



Herencia Resources

15 April 2009

Herencia Resources is moving forward in Chile

Zinc, lead and silver prices have had a hard time since the manufacturing recession began to bite – and in common with many producers of these three presently unloved metals, Herencia Resources has seen its share price tumble.

But Herencia have a whole stable of horses pulling in their favour, not least their location in – and focus on – Chile, where the sheer abundance of minerals has led to a mining tradition which is strong and long-established and a consistent regulatory framework coupled with low “country risk”. Chile is stable and prosperous and welcomes foreign investment in its mining industry - all the major international names in mining have a presence there. Excellent infrastructure, a skilled workforce, and a low-cost environment are further key factors which make Chile an excellent mining “address”.

Management skills and expertise are also working in Herencia’s favour. The on-the-ground team is small and focused: MD Michael Bohm is a mining engineer who has brought several mines into production including Sally Malay (now Savannah) in Australia, whilst geologist Christian Hub boasts many years experience in South America, as does General Manager John Porter.

Another big advantage is the advanced status of Herencia’s key zinc-silver-lead project, Paguanta, which also has an excellent address! Located in northern Chile, on the Domeyko fault, a known and well-tested mineralised belt which hosts a number of large copper-porphyry deposits such as Cerro Colorado just a few kilometres away.

Herencia acquired the right to earn into 70% of Paguanta by spending US\$2m (they have now spent over US\$4m on the project), with the remaining 30% being retained by local Chilean partner Minera Costa Rica Dos. The project area, at a reasonable 3,700m in the Chilean Andes, is of gently sloping terrain, and has moved comparatively speedily from an untested exploration target to a completed scoping study in just over two years. Limited mapping and sampling were carried out by a number of previous prospectors, including Rio Tinto, but the area was difficult to get to until Minera Costa Rica drove an access road to the site in 2004. Since then, several exploration targets have been identified, the chief of which is the Patricia Zone, where a silver-lead-zinc mine was active in the late 1800s, focused on several high grade vertical lodes or veins. However, the old underground workings had exploited just a small part of a large altered mineralised zone some 700 metres in length, which contains zinc-lead-silver-gold in high sulphidation epithermal veins and stockwork breccias hosted by andesite volcanic lavas and porphyry intrusions.

It was late 2006 when Herencia put the first drill hole into Paguanta, and it took them just a year and 7,000m of drilling to delineate an initial resource, centred on the sub-vertical Cathedral, Central and Camp Veins. Comprising 2.51 million tonnes with grades of 4.1% zinc, 1.3% lead and 77 g/t silver, this initial resource, using a 2% zinc cutoff, contained 103,100 tonnes of zinc, 32,100 tonnes of lead and 6.18 million ounces of silver. At the same time, Herencia met their earn-in milestone of \$2 million exploration spend, to earn their 70% stake in the project.

2008 brought continuing good news as drilling progressed. As the season developed,

Price: 0.38p
Market Cap: £2.28m

1 Year Share Price Graph



Share Information

Code: HER
Listing: AIM
52 week High: 1.10p
52 week Low: 0.25p
Sector: General Mining - Silver
Website: www.herenciaresources.com

Company Synopsis:

Herencia Resources plc is a resources company listed on the Alternative Investment Market ('AIM') of the London Stock Exchange with a focus on project development in Chile.

The Company has an advanced zinc-lead-silver Project (Paguanta) in northern Chile. Following a successful drilling program in 2008, Herencia announced an upgraded Indicated and Inferred Mineral Resource of 3.15Mt at 3.9%Zn, 1.3%Pb and 74ppm Ag (at 2% Zn cut-off). Included in that Resource was a high grade component of 1.01Mt at 6.6%Zn, 2.2%Pb and 119ppmAg (at a 4%Zn cut-off).

Herencia aims to progress Paguanta toward development, with a Scoping Study currently being managed by Golder Associates due for completion in December.

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MD Michael Bohm explained: "The 2008 Patricia drill program has been most successful and the second half of 2008 is shaping up as a busy period for the company. The continued identification of high grade assay results at depth supports our view that the Patricia project has plenty of upside and now extends to at least 200m depth. It is pleasing that we are seeing high grades across the entire zinc, lead and silver spectrum, while also noting the presence of gold."

In the meantime, metallurgical testing had shown good recovery rates of all of the three key minerals in the Patricia vein systems, with zinc at 91.6%, lead at 71% and silver at 83.4%. Again, Michael Bohm commented: "We are extremely pleased with the results of the testwork carried out on samples from the 'Patricia' deposit. The results are excellent and there is scope to optimise concentrate grades and achieve even higher metal recoveries. The high recovery of payable metals will certainly enhance project economics."

A revised resource statement followed in October 2008 with the completion of 9,986m of drilling. Contained metal now stands at 122,000t zinc, 41,000t lead and 7.5M ozs silver, using a 2% zinc cutoff. Over 600,000 tonnes of resource have moved up into the indicated category, and in the high grade portion of the resource where a 4% cutoff is used, grades have risen significantly to average 6.6% zinc, 2.2% lead and 119 g/t silver.

With the season's drilling complete and a JORC-compliant resource showing significant mineable tonnages and grades, Herencia completed a scoping study, the results of which were announced on 23 December 2008. Key parameters of the scoping study were a minelife for the existing resource – which is still open at depth, along strike and down-dip – of 5.5 years, comprising a mixture of open pit for the near surface/outcropping mineralisation and underground development for the higher grade portion of the resource which extends to 200m. Total capex is anticipated to be \$55.6 million, inclusive of all underground mine infrastructure and development costs, new processing plant equipment and capital contingencies. Operating costs – including mining, processing and site administration costs – are estimated at \$55 per tonne of ore to produce a high grade concentrate for onward sale. Unlike the precious metals where surface oxidation enables more straightforward recovery, base metals are complicated by oxidation, and a big bonus of the Patricia zone is that the oxidation has only penetrated a few metres – very little ore will be lost.

Herencia plan to undertake a full feasibility study as soon as possible, which will include geotechnical and hydrogeological drilling, as well as drilling for resource expansion. It is likely they will need to raise additional funds to finance the £1.5-2 million exercise. Initially, the company had hopes of potentially working a deal with their major shareholder CopperCo, who took over the 46% shareholding owned by Mineral Securities when the two companies merged last year. Sadly, CopperCo is now in administration. This has no impact on the day to day running of Herencia Resources, but does limit their funding options until the new ownership of the 46% holding is resolved (likely in May 2009).

So, that's Patricia – a technically robust, simple and low-cost development opportunity, potentially producing at the rate of 500,000 tonnes per annum. Capex is not demanding, and minelife has the potential to be increased considerably as the resource develops along strike and down dip (with significantly higher grades being seen at depth including 14m @ 11.9%Zn). But what of the economic viability?

Basically, Patricia needs to see zinc around US\$1.00/lb in order to break even. Right now zinc is just 60 cents. But the steady rise in LME stocks has flattened off in the last two months, and the price has clawed its way back to levels last seen six months ago. Analysts are forecasting zinc to recover in 2010 with some, including Barclays, showing prices over \$1.00 in 2010 and 2011.

Today's market cap? £2.1 million. As a play on future improvement in the zinc price, it speaks for itself, really, doesn't it?

By Wendy Durham

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