



Herencia Resources PLC - HER Notice of GM
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Herencia Resources PLC
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Herencia Resources plc

("the Company")

Notice of General Meeting

Further to the announcement of 10 May 2016, the Company is pleased to announce that it has today dispatched a Notice of General Meeting seeking shareholder consent for the proposed disposal of Herencia's subsidiary Paguanta Resources (Chile) SA ("**PRC**"). PRC holds 70% of Compania Minera Paguanta S.A. ("**CMP**") which, in turn, wholly owns the Paguanta Project to Golden Rim Resources Limited.

This shareholder meeting will be held at One America Square, Crosswall, London EC3N 2SG, on 3 June 2016 at 3 pm. These documents are also available on Herencia's website (www.herenciaresources.com).

Introduction and Background to the Disposal

The Company announced on 10 May 2016 that it had signed a conditional Term Sheet with Golden Rim Resources Limited, a public company listed on the Australian Securities Exchange, to acquire the Company's subsidiary Paguanta Resources (Chile) SA. Paguanta Resources holds 70% of Compania Minera Paguanta S.A. which, in turn, wholly owns the Paguanta Project.

The Agreement is conditional upon several condition precedents including, inter alia, successful due diligence by GMR, and both parties obtaining all necessary consents and approvals. It is agreed that the parties will negotiate in good faith to enter into a formal agreements within 28 days (or such later date as may be agreed by the parties in writing), otherwise the agreement will terminate.

The transaction as proposed is viewed as a 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.

The Disposal

About the Paguanta Project

The Paguanta project is located in the north of Chile approximately 190 kilometres north-east of the coastal city of Iquique and 30 kilometres west of the Chile-Bolivia border. It is on the north end of the Oligocene Porphyry Copper Belt of Chile that includes the world class deposits of Escondida, Chuquicamata, Collahuasi and Cerro Colorado. Cerro Colorado is a large operating copper mine, operated by BHP Billiton, and is located approximately 35 kilometres south of the Paguanta project.

Reasons for the Disposal

The key reasons for the Disposal of the Paguanta project can be attributed to the current poor state of the global markets, falling commodity prices, both of which have restricted the Company's ability to raise sufficient funds to meet ongoing expenditure and to develop its projects. The Directors believe in the the Paguanta project remains, however the timing of the zinc price revival continues to frustrate the Company and given its requirement for funds the Board has resolved to divest of this asset. To this end, the Directors believe the Disposal is in the best interests of the Company and the Shareholders.

As part of the Company's cost management program, the Company has renegotiated payment terms for the Picachos option payment now due. The US\$290,000 option payment now due on the Picachos Licence will be paid in two tranches, Tranche 1 of US\$175,000 has been paid and a further US\$115,000 will be paid in approximately 3 weeks. The second payment is subject to the new Picachos Option payment terms being ratified by the court notary. A further announcement will be made shortly to advise shareholders of the new agreement being ratified along with the new terms.

With the revised Picachos Option payment schedule and Tranche 1 Deposit, referred to below, from GMR the Company will have sufficient working capital to last until approximately the end of May 2016. There can be no guarantee that the Company will be able to continue to trade after that time.

If the Tranche 2 Deposit from GMR is drawn down from GMR the Company will have sufficient working capital to last until approximately the middle of June 2016. Further updates will be provided in due course.

The Company continues to explore other funding options and is currently in discussions with a number of other parties.

Financial effects of the Disposal and Profits attributable to Paguanta Resources

The Disposal of the Paguanta project will result in the Company disposing of 100% of Paguanta Resources, and therefore it's 70% in the Paguanta project. The proceeds from the sale will allow the Company to clear its balance sheet and provide ongoing working capital to focus on its remaining assets, such as Picachos. There are no profits or turnover attributable to Paguanta Resources and the current book value is £12.3 million.

Summary of the terms of the Disposal

The key terms of the transaction, subject to condition precedents, are as follows:

- The consideration for the sale and purchase of Paguanta Resources Shares, being free of any encumbrance.
 - A cash consideration of US\$1.5 million;
 - GMR will pay all taxes associated with the transaction not to exceed US\$50,000.
- GMR will agree to pay up to US\$2.1 million towards certain contingent liabilities.
- In addition, GMR will agree to issue (subject to obtaining all necessary approvals including shareholder approval) US\$800,000 worth of fully paid ordinary shares issued in the capital of GMR (Share Consideration) at a 20-Day VWAP upon GMR making a "decision to mine" at the Paguanta project within 5 years from completion of the transaction. If a "decision to mine" is not made within 5 years from the date of Completion, the Share Consideration will not be payable. A "decision to mine" is defined as "resolving to commence commercial mining operations over any of the area that is currently comprised of the Paguanta concessions".

From the execution of the Term Sheet, until the earlier of execution of the formal agreements or 28 days following, the Company will provide GMR an exclusivity period where it will not look to entertain offers from other parties for the Paguanta project. In consideration for the exclusivity period, GMR will agree to pay the Company a US\$220,000 deposit, payable as follows:

- (a) US\$120,000 payable immediately (Tranche 1 Deposit); and
- (b) US\$100,000 upon execution of the formal agreement (Tranche 2 Deposit).

Tranche 1 Deposit is only refundable to GMR if the proposed transaction is not completed for any reason other than as a result of the conditions precedent relating to GMR not being satisfied or waived (for example, if Herencia withdraws from the transaction). However, the Directors are not aware of any reason why the Tranche 1 Deposit would need to be refunded.

Tranche 2 Deposit is refundable to GMR if the proposed transaction is not completed for any reason other than as a result of the due diligence being unsuccessful or GMR Board approval is not forthcoming.

The conditions precedent to completion of the proposed transaction will be set out in the formal agreements. It is proposed that the transaction will be subject to a number of conditions precedent, including the following material ones:

- (a) GMR completing all commercial, operating, technical, taxation, legal and other due

- diligence to its satisfaction in its sole and absolute discretion;
- (b) GMR obtaining all necessary approvals (including shareholder approvals) under the Corporations Act 2001 and/or the ASX Listing Rules for the transaction; and
 - (c) the receipt of GMR board approval for the transaction.

Current trading and future prospects

Should shareholder approval be received for the Disposal and if the Disposal were to complete, the Company will receive US\$1.5 million in cash on completion. In this market, a Company with cash, zero debt, existing high class assets such as Picachos, La Serena and Guamanga, a strong established technical team and the potential for low operating costs mines, should provide current shareholders and new investors a strong investment opportunity, even at this time of low commodity prices and market uncertainty.

Application of Sale Proceeds

The Directors believe that this proposal represents a positive development for the Company. Assuming the transaction proceeds it intends to use the proceeds of the disposal to assess a number of new opportunities the Company has been reviewing and to assist with development work on the Company's existing projects; and for working capital purposes. The Paguanta project does not represent all or substantially all of Herencia's activities or assets so Herencia will initially focus its efforts on developing its other key assets - Picachos and Guamanga, in addition to exploring other opportunities in the natural resources sector within Chile.

General Meeting

The disposal amounts to a fundamental change of business in accordance with Rule 15 of the AIM Rules for Companies. As such it requires shareholder approval. A notice of General Meeting is included in the Circular.

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

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