

Speculative Buy

Price 0.68p

Reuters HER.L
Indices FTSE AIM
Sector Base Metals
Market Cap £6.03m
Shares in Issue 860.93m

Performance vs AIM
 1 month: +18
 3 months: +18
 12 months: +73
High/Low 0.75/0.27

Last Results Interims – Sept 09
Next Results Finals – May 10



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Marketing Communication

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Herencia Resources Plc*

We last did a major review of this Chilean focussed lead-zinc-silver explorer in May 2008; the mining world has since been on a roller coaster. The metals were feeling smug and the shares were hanging onto their coattails. Now we have plumbed the depths and reached back for the sky. Broadly:

Table 1: Changes from April 2008

Date	Zinc \$/t	Lead \$/t	Silver \$/oz	LME Stocks Lead (t)	LME Stocks Zinc (t)	Herencia Shares (p)
25.04.08	3009	2511	16.78	54,750	128,975	0.95
24.04.09	1261	1242	12.49	63,650	341,850	0.40
08.03.10	2196	2149	16.89	161,975	542,075	0.68

Such swings have not been witnessed before in an investment lifetime. It is a credit to professional management that junior exploration groups such as Herencia have not only survived, but continue with their drive forward. The share price has suffered in common with its competitors but not in comparison with the massive surge in warehouse stocks: lead 200%, zinc 320%. Nor with metal prices where zinc fell 58% before recovering to within 30% of its high. Likewise lead. With an explorer, you are not buying into today's price, but into that which might apply when it becomes a producer.

In this case, 18-24 months hence, Herencia has just produced an updated (March, 2010) presentation document which points a way firmly forward. It details:

- A resumption of drilling at its major lead, zinc, silver and gold target at Paguanta, Northern Chile.
- A planned programme of 3,500M of diamond-core holes to complement the existing indicated and inferred resource of 3.15Mt. 18,000m of drilling has already been completed.
- Results to date indicate a mine life of 5½ years. The next drilling programme, now underway, should enhance this.
- The deposit is open, on strike and down dip and is in one of the world's most mineralised trends.
- The last round of drilling showed higher grades at depth. Thus, the opportunity to add resource tonnage at increased grades.
- The consistent presence of gold is noted, but not presently built into resource modelling. Gold re-assay results are expected shortly. Results-to-date vary between 0.38 and 4.57 gram per tonne (g/t). At an average of 0.5-1.0g/t this would add a gold credit of \$17-34 per tonne. A scoping study by Golder Associates in 2008, assessed underground mining site operating costs at \$31.24 per tonne, so the gold potential is not an irrelevance.

- Golder's base – case calculations indicate that the necessary CAPEX and operating costs could, at 2008 metal prices, show a healthy return on investment. Since then, the economics and risk factors have shown:
 - Metal prices strongly improving with a particularly bullish recent zinc note from Credit Suisse. Depending upon assay results, both silver and gold credits should add meaningfully.
 - The real possibility of the present phase of drilling adding to the resource base, to underpin a longer term operation.
 - The deposit indicating the development by sub-vertical mining methods, which are relatively easy and cost effective.
 - Excellent process recovery.
 - Low capital cost and good local infrastructure.
 - Low sovereign risk, South America has long been a major minerals province. Of its major contributors, Chile is showing true statesmanship economically, politically and pragmatically with respect to foreign mining investment.
 - Herencia has its necessary mining leases in place.

Announced on March 8, 2010, is the discovery of a new fifth vein at Paguanta. Mineralisation was intersected in two holes: PTDD035, a down-hole interval of 13.8m at 148m depth and PTDD036, 13.5 m at 139.5m depth. These holes are only 75m south of the high grade Cathedral vein which betokens a building resource.

The programme is unquestionably forward-looking. Assay results are expected in April, drilling to be completed in May and a resource update by early Q3, followed by a potential move into a Feasibility Study in Q4.

Financial

Herencia is a debt-free corporate entity. Its cash raising of late 2009 should enable it to complete its outlined drilling programme and the reporting and interpretation thereof. The local J/V partner in the Paguanta project has confirmed it will contribute to maintain its 30% stake.

Management

There is a committed team of professionals, most resident in Chile. They have a blend of political, mining, geological and accountancy experience ideally suited to this environment.

Commitment

Beyond Paguanta, there are other, Chilean mineral projects which include La Rosa, a porphyry copper target only 3 km from Paguanta, and La Serena. These will continue to be advanced but not deflect from making Paguanta the flagship enterprise of a rapidly advancing development company. It should be noted that the Paguanta Project is located in northern Chile and that no damage has been reported in the region following the Earthquake.

Recommendations

This junior metal-exploration company has made steady progress in one of the most difficult markets in memory. It continues to do so. Being in one of the most prolific minerals provinces in the world, in a safe political-economic environment it appears to be set fair. Given the location, infrastructure and market outlook this presents an above average opportunity. **Speculative Buy.**



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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 2009 the distribution of all our published recommendations is as follows:

Recommendation	Total Stocks	Percentage %	Corporate
Buy	18	22%	4
Speculative Buy	4	5%	4
Outperform	18	22%	1
Market Perform	26	33%	3
Underperform	14	18%	0
Sell	0	0%	0
Total	80	100%	12

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

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This report has been prepared by David Hargreaves. It is peer reviewed by the mining team and the Head of Institutional Research as Approved Persons by the FSA.

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Summary of company notes

Company Name	Price	Price Date/Time
A Metal Target Well Placed for the Economic Recovery	0.4p	12 Jan 2009
Company update	0.68p	10 Mar 2010

Summary of Security Recommendations

Recommendation	From	To	Analyst*
Speculative Buy	12 Jan 2010	Current	PA

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

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