

**Herencia Resources plc  
("Herencia" or "the Company")**

**Operational Update  
Proposed Fundamental Change of Business  
Related Party Transaction  
Working Capital Update**

The Company is pleased to provide an update as follows:

**Conditional Binding Joint Venture Term Sheet/Proposed Fundamental Disposal**

The Company is pleased to announce the signing of a binding Term Sheet ("Term Sheet" or "Agreement") with Next Minerals ("Next"), a private Chilean mining company, pursuant to which Next can "earn-in" to a joint venture arrangement in respect of the Company's Picachos copper project (further details of the Company's Picachos project are set out below) and the Pastizal project where the Company is expecting to sign an option agreement with the owner shortly. At its election, Next can ultimately acquire 100% of Picachos and Pastizal. The Agreement is conditional on, *inter alia*, shareholder approval and Next finalising their current due diligence.

The Agreement will allow Next to earn into a joint venture arrangement with a series of cash payments to Herencia and additional funds, paid directly into the Joint Venture, which will be used to advance both the Picachos and Pastizal Projects in Chile.

The key terms of the binding Agreement are as follows:

- Conditional on the consent of shareholders of Herencia, to be given at a general meeting of the Company which will be convened shortly;
- Conditional on a three (3) month due diligence process ("DD") during which Next will meet most of Herencia's in-country operational expenses on the Picachos project and the Herencia team will assist with the due diligence process
- Upon successful completion of their DD process, Next will immediately pay Herencia US\$2 million no later than 30 April 2016 and spend up to US\$2 million over a 15 month period, to earn a 70% share in the Picachos and Pastizal Projects.
- After 6 months, Next can elect to pay Herencia a further US\$625,000 cash to acquire an additional 7.5% of the project (increasing their stake to 77.5% of Picachos and Pastizal)
- After a further 9 months, Next can elect to pay Herencia a further \$2.5 million to acquire 100% of the Picachos and Pastizal Projects
- If Next make the initial payments, but do not take up these additional amounts then the project will be operated as a joint venture with Herencia.

Should Next elect to acquire the full 100% interest in the Picachos and Pastizal Projects, the total consideration payable under the agreement to Herencia is US\$5.125 million (approximately £3.6 million).

Herencia will also undertake to provide Next with a revised Picachos Option Agreement and will undertake to sign a formal Pastizal Option Agreement, which was placed on hold whilst these latest negotiations were concluded.

The Directors believe that this proposal represents a positive development for the Company, and assuming the transaction proceeds it intends to use the proceeds of the disposal to assist with development work on the Company's existing projects; for working capital purposes and to assess current and new opportunities for the Company. Picachos does not represent all or substantially all of Herencia's activities or assets, so that in the event that Next ultimately acquire 100% of Picachos, Herencia will initially focus its efforts on developing its other key assets – Paguanta and Guamanga, in addition to exploring other opportunities in the natural resources sector.

Picachos has no turnover, and a current book value of £1.36m (as at 30 June 2015) although the directors believe the actual value to be substantially higher. In addition, Herencia holds an option to acquire Pastizal, which has no turnover and currently has no book value.

The transaction is a proposed fundamental change of business pursuant to AIM Rule 15 and accordingly is conditional on the consent of shareholders being given in a general meeting of the Company. A circular containing, *inter alia*, details of the proposed disposal and convening a general meeting of shareholders of the Company will be dispatched shortly, and a further announcement will be made at that time.

### **Potential Joint Venture Partners**

As announced in an RNS dated 3 August 2015, Herencia Resources (Chile) S.A. (a 100% subsidiary of Herencia Resources plc) signed a non-binding MoU with established Chilean copper producer, the Errazuriz Group. The Errazuriz Group owns and operates the nearby Tambillos copper project. The Tambillos due diligence work in relation to a possible Joint Venture with this Group, has been completed but in light of more recent developments, will now not be progressed.

### **Bridging Debt Facility to be Provided by Directors**

On 6 January 2016 the Directors collectively provided a loan (the "Loan") of up to £100k to the Company. To date £60k has been drawn, with £30,000 being advanced by John Russell, a non-executive director of the Company and £30,000 being advanced by John Moore, the non-executive Chairman of the Company. A further £25k is being advanced by Graeme Sloan, a director of the Company, to be paid within the next 7 days. The Loan is unsecured and non-interest bearing, it is repayable within 6 months and can be extended if required. The money has been advanced for working capital purposes.

This is a transaction that constitutes a related party transaction under AIM Rule 13 of the AIM Rules for Companies. In the absence of any independent directors, the Company's nominated adviser, WH Ireland Limited, consider that the terms of the loan are fair and reasonable insofar as the Company's shareholders are concerned

### **Cost Reduction Program**

The Company has also undertaken a comprehensive cost reduction program across all aspects of its business including the Corporate and Chilean business centres. The cost reduction measures include salaries of the Non-Executive Directors and the Managing Director which have been reduced by 45%. In addition, staff numbers have been reduced and a number of other cost saving measures undertaken.

The directors believe the reduction in Director and Management costs demonstrates the Companies desire to see shareholder funds being used to provide additional time to secure the best possible agreement for shareholders.

### **Working Capital Position**

Notwithstanding the cost cutting measures the Company has put in place, its working capital position is constrained and the directors believe that its current working capital position is sufficient to meet operating costs for approximately one month. However, the Company has a number of fundraising options it is negotiating and it expects to be able to provide an update on these very shortly, although there can be no guarantee at this stage that any of these will be completed.

### **About the Picachos Project**

The Picachos Project is located approximately 50km south of the coastal city of La Serena, 8km west of both the existing Andacollo copper-gold project operated by Teck Resources and the mining town of Andacollo (population approximately 10,000 people), and 10km south of the privately owned Tambillos copper mine. The Project is very well

positioned for infrastructure with existing high voltage power located approximately 3km east of the Project area and serviced by two all-weather access roads.

A review of available data and recent site visits have identified up to six separate zones of mineralisation. In some areas the close relationship of these zones coupled with multiple occurrences of out-cropping wide zones of mineralisation, highlights the excellent potential for large scale open pit mining to take place at Picachos. Historic mining has focused mainly around the high grade structures, however in some areas the mantos has been mined up to 50m wide. Mineralisation generally commences from one to five metres below the surface and appears open at depth.

### **About Herencia**

Herencia Resources plc, is an AIM quoted exploration and development company operating in Chile. In addition to the Picachos Copper Project, the Company also has the Guamanga Copper Project and the 70% owned Paguanta Project, a high grade silver-zinc-lead project located in northern Chile. The Company's corporate office is located in Perth and the main technical and management office is located in Santiago, Chile where it has been operating for over eight years.

### **For further information please contact:**

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References in this announcement to exploration results and potential have been approved for release by Mr Graeme Sloan (BAppSc Mining Engineering WASM) who has more than 20 years relevant experience in the field of activity concerned. Mr Sloan is a Member of the Australasian Institute of Mining and Metallurgy. Mr Sloan has consented to the inclusion of the material in the form and context in which it appears.

***Further background details on the Company can be found at [www.herenciaresources.com](http://www.herenciaresources.com)***

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