# LACHLAN STAR LIMITED

# ABN 88 000 759 535

# UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
# For the three months ended
# 30 September 2013

The accompanying unaudited consolidated interim financial statements for the three months ended 30 September 2013 has been prepared by management. Readers are cautioned that these financial statements contain forward-looking information as described in the associated Management Discussion & Analysis. All amounts are stated in Australian dollars, except as otherwise stated.

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

| | 3 months ended | |
|---|---|---|
| | 30-Sept-13<br>$000 | Restated<br>30-Sept-12<br>$000 |
| **Revenue from continuing operations** | | |
| Revenue | 24,696 | 16,249 |
| Finance income | 1 | 68 |
| | 24,697 | 16,317 |
| **Expenses** | | |
| Cost of sales | (23,953) | (19,426) |
| *Other expenses from ordinary activities* | | |
| Corporate compliance and management | (335) | (417) |
| Occupancy costs | (18) | (7) |
| Foreign exchange (loss) / gain | (379) | (1,363) |
| New venture expenditure written off | (4) | (75) |
| Other expenses | (13) | (103) |
| Finance expense | (612) | (83) |
| Fair value gain / (loss) on deferred consideration | 153 | (217) |
| (Loss) before income tax | (464) | (5,374) |
| Income tax benefit | - | 2,613 |
| **(Loss) for the period** | (464) | (2,761) |
| **Other comprehensive income for the period net of income tax** | | |
| *Items that may be reclassified to profit or loss* | | |
| Exchange difference on translation of foreign operations | (439) | (991) |
| **Total comprehensive income for the period** | (903) | (3,752) |
| | Cents | Cents |
| Basic (loss) / profit per share (cents per share) | (0.5) | (3.2) |
| Diluted (loss) / profit per share (cents per share) | (0.5) | (3.2) |

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

*For the 30 September 2012 restated consolidated statement of profit or loss and other comprehensive income refer to Notes 1 (ii) (iv) and Note 13 (iii).*

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | 30 Sept 2013 $000 | Restated 30 June 2013 $000 | Restated 30 June 2012 $000 |
|---|---|---|---|---|
| **Current assets** | | | | |
| Cash and cash equivalents | | - | 2,811 | 17,412 |
| Trade and other receivables | | 5,174 | 3,883 | 3,630 |
| Inventories | | 16,728 | 13,782 | 8,341 |
| **Total current assets** | | 21,902 | 20,476 | 29,383 |
| **Non-current assets** | | | | |
| Trade and other receivables | | 482 | 491 | 435 |
| Inventories | | 2,372 | 6,428 | 5,891 |
| Mine development properties | | 23,753 | 21,681 | 30,464 |
| Property, plant and equipment | 7 | 25,383 | 25,351 | 13,474 |
| Exploration and evaluation | | 2,775 | 2,775 | 2,771 |
| Goodwill | | - | - | 189 |
| Deferred tax asset | | 2,920 | 2,976 | 9,117 |
| **Total non-current assets** | | 57,685 | 59,702 | 62,341 |
| **Total assets** | | 79,587 | 80,178 | 91,724 |
| **Current liabilities** | | | | |
| Trade and other payables | | 25,628 | 24,786 | 20,191 |
| Borrowings | | 13,332 | 13,068 | 5,343 |
| **Total current liabilities** | | 38,960 | 37,854 | 25,534 |
| **Non-current liabilities** | | | | |
| Borrowings | | 13,048 | 13,767 | 1,384 |
| Provisions | | 5,868 | 5,943 | 6,087 |
| **Total non-current liabilities** | | 18,916 | 19,710 | 7,471 |
| **Total liabilities** | | 57,876 | 57,564 | 33,005 |
| **Net assets** | | 21,711 | 22,614 | 58,719 |
| **Equity** | | | | |
| Contributed equity | 8 | 215,076 | 215,076 | 204,436 |
| Reserves | | 6,775 | 7,214 | 117 |
| Accumulated losses | | (200,140) | (199,676) | (145,834) |
| **Total equity** | | 21,711 | 22,614 | 58,719 |

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

*For the 30 June 2012 restated consolidated statement of financial position refer to Notes 1 (ii) (iv) and Note 13 (i).*

*For the 30 June 2013 restated consolidated statement of financial position refer to Notes 1 (ii) (iv) and Note 13 (ii).*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Contributed equity $000 | Accumulated losses $000 | Share based payments reserve $000 | Foreign exchange reserve $000 | Total $000 |
|---|---|---|---|---|---|
| **Balance at 1 July 2012 (Restated)** | 204,436 | (145,834) | 425 | (308) | 58,719 |
| Other comprehensive income | - | - | - | (991) | (991) |
| Loss for the period | - | (2,761) | - | - | (2,761) |
| Total comprehensive loss for the period | - | (2,761) | - | (991) | (3,752) |
| *Transactions with owners in their capacity as owners:* | | | | | |
| Share issue costs | (23) | - | - | - | (23) |
| **Balance at 30 September 2012 (Restated)** | 204,413 | (148,595) | 425 | (1,299) | 54,944 |
| **Balance at 1 July 2013 (Restated)** | 215,076 | (199,676) | 129 | 7,085 | 22,614 |
| Other comprehensive income | - | - | - | (439) | (439) |
| Loss for the period | - | (464) | - | - | (464) |
| Total comprehensive loss for the period | - | (464) | - | (439) | (903) |
| *Transactions with owners in their capacity as owners:* | - | - | - | - | - |
| **Balance at 30 September 2013** | 215,076 | (200,140) | 129 | 6,646 | 21,711 |

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

*For the restated consolidated statement of changes in equity refer to Notes 1 (ii) (iv) and Note13 (vi).*

## CONSOLIDATED STATEMENT OF CASH FLOWS

| | 3 months ended | |
|---|---|---|
| | 30-Sept-13<br>$000 | Restated<br>30-Sept-12<br>$000 |
| **Cash flows from operating activities** | | |
| Receipts from customers and GST recovered | 23,404 | 15,716 |
| Payments to suppliers and employees | (19,626) | (22,917) |
| Interest received | 2 | 173 |
| Interest paid | (619) | (96) |
| **Net cash inflows / (outflows) from operating activities** | 3,161 | (7,124) |
| **Cash flows from investing activities** | | |
| Payments for exploration and evaluation | - | (2) |
| Payments for mine development | (4,743) | (2,207) |
| Payments for acquisition of property, plant and equipment | (1,480) | (664) |
| **Net cash flows (used in) investing activities** | (6,223) | (2,873) |
| **Cash flows from financing activities** | | |
| Proceeds from issue of ordinary shares | 187 | - |
| Repayment of borrowings | (804) | (384) |
| Receipt of borrowings | 779 | 1,329 |
| Payment of share issue costs | - | (23) |
| **Net cash flows from financing activities** | 162 | 922 |
| **Net (decrease) in cash and cash equivalents** | (2,900) | (9,075) |
| Effect of exchange rate fluctuations on cash held | (38) | (1) |
| Cash and cash equivalents at the beginning of the period | 2,811 | 17,412 |
| **Cash (overdrawn) / cash and cash equivalents at the end of the period** | (127) | 8,336 |

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

*For the restated consolidated statement of cash flows refer to Notes 1 (ii) (iv) and Note 13 (v).*

## 1. SUMMARY OF ACCOUNTING POLICIES

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

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

These consolidated interim financial statements of the Company and its controlled entities ("group" or "consolidated entity") for the period ended 30 September 2013 are general purpose financial statements prepared in accordance with applicable accounting standards including AASB 134 'Interim Financial Reporting', Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB') and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

These consolidated interim financial statements do not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the group as in the full financial report. It is recommended that these interim consolidated financial statements be read in conjunction with the annual financial report for the year ended 30 June 2013, and any public announcements made by the Company during the period ended 30 September 30 2013 in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and the ASX Listing Rules.

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

*Going concern*

This financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the ordinary course of business. As at 30 September 2013 the consolidated entity had cash reserves of $Nil and a net current asset deficiency of $17.06 million, having recorded a net loss after tax for the three months of $0.47 million. The consolidated entity had net cash inflows from operations for the three months of $3.16 million. Notwithstanding the above, the financial report has been prepared on a going concern basis, which the directors consider to be appropriate, based on:

(i) On 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 in two tranches at an issue price of C$0.20 a share from the issuance of 40 million ordinary shares. The first tranche was completed on 2 October 2013 and the second tranche on 8 November 2013, subsequent to receiving shareholder approval on 4 November 2013. Finder's fees totalling 3% cash and 1,155,431 warrants with a term of 2 years and an exercise price of CDN$0.30 per warrant have been paid and issued respectively in relation to this placement. The net proceeds of the private placement have been used to prepay C$0.5 million against the outstanding Sprott Resource Lending Partnership ("Sprott") secured debt facility ("Facility") balance of C$5 million and are being used to fund development and working capital at the Company's 100% owned CMD Gold Mine in Chile.

    On 8 November 2013 the Company announced that it had entered into a subscription agreement with accredited North American investors to raise a total of C$1.5 million from the issuance of 7.5 million ordinary shares at an issue price of C$0.20 a share. The issue was completed on 8 November. Finder's fees totalling 5% cash and 375,000 warrants with a term of 2 years and an exercise price of CDN$0.30 per warrant have been paid and issued respectively in relation to this placement. The net proceeds of the private placement are being used to fund development and working capital at the Company's 100% owned CMD Gold Mine in Chile;

(ii) the expectation that the operating subsidiary will be able to maintain its creditor holding periods in Chile;

## 1. SUMMARY OF ACCOUNTING POLICIES (continued)

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

(iii) On 13 February 2013 the Company drew down a C$5 million Facility with Sprott of which CDN$0.5 million was repaid on 9 October 2013. The Facility has a 12-month term and is included in current liabilities. The term of the loan can be extended with Sprott's consent for a further 12 months provided no event of default shall have occurred and be continuing, and the payment of an extension fee; and

(iv) the expectation that the Company, if required, would be able to raise additional funds through debt, asset sales, or equity.

The directors believe that the Group will be successful in implementing initiatives (ii) to (iv) as required and, accordingly, have prepared the financial statements on a going concern basis. Notwithstanding this belief, as there is a risk that the Group may not be successful in implementing its initiatives or the implementation of alternative options which may be available to the Group, this constitutes a material uncertainty which may cast a significant doubt about the Group's ability to continue as a going concern and therefore whether it will realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report. No adjustments have been made relating to the recoverability or classification of recorded assets and liabilities that might be necessary should the Group not continue as a going concern.

*Rounding of amounts*

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

*Use of estimates and judgements*

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

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

(i) Provisions

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

(ii) Exploration and evaluation expenditure

Expenditure which does not form part of the cash generating units assessed for impairment has been carried forward on the basis that exploration and evaluation activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in relation to the area are continuing. Exploration expenditure incurred that does not satisfy the policy stated above is expensed in the period in which it is incurred. Exploration expenditure that has been capitalised which no longer satisfies the policy stated above is written off in the period in which the decision is made.

## 1. SUMMARY OF ACCOUNTING POLICIES (continued)

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

(iii) Functional currency

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

For subsidiaries Compania Minera Dayton ("CMD") and Dayton Chile Exploraciones Mineras Limitada ("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 US dollar is the functional currency for those companies. For Lachlan Star Limited and its other subsidiaries management have determined that the Australian dollar is the functional currency for those companies given their revenue and expenditure is mostly in Australian dollars.

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

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

Since the Company moved to a dynamic leaching system in mid-2011 the leaching time has been materially shortened, and recoveries increased. Historically, recoveries averaged 73% over a 19 month period, resulting in much of the pad inventory being classified as non-current. The change to the dynamic leaching system has increased recoveries to their current level of circa 77%, but it has also materially compressed leaching times, with 100% of recoveries now achieved within a period of 9 months. Given there has been a 2 year period of large scale implementation of this process method, the Company has amended its pad inventory calculation method to reflect the faster recovery profile.

To take a conservative approach, the September 2013 quarter financial results have been prepared on the basis of a 75% leach pad recovery, with 80% of leach pad inventories treated as a current asset recoverable within one year. The impact of the faster recovery has been to move US$2.88 million of recoverable inventory from non-current assets to current assets on the balance sheet, thus improving the Company's working capital position.

(v) Reserve estimates

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

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

## 1. SUMMARY OF ACCOUNTING POLICIES (continued)

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

(vi) Income taxes

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

In addition, the group 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.

(vii) Impairment

AASB 136 requires a company to make a formal estimate of recoverable amount of an asset if an indicator of impairment is present. A number of primary indicators of impairment in respect of the Company’s CMD Gold Mine assets were considered at September 30, 2013 and it was concluded that mining assets did not need be tested for impairment at that date.

**1. SUMMARY OF ACCOUNTING POLICIES (continued)**

**(ii) Adoption of new and revised Accounting Standards**

In the period ended 30 September 30, 2013 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. The accounting policies adopted are consistent with those of the previous financial year other than as set out below:

(i) AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* are effective July 1, 2013 on a prospective basis. AASB 13 provides a single framework for measuring fair value based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The adoption of AASB 13 did not require any adjustment to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments at July 1, 2013.

(ii) AASB 10 *Consolidated Financial Statements,* AASB 12 *Disclosure of Interests in Other Entities*, revised AASB 127 *Separate Financial Statements,* AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* and AASB 2012-10 *Amendments to Australian Accounting Standards - Transition guidance and other Amendments* are effective July 1, 2013. AASB 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee, and has the ability to use its power over the investee to affect its returns. The Company has determined that the adoption of AASB 10 has not resulted in any change in the consolidation status of any of its subsidiaries. AASB 12 sets out the required disclosures for entities reporting under AASB 10, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the consolidated entity will not affect any of the amounts recognised in the financial statements, but may impact the type of information disclosed in relation to the consolidated entity's investments.

(iii) Revised AASB 119 *Employee Benefits,* AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)* and AASB 2011-11 *Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements* are effective July 1, 2013. Benefits are classified as long-term benefits if payments are not expected to be made within the next 12 months. The Company has reviewed the classification of its benefits and determined no adjustments to the existing classifications are required. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits.

(iv) IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* and AASB 2011-12 *Amendments to Australian Accounting Standards arising from IFRIC 20* are effective July 1, 2013. IFRIC 20 (applied in Australia as Interpretation 20) sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. It states that these costs can only be recognised as an asset if they can be attributed to an identifiable component of the ore body, the costs relating to the improved access to that component can be measured reliably and it is probable that future economic benefits associated with the stripping activity (improved access to the ore body) will flow to the entity. The costs will be amortised over the life of the identified component of the ore body. This is different to the consolidated entity's previous accounting policy which was to capitalise stripping costs based on a combined pit waste-to-ore stripping ratio and amortise the costs over the life of the mine. IFRIC 20 has been applied prospectively to the Company's production stripping costs incurred on or after 1 July 2012. Capitalised deferred stripping costs that are not related to an identifiable component of an orebody at 30 June 2012 have been written off against opening retained earnings.

The financial effect of these accounting policy changes on the previously presented financial statements as at 1 July 2012, 30 September, 2012, and 30 June 2013 are set out in Note 13 to these financial statements. For the three months ended 30 September 2012 the adoption of this interpretation has increased the unaudited CMD Gold Mine gross operating loss by $0.47 million and reduced cash costs by US$39 per ounce. For the three months ended 30 September 2013 the adoption of this interpretation has increased expenditure on mine development properties by US$0.41 million and reduced net loss after tax by $0.37 million.

## 2. CONTINGENT ASSETS AND LIABILITIES

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

## 3. SUBSEQUENT EVENTS

On 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 in two tranches at an issue price of C$0.20 a share from the issuance of 40 million ordinary shares. The first tranche was completed on 2 October and the second tranche on 8 November subsequent to shareholder approval. Finder's fees totalling 3% cash and 1,155,431 warrants with a term of 2 years and an exercise price of CDN$0.30 per warrant have been paid and issued respectively in relation to this placement. The net proceeds of the private placement have been used to prepay C$0.5 million against the outstanding Sprott Facility balance of C$5 million and are being used to fund development and working capital at the Company's 100% owned CMD Gold Mine in Chile.

On 8 November 2013 the Company announced that it had entered into a subscription agreement with accredited North American investors to raise a total of C$1.5 million from the issuance of 7.5 million ordinary shares. The issue was completed on 8 November. Finder's fees totalling 5% cash and 375,000 warrants with a term of 2 years and an exercise price of CDN$0.30 per warrant have been paid and issued respectively in relation to this placement. The net proceeds of the private placement are being used to fund development and working capital at the Company's 100% owned CMD Gold Mine in Chile.

Other than these no other matter or circumstance has arisen since 30 September 2013 that in the opinion of the directors has significantly affected, or may significantly affect in future financial years:

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

## 4. TRADE AND OTHER RECEIVABLES

Trade and other receivables at 30 September 2013 include $4.88 million for VAT and the sale of gold, all of which has been received subsequent to period end.

## 5. INVENTORIES

Inventories at 30 September 2013 include $1.17 million relating to doré produced but not sold, and to which title passed to Johnson Matthey on 4 October 2013.

## 6. RELATED PARTY DISCLOSURES

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.

The consolidated entity recharged $18,728 on an arm's length basis during the September 2013 quarter 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.

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

## 7. PROPERTY PLANT AND EQUIPMENT

| | Fixture and Fittings $000 | Vehicles $000 | Land and buildings $000 | Mine Plant $000 | Total $000 |
|---|---|---|---|---|---|
| *Cost:* | | | | | |
| 1 July 2013 | 588 | 51 | 86 | 46,831 | 47,556 |
| Effect of movements in exchange rates | (11) | (2) | (1) | (761) | (775) |
| Additions | - | - | - | 1,480 | 1,480 |
| 30 September 2013 | 577 | 49 | 85 | 47,550 | 48,261 |
| *Accumulated depreciation:* | | | | | |
| 1 July 2013 | 154 | 51 | - | 22,000 | 22,205 |
| Depreciation charge for period | 9 | - | - | 977 | 986 |
| Effect of movements in exchange rates | (3) | (2) | - | (308) | (313) |
| 30 September 2013 | 160 | 49 | - | 22,669 | 22,878 |
| Carrying amount at beginning of period (Restated) | 434 | - | 86 | 24,831 | 25,351 |
| Carrying amount at end of period | 417 | - | 85 | 24,881 | 25,383 |
| *Cost:* | | | | | |
| 1 July 2012 | 463 | 40 | 35 | 17,269 | 17,807 |
| Effect of movements in exchange rates | 61 | 11 | 9 | 4,967 | 5,048 |
| Additions | 64 | - | 42 | 24,595 | 24,701 |
| 30 June 2013 | 588 | 51 | 86 | 46,831 | 47,556 |
| *Accumulated depreciation:* | | | | | |
| 1 July 2012 | 105 | 40 | - | 4,188 | 4,333 |
| Depreciation charge for period | 30 | - | - | 5,569 | 5,599 |
| Impairment loss | - | - | - | 11,423 | 11,423 |
| Effect of movements in exchange rates | 19 | 11 | - | 820 | 850 |
| 30 June 2013 | 154 | 51 | - | 22,000 | 22,205 |
| Carrying amount at beginning of period | 358 | - | 35 | 13,081 | 13,474 |
| Carrying amount at end of period (Restated) | 434 | - | 86 | 24,831 | 25,351 |

## 8. CONTRIBUTED EQUITY

| | Number | $000 |
|---|---|---|
| *Ordinary shares* | | |
| 1 July 2013 | 99,107,273 | 215,076 |
| 30 September 2013 | 99,107,273 | 215,076 |
| | | |
| 1 July 2012 | 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 2013 | 99,107,273 | 215,076 |

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

| Expiry date | Exercise price | Number 01/07/13 | Issued | Expired | Number 30/09/13 |
|---|---|---|---|---|---|
| 20/12/13 | $1.20 | 166,669 | - | - | 166,669 |
| 20/12/13 | $1.50 | 166,669 | - | - | 166,669 |
| 26/08/13 | $1.20 | 5,970,900 | - | (5,970,900) | - |
| 25/11/13 | $1.20 | 650,000 | - | - | 650,000 |
| 25/11/13 | $1.50 | 150,000 | - | - | 150,000 |
| 25/11/14 | $1.50 | 50,000 | - | - | 50,000 |
| 03/04/14 | CDN$1.60 | 329,250 | - | - | 329,250 |
| 28/11/14 | $1.50 | 75,000 | - | - | 75,000 |
| 22/05/15 | $2.10 | 100,000 | - | - | 100,000 |
| 22/05/15 | $2.50 | 100,000 | - | - | 100,000 |
| | | 7,758,488 | - | (5,970,900) | 1,787,588 |

## 9. SEGMENT INFORMATION

(*a) Description of segments*

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

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

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

## 9. SEGMENT INFORMATION (continued)

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

| | | 3 months ended 30 September 2013 | (Restated) 3 months ended 30 September 2012 |
|---|---|---|---|
| CMD Gross Operating Profit / (Loss) (unaudited) | US$000 | 3,870 | (5,043) |
| A$ / US exchange rate for the period | | 0.916 | 1.039 |
| CMD Gross Operating Profit / (Loss) (unaudited) | A$000 | 4,227 | (4,852) |
| Process inventory and ROM pad adjustment | A$000 | (2,081) | 3,005 |
| Depreciation and amortisation | A$000 | (1,857) | (1,426) |
| Foreign exchange (loss) / gain | A$000 | (377) | (1,363) |
| Revaluation of deferred consideration | A$000 | 153 | (217) |
| Net finance income | A$000 | (157) | 81 |
| New venture expenditure written off | A$000 | (4) | (75) |
| Other head office related costs | A$000 | (368) | (527) |
| Consolidated (Loss) Before Income Tax (unaudited) | A$000 | (464) | (5,374) |

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

| | | 3 months ended 30 September 2013 | (Restated) 3 months ended 30 September 2012 |
|---|---|---|---|
| Cash cost per ounce | US$ | 980 | 882 |
| Ounces poured | | 17,056 | 10,374 |
| Cash costs | US$000 | 16,720 | 9,146 |
| A$ / US exchange rate for the period | | 0.916 | 1.039 |
| Cash costs | A$000 | 18,260 | 8,802 |
| Process inventory provision and ROM pad adjustment | A$000 | (1,397) | (173) |
| Depreciation and amortization | A$000 | 1,857 | 1,426 |
| Waste costs expensed and amortised | A$000 | 4,257 | 8,580 |
| Royalties | A$000 | 454 | 582 |
| Other | A$000 | 86 | 65 |
| Copper / silver net revenue | A$000 | 436 | 144 |
| | | | |
| Cost of sales (unaudited) | A$000 | 23,953 | 19,426 |

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

| | **30 Sept 2013 $000** | **30 June 2013 $000** |
|---|---|---|
| Chile | 52,151 | 53,932 |
| Australia | 2,794 | 2,794 |
| | 54,945 | 56,726 |

## 10. CHANGES IN ESTIMATES

### *(i) Site restoration*

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

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

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

| | **3 months 30 Sept 2013 $000** | **12 months 30 June 2013 $000** |
|---|---|---|
| *Non-current* | | |
| Opening | 5,035 | 5,007 |
| Effect of movements in exchange rates | (95) | 496 |
| Accretion | - | 37 |
| Change in estimate | - | (682) |
| Change in discount rate | - | 177 |
| Closing | 4,940 | 5,035 |

## 10. CHANGES IN ESTIMATES (continued)

*(ii) Deferred consideration*

In November 2010 the Company reached agreement with the five shareholders of Oro Chile LLC ("the Vendors") to acquire 100% of DMC Newco Pty Ltd ("DMC Newco"), a company that in turn owned 100% of two Chilean companies, Compañía Minera Dayton ("CMD") and Dayton Chile Exploraciones Mineras Limitada ("DCEM"). CMD and DCEM collectively own a 100% interest in the Compañía Minera Dayton Gold Mine located in Andacollo, approximately 350km north of Santiago in Chile ("CMD Gold Mine"). The transaction settled on 24 December 2010. The consideration for the purchase included deferred consideration payments payable in accordance with a Deferred Consideration Agreement relating to the achievement of specified gold production, which may become payable. The payment terms are as follows:

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 (the "Mineral Inventory" collectively) between 1 January 2011 and the Payment End Date, being the later of (i) 31 December 2014, or (ii) the end of the thirtieth full month following the end of the month in which the Company (or its successor in interest) has completed the mining of all of the estimated reserves contained, as of 24 December 2010, within the pits the subject of the Deferred Consideration Agreement provided that if such date is after 31 December 2014 due to any action or circumstance that was not willingly and knowingly caused by the Company, the Payment End Date shall be 31 December 2014; and

b) 25% of the value of the gold produced from the Mineral Inventory between 1 January 2011 and the Payment End Date over and above 119,000 ounces

The movement in deferred consideration, classified under Borrowings in the Statement of Financial Position, is shown below:

| | 3 months 30 Sept 2013 $000 | 12 months 30 June 2013 $000 |
|---|---|---|
| Opening | 306 | 1,387 |
| Fair value gain | (153) | (670) |
| Repayment of borrowings | - | (724) |
| Accretion | 2 | 189 |
| Foreign exchange | (10) | 44 |
| Other | - | 80 |
| Closing | 145 | 306 |
| | | |
| Current | 124 | 262 |
| Non-current | 21 | 44 |
| | 145 | 306 |

## 11. CAPITAL COMMITMENTS

There were no capital commitments at period end.

## 12. FINANCIAL RISK MANAGEMENT

*Fair values*

The carrying amounts consolidated financial assets and financial liabilities shown in the statement of financial position approximate their fair values. Disclosure of fair value measurements by level of fair value measurement hierarchy is as follows:

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

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

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

The following table presents the group's financial liabilities measured and recognised at fair value. There were no financial assets measured and recognised at fair value at September 30, 2013 or September 30, 2012.

| **September 30, 2013** | **Level 1 $000** | **Level 2 $000** | **Level 3 $000** | **Total $000** |
|---|---|---|---|---|
| *Financial liabilities* | | | | |
| Borrowings | - | - | 145 | 145 |
| | - | - | 145 | 145 |

| **September 30, 2012** | **Level 1 $000** | **Level 2 $000** | **Level 3 $000** | **Total $000** |
|---|---|---|---|---|
| *Financial liabilities* | | | | |
| Borrowings | - | - | 1,480 | 1,480 |
| | - | - | 1,480 | 1,480 |

Contingent consideration payable for the CMD Gold Mine has a fair value determined using discounted cash flow analysis and comprises Level 3 borrowings. The following table presents the change in level 3 instruments:

| **September 30, 2013** | **Contingent consideration $000** | **Total $000** |
|---|---|---|
| Opening balance 1 July 2013 | 306 | 306 |
| Fair value gain | (153) | (153) |
| Accretion | 2 | 2 |
| Foreign exchange | (10) | (10) |
| Closing balance | 145 | 145 |

| **September 30, 2012** | **Contingent consideration $000** | **Total $000** |
|---|---|---|
| Opening balance 1 July 2012 | 1,467 | 1,467 |
| Fair value loss | 217 | 217 |
| Repayment of borrowings | (240) | (240) |
| Other | 36 | 36 |
| Closing balance | 1,480 | 1,480 |

## 13. CHANGES IN ACCOUNTING POLICIES

The International Accounting Standards Board published IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* on 19 October 2011, applicable in Australia as Interpretation 20. The interpretation, which is applicable to the Company for the financial period commencing July 1, 2013, sets out the accounting for overburden waste removal (stripping) costs in the production phase of a surface mine. The main requirements of the interpretation are as follows:

- Waste removal costs (stripping costs) incurred in the production phase of a surface mining are accounted for in accordance with IAS 2 *Inventories* to the extent they relate to current period production.

- Production stripping costs are recognized as a non-current asset ("stripping activity asset") if all the following criteria are met (i) it is probable that future economic benefits will flow to the entity (ii) the entity can identify the component of the ore body to which access has been improved (iii) the costs incurred can be measured reliably. The stripping activity asset is amortised over the useful life of the component of the ore body to which access has been improved.

- When the costs of a stripping activity asset versus current period inventory are not separately identifiable, costs are allocated based on a production method.

- Application of the interpretation is on a prospective basis, with transitional adjustments being recognized in opening retained earnings.

The interpretation must be applied retrospectively and the group has to write off existing stripping cost asset balances to retained earnings on the date of transition, unless they relate to an identifiable component of the ore body. Management has determined that $3.99 million of stripping costs capitalized at July 1, 2012, being the statement of financial position as at the beginning of the immediately preceding comparative period, cannot be attributed to an identifiable component of an ore body.

The impact of this change in accounting policy on the financial statements as at the beginning of the immediately preceding comparative period, for the prior year end, and for the comparative period for the 3 months ending September 30, 2012 is as follows:

## 13. CHANGES IN ACCOUNTING POLICIES (continued)

*(i) Consolidated Statement of Financial Position*

| | Audited 30 June 12 $000 | Adjustment for change in accounting policy $000 | Restated 30 June 12 $000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 17,412 | - | 17,412 |
| Trade and other receivables | 3,630 | - | 3,630 |
| Inventories | 8,441 | (100) | 8,341 |
| **Total current assets** | 29,483 | (100) | 29,383 |
| **Non-current assets** | | | |
| Trade and other receivables | 435 | - | 435 |
| Inventories | 5,983 | (92) | 5,891 |
| Mine development properties | 34,452 | (3,988) | 30,464 |
| Property, plant and equipment | 13,474 | - | 13,474 |
| Exploration and evaluation | 2,771 | - | 2,771 |
| Goodwill | 189 | - | 189 |
| Deferred tax asset | 8,459 | 658 | 9,117 |
| **Total non-current assets** | 65,763 | (3,422) | 62,341 |
| **Total assets** | 95,246 | (3,522) | 91,724 |
| **Current liabilities** | | | |
| Trade and other payables | 20,191 | - | 20,191 |
| Borrowings | 5,343 | - | 5,343 |
| **Total current liabilities** | 25,534 | - | 25,534 |
| **Non-current liabilities** | | | |
| Borrowings | 1,384 | - | 1,384 |
| Provisions | 6,087 | - | 6,087 |
| **Total non-current liabilities** | 7,471 | - | 7,471 |
| **Total liabilities** | 33,005 | - | 33,005 |
| **Net assets** | 62,241 | (3,522) | 58,719 |
| **Equity** | | | |
| Contributed equity | 204,436 | - | 204,436 |
| Reserves | 117 | - | 117 |
| Accumulated losses | (142,312) | (3,522) | (145,834) |
| **Total equity** | 62,241 | (3,522) | 58,719 |

## 13. CHANGES IN ACCOUNTING POLICIES (continued)

*(ii) Consolidated Statement of Financial Position*

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

## 13. CHANGES IN ACCOUNTING POLICIES (continued)

*(iii) Consolidated Statement Of Comprehensive Income*

| | 3 months ended | | |
|---|---|---|---|
| | **Original 30 Sept 12 $000** | **Adjustment for change in accounting policy $000** | **Restated 30 Sept 12 $000** |
| Revenue from continuing operations | | | |
| Revenue | 16,249 | - | 16,249 |
| Finance income | 68 | - | 68 |
| | 16,317 | - | 16,317 |
| Expenses | | | |
| Cost of sales | (18,942) | (484) | (19,426) |
| *Other expenses from ordinary activities* | | | |
| Corporate compliance and management | (417) | - | (417) |
| Occupancy costs | (7) | - | (7) |
| Foreign exchange (loss) / gain | (1,363) | - | (1,363) |
| New venture expenditure written off | (75) | - | (75) |
| Other expenses | (103) | - | (103) |
| Finance expense | (83) | - | (83) |
| Fair value (loss) on deferred consideration | (217) | - | (217) |
| (Loss) before income tax | (4,890) | (484) | (5,374) |
| Income tax benefit | 2,613 | - | 2,613 |
| (Loss) for the period | (2,277) | (484) | (2,761) |
| Other comprehensive income for the period net of income tax | | | |
| *Items that may be reclassified to profit or loss* | | | |
| Exchange difference on translation of foreign operations | (1,056) | 65 | (991) |
| Total comprehensive income for the period | (3,333) | (419) | (3,752) |

## 13. CHANGES IN ACCOUNTING POLICIES (continued)

*(iv) Consolidated Statement of Financial Position*

| | Original 30 Sept 12 $000 | Adjustment for change in accounting policy $000 | Restated 30 Sept 12 $000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 8,336 | - | 8,336 |
| Trade and other receivables | 3,750 | - | 3,750 |
| Inventories | 11,623 | (118) | 11,505 |
| **Total current assets** | 23,709 | (118) | 23,591 |
| **Non-current assets** | | | |
| Trade and other receivables | 426 | - | 426 |
| Inventories | 7,150 | (100) | 7,050 |
| Mine development properties | 34,820 | (4,367) | 30,453 |
| Property, plant and equipment | 13,157 | - | 13,157 |
| Exploration and evaluation | 2,773 | - | 2,773 |
| Goodwill | 189 | - | 189 |
| Deferred tax asset | 10,853 | 644 | 11,497 |
| **Total non-current assets** | 69,368 | (3,823) | 65,545 |
| **Total assets** | 93,077 | (3,941) | 89,136 |
| **Current liabilities** | | | |
| Trade and other payables | 20,352 | - | 20,352 |
| Borrowings | 6,874 | - | 6,874 |
| **Total current liabilities** | 27,226 | - | 27,226 |
| **Non-current liabilities** | | | |
| Borrowings | 887 | - | 887 |
| Provisions | 6,079 | - | 6,079 |
| **Total non-current liabilities** | 6,966 | - | 6,966 |
| **Total liabilities** | 34,192 | - | 34,192 |
| **Net assets** | 58,885 | (3,941) | 54,944 |
| **Equity** | | | |
| Contributed equity | 204,413 | - | 204,413 |
| Reserves | (939) | 65 | (874) |
| Accumulated losses | (144,589) | (4,006) | (148,595) |
| **Total equity** | 58,885 | (3,941) | 54,944 |

## 13. CHANGES IN ACCOUNTING POLICIES (continued)

*(v) Consolidated Statement of Cash Flows*

| | 3 months ended | | |
|---|---|---|---|
| | **Original 30-Sept-12 $000** | **Adjustment for change in accounting policy $000** | **Restated 30-Sept-12 $000** |
| **Cash flows from operating activities** | | | |
| Receipts from customers and GST recovered | 15,716 | - | 15,716 |
| Payments to suppliers and employees | (22,705) | (212) | (22,917) |
| Interest received | 173 | - | 173 |
| Interest paid | (96) | - | (96) |
| **Net cash (outflows) from operating activities** | (6,912) | (212) | (7,124) |
| **Cash flows from investing activities** | | | |
| Payments for exploration and evaluation | (2) | - | (2) |
| Payments for mine development | (2,419) | 212 | (2,207) |
| Payments for acquisition of property, plant and equipment | (664) | - | (664) |
| **Net cash flows (used in) investing activities** | (3,085) | 212 | (2,873) |
| **Cash flows from financing activities** | | | |
| Repayment of borrowings | (384) | - | (384) |
| Receipt of borrowings | 1,329 | - | 1,329 |
| Payment of share issue costs | (23) | - | (23) |
| **Net cash flows from financing activities** | 922 | - | 922 |
| **Net (decrease) in cash and cash equivalents** | (9,075) | - | (9,075) |
| Effect of exchange rate fluctuations on cash held | (1) | - | (1) |
| Cash and cash equivalents at the beginning of the period | 17,412 | - | 17,412 |
| **Cash and cash equivalents at the end of the period** | 8,336 | - | 8,336 |

## 13. CHANGES IN ACCOUNTING POLICIES (continued)

*(vi) Consolidated Statement of Changes in Equity*

| | Contributed equity $000 | Accumulated losses $000 | Share based payments reserve $000 | Foreign exchange reserve $000 | Total $000 |
|---|---|---|---|---|---|
| **Balance at 1 July 2012 (Audited)** | 204,436 | (142,312) | 425 | (308) | 62,241 |
| *Change in accounting policy* IFRIC 20 | - | (3,522) | - | - | (3,522) |
| **Balance at 1 July 2012 (Restated)** | 204,436 | (145,834) | 425 | (308) | 58,719 |
| **Balance at a 30 September 2012 (Original)** | 204,413 | (144,589) | 425 | (1,364) | 58,885 |
| *Change in accounting policy* IFRIC 20 | - | (4,006) | - | 65 | (3,941) |
| **Balance at 30 September 2012 (Restated)** | 204,413 | (148,595) | 425 | (1,299) | 54,944 |
| **Balance at 1 July 2013 (Audited)** | 215,076 | (200,403) | 129 | 7,812 | 22,614 |
| *Change in accounting policy* IFRIC 20 | - | 727 | - | (727) | - |
| **Balance at 1 July 2013 (Restated)** | 215,076 | (199,676) | 129 | 7,085 | 22,614 |