

Sector

Mining

**Herencia Resources 0.35p Speculative Buy
PLC**

Date of previous note

4th January 2008

Previous recommendation

Speculative Buy

Results date

20th October 2008-Paguanta Resource upgrade

Herencia continues to show encouraging progress at its 70% owned Paguanta zinc/lead/silver exploration project in Chile.

Whilst it is very encouraging that overall resources have been upgraded, both in terms of total tonnes, and the amount that has been upgraded from Inferred into Indicated, it is more prudent to use a 4% zinc cut off grade rather than the 2% used previously.

The collapse in lead and zinc prices is more than fully reflected in the share price. Lead and zinc may be the first to exit from the general commodity depression, as production has been cut back earlier and further than other metals. Herencia is well placed to recover, with a quality ready to go project, located in an establishing mining region.

Analyst

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Report date

27th November 2008

Year end December	Revenue £m	Admin £m	Interest £m	Loss before & after tax £m	EPS (p)	PE times
2007A	0.0	(1.3)	0.1	(1.2)	NM	NM
2008E	0.0	(1.1)	0.1	(1.0)	NM	NM
2009E	0.0	(0.9)	0.0	(0.9)	NM	NM

Source data: Company reports and Hoodless Brennan forecasts. Note 2007 profit & loss and cash flow numbers are for the 18 months ending 31st December 2008 due to an accounting date change.

Key Data

AIM Ticker HER
Broker..... WH Ireland
Website
www.herenciaresources.com

Year High/Low ..1.875-0.25p
No. of Shares607.4m
Fully diluted.....628.7m
Mkt. Cap.....£2.1m
Results ... March 2009 Finals

NMS 10,000
Bid/Offer .. 0.2p/0.5p (150%)
Screen Size25,000
No of Market Makers.....5

- At a 4% zinc cut off, a revised JORC Compliant Indicated Resource estimate of 176,000 tonnes (t) grading 8.4% zinc, 2.6% lead and 134 grammes per tonne (g/t) silver, and an Inferred Resource of 838,000t grading 6.2% zinc, 2.1% lead and 115 g/t silver has been outlined. At £750/t for both zinc and lead and £6/oz for silver, Herencia's 70% share has an adjusted in-situ value of £36m.
- This halved in-situ value more than adequately reflects a doubling in cut off grade and a £100/t fall in zinc and lead prices. Silver price estimates are unchanged.
- Recent encouraging metallurgical tests indicate 91.6% recovery for zinc, 71% for lead and 83.4% for silver.

Strengths

- Paguanta exploration targets open at depth.
- Scoping study due to be delivered by end November 2008.
- Strong Management team and backing from Mineral Securities parent.

Weaknesses

- Zinc & lead prices have been very weak.
- Will require funding post scoping study to conduct feasibility study.
- Shares are illiquid with a wide spread
- No production until 2010.

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Profit and Loss

Year to December £m	2007A	2008E	2009E
Revenue	0.0	0.0	0.0
Admin	(1.3)	(1.1)	(0.9)
Interest	0.1	0.1	0.0
Loss before & after tax	(1.2)	(1.0)	(0.9)

Balance Sheet

Year to December £m	2007A	2008E	2009E
Exploration Assets	2.5	3.5	4.0
Property, plant etc	0.1	0.1	0.2
Cash	2.9	0.5	0.3
Receivables	0.2	0.3	0.3
Total Assets	5.7	4.4	4.8
Current & total Liabilities	(0.1)	(0.2)	(0.3)
Net Assets	5.6	4.2	4.5

Cash Flow

Year to December £m	2007A	2008E	2009E
Cash from operating activities	(0.6)	(1.1)	(0.9)
Interest	0.1	0.1	0.0
Plant purchases	(0.0)	(0.1)	(0.1)
Cash acquired with subsidiary	0.2	0.5	0.0
Exploration	(1.4)	(1.8)	(0.5)
Share issues	4.6	0.0	1.3
Net cash movement	2.7	(2.4)	(0.2)
Opening cash	0.2	2.9	0.5
Closing cash	2.9	0.5	0.3

Key Events

Date	Event
20 th October 2008	Paguanta Resource upgrade
28 th February 2008	Withdrawal from Iquique JV to focus on Paguanta
1 st November 2007	171.333m shares placed at 1.5p

Financial Calendar

Date	Event
December	Year End
March 2009	Finals
September 2009	Interims

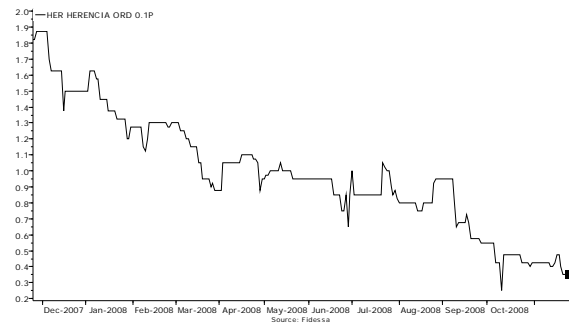
Major Shareholders

Shareholder	%
Mineral Securities	46.00
Fitel Nominees	16.68
Pershing Keen Nominees	14.47

Board of Directors

Name	Position held
Hon. John Moore	Non-Executive Chairman
Michael Bohm	Executive Director
Bill Adamson	Non-Executive Director
John Russell	Non-Executive Director

Share Price Chart



Source data: Company announcements and Hoodless Brennan estimates. Note 2007 profit & loss and cash flow numbers are for the 18 months ending 31st December 2007 due to an accounting date change.

Activities:

The company is exploring its 70% owned Paguanta lead/zinc/silver project in Chile.

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Company Name: Herencia Resources PLC Relevant disclosures: 5

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