

**Speculative Buy**

Unchanged

Price	0.4p
Reuters/BBG Index	HER.L / HER LN
Sector	FTSE AIM
Market Cap	Mining £2.4m

**Herencia Resources Plc\*****A Metal Target Well Placed for the Economic Recovery**

Since our last research note of 30 May, 2008, the Herencia Resources share price has fallen significantly with the general market in mining shares. This mirrors a similar collapse in the traded price of the contained minerals at the Company's Paguanta project in Chile which are zinc, lead and silver. A scoping study carried out by Golder Associates has been completed and the results announced. They indicate that the capital cost predicted is low on an internationally comparative basis. They also show, predictably, that potential profitability is exponential with:

- The future metal prices, particularly of zinc and to an increasing extent lead.
- A modest increase to the mining inventory which is dependent upon proving up further resources.

The highlights of the study, released on 23 December 2008, include:

- An initial mine life of 5½ years, at 500,000 tpa, capable of being extended by further drilling.
- A capital cost of US \$55.6 million, fully inclusive of all underground development.
- Site operating costs of US \$55.32/t
- A zinc price of \$1.00/lb to produce a positive NPV (Current price \$0.56, 2008 – 9 high 1.70).
- Substantial leverage to increase tonnage processed.

At first glance Herencia presents as one of a growing band of junior explorers and developers which have been hard hit by the crash in the physical mineral and financial markets. We believe it to be better placed than many in its peer group for these reasons:

- The host country, Chile, has demonstrated over recent years a practical and economic approach to foreign investment compared with many of its neighbours.
- The Paguanta project is advanced beyond the basic exploration stage.
- The scoping study shows the capital and operating costs parameters to be compatible with their competitors and metallurgical recovery to be high.
- The company is focussed on a single country and a single metallic grouping of lead, zinc, silver.

\*WH Ireland acts as Broker and Nomad

**MARKETING COMMUNICATION**

This document has not been prepared in accordance with legal requirements designed to promote the independence of investment research.

**Analyst** David Hargreaves / Matt Davis  
+44 (0)113 394 6620  
david.hargreaves@wh-ireland.co.uk

**Sales** Laurie Beevers  
+44 (0)161 832 2174  
laurie.beevers@wh-ireland.co.uk

WH Ireland Limited, 11 St James's Square, Manchester, M2 6WH

WH Ireland is authorised and regulated by The Financial Services Authority and is a member of The London Stock Exchange. Important disclosures and certifications regarding companies that are the subject of this report can be found within the disclosures page at the end of this document.

The directors have been entirely practical in their response to the results of the scoping study and to the severe fall in the prices for the contained metals. They intend, in the next few weeks, to identify potential cost savings but more importantly to determine a 2009 work programme based on the results of the scoping study.

The potential for a marked recovery in the price of lead and zinc depends on a number of factors. These include:

- A series of production cutbacks, mine and plant closures and halting of exploration projects have been announced. These will impact upon the availability of metal in the recovery.
- Both lead and zinc rely heavily upon the automobile industry; most lead is used in starting, lighting and ignition (SLI) batteries and much zinc in rust proofing and die-castings. The auto industry internationally is receiving at least short term government funding. Although global zinc stockpiles are growing, some mineral economists are predicting that the zinc price will improve as the year progresses. Stocks are around four weeks consumption which is a relatively low level historically speaking. An announcement by Herencia on 1<sup>st</sup> December 2008 noted that its 46% shareholder Copper Co. Limited had gone into administration. The board of Herencia states that it does not feel that this is adversely important on day-to-day operations.

The cash position was stated on 1<sup>st</sup> December 2008 to be £750,000 whilst operating expenses to year end June 2008 were £560,000. The company has taken steps to minimise cash-burn.

We retain our view that this is a fully focussed, committed company, aware of the circumstances beyond its control but exercising due care with those it can influence.

## Disclosures

### WH Ireland Recommendation Definitions

#### **Buy**

Expected to outperform the FTSE All Share by 15% or more over the next 12 months.

#### **Outperform**

Expected to outperform the FTSE All Share by 5/15% over the next 12 months.

#### **Market Perform**

Expected to perform in line with the FTSE All Share over the next 12 months.

#### **Underperform**

Expected to underperform the FTSE All Share by 5/15% or more over the next 12 months.

#### **Sell**

Expected to underperform the FTSE All Share by 15% or more over the next 12 months.

#### **Speculative Buy**

The stock has considerable level of upside but there is a higher than average degree of risk.

### Share Price Target

The share price target is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon.

### Stock Rating Distribution

As at the quarter ending 31 December 2008 the distribution of all our published recommendations is as follows:

Recommendation	Total Stocks	Percentage %	Corporate
Buy	36	38%	12
Speculative Buy	15	15%	14
Outperform	20	21%	0
Market Perform	14	14%	0
Underperform	9	9%	0
Sell	3	3%	0
<b>Total</b>	<b>97</b>	<b>100%</b>	<b>24</b>

This table demonstrates the distribution of WH Ireland recommendations. The first column illustrates the distribution in absolute terms with the second showing the percentages.

### Conflicts of Interest Policy

This research is classified as being "non-independent" as defined by the FSA's Conduct of Business Rule 12.3. Please refer to [www.wh-ireland.co.uk](http://www.wh-ireland.co.uk) for a summary of our conflict of interest policy.

### Analyst Certification

The research analyst or analysts attest that the views expressed in this research report accurately reflect his or her personal views about the subject security and issuer. Furthermore, no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendation or views expressed in this research report.

This report has been reviewed by the Head of Institutional Research as an Approved Person.

Within the past 12 months, WH Ireland has received compensation for investment banking services from this company.

WH Ireland acts as broker and NOMAD to this company.

### Companies Mentioned

Company Name	Recommendation	Price	Price Date/Time
Herencia Resources plc	Speculative Buy	0.4p	12 Jan 2009 15:00

### Summary of Company Notes

Headline	Date
High Grade Zinc-Silver-Lead	19 September 2007
Single minded high grade metal target in Chile	30 May 2008
A Metal Target Well Placed for the Economic Recovery	12 Jan 2009

### Summary of Security Recommendations

Recommendation	From	To	Analyst*
Speculative Buy	19 Sept 2007	30 May 2008	PA
Speculative Buy	30 May 2008	12 Jan 2009	PA
Speculative Buy	12 Jan 2009	Current	CA

\*Current Analyst (CA), Previous Analyst (PA)

### Disclaimer

This research recommendation is intended only for distribution to Professional Clients and Eligible Counterparties as defined under the rules of the Financial Services Authority and is not directed at Retail Clients. This note contains investment advice of both a general and specific nature. It has been prepared with all reasonable care and is not knowingly misleading in whole or in part. The information herein is obtained from sources which we consider to be reliable but its accuracy and completeness cannot be guaranteed. The opinions and conclusions given herein are those of WH Ireland Ltd. and are subject to change without notice. Clients are advised that WH Ireland Ltd. and/or its directors and employees may have already acted upon the recommendations contained herein or made use of all information on which they are based. WH Ireland is or may be providing, or has or may have provided within the previous 12 months, significant advice or investment services in relation to some of the investments concerned or related investments. Recommendations may or may not be suitable for individual clients and some securities carry a greater risk than others. Clients are advised to contact their investment advisor as to the suitability of each recommendation for their own circumstances before taking any action. No responsibility is taken for any losses, including, without limitation, any consequential loss, which may be incurred by clients acting upon such recommendations. The value of securities and the income from them may fluctuate. It should be remembered that past performance is not necessarily a guide to future performance. For our mutual protection, telephone calls may be recorded and such recordings may be used in the event of a dispute. Please refer to [www.wh-ireland.co.uk](http://www.wh-ireland.co.uk) for a summary of our conflicts of interest policy and procedures.