

## 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 November 14, 2013 and provides an analysis of the Company’s performance and financial condition for the three months ending September 30, 2013 (the “**Quarter**” or “**September 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 and the Company’s unaudited consolidated financial statements for the Quarter.

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 September 30, 2013 was A\$1.00 = US\$0.9322. 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 September 30, 2013 was A\$1.00 = US\$0.9156. 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 has 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\$1,326.50 / ounce as at September 30, 2013. Subsequent to September 30, 2013, the gold spot price has fallen and was US\$1,281.25 / ounce as at November 12, 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 Quarter was 17,056 ounces, a 5.5% increase on the June 2013 quarter (16,160 ounces). In addition, 18,757 ounces of silver was produced. All production was sold at spot prices, with an average sale price of US\$1,335 per gold ounce.

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. Ore stacking rates were maintained at an annualized rate of 5.4 Mtpa as of September 30, 2013. Gold ounces stacked in the September 2013 Quarter of 22,355 ounces were up 7.5% 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 September 30, 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 \$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.

Renewal of the Exploration Licence took effect on September 30, 2013 with an expiry date of June 3, 2015.

## EXPLORATION AND EVALUATION

The Group's exploration and evaluation expenditures for the Quarter comprised \$0.05 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

In July 2013 CMD renegotiated one of its existing debt facilities with a Chilean bank. This resulted in the provision of an additional US\$0.8 million in financing drawn in August 2013, with a repayment term of 12 months.

On August 28, 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 September 30, 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 October 2, 2013 and the second tranche on November 8, 2013, subsequent to receiving shareholder approval on November 4, 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 CDN\$0.5 million against the outstanding Sprott Resource Lending Partnership ("**Sprott**") secured debt facility ("**Facility**") balance of CDN\$5 million and are being used to fund development and working capital at the Company's 100% owned CMD Gold Mine in Chile.

On November 8, 2013 the Company announced that it had entered into a subscription agreement with accredited North American investors to raise a total of CDN\$1.5 million from the issuance of 7.5 million ordinary shares within the company's capacity to issue shares without shareholder approval. The issue was completed on November 8, 2013. 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.

During the quarter a total of 5,970,900 options expired.

Subsequent to the end of the Quarter the Company decided, subject to shareholder and regulatory approval, to issue an aggregate of 950,000 unlisted options ("**Employee Options**") to subscribe for fully paid Ordinary Shares exercisable at A\$0.25 per share on or before November 29, 2015, vesting immediately, and an aggregate of 725,000 fully paid Ordinary Shares ("**Employee Shares**") to certain employees of or consultants to the Company at no cost and as part of their remuneration arrangements. The A\$0.25 option exercise price represents a premium of approximately 50% above the closing price on the ASX for the Company's shares at the time of award. The Employee Options expire 30 days after the allottee ceases to be an employee of the Company.

The previously announced proposal for non-executive directors to reduce their cash fees to zero for the 2014 financial year, and to take their fees in options in lieu, has been rescinded. The Company has

recently completed a CDN\$9.5 million placement as described above and payment for non-executive director fees will be in cash.

The Company has also decided, subject to shareholder and regulatory approval, to issue an aggregate of 750,000 options ("**Director Options**") to subscribe for fully paid Ordinary Shares exercisable at A\$0.25 per share on or before November 29, 2015, vesting immediately. Each director will receive 150,000 Director Options. These options replace expiring options for the majority of directors and, in the case of Mr Peter Drobeck, is the first equity based compensation he has been awarded. The issuance of all Employee Options, Employee Shares and Director Options is subject to shareholder approval at the Annual General Meeting of Shareholders to be held on November 29, 2013.

During the Quarter the Company 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. He has held many senior management positions over his 37-year career, including General Manager at the Frontier and Mauritanian Copper Mines for First Quantum and Operations Manager at Sadiola for Anglo Gold Ashanti, as well as Chief Operating Officer for Lachlan Star. Mr de Oliveira resides in Chile and for the past year has been responsible for all Company operational management and hosting all analysts, banker and investor site visits. The positions of COO and CEO will be merged going forward and is consistent with the Company's goal of reducing corporate general and administration ("**G&A**") expenses.

## **OUR PEOPLE**

The number of employees at Quarter end increased to 419 compared to 374 at June 30, 2013 as CMD continues the switch from engaging contractors to employees. The majority of employees are Chilean nationals, with 416 based at or near to the CMD Gold Mine.

## **RESULTS OF OPERATIONS**

Total sales during the Quarter from the CMD Gold Mine were \$24.70 million, cost of sales was \$23.95 million, and net sales were \$0.75 million.

Operating cash flow before changes in non-cash working capital was \$1.49 million for the Quarter.

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 970,000 ounces of gold since operations commenced. There are at least six known gold deposits in the CMD Gold Mine: Toro/Socorro, Tres Perlas, Churrumata, 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 September 30, 2013 as compared to the three months ended June 30, 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 Sept 30 2013	(Restated) 3 months ended June 30 2013	% Change
Ore Mined	Dmt	1,361,605	1,139,766	19%
Waste Mined	Dmt	3,050,674	2,840,087	7%
Total Mined	Dmt	4,412,279	3,979,853	11%
Waste:Ore Ratio	t:t	2.24	2.49	-10%
Ore grade Mined	Au g/t	0.56	0.58	-4%
Gold Mined	Au oz	24,357	21,364	14%
Ore stacked	Dmt	1,334,563	1,250,766	7%
Stacked Grade	Au g/t	0.52	0.52	0%
Gold Stacked	Au oz	22,355	20,788	8%
Average stacking rate	dmt/d	14,506	13,897	6%
Silver produced	Ag oz	18,757	11,559	62%
Gold Produced	Au oz	17,056	16,160	6%
Mining Cost/t moved	US\$/t	\$2.32	\$2.33	0%
Mining Cost/t ore	US\$/t	\$7.53	\$8.13	-7%
Process Cost/t ore stacked	US\$/t	\$7.20	\$8.31	-13%
G+A Cost/t ore	US\$/t	\$1.21	\$1.52	-21%
Total Cost/t ore	US\$/t	\$15.94	\$17.96	-11%
Average Sales Price	USD/oz	\$1,335	\$1,377	-3%
Cash Cost	USD/oz	\$821	\$910	-10%
Non Cash Process Inventory Adjustment	USD/oz	\$159	\$218	-27%
C1 Cash Cost <sup>(1)</sup>	USD/oz	\$980	\$1,128	-13%
CMD Gold Mine Gross Operating Profit (unaudited) <sup>(2)</sup>	US\$million	\$3.87	\$2.13	82%

## 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 to the IFRS measure consolidated (Loss) Before Income Tax is provided in Table 2 below.
3. Certain comparative information has been restated as a result of the adoption of IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, which has been applied prospectively to production stripping costs incurred on or after 1 July 2012. For further details refer to the *Changes in Accounting Policies, Including Initial Adoption* section on page 32 or Notes 1(ii)(iv) and 13 to the unaudited consolidated interim financial statements for the 3 months ending September 30, 2013.
4. Percentages may not calculate exactly due to rounding.

The CMD Gold Mine Gross Operating Profit (as defined above) was up 82% to US\$3.87 million for the quarter. This result was achieved against a backdrop of a declining gold price and is the best result for the Company since the September 2011 quarter, when the average gold price was US\$378 per ounce higher than the average price for the September 2013 Quarter. A reconciliation of CMD Gold Mine Gross Operating Profit to the IFRS measure consolidated (Loss) Before Income Tax is provided in Table 2 below.

**Table 2 – Reconciliation of unaudited CMD Gross Operating Profit to unaudited consolidated (Loss) Before Income Tax**

		3 months ended Sept 30, 2013	(Restated) 3 months ended June 30, 2013
CMD Gross Operating Profit (unaudited)	US\$000	3,870	2,125
A\$ / US exchange rate for the period		0.916	0.992
CMD Gross Operating Profit (unaudited)	A\$000	4,227	2,141
Inventory adjustment	A\$000	(2,081)	(4,328)
Depreciation and amortisation	A\$000	(1,857)	(3,534)
Unwinding of discount on provision	A\$000	-	(38)
Foreign exchange (loss) / gain	A\$000	(377)	827
Revaluation gain on deferred consideration	A\$000	153	107
Net finance (expense)	A\$000	(157)	(500)
New venture expenditure written off	A\$000	(4)	67
Other head office related costs	A\$000	(368)	(383)
Impairment loss	A\$000	-	(26,947)
Consolidated (Loss) Before Income Tax (unaudited)	A\$000	(464)	(32,588)

## Notes:

1. Certain comparative information has been restated as a result of the adoption of IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, which has been applied prospectively to production stripping costs incurred on or after 1 July 2012. For further details refer to the

*Changes in Accounting Policies, Including Initial Adoption* section on page 32 or Notes 1(ii)(iv) and 13 to the unaudited consolidated interim financial statements for the 3 months ending September 30, 2013.

The inventory adjustment for the Quarter primarily reflects the 17% decrease in average cost per ounce of ounces added to the leachpad to \$957 from \$1,150 in the June quarter, partly as a result of the assumed increase in leachpad recoveries from 73% to 75% from July 1, 2013.

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 in excess of 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.

Revenue for the Quarter of \$24.70 million excludes gold production of 1,031 ounces that is included in gold produced in Table 1 above, but was not poured until early in October 2013. This gold was included in inventory at September 30, 2013 at a book value of \$1.17 million. The Group's expenditure for the Quarter includes \$7.79 million of mine development and exploration costs at the CMD Gold Mine in Chile, of which \$4.74 million has been capitalised.

A reconciliation of C1 cash costs to the IFRS measure Cost of Sales is provided in Table 3 below.

**Table 3 – Reconciliation of cash cost (US\$/oz) per ounce to unaudited Cost of Sales**

		3 months ended September 30, 2013	(Restated) 3 months ended June 30, 2013
C1 Cash cost per ounce	US\$	980	1,128
Ounces produced		17,056	16,160
C1 Cash costs	US\$000	16,720	18,231
A\$ / US exchange rate for the period		0.916	0.9923
Cash costs	A\$000	18,260	18,372
Inventory adjustments (doré and stockpiles)	A\$000	(1,397)	963
Depreciation and amortization	A\$000	1,857	3,535
Waste costs expensed or amortised	A\$000	4,257	3,815
Royalties	A\$000	454	392
Other	A\$000	86	235
Copper / silver net revenue	A\$000	436	243
Cost of sales (unaudited)	A\$000	23,953	27,555

Gold production for the September Quarter was 17,056 ounces, a record under the Company's ownership, and a 6% increase on the June 2013 quarter (16,160 ounces) with an average sale price of US\$1,335 per gold ounce. In addition, 18,757 ounces of silver were produced during the Quarter, which is now providing meaningful by-product credits. Gold ounces stacked in the September 2013 Quarter of 22,355 ounces were up 8% compared to the previous quarter, a record under the Company's ownership.

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 4 below:

**Table 4 – Quarterly mine cash margin represented in Au oz**

Gold equivalents for the three months ended:	Restated		Restated		Restated		Restated	
	Sept-30	Sept-30	Jun-30	Jun-30	Mar-31	Mar-31	Dec-31	Dec-31
	2013 A\$000	2013 Au oz	2013 A\$000	2013 Au oz	2013 A\$000	2013 Au oz	2012 A\$000	2012 Au oz
Gold revenue	24,463	16,779	22,112	15,932	17,610	11,191	21,633	12,897
Royalties	(454)	(311)	(392)	(283)	(305)	(194)	(593)	(354)
Cash costs for ounces produced	(18,260)	(12,525)	(18,372)	(13,237)	(12,292)	(7,812)	(14,051)	(8,377)
Inventory movements	(1,397)	(958)	963	694	(468)	(297)	(419)	(250)
Waste costs	(7,729)	(5,301)	(6,599)	(4,755)	(7,599)	(4,829)	(9,247)	(5,514)
Mine cash margin	(3,377)	(2,316)	(2,288)	(1,649)	(3,054)	(1,941)	(2,677)	(1,598)
Average gold price (A\$)		1,458		1,388		1,574		1,677

Notes:

1. Certain comparative information has been restated as a result of the adoption of IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, which has been applied prospectively to production stripping costs incurred on or after 1 July 2012. For further details refer to the *Changes in Accounting Policies, Including Initial Adoption* section on page 32 or Notes 1(ii)(iv) and 13 to the unaudited consolidated interim financial statements for the 3 months ending September 30, 2013.

C1 cash costs, which exclude waste costs expensed or amortised and royalties, reduced to US\$980 per ounce of gold produced (a reduction of 13% quarter on quarter).

The inventory adjustment of US\$159 per ounce primarily reflects reduced average cost of ounces added to the leachpad, partly as a result of the assumed increase in assumed leachpad recoveries from 73% to 75% from July 1, 2013 as explained above.

Operating cash flow before changes in non-cash working capital was positive US\$1.49 million for the Quarter and has improved markedly over the past year as seen from Table 5.

**Table 5 – Quarterly cash flow before changes in non-cash working capital**

Item	Quarter ending 30 Sept 2013	Quarter ending 30 June 2013	Quarter ending 31 March 2013	Quarter ending 31 December 2012
Cash flow before changes in non-cash working capital (US\$000)	1,488	154	(777)	(1,310)

Table 6 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 6 – Cash Cost (US\$ per ounce) and inventory adjustments**

Item	Quarter ending 30 Sept 2013	(Restated) Quarter ending 30 June 2013	(Restated) Quarter ending 31 March 2013	(Restated) Quarter ending 31 Dec 2012
C1 Cash costs with inventory adjustment (US\$/oz)	980	1,128	1,172	1,063
Cash costs without inventory adjustment (US\$/oz)	821	910	1,337	1,077
Inventory adjustment effect (US\$/oz)	159	218	(165)	(13)

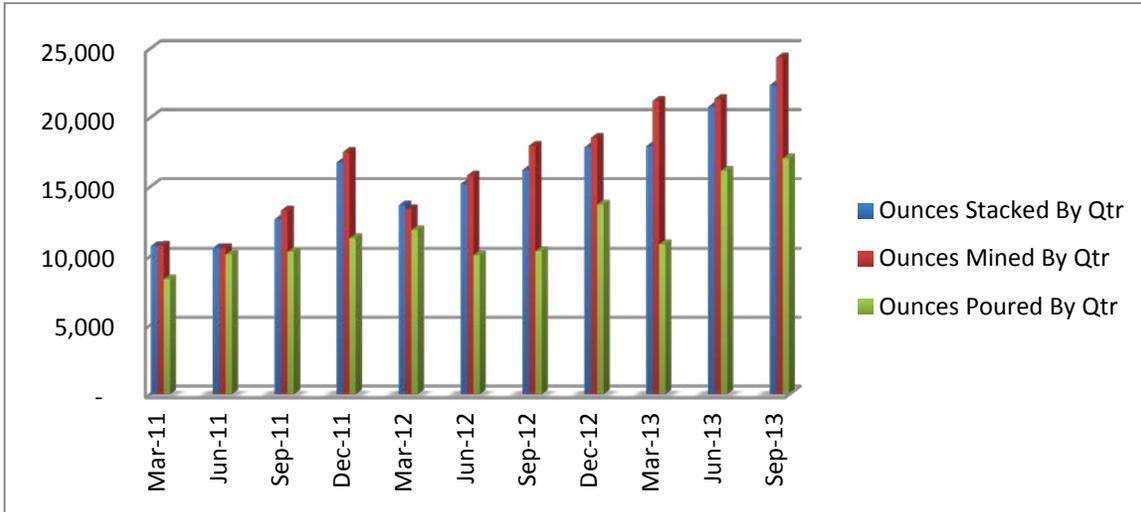
Notes:

1. Certain comparative information has been restated as a result of the adoption of IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, which has been applied prospectively to production stripping costs incurred on or after 1 July 2012. For further details refer to the *Changes in Accounting Policies, Including Initial Adoption* section on page 32 or Notes 1(ii)(iv) and 13 to the unaudited consolidated interim financial statements for the 3 months ending September 30, 2013.

Total costs per tonne of ore stacked decreased 11% quarter on quarter to US\$15.94 per tonne. The material reduction in total costs was driven by (i) a 10% decrease in the waste to ore ratio (ii) a 13% decrease in process costs per tonne stacked, and (iii) a 21 % decrease in site G&A costs per tonne stacked. The total costs per tonne (including waste stripping) for the September Quarter are the lowest under the Company's ownership.

Figure 1 illustrates the ounces mined, stacked and produced by quarter since the Company bought the CMD Gold Mine at the end of 2010. As can be seen in Figure 1, gold mined and stacked has increased rapidly over the past 6 months. Gold pours continued to increase quarter on quarter to a new record under the Company's ownership, with production up 6% from the previous quarter.

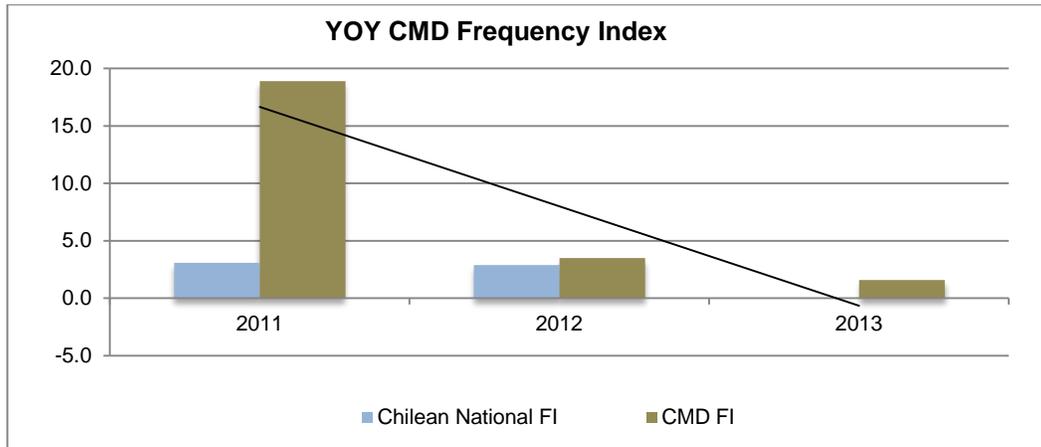
**Figure 1 – Quarterly Ounces Mined, Stacked and Gold Produced**



*Safety*

Safety is a key focus for management at the CMD Gold Mine and the results of this can be seen in Figure 2 below. In 2011 the CMD Gold Mine injury frequency rate was 18.9 compared to a Chilean national average of 3.1. In 2012 this had been reduced to 3.5 and 2.9 respectively. For the 2013 year to date, the CMD Gold Mine average has been reduced further to 1.6, which is likely to be below the Chilean national average and is a strong achievement of the site management team.

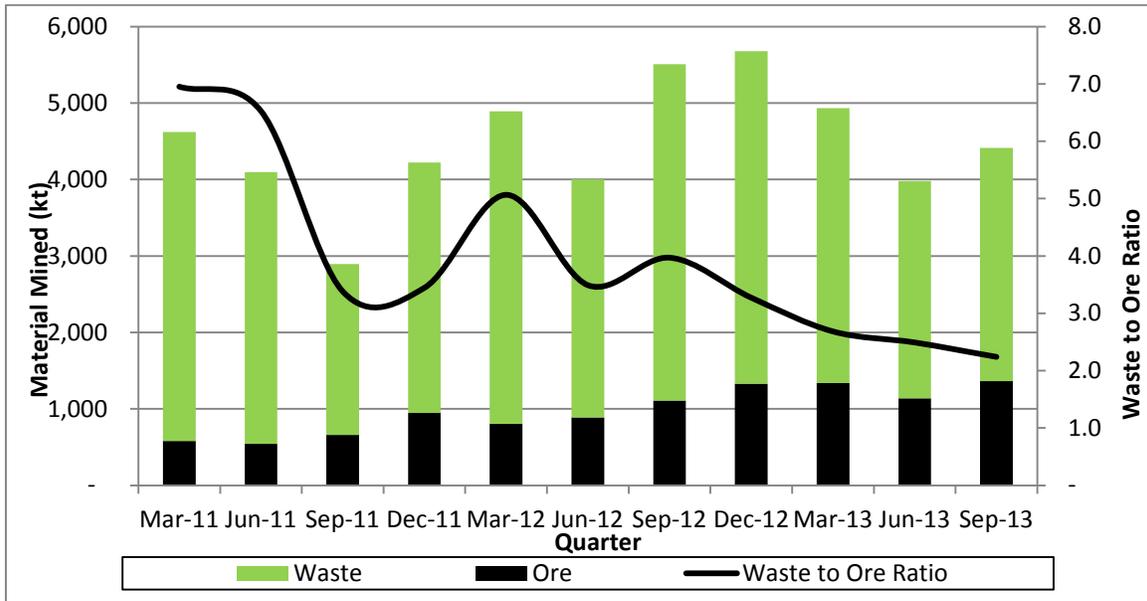
**Figure 2 – CMD Gold Mine Safety Statistics**



*Mining*

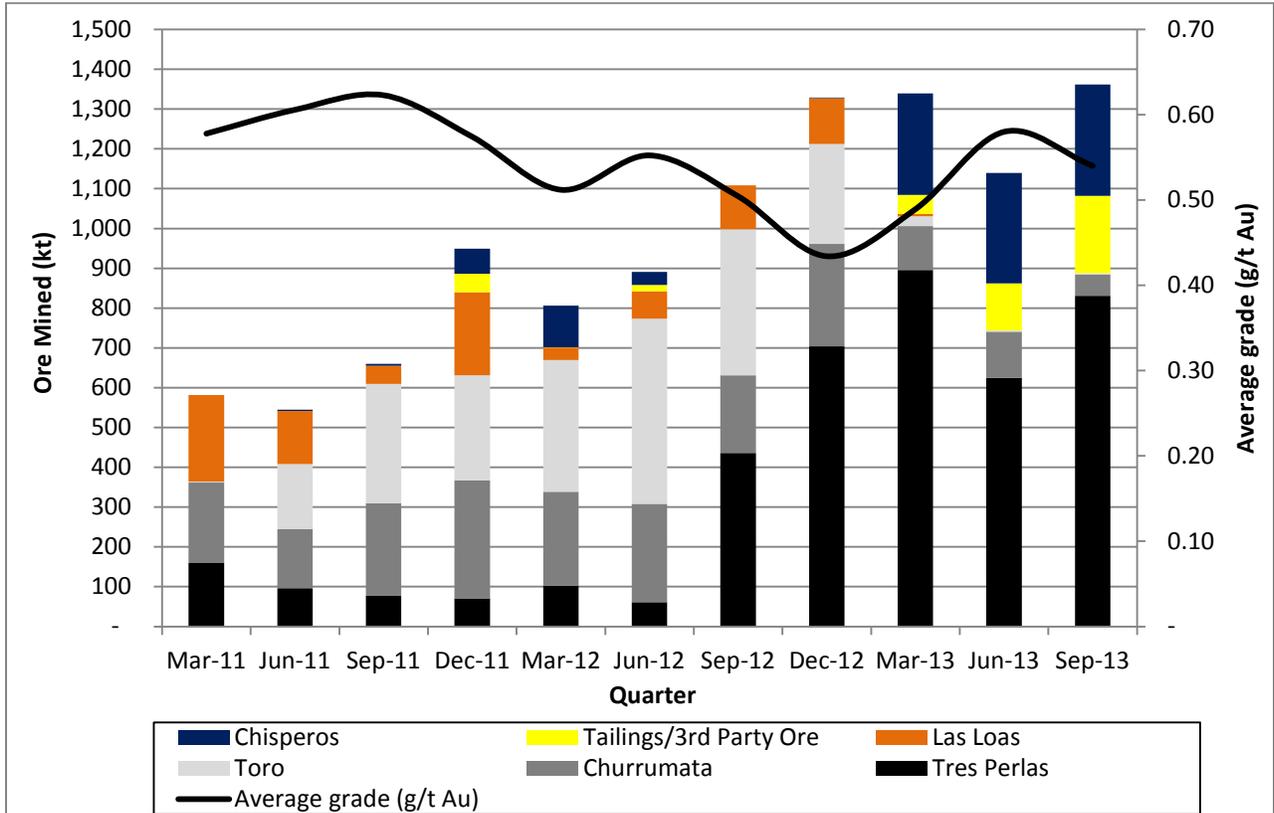
Total ore mined for the Quarter was 1.36 million tonnes for 24,357 contained Au ounces, an increase of 19% and 14% respectively. The waste to ore ratio decreased to 2.24 to 1 (from 2.49 to 1 in the previous quarter) and is a new low under the Company’s ownership. Ore was principally sourced from the Tres Perlas, Churrumata and Chisperos pits. Figure 3 shows the mining rate and waste to ore ratio by quarter since the Company acquired the CMD Gold Project.

**Figure 3 – Material Mined and Waste to Ore Ratio by Quarter**



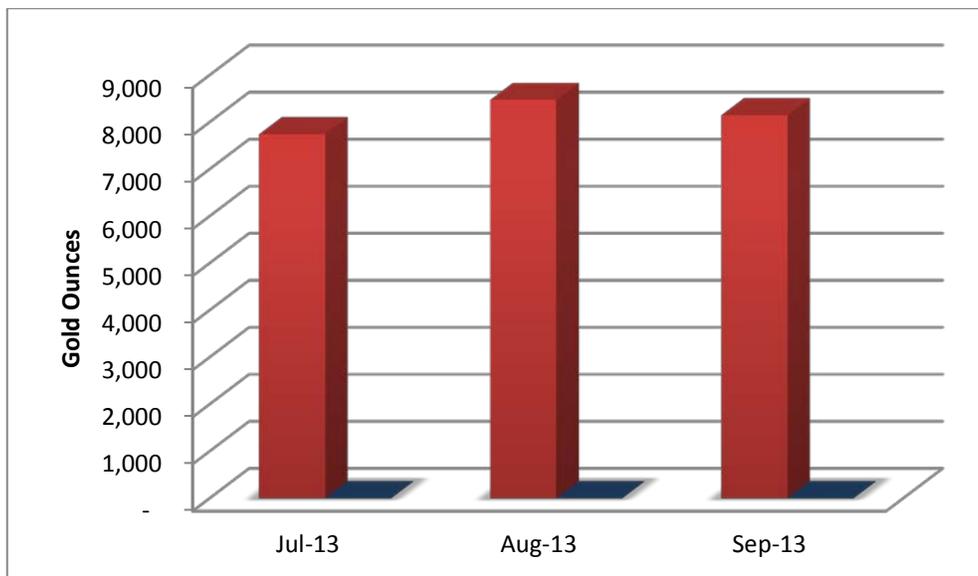
Mining was focussed on the Tres Perlas pit using the Company's owner mining fleet, with total quarterly ore production from Tres Perlas decreasing to 45% of the total ounces mined, due to an increase in mining in Chisperos and also the tailings addition to the ore feed, as illustrated in Figure 4. The Life of Mine waste to ore ratio for the Tres Perlas pit is expected to be around 1:1. The waste to ore ratio at the Chisperos pit averaged 1.5:1 for the Quarter, a reflection of the completion of most of the waste mining associated with this pit. Mining at Tres Perlas has the ability to deliver more tonnage than can currently be processed through the plant, and the pit is shutdown whenever stockpiles exceed 100,000 tonnes of ore in front of the plant.

**Figure 4 – Ore Mined by Pit and Quarter**



As seen in Figure 5, the ounces mined during the September Quarter increased over the period. As mining of the Tres Perlas pit continues to the north and in the deeper parts of the pit, the grade continues to increase as expected, which in turn has had a positive impact on ounces mined.

**Figure 5 – June Quarter Ounces Mined**



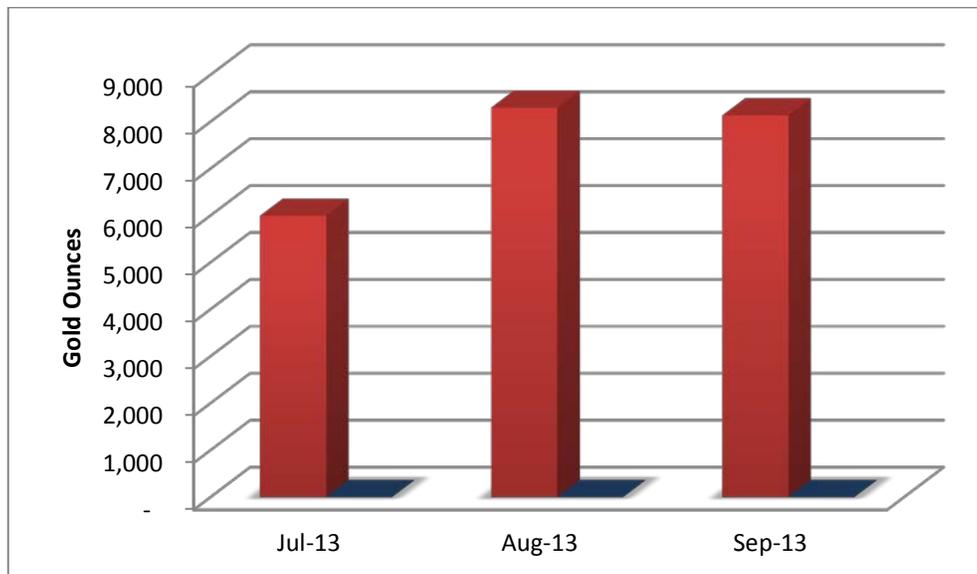
Average mined grades fell slightly from 0.58 g/t to 0.56 g/t Au, a decrease of 4% quarter on quarter. Grades from the Chisperos pit were slightly lower than budget in the month of September, which was the main contributor to the slight fall in mined grade.

The Company continues to develop its relationships with small miners in the area and ore purchasing continues, with 19% of the ounces mined during the quarter being sourced from third parties and the re-processing of historical tailings. This provides a net positive effect to employment and economic sustainability within the region, as well as a source of ore that can prolong life of mine. The Company has also realised value in mixing on-site old tailings with new ore, resulting in decreased mining costs and production outside of the mineral reserve base.

### *Processing*

Ore tonnage stacked was up 7% quarter on quarter to a quarterly record under the Company's ownership. Gold ounces stacked were also up 8% to another record under the company's ownership. Ounces stacked over the last two months of the quarter were particularly strong as seen in Figure 6. The increased ounces stacked were the result of higher plant throughput as increased availabilities were achieved.

**Figure 6 – September Quarter Ounces Stacked**



Gold recovery has increased over the past two quarters to be in excess of 77%, up from 73% historically. This has been achieved through the addition of a pre-cyanidation circuit and a more favourable ore blend.

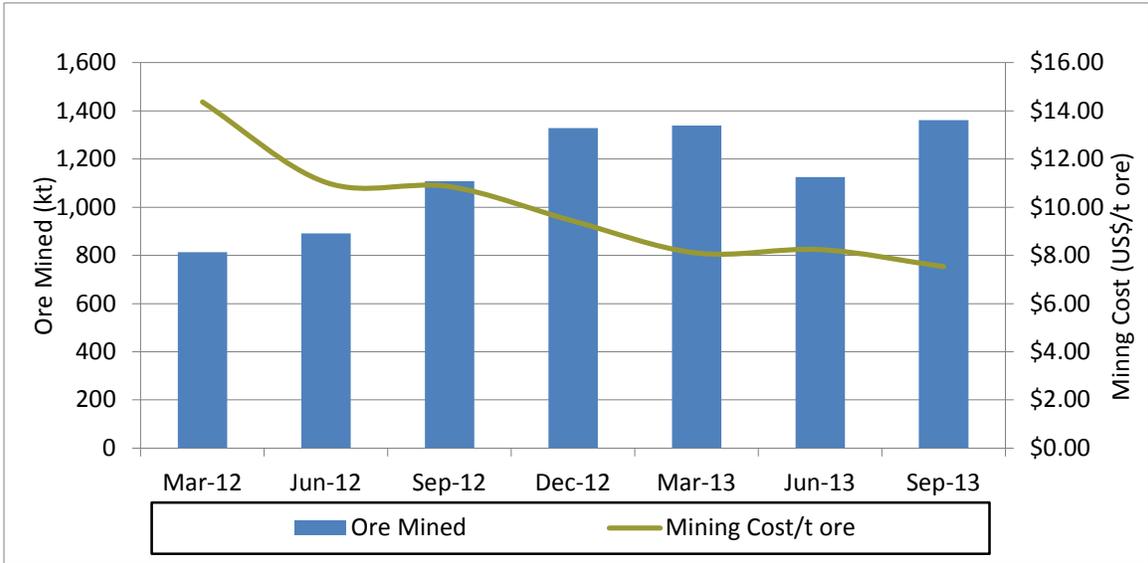
### **CMD Gold Mine Costs**

#### *Mining*

Unit mining costs decreased slightly to US\$2.32/ per tonne moved (from US\$2.33 per tonne the previous quarter), however the mining cost per tonne of ore was reduced by 7% to US\$7.53 as a result of the reduced waste to ore ratio. The unit mining rate includes the cost of buying third party ore that has no waste to ore ratio associated with it.

Figure 7 illustrates the quarterly history of mining costs per ore tonne over the last 7 quarters.

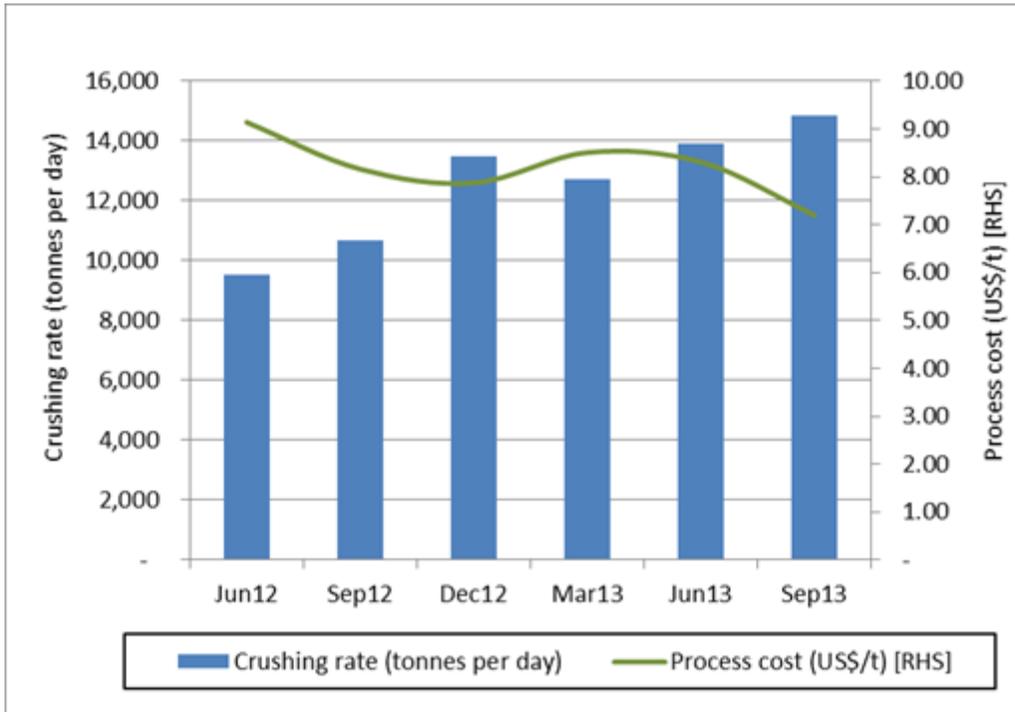
**Figure 7 – Ore mined and mining cost per tonne of ore**



*Ore Processing*

Process costs decreased to US\$7.20 per tonne stacked which was a 13% decrease quarter on quarter (Refer Figure 8). Reduced cyanide consumption, increased throughput and reduced maintenance costs were the main drivers for the lower process costs.

**Figure 8– Process cost per tonne stacked**



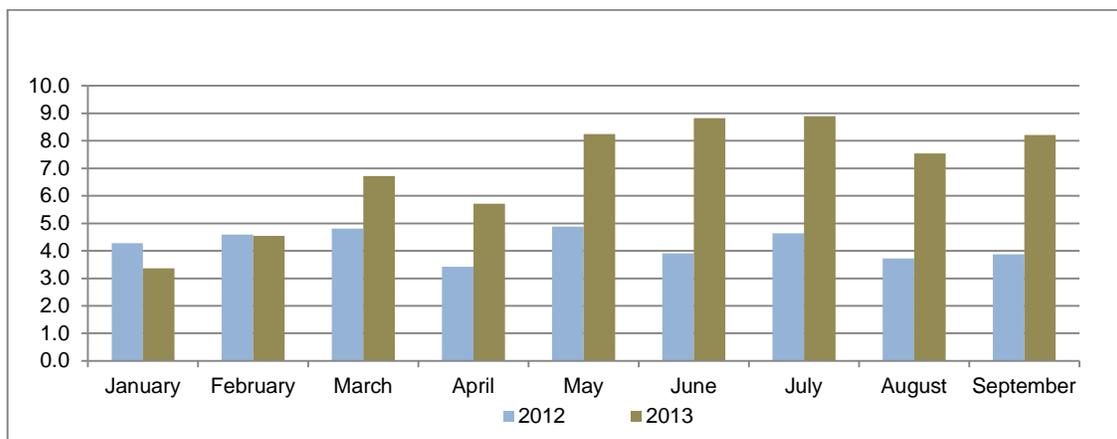
### General and Administration (G&A)

G&A costs decreased by 21% quarter on quarter to US\$1.21 per tonne of ore as a result of the higher tonnage stacked and reduced manning levels.

### Cost Review

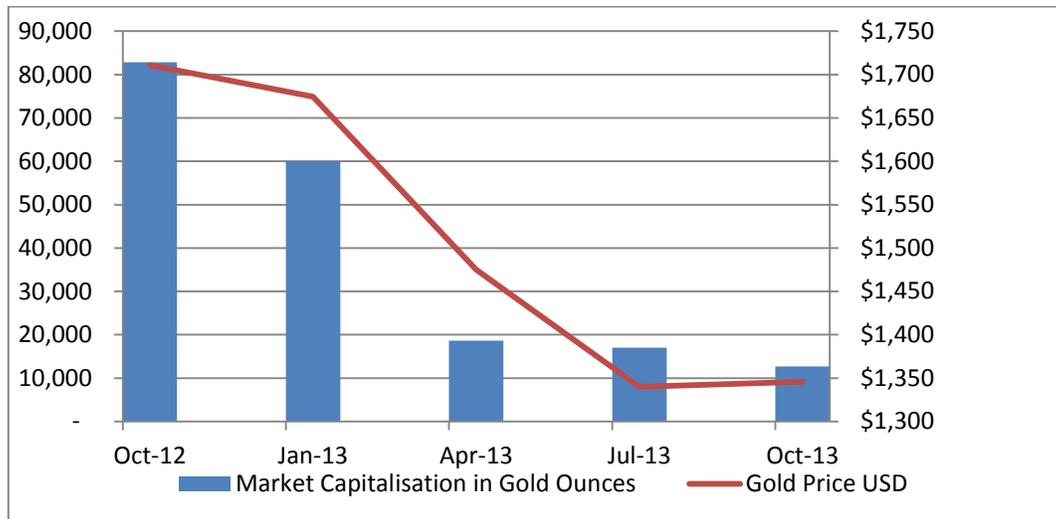
The cost review exercise has delivered significant savings over the past two quarters, as evidenced by the fall in the C1 cash costs to US\$980 per ounce and the material reductions in unit operating costs. The CMD Gold Mine operations have become more efficient with Figure 9 displaying how the ounces produced per employee has more than doubled over the past year.

**Figure 9– Productivity Index (Ounces/Employee)**



### CMD Gold Mine Operations Summary

Despite the improved operating and Gross Operating Profit performance of the CMD Gold Mine the Company's share price has fallen from A\$1.55 to approximately A\$0.18 at the end of October 2013. The gold price has fallen from US\$1,711 per ounce to US\$1,335 per ounce over the same period and, as Figure 10 illustrates, the market capitalisation of the Company expressed in gold ounces has fallen from 82,000 ounces a year ago to 13,500 ounces over that period. Dramatic decreases in share value have been seen throughout the gold mining industry over the past year, largely due to the dramatic decrease in the gold sales price during the same time. The Company is well-positioned to take advantage of any significant increases in the gold price due to its efforts to contain costs and increase margins.

**Figure 10 – Market Capitalisation in Gold Ounces and Gold Price****Exploration**

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

**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**

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 September 30, 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 \$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.

Renewal of the Exploration Licence took effect on September 30, 2013 with an expiry date of June 3, 2015.

## 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 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 September 30, 2013 the Company had spent US\$1.31 million of these proceeds on capital works and US\$1.3 million on mining plant spares.

## SUMMARY OF QUARTERLY RESULTS

### Financial Condition

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

	Sept-30	Restated June-30	Restated Mar-31	Restated Dec-31	Restated Sept-30	Restated June-30	Mar-31	Dec-31
Financial position as at:	2013	2013	2013	2012	2012	2012	2012	2011
	A\$000	A\$000	A\$000	A\$000	A\$000	A\$000	A\$000	A\$000
Cash and cash equivalents	-	2,811	3,103	7,489	8,336	17,412	12,715	14,474
Total assets	79,587	80,178	108,938	97,074	89,136	91,724	83,084	82,673
Total liabilities	57,876	57,564	55,151	39,421	34,192	33,005	34,304	31,857
Net assets	21,711	22,614	53,787	57,653	54,944	58,719	48,780	50,816

#### Notes:

1. Certain comparative information from July 1, 2012 has been restated as a result of the adoption of IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, which has been applied prospectively to production stripping costs incurred on or after 1 July 2012. For further details refer to the *Changes in Accounting Policies, Including Initial Adoption* section on page 32 or Notes 1(ii)(iv) and 13 to the unaudited consolidated interim financial statements for the 3 months ending September 30, 2013.

#### Cash and cash equivalents

As at September 30, 2013 the Group had cash reserves of \$Nil, a decrease of \$2.81 million from June 30, 2013 (refer “*Cash flow*” below).

Trade and other receivables at September 30, 2013 include \$1.55 million for VAT and \$3.33 million from the sale of gold, all of which has been received subsequent to period end. Inventories at Quarter end

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

Subsequent to period end the Company raised CDN\$9.5 million from the issue of 47,500,000 ordinary shares, refer *Corporate* above. The Group's cash bank balances were \$6.9 million as at November 12, 2013.

#### *Trade and other receivables*

Trade and other receivables have increased by \$1.28 million since June 30, 2013 primarily due to the increase in gold sales and VAT receivables at period end. The A\$ / US\$ exchange rate increased from 1:0.9146 at June 30, 2013 to 1:0.9322 at September 30, 2013 meaning a decrease of \$0.08 million in the value of trade and other receivables which are presented in the CMD financial statements in US\$.

#### *Inventories*

Inventories have decreased by \$1.11 million since June 30, 2013, comprising a \$0.73 million decrease in CMD inventories as well as a \$0.38 million decrease as a result of the A\$ / US\$ exchange rate increasing from 1:0.9146 at June 30, 2013 to 1:0.9322 at September 30, 2013.

The \$0.73 million decrease in CMD inventory consists of a decrease of 290 recoverable ounces in the leachpad with an associated cost of US\$0.36 million, a US\$2.54 million decrease attributable to the reduced average cost per ounce on the leachpad, a US\$0.28 million increase in doré in process inventory, a US\$0.98 million increase from the reversal of a leachpad inventory provision to writedown to net realizable value, a US\$0.19 million increase in stockpiles, and a US\$0.75 million increase in stores inventory.

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.

#### *Mine development properties*

Mine development properties have increased by \$2.07 million since June 2013, comprising expenditure of \$4.73 million offset by a depreciation charge of \$2.21 million and a \$0.45 million decrease as a result of the A\$ / US\$ exchange rate increasing from 1:0.9146 at June 30, 2012 to 1:0.9322 at September 30, 2013.

Of the \$4.73 million expenditure, \$0.05 million relates to exploration at the CMD Gold Mine and \$4.68 million to capitalized waste.

#### *Property, plant and equipment*

Property, plant and equipment has increased by \$0.03 million since June 2013, comprising expenditure of \$1.48 million at the CMD Gold Mine offset by a depreciation charge of \$0.99 million and a \$0.46 million decrease as a result of the A\$ / US\$ exchange rate increasing from 1:0.9146 at June 30, 2012 to 1:0.9322 at September 30, 2013.

*Total liabilities*

As at September 30, 2013, the Group had total liabilities of \$57.88 million compared to \$57.56 million at June 30, 2013, an increase of \$0.31 million. There was a \$0.84 million increase in trade and other payables in the Quarter in addition to a net decrease in borrowings of \$0.46 million. Total liabilities decreased by \$0.99 million as a result of the A\$ / US\$ exchange rate increasing from 1:0.9146 at June 30, 2012 to 1:0.9322 at September 30, 2013.

As at September 30, 2013, the Group had \$26.38 million in debt obligations consisting of bank loans, leases, and deferred consideration due to the vendors of the CMD Gold Mine. During the Quarter CMD drew down bank and lease facilities totaling US\$0.8 million for capital expenditure and for working capital purposes.

*Contributed equity*

Contributed equity did not change in the Quarter.

	<b>2013 Number</b>	<b>2013 \$000</b>
<i>Ordinary shares</i>		
June 30, 2013	99,107,273	215,076
September 30, 2013	99,107,273	215,076

*Reserves*

Reserves of \$6.78 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 \$6.65 million in the foreign exchange reserve.

The \$0.44 million debit to the foreign exchange reserve balance since June 30, 2013 comprises a \$0.51 million credit from the translation of CMD financial statements, which are presented in US\$, to A\$ on consolidation, offset by a \$0.95 million unrealized foreign exchange loss on an intercompany balance. The movement in the foreign exchange reserve reflects the A\$ / US\$ exchange rate increasing from 1:0.9146 at June 30, 2013 to 1:0.9322 at September 30, 2013.

*Accumulated losses*

The Quarter's increase of \$0.46 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>Sept-30 2013 A\$000</b>	<b>Restated June-30 2013 A\$000</b>	<b>Restated Mar-31 2013 A\$000</b>	<b>Restated Dec-31 2012 A\$000</b>	<b>Restated 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>
Operating activities	3,161	2,794	(863)	(1,228)	(7,124)	(3,071)	7,599	1,726
Investing activities	(6,223)	(4,638)	(19,680)	(9,210)	(2,873)	(6,708)	(7,383)	(3,776)
Financing activities	162	1,763	16,158	9,590	922	14,654	(1,963)	426

## Notes:

1. Certain comparative information from July 1, 2012 has been restated as a result of the adoption of IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, which has been applied prospectively to production stripping costs incurred on or after 1 July 2012. For further details refer to *the Changes in Accounting Policies, Including Initial Adoption* section on page 32 or Notes 1(ii)(iv) and 13 to the unaudited consolidated interim financial statements for the 3 months ending September 30, 2013.

The operating activities inflow of \$3.16 million for the Quarter reflects the net cash inflow from operations at the CMD Gold Mine of \$4.06 million, net of corporate overhead of \$0.28 million and net interest expense of \$0.62 million.

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

Investing activities in the Quarter of \$6.22 million reflect \$1.48 million property, plant and equipment costs and capitalised development work at the CMD Gold Mine of \$4.74 million. Financing activities net inflows of \$0.16 million in the Quarter include \$0.19 million of share subscriptions for shares that were issued on October 2, 2013.

The Company's quarterly cash flows from operating activities before changes in non-cash working capital for the last four quarters are set out below:

	<b>3 mth Sept-30 2013 A\$000</b>	<b>3 mth June-30 2013 A\$000</b>	<b>3 mths Mar-31 2012 A\$000</b>	<b>3 mths Dec-31 2012 A\$000</b>
Cash flows from operating activities before changes in non-cash working capital	1,488	154	(777)	(1,310)

## 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>Sept-30 2013 A\$000</b>	<b>Restated June-30 2013 A\$000</b>	<b>Restated Mar-31 2013 A\$000</b>	<b>Restated Dec-31 2012 A\$000</b>	<b>Restated 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>
Revenue	24,696	22,182	17,576	21,623	16,249	15,892	19,332	18,737
Other income	1	6	29	46	68	615	(537)	103
Cost of sales	(23,953)	(27,555)	(20,058)	(25,489)	(19,426)	(18,514)	(19,303)	(17,562)
Impairment loss	-	(26,947)	--	-	-	-	-	-
Total net operating expenses	(25,161)	(54,776)	(21,521)	(25,872)	(21,691)	(19,912)	(19,872)	(18,116)
Net (loss) / profit before tax	(464)	(32,588)	(3,916)	(4,203)	(5,374)	(3,405)	(1,077)	724
Net (loss) / profit after tax	(464)	(43,742)	(3,718)	(3,623)	(2,761)	(3,124)	(1,110)	1,941
Basic (loss) / profit per share (cents)	(0.5)	(33.4)	(4.3)	(4.7)	(2.6)	(4.1)	(1.5)	3.1
Diluted (loss) / profit per share (cents)	(0.5)	(33.4)	(4.3)	(4.7)	(2.6)	(4.1)	(1.5)	3.1

## Notes:

1. Certain comparative information from July 1, 2012 has been restated as a result of the adoption of IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, which has been applied prospectively to production stripping costs incurred on or after 1 July 2012. For further details refer to the *Changes in Accounting Policies, Including Initial Adoption* section on page 32 or Notes 1(ii)(iv) and 13 to the unaudited consolidated interim financial statements for the 3 months ending September 30, 2013.

A review of the quarter ended September 30, 2013 as compared to the quarter ended September 30, 2012 is provided below.

*Revenue*

	<b>Quarter ended Sept-30 2013 \$000</b>	<b>Quarter ended Sept-30 2012 \$000</b>
Sale of gold	24,463	16,244
Sale of silver (net of refining)	233	5
	<u>24,696</u>	<u>16,249</u>

Revenue is from the sale of metals, mainly gold, by the CMD Gold Mine, acquired on December 24, 2010. Revenue for the Quarter includes 16,779 ounces of gold at an average achieved sale price of US\$1,335 per ounce (September 2012 Quarter: 10,374 ounces of gold at an average achieved sale price of US\$1,629 per ounce).

*Other income*

Other income of \$0.01 million for the Quarter consists of interest income (September 2012 Quarter: \$0.07 million).

*Cost of sales*

	<b>Quarter ended Sept-30 2013 \$000</b>	<b>Restated Quarter ended Sept-30 2012 \$000</b>
Depreciation and amortisation	3,066	2,037
Gold in process, doré and stockpile adjustments	1,562	(3,003)
Mine operational expenses	3,946	10,971
Reagents	3,389	2,958
Utilities, maintenance	7,123	3,259
Personnel expenses	3,799	1,881
Royalties	454	583
Other expenses	614	740
	<u>23,953</u>	<u>19,426</u>

Cost of sales relates to costs attributable to the operation of the CMD Gold Mine and includes \$3.05 million of waste costs direct expensed (September 2012 Quarter: \$7.92 million),

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 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 (July 1, 2012) unless they relate to an

identifiable component of the ore body. For further details refer to the section *Critical Accounting Estimates* on page 28 or Notes 1(ii)(iv) and 13 to the unaudited consolidated interim financial statements for the 3 months ending September 30, 2013.

Deferred stripping (waste) costs are capitalised in any month where the actual stripping ratio exceeds the ore body life of mine average stripping ratio, in which case costs relating to the waste tonnes mined over and above the ore body 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 September 2013 Quarter includes \$4.26 million (September 2012 Quarter: \$8.58 million) waste costs expensed and amortised.

The September 2013 Quarter depreciation and amortisation charge of \$3.07 million (September 2012 Quarter: \$2.04 million) includes \$Nil (September 2012 Quarter: \$0.45 million) relating to amortisation on the uplift in fair values of assets recognized on acquisition of the CMD Gold Mine and \$1.21 million (September 2012 Quarter: \$0.66 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 September 2013 Quarter 290 recoverable ounces were drawn down from the leachpad (September 2012 Quarter: 1,472 increase in recoverable ounces).

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 evaluates 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 over 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.

The gold in process, doré and stockpile inventory adjustment for the September 2013 Quarter includes a \$1.09 million reversal of a provision to write the cost of the leachpad down to net realizable value (September 2012 Quarter: \$Nil).

#### *Corporate compliance and management*

Corporate compliance and management costs of \$0.34 million for the Quarter (September 2012 Quarter: \$0.42 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 (September 2012 Quarter: \$0.01 million) relate to the occupancy costs of the Company's head office in Perth and reflect the recharge of 50% of the office costs to a sub tenant.

*Foreign exchange gain / loss*

The foreign exchange loss of \$0.38 million (September 2012 Quarter: \$1.36 million loss) arises from net unrealised losses on the Company's holdings of US\$ and CDN\$ cash and cash equivalents, and foreign exchange 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 decreased from 1:508 to 1:504.

*New venture investigation expenditure written off*

Expenditure of \$Nil for the Quarter (September 2012 Quarter: \$0.08 million) reflects Lachlan's hold on expenditure investigating new venture opportunities.

*Finance expense*

Finance expense of \$0.61 million for the Quarter (September 2012 Quarter: \$0.08 million) consists of bank and financial institution interest, together with the foreign exchange gain / loss on financial liabilities. Finance costs have increased as a result of the loans and leases associated with the purchase of the mine fleet at the CMD Gold Mine, together with the Sprott CDN\$4.5 million loan facility.

*Fair value gain / loss 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 (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 September 2013 Quarter gain of \$0.15 million (September 2012 Quarter: \$0.22 million loss) reflects a re-assessment of the potential liability during the Quarter.

*Income tax*

The income tax charge for the Quarter of \$Nil (September 2012 Quarter: credit of \$2.61 million) consists of:

- (i) \$Nil (September 2012 Quarter: credit of \$2.53 million) related to the recognition of a deferred tax asset in respect of income tax losses and timing differences of CMD. Of the \$2.61 million credit recognised in the September 2012 Quarter, \$1.80 million relates to an increase in the deferred asset arising from an increase in the first category tax rate in Chile from 17% to 20%, and \$0.73 million to the CMD loss for that Quarter.

- (ii) \$Nil (September 2012 Quarter: credit of \$0.08 million) 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 were fully written off as part of the impairment charge in the June 2013 Quarter.

*Exchange difference on translation of foreign operations*

The September 2013 Quarter \$0.44 million foreign exchange reserve movement is a net result of the A\$ / US\$ exchange rate increasing from 1:0.9146 at June 30, 2013 to 1:0.9322 at September 30, 2013. The movement is required to be shown on the face of the statement of profit or loss and comprehensive income as a reconciling item to total comprehensive income.

*Earnings per Share*

Earnings per share reflects the underlying result for the Quarter. 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 ending June 30, 2013, and \$32.07 million during the year ending June 30, 2012.

On February 13, 2013 the Company drew down a CDN\$5 million Facility with Sprott of which CDN\$0.5 million was repaid on October 9, 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.

On September 30, 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 October 2, 2013, and the second tranche on November 8, 2013 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 CDN\$0.5 million against the outstanding Sprott Facility balance of CDN\$5 million and are being used to fund development and working capital at the Company's 100% owned CMD Gold Mine in Chile.

On November 8, 2013 the Company announced that it had entered into a subscription agreement with accredited North American investors to raise a total of CDN\$1.5 million from the issuance of 7.5 million ordinary shares. The issue was completed on November 8, 2013. 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.

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 September 30, 2013:

Contractual Obligations	Payments Due				
	Total	Less than 1 Year	1 - 2 years	3 - 5 Years	After 5 Years
	\$ million	\$ million	\$ million	\$ million	\$ million
Exploration commitments <sup>(1)</sup>	—	—	—	—	—
Borrowings <sup>(2)</sup>	\$26.38	\$13.33	\$10.11	\$2.94	—
Trade And Other Payables	\$25.63	\$25.63	—	—	—
Provisions <sup>(3)</sup>	\$5.87	—	—	\$5.87	—
Other <sup>(4)</sup>	\$35.30	\$15.12	\$14.87	\$5.31	—

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 unused banking facilities at November 12, 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 September 30, 2013 at the CMD Gold Mine, primarily for mining related supplies, power, and cyanide.

The net proceeds of (i) a CDN\$5 million secured debt facility with Sprott Resource Lending Partnership dated February 13, 2013 of which CDN\$0.5 million was repaid on October 9, 2013 (see "*Cash and cash equivalents*" above) (ii) a private placement of CDN\$12.93 million announced on April 4, 2013 which raised \$3.92 million (iii) an additional loan of US\$0.8 million for the CMD Gold Mine drawn down in July 2013 (iv) gross proceeds of CDN\$9.5 million received from private equity placements completed subsequent to Quarter end as described above 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, or for working capital purposes at the CMD Gold Mine. Expenses will be financed from cash flow from operations to the extent possible. Net cash generated from operating activities in the September 2013 Quarter was \$3.16 million.

It is anticipated that further funds would be obtained by asset sales, or additional debt or equity raisings. 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 no capital commitments at Quarter end.

## OFF BALANCE SHEET ARRANGEMENTS

There are no material off-balance sheet arrangements as at September 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.

The previously announced proposal for non-executive directors to reduce their cash fees to zero for the 2014 financial year, and to take their fees in options in lieu, has been rescinded. The Company has recently completed a CDN\$9.5 million share placement and payment for non-executive director fees will be in cash.

Subsequent to the end of the Quarter, the Company decided, subject to shareholder and regulatory approval, to issue an aggregate of 950,000 unlisted options ("**Employee Options**") to subscribe for fully paid Ordinary Shares exercisable at A\$0.25 per share on or before November 29, 2015, vesting immediately, and an aggregate of 725,000 fully paid Ordinary Shares (the "**Employee Shares**") to certain employees of, or consultants to, the Company at no cost and as part of their remuneration arrangements. The A\$0.25 option exercise price represents a premium of approximately 50% above the closing price on the ASX for the Company's shares at the time of award. The Employee Options expire 30 days after the allottee ceases to be an employee of the Company.

The Company has also decided, subject to shareholder and regulatory approval, to issue an aggregate of 750,000 options ("**Director Options**") to subscribe for fully paid Ordinary Shares exercisable at A\$0.25 per share on or before November 29, 2015, vesting immediately. Each director will receive 150,000 Director Options. These options replace expiring options for the majority of directors, and in the case of Mr Peter Drobeck, the first equity based compensation he has been awarded. The issuance of all Employee Options, Employee Shares and Director Options is subject to shareholder approval at the Annual General Meeting of Shareholders to be held on November 29, 2013.

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.

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*

#### a) September 30, 2013

The Company is required 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 reviewed at September 30, 2013 and it was concluded that there were no

impairment indicators that required mining assets to be tested for impairment at that date.

(b) June 30, 2013

There were a number of impairment indicators over the CMD Gold Mine assets at June 30, 2013, in particular (i) a CMD Gold Mine pre-tax loss before any impairment loss for the year of \$14.40 million (ii) a consolidated net current asset deficiency of \$17.38 million at June 30, 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 September 27, 2013 compared to consolidated net assets carrying value (pre impairment) of \$56.30 million at June 30, 2013 (v) a gold price that fell 30% from US\$1,694 / oz at January 1, 2013 to US\$1,192 / oz at June 30, 2013, but subsequently rose to US\$1,341/ oz at September 27, 2013. The recoverability of the carrying amount of property, plant and equipment and mine development properties was reviewed by the consolidated entity. In conducting the review, the recoverable amount was 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 was fair value less costs to sell. Fair value was determined by a discounted cashflow analysis covering projected production from 2013 to 2019 using a post-tax discount rate of 9%. The impairment loss of \$26.95 million for the June 2013 year (subsequent to the adoption of IFRIC 20, see *Changes in Accounting Policies Including Initial Adoption* below) was attributed to asset categories including 100% of the goodwill (\$0.19 million) calculated on the acquisition of the CMD Gold Mine in December 2010.

The assumption to which the recoverable amount was 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, can 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, other than goodwill impairment

The financial statement line items affected by this critical accounting estimate at June 30, 2013 were "Property, plant and equipment" (reduction of \$11.42 million), "Mine development properties" (reduction of \$15.34 million) and Goodwill (reduction of \$0.19 million) in the Consolidated Statement of Financial Position, and "Impairment loss" in in the Consolidated Statement of Profit or Loss and Other Comprehensive Income (increase of \$26.95 million).

*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.

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.

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.

At June 30, 2013 the impairment indicators that resulted in the testing for impairment of the CMD Gold Mine assets and a subsequent impairment loss of \$26.95 million (refer *Impairment loss* above) resulted in the de-recognition of deferred tax assets at that date.

The financial statement line items affected by this critical accounting estimate at June 30, 2013 were “Deferred tax asset” (reduction of \$10.63 million) in the Consolidated Statement of Financial Position and “Income tax expense” (increase of \$10.63 million) 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 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 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.

For further details on the financial impacts of this change in accounting policy refer to Notes 1(ii)(iv) and 13 to the unaudited consolidated interim financial statements for the 3 months ending September 30, 2013. The adoption of the accounting policy has not nor is likely to result in any breach of debt covenants.

### **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 were as follows:

	<b>Average for quarter ended Sept 30, 2013</b>	<b>As at Sept 30, 2013</b>
A\$ / US\$	0.9156	0.9322
A\$ / CDN\$	0.9617	0.9612
US\$ / Peso	508	504
A\$ / Peso	465	470

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 Quarter.

#### *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**

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

### **SUBSEQUENT EVENTS**

Since September 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 146,607,273 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 Warrants	329,250	CDN\$1.60	3/04/2014
Stock Options	100,000	\$2.10	22/05/2015
Stock Options	100,000	\$2.50	22/05/2015
Warrants	432,870	CDN\$0.30	2/10/2015
Warrants	1,097,561	CDN\$0.30	6/11/2015

Since September 30, 2013 and up to the date of this MD&A the Company has issued 47,500,000 shares for cash and 1,530,431 warrants as a finder's fee in relation to this share placement (refer *Liquidity, capital resources and commitments* above).

## **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, Churrumata 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 for the CMD Gold Mine and Bushranger Copper Project 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.

### 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