



5 April 2018

## INCA SIGNS EXCLUSIVE EARN-IN OPTION WITH SOUTH32

**“RIQUEZA SEEMS CERTAIN TO RECEIVE A SIGNIFICANT RE-RATE”**

### HIGHLIGHTS: EXCLUSIVE OPTION AGREEMENT

- South32 funds US\$275,000 (**Funding Amount**) geophysical survey at Inca’s Greater Riqueza project (**Project or Riqueza**).
- Funding Amount covers Project-wide aeromagnetic, radiometric and digital terrain model survey inclusive of interpretation and target generation (**AMAG-RAD**).
- As consideration for Funding Amount, Inca grants South32:
  - An exclusive option to earn-in and acquire majority ownership of the Project on terms to be agreed (**Option 1**) and, if Option 1 is exercised but earn-in agreement not executed;
  - An exclusive option to match any other *bona fide* offer for Project or part thereof (**Option 2**).
- Inca and South32 agree key earn-in conditions and principles up front.

### HIGHLIGHTS: EARN-IN AGREEMENT PRINCIPLES

- Phase 1 Interest - South32 acquires 60% interest in Project in return for funding a program of work (**Phase 1 Funding**) over an agreed period (**Phase 1**).
- Phase 1 Funding and Phase 1 period to be agreed by both parties after AMAG-RAD survey and prior to commencement of the earn-in.
- Phase 2 Interest - South32 acquires additional 10% interest in Project in return for all additional project expenditure needed to complete Project pre-feasibility study (**Phase 2 Funding**).
- Technical committee formed at commencement of Phase 1 with equal representation from Inca and South32 (**Committee**). Committee to approve annual program of work and budget and, in event of a deadlock on approval, South32 has casting vote.
- Inca is the operator unless, at any time after completion of Phase 1 Funding, South32 elects to assume operatorship.
- Equity interest in the Project effected through South32 and Inca owning 70:30 equity interest respectively in a newly incorporated company on completion of Phase 2 Funding.



## THE INCA – SOUTH32 EXCLUSIVE OPTION AGREEMENT

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Inca Minerals Limited (**Inca** or the **Company**) and globally diversified metals and mining company South32 [ASX: S32] have entered into an exclusive option agreement (**EOA**) with respect to Inca's Greater Riqueza project in Peru. Riqueza hosts a large, intrusive-related zinc (Zn), silver (Ag), lead (Pb), gold (Au), copper (Cu) mineralised system covering approximately twenty-five square kilometres, occurring within a northwest-southeast trending economic Zn-Ag-Pb-Au-Cu mineral belt.

The EOA creates an exclusive arrangement between Inca and South32 concerning funding and execution of the AMAG-RAD survey at Riqueza but importantly, and indicative of the intentions of both companies, establishes agreed up-front principles and conditions for an earn-in joint venture agreement.

Under the EOA South32 will provide US\$275,000 to fund the AMAG-RAD geophysical survey over the entire Riqueza project area. In the lead up to the EOA Inca and South32 have worked well together and agreed the scope and nature of the 1,884 line-kilometre AMAG-RAD survey now scheduled to commence within 10 days. The entire survey including mobilisation, data capture, demobilisation and verification is estimated to take between 30 and 40 days to complete. Detailed interpretations, which include prioritised targeting, are estimated to take an additional 10 to 15 days.

The AMAG-RAD geophysical survey is well suited for intrusive related mineralisation. Its flight path and coverage takes into account the presence and orientation of Riqueza's mineralised features including the northeast-southwest trending Callancocha Structure, the east-west Uchpanga gossan, the east-west orientated intrusive stocks (and possible Cu-skarn), the northwest-southeast replacement veins of Humaspunco-Pinta and, *inter alia*, the north-south trending Alteration Ridge.

As consideration for the US\$275,000 Funding Amount Inca grants South32 an exclusive option to earn-in and acquire majority ownership of the Project (**Option 1**). Option 1 may be exercised within 30 business days of South32 receiving all results from the AMAG-RAD study. If Option 1 is exercised by South32 then, within a period of 90 days after the exercise notice, the two companies will negotiate an earn-in agreement (**EIA**) on the principles and terms which, under the EOA, have been agreed in advance by both companies (discussed below). The 90-day period may, if needed, be extended by mutual agreement.

If Option 1 is exercised but the EIA is not executed then Inca has granted South32 a second exclusive two-year option (**Option 2**). Option 2 grants South32 the right to match a *bona fide* offer from a third party for the Project or part thereof.

If Option 1 is not exercised, then Option 2 does not come into effect and the EOA terminates immediately without further obligation or cost to either party.

The EOA incentivises both companies to negotiate and execute the EIA with the advantage of not only knowing Inca's previous exploration results, but also the results of the AMAG-RAD geophysical survey and the targets generated therefrom.



## THE INCA – SOUTH32 EARN IN AGREEMENT

In executing the EOA, both Inca and South32 also sought to agree, in advance, on key conditions and principles that will form the basis for the earn-in agreement (**EIA**) between the two companies.

Principal among these is South32's acquisition of a 60% interest in the Project (**Phase 1 Interest**) if, during a specified period (**Phase 1**), it funds all agreed expenditure on the Project (**Phase 1 Funding**). The EIA is deliberately structured so that the Phase 1 timeframe, work program and Phase 1 Funding are to be agreed upon after the AMAG-RAD survey is completed and Option 1 exercised. In doing so both companies will negotiate the EIA with the advantage of knowing Riqueza's exploration history, the results and targets generated through the AMAG-RAD survey, and the extent to which Inca's current granted drill permit might be used.

At the commencement of Phase 1, the title to all Project tenements shall be transferred into a newly incorporated Peruvian company (**Project Company**). A condition precedent to the EIA is South32's satisfaction with the results of all technical, commercial and legal due diligence on the Project Company and its assets (inclusive of the Project tenements).

On completion of the Phase 1 Funding obligations, Inca and South32 will enter into a shareholders' agreement and South32 will acquire a 60% equity interest in the Project Company. South32 may then elect to acquire an additional 10% interest in the Project Company in a second phase (**Phase 2**) in return for funding all Project expenditure needed to conduct and complete a Project pre-feasibility study (**Phase 2 Funding**). On completion of the earlier of the Phase 1 Funding obligation (where South32 elects not to complete or defaults on the Phase 2 Funding obligation) or the Phase 2 Funding obligation, each company shall fund all further Project expenditure in proportion to their equity interest in the Project Company.



Above: Southerly aspect of Inca's Greater Riqueza Project area with the Uchpanga prospect in foreground and Alteration Ridge prospect in background.

Under the EIA a technical committee shall be formed at the commencement of Phase 1 with equal representation from both companies (**Committee**). The Committee will approve the annual program of work and related budget (**Annual Program** and **Annual Budget** respectively). In the event of a deadlock on such approval, South32 shall have the casting vote. Inca will act as operator in accordance with industry standards throughout Phase 1 and Phase 2 unless, at any time after meeting the Phase 1 Funding obligation, South32 elects to assume operatorship.



South32 may elect to withdraw on completion of each Annual Program and Annual Budget and, in the event of such withdrawal, or in the event of default on the Phase 1 Funding obligation, South32 forfeits its entire interest in the Project and both companies are released from all further obligations or liabilities in respect of the Project.

The EIA contains agreed principles which provide for standard bribery and corruption clauses to be agreed and area-of-interest provisions that require direct or indirect acquisitions of further tenements or property within an area of interest will be subject to consent of both companies.

## **SUMMARY**

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The EOA between Inca and South32 is an important and exciting step forward in the Project's progression. It provides a robust, reputable and reliably independent validation of Riqueza's prospectivity and facilitates a clear pathway to negotiate the earn-in agreement with considerable upside for shareholders. In the event the AMAG-RAD survey generates important targets and the EIA is executed, Riqueza seems certain to receive a significant re-rate of its potential.

As discussed earlier, the EIA is deliberately structured so that the Phase 1 timeframe, work program and Phase 1 Funding will be agreed after the AMAG-RAD geophysical survey is completed and Option 1 exercised. In doing so both companies will negotiate the final form of the EIA with the advantage of knowing Riqueza's exploration history, the results and targets generated through the AMAG-RAD, and the extent to which Inca's current granted drill permit might be used. In turn this ensures the Project expenditure and related time frames are commensurately appropriate.

Inca's Managing Director, Mr Ross Brown said "South32 is a globally recognised sector leader. We've found working with them to date to be extremely productive and I hope and expect they will become a highly valued partner with a big-end-of-town commitment and energy to Riqueza."

## **ABOUT SOUTH32**

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South32 is a globally diversified metals and mining company with operations in Australia, Southern Africa and South America producing zinc, silver, lead, nickel, manganese, metallurgical coal, aluminium, alumina and bauxite.

Justin Walawski  
**Director & Company Secretary**