

## MANAGEMENT DISCUSSION AND ANALYSIS

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This Management Discussion and Analysis (“**MD&A**”) for Lachlan Star Limited (“**Lachlan**” or the “**Company**”) and its subsidiaries (collectively, the “**Group**”) is dated September 30, 2013 and provides an analysis of the Company’s performance and financial condition for the year ended June 30, 2013 (the “**Year**” or “**June 2013 Year**”) and the quarter ending June 30, 2013 (the “**Quarter**” or “**June 2013 Quarter**”).

The MD&A should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto (including the Directors’ Report) for the year ended 30 June 2013. Capitalised terms used and not defined below have the meanings given to them in the Directors’ Report and the audited Financial Report and the notes thereto.

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

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

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

The A\$/US\$ exchange rate used for the purposes of converting the statement of financial position of CMD and DCEM as at June 30, 2013 was A\$1.00 = US\$0.9146. The average A\$/US\$ exchange rate used for the purposes of converting the statement of financial performance of CMD and DCEM for the three months to June 30, 2013 was A\$1.00 = US\$0.9923 and for the year to June 30, 2013 was A\$1.00 = US\$1.0273. Details of average and period end exchange rates that impact the Group are set out in the section “*Financial Instruments and Related Risks*” of this MD&A.

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

In making and providing the forward-looking information included in this MD&A, the Company has made numerous assumptions. These assumptions include, among other things, assumptions about the prices of gold, silver and copper, anticipated costs and expenditures, the availability of credit, future production and recovery, that the supply and demand for gold, silver and copper develops as expected, that there is no unanticipated fluctuation in interest rates and foreign exchange rates and that there is no further material deterioration in general economic conditions. Although management believes that the assumptions made and the expectations represented by such information are reasonable, there can be no assurance that the forward-looking information will prove to be accurate. By its nature, forward-looking information is based on assumptions and involves known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements, or industry results, to be materially different from future results, performance or achievements expressed or implied by such forward-looking information. Such risks, uncertainties and other factors include, among other things: fluctuations in metal prices, limited mine life, dependency on developing new mineral reserves, the fact that mineral reserve and mineral resource estimates are estimates only, environmental risks and hazards, global financial conditions, the effect of possible shortages and price volatility on operations and equipment, the speculative nature of mineral exploration, development, mining and processing, mineral exploration and mining risks, insurance and uninsured risks, the need for additional capital, the uncertain profitability of extraction of mineral resources, the financial and economic reliability of operating estimates and Lachlan's mine plan, the fact that such mine plan for the CMD Gold Mine is not based on a feasibility study, competition for properties, the impact of licences, permits and government regulation, litigation, currency and liquidity risk, Lachlan's limited operating history, credit risk and interest rate risk, changing political, legal and economic conditions, hedging and derivatives, dependence on key personnel, title to properties, labour and employment relations, dilution, the risk that no dividends will ever be paid on shares, conflicts of interests, inability to manage indebtedness and internal control over financial reporting. See the "*Risk Factors*" section in the Company's 2013 Annual Information Form (the "**AIF**"), available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com), for further discussion of the risks facing the Company.

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

**CAUTION REGARDING NON-GAAP AND NON-IFRS MEASURES**

The Company has included in this document certain terms or performance measures, including the C1 cash costs, cash costs of gold per ounce, mine cash margin, operating cash flow before changes in non-cash working capital, and CMD Gold Mine Gross Operating Profit that are not defined in Canadian generally accepted accounting principles (“**GAAP**”) or in IFRS. These non-GAAP and non-IFRS measures do not have any standardized meaning within Canadian GAAP or IFRS and therefore may not be comparable to similar measures presented by other companies. The Company believes that these non-GAAP and non-IFRS measures provide additional information that is useful in evaluating the Company’s performance. The data presented is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with Canadian GAAP and IFRS. These non-GAAP and non-IFRS measures should be read in conjunction with the financial statements (or other financial information) of the Company.

**ADDITIONAL INFORMATION**

Additional information relating to the Company, including public announcements and the Company’s AIF, is available under the Company’s profile on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company’s website at [www.lachlanstar.com.au](http://www.lachlanstar.com.au).

## OVERALL PERFORMANCE

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

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

Since acquiring the CMD Gold Mine on December 24, 2010, the gold spot price has decreased from US\$1,380.50 / ounce to US\$1,192 / ounce as at June 30, 2013. Subsequent to June 30, 2013, the gold spot price has risen and was US\$1,341 / ounce as at September 27, 2013.

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

Lachlan owns a 100% beneficial interest in the Compañía Minera Dayton project (the “**CMD Gold Mine**”), which it acquired on December 24, 2010.

Gold production for the June Quarter was 16,160 ounces, a record under the Company’s ownership, and a 48% increase on the March 2013 quarter (10,892 ounces). In addition, 11,559 ounces of silver was produced during the Quarter. Production of 51,148 ounces of gold was achieved in the June 2013 Year versus 43,642 ounces of gold in the June 2012 Year. All production was sold at spot prices, with an average sale price of US\$1,377 per gold ounce for the Quarter and US\$1,579 for the Year.

The CMD Gold Mine is a bulk tonnage heap leach operation that at the time of acquisition was operating at an annualised stacking rate of 1.5 Mtpa compared to the installed crushing and stacking capacity of 8 Mtpa. During the course of the June Quarter ore stacking rates were maintained at an annualized rate of 5.0 Mtpa. Gold ounces stacked in the June 2013 Quarter of 20,788 ounces was up 16% compared to the previous quarter, a record under the Company’s ownership.

*Bushranger Copper Project, Australia*

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

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

- (i) Newmont will have an 18 month option period (“Option Period”) to evaluate the Bushranger Copper Project, during which time it must spend a minimum of \$0.25 million. As at 30 June, 2013 Newmont had spent \$0.52 million on the Bushranger Copper Project and elected to exercise their option to earn a 51% interest in the Bushranger Copper Project by spending a total of A\$1 million (including expenditures during the Option Period) over a period of 2 years and 6 months from the date of the Agreement (the Farm In Period).
- (ii) At the completion of the Farm In Period, the Company and Newmont will form a Joint Venture owned 49% and 51% respectively, with both parties funding exploration and development on a pro rata basis. Either party may elect to dilute during the Joint Venture.

## EXPLORATION AND EVALUATION

The Group's exploration and evaluation expenditures for the Quarter comprised \$0.08 million of exploration at the CMD Gold Mine (classified as mine development expenditure in the consolidated statement of financial position) and \$Nil at the Bushranger Copper Project.

The Group's exploration and evaluation expenditures for the Year comprised \$1.24 million of exploration at the CMD Gold Mine (classified as mine development expenditure in the consolidated statement of financial position) and \$Nil at the Bushranger Copper Project.

## CORPORATE

During the Year the Company received \$6.29 million in cash from the exercise of 5,240,576 options / warrants at an exercise price of \$1.20 each.

On April 4, 2013 the Company announced that it had entered into subscription agreements with accredited North American and European investors to raise a total of CDN\$12.93 million at an issue price of CDN\$0.57 a share from the issuance of 22,683,468 ordinary shares to finance spares inventory, capital expenditure and for general working capital purposes. The Company has only received \$3.92 million cash in respect of the issue of 7,265,000 shares with the remaining subscriber failing to complete under the terms of their Subscription Agreement by the extended closing date of June 14, 2013. The Company continues to be in discussion with the subscriber and has not released that subscriber of its obligations to fund as per the binding Subscription Agreement. Until the subscriber substantially completes on its funding obligation the corporate office will remain in Perth and the proposed management changes will not occur.

On February 13, 2013 the Company entered into a C\$10 million secured debt facility ("Facility") with Sprott Resource Lending Partnership ("Sprott"). The Facility has a 12-month term and is drawable in two C\$5 million Tranches. The term of the loan can be extended for a further 12 months under certain circumstances and the payment of an extension fee. Under the terms of the Facility Tranche 1 was required to be drawn and this occurred in February 2013. Tranche 2 was drawable within a 6 month period after the closing of the Facility subject to certain operating outcomes, a term which has now expired. The Facility bears interest at 11% per annum, payable monthly. A fee is payable to Sprott in an amount equal to 4% of each draw under the Facility, being \$200,000 for each C\$5 million draw, payable by the issuance of ordinary shares of the Company to be priced at a 10% discount to the 5 day Volume Weighted Average price of the Company's shares on the TSX prior to the draw down, subject to the receipt of applicable exchange approvals. If applicable exchange approvals are not obtained this fee is payable in cash. The fee associated with the first Tranche was satisfied by the issue of shares.

Mr. Declan Franzmann retired from his role of Managing Director and reverted to a non-executive director role at the end of April 2013. The Company's Chief Operating Officer (COO), (Mr. Bira de Oliveira) has assumed responsibility for the Company's operations and now reports directly to the Company's Executive Chairman.

## OUR PEOPLE

The number of employees at Quarter end decreased to 374 from 403 at March 31, 2013 as the Company retrenched a number of employees as a cost restructuring exercise. The majority of employees are Chilean nationals, with 370 based at or near to the CMD Gold Mine.

## RESULTS OF OPERATIONS

Total sales during the Quarter from the CMD Gold Mine were \$22.18 million, cost of sales was \$27.52 million, and net sales were negative \$5.34 million. Total sales during the Year from the CMD Gold Mine were \$77.63 million, cost of sales was \$90.69 million, and net sales were negative \$13.06 million.

Operating cash flow before changes in non-cash working capital was positive \$0.15 million for the Quarter, and negative \$4.65 million for the Year.

The Bushranger Copper Project is no longer considered to be a core asset of the Company and in September 2011 the Company entered into the Newmont Farm In Agreement, refer *Bushranger Copper Project, Australia* above.

## CHILE

### CMD GOLD MINE

Lachlan's material mineral project is the CMD Gold Mine, which it acquired in December 2010. The CMD Gold Mine is a production-stage heap leach gold mine in Andacollo, Chile, which is located approximately 350km north of Santiago, Chile. The CMD Gold Mine commenced production in 1995 and has produced approximately 950,000 ounces of gold since operations commenced. There are at least six known gold deposits in the CMD Gold Mine: Toro/Socorro, Tres Perlas, Churumata, El Sauce, Las Loas and Chisperos.

### Operations

Table 1 below compares key performance indicators, including production and recovery rates and costs, for the three months ended June 30, 2013 as compared to the three months ended March 31, 2013 for the CMD Gold Mine. Unless otherwise noted, all currency disclosures are in Australian dollars and all weights and measures are in metric units.

**Table 1 – CMD Gold Mine Key Performance Indicators (Quarter on Quarter)**

Item	Unit	3 months ended June 30 2013	3 months ended March 31 2013	% Change
Ore Mined	Dmt	1,139,766	1,338,000	-15%
Waste Mined	Dmt	2,840,087	3,601,724	-21%
Total Mined	Dmt	3,979,853	4,939,724	-19%
Waste:Ore Ratio	t:t	2.49	2.7	-8%
Ore grade Mined	Au g/t	0.58	0.49	19%
Gold Mined	Au oz	21,364	21,220	1%
Ore stacked	Dmt	1,250,766	1,146,000	9%
Stacked Grade	Au g/t	0.52	0.49	6%
Gold Stacked	Au oz	20,788	17,940	16%
Average stacking rate	dmt/d	13,897	12,876	8%
Gold Produced	Au oz	16,160	10,892	48%
Mining Cost/t moved	US\$/t	\$2.33	\$2.20	6%
Mining Cost/t ore	US\$/t	\$8.13	\$8.10	0%
Process Cost/t ore stacked	US\$/t	\$8.31	\$8.51	-2%
G+A Cost/t ore	US\$/t	\$1.52	\$1.74	-12%
Total Cost/t ore	US\$/t	\$17.97	\$18.35	-2%

Average Sales Price	USD/oz	\$1,377	\$1,635	-16%
Cash Cost	USD/oz	\$910	\$1,337	-32%
Non Cash Process Inventory Adjustment	USD/oz	\$228	-\$98	-332%
C1 Cash Cost <sup>(1)</sup>	USD/oz	\$1,137	\$1,239	-8%
CMD Gold Mine Gross Operating Profit / (Loss) (unaudited) <sup>(2)</sup>	US\$million	\$2.15	-\$0.53	506%

## Notes:

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

Gold production for the June Quarter was 16,160 ounces, a record under the Company's ownership, and a 48% increase on the March 2013 quarter (10,892 ounces) with an average sale price of US\$1,377 per gold ounce. In addition, 11,559 ounces of silver was produced during the Quarter.

Table 2 below compares key performance indicators, including production and recovery rates and costs, for the Year as compared to the year ended June 30, 2012 for the CMD Gold Mine. Unless otherwise noted, all currency disclosures are in Australian dollars and all weights and measures are in metric units.

**Table 2 – CMD Gold Mine Key Performance Indicators (Year on Year)**

Item	Unit	Year ended June 30 2013	Year ended June 30 2012	% Change
Ore Mined	dmt	4,914,544	3,324,384	47.8%
Waste Mined	dmt	15,188,827	12,628,847	20.3%
Total Mined	dmt	20,103,371	15,953,231	26.0%
Waste:Ore Ratio	t:t	3.09	3.80	-18.7%
Ore grade	Au g/t	0.50	0.56	-10.7%
Gold Mined	Au oz	79,098	60,029	31.8%
Ore stacked	dmt	4,617,200	3,279,837	40.8%
Stacked Grade	Au g/t	0.48	0.55	-12.7%
Gold Stacked	Au oz	72,803	58,431	24.6%
Average stacking rate	dmt/d	12,649	8,961	41.2%
Gold Produced	Au oz	51,148	43,642	17.2%
Mining Cost/t moved	US\$/t	\$2.23	\$2.35	-5.1%
Mining Cost/t ore	US\$/t	\$9.42	\$11.28	-16.5%
Process Cost/t ore stacked	US\$/t	\$8.21	\$8.37	-1.9%
G+A Cost/t ore	US\$/t	\$1.69	\$1.67	1.2%
Total Cost/t ore	US\$/t	\$19.32	\$21.32	-9.4%

Average Sales Price	USD/oz	\$1,579	\$1,669	-5.4%
Cash Cost	USD/oz	\$1,101	\$893	23.3%
Non Cash Process Inventory Adjustment	USD/oz	(\$15)	\$40	-137.5%
C1 Cash Cost	USD/oz	\$1,086	\$933	16.4%
CMD Gold Mine Gross Operating (Loss) / Profit (unaudited)	US\$ million	(\$4,796)	\$6,314	-176.0%

Production of 51,148 ounces of gold was achieved in the June 2013 Year versus 43,642 ounces of gold in the June 2012 Year. All production was sold at spot prices, with an average sale price of US\$1,579.

A reconciliation of CMD Gold Mine Gross Operating (Loss) / Profit to the IFRS measure consolidated Profit Before Income Tax is provided in Tables 3 and 4 below.

**Table 3 – Reconciliation of unaudited CMD Gross Operating Profit / (Loss) to unaudited consolidated Profit Before Income Tax (Quarter on Quarter)**

		3 months ended June 30, 2013	3 months ended March 31, 2013
CMD Gross Operating Profit / (Loss) (unaudited)	US\$000	2,150	(533)
A\$ / US exchange rate for the period		0.992	1.039
CMD Gross Operating Profit / (Loss) (unaudited)	A\$000	2,167	(513)
Inventory adjustment	A\$000	(4,316)	2,117
Depreciation and amortisation	A\$000	(3,534)	(2,136)
Unwinding of discount on provision	A\$000	(38)	-
Foreign exchange (loss) / gain	A\$000	827	(433)
Revaluation of deferred consideration	A\$000	107	480
Net finance income / (expense)	A\$000	(500)	(168)
New venture expenditure written off	A\$000	67	(70)
Other head office related costs	A\$000	(383)	(951)
Impairment loss	A\$000	(33,684)	-
Consolidated (Loss) Before Income Tax (unaudited)	A\$000	(39,287)	(1,674)



**Table 4 – Reconciliation of unaudited CMD Gross Operating Profit / (Loss) to unaudited consolidated Profit Before Income Tax (Year on Year)**

		Year ended 30 June, 2013	Year ended 30 June, 2012
CMD Gross Operating (Loss) / Profit (unaudited)	US\$000	(4,796)	6,314
A\$ / US average exchange rate for the period		1.061	1.065
CMD Gross Operating (Loss) / Profit (unaudited)	A\$000	(4,518)	5,930
Inventory adjustment	A\$000	(238)	(1,958)
Depreciation and amortisation	A\$000	(9,127)	(4,674)
Unwinding of discount on provision	A\$000	(38)	(31)
Foreign exchange (loss) / gain	A\$000	(831)	385
Revaluation of deferred consideration	A\$000	670	188
Finance income	A\$000	149	576
Finance expense	A\$000	(703)	(237)
New venture expenditure written off	A\$000	(142)	(332)
Other head office related costs	A\$000	(2,516)	(2,748)
Impairment charge	A\$000	(33,684)	-
Consolidated Loss Before Income Tax	A\$000	(50,979)	(2,901)

The CMD Gold Mine Gross Operating Profit was US\$2.15 million for the quarter. This result was a 506% improvement on the previous quarter and was primarily driven by the 48% increase in ounces poured and continuing cost reductions. This result was achieved despite the fall in the gold price and is the best result for the Company since the March 2012 Quarter, when the gold price was US\$300 per ounce higher than the average price for the June 2013 quarter.

A reconciliation of C1 cash costs to the IFRS measure Cost of Sales is provided in Tables 5 and 6 below.

**Table 5 – Reconciliation of cash cost (US\$/oz) per ounce to unaudited Cost of Sales (Quarter on Quarter)**

		3 months ended June 30, 2013	3 months ended March 31, 2013
Cash cost per ounce	US\$	1,137	1,239
Ounces produced		16,160	10,892
Cash costs	US\$000	18,381	13,496
A\$ / US exchange rate for the period		0.9923	1.039
Cash costs	A\$000	18,523	12,991
Inventory adjustments (doré and stockpiles)	A\$000	798	(1,153)
Depreciation and amortization	A\$000	3,535	2,136
Waste costs expensed or amortised	A\$000	3,790	3,377
Royalties	A\$000	392	304
Other	A\$000	234	37
Copper / silver net revenue	A\$000	243	123
Cost of sales (unaudited)	A\$000	27,515	17,815

**Table 6 – Reconciliation of cash cost (US\$/oz) per ounce to unaudited Cost of Sales (Year on Year)**

		Year ended 30 June, 2013	Year ended 30 June, 2012
Cash cost per ounce	US\$	1,086	933
Ounces poured		51,143	44,420
Cash costs	US\$000	55,526	41,426
A\$ / US average exchange rate for the period		1.023	1.034
Cash costs	A\$000	54,281	40,059
Inventory adjustments (doré and stockpiles)	A\$000	(1,102)	-
Depreciation and amortization	A\$000	9,127	4,674
Waste costs expensed and amortised	A\$000	24,999	24,527
Royalties	A\$000	1,874	1,689
Process inventory provision	A\$000	427	426
Other	A\$000	426	112
Copper / silver net revenue	A\$000	656	1,016
Cost of Sales	A\$000	90,688	72,503

Depreciation and amortization costs increased in the second half of the year as the result of the acquisition of an owner operated mine fleet, increased waste capitalisation resulting from the adoption of a mine plan with a lower LOIM strip ratio from 1 January 2013 and increased production.

Table 7 below shows the cash costs for each quarter over the past year, and the impact of the inventory valuation adjustment (all numbers in US\$ per ounce).

**Table 7 – Cash Cost (US\$ per ounce) and inventory adjustments**

Item	Quarter ending 30 June 2013	Quarter ending 31 March 2013	Quarter ending 31 December 2012	Quarter ending 30 September 2012	12 months to June 2013
Cash costs with inventory adjustment (\$/oz)	1,137	1,239	1,026	921	1,086
Cash costs without inventory adjustment (\$/oz)	910	1,337	1,062	1,166	1,101
Inventory adjustment effect (\$/oz)	227	(98)	(34)	(245)	(15)

C1 cash costs, which exclude waste costs expensed or amortised and royalties, decreased to US\$1,137 per ounce of gold produced in the June Quarter (a decrease of 8% quarter on quarter). The inventory adjustment of US\$228 per ounce for the June Quarter comprises \$87 per ounce for the drawdown in ounces from the leachpad, \$127 per ounce for the reduced average cost of ounces on the leachpad, and \$14 per ounce for stockpile movements. C1 cash costs of US\$1,086 for the Year compare to \$933 for the prior year.

The Company's mine cash margin for the CMD Gold Mine, being defined as gold revenue less royalties, cash costs for ounces produced, inventory movements and waste costs can be represented in Au oz as set out in Table 8 below:

**Table 8 – Quarterly mine cash margin represented in Au oz**

<i>Gold equivalents for the three months ended:</i>	<b>Jun-30</b>	<b>Jun-30</b>	<b>Mar-31</b>	<b>Mar-31</b>	<b>Dec-31</b>	<b>Dec-31</b>	<b>Sept-30</b>	<b>Sept-30</b>
	<b>2013</b>	<b>2013</b>	<b>2013</b>	<b>2013</b>	<b>2012</b>	<b>2012</b>	<b>2012</b>	<b>2012</b>
	<b>A\$000</b>	<b>Au oz</b>	<b>A\$000</b>	<b>Au oz</b>	<b>A\$000</b>	<b>Au oz</b>	<b>A\$000</b>	<b>Au oz</b>
Gold revenue	22,112	15,932	17,610	11,191	21,633	12,897	16,244	10,369
Royalties	(392)	(283)	(305)	(194)	(593)	(354)	(583)	(372)
Cash costs for ounces produced	(18,523)	(13,346)	(12,991)	(8,256)	(13,585)	(8,098)	(9,184)	(5,862)
Inventory movements	798	575	(1,154)	(733)	267	159	(587)	(375)
Waste costs	(6,616)	(4,767)	(7,599)	(4,829)	(9,247)	(5,514)	(9,292)	(5,931)
Mine cash margin	(2,671)	(1,889)	(4,439)	(2,821)	(1,525)	(910)	(3,402)	(2,172)
Average gold price (A\$)		1,388		1,574		1,677		1,567

Operating cash flow before changes in non-cash working capital was positive \$0.15 million for the Quarter and has improved markedly over the past year as seen from Table 9.

**Table 9 – Quarterly cash flow before changes in non-cash working capital**

<b>Item</b>	<b>Quarter ending 30 June 2013</b>	<b>Quarter ending 31 March 2013</b>	<b>Quarter ending 31 December 2012</b>	<b>Quarter ending 30 September 2012</b>	<b>12 months to June 2013</b>
<b>Cash flow before changes in non-cash working capital (US\$ 000)</b>	154	(777)	(1,310)	(2,712)	(4,646)

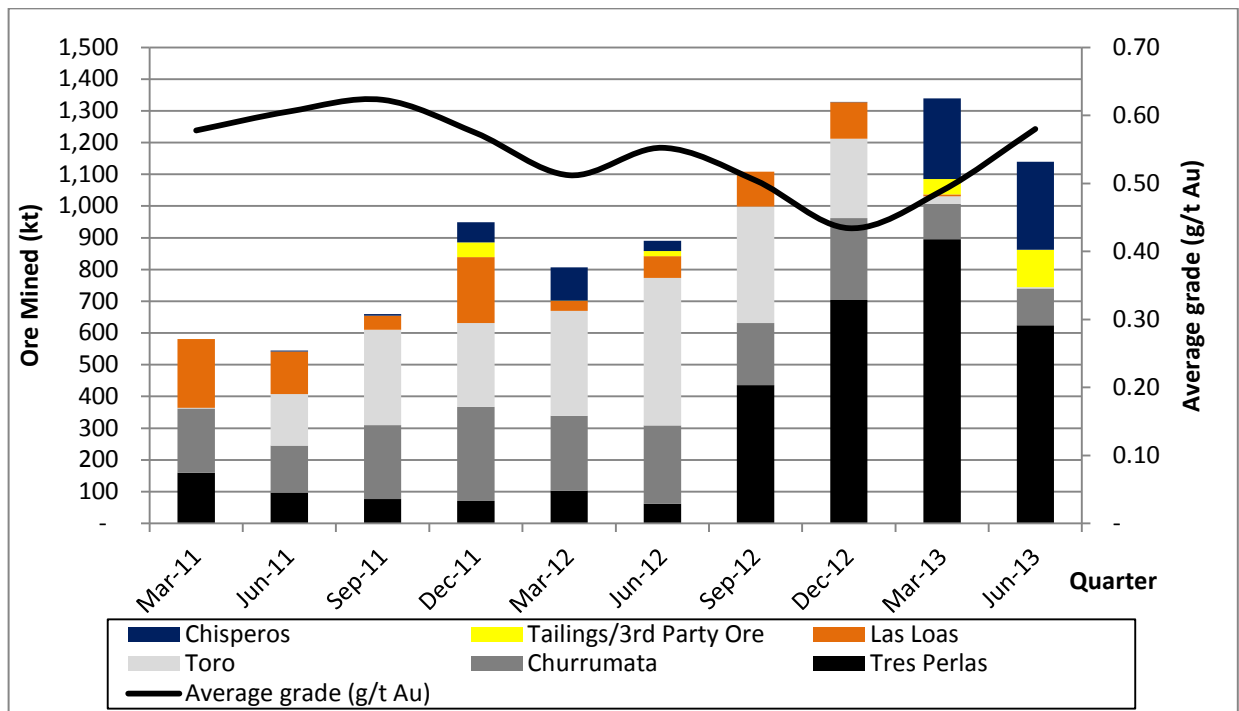
The total cost per tonne of ore stacked in the month of June was US\$14.93, a record low under the Company's ownership. This result was achieved through a significant reduction in the processing costs to US\$6.53 per tonne due to the higher tonnage stacked.

Total ore mined for the Year was 4.9 million tonnes for 79,098 contained Au ounces, with the waste to ore ratio for the year falling to 3.09 from 3.8. By the June Quarter the waste to ore ratio had fallen to 2.49:1. Ore was principally sourced from the Tres Perlas pit. Table 10 details the ore and waste movement in the year by pit.

**Table 10 – Annual mine production by pit**

Item	Unit	Churrumata	Tres Perlas	Chisperos	Toro	Las Loas	Other Sources	Total
Ore Mined	kt	679	2661	532	644	231	167	4,914
Au Grade	g/t	0.49	0.39	0.87	0.58	0.56	0.67	0.50
Contained Au	oz	10,724	33,692	14,990	11,978	4,141	3,573	79,098
Waste Mined	kt	3,626	6,689	1,673	2,107	1,088	6	15,189
Total Mined	kt	4,305	9,350	2,205	2,751	1,319	173	20,103
Strip Ratio	W:O	5.3	2.5	3.1	3.3	4.7	0.0	3.1

Figure 1 shows the mine production by pit and by quarter since the Company acquired the CMD Gold Mine in December 2010:

**Figure 1 – Quarterly ore mined by pit**

The Company has developed several relationships with small miners in the area and is purchasing ore from outside CMD's mining lease. The scheme aids employment around Andacollo and delivers an improved environmental outcome from the processing of these ores in a fully permitted gold treatment facility. The ore is typically soft and has relatively fast leach kinetics that has assisted the improvement in gold production seen in the June quarter.

Figure 2 shows the total material movement and strip ratio by quarter since the Company acquired the CMD Gold Mine in December 2010:

**Figure 2 – Quarterly material movement and strip ratio**

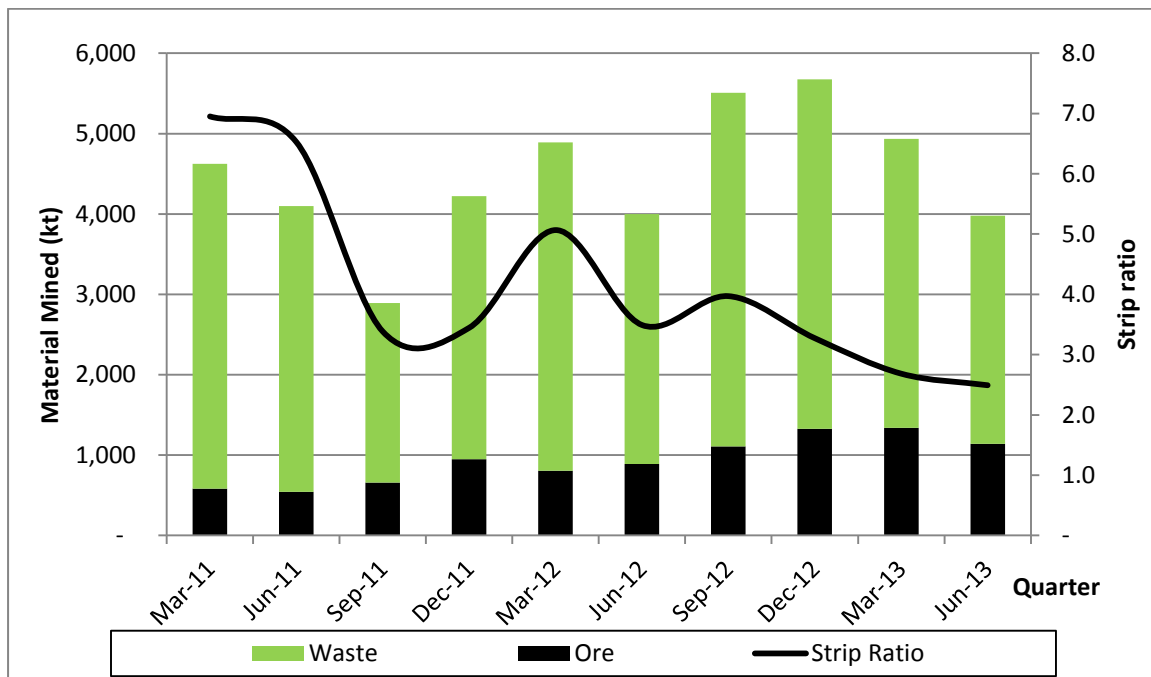
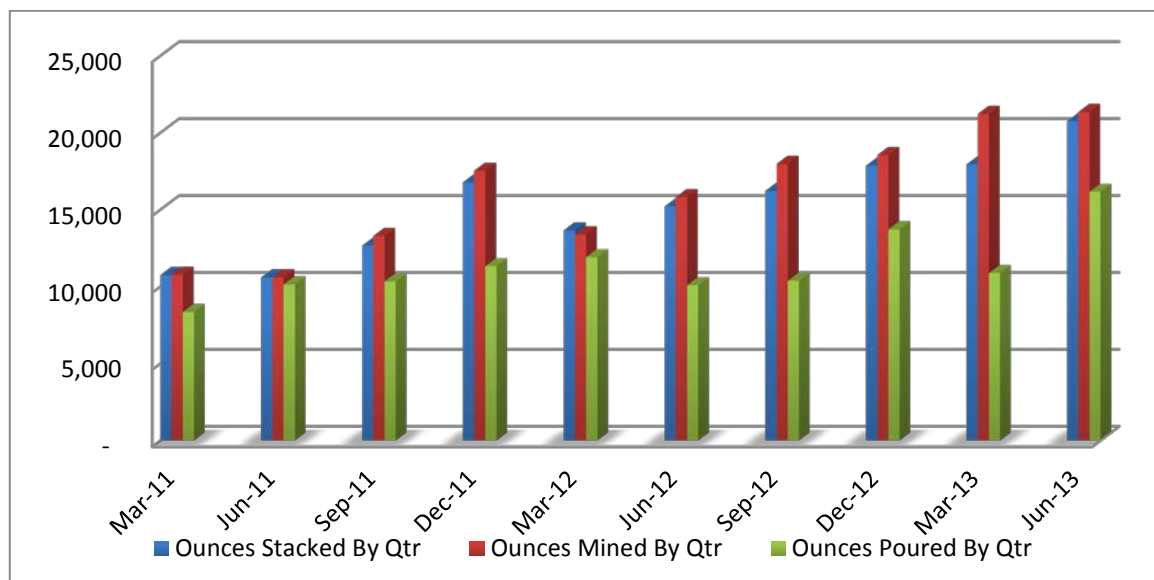


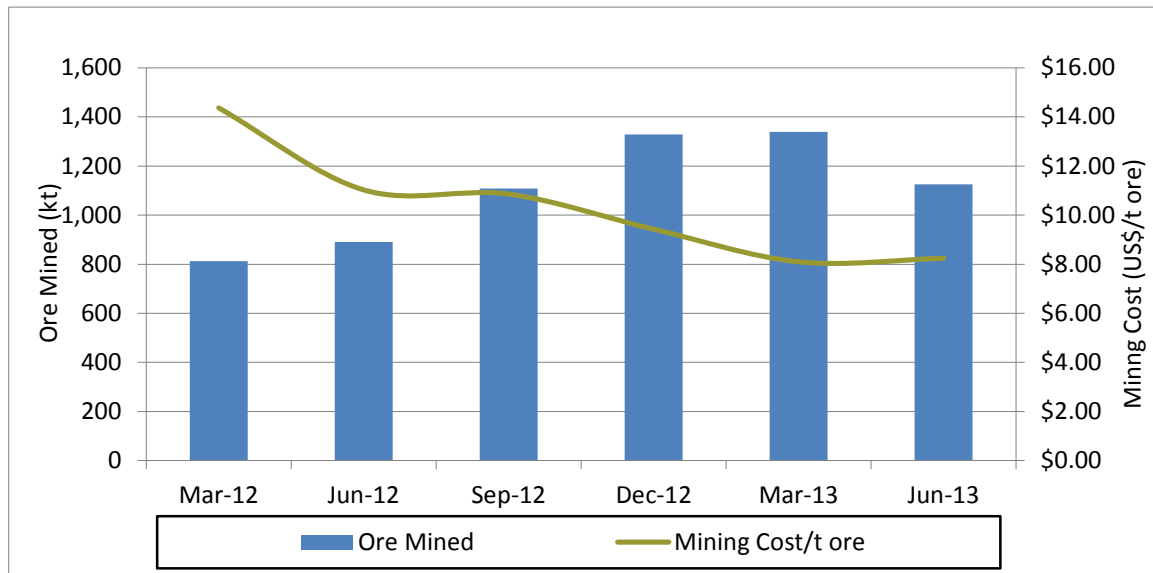
Figure 3 illustrates how the gold mined and stacked has increased rapidly over the 6 months to June 30. Gold pours in the March 2013 quarter had been negatively impacted by slower recoveries which has now been rectified, and increased pumping efficiencies and reliability has meant that solution flows to the ADR have increased in the June Quarter.

**Figure 3 – Quarterly ounces mined, stacked and gold produced**



Unit mining costs for the year decreased slightly to US\$2.23 per tonne moved (from US\$2.35 per tonne the previous year) and the mining cost per tonne of ore decreased 16% to US\$9.42 over the Year. Figure 4 illustrates the quarterly history of mining costs per ore tonne over the last 18 months.

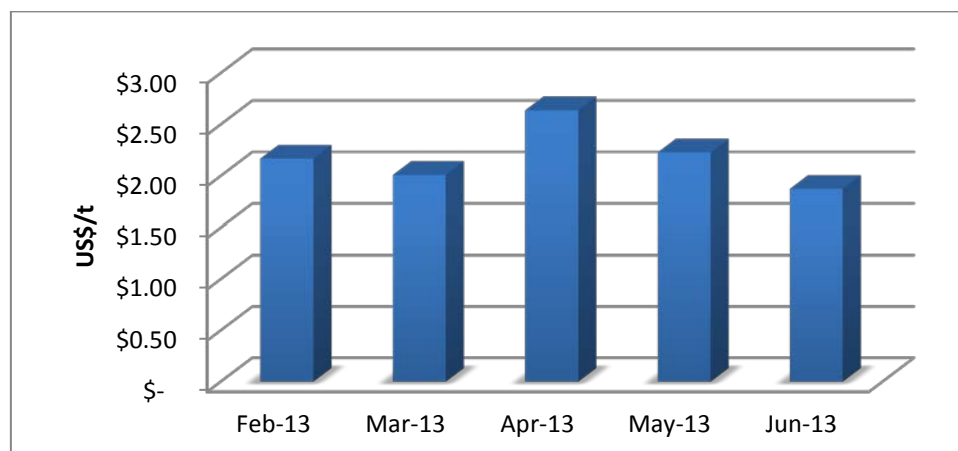
**Figure 4 – Quarterly ore mined and mining cost per tonne of ore**



The cost review process continued throughout the June quarter, with significant cost savings identified across the operations. The increase of the bench heights in the Tres Perlas pit and a general improvement of blasting practices led to a marked reduction in blasting costs. This, combined with the continued efficiencies of the owner mining fleet, saw the owner mining unit rates fall to their lowest level yet of US\$1.87 per tonne moved. This was achieved despite a 3 day shut-down in June of the fleet due to high stockpile levels and is a strong result for the Company.

Changes to the blasting patterns and bench height have decreased mining costs, and increased supervision and training has increased productivity, further driving mining costs down. Fuel consumption per tonne mined is down 19% on budget, which is also contributing to the reduced mining costs. The steady state guidance for the owner mining fleet costs is US\$1.70 to US\$1.80 per tonne moved and the Company continues to aim for that guidance range.

**Figure 5 – Monthly owner mining fleet costs**

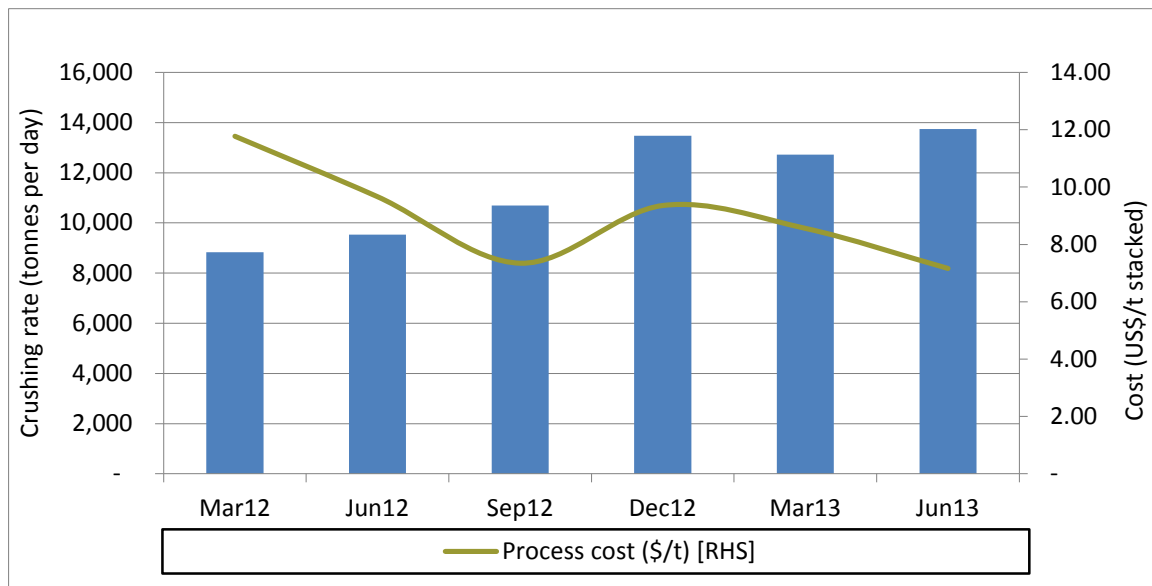


### *Ore Processing*

Process costs decreased to US\$8.21 per tonne stacked from \$8.37 per tonne stacked in the prior year.

Process costs were US\$8.31 per tonne stacked in the June Quarter which was a 2% decrease quarter on quarter (Refer Figure 6). The reduced cyanide consumption and increased throughput were the main drivers for the lower process costs. The fall in the processing unit costs to US\$6.53 per tonne for the month of June was a good result for the Company and resulted from the increased tonnages stacked, reduced cyanide consumption, lower maintenance costs and improved cost control across the site. This result was achieved despite power costs being at the highest point in the annual cost cycle and underscores the efficiencies that have been brought into the operation over the 6 months to June 30.

**Figure 6– Quarterly process cost per tonne stacked**



### *General and Administration (G+A)*

G&A for the year remained steady at US\$1.69 per ore tonne of ore (2012: US\$1.67 per tonne of ore), however decreased by 12% from the March quarter to June quarter to US\$1.52 per tonne of ore as a result of the higher tonnage stacked.

### *Cost review*

A site wide review of costs is underway with major contracts being renegotiated and functions currently being performed by external contractors internalised with significant cost savings, for example the owner mining fleet costs compared to third party mining contractors. A reduction in staff numbers was also completed during the June quarter with approximately 40 positions made redundant.

### *Exploration*

Only \$1.24 million was spent on exploration at the CMD Gold Mine during the year as the operation applied its resources to improving production and achieving cost efficiencies, as well as minimizing discretionary expenditure in a lower gold price environment.

## BUSHRANGER COPPER PROJECT - EL 5574 (100%)

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

- (i) Newmont will have an 18 month option period (“Option Period”) to evaluate the Bushranger Copper Project, during which time it must spend a minimum of \$0.25 million. As at 30 June, 2013 Newmont had spent \$0.52 million on the Bushranger Copper Project and elected to exercise their option to earn a 51% interest in the Bushranger Copper Project by spending a total of A\$1 million (including expenditures during the Option Period) over a period of 2 years and 6 months from the date of the Agreement (the Farm In Period).
- (ii) At the completion of the Farm In Period, the Company and Newmont will form a Joint Venture owned 49% and 51% respectively, with both parties funding exploration and development on a pro rata basis. Either party may elect to dilute during the Joint Venture.

Newmont have applied for an extension of the Exploration Licence which expired in June 2013.

## HEALTH AND SAFETY

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

## AUSTRALIA

### BUSHRANGER COPPER PROJECT

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

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

- Newmont will have an 18 month option period (the “**Option Period**”) to evaluate the Bushranger Copper Project, during which time it must spend a minimum of \$250,000.
- At any time during that 18 month period, Newmont could elect to exercise the option, and earn a 51% interest in the Bushranger Copper Project by spending a total of \$1 million (including expenditures during the Option Period) over a period of two years and 6 months from the date of the Newmont Farm In Agreement (the “**Farm In Period**”). Newmont elected to exercise this option on March 7, 2013.
- At the completion of the Farm In Period, the Company and Newmont will form a joint venture owned 49% and 51% respectively, with both parties funding exploration and development on a pro rata basis. Either party may elect to dilute its interest during the joint venture.

As at June 30, 2013 Newmont had spent \$0.52 million on the Bushranger Copper Project. No significant work was completed during the Quarter.



## FINANCIAL PERFORMANCE

The financial performance of the Group was affected by the continued development of the CMD Gold Mine. The financial performance of the Company is closely linked to the price of gold as the CMD Gold Mine economics are most sensitive to movements in the gold price.

Generally, the mining industry has experienced cost increases related to inflation of cost inputs. The main cost inputs for the CMD Gold Mine are mining costs and cyanide prices. The Company moved to a predominately owner mining operator model at in January 2013 which has reduced mining cost pressure. In addition, the Company has entered into new contracts for the supply of cyanide with two suppliers for 2013 with a significant pricing reduction of 14% over the 2012 prices, and further price reductions for 2014.

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

The following table sets out the intended use of the net proceeds along with the use of proceeds from the Company's August, 2011 (as disclosed in the Company's November, 2011 prospectus) and April 2012 (as disclosed in the Company's April, 2012 prospectus) special warrant offerings, the total funds allocated to each intended use of proceeds, and the amount actually spent as of June 30, 2013 (other than working capital):

Use of net proceeds (all at CMD Gold Mine)	November 2011 <sup>(1)</sup>	April 2012 <sup>(2)</sup>	Total	Spent <sup>(3)</sup>
	(CDN\$ millions)			
Exploration and resource definition drilling	6.17	4.00	10.17	9.87
Mine pre-stripping <sup>(4)</sup>	3.06	-	3.06	9.55
Plant and leach pad liners	0.51	4.60	5.11	6.10
Accumulation of mineral inventory on the leach pad	3.06	-	3.06	-
Claims acquisition	-	1.00	1.00	-
Land acquisition	-	1.50	1.50	0.08
Permitting and studies	-	0.25	0.25	0.60
<b>Total</b>	<b>12.80</b>	<b>11.35</b>	<b>24.15</b>	<b>26.20</b>

(1) As set out in “Use of Proceeds” in the Company's November 22, 2011 prospectus

(2) As set out in “Use of Proceeds” in the Company's April 26, 2012 prospectus

(3) August 2011 to June 30, 2013

(4) Chisperos pit only

In addition, the Company raised CDN\$4.14 million in April and May 2013 from the issue of 7,265,000 shares for the purchase of mining spares, capital works and for working capital purposes. At June 30, 2013 the Company had spent US\$0.82 million of these proceeds on mining spares and on capital works.

## SELECTED FINANCIAL INFORMATION

The following table sets forth selected financial information of, as at and for the periods indicated.

	2013 \$000 Audited Actual	2012 \$000 Audited Actual	2011 \$000 Audited Actual
Total Revenue from continuing operations	77,630	72,209	30,314
Net (loss) / profit for the period	(58,091)	996	(4,319)
(Loss) / profit per share basic (cents per share)	(63.6)	1.4	(11.7)
(Loss) / profit per share diluted (cents per share)	(63.6)	1.4	(11.7)
Cash and cash equivalents	2,811	17,412	4,515
Total assets	80,178	95,246	61,132
Total non-current financial liabilities	13,767	1,384	3,111
Cash dividends declared (cents per share)	-	-	-

### Notes:

- Options over Ordinary Share are not considered to be dilutive in the calculation of earnings per share if they would not increase the loss per share.
- The 2013 net loss for the period includes an impairment loss of \$33.68 million (refer "*Impairment loss*" below) and an income tax expense of \$7.11 million (2012: \$3.90 million benefit).

## SUMMARY OF QUARTERLY RESULTS

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

### Financial Condition

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

	Jun-30 2013 A\$000	Mar-31 2013 A\$000	Dec-31 2012 A\$000	Sept-30 2012 A\$000	June-30 2012 A\$000	Mar-31 2012 A\$000	Dec-31 2011 A\$000	Sep-30 2011 A\$000
<b>Financial position as at:</b>								
Cash and cash equivalents	2,811	3,103	7,489	8,336	17,412	12,715	14,474	16,123
Total assets	80,178	114,170	100,089	93,077	95,246	83,084	82,673	80,607
Total liabilities	57,564	55,151	39,421	34,192	33,005	34,304	31,857	30,047
Net assets	22,614	59,019	60,668	58,885	62,241	48,780	50,816	50,560

### Cash and cash equivalents

As at June 30, 2013 the Group had cash reserves of \$2.81 million, a decrease of \$0.29 million from March 31, 2013 and a \$14.60 million decrease from June 30, 2012 (refer "*Cash flow*" below).

Trade and other receivables at June 30, 2013 include \$1.28 million for VAT and \$2.32 million from the sale of gold, of which \$3.49 million has been received subsequent to period end. Inventories at Quarter end include \$0.84 million relating to doré produced but not sold at period end, and to which title passed to Johnson Matthey on July 5, 2013.

The Group's cash bank balances were \$0.46 million as at September 25, 2013.

During the Year the Company entered into a CDN\$10 million secured debt facility ("Facility") with Sprott Resource Lending Partnership ("Sprott"). The Facility has a 12-month term and was drawable in two C\$5 million Tranches. The term of the loan can be extended for a further 12 months under certain circumstances and the payment of an extension fee.

The Facility bears interest at 11% per annum, payable monthly. A fee is payable to Sprott in an amount equal to 4% of each draw under the Facility, being \$200,000 for each C\$5 million draw, payable by the issuance of ordinary shares of the Company to be priced at a 10% discount to the 5 day Volume Weighted Average Price (VWAP) of the Company's shares on the TSX prior to the draw down, subject to the receipt of applicable exchange approvals. Tranche 1 of the Facility was drawn on February 19, 2013 and 221,680 ordinary shares issued in satisfaction of the fee. Tranche 2 was drawable within a 6 month period after the closing of the Facility, a term which now expired.

#### *Trade and other receivables*

Trade and other receivables have increased by \$0.31 million since June 30, 2012. The A\$ / US\$ exchange rate decreased from 1:1.0161 at June 30, 2012 to 1:0.9146 at June 30, 2013 meaning an increase of \$0.42 million in the value of trade and other receivables which are presented in the CMD financial statements in US\$.

#### *Inventories*

Inventories have increased by \$5.79 million since June 30, 2012, comprising a \$4.16 million increase in CMD inventories as well as a \$1.63 million increase as a result of the A\$ / US\$ exchange rate decreasing from 1:1.0161 at June 30, 2012 to 1:0.9146 at June 30, 2013.

The \$4.16 million increase in CMD inventory primarily consists of an increase of 2,183 recoverable ounces in the leachpad with an associated cost of US\$3.37 million, a US\$3.34 million decrease attributable to the reduced average cost per ounce on the leachpad, a US\$0.81 million increase in doré in process inventory, a US\$0.40 million decrease from a leachpad inventory provision to writedown to net realizable value, US\$0.75 million recognised for stockpiles, a US\$2.61 million increase in stores inventory due to the receipt of two cyanide shipments towards period end, and a reduction of \$0.06 million in amortization of the fair value recognized on acquisition of the CMD Gold Mine in December 2010.

#### *Mine development properties*

Mine development properties have decreased by \$9.59 million since June 2012, comprising expenditure of \$11.16 million, a \$4.78 million increase as a result of the A\$ / US\$ exchange rate decreasing from 1:1.0161 at June 30, 2012 to 1:0.9146 at June 30, 2013, amortisation of \$6.64 million, and an impairment charge of \$18.89 million (refer "*Impairment loss*" below).

Of the \$11.16 million expenditure, \$1.24 million relates to exploration at the CMD Gold Mine and \$9.82 million to capitalized waste and the change in the mine rehabilitation asset. The Company adopted a new internal mine plan with a lower life of mine waste:ore ratio of 1:1 for the purposes of calculating waste capitalization and amortisation from January 1, 2013.

#### *Property, plant and equipment*

Property, plant and equipment has increased by \$8.69 million since June 2012, comprising expenditure of \$24.70 million at the CMD Gold Mine, a \$4.20 million increase as a result of the A\$ / US\$ exchange rate decreasing from 1:1.0161 at June 30, 2012 to 1:0.9146 at June 30, 2013, a depreciation charge of \$5.60 million, and an impairment charge of \$14.61 million (refer "*Impairment loss*" below).

Expenditure of \$24.70 million mainly relates to the purchase of the new owner operated mining fleet (US\$19.08 million), construction of MARC facilities for that fleet, used drilled rigs, a power line, and leach pad construction. The purchase of the new owner operated mining fleet was partly financed by new leasing and financing facilities of US\$16.66 million.

#### *Deferred tax asset*

The deferred tax asset has decreased by \$5.48 million since June 2012, mainly comprising an income tax expense of \$7.11 million (refer "*Income tax*" below) and a \$1.63 million increase as a result of the A\$ / US\$ exchange rate decreasing from 1:1.0161 at June 30, 2012 to 1:0.9146 at June 30, 2013.

#### *Total liabilities*

As at June 30, 2013, the Group had total liabilities of \$57.56 million compared to \$33.00 million at June 30, 2012, an increase of \$24.56 million (which primarily relates to finance for the owner mining fleet assets). There was a \$4.60 million increase in trade and other payables in the Year in addition to a net increase in borrowings of \$20.11 million. Trade and other payables have increased since June 2012 primarily as the result of the increased operating activities on site as well as the delay in a number of payments until early July 2013.

As at June 30, 2013, the Group had \$26.84 million in debt obligations consisting of bank loans, leases, and deferred consideration due to the vendors of the CMD Gold Mine. During the Year CMD drew down bank and lease facilities totaling US\$22.37 million to finance the purchase the new owner operated mining fleet, for capital expenditure and for working capital purposes, and the Company borrowed C\$5 million as the first tranche of the Sprott secured lending facility, refer "*Cash and cash equivalents*" above.

#### *Contributed equity*

The contributed equity increase of \$10.64 million since June 30, 2012 is shown below:

	<b>2013 Number</b>	<b>2013 \$000</b>
<i>Ordinary shares</i>		
1 July	86,380,017	204,436
Issue of shares for cash	7,265,000	3,919
Costs of issue of shares	-	(72)
Exercise of share options	5,240,576	6,289
Share based payments	221,680	504
30 June	<u>99,107,273</u>	<u>215,076</u>

#### *Reserves*

Reserves of \$7.94 million consist of a \$0.13 million share based payments reserve, which reflects the fair value of share options at their date of issue together with a balance of \$7.81 million in the foreign exchange reserve.

The movement of \$8.12 million in the foreign exchange reserve balance since June 30, 2012 comprises \$2.65 million from the translation of CMD financial statements, which are presented in US\$, to A\$ on consolidation, and the foreign exchange effect of the fair value uplift on acquisition of the CMD Gold Mine, together with a \$5.47 million unrealized foreign exchange loss on an intercompany balance. The movement in the foreign exchange reserve reflects the A\$ / US\$ exchange rate decreasing from 1:1.0161 at June 30, 2012 to 1:0.9146 at June 30, 2013.

### *Accumulated losses*

The Year's increase of \$58.09 million in accumulated losses is explained under the heading "*Operating Results*" below.

### **Cash flow**

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

<b>Cash flows for the three months ended:</b>	<b>Jun-30 2013 A\$000</b>	<b>Mar-31 2013 A\$000</b>	<b>Dec-31 2012 A\$000</b>	<b>Sept-30 2012 A\$000</b>	<b>Jun-30 2012 A\$000</b>	<b>Mar-31 2012 A\$000</b>	<b>Dec-31 2011 A\$000</b>	<b>Sep-30 2011 A\$000</b>
Operating activities	3,227	(351)	(2,414)	(6,912)	(3,071)	7,599	1,726	2,313
Investing activities	(5,071)	(20,192)	(8,024)	(3,085)	(6,708)	(7,383)	(3,776)	(2,871)
Financing activities	1,763	16,158	9,598	922	14,654	(1,963)	426	12,116

The Operating Activities inflow of \$3.23 million in the Quarter reflects the net cash inflow from operations at the CMD Gold Mine of \$4.29 million, corporate overhead of \$0.46 million, and net interest expense of \$0.60 million.

Trade and other receivables at June 30, 2013 include \$1.28 million for VAT and \$2.32 million relating to the sale of gold, of which \$3.49 million has been received subsequent to period end.

Investing activities in the Quarter of \$5.07 million reflect \$1.06 million property, plant and equipment costs and capitalised development work at the CMD Gold Mine of \$4.01 million.

Financing activities net inflows of \$1.76 million in the Quarter mainly reflect \$3.92 million received from the issue of 7,265,000 shares at CDN\$0.57 per share less net repayments of borrowings of \$2.13 million.

Net borrowings of \$18.30 million for the Year comprise \$26.97 million of new borrowings, including the first tranche of CDN\$5 million under the Sprott Facility, and \$8.67 million of repayments. Borrowings other than the Sprott Facility were primarily used to finance the new owner operated mine fleet. Borrowing repayments of \$8.67 million comprised bank / lease debt of \$6.98 million and \$1.69 million of deferred consideration / deferred cash to the vendors of the CMD Gold Mine.

### **Operating Results**

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

<i>Operating results for the three months ended:</i>	<b>Jun-30 2013 A\$000</b>	<b>Mar-31 2013 A\$000</b>	<b>Dec-31 2012 A\$000</b>	<b>Sept-30 2012 A\$000</b>	<b>Jun-30 2012 A\$000</b>	<b>Mar-31 2012 A\$000</b>	<b>Dec-31 2011 A\$000</b>	<b>Sep-30 2011 A\$000</b>
Revenue	22,182	17,576	21,623	16,249	15,892	19,332	18,737	18,248
Other income	6	29	46	68	615	(537)	103	975
Cost of sales	(27,515)	(17,815)	(26,416)	(18,942)	(18,514)	(19,303)	(17,562)	(17,124)
Impairment loss	(33,684)	-	-	-	-	-	-	-
Total net operating expenses	(61,475)	(19,279)	(26,797)	(21,207)	(19,912)	(19,872)	(18,116)	(18,366)
Net (loss) / profit before tax	(39,287)	(1,674)	(5,128)	(4,890)	(3,405)	(1,077)	724	857
Net (loss) / profit after tax	(49,789)	(1,477)	(4,548)	(2,277)	(3,124)	(1,110)	1,941	3,289
Basic (loss) / profit per share (cents)	(51.0)	(1.6)	(5.1)	(2.6)	(4.1)	(1.5)	3.1	5.8
Diluted (loss) / profit per share (cents)	(51.0)	(1.6)	(5.1)	(2.6)	(4.1)	(1.5)	3.1	5.8

*Review of the financial year ended June 30, 2013 as compared to the financial year ended June 30, 2012, and the quarter ended June 30, 2013 as compared to the quarter ended June 30, 2012*

The loss after taxation for the year ended June 30, 2013 was \$58,091,000 (2012: profit \$996,000) after recognising:

- a loss before impairment loss and taxation of \$2,662,000 (2012: profit of \$5,248,000) from gold mining operations at the consolidated entity's CMD Gold Mine (see below) in Chile, including royalties and site based administration, but excluding \$11,734,000 (2012: \$5,637,000) depreciation and amortisation.
- an impairment loss of \$33,684,000 (2012: \$Nil) against the CMD Gold Mine assets (refer Note 1(a)(i) to the financial statements).
- a \$831,000 foreign exchange loss (2012: gain of \$385,000) arising primarily from losses on the Company's holdings of US\$ and CDN\$ cash, and payables denominated in Chilean Pesos translated to the functional currency of CMD, being US\$.
- a decrease in corporate compliance and management costs to \$1,781,000 (2012: \$1,996,000)
- an income tax expense of \$7,113,000 (2012: benefit of \$3,897,000) mainly arising from the partial de-recognition of a deferred tax asset in respect of income tax losses attributable to the CMD Gold Mine as a result of the fall in the gold price during the June quarter and the degree of uncertainty whether future taxable amounts will be available to utilise temporary differences and tax losses.

#### *Revenue*

	<b>Year ended Jun-30 2013 \$000</b>	<b>Year ended Jun-30 2012 \$000</b>	<b>Quarter ended Jun-30 2013 \$000</b>	<b>Quarter ended Jun-30 2012 \$000</b>
Sale of gold	77,598	71,779	21,939	16,075
Sale of silver (net of refining)	32	(56)	243	(183)
Sale of copper	-	486	-	-
	<u>77,630</u>	<u>72,209</u>	<u>22,182</u>	<u>15,892</u>

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

Revenue for the June 2013 Quarter includes 15,932 ounces of gold at an average achieved sale price of US\$1,377 per ounce (June 2012 Quarter: 10,080 ounces of gold at an average achieved sale price of US\$1,613 per ounce). Revenue for the June 2013 Year includes 50,389 ounces of gold at an average achieved sale price of US\$1,579 per ounce (June 2012 Year: 44,465 ounces of gold at an average achieved sale price of US\$1,669 per ounce).

#### *Other income*

Other income of \$0.15 million for the Year consists of \$0.15 million of interest income (June 2012: \$0.58 million). The 2012 Year other income included \$0.39 million of foreign exchange gains and \$0.19 million fair value gain on deferred consideration. From September 2012 Quarter onwards foreign exchange gains and losses and the fair value gain on deferred consideration are classified in total net operating expenses.

#### *Cost of sales*

	<b>Year ended Jun-30 2013</b>	<b>Year ended Jun-30 2012</b>	<b>Quarter ended Jun-30 2013</b>	<b>Quarter ended Jun-30 2012</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Depreciation and amortisation	11,734	5,637	4,639	1,489
Gold in process, doré and stockpile adjustments	(939)	1,958	4,507	(1,155)
Mine operational expenses	32,013	32,527	4,276	8,641
Reagents	14,448	8,491	3,791	2,397
Utilities, maintenance	17,440	14,198	5,807	4,158
Personnel expenses	11,220	6,198	3,598	1,736
Royalties	1,874	1,689	392	370
Other expenses	2,898	1,805	505	878
	<b>90,688</b>	<b>72,503</b>	<b>27,515</b>	<b>18,514</b>

Cost of sales relates to costs attributable to the operation of the CMD Gold Mine. The June Quarter includes a \$1.69 million (June 2012 Quarter: \$0.43 million) provision against leachpad inventory and \$2.69 million of waste costs direct expensed (June 2012 Quarter: \$6.10 million). The June Year includes a \$0.43 million provision against leachpad inventory (June 2012 Year \$0.43 million) and \$22.33 million of waste costs direct expensed (June 2012 Year: \$23.37 million),

Depreciation is calculated on a unit of production basis so as to write off costs in proportion to the depletion of estimated recoverable ounces. Depreciation and amortization costs increased in the second half of the year as the result of the acquisition of an owner operated mine fleet, increased waste capitalisation resulting from the adoption of a mine plan with a lower LOM strip ratio from 1 January 2013, and increased production.

Deferred stripping (waste) costs are capitalised in any month where the actual stripping ratio exceeds the life of mine average stripping ratio, in which case costs relating to the waste tonnes mined over and above the life of mine stripping ratio are capitalised. In months where waste tonnes mined fall below the life of mine stripping ratio all waste costs are expensed. Cost of sales for the June 2013 Quarter includes \$3.79 million (June 2012 Quarter: \$6.49 million) waste costs expensed and amortised. Cost of sales for the June 2013 Year includes \$25.00 million (June 2012 Year: \$24.53 million) waste costs expensed and amortised. The Company adopted a new internal mine plan with a lower life of mine waste:ore ratio of 1:1 for the purposes of calculating waste capitalisation from January 1, 2013.

The June 2013 Quarter depreciation and amortisation charge of \$4.64 million (June 2012 Quarter: \$1.49 million) includes \$0.63 million (June 2012 Quarter: \$0.46 million) relating to amortisation on the uplift in fair values of assets recognized on acquisition of the CMD Gold Mine and \$1.10 million (June 2012 Quarter: \$0.39 million) waste amortisation. The June 2013 Year depreciation and amortisation charge of \$11.73 million (June 2012 Year: \$5.64 million) includes \$2.03 million (June 2012 Year: \$1.78 million)

relating to amortisation on the uplift in fair values of assets recognized on acquisition of the CMD Gold Mine and \$2.67 million (June 2012 Year: \$1.15 million) waste amortisation.

Gold in leach pad inventories are valued based on the historical recovery of ounces from the pads using a rolling average of costs incurred, including leaching costs. Movements in the value of leach pad inventories are included in cost of sales. During the June 2013 Quarter 984 recoverable ounces were drawn from the leachpad (June 2012 Quarter: 1,082 increase in recoverable ounces). During the June 2013 Year 2,183 recoverable ounces were added to the leachpad (June 2012 Year: 1,797 decrease in recoverable ounces).

The gold in process, doré and stockpile inventory adjustment for the June 2013 Quarter includes a \$0.84 million provision to write the cost of the leachpad down to net realizable value (June 2012 Quarter: \$0.43 million). The gold in process, doré and stockpile inventory adjustment for the June 2013 Year includes a \$0.43 million provision to write the cost of the leachpad down to net realizable value (June 2012 Year: \$0.43 million).

#### *Impairment loss*

IFRS requires a company to make a formal estimate of recoverable amount if an indicator of impairment is present. There were a number of impairment indicators over the CMD Gold Mine assets at 30 June 2013, in particular (i) a CMD Gold Mine pre-tax loss before any impairment loss for the period of \$14.40 million (ii) a consolidated net current asset deficiency of A\$17.38 million at 30 June 2013 (iii) an April 2013 share placement to which an applicant has failed to subscribe funds of CDN \$8.79 million under a binding subscription agreement (iv) a Company market capitalisation of \$20.8 million at 27 September 2013 compared to consolidated net assets carrying value (pre impairment) of \$56.30 million at 30 June 2013 (v) a gold price that fell 30% from US\$1,694 / oz at 1 January 2013 to US\$1,192 / oz at 30 June 2013, but has subsequently risen to US\$1,341 / oz at 27 September 2013.

The recoverability of the carrying amount of property, plant and equipment and mine development properties has been reviewed by the consolidated entity. In conducting the review, the recoverable amount has been assessed by reference to the higher of 'fair value less costs to sell' and 'value in use'. 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 most sensitive to forecast commodity prices.

Recoverable amount is fair value less costs to sell. Fair value was determined by a discounted cashflow analysis covering projected production from 2013 to 2019 using a discount rate of 9%. The impairment loss of \$33,684,000 has been attributed to asset categories including 100% of the goodwill (\$189,000) calculated on the acquisition of the CMD Gold Mine in December 2010.

The assumption to which the recoverable amount is most sensitive is the gold price. The following gold prices, being the "medium" financial institution consensus forecasts, were used as inputs in the discounted cashflow analysis:

	2013	2014	2015	2016	2017	2018	2019
Gold price US\$ / oz	1451	1400	1400	1400	1400	1350	1350

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 to partially or totally reverse.



### *Corporate compliance and management*

Corporate compliance and management costs of \$0.42 million for the Quarter (June 2012 Quarter: \$0.41 million) and \$1.78 million for the Year (June 2012 Year: \$2.00 million) reflect costs associated with the management of the CMD Gold Mine, corporate office costs, and the costs of a listed company on the ASX and TSX.

### *Occupancy costs*

Occupancy costs of \$0.02 million for the Quarter (June 2012 Quarter: \$0.03 million) and \$0.06 million for the Year (June 2012 Year: \$0.11 million) relate to the occupancy costs of the Company's head office in Perth and the recharge of 50% of the office costs to a sub tenant.

### *Foreign exchange gain / loss*

The foreign exchange gain of \$0.83 million for the Quarter (June 2012 Quarter: \$0.20 million gain) and foreign exchange loss \$0.83 million for the Year (June 2012 Year: \$0.39 million gain) arises from net unrealised gains / losses on the Company's holdings of US\$ and CDN\$ cash and cash equivalents, and foreign exchange gains / losses on payables denominated in Chilean Pesos translated to the functional currency of CMD, being US\$. During the Quarter the US\$: Chilean Peso exchange rate increased from 1:472 to 1:507 and during the Year the US\$: Chilean Peso exchange rate increased from 1:502 to 1:507.

The June 2012 Quarter and June 2012 year foreign exchange gains / losses were included in "Other income" in the *Operating Results* table above.

### *New venture investigation expenditure written off*

Expenditure of \$0.14 million for the Year (June 2012 Year: \$0.33 million) reflect Lachlan's expenditure on investigating new venture opportunities.

### *Finance expense*

Finance expense of \$0.64 million for the Quarter (June 2012 Quarter: \$0.38 million) and \$1.41 million for the Year (June 2012 Year: \$0.79 million) consist of bank and financial institution interest, together with the foreign exchange gain / loss on financial liabilities. Finance costs have increased over the previous Year as a result of the loans and leases associated with the purchase of the new mine fleet at the CMD Gold Mine together with the cash bank fees associated with securing the Sprott CDN\$10 million credit facility.

### *Fair value gain on deferred consideration*

The acquisition cost for the CMD Gold Mine included contingent deferred consideration payments relating to the achievement of specified gold production, in particular:

- (a) 2.5% of the value of the gold produced from the existing open pit inventory contained within the pit designs and other specific deposits with mineralisation that may be economically exploited using open pit methods (collectively, the "Mineral Inventory") between January 1, 2011 and December 31, 2014; and
- (b) 25% of the value of the gold produced from the Mineral Inventory between January 1, 2011 and December 31, 2014 over and above 119,000 ounces.

The June 2013 Quarter gain of \$0.11 million compares to the June 2012 Quarter gain of \$0.03 million. The June 2013 Year gain of \$0.67 million reflects a re-assessment of the potential liability during the Year and compares to the June 2012 Year gain of \$0.19 million.

### *Share based payments expense*

Share based payments expense of \$0.19 million for the Quarter (June 2012 Quarter: \$Nil) and \$0.21 million for the Year (June 2012 Year: \$0.02 million) primarily consists of the share base expense associated with the 221,680 shares issued in satisfaction of the CDN\$0.2 million bonus fee payable to Sprott for the CDN\$10 million credit facility.

### *Income tax*

The income tax expense of \$7.11 million for the Year (June 2012 Year: \$3.90 million benefit) consists of:

- (i) \$9.10 million expense (June 2012 Year: \$3.33 million benefit) related to the de-recognition of a deferred tax asset in respect of income tax losses and timing differences of CMD (refer *Impairment loss* above).
- (ii) \$1.99 million benefit (June 2012 Year: \$0.57 million benefit) relating to the deferred tax impact of the unwinding of the fair value adjustments taken up on the acquisition of the CMD Gold Mine. These fair value adjustments created a difference between the carrying value of the assets in the Company's financial statements and the assets' tax value, and resulted in the recognition of a deferred tax liability on acquisition. As the fair value uplift is amortised over time the difference between the carrying value of the assets in Lachlan's financial statements and the assets' tax value will reduce and the deferred tax liability reverse. At June 30, 2013 a 100% impairment loss was booked against these fair value adjustments (refer *Impairment loss* above).

### *Exchange difference on translation of foreign operations*

The June 2013 Year \$8.12 million foreign exchange reserve movement is a result of the A\$ / US\$ exchange rate decreasing from 1:1.10161 at June 30, 2012 to 1:0.9146 at June 30, 2013. The movement is required to be shown on the face of the statement of comprehensive income as a reconciling item to total comprehensive income.

### *Earnings per Share*

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

## **LIQUIDITY, CAPITAL RESOURCES AND COMMITMENTS**

During the last three years, the Group has accessed equity capital markets and debt as its primary source of funding to finance its activities. Gross proceeds of \$10.21 million were raised from the issue of Ordinary Shares and from the exercise of share options and warrants during the Year (June 30, 2012 Year: \$32.03 million), refer "*Corporate*" above

On February 13, 2013 the Company entered into a C\$10 million secured debt facility ("Facility") with Sprott Resource Lending Partnership ("Sprott"). The Facility has a 12-month term and is drawable in two C\$5 million Tranches. The term of the loan can be extended for a further 12 months under certain circumstances and the payment of an extension fee. Under the terms of the Facility Tranche 1 was required to be drawn and this occurred in February 2013. Tranche 2 is drawable within a 6 month period after the closing of the Facility subject to certain operating outcomes, a term which has now expired. The Facility bears interest at 11% per annum, payable monthly. A fee is payable to Sprott in an amount equal to 4% of each draw under the Facility, being \$200,000 for each C\$5 million draw, payable by the issuance of ordinary shares of the Company to be priced at a 10% discount to the 5 day Volume Weighted Average price of the Company's shares on the TSX prior to the draw down, subject to the receipt of applicable exchange approvals. If applicable exchange approvals are not obtained this fee is payable in cash. The fee associated with the first Tranche was satisfied by the issue of shares.

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

The following table sets forth information regarding the Group’s contractual obligations as at June 30, 2013:

Contractual Obligations	Payments Due				
	Total	Less than	1 - 2 years	3 - 5 Years	After 5 Years
	\$ million	1 Year \$ million	\$ million	\$ million	\$ million
Exploration commitments <sup>(1)</sup>	--	--	---	—	—
Borrowings <sup>(2)</sup>	\$26.83	\$13.07	\$5.21	\$8.55	—
Trade And Other Payables	\$24.68	\$24.68	—	—	—
Provisions <sup>(3)</sup>	\$5.81	—	—	\$5.81	—
Other <sup>(4)</sup>	\$29.51	\$16.34	\$6.12	\$7.05	—

Notes:

- (1) The Company’s mineral rights in Chile are not subject to minimum expenditures on exploration activities.
- (2) See the discussion in the sections entitled “*Total liabilities*” under the heading “*Financial Condition*” above. The Group had no US\$0.2 million in unused banking facilities at September 27, 2013.
- (3) Provisions relate to Chilean site restoration and employee termination obligations.
- (4) Other relates to future commitments arising out of contracts in place as at June 30, 2013 at the CMD Gold Mine, primarily for mining, power, and cyanide.

The net proceeds of (i) the finance facilities negotiated for the purchase of the owner operated mining fleet (ii) a CDN\$5 million secured debt facility with Sprott Resource Lending Partnership dated February 13, 2013 (see “*Cash and cash equivalents*” above) (iii) a private placement of CDN\$12.93 million announced on April 4, 2013 which raised \$3.92 million (iv) an additional loan of US\$0.8 million for the CMD Gold Mine drawn down in July 2013 (v) On 30 September 2013 the Company announced that it had entered into subscription agreements with accredited North American and European investors to raise a total of C\$8 million at an issue price of C\$0.20 a share from the issuance of 40 million ordinary shares (see “*Subsequent events*” below) , are anticipated to be sufficient, together with cash flows from operations, to finance the current exploration program and operations and to meet all other contractual, corporate and administrative costs for the Company for the ensuing 12 months. The actual expenditures for exploration and drilling will depend on a number of factors including the success of the drilling or exploration program, as the case may be.

The Company expects to be able to finance its working capital requirements and planned growth and development activities from existing cash balances, finance facilities noted above and cash flows from operations. However, further financing may be required to fund any unforeseen increases in capital or operational expenditure at the CMD Gold Mine. It is anticipated that further funds would be obtained by asset sales or additional debt or equity raisings. Net cash generated from operating activities in the June 2013 Quarter was \$3.23 million. Expenses will be financed from cash flow from operations to the extent possible.

Based on the economics of the CMD Gold Mine the Company believes that it will be able to raise such funds through additional financings if required. However, there is no assurance additional financing will be available, as and when required, or if available, that it will be on terms acceptable to the Company. See “*Risk Factors — Need for Additional Capital*” in the Company’s 2013 AIF, available under the Company’s profile on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company’s website at [www.lachlanstar.com.au](http://www.lachlanstar.com.au).

## COMMITMENTS

The Company had a no capital commitments at Quarter end.

## OFF BALANCE SHEET ARRANGEMENTS

There are no material off-balance sheet arrangements as at June 30, 2013

## TRANSACTIONS WITH RELATED PARTIES

Remuneration (including salaries, directors' fees and the issue of share options) was paid or is payable to the directors of the Company in the normal course of business. The Company pays its non-executive directors consulting fees for extra services, if any, performed outside of normally expected non-executive duties. These transactions are made on commercial terms and conditions and at market rates. Non-executive directors have agreed (subject to regulatory and shareholder approval at the Company's November 2013 AGM) to reduce their cash fees to zero for the June 2014 financial year and to take their fees by issue of the Company's securities.

Given the consolidated entity's financial performance in the current financial year and the 25% fall in the gold price from 1 July 2012 to 30 June 2013 the Executive Chairman and the Chief Financial officer / Company Secretary have taken a 30% reduction in their cash remuneration effective 1 August 2013, with that reduction reduced to 15% should the gold price reach US\$1,500, and reduced to zero should the gold price reach US\$1,600.

The consolidated entity recharged \$99,117 (2012: \$3,994) on an arm's length basis to Nevada Iron Limited, a company of which Mr. Michael McMullen is Chairman, for office rent, administration staff, and car parking under an office sublease effective June 11, 2012.

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

## CRITICAL ACCOUNTING ESTIMATES

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

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

### *Impairment*

The recoverability of the carrying amount of property, plant and equipment and mine development properties has been reviewed by the consolidated entity. In conducting the review, the recoverable amount has been assessed by reference to the higher of 'fair value less costs to sell' and 'value in use'. 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 most sensitive to forecast commodity prices.

Variations to the expected future cash flows, and timing thereof, could result in significant changes to the impairment test results, which could in turn impact future financial results.

The financial statement line items affected by this critical accounting estimate are “Property, plant and equipment” and “Mine development properties” in the Consolidated Statement of Financial Position, and “Cost of sales” in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

#### *Provisions*

The Group has recognised a provision for environmental restoration. This provision has been measured based on management's estimates of the probable amount of resources that will be required to settle the obligation and the timing of settlement. Such estimates are subjective and there may be a future need to revise the book value of the provision as a result of changes in estimates.

The financial statement line items affected by this critical accounting estimate are “Provisions” in the Consolidated Statement of Financial Position and “Cost of sales” in the Statement of Profit or Loss and Other Comprehensive Income.

#### *Functional currency*

The financial performance and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at exchange rates prevailing at statement of financial position date; and
- income and expenses are translated at transaction date or average exchange rates for the period, whichever is more appropriate

Resulting exchange differences arising on translation of foreign operations are recognised in other comprehensive income and are transferred directly to the Group's foreign currency translation reserve as a separate component of equity. These differences are recognised in profit or loss upon disposal of the foreign operation.

Companies in the Group have to determine their functional currencies based on the primary economic environment in which each entity operates. In order to do that management has to analyse several factors, including which currency mainly influences sales prices of product sold by the entity, which currency influences the main expenses of providing services, in which currency the entity has received financing, and in which currency it keeps its receipts from operating activities.

For subsidiaries CMD and DCEM, the above indicators are mixed and the functional currency is not obvious. Management used its judgement to determine which factors are most important and concluded the U.S. dollar is the functional currency for those companies. Management has determined that the Australian dollar is the functional currency for Lachlan and its other subsidiaries given their revenue and expenditure are mostly in Australian dollars.

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

#### *Recovery of ounces of gold in leach pad inventories*

Management has estimated the recovery of gold in the leach pad at the CMD Gold Mine based on recovery rates experienced after the September 2000 shutdown. Management evaluate this estimate on an ongoing basis for any changes that may result in adjustments to the financial statements. To date no such changes have been identified giving rise to a revision in the estimate.

The financial statement line items affected by this critical accounting estimate are “Inventories” in the Consolidated Statement of Financial Position and “Cost of sales” in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

#### *Income taxes*

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

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

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

#### *Reserve estimates*

Reserves are estimates of the amount of product that can be economically and legally extracted from the consolidated entity's properties. In order to calculate reserves, estimates and assumptions are required about a range of geological, technical and economic factors. Estimating the quality and/or grade of reserves requires the size, shape and depth of ore bodies to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements and calculations to interpret the data. The group is required to determine and report ore reserves in Australia under the principles incorporated in the Australasian Code for Reporting of Mineral Resources and Ore Reserves December 2004, known as the JORC Code.

The Group is also required to determine and report mineral reserves in Canada pursuant to NI 43-101. Both the JORC Code and NI 43-101 require the use of reasonable investment assumptions to calculate reserves.

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

The financial statement line items affected by this critical accounting estimate are “Mine development properties” and “Property, plant and equipment” in the Consolidated Statement of Financial Position and “Cost of sales” in the Consolidated Statement of Profit of Loss and Other Comprehensive Income.

#### *Exploration and evaluation expenditure*

Expenditure which does not form part of the cash generating units assessed for impairment has been carried forward on the basis that exploration and evaluation activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in relation to the area are continuing. Exploration expenditure incurred that does not satisfy the policy stated above is expensed in the period in which it is incurred. Exploration

expenditure that has been capitalised which no longer satisfies the policy stated above is written off in the period in which the decision is made.

The financial statement line items affected by this critical accounting estimate are “Exploration and evaluation” in the Consolidated Statement of Financial Position and “Exploration and evaluation expenditure” in the Consolidated Statement of Comprehensive Income.

## **CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**

The Company’s key accounting policies and the adoption of new and revised accounting standards are provided in Note 1 to the Company’s consolidated financial statements for the year ended June 30, 2013. There have been no significant changes in such policies in the Year.

The Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after July 1, 2013. As a result of this review, the directors have determined that there is no change necessary to Group accounting policies other than in respect of IFRIC 20 as set out below.

The International Accounting Standards Board published *IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine* on October 19, 2011. The interpretation, which has an effective date for annual periods beginning on or after January 1, 2013, sets out the accounting for overburden waste removal (stripping) costs in the production phase of a surface mine. The Company will adopt the interpretation from July 1, 2013

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. Management estimates that of the total amount capitalised as at 30 June 2012 of \$11.00 million may need to be written off, reducing total assets and retained earnings by the same amount at that date.

The Company is further reviewing how the interpretation may further impact its record keeping, accounting policies and financial results presented in future periods.

## **FINANCIAL INSTRUMENTS AND RELATED RISKS**

The Group’s activities expose it to credit risk, market risk (including interest rate risk, foreign exchange risk and price risk), liquidity risk, and commodity price risk. This note presents qualitative and quantitative information about the Group’s exposure to each of the above risks, their objectives, policies and procedures for managing risk, and the management of capital. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

The Group’s overall risk management approach focuses on the unpredictability of financial markets and seeks to minimise the potential adverse effects on the financial performance of the Group. The Group

does not currently use derivative financial instruments to hedge financial risk exposures and therefore it is exposed to daily movements in commodity prices, interest rates and exchange rates. The Group uses various methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rates and ageing analysis for credit risk.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence and to sustain future development of the business. Given the stage of the Group's development there are no formal targets set for return on capital. There were no changes to the Group's approach to capital management during the Quarter. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

#### *Credit risk*

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

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

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

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

#### *Market risk*

##### *(i) Interest rate risk*

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

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

##### *(ii) Foreign exchange risk*

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



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

	<b>Average year ended 30 June 2013</b>	<b>As at 30 June 2013</b>	<b>Average quarter ended 30 June 2012</b>
A\$ / US\$	1.0273	0.9146	0.9923
A\$ / CDN\$	1.0317	0.9627	1.0153
US\$ / Peso	480.16	507.65	485.04
A\$ / Peso	493.03	464.29	480.74

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

#### *Liquidity risk*

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

#### *Commodity price risk*

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

### **CONTINGENT ASSETS AND LIABILITIES**

In June 2011, a subsidiary terminated the contract of one of its mining contractors in Chile, "Maestranza Martinez Torres y Cia. Ltda" (Martimec) for non-performance under the terms of their mining contract. Martimec requested the appointment of an arbitrator under Chilean law who would be called to rule on the early termination of the contract. Even though the arbitrator was appointed, any such proceedings are suspended due to the fact that Martimec was declared bankrupt under applicable Chilean law. The decision pertaining to the initiation of the arbitration proceedings is now subject to approval by the creditors of Martimec. The Company remains confident that the contract was terminated in accordance with its terms. The Company intends to defend itself vigorously if this arbitration proceeds, including considering bringing a counterclaim against Martimec.

On November 19, 2012 a subsidiary issued a bank guarantee for US\$2,426,165 to Komatsu Cummins Chile Arrienda S.A. as security for the financing of the mining fleet.

### **SUBSEQUENT EVENTS**

In July 2013 CMD renegotiated one of its existing debt facilities with a Chilean bank. This resulted in the provision of an additional US\$800,000 in financing drawn in August, with a repayment term of 12 months and a competitive cost of funds of 4.91%.

On 28 August 2013 the Company announced an updated NI 43-101 mineral reserve of 408,000 ounces of contained gold, a 160% increase over previous estimate and more than replacing mining depletion, an updated NI 43-101 mineral resource of 1.98 million ounces of gold in the Indicated category, and a further 1.34 million ounces of gold in the Inferred category. The updated mineral reserve has been estimated using a long term gold price of US\$1,250/ounce for the Chisperos, Mercedes and Toro pits, and US\$1,300/ounce for the Tres Perlas pit. The bulk of the mineral reserves are contained within the Tres

Perlas pit. The Life of Mine (LOM) waste to ore ratio is 0.98:1 for this pit and total gold recovered is estimated to be 276,000 ounces.

On 30 September 2013 the Company announced that it had entered into subscription agreements with accredited North American and European investors to raise a total of C\$8 million at an issue price of C\$0.20 a share from the issuance of 40 million ordinary shares. The placement will be completed in two tranches (i) Tranche 1 - 14,985,597 ordinary shares that can be issued within the Company's approved placement limit, expected to complete in early October. Tranche 1 will raise gross proceeds of approximately C\$3.0 million. Finder's fees totalling 3% cash and 432,871 warrants are payable on Tranche 1 upon completion (ii) Tranche 2 - 25,014,403 ordinary shares that will be issued subject to shareholder approval at a shareholder meeting to be called as soon as practicable and currently expected to be held on or about 4 November 2013. Tranche 2 will raise gross proceeds of approximately C\$5 million. Finder's fees totalling 3% cash and 722,560 warrants (which are also subject to shareholder approval) are payable on Tranche 2 upon completion. The net proceeds of the private placement will be used to prepay C\$0.5 million against the outstanding Sprott facility balance of C\$5 million and fund development and working capital at the Company's 100% owned CMD Gold Mine in Chile.

On 30 September 2013 the Company announced that it had promoted its Chief Operating Officer (Bira de Oliveira) to the vacant position of Chief Executive Officer (CEO). Mr. de Oliveira joined the Company in May 2012 and since that time has been largely responsible for building a team of professionals at the CMD Gold Mine that has been responsible for the substantial improvement in production and costs over that time.

Since June 30, 2013 the directors of the Company are not aware of any other matter or circumstance that has not been discussed in this MD&A that has significantly or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent quarters.

## OUTSTANDING SECURITIES DATA

The Company presently has 99,107,273 Ordinary Shares that are issued and outstanding. The Company presently has the following issued and outstanding securities that are convertible into Ordinary Shares:

<b>Security or Instrument Name</b>	<b>Number</b>	<b>Exercise or Conversion Price (if applicable) (\$)</b>	<b>Expiry Date (dd/mm/yy)</b>
Stock Options	166,669	\$1.20	20/12/2013
Stock Options	166,669	\$1.50	20/12/2013
Stock Options	650,000	\$1.20	25/11/2013
Stock Options	150,000	\$1.50	25/11/2013
Stock Options	50,000	\$1.50	25/11/2014
Broker Options / Warrants	329,250	CDN\$1.60	3/04/2014
Stock Options	75,000	\$1.50	21/11/2014
Stock Options	100,000	\$2.10	22/05/2015
Stock Options	100,000	\$2.50	22/05/2015

Since June 30, 2013 and up to the date of this MD&A the Company has not issued any shares or options).

## CONTROLS AND PROCEDURES

The Company maintains information systems, procedures and controls to provide reasonable assurance that information used internally and disclosed externally is complete and reliable. The Company continues to review and develop internal controls, including disclosure controls and procedures for financial reporting that are appropriate for the nature and size of the Company's business. Access to material information regarding the Company is facilitated by the small size of the Company's senior management team and workforce. The Company is continuing to develop appropriate controls for the nature and size of the Company's business.

Any internal controls, no matter how well conceived and operated, can provide absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgements in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion between two or more people, or by unauthorized override of the control. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

## Competent Persons Statement

The information in this Management Discussion and Analysis that relates to the Mineral Resources of Tres Perlas, Chisperos, Las Loas, El Sauce, Churumata and Toro/Socorro is based on information compiled by David Slater, who is a Chartered Professional Member of The Australasian Institute of Mining and Metallurgy. Mr. Slater is employed full time by Coffey Mining Pty Ltd. The information in this Management Discussion and Analysis that relates to exploration results is based on information approved by Declan Franzmann, who is a Chartered Professional Fellow of The Australasian Institute of Mining and Metallurgy. Mr. Franzmann is employed by Citraen Pty Ltd and is an officer of the Company. Each of Mr. Slater and Mr. Franzmann has sufficient experience, which is relevant to the style of

mineralisation and type of deposit under consideration and to the activity which he is undertaking, to qualify as a Competent Person as defined in the 2004 Edition of the “Australasian Code for Reporting of Mineral Resources and Ore Reserves” and to qualify as a “Qualified Person” under NI 43-101. Each of Mr. Slater and Mr. Franzmann consents to the inclusion in this Management Discussion and Analysis of the matters based on his information in the form and context in which it appears.

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

### GLOSSARY OF MINING TERMS

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

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