

SOUTHERN CROSS GOLDFIELDS LIMITED

ABN 71 124 374 321

**FINANCIAL REPORT
FOR THE HALF YEAR ENDED
31 DECEMBER 2013**

SOUTHERN CROSS GOLDFIELDS LIMITED
ABN 71 124 374 321

HALF-YEAR FINANCIAL REPORT – 31 DECEMBER 2013

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SOUTHERN CROSS GOLDFIELDS LIMITED
ABN 71 124 374 321

CORPORATE DIRECTORY

DIRECTORS

Jon Parker	(Chairman)
Frank Terranova	(Managing Director)
David Sproule	(Non Executive Director)

COMPANY SECRETARY

Leni Stanley
David Kinsman

REGISTERED OFFICE

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BRISBANE QLD 4000

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SHARE REGISTRY

Computershare Investor Services Pty Ltd
117 Victoria Street,
WEST END, QLD 4101

AUDITORS

Deloitte Touche Tohmatsu
Level 25,
Riverside Centre,
123 Eagle Street,
BRISBANE, QLD 4000

STOCK EXCHANGE LISTING

The Company's shares are listed and quoted on the Australian Securities Exchange Limited ("ASX").

Home Exchange: Perth, Western Australia

ASX Code: SXG

SOUTHERN CROSS GOLDFIELDS LIMITED
ABN 71 124 374 321

DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of Southern Cross Goldfields Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2013.

This report is to be read in conjunction with the annual report for the year ended 30 June 2013 and any public announcements made by Southern Cross Goldfields Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

DIRECTORS

The following persons were directors of Southern Cross Goldfields Limited during the whole of the half-year and up to the date of this report:

Glenn Jardine was a director from the beginning of the financial year until his resignation on 20 August 2013.

Samantha Tough, Graham Brock and John Rowe were directors from the beginning of the financial year until their resignation on 23 September 2013.

Frank Terranova, David Sproule and Jon Parker were appointed as directors on 20 August 2013 and continue in office at the date of this report.

RESULT

The loss after income tax of the Group for the half-year was \$301,000 (2012: \$4,428,000).

Significant gains and expenses

The results were affected by the following significant gains and expenses:

	2013 \$'000	2012 \$'000
Gains:		
Gain on acquisition of subsidiary, net of applicable tax	3,628	-
Reversal of Turner River deferred consideration	1,440	-
Expenses:		
Loss on disposal of property, plant and equipment, net of applicable tax	75	-
Impairment of the Turner River Exploration and Evaluation assets	833	-

REVIEW OF OPERATIONS

The Company's activities during the first half of the 2014 financial year comprised:

- The merger with Polymetals Mining Limited was completed on 20 August 2013 forming a new gold and base metal company with assets in Western Australia and New South Wales and a pipeline of projects spanning near term production, development, scoping study and exploration, refer Note 7 of the Half Year financial report for details
- The Board and management were restructured with Frank Terranova appointed Managing Director 17 September 2013 and Jon Parker appointed Chairman 22 September 2013. The Board was reduced from six members to three, realising corporate cost savings. The head office relocated to Brisbane in December 2013.
- Activities were undertaken to strengthen the Balance sheet with the following cash generation and preservation items completed:
 - A \$2.8 million refund of the Sandstone Bond was received through SXG opting into the new West Australian DMP Mine Rehabilitation Fund (MRF);
 - Sale of Samford corporate offices in Queensland settled in November 2013 generating \$1.5 million before costs;

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DIRECTORS' REPORT

- Withdrawal from the Turner River earn-in and joint venture arrangements with De Grey Mining Limited (**ASX:DEG**) in December 2013 avoiding significant cash commitments in 2014-15; and
- Withdrawal from the Radio Mine earn-in with Renaissance Minerals Limited (**ASX:RNS**) in December 2013.

PROJECT DEVELOPMENT

Marda Gold Project

Marda Gold Project advanced with internal studies reviewed and progressed by the former Polymetals development team.

In December 2013, SXG announced completion of an extensive re-evaluation of the development methodology, operational strategy and cost estimates which identified an improved project economics from configuring the process facility to treat 720,000 tpa and produce around 50,000 oz pa of gold.

The Company continued to advance environmental and statutory approvals for the Marda Gold Project and expect all approvals to be in place to coincide with the completion of project funding. All proposed mining deposits are located within granted mining leases, and environmental baseline studies were completed in 2011 and 2012

Following acquisition of the Sandstone Gold Project assets from Troy Resources in 2012, the Company has kept the Sandstone gold plant and infrastructure on care and maintenance. Internal and external engineering studies into the capital cost of refurbishing and relocating the Sandstone plant to Marda have been incorporated in the revised study.

SXG has exercised its option to acquire the Red Legs and Die Hardy gold deposits, located 30km north of its flagship 100%-owned Marda Gold Project in Western Australia, from unlisted company Barranco Resources NL. 20,000,000 SXG shares were issued in September 2013 to complete this transaction.

The transaction continues SXG's regional gold consolidation and production strategy around the Marda Project, where it is targeting an initial 50,000oz per annum gold production centre. Marda is located in the Southern Cross/Marda greenstone belt, approximately 500km east of Perth, where it has a dominant and highly strategic ground-holding.

EXPLORATION - GOLD

Marda (100%)

SXG's exploration team continued the systematic search for additional gold deposits and have received approval for a number of Program of Work applications to allow drill testing of several targets in the north eastern section of the Evanston Shear.

The highly successful systematic regional auger drilling soil sampling program within SXG's extensive Marda tenement package continues. Close interrogation of the results has confirmed that the ongoing work program complements the Marda production strategy. The results support moving to a program of drilling (RAB) of the already identified prospective zones.

Sandstone (100%)

Exploration work at Sandstone remained suspended while the Company focused on the Marda Gold Project development and the completion of corporate M&A activities.

Mt Boppy (100%)

A DHEM survey was conducted on drill hole PCN109, drilled to 600m depth, during the June 2013 quarter, testing the southern end of an IP and EM geophysical anomaly based on data obtained by surface geophysical surveys. The DHEM was unsuccessful in locating an off hole conductor/chargeable body nearby. Whilst this downgrades prospectivity in this position, PCN109 is a single hole and the strike extent of the original anomaly remains untested to the north.

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DIRECTORS' REPORT

Turner River (75%)

Rehabilitation of drill sites from the Wingina diamond drill program was completed during the period. SXG's interest in the asset has now been terminated.

EXPLORATION - BASE METALS

Copper Bore Base Metal Project

Exploration and development work at Copper Bore remained at low levels while the Company focuses on the Marda Gold Project development and the completion of corporate M&A activities.

Turner River (earning in to 75%)

Minor mapping and surface chip sampling was completed during the period. SXG's interest in the asset has now been terminated.

Western Areas NL Nickel Joint Venture (SXG 30% nickel interest, 100% non-nickel interest)*

*SXG retains 100% of non-nickel rights (other than iron ore) under its nickel rights agreement with Western Areas.

An extensive stratigraphic drilling and auger geochemical sampling program was completed by the joint venture to determine the extent and type of ultramafic stratigraphy in the Marda area, and to broadly screen the adjoining areas for direct traces of nickel sulphide anomalism.

A total of 93 air-core holes (3,425m) were completed testing key stratigraphic traverses within the Marda area. While the assays have been received, the data is still being compiled and initial observations indicate that the drilling did confirm the presence of thick cumulate, high MgO ultramafics at Evanston and southern Marda. Specific material will be selected and sampled for whole rock analysis in an attempt to determine potential for the ultramafic units to host nickel sulphides.

EVENTS SUBSEQUENT TO REPORTING DATE

The Company has finalised negotiations with RMB Australia Holdings Limited to extend the repayment date of \$5M of the outstanding external loan balances to 24 September 2014.

The Directors consider that there have not been any other matters that have arisen since the end of the half year that have significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of the affairs of the Company in future financial years.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307c of the Corporations Act 2001 is set out on page 17.

ROUNDING OF AMOUNTS

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

Signed in accordance with a resolution of the Directors:



Frank Terranova
Managing Director

Brisbane, Queensland.
14 March 2014

SOUTHERN CROSS GOLDFIELDS LIMITED
ABN 71 124 374 321

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Notes	Half-year 2013 \$'000	2012 \$'000
Revenue from continuing operations		126	39
Other income	3	5,068	52
Exploration expenditure		(1,608)	(1,624)
Administration expenditure	3	(2,051)	(1,121)
Pre-development expenditure		(629)	(1,577)
Share based payments		(322)	(64)
Impairment of tenements		(833)	(66)
Depreciation		(52)	(66)
		<hr/>	<hr/>
Loss before income tax		(301)	(4,428)
Income tax expense		-	-
		<hr/>	<hr/>
Loss for the half-year		(301)	(4,428)
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Changes in the fair value of available-for-sale financial assets		33	-
		<hr/>	<hr/>
Other comprehensive income for the half-year, net of tax		(268)	-
		<hr/>	<hr/>
Total comprehensive income for the half-year		(268)	(4,428)
		<hr/>	<hr/>
		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share		(0.04)	(1.27)
Diluted earnings per share		(0.04)	(1.27)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

SOUTHERN CROSS GOLDFIELDS LIMITED
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STATEMENT OF FINANCIAL POSITION
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Notes	31 December 2013 \$'000	30 June 2013 \$'000
ASSETS			
Current assets			
Cash and cash equivalents		7,026	1,836
Receivables		17	38
Inventories		18	-
Other financial assets		149	-
Other		74	-
		<hr/>	<hr/>
		7,284	1,874
Assets classified as held for sale		515	-
		<hr/>	<hr/>
Total current assets		7,799	1,874
Non-current assets			
Receivables		334	74
Property, plant and equipment		3,967	2,190
Other financial assets		408	2,751
Tenement acquisition costs		8,680	4,478
		<hr/>	<hr/>
Total non-current assets		13,389	9,493
		<hr/>	<hr/>
Total assets		21,188	11,367
LIABILITIES			
Current liabilities			
Trade and other payables		945	1,170
Current tax liabilities		-	-
Provisions		69	98
Borrowings		7,000	7,000
		<hr/>	<hr/>
Total current liabilities		8,014	8,268
Non-current liabilities			
Provisions		1,468	1,018
		<hr/>	<hr/>
Total non-current liabilities		1,468	1,018
		<hr/>	<hr/>
Total liabilities		9,482	9,286
		<hr/>	<hr/>
Net assets		11,706	2,081
EQUITY			
Issued capital	6	39,952	30,381
Reserves		4,156	3,801
Accumulated losses		(32,402)	(32,101)
		<hr/>	<hr/>
Total equity		11,706	2,081
		<hr/>	<hr/>

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Notes	Half-year	
		2013 \$'000	2012 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		235	-
Payments to suppliers and employees (inclusive of goods and services tax)		(5,236)	(3,186)
Income taxes (paid) refund received		708	-
Interest received		105	52
Interest paid		(352)	-
Net cash inflow (outflow) from operating activities		(4,540)	(3,134)
Cash flows from investing activities			
Proceeds from sale of available-for-sale financial assets		-	182
Proceeds from sale of property, plant and equipment		1,396	-
Cash acquired on acquisition of subsidiary		4,208	-
Payments for property, plant and equipment		-	(13)
Payments for prospects		(500)	(20)
Proceeds from sale of tenements		-	1
Repayment of borrowings		(98)	-
Refunds (payments) for security deposits		2,550	-
Net cash inflow (outflow) from investing activities		7,556	150
Cash flows from financing activities			
Proceeds from issues of shares		-	5,300
Proceeds from borrowings		2,174	-
Payments of share issue expenses		-	(458)
Net cash inflow (outflow) from financing activities		2,174	4,842
Net increase/(decrease) in cash and cash equivalents		5,190	1,858
Cash and cash equivalents at the beginning of the half-year		1,836	2,215
Cash and cash equivalents at the end of the half-year		7,026	4,073

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

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ABN 71 124 374 3212

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Issued capital \$'000	Available For Sale Reserve \$'000	Share based payment reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2012	25,540	-	3,104	(23,143)	5,500
Total comprehensive income for the half-year	-	-	-	(4,428)	(4,428)
Transactions with owners in their capacity as owners:				(4,428)	(4,428)
Contributions of equity, net of transaction costs	4,841	-	-	-	4,842
Employee share options	-	-	64	-	64
	4,841	-	64	-	4,906
Balance at 31 December 2012	30,381	-	3,168	(27,571)	5,978
Balance at 1 July 2013	30,381	-	3,801	(32,101)	2,081
Total comprehensive income for the half-year	-	33	-	(301)	(268)
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	400	-	-	-	400
Consideration on acquisition of subsidiary (note 6)	9,171	-	-	-	9,171
Employee share options	-	-	322	-	322
	9,571	33	322	(301)	9,893
Balance at 31 December 2013	39,952	33	4,123	(32,402)	11,706

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

SOUTHERN CROSS GOLDFIELDS LIMITED
ABN 34 108 102 432

Note 1 Basis of preparation of half-year report

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2013 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The historical cost basis has been used, except for available-for-sale financial assets which have been measured at fair value.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2013 and any public announcements made by Southern Cross Goldfields Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the consolidated entity from the adopting of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income

The consolidated entity has applied AASB 2011-9 amendments from 1 January 2013. The amendments requires grouping together of items within other comprehensive income on the basis of whether they will eventually be 'recycled' to the profit or loss (reclassification adjustments). The change provides clarity about the nature of items presented as other comprehensive income and related tax presentation.

AASB 10 Consolidated Financial Statements

The consolidated entity has applied AASB 10 from 1 January 2013, which has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns (eg. dividends, remuneration, returns that are not available to other interest holders including losses) from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights (e.g. voting rights, potential voting rights, rights to appoint key management, decision making rights, kick out rights) that give it the current ability to direct the activities that significantly affect the investee's returns (e.g. operating policies, capital decisions, appointment of key management). The consolidated entity not only has to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes.

AASB 11 'Joint Arrangements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'

AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'

AASB 127 'Separate Financial Statements' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'

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Note 1 Basis of preparation of half-year report (continued)

AASB 128 'Investments in Associates and Joint Ventures' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'

AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'

AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'

AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'

AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle'

AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments'

Going concern

The financial report has been prepared on the basis that the consolidated entity is a going concern, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business. The consolidated entity generated net cash outflows of \$1,192,000 net of \$6,382,000 generated from the acquisition of Polymetals Mining Limited during the financial period ended 31 December 2013 and held a cash balance of \$7,026,000 as at that date. The external loan balance amounting to \$7,000,000 is due for repayment on 24 March 2014. The consolidated entity generated a net loss of \$301,000 for the six month period ended 31 December 2013 and a net loss of \$8,957,000 during the financial year ended 30 June 2013.

During the six month period ended 31 December 2013 and the period to the date of this report the directors have taken steps to ensure the consolidated entity continues as a going concern. These steps include the following:

- The Company has finalised negotiations with RMB Australia Holdings Limited to extend the repayment date of \$5M of the outstanding external loan balances to 24 September 2014.
- The Company plans to source additional funding before the extended repayment date in order to facilitate the repayment of outstanding loan balances by the said date;
- Throughout the year, the Company has prepared and continues to review a series of scenario budgets and cash flow forecasts prepared and updated by management for board review and approval. These tools have been used by management in tightly controlling expenditure and cash outgoings of the Company and the consolidated entity which has resulted in a reduction of administration costs; and
- The Board of Directors is considering various options in relation to the sale of the Sandstone Project and other non-core assets.

The main priority of the company continues to be the sourcing of funding for development of its gold projects at Marda and Mt Boppy. In the circumstance where such funding is delayed or not available, the ability of the consolidated entity to continue as a going concern is dependent upon sourcing additional capital by September 2014 to cover ongoing operational costs and address the outstanding debt facility.

Should the consolidated entity be unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial report.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the consolidated entity be unable to continue as a going concern.

Note 2 Segment information

The group operates solely within one operating segment being gold exploration and mining in Australia.

SOUTHERN CROSS GOLDFIELDS LIMITED
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Note 3 Profit for the half-year

	2013	Half-year	2012
	\$'000		\$'000
Profit for the half-year includes the following items:			
Gains			
Reversal of Turner River deferred consideration	1,440		-
Gain on acquisition of subsidiary	3,628		-
	5,068		-
Expenses			
Loss on disposal of property, plant and equipment	75		-

Note 4 Fair values of financial instruments

	2013	Half-year	2012
	\$'000		\$'000
Recurring fair value measurements			
The following financial instruments are subject to recurring fair value measurements:			
Available-for-sale financial assets:			
- Listed equity securities – Level 1	149		-

Fair value hierarchy

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level in the fair value measurement hierarchy as follows:

- Level 1 – the instrument has quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – a valuation technique is used using inputs other than quoted prices within level 1 that are observable for the financial instrument, either directly (ie, as prices), or indirectly (ie. derived from prices)
- Level 3 – a valuation technique is used using inputs that are not observable based on observable market data (unobservable inputs).

Southern Cross Goldfields Limited only holds listed equity securities, which are measured at the closing bid price at the end of the reporting period, all available-for-sale financial assets fall within Level 1 of the fair value hierarchy.

Note 5 Current liabilities – Borrowings

	Consolidated	
	31 December	30 June 2013
	2013	2013
	\$'000	\$'000
Borrowings	7,000	7,000

The current secured bank loan is provided by RMB Australia Holdings Limited ("RMB" and is due for repayments by 24 March 2014. This loan attracts market based interest set on a quarterly basis which at 30 June 2013 was at the rate of 9.87%. The loan is on standard and conventional terms for a facility of its type and size and is secured by mortgages over key Sandstone Gold Project tenements, key Mt. Boppy project tenements and all the present and after acquired property of SXG and all of its directly or indirectly owned subsidiaries.

SOUTHERN CROSS GOLDFIELDS LIMITED
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Note 6 Equity securities issued

	2013 Shares	2012 Shares	2013 \$'000	2012 \$'000
Opening balance at 1 July	408,912,825	291,135,046	30,381	25,540
Issues of ordinary shares during the half-year				
Issued during the half year				
Issued as consideration for purchase of subsidiary (note 7)	20,000,000	117,777,779	400	4,841
	<u>458,537,981</u>	-	<u>9,171</u>	-
Closing balance at 31 December	<u>887,450,806</u>	<u>408,912,825</u>	<u>39,952</u>	<u>30,381</u>

Note 7 Business combination

Summary of acquisition

On 20 August 2013 the parent entity acquired 100% of the issued share capital of Polymetals Mining Limited.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	\$'000
Purchase consideration:	
Shares in Southern Cross Goldfields Limited (note 6)	9,171
Less settlement of pre-existing arrangement	<u>(2,174)</u>
Total purchase consideration	<u>6,997</u>
	Fair value
	\$'000
The assets and liabilities recognized as a result of the acquisition are as follows:	
Cash and cash equivalents	4,208
Receivables	802
Inventories	18
Other financial assets	116
Other assets	713
Property, plant and equipment	3,634
Exploration and development costs	4,135
Trade and other payables	(1,083)
Provisions	(478)
Other liabilities	<u>(1,440)</u>
Net assets acquired	<u>10,625</u>

There were no acquisitions in the year ended 30 June 2013.

The initial accounting for the acquisition of Polymetals Mining Limited has only been provisionally determined at the end of the reporting period, with the assets and liabilities to be confirmed. At the date of finalisation of these consolidated financial statements, the necessary market valuations and other calculations has not been finalised and have therefore only been provisionally determined based on the director's best estimate of the likely fair values.

Note 7 Business combination (continued)

Prior to the acquisition of Polymetals Mining Limited, the Company was party to a pre-existing relationship with Polymetals. The arrangement represents a loan payable from Southern Cross Goldfields to Polymetals. In line with the requirements of AASB 3 Business Combinations, the Company has recognised the effective settlement of this pre-existing arrangement on the acquisition of Polymetals resulting in an decrease in purchase price of \$2.174 million. These relationships now eliminate on consolidation and as such, are no longer disclosed in the annual consolidated financial statements of the consolidated entity.

(i) Acquisition-related costs

Acquisition-related costs of \$281,000 are included in administration expenses in profit or loss.

(ii) Revenue and profit contribution

The acquired business contributed revenues of \$57,000 and net loss of \$281,000 for the period August 2013 to 31 December 2013. If the acquisition had occurred on 1 July 2013, consolidated revenue and consolidated loss for the half year ended 31 December 2013 would have been \$163,000 and \$1,426,000 respectively.

Note 8 Contingent liabilities

Litigation

The Group is currently subject to litigation in the Supreme Court of NSW brought by Peak Gold Mines Pty Ltd (Peak) against a subsidiary of Polymetals Mining Limited. Peak commenced proceedings against the Group on 6 July 2009 seeking damages of \$5,240,984 for alleged misrepresentations made by the Group in relation to a joint venture agreement (JVA) entered into between the Group and Peak on 16 August 2006. The Group denies that there were any misrepresentations and has cross-claimed for damages against Peak for Peak's breach of the JVA. Under this cross-claim, the Group is seeking damages of \$2,600,000 plus interest for breach of contract. The Group considers that Peak's prospects of successfully obtaining a judgment against the Group and consequently being awarded the damages, is relatively weak. On this basis, the Board considers that the Group is well positioned to defend the claim.

Indemnity Fund

To protect shareholders in the circumstances should the above claimants be successful against the Group, the company has entered into an indemnity agreement with the PMG Unit Trust to fund the costs of litigation, including any settlement values arising from the above matters. This indemnity is capped at the value of the indemnity fund with any excess to be funded by Polymetals Mining Limited. The indemnity fund comprises cash deposits invested on call, with the current balance at 31 December 2013 at \$3,555,872.

In addition, the Company entered into an agreement with Meadowhead Investments Pty Ltd (Meadowhead) to provide an additional indemnity to fully indemnify the Group against the outstanding litigation. This indemnity is subordinate to the one provided by the PMG Unit Trust and was conditional on the Scheme of Arrangement with SXG becoming effective. This occurred on 6 August 2013 and following payments of \$300,000 and 1,939,058 PLY shares to Meadowhead, this indemnity is now in place.

Note 9 Events occurring after the reporting period

The Company has finalised negotiations with RMB Australia Holdings Limited to extend the repayment date of \$5M of the outstanding external loan balances to 24 September 2014.

The Directors consider that there have not been any other matters that have arisen since the end of the half year that have significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of the affairs of the Company in future financial years.

Note 10 Rounding of amounts

The company satisfies the requirements of Class Order 98/0100 issued by the Australian Securities and Investments Commission relating to "rounding off" of amounts in the directors' report and the financial statements to the nearest thousand dollars. Amounts have been rounded off in the directors' report and financial statements in accordance with that Class Order.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Southern Cross Goldfields Limited, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the Company are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position as at 31 December 2013 and of the performance for the half-year ended on that date of the Company; and
 - (ii) complying with Accounting Standards AASB 134: "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Frank Terranova
Managing Director

Brisbane, Queensland
14 March 2014

Independent Auditor's Review Report to the Members of Southern Cross Goldfields Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Southern Cross Goldfields Limited, which comprises the condensed statement of financial position as at 31 December 2013, and the condensed statement of profit or loss and other comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 5 to 14.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Southern Cross Goldfields Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Southern Cross Goldfields Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Southern Cross Goldfields Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material Uncertainty Regarding Continuation as a Going Concern

Without modifying our report, we draw attention to Note 1 in the half-year financial report which indicates that the consolidated entity incurred net cash outflows of \$1,192,000 during the half-year ended 31 December 2013 and held a cash balance of \$7,026,000 as at that date. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as going concern and therefore, the consolidated entity may be unable to realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the half-year financial report.

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU



Rowan Smith
Partner
Chartered Accountants

14 March 2014

Jon Parker
Chair, Board of Directors
Southern Cross Goldfields Limited
Level 6, 344 Queen Street
Brisbane QLD 4000

14 March 2014

Dear Sir

Southern Cross Goldfields Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Southern Cross Goldfields Limited.

As lead audit partner for the review of the consolidated half year financial statements of Southern Cross Goldfields Limited for the half year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Rowan Smith
Partner
Chartered Accountants