Lachlan Star reports first JORC Reserve at CMD Gold Mine in Chile

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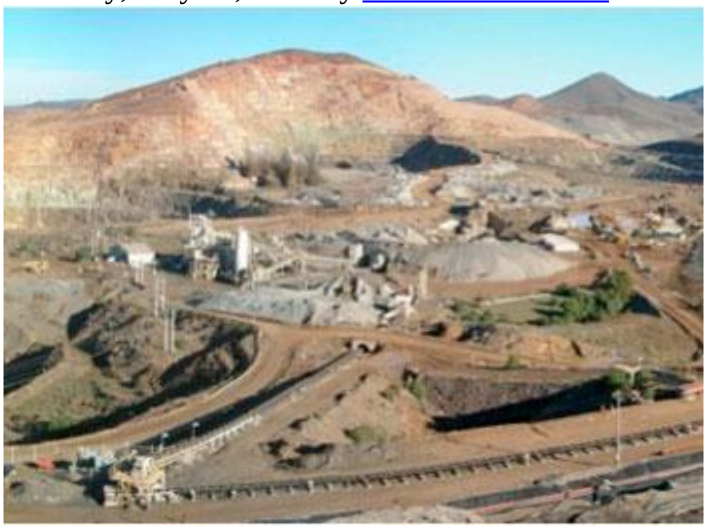

Today's maiden reserve at CMD gold mine in Chile should boost production and extend mine life. In addition, a consolidation of Lachlan Star's shares, should be the beginning of a re-rating in line with North American gold producer peers.

Lachlan Star (ASX: LSA) has achieved the first JORC Probable Reserve estimate of 157,000 ounces of contained gold at its 100% owned CMD Gold Mine in Chile, enabling the company to boost production and extend mine life.

The company is also looking to consolidate its share capital on a one for 60 basis to align it with the North American gold producing peers, opening the way to attracting new investors given the location of the CMD mine.

The Reserves estimate has been estimated for the Las Loas, Tres Perlas, Toro, Socorro, Churrumata and Chisperos pits.

At Las Loas the Probable Reserve is 1.2 million tonnes (Mt) at 0.7 grams per tonne (g/t) gold for 25,000 ounces (oz).

At Toro/Socorro the Probable Reserve is 2.4Mt at 0.8 g/t gold for 61,000 oz whilst at Tres Perlas the Probable Reserve is 1.0Mt at 0.8 g/t gold for 27,000 oz.

The Probable Reserve at Churrumata is 0.4Mt at 0.9 g/t gold for 11,000 oz and at Chisperos it is 0.9Mt at 1.1 g/t gold for 33,000 oz.

In total the Probable Reserve at CMD is 5.8Mt at 0.8 g/t gold for 157,000 oz of gold.

Declan Franzmann, managing director, said “we feel very confident that we will be able to deliver an increase in production rates and significantly extend the mine life at CMD given the quantum of mineralised material available to us.

"The trend of sourcing a majority of our ore from outside the Reserve is continuing and is a result of the lack of historical near mine exploration."

The Reserves have been estimated at a gold price of US$1250/ounce and using operating cost and metallurgical recovery factors from the current operation.

In addition to the Reserves, Lachlan Star has completed mine planning studies on the total resource base including the Inferred Resource.

The company said this was done in order to quantify the amount of Inferred Resource with the economic potential to be included in the reserve estimate when sufficient work has been completed, subject to results, to upgrade the Inferred Resource to the Measured or Indicated Resource category.

The Inferred Resource contained within these conceptual pit shells amounted to an additional 350,000 ounces of gold. Drilling of the Inferred Resource is ongoing.

Ore mined during the March quarter was largely sourced from outside the current JORC Resource. Of the total ore mined for that period, 69% was not contained in the resource.

Of the 31% that was mined from the resource, 7% was contained in the Inferred Resource category. Only 24% of the ore mined in the March quarter was contained in the Reserve estimate.

CMD is an open pit heap leach gold mine that commenced production in 1995 and has historically produced around 830,000 gold ounces.

The project is well positioned adjacent to Teck Resources (NYSE: TCK) massive Andacollo mine which hosts resources of; 535 million tonnes grading 0.37% copper and 0.12g/t gold, providing prospective copper exploration upside in the region.

The company now has four drill rigs aggressively exploring near mine targets, upgrading the Resource categories and testing for copper mineralisation along the boundary with the adjacent Teck copper mine.

Lachlan Star is also developing a plan for an intermediate pit in the central area of the Las Loas project, which will accelerate ore production and reduce the stripping ratio over the next 6 months.

The company has an unhedged production of around 40,000 to 50,000 ounces of gold per annum and 30,000 ounces of gold in inventory on leach pads.

Consolidation of shares

Lachlan Star also announced a consolidation of the company's share capital with the conversion of every 60 fully paid ordinary shares and unlisted options on issue into one fully paid ordinary share and one unlisted option in the company.

Lachlan Star currently has 3,214,001,057 shares and 75,000,000 unlisted options on issue.

Approval of a share consolidation will bring a myriad of advantages for Lachlan including:

- Aligning Lachlan Star’s profile closer to TSX-listed peers with gold producing assets in the Americas which typically have less than 100 million shares on issue;

- Widening the range of institutions with mandates to invest in quoted companies with less than 100 million shares on issue and higher share prices;
- Reducing the share price volatility given the minimum share price movement of A$0.001 permitted by the ASX at the current share price represents a greater percentage of the company's share price than if it were trading at a higher share price;
- Reducing future administrative and compliance costs associated with handling a large number of shares on issue.

Upon shareholder approval, the number of shares on issue will be reduced from 3,214,001,057 to 53,566,684 and the number of unlisted options will reduce from 75,000,000 to 1.25 million, subject to rounding.

Lachlan Star's peers are predominantly small to medium sized gold producers with assets in the Americas, and are typically TSX or TSX-V Exchange listed entities with less than 100 million shares on issue.

Mick McMullen, chairman, said "we believe that the current number of shares on issue creates a significant hurdle that prevents the equity market from fully valuing our assets."

The company believes that a consolidation of the shares on issue to just over 53 million will reflect a more appropriate share price and provide a better platform for it to achieve a higher and fairer valuation for its 100% owned assets.

Analysis

In the March quarter, Lachlan Star generated $11.9 million in revenues from gold poured.

Cash on hand was $5.3 million at the end of the March quarter, yet a market valuation of less than $45 million for a company that will produce between 40,000 to 50,000 ounces of gold per annum, highlighting Lachlan Star is not being valued at anywhere near intrinsic value.

Lachlan Star is currently valued at one of the lowest valuations of gold producers and explorers on the ASX.

Today's consolidation begins the road to bridging the "valuation gap" of Lachlan Star and its North American gold producing brethren with demand for Lachlan Star's share likely to increase from North American investor.

A plan to achieve a dual listing on the Toronto Stock Exchange in 2011 will also assist as North American investors tend to place a higher multiple on earnings of South American domiciled projects.

Positive cash flow effects from operational improvements at CMD are likely to flow through in the third and fourth quarter adding further tang to the story.

The goal is to return operations at CMD to production of 100,000 ounces of gold per annum within 2 to 3 years.