

## LRS.AU

## Latin Resources Limited

A\$ 0.220

6 December 2011  
Iron Ore, Gold, Mineral Sands, Copper  
Peru  
Scoping Study, Mid Exploration  
Exchanges: ASX:LRS

**The proposed A\$8.4m Chinese investment in LRS at A\$0.28/share (51% premium to closing price) and exploration farm-in is a major statement of confidence in LRS's 2013 magnetite/gold/minerals sands production aspirations and exploration upside in Peru.**

## Capital Profile

|  |              |
|--|--------------|
| Share price (A\$)  | 0.220        |
| 52 week range (A\$/share)  | 0.14 to 0.44 |
| Number of shares (m)   | 159.8        |
| Number of options (m)  | 55.9         |
| Convertible notes (m)  | 0            |
| Number of securities (fully diluted, m)  | 215.7        |
| Market capitalisation (undiluted, A\$m)  | 35.2         |
| Debt (A\$m) - Dec 11F  | 0.0          |
| Enterprise value (A\$m)  | 30.6         |
| Major shareholders: Cape Lambert Resources (14.1%), Directors and Assoc (12.4%), RMB Resources (First Rand Bank) (4.6%). |              |
| Avg monthly volume (m)   | 1.1.65       |
| Cash (A\$m) - Dec 11F*   | 4.6          |
| Price/Cash (x)   | 7.6          |
| Price/Book (x)   | 4.5          |
| Listed company options:  | LRSO         |

\*Forecast cash will be A\$9.8m in Jan '11 assuming placement completed.

## Investment Points

Mineral exploration and development company based in Peru, focused on iron ore (skarn and placer deposits).

**Guadalupito Project: 2 billion tonne target, magnetite-rich iron mineral sands 10.4% H.M. with 17.4% in sand fraction and 0.55g/t Au in undersize (potential 1moz).**

Guadalupito now has a production focus - maiden JORC resource and Scoping Study due soon, potential production 2013 (10mtpa Stage 1) magnetite and gold.

Now cashed up - Chinese group investing A\$8.4m @ A\$0.28/share for 16.8% plus farming into exploration tenements with potential A\$35m spend.

Iron sands projects are simple, low cost: dry mine or dredge, screen, magnetic and gravity separation. Guadalupito 25km to port or iron smelter.

Ilo Norte: all 8 exploratory drill holes hit Fe/Cu mineralisation in coastal copper-iron belt. Drilling 1Q12.

Mariela, Dylan, large scale mag anomalies (IOCG potential) - Chinese farm-in expenditure up to A\$35m.



## Production and Financial Forecasts

| YEAR END: June                           | Sep-11a | Dec-11F | 2011a | 2012F  | 2013F  |
|--|---------|---------|-------|--------|--------|
| Exploration and evaluation (A\$m)        | 1.31    | 1.20    | 3.49  | 4.91   | 4.80   |
| Corporate (A\$m)                         | 0.68    | 0.30    | 1.79  | 1.68   | 1.40   |
| Exploration/(Expl.+ Corporate) (%)       | 66      | 80      | 66    | 75     | 77     |
| Funding duration at current burn (years) |         |         | 0.6   | 1.0    | 1.3    |
| Shares on issue (pr end) (m shares)      | 149.8   | 159.8   | 148.1 | 179.8  | 208.4  |
| Drilling - RAB (m)**                     | 2,300   | 2,300   | 0     | 11,900 | 20,000 |
| Drilling - Other/Diamond (m)**           | 0       | 2,700   | 4,040 | 15,400 | 50,000 |
| Land holding ('000 ha)                   | 126     | 126     | 126   | 126    | 126    |
| Tenement costs (\$k per year)            | -       | -       | -     | -      | -      |
| Capital raisings (A\$m)                  | 0.44    | 4.20    | 11.58 | 10.24  | 8.00   |
| Funding from JV partners (A\$m)          | 0.0     | 0.0     | 0.0   | 0.0    | 0.0    |
| Cash (A\$m)                              | 2.1     | 4.6     | 3.3   | 6.7    | 7.9    |
| Cash backing (Ac/share)                  | 1.4     | 2.9     | 2.2   | 3.8    | 3.8    |
| Net asset backing (Ac/share)             | 2.7     | 4.9     | 2.3   | 6.9    | 8.8    |

\*\* All drilling metres are RCR estimates.

Quarters stated on calendar year basis.

## Company Comment

**Overview:** LRS listed on the ASX Sep '10. LRS is focused on exploration and development of its portfolio of iron, gold and iron mineral sands projects in Peru, where it has been active for over 3 years and spent >A\$8m to date. Assets are close to infrastructure, including road and port.

**Chinese Investment:** LRS has recently announced that a subsidiary of the significant Chinese diversified group, Junefield Group, will take up a 16.8% stake in LRS in two tranches (2<sup>nd</sup> tranche subject to LRS shareholder approval) through taking a share placement at A\$0.28/share (plus 1:3 free A\$0.30 option). The Junefield Group is also farming in to the Mariela and Dylan tenements by paying A\$1.4m up front and expenditure of up to A\$35m (or completion of BFS) to earn 70%. Significantly, Junefield is already on the ground in Peru, having interests including exploration tenements and an active exploration team. This is a credibility boost for LRS's Peruvian production and exploration targets.

**Guadalupito Project (100%, Multi Commodity - Fe, Au, mineral sands):** 160 km<sup>2</sup> project area located 200km N of Lima. Purchase price of US\$20m payable in instalments over 10 years (plus 1% NSR) with payments loaded towards back end. Based on sediments identified over 60km<sup>2</sup> to a depth of 20m (indicated from initial drilling), LRS has generated an exploration target of 2-2.6bt mineralised sand, including potential 1moz of gold (based on 0.55g/t grades in fine -52µ fraction), which could be a huge boost to project economics. Average 10.4% total heavy mineral content, 17.4% in the sand fraction.

**Mineralogical test results** show liberated clean grains which result in low cost processing and concentrates at 63.5-64% Fe and encouragingly low 5% TiO<sub>2</sub> from gravity and magnetic separation. Guadalupito is mineralised from surface and it is located 25km from an iron smelter and port via sealed highway. **Maiden JORC Resource:** After recently completing a 68 hole sonic drill campaign (most holes >20m depth) and sampling 883x1m deep pits over an initial 3km<sup>2</sup> area, LRS has engaged Snowden to establish an initial 'proof of concept' JORC resource. This maiden JORC resource is imminent. **Scoping Study Underway:** The Ausenco Scoping Study fast-track (Stage 1) production is underway, expected to be complete in 1Q12. Stage 1 is based on simple low cost dry mining, magnetic and gravity separation treating 10mtpa to produce a 62% Fe concentrate and separate gold and zircon concentrate. Stage 2 is envisaged to ramp up to 35mtpa with a dredging operation and wet concentrator to produce discrete zircon and TiO<sub>2</sub> concentrates as well as magnetite and gold concs. We expect Stage 1 will move to PFS in early 2012. LRS is targeting first production from Stage 1 in 2013.

**Ilo Projects - Ilo Norte (100%, Fe, Cu, Au, Zn):** Eight recent exploratory drill holes targeting magnetic anomalies over 1.25km strike and 400m wide, potential thickness 250m, intersected Fe and Cu with the best results 120m from 24m @ 0.13% Cu, 20.38% Fe. The mineralisation is open to the north, south and east. Anomalous Au and Cu were intersected indicating the possibility of copper-gold target. **Mariela** is high amplitude, covered magnetic anomaly target over a 3km by 1km area, 30-200m thick under 30-100m of cover. A gravity survey to generate drill targets is underway, expect drilling 1Q12. Option on adjacent two **Dylan concessions** (which contains extension to anomaly) recently taken up - total staged payments US\$6m for each, with minimal (US\$1.4m) payment required in next 2.5 years.

**Investment comment:** We think that the proposed Chinese investment in LRS at a significant premium to recent share price, and the big expenditure commitment to farm in to Mariela and Dylan, is a major statement of confidence in the medium term iron sands production potential at Guadalupito and the exploration potential for further major Fe/Cu deposits at Mariela and Dylan. The Chinese Group has already a significant exploration presence in Peru, so their value judgement regarding LRS should be reasonably sound. **With a strong near term newsflow (including Guadalupito JORC resource and Scoping Study) and increasing production focus and cash to drive it, we think the market will awaken to the value the Chinese see, hence our A\$035 share price target in the next 6 months.**

## Reserves and Resources/Mineralised Material

Code for reporting mineral resources - Australian: (JORC)

| Iron (Fe)   | Classification | Project | Ore | Fe | Cut Off | Fe  | Fe Equity |
|---|----------------|---------|-----|----|---------|-----|-----------|
|   |                | Equity  | mt  | %  | %       | mt  | mt        |
| <b>Reserves</b>   |                |         |     |    |         | 0.0 | 0.0       |
| <b>Resources *</b>  |                |         |     |    |         | 0.0 | 0.0       |
| <b>Mineralised Material (est., non compliant with JORC)</b> |                |         |     |    |         | 0.0 | 0.0       |

\* Release of initial JORC resource for Guadalupito is expected late 4Q11 or early 1Q12

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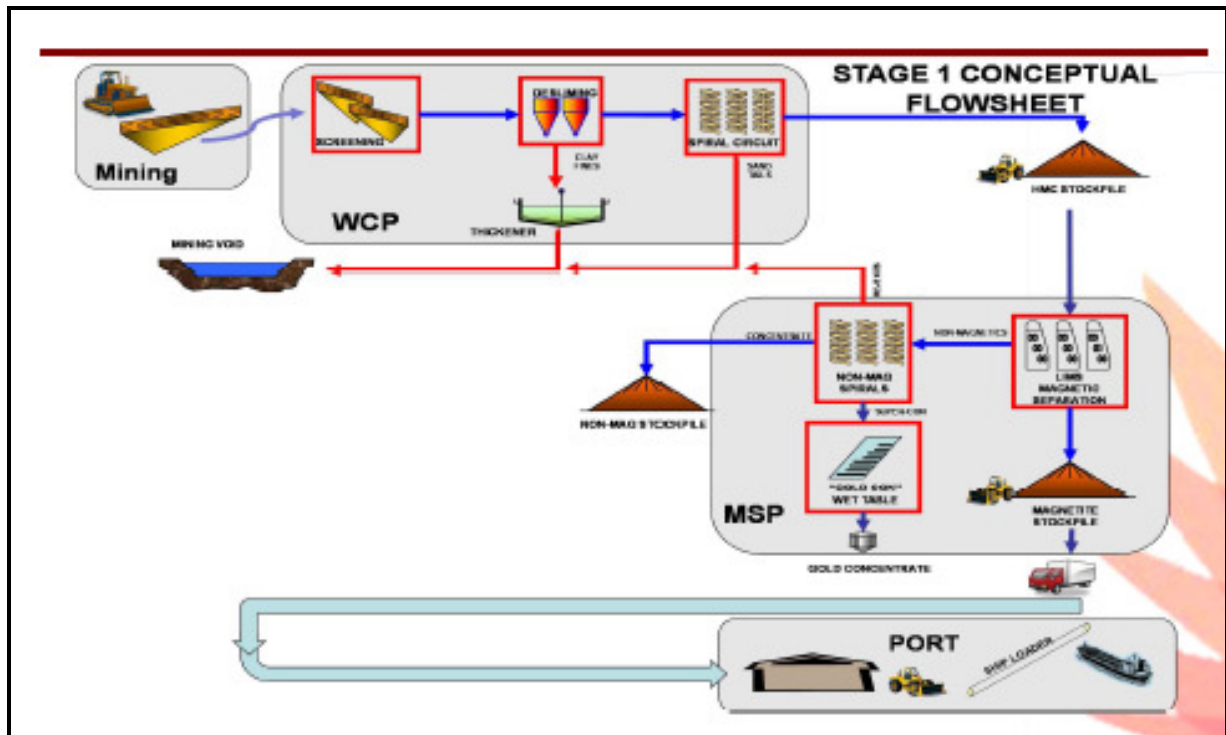
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## Key Projects

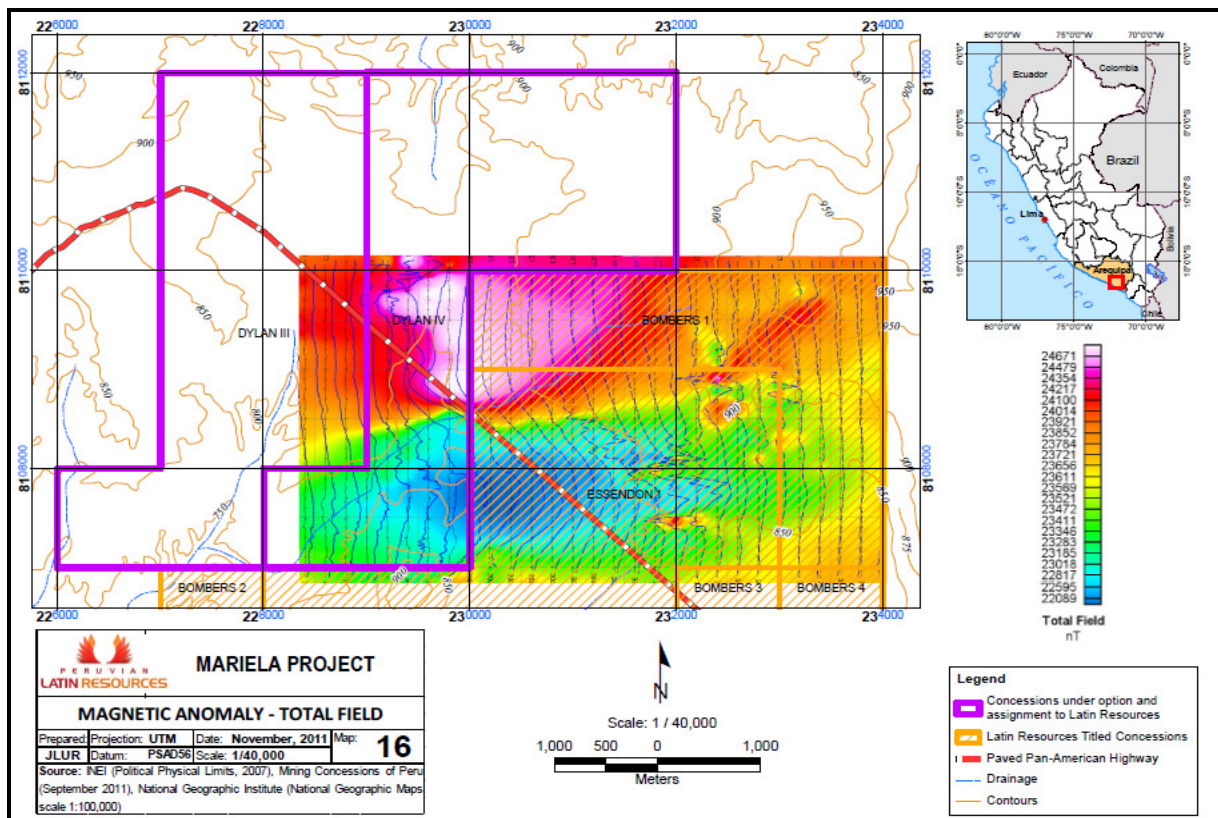
| Project            | Ownership/Option | Metal        | JV Partner | Target Type | Process Route | Project Status | Location |
|--------------------|------------------|--------------|------------|-------------|---------------|----------------|----------|
| Guadalupito        | 100%             | Fe,Au, Zr,Ti | na         | Sands       | na            | Mid Expl       | Peru     |
| Ilo Norte, Ilo Sur | 100%             | Fe,Cu,Zn     | na         | Skarn       | na            | Mid Expl       | Peru     |
| Mariela*           | 100%/30%         | Fe (Cu,Au)   | Junefield  | IOCG        | na            | Early Expl     | Peru     |
| Dylan*             | 100%/30%         | Fe (Cu,Au)   | Junefield  | IOCG        | na            | Early Expl     | Peru     |

\* Junefield Group (China) spending up to A\$35m (or completing BFS) to earn up to 70% of Mariela and Dylan projects.

Guadalupito Project - exploration target of 2bt mineralised sand over 60km<sup>2</sup> to a depth of 20m. Scoping Study and maiden JORC resource are imminent. Scoping Study likely to progress to PFS in 1H12 for 10mtpa (Stage1) dry surface mining operation – potential production of magnetite and gold concentrates in 2013.



The Mariela high amplitude covered magnetic anomaly target covers a 3km by 1km area, potentially 30-200m thick, and trends into the recently optioned Dylan concessions. The potential of these IOCG Fe/Cu prospects has attracted the focus of Junefield with the proposed A\$35m farm-in to earn up to 70%.



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