

Speculative Buy

Price 1.42p

Reuters HER.L
Indices FTSE AIM
Sector Base Metals
Market Cap £13.6m

Performance vs AIM
1 month: -4
3 months: +68
12 months: +149
High/Low 1.62 / 0.47

Last Results Interims: Sept 10
Next Event Finals: Apr 10



Source: Fidessa

Analyst David Hargreaves#
+44 (0) 113 394 6600
david.hargreaves@wh-ireland.co.uk

Sales Richard Smith
+44 (0) 121 265 6304
richard.smith@wh-ireland.co.uk

Stuart Forshaw
+44 (0)161 819 8777
stuart.forshaw@wh-ireland.co.uk

*WH Ireland acts as Broker and Nomad.

Marketing Communication

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Herencia Resources Plc*

Company Update

We last reviewed and recommended this AIM-listed Chilean-focussed zinc-silver-lead explorer in March 2010 when its share price was 0.68p. It is now 1.42p, an advance of over 100%. During that period the market prices of lead and zinc have fallen from US\$2,200/t down to US\$1,600/t and then recovered all of those falls to be sitting back around US\$2,300/t, whilst that of silver, which will be a significant by-product credit, has advanced over 30%. Our last report noted the extremes of metal price movements from April 2008, when the share price was 0.95p. These were indicative. The present share price level owes more to the continued growth of metal resources at the Paguanta Project in northern Chile, than to metal prices. The 2010 drilling programme, a further 5,728m to total 22,779m has been completed and has significantly advanced the JORC-compliant Mineral Resource Estimate to a total of 3.51Mt at 4.6% Zn, 1.5% Pb, 93ppm Ag and 0.2ppm Au at a 2% Zn cut-off with a high grade component of 1.42Mt at 7.7% Zn, 2.4% Pb, 146ppm Ag and 0.3ppm Au at a 4% Zn cut-off, as shown below.

Gold grades have also been assessed for the first time. Significantly, the deposit is still open at depth and on strike. Notably, in April 2010, one of the world's leading lead-zinc smelting companies, NYRSTAR International BV, subscribed £750,000 at 0.75p (100M shares), representing 10.4% of the company. It has also appointed its COO as a member to the board of Herencia. Whilst a small investment in major company terms, this shows that NYRSTAR has Herencia on its watchlist, the implications of which will not be lost on investors, present and potential.

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	3,009	2,511	16.78	54,750	128,975	0.95
24.04.09	1,261	1,242	12.49	63,650	341,850	0.40
03.03.10	2,196	2,149	16.89	161,975	542,075	0.50
07.10.10	2,300	2,290	23.00	122,560	616,750	1.62

So the metal markets have consolidated and continue to show strength. The addition of silver, lead and gold by-product credits can only assist, since the precious metals sector is leading the way. It is heartening to note a substantial increase in grade. The company has other assets as described below but its rightful priority is to move Paguanta towards production. Plans are to commit to a feasibility study in Q4 2010. The scoping study of 2008 indicated a Phase One operating-mining and processing life of five years. Within 3km from Paguanta are both the high grade copper-silver Doris prospect and the La Rosa copper porphyry target.

The Updated Results, 17 September 2010

The Pataguna orebody now registers a JORC Code-compliant mineral resource estimate of 3.51Mt at a 2% Zn cut-off. At a 4% cut-off the tonnage becomes 1.42Mt, up from 1.01Mt in 2008, a 40% increase. The total metal content presents as:

Metal Content (in-situ) at 4% Zinc Cut-off							
2008 Mineral Resource Estimate				2010 Mineral Resource Estimate			
	M Tonnes	Grade	Metal (Zn/Pb – Mlb) (Ag/Au – Moz/Oz)	M Tonnes	Grade	Metal (Zn/Pb – Mlb) (Ag/Au – Moz/Oz)	Metal Change (%)
Zinc (%)	1.01	6.6	146.6	1.42	7.7	240.1	64
Lead (%)	1.01	2.2	49.0	1.42	2.4	74.2	51
Silver (g/t)	1.01	119	3.9	1.42	146	6.7	72
Gold (g/t)	n/a	n/a	n/a	1.42	0.3	14,155	n/a

Going Forward.

Despite extremely difficult market conditions, Herencia has managed its finances well, attracted a major industry-based investor, made excellent drilling progress at its flagship orebody and identified nearby prospective copper and silver targets on the same granted mining tenements. Given the Paguanta Project could potentially be in production within 2½ years, this company is well-positioned. The value of being located in a pragmatic, mining-focussed country should not be underestimated.

The per tonne value of the ore (at 4% Zn cut-off), based upon current metal prices approximates to:

Zinc	7.7%	@	\$2300/t	=	\$177
Lead	2.4%	@	\$2290/t	=	\$ 55
Silver	146g/t	@	\$23/oz	=	\$108
Gold	0.3 g/t	@	\$1,250/oz	=	\$ 13
Gross total value					US\$353/t

Given local conditions, this indicates a potentially mineable resource, that has potential to be upgraded by further drilling.

The Doris Project

This silver-copper prospect is on the same Paguanta tenement block. To date only surface sampling has been undertaken but the results are highly encouraging. They include up to 4.5% copper and 617g/t silver. It is a significant target.

Financial

The company remains a debt-free corporate entity and with the addition of the NYRSTAR investment should be able to continue with its forceful exploration and development programme. Also see note page 2 of March 9, 2010 report.

Management (as March 9, 2010 report).

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

Recommendations

Despite the recovery in world trade, particularly emphasised in mining, since the 2008-09 shake-out, exploration and new development remains a sensitive area. Long term projects find it difficult if not impossible to attract funding. This will exacerbate metal shortages in the next cycle. Thus, positioning with well-directed, forceful juniors has an attraction for the calculated risk end of a portfolio. We regard Herencia as once such and continue to rate it a **speculative buy**.

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 30 September 2010 the distribution of all our published recommendations is as follows:

Recommendation	Total Stocks	Percentage %	Corporate
Buy	43	47%	13
Speculative Buy	6	7%	6
Outperform	14	15%	1
Market Perform	22	24%	4
Underperform	5	5%	0
Sell	2	2%	0
Total	92	100%	24

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

Headline	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
Company update	1.42p	11 Oct 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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WH Ireland Limited

11 St James's Square

Manchester M2 6WH

T: 0161 832 2174

F: 0161 839 5706

www.wh-ireland.co.uk

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