

On balance, it's a rosy picture for Capital Drilling. Liberum is not on its own in predicting that strong commodity prices in the mid-term will fuel a continuation of exploration and development spending on drilling services. Having established a platform for growth, managing the opportunities and expansion remains the company's major challenge.

## SOUTH AMERICA

### Lachlan refocus almost complete

Kate Haycock, [24 March 2011](#)



Lachlan's CMD gold project in Chile.

CONSIDERING the mineral wealth of South American nation Chile, it seems strange that more Australians aren't setting up shop over there in an effort to find and develop the assets that are simply too small for the majors to bother with. Lachlan Star Resources' chairman Mick McMullen is hoping his company will help set the trend.

There are of course notable exceptions – Andean Resources springs to mind – but South America remains a continent that has largely failed to draw large numbers of enterprising Australian juniors.

Late last year Lachlan Star picked up just the sort of asset that in West Africa might make investors sit up and take notice – a producing gold project known as Compañía Minera Dayton or CMD. The project, a heap leaching gold mine that is producing around 50,000 ounces per annum, cost some \$US18.8 million including \$US9.8 million in Lachlan scrip, as well as \$US1 million further down the track.

Lachlan will also owe the project vendors 2.5% of all gold produced up to a 119,000 ounce threshold, and then 25% of gold produced over that threshold, until December 2014.

McMullen said the deal appealed because Chile was an enormously attractive destination for mining companies and CMD was an operating mine with good infrastructure. He also said it was fair to say the mine was not operated optimally under its previous private owners, which was part of the reason it did not currently have JORC compliant resources. Getting reserves and resources up is a major task, and the company has set itself a 1.4 million ounce target.

The project area comprises a tenement package of only about 15-20sq.km and so it is a near-mine exploration story, but the imperative to find more gold is clear as CMD currently has an under-utilised plant with 8 million tonne per annum capacity and only 2Mtpa passing through it.

"It's all about finding stuff that is within a few kilometres of that plant and trucking it in," McMullen said.

"We'd like to see this thing at, say, by the middle of next year, at around a 75,000-80,000oz production rate, and by the end of next year getting up near 100,000oz. And ideally we'd like to see a four, five, six year mine life, that sort of thing," he said.

Lachlan Star is now looking at developing a longer term plan focusing on material movement rates, optimisation, ensuring the project has the right fleet, getting the right mix of financing arrangements, and reducing the number of contractors.

The CMD project was previously owned by five individuals from the United States who, for tax purposes, structured the asset so it was owned by an Australian holding company. The chairman of this holding company was a friend of McMullen's who suggested the asset, plus the skills base at Lachlan, could be combined in a public company that would have access to the capital needed to take advantage of the project's upside. The vendors now own about 30% of the company.

"It was a pretty typical private operation, and it was more focused on not having to send any more cash in, than optimising gold production. For example, exploration consisted of about three-quarters of a million worth of drilling a year simply to drill out the next 12 months of reserves. There was no reasonable budget or plan that would allow you to put together a 5-6 mine plan and then allow you to make proper investment decisions about the size of the mining fleet," McMullen said.

After the mine planning work is done the company also plans to list on the Toronto Stock Exchange. For a company with assets in South America that may not fit the typical profile of Australian gold projects but McMullen said there was a clear rationale for a TSX listing.

"For lower grade, bulk tonnage heap leach operations in the Americas, if you look at them, they're all listed in the Americas," he said. "If we look at our peers ... the enterprise value per resource ounce... we're capped at \$US25-30 per resource ounce [and] our peers are at \$US80, and the guys who are at \$US100 an ounce are all on the TSX. These are projects of similar grades, similar sorts of operations – Mineral IRL, for instance, has an almost identical mine in Peru and it's capped at \$US170 million and we're capped at \$US40 or \$US50 million. We see Toronto as a natural market for us."

Longer term, the plan for the company is to bulk up into a more substantial gold play through some sort of merger and acquisition activity – even as a takeover target – and McMullen said this seemed more likely on the TSX.

"We see potential for merger activity if we've got a profile in the TSX market because all the other peers in the North American market that are looking to bulk up are listed on the TSX," he said.

The company has about \$A6 million in the bank at present and McMullen said there could be additional capital requirements based on a new production plan.

Meanwhile, the company still has a copper project back in New South Wales that may well be coming up for sale shortly as McMullen said the company would be focused on Chile and CMD.

"We decided to review the [Bushranger] project and as part of that review we said, what does the project look like, is it potentially economic, and the answer was that it is economic," he said.

A scoping study suggested for a capital cost of \$A100 million, Bushranger could handle 2Mtpa of ore through a standard flotation concentrator to produce copper concentrates with gold. At a copper price of \$US10,000 per tonne this would result in cashflows of \$A344 million.

However, the NSW copper story no longer fits with the Chilean gold, McMullen said.

"I like NSW and I like copper. I've built a copper mine in NSW, but the fact is we're producing gold in Chile every week so there's no doubt a bigger bang for our shareholder's buck in focusing on that," he said.