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Herencia Resources – Hitting targets and moving towards development

by [Stuart Watson](#)

Many investors have become disenchanted with mining companies missing targets over the last year. However, Herencia Resources has delivered on several fronts since it joined AIM three years ago and has just announced an updated resource figure. Proactive spoke to the Herencia's executive director, Mike Bohm, for the latest on the company's progress.

Herencia's main project is a 39 square kilometre area called Paguanta in northern Chile. The company owns 70% with the remaining 30% held by a local company owned by a group of Chilean businessman. At Paguanta, the main target is Patricia where a zinc-lead-silver resource has been declared to JORC standards. Adjacent to the Patricia, to the east, is another target called Refugio and 3km to the north is another called La Rosa.

Chile is a very mining-friendly country but is better known for copper rather than lead and zinc. However this project is close to both Peru and Bolivia where these metals are much more common. Indeed Peru is the world's largest producer of silver and responsible for 15% of the world's zinc production and 10% of its lead.

At Patricia, the company drilled 1,000m in 2006, 6,000m in 2007 and 10,000m in 2008. Three main veins, Cathedral, Central and Camp, were initially identified and a fourth, Rosada, was discovered this year. The width of these veins is between 3m and 10m and the mineralisation outcrops on the side of a mountain, which will allow for both open pit and underground mining. The grades increase with depth up to 200m and the resource is still open in all directions.

An initial Inferred resource was declared a year ago but this year's drilling has increased the tonnage by 25%. There was also a lot of infill drilling in this year's programme and this has enabled some 20% of the enlarged resource figure to be moved to the Indicated category.

The total resource, both Indicated and Inferred, now stands at 3.15m tonnes with 3.9% zinc, 1.3% lead and 74 parts per million of silver. This translates to 124,000 tonnes of zinc, 41,000 tonnes of lead and 7.5m ounces of silver. The current market value of the deposit is therefore about \$265m. A year ago, it would have been worth nearly \$600m, which shows just how far metal prices have declined.

Herencia has also released some metallurgical results this year. Usually companies at this stage of proving up a resource aren't able to do this but Herencia has the advantage of an old adit at Patricia. The adit dates back 130 years which was when Patricia was first identified and even mined for a short period of time. The presence of a ready-made tunnel allowed Herencia to extract a 300kg sample for testing with relative ease. Bohm said the company was 'fizzing' when the results came back showing recovery rates in excess of 90% for zinc, 70% for lead and 80% for silver.

Gold has also been discovered in many of the drill holes at Patricia, with grades of up to 4 g/t, but Herencia doesn't have enough geological detail yet to include gold within its resource figures. Bohm admits the presence of the gold is intriguing, and is being investigated, but it remains to be seen how significant it will be in terms of the overall project.

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1,000m of drilling has also taken place at La Rosa this year, returning numerous sections of low-grade zinc and lead. Herencia believes La Rosa could be a possible source of the main Patricia mineralisation but more drilling would be required before any resource figure could be declared at the former.

All eyes on now the scoping study that is under way for the Patricia resource. Herencia is using teams from two offices of Golder Associates and the target date for completion is the end of November. Bohm expects the report to contain the usual details regarding capital expenditure, operating costs and potential production which should help raise the company's profile in the investment community.

A broker's report last year identified water supply as a potential issue, based upon the location of the resource. Bohm says this is a fair point and it's something that will obviously be looked at more closely at the project develops. But he notes that all the holes drilled to date have been 'wet', which has allowed the company to be self-sufficient in this regard so far.

Assuming the scoping study is positive, and market sentiment improves, 2009 would be spent producing a feasibility study and, assuming that is positive too, construction could occur in 2010 and production in 2011. Bohm reckons a full feasibility study will cost in the region of \$3m so new funds will be required.

Herencia's share price has suffered along with nearly every other junior miner this year and it is currently capitalised at around £3m. At the end of September, it had almost £1m in the bank. In light of the current climate, it is cutting out all non-essential expenditure to ensure this lasts as long as possible. The scoping study will cost around £40,000 to complete (this is the only major item of capital expenditure required at the moment) and Herencia's 30% partner at Paguanta is up to date with all its payments.

One ace up Herencia's sleeve is that it is 46% owned by CopperCo, an Australian listed company which merged with Mineral Securities earlier this year. CopperCo is a new copper producer and in the last three quarters it produced 11,000 tonnes of copper at Lady Annie in Queensland, and is targeting 30,000 tonnes in the forthcoming year. This will throw off substantial cash flow although CopperCo has a wide variety of potential opportunities available to it, as well as its interest in Herencia.

Herencia also has a second project called La Serena which is 100% owned. It's a copper target about 300km north of Santiago. No drilling has been done there to date and Herencia is continuing its search for a partner before spending any serious money.

Understandably the company's focus has been on Paguanta over the last year but La Serena certainly makes an interesting side project. It is within a few kilometres of the Puquios resource, which was formerly known as Las Pascualas. Here a JORC resource of 29 million tonnes at 0.56% copper is currently the subject of a feasibility study which should be concluded in the very near future. The scoping study for the project suggested 15,000 tonnes of copper cathode could be produced annually with a construction cost of \$130m. The Puquios project is owned by AIM and ASX-listed Natasa Mining, which recently took over the previous owner Tarquin Resources.

Due to CopperCo's current focus on its new mining operation, Bohm hasn't discussed La Serena with them in any great detail yet but the presence of an emerging copper producer as a major shareholder must inevitably increase Herencia's chances of getting this project further explored.

In a more sensible market, Herencia's share price would be a multiple of its current level. As we all know, these are far from sensible times. When the results of the scoping study are released, the company will be able to narrow down its funding options for the next stage of development and Bohm isn't ruling out any options at the moment. His team have delivered to date, in terms of both timing and budgets, making this a share well worth watching.

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