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RESEARCH

INDEPENDENT INVESTMENT RESEARCH

Latin Resources Limited (LRS)

Update – April 2013

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Investment Profile

Share price (\$) as at 9 April 2013	0.155
Valuation (\$)	0.58
Issued capital:	
Ordinary shares (M)	203.2
Options (M)	62.4
Fully Diluted (M)	265.6
Market capitalisation (\$M)	31.5
52-week low/high (\$)	0.13/0.33
Liquidity (shares traded \$M)	3.5

Board and Management

Directors

David Vilensky (Non-Executive Chairman)

Christopher Gale (Managing Director)

Mark Rowbottam (Non-Executive Director)

Frankie Li (Non-Executive Director)

Management

Anthony Begovich (CFO & Company Secretary)

Andrew Bristow (General Manager PLR)

Geoff Blackburn (Consulting Geologist)

Share price performance



GUADALUPITO EXPLORATION TARGET INCREASES 66.7% TO 4.5B TONNES

- ◆ In late November 2012, the company announced a significant increase to the exploration target at the Guadalupe Project in Peru. The exploration target was increased from 2.7B tonnes to 4.5B tonnes @ 6.1% heavy minerals. The increase was a result of new drilling and sampling results from prospects within the Project area. The target does not include the existing estimated Inferred JORC Resource of 393Mt @ 4.5% heavy minerals.
- ◆ In February 2013, the company released a second Inferred JORC Resource estimate at the Guadalupe Project. An Inferred Resource of 1.1B tonnes @ 6.1% heavy minerals was reported at the Los Conchaes Prospect. This increases the total estimated Inferred JORC Resource for the Guadalupe Project to 1.5B tonnes at an average grade of 5.7% heavy minerals.
- ◆ The company expects to commence a Pre Feasibility Study (PFS) in the 2Q'13 at the Guadalupe Project to further define the Project economics. We expect the PFS to look at potentially increasing the annual production volume determined in the Scoping Study, given the significant upgrade in expected resources. Completion of the PFS will be a significant milestone for the company and will assist in finding a JV partner and funding to develop the Project.
- ◆ An additional five holes have been drilled at the Mariela Project for a total of 11 holes completed. All five holes intersected iron mineralisation with several intersects above 40%Fe. The company is being free-carried through the exploration process, with the Junefield Group undertaking the activities as per the Earn-In Agreement, whereby the Junefield Group can earn a 70% interest in the Project by funding all activities to the completion of a Bankable Feasibility Study or to a total spend of US\$35M.
- ◆ The company will be commencing a drill program at the Ilo Norte Project in 2Q'13. The program will target the copper/gold mineralisation identified during a recently completed IP survey, which identified a significant anomaly. The Project is surrounded by operating copper mines and located close to the Ilo Port. Identification of a commercial grade copper/gold mineralisation will add significant value to the company.
- ◆ In late December 2012, the company completed a share placement to sophisticated investors. A total of \$2M was raised through the issue of 13,517,669 shares at \$0.15.
- ◆ At December-end 2012, the company had \$1M in cash, including the capital raising. At the current cash burn rate the company will be required to raise capital during the 2Q'2013. The company recently announced an Option Entitlement Issue to shareholders, whereby the company will issue one option for every two shares held for \$0.01 per option with an exercise price of \$0.20. The company seeks to raise \$1M through the issue with the potential to raise \$20.3M if the issue is fully subscribed and all options are exercised.
- ◆ **Valuation:** We have adjusted our valuation to include the average grade and heavy mineral assemblage released in the JORC Resource estimate for the Los Conchaes Prospect, however we have retained the expected annual production volume estimated in the Scoping Study. We have also included the additional shares issued for the capital raising and reduced the long-term gold price from US\$1,600/oz to US\$1,500/oz. The increased number of shares and reduction in the long-term gold price have resulted in a slight reduction to the LRS risk-adjusted valuation from \$0.60 to **\$0.58** per share. A PFS for the Guadalupe Project is expected to commence in 2Q'13. The results of the PFS will result in a review of the costs and annual volume produced which may result in a revaluation of the Project.

PROFIT & LOSS (\$M)					
Y/E June	2010	2011	2012	2013	2014
Sales Revenue	0.0	0.0	0.0	0.0	0.0
Other Revenue	0.0	0.0	0.9	0.4	0.2
Total Costs	3.2	5.6	12.2	5.5	5.6
EBITDA	-3.2	-5.6	-11.3	-5.1	-5.4
Depreciation	0.0	0.0	0.0	0.0	0.0
EBIT	-3.2	-5.6	-11.4	-5.2	-5.4
Interest	0.0	0.0	0.0	0.0	0.0
Profit Before Tax	-3.2	-5.6	-11.4	-5.2	-5.4
Tax expense	0.0	0.0	0.0	0.0	0.0
Net Profit After Tax	-3.2	-5.6	-11.4	-5.2	-5.4
Abnormals	0.0	0.3	0.0	0.0	0.0
Reported Net Profit After Tax	-3.2	-5.3	-11.4	-5.2	-5.4

CASHFLOW (\$M)					
Y/E June	2010	2011	2012	2013	2014
Receipts from Customers	0.0	0.0	0.0	0.0	0.0
Payments to Suppliers	-2.5	-5.3	-9.7	-5.0	-5.0
Net Interest	-0.3	-0.1	0.0	0.0	0.0
Tax Paid	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Operating Activities	-2.8	-5.4	-9.6	-5.0	-5.0
Capital Expenditure	0.0	0.0	0.0	0.0	0.0
PPE	-0.1	0.0	-0.2	-0.2	-0.2
Other	0.0	-0.2	-0.2	0.0	0.0
Investment Activities	-0.1	-0.2	-0.3	-0.2	-0.2
Share Issues/(Buybacks)	1.9	10.6	8.9	18.7	0.0
Debt Drawdown/(Repaid)	0.0	-2.2	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Financing Activities	1.9	8.4	8.9	18.7	0.0
Net Increase/(Decrease) in cash	-0.9	2.8	-1.1	13.6	-5.1
Cash at Beginning	1.2	0.3	3.3	2.2	15.8
FX Effects	0.0	0.2	0.0	0.0	0.0
Cash at End	0.3	3.3	2.2	15.8	10.7

BALANCE SHEET (\$M)					
Y/E June	2010	2011	2012	2013	2014
Cash	0.3	3.3	2.2	15.8	10.7
Trade and Other Receivables	0.1	0.5	1.0	0.1	0.1
Other	0.1	0.0	0.2	0.4	0.4
Current Assets	0.5	3.9	3.5	16.4	11.3
Property, Plant and Equipment	0.1	0.1	0.2	0.4	0.5
Exploration and Evaluation	0.1	0.2	8.9	8.9	8.9
Non-Current Assets	0.2	0.3	9.1	9.3	9.4
Total Assets	0.7	4.2	12.6	25.7	20.7
Trade and Other Payables	0.3	0.7	3.1	3.1	3.1
Provisions	0.1	0.1	0.2	0.2	0.2
Borrowings	2.2	0.0	0.0	0.0	0.0
Current Liabilities	2.6	0.7	3.3	3.3	3.3
Borrowings	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	8.3	0.0	0.0
Total Liabilities	2.6	0.7	11.5	3.3	3.3
Net Assets	-1.9	3.5	1.0	22.4	17.4
Contributed Equity	3.0	12.2	21.2	49.1	49.4
Reserves	-0.2	1.5	1.4	0.0	0.0
Retained Earnings	-4.7	-10.3	-21.6	-26.7	-32.0
Shareholders' Equity	-1.9	3.5	1.0	22.4	17.4
Minorities	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Total Equity	-1.9	3.5	1.0	22.4	17.4
Shares on Issue	92.8	148.1	189.7	221.6	284.0
Options Outstanding	0.0	62.4	62.4	62.4	0.0
Fully Diluted	92.8	210.6	252.2	284.0	284.0

Note: We have assumed that all the options will be exercised in FY'13.

Key Model Assumptions - Guadalupito Project	
Capital Expenditure (Total) US\$	623.5M
Operating Cost (Total) US\$	1.26/t
Mine Feed (Stage 1)	25Mt
Mine Feed (Stage 1 & Stage 2)	50Mt
Average Heavy Mineral Grade	5.7%
AUD/USD	0.95
WACC	10%
Depreciation	Straight line

Commodity Price Assumptions	
Iron Ore Magnetite (US\$/t)	120
Gold (US\$/oz)	1,500
Zircon (US\$/t)	1,500
Ilmenite (US\$/t)	350
Andalusite (US\$/t)	250
Rutile (US\$/t)	1,500

GUADALUPITO PROJECT (100%)

- ◆ The company has significantly increased the exploration target for the Guadalupito Project. The target increased 66.7% to 4.5B tonnes from the previous 2.7B tonne target. Included in the target is the recently released estimated Inferred JORC Resource of 1.1B tonnes @ 6.1% heavy minerals at the Los Conchaes prospect. The release of the Resource increases the total Inferred JORC Resource estimate at the Project to 1.5B tonnes at an average grade of 5.7% heavy minerals.
- ◆ The Los Conchaes Resource estimate was based on drilling of an area of just 5.6% of the total concession area and was significantly greater than the expected 690Mt. The total Resource estimate for the Project is tabled below.
- ◆ A total of 53 holes were drilled at an average of 40m deep, 430 pits and 16 cased shafts were completed to derive the Los Conchaes results.

Total Inferred JORC Resource Estimate – February 2013						
Prospect	Split	Tonnes (Mt)	Heavy Mineral (%)	Contained Heavy Minerals (Mt)	Oversize (%)	Fines (%)
Heldamier	Above Water Table	42.6	7.4	3.2	37.3	1.7
Tres Chosas	Above Water Table	41.8	8.9	3.7	19.6	1.8
Los Conchaes	Above Water Table	85.2	8.0	6.8	12.2	6.9
Total		169.6	8.1	13.7	20.3	4.3
Heldamier	Below Water Table	93.0	4.6	4.3	11.2	6.2
Tres Chosas	Below Water Table	214.5	3.0	6.4	4.6	6.3
Los Conchaes	Below Water Table	987.6	5.9	58.3	18.5	8.9
Total		1,295.1	5.3	68.6	15.7	8.3
Heldamier Total		135.6	5.5	7.5	19.4	4.8
Tres Chosas Total		256.3	3.9	10.0	7.1	5.6
Los Conchaes Total		1,072.8	6.1	65.4	18.0	8.8
Total		1,464.7	5.7	83.5	16.2	7.8

- ◆ The Resource primarily consists of Iron Oxide and Andalusite at 22-24% and 21-24%, respectively. Davis Tube Recovery (DTR) testing determined magnetite grades of 63%+. Zircon and Monazite are a minor component of the assemblage.

Heavy Mineral Assemblage - Los Conchaes Prospect		
Heavy Mineral	Above Water Table	Below Water Table
Iron Oxide	22.2	24.9
Andalusite	24.1	21.1
Titanium Minerals	6.4	6.4
Garnet Minerals	1.2	1.5
Apatite	1.1	0.9
Monazite	0.2	0.4
Zircon	0.1	0.3

- ◆ The first pass mineral separation test results for the Heldmaier and Tres Chosas Prospects from the above water table resource was released in February 2013. The results confirm high grade mineral concentrates.
- ◆ Iron magnetite of 63%Fe and less than 4%TiO₂ was obtained from conventional wet low intensity magnetic drum separators (LMIS).
- ◆ Heavy liquid separation showed the potential for an andalusite grade of 58%Al₂O₃. Electrostatic separation showed even better results, while gold concentrates of 10g/t to 19g/t were identified.

MARIELA PROJECT (100%)

- ◆ Drilling of five new holes has been completed taking the total number of holes drilled to 11 for the Project.
- ◆ The five holes covered over 1km of strike with each of the holes intersecting iron mineralisation.
- ◆ The drill program is being run by the Junefield Group as per the Earn-In Agreement, whereby the Junefield Group can earn a 70% interest in the Project by funding all activities to the completion of a Bankable Feasibility Study or to a total spend of US\$35M.
- ◆ A total of 3,758.7 metres was drilled with a total of 461.04 metres sampled (12.3%).

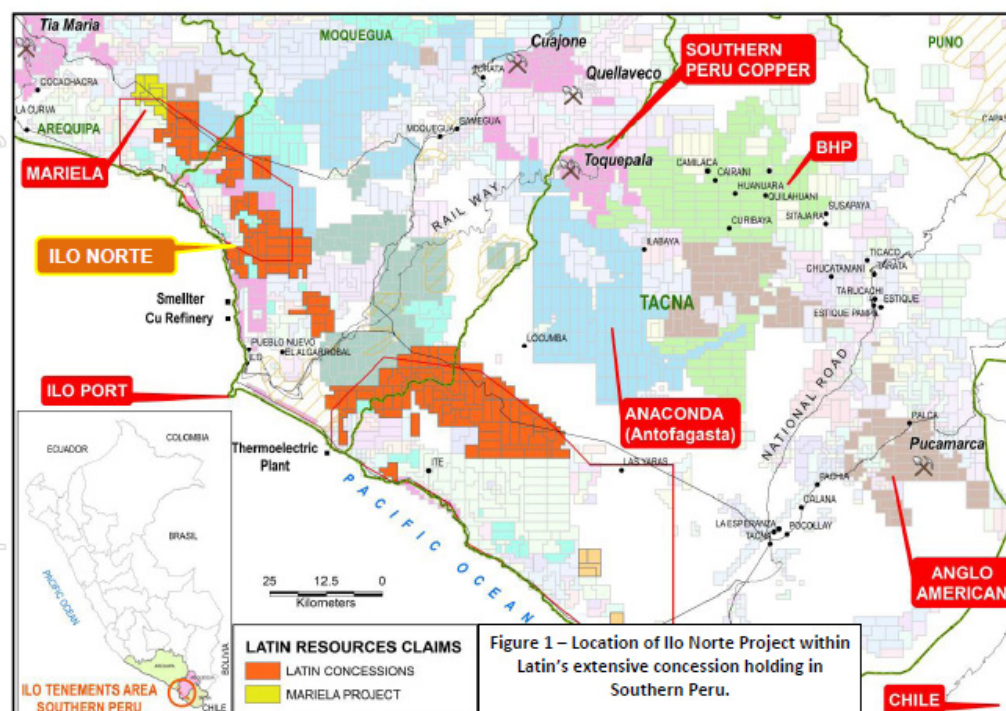
Significant Intersections from Recently Completed Holes (15% Fe Cut-Off)

Hole Number	From (m)	To (m)	Intersection (m)	Total Fe (%)
MA20-03	377.70	379.40	1.70	45.0
	294.00	294.50	0.5	35.8
	572.50	577.20	4.70	28.9
MA14-06	175.70	177.60	1.90	48.7
	343.70	346.50	2.80	44.0
	503.35	503.82	0.47	47.3
MA20-06	507.25	507.94	0.69	45.1
	428.45	432.72	4.27	48.8
	465.17	514.80	49.63	42.0
MA29-06	526.80	529.00	2.20	41.6
	376.25	384.10	7.85	32.8
	499.60	537.10	37.50	31.4
MA33-05	910.00	910.50	0.50	22.8
	996.85	998.80	1.95	23.6

ILO NORTE PROJECT

- ◆ The company has been granted the necessary permits to commence a drill program at the Ilo Norte Project in 2Q'13.
- ◆ The drill program will target the copper/gold mineralisation identified during a recently completed IP survey. The survey indicated the existence of a significant anomaly, indicating an anomaly that extends from ~300m below surface at a width of ~2km and a length of at least 800m with the anomaly open to the north-east.
- ◆ The Ilo Norte tenements are located just 20km from the port of Ilo and 10km from Southern Copper Corporations copper smelter.
- ◆ The identification of a commercial grade copper/gold mineralisation will add significant value to the company's revenue generation capacity.
- ◆ The Ilo Norte Project is surrounded by a number of copper mines, as detailed on the below graphic, including Southern Copper Corporations Cuajone and Toquepala Projects, which produced 159kt and 152.3kt of copper in 2012, respectively.

Ilo Norte Tenements



PEER COMPARISON

- ◆ In our previous update released in November 2012, we provided a cost and mine feed comparison of the below mentioned companies, which showed that the operating costs at LRS's Guadalupito Project were expected to be lower than its peers yet capital expenditure was expected to be greater.
- ◆ In this review we provide a comparison of the trading multiples of the peer group based on their primary heavy mineral projects. LRS is trading at a significant discount to other companies on an EV/Resource basis based on its Guadalupito Project, suggesting significant upside in the value of the company as the Project progresses.

Peer Comparison as at 8 April 2013

Company	ASX Code	Country	Project	EV (\$M)	Resource (Mt)	HM Average Grade (%)	EV/Resource
Mineral Deposits	MDL	Senegal	Grande Cote Project	227.1	1,030	1.7	12.7
Base Resources	BSE	Kenya	Kwale Project	156.6	146	4.9	21.9
World Titanium Resources	WTR	Madagascar	Ranobe Mine Project	72.4	959	6.1	1.2
Latin Resources	LRS	Peru	Guadalupito Project	30.5	1,465	5.7	0.4
Matilda Zircon	MZI	Australia	Keysbrook Project	33.5	78.9	2.5	17.0

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