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HERENCIA RESOURCES PLC
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED
31 DECEMBER 2013

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Company Number 05345029
Presenter's Ref BH

Herencia Resources PLC

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DIRECTORS, SECRETARY AND ADVISERS

Directors	The Hon John Moore AO (Non-Executive Chairman) Graeme Sloan (Managing Director) Christopher James (Non-Executive) John Russell (Non-Executive)
Company Secretary	Ben Harber
Registered Office	One America Square Crosswall London EC3N 2SG
Principal Operating Office	Suite 7, 6 Richardson Street West Perth, Western Australia 6005
Company Number	05345029
Nominated Adviser and Broker	WH Ireland Limited 11 St James's Square Manchester M2 6WH
Auditors	UHY Hacker Young LLP Quadrant House 4 Thomas More Square London E1W 1YW
Solicitors	Watson, Farley & Williams LLP 15 Appold Street London EC2A 2HB Cariola Diez Perez-Cotapos Av Andres Bello 2711, Piso 19 Las Condes, Santiago, Chile
Registrars	Capita Registrars Ltd Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA
Principal Bankers	ANZ Bank 77 St Georges Terrace Perth, Western Australia 6000 Barclays Bank plc 1 Churchill Place London E14 5HP
Website	www.herenciaresources.com

**CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013**

I am delighted to update shareholders on the progress achieved and activities undertaken by the Company during what has been a very busy 2013

Several significant milestones were attained by the Company, including

- the Company acquired an option to earn a 100% stake in the advanced high-grade Picachos Copper Project in Chile, the Picachos Project,
- geological sampling and mapping confirmed the presence of pervasive copper mineralisation at Picachos, in addition to the high grade ore currently being mined at Picachos,
- the Patricia Feasibility Study (part of the Paguanta Project) was completed which identified the opportunity for an eight year mine life at Patricia involving both open pit and underground mining techniques. Work also continued on both the permitting and logistical components of the project with the aim of advancing Patricia toward production in as short a timeframe as possible,
- at the Guamanga Project, an agreement was entered into with OZ Minerals, one of Australia's leading copper producers, the terms of which will see OZ Minerals potentially spend up to \$8 million to earn 80% of this exciting project, and
- the signing of an agreement for a share placement to raise over £2.48 million from the issue of 400,000,000 new ordinary shares with Shining Capital Management ("Shining") of Hong Kong. This placement was subsequently completed in January 2014 with Shining becoming Herencia's largest shareholder.

This last point is of particular relevance to Herencia. Funding of junior resources companies remains one of the bigger challenges to be faced and it was very significant that in November 2013 the Company secured this substantial funding package from a leading Hong Kong private equity firm. The investment, completed in two tranches and at a premium to the prevailing share price, saw Shining Capital Management become Herencia's largest shareholder in early 2014.

The funds raised are to be directed primarily to advance the very exciting Picachos Copper Project through an initial drilling phase commencing in the first half of 2014 and then on to what we hope will become a fast-track toward production of open pit copper ore at Picachos.

In that same vein it is worth highlighting just how good a jurisdiction Chile is, on a number of levels. In addition to geological prospectivity, this stable and developed country is arguably one of the best mining jurisdictions in the world with excellent infrastructure and a highly skilled workforce available to those companies, including Herencia, intent on building successful mining operations.

Looking toward 2014 then, the primary goals for Herencia are

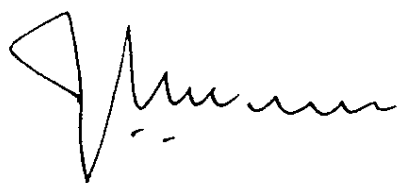
- to commence an RC drilling program at the Picachos Copper Project targeting both the high grade and manto-style copper mineralisation,
- to undertake a subsequent resource drill-out at Picachos targeting a maiden mineral resource estimate,
- to lodge the necessary permitting applications with the relevant authorities to advance the Paguanta silver-zinc-lead Project,
- to continue to work with OZ Minerals to advance the Guamanga Copper Project,
- to potentially undertake some early and low cost exploration work on the highly prospective La Serena porphyry-copper targets, and
- to seek to identify new business opportunities in Chile.

**CHAIRMAN'S STATEMENT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013**

I would like to thank Graeme Sloan and our hard working and dedicated teams in Chile and Perth for their on-going commitment to the Company. Graeme has done an outstanding job navigating Herencia through a challenging period for the industry - a new copper project and a large funding package are a testament to this.

I would also like to welcome Shining onto the Company's register and, along with the rest of the board, look forward to working with them as we continue to move Herencia forward.

In closing, and on behalf of the Herencia Board, I do thank all our shareholders for their on-going and loyal support for the Company.

A handwritten signature in black ink, appearing to read 'J. Moore', with a stylized, wavy line extending from the end.

**Hon. John Moore AO
Chairman**

22 May 2014

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013**

The Directors present their Strategic Report for the year ended 31 December 2013

Principal Activity and Business Review

The Company is registered in England and Wales, having been incorporated on 27 January 2005 under the Companies Act with registered number 05345029 as a public limited company

The principal activity of the Group is mineral exploration and development and it owns a portfolio of zinc-silver-lead-copper-gold exploration properties in Chile, South America. The Group operates through its parent and subsidiary undertakings, details of which are set out in note 15 to these accounts

Review of the business and future prospects

Review of the business

- (i) Herencia Resources plc holds an option to acquire 100% of the currently producing Picachos Copper Project in north-central Chile
- (ii) Herencia also holds a 70% interest in the Paguanta Project in northern Chile
- (iii) In addition, Herencia has entered into an agreement with OZ Minerals of Australia whereby OZ Minerals can earn an 80% interest in the Guamanga Copper-Gold Project, located in northern Chile, by spending up to \$8 million on the project
- (iv) Herencia owns 100% of several highly prospective porphyry-copper style targets located north-east of the regional centre of La Serena
- (v) In addition, Herencia is also active in seeking new development opportunities with a focus on Chilean projects, given its significant expertise and resources in Chile

The **Picachos** Project is a very advanced copper project located close to the major city of La Serena and only eight kilometres from the very large Carmen de Andacollo copper mine owned by the Canadian major Teck Resources

High grade copper ore grading approximately 2.5% copper is currently mined by private miners at Picachos at a rate of some 4,000 tonnes per month. It is both this high grade mineralisation and the evidently larger manto-style copper mineralisation that is the Company's immediate target for drilling. The goal is to develop Picachos into an open pit copper producer in as short a time-frame as possible.

The **Paguanta** Project comprises the

- 'Patricia' zinc-silver-lead-gold Mineral Resource,
- The 'Patricia East' zone where several drill holes encountered high grade silver-zinc mineralisation,
- 'Doris' copper/silver prospect,
- 'La Rosa' porphyry-copper prospect, and
- 'Loreto' porphyry-copper style target located immediately south-west of Patricia

STRATEGIC REPORT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

Review of the business and future prospects (continued)

The **Guamanga** Project has an agreement with Australian copper major OZ Minerals, targeting a large Iron Oxide Copper Gold (IOCG) style of mineralisation

The Company also has 100% interest in a number of key tenements in the **La Serena** area that have potential for both IOCG and porphyry copper-gold type mineral systems

At this time the directors believe that the Company is well positioned given

- we have advanced, multi-commodity project opportunities in a stable and geologically prospective country,
- the project opportunities have both near-term production potential and strong growth potential,
- at Picachos the copper mineralisation is located at or very near surface and the opportunity exists to drill the area quickly and cost effectively,
- the Picachos Project is well located with existing mines and infrastructure located in the immediate vicinity,
- at Paguanta the feasibility study on the Patricia mineral resource has been completed and preparations for initiating the permitting process are well advanced,
- the mineralisation at Patricia is open in all directions,
- one of Australia's leading copper producers has entered into an agreement to advance the Guamanga copper-gold project by funding up to \$8 million in expenditure for an 80% equity stake in the project,
- we have a locally based management team with significant resources industry experience, and
- we have attracted a new cornerstone shareholder who sees value not only in our projects but also our highly experienced management team

Future Prospects

Herencia's goals for 2014 include

- commencing an RC drilling program at the Picachos Copper Project targeting both the high grade and manto-style copper mineralisation and, subject to confirmation of the high grades identified to date, undertaking a subsequent resource drill-out at Picachos targeting a maiden mineral resource estimate;
- lodgement of permitting applications with the relevant authorities to advance the Paguanta Project,
- continuing to work with OZ Minerals to advance the Guamanga Copper Project, and
- potentially undertaking some early and low cost exploration work on the highly prospective La Serena porphyry-copper targets

The Company will also seek to identify new business opportunities in Chile as and when the opportunities arise

**STRATEGIC REPORT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013**

Review of the business and future prospects (continued)

Given the funding arrangements initiated in late-2013 and completed in early-2014, the Company believes it is well positioned to advance its work programs in Chile

Due to the progressing state of all the projects, the Directors' consider that no impairment provision is required, at this time, with respect to the goodwill, exploration and evaluation expenditure and investment associated with the Picachos, Paguanta, Guamanga and La Serena Projects

The Group's primary business remains mineral exploration and development which is subject to risks including discovery of economic mineral resources, delays in work programme plans and schedules, changes in market conditions affecting the resources industry or commodity price levels, the outcome of commercial negotiations and technical or operating factors, political, environmental and regulatory controls and approvals, and availability and retention of suitable employees and consultants. Any one or more of these risk factors could have a materially adverse impact on the value of the Company

Due to the early stage of the development of the Group and the nature of its activities, it is not meaningful to consider a review of the key financial performance indicators in respect of the year

Strategy Review

The key theme behind the Company's strategic plan is to advance, in a safe and socially responsible manner, its current group of resource assets in Chile and to identify, acquire and develop new resource opportunities. Herencia will leverage off our extensive experience operating in Chile and our excellent team of technical and operating personnel based there.

The project 'criteria' is primarily focussed on

- copper, copper-gold, base metals (ie zinc-lead) and silver,
- advanced status (ie outcropping mineralisation and previous drilling or historic production as a minimum) and where production could be achieved within a typically three-year timeframe,
- where future capital costs would be less than \$50-70 million to develop (at least the Company's share),
- close to infrastructure, and
- preferably at altitudes below 4,000m ASL (ie less than 4,000m above sea level)

The objective is for the Company to achieve the level of 'producer status' in as quick a time frame as practical with one operating project in the short term, building to a stage where production (and hence cash flow) would be generated from three projects in the medium to long term. The projects may be wholly owned by the Company or may be joint ventures whereby the Company is either the major partner and operator, or the minor partner where an experienced miner and operator is the majority partner.

HERENCIA RESOURCES PLC

STRATEGIC REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2013

Strategy Review (continued)

The Company is seeking to achieve this strategy as can be demonstrated in its suite of current main project assets

- Paguanta – Zinc-silver-lead project located at 3,700m ASL. An advanced project with JORC-compliant mineral resource estimate and feasibility study. Initial eight (8) year mine-life with both open pit and underground phases. Significant resource upside with all mineralisation open both along strike and down-dip. Company's share of estimated capital costs less than \$50 million and subject to project and funding milestones and commodity/equity markets the project could be brought into production very quickly.
- Picachos – Copper, advanced project with historic and current ore production, located near infrastructure and with a number of existing copper processing plants located within close proximity to the Project (providing opportunity for very low project capital costs), located at 800m ASL and with both open pit and underground potential.
- Guamanga – Copper-gold, advanced project with previous drilling and strong geophysical anomaly, JV with large and very well-funded Australian copper miner, close to existing and large copper mine and national highway and situated at less than 1,000m ASL and with both large open pit and underground potential.

By order of the board



Graeme Sloan
Director

22 May 2014

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013**

The Directors present their Directors' report together with the audited accounts of the Group ("Herencia Resources plc and its subsidiary undertakings") and the Company ("Herencia Resources plc") for the year ended 31 December 2013

Results and dividends

The loss of the Group for the year ended 31 December 2013 was £3,443,061 (2012 £2,479,909), of which the amount attributable to the equity holders of the Company, was £2,826,407 (2012 £2,047,566)

The Directors do not recommend any distribution by way of a dividend for the year ended 31 December 2013

Audit Committee

The Audit Committee meets twice each year to discuss the half yearly and annual results. For the annual results the independent auditors, JHY Hacker Young, are invited to discuss the results and their assessment of internal controls. The Chairman of the Audit Committee is John Russell and the other participating member of the committee is The Hon John Moore AO.

The Company has adopted an Audit Committee Charter which addresses the mandate of the Committee, the composition, independence, expertise of the members, frequency of meetings, roles and responsibilities, external audit function, internal controls, financial reporting, annual and interim financial statements, release of financial information, non-audit services, delegation of authority, reporting responsibilities, resources and authority of the Committee, and compliance with laws and regulations.

Remuneration Committee

The Company does not, at present, have a Remuneration Committee.

Information to shareholders - Web site

The Company has its own web site (www.herenciaresources.com) for the purposes of improving information flow to shareholders as well as to potential investors.

Group structure and changes in share capital

Details of the Company's subsidiaries are shown in note 15 and movements in share capital during the year are set out in note 20 to these accounts.

Directors

The following Directors held office during or since the end of the year and until the date of this report. Directors were in office for this entire period unless otherwise stated.

Graeme Sloan	Managing Director
The Hon John Moore AO	Non-Executive Chairman
Christopher James	Non-Executive Director (appointed 5 March 2013)
John Russell	Non-Executive Director
Michael Bohm	Non-Executive Director (resigned 31 August 2013)
Greg McMillan	Non-Executive (resigned 5 March 2013)

DIRECTORS' REPORT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013
Directors' interests

The beneficial and non-beneficial interests in the Company's shares of the Directors and their families were as follows

Name	31 December 2013 Number of ordinary shares of £0.001	31 December 2012 Number of ordinary shares of £0.001
Graeme Sloan ¹	5,188,905	2,888,905
The Hon John Moore AO ²	8,074,080	8,074,080
Christopher James (appointed 5 March 2013)	-	N/A
John Russell ³	7,407,413	7,407,413
Michael Bohm (resigned 31 August 2013) ⁴	N/A	38,876,249
Greg McMillan (resigned 5 March 2013) ⁵	N/A	-

¹ 5,188,905 shares are held by Graeme Sloan

² 8,074,080 shares are held by Ralsten Pty Ltd (31 December 2012 8,074,080) The Hon John Moore AO is a director and shareholder of that company

³ 7,407,413 shares are held by John Russell (31 December 2012 7,407,413) As at the date of this report 11,907,413 shares are held directly and indirectly by John Russell

⁴ As at the date of resignation, 38,426,249 shares were held by Michael Bohm's wife, Charmaine Lobo (31 December 2012 38,426,249) and 450,000 shares were held by Michael Bohm (31 December 2012 450,000)

⁵ As at the date of resignation, nil shares were held by Greg McMillan (31 December 2012 Nil)

The beneficial and non-beneficial interests in the Company's options of the Directors and their families were as follows (the details of these options, including the exercise prices are set out in note 21 to the financial statements)

Name	31 December 2013 Number of options over ordinary shares of £0.001	31 December 2012 Number of options over ordinary shares of £0.001
Graeme Sloan	20,000,000	20,000,000
The Hon John Moore AO	5,000,000	10,000,000
Christopher James (appointed 5 March 2013)	-	N/A
John Russell	5,000,000	10,000,000
Michael Bohm (resigned 31 August 2013) ¹	N/A	20,500,000
Greg McMillan (resigned 5 March 2013) ²	N/A	-

¹ As at the date of resignation, 20,500,000 options were held by Michael Bohm

² As at the date of resignation, nil options were held by Greg McMillan

Directors' service contracts

The service contracts of all the existing Non-Executive Directors are subject to a one month termination period

Pensions

The Group does not operate a pension scheme for Directors or employees

HERENCIA RESOURCES PLC

DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2013

Directors' remuneration

Remuneration of Directors for the year was as follows

31 December 2013

	Fees/basic salary £	Employer's NI £	Pension costs £	Bonus £	Share based payments £	2013 Total £
Executive						
Graeme Sloan	220,962	-	13,168	14,303	15,002	263,435
Non-Executive						
The Hon John Moore AO	25,000	-	-	-	-	25,000
Christopher James	-	-	-	-	-	-
John Russell	21,000	9,858	-	-	-	30,858
Michael Bohm	14,014	-	1,271	-	-	15,285
Greg McMillan	-	-	-	-	-	-
	<u>280,976</u>	<u>9,858</u>	<u>14,439</u>	<u>14,303</u>	<u>15,002</u>	<u>334,578</u>

Graeme Sloan's fees/basic salary amount of £220,962 represents base salary together with annual leave entitlement The salaries of Graeme Sloan. The Hon John Moore AO and Michael Bohm are paid in Australian dollars and converted to GBP£'s for the purposes of these accounts The share based payments are non-cash payment, and is a 'calculated' fair value for share options expensed during the year (refer note 21 to the financial statements) Included in the Employer's NI cost of £9,858 is £8,280 which represents the amount payable in respect of the exercise of options by John Russell in 2011

31 December 2012

	Fees/basic salary £	Employer's NI £	Pension costs £	Long service leave £	Share based payments £	2012 Total £
Executive						
Graeme Sloan	148,118	-	10,698	-	29,830	188,646
Michael Bohm	117,875	-	18,345	49,389	-	185,609
Non-Executive						
The Hon John Moore AO	25,000	-	-	-	-	25,000
Michael Bohm	10,456	-	941	-	-	11,397
John Russell	21,000	1,880	-	-	-	22,880
Greg McMillan	-	-	-	-	-	-
	<u>322,449</u>	<u>1,880</u>	<u>29,984</u>	<u>49,389</u>	<u>29,830</u>	<u>433,532</u>

Graeme Sloan was appointed Managing Director on 1 July 2012 and his fees/basic salary amount of £148,118 represents base salary together with annual leave entitlement (no bonus was paid during the year) Michael Bohm's executive fees/basic salary amount of £117,875 represents the period 1 January 2012 to 1 July 2012 following his step down from Managing Director to Non-Executive Director The salaries of Graeme Sloan, The Hon John Moore AO and Michael Bohm are paid in Australian dollars and converted to GBP£'s for the purposes of these accounts

Value of options exercised by Directors

No options were exercised by the Directors during the year

DIRECTORS' REPORT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

Substantial shareholders

The Company has been notified, in accordance with Section 792 of the Companies Act 2006, of the following interests in its ordinary shares as at 13 May 2014

	Number of Ordinary shares	% of Share Capital
Shining Capital Management	400,000,000	16.37
Nyrstar International BV	194,099,734	7.94
The Australian Special Opportunity Fund	146,236,744	5.98
Inversiones Santa Patricia Limitada	75,982,843	3.11

Subsequent events

The following subsequent events have arisen since the end of the reporting date to the date of this report

- On 15 January 2014, in pursuant with the Subscription Agreement and successful due diligence with Shining Capital Management, an additional 300 million ordinary shares were issued at a price of 0.62p for a total consideration of £1.86 million
- Following the above share issues, the number of ordinary shares in issue is 2,443,960,817

No other matter or circumstances have arisen since the end of the reporting date to the date of this report which significantly affect the results of the operations of the Company

Environment Policy Statement

The Group is an Operator of exploration projects. It closely monitors activities to ensure, to the best of its knowledge, there is no potential for any breach of environment's regulations. There have been no convictions in relation to breaches of the local Chilean regulations recorded against the Group during the reporting period.

HERENCIA RESOURCES PLC

DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2013

Statement of responsibilities of those charged with governance

The Directors are responsible for preparing the financial statements in accordance with applicable laws and International Financial Reporting Standards ("IFRS"), as adopted by the European Union. Company law requires the Directors to prepare financial statements for each financial year. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the Company and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to

- a) select suitable accounting policies and then apply them consistently,
- b) make judgements and estimates that are reasonable and prudent,
- c) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business; and
- d) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements

The Directors confirm that the financial statements comply with the above requirements

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. The Directors are also responsible for safeguarding the assets of the Group and hence for taking steps for the prevention and detection of fraud and other irregularities

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website

Statement of disclosure to auditors

So far as all of the Directors at the time of approval of this report are aware

- 1 there is no relevant audit information of which the Company's auditors are unaware, and
- 2 the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

Auditors

In accordance with Section 489 of the Companies Act 2006, a resolution proposing that UHY Hacker Young be re-appointed as auditors of the Company and that the Directors be authorised to fix their remuneration will be put to the next Annual General Meeting

By order of the board



Graeme Sloan
Director

22 May 2014

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HERENCIA RESOURCES PLC
FOR THE YEAR ENDED 31 DECEMBER 2013**

We have audited the financial statements of Herencia Resources plc for the year ended 31 December 2013 which comprise the Consolidated statement of comprehensive income, the Consolidated and Parent Company statements of financial position, the Consolidated and Parent Company statements of changes in equity, the Consolidated and Parent Company statements of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

As explained more fully in the Statement of responsibilities of those charged with governance, set out on page 13, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2013 and of the group's loss for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report and the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HERENCIA RESOURCES PLC (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013**

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion.

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the Parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Colin Wright (Senior Statutory Auditor)
For and on behalf of UHY Hacker Young
Chartered Accountants
Statutory Auditor

Quadrant House
4 Thomas More Square
London E1W 1YW

22 May 2014

HERENCIA RESOURCES PLC

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Notes	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Revenue		-	-
Cost of sales		-	-
Gross profit		-	-
Administration expenses		(2,770,662)	(2,606,109)
Foreign exchange (losses)/gains		(674,221)	108,558
Operating loss	6	(3,444,883)	(2,497,551)
Finance revenue		1,822	17,642
Loss before tax		(3,443,061)	(2,479,909)
Income tax expenses	8	-	-
Loss for the year		(3,443,061)	(2,479,909)
Other Comprehensive Income/(Loss)			
Exchange differences on translating foreign operations		(1,435,346)	417,357
Other comprehensive income for the year, net of tax		(1,435,346)	417,357
Total Comprehensive Loss for the year		(4,878,407)	(2,062,552)
Loss attributable to:			
Equity holders of the Company		(2,826,407)	(2,047,566)
Non-controlling interests		(616,654)	(432,343)
		(3,443,061)	(2,479,909)
Total Comprehensive Loss attributable to:			
Equity holders of the Company		(3,784,902)	(1,770,865)
Non-controlling interests		(1,093,505)	(291,687)
		(4,878,407)	(2,062,552)
Loss per share			
Loss per ordinary share – basic and diluted	4	(0.15)p	(0.13)p

The results shown above relate entirely to continuing operations

HERENCIA RESOURCES PLC

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

	Notes	Group 31 December 2013 £	Group 31 December 2012 £	Company 31 December 2013 £	Company 31 December 2012 £
ASSETS					
Non-current assets					
Receivables	12	454,837	358,138	15,620,840	13,001,105
Intangible assets and goodwill	13	16,410,430	15,768,018	-	-
Property, plant and equipment	14	100,770	183,036	10,207	7,975
Investments in subsidiaries	15	-	-	1,250,000	1,250,000
		<u>16,966,037</u>	<u>16,309,192</u>	<u>16,881,047</u>	<u>14,259,080</u>
Current assets					
Cash and cash equivalents	9	945,491	1,629,772	88,719	461,996
Trade and other receivables	10	129,958	194,865	124,525	48,268
Other assets	11	18,701	16,784	18,701	16,784
		<u>1,094,150</u>	<u>1,841,421</u>	<u>231,945</u>	<u>527,048</u>
Total assets		<u>18,060,187</u>	<u>18,150,613</u>	<u>17,112,992</u>	<u>14,786,128</u>
LIABILITIES					
Non current liabilities					
Provisions for liabilities	16	56,155	62,932	-	-
Loans and borrowings	18	354,345	-	354,345	-
		<u>410,500</u>	<u>62,932</u>	<u>354,345</u>	<u>-</u>
Current liabilities					
Trade and other payables	17	435,856	358,450	142,024	18,335
Provisions for liabilities	16	25,686	14,579	25,686	14,579
		<u>461,542</u>	<u>373,029</u>	<u>167,710</u>	<u>32,914</u>
Total liabilities		<u>872,042</u>	<u>435,961</u>	<u>522,055</u>	<u>32,914</u>
Net Assets		<u>17,188,145</u>	<u>17,714,652</u>	<u>16,590,937</u>	<u>14,753,214</u>
EQUITY					
Share capital	20	2,143,960	1,672,114	2,143,960	1,672,114
Share premium		20,252,851	18,208,977	20,252,851	18,208,977
Share based payments reserve		761,360	593,850	761,360	593,850
Other reserve	18	112,048	-	112,048	-
Translation reserve		(201,875)	756,620	-	-
Retained losses		(10,714,163)	(7,887,756)	(6,679,282)	(5,721,727)
Capital and reserves attributable to equity holders		12,354,181	13,343,805	16,590,937	14,753,214
Minority interests in equity	19	4,833,964	4,370,847	-	-
Total equity and reserves		<u>17,188,145</u>	<u>17,714,652</u>	<u>16,590,937</u>	<u>14,753,214</u>

The financial statements of Herencia Resources plc, company number 05345029, were approved by the Board of Directors and authorised for issue on 22 May 2014. They were signed on its behalf by

Graeme Sloan
Director



HERENCIA RESOURCES PLC

**STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Notes	Group 2013 £	Group 2012 £	Company 2013 £	Company 2012 £
Net cash outflow from operating activities	22	(2,785,994)	(2,134,405)	(819,140)	(950,266)
Cash flows from investing activities					
Interest received		1,822	17,642	1,470	16,956
Payments for property, plant and equipment		(9,424)	(28,604)	(8,675)	(3,066)
Cash calls and proceeds of shares issued to minority shareholder		1,556,624	982,142	-	-
Cash calls from subsidiary		-	-	(1,994,776)	(2,879,690)
Proceeds from sale of plant and equipment		-	262	-	262
Net funds used for investing in exploration	13	(1,895,153)	(3,499,758)	-	-
Net cash used by investing activities		<u>(346,131)</u>	<u>(2,528,316)</u>	<u>(2,001,981)</u>	<u>(2,865,538)</u>
Cash flows from financing activities					
Proceeds from issue of shares	20	805,318	1,200,000	805,318	1,200,000
Proceeds from funding agreement	18	1,141,728	-	1,141,728	-
Proceeds from issue of convertible note		500,798	-	500,798	-
Issue costs		-	(50,339)	-	(50,339)
Net cash from financing activities		<u>2,447,844</u>	<u>1,149,661</u>	<u>2,447,844</u>	<u>1,149,661</u>
Net decrease in cash and cash equivalents		(684,281)	(3,513,060)	(373,277)	(2,666,143)
Cash and cash equivalents at the beginning of the year		<u>1,629,772</u>	<u>5,142,832</u>	<u>461,996</u>	<u>3,128,139</u>
Cash and cash equivalents at the end of the year	9	<u>945,491</u>	<u>1,629,772</u>	<u>88,719</u>	<u>461,996</u>

HERENCIA RESOURCES PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	Share capital £	Share premium £	Translation reserve £	Share-based payments reserve £	Other reserve £	Shares to be issued £	Retained losses £	Total £	Minority interest £	Total equity £
Balance at 1 January 2012	1,520,114	17,187,316	479,919	560,633	-	24,000	(5,840,190)	13,931,792	3,680,392	17,612,184
Issue of shares	152,000	1,072,000	-	-	-	(24,000)	-	1,200,000	982,142	2,182,142
Share issue costs	-	(50,339)	-	-	-	-	-	(50,339)	-	(50,339)
Share based payments	-	-	-	33,217	-	-	-	33,217	-	33,217
Total comprehensive income/(loss) for the year	-	-	276,701	-	-	-	(2,047,566)	(1,770,865)	(291,687)	(2,062,552)
Balance at 31 December 2012	1,672,114	18,208,977	756,620	593,850	-	-	(7,887,756)	13,343,805	4,370,847	17,714,652
Balance at 1 January 2013	1,672,114	18,208,977	756,620	593,850	-	-	(7,887,756)	13,343,805	4,370,847	17,714,652
Issue of shares	471,846	2,427,465	-	-	-	-	-	2,899,311	1,556,622	4,455,933
Share issue costs	-	(383,591)	-	-	-	-	-	(383,591)	-	(383,591)
Share based payments	-	-	-	167,510	-	-	-	167,510	-	167,510
Convertible loan equity component	-	-	-	-	112,048	-	-	112,048	-	112,048
Total comprehensive income/(loss) for the year	-	-	(958,495)	-	-	-	(2,826,407)	(3,784,902)	(1,093,505)	(4,878,407)
Balance at 31 December 2013	2,143,960	20,252,851	(201,875)	761,360	112,048	-	(10,714,163)	12,354,181	4,833,964	17,188,145

HERENCIA RESOURCES PLC

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	Share capital £	Share premium £	Share-based payments reserve £	Other reserves £	Shares to be issued £	Retained losses £	Total equity £
Balance at 1 January 2012	1,520,114	17,187,316	560,633	-	24,000	(4,809,224)	14,482,839
Issue of shares	152,000	1,072,000	-	-	(24,000)	-	1,200,000
Share issue costs	-	(50,339)	-	-	-	-	(50,339)
Share based payments	-	-	33,217	-	-	-	33,217
Total comprehensive income/(loss) for the year	-	-	-	-	-	(912,503)	(912,503)
Balance at 31 December 2012	1,672,114	18,208,977	593,850	-	-	(5,721,727)	14,753,214
Balance at 1 January 2013	1,672,114	18,208,977	593,850	-	-	(5,721,727)	14,753,214
Issue of shares	471,846	2,427,465	-	-	-	-	2,899,311
Share issue costs	-	(383,591)	-	-	-	-	(383,591)
Convertible loan equity component	-	-	-	112,048	-	-	112,048
Share based payments	-	-	167,510	-	-	-	167,510
Total comprehensive income/(loss) for the year	-	-	-	-	-	(957,555)	(957,555)
Balance at 31 December 2013	2,143,960	20,252,851	761,360	112,048	-	(6,679,282)	16,590,937

1. Accounting policies

The principal accounting policies, all of which have been applied consistently to all the periods are set out below

1.1. Basis of preparation and going concern

The financial statements have been prepared using the historical cost convention and are presented in UK pounds sterling. In addition, the financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") including IFRS 6 'Exploration for and Evaluation of Mineral Resources', as adopted by the European Union ("EU") and in accordance with the provisions of the Companies Act 2006

In accordance with the provision of Section 408 of the Companies Act 2006, the Parent Company has not presented an Income Statement. The Parent Company's loss for the year ended 31 December 2013 of £957,555 (31 December 2012 £912,503 (loss)) has been included in the consolidated statement of comprehensive income

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business

On 8 March 2013, the Company executed a Funding Agreement for up to US\$14.25 million investment and issued a Convertible Security Instrument of US\$0.75 million (£0.5 million) to the Australian Special Opportunity Fund, a New York-based institutional investor managed by The Lind Partners

On 15 November 2013, the agreement was terminated by mutual consent, however during the year the Company received a total of US\$2.52 million (£1.64 million) represented by a US\$0.75 million (£0.5 million) convertible security note and US\$1.77 million (£1.14 million) towards the purchase of ordinary shares in the Company. Refer to note 20 for further details

On 13 November 2013, the Company announced that it has secured a new cornerstone investor, Shining Capital Management ("Shining"), a Hong-Kong based investment fund for up to £2.48 million in funding

Under the terms of the agreement, on 2 December 2013, Shining subscribed for 100 million ordinary shares at a price of 0.62p (represented approximately 15% premium to the 45 day VWAP and 25% premium to the current issue share price) for a total consideration of £0.62 million. Following successful due diligence, on 15 January 2014, Shining subscribed for an additional 300 million ordinary shares at price of 0.62p for a total consideration of £1.86 million

The activities in the year and future prospects of the Group are discussed in the Directors' Report. The Group has not yet earned revenue as it is still in the exploration phase of its business

The Directors have reviewed the Group's overall position and outlook and are of the opinion that the Group will be able to carry out the planned activities and provide working capital to enable it to meet its liabilities as they fall due, for the foreseeable future, and for at least the next twelve months from the date of approval of these financial statements. The directors therefore believe that the use of the going concern basis is appropriate

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

1.2. Basis of consolidation

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Company. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Goodwill is capitalised as an intangible asset and in accordance with IFRS3 'Business Combinations' it is not amortised but tested for impairment on an annual basis. As such, goodwill is stated at cost less any provision for impairment in value. If a subsidiary undertaking is subsequently sold, goodwill arising on acquisition is taken into account in determining the profit and loss on sale.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated.

All the companies over which the Company has control, apply, where appropriate, the same accounting policies as the Company.

1.3. Foreign currency translation

Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. The resulting exchange gain or loss is dealt with in the profit and loss account.

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statement the assets and liabilities of the foreign subsidiary undertakings are translated into Sterling at the rates of exchange ruling at the year end and their results are translated at the average exchange rate for the year. Exchange differences resulting from the retranslation of net investments in subsidiary undertakings are treated as movements of reserves.

1.4. Cash and cash equivalents

The Company considers all highly liquid investments, with a maturity of 90 days or less to be cash equivalents, carried at the lower of cost or market value.

1.5. Property, plant and equipment

Property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

1.5. Property, plant and equipment (continued)

The cost of fixed assets constructed within the Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful life of the improvements.

The depreciation rates used for each class of depreciable assets are

Leasehold improvements	50%
Computers & office equipment	33 33%
Office furniture	25%
Motor vehicles	25%
Plant & equipment	25%

Impairment

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each year end date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Disposals

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised.

1.6. Deferred taxation

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and expected to apply when the related deferred tax is realised or the deferred liability is settled. Deferred tax assets are recognised to the extent that it is probable that the future taxable profit will be available against which the temporary differences can be utilised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

1.7. Exploration and evaluation costs

All costs associated with mineral exploration and investments are capitalised on a project by project basis, pending determination of the feasibility of the project. Costs incurred include appropriate technical and administrative expenses but not general corporate overheads. If an exploration project is successful, the related expenditures will be transferred to mining assets and amortised over the estimated life of the commercial ore reserves on a unit of production basis. Where a licence is relinquished or project abandoned, the related costs are written off. Where the Group maintains an interest in a project, but the value of the project is considered to be impaired, a provision is made against the relevant capitalised costs.

The recoverability of all exploration and evaluation costs is dependent upon the discovery of economically recoverable reserves, the ability of the Group to obtain necessary financing to complete the development of the reserves and future profitable production or proceeds from the disposition thereof.

Amounts recorded for these assets represent costs and are not intended to reflect present or future values.

1.8. Impairment of exploration and evaluation costs

The carrying value of exploration and evaluation is assessed on at least an annual basis or when there has been an indication that impairment in value may have occurred. The impairment of exploration and evaluation is assessed based on the Directors' intention with regard to future exploration and development of individual significant areas and the ability to obtain funds to finance such exploration and future development.

1.9 Share based payments

The Company made share-based payments to certain directors and employees by way of issue of share options. The fair value of these payments is calculated by the Company using the Black Scholes option pricing model. The expense is recognised on a straight line basis over the period from the date of award to the date of vesting, based on the Company's best estimate of shares that will eventually vest. Where equity instruments are granted to persons other than directors or employees, the consolidated statement of comprehensive income is charged with the fair value of any goods or services received.

1.10. Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employees benefits to be settled within twelve months are measured at their nominal values using the remuneration rates expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within twelve months are measured at the present value of the estimated future cash outflows to be made by the entity in respect of services provided by employees up to reporting date.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013**

2. Critical accounting estimates and judgements

The Directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Recoverability of intercompany balances

Determining whether intercompany balances are impaired requires an estimation of whether there are any indications that their carrying values are not recoverable.

Impairment of capitalised exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether it successfully recovers the related exploration and evaluation asset through sale. Factors which could impact the future recoverability include the level of proved, probable and inferred mineral resources, future technological changes which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made.

In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage which permits reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent that it is determined in the future that this capitalised expenditure should be written off, this will reduce profits and net assets in the period in which this determination is made.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a BlackScholes model, using the assumptions detailed in note 21.

3. Adoption of new and revised International Financial Reporting Standards (IFRSs)

3.1 Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)

The Company has adopted all new and revised Standards and Interpretations in the current period which has affected the amounts reported in these financial statements.

Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

3. Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

3.2 Standards and Interpretations in issue not yet adopted

Certain new Standards and Interpretations have been published that are not yet mandatory. None of these are expected to have a significant effect on the consolidated financial statements except for IFRS 9 as set out below

IFRS 9 – Financial Instruments, deals with the classification and measurement of financial assets	Effective 1 January 2015
IFRS 10 – Consolidated Financial Statements, a single consolidation model that identifies control as the basis for consolidation and applies to all types of entities	Effective 1 January 2014
IFRS 11 – Joint Arrangements, defines the accounting for joint ventures and joint operations	Effective 1 January 2014
IFRS 12 – Disclosure of Interests in Other Entities, combines disclosure requirements for interests in subsidiaries, associates and joint ventures	Effective 1 January 2014
IFRS 7 / IAS 32 (amended) – Offsetting Financial Assets and Financial Liabilities, new disclosure requirements	Effective 1 January 2014
IAS 27 – Separate Financial Statements, new disclosure requirements	Effective 1 January 2014
IAS 36 (amended) – Impairment of Assets Financial Liabilities, new disclosure requirements	Effective 1 January 2014

The Company does not plan to adopt these Standard early

4. Loss per share

The basic loss per ordinary share of (0.15)p (2012: (0.13)p) for the Group has been calculated by dividing the loss for the year attributable to equity holders of £2,826,407 (2012: £2,047,566) by the weighted average number of ordinary shares in issue of 1,856,288,943 (2012: 1,593,354,687)

The diluted loss per share has been calculated using a weighted average number of shares in issue and to be issued of 1,944,938,258 (2012: 1,651,185,288). The diluted loss per share has been kept the same as the conversion of share options decreases the basic loss per share, thus being anti-dilutive.

5. Segmental reporting

For the purposes of presenting segment information, the activities of the Group are divided into operating segments in accordance with IFRS 8 'Operating Segments'. Operating segments are identified on the same basis that is used internally to manage and report on performance and takes account of the organisational structure of the Group based on the activities of the reportable segments.

The activities of the Group are broken down into the operating segments of Mineral Exploration and Central Costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

5. Segmental reporting (continued)

Segment information by operating segment and by region is as follows

	Mineral Exploration		Central Costs		Total	
	2013 £	2012 £	2013 £	2012 £	2013 £	2012 £
Segment information by operating segment						
Finance revenue	352	686	1,470	16,956	1,822	17,642
Administration expenses	(1,742,261)	(1,700,953)	(930,123)	(804,456)	(2,672,384)	(2,505,409)
<i>Non-cash expenditure</i>						
Depreciation expense	(76,831)	(61,525)	(6,443)	(6,161)	(83,274)	(67,686)
Share-based payments	-	-	(15,004)	(33,217)	(15,004)	(33,217)
Foreign exchange (losses)/gain	(666,766)	194,387	(7,455)	(85,626)	(674,221)	108,761
Segment result	(2,485,506)	(1,567,405)	(957,555)	(912,504)	(3,443,061)	(2,479,909)
Segment assets	17,038,684	16,783,483	1,021,503	1,367,130	18,060,187	18,150,613
Segment liabilities	(349,987)	(403,045)	(522,055)	(32,916)	(872,042)	(435,961)
Net assets	16,688,697	16,380,438	499,448	1,334,214	17,188,145	17,714,652

	External Revenue		Non-Current Assets	
	2013 £	2012 £	2013 £	2012 £
Segment information by region				
Australia	-	-	10,207	7,975
Chile	-	-	16,955,830	16,301,217
Group	-	-	16,966,037	16,309,192

At the end of the financial year, the Group had not commenced commercial production from its exploration sites and therefore had no turnover in the year

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

6 Operating loss	Group 2013 £	Group 2012 £
Auditors' remuneration		
- audit	30,988	28,803
Depreciation	83,274	67,686
Corporate and advisory fees	597,388	749,178
Employee benefits expense	957,778	1,130,502
Share-based payments	15,004	33,217

The audit costs includes £24,300 (2012 £22,200) payable to the parent company auditors

7. Employees and emoluments

(a) Emoluments of employees, including Directors, comprised.	Group 2013 £	Group 2012 £
Wages and salaries	857,796	1,028,730
Social security costs	15,345	12,355
Directors' fees	71,143	59,277
Share-based payments	15,004	33,217
Pension costs	13,494	30,140
	<u>972,782</u>	<u>1,163,719</u>

(b) Average employee headcount:	Group 2013 No	Group 2012 No
Australia	2	2
Chile	17	17
	<u>19</u>	<u>19</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

7. Employees and emoluments (continued)

(c) Directors' remuneration

31 December 2013

	Fees/basic salary £	Employer's NI £	Pension costs £	Bonus £	Share based payments £	2013 Total £
Executive						
Graeme Sloan	220,962	-	13,168	14,303	15,002	263,435
Non-Executive						
The Hon John Moore AO	25,000	-	-	-	-	25,000
Christopher James	-	-	-	-	-	-
John Russell	21,000	9,858	-	-	-	30,858
Michael Bohm	14,014	-	1,271	-	-	15,285
Greg McMillan	-	-	-	-	-	-
	280,976	9,858	14,439	14,303	15,002	334,578

Graeme Sloan's fees/basic salary amount of £220,962 represents base salary together with annual leave entitlement. The salaries of Graeme Sloan, The Hon John Moore AO and Michael Bohm are paid in Australian dollars and converted to GBP£'s for the purposes of these accounts. The share based payments are non-cash payment, it is a 'calculated' fair value for share options expensed during the year (refer note 21 to the financial statements). Included in the Employer's NI cost of £9,858 is £8,280 which represents the amount payable in respect of the exercise of options by John Russell in 2011.

31 December 2012

	Fees/basic salary £	Employer's NI £	Pension costs £	Long service leave £	Share based payments £	2012 Total £
Executive						
Graeme Sloan	148,118	-	10,698	-	29,830	188,646
Michael Bohm	117,875	-	18,345	49,389	-	185,609
Non-Executive						
The Hon John Moore AO	25,000	-	-	-	-	25,000
Michael Bohm	10,456	-	941	-	-	11,397
John Russell	21,000	1,880	-	-	-	22,880
Greg McMillan	-	-	-	-	-	-
	322,449	1,880	29,984	49,389	29,830	433,532

Graeme Sloan was appointed Managing Director on 1 July 2012 and his fees/basic salary amount of £148,118 represents base salary together with annual leave entitlement (no bonus was paid during the year). Michael Bohm's executive fees/basic salary amount of £117,875 represents the period 1 January 2012 to 1 July 2012 following his step down from Managing Director to Non-Executive Director. The salaries of Graeme Sloan, The Hon John Moore AO and Michael Bohm are paid in Australian dollars and converted to GBP£'s for the purposes of these accounts.

(d) Value of options exercised by Directors

No options were exercised by the Directors during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

8. Taxation	Group 2013 £	Group 2012 £
Current tax charge	-	-
Deferred tax		
Deferred tax current period charge	-	-
	-	-

8.1 Income tax recognised in profit or loss**Factors affecting the tax charge for the period**

Loss on ordinary activities before taxation	(3,443,061)	(2,479,909)
Loss on ordinary activities before taxation multiplied by standard rate of corporation tax of 23.0% (2012 24.5%)	(791,904)	(607,578)
<i>Effects of</i>		
Non deductible expenses	7,594	20,978
Tax losses	784,310	586,600
Current tax charge	-	-

8.2 Income tax recognised in other comprehensive income

	Group 2013 £	Group 2012 £
Factors affecting the tax charge for the period		
Other comprehensive income/(loss)	(1,435,346)	417,357
Total comprehensive income/(loss) before taxation multiplied by standard rate of corporation tax of 23.0% (2012 24.5%)	(330,130)	102,252
<i>Effects of</i>		
Exchange difference on translating foreign operations	330,130	(102,252)
Current tax charge	-	-

Factors that may affect future tax charges

At the year end date, the Group has unused tax losses available for offset against suitable future profits. The group had accumulated tax losses of £11,307,601 at 31 December 2013 (2012 £7,936,964). A deferred tax asset amounting to £2,374,596 (2012 £1,825,500) has not been recognised in respect of such losses due to uncertainty of future profit streams.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

9. Cash and cash equivalents	Group 2013 £	Group 2012 £	Company 2013 £	Company 2012 £
Cash at bank and in hand	945,491	1,629,772	88,719	461,996
10. Trade and other receivables	Group 2013 £	Group 2012 £	Company 2013 £	Company 2012 £
Other receivables	129,958	194,865	28,876	5,376
Amounts due from subsidiary undertakings	-	-	95,649	42,892
	<u>129,958</u>	<u>194,865</u>	<u>124,525</u>	<u>48,268</u>
11. Other current assets	Group 2013 £	Group 2012 £	Company 2013 £	Company 2012 £
Prepayments	18,701	16,784	18,701	16,784
12. Receivables – non current	Group 2013 £	Group 2012 £	Company 2013 £	Company 2012 £
Other receivables	454,837	358,138	-	-
Amounts due from subsidiary undertakings	-	-	15,620,840	13,001,105
	<u>454,837</u>	<u>358,138</u>	<u>15,620,840</u>	<u>13,001,105</u>

Other receivables of £454,837 represents the net amount recoverable of value added tax (VAT) from the relevant taxation authority, offset by a recovery of £1,311,970 which was received during 2012. Refer note 26 for further details.

The amount due from subsidiary undertakings of £15,620,840 (2012: £13,001,105) is net of a provision of £1,033,801, being an amount due from Iquique Resources (Chile) SA.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

13. Intangible assets

	Goodwill	Exploration & evaluation costs	Total
	£	£	£
Cost			
As at 1 January 2013	1,000,000	15,440,151	16,440,151
Additions ¹	-	2,520,112	2,520,112
Effect of foreign currency exchange differences	-	(1,877,700)	(1,877,700)
At 31 December 2013	1,000,000	16,082,563	17,082,563
Impairment			
As at 1 January 2013	(125,000)	(547,133)	(672,133)
Impairment loss	-	-	-
At 31 December 2013	(125,000)	(547,133)	(672,133)
Carrying amount			
As at 31 December 2013	875,000	15,535,430	16,410,430
As at 31 December 2012	875,000	14,893,018	15,768,018

¹ Includes the issue of shares to acquire the Guamanga project of £624,959. Refer note 20 for further details.

The exploration and evaluation costs as at 31 December 2013 relate entirely to the Paguanta (£13,465,100), Guamanga (£1,620,359), La Serena (£242,525) and Picachos (£207,446) projects located in Chile, South America.

Based on the Feasibility Study and the potential to further extend the mine life, the Directors believe that there has not been any impairment of goodwill and exploration and development costs in respect of the Paguanta project as at 31 December 2013. Furthermore, due to the progressing state of all the other projects, the Directors consider that no impairment provision is required, at this time, with respect to the exploration and evaluation expenditure associated with the Picachos, Guamanga and La Serena Projects.

14. Property, plant and equipment

	Group 2013	Group 2012	Company 2013	Company 2012
	£	£	£	£
Plant and equipment				
At cost	368,281	402,228	23,854	22,182
Accumulated depreciation	(267,511)	(219,192)	(13,647)	(14,207)
Total property and equipment	100,770	183,036	10,207	7,975
Movements in carrying amounts				
Balance at the beginning of the year	183,036	210,680	7,975	11,332
Additions at cost	9,424	28,604	8,675	3,066
Disposals	-	(262)	-	(262)
Depreciation expense	(83,274)	(67,686)	(6,443)	(6,161)
Effect of foreign currency exchange differences arising during the year	(8,416)	11,700	-	-
Carrying amount at the end of the year	100,770	183,036	10,207	7,975

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

15. Investments in subsidiaries

The Company's investments in subsidiary undertakings at 31 December 2013 were as follows

	Company £
Cost at 1 January 2013 and at 31 December 2013	1,500,000
Less provision for impairment at 1 January 2013 and at 31 December 2013	(250,000)
Net book value at 1 January 2013 and at 31 December 2013	<u>1,250,000</u>

The Company's subsidiary undertakings as at 31 December 2013 were as follows

Company name	Country of registration or incorporation	Class	Shares held %
Direct			
Tarapaca Resources (Bermuda) Limited	Bermuda	Ordinary	100
Indirect			
Tarapaca Holdings (BVI) Limited	British Virgin Islands	Ordinary	100
Iquique Resources Chile SA	Chile	Ordinary	100
Paguanta Resources Chile SA	Chile	Ordinary	100
Paguanta Mining Services Limited	Chile	Ordinary	100
Herencia Resources Chile SA	Chile	Ordinary	80
Compania Minera Paguanta SA	Chile	Ordinary	70

The principal activity of Iquique Resources Chile SA, Paguanta Resources Chile SA, Herencia Resources Chile SA and Compania Minera Paguanta SA is mineral exploration, Paguanta Mining Services Limited is employment services company whilst Tarapaca Resources (Bermuda) Limited and Tarapaca Holdings (BVI) Limited are holding companies

During the year, a number of private equity investors acquired a 20% interest in Herencia Resources Chile SA to fund the first year option payment and the initial exploration costs of the Picachos project Refer note 26 for further details

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

16. Provisions for liabilities	Group 2013 £	Group 2012 £	Company 2013 £	Company 2012 £
Decommissioning expenditure				
Balance at the beginning of the year	62,932	60,601	-	-
Effect of foreign currency exchange differences arising during the year	(6,777)	2,331	-	-
Balance at the end of the year	<u>56,155</u>	<u>62,932</u>	<u>-</u>	<u>-</u>
Employee benefits				
Balance at the beginning of the year	14,579	39,157	14,579	39,157
Arising during the year	15,503	63,098	15,503	63,098
Utilised during the year	-	(87,676)	-	(87,676)
Effect of foreign currency exchange differences arising during the year	(4,396)	-	(4,396)	-
Balance at the end of the year	<u>25,686</u>	<u>14,579</u>	<u>25,686</u>	<u>14,579</u>
Comprising				
Current	25,686	14,579	25,686	14,579
Non-current	56,155	62,932	-	-
	<u>81,841</u>	<u>77,511</u>	<u>25,686</u>	<u>14,579</u>

The Directors have considered the environmental issues and the need for any necessary provision for the cost of rectifying any environmental damage, as might be required under local legislation. A provision of £56,155 (2012 £62,932) has been made for any future costs of decommissioning or any environmental damage.

The provision for employee benefits relates to annual leave and long service leave entitlements.

17. Trade and other payables	Group 2013 £	Group 2012 £	Company 2013 £	Company 2012 £
Other payables and accruals	<u>435,856</u>	<u>358,450</u>	<u>142,024</u>	<u>18,335</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

18. Loans and borrowings	Group 2013 £	Group 2012 £	Company 2013 £	Company 2012 £
Non-current				
Convertible note	354,345	-	354,345	-
Movements				
Net proceeds from issue of convertible note	500,798	-	500,798	-
Conversion of loan	(84,048)	-	(84,048)	-
Amount classified as equity	(112,048)	-	(112,048)	-
Accreted interest	49,643	-	49,643	-
Carrying amount at the end of the year	354,345	-	354,345	-

On 8 March 2013, the Company executed a Funding Agreement for up to US\$14.25 million investment and issued a convertible security instrument of US\$0.75 million (£0.5 million) to the Australian Special Opportunity Fund, a New York-based institutional investor managed by The Lind Partners ("Lind"). Under the Agreement, the Company paid an execution fee of US\$0.35 million which has been satisfied by the issue of 24,071,407 ordinary shares in the Company in March 2013 at a price of 0.96p. Furthermore, 25,000,000 options were issued and details are contained in note 21.

On 15 November 2013, the agreement was terminated by mutual consent, however during this period (and in addition to the convertible note), the Company drew down US\$1.77 million (£1.14 million) which was satisfied by the issue of ordinary shares in the Company at 91.5% of the average three consecutive daily volume weighted average share price (VWAP), chosen by Lind during a specified period prior to the issuance of shares. Refer note 20 for further details.

The convertible note issued by the Company has a face value of US\$0.75 million and a term of 24 months at a 0.0% interest rate. The note may be converted in whole or in increments of no less than US\$50,000 at a conversion price of 100% of the average three consecutive daily VWAP, during the 20 trading days prior to conversion.

On 4 September 2013, Lind converted US\$150,000 of the outstanding convertible security into 24,055,424 ordinary shares in the Company at a price of 0.4p.

19. Minority interests	Group 2013 £	Group 2012 £
Called up share capital	6,673,761	5,117,139
Accumulated losses	(1,699,121)	(1,082,467)
Translation reserve	(140,676)	336,175
	<u>4,833,964</u>	<u>4,370,847</u>

20. Share capital	Company 2013 £	Company 2012 £
<i>Authorised</i>		
10,000,000,000 ordinary shares of £0.001 each	<u>10,000,000</u>	<u>10,000,000</u>
<i>Allotted, issued and fully paid</i>		
2,143,960,817 ordinary shares		
(2012: 1,672,114,250 ordinary shares)	<u>2,143,960</u>	<u>1,672,114</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

20. Share capital (continued)

Movement in Share capital during the year comprises	Number of shares	Share Capital £	Share Premium £
Issued and fully paid			
As at 1 January 2013	1,672,114,250	1,672,114	18,208,977
Allotments during the period			
15 March 2013 – 0.96p per share ⁱ	24,071,407	24,071	207,014
15 March 2013 – 0.96p per share ⁱⁱⁱ	2,684,713	2,685	23,089
18 April 2013 – 0.80p per share ⁱⁱ	36,923,986	36,924	258,468
26 April 2013 – 0.80p per share ⁱⁱⁱ	4,118,176	4,118	28,827
23 May 2013 – 0.70p per share ⁱⁱ	25,655,941	25,656	153,936
23 May 2013 – 0.70p per share ⁱⁱⁱ	2,861,438	2,861	17,169
26 June 2013 – 0.50p per share ⁱⁱ	36,528,465	36,529	146,113
26 June 2013 – 0.8225p per share ^{iv}	75,982,843	75,983	548,976
26 June 2013 – 0.8225p per share ⁱⁱⁱ	8,474,457	8,475	61,228
11 July 2013 – 0.50p per share ⁱⁱⁱ	4,074,063	4,074	16,296
29 July 2013 – 0.40p per share ⁱⁱ	36,977,386	36,977	110,932
29 July 2013 – 0.40p per share ⁱⁱⁱ	4,124,132	4,124	12,372
4 September 2013 – 0.38p per share ⁱⁱ	25,321,499	25,322	70,900
4 September 2013 – 0.40p per share ^v	24,055,424	24,055	72,166
9 October 2013 – 0.40p per share ⁱⁱ	28,834,165	28,834	86,503
8 November 2013 – 0.40p per share ⁱⁱ	31,158,472	31,158	93,476
2 December 2013 – 0.62p per share ^{vi}	100,000,000	100,000	520,000
Share issue costs ^{vii}	-	-	(383,591)
Balances as at 31 December 2013	2,143,960,817	2,143,960	20,252,851

ⁱ Shares issued in accordance with the Funding Agreement entered into on 8 March 2013 to The Australian Special Opportunity Fund, a New York-based institutional investor managed by The Lind Partners as satisfaction of the execution fee of USD\$0.35 million. Refer note 18 for further details.

ⁱⁱ Shares issued in accordance with the Funding Agreement entered into on 8 March 2013 to The Australian Special Opportunity Fund, a New York-based institutional investor managed by The Lind Partners as satisfaction of the initial and subsequent monthly draw downs. Refer note 18 for further details.

ⁱⁱⁱ Shares issued in accordance with Nyrstar International B.V. original investment agreement with the Company dated 16 April 2010 to subscribe for sufficient shares to maintain their percentage shareholding in the Company.

^{iv} Shares issued to Inversiones Santa Patricia Limitada as part consideration of the 100% acquisition of the Guamanga Project.

^v Shares issued to The Australian Special Opportunity Fund, a New York-based institutional investor managed by The Lind Partners as satisfaction of the part conversion of the convertible note. Refer note 18 for further details.

^{vi} Shares issued to Shining Capital Management as satisfaction for Tranche One funding of £620,000.

^{vii} Shares issue costs represent the execution fee of USD\$0.35 million (refer above) and the fair value of 25.0 million options issued (refer note 21) as part of the Funding Agreement entered into on 8 March 2013 to The Australian Special Opportunity Fund, a New York-based institutional investor managed by The Lind Partners.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

21. Share options and share-based payments

(a) Movements in share options during the year

The following reconciles the outstanding share options granted as share-based payments at the beginning and end of the financial year

	Number of options 2013	Weighted average exercise price 2013	Number of options 2012	Weighted average exercise price 2012
Balance at the beginning of the year	72,500,000	1 91p	57,500,000	2 06p
Granted during the year	25,000,000	1 3316p	20,000,000	1 25p
Exercised during the year	-	-	(2,000,000)	1 20p
Expired during the year	(25,500,000)	1 65p	(3,000,000)	0 75p
Balance at the end of year	72,000,000	1 34p	72,500,000	1 91p

The share options outstanding at the end of the financial year had a weighted average remaining contractual life of 2.6 years (2012 1.8 years). The range of exercise prices for options outstanding at the end of the year was 1.00p – 3.55p (2012 1.00p – 3.55p).

(b) Share options outstanding

The following share-based payment arrangements were in existence at the current year end

Date of grant	Number of options	Exercise price	Expiry date
12/01/2011	6,000,000	3 55p	12/01/2014
03/12/2011	21,000,000	2 40p	31/12/2014
15/11/2012	10,000,000	1 50p	31/12/2015
15/11/2012	10,000,000	1 00p	31/12/2015
08/03/2013	25,000,000	1 3316p	15/03/2016

(c) Fair value of share options granted

The Group recognised an expense of £15,004 (2012 £33,217) in the income statement in respect of the share-based payment plans. The share based payments charge was based on the requirements of International Financial Reporting Standard 2 “Share-based payments”.

In addition, under the Funding Agreement (refer note 18), the Company issued 25,000,000 options exercisable at 130% of the average daily VWAP per share for the twenty consecutive trading days immediately prior to the date of the execution of the Agreement to the Australian Special Opportunity Fund, a New York-based institutional investor managed by The Lind Partners. The total expense of £152,506 has been recognised as a share issue cost in the Statement of Changes in Equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

21 Share options and share-based payments (continued)

(c) Fair value of share options granted

The fair value of options granted for the years ended 31 December 2013 and 31 December 2012 was calculated using a Black-Scholes option pricing model using the following significant inputs to the model

	Option Series		
	08/03/2013	15/11/2012	15/11/2012
Grant date	08/03/2013	15/11/2012	15/11/2012
Grant date share price	1 21p	0 69p	0 69p
Fair value of options	0 61p	0 19p	0 26p
Volatility	101%	101%	101%
Risk-free interest rate	0 44%	2 80%	2 80%
Dividend yield	0 0%	0 0%	0 0%
Expected life	2 0 years	1 5 years	1 5 years

Volatility was measured at the standard deviation of expected price return and was based on statistical analysis of the historical share price volatility, as it was assumed that this was indicative of future trends

(d) Options held by Directors

Of the above share-based payment arrangements, the options held by Directors were as follows

Date of grant	Option price	Expiry date	Opening balance Number	Expired during the year Number	Balance held at date of resignation Number	Closing balance Number
Graeme Sloan						
15/11/2012	1 00p	31/12/2015	10,000,000	-	-	10,000,000
15/11/2012	1 50p	31/12/2015	10,000,000	-	-	10,000,000
			20,000,000	-	-	20,000,000
The Hon. John Moore AO.						
12/10/2010	1 65p	31/10/2013	5,000,000	(5,000,000)	-	-
03/12/2012	2 40p	31/10/2014	5,000,000	-	-	5,000,000
			10,000,000	(5,000,000)	-	5,000,000
John Russell						
12/10/2010	1 65p	31/10/2013	5,000,000	(5,000,000)	-	-
03/12/2012	2 40p	31/10/2014	5,000,000	-	-	5,000,000
			10,000,000	(5,000,000)	-	5,000,000
Michael Bohm (resigned 31 Aug 2013)						
12/10/2010	1 65p	31/10/2013	10,500,000	-	(10,500,00)	-
03/12/2012	2 40p	31/10/2014	10,000,000	-	(10,000,00)	-
			20,500,000	-	(20,500,00)	-

No options were granted to Directors during the year

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

22. Net cash outflow from operating activities	Group 2013 £	Group 2012 £	Company 2013 £	Company 2012 £
Operating loss	(3,444,883)	(2,497,551)	(959,025)	(929,459)
<i>Adjustments for non-cash items</i>				
Depreciation of property, plant and equipment	83,274	67,686	6,443	6,161
Exchange differences on retranslation of foreign operations	439,596	(52,405)	-	-
Share-based payments expense	15,004	33,217	15,004	33,217
Non-cash finance costs	61,816	-	61,816	-
<i>Changes in assets and liabilities</i>				
Decrease/(increase) in trade and other receivables	(33,709)	973,097	121,771	48,087
(Decrease)/increase in trade and other payables	77,407	(633,871)	(76,256)	(83,694)
(Decrease)/increase in provisions	15,501	(24,578)	11,107	(24,578)
Net cash outflow from operating activities	<u>(2,785,994)</u>	<u>(2,134,405)</u>	<u>(819,140)</u>	<u>(950,266)</u>

23. Control

No one party is identified as controlling the Company

24. Subsequent events

The following subsequent events have arisen since the end of the reporting date and the date of this report

- On 15 January 2014, in pursuant with the Subscription Agreement and successful due diligence with Shining Capital Management, an additional 300 million ordinary shares were issued at price of 0.62p for a total consideration of £1.86 million
- Following the above share issues, the number of ordinary shares in issue is 2,443,960,817

No other matter or circumstances have arisen since the end of the reporting date and the date of this report which significantly affect the results of the operations of the Company

25. Related party transactions

John Bottomley was the secretary of the Company during 2013 and was also a partner of SGH Martineau Company Secretarial LLP, a firm of which provides company secretarial services. During the year this partnership was paid a sum of £36,751 (2012: £19,465) in respect of company secretarial services to the Company. This related party transaction is based on independent third party commercial rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

26. Contingent liabilities and capital commitments

Picachos Project

On 7 August 2013, the Company announced that its subsidiary Herencia Resources (Chile) SA entered into an Option Agreement ("Agreement") to acquire the advanced Picachos Copper Project in central Chile

Under the terms of the Agreement, for Herencia Resources (Chile) SA to earn 100% of the project, US\$200,000 was paid upfront on signing with further payments due as follows

After 12 months	US\$0.4 million
After 24 months	US\$0.6 million
After 36 months	US\$1.6 million
After 48 months	US\$5.7 million

In addition to these option payments, a US\$1.50 per pound copper royalty will be paid on a JORC defined measured resource being published following a minimum of 6,000m and maximum of 9,000m drilling (minus the 48 month payment of USD\$5.7 million)

It should be noted that the Company may exit the Agreement at any timing of its choosing

Guamanga Project

On 5 June 2013 the Company announced that a wholly owned subsidiary of Australia's OZ Minerals, OZ Exploration Chile Limitada, had commenced a due diligence process on the Guamanga Project with a view to executing a joint venture agreement with the Company. The key terms of the agreement are as follows

- Phase 1 - OZ Minerals will sole fund an initial US\$3 million over 20 months to earn a 51% stake in the Guamanga Project
- Phase 2 - OZ Minerals will sole fund an additional US\$5 million over 24 months to increase their stake to 80%
- Phase 3 - at the completion of Phase 2, Herencia can either remain at 20% (by co-contributing 20% of funds spent) or may opt for OZ Minerals to fund a further US\$5M to increase the OZ Minerals equity to 90%
- At the completion of Phase 3, Herencia can then elect to fund its share of project development costs or OZ Minerals, at their election, may consider the provision of providing debt funding to Herencia with the funding to be repaid to OZ Minerals from Herencia's share of profits.

To facilitate this process, Herencia acquired 100% of the Guamanga Project from Inversiones Santa Patricia Limitada in consideration for USD\$275,100 and the equivalent of USD\$950,000 ordinary shares in the Company (refer note 20 for further details)

OZ Minerals have completed their due diligence work and have now commenced the Phase 1 work

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

26. Contingent liabilities and capital commitments (continued)

Chilean export VAT refund early scheme

During 2012, the Chilean Ministry of Economy, Development and Tourism authorised Paguanta Compania Minera SA (a 70% owned Chilean subsidiary) to obtain from the Chilean Treasury of the Republic, a value added tax (VAT) recovery of £1,311,970 under the "export VAT refund early" scheme. This amount has been offset against other receivables (refer note 12).

Under this scheme, the company has undertaken to make exports prior to 31 December 2015, however this can be extended to 2017 where there are reasonable grounds to justify the delay. A promissory note to this effect has been issued.

Failure to meet the 2015 export deadline and where an extension to 2017 by the Ministry of Economy, Development and Tourism has not been granted, the company shall return the amounts reimbursed within the month following that in which it has knowledge of not being able to make the export together with penalties and a monthly interest charge of 1%. The amount refunded, excluding any penalties and interest, will then be reinstated in remaining tax credits.

Based on the progress of the feasibility study, there is no indication that the deadline of 2015 will not be met. Accordingly, no provision for any liability has been made in respect of these financial statements.

Other than above, the Group had no contracted capital commitments or contingent liabilities at 31 December 2013.

27. Financial instruments

Capital risk management

The Group manages capital to ensure that companies in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt to equity balance. The Group's focus has been to raise sufficient funds through equity to fund exploration activity.

The Group's risk oversight and management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects and ensure that net cash flows are sufficient to support the delivery of the Group's financial targets whilst protecting future financial security. The Group continually monitors and tests its forecast financial position against these objectives.

The Group's activities expose it to a variety of financial risks, market, credit and liquidity. These risks are managed by senior management in line with policies set by the Board. The Group's principal financial instruments comprise cash and short term deposits. Other financial instruments include trade receivables and trade payables, which arise directly from operations.

It is, and has been throughout the period under review, Group policy that no speculative trading in financial instruments be undertaken.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

27. Financial instruments (continued)

Interest rate risk

At 31 December 2013 the Group had British Pound cash at bank of £35,484 (2012 £97,463), Chilean Peso cash at bank of a sterling equivalent of £144,518 (2012 £1,152,983), Australian Dollar cash at bank of a sterling equivalent of £38,868, (2012 £71,881) and US Dollar cash at bank of a sterling equivalent of £726,621 (2012 £307,445). The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates on classes of financial assets and financial liabilities, was as follows

	Floating interest rate 31 Dec 2013 £	Fixed interest rate 31 Dec 2013 £	Floating interest rate 31 Dec 2012 £	Fixed interest rate 31 Dec 2012 £
<i>Financial assets</i>				
Cash at bank	945,491	-	1,554,772	75,000

The effective weighted average interest rate was 0.50% (2012 0.50%)

Financial liabilities

At 31 December 2013, the Group has a convertible security note with a carrying value of £354,345 (2012 nil)

Net fair value

The net fair value of financial assets and financial liabilities approximates to their carrying amount as disclosed in the balance sheet and in the related notes

Currency risk

The Group undertakes transactions denominated in foreign currencies, consequently, exposures to exchange rate fluctuations arise. The functional currency for the Group's operating activities is the British pound and for drilling activities the Chilean Peso and US Dollar. The Group's objective in managing currency exposures arising from its net investment overseas is to maintain a low level of borrowings. The Group has not hedged against currency depreciation but continues to keep the matter under review.

The carrying amounts of the Group's foreign currency denominated monetary assets at the end of the reporting period are as follows

	Group 2013 £	Group 2012 £	Company 2013 £	Company 2012 £
Chilean Peso	144,518	1,152,983	-	-
US Dollars	726,621	307,445	14,366	292,651
Australian Dollars	38,868	71,881	38,868	71,881

Financial risk management

The Directors recognise that this is an area in which they may need to develop specific policies should the Group become exposed to further financial risks as the business develops