

Restructure to give Lachlan improved star rating

Lachlan Star Ltd will undertake a share consolidation over the coming month, designed to ease its path towards a TSX listing and create a more realistic structure for an active gold producer.

Formerly a shell, Lachlan Star took over ownership of the CMD gold mine in Chile in December, but the three billion shares on issue were an impediment to a 40,000 ozpa producer with greater aspirations.

Chairman Mick McMullen told **Paydirt** although a sometimes painful decision, the share crunch was necessary for the company.

"It will deliver a proper structure appropriate to what is now a proper gold-producing company," McMullen said. "The problem was that we had acquired an operating asset but we had three billion shares on issue, which means if you are looking to list on the TSX, as we are, you will struggle to get any traction.

"On reflection we should have done it when the deal was completed because as a shell Lachlan had attracted a certain type of investor for whom consolidation is a turn-off. Now we have tied the share consolidation to the TSX listing and the release of the new mine plan. It will allow us to get away from being a penny dreadful."

McMullen says the share crunch and proposed move to the TSX will give the company the much-needed rerating that should have come on the acquisition of the project.

Having paid just \$9 million in cash and \$10 million in shares for CMD, McMullen believes the Australian market has failed to appreciate the bargain which Lachlan Star has picked up. While the Australian junior gold sector's rush to West Africa has seen acquisition prices in that region shoot up, the purchase of CMD has shown, for McMullen at least, that good value can still be attained in Latin America.

"We were on the lookout specifically for a gold project and we came across CMD through a board contact. It ticked all the boxes: it was an unloved asset that was privately held. Our strategy has always been to find that kind of project, put some capital and technical work in and create value out of it. We just couldn't see that sort of value in West Africa so that moves you to Latin America and there Chile is certainly the best country to be."

Like most privately held mines around the world, CMD has suffered from a lack of long-term vision. An open pit heap leach project, the mine has been operating since 1995 and has produced 830,000oz gold over its life. It currently produces at a rate of 40,000 ozpa but with more than 2 moz in non-JORC resources and an 8 mtpa plant that is running at under 40% capacity, the potential for expansion is obvious.

McMullen said Lachlan Star's strategy for

unlocking that potential would involve bringing a more corporate approach to the business.

"The main change we have to implement is in attitude. We want all employees to look at the project as a potentially larger operation. Instead of seeing it as a long-term 40,000 ozpa producer, let's make it a 70-100,000 ozpa. We have a wealth of technical skills on site so it is not about ability, it is about changing the mindset.

"We will be a little more hands on (than previous owners). It is still a standalone operation but we have had someone from head office on the ground for two to three weeks of the month. It is all about putting Lachlan Star's corporate stamp on the mine."

The company has encountered few surprises since taking over CMD but McMullen said there was still much work to do before it would reach the reporting standards expected of an ASX-listed company.

"When we purchased the project we knew we had 2 moz gold delineated but they were non-JORC, Chilean code resources. We have set about converting those resources to JORC. In the meantime we have seen that some two-thirds of the ore we are mining has not been reporting to resources and reserves.

"The reporting has probably been better between actual mining and the Chilean resources than the Coffey reserve because it was necessarily quite conservative."

To counter this, the company has been frantically drilling to delineate resources and reserves. It is expected that by the end of 2011 Lachlan Star will be able to report reserves of 700,000oz and resources of 2 moz.

That will coincide with a lift in throughput, utilising a processing plant that has operated at well below capacity for too long.

"The plant is in good condition and will comfortably do 5-6 mtpa," McMullen said.

This also sets Lachlan Star's exploration team a target of meeting such capacity. The



General manager – projects, Kees Dekker, with a gold bar from CMD

company has five drill rigs on site currently but with the focus on confirming the non-JORC resources, there has been little time to move on to other targets.

"There are lots of exploration targets but we have got our hands full for the rest of the year. The key is to squeeze everything out of what we've got. When we reach 5-6 mtpa then we can start to look around."

Mining is also relatively straightforward with five pits in the new mine plan. The plan calls for these pits to eventually be combined into two larger pits.

Further to the gold present, CMD is also known to contain copper mineralisation. The mine sits adjacent to Teck Resources Ltd's Andacollo copper-gold mine, which is producing 80,000 tpa copper and 60,000 ozpa gold.

Teck had been negotiating with the previous owners over access to the adjoining CMD pit – there are already deals in place over water access – but McMullen said it was important that Lachlan Star was comfortable with its own understanding of the deposit before anything was finalised.

"Their orebody comes straight into our orebody and Teck has got lot of ore under the pit wall. There are a lot of synergies between the operations but we don't know enough about the copper on our ground yet. It has never been assayed for copper and we are reluctant to move before we have a better understanding.

"Now that we are starting to get ahead of ourselves in delineating reserves we can actually look at stuff that we are not planning to mine in the next few weeks."

However, McMullen said, no agreement was imminent.

"Unless Teck waltzes in with a big cheque we won't do anything yet because we need to know what's on our ground before we can have proper discussions. There are various scenarios: there could be a joint cutback, opening up the gold orebody and there is also the option to use some of our spare crushing capacity because Teck is looking seriously at expanding at Andacollo.

"What we need to do though is put the relationship on a more professional standing."

Before any of that can happen, Lachlan Star's focus will be on tidying up its corporate structure and ensuring CMD meets what it sees as its immediate potential.

"I think we will be producing at a rate of 100,000 ozpa by year end," McMullen said.



The Churramat West pit from which Lachlan Star is currently mining