclosure document with ASIC in connection with the issue of securities as contemplated by the Deed of Company Arrangement. ASIC have also extended the period within which the Company must hold its AGM to 31 January 2018.

Other than these no other matter or circumstance has arisen since 31 December 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.

7. Impairment

AASB 136 requires a company to make a formal estimate of recoverable amount of an asset if an indicator of impairment is present. An impairment loss of 100% against the carrying value of the CMD gold mine property, plant and equipment and mine development costs has been made as at 31 December 2014 as based on management's assessment it was considered non-recoverable.

On 12 February 2015 the directors, other than Mr Peter Babin, concluded that the various Hamilton proposals were either too conditional or not capable of being progressed with an adequate degree of certainty and in a timeframe that would ensure the ongoing solvency of the Company and hence resolved to appoint Administrators on 13 February 2015.

At the date of the Administrators appointment the Company's only secured creditor was Sprott. Hamilton acquired the secured debt and associated security interests from Sprott on 19 February 2015. Hamilton took control of the shares in the Company's subsidiary DMC, the beneficial owner of the CMD Gold Mine, on 26 March 2015 and subsequently seized the DMC shares. On 17 April 2015 Hamilton transferred to itself 100% of the share capital of DMC in consideration for the forgiveness of its secured debt against the Company, thus gaining control of the Company's Chilean assets.

8. 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	82	8	14	7,380	7,484
Additions	-	-	-	186	186
31 December 2014	652	56	97	56,264	57,069
Accumulated depreciation:					
1 July 2014	178	48	-	31,334	31,560
Depreciation charge for period	9	-	-	1,271	1,280
Impairment loss	438		97	17,472	18,007
Effect of movements in exchange rates	25	8	-	6,187	6,220
31 December 2014	650	56	97	56,264	57,067
Carrying amount at beginning of period	392	-	83	17,364	17,839
Carrying amount at end of period	2	-	-	-	2
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

9. Capital Commitments

There were no capital commitments at period end.

10. Contributed Equity

	Number	$000
Ordinary shares		
1 July 2014	147,632,273	224,522
Issue of shares for cash	16,403,486	1,308
Share based payments	1,357,500	42
Costs of issue of shares	-	(18)
31 December 2014	165,393,259	225,854
1 July 2013	99,107,273	215,076
Issue of shares for cash	47,500,000	9,684
Costs of issue of shares	-	(451)
Exercise of share options	-	-
Share based payments	1,025,000	213
30 June 2014	147,632,273	224,522

The following unissued ordinary shares of the Company are under warrant / option at period end:

Expiry date	Exercise price	Number 01/07/14	Issued	Expired / cancelled	Number 31/12/14
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		(150,000)	1,050,000
27/11/17	$0.125	-	2,300,000	-	2,300,000
27/11/17	$0.25	-	150,000	-	150,000
		2,955,431	2,450,000	(175,000)	5,230,431

11. 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 contained within the Directors' Report and other notes to these financial statements. 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, other than deferred tax, is set out in the table below:

	31 December 2014 $000	30 June 2014 $000
Chile	22	33,054
Australia	3,206	2,778
	3,228	35,832

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 in 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 liabilities measured and recognised at fair value. There were no financial assets measured and recognised at fair value at 31 December 2014 or 30 June 2014.

31 December 2014	**Level 1 $000**	**Level 2 $000**	**Level 3 $000**	**Total $000**
Financial liabilities				
Borrowings	-	3,562	24	3,586
	-	3,562	24	3.586

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

Level 2 borrowings a gold loan payable to Sprott 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 table presents the change in these instruments:

31 December 2014	**Contingent consideration $000**	**Gold loan $000**	**Total $000**
1 July 2014	46	3,986	4,032
Fair value (gain) / loss	-	561	561
Repayment of borrowings	(22)	(985)	(1,007)
31 December 2014	24	3,562	3,586

30 June 2014	**Contingent consideration $000**	**Gold loan $000**	**Total $000**
1 July 2013	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

13. Changes in Accounting Policies

The International Accounting Standards Board published IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* on 19 October 2011, applicable in Australia as Interpretation 20. The interpretation, which was applicable to the Company for the financial period commencing 1 July 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 interpretation must be applied retrospectively and the group has to write off existing stripping cost asset balances to retained earnings on the date of transition, unless they relate to an identifiable component of the ore body. The impact of this change in accounting policy on the financial statements as at the beginning of the immediately preceding comparative period is as follows:

13. Changes in Accounting Policies (Continued)

(i) Consolidated Statement of Financial Position

	Audited 30 June 13 $000	IFRIC 20 adjustment for change in accounting policy $000	Restated 30 June 13 $000
Current assets			
Cash and cash equivalents	2,811	-	2,811
Trade and other receivables	3,883	-	3,883
Inventories	13,782	-	13,782
Total current assets	20,476	-	20,476
Non-current assets			
Trade and other receivables	491	-	491
Inventories	6,428	-	6,428
Mine development properties	24,865	(3,184)	21,681
Property, plant and equipment	22,167	3,184	25,351
Exploration and evaluation	2,775	-	2,775
Deferred tax asset	2,976	-	2,976
Total non-current assets	59,702	-	59,702
Total assets	80,178	-	80,178
Current liabilities			
Trade and other payables	24,786	-	24,786
Borrowings	13,068	-	13,068
Total current liabilities	37,854	-	37,854
Non-current liabilities			
Borrowings	13,767	-	13,767
Provisions	5,943	-	5,943
Total non-current liabilities	19,710	-	19,710
Total liabilities	57,564	-	57,564
Net assets	22,614	-	22,614
Equity			
Contributed equity	215,076	-	215,076
Reserves	7,941	(727)	7,214
Accumulated losses	(200,403)	727	(199,676)
Total equity	22,614	-	22,614

13. Changes in Accounting Policies (Continued)

(ii) 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 (Audited)	215,076	(200,403)	129	7,812	22,614
Change in accounting policy IFRIC 20	-	727	-	(727)	-
Balance at 1 July 2013 (Restated)	215,076	(199,676)	129	7,085	22,614

DIRECTORS' DECLARATION

In the opinion of the directors of Lachlan Star Limited:

(a) the financial statements and notes as set out on pages 9 to 25 are in accordance with the *Corporations Act 2001* including:

(i) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2014 and of its performance for the half-year ended on that date; and

(ii) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory reporting requirements; and

(b) subject to Note 2 to the financial statements there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

Director

Perth, 19 December 2017

Independent auditor's review report to the members of Lachlan Star Limited

Report on the half-year financial report

We were engaged to review the accompanying half-year financial report of Lachlan Star Limited (the company), which comprises the consolidated statement of financial position as at 31 December 2014, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Lachlan Star Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on conducting the review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Because of the matter described in the Basis for disclaimer of conclusion paragraph, however, we were not able to obtain sufficient appropriate review evidence to provide a basis for a review conclusion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Basis for disclaimer of conclusion

On 17 April 2015, in settlement of a secured debt, the company transferred to its creditor, its interest in DMC Newco Pty Ltd (DMC) which was the beneficial owner of the CMD Gold Mine. Over 90% of the consolidated entity's total comprehensive loss of $33,510,000 for the half-year, and over 90% of its total assets of $31,695,000 at 31 December 2014, relate to DMC. We were not granted access to management and the auditors of DMC, including DMC's auditors' audit documentation. As a result, we were unable to determine whether any adjustments were necessary in respect of DMC's assets, liabilities, income and expenses for the half-year and its elements making up the statement of changes in equity and consolidated statement of cash flows.

Note 2 also indicates that the consolidated entity incurred a net loss after tax of $35,790,000 during the half-year ended 31 December 2014, and as of that date, had a net current asset deficiency of $4,528,000. As a result the consolidated entity is dependent on successfully raising additional funding. These conditions, along with other matters set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

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Disclaimer of conclusion

Because of the significance of the matter described in the Basis for disclaimer of conclusion paragraph we have not been able to obtain sufficient appropriate review evidence to provide a basis for a review conclusion. Accordingly we do not express a conclusion on the half-year financial report.

PricewaterhouseCoopers

PricewaterhouseCoopers

Douglas Craig

Douglas Craig
Partner

Perth
19 December 2017