Herencia Resources PLC - HER Final Results - Twelve Months End 31 December 2017
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Herencia Resources PLC
20 July 2018

Herencia Resources plc

("Herencia" or the "Company")

Annual Results for Twelve Months ended

31 December 2017

Chairman's Statement

2017 proved an extremely difficult year for your board of directors; however, a number of achievements are worth noting:

- Chilean manpower and corporate manpower was reduced and now provide the basis for the organisation to better align its cost structure with that of an earlier stage exploration group;
- Re-negotiation of the Pastizal sale and purchase agreement and Picachos option agreements were realised towards the end of the year after some months of discussions; and
- Drilling commenced at the Pastizal project by the end of the year.

An overriding priority for the board of directors was to manage outstanding obligations to creditors and to this end, the Company brought to account £192,000 in creditors associated with work programmes in previous years for the first time as well as incurring new obligations for the drilling programme at the Pastizal project of £145,000. With trade creditors at £1,171,728 at the beginning of the year, the above obligations increased creditors to £1,508,728; however, by the end of the financial year, trade creditors had been reduced by £523,179 to £985,549.

Administration costs have been reduced from £1,412,838 to £620,570.

From a funding perspective, the Company raised £993,615 during the financial year in new equity and continued to receive financial support from its largest shareholders, Australian Special Opportunity Fund and Oriental Darius Co Limited, with both these entities subscribing to further issues of convertible notes, totalling £445,932.

2018 will continue the progress in reducing costs and restarting exploration activities, including the search for new copper opportunities.

JW Williams
Acting Chairman

19 July 2018

The Directors of Herencia expect to print and post the Annual Report and Accounts for the year to 31 December 2017 (the "Accounts") during the week commencing 23 July 2018 and a further announcement will be made at that time. It is anticipated that the suspension in trading in the ompany's shares will be lifted thereafter.

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The information contained within this announcement is deemed by the Company to constitute inside information under the Market Abuse Regulation (EU) No. 596/2014.

The Directors present their Strategic Report for the year ended 31 December 2017.

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 copper-silver 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 prospects

Review of the business

(i) The Company has acquired a 100% interest in the Pastizal project and holds an option to acquire 100% of the currently producing Picachos copper prospect in north-central Chile.

(ii) The Company owns 100% of the Guamanga copper-gold and the La Serena copper prospects.

(iii) The Company is also active in seeking new exploration and development opportunities with a focus on Chilean projects, given its significant expertise and resources in Chile.

Picachos and Pastizal prospects

The Picachos prospect is an advanced copper prospect located 50 kilometres east of the major coastal city of La Serena and only eight kilometres west from the large Carmen de Andacollo copper mine owned by the Canadian miner, Teck Resources Inc. This region is a significant mining and resources location in Chile.

High grade copper ore grading approximately 2% copper is currently mined by private miners at Picachos on a small (artisanal) scale. During 2017, the Company did not undertake any drill programmes. In 2014, the Company completed two successful drilling campaigns targeting both the high-grade structures and mantos-style copper mineralisation that exists at Picachos. Numerous high-grade copper intercepts were reported in both drill programmes.

The Company commenced towards the end of the financial year a 2,000 metre drilling campaign at the Pastizal project.

Other prospects

The Company proposes to undertake limited work programmes at the La Guamanga and La Serena prospects during 2017 in order to develop an appropriate strategy for extracting value.

The La Guamanga Project is targeting iron oxide copper-gold style mineralisation whilst the La Serena Project is targeting porphyry copper belt.

The package is highly prospective for leached cap, blanket style chalcocite copper mineralisation and/or porphyry gold.

2018 goals

- conduct a drilling campaign at the Picachos project;
- review new opportunities in Chile; and
- source additional funding for the Company.

The Company'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 material adverse impact on the value of the Company.

Due to the early stage of the development of the Company 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
The Company's strategic plan is to advance the exploration programs at its Chilean Picachos and Pastizal prospects and continue to reduce creditors. With the strong Chilean management team, the Company will leverage off the significant operating experience in Chile.

Jeff Williams
Executive Director

19 July 2018

Directors' report

The directors present their Directors' Report as well as the audited financial statements for the Herencia Group (the "Group"), comprising Herencia Resources plc and its controlled entities, and the audited financial statements for Herencia Resources plc (the "Company"), for the financial year ended 31 December 2017.

Result

The Group incurred a loss of £628,535 for the financial year ended 31 December 2017 (2016: £2,943,672). The significant reduction in the loss for the financial year arose from a reduction in administration costs of £792,269 largely due to the termination of all corporate manpower costs and reduced consulting charges; no impairment to exploration and evaluation brought to account for the financial year (£875,000 was recognised in the previous financial year); and lower foreign currency losses.

The Group also de-recognised loan monies previously brought due to terms and conditions governing the repayment of these loan monies.

Dividends

The directors have not recommended any dividend for the financial-year ended 31 December 2017.

Funding

Convertible note issues
On 3 March 2017 and 16 March 2017, the Company secured US$100,000 (face value US$120,000), in total, in convertibles notes from Australian Special Opportunity Fund and Oriental Darius Co Ltd.

Under the terms and condition of the Convertible Facility, Tranche II was drawn on the same terms as Tranche I, including 0% interest per annum, a 24-month term and security against the assets of the Company.

On 22 December 2017, the Company secured US$200,000 (face value of US$240,000) from ASOF as part of a funding arrangement agreed between the Company and its two largest shareholders, ASOF and Oriental. (On 8 January 2018 the Company secured US$200,000 (face value of US$240,000) from Oriental.) Under the terms of the funding arrangement the convertible notes were issued on the same terms and conditions as those agreed on 5 April 2016.

The funding comprises:

- US$150,000 of convertible loan notes with a face value of US$180,000 convertible into fully paid ordinary shares at an exercise price of £0.0001 ("Conversion Price") from the 1 April 2016 facility; and

- US$50,000 of convertible loan notes with a face value of US$60,000 into shares at an exercise price of £0.0003 ("Conversion Price") from the 6 June 2016 facility.

Conversion of short-term loan
On 15 May 2017, Oriental converted US$50,000 short-term loan into fully paid ordinary shares which resulted in the Company issuing 388,018,004 fully paid ordinary shares.
Conversion of convertible notes
On 10 July 2017 and 3 August 2017 Oriental and ASOF converted US$240,000 in convertible notes into fully paid ordinary share of the Company which resulted in the Company issuing 943,396,226 fully paid ordinary shares being issued to Oriental and 931,178,173 fully paid ordinary shares being issued to ASOF.

Equity raising
On 5 May 2017, the Company finalised an equity raising which resulted in proceeds from the equity raising of £950,265 with 1,781,158,152 fully paid ordinary shares being issued as Tranche 1 on 8 May 2017 and 339,978,889 fully paid ordinary shares being issued as Tranche 2 on 15 May 2017.

Pastizal project

On 24 October 2017, the Company executed an agreement with Consultoria y Services Mineros SA for the acquisition of the Pastizal project.

Under the terms and conditions of the acquisition the Company agreed to pay the following consideration:

- 580,000,000 fully paid ordinary shares at 0.03 pence per fully paid ordinary share and a further 670,000,000 fully paid ordinary shares upon the Herencia share price averaging at least 0.12 pence per share for a minimum of 90 days;

- Cash consideration of US$159,784 (money-of-the-day terms) payable in 30 months from the date of execution of the acquisition agreement and a further US$213,045 (money-of-the-day terms) payable in 42 months from the date of execution;

- Debt assumption of US$1,131,172 (money-of-the-day terms) payable between 18 months and 54 months from the date of execution of the acquisition agreement; and

- Milestone payments of up to US$2,000,000 based the Mineral Resources at both Picachos and Pastizal where the Mineral Resources exceed 10 million tonnes grading an average copper grade of 1% but being less than 20 million tonnes grading an average copper grade of 1% US$1,000,000 payable in two instalments between 18 months and 36 months from date of execution of the acquisition agreement and where the Mineral Resources exceed 20 million tonnes grading an average copper grade of 1% the maximum amount of US$2,000,000.

Going concern

Note 28 details the Group's objectives, policies and processes for managing its capital financial risk, including exposures to credit and liquidity risk. The Group's capital management policy has been to raise, as far as practicable, sufficient funds through equity to fund exploration and development activities.

At 31 December 2017, the group had cash balances of £233,433 (2017: £16,918).

The Company completed an equity raising of £950,265 on 5 May 2017 as well as one convertible note issue of US$100,000 on 3 March 2017 and 16 March 2017.
Since the end of the financial year, the Company has undertaken two further convertible-note issues to ASOF and Oriental for consideration of US$700,000, in total. Excluding the monies received from ASOF on 22 December 2017, the Company has received US$500,000 from ASOF and Oriental from convertible note issues (before costs).

The board of directors believe that measures that have been put in place to refocus the exploration effort and to align the organisational structure to the exploration effort will improve the attractiveness of the Group in equity markets. Accordingly, the board of directors believe the Group will have capacity to access resources to continue its exploration effort for the foreseeable future and continue to meet, as and when they fall due, its financial obligations for at least the next twelve months from the date of approval of these financial statements. For this reason, the board of directors continue to adopt the going concern basis in the preparation of the financial statements.

There is, however, no guarantee that the required funds will be raised within the necessary timeframe and, therefore, material uncertainty exists that may cast doubt on the group's ability to continue to conduct its affairs as planned and to be able to meet its financial obligations in the normal course of business for a period not less than twelve months from the date of approval of this report.

Audit Committee

The Audit Committee meets twice each year to discuss the half-year and annual results. The Audit Committee comprises Messrs Carl Dumbrell and Jeff Williams.

For the annual results independent auditors, UHY Hacker Young, are invited to discuss the results and their assessment of internal controls.

The Company has adopted an Audit Committee Charter which sets out 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 this time, have a Remuneration Committee.

Communications with shareholders

The Company has its own website (www.herenciaresources.com) for the purposes of providing information to shareholders in a timely manner as well as providing information to potential investors.

Group structure and changes in share capital

A list of the entities controlled by the Company is shown in note 15 and movements in share capital during the financial year is set out in note 21 to the accounts.

Directors

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

PD Reeve	Non-executive Director (appointed a Non-executive Director on 31 March 2017 and non-executive Chairman from 20 June 2017 and resigned from the board of directors on 20 June 2018)
JW Williams	Executive Director (appointed 31 March 2017)
CF Dumbrell	Finance Director (appointed 30 May 2018)
JC Moore	Non-executive Chairman to 20 June 2017 and Non-executive Director to 30 June 2017 (resigned as a Non-executive director of the Company on 30 June 2017)
JB Russell	Non-executive director (resigned as a Non-executive Director on 3 March 2017)
GJ Sloan	Managing Director (resigned as Managing Director on 31 March 2017)

Directors' interests

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

	31 December 2017 Number of ordinary shares of £0.0001	31 December 2016 Number of ordinary shares of £0.0001
PD Reeve (resigned 20 June 2018)	-	-
JW Williams (appointed 31 March 2017)	-	-
CF Dumbrell (appointed 30 May 2018)	-	-
JC Moore (resigned 30 June 2017)	N/A	29,374,080
JB Russell (resigned 31 March 2017)	N/A	31,907,413
GJ Sloan (resigned 31 March 2017)	N/A	26,488,905

On 23 October 2017, Messrs PD Reeve and JW Williams were awarded 850,000,000 performance rights each in ordinary shares of the Company for zero consideration in lieu of cash-based emoluments. The performance rights vest over three years and will result in the Company recording an implicit or finance charge to the statement of comprehensive income associated with the award of the performance shares based on a probability that the director will continue in office.

	23 October 2018	23 October 2019	23 October 2020
PD Reeve	250,000,000	300,000,000	300,000,000
JW Williams	250,000,000	300,000,000	300,000,000
Implicit interest cost to be brought to account	£158,400	£67,650	£22,000

An amount of £29,150 was charged to the statement of comprehensive income for the financial year ended 31 December 2017 for the implicit cost of the performance shares.

Directors' service contracts

The service contracts of all existing non-executive directors are subject to a one-month termination period.

Pensions

The Group does not have any pension scheme for directors and employees.

Directors remuneration

The remuneration of directors for the financial year is as follows:

31 December 2017	Fees/basic salary	Employer's National Insurance	Pension costs	Share based payments	2017 Total
	£	£	£	£	£
Executive					
GJ Sloan	-	-	-	-	-
JW Williams	-	-	-	14,575	14,575
Non-Executive					

PD Reeve	-	-	-	14,575	14,575
JC Moore	-	-	-	-	-
JB Russell	-	-	-	-	-
	-	-	-	29,150	29,150

31 December 2016	Fees/basic Salary	Employer's National Insurance	Pension costs	Share based payments	2016 Total
	£	£	£	£	£
Executive					
GJ Sloan	17,669	-	1,679	-	19,348
Non-Executive					
PD Reeve	-	-	-	-	-
JC Moore	-	-	-	-	-
JB Russell	-	-	-	-	-
	17,669	-	1,679	-	19,348

The amounts recorded as salaries and emoluments to Messrs GJ Sloan and JC Moore represent the British pound equivalent of the amount paid in Australian dollars.

Value of options exercised by Directors

No options were exercised by the Directors during the year.

Value of options over ordinary shares exercised by directors

No options over ordinary shares were exercised by the directors of the Company.

Substantial shareholders

The Company has been notified in accordance with section 792 of the Companies Act 2006 of the following interests on its ordinary shares as at 27 June 2018:

	Number of Ordinary shares	% of Share Capital
The Australian Special Opportunity Fund	2,375,641,831	22.3%
Oriental Darius Co Ltd	2,227,548,341	20.9%
Shining Capital Management Ltd	400,000,000	3.7%

The Company agreed with the Takeover Panel that ASOF is acting in concert with Messrs John Hancock and Martin Rogers and Abundance Partners LP who were introduced by Lind Partners LLC, the Manager of ASOF. Messrs Hancock and Rogers and Abundance Partners LP hold 207,261,111 fully paid ordinary shares in the Company and accordingly, the holding of the concert parties as at 19 July 2018 is:

	Number of Ordinary shares	% of Share Capital
Concert Parties	2,582,902,942	24.2%

Subsequent events

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

Convertible note issues
As stated above, on 8 January 2018, the Company secured US$200,000 (face value US$240,000) from Oriental having already received US$200,000 from ASOF on 22 December 2017.

Under the terms of the funding arrangement the convertible notes were issued on the same terms and conditions as those agreed on 5 April 2016.

The funding comprises:

- US$150,000 of convertible loan notes with a face value of US$180,000 convertible into fully paid ordinary shares at an exercise price of £0.0001 ("Conversion Price") from the 1 April 2016 facility; and

- US$50,000 of convertible loan notes with a face value of US$60,000 into shares at an exercise price of £0.0003 ("Conversion Price") from the 6 June 2016 facility.

On 3 April 2018, the Company executed new convertible note facilities with ASOF and Oriental. The convertibles note facilities were secured on the same terms and conditions as the convertible note facilities executed on 5 April 2016 with the exception of the pricing of the conversion of the convertible notes into fully paid ordinary shares. The parties agreed that the US$300,000 (face value of US$330,00), in total, received from ASOF and Oriental would be converted into fully paid ordinary shares with the conversion price to be set at the "Next Placement price".

Conversion of convertible notes
On 3 January 2018, ASOF and Oriental converted US$240,000 in convertible notes into fully paid ordinary shares of the Company at a conversion price of 0.02 pence per fully paid ordinary share and US$60,000 in convertible notes into fully paid ordinary shares of the Company at a conversion price of 0.03 pence per fully paid ordinary share. The conversion of these convertible note facilities resulted in the Company issuing 837,853,147 fully paid ordinary shares for the US$240,000 convertible note facility and 209,463,844 fully paid ordinary shares for the US$60,000 convertible note facility.

Environment Policy Statement

The Group conducts exploration and evaluation activities for its own account and therefore, is totally responsible for environment at exploration permit areas granted. The group closely monitors activities to ensure, to the best of its knowledge, there is no potential for any breach of environmental regulations. The Group has not received any notices of breached Chilean regulations during the reporting period.

Statement of responsibility of those charged with governance

The board of directors is responsible for preparing the financial statements in accordance with applicable laws and International Financial Reporting Standards 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 adequate 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 General Meeting.

By order of the board

JW Williams
Acting Chairman

19 July 2018

Independent Auditors' Report

Opinion
We have audited the financial statements of Herencia Resources Plc for the year ended 31 December 2017 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statement of Financial Position, the Consolidated and Parent Company Statement of Cash Flows, the Consolidated and Parent Company Statements of Changes in Equity, and the related notes, including a summary of significant accounting policies. 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.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group and Parent Company's affairs as at 31 December 2017 and of the Group's loss for the year then ended;

- have been properly prepared in accordance with IFRSs as adopted by the European Union; and

- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report
This report is made solely to the Company's members, as a body, in accordance with part 3 of Chapter 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.

Material uncertainty related to going concern
We have considered the adequacy of the disclosure in note 1.1 in the financial statements concerning the Group's ability to continue as a going concern. Along with similar sized exploration Groups, the Company raises finance for its exploration activities in discrete tranches. As discussed in note 1.1, the Company will require further funds in order to meet its budgeted operating costs for the coming year. These conditions, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of Matter
We draw attention to note 13 of the financial statements, which describes the valuation of the intangible exploration assets. The Directors have undertaken a review for indicators of impairment under IFRS 6 Exploration for and Evaluation of Mineral Resources and having identified such indicators have completed an impairment review in accordance with IAS 36 Impairment of Assets. Whilst there has been no impairment recognised in the current year, the valuation of exploration assets is inherently judgmental. The Group will require additional funds in the coming 12 months in order to continue exploration. These conditions indicate the existence of a material uncertainty which may cast significant doubt over the value of the intangible assets. Our opinion is not modified in this respect.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<u>Our assessment of risks of material misstatements</u>
We identified the following risks of material misstatement that we believe had the greatest impact on our overall audit strategy and scope, the allocation of resources in the audit and directing the efforts of the engagement team. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Impairment review - Exploration and evaluation assets The Group has significant exploration and evaluation assets. A review for indicators of impairment of exploration and evaluation assets that have been capitalised in the past should be undertaken by management in accordance with IFRS 6 'Exploration for and Evaluation of Mineral Resources'. Exploration and evaluation assets should then be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount.	In accordance with IFRS 6 we reviewed the exploration and evaluation assets for indications of impairment including a review of the Directors' impairment assessment. We conducted independent market research into the current and forecast trading price and demand for copper, which is expected to be one of the key materials to be extracted from these assets. The results from initial drilling campaigns at the Picachos and Pastizal prospects were also considered. Whilst there is insufficient work completed at this stage in order to determine the tonnage and grade of materials to be extracted, the result supported the on-going exploratory activity. Whilst the valuation of exploration and evaluation assets is inherently uncertain the Group plans to continue to develop each of the areas and provided evidence to support their view that further impairment was not necessary at this stage. We have included an emphasis of matter paragraph in this regard.
Going Concern The Group is still in the exploration phase and is therefore dependent on its ability to raise additional funding, either through share issues, convertible loan notes or other similar transactions to cover its on-going activities for the foreseeable future.	We reviewed the Group's cash flow forecast for the period to 30 July 2019. Despite the successful fundraising activities during 2017 and £233k of cash held at 31 December 2017, the forecast indicates that significant further funding will be required to cover both the operational costs and exploration licence commitments. The Group intends to issue a number of convertible loan notes to its two largest shareholders, as detailed in note 1.1, and are confident that sufficient funds may be raised as required in order to continue as a going concern. There is however no guarantee that sufficient funds may be raised as and when required. Accordingly, there is a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern - as set out in the 'Material uncertainty related to going concern' paragraph of the audit report.
Management override of controls Intrinsically there is always a risk of material misstatement due to fraud as a	We reviewed the nominal ledger accounts, journals and cash transactions to identify any unusual or exceptional transactions.

result of possible management override of internal controls.	We investigated and tested a sample of items to ensure amounts paid during the year related to business expenses and that transactions were appropriate. We evaluated whether there was evidence of bias by the directors that represented a risk of material misstatement of fraud. During the audit we found no evidence of management override of internal control by the directors.

Our application of materiality
The scope and focus of our audit was influenced by our assessment and application of materiality. We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements.

We define financial statement materiality as the magnitude by which misstatements, including omissions, could reasonably be expected to influence the economic decisions taken on the basis of the financial statements by reasonable users.
We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Overall materiality: We determined materiality for the financial statements as a whole to be £89,216.
How we determine it: The materiality model is based on averaging the amount considered material in respect of results before tax, net assets and gross assets.
Rationale for benchmarks applied: We believe averaging to be the most appropriate benchmark due to the size and the nature of the Company and Group.
Performance materiality: On the basis of our risk assessment, together with our assessment of the Company's control environment, our judgement is that performance materiality for the financial statements should be 75% of Materiality at £66,912.

An overview of the scope of our audit
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account an understanding of the structure of the Company and the Group, their activities, the accounting processes and controls, and the industry in which they operate. Our planned audit testing was directed accordingly and was focused on areas where we assessed there to be the highest risk of material misstatement.

Our Group audit scope includes all of the group companies. At the parent company level, we also tested the consolidation procedures. The audit team communicated regularly throughout the audit with the financial controller in order to ensure we had a good knowledge of the business of the Group. During the audit we reassessed and re-evaluated audit risks and tailored our approach accordingly.

The audit testing included substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the effectiveness of controls and the management of specific risk.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant findings, including any significant deficiencies in internal control that we identify during the audit.

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or

- the 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.

Responsibilities of directors
As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is

necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.
Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresposibilities.This description forms part of our auditor's report.

Subarna Banerjee (Senior Statutory Auditor)
For and on behalf of UHY Hacker Young
Chartered Accountants
Statutory Auditor
Quadrant House
4 Thomas More Square
London E1W 1YW

19 July 2018

Statement of comprehensive income

	Notes	Year ended 31 December 2017 £	Year ended 31 December 2016 £
Continuing Operations			
Revenue		-	-
Cost of sales		-	-
Gross profit		-	-
Administration expenses		(620,570)	(1,412,838)
Interest expense		(107,402)	(133,367)
Impairment of goodwill	13	-	(875,000)
Foreign exchange losses		(85,032)	(426,969)
Operating loss	6	(813,004)	(2,848,174)
Finance revenue		184,469	-
Loss before tax		**(628,535)**	**(2,848,174)**
Income tax expenses	8	-	-
Loss for the year from continuing operations		**(628,535)**	**(2,848,174)**
Discontinued Operations			
Loss from discontinued operation, net of tax		-	(95,498)
Total Loss		**(628,535)**	**(2,943,672)**
Other Comprehensive Income			
Exchange differences on translating foreign operations		(15,168)	1,139,744
Total Comprehensive Loss for the year		**(643,703)**	**(1,803,928)**
Loss attributable to:			
Equity holders of the Company		(628,535)	(2,959,765)
Non-controlling interests		-	16,903
		(628,535)	**(2,943,672)**
Total Comprehensive Loss attributable to:			
Equity holders of the Company		(643,703)	(1,820,021)
Non-controlling interests		-	16,093
		(643,703)	**(1,803,928)**
Loss per share			

Loss per ordinary share - basic and diluted	4	(0.009) pence	(0.06) pence

Statement of financial position for group and parent entity

	Notes	Group 31 December 2017 £	Group 31 December 2016 £	Company 31 December 2017 £	Company 31 December 2016 £
ASSETS					
Non-current assets					
Receivables	12	-	4,293	5,458,208	4,082,063
Exploration and evaluation	13	5,367,189	4,161,875	910,873	-
Property, plant and equipment	14	16,762	22,798	-	-
Investments in subsidiaries	15	-	-	123,124	-
		5,383,951	4,188,966	6,492,205	4,082,063
Current assets					
Cash and cash equivalents	9	233,433	16,918	230,109	8,827
Trade and other receivables	10	149,705	130,011	37,513	-
Prepayments	11	721	21,556	-	21,556
		383,859	168,485	267,622	30,383
Total assets		**5,767,810**	**4,357,451**	**6,759,827**	**4,112,446**
LIABILITIES					
Non-current liabilities					
Loans and borrowings	18	529,501	716,547	529,501	716,547
Vendor obligations	19	875,249	-	875,249	-
		1,404,750	716,547	1,404,750	716,547
Current liabilities					
Trade and other payables	17	985,549	1,171,728	273,352	269,794
Provisions	16	53,526	92,692	-	45,375
Loans and borrowings	18	294,603	35,312	794,603	35,312
		1,333,678	1,299,732	1,067,955	350,481
Total liabilities		**2,738,428**	**2,016,279**	**2,472,705**	**1,067,028**
Net Assets		**3,029,382**	**2,341,172**	**4,287,122**	**3,045,418**
EQUITY					
Share capital	21	4,801,049	4,304,675	4,801,049	4,304,675
Share premium		24,270,643	23,412,246	24,270,643	23,412,246
Share based payments reserve		29,150	761,360	29,150	761,360
Other reserve		117,257	46,141	117,257	46,141
Translation reserve		(368,894)	(353,726)	-	-
Retained losses		(25,819,823)	(25,952,648)	(24,930,977)	(25,479,004)
Capital and reserves attributable to equity holders		**3,029,382**	**2,218,048**	**4,287,122**	**3,045,418**
Non-controlling interests	20	-	123,124	-	-
Total equity and reserves		**3,029,382**	**2,341,172**	**4,287,122**	**3,045,418**

The financial statements of Herencia Resources plc, Company Number 05345029, were approved by the Board of Directors and authorised for issue on 19 July 2018.

They were signed on its behalf by:

JW Williams
Acting Chairman

Statement of cash flows for group and parent entity

	Notes	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Net cash outflow from operating activities	23	(902,196)	(1,462,966)	(352,120)	(329,952)
Cash flows from investing activities					

Cash calls made to controlled entities	12	-	-	(876,145)	(274,636)
Net funds used for investing in exploration	13	(330,836)	(406,585)	-	-
Net cash used by investing activities		(330,836)	(406,585)	(876,145)	(274,636)
Cash flows from financing activities					
Proceeds from issue of shares	21	954,511	-	954,511	-
Proceeds from convertible notes	18	495,036	288,190	495,036	288,190
Proceeds from loans	18	-	308,801	-	308,801
Proceeds from sale of controlled entity		-	1,082,295	-	-
Net cash from financing activities		1,449,547	1,679,286	1,449,547	596,991
Net increase/(decrease) in cash and cash equivalents		216,515	(190,265)	221,282	(7,597)
Cash and cash equivalents at the beginning of the year		16,918	207,183	8,827	16,424
Cash and cash equivalents at the end of the year	9	**233,433**	**16,918**	**230,109**	**8,827**

Statement of changes in equity for group

	Share capital £	Share premium £	Translation reserve £	Share-based payments reserve £	Other reserve £	Retained losses £	Total £	Non-controlling interests £	Total equity £
Balance at 1 January 2016	4,266,609	23,412,246	(1,493,470)	761,360	-	(26,381,417)	565,328	3,470,079	4,035,407
Issue of shares	38,066	-	-	-	-	-	38,066	-	38,066
Compound instrument equity component	-	-	-	-	46,141	-	46,141	-	46,141
Other transactions with non-controlling interests	-	-	-	-	-	-	-	25,486	25,486
Disposal of controlled entity, including outside interests	-	-	-	-	-	3,388,534	3,388,534	(3,388,534)	-
Total comprehensive income/(loss) for the year	-	-	1,139,744	-	-	(2,959,765)	(1,820,021)	16,093	(1,803,928)
Balance at 31 December 2016	4,304,675	23,412,246	(353,726)	761,360	46,141	(25,952,648)	2,218,048	123,124	2,341,172
Issue of shares	496,374	858,397	-	-	-	-	1,354,771	-	1,354,771
Compound instrument equity component	-	-	-	-	71,116	-	71,116	-	71,116
Performance rights awarded	-	-	-	29,150	-	-	29,150	-	29,150
Options expired	-	-	-	(761,360)	-	761,360	-	-	-
Acquisition of outside interests	-	-	-	-	-	-	-	(123,124)	(123,124)
Total comprehensive income/(loss) for the year	-	-	(15,168)	-	-	(628,535)	(643,703)	-	(643,703)
Balance at 31 December 2017	4,801,049	24,270,643	(368,894)	29,150	117,257	(25,819,823)	3,029,382	-	3,029,382

Statement of changes in equity for the parent entity

	Share capital £	Share premium £	Share-based payments reserve £	Other reserve £	Retained losses £	Total equity £

Balance at 1 January 2016	4,266,609	23,412,246	761,360	-	(21,046,787)	7,393,428
Issue of shares	38,066	-	-	-	-	38,066
Compound instrument equity component	-	-	-	46,141	-	46,141
Total comprehensive income (loss) for the year	-	-	-	-	(4,432,217)	(4,432,217)
Balance at 31 December 2016	4,304,675	23,412,246	761,360	46,141	(25,479,004)	3,045,418
Issue of shares	496,374	858,397	-	-	-	1,354,771
Compound instrument equity component	-	-	-	71,116	-	71,116
Performance rights awarded during the year	-	-	29,150	-	-	29,150
Transfers from reserves	-	-	(761,360)	-	761,360	-
Total comprehensive income/(loss) for the year	-	-	-	-	(213,333)	(213,333)
Balance at 31 December 2017	4,801,049	24,270.643	29,150	117,257	(24,930,977)	4,287,122

Notes to the financial statements

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 2017 of £213,333 compared to a loss of £4,432,217 in the previous year.

The activities in the year and future prospects of the Group are discussed in the Strategic Report.

In addition, note 28 details the Group's objectives, policies and processes for managing its capital financial risk, including exposures to credit and liquidity risk. The Group's capital management policy has been to raise sufficient funds through equity to fund exploration activity and development activities.

At 31 December 2017, the group had cash balances of £233,433. The Group has raised US$500,000 since the end of the financial year 31 December 2017 through the issue of convertible notes to its two largest shareholders,

The board of directors believe that measures that have been put in place to refocus the exploration effort and to align the organisational structure to the exploration effort will improve the attractiveness of the Group in equity markets. Accordingly, the board of directors believe the Group will have capacity to access resources to continue its exploration effort for the foreseeable future and continue to meet, as and when they fall due, its financial obligations for at least the next twelve months from the date of approval of these financial statements. For this reason, the board of directors continue to adopt the going concern basis in the preparation of the financial statements.

There is however, no guarantee that the required funds will be raised within the necessary timeframe and therefore, material uncertainty exists that may cast doubt on the group's ability to continue to conduct its affairs as planned and to be able to meet its financial obligations in the normal course of business for a period not less than twelve months from the date of this report.

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 these consolidated financial statements, 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 are 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.

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.

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 Finance costs

Finance costs include interest expense calculated using the effective interest rate method.

1.10 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.

1.11 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 the reporting date.

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.

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.

3.2 Standards and Interpretations in issue not yet adopted

New standards and interpretations currently in issue but not effective, based on EU mandatory effective dates, for accounting periods commencing on 1 January 2018 are:

(i) IFRS 9 Financial Instruments (IASB effective date 1 January 2018)[1]
(ii) 3 IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)[1,3]
(iii) IFRS 16 Leases (effective 1 January 2019)[1]
(iv) IFRIC 22 Foreign Currency Translations and Advance Consideration (Effective 1 January 2018)[2]
(v) Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (effective 1 January 2018)[2]
(vi) Annual Improvements to IFRSs 2014 - 2016 Cycle (effective 1 January 2018)[2]

Notes
1 Endorsed by the EU
2 Not Endorsed by the EU
3 EU effective date is 1 January 2018

The Directors anticipate that the above pronouncements, where relevant, will be adopted in the Group's financial statements for the year beginning 1 January 2018 and will have little impact on the Group's accounting policies or results.

4. Loss per share

The basic loss per ordinary share of 0.009 pence (2016: 0.06 pence) for the Group has been calculated by dividing the loss for the year attributable to equity holders of £628,535 (2016: £2,959,765) by the weighted average number of ordinary shares in issue of 7,120,014,383 (2016: 4,391,416,892).

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.

Segment information by operating segment and by region is as follows:

	Mineral Exploration		Central Costs		Total	
	2017	2016	2017	2016	2017	2016
	£	£	£	£	£	£
Segment information by operating segment						
Finance revenue	-	-	184,469	-	184,469	-
Administration expenses	(337,097)	(1,141,787)	(384,960)	(343,174)	(722,057)	(1,484,961)
Non-cash expenditure:						
Depreciation expense	(5,915)	(8,379)	-	(3,140)	(5,915)	(11,519)
Impairment of goodwill on consolidation	-	-	-	(875,000)	-	(875,000)
Loss on disposal of subsidiary	-	(167,386)	-	-	-	(167,386)
Foreign exchange (losses)/gain	(72,190)	(318,045)	(12,842)	(86,761)	(85,032)	(404,806)
Segment result	(415,202)	(1,635,597)	(213,333)	(1,038,075)	(628,535)	(2,943,672)
Segment assets	5,500,188	4,327,068	267,622	30,383	5,767,810	4,357,451
Segment liabilities	(1,640,972)	(949,251)	(1,097,456)	(1,067,028)	(2,738,428)	(2,016,279)
Net assets	3,859,216	3,377,817	(829,834)	1,036,645	3,029,382	2,341,172

	External Revenue		Non-Current Assets	
	2017	2016	2017	2016
Segment information by region	£	£	£	£
Australia	-	-	-	-
Chile	-	-	5,383,951	4,188,966
Group	-	-	5,383,951	4,188,966

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.

6. Operating loss

	Group 2017 £	Group 2016 £
Auditors' remuneration	32,661	47,670
Depreciation	5,915	11,519
Corporate and advisory fees	253,388	423,423
Employee benefits expense	464,470	486,119
Impairment of goodwill on consolidation	-	875,000

The audit costs include £26,000 (2016: £24,900) payable to the parent company auditors.

7. Employees and emoluments

(a) Emoluments of employees, including Directors, comprised

	Group 2017 £	Group 2016 £
Wages and salaries	-	416,778
National insurance	-	4,966
Directors' fees	29,150	-
Pension costs	-	1,679
	29,150	423,423

(b) Directors' remuneration

31 December 2017

	Fees/basic Salary £	Employer's National Insurance £	Pension Costs £	Share-based Payments £	2017 Total £
Executive					

GJ Sloan	-	-	-	-	-
JW Williams	-	-	-	14,575	14,575
Non-Executive					
PD Reeve	-	-	-	14,575	14,575
JC Moore	-	-	-	-	-
JB Russell	-	-	-	-	-
	-	-	-	29,150	29,150

31 December 2016

	Fees/basic Salary £	National Insurance £	Pension Costs £	Share-based payments £	2016 Total £
Executive					
GJ Sloan	17,669	-	1,679	-	19,348
Non-Executive					
PR Reeve	-	-	-	-	-
JC Moore	-	-	-	-	-
JB Russell	-	-	-	-	-
	17,669	-	1,679	-	19,348

The amounts recorded as salaries and emoluments to Mr GJ Sloan represent the British pound equivalent of the amount paid in Australian dollars.

(c) Value of options exercised by Directors

No options were exercised by the Directors during the year.

8. Taxation

	Group 2017 £	**Group 2016 £**
Current tax charge	-	-
Deferred tax		
Deferred tax current period charge	-	-
	-	-

8.1 Income tax recognised in profit or loss

	Group 2017 £	**Group 2016 £**
Factors affecting the tax charge for the period		
Loss on ordinary activities before taxation	(628,535)	(2,943,672)
Loss on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 17.0%	(106,851)	(500,424)
Effects of:		
Impairment	-	148,750
Unrealised exchange differences	(3,435)	14,750
Finance revenue	(31,360)	-
Finance cost	(3,262)	-
Share-based payments	(4,9560	-
Other	2,971	-
Tax losses	130,457	336,924
Current tax charge	-	-

8.2 Income tax recognised in other comprehensive income

	Group 2017 £	**Group 2016 £**
Factors affecting the tax charge for the period		
Other comprehensive income/(loss)	15,168	1,139,744
Total comprehensive income/(loss) before taxation multiplied by the standard rate of UK corporation tax of 17.0%	(2,565)	193,756
Effects of:		
Exchange difference on translating foreign operations	2,565	(193,756)
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 £10,651,461 at 31 December 2017 (2016: £9,884,067). A deferred tax asset amounting to £1,810,748 (2016: £1,680,291) has not been recognised in respect of such losses due to uncertainty of future profit streams.

9. Cash and cash equivalents

	Group 2017 £	**Group 2016 £**	**Company 2017 £**	**Company 2016 £**

Cash at bank and in hand	233,433	16,918	230,109	8,827

10. Trade and other receivables

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Other receivables	149,705	130,011	37,513	-

11. Other current assets

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Prepayments	722	21,556	-	21,556

12. Receivables non-current

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Other receivables	-	4,293	-	-
Advances to controlled entities	-	-	5,458,208	4,082,063
	-	4,293	5,458,208	4,082,063

Amounts due from subsidiary undertakings		
Balance at the beginning of the year	4,082,063	6,556,570
Cash call to subsidiaries	876,145	274,635
Transferred to loans and borrowings	500,000	-
Impairment on loan	-	(2,749,142)
Balance at the end of the year	5,458,208	4,082,063

In 2016, directors undertook an impairment review of the carrying value of advances made to controlled entities loans in response to the sale of Paguanta Resources (Chile) SA.

The impairment review conducted by the directors for the financial year ended 31 December 2017 concluded that the carrying value of exploration and evaluation assets was both fair and reasonable.

13. Intangible assets

Exploration and evaluation

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
At cost				
As at 1 January	4,709,008	15,299,858	-	-
Additions	187,019	406,585	-	-
Fair value of Pastizal project acquired	1,033,997	-	910,873	-
Disposals	-	(11,819,324)	-	-
Exchange fluctuation	(15,702)	821,889	-	-
As at 31 December	5,914,322	4,709,008	910,873	-
Impairment				
As at 1 January	(547,133)	(11,455,256)	-	-
Disposals	-	10,908,123	-	-
As at 31 December	(547,133)	(547,133)	-	-
Carrying value	5,367,189	4,161,875	910,873	-

In 24 October 2017, the Group acquired the Pastizal project and assessed the fair value of the consideration as follows:

Fair value of fully paid ordinary shares	174,000
Present value of deferred cash consideration	209,299
Present value of debt obligations	650,698
	1,033,997

The Company also agreed to issue 670,000,000 fully paid ordinary shares at a share price of 0.0012 pence per share if the share price of the Company averages, for a period of no less than 90 days, 0.0012 pence per share or if other mutually agreed conditions have been achieved.

Goodwill on acquisition

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
At cost				
As at 1 January	-	1,000,000	-	-

As at 31 December	-	1,000,000	-	-
Impairment				
As at 1 January	-	(125,000)	-	-
Impairment for year	-	(875,000)	-	-
As at 31 December	-	(1,000,000)	-	-
Carrying value	-	-	-	-

14. Property plant and equipment

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
At cost	60,053	106,010	-	-
Accumulated depreciation	(43,291)	(83,212)	-	-
	16,762	22,798	-	-
Movements in carrying value				
Balance at the beginning of the year	22,798	41,437	-	3,140
Disposals	-	(12,938)	-	(3,140)
Depreciation	(5,915)	(11,519)	-	-
Exchange fluctuation	(121)	5,818	-	-
Balance at the end of the year	16,762	22,798	-	-

15. Investments in subsidiaries

The Company's investments in subsidiary undertakings at 31 December 2017 were as follows:

	Company £
Cost at 1 January 2017	1,500,000
Acquisition of minority interests in Herencia Resources Chile SA	123,124
	1,623,124
Provision for impairment at 1 January 2017	(1,500,000)
Impairment	-
Balance at 31 December 2017	(1,500,000)
Net book value at 31 December 2017	123,124

The Company's subsidiary undertakings as at 31 December 2017 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 Mining Services Limited	Chile	Ordinary	100
Herencia Resources (Chile) SA [i]	Chile	Ordinary	100
Herencia Services SA	Chile	Ordinary	100

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

16. Provisions for liabilities

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Decommissioning expenditure				
Balance at the beginning of the year	-	46,566	-	-
Disposal	-	(46,566)	-	-
Balance at the end of the year	-	-	-	-
Employee benefits				
Balance at the beginning of the year	92,692	72,738	45,375	35,214
Arising during the year	6,388	3,302	-	3,302
Reclassification of amount due to previous Managing Director of the Company to creditors	(45,375)	-	(45,375)	-
Effect of foreign currency exchange differences arising during the year	(179)	16,652	-	6,859
Balance at the end of the year	53,526	92,692	-	45,375

The provision for employee benefits relates to annual leave entitlements.

17. Trade and other payables

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Other payables and accruals	985,549	1,171,728	273,352	269,794

18. Loans and borrowings

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Current	294,603	35,312	794,603	35,312
Non-current				
Loans	42,637	493,045	42,637	493,045
Convertible notes	486,864	223,502	486,864	223,502
	824,104	751,859	1,324,104	751,859
Loans-current				
Balance at the beginning of the year	35,312	-	35,312	-
Drawdowns	-	73,378	-	73,378
Conversion of loan to equity (1)	(38,802)	(38,066)	(38,802)	(38,066)
Reclassification from long-term (2)	273,045	-	273,045	-
Inter-company loan reclassified (3)	-	-	500,000	-
Accrued interest	47,260	-	47,260	-
Exchange fluctuation	(22,212)	-	(22,212)	-
Balance at the end of the year	294,603	35,312	794,603	35,312
Loans-non-current				
Balance at the beginning of the year	493,045	250,000	493,045	250,000
Proceeds from loan	-	235,423	-	235,423
Adjustment to fair value (4)	(184,469)	-	(184,469)	-
Reclassification to short-term	(273,045)	-	(273,045)	-
Discount on recognition		(90,000)		(90,000)
Accrued interest	7,106	29,170	7,106	29,170
Exchange fluctuation	-	68,452	-	68,452
Balance at the end of the year	42,637	493,045	42,637	493,045
Present value of loans	42,637	493,045	42,637	493,045
Finance cost	177,363	-	177,363	-
Future value of convertible notes	220,000	493,045	220,000	493,045

Notes

(1) On 15 May 2017, Oriental Darius Co Ltd converted a short-term loan provided to the Company in 18 March 2016 into fully paid ordinary shares. The short-term loan was convertible at a conversion price of 0.0001 pence and resulted in the Company issuing Oriental Darius Co Limited 388,018,004 fully paid ordinary shares for a total consideration of £38,802.

(2) On 30 June 2017, Mr JC Moore ceased to be a non-executive director following the annual general meeting of the Company and pursuant to the terms and conditions of a US$300,000 loan made to the Company on 7 March 2016 the loan monies are required to be paid in full. The Company and Mr Moore have held a number of discussions on the process for repayment of the loan monies but nothing has been formally agreed as at the date of this annual report.

The Loan accrues interest at the rate of 15% per annum plus withholding tax.

In the previous a loan from a subsidiary, Tarapaca Resources (Bermuda) Limited to Herencia Resources plc was reclassified from previous recorded as a negative shareholder advance and accordingly recorded as a reduction in shareholder advances.

(3) A loan provided by Tarapaca Resources (Bermuda) Limited to Herencia Resources plc was reclassified from its previous recorded as a negative shareholder advance and accordingly recorded as a reduction in shareholder advances.

(4) During the course of 2015, Messrs JC Moore, JB Russell and GJ Sloan advanced the Company £280,000 and, during the course of 2016, Mr JB Russell advanced the Company £30,000 in their capacity as directors of the Company.

Messrs JB Russell and GJ Sloan agreed to a 50% forgiveness in loan monies on 1 April 2016 as part of the completion of a funding agreement between the Company the Australian Special Opportunity Fund and Oriental Darius Co Ltd.

Further, Messrs JC Moore, JB Russell and GJ Sloan agreed that the remaining funds due to them, £220,000 would only be repaid on the earlier of:

(a) 100% sale of the Picachos project or in the event that the Company retains a minority interest in Picachos, then from proceeds from future capital raisings, debt raisings or operating surpluses subject to the Company always having sufficient liquidity for working capital;

(b) Conclusion of any reverse takeover or fundamental change of business as defined in Rules 14 and 15 of the AIM Rules for Companies; and

(c) Any offer for shares in the Company made pursuant to the City Code on takeovers and Mergers becoming or being declared unconditional (including any scheme of arrangements to effect such an offer becoming effective).

The loans provided by former directors (Messrs JC Moore, JB Russell and GJ Sloan) have been adjusted to reflect the present value based on consideration of an appropriate discount at a rate of 20% and financial position that the Company would need to achieve in order to pay the former directors' loans.

Based on the time value of money, the loan has been recorded at £42,637 as at balance date 31 December 2017. The adoption of the amortised cost basis of accounting for the former directors loan resulted in the Group recorded a gain of

£184,469 for the financial year with a finance cost of £7,106.

Convertible notes

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Balance as the beginning of the year	258,814	-	258,814	-
Reclassification of convertible note to short-term loan (1)	(35,312)	-	(35,312)	-
Convertible notes issued during year (2)	455,932	288,190	455,932	288,190
Component of convertible notes issued during the year classified as equity instruments	(71,116)	(46,141)	(71,116)	(46,141)
Convertible notes converted into equity during the financial year	(148,354)	-	(148,354)	-
Accrued interest	37,391	16,765	37,391	16,765
Exchange fluctuation	(10,491)	-	(10,491)	-
Balance at the end of the year	486,864	258,814	486,864	258,814
Comprising:				
Current	-	35,312	-	35,312
Non-current	486,864	223,502	486,864	223,502
Balance at the end of the year	486,864	258,814	486,864	258,814
Present value of convertible notes	486,864	258,814	486,864	258,814
Finance cost	78,323	7,593	78,323	7,593
Equity component	100,987	44,474	100,987	44,474
Future value of convertible notes	666,174	310,881	666,174	310,881

The initial fair value of the liability portion of the convertible notes is determined using a market interest rate for an equivalent non-convertible note at the date of issue. The liability is subsequently recognised on an amortised cost basis until extinguished on conversion or maturity of the instrument. The remainder of the proceeds on date of issue is allocated to the conversion option and recognised in shareholders' equity, net of income tax, and not subsequently remeasured.

Notes

(1) On 18 March 2016 the Company entered into a short-term loan agreement with Oriental Darius Co Ltd and not a convertible note instrument.

(2) On 3 March 2017 and 16 March 2017, the Company secured US$100,000 (face value US$120,000), in total, in convertibles notes from Australian Special Opportunity Fund and Oriental Darius Co Ltd. Under the terms and condition of the Convertible Facility, Tranche II was drawn on the same terms as Tranche I, including 0% interest per annum, a 24-month term and security against the assets of the Company.

On 22 December 2017, the Company secured US$200,000 (face value of US$240,000) from ASOF as part of a funding arrangement agreed between the Company and its two largest shareholders, ASOF and Oriental. (On 8 January 2018 the Company secured US$200,000 (face value of US$240,000) from Oriental.) Under the terms of the funding arrangement the convertible notes were issued on the same terms and conditions as those agreed on 5 April 2016.

The funding comprises:

(a) US$150,000 of convertible loan notes with a face value of US$180,000 convertible into fully paid ordinary shares at an exercise price of £0.0001 ("Conversion Price") from the 1 April 2016 facility; and

(b) US$50,000 of convertible loan notes with a face value of US$60,000 into shares at an exercise price of £0.0003 ("Conversion Price") from the 6 June 2016 facility.

These funding arrangements are by way of Secured Convertible Facilities totalling US$1,300,000. As at 31 December 2017, US$750,000 has been drawn down with a further US$500,000 that can be advanced at the discretion of the shareholders.

19. Vendor obligations

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Balance as the beginning of the year	-	-	-	-
Cash obligations	209,299	-	209,299	-
Debt settlement obligations	650,698	-	650,698	-
Accrued interest	13,918	-	13,918	-
Exchange fluctuation	1,334	-	1,334	-
Balance at the end of the year	875,249	-	875,249	-
Cash obligations				
Present value of cash obligations	875,249	-	875,249	-
Finance costs	272,513	-	272,513	-
Exchange fluctuation	(34,512)	-	(34,512)	-
Future value of cash obligations	1,113,250	-	1,113,250	-

The initial fair value of the Vendor obligations is determined using a market interest rate for a equivalent instrument at the date of issue. The liability is subsequently recognised on an amortised cost basis until extinguished on conversion or maturity of the instrument.
On 24 October 2017, the Company executed an agreement with Consultoria y Services Mineros SA for the acquisition of the Pastizal project.

Under the terms and conditions of the acquisition the Company agreed to pay the following consideration:

- 580,000,000 fully paid ordinary shares at 0.03 pence per fully paid ordinary share and a further 670,000,000 fully paid ordinary shares upon the Herencia share price averaging at least 0.12 pence per share for a minimum of 90 days;

- Cash consideration of US$150,000 payable in 30 months from the date of execution of the acquisition agreement and a further US$200,000 payable in 42 months from the date of execution;

- Debt assumption of US$1,200,000 payable between 18 months and 54 months from the date of execution of the acquisition agreement; and

- Milestone payments of up to US$2,000,000 based the Mineral Resources at both Picachos and Pastizal where the Mineral Resources exceed 10 million tonnes grading an average copper grade of 1% but being less than 20 million tonnes grading an average copper grade of 1% US$1,000,000 payable in two instalments between 18 months and 36 months from date of execution of the acquisition agreement and where the Mineral Resources exceed 20 million tonnes grading an average copper grade of 1% the maximum amount of US$2,000,000.

The Company has pledged its interest in the Guamanga project and La Serena project as security for the cash obligations and debt settlement obligations.

20. Non-controlling interests

	Group 2017 £	Group 2016 £
Called up share capital	-	123,124

As stated in Note 19, the Company acquired the Pastizal project on 24 October 2017 and as part of the transaction it agreed to acquire from the Vendors of the Pastizal project their non-controlling interest in Herencia Resources Chile SA.

21. Share capital

	Company 2017 £	Company 2016 £
Allotted, issued and fully paid: 9,611,001,360 ordinary shares of £0.01p each and 4,266,609,563 deferred shares of £0.09p each (2016: 4,647,271,915 ordinary shares)	4,801,049	4,304,675

Movement in share capital during the period comprises:	Number of Ordinary Shares	Number of Deferred Shares	Share Capital £	Share Premium £
Issued and fully paid				
As at 1 January 2017 shares[1]	4,647,271,915	4,266,609,563	4,304,675	23,412,246
Movements for the year				
8 May 2017 Placement Tranche 1	1,781,158,152	-	178,116	623,405
15 May 2017 Conversion of convertible notes by Oriental Darius Co Ltd	388,018,004	-	38,802	-
15 Jul 2017 Placement Tranche 2	339,978,890	-	33,998	118,992
10 Jul 2017 Conversion of convertible notes by ASOF	931,178,173	-	93,118	-
10 Jul 2017 Conversion of convertible notes by Oriental Darius Co Ltd	943,396,226	-	94,340	-
Issue of shares for acquisition of Pastizal project in Chile	580,000,000	-	58,000	116,000
Issued and fully paid as at 31 December 2017	9,611,001,360	4,266,609,563	4,801,049	24,270,643

Note

(1) At the Annual General Meeting of the Company held on 29 June 2017, shareholders approved the subdivision of each ordinary share of 0.1 pence into 1 ordinary share of 0.01 pence and 1 deferred share of 0.09 pence.

22. Share options, performance rights and share-based payments

(a) (i) 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 2017	Weighted average exercise price 2017	Number of options 2016	Weighted average exercise price 2016
Balance at the beginning of the year	-	-	25,000,000	1.33p
Expired during the year	-	-	(25,000,000)	1.33p
Balance at the end of year	-	-	-	-

(a) (ii) Movements in share performance rights during the year

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

	Number of rights 2017	Weighted average exercise price 2017	Number of options 2016	Weighted average exercise price 2016
Balance at the beginning of the year	-	-	-	-
Awarded during the year	1,700,000,000	-	-	-
Expired during the year	-	-	-	-
Balance at the end of year	1,700,000,000	-	-	-

(b) Fair value of share options and share performance rights granted

No shares options were granted during the year (2016: Nil) and 1,700,000,000 share performance rights were awarded during the financial year for zero consideration and vesting over a three-year period from the date of award.

(c) Options held by Directors

No options were held or granted to Directors during the year.

Directors were awarded 1,700,000,000 share performance rights in lieu of cash emoluments until such time as the Company was in a stronger financial position. The share performance rights were awarded for zero consideration and vest over a three-year period from the date of award.

23. Net cash outflow from operating activities

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Operating loss	(628,535)	(2,943,672)	(213,333)	(4,432,217)
Adjustments for non-cash items:				
Depreciation of property, plant and equipment	5,915	11,519	-	3,140
Exchange differences on retranslation of foreign operations/financial liabilities	(31,369)	416,454	(31,369)	62,310
Impairment on loan	-	-	-	2,749,142
Impairment of investment in subsidiaries	-	-	-	1,250,000
Discount on loans	-	(90,000)	-	(90,000)
De-recognition of loans	(184,469)	-	(184,469)	-
Impairment of goodwill	-	875,000	-	-
Non-cash finance costs	105,675	16,795	105,675	16,765
Cost of performance rights	29,150	-	29,150	-
Other non-cash differences	-	(158,156)	-	-
Changes in assets and liabilities:				
(Increase)/decrease in receivables	(12,385)	571,350	(15,956)	29,770
(Decrease)/increase in payables	(186,178)	(118,992)	(41,818)	70,977
(Decrease)/increase in provisions	-	(43,264)	-	10,161
Net cash outflow from operating activities	(902,196)	(1,462,966)	(352,120)	(329,952)

24. Control

No one party is identified as controlling the Company.

25. Subsequent events

On 3 January 2018, ASOF and Oriental converted US$240,000 in convertible notes into fully paid ordinary shares of the Company at a conversion price of 0.02 pence per fully paid ordinary share and US$60,000 in convertible notes into fully paid ordinary shares of the Company at a conversion price of 0.03 pence per fully paid ordinary share. The conversion of these convertible note facilities resulted in the Company issuing 837,853,147 fully paid ordinary shares for the US$240,000 convertible note facility and 209,463,844 fully paid ordinary shares for the US$60,000 convertible note facility.

The total number of shares on issue increased from 9,611,001,360 to 10,658,517,783 as a result of the conversion of convertible notes into ordinary shares.

On 8 January 2018, the Company secured US$200,000 from Oriental Darius Co Ltd (face value US$240,000) having already received US$200,000 from the Australian Special Opportunity Fund on 22 December 2017. Under the terms of the funding arrangement the convertible notes were issued on the same terms and conditions as those agreed on 5 April 2016.

The funding comprises:

(a) US$150,000 of convertible loan notes with a face value of US$180,000 convertible into fully paid ordinary shares at an exercise price of £0.0001 ("Conversion Price") from the 1 April 2016 facility; and

(b) US$50,000 of convertible loan notes with a face value of US$60,000 into shares at an exercise price of £0.0003 ("Conversion Price") from the 6 June 2016 facility.

On 3 April 2018, the Company executed new convertible note facilities with ASOF and Oriental. The convertibles note facilities were secured on the same terms and conditions as the convertible note facilities executed on 5 April 2016 with the exception of the pricing of the conversion of the convertible notes into fully paid ordinary shares. The parties agreed that the US$300,000 (face value of US$330,00), in total, received from ASOF and Oriental would be converted into fully paid ordinary shares with the conversion price to be set at the "Next Placement Price".

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

26. Related party transactions

Current directors
Messrs PD Reeve and JW Williams executed Letters of Appointment on becoming directors of the Company and agreed to forego as part of their appointment cash emoluments until such time as the Company was in a stronger financial position. In lieu of cash emoluments, The Company has awarded Messrs Reeve and Williams 850,00,000 performance rights for zero consideration. The performance rights vest over 3 years from the date of award and details of the vesting period is set out in the Directors Report and Note 22 to the financial statements.

Former directors
With Messrs JC Moore, JB Russell and GJ Sloan having resigned to be directors of the Company amounts previous classified as directors' loans and therefore, related party transactions have ceased to be classified in this manner.

As at balance date, the Company has recorded as a current liability a loan amount to Mr JC Moore pursuant to a loan agreed with the Company on 7 March 2016 with principal and interest accrued totalling £294,603.

The Company has recorded as part of its trade and other payables amounts due to Mr GJ Sloan as salary and leave entitlements up to 1 April 2016. The Company has recorded £131,774 (A$227,666) as due for accrued salaries and leave entitlements.

Company secretary
Ben Harber was the secretary of the Company during 2017 and was also a partner of Shakespeare Martineau LLP, a firm of which provides company secretarial and legal services. During the year this partnership was paid a sum of £32,229 (2016: £61,640) in respect of company secretarial and legal services to the Company. This related party transaction is based on independent third party commercial rates.

27. Contingent assets, liabilities and capital commitments

Contingent assets
Paguanta sale
On 28 July 2016, the Company has executed a formal purchase agreement with Golden Rim Resources Limited ("GMR") for the sale of its 70% ownership in the Paguanta zinc, silver and lead Project in northern Chile.
The total consideration was US$2,300,000 in cash and GMR shares and GMR agreeing to pay up to US$2,100,000 (approximately £1,500,000) towards various contingent liabilities of the Company.

A final amount US$800,000 in GMR equity in the event that a decision to mine is made at Paguanta. As at the date of this report GMR has not made a decision to mine at Paguanta and therefore, this final amount remains a contingent asset.

Contingent liabilities
Pastizal project
Under the terms and conditions of the acquisition of the Pastizal project the Company agreed to pay the following consideration which are subject to achievement of specific milestones and therefore contingent liabilities:

(a) 580,000,000 fully paid ordinary shares at 0.03 pence per fully paid ordinary share and a further 670,000,000 fully paid ordinary shares upon the Herencia share price averaging at least 0.12 pence per share for a minimum of 90 days; and

(b) Milestone payments of up to US$2,000,000 based the Mineral Resources at both Picachos and Pastizal where the Mineral Resources exceed 10 million tonnes grading an average copper grade of 1% but being less than 20 million tonnes grading an average copper grade of 1% US$1,000,000 payable in two instalments between 18 months and 36 months from date of execution of the acquisition agreement and where the Mineral Resources exceed 20 million tonnes grading an average copper grade of 1% the maximum amount of US$2,000,000.

Picachos Project
On 7 August 2013, the Company announced that its subsidiary Herencia Resources (Chile) SA entered into an Option Agreement to acquire the advanced Picachos Copper Project in central Chile. Under the original terms of the Option Agreement, for Herencia Resources Chile SA to earn 100% of the project, US$200,000 was paid upfront on signing with further payments of US$8,300,000 over 4 years.

During the course of 2016, the Company renegotiated the Option Agreement to acquire the Picachos project. Under the terms and conditions of the Revised Option Agreement for Herencia Resources Chile SA to earn 100% of the Picachos project it is required to pay total option payments of US$5,000,000 of which US$885,000 has been paid as at 31 December 2017.

The Company is in arrears with the renegotiated option payments schedule as at the date of this annual report. Under the Revised Option Agreement options payments for 2016 and 2017 remain outstanding and total US$1,113,250. Option payments due in 2018 are US$800,000; 2019 US$800,000; 2020 US$900,000 and 2021 US$500,000.
The Company has also agreed to make royalty payments during production with a base royalty of 2 US cents per pound rising to 2.5 US cents per pound when the copper price exceeds US$3 per pound and 3.0 US cents per pound when the copper price exceeds US$4 per pound.

Exploration commitments

	Group 2017 £	Group 2016 £
Exploration tenement minimum expenditure requirements		
Payable		
Not later than 12 months	36,269	37,903
Between 12 months and 5 years	144,781	151,592
Greater than 5 years	-	37,903
	181,050	227,398

28. 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 and sale of assets 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.

Interest rate risk
At 31 December 2017 the Group had British Pound cash at bank of £50,222 (2016: £8.079), Chilean Peso cash at bank of a sterling equivalent of £3,324 (2016: £3,994), Australian Dollar cash at bank of a sterling equivalent of £5,204 (2016: £31) and US Dollar cash at bank of a sterling equivalent of £174,683 (2016: £4,814). 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 2017 £	Fixed interest rate 2017 £	Floating interest rate 2016 £	Fixed interest rate 2016 £
Financial assets				
Cash at bank	233,433	-	16,918	-

The effective weighted average interest rate was 0.67% (2016: 0.20%).

Financial liabilities:
At 31 December 2017, the Group has loans of £1,699,353 (including obligations assumed as part of the Pastizal acquisition of £875,249 (2016: £751,859).

Net fair value
The net fair value of financial assets and financial liabilities approximates to their carrying values 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 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Australian dollars	5,204	31	4,756	31
Chilean pesos	3,319	8,079	-	-
US dollars	174,683	4,814	174,683	4,814

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.

END

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