



Herencia Resources Plc

1.8p

Speculative Buy

Sector

Mining

Report Date

5th November 2007

Herencia has shown good progress at its Paguanta zinc-silver-lead project in Chile where 2.5 Million tonnes (Mt) of JORC compliant Inferred Resources have been outlined. This is rather better than we had been expecting.

The exploration program, funded by the recent placing which raised £2.35m, could firm up these resources from Inferred to Indicated, while strike and depth extensions could add to resources. In addition there is the possibility that metallurgical testing will allow the zinc cut-off grade to be cut from 1.4% to 2%. The nature of this deposit seems to suggest that this action alone could add another 0.5Mt of resources.

Following this placing Herencia would be well funded, lowly capitalised and have a significant exposure to an interesting near surface zinc-silver-lead project in Chile.

Analyst

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Key Data

AIM Ticker HER
Broker.....W H Ireland
Website www.herenciaresources.com

Year High/Low 2-0.929p
No. of Shares607.4m
Mkt. Cap.£10.9m
Results ...Finals March 2008
NMS10,000
Screen Size25,000
Bid/Offer 1.6p/2p (20%)
No of Market Makers.....3

Year end December	Revenue £000's	Admin £000's	Interest £000's	Loss before tax £000's	EPS (p)	PE times
2006A	-	(626)	32	(594)	NM	NM
2007E	-	(700)	35	(665)	NM	NM
2008E	-	(750)	35	(715)	NM	NM

Source data: Company reports and Hoodless Brennan forecasts.

- At Paguanta the company has outlined near surface Inferred Resources of 2.51 Mt grading 4.1% zinc, 1.3% lead and 77 grammes per tonne (g/t) of silver. At a price of £1,200/t for zinc and lead and £6/ounce silver, this has an in-situ value of £79.7/t, hence their 70% share has an adjusted in-situ value of £78.8m.
- The funds raised in the recent placing will fund a detailed geophysical program, 10,000m of Reverse Circulation (RC) and Diamond drilling, preliminary metallurgical testing and a scoping study investigating open pit mining potential.
- The company will also investigate their La Serena oxide copper project also in Chile, which is adjacent to **Tarquin Resources (TQN)** La Pascuala oxide copper project where 29Mt of JORC compliant Inferred Resources have been outlined.

Strengths	Weaknesses
<ul style="list-style-type: none"> ➢ Have earned 70% of the Paguanta project. Their share of in-situ Resources amounts to £78.8m. With over £2m of cash post issue they trade at 11% of adjusted in-situ value. This compares favourably to other zinc/lead stocks at a similar phase of development. ➢ Increasing gold values with depth to be investigated by more drilling. Other gold outcrops yet to be investigated. ➢ Strong Management team and backing from Mineral Securities (MXX) parent. ➢ Have identified two potential copper porphyry's adjacent to the La Pascuala oxide project. 	<ul style="list-style-type: none"> ➢ Appear to have rushed to generate a resource statement and have much more testing, including metallurgical work to undertake. There is some debate as to water availability. ➢ No production until at least Q1 2010. ➢ No drill results from the infill program until Q1 2008. ➢ Paguanta one of a number of zinc- lead projects coming on stream at the same time- zinc price weakness may continue. ➢ Will require further funding post feasibility study to open any mine. ➢ Mineral Securities hold 35%. ➢ Share illiquid with wide spread.

This Communication:

- a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research
- b) is not subject to any prohibition on dealing ahead of the dissemination of investment research



Drilling at Paguanta

Source: Company

Paguanta

Overview

The Paguanta project area consists of 12 mining licences covering an area of 39 square kilometers. The area is on the northern part of the main Chilean porphyry copper belt, which houses a number of large open pit copper mines.

Within the Paguanta project area the main Patricia zone comprises a zinc-silver-lead mineralised system part of a mine that was last active in the 19th Century. The mineralisation is open to the east, towards the Refugio geophysical anomaly located approximately 1 kilometer (km) away.

The first ever diamond drill program undertaken at Paguanta was completed by Herencia in December 2006. Of the 10 holes drilled into the Patricia zone, eight intersected mineralisation, four of which returned high Zinc-Silver-Lead grades. The highest individual grades were 15.75% Zinc, 447parts per million (ppm) silver and 5.58% lead (separate 1m samples). Surface rock chip sampling has extended the zone of anomalous mineralisation to the east with best results of 1,515 and 1,075 g/t silver. Surface silver (>225ppm silver) mineralisation has now been encountered in veins over a strike length of 1.2km and remains open to the east toward Refugio.

Location

The Paguanta Project Area is located approximately 120 km east northeast of Iquique at an altitude of 3,700m in the Andes Mountains and approximately 30 km west of Chile's border with Bolivia. Vehicular access from the highway was first established in 2004 and the road journey is now 195 km from Iquique, the regional capital and location of the company's Chilean Head office. A sealed highway is located 20 km north of the project area.

Regional Geology

Paguanta is located near the Cerro Colorado porphyry copper mine at the northern end of the Domeyko fault system, which stretches over more than 1,000 km in northern Chile and hosts a number of important copper deposits.

The immediate area around Paguanta is highly mineralised with an open-cast copper mine at Cerro Colorado (BHP Billiton) 40km south-west of the project exploiting a supergene deposit of 228 Million tonnes (Mt) grading 1% copper. Other porphyry copper prospects currently being explored are at Mocha (Corporacion Nacional de Cobre-Codelco), Queen Elizabeth and Yabricoya (Codelco).

Mineralisation

The Patricia Zone is a zone of zinc, silver, lead and gold low sulphidation (low temperature) mineralisation with economic mineralisation dominated by sphalerite (zinc), galena (lead), and argentite (silver). Low levels of gold are associated with arsenopyrite.

One km north of Patricia, the Rosa Zone is an area prospective for porphyry copper-gold mineralisation in supergene blankets or stocks. The company intends to commence exploration in this area following the recent placing. In addition elevated gold numbers have been returned from stream sediment sampling of the Portillo Zone, 2km west of Patricia, and more work is planned in this area.

Herencia's Exploration Programme

During 2006, a comprehensive first phase exploration programme involving stream sediment sampling, regional mapping and sampling was completed.

At the Patricia Zone

- Detailed surface and underground mapping and geochemical sampling were completed. A ground magnetic and Induced Polarisation survey was completed prior to drill site selection.
- A 1,187m diamond drilling program was undertaken during the fourth quarter 2006. 80% of holes intersected mineralisation and high grade zinc-silver-lead assay results were returned from the four of the 10 holes drilled, at depths ranging from 56 to 144m depth.
- The drill program identified three high-grade sub-parallel veins, containing silver-lead-zinc mineralisation, which remains open in all directions.

At the Rosa Zone

- First pass geochemical sampling and mapping were completed, confirming the porphyry copper potential.

During 2007 Herencia carried out further exploration at Paguanta and have outlined a JORC compliant Inferred Resource.

- Detailed geological mapping, surface geochemical sampling and an electromagnetic geophysical survey (EM) have enabled mapping of the vein system.
- The main Cathedral vein has been mapped out and is mineralised over a strike length of approximately 1km and remains open to the east. Additional parallel veins, Central and Camp, have been drilled.
- A follow up 5,889m Reverse Circulation (RC) drilling programme ran from June to August 2007, with the aim of identifying an initial Inferred Resource and identifying the potential for additional mineralisation along strike and at depth.

Less than twelve months after drilling the first hole, Herencia announced on 5th October 2007 a JORC compliant Inferred Resource at Paguanta of 2.51 Mt grading 4.1% zinc, 77 g/t silver and 1.3% lead. This has been outlined on three parallel veins Cathedral, Central and Camp, all of which are open on strike and at depth. Each vein gradates in terms of grade, and contains higher grade pods. For their current resource statement a cut off of 2% zinc has been used. This seems sensible and assumes resources with an in-situ value of less than £24/t is uneconomic. Following detailed metallurgical work it may be possible to argue that a lower cut off grade of 1.4% zinc could be utilised. It is the nature of the deposit that if this was undertaken, more resources amounting to perhaps 0.5 Mt could be reported.

Following the recent placing, the company intends to advance Paguanta by undertaking a detailed geophysical program, 10,000m of RC and Diamond drilling, resource evaluation work, preliminary metallurgical testing, and a scoping study investigating the potential for open pit mining. The company's budget for this program amounts to £2.6m. There is some evidence that gold values are present as the veins deepen, further potential will be determined by drilling. In addition surface gold outcrops at Portillo will be investigated, while further work will be undertaken at the Rosa copper porphyry.

Herencia have earned 70% of the Paguanta project from a local partner. It is possible that their local partner will not be able to fund their share of the proposed exploration program, so Herencia may have the opportunity to increase their exposure.

Water

Paguanta is located in a remote area of the Chilean Atacama desert; this is the main reason why it has only been systematically explored only recently. Although mining infrastructure in Chile is very well developed, there is the possibility that this remoteness will cause problems going forward. The Atacama is not noted for plentiful water supplies, however a number of the drill holes in the company's exploration program have hit water. The company is hopeful that these artisanal sources can be exploited to provide water for any mill.

La Serena

Herencia have fourteen targets in the La Serena copper porphyry belt located 500km south of Paguanta, two of which are located less than 10km from **Tarquin Resources' (AIM-TQN)** La Pascuala project where JORC compliant Inferred Resources of 29Mt of oxides grading 0.59% copper have been outlined. The company intends to advance La Serena, and may achieve its ends by farming out to a partner.

Iquique

Located on the coast close to Herencia's Chilean office, this is another copper project which the company intends to revisit in the first quarter 2008.

Management

Hon. John Moore AO, Chairman, has had a career in Australian politics and was previously a Brisbane based stock broker. He is also Non Executive Deputy Chairman of Mineral Securities Limited.

Michael Bohm, Executive Director, is Managing Director Asia Pacific for Mineral Securities Limited. As a Mining Engineer he has over 20 years experience in the international mining industry.

John Russell, Non-Executive Director, has over 30 years experience in Investment Banking both in the UK and Australia. He is Chairman of Henderson Far East Income Limited and Minster Pharmaceuticals Plc.

Bill Adamson, Non-Executive Director, has 16 years experience in the South American resources industry and is currently General Manager of Austin Chile Trading, a US company that supplies explosive products and blasting technology to the mining industry.

Jim Sinclair, General Manager, is the onsite manager at Paguanta. A geologist he has considerable exploration experience in Mongolia and Australia.

Rigo Munizaga, Project Geologist Paguanta, and has worked for a number of years in exploration in Chile.

Ken Rogers, Chief Geologist of Mineral Securities, has over 35 years experience in economic geology worldwide.

Leo Ferrada, Senior Project Geologist –Iquique, has numerous years of exploration experience in Chile.

Mineral Securities Limited (AIM-MXX)

Australia based Mineral Securities Limited (Minsec) is Herencia's parent. It makes early stage equity investments in resource companies and projects with a focus on identifying under valued or emergent resource projects that can be developed into successful and viable operations.

Minsec holds direct and indirect investments in Australia, Chile, China, Greece, Kazakhstan, Kyrgyzstan, Mozambique, South Africa and Zambia.

They hold 16.24% of **Platmin (AIM-PPN)**, 19.26% of **Copper Co (ASX-CUO)**, 8% of **Zambezi Resources (AIM-ZRL)**, 19.95% of **Tianshan Goldfields (AIM-TGF)**, 39.75% of **Herencia**, 60.57% of **Mineral Sands (ASX-MSN)**, approximately 3% of **Iluka Resources (ASX-ILU)** and 58.43% of **Buka Gold (ASX-BKG)**.

In addition Minsec have a number of unlisted ventures, these include a number of ventures in China, a number of properties in Central Asia, and a number of Australian opportunities.

Mineral Securities has participated in the recent placing to maintain its approximately 35% interest in Herencia. It also supplies head office and other consulting services to Herencia.

Valuation

The company's Inferred Resources have an adjusted in-situ value of £78.8m, assuming zinc and lead prices of £1,200/t and silver prices of \$6/oz. The company has over £2m of cash following the placing, hence at a price of 1.8p trades at 11% of in-situ value.

Angus & Ross (AIM-AGU)

Angus & Ross are developing the Black Angel zinc-lead-silver project in Greenland. Black Angel was formerly worked by Cominco, a major zinc and lead producer. The company will be mining material left in pillars that support the roof of the old mine. At the last resource release date the company had an adjusted in-situ value of £352m. Assuming their convertible is treated as debt, they trade at about 12% of in-situ value.

Griffin Mining (AIM-GFM)

Griffin is producing zinc, gold and silver from its low grade Caijiaying mine in China. As Griffin is an established producer and is generating earnings, it trades at a relatively expensive 56% of adjusted in-situ value

Tennant Creek Gold (ASX-TNG)

In spite of its name, this company's major asset is the Manbarrum zinc-lead-silver project in the Northern Territory of Australia. They have outline in-situ resources worth an adjusted £273m. They have an enterprise value of about £49.5m; hence trade at approximately 18% of adjusted in-situ value.

Zeehan Zinc (AIM-ZZL)

Zeehan is developing a series of near surface zinc-lead deposits in Tasmania in Australia. They have a number of separate resources with overall adjusted in-situ values which sum to £320m. Assuming they retain £3.8m of cash they trade at about 5% of in-situ value

Conclusion:

Herencia has shown good progress at its Paguanta zinc silver lead project in Chile where 2.5 Mt of Inferred resources have been outlined. This is somewhat better than expected.

The exploration program, funded by the recent placing which raised £2.35m, could firm up these resources from Inferred to Indicated, while strike and depth extensions could add to overall resources. In addition there is the possibility that metallurgical testing will allow the zinc cut-off grade to be cut from 2% to 1.4%. The nature of this deposit seems to suggest that this action alone could add another 0.5 Mt of resources.

Following this placing Herencia is well funded, lowly capitalised and have a significant exposure to an interesting near surface zinc silver-lead project in Chile. Speculative Buy.

Recommendation: Speculative Buy

Previous recommendation: Highly Speculative Buy

Date of previous recommendation: 31st October 2006

Profit and Loss

Year to Dec £000s	2006A	2007E	2008E
Revenue	-	-	-
Admin	(626)	(700)	(750)
Operating Loss	(626)	(700)	(750)
Interest	32	35	35
Loss before and after Tax	(594)	(665)	(715)

Balance Sheet

Year to Dec £000s	2006A	2007E	2008E
Fixed Assets	57	60	70
Exploration Assets	642	1,500	2,700
Goodwill	500	500	500
Cash	1,073	2,650	715
Receivables	70	130	140
Current liabilities	(26)	(30)	(45)
Net assets	2,316	4,810	4,080

Cash Flow

Year to Dec £000s	2006A	2007E	2008E
Cash from operating activities	(660)	(740)	(750)
Interest	32	35	35
Purchase of plant	(62)	(10)	(20)
Cash acquired with subsidiary	500	-	-
Exploration	(642)	(858)	(1,200)
Share issues	1,742	3,150	0
Net increase in cash	910	1,577	(1,935)
Opening cash	163	1,073	2,650
Closing cash	1,073	2,650	715

Major Shareholders

Shareholder	%
Mineral Securities	35.17
Australian Heritage Group	8.64
Anglo Pacific	5.85
SVS Securities	3.88

Note: Before recent placing.

Source data: Company reports and Hoodless Brennan forecasts. Note 2006 historic numbers are proforma following an accounting date change.

Activities:

The company is rapidly advancing its Paguanta zinc-lead-silver project in Chile. They also have a number of copper oxide projects also in Chile.

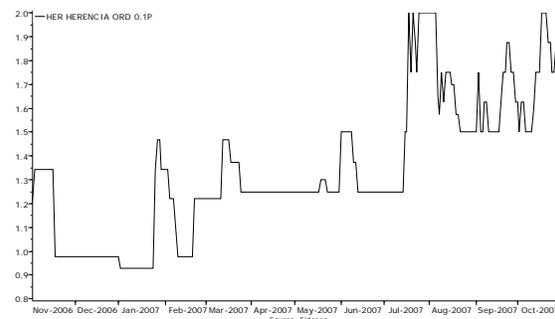
Key Events

Date	Event
1st November 2007	173.333m shares placed at 1.5p
27 th September 2007	47m shares issued to Mineral Securities as deferred consideration for the Paguanta acquisition. A further 3m to Minsec's advisors
13 th March 2007	56m shares placed at 1.25p
25 th October 2006	90m shares placed at 1p
10 th July 2006	38.07m shares placed at 1.5p
21 st November 2005	Paguanta acquired along with other Chilean assets from Mineral Securities in exchange for 150m shares. 100m initially, 50m deferred.
22 nd February 2005	Originally admitted to AIM.

Financial Calendar

Date	Event
December	Year End
March 2008	Finals
October 2008	Interims

Share Price Chart



Key to Material Interests

Below are five standard disclosures of Material Interests. Of these five disclosures, the following numbers are relevant in this case:

Herencia Resources Plc

Relevant disclosures: None Applicable

1. The analyst has a personal holding of the securities issued by the company, or of derivatives related to such securities.
2. Hoodless Brennan plc or an affiliate owns more than 5% of the issued capital of the company.
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