AUSTRALIAN
RESEARCH
INDEPENDENT INVESTMENT RESEARCH

Latin Resources Limited (LRS)

Update – November 2012

INDEPENDENT INVESTMENT RESEARCH

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LATIN RESOURCES LIMITED (LRS)

Update – November 2012

Investment Profile

Share price ($) as at 12 November 2012	0.16
Valuation ($)	0.60
Issued capital:	
Ordinary shares (M)	189.7
Options (M)	62.4
Fully Diluted (M)	252.1
Market capitalisation ($M)	30.4
52-week low/high ($)	0.14/0.44
Liquidity (shares traded $M)	2.6

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 PROJECT SCOPING STUDY COMPLETE

- On 19 September 2012, Latin Resources Limited (LRS) announced that the scoping study for the Guadalupito Project had been completed by Ausenco. The scoping study determined that a mining operation is economically viable. The results of the study have provided the company with the confidence to proceed to a Pre-Feasibility Study (PFS).
- The scoping study was based on the Proof of Concept study completed by Snowdens and was based on a conceptual exploration target of 2.7 billion tonnes of heavy minerals.
- The scoping study has assumed that mining will be undertaken in two stages, with the second stage commencing four years after the first. Each stage will involve the use of bucket line dredges and a pumping system that delivers the screened dredged material to a floating heavy mineral concentrator in a dredging pond before being pumped to a mineral separation plant.
- The company intends to produce concentrates containing magnetite, andalusite, zircon, ilmenite, rutile and gold. Magnetite tends to be a higher quality concentrate than hematite and as such attracts a premium to high grade hematite. This, in addition to the current high values of zircon, rutile and gold provides the potential for a profitable mining operation.
- The company expects to commence a PFS in the 1Q'13. The company will seek to increase the JORC resources during the PFS and upgrade the JORC category of existing 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.
- The scoping study determined that the Project can operate at a low operating cost of just US$1.26/t, post the completion of stage 2 operations. This is low compared to its peers.
- The heavy mineral market dynamics suggest that long-term prices should be maintained at levels above historical prices, although will moderate from the current high levels.
- High grade iron mineralisation has been intersected at the Mariela Project. The drill program remains in the early stages, however we expect that given the initial results the Project will be advanced quickly. LRS will be free-carried through to the completion of a Bankable Feasibility Study (BFS) by the Junefield Group or to a total spend of US$35M, as per the Earn-In Agreement.
- **Valuation:** We have revised the valuation of LRS with the application of a different valuation methodology to determine the value of the Guadalupito Project. We have used a discounted cashflow model to determine a value for the Guadalupito Project after the release of the scoping study, which detailed the expected economics of the Project. We have a revised fair value target for LRS of $0.60 per share.

EARNINGS FORECAST

Y/E June	2010A	2011A	2012A	2013F	2014F
Revenue ($M)	0.0	0.0	0.9	0.5	0.3
EBITDA ($M)	-3.2	-5.6	-11.3	-5.0	-5.3
Reported NPAT ($M)	-3.2	-5.6	-11.4	-5.1	-5.3
Reported EPS (A$)	-0.03	-0.04	-0.06	-0.02	-0.02
PER	na	na	na	na	na
DPS	na	na	na	na	na

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	208.1	270.5
Options Outstanding	0.0	62.4	62.4	62.4	0.0
Fully Diluted	92.8	210.6	252.2	270.5	270.5

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

GUADALUPITO PROJECT (100%)

- The scoping study for the Guadalupito Project has been completed by Ausenco. The scoping study is based on the Proof of Concept study that was completed by Snowdens earlier this year.
- The scoping study has based their analysis on a two-stage mining operation with a base mining rate of 25Mtpa, which will double to 50Mtpa with the development of stage 2, four years after the completion of stage 1. This annual tonnage is greater than initially thought in our Initiation of Coverage report in August 2012, in which we thought the scoping study would be based on a mining operation of 10Mtpa, ramping up to 35Mtpa in five years time.
- The scoping study has been based on an Inferred Resource and therefore there is the scope for the expected costs to be greater or smaller than determined by the scoping study.
- The scoping study has determined that the company can produce low cost, high grade iron ore and heavy mineral (HM) products. Based on the results, the company will proceed with a Pre-Feasibility Study (PFS) to further determine the economics of the Project as well as prove up the JORC category of existing resources and new exploration targets. The PFS is expected to commence in 1Q'13.
- With the completion of the PFS we would expect that the company will begin negotiations with parties regrading financing and off-take agreements. With respect to this, we expect the company to approach the nearby Chimbote smelter regarding the supply of iron ore magnetite.

RESOURCES & RESERVES

- The scoping study is based on the initial Inferred Resource announced by LRS at the Heldmaier Prospect, in which the company reported an Inferred Resource of 118.8Mt based on 682ha of the total 17,500ha concession area. The study does not include the upgrade to the Inferred Resource that was announced on 7 August 2012. The Inferred Resource was upgraded to 392.5Mt which was derived from a total area of~11% of the total concession area. Refer to the Initiating Coverage report for details regarding upgrades to resources.
- Given the initial area from which the initial Inferred Resource was derived, we believe that the Project area has the potential to reach the 2 billion+ tonne resource that the company has anticipated.

JORC Resource that the scoping study is based on.

Initial JORC Resource Estimate – December 2011

Classification	Split	Domain	Tonnes (Mt)	Heavy Mineral (%)	Contained Heavy Minerals (Mt)	Oversize (%)	Fines (%)
Inferred	Above Water Table	Gavel	23.2	8.7	2.0	49.9	2.6
		Sand	14.9	9.2	1.4	9.2	2.5
		Total	**38.1**	**8.9**	**3.4**	**34.0**	**2.6**
	Below Water Table	Gravel	5.6	4.9	0.3	61.6	3.2
		Sand	75.1	4.1	3.1	4.9	6.9
		Total	**80.7**	**4.2**	**3.4**	**8.8**	**6.6**
	Above & Below Water Table	**Total**	**118.8**	**5.7**	**6.7**	**16.9**	**5.3**

MINING & PROCESSING

- The scoping study has determined that mining will take place in two stages, with stage 2 commencing four years after the completion of stage 1. Each stage assumes a mining rate of 25Mtpa, with a total mining rate of 50Mtpa at the completion of stage 2.
- A standard dredging operation is expected to be used which incorporates four bucket ladder dredges with a total capacity of 50Mtpa and a pumping system that delivers the dredged material through a pipeline to one of two floating mineral concentrators.
- From the mineral concentrators, the heavy mineral concentrate will be pumped in the form of a slurry to a mineral separation plant, which will produce the individual concentrate products - iron ore magnetite, andalusite, ilmenite, rutile and zircon.
- The below two tables shows the expected design parameters of the two processes - (1) the wet concentrator process to produce the heavy mineral concentrate in the form of a slurry; and (2) the mineral separation plant process.

Wet Concentrator Process			
Criteria	**Units**	**Stage 1**	**Stage 2**
Mining			
Utilisation	%	85.0	85.0
Mining Rate	Mt/pa	25.0	25.0
Mining Rate	t/h	3,358	3,358
Oversize	%	11.0	11.2
Mining Slime Grade	%	3.0	3.1
HM Grade	%	5.2	5.4
Wet Concentrator Plant (WCP)			
Plant		1	2
Utilisation	%	85.0	85.0
WCP Spiral Feed Rate	Mt/pa	22.2	22.2
WCP Spiral Feed Rate	t/h	2,987	2,987
HM Recovery	%	70.0	70.0
HMC Grade	%	90.0	90.0
HMC Production	t/h	136.7	141.1

Mineral Separation Plant (MSP) Process			
Criteria	**Units**	**Stage 1**	**Stage 2**
Plant		1	2
Utilisation	%	90.0	90.0
HMC Feed Rate	kt/pa	1,018	1,050
HMC Feed Rate	t/h	129.1	133.2
Gold Concentrate	kg/h	1	1
Magnetite	t/h	26.3	27.1
Non-Magnetite Concentrate	t/h	1.4	1.4
Rutile	t/h	4.1	4.2
Ilmenite	t/h	3.3	3.4
Zircon	t/h	12.7	13.1
Final Tailings	t/h	81.3	84.0

MARIELA PROJECT (100%)

- On 16 October the company released preliminary drill results at the Mariela Project. Significant intersections of iron mineralisation were identified.
- 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 Banakable Feasibility Study or to a toal spend of US$35M.
- Five holes have been completed for 3,961.5m with a further five holes currently being drilled. The company has received initial results from two of the five holes drilled, the most significant of which was hole MA-02 in which 227.15m was drilled at a grade of 37.2%Fe, including 27.4m at 55.7%Fe. Sampling at both holes is incomplete.

Intersections from Hole MA-02 (15%Fe Cut-Off)

Hole Number	From (m)	To (m)	Intersection (m)	Total Fe (%)
MA-02	0.00	280.30	280.30	No Asssays
MA-02	290.40	295.60	5.20	20.7
MA-02	301.00	306.60	5.60	17.5
MA-02	306.60	310.60	4.00	No Asssays
MA-02	316.90	527.20	210.30	No Asssays
MA-02	528.10	534.90	6.80	23.7
MA-02	536.90	540.60	3.70	No Asssays
MA-02	542.60	769.75	227.15	37.2
including	542.60	596.40	53.8	34.0
	596.40	637.40	41.0	45.1
	637.40	714.60	77.2	33.0
	714.60	742.00	27.4	55.7
	742.00	769.75	27.75	25.2
MA-02	769.75	799.05 eoh	29.30	No Asssays

- Intersections from the two holes thus far suggests high grade iron ore at the Mariela Project. Iron ore grades at the first hole (MA-02) ranged from 17.5%Fe to 45.1%Fe and grades at the second hole (MA-04) ranged from 17%Fe to 51.6%Fe.

VALUATION OF LRS

- We have amended the valuation methodology for the Guadalupito Project. We have used a discounted cash flow methodology based on the expected costs and production rate outlined in the scoping study. We acknowledge that the costs associated with the Project running at a mine rate of 25Mtpa for stage 1 and 50Mtpa on completion of stage 2 may vary. Therefore we have provided a sensitivity analysis on the cost inputs for the Project to show the impact that a change in the expected costs will have on the value of the Project. The change in the valuation methodology for the Guadalupito Project has resulted in a revision to the valuation derived in the Initiating Coverage report released in August 2012.
- We have retained the same valuation methodology for the Mariela and Ilo Iron Ore Projects.
- Given the Guadalupito Project is not expected to commence for several years we have used long-term price assumptions to determine the NPV of the Project as opposed to current commodity prices. The commodity price inputs are detailed below.

Commodity Price Assumptions	
Iron Ore Magnetite (US$/t)	120
Gold (US$/oz)	1,600
Zircon (US$/t)	1,500
Ilmenite (US$/t)	350
Andalusite (US$/t)	250
Rutile (US$/t)	1,500
AUD/USD	0.95

- The mine life is expected to be in excess of 50 years, however, due to the diminishing impact of discounted cashflows we have run the model over a 20 year period. We have assumed a weighted average capital cost (WACC) of 10%.
- We have assumed that the Project will be equity funded, with the company entering into a JV (50/50) to complete the Project. To earn an interest in the Project we have assumed that the JV partner will pay the company $80M cash (2x the expected Project spend). The company will have to raise additional equity to fund stage 1 of their portion of the capital costs. We have assumed that the company will raise capital through an issue of 92M shares at $0.25. The pricing and number of shares will of course depend on the share price.
- We have applied a 60% discount rate to the value of the Project given the Inferred nature of the JORC resource. As the JORC category is upgraded, this discount will be reduced.
- The following tables detail the cost inputs used in the valuation model. We note, there is a large contingency allocation in the capital expenditure. This may be reduced as more definitive studies are completed.

Capital Expenditure Assumptions (US$M)			
	Stage 1	**Stage 2**	**Total**
Mining	58.6	58.6	117.2
Wet Concentrator Plant (WCP)	46.5	46.5	93.0
Mineral Separation Plant (MSP)	54.0	54.0	108.0
Services & Utilities	26.6	14.0	40.6
Infrastructure	19.0	0.0	19.0
Other Equipment	7.7	2.6	10.3
Indirect Costs	43.1	31.7	74.8
Contingencies	88.5	72.1	160.6
Total	**344.0**	**279.5**	**623.5**

Operating Expenditure Assumptions (US$/M)			
	Stage 1 (US$/t)	**Stage 2 (US$/t)**	**Total (US$/t)**
Mining	0.59	0.55	0.57
Processing	0.52	0.48	0.50
G&A	0.13	0.06	0.10
Transport & Shipping	0.09	0.09	0.09
Total	**1.33**	**1.18**	**1.26**

Note: The above tables illustrate the total spend for the Project. We have assumed that LRS will enter into a 50/50 JV which means LRS will only incur 50% of these costs.

VALUATION

	$/per share
Guadalupito Project:	
Valuation (50% Interest)	$1.31
Valuation - 60% discount	***$0.52***
Mariela Project	$0.06
Ilo Project	$0.02
Fair Value	**$0.60**

- The valuation is based on the current number of ordinary shares on issue. We expect the company will have to do a capital raising to develop the Guadalupito Project. Our model assumes the company will have to raise US$92M to satisfy their share of the initial capital expenditure. We expect the company will likely raise the capital through the issue of shares which will result in the dilution of current shareholders positions.

GUADALUPITO PROJECT SENSITIVITY ANALYSIS

- The valuation for the Guadalupito Project is based on the cost assumptions provided in the scoping study. These costs are subject to a variation of +/-35%. Therefore we have run the model with the increased and decreased cost assumptions to show the impact on the valuation.
- The combined increase and decrease in capital and operating costs has a significant impact on the valuation.

Sensitivity Analysis			
	Base Case	**+35%**	**-35%**
Capital Expenditure (US$M)	623.5	841.7	405.3
Operating Expenditure (US$/t)	1.26	1.70	0.80
Impact on NPV (% Change)	***0.0***	***-40.4***	***+42.3***

PEER ANALYSIS

- The company's operating costs are low when compared to its peers at US$1.26/t at the completion of stage 2, however the capital cost of developing the Guadalupito Project is higher than it's peers.
- The company will be running an operation similar in size and nature to Mineral Deposits at the Grande Cote Project with a mine feed of 50Mt/pa. LRS's expected operating costs are lower, however the capital expenditure is greater. The difference in capital expenditure can be partially attributed to the different locations in which the companies will be operating - Senegal vs. Peru.

Company	Country	Capex Cost (US$M)	Project	Resource (Mt)	OpEx (US$/t)	Mine Feed (Mt/pa)
Mineral Deposits	Senegal	406.0	Grande Cote Project	1,030	1.60	50
Base Resources Limited	Kenya	298.0	Kwale Project	146	5.09	10
World Titanium Resources	Madagascar	200.0	Ranobe Mine Project	1,400	2.50	10
Latin Resources Limited	Peru	623.5	Guadalupito Project	119	1.26	50
Matilda Zircon Limited	Australia	32.0	Keysbrook Project	66	3.30	10

Note: The LRS operating cost is based on a target of in excess of 2B tonnes. The tonnage and Heavy Mineral grade was based on the initial JORC Resource Estimate of 119Mt. The company has upgraded the JORC Resource estimate since the release of the initial JORC Resource.

INVESTMENT CASE

- The company has 100% interest in a significant mineral sands asset - the Guadalupito Project. A scoping study was recently completed which concluded that a low cost heavy mineral sands operation is viable at the Project site. The company expects to produce a high grade iron magnetite which will likely attract a premium to the iron ore spot price as well as zircon and rutile, two highly valued commodities.
- The demand for mineral sands products are highly leveraged to GDP growth and urbanisation. Therefore, the company is leveraged to growth in developing nations, particularly developing Asia, with China currently a large cosumer of mineral sands commodities.
- The company recently released preliminary drill results from the Mariela Project, which intersected high grade iron ore. The company is free-carried through to a Bankable Feasibility Study (BFS) or to the spend of up to US$35M by the Junefield Group. The company's interest will be reduced to 30% as a result, however LRS have no capital committment until the Junefield Group progress the Project to the development phase.

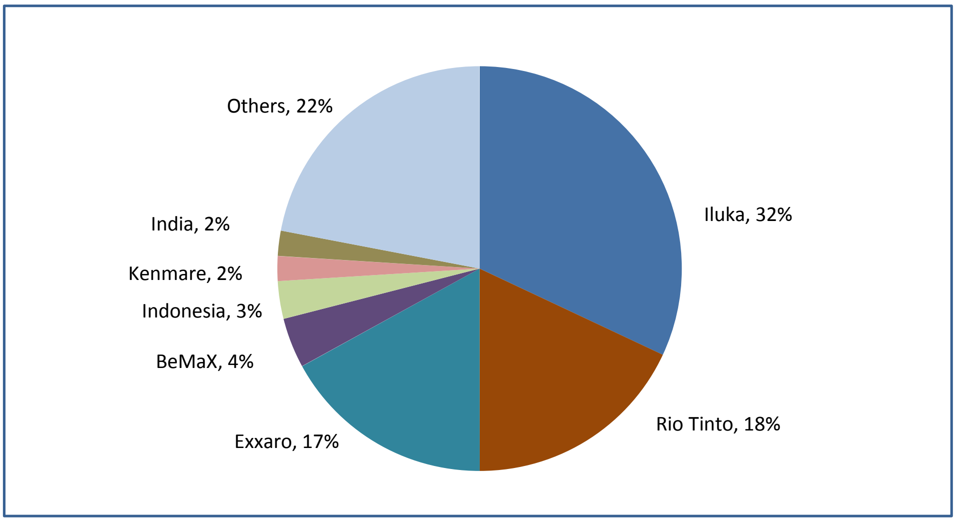
MINERAL SANDS MARKET

Mineral Sands consists of two core product streams - zircon and titanium dioxide minerals (rutile and ilmenite). We provide additional information regarding these two products below.

ZIRCON

- Zircon production is concentrated with three companies accounting for 67% of zircon production in 2010.

Major Zircon Producers - 2010



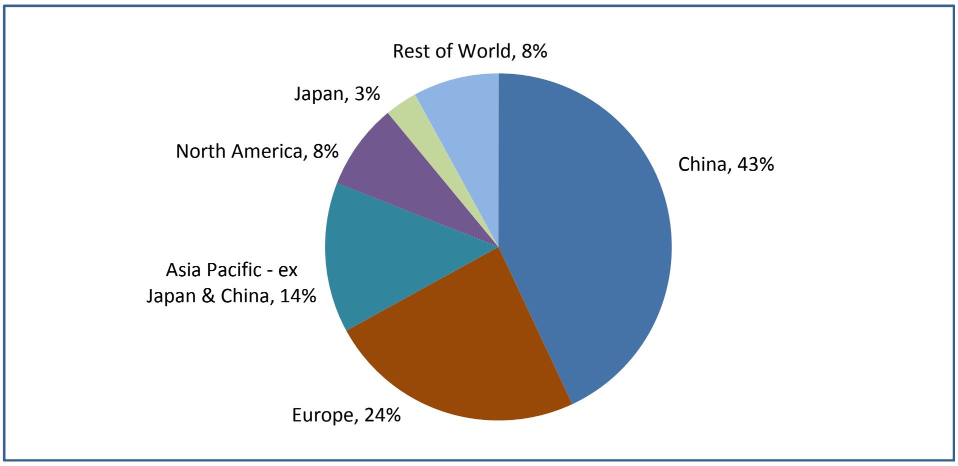
Source: Iluka Resources

- In 2010, 1.4Mt of zircon was produced, this is up from 1Mt in 2009. Australia is the largest producer of zircon, producing 41% of global zircon in 2010. South Africa is the second largest producer.

Country	%
Australia	41%
South Africa	29%
USA	7%
Indonesia	3%
Other	20%

- Given the uses of zircon (ceramics, tiles, sanitary ware) demand is linked to GDP growth and urbanisation. As a result, developing Asia, in particular China, has driven demand for zircon in recent years. The high GDP growth coupled with the urbanisation targets of the Chinese government have resulted in China consuming a large amount of zircon. Demand for zircon has been greater than supply, which has resulted in a significant price increase. Given new mines under consideration and development and the modearted growth assumptions in the developing Asia region, the price will likely moderate over the medium-term. However, Iluka Resources sees zircon demand outpacing supply over the long-term even with the introduction of additional supply from new mines in a low demand scenario (3% CAGR). While there may be price volatility, over the long-term the demand/supply dynamics of the market should result in zircon prices remaining elevated.

Consumption By Region

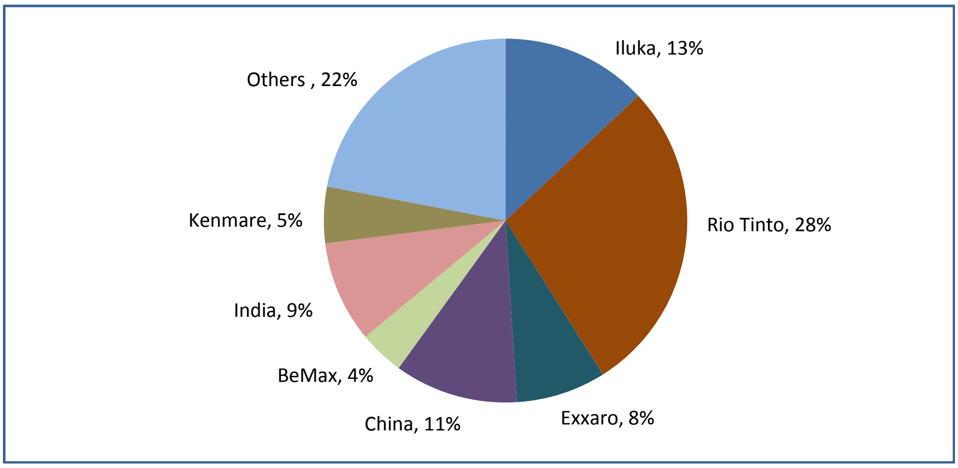


Source: Iluka Resources

TITANIUM DIOXIDE MINERALS

- Titanium dioxide minerals include rutile and ilmenite, which LRS will be producing. These minerals are primarily used as feedstock for titanium dioxide pigment. Titanium dioxide pigment is commonly used in paints and coatings, plastics, paper, ink and textiles. Titanium dioxide can also be used in foodstuffs, pharmaceuticals and cosmetics.
- Titanium dioxide production is less concentrated than zircon production but still heavily concentrated with the top three producers accounting for more than 50% of global production. A total of 6.4Mt (rutile & ilmenite) was produced in 2010, this was up from the 5.8Mt produced in 2009. According to US Geological Survey (USGS) statistics, from 2000 to 2010, production of rutile and ilmenite has grown at a CAGR of 3.1%.

Major Producers of Titanium Dioxide Pigment (2010)



Source: Iluka Resources

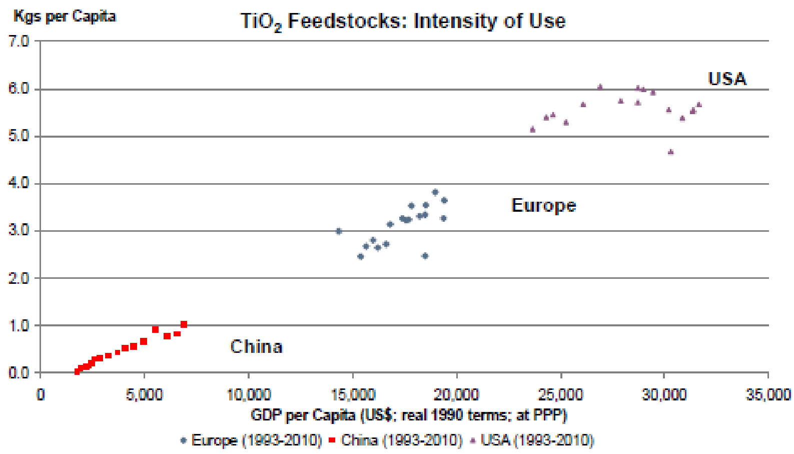
- The consumption of titanium dioxide pigment is also more diversified than that of zircon. Europe is the largest consumer of titanium dioxide pigment consuming 28% of the minerals, followed by China (22%) and North America (18%).

Consumption by Region

Region	%
Europe	28.0
China	22.0
North America	18.0
Asia Pacific (ex Japan & China)	14.0
Central & South America	8.0
Middle East & Africa	6.0
Japan	4.0

Source: Iluka Resources

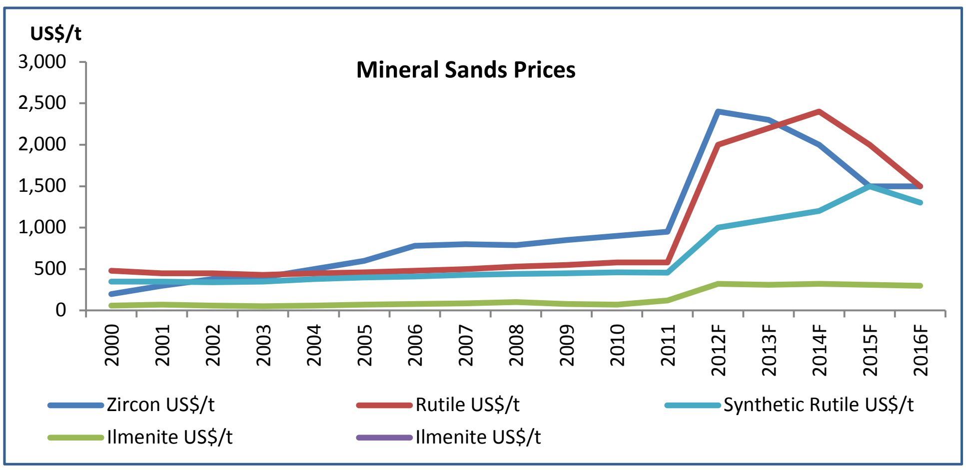
- The growth of the market is linked to GDP growth. An Iluka Resources presentation in November 2011, included the titanium dioxide pigment demand per capita across US, Europe and China. The results show that the US is the biggest consumer of pigment per capita, with China being significantly lower at 1kg per person in 2010, although this has increased from 1993 to 2010. The use of pigment in China and other developing nations is expected to grow with economic growth and rising living standards. If pigment use grew to levels of Europe, this would be a significant increase in demand for the product.



Source: Iluka Resources

COMMODITY PRICES

- Mineral Sands commodity prices have escalated substantially in recent years, in particular zircon and rutile, as detailed in the below graphic.
- Zircon and rutile have become valuable commodities, with the average price forecast to jump 153% and 245%, respectively, from 2011 to 2012. It is expected that in the long-term these prices will moderate to some extent, although remain elevated compared to levels prior to 2011.



Source: Iluka Price Updates/IIR

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