

LACHLAN STAR LIMITED

ABN 88 000 759 535

**UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
for the three and nine months ended
31 March 2014**

The accompanying unaudited consolidated interim financial statements for the three and nine months ended 31 March 2014 have been prepared by management. Readers are cautioned that these financial statements contain forward-looking information as described in the associated Management Discussion & Analysis. All amounts are stated in Australian dollars, except as otherwise stated.

LACHLAN STAR LIMITED
31 MARCH 2014 UNAUDITED INTERIM FINANCIAL STATEMENTS

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	3 months ended		9 months ended	
	31-Mar-14 \$000	Restated 31-Mar-13 \$000	31-Mar-14 \$000	Restated 31-Mar-13 \$000
Revenue from continuing operations				
Revenue	23,478	17,576	73,571	55,448
Finance income	17	29	23	143
	23,495	17,605	73,594	55,591
Expenses				
Cost of sales	(23,065)	(20,056)	(70,678)	(64,971)
<i>Other expenses from ordinary activities</i>				
Corporate compliance and management	(399)	(605)	(1,293)	(1,558)
Cost of and fair value adjustment to derivatives	(838)	-	(804)	-
Share based payments expense	54	(1)	(263)	(14)
Occupancy costs	(3)	(17)	(45)	(40)
Foreign exchange gain / (loss)	744	(433)	876	(1,658)
New venture expenditure written off	(3)	(70)	(7)	(209)
Other expenses	(14)	(50)	(72)	(222)
Finance expense	(642)	(768)	(1,782)	(971)
Fair value (loss) / gain on deferred consideration	(7)	480	186	562
	(678)	(3,915)	(288)	(13,490)
Income tax benefit / (expense)	-	197	(126)	3,390
(Loss) for the period	(678)	(3,718)	(414)	(10,100)
Other comprehensive income for the period net of income tax				
<i>Items that may be reclassified to profit or loss</i>				
Exchange difference on translation of foreign operations	(1,230)	(318)	(133)	(1,281)
Total comprehensive income for the period	(1,908)	(4,036)	(547)	(11,381)
Basic (loss) per share (cents per share)	(0.5)	(4.1)	(0.3)	(11.3)
Diluted (loss) per share (cents per share)	(0.5)	(4.1)	(0.3)	(11.3)

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

For the restated consolidated statements of profit or loss and other comprehensive income for the three and nine months ending 31 March 2013 refer to Note 1 (ii)(iii) and Note 13 (iii) and (iv).

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31 March 2014 \$000	Restated 30 June 2013 \$000	Restated 30 June 2012 \$000
Current assets				
Cash and cash equivalents		2,175	2,811	17,412
Trade and other receivables	4	4,152	3,883	3,630
Derivatives		81	-	-
Inventories	5	14,580	13,782	8,341
Total current assets		20,988	20,476	29,383
Non-current assets				
Trade and other receivables		257	491	435
Inventories		2,924	6,428	5,891
Exploration and evaluation		2,775	2,775	2,771
Mine development properties		22,876	21,681	30,464
Property, plant and equipment	7	24,870	25,351	13,474
Goodwill		-	-	189
Deferred tax asset		2,816	2,976	9,117
Total non-current assets		56,518	59,702	62,341
Total assets		77,506	80,178	91,724
Current liabilities				
Trade and other payables		19,047	24,786	20,191
Borrowings		10,455	13,068	5,343
Total current liabilities		29,502	37,854	25,534
Non-current liabilities				
Borrowings		10,716	13,767	1,384
Provisions		5,725	5,943	6,087
Total non-current liabilities		16,441	19,710	7,471
Total liabilities		45,943	57,564	33,005
Net assets		31,563	22,614	58,719
Equity				
Contributed equity	8	224,389	215,076	204,436
Reserves		7,264	7,214	117
Accumulated losses		(200,090)	(199,676)	(145,834)
Total equity		31,563	22,614	58,719

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

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

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

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Contributed equity \$000	Accumulated losses \$000	Share based payments reserve \$000	Foreign exchange reserve \$000	Total \$000
Balance at 1 July 2012 (Restated)	204,436	(145,834)	425	(308)	58,719
Other comprehensive income	-	-	-	(1,281)	(1,281)
Loss for the period	-	(10,100)	-	-	(10,100)
Total comprehensive loss for the period	-	(10,100)	-	(1,281)	(11,381)
<i>Transactions with owners in their capacity as owners:</i>					
Shares issued on exercise of options	6,289	-	-	-	6,289
Shares issued as credit fee	193	-	-	-	193
Share issue costs	(48)	-	-	-	(48)
Share based payments	309	-	(294)	-	15
Balance at 31 March 2013 (Restated)	211,179	(155,934)	131	(1,589)	53,787
Balance at 1 July 2013 (Restated)	215,076	(199,676)	129	7,085	22,614
Other comprehensive income	-	-	-	(133)	(133)
Loss for the period	-	(414)	-	-	(414)
Total comprehensive loss for the period	-	(414)	-	(133)	(547)
<i>Transactions with owners in their capacity as owners:</i>					
Shares issued for cash	9,684	-	-	-	9,684
Share issue costs	(451)	-	-	-	(451)
Share based payments	80	-	183	-	263
Balance at 31 March 2014	224,389	(200,090)	312	6,952	31,563

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

For the restated consolidated statement of changes in equity refer to Note 1 (ii)(iii) and Note 13 (vii).

CONSOLIDATED STATEMENT OF CASH FLOWS

	3 months ended		9 months ended	
	31-Mar-14 \$000	Restated 31-Mar-13 \$000	31-Mar-14 \$000	Restated 31-Mar-13 \$000
Cash flows from operating activities				
Receipts from customers and GST recovered	23,332	17,450	72,464	54,242
Payments to suppliers and employees	(18,691)	(18,098)	(62,341)	(63,250)
Interest received	18	58	24	251
Interest paid	(465)	(293)	(1,605)	(478)
Net cash inflows / (outflows) from operating activities	4,194	(883)	8,542	(9,235)
Cash flows from investing activities				
Payments for exploration and evaluation	-	(2)	-	(4)
Payments for mine development	(3,361)	(4,341)	(10,408)	(8,099)
Payments for acquisition of property, plant and equipment	(842)	(15,317)	(2,925)	(23,640)
Net cash flows used in investing activities	(4,203)	(19,660)	(13,333)	(31,743)
Cash flows from financing activities				
Proceeds from issue of ordinary shares	-	-	9,684	-
Proceeds from exercise of share options	-	-	-	6,289
Repayment of borrowings	(2,331)	(1,978)	(5,833)	(5,154)
Receipt of borrowings	-	18,161	779	25,584
Payment of share issue costs	(20)	(25)	(450)	(48)
Net cash (outflows) / inflows from financing activities	(2,351)	16,158	4,180	26,671
Net increase / (decrease) in cash and cash equivalents				
	(2,360)	(4,385)	(611)	(14,307)
Effect of exchange rate fluctuations on cash held	(88)	(1)	(25)	(2)
Cash and cash equivalents at the beginning of the period	4,623	7,489	2,811	17,412
Cash and cash equivalents at the end of the period	2,175	3,103	2,175	3,103

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

For the restated consolidated statements of cash flows for the three and nine months ending 31 March 2013 refer to Notes 1 (ii)(iii) and Note 13 (v) and (vi).

1. SUMMARY OF ACCOUNTING POLICIES

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

Lachlan Star Limited ("Lachlan" or the "Company") is a public company incorporated and domiciled in Australia and listed on the Australian Securities Exchange ("ASX") and the Toronto Stock Exchange ("TSX"). These consolidated interim financial statements of the Company and its controlled entities ("group" or "consolidated entity") for the period ended March 31, 2014 are general purpose financial statements prepared in accordance with applicable accounting standards including AASB 134 'Interim Financial Reporting', Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB') and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

These consolidated interim financial statements do not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the group as in the full financial report. It is recommended that these interim consolidated financial statements be read in conjunction with the annual financial report for the year ended June 30, 2013, and any public announcements made by the Company during the period ended March 31, 2014 in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and the ASX Listing Rules.

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

Going concern

This financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the ordinary course of business. As at March 31, 2014 the consolidated entity had cash reserves of \$2.18 million and a net current asset deficiency of \$8.51 million, having recorded a net loss after tax for the three months ended March 31, 2014 of \$0.68 million and a net loss after tax for the nine months ended March 31, 2014 of \$0.41 million. The consolidated entity had net cash inflows from operating activities for the three months ended March 31, 2014 of \$4.19 million and net cash inflows from operating activities for the nine months ended March 31, 2014 of \$8.54 million. Notwithstanding the above, the financial report has been prepared on a going concern basis, which the directors consider to be appropriate, based on:

- (i) the expectation that the operating subsidiary will be able to maintain its creditor holding periods in Chile;
- (ii) 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 terms of the Facility, which was due for repayment on February 13, 2014, have been amended such that the remaining Facility of CDN\$4.5 million will be partly repaid over the 12 months commencing March 31, 2014 by the payment of 12 monthly principal repayments of CDN\$187,500, the repayment of CDN\$1 million by September 30, 2014, and the payment of an extension fee; and
- (iii) the expectation that the Company, if required, would be able to raise additional funds through debt, asset sales, or equity.

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

1. SUMMARY OF ACCOUNTING POLICIES (continued)

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

Rounding of amounts

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

Use of estimates and judgements

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

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

(i) Provisions

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

(ii) Exploration and evaluation expenditure

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

(iii) Functional currency

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

For subsidiaries Compania Minera Dayton ("CMD") and Dayton Chile Exploraciones Mineras Limitada ("DCEM") the above indicators are mixed and the functional currency is not obvious. Management used its judgement to determine which factors are most important and concluded the US dollar is the functional currency for those companies. For Lachlan Star Limited and its other subsidiaries management have determined that the Australian dollar is the functional currency for those companies given their revenue and expenditure is mostly in Australian dollars.

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

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

2. SUMMARY OF ACCOUNTING POLICIES (continued)

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

(v) Reserve estimates

Reserves are estimates of the amount of product that can be economically and legally extracted from the consolidated entity's properties. In order to calculate reserves, estimates and assumptions are required about a range of geological, technical and economic factors. Estimating the quality and/or grade of reserves requires the size, shape and depth of ore bodies to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements and calculations to interpret the data. The group is required to determine and report ore reserves in Australia under the principles incorporated in the Australasian Code for Reporting of Mineral Resources and Ore Reserves 2012, known as the JORC Code. The JORC Code requires the use of reasonable investment assumptions to calculate reserves.

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

(vi) Income taxes

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

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

(vii) Impairment

AASB 136 requires a company to make a formal estimate of recoverable amount of an asset if an indicator of impairment is present. A number of primary indicators of impairment in respect of the Company's CMD Gold Mine assets were considered at March 31, 2014 and it was concluded that mining assets did not need be tested for impairment at that date as there were no indicators of impairment.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(ii) Adoption of new and revised Accounting Standards

In the nine months ended March 31, 2014 the group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after July 1, 2013. The accounting policies adopted are consistent with those of the previous financial year other than as set out below:

- (i) AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* are effective July 1, 2013 on a prospective basis. AASB 13 provides a single framework for measuring fair value based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The adoption of AASB 13 did not require any adjustment to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments at July 1, 2013.
- (ii) AASB 10 *Consolidated Financial Statements*, AASB 12 *Disclosure of Interests in Other Entities*, revised AASB 127 *Separate Financial Statements*, AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* and AASB 2012-10 *Amendments to Australian Accounting Standards - Transition guidance and other Amendments* are effective July 1, 2013. AASB 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee, and has the ability to use its power over the investee to affect its returns. The Company has determined that the adoption of AASB 10 has not resulted in any change in the consolidation status of any of its subsidiaries. AASB 12 sets out the required disclosures for entities reporting under AASB 10, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the consolidated entity will not affect any of the amounts recognised in the financial statements, but may impact the type of information disclosed in relation to the consolidated entity's investments.
- (iii) IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* and AASB 2011-12 *Amendments to Australian Accounting Standards arising from IFRIC 20* are effective July 1, 2013. IFRIC 20 (applied in Australia as Interpretation 20) sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. It states that these costs can only be recognised as an asset if they can be attributed to an identifiable component of the ore body, the costs relating to the improved access to that component can be measured reliably and it is probable that future economic benefits associated with the stripping activity (improved access to the ore body) will flow to the entity. The costs will be amortised over the life of the identified component of the ore body. This is different to the consolidated entity's previous accounting policy which was to capitalise stripping costs based on a combined pit waste-to-ore stripping ratio and amortise the costs over the life of the mine. IFRIC 20 has been applied prospectively to the Company's production stripping costs incurred on or after 1 July 2012. Capitalised deferred stripping costs that are not related to an identifiable component of an orebody at June 30, 2012 have been written off against opening retained earnings.

The financial effect of these accounting policy changes on the previously presented financial statements as at July 1, 2012, March 31, 2013, and June 30, 2013 are set out in Note 13 to these financial statements. For the nine months ended 31 March 2013 the adoption of this interpretation has increased the unaudited CMD Gold Mine gross operating loss by US\$2.08 million and reduced cash costs by US\$18 per ounce. For the three months ended March 31, 2013 the adoption of this interpretation has increased the unaudited CMD Gold Mine gross operating loss by US\$2.34 million and reduced cash costs by US\$67 per ounce.

For the nine months ended March 31, 2014 the adoption of this interpretation has increased expenditure on mine development properties by US\$2.45 million and increased the CMD net profit before tax by US\$0.99 million. For the three months ended March 31 2014 the adoption of this interpretation has increased expenditure on mine development properties by US\$0.90 million and reduced the CMD net profit before tax by US\$0.27 million.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

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

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

2. CONTINGENT ASSETS AND LIABILITIES

A mining contractor has submitted a claim against a subsidiary for compensation as a result of their mining contract not being renewed in August 2013. The subsidiary considers this an ambit claim and has submitted a strong and well-founded response, the purpose of which is to obtain a favourable ruling that completely rejects the former contractor's claim.

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

3. SUBSEQUENT EVENTS

No matter or circumstance has arisen since March 31, 2014 that in the opinion of the directors has significantly affected, or may significantly affect in future financial years:

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

4. TRADE AND OTHER RECEIVABLES

Trade and other receivables at March 31, 2014 include \$3.89 million for VAT and the sale of gold, all of which has been received subsequent to period end.

5. INVENTORIES

Inventories at March 31, 2014 include \$0.92 million relating to doré produced but not sold, and to which title passed to Johnson Matthey on April 4, 2014.

6. RELATED PARTY DISCLOSURES

The consolidated entity recharged \$1,890 and was charged \$10,242 on an arm's length basis during the March 2014 quarter to / from Nevada Iron Limited, a company of which Mr Michael McMullen is Chairman, for office rent, administration staff, and car parking. Mr McMullen resigned as a director of Lachlan Star Limited on April 6, 2014.

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

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7. PROPERTY PLANT AND EQUIPMENT

	Fixture and fittings \$000	Vehicles \$000	Land and buildings \$000	Mine plant \$000	Total \$000
<i>Cost:</i>					
1 July 2013	588	51	86	46,831	47,556
Effect of movements in exchange rates	(6)	(1)	(1)	(480)	(488)
Additions	-	-	-	2,925	2,925
31 March 2014	582	50	85	49,276	49,993
<i>Accumulated depreciation:</i>					
1 July 2013	154	51	-	22,000	22,205
Depreciation charge for period	33	-	-	3,102	3,135
Effect of movements in exchange rates	(2)	(1)	-	(214)	(217)
31 March 2014	185	50	-	24,888	25,123
Carrying amount at beginning of period (Restated)	434	-	86	24,831	25,351
Carrying amount at end of period	397	-	85	24,388	24,870
<i>Cost:</i>					
1 July 2012	463	40	35	17,269	17,807
Effect of movements in exchange rates	61	11	9	4,967	5,048
Additions	64	-	42	24,595	24,701
30 June 2013	588	51	86	46,831	47,556
<i>Accumulated depreciation:</i>					
1 July 2012	105	40	-	4,188	4,333
Depreciation charge for period	30	-	-	5,569	5,599
Impairment loss	-	-	-	11,423	11,423
Effect of movements in exchange rates	19	11	-	820	850
30 June 2013	154	51	-	22,000	22,205
Carrying amount at beginning of period	358	-	35	13,081	13,474
Carrying amount at end of period (Restated)	434	-	86	24,831	25,351

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8. CONTRIBUTED EQUITY

	Number	\$000
<i>Ordinary shares</i>		
1 July 2013	99,107,273	215,076
Issue of shares for cash	47,500,000	9,684
Share based payments	725,000	80
Costs of issue of shares	-	(451)
31 March 2014	<u>147,332,273</u>	<u>224,389</u>
1 July 2012	86,380,017	204,436
Issue of shares for cash	7,265,000	3,919
Costs of issue of shares	-	(72)
Exercise of share options	5,240,576	6,289
Share based payments	221,680	504
30 June 2013	<u>99,107,273</u>	<u>215,076</u>

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

Expiry date	Exercise price	Number 01/07/13	Issued	Expired /cancelled	Number 31/3/14
20/12/13	\$1.20	166,669	-	(166,669)	-
20/12/13	\$1.50	166,669	-	(166,669)	-
26/08/13	\$1.20	5,970,900	-	(5,970,900)	-
25/11/13	\$1.20	650,000	-	(650,000)	-
25/11/13	\$1.50	150,000	-	(150,000)	-
25/11/14	\$1.50	50,000	-	-	50,000
03/04/14	CDN\$1.60	329,250	-	-	329,250
28/11/14	\$1.50	75,000	-	(75,000)	-
22/05/15	\$2.10	100,000	-	-	100,000
22/05/15	\$2.50	100,000	-	-	100,000
02/10/15	CDN\$0.30	-	432,870	-	432,870
06/11/15	CDN\$0.30	-	1,097,561	-	1,097,561
29/11/15	\$0.25	-	1,550,000	-	1,550,000
		<u>7,758,488</u>	<u>3,080,431</u>	<u>(7,179,238)</u>	<u>3,659,681</u>

9. SEGMENT INFORMATION

(a) Description of segments

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

(b) Segment information provided to the board of directors

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

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9. SEGMENT INFORMATION (continued)

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

		3 months ended March 31, 2014	3 months ended March 31, 2013 (restated)
CMD Gross Operating (Loss) (unaudited)	US\$000	(262)	(2,876)
A\$ / US exchange rate for the period		0.896	1.039
CMD Gross Operating (Loss) (unaudited)	A\$000	(292)	(2,766)
Inventory adjustments	A\$000	2,250	2,129
Depreciation and amortisation	A\$000	(1,870)	(2,136)
Foreign exchange gain / (loss)	A\$000	744	(433)
Revaluation of deferred consideration	A\$000	(7)	480
Net finance expense	A\$000	(297)	(168)
New venture expenditure written off	A\$000	(3)	(70)
Cost of and fair value adjustments to derivatives	A\$000	(838)	-
Other head office related costs	A\$000	(365)	(951)
Consolidated (Loss) Before Income Tax (unaudited)	A\$000	(678)	(3,915)

		9 months ended March 31, 2014	9 months ended March 31, 2013 (restated)
CMD Gross Operating Profit / (Loss) (unaudited)	US\$000	5,945	(9,024)
A\$ / US exchange rate for the period		0.921	1.039
CMD Gross Operating Profit / (Loss) (unaudited)	A\$000	6,452	(8,683)
Inventory adjustments	A\$000	1,054	4,277
Depreciation and amortisation	A\$000	(5,768)	(5,594)
Foreign exchange gain / (loss)	A\$000	876	(1,658)
Revaluation of deferred consideration	A\$000	186	562
Net finance expense	A\$000	(602)	(54)
New venture expenditure written off	A\$000	(7)	(210)
Cost of and fair value adjustments to derivatives	A\$000	(804)	-
Other head office related costs	A\$000	(1,675)	(2,130)
Consolidated (Loss) Before Income Tax (unaudited)	A\$000	(288)	(13,490)

9. SEGMENT INFORMATION (continued)

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

		3 months ended March 31, 2014	3 months ended March 31, 2013 (restated)
Cash cost per ounce	US\$	782	1,172
Ounces produced		15,747	10,892
Cash costs	US\$000	12,317	12,770
A\$ / US exchange rate for the period		0.896	1.039
Cash costs	A\$000	13,743	12,291
Inventory adjustments	A\$000	452	(467)
Depreciation and amortization	A\$000	1,870	2,136
Waste costs expensed and amortised	A\$000	5,964	5,632
Royalties	A\$000	490	304
Other	A\$000	29	37
Copper / silver net revenue	A\$000	517	123
Cost of sales (unaudited)	A\$000	23,065	20,056

		9 months ended March 31, 2014	9 months ended March 31, 2013 (restated)
Cash cost per ounce	US\$	849	1,044
Ounces produced		51,363	34,983
Cash costs	US\$000	43,590	36,506
A\$ / US exchange rate for the period		0.914	1.039
Cash costs	A\$000	47,686	35,141
Inventory adjustments	A\$000	(1,121)	(1,059)
Depreciation and amortization	A\$000	5,768	5,594
Waste costs expensed and amortised	A\$000	15,092	23,209
Royalties	A\$000	1,435	1,481
Other	A\$000	205	192
Copper / silver net revenue	A\$000	1,613	413
Cost of sales (unaudited)	A\$000	70,678	64,971

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

	31 March 2014 \$000	30 June 2013 \$000
Chile	50,921	53,932
Australia	2,779	2,794
	<u>53,700</u>	<u>56,726</u>

10. CHANGES IN ESTIMATES

(i) *Site restoration*

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

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

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

	9 months	12 months
	31 March 2014	30 June 2013
	\$000	\$000
<i>Non-current</i>		
Opening	5,035	5,007
Effect of movements in exchange rates	(57)	496
Accretion	-	37
Change in estimate	-	(682)
Change in discount rate	-	177
Closing	<u>4,978</u>	<u>5,035</u>

10. CHANGES IN ESTIMATES (continued)

(ii) *Deferred consideration*

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

- a) 2.5% of the value of the gold produced from the existing open pit inventory contained within the pit designs and other specific deposits with mineralisation that may be economically exploited using open pit methods (the “Mineral Inventory” collectively) between 1 January 2011 and the Payment End Date, being the later of (i) 31 December 2014, or (ii) the end of the thirtieth full month following the end of the month in which the Company (or its successor in interest) has completed the mining of all of the estimated reserves contained, as of 24 December 2010, within the pits the subject of the Deferred Consideration Agreement provided that if such date is after 31 December 2014 due to any action or circumstance that was not willingly and knowingly caused by the Company, the Payment End Date shall be 31 December 2014; and
- b) 25% of the value of the gold produced from the Mineral Inventory between 1 January 2011 and the Payment End Date over and above 119,000 ounces

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

	9 months 31 March 2014 \$000	12 months 30 June 2013 \$000
Opening	306	1,387
Fair value gain	(186)	(670)
Repayment of borrowings	(12)	(724)
Accretion	4	189
Foreign exchange	(11)	44
Other	-	80
Closing	<u>101</u>	<u>306</u>
Current	101	262
Non-current	-	44
	<u>101</u>	<u>306</u>

11. CAPITAL COMMITMENTS

There were no capital commitments at period end.

12. FINANCIAL RISK MANAGEMENT

Fair values

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

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the group's financial assets and liabilities measured and recognised at fair value.

March 31, 2014	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
<i>Financial assets</i>				
Derivatives	-	81	-	81
<i>Financial liabilities</i>				
Borrowings	-	-	101	101
June 30, 2013	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
<i>Financial liabilities</i>				
Borrowings	-	-	306	306

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

March 31, 2014	Contingent consideration \$000	Total \$000
Opening balance 1 July 2013	306	306
Fair value gain	(186)	(186)
Repayment of borrowings	(12)	(12)
Accretion	4	4
Foreign exchange	(11)	(11)
Closing balance	<u>101</u>	<u>101</u>
June 30, 2013	Contingent consideration \$000	Total \$000
Opening balance 1 July 2012	1,387	1,387
Fair value gain	(670)	(670)
Repayment of borrowings	(724)	(724)
Accretion	189	189
Foreign exchange	44	44
Other	80	80
Closing balance	<u>306</u>	<u>306</u>

13. CHANGES IN ACCOUNTING POLICIES

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

- Waste removal costs (stripping costs) incurred in the production phase of a surface mine are accounted for in accordance with IAS 2 *Inventories* to the extent they relate to current period production.
- Production stripping costs are recognized as a non-current asset ("stripping activity asset") if all the following criteria are met (i) it is probable that future economic benefits will flow to the entity (ii) the entity can identify the component of the ore body to which access has been improved (iii) the costs incurred can be measured reliably. The stripping activity asset is amortised over the useful life of the component of the ore body to which access has been improved.
- When the costs of a stripping activity asset versus current period inventory are not separately identifiable, costs are allocated based on a production method.
- Application of the interpretation is on a prospective basis, with transitional adjustments being recognized in opening retained earnings.

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

The impact of this change in accounting policy on the financial statements as at the beginning of the immediately preceding comparative period, for the prior year end, and for the comparative periods for the 3 and 9 months ending March 31, 2013 is as follows:

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NOTES TO THE 31 MARCH 2014 UNAUDITED INTERIM FINANCIAL STATEMENTS

13. CHANGES IN ACCOUNTING POLICIES (continued)

(i) *Consolidated Statement of Financial Position*

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

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NOTES TO THE 31 MARCH 2014 UNAUDITED INTERIM FINANCIAL STATEMENTS

13. CHANGES IN ACCOUNTING POLICIES (continued)

(ii) Consolidated Statement of Financial Position

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

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13. CHANGES IN ACCOUNTING POLICIES (continued)

(iii) Consolidated Statement of Profit or Loss and Other Comprehensive Income

	3 months ended		
	Original 31 Mar 13 \$000	Adjustment for change in accounting policy \$000	Restated 31 Mar 13 \$000
Revenue from continuing operations			
Revenue	17,576	-	17,576
Finance income	29	-	29
	17,605	-	17,605
Expenses			
Cost of sales	(17,815)	(2,241)	(20,056)
<i>Other expenses from ordinary activities</i>			
Corporate compliance and management	(605)	-	(605)
Share based payments expense	(1)	-	(1)
Occupancy costs	(17)	-	(17)
Foreign exchange (loss)	(433)	-	(433)
New venture expenditure written off	(70)	-	(70)
Other expenses	(50)	-	(50)
Finance expense	(768)	-	(768)
Fair value gain on deferred consideration	480	-	480
	(1,674)	(2,241)	(3,915)
Income tax benefit	197	-	197
	(1,477)	(2,241)	(3,718)
(Loss) for the period			
Other comprehensive income for the period net of income tax			
<i>Items that may be reclassified to profit or loss</i>			
Exchange difference on translation of foreign operations	(342)	24	(318)
	(1,819)	(2,217)	(4,036)
Total comprehensive income for the period			

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NOTES TO THE 31 MARCH 2014 UNAUDITED INTERIM FINANCIAL STATEMENTS

13. CHANGES IN ACCOUNTING POLICIES (continued)

(iv) Consolidated Statement of Profit or Loss and Other Comprehensive Income

	9 months ended		
	Original 31 Mar 13 \$000	Adjustment for change in accounting policy \$000	Restated 31 Mar 13 \$000
Revenue from continuing operations			
Revenue	55,448	-	55,448
Finance income	143	-	143
	55,591	-	55,591
Expenses			
Cost of sales	(63,173)	(1,798)	(64,971)
<i>Other expenses from ordinary activities</i>			
Corporate compliance and management	(1,558)	-	(1,558)
Share based payments expense	(14)	-	(14)
Occupancy costs	(40)	-	(40)
Foreign exchange (loss)	(1,658)	-	(1,658)
New venture expenditure written off	(209)	-	(209)
Other expenses	(222)	-	(222)
Finance expense	(971)	-	(971)
Fair value gain on deferred consideration	562	-	562
	(11,692)	(1,798)	(13,490)
Income tax benefit	3,390	-	3,390
	(8,302)	(1,798)	(10,100)
(Loss) for the period			
Other comprehensive income for the period net of income tax			
<i>Items that may be reclassified to profit or loss</i>			
Exchange difference on translation of foreign operations	(1,369)	88	(1,281)
	(9,671)	(1,710)	(11,381)
Total comprehensive income for the period			

13. CHANGES IN ACCOUNTING POLICIES (continued)

(v) Consolidated Statement of Cash Flows

	3 months ended		
	Original 31 Mar 13 \$000	Adjustment for change in accounting policy \$000	Restated 31 Mar 13 \$000
Cash flows from operating activities			
Receipts from customers and GST recovered	17,450	-	17,450
Payments to suppliers and employees	(17,566)	(532)	(18,098)
Interest received	58	-	58
Interest paid	(293)	-	(293)
Net cash (outflows) from operating activities	(351)	(532)	(883)
Cash flows from investing activities			
Payments for exploration and evaluation	(2)	-	(2)
Payments for mine development	(4,873)	532	(4,341)
Payments for acquisition of property, plant and equipment	(15,317)	-	(15,317)
Net cash flows used in investing activities	(20,192)	532	(19,660)
Cash flows from financing activities			
Repayment of borrowings	(1,978)	-	(1,978)
Receipt of borrowings	18,161	-	18,161
Payment of share issue costs	(25)	-	(25)
Net cash flows from financing activities	16,158	-	16,158
Net (decrease) in cash and cash equivalents	(4,385)	-	(4,385)
Effect of exchange rate fluctuations on cash held	(1)	-	(1)
Cash and cash equivalents at the beginning of the period	7,489	-	7,489
Cash and cash equivalents at the end of the period	3,103	-	3,103

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13. CHANGES IN ACCOUNTING POLICIES (continued)

(vi) Consolidated Statement of Cash Flows

	9 months ended		
	Original 31 Mar 13 \$000	Adjustment for change in accounting policy \$000	Restated 31 Mar 13 \$000
Cash flows from operating activities			
Receipts from customers and GST recovered	54,242	-	54,242
Payments to suppliers and employees	(63,692)	442	(63,250)
Interest received	251	-	251
Interest paid	(478)	-	(478)
Net cash (outflows) from operating activities	<u>(9,677)</u>	<u>442</u>	<u>(9,235)</u>
Cash flows from investing activities			
Payments for exploration and evaluation	(4)	-	(4)
Payments for mine development	(7,657)	(442)	(8,099)
Payments for acquisition of property, plant and equipment	(23,640)	-	(23,640)
Net cash flows used in investing activities	<u>(31,301)</u>	<u>(442)</u>	<u>(31,743)</u>
Cash flows from financing activities			
Proceeds from exercise of share options	6,289	-	6,289
Repayment of borrowings	(5,154)	-	(5,154)
Receipt of borrowings	25,584	-	25,584
Payment of share issue costs	(48)	-	(48)
Net cash flows from financing activities	<u>26,671</u>	<u>-</u>	<u>26,671</u>
Net (decrease) in cash and cash equivalents	(14,307)	-	(14,307)
Effect of exchange rate fluctuations on cash held	(2)	-	(2)
Cash and cash equivalents at the beginning of the period	17,412	-	17,412
Cash and cash equivalents at the end of the period	<u>3,103</u>	<u>-</u>	<u>3,103</u>

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NOTES TO THE 31 MARCH 2014 UNAUDITED INTERIM FINANCIAL STATEMENTS

13. CHANGES IN ACCOUNTING POLICIES (continued)

(vii) *Consolidated Statement of Changes in Equity*

	Contributed equity \$000	Accumulated losses \$000	Share based payments reserve \$000	Foreign exchange reserve \$000	Total \$000
Balance at 1 July 2012 (Audited)	204,436	(142,312)	425	(308)	62,241
<i>Change in accounting policy IFRIC 20</i>	-	(3,522)	-	-	(3,522)
Balance at 1 July 2012 (Restated)	204,436	(145,834)	425	(308)	58,719
Balance at a 31 March 2013 (Original)	211,179	(150,614)	131	(1,677)	59,019
<i>Change in accounting policy IFRIC 20</i>	-	(5,320)	-	88	(5,232)
Balance at 31 March 2013 (Restated)	211,179	(155,934)	131	(1,589)	53,787
Balance at 1 July 2013 (Audited)	215,076	(200,403)	129	7,812	22,614
<i>Change in accounting policy IFRIC 20</i>	-	727	-	(727)	-
Balance at 1 July 2013 (Restated)	215,076	(199,676)	129	7,085	22,614