PATAGONIA GOLD

Annual Report and Accounts

For the year ended 31 December 2016

Contents

Corporate and Shareholder Information

Directors

Carlos J Miguens *(Non-Executive Chairman)*
Christopher van Tienhoven *(Executive Director)*
Gonzalo Tanoira *(Non-Executive Director)*
Manuel de Prado *(Non-Executive Director)*
Edward J Badida *(Non-Executive Director – resigned 30 June 2016)*
Glenn Featherby *(Non-Executive Director – resigned 30 June 2016)*

Chief Executive Officer

Christopher van Tienhoven

Chief Financial Officer

Cristian Lopez Saubidet

Chief Operations Officer

Matthew Boyes

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Solicitors

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Registrars and Transfer Agents

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Strand Hanson Limited
26 Mount Row
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Board of Directors

Carlos J. Miguens *(Non-Executive Chairman)* has extensive business experience in Latin America. He was President of Cerveceria & Malteria Quilmes, one of Argentina's largest brewing companies for 11 years, until its sale to Ambev. He is the President of MB Holding S.A. and a Director of a number of other companies. Carlos is a co-founder and Vice-President of A.E.A. (Asociación Empresaria Argentina). He has been the President of Patagonia Gold S.A. since its inception.

Christopher van Tienhoven *(CEO and Executive Director)* was appointed to the Board on 10 June 2015. During his 25 years' experience in the mining industry Christopher worked for the majority of his career with the Anglo American Group in various countries, culminating as Country Manager and President of Anglo Gold Ashanti's Cerro Vanguardia mine. In 2008 he joined Andean Resources Limited as Country Manager and Vice President for Argentina until 2010, when its main project Cerro Negro was sold to Goldcorp Inc. Before joining Patagonia Gold, Christopher has been dedicated to merger and acquisition opportunities in the junior mining sector in Latin America including Argentina, Colombia, Peru and Guatemala. Christopher has a degree in Economics from the Wharton School, University of Pennsylvania.

Gonzalo Tanoira *(Non-Executive Director)* has been a Director of the Company since its inception. He is also a Director of S.A. San Miguel, an Argentine publicly traded lemon producer, since April 2003 and Vice President since April 2013. He was also Director and Vice-President of Avex, an Argentine poultry production company, from August 2005 to October 2010 and Director and President of La Salamandra S.A. (Argentine dairy products producer) from September 2004 to August 2011. Previously, Gonzalo worked for Bear Stearns & Co. (New York) in its investment banking division for Latin America. He was also an associate at Booz Allen & Hamilton in its Buenos Aires and Sao Paulo offices. Gonzalo holds an MBA from the Wharton School of the University of Pennsylvania.

Manuel de Prado *(Non-Executive Director)* has more than 35 years of experience in the financial services sector. He was head of Chase Manhattan S.G.I.I.C., covering Private Banking and Asset Management in Spain and Portugal. Previously, Manuel was Managing Director for more than 15 years at Chase Manhattan Bank, in charge of Corporate Lending and Investment Banking, in Spain. Most recently he has been a Director and Partner of Oquendo Corporate S.L. in Spain, an independent financial advisory firm specialising in mergers and acquisitions and other corporate finance related transactions. Manuel has a BA in Economics and Business Administration from ICADE.

Chairman's Statement

I am pleased to present the 2016 Annual Report of Patagonia Gold Plc ("Patagonia Gold" or the "Company").

Firstly, I want to remark that 2016 was a year of consolidation for Patagonia Gold under a new management team. The appointment of Christopher van Tienhoven in June 2015 as the new CEO of the Company and as a member of the Board, together with the appointment of Cristian Lopez Saubidet as Interim CFO, have been of great benefit to Patagonia Gold at a time when the Company is facing a number of challenges and opportunities.

The Company reported revenues of $30.0 million for 2016 (2015: $26.1 million) and very pleasingly, we report our first profit for a financial year of $1.1 million (2015: $14.4 million loss).

The economic changes implemented by the Federal Government in Argentina, like the removal of export royalties on doré, a more competitive exchange rate due to the Peso devaluation, together with the elimination of foreign exchange restrictions concerning settlement of currency arising from exports, has had a positive impact on the Company's results for the year and has been positively received by the market. The Company hopes this will lead to a much improved political and economic environment for future investment in Argentina.

In terms of our operations, at Lomada de Leiva ("Lomada") mining activities were suspended in May 2016 due to the depletion of available resources in line with the initial mine plan. Leaching at Lomada continues and gold is still being recovered from the pads and according irrigation of the pads will continue for as long as it remains viable. The focus of the Company's operations moved towards Cap-Oeste and the first gold pour was achieved on 27 October 2016 and following the completion of the updated pit optimisation for Cap-Oeste, the Company is now forecasting total production from the initial open-pit at Cap-Oeste of 186,800 oz AuEq, increasing the open-pit mine life from two to three years through to July 2019.

The gold price remained volatile throughout 2016 with a downward trend during the last quarter before showing slight signs of improvement at the beginning of 2017. Given the current low commodity prices and expectations for an improvement in the mining industry in the mid to long term, numerous joint ventures and acquisitions occurred locally through 2016, which provides future opportunities for the Company to consider. In line with these prospects for an improvement in the markets, Patagonia Gold maintains its commitment to the region, particularly Argentina.

On 1 July 2016, the Company announced the resignation of Non-Executive Directors Edward Badida and Glenn Featherby. The Board greatly appreciated the experience and support they have both contributed to the development of the Company, and wish them well for the future.

In spite of the difficulties experienced over recent years by the mining industry in general and Patagonia Gold in particular, I uphold my commitment to continue to support the Company.

I would like to thank the Board, management and staff for their determined and unceasing efforts over the past year. Your support has been key to the successful development of the Company. Thanks must also go to our joint venture partner Fomicruz for its continued support of Patagonia Gold S.A.'s development and exploration initiatives. Finally, I would like to express my sincere thanks to our committed shareholders. I look forward to updating you on our future growth and future plans during the course of the year.

Carlos Miguens
Non-Executive Chairman

27 March 2017

Report from the Chief Executive Officer

2016 was a challenging year for Patagonia Gold under a new management team, with the Group's focus of operations transitioning from Lomada to Cap-Oeste, together with the continued focus of reduction of operating costs.

It was therefore pleasing, with the operational focus shifting from Lomada to Cap-Oeste, to achieve a 15.0% increase in revenues to $30.0 million (2015: $26.1 million) and a profit of $1.1 million (2015: $14.4 million loss) for the year ended 31 December 2016.

During the year, the Lomada gold mine reached the end of its initial mine plan and accordingly, mining ceased in May 2016 whilst gold continues to be recovered through the ongoing irrigation of the heap leach pad. Total production at Lomada in 2016 was 22,770 oz Au (2015: 21,521 oz Au). A total of 23,387 oz Au (2015: 22,227 oz AU) were sold during 2016 at an average gross price of $1,236 per ounce (2015: $1,165 per ounce), generating revenues of $28.6 million during 2016 (2015: $26.1 million), which was above management's expectations.

In May 2016, the Company successfully concluded a $10.0 million financing to develop the open pit mine at Cap-Oeste. The development of Cap-Oeste has provided a transition from Lomada, with the Lomada mining fleet having been moved to Cap-Oeste at the end of May 2016. The initial project consists of mining the oxide ore and treating it on a heap leach plant similar to that at Lomada. The open pit, heap leach pad and recovery plant were completed on time with the first gold pour on 27 October 2016.

However, as production accelerated, recoveries were lower than expected due to higher than anticipated clay in the ore. As a result, Cap-Oeste's production for 2016 was below management's initial expectations with 3,064 oz AuEq produced during 2016 of which 1,185 oz AuEq were sold in the period at an average gross price of $1,175 per oz, generating revenues of $1.4 million during 2016.

As previously announced, the Company is in the process of installing a 500 tonne per hour agglomeration circuit. The Company believes that the agglomeration circuit will increase the overall recovery to 80% for Au and 40% for Ag, which is in excess of the initial forecast recoveries without the agglomeration of approximately 65% Au. The cost of the circuit is now expected to be $5.5 million, which is being funded from a combination of supplier and debt financing, as the Company was unable to source second hand equipment as originally expected. The resulting lead time for the main equipment items has therefore resulted in a delay in the completion of the circuit, which is now anticipated to be completed by the end of June 2017, but the Company continues to forecast production from Cap-Oeste of approximately 68,500 oz AuEq in 2017, which is in line with previous guidance.

Following completion of an updated pit optimisation for Cap-Oeste by Kenmore Consulting in conjunction with a cash cost review and pit resource update for Cap-Oeste completed by CUBE Consulting, as previously announced, the initial open pit mine at Cap-Oeste is now expected to have a mine life of three years and is expected to produce a total of 186,800 oz AuEq. Following the extension of the Cap-Oeste mine life and the installation of the agglomeration circuit by the end of June 2017, forecast production for 2017 from Cap-Oeste is expected to be approximately 68,500 oz AuEq and 45,500 oz AuEq and 67,600 oz AuEq in each of 2018 and 2019 respectively, in line with previous guidance.

The Company anticipates that Cap-Oeste will provide the Company with the cash flow to meet its short-term financing commitments and at the same time, allow Patagonia Gold to continue exploring identified targets in the region.

Report from the Chief Executive Officer (continued)

The Company continues to target operating efficiencies and during 2016 the measures previously adopted continued to achieve cost reductions. The savings achieved by purchasing equipment that was previously hired along with other cost reducing initiatives, were successfully maintained during 2016 throughout the expansion and transition of operations whilst Head Office costs continued to be reduced. The Company recognises that this is a continual process and is committed to further optimising costs, with the prime objective of maximising the funds that are available to be invested in exploration and development of its projects.

Exploration continues to be a key aspect of the business of Patagonia Gold and the Company has tested several of the projects in its property portfolio including Las Lajas, Bagual and Sarita.

In addition, as announced during the first quarter of 2016, the Company entered into an earn-in agreement with respect to Trilogy Mining Corporation's Carreta Quemada and Chamizo exploration gold projects in Uruguay ("Trilogy"). This represents a new opportunity for the Company to acquire additional gold projects with geological potential in a new jurisdiction, enabling the Company to diversify its regional operations and risks, with initial exploration work having already been conducted. During the year, a first pass of the project was made which included 900 metres of drilling with some encouraging results. Further work is planned on this project once cash becomes available from the Company's operations.

Patagonia Gold retains its investment focus on Argentina and, for this reason, it continues to review opportunities to enhance its participation in the local mining business. The improved market sentiment coupled with the change in government in Argentina pose an excellent opportunity for Patagonia Gold to grow its business in the region.

The Company has succeeded in maintaining its strong position through another year of challenging markets thanks to the commitment of its management, staff, and technical team. I am confident that Patagonia Gold will be able to continue to achieve significant milestones in the ensuing year, enhancing the potential of its core projects and vigorously developing its other properties via combined exploration endeavours.

Christopher van Tienhoven
Chief Executive Officer

27 March 2017

Operations Report

The following is a summary of the Company's operations, together with an update on exploration activities for the year to date.

Company Properties

The Lomada de Leiva gold project (the "Lomada Project" or "Lomada") is located in the La Paloma property block approximately 120 km to the north of the El Tranquilo property block. The Lomada pit mining operation ceased as of May 2016. Leaching of the heap leach stocks will continue for as long as gold continues to be recovered and it remains viable to do so.

The net profits generated from production at Lomada are being utilised to meet operating and capital requirements at Cap-Oeste and to fund ongoing exploration work across the Company's other projects. Construction of the agglomeration circuit for Cap-Oeste is well advanced with all major machinery items ordered and shipping commenced. A budget update estimates the total capital outlay for the project will now be $5.5 million due to additional equipment and inability to source used equipment, which has also resulted in a delay, with the circuit now expected to be completed by the end of June 2017. Despite the delay, as the Company has continued to mine the ore at Cap-Oeste and given that the circuit's capacity is greater than the current mine rate, the Company continues to forecast production from Cap-Oeste of 68,500 oz AuEq, which is in line with previous guidance. Poor percolation within the stacked pile on the leach pad, due to higher than anticipated clay in the ore, has led to the requirement for the installation of the agglomeration circuit which is expected to enable the Company to achieve its initial forecast recoveries for gold and silver of 80% and 40% respectively with the crushed agglomerated product.

The La Manchuria property block is located approximately 50 km to the southeast of the El Tranquilo property block and hosts the La Manchuria Project. A number of options are currently being evaluated to realise cash flow and advance exploration on the block.

Exploration of the El Tranquilo block was halted in November 2015. First pass exploration of regional permits has been initiated together with first pass grass roots investigations at Las Lajas and Los Toldos. Follow-up work at La Manchuria and Sarita has also commenced.

Initial exploration work has also commenced across the Carreta Quemada and Chamizo projects in Uruguay. The first nine hole programme is now completed with assays reported.

The JORC Code compliant resources delineated as at 31 December 2016 are listed in the table below:

Gross Resources (PGSA-Fomicruz)

Measured Resources

	Measured	*Grade (g/t)*			*Metal (oz)*		
Area Name	*Tonnes*	*Au*	*Ag*	*AuEq*	*Au*	*Ag*	*AuEq***
Cap-Oeste	825,626	1.66	42.81	2.28	44,107	1,136,395	60,577
Total Measured	**825,626**	**1.66**	**42.81**	**2.28**	**44,107**	**1,136,395**	**60,577**

Indicated Resources

	Indicated	*Grade (g/t)*			*Metal (oz)*		
Area Name	*Tonnes*	*Au*	*Ag*	*AuEq*	*Au*	*Ag*	*AuEq***
La Manchuria	425,705	2.95	135	4.07	40,380	1,848,211	55,684
COSE	49,000	27.8	1,466	52.2	44,000	2,325,000	83,000
Cap-Oeste	12,392,738	2.06	59.84	2.92	819,118	23,840,690	1,164,626
Lomada*	4,000,465	0.48	NA	NA	61,919	NA	61,919
Total Indicated	**16,867,908**	**1.78**	**51.7**	**2.52**	**965,417**	**28,013,901**	**1,365,229**

Operations Report (continued)

Inferred Resources

Area Name	Inferred Tonnes	Grade (g/t) Au	Ag	AuEq	Metal (oz) Au	Ag	AuEq**
La Manchuria	1,469,020	1.53	49.4	1.92	72,335	2,335,236	90,682
COSE	20,000	12.5	721	24.5	8,000	464,000	16,000
Cap-Oeste	8,392,000	1	25.79	1.43	269,000	696,000	385,000
Lomada	3,412,270	0.672	NA	NA	73,726	NA	73,726
Total Inferred	**13,293,290**	**0.99**	**8.2**	**1.32**	**423,061**	**3,495,236**	**565,408**

Net Attributable Resources (PGSA)

Measured Resources

Area Name	Measured Tonnes	Grade (g/t) Au	Ag	AuEq	Metal (oz) Au	Ag	AuEq**
Cap-Oeste	743,063	1.66	42.81	2.28	39,696	1,022,756	54,519
Total Measured	**743,063**	**1.66**	**42.8**	**2.28**	**39,696**	**1,022,756**	**54,519**

Indicated Resources

Area Name	Indicated Tonnes	Grade (g/t) Au	Ag	AuEq	Metal (oz) Au	Ag	AuEq**
La Manchuria	383,135	2.95	135	4.07	36,342	1,663,390	50,116
COSE	44,100	27.8	1,466	52.2	39,600	2,092,500	74,700
Cap-Oeste	11,153,464	1.82	56.32	2.76	737,206	21,456,621	1,048,163
Lomada*	3,600,419	0.48	NA	NA	55,727	NA	55,727
Total Indicated	**15,181,117**	**1.78**	**51.7**	**2.52**	**868,875**	**25,212,511**	**1,228,706**

Inferred Resources

Area Name	Inferred Tonnes	Grade (g/t) Au	Ag	AuEq	Metal (oz) Au	Ag	AuEq**
La Manchuria	1,322,118	1.53	49.4	1.92	65,102	2,101,712	81,614
COSE	18,000	12.5	721	24.5	7,200	417,600	14,400
Cap-Oeste	7,552,800	1	25.79	1.43	242,100	626,400	346,500
Lomada	3,071,043	0.672	NA	NA	66,353	NA	66,353
Total Inferred	**11,963,961**	**0.99**	**8.2**	**1.32**	**380,755**	**3,145,712**	**508,867**

* *Lomada resource has not been depleted during 2016 to take account of production during the year, pending completion of third party estimation*

** *AuEq oz were calculated on the prevailing Au:Ag ratio at the date of publishing of the JORC/43-101 compliant resource reports for the individual projects*

The Company holds a 90% interest in PGSA, with the remaining 10% being held by the Santa Cruz government's wholly-owned mining company, Fomento Minero de Santa Cruz Sociedad del Estado ("FOMICRUZ"). The net attributable resource shows the 90% of the Cap-Oeste resource that is attributable to the Company.

Operations Report (continued)

Argentina

Cap-Oeste Project

The Cap-Oeste Project is the Company's flagship project and is located within a structural corridor extending six km from the La Pampa prospect in the northwest to the Tango prospect in the southeast. To date, the Cap-Oeste deposit has an identified and delineated strike extent of 1.2 km.

Following the $10.0 million financing completed in May 2016, the Company has now completed the construction of the initial low cost open pit mine at Cap-Oeste with a heap leach processing facility similar to that at Lomada. The optimised pit design, carried out on the existing JORC Code compliant Measured and Indicated Resources, contains a total of 5.6Mt of waste and 1.55Mt @ 2.3g/t Au and 85g/t Ag for a AuEq (68:1) of 3.53 g/t. The initial life of mine is expected to be 24 months, with forecast production estimated to be approximately 82,000 oz AuEq and an operating cost forecast to be within the range of $800 to $850 per oz, which includes the capital amortisation and working capital component of $4.5 million. However, as set out below, the initial life of mine has been extended to three years.

Mining operations at Cap-Oeste are progressing as scheduled with total production of 336,000t @ 1.16 AuEq for 2016, being 5% ahead of the scheduled target tonnage for the period. Total waste production of 2.16Mt in 2016 was also lower than expected.

However, gold and silver recovery from the Cap-Oeste Pad to date has been lower than expected, as a result of complications with the recovery process due to lack of percolation of the leaching solution due to a high clay content in the upper sections of the Cap-Oeste orebody. Cap-Oeste produced a total of 3,064 oz AuEq (2,908 oz Au and 8,864 oz Ag) after slower than anticipated initial leaching and percolation issues.

To resolve the percolation issues the Company is currently installing a 500 tonne per hour agglomeration circuit, in order to seek to improve recovery rates from the Cap-Oeste ore. Agglomeration, with an extremely low dosage of cyanide solution and cement, helps to keep the leaching solution percolating freely and the Company is confident that this will increase the overall recovery to 80% for Au and 40% for Ag, which is in excess of the initial forecast recoveries, prior to the percolation issue, without the agglomeration, of approximately 65% Au.

The agglomeration circuit, including a higher capacity primary impact crusher and conveyor system, has been engineered and all major items have been ordered and are expected to be operating by the end of June 2017. The total cost of approximately $5.5 million is being funded from a combination of supplier and debt financing. All major components are ordered with stacking conveyors already in transit and civil works underway on site and the Company is forecasting production of 68,500 oz AuEq from Cap-Oeste in 2017, which is in line with previous guidance announced in December 2016.

Cap-Oeste pit optimisation and update resource

An updated pit optimisation for Cap-Oeste has been completed by Kenmore Consulting in conjunction with a cash cost review and pit resource update for Cap-Oeste completed by CUBE Consulting.

The pit optimisation was carried out at a price of $1,300/oz Au and $20/oz Ag and has resulted in an increase in the current open-pit life for Cap-Oeste from two to three years, with the pit now forecast for depletion in Q3 2019 with a total ore production of 2.03Mt @ 2.99g/t Au and 138g/t Ag for a total recoverable estimated production of 136,000 oz of Au and 3.2M oz of Ag, equating to 186,800 oz AuEq. Pursuant to the pit optimisation, the proposal is to increase the size of the pit to mine the ore previously delineated for the Cap-Oeste underground pit, resulting in the overall material to be moved over the life of the mine increasing from 7.2Mt to 25.2Mt, which will also increase the strip ratio from 3.7 to 11.44 and the ore being mined increasing from 1.55Mt to 2.03Mt. In order to mine the increased material, additional fleet will be required to increase the monthly production with one excavator, two fixed body dump trucks and one additional blast hole drill required. The estimated cost is approximately $2.5 million, which the Company anticipates funding from supplier and debt financing.

Operations Report (continued)

The resource update includes the recently drilled 98 grade control RC holes and was utilised for the short term planning. Set out below is the updated JORC Code compliant resource for Cap-Oeste, which shows a slight reduction in the indicated and inferred categories due to increased drill density and re-interpretation of the mineralised envelope. The updated resource is tabled below.

Table 1: JORC Code Compliant Gross Resource for Cap-Oeste – December 2016

Gross Resource For Cap-Oeste

			Grade (g/t)			Metal (oz)		
Resource Category	*Ore type*	*Tonnes*	*Au LUC/OK*	*Ag LUC/OK*	*AuEq(1)*	*Au*	*Ag*	*AuEq(1)*
Measured	Oxide	769,987	1.52	37.87	2.07	37,708	937,564	51,296
	COSE(2)	23,233	4.01	177.11	6.57	2,993	132,294	4,910
	Fresh(3)	32,406	3.27	63.86	4.19	3,406	66,538	4,371
	Sub-Total	**825,626**	**1.66**	**42.81**	**2.28**	**44,107**	**1,136,396**	**60,577**
Indicated	Oxide	2,993,697	1.2	39.7	1.77	115,047	3,821,524	170,429
	COSE(2)	548,919	5.19	227.1	8.48	91,603	4,007,874	149,688
	Fresh(3)	8,850,122	2.15	56.27	2.97	612,468	16,011,300	844,509
	Sub-Total	**12,392,738**	**2.06**	**59.84**	**2.92**	**819,118**	**23,840,698**	**1,164,626**
Inferred	Oxide	800,050	0.58	18.51	0.85	14,942	476,146	21,843
	COSE(2)	160,479	0.63	21.86	0.95	3,263	112,776	4,897
	Fresh(3)	4,492,004	1.5	31.57	1.96	216,849	4,559,323	282,921
	Sub-Total	**5,452,533**	**1.34**	**29.37**	**1.77**	**235,054**	**5,148,246**	**309,662**
Total		**18,670,897**	**1.83**	**50.19**	**2.56**	**1,098,278**	**30,125,339**	**1,534,865**

Operations Report (continued)

Table 2: JORC Code Compliant Net Resource for Cap-Oeste Attributable to the Company – December 2016

Net Attributable to the Company[(4)]

			Grade (g/t)			Metal (oz)		
Resource Category	*Ore type*	*Tonnes*	*Au LUC/OK*	*Ag LUC/OK*	*AuEq[(1)]*	*Au*	*Ag*	*AuEq[(1)]*
Measured	Oxide	692,988	1.52	37.87	2.07	33,937	843,808	46,166
	COSE[(2)]	20,910	4.01	177.11	6.57	2,694	119,065	4,419
	Fresh[(3)]	29,165	3.27	63.86	4.19	3,065	59,884	3,934
	Sub-Total	**743,063**	**1.66**	**42.81**	**2.28**	**39,696**	**1,022,756**	**54,519**
Indicated	Oxide	2,694,327	1.2	39.7	1.77	103,542	3,439,372	153,386
	COSE[(2)]	494,027	5.19	227.1	8.48	82,443	3,607,087	134,719
	Fresh[(3)]	7,965,110	2.15	56.27	2.97	551,221	14,410,170	760,058
	Sub-Total	**11,153,464**	**2.06**	**59.84**	**2.92**	**737,206**	**21,456,628**	**1,048,163**
Inferred	Oxide	720,045	0.58	18.51	0.85	13,448	428,531	19,659
	COSE[(2)]	144,431	0.63	21.86	0.95	2,937	101,498	4,407
	Fresh[(3)]	4,042,804	1.5	31.57	1.96	195,164	4,103,391	254,629
	Sub-Total	**4,907,280**	**1.34**	**29.37**	**1.77**	**211,549**	**4,633,421**	**278,695**
Total		**16,803,807**	**1.83**	**50.19**	**2.56**	**988,451**	**27,112,805**	**1,381,378**

Notes:

(1) AuEq values are calculated at a ratio of 68:1 Ag to Au

(2) COSE style mineralisation with free milling cyanide recoverable Au and Ag

(3) Fresh refractory sulphide mineralisation

(4) Cap-Oeste is 100% owned by Patagonia Gold S.A. ("PGSA"), which is the operator of Cap-Oeste. The Company is interested in 90% of PGSA, with the remaining 10% being held by the Santa Cruz government's wholly-owned mining company, Fomento Minero de Santa Cruz Sociedad del Estado ("FOMICRUZ). The net attributable resource shows the 90% of the Cap-Oeste resource which is attributable to the Company

Lomada de Leiva Project

As previously announced, operations at Lomada were suspended in May 2016 with the entire mining fleet and the majority of the workforce relocated to the Cap-Oeste Project. The costs at Lomada were, as a result, reduced significantly when mining operations were suspended.

The Lomada pads are continuing to exceed forecasts with a total of 22,770 oz Au produced to the end of 2016 and with the pads still producing at approximately 15 oz Au per day the Company has decided to leave the pads irrigating for the present time until we determine that the process is no longer viable.

La Manchuria Project

The Company is currently evaluating the possibility of a joint venture arrangement for the La Manchuria project with third parties in order to realise some cash flow from the deposit and to increase the exploration spend on existing targets within the Manchuria block. The block is highly prospective with over 145,000 oz AuEq of JORC Code compliant Indicated and Inferred resources already delineated at La Manchuria.

To date no agreement has been finalised and we will be kept updated as necessary.

Operations Report (continued)

Exploration Summary

Exploration during 2016 focussed largely on regional reconnaissance at the Las Lajas, Los Toldos and Sarita projects in Santa Cruz province, Argentina, and geophysical surveys followed by drilling at the San José Project in Uruguay.

Table 3: Summary of exploration works completed during 2016.

Activity	*Unit*	*Volume* *Santa Cruz – Argentina*	*San Jose – Uruguay*
Mapping	km^2	1,240	75
Stream Sediment Geochemistry	Samples	—	82
Soil Geochemistry	Samples	—	690
Rock Chip sampling	Samples	1,032	158
Ground Magnetics	Line-km	862	63
Gradient Array IP	Line-km	—	85
Pole-Dipole IP	Line-km	4.2	21.0
Sawn Channels	metres	316.5	—
Trenching	metres	892	865
RAB Drilling	metres	729.4	—
RC Drilling	metres	2,878	—
Diamond Drilling	metres	1,248	910

EL TRANQUILO PROJECT

Monte Leon. A reverse circulation drilling programme totalling 60 holes, for 2,878 metres was completed during November at the Monte Leon prospect, located 13 km from Cap-Oeste, to test the oxide zone of the prospect to assess the potential for a gold resource that could possibly be treated on the Cap-Oeste heap leach pad. The sulphide mineralisation at the prospect is refractory. The programme intersected widespread mineralisation including best intercepts of 30.0 metres at 1.53 g/t Au in hole MLN-061-R, 2.0 metres at 49.25 g/t Au in MLN-077-R and 34.0 metres at 1.22 g/t Au in MLN-082-R.

An internal resource evaluation and pit design is underway and a resource estimate will be completed during 2017, subject to available funding.

LA PALOMA PROJECT

Brecha Sofia. A review of the Brecha Sofia prospect, located approximately 1 km east of the Lomada de Leiva open pit, revealed the potential for deep mineralisation that had not been adequately evaluated by previous drilling by Barrick and Homestake. Historic intersections include 3.0 metres at 140.6 ppm Au, 3.2 metres at 13.1 ppm Au and 12.0 metres at 5.0 ppm Au. Three historic holes that were interpreted to have not intersected the target zone were re-entered and extended, intersecting hydrothermal breccias. The best result reported was 5.5 metres at 5.9 ppm Au however, no coherent controlling structure associated with the mineralisation is apparent.

Cerro Vasco. A rotary air blast (RAB) drilling programme was undertaken to try and test coincident magnetic and induced polarisation anomalies beneath Quaternary alluvial deposits. In the majority of cases, the Jurassic volcanic hosted targets were too deep to effectively test so it is proposed to test with RC drilling during 2017 after better defining targets with a pole-dipole induced polarisation (PDIP) survey.

Operations Report (continued)

Bandurria. Situated 10 km to the west of the Lomada mine the Bandurria project has been mapped and surface rock chips assayed with two parallel outcropping structures with a strike length of in excess of 400 metres identified and now drill ready, six holes have been planned and the Company is currently awaiting approvals to drill.

LA MANCHURIA PROJECT

Geological mapping at La Manchuria prospect has identified additional mineralised structures that have not previously been tested by drilling. Geophysical surveys are currently in progress in the area with the objective of defining drill targets for testing during 2017.

SARITA PROJECT

A ground magnetic survey was completed during 2016 and a PDIP survey is currently in progress with the objective of defining drill targets within the extensive mapped vein system, for drill testing during 2017. Channel sampling returned strongly elevated silver grades, including 1.0 metre at 1,100.0 ppm Ag.

LA LAJAS PROJECT

Reconnaissance mapping and sampling completed over the project area during 2016, identified three prospects of interest, including La Ultima, Facundo Ezequiel and La Esperanza III, where a 1,000 metres long fracture zone hosting auriferous quartz veinlets was identified. More detailed mapping and sampling of the structure is scheduled for 2017.

LOS TOLDOS PROJECT

Reconnaissance mapping and sampling was conducted at El Bagual, El Amanecer and La Batalla prospects during 2016, with mineralised quartz veins identified at both El Bagual and El Amanecer.

A short diamond drilling programme of four holes for 554.6 metres was completed at El Bagual during November. Extremely challenging conditions were encountered, as was previously experienced when Barrick attempted to drill at the prospect during 2006, combined with post-mineralisation faulting, resulted in none of the holes effectively testing the defined target.

SAN JOSÉ PROJECT (URUGUAY)

As a result of the Trilogy project, the Company can acquire up to 100% of Carreta Quemada properties, which cover an area of 388 km^2, and Chamizo, which covers an area of 70 km^2, both located on the San José Greenstone Belt within the early Proterozoic Piedra Alta Terrane, approximately 100 km from Montevideo, the capital of Uruguay.

Since entering the Earn-In agreement in January 2016 with Trilogy Mining Corporation ("Trilogy") in relation to their gold projects in Uruguay, which includes, *inter alia*, Trilogy's existing Carreta Quemada and Chamizo exploration gold projects as well as any future areas that they may be granted, the Company has escalated its exploration activities in the country to seek to define drill targets. The Company has undertaken and continues to undertake geological mapping, soil and stream sediment geochemistry, ground magnetic and induced polarisation surveys, and has also completed its first drilling programme at Zona 13 within the Chamizo exploration area. Set out below are further details on the exploration activities during 2016.

Operations Report (continued)

Chamizo – Zona 13. Following initial geophysical and geochemical programmes, the Company has completed a 910 metre exploration diamond drilling programme, comprising nine holes, on Zona 13 within the Chamizo exploration area, with all assay results having now been received. Zona 13 was the first of a series of extensive PDIP geophysical anomalies drilled on the Chamizo joint venture area, with eight of the nine holes intersecting mineralisation with significant assays reported in five of the eight mineralised intervals, including 7.2 metres @ 2.64 g/t Au from CHDD-002 and 16.2 metres @ 1.72 g/t Au from CHDD-004.

Table 4: Significant intervals Zona 13 Chamizo Area

Hole ID	*From*	*To*	*Length (m)*	*Au g/t*
CHDD-001	31.0	55.4	*24.4*	*0.60*
including	45.8	55.4	*9.6*	*1.02*
CHDD-002	76.5	92.0	*15.5*	*1.38*
including	86.0	92.0	*7.2*	*2.64*
CHDD-003	48.0	84.0	*36.0*	*0.72*
including	48.0	55.0	*7.0*	*1.68*
CHDD-004	64.4	80.5	*16.2*	*1.72*
CHDD-004	107.0	110.0	*3.0*	*1.48*
CHDD-009	75.0	84.0	*9.0*	*0.32*

* *Drill hole intervals are not true widths and the Company estimates that the true widths are approximately 80% of the overall reported widths. All holes were drilled at a dip of -55 degrees from South to North, except for hole CHDD-001, which was drilled as a scissor hole from North to South.*

The assays reported have confirmed an ENE – WSW striking mineralised shear zone (Tambo Viejo Shear Zone) of over 900 metres in length that remains open at both ends and down dip. Mineralisation is hosted within a steeply dipping to sub-vertical shear zone up to 40 metres wide located at the contact between a granodiorite body to the north and Paleoproterozoic (2.1 Ga, Birimian age) greenschist facies metandesite schist and intercalated metasediments to the south. Mineralisation manifests as quartz-chlorite-sericite-carbonate-pyrite-arsenopyrite altered graphitic schist, with mylonites, cataclasites and breccias reflecting both brittle and ductile deformation. Quartz occurs as stringers, porphyroblasts and breccia clasts.

The mineralised shear zone, interpreted to be associated with the regional Cufré Shear Zone, is very effectively identified by PDIP and provides a rapid and cost effective targeting tool to define the shear zone in the subdued terrain that has almost no outcrop and widespread thin Quaternary cover sequences. Geophysical anomalies extend approximately 1.1 km to the west and 1.2 km to the east along strike from Zona 13 and remain open in both directions. Aeromagnetic data indicates that the Cufré structural corridor may have a strike length exceeding 30 km.

Additional targets under development include extremely prospective PDIP Chargeability and Resistivity highs located immediately adjacent to the principal shear zone that have never been evaluated.

Chamizo – Zona 14. Over 3.5 km strike of anomalous arsenic in soil and coincident high chargeability induced polarisation anomalies have been identified within the Zona 14 prospect. The 'Clara' structure has been identified as a very strong, steeply southeast dipping PDIP chargeability anomaly coincident with a strong arsenic and low level gold in soil geochemical sampling. The Clara structure is interpreted as a regional scale graphitic shear zone that has never been historically evaluated. As with the majority of the project areas in the Chamizo and Carreta Quemada blocks there is little or no outcrop at surface and the exploration is reliant on geophysical and geochemical surveys to identify the prospective target areas.

Chamizo – Zona 15. Similar in style to Zona 13, Zona 15 prospect is defined by a strong (up to 10,580 ppb Au), multi-sample panned concentrate Au anomaly defined during stream sediment sampling, which is located adjacent to an E-W striking intense IP chargeability high and resistivity low, that is interpreted to reflect another untested graphitic shear zone with a strike length in excess of 3.0 km.

Operations Report (continued)

Carreta Quemada. To date an extensive surface Au-As-Sb-W in soil geochemical anomaly coincident with ground magnetic and gradient array induced polarisation (GRA IP) geophysical anomalies has been identified by soil samples collected by auger from the undisturbed C Horizon. These have returned seven samples greater than 0.5 g/t Au (500 ppb), with a maximum of 1.70 g/t Au (1,700 ppb). The geochemical and geophysical surveys have identified an initial NW-SE trending target area with dimensions of approximately 1,300 metres x 400 metres, coincident with a regional NW-SE striking structural corridor exceeding 30 km in length, as indicated by aeromagnetic data.

Nueva Helvecia and Colla Prospects. Preliminary geological mapping and rock chip sampling have been undertaken across the prospects located approximately 50 km west of Chamizo. Priority structural corridors have been identified by the Company following a geological mapping and geochemical soil and rock chip sampling programme with some sporadic outcrops having returned values up to 14.7 g/t Au. An application for prospecting permits across the prospects has been lodged.

The geophysical and geochemical programmes to date have identified a number of drill targets within the Zona 15, Zona 14 and Carreta Quemada areas which the Company will seek to drill in due course. However, in the near term, geophysical analysis combined with surface mapping trenching and geochemical analysis, will continue in an effort to better understand the potential of the Zona 13 structure along strike and down dip of the reported intervals by means of further soil sampling, trenching and geophysics.

Matthew Boyes
Chief Operations Officer

27 March 2017

Strategic Report

Business review and future developments

The purpose of the review is to show how the Company assesses and manages risk and uncertainty and adopts appropriate policies and targets. Further details of the Group's business are also set out in the Chairman's Statement on page 4, the Report of the CEO on pages 5 and 6, and the Operations Report on pages 7 to 15, which are incorporated in this report by reference.

Review of the year

Revenue for the year totalled $30.0 million up from $26.1 million in 2015 due to increased production at Lomada, Cap-Oeste starting up and an improvement in the gold price received.

The fall in Cost of Sales to $14.9 million from $29.7 million in 2015 was largely due to the cessation of mining at Lomada in May 2016 as no further extraction costs were incurred from this date. Also contributing to this was the elimination by the Argentine Government of the 5% royalty on exports plus the continuing successful programme of negotiations with suppliers to reduce costs.

Administrative costs were also successfully reduced to $8.7 million from $11.4 million as detailed in Note 8.

Exploration costs for the year were $2.3 million, down from $5.5 million in 2015 as the programme of works changed primarily as a result of less drilling undertaken.

The lack of opportunity to invest excess cash on the balance sheet in bonds in 2016 together with the increase in short and long-term loans used by the Group contributed to net finance costs for the year of $1.9 million compared to net finance income of $2.0 million in 2015.

During 2016, Patagonia Gold financed the construction of the new leaching plant and the acquisition of the machinery and equipment for the project at Cap-Oeste. This was funded by a combination of operating profits, short and long-term loans from Argentinean banks and the fundraising in May 2016. The banks continued supporting the Company as in the previous year by renewing the lines of pre-financing for exportation loans and, extending new longer-term loan facilities.

Principal activities

The Company continues to hold investments in mineral exploration companies involved in the identification, acquisition, development and exploitation of technically and economically sound mineral projects, either alone or with joint-venture partners.

Through its 90% owned subsidiary Patagonia Gold S.A. ("PGSA"), the Group successfully commissioned its new gold room processing facility in November 2012 and commenced production of doré from the trial heap leach inventory. The Group commenced commercial production from the Lomada Project main heap leach in the third quarter of 2013.

Patagonia Gold's growth strategy includes the following:

- The Company migrated its operational focus from Lomada to Cap-Oeste and completed the construction of a heap leach pad with the first gold pour completed on 27 October 2016. By the end of Q2 2017 an agglomeration circuit will be incorporated to resolve a recovery problem due to high clay content in the ore. It is expected that the agglomeration circuit will be operational by the end of June 2017 and that recovery will increase to 80%. The delay in the startup of the agglomeration circuit is primarily attributable to lead times in the manufacturing of the necessary equipment. A pit optimisation study resulted in an increase of extractable ounces from 82,000 oz AuEq to 186,800 oz AuEq. Alternatives to add resources to this project will continue to be evaluated in parallel.
- Lomada de Levia produced 22,770 oz Au during 2016 and it is expected that the heap leach pad will continue to produce gold at the current rate of 15 oz Au per day until the end of June 2017.

Strategic Report (continued)

- A first pass drilling programme was undertaken during 2016 at the project in Uruguay. It is expected that a further drilling programme will be undertaken at the end of H1 2017 funded from operational cash flow with a view to testing geophysics targets and prior drilling that yielded good results.
- A review of the Company's projects in Chubut and Rio Negro was undertaken during 2016 and have been prioritised in the event that the ban on mining is lifted in the Province of Chubut, Argentina. A new Mining Plan is currently being prepared by the National Government with a view to consolidating the mining provinces and incorporate the Provinces that currently have a ban on mining. The document has finalised and expected to be debated in Congress in Q2 2017.
- The Company continues to look for M&A opportunities that have synergies with its skill set with a proven track record of transitioning from being an exploration company to a producer.

Principal risks and uncertainties

The Group operates in an uncertain environment that may result in increased risk, costs pressures and schedule delays. The risks that face the Group are common to all of the Group's mining activities. The following are some of the key risks that face the Group:

Financing

The debt level of the Company of $26m (2015: $15m) as at 31 December 2016 was high, and has continued to increase post the year end as a result of lower recovery rates achieved at Cap-Oeste to fund mining operations. However, the Directors believe that the introduction of the agglomeration circuit at Cap-Oeste will significantly improve recovery rates and that, together with production from Lomada, the Company will generate sufficient cash flows going forward to service and reduce its debt obligations. In addition, the Company is considering a number of M&A opportunities which may result in receipt of funds due to the sale of assets which are not strategic to the Company's ongoing operations.

The Company's primary focus is exploration on its existing tenements and possible JV or acquisition of other exploration areas which have exploration potential. Exploration currently has been curtailed to a minimum until cash becomes available from its operations.

The Directors are confident that the Company's existing financial arrangements and credit lines can be maintained until the lower recoveries at Cap-Oeste are resolved.

Gold price

The market price of gold is one of the most significant factors in determining the profitability of the Group's operations. The price of gold is subject to volatile price movements over short periods of time, especially in the current market environment, and is affected by numerous industry and macro-economic factors that are beyond the Group's control.

Exploration and development risk

A focus of the Company is exploration. As a result of the downfall of the mining sector in 2011 funding for exploration companies has been limited. In light of these circumstances the Company has transitioned from a pure exploration company to an operational company and has funded its exploration efforts from revenue from its operations. Exploration carries an inherent risk and there is no assurance that the Company's exploration efforts will be successful or that the properties being explored will ultimately be developed into producing mines. The Company has a wide portfolio of properties in various jurisdictions and it is confident of the geological potential of its properties. During 2016 the Company has widened the chances of being successful by moving exploration activity away from its flagship project, Cap-Oeste and commenced work on previously untested projects such as Los Toldos, Sarita and in Uruguay.

Strategic Report (continued)

Competition

There is strong competition within the mining industry for the identification and acquisition of suitable properties. The Group competes with other exploration and production companies, some of which have greater financial resources than the Group, for the acquisition of properties, leases and other interests as well as for the recruitment and retention of skilled personnel. Given that Patagonia Gold has been exploring in the southern portion of Argentina for over 10 years it has a competitive advantage vis-à-vis other players that are arriving or do not have the same level of experience and/or knowledge in the region.

Fiscal regimes

Argentinean fiscal policies are complex, and it is difficult to distinguish whether a future tax payment is possible or probable. Where a future tax payment is considered to be possible but not probable, no provision has been made in the accounts. Our in-country management team constantly monitor banking, customs and taxation developments and advise the Group on the handling of various issues including foreign exchange controls and cash transfers in and out of Argentina. During the period the import restrictions were eased and the 5% royalty on exports were removed.

Currency

The currency risk diminished in December 2015 when the peso was devalued approximately 40% and exchange controls were lifted. The Group presents its financial results in United States dollars ("$"). The Group commenced commercial production at its Lomada Project main heap leach operation in Q3 2013 with operations now focussed on Cap-Oeste. Gold production is shipped to Republic Metals in Miami and proceeds from the gold sales, denominated in $, are transferred to Argentina within 84 days from customs and clearance where the funds are converted to Argentine peso. The Group does not engage in active hedging to minimise exchange rate risk but does keep the process under review. Equity capital is raised in British pound sterling ("GBP"). Prior to contributing capital to the subsidiary companies, Patagonia Gold converts the GBP to $ and transfers the $ to Argentina where they are converted to Argentine pesos ("AR$"). The Group takes advice from FX traders and takes advantage of GBP to $ exchange rates as and when it has the opportunity to.

Environmental and other regulatory requirements

Existing and possible future environmental legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delays in the activities of the Group, the extent of which cannot be predicted. For exploration and production to continue on any properties, the Group must obtain and retain regulatory approval and there is no assurance that such approvals will continue. No assurance can be given that new rules and regulations will not be enacted or existing rules and regulations will not be applied in a manner that could limit or curtail the Group's operations. The Group invites Mine Secretariat Officials to inspect and comment on projects as they progress.

The permit for the Cap-Oeste project was obtained in a timely manner which allowed for the start of operations in October 2016.

Strategic Report (continued)

Key Performance Indicators

The Board sets relevant Key Performance Indicators (KPIs), which for a company at Patagonia Gold's stage of development, are focussed on managing the activities inherent in exploration and operational development. The KPIs for the Group are as follows:

Non-financial KPIs		*Financial KPIs*	
Health and safety management	Lost time injury frequency rate. Medical treatment injury frequency rate.	Shareholder return	Share price performance.
Environment management	Compliance with strict jurisdictional environmental policies.	Production cash costs	Monitoring of costs as a measure of operational efficiency.
Operational success	The number of successful exploration drilling ventures and growth of resources.	Gold Production	Monitoring actual production against forecasts.
Human resource management	Employee retention rate. Attracting qualified employees for key positions.	Exploration expenditure	Exploration cost per metre drilled.
		Working capital	Monitoring working capital. Ensuring adequate liquidity.

Non-Financial KPIs

– Health and Safety Management: The Company's Health and Safety Department is staffed by three qualified and experienced personnel. During the year 2016, the Lost Time Injury Frequency Rate for the Company was 28.38 (2015: 20.44), the Lost Time Injury Incidence Rate was 42.76 (2015: 28.36) and the Medical Treatment Injury Frequency Rate was 0.298% per man/worked day (2015: 0.205%). The 2016 statistics are higher than those of the previous year due to the construction of the Cap-Oeste project during the year, the incorporation of new employees and an increase in the overall headcount. The Company is committed to improving its safety record year on year.

– Environment Management: The Company's Environmental Department is staffed by three qualified and experienced personnel. Patagonia Gold is compliant with all the environmental standards in each of the jurisdictions it holds mining titles.

– Operations: In 2016 Lomada produced 22,770 oz Au which was 31% above budget. During the year, the Company built and commissioned the Cap-Oeste project with the first gold pour announced on 27 October. The project was permitted and constructed in six months. Despite recovery issues related to high clay content in the ore, the problem is being addressed and an agglomeration circuit is being installed. The Company expects that production will increase to 80% Au and 40% Ag, which is in excess of the initial forecast recoveries from the pad at Cap-Oeste, prior to the percolation issues and without the agglomeration,of approximately 65% Au. Actual recovery in the period was 27% due to the percolation problems currently being encountered.

– Human Resource Management: During 2016, the Company increased its workforce by 41 employees to a total of 215 due to the start-up of the Cap-Oeste project. The majority of the Company's employees live in the Province of Santa Cruz and in the nearest community to its operations, Perito Moreno. Despite being a small player in the mining industry the Company has managed to retain its staff in a competitive environment where the larger producers are able to offer higher salaries and higher annual increases in an inflationary environment.

Strategic Report (continued)

Financial KPIs

– Shareholder Return: The Company's share price continues to be impacted by the downturn in the capital markets most notably in the precious metals sector. Patagonia Gold's share price varied during the year from a low of 1.38 pence in May 2016 to a high of 3.50 pence in November 2016. The closing mid-market price of the Company's ordinary shares on 31 December 2016 was 2.10 pence, up from 1.75 pence at 31 December 2015.

– Production Cash Costs: Cash costs for the Cap-Oeste project were high with costs being negatively impacted by the poor production from the heap leach pad caused by lack of percolation through the stacked mineral. Mining targets however for both ore and waste were met for the final quarter of 2016 and the mine continues to perform well with machine availability increasing and overall mining costs meeting targets.

– Gold Production: Combined gold production for 2016 from Lomada and Cap-Oeste was 24,235 oz AuEq, which was lower than anticipated due to the percolation issues at Cap-Oeste as a result of the higher than expected clay content which has hampered leaching recovery and subsequently gold and silver production. An agglomeration circuit is currently under construction and is expected to be in operation by the end of Q2 2017. The Company expects that the agglomerated product will greatly improve the percolation kinetics within the stacked pad material allowing free transfer of pregnant solution through the pile and increase dramatically the current metal recovery from the pad. Material which is currently being stacked and irrigated will be removed and crushed and agglomerated when spare crushing and agglomeration capacity becomes available.

– Exploration Expenditure: For the majority of 2016, exploration activities focussed on the El Bagual, Mt Leon and Sarita assets, along with a first campaign completed on the Uruguay assets. Uruguay reported the most encouraging results during the year with a nine hole programme intersecting mineralisation along a total strike length of 900 metres with up to 15.2 metres @ 1.73g/t Au for 64 metres downhole. Extensive geophysical programmes have been completed in conjunction with soil geochemical surveys which highlight the potential for multiple drill targets to be developed during the course of the 2017 field season. Sarita exploration continues with ongoing geophysical pole dipole programmes underway with the Mina Martha style high grade low tonnage epithermal veins the target style mineralisation along with a follow up geophysical programme at La Manchuria to better understand historic gradient array geophysical anomalies and geochemical soil anomalies to the East and South East of the existing drilled Manchuria resource area.

– Working Capital: At 31 December 2016, working capital netted to $(14.5) million, an improvement of $0.8 million from the 31 December 2015 working capital of $(15.3) million. This was due to there being $1.0 million less cash on hand, a $7.9 million increase in inventory, a $4.7 million increase in short-term loans plus a $1.6 million increase in trade and other receivables, offset by a $3.0 million increase in trade and other payables.

All significant information is detailed in the Operations Report on pages 7 to 15 and is published on our website at www.patagoniagold.com.

Directors

A list of the Directors who served during the year can be found on page 2. Biographies of the current Directors can be found on page 3.

Risk factors

Details of the principal financial risk factors affecting the Company can be found in Note 24 to the financial statements on page 65.

Strategic Report (continued)

Subsidiary companies

Details of the Company's subsidiaries can be found in Note 15 to the financial statements on page 59.

Further information

Further information can be found in the Report of the Directors on pages 22 to 26.

On behalf of the Board of Directors

Christopher van Tienhoven
Executive Director

27 March 2017

Report of the Directors

The Directors present their report and the audited financial statements for Patagonia Gold Plc (the "Company" or "Patagonia Gold") and its subsidiaries, collectively known as the "Group", for the year ended 31 December 2016. All amounts are expressed in US dollars ("$") except where indicated.

Financial instruments

The Company's treasury objective is to provide sufficient liquidity to meet operational cash flow requirements to allow the Group to take advantage of exploration opportunities while maximising shareholder value. The Company operates controlled treasury policies that are monitored by the Board to ensure that the needs of the Company are met as they evolve. The impact of the risks required to be discussed in accordance with IFRS 7 are summarised in Note 24 to the financial statements together with detailed discussion and sensitivity analysis relating to these risks.

Going concern

The attached financial statements are prepared on a going concern basis. Having assessed cash flow projections through to January 2021 the Directors believe this basis to be appropriate for the following reasons:

Patagonia Gold has successfully transformed itself from a pure exploration company to fully fledged producer. Until Lomada de Leiva started commercial production in 2013 Patagonia Gold's focus was exploration work on its portfolio of properties in Chubut, Rio Negro and Santa Cruz. The Company started a small heap leach operation at Lomada de Leiva which had a relatively short life and in May 2016 the mining operation was suspended. The Lomada pad continues to produce gold at approximately 15 ounces per day and the Company has decided to leave the pad irrigating for the present time until the process becomes unviable. Exploration activity in the surrounding areas continues.

Anticipating the end of the Lomada mine, the Company has advanced the Cap-Oeste project through the construction of a heap leach operation similar to the one at Lomada. The capital cost of this project was $13.3 million, which has been funded from the successful fundraising of $10 million completed in May 2016 together with cash flow from Lomada and existing and new credit lines. The Company maintains a strong relationship with a number of Argentine banks and is confident in its ability to secure both short and longer term borrowings as required. The Company has met all repayment dates and interest payments in accordance with loan terms throughout the year, and to the date of this report. The development of the initial open pit mine at Cap-Oeste has been completed on time and within budget, with the first gold pour on 27 October 2016. However, initial recoveries have been lower than anticipated and the Company is in the process of installing an agglomeration circuit to improve recovery rates which is expected to be completed by the end of June 2017. With the installation of the agglomeration circuit, the Directors are forecasting production from Cap-Oeste of 68,500 oz AuEq for 2017 and the Directors therefore believe that the cash flow generated from this project will be sufficient to meet its obligations and lower the Company's debt position while at the same time enabling it to continue with its exploration activities. In addition, the Company is looking into the development of COSE and the Cap-Oeste sulphide resources which would be financed through internal cash flow, supplier credit and other project financing alternatives.

The Company is constantly reviewing M&A opportunities aimed at capitalising on its experience of operating in Argentina and its existing project portfolio.

Taking into account the nature of the Group's current and planned activities, the future potential opportunities available to the Group, the availability of external loan finance, and the flexibility within the plans both operationally and for cash flow purposes, the Directors have therefore concluded that the financial statements should be prepared on a going concern basis.

Report of the Directors (continued)

Share capital

On 11 May 2016, the Company issued 462,962,962 new ordinary shares of 1 pence each at a price of 1.50 pence per share raising $10.0 million (£6.7 million) under the terms of the Subscription and Open Offer dated 22 April 2016. The cost of the placement totalled $0.3 million (£0.2 million) resulting in net proceeds of $9.7 million (£6.7 million). $6.7 million (£4.6 million) of the net proceeds are included in share capital and the balance of $3.0 million (£2.1 million) is included in share premium.

Due to additional demand from investors, on 25 May 2016 the Company issued a further 34,000,000 new ordinary shares under the same terms, raising $0.75 million (£0.51 million).

On 7 July 2016, 30,164,550 new ordinary shares of 1 pence each in the Company were issued in lieu of the outstanding fees owed to Directors for their services, accrued from periods ranging from 1 January 2012 to 30 June 2016 under each Director's terms of appointment. The shares were deemed to be allotted for cash at a market price of 1.954 pence each, being the volume weighted average share price for the Company for the 30 day period prior to the date of the announcement. The Company also allotted 666,666 new ordinary shares to certain of the Company's advisers in lieu of cash payments.

Financial results

The financial results are as anticipated and reflect the costs of managing and funding the Group's exploration activities and head office costs.

Subsequent events

Significant events since the year end are detailed in the Report of the CEO on pages 5 and 6, and in the Operations Report on pages 7 to 15.

Future developments

Planned future developments are outlined in the Report of the CEO on pages 5 and 6 and in the Operations Report on pages 7 to 15.

Dividends

The Directors do not recommend the payment of a dividend (2015: $nil).

Substantial shareholdings

In addition to the interest of Carlos J. Miguens disclosed below, at 27 March 2017, the Company had been notified of, or was aware of, the following interests of 3% or more in its issued share capital:

Ordinary Shares of 1 pence:	*Number*	*Percentage*
Carlos J. Miguens	592,240,677	37.30
Arconas International Ltd	84,139,333	5.30

Report of the Directors (continued)

Directors and Directors' interests

The Directors who held office during the year and their beneficial interests, including family interests, at the beginning and end of the year and at the date of this report, were as follows:

Ordinary Shares of 1p:	*27 March 2017*	*31 December 2016*	*31 December 2015*
Carlos J. Miguens	592,240,677	592,240,677	213,785,822
Gonzalo Tanoira	17,402,733	17,402,733	11,543,348
Christopher van Tienhoven	2,329,075	2,329,075	3,000
Manuel de Prado	4,035,660	4,035,660	197,635
Edward J. Badida – *resigned 30 June 2016*	N/A	N/A	351,352
Glenn Featherby – *resigned 30 June 2016*	N/A	N/A	3,219,063

Directors' interests include shareholdings in their names and/or under controlled subsidiaries.

During the year the following payments were due by the Company to the Directors:

- to Carlos J. Miguens $58,950 (2015: $114,622) for his services as Director and Chairman;
- to Gonzalo Tanoira $58,950 (2015: $114,622) for his services as Director;
- to Christopher van Tienhoven $182,232 (2015: $91,752) for his services as Director and CEO;
- to Manuel de Prado $28,459 (2015: $45,849) for his services as Director;
- to Edward J. Badida $40,655 (2015: $61,132) for his services as Director and Chairman of the Audit Committee through to the date of his resignation; and
- to Glenn Featherby $20,328 (2015: $45,849) for his services as Director through to the date of his resignation.

Of the above, $22,205 remained unpaid at the year-end.

Christopher van Tienhoven received a bonus of $61,599 during 2016. No other Director received any bonus or benefits-in-kind in 2016 or 2015.

Directors hold options in their names and/or under controlled subsidiaries, no Director exercised or was awarded any options during the year.

At 31 December 2016, the Directors were interested in unissued ordinary shares granted to them by the Company under share options in their names and/or under controlled subsidiaries:

Name	*Date of grant*	*Exercise price*	*Ordinary Shares*	*Due from which exercisable*	*Expiry date*
C J Miguens	23 June 2009	12.25p	4,500,000	23 June 2009	22 June 2019
C J Miguens	17 June 2010	15.00p	1,100,000	17 June 2010	16 June 2020
C J Miguens	10 February 2011	11.00p	2,000,000	10 February 2011	9 February 2021
C J Miguens	13 May 2011	11.00p	900,000	13 May 2011	12 May 2021
C J Miguens	31 January 2012	11.00p	2,000,000	31 January 2012	30 January 2022
C J Miguens	9 January 2013	22.75p	9,000,000	9 January 2013	8 January 2023
C J Miguens	19 September 2013	11.75p	5,000,000	19 September 2013	18 September 2023
G Tanoira	23 June 2009	12.25p	1,719,000	23 June 2009	22 June 2019
G Tanoira	17 June 2010	15.00p	500,000	17 June 2010	16 June 2020
G Tanoira	13 May 2011	11.00p	500,000	13 May 2011	12 May 2021
G Tanoira	9 January 2013	22.75p	1,000,000	9 January 2013	8 January 2023
C van Tienhoven	31 March 2015	2.50p	10,000,000	31 March 2015	30 March 2025
M de Prado	12 September 2013	11.00p	750,000	12 September 2013	11 September 2023

Report of the Directors (continued)

The Company's ordinary shares are traded on AIM and the GBP market price of those shares ranged between 1.38 pence and 3.50 pence during the year. The closing mid-market price of the Company's ordinary shares on 31 December 2016 was 2.10 pence (2015: 1.75 pence).

Corporate governance

The Board of Directors manage the Company. The function of the Chairman is to supervise the Board and to ensure that the Board has control of the business, and that of the Managing Director is to manage the Company on the Board's behalf.

All Board members have access, at all times, to sufficient information about the business to enable them to fully discharge their duties. Also, procedures exist covering the circumstances under which the Directors may need to obtain independent professional advice at the Company's expense.

The Board has established Committees to fulfil specific functions as specified in the respective terms of reference as adopted by resolution on 18 November 2011.

The Audit Committee, which comprises Gonzalo Tanoira (Chairman), Carlos Miguens and Manuel de Prado, monitors and reviews the Group's financial reporting and internal control procedures. Meetings are held as required. A separate internal audit function cannot be justified at present, in view of the size and scope of the Group's activities, but as the Company continues to grow the need will be regularly assessed. The external auditor is invited to attend at least one meeting of the Audit Committee each year.

The Remuneration Committee comprises Carlos Miguens (Chairman), Gonzalo Tanoira and Manuel de Prado. Meetings are convened to monitor, assess and report to the full Board on all aspects and policy relating to the remuneration of Executive Directors and executive officers of the Company, and to develop and submit to the Board recommendations with respect to other employee benefits considered advisable.

The Nomination Committee comprises Manuel de Prado (Chairman), Carlos Miguens and Gonzalo Tanoira. Meetings are convened as required to assist the Company and the Board in fulfilling their respective corporate governance responsibilities under applicable securities laws, instruments, rules and policies and regulatory requirements, to promote a culture of integrity throughout the Company and to assist the Company in identifying and recommending new nominees for election to the Board.

All Directors are required, in turn, to stand for re-election every three years.

Internal control

The Board has overall responsibility for the Group's system of internal control. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement.

There is an appropriate level of involvement by the Directors in the Group's activities. This includes the comprehensive review of both management and technical reports, the monitoring of foreign exchange and interest rate fluctuations, environmental considerations, government and fiscal policy issues, employment and information technology requirements and cash control procedures. Site visits are made as required both by certain Directors and senior management. In this way the key risk areas can be monitored effectively and specialist expertise applied in a timely and productive manner.

Directors' service agreements

Carlos J. Miguens, Christopher van Tienhoven and Manuel de Prado have service arrangements that provide for three months' notice of termination and that of Gonzalo Tanoira provides for six months' notice of termination.

Edward J. Badida and Glenn Featherby resigned from the Board on 30 June 2016 with immediate effect.

Report of the Directors (continued)

Relations with shareholders

The Company maintains effective contact with principal shareholders and welcomes communications from private investors. Shareholders are encouraged to attend the Annual General Meeting, at which time there is an opportunity for discussion with members of the Board. Press releases together with other information about the Company are available on the Company's website at www.patagoniagold.com.

Annual General Meeting

The Company's Annual General Meeting is convened for 27 April 2017 at 11.00 am to be held at the offices of Stephenson Harwood LLP located at 1 Finsbury Circus, London EC2M 7SH. The Notice of Annual General Meeting is enclosed with the financial statements. The Notice includes items of Special Business and an explanation regarding such business can be found at the end of the Notice.

The Director who retires by rotation is Manuel de Prado who, being eligible, offers himself for re-election.

Directors' indemnification provisions

Under Article 230 of the Company's Articles of Association, subject to the provisions of the Companies Act 2006 (the "Act"), but without prejudice to any indemnity to which he may be otherwise entitled, every Director, Auditor, Secretary or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all costs, charges, losses, damages and liabilities incurred by him in the actual or purported execution and/or discharge of his duties or exercise of his powers and/or otherwise in relation to or in connection with his duties, powers or office, provided that Article 230 shall be deemed not to provide for, or entitle any such person to, indemnification to the extent that it would cause Article 230 or any element of it, to be treated as void under the Act.

Auditors

Grant Thornton UK LLP has expressed willingness to continue in office. In accordance with Section 489(4) of the Act, a resolution to re-appoint Grant Thornton UK LLP as auditor of the Company will be proposed at the Annual General Meeting to be held on 27 April 2017.

By Order of the Board

Nigel Everest
Company Secretary

27 March 2017

Statement of Directors' Responsibilities

In respect of the Directors' report and the financial statements.

The Directors are responsible for preparing the Strategic Report, Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and as issued by the International Accounting Standards Board. 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 and profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and accounting estimates that are reasonable and prudent;
- State whether applicable IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that:

- In so far as each of the Directors is aware there is no relevant audit information of which the Company's auditor are unaware; and
- The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report
to the members of Patagonia Gold Plc

We have audited the financial statements of Patagonia Gold Plc for the year ended 31 December 2016 which comprise the consolidated statement of comprehensive income, the consolidated and parent company statements of financial position, the consolidated and parent company statements of changes in equity, the consolidated and parent company statements of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities on page 27, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – parent Company financial statements – carrying value of investment in subsidiary companies

In forming our opinion on the parent Company financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 3 to the financial statements concerning the carrying value of the parent Company investment in its subsidiary companies. The Directors have reviewed the cash flow projections used in the assessment of the carrying value of investments in its subsidiaries and the key assumptions inherent in the forecasts. The Directors recognise that the sensitivity of the assumptions used along with the other matters explained in note 3 indicate the existence of a material uncertainty which may cast significant doubt over the carrying value of investment in subsidiary companies.

Independent auditor's report (continued)
to the members of Patagonia Gold Plc

Separate opinion in relation to IFRSs as issued by the IASB

As explained in Note 1 to the financial statements, the Group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

Opinion 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.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the Group and the parent 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.

Matters on which we are required to report by exception

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

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

Philip Westerman
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

27 March 2017

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2016

	Note	2016 $'000	2015 $'000
Continuing operations			
Revenue	5	30,041	26,128
Cost of sales		(14,862)	(29,731)
Gross profit/(loss)		15,179	(3,603)
Exploration costs		(2,344)	(5,491)
Administrative costs			
Share-based payments charge	27	(67)	(97)
Other administrative costs	8	(8,679)	(11,304)
		(8,746)	(11,401)
Finance income	6	61	2,832
Finance costs		(1,976)	(782)
Profit/(loss) before taxes		2,174	(18,445)
Income tax (charge)/benefit	10	(1,122)	4,051
Profit/(loss) for the year		1,052	(14,394)
Attributable to non-controlling interest	23	140	(1,310)
Attributable to equity share owners of the parent		912	(13,084)
		1,052	(14,394)
Other comprehensive expense:			
Items that may be reclassified subsequently to profit or loss:			
Profit/(loss) on revaluation of available-for-sale financial assets		27	(9)
Exchange loss on translation of foreign operations		(1,985)	(5,521)
Other comprehensive loss for the year		(1,958)	(5,530)
Total comprehensive loss for the year		(906)	(19,924)
Total comprehensive profit/(loss) for the year attributable to:			
Non-controlling interest		140	(1,310)
Owners of the parent		(1,046)	(18,614)
		(906)	(19,924)
Net profit/(loss) per share ($)			
Basic profit/(loss) per share	11	0.001	(0.01)
Diluted profit/(loss) per share	11	0.001	(0.01)

The notes on pages 37 to 73 form part of these financial statements.

Consolidated Statement of Financial Position
at 31 December 2016

	Note	*2016* *$'000*	*2015* *$'000*
ASSETS			
Non-current assets			
Property, plant and equipment	14	15,628	6,327
Mineral properties	13	11,716	3,280
Mining rights	12	3,488	3,588
Available-for-sale financial assets	24	31	7
Other receivables	16	7,687	7,767
Deferred tax asset	10	3,753	4,790
		42,303	25,759
Current assets			
Inventory	18	10,163	2,253
Trade and other receivables	17	2,044	455
Cash and cash equivalents	19	735	1,694
		12,942	4,402
Total assets		55,245	30,161
LIABILITIES			
Current liabilities			
Short-term loans	20	18,010	13,346
Trade and other payables	20	9,397	6,371
		27,407	19,717
Non-current liabilities			
Long-term loans	21	8,201	1,681
Provisions	21	1,052	607
		9,253	2,288
Total liabilities		36,660	22,005
EQUITY			
Share capital	22	19,587	15,690
Share premium account		131,602	154,090
Currency translation reserve		18,991	(11,746)
Share-based payment reserve		14,282	17,238
Retained earnings		(165,454)	(166,553)
Equity attributable to shareholders of the parent		19,008	8,719
Non-controlling interest	23	(423)	(563)
Total equity		18,585	8,156
Total liabilities and equity		55,245	30,161

These financial statements were approved by the Board of Directors on 27 March 2017 and were signed on its behalf by:

Christopher van Tienhoven
Director

Company Registered number 3994744

The notes on pages 37 to 73 form part of these financial statements.

Company Statement of Financial Position
at 31 December 2016

	Note	*2016* *$000's*	*2015* *$000's*
ASSETS			
Non-current assets			
Property, plant and equipment	14	5	26
Investment in subsidiary companies	15	90,033	117,841
Available-for-sale financial assets	24	31	7
Mineral properties	13	800	—
Other receivables	16	11,863	—
		102,732	117,874
Current assets			
Trade and other receivables	17	38	29
Cash and cash equivalents	19	120	289
		158	318
Total assets		102,890	118,192
LIABILITIES			
Current liabilities			
Short-term loans	20	6,705	4,096
Trade and other payables	20	229	847
Total liabilities		6,934	4,943
EQUITY			
Share capital	22	19,587	15,690
Share premium account		131,602	154,090
Currency translation reserve		18,120	5,733
Share-based payment reserve		14,282	17,238
Retained earnings		(87,635)	(79,502)
Total equity		95,956	113,249
Total liabilities and equity		102,890	118,192

A separate statement of comprehensive income for the Company has not been presented as permitted by Section 408 of the Companies Act 2006. The Company made a loss of $8.3 million in 2016 (2015: $0.8 million).

These financial statements were approved by the Board of Directors on 27 March 2017 and were signed on its behalf by:

Christopher van Tienhoven
Director

Company Registered number 3994744

The notes on pages 37 to 73 form part of these financial statements.

Consolidated Statement of Changes in Equity
for the year ended 31 December 2016

		Equity attributable to shareholders of the parent							
	Note	*Share capital $'000*	*Share premium account $'000*	*Currency translation reserve $'000*	*Share-based payment reserve $'000*	*Accumulated losses $'000*	*Total attributable to owners $'000*	*Non-controlling interests $'000*	*Total equity $'000*
At 1 January 2015		16,256	161,285	(15,453)	17,990	(153,461)	26,617	747	27,364
Changes in equity for 2015									
Share-based payment	27	—	—	—	97	—	97	—	97
Issue of share capital									
Issue by placing	22	210	409	—	—	—	619	—	619
Transaction costs of placing		—	—	—	—	—	—	—	—
Lapse of option		—	—	—	(1)	1	—	—	—
Exchange differences on translation to $		(776)	(7,604)	9,228	(848)	—	—	—	—
Transactions with owners		(566)	(7,195)	9,228	(752)	1	716	—	716
Loss for the year		—	—	—	—	(13,084)	(13,084)	(1,310)	(14,394)
Other comprehensive income/(loss):									
Revaluation of available-for-sale financial assets		—	—	—	—	(9)	(9)	—	(9)
Exchange differences on translation to $		—	—	(5,521)	—	—	(5,521)	—	(5,521)
Total comprehensive income/(loss) for the year		—	—	(5,521)	—	(13,093)	(18,614)	(1,310)	(19,924)
At 31 December 2015		15,690	154,090	(11,746)	17,238	(166,553)	8,719	(563)	8,156
Changes in equity for 2016									
Share-based payment	27	—	—	—	67	—	67	—	67
Issue of share capital									
Issue by placing	22	7,186	3,593	—	—	—	10,779	—	10,779
Transaction costs of placing	22	—	(287)	—	—	—	(287)	—	(287)
Issue in lieu of payables	22	399	377	—	—	—	776	—	776
Lapse of option		—	—	—	(160)	160	—	—	—
Exchange differences on translation to $		(3,688)	(26,171)	32,722	(2,863)	—	—	—	—
Transactions with owners		3,897	(22,488)	32,722	(2,956)	160	11,335	—	11,335
Profit for the year		—	—	—	—	912	912	140	1,052
Other comprehensive income/(expense):									
Revaluation of available-for-sale financial assets		—	—	—	—	27	27	—	27
Exchange differences on translation to $		—	—	(1,985)	—	—	(1,985)	—	(1,985)
Total comprehensive income/(loss) for the year		—	—	(1,985)	—	939	(1,046)	140	(906)
At 31 December 2016		19,587	131,602	18,991	14,282	(165,454)	19,008	(423)	18,585

The notes on pages 37 to 73 form part of these financial statements.

Company Statement of Changes in Equity

for the year ended 31 December 2016

	Note	*Share capital $'000*	*Share premium account $'000*	*Currency translation reserve $'000*	*Share-based payment reserve $'000*	*Accumulated losses $'000*	*Total $'000*
At 1 January 2015		16,256	161,285	2,090	17,990	(78,663)	118,958
Changes in equity for 2015							
Share-based payment	27	—	—	—	97	—	97
Issue of share capital							
Issue by placing	22	210	409	—	—	—	619
Transaction costs of placing		—	—	—	—	—	—
Lapse of option		—	—	—	(1)	1	—
Exchange differences on translation to $		(776)	(7,604)	9,228	(848)	—	—
Transactions with owners		(566)	(7,195)	9,228	(752)	1	716
Loss for the year		—	—	—	—	(831)	(831)
Other comprehensive income (loss):							
Revaluation of available-for-sale financial assets		—	—	—	—	(9)	(9)
Exchange differences on translation to $		—	—	(5,585)	—	—	(5,585)
Total comprehensive income/(loss) for the year		—	—	(5,585)	—	(840)	(6,425)
At 31 December 2015		15,690	154,090	5,733	17,238	(79,502)	113,249
Changes in equity for 2016							
Share-based payment	27	—	—	—	67	—	67
Issue of share capital							
Issue by placing	22	7,186	3, 593	—	—	—	10,779
Transaction costs of placing		—	(287)	—	—	—	(287)
Issue in lieu of payables	22	399	377	—	—	—	776
Lapse of option	22	—	—	—	(160)	160	—
Exchange differences on translation to $		(3,688)	(26,171)	32,722	(2,863)	—	—
Transactions with owners		3,897	(22,488)	32,722	(2,956)	160	11,335
Loss for the year		—	—	—	—	(8,320)	(8,320)
Other comprehensive income (loss):							
Revaluation of available-for-sale financial assets		—	—	—	—	27	27
Exchange differences on translation to $		—	—	(20,335)	—	—	(20,335)
Total comprehensive income/(loss) for the year		—	—	(20,335)	—	(8,293)	(28,628)
At 31 December 2016		19,587	131,602	18,120	14,282	(87,635)	95,956

The notes on pages 37 to 73 form part of these financial statements.

Consolidated Statement of Cash Flows
for the year ended 31 December 2016

	Note	2016 $'000	2015 $'000
Operating activities			
Profit/(loss) before tax for the year		2,174	(18,445)
Adjustments for:			
Finance income	6	(61)	(2,832)
Finance costs		1,976	782
Depreciation	12,13&14	2,587	2,728
Non-cash adjustments		(179)	4,051
Share issue in lieu of payables	22	776	619
Decrease in available-for-sale financial assets		—	1,792
(Increase)/decrease in inventory		(7,910)	1,272
(Increase)/decrease in trade and other receivables	16&17	(1,509)	5,064
Decrease/(increase) in deferred tax		1,037	(2,096)
Increase/(decrease) in trade and other payables		2,755	(1,870)
Increase/(decrease) in provisions		445	(526)
Taxes paid		(672)	—
Share-based payments charge	27	67	97
Net cash used in operating activities		1,486	(9,364)
Investing activities			
Finance income	6	61	2,832
Purchase of property, plant and equipment	14	(12,521)	(454)
Additions to mineral properties	13	(9,931)	(93)
Proceeds from disposal	14	49	282
Net cash used in investing activities		(22,342)	2,567
Financing activities			
Finance costs		(1,976)	(782)
Increase in Loans	20&21	38,167	18,516
Repayment of Loans	20&21	(25,609)	(14,512)
Proceeds from issue of share capital	22	10,779	—
Transaction costs of placing	22	(287)	—
Net cash from financing activities		21,074	3,222
Net increase/(decrease) in cash and cash equivalents		218	(3,575)
Cash and cash equivalents at beginning of year		1,694	5,588
Effects of exchange rate fluctuations on cash and cash equivalents		(1,177)	(319)
Cash and cash equivalents at end of year		735	1,694

The notes on pages 37 to 73 form part of these financial statements.

Company Statement of Cash Flows

for the year ended 31 December 2016

	Note	*2016* *$'000*	*2015* *$'000*
Operating activities			
Loss for the year		(8,320)	(831)
Adjustments for:			
Finance income	6	(347)	(1,437)
Finance costs		104	20
Depreciation	14	18	40
Increase in mineral properties	13	(800)	—
Impairment of investment in subsidiary companies	15	8,178	—
Share issue in lieu of payables	22	776	619
Decrease in trade and other receivables	17	(9)	4,214
Decrease in trade and other payables		(618)	(4,327)
Share-based payments charge	27	67	97
Net cash used in operating activities		(951)	(1,605)
Investing activities			
Increase in investment in subsidiary companies	15	—	(8,246)
Increase in trade and other receivables	16	(11,863)	—
Finance income	6	347	1,437
Purchase of property, plant and equipment	14	—	(1)
Net cash used in investing activities		(11,516)	(6,810)
Financing activities			
Finance costs		(104)	(20)
Increase in Loans	20	6,705	4,096
Repayment of Loans	20	(4,096)	—
Proceeds from issue of share capital	22	10,779	—
Transaction costs of placing	22	(287)	—
Net cash from financing activities		12,997	4,076
Net increase/(decrease) in cash and cash equivalents		530	(4,339)
Cash and cash equivalents at beginning of year		289	4,804
Effects of exchange rate fluctuations on cash and cash equivalents		(699)	(176)
Cash and cash equivalents at end of year		120	289

The notes on pages 37 to 73 form part of these financial statements.

Notes to the Financial Statements
for the year ended 31 December 2016

The financial statements on pages 30 to 36 represent the parent company, Patagonia Gold Plc (the "Company"), and its subsidiaries, collectively known as the "Group".

1. Basis of preparation

Patagonia Gold Plc is a company registered in England and Wales. The Company's ordinary shares are traded on the AIM market of the London Stock Exchange.

The consolidated financial statements of the Group and the financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and with the Companies Act 2006 applicable to companies reporting under IFRS. The Group's financial statements have also been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, share-based payment charge and fair value of mining rights acquired.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. Management is also required to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions or estimates are significant to the financial statements are disclosed in Note 3. The principal accounting policies applied in the preparation of the financial statements are set out in Note 3.

The financial information is presented in United States dollars ("$"). The functional currency of the Company is British pounds sterling ("GBP"). Where indicated, financial information incorporated within these financial statements is rounded to the nearest thousand. Operations denominated in other currencies are included in this financial information in accordance with the accounting policies set out in Note 3. The Group presents its financial statements in $ as it is the currency most relevant to future activities.

2. Going concern

The attached financial statements are prepared on a going concern basis. Having assessed cash flow projections through to January 2021 the Directors believe this basis to be appropriate for the following reasons:

Patagonia Gold has successfully transformed itself from a pure exploration company to fully fledged producer. Until Lomada de Leiva started commercial production in 2013 Patagonia Gold's focus was exploration work on its portfolio of properties in Chubut, Rio Negro and Santa Cruz. The Company started a small heap leach operation at Lomada de Leiva which had a relatively short life and in May 2016 the mining operation was suspended. The Lomada pad continues to produce gold at approximately 15 ounces per day and the Company has decided to leave the pad irrigating for the present time until the process becomes unviable. Exploration activity in the surrounding areas continues.

Anticipating the end of the Lomada mine, the Company has advanced the Cap-Oeste project through the construction of a heap leach operation similar to the one at Lomada. The capital cost of this project was $13.3 million, which has been funded from the successful fundraising of $10 million completed in May 2016 together with cash flow from Lomada and existing and new credit lines. The Company maintains a strong relationship with a number of Argentine banks and is confident in its ability to secure both short and longer term borrowings as required. The Company has met all repayment dates and interest payments in accordance with loan terms throughout the year, and to the date of this report. The development of the initial open pit mine at Cap-Oeste has been completed on time and within budget, with the first gold pour on 27 October 2016. However, initial recoveries have been lower than

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

2. Going concern (continued)

anticipated and the Company is in the process of installing an agglomeration circuit to improve recovery rates which is expected to be completed by the end of June 2017. With the installation of the agglomeration circuit, the Directors are forecasting production from Cap-Oeste of 68,500 oz AuEq for 2017 and the Directors therefore believe that the cash flow generated from this project will be sufficient to meet its obligations and lower the Company's debt position while at the same time enabling it to continue with its exploration activities. In addition, the Company is looking into the development of COSE and the Cap-Oeste sulphide resources which would be financed through internal cash flow, supplier credit and other project financing alternatives.

The Company is constantly reviewing M&A opportunities aimed at capitalising on its experience of operating in Argentina and its existing project portfolio.

Taking into account the nature of the Group's current and planned activities, the future potential opportunities available to the Group, the availability of external loan finance and the flexibility within the plans both operationally and for cash flow purposes, the Directors have therefore concluded that the financial statements should be prepared on a going concern basis.

3. Significant accounting policies

The following accounting policies have been applied consistently in respect of items that are considered material in relation to the Group and Company financial statements.

Basis of consolidation

The Group financial statements consolidate those of the Company and all of its controlled subsidiaries. Controlled subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling interests in the Company's less than wholly owned subsidiaries are classified as a separate component of equity. The consolidated financial statements of the Group include 100% of the operating losses and net assets of subsidiaries in which there is a non-controlling interest if the operating losses of the subsidiary are fully financed by the Group.

Revenue recognition

In accordance with IAS 18, revenue is recognised when all the significant risks and rewards of ownership have been transferred. Management consider this to be the point at which the gold is sold onto the market.

As a result of the experience gained at Lomada, no trial production period was required at Cap-Oeste. Revenue from commercial production was therefore recognised from the outset.

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

3. Significant accounting policies (continued)

Foreign currency

The parent Company's functional currency is GBP. The Argentine subsidiaries functional currencies are US$ ("$") and Argentine Peso ("AR$"). Functional currencies represent the main currencies of both income and on-going capital expenditure within those individual entities. Transactions in foreign currencies are initially recorded in the respective entities functional currency using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates are recognised in the consolidated statement of comprehensive income. Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined. On consolidation, each Group entity translates its financial statements into $ as outlined below. The functional currencies of the entities in the Group have remained unchanged during the reporting period.

The financial statements of the Group and the Company are presented in $. The Directors believe that the $ more accurately reflects the gold and silver markets and is the main currency of both income and on-going capital expenditure of the Group. For presentation purposes assets, liabilities and equity, excluding retained earnings, are translated to $ at exchange rates at the reporting date. Income and expenses are translated to $ at the average exchange rate for the period in which the transaction arose. The GBP/$ closing exchange rate as at 31 December 2016 was 1.2336 (2015: 1.4802) whilst the average rate for the year ended 31 December 2016 was 1.3552 (2015: 1.5283). For the year ended 31 December 2016, a translation loss of $2.0 million is recognised resulting from the translation to $ of the Company's foreign operations (2015: translation loss $5.5 million).

Exchange differences arising are recognised in other comprehensive income as a separate component of equity titled "Currency translation reserve". On disposal of a foreign operation the cumulative exchange differences recognised in other comprehensive income are reclassified to profit or loss and recognised as part of the gain or loss on disposal.

Share-based payments

Share options granted to employees and Directors are categorised as equity-settled share-based payments. Equity-settled share-based payments are measured at the fair value of goods or services received when the fair value can be reliably estimated. If the fair value of goods and services received cannot be reliably measured, then the fair value of the instrument issued is measured using an appropriate option pricing model at the grant date. For share options granted to employees and Directors, the fair value of the options is measured using the Black-Scholes option pricing model and excludes the impact of non-market vesting conditions (for example, profitability and sales growth).

All equity-settled share-based payments are ultimately recognised as an expense in the statement of comprehensive income with a corresponding credit to "share-based payment reserve". If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

3. Significant accounting policies (continued)

As share options are exercised, proceeds received net of attributable transaction costs, increase share capital, and where appropriate share premium. The fair value of the exercised options carried in share-based payment reserve is transferred to retained earnings.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods and services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Investments in subsidiaries

The Company's investments in subsidiaries are stated at cost net of any provision for impairment. Capital contributions are recognised at cost within investments in subsidiary undertakings.

The review carried out as at 31 December 2016 was based on cash flow projections through to January 2021. It was concluded that an impairment charge of $8.2 million (2015: $nil) should be recognised against the carrying value of the parent Company investment in its subsidiaries.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Inventory

Inventory comprises gold held on carbon and in the pile and is valued by reference to the costs of extraction, which include mining and processing activities. Inventory and work in process is valued at the lower of the costs of extraction or net realisable value. Inventories sold are measured by reference to the weighted average cost.

Exploration costs

Exploration costs are expensed until the determination of the technical feasibility and the commercial viability of the associated project. Exploration costs include costs directly related to exploration and evaluation activities in the area of interest. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when economically recoverable resources are determined to exist, the rights of tenure are current and it is considered probable that the costs will be recouped through successful development and exploitation of the area, or alternatively by sale of the property. This determination is normally evidenced by the completion of a technical feasibility study.

Mining rights

Mining rights are rights to explore and mine specified areas of land acquired from the landowner. Mining rights acquired for stated terms in excess of 10 years are capitalised as intangible assets and are measured initially at cost and amortised on a straight-line basis over the term of the rights. Amortisation is charged to administrative expenses in the Statement of Comprehensive Income.

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

3. Significant accounting policies (continued)

Mineral properties

Once the technical feasibility study is completed, subsequent exploration and development expenses are capitalised as mineral properties. Engineering expenditures incurred to design the size and scope of the project, environmental assessments, permitting, and surface rights acquisitions are capitalised in mineral properties. Upon reaching the development stage, these capitalised costs will be amortised using the unit-of-production method over the estimated period of economically recoverable resources. The cost of the Earn-In agreement in relation to Trilogy has been included within mineral properties at 31 December 2016.

Assets under construction

Assets under construction at projects and operating mines are capitalised in the "assets in the course of construction" account.

From 1 March 2011, exploration costs on the COSE Project have been capitalised as mineral properties – assets in the course of construction, prior to the receipt of full permitting for extraction of the mineralisation.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation, net of depreciation and any provision for impairment.

Depreciation is calculated to write off the cost of property, plant and equipment to their estimated residual value over their estimated useful lives at the following rates:

Straight-line basis	
Office equipment	5 – 10 years
Vehicles	5 years
Machinery and equipment	3 years
Buildings	20 years
Unit of production	
Plant	Depreciation of the plant commenced October 2011 and is depreciated on a unit-of-production method over the estimated period of economically recoverable resources.

An asset's residual value, useful life and depreciation method are reviewed and adjusted, if appropriate, on an annual basis.

All costs incurred and revenue received in relation to the Lomada Project from 1 September 2010 to 30 June 2013 are related to the testing and development phase of the project, prior to commencement of commercial operations. These costs and revenues are capitalised to mineral properties – mining assets. Commercial production was deemed to commence on 1 July 2013 when the trial phase had ended, construction of the main heap leach operation was completed and recovery rates had reached the levels anticipated for commercial exploitation of the project. Upon commencement of commercial production, all revenue and operating expenses in respect of mining and processing operations at the Lomada Project have been recognised in the income statement.

Notes to the Financial Statements (continued)

for the year ended 31 December 2016

3. Significant accounting policies (continued)

The Company completed the development of Cap-Oeste Project in September 2016, entering into production in the last quarter of the year. As a result of the experience gained at Lomada, no trial production period was required at Cap-Oeste. Revenue from commercial production was therefore recognised from the outset. The development expenditure capitalised will be amortised based on the unit of production method.

Improvements and advances

Improvements and advances at the year-end relate to the development and modification of plant, machinery and equipment, including advance payments.

The cost of property, plant and equipment comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use, at which point it is transferred to property, plant and equipment and depreciation commences. Improvements and advances are not depreciated.

Impairment of assets

The Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. These reviews are made annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, reflecting market conditions less costs of disposal, and value in use based on an internal discounted cash flow evaluation.

An impairment loss recognised in prior periods to an asset or cash-generating unit is reversed if there has been a change in the estimates used to determine the respective recoverable amount since the last impairment loss was recognised. The reversal of previously recognised impairment losses is limited to the original carrying value of the asset including any amortisation that would have accrued.

Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or equity.

Current tax expense is the expected tax payable on the taxable income for the year, using rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Notes to the Financial Statements (continued)

for the year ended 31 December 2016

3. Significant accounting policies (continued)

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Financial assets

Financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether resulting income and expenses are recognised in the statement of income or charged directly against other comprehensive income.

At initial recognition, the Group classifies its financial instruments into the following categories:

- Loans and receivables
- Available-for-sale financial assets
- Assets held for trading

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. On initial recognition, loans and receivables are stated at their fair value, including transaction costs, they are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss. Individual receivables are considered for impairment when they are past due at the balance sheet date or when objective evidence is received that a specific counterparty will default. The Group's trade and other receivables fall into this category of financial instruments.

Available-for-sale financial assets include non-derivative financial assets that are either designated as such or do not qualify for inclusion in any of the other categories of financial assets. All financial assets within this category are initially measured at fair value, including transaction costs, with subsequent changes in value recognised in other comprehensive income. Gains and losses arising from investments classified as available-for-sale are recognised in profit or loss when they are sold or when the investment is impaired.

An assessment of whether a financial asset is impaired is made at each reporting date. Financial assets that are substantially past due are also considered for impairment. All income and expense relating to financial assets are recognised in the income statement line item "finance costs" or "finance income", respectively.

Financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. All financial liabilities are recorded initially at fair value, net of direct issue costs. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

3. Significant accounting policies (continued)

Financial liabilities are recorded, subsequent to initial recognition, at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in the statement of comprehensive income. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the statement of comprehensive income on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Restoration, rehabilitation and environmental costs

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the development or on-going production of a mining property. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present values, are provided for in full as soon as the obligation to incur such costs arises and can be quantified. On recognition of a full provision, an addition is made to property, plant and equipment of the same amount; this addition is then charged against profits on a unit of production basis over the life of the mine. Closure provisions are updated annually for changes in cost estimates as well as for changes to life of mine reserves, with the resulting adjustments made to both the provision balance and the net book value of the associated non-current asset.

Equity

Equity comprises the following:

- "Share capital" represents the nominal value of the Company's ordinary shares.
- "Share premium" represents the excess over nominal value of the fair value of consideration received for ordinary shares, net of expenses of the share issue.
- "Currency translation reserve" represents the differences arising from translation of the financial statements of the Group's foreign entities and the Company's financial statements to the presentational currency of $.
- The Company's "Currency translation reserve" represents the difference arising from translation of the Company's financial statements to the presentational currency of $.
- "Share-based payment reserve" represents equity-settled share-based employee remuneration until such share options are exercised.
- "Accumulated losses" includes all current and prior period profits and losses.
- "Non-controlling interest" is the equity in a subsidiary not attributable, directly or indirectly, to the parent Company.

Dividend distributions payable to equity shareholders are included in "other short term financial liabilities" when the dividends are approved in the General Meeting prior to the balance sheet date.

Earnings per share

Earnings per share is calculated based on the weighted average number of ordinary shares issued and outstanding. Diluted per share amounts are calculated using the treasury stock method whereby proceeds deemed to be received on the exercise of options in the per share calculation are assumed to be used to acquire ordinary shares. When the Group is in a loss position, the effect of potential issuances of shares under options would be anti-dilutive, and has not been considered.

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

3. Significant accounting policies (continued)

Segmental reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (operating segment) and takes into account the economic environment in which that segment operates. IFRS 8 requires the amount of each operating segment item to be disclosed based on internal management information. The Group's projects, the majority of which are at the exploration or development stage in South America, are not reported as separate segments. As and when each individual project progresses to construction, trial and then to production stage, it is reported as a separate segment for internal management information. Therefore, for the purposes of segmental reporting, as at 31 December 2016 the Lomada Project and the COSE Project are treated as separate operating reporting segments from the Group's other projects. Cap-Oeste, which commenced operation in Q4 2016 is also identified as a separate operating segment.

Leases

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability. Leases of land and buildings are split into land and buildings elements according to the relative fair values of the leasehold interests at the date of entering into the lease agreement.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the statement of comprehensive income over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the statement of comprehensive income on a straight-line basis over the lease term. Lease incentives are spread over the term of the lease.

Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The Group has evaluated the estimates and assumptions that have been made in relation to the carrying amounts of assets and liabilities in these financial statements. It has concluded that there is no significant risk of these estimates and assumptions causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Information about the estimates and judgments made by the Group to reach its conclusions are contained in the accounting policies and/or the notes to the financial statements, and the key areas are summarised below:

Key estimates and judgments

- Mining rights – See Note 12. The mining rights acquired by PGSA are for a forty-year period from the date of the agreement and are amortised on a straight-line basis over forty years commencing in 2012. The Directors consider that this basis remains appropriate.

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

3. Significant accounting policies (continued)

- Recoverability of VAT balances due to the Group – The Directors have considered in year and post year-end approvals set by the Mining Secretary in Argentina and consider the VAT receivable as at 31 December 2016 to be recoverable in full and no provision is considered necessary. Good progress has been made during 2016 to recover VAT receivables that arose in prior years. The VAT balances arising are largely due to the Group in less than one year and the Directors are confident that an element of the balances will be recovered in this time period. These amounts have been classified as a non-current asset as there remains uncertainty over the exact timing of recovery, as management's on-going dialogue with the government indicate that approval by the Mining Secretary and receipt of some of the funds may require a time frame of more than one year. See Note 16.
- Carrying value of the parent Company investment in its subsidiaries. The Directors have, with the support of a financial modelling expert, reviewed the carrying value of the parent Company investment in its subsidiaries. They consider that based on the cash flow projections prepared to January 2021, and the longer-term business plan that includes an assessment of resources available and potential cash and profit generation from these resources, that the prospects for the subsidiary company operations in South America remain positive. The key assumptions inherent in the forecasts and sensitivity to changes in these assumptions are shown in note 15. Based on the results of the review, the Directors have determined that an impairment charge of $8.2 million (2015: $nil) should be recognised. The Directors recognise that the sensitivity of the assumptions used, the exploratory nature of the Company operations and future plans, and the ability to raise adequate financing to implement these plans, indicate the existence of a material uncertainty which may cast significant doubt over the carrying value of the Company's investment in its subsidiary companies.
- Recoverability of intercompany loan balances – the parent Company advanced $11.5 million in loans to PGSA during the year. These loans attract an interest charge of 7%. The Directors have reviewed the ability of PGSA to repay these loans and consider that the Company has sufficient cash flow generating potential from operations and/or available alternative funding to meet its obligations. No provision has therefore been made.
- Production from the Cap-Oeste project is currently lower than expected due to higher than anticipated clay in the ore. The solution to the recovery problems is advancing, and is expected to be in place and operational by the end of June 2017. As at 31 December 2016, this therefore gives rise to an element of estimation in the valuation of the Cap-Oeste stockpile.
- Classification of mineral properties – see Note 13. Exploration expenditures relating to a particular project will be written off until such time as the Board has determined that the project is viable based upon a positive feasibility study and a decision to move into production.
- From 1 March 2011, the Board determined that exploration costs on the COSE Project be capitalised from that date forward as mineral properties – assets in the course of construction, prior to the receipt of full permitting for mining the mineral property.
- Provisions for environmental reclamation require judgment in determination of future obligations and are based on assessments of technical, legal and economic factors. Management is required to make estimates of future costs the Group will likely incur in order to complete the reclamation and remediation work required to comply with existing laws and regulations. The ultimate cost is uncertain and estimates vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques and changes to the life of the mine. See Note 21.

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

3. Significant accounting policies (continued)

- A cash payment of $1.5 million will become payable to Barrick upon the delineation of 200,000 ounces or greater of gold or gold equivalent NI 43-101 indicated resource on the La Paloma property block. This amount has not been recognised, as there is no certainty of achieving the required indicated resource threshold. See Note 4.
- Fair value of the mining rights acquired from Fomicruz, an established mining company, wholly-owned by the government of Santa Cruz Province – see Note 12. Fomicruz contributed to PGSA certain mining rights in exchange for a 10% equity interest in PGSA. Pursuant to IFRS 2 *Share-based Payment*, the mining rights acquired are measured, by reference to the estimated fair value of the 10% interest in PGSA acquired by Fomicruz on 14 October 2011, at $4.0 million. In determining this fair value estimate, management considered many factors including the net assets of PGSA and the illiquidity of the 10% interest. This amount is recorded as an increase in the equity of PGSA and as a mining right asset. In the consolidated financial statements, the increase in equity in PGSA has been recorded as non-controlling interest.
- Deferred tax asset – see Note 10. The deferred tax asset recognised in the year related to the tax losses accumulated from the Lomada Project, not previously recognised. Management consider that the remaining amount is expected to be utilised against taxable income in 2017.

Changes in accounting policies and disclosures

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), the International Financial Reporting Interpretations Committee ("IFRIC"), the International Accounting Standards and Standards Interpretations Committee Interpretations approved by the International Accounting Standards Committee ("IASC") that remain in effect as at 31 December 2016 and to the extent that they have been adopted by the European Union.

New and revised standards that are effective for annual periods beginning on or after 1 January 2016

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2016. Information on these new standards is presented below:

- IFRS 11 'Accounting for Joint Arrangements', effective for annual periods beginning on or after 1 January 2016. The amendments to IFRS 11 provide specific guidance on accounting for the acquisition of an interest in a joint operation ('JO') that is a business, to address diversity in practice;
- IFRS 10, IFRS 12, IAS 28 ''Investment Entities: Applying the Consolidation Exception', effective for annual periods beginning on or after 1 January 2016. The amendments address issues that have arisen in the context of applying the consolidation exception for investment entities;
- IAS 27 'Separate financial statements', effective for annual periods beginning on or after 1 January 2016. The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements;
- IAS 1 'Presentation of Financial Statements', effective for annual periods beginning on or after 1 January 2016. The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports; and
- IAS 16 'Property, Plant and Equipment', effective for annual periods beginning on or after 1 January 2016. The amendments aim at clarifying acceptable methods of depreciation and amortisation;

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

3. Significant accounting policies (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

At the date of authorisation of these financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the Group. Information on those expected to be relevant to the Group's financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations and amendments not either adopted or listed below are not expected to have a material impact on the Group's financial statements.

- IFRS 9 'Financial Instruments', effective for annual periods beginning on or after 1 January 2018. The amendments to IFRS 9 introduce extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss" model for the impairment of financial assets;
- IFRS 15 'Revenue from contracts with customers', IFRS presents new requirements for the recognition of revenue, replacing IAS 18 'Revenue', IAS 11 'Construction Contracts' and several revenue-related interpretations. Management do not consider that this will have a significant impact on the Group's financial statements; and
- IFRS 16 'Leases', effective for annual periods beginning on or after 1 January 2019. IFRS 16 replaces IAS 17. It completes the IASB's project to overhaul lease accounting. Leases will be recorded on the statement of financial position in the form of right-of-use asset and a lease liability.

4. Acquisition of Barrick's property portfolio in Santa Cruz, Argentina

The Group announced on 21 February 2007 that it had acquired the rights, title and interest in 70 expedientes (mineral titles) previously held by Barrick Exploraciones Argentina S.A. and Minera Rodeo S.A. (collectively the "Barrick Sellers") being subsidiaries of Barrick Gold Corp. ("Barrick"). The expenditure commitments totalling $10.0 million, which were given to Barrick, have been fully satisfied.

Under the original agreement, PGSA had granted Barrick an option to buy back up to a 70% interest in the properties sold to PGSA under the acquisition agreement upon the delineation of the greater of 2.0 million ounces of gold or gold equivalent NI 43-101 indicated resource on that property group going forward ("Back in Right").

On 23 March 2011, the Back in Right from the original property acquisition agreement was eliminated in exchange for a 2.5% NSR in favour of the Barrick Sellers on all future production of mineral products on the properties sold to PGSA under the acquisition agreement. Revenues have been recognised from 1 July 2013 when the Lomada project was deemed to have commenced commercial production. The proceeds of sales of gold and silver from the Lomada Project trial heap leach from December 2012 to 30 June 2013 have been deducted from mineral properties – mining assets (see Note 13) and an appropriate accrual was made for the NSR in compliance with IAS37, where NSR royalty payments are recognised and accrued once sales are made and the liability to settle the NSR is unconditional.

A payment of $1.5 million will be payable to Barrick upon the delineation of 200,000 ounces or greater of gold or gold equivalent NI 43-101 indicated resource on the La Paloma property group. The amount has not been recognised, as there is no certainty of achieving the required indicated resource threshold.

Notes to the Financial Statements (continued)

for the year ended 31 December 2016

5. Segmental analysis

Management do not currently regard individual projects as separable segments for internal reporting purposes with the exception of the Lomada Project, which commenced commercial production in the third quarter of 2013 and the COSE Project where construction work has commenced. All revenue in the year is derived from sales of gold and silver.

The Group's net loss and its geographic allocation of total assets and total liabilities may be summarised as follows:

Net profit/(loss)

	Lomada Project $'000	*Cap-Oeste Project $'000*	*COSE Project $'000*	*Argentina, Uruguay and Chile $'000*	*United Kingdom $'000*	*Canada $'000*	*Total $'000*
2016							
Revenue	28,556	1,485	—	—	—	—	30,041
Cost of sales	(14,043)	(819)	—	—	—	—	(14,862)
Gross profit	14,513	666	—		—	—	15,179
Exploration costs	—	—	—	(2,344)	—	—	(2,344)
Administrative costs							
Share-based payments charge	—	—	—	—	(67)	—	(67)
Depreciation and amortisation	(284)	(670)	—	(1,615)	(18)	—	(2,587)
Other administrative costs	—	—	—	(5,649)	(443)	—	(6,092)
	(284)	(670)	—	(7,264)	(528)	—	(8,746)
Finance income	—	—	—	60	1	—	61
Finance costs	—	—	—	(1,872)	(104)	—	(1,976)
Profit/(loss) before taxes	14,229	(4)	—	(11,420)	(631)	—	2,174
Income tax charge	—	—	—	(1,122)	—	—	(1,122)
Profit for the year	14,229	(4)	—	(12,542)	(631)	—	1,052

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

5. Segmental analysis (continued)

	Lomada Project $'000	*Cap-Oeste Project $'000*	*COSE Project $'000*	*Argentina, Uruguay and Chile $'000*	*United Kingdom $'000*	*Canada $'000*	*Total $'000*
2015							
Revenue	26,128	—	—	—	—	—	26,128
Cost of sales	(29,731)	—	—	—	—	—	(29,731)
Gross profit	(3,603)	—	—	—	—	—	(3,603)
Exploration costs	—	—	—	(5,491)	—	—	(5,491)
Administrative costs							
Share-based payments charge	—	—	—	—	(97)	—	(97)
Depreciation and amortisation	(460)	—	—	(2,228)	(40)	—	(2,728)
Other administrative costs	—	—	—	(6,675)	(1,849)	(52)	(8,576)
	(460)	—	—	(8,903)	(1,986)	(52)	(11,401)
Finance income	—	—	—	1,395	1,437	—	2,832
Finance costs	—	—	—	(762)	(20)	—	(782)
Loss before taxes	(4,063)	—	—	(13,761)	(569)	(52)	(18,445)
Income tax benefit	—	—	—	4,051	—	—	4,051
Loss for the year	(4,063)	—	—	(9,710)	(569)	(52)	(14,394)

Total assets and total liabilities

	Total assets		*Total liabilities*	
	2016 $'000	*2015 $'000*	*2016 $'000*	*2015 $'000*
Argentina – Cap-Oeste Project	33,406	—	8,485	—
Argentina and Chile(1)	12,862	19,339	20,449	12,706
Argentina – Lomada Project	7,078	9,371	834	4,399
United Kingdom	994	352	6,892	4,900
Argentina – COSE Project	905	1,099	—	—
	55,245	30,161	36,660	22,005

The Group's geographic allocation of exploration costs is as follows:

	2016 $'000	*2015 $'000*
Argentina(1)	2,115	5,491
Uruguay	229	—
	2,344	5,491

(1) In 2015 the segment represented other exploration projects including Cap-Oeste, in 2016 Cap-Oeste is excluded.

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

5. Segmental analysis (continued)

From 1 September 2010 onwards, expenditures incurred at the Lomada Project are capitalised and disclosed as mineral properties – mining assets (see Note 13). From 1 April 2011 certain costs are included in inventory.

From 1 March 2011 onwards, expenditures incurred at the COSE Project are capitalised and disclosed as mineral properties – assets in the course of construction (see Note 13).

From September 2016 onwards, expenditures incurred at the Cap-Oeste Project are capitalised and disclosed as mineral properties – mining assets (see Note 13).

Exploration costs incurred at all other projects are written off to the statement of comprehensive income in the year they were incurred.

6. Finance income

	2016	*2015*
	$'000	*$'000*
Bank interest	61	1
Investment income	—	2,831
	61	2,832

During the year the Company did not purchase any Argentine bonds (2015: $3.0 million), and consequently recorded no investment income on redemption of bonds during the twelve months ended 31 December 2016 (2015: $1.4 million). In 2015, the debt securities were treated as available-for-sale financial assets as they were quoted in active markets. Fair values were determined by reference to their quoted bond prices at the reporting date.

7. Staff numbers and costs

	2016	*2015*
	$'000	*$'000*
Wages and salaries	8,218	6,957
Social security costs	1,149	1,119
	9,367	8,076

	2016	*2015*
	Number	*Number*
The average number of employees (including Directors) by location during the year was:		
Argentina–operations	133	127
Argentina and Chile – exploration and administration	60	59
Canada – administration	1	1
United Kingdom – administration	1	3
Spain – administration	1	1
	196	191

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

8. Other administrative costs

	2016 *$'000*	*2015* *$'000*
General and administrative	2,598	4,275
Argentine statutory taxes	1,036	932
Professional fees	674	630
Payments under operating leases	109	177
Foreign currency translation loss	2,616	4,902
Parent and subsidiary company Directors' remuneration	444	722
Profit on sale of assets	(68)	(1,465)
Depreciation charge	2,487	2,629
Amortisation of mining rights	100	99
Depreciation allocated to inventory	(1,565)	(1,862)
VAT expense	114	60
Consultancy fees	134	205
	8,679	11,304

9. Remuneration of Directors and key management personnel

Parent Company Directors' emoluments:

	2016 *$'000*	*2015* *$'000*
Directors' fees	208	433
Directors salary	182	92
	390	525

See Report of the Directors on pages 22 to 26 for individual Directors' remuneration and share option awards.

In 2016, the highest paid Director was due $182 thousand (2015: $115 thousand). This amount does not include any share-based payments charge.

The Directors had an unrealised gain of $nil (2015: $nil) from the exercise of share options during the year ended 31 December 2016.

On 7 July 2016, 30,164,550 new ordinary shares of 1p each in the Company were issued in lieu of the outstanding fees owed to Directors for their services, accrued from periods ranging from 1 January 2012 to 30 June 2016 under each Director's terms of appointment. The shares were deemed to be allotted for cash at a market price of 1.954 pence each, being the volume weighted average share price for the Company for the 30 day period prior to the date of the announcement.

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

9. Remuneration of Directors and key management personnel (continued)

Key management personnel emoluments:

	Note	2016 $'000	2015 $'000
Share-based payments charge	27	67	97
Salaries		273	315
Other compensation, including short-term benefits		268	468
		608	880

Key management personnel are defined as the Directors, including the CEO, the COO and interim CFO.

10. Income tax

The current income tax expense for the year on the ordinary business of the Group was $962 thousand (2015: $166 thousand).

Factors affecting the income tax expense for the year

The following table reconciles the reported income tax expense to the estimated income tax recovery that would have been obtained by applying the Group's 2016 and 2015 UK Statutory tax rate to the Group's loss before income tax. Items shown in other comprehensive expense are not expected to have a material impact on the year's income tax expense.

	2016 $'000	2015 $'000
Income tax expense		
(Profit)/loss on ordinary activities before taxation	2,174	(18,445)
Expected tax expense at the standard UK corporation tax rate of 20% (2015: 20%)	435	(3,689)
Adjustments for short term timing differences		
Different local tax rates	442	(2,621)
Expenses not deductible for tax purposes	396	281
Losses and other temporary differences	(311)	6,573
Origination and reversal of temporary timing differences	160	(4,595)
Total tax expense/(credit)	1,122	(4,051)
Deferred taxation		
At 1 January	4,790	2,694
Exchange differences	(877)	(2,499)
Charge for the year	(160)	4,595
Deferred tax asset at 31 December	3,753	4,790

Factors that may affect future tax charges

The Group contains entities with tax losses and deductible temporary differences for which no deferred tax asset is recognised.

The Company has unrecognised losses and other temporary differences at 31 December 2016 of approximately $12.8 million – £10.4 million (2015: $15.3 million – £10.3 million) that may be utilised against future taxable income. UK losses and other temporary differences may be carried forward indefinitely to reduce taxable income in the future.

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

10. Income tax (continued)

Subsidiary companies in Argentina have unrecognised tax losses at 31 December 2016 of approximately $2.1 million – AR$ 34.1 million (2015: $21.5 thousand – AR$ 278 thousand) which may be used against future taxable income. These losses expire as follows:

Year	*AR$*	*$*
	(in Thousands)	
2017	23	1
2018	43	3
2019	126	8
2020	33,689	2,120
2021	208	13

Subsidiary companies in Argentina have cumulative unused exploration costs related to different mining projects as at 31 December 2016 of approximately $27.7 million – AR$ 440.9 million (2015: $31.4 million – AR$ 406.8 million). Under the Argentine law "Ley de Inversiones Mineras No. 24196", which combines the requirements of the federal tax code and the mining code, exploration costs are available to be deducted from taxable income two times in the following order:

1) as a depreciation on the basis of the units of the project production; and

2) as a deduction in full within the first five years as of the start of the related project production.

A deferred tax asset of $3.8 million (2015: $4.8 million) related to the tax losses accumulated from PGSA has been recognised as at 31 December 2016, this amount is expected to be utilised against taxable income in 2017. Following IAS1.56 the entire deferred tax asset is shown as non-current.

The development of fiscal legislation in Argentina may lead to inherent uncertainties. Legislation is both complex and in certain situations, fiscal policies may be conflicted within the Courts. Management continually monitor fiscal developments to ensure that the Group is responsive to changes in legislation, once these changes become clear.

The standard UK corporation tax rate remained at 20% in the year to 31 March 2016 and in the year to 31 March 2017. Following announcements from the UK Chancellor of the Exchequer, corporation tax rates will be reduced to 17% by the year 2020.

11. Earnings per share

The calculation of basic and diluted earnings per share is based on the following data:

	Year to 31 December 2016	*Year to 31 December 2015*
Profit/(loss) after tax ($'000)	912	(13,084)
Weighted average number of shares	1,391,295,477	1,053,955,080
Basic and diluted profit/(loss) per share ($)	0.001	(0.01)

At 31 December 2016, there were 93,508,000 (2015: 95,158,000) share options which would have a potentially dilutive effect on the basic profit per share.

During the year, the 24,705,000 warrants that were in issue at 31 December 2015 expired without being exercised.

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

12. Mining rights

	Amount $'000
At 1 January 2015	3,687
Amortisation charge for the year	(99)
At 31 December 2015	3,588
At 1 January 2016	3,588
Amortisation charge for the year	(100)
At 31 December 2016	3,488

On 14 October 2011, Patagonia Gold, PGSA and Fomicruz entered into a definitive strategic partnership agreement in the form of a shareholders' agreement ("Fomicruz Agreement") to govern the affairs of PGSA and the relationship between the Company, PGSA and Fomicruz. Pursuant to the Fomicruz Agreement, Fomicruz contributed to PGSA the rights to explore and mine approximately 100,000 hectares of Fomicruz's mining properties in Santa Cruz Province in exchange for a 10% equity interest in PGSA. The Fomicruz Agreement establishes the terms and conditions of the strategic partnership for the future development of certain PGSA mining properties in the Province. The Company will fund 100% of all exploration expenditures on the PGSA properties to the pre-feasibility stage, with no dilution to Fomicruz. After feasibility stage is reached, Fomicruz is obliged to pay its 10% share of the funding incurred thereafter on the PGSA properties, plus annual interest at LIBOR +1% to the Company. Such debt and interest payments will be guaranteed by an assignment by Fomicruz of 50% of the future dividends otherwise payable to Fomicruz on its shares. Over a five year period, the Company through PGSA is required to invest $5.0 million in exploration expenditures on the properties contributed by Fomicruz, whose rights to explore and mine were contributed to PGSA as part of the Fomicruz Agreement. The Company will manage the exploration and potential future development of the PGSA properties.

Pursuant to IFRS 2 *Share-based Payment*, the mining rights acquired have been measured by reference to the estimated fair value of the equity interest given to Fomicruz. Management has estimated the fair value of the 10% interest in PGSA acquired by Fomicruz, on or about 14 October 2011 at $4.0 million. In determining this fair value estimate, management considered many factors including the net assets of PGSA and the illiquidity of the 10% interest. This amount has been recorded as an increase in the equity of PGSA and as a mining right asset. In the consolidated financial statements, the increase in equity in PGSA has been recorded as non-controlling interest. The initial share of net assets of PGSA ascribed to the non-controlling interest amounted to $4.0 million.

Management do not consider there to be any indications of impairment and no review of the carrying value has been undertaken.

The mining rights acquired by PGSA are for a forty-year period from the date of the agreement. As indicated above, these mining rights have been recorded as an intangible asset and are amortised on a straight-line basis over forty years commencing in 2012.

Notes to the Financial Statements (continued)

for the year ended 31 December 2016

13. Mineral properties

	Mining assets $'000	*Surface rights acquired $'000*	*Assets in the course of construction $'000*	*Total $'000*
Cost				
At 1 January 2015	3,211	1,850	1,664	6,725
Additions	92	—	1	93
Exchange differences	(1,001)	(630)	(566)	(2,197)
At 31 December 2015	2,302	1,220	1,099	4,621
At 1 January 2016	2,302	1,220	1,099	4,621
Additions	9,921	—	10	9,931
Exchange differences	(427)	(227)	(204)	(858)
At 31 December 2016	11,796	993	905	13,694
Amortisation				
At1 January 2015	1,534	—	—	1,534
Charge for the period	461	—	—	461
Exchange differences	(654)	—	—	(654)
At 31 December 2015	1,341	—	—	1,341
At 1 January 2016	1,341	—	—	1,341
Charge for the period	284	—	—	284
Exchange differences	353	—	—	353
At 31 December 2016	1,978	—	—	1,978
Net book value				
At 31 December 2016	9,818	993	905	11,716
At 31 December 2015	961	1,220	1,099	3,280

Mining assets

The Lomada Project completed the trial heap leach phase and entered full commercial production in Q3 of 2013. From 1 September 2010 all development costs incurred in respect of the project have been capitalised as mineral properties – mining assets. The revenue received from the sale of gold and silver recovered from the Lomada trial heap leach project to 30 June 2013 was $1.1 million. These proceeds were offset against the capitalised costs of Lomada Project development in compliance with IAS 16. Amortisation is charged based on the unit-of-production method.

The Company completed the development of Cap-Oeste Project in September 2016, entering into production in the last quarter of the year. As a result of the experience gained at Lomada, no trial production period was required at Cap-Oeste. Revenue from commercial production was therefore recognised from the outset. The development expenditure capitalised will be amortised based on the unit of production method.

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

13. Mineral properties (continued)

Trilogy Mining Corporation

In January 2016, Patagonia Gold entered into an earn-in agreement with Trilogy Mining Corporation ("Trilogy") in relation to the San José Project in Uruguay. This agreement with Trilogy represents a great opportunity to acquire additional gold projects with good geological potential in a new jurisdiction, enabling the Company to diversify its regional operations and risks. This has been recognised within mining assets additions at a cost of $0.8 million. No fair value has been attributed to the future potential investment or earn-in at this stage, the Directors consider it to be too early to ascribe any value to this. The Directors have considered and concluded that no impairment in value is needed at 31 December 2016. This investment was made directly by the parent Company and is therefore reflected in the parent Company balance sheet as well as that of the Group.

Surface rights

The Company owns the surface rights to over 63,000 hectares of land encompassing the Estancia La Bajada, Estancia El Tranquilo and the Estancia El Rincon.

The Company has clear title and outright ownership over Estancia La Bajada and Estancia El Tranquilo. There is a Back in Right granted to the sellers under Estancia El Rincon's title deed whereby the Company irrevocably committed to resell the estancia to its former owner in the event that two consecutive years elapse without mining activities. Current activity on this estancia includes the Lomada Project.

Assets in the course of construction

From 1 March 2011, exploration costs on the COSE Project have been capitalised as mineral properties – assets in the course of construction, prior to the receipt of full permitting for extraction of the mineralisation.

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

14. Property, plant and equipment

	Group						Company
	Office equipment and vehicles $'000	*Machinery and equipment $'000*	*Buildings $'000*	*Plant $'000*	*Improve-ments and equipment $'000*	*Total $'000*	*Office equipment $'000*
At 1 January 2015	606	8,707	777	8,810	69	18,969	258
Additions	153	158	—	106	37	454	1
Transfers	2	45	—	3	(50)	—	—
Disposals	(86)	(639)	—	—	—	(725)	(56)
Exchange differences	(127)	(2,962)	(265)	(2,997)	(24)	(6,375)	(12)
At 31 December 2015	548	5,309	512	5,922	32	12,323	191
At 1 January 2016	548	5,309	512	5,922	32	12,323	191
Additions	812	5,496	—	4,248	1,965	12,521	—
Transfers	—	26	—	—	(26)	—	—
Disposals	(49)	—	—	—	—	(49)	—
Exchange differences	(98)	(987)	(95)	(1,101)	(6)	(2,287)	(32)
At 31 December 2016	1,213	9,844	417	9,069	1,965	22,508	159
Depreciation							
At 1 January 2015	413	2,211	51	4,505	—	7,180	191
Disposals	(62)	(381)	—	—	—	(443)	(56)
Charge for the year	105	778	14	1,271	—	2,168	40
Exchange differences	(125)	(866)	(22)	(1,896)	—	(2,909)	(10)
At 31 December 2015	331	1,742	43	3,880	—	5,996	165
At 1 January 2016	331	1,742	43	3,880	—	5,996	165
Charge for the year	149	859	9	1,186	—	2,203	18
Exchange differences	(118)	(386)	(8)	(807)	—	(1,319)	(29)
At 31 December 2016	362	2,215	44	4,259	—	6,880	154
Net book value							
At 31 December 2016	851	7,629	373	4,810	1,965	15,628	5
At 31 December 2015	217	3,567	469	2,042	32	6,327	26

Improvements and advances at the year-end relate to the development and modification of plant, machinery and equipment, including advance payments. Additions in 2016 represents advance payments relating to the agglomerator system that will be delivered in 2017.

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

15. Investment in subsidiary companies

Company

	2016 *$'000*	*2015* *$'000*
Balance at 1 January	117,841	115,000
Capital contributions during the year	—	8,246
Impairment charge	(8,178)	—
Exchange differences	(19,630)	(5,405)
Balance at 31 December	90,033	117,841

The Company periodically transfers funds to its subsidiaries as capital contributions.

In accordance with IAS 36 Impairment of Assets, at each reporting date the Group assesses whether there are any indicators of impairment of non-current assets. When circumstances or events indicate that non-current assets may be impaired, these assets are reviewed in detail to determine whether their carrying value is higher than their recoverable value, and, where this is the result, an impairment is recognised. Recoverable value is the higher of value in use and fair value less costs to sell. Value in Use is estimated by calculating the present value of the future cash flows expected to be derived from the asset cash generating unit (CGU). Fair value less costs to sell is based on the most reliable information available, including market statistics and recent transactions. PGSA has been identified as CGU. This includes all tangible non-current assets, intangible exploration assets, and net current assets excluding cash.

The Directors have, with the support of a financial modelling expert, reviewed the carrying value of the parent Company investment in its subsidiaries. They consider that based on the cash flow projections prepared to January 2021, and the longer-term business plan that includes an assessment of resources available and potential cash and profit generation from these resources, that the prospects for the subsidiary company operations in South America remain positive.

Due to the fact that the carrying value of investments is significantly higher than the net assets of the Group an assessment was carried out of the fair value of PGSA's CGU. A discounted cash flow of the Lomada and Cap-Oeste mine's latest estimated life of mine plans, along with expectations for that of COSE has been used to calculate the Value in Use. As a result of this review, a pre-tax impairment loss of $8.2 million (2015: $nil) has been recognised.

When calculating the Value In Use, certain assumptions and estimates were made. Changes in these assumptions can have a significant effect on the recoverable amount and therefore the value of the impairment recognised. Should there be a change in the assumptions which indicated the impairment, this could lead to a revision of recorded impairment losses in future periods. The key assumptions are outlined in the following table:

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

15. Investment in subsidiary companies (continued)

Assumption	*Judgments*	*Sensitivity*
Timing of cash flows	Cash flows were forecast over the expected life of the Lomada and Cap-Oeste mines. The life of mine plan in December 2016 forecasted mining activities to occur until July 2018, with a further four months during which stockpiles would be processed and rehabilitation costs would be incurred.	An extension or shortening of the mine life would result in a corresponding increase or decrease in impairment, the extent of which it was not possible to quantify.
Production costs	Production costs were forecast based on detailed assumptions, including staff costs, consumption of fuel and reagents, maintenance, and administration and support costs.	An increase or decrease in production costs excluding royalties of 10% would have increased/decreased the pre-tax impairment attributable by $6.570 million(1).
Gold price	Management have used a gold price of $1,200 per ounce, in line with market consensus estimates and management's own view of gold prices over the period of the Life of Mine.	A decrease or increase of 10% in the gold price assumption would have increased/decreased the pre-tax impairment recognised in the year by $20.415 million(1).
Discount rate	A discount rate of 10% (pre-tax) (2015: 10%) was used in the VIU estimation, based on estimations of Patagonia's own cost of capital, adjusted for specific risk factors related to the Cap-Oeste LoMP (liquidity risk, production risk, etc).	An increase or decrease in the discount rate of five percentage points would have decreased/increased the pre-tax impairment recognised in the year by $8.629 million(1).
Gold production	The life of mine plan was based on gold production of 250 thousand ounces for the Cap-Oeste and COSE Mine.	A 10% decrease or increase in ounces produced, compared with the life of mine gold production, would have increased/decreased the pre-tax impairment recognised in the year by $20.267 million(1).
Gold recovery	A gold recovery of 80% was used in the VIU estimation, based on mineral testing. This is the expected recovery following the installation of the agglomeration circuit.	A 10% decrease in gold and silver recovery would have increased the pre-tax impairment recognised in the year by $20.118 million(1).

(1) Sensitivities provided were on a 100% basis, pre-tax. 10% of the post-tax impairment would be attributed to the non-controlling interest

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

15. Investment in subsidiary companies (continued)

Details of the Company's subsidiaries are below:

Company	*Country of incorporation*	*2016 Percentage shareholding*	*2015 Percentage shareholding*	*Nature of business*
Patagonia Gold S.A.	Argentina	90	90	Exploration
Minera Minamalu S.A.	Argentina	100	100	Exploration
Huemules SA	Argentina	100	100	Exploration
Leleque Exploración SA	Argentina	100	100	Exploration
Patagonia Gold Chile S.C.M.	Chile	100	100	Exploration

16. Other receivables

Non-current assets

	Group		*Company*	
	2016 $'000	*2015 $'000*	*2016 $'000*	*2015 $'000*
Recoverable VAT	7,388	7,549	—	—
Intercompany receivables	—	—	11,863	—
Other receivables	299	218	—	—
	7,687	7,767	11,863	—

The Directors have considered in year and post year-end approvals set by the Mining Secretary in Argentina and consider the VAT receivable as at 31 December 2016 to be recoverable in full and no provision is considered necessary. Good progress has been made during 2016 to recover VAT receivables that arose in prior years. The VAT balances arising are largely due to the Group in less than one year and the Directors are confident that an element of the balances will be recovered in this time period. These amounts have been classified as a non-current asset as there remains uncertainty over the exact timing of recovery, as management's on-going dialogue with the government indicate that approval by the Mining Secretary and receipt of some of the funds may require a time frame of more than one year.

Intercompany receivables relate to loan advances from the parent company to PGSA during the year ended 31 December 2016. These loans attract interest at 7%, and are repayable within two years of date of the first disbursement. The Directors have reviewed the recoverability of these loans and confirm that they consider them to be recoverable in full, in accordance with stated loan terms.

17. Trade and other receivables

Current assets

	Group		*Company*	
	2016 $'000	*2015 $'000*	*2016 $'000*	*2015 $'000*
Other receivables	589	426	—	—
Intercompany receivables	—	—	15	—
Prepayments and accrued income	22	24	22	24
Recoverable VAT	1,433	5	1	5
	2,044	455	38	29

All amounts shown under 'Other receivables' are short-term.

The carrying value of all other trade and other receivables is considered a reasonable approximation of fair value.

There are no past due debtors.

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

18. Inventory

Inventory comprises gold held on carbon and in the pile, plus consumables, and is valued by reference to the costs of extraction, which include mining and processing activities. Inventory and work in process is valued at the lower of the costs of extraction or net realisable value. Inventories sold are measured by reference to the weighted average cost.

	Group		*Company*	
	2016 *$'000*	*2015* *$'000*	*2016* *$'000*	*2015* *$'000*
Work in process				
Gold held on carbon	1,455	1,854	—	—
Ore stockpiles	6,319	—	—	—
Consumables	2,389	399	—	—
	10,163	2,253	—	—

Ore stockpiles at Cap-Oeste have been valued using an assumed recovery rate of 80%. Consumables represent stocks of mining supplies, reagents, lubricants and spare parts held on site.

The cost of inventories recognised as an expense and included in the cost of sales amounted to $13.1 million (2015: $27.3 million).

All inventories are expected to be sold, used or consumed within one year of the balance sheet date.

19. Cash and cash equivalents

	Group		*Company*	
	2016 *$'000*	*2015* *$'000*	*2016* *$'000*	*2015* *$'000*
Bank and cash balances	657	1,617	42	212
Short-term deposits	78	77	78	77
	735	1,694	120	289

20. Trade and other payables

	Group		*Company*	
	2016 *$'000*	*2015* *$'000*	*2016* *$'000*	*2015* *$'000*
Trade and other payables	8,951	5,598	12	31
Income tax	271	—	—	—
Intercompany payables	—	—	42	43
Short term loans	18,010	13,346	6,705	4,096
Other accruals	175	773	175	773
	27,407	19,717	6,934	4,943

The carrying values of trade and other payables are considered to be a reasonable approximation of fair value.

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

20. Trade and other payables (continued)

The Group takes short term loans for the purpose of financing ongoing operational requirements. The Group's short term loans are denominated in $ and are at fixed rates of interest. Loans are provided from a range of banks.

Interest rates on short term loans ranged from 3.5% to 10%, priority has been given to repaying those at the higher rates.

21. Loans and provisions

	Group		*Company*	
	2016 *$'000*	*2015* *$'000*	*2016* *$'000*	*2015* *$'000*
Long term loans	8,201	1,681	—	—
Provisions	1,052	607	—	—
	9,253	2,288	—	—

The Group takes long-term loans for the purpose of financing ongoing operational requirements. The Group's long-term loans granted to PGSA are denominated in $ and are at fixed rates of interest. Long-term loans are provided by Argentinian banks and are backed by a Letter of Guarantee from the Company. Interest rates on long-term loans ranged from 6.3% to 7.0%.

The carrying values of the provisions are considered to be a reasonable approximation of fair value. The timing of any resultant cash outflows are uncertain by their nature. The movement in the provisions are comprised of the following:

	Reclamation and remediation provision(i) *$'000*	*Tax provision*(ii) *$'000*	*Other*(iii) *$'000*	*Total* *$'000*
Balance at 1 January 2016	373	198	36	607
Net additions/(reductions)	488	(37)	(6)	445
Balance at 31 December 2016	861	161	30	1,052

(i) Reclamation and remediation provision relates to the environmental impact of works undertaken as at the balance sheet date. (see Note 3)

(ii) Tax provision for withholding tax on foreign suppliers.

(iii) Provision for road traffic accident.) In October 2011 and March 2012, following a fatal road traffic accident in Argentina, compensation claims were made outside of the life insurance policy held by PGSA. These are non-judicial claims against PGSA that have been partially settled through a mediation process among PGSA, the automobile insurance company, and the claimants. According to those settlement agreements, the automobile insurance company paid the agreed compensations to the claimants, while PGSA committed to afford some of the court expenses and settlement fees. On 7 October 2014, PGSA was notified of the judicial complaint for compensation for moral damages, loss of economic aid, and expenses, filed by the inheritors of one of the victims against PGSA, amounting to $0.14 million (AR$2.1 million) plus interest. As at 31 December 2016, although the plaintiff claims compensation relating to loss of economic aid and expenses, those items have already been covered under an out-of-court previous settlement by the labor risk insurance company of PGSA. As at that date, the claim remains partially outstanding with respect to the moral damages item and a provision of $30 thousand (AR$470 thousand) has been recorded.

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

22. Share capital
Authorised
All the Company's issued ordinary shares are fully paid. Accordingly, no further contribution of capital may be required by the Company from the holders of such shares. Each ordinary shareholder who is entitled to vote and is present in person or by proxy has one vote for every share held.

Issued and fully paid ordinary shares of 1 pence each ($0.012)

	Number of ordinary shares	*Amount $'000*
At 1 January 2015	1,046,602,323	16,256
Issue in lieu of professional fees	1,111,111	17
Issue in lieu of Director's fees	12,241,993	193
Exchange difference on translation to $	—	(776)
At 31 December 2015	1,059,955,427	15,690
At 1 January 2016	1,059,955,427	15,690
Issue by placing	496,962,962	7,186
Issue in lieu of professional fees	666,666	12
Issue in lieu of Director's fees	30,164,550	387
Exchange difference on translation to $	—	(3,688)
At 31 December 2016	1,587,749,605	19,587

On 11 May 2016, the Company issued 462,962,962 new ordinary shares of 1 pence each at a price of 1.50 pence per share raising $10.0 (£6.7 million) under the terms of the Subscription and Open Offer dated 22 April 2016. The cost of the placement totalled $0.3 million (£0.2 million) resulting in net proceeds of $9.7 million (£6.7 million). $6.7 million (£4.6 million) of the net proceeds are included in share capital and the balance of $3.0 million (£2.1 million) is included in share premium.

Due to additional demand from investors, on 25 May 2016 the Company issued a further 34,000,000 new ordinary shares under the same terms, raising $0.75 million (£0.51 million).

On 7 July 2016, 30,164,550 new ordinary shares of 1p each in the Company were issued in lieu of the outstanding fees owed to Directors for their services, accrued from periods ranging from 1 January 2012 to 30 June 2016 under each Director's terms of appointment. The shares were deemed to be allotted for cash at a market price of 1.954 pence each, being the volume weighted average share price for the Company for the 30 day period prior to the date of the announcement. The Company also allotted 666,666 new ordinary shares to certain of the Company's advisers in lieu of cash payments.

Warrants
The placements of October 2012 and November 2012 were combined with the issue of warrants. Subscribers for the new ordinary shares were issued with three-quarters of a warrant for every such new ordinary share so subscribed (with fractional entitlements rounded down to the nearest whole warrant). A total of 24,705,000 warrants were issued pursuant to the placements and subscription. The warrants were exercisable into ordinary shares on a one-for-one basis at a price equal to a 10% premium to the placing price at any time up to four years from the subscription date. The warrants were non-transferable save in limited circumstances.

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

22. Share capital (continued)

These warrants were classified as an equity instrument under IAS 32 as they were fixed for fixed (i.e. the subscriber could subscribe for a fixed number of shares in exchange for a fixed price (the subscription price)), and there were no variables to this under the warrant instruments. As an equity instrument the warrants were within the scope of IAS 32 but outside the scope of IAS 39 "*Financial Instruments – Recognition and Measurement*" and therefore changes in the fair value were not recognised in the financial statements.

There are no warrants outstanding at 31 December 2016 as they expired without being exercised during the year at the end of their four-year term.

23. Non-controlling interest

Group

	Amount *$'000*
At 1 January 2016	(563)
Share of operating profits	140
At 31 December 2016	(423)

On 14 October 2011, Patagonia Gold, PGSA and Fomicruz entered into the Fomicruz Agreement (Note 12). Pursuant to the Fomicruz Agreement, Fomicruz contributed to PGSA the rights to explore and mine approximately 100,000 hectares of Fomicruz's mining properties in Santa Cruz Province in exchange for a 10% equity interest in PGSA.

The fair value of the rights to explore and mine approximately 100,000 hectares has been estimated by management at $4.0 million in accordance with IFRS 2 Share-based Payments. This amount has been recorded as an increase in the equity of PGSA and as mining rights. In the consolidated financial statements, the increase in equity of PGSA has been recorded as non-controlling interest.

The share of operating profits relates to Lomada de Leiva which commenced production in 2013 and Cap-Oeste which commenced production in 2016.

24. Financial instruments

The Group and Company held the following investments in financial assets and financial liabilities:

Financial assets

	Group		*Company*	
	2016 *$'000*	*2015* *$'000*	*2016* *$'000*	*2015* *$'000*
Available-for-sale financial assets	31	7	31	7
Trade and other receivables	2,022	5,221	1	5
Cash and cash equivalents	735	1,694	120	289
	2,788	6,922	152	301

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

24. Financial instruments (continued)
Financial liabilities

	Group		*Company*	
	2016 *$'000*	*2015* *$'000*	*2016* *$'000*	*2015* *$'000*
Financial liabilities measured at amortised cost	35,433	20,625	6,717	4,128

The estimated fair values of the Group and Company's financial instruments approximate the carrying amounts.

Financial instruments measured at fair value

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

The book values of cash and cash equivalents, loans and receivables, bank overdraft and trade and other payables are representative of their fair values due to the short-term nature of the instruments.

Available-for-sale financial assets are listed equity securities denominated in GBP and are publicly traded on the AIM market. Fair values have been determined by reference to their quoted bid prices at the reporting date.

The following table presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

	Level 1 *$'000*	*Level 2* *$'000*	*Level 3* *$'000*	*Total* *$'000*
As at 31 December 2016				
Listed securities	31	—	—	31
As at 31 December 2015				
Listed securities	7	—	—	7

There have been no transfers between Levels 1 and 2 in the reporting periods.

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

24. Financial instruments (continued)

Risks and uncertainties

Capital management

The Group's capital management objectives are:

- to ensure the Group's ability to continue as a going concern;
- to fund projects from raising capital from equity placements rather than long-term borrowings;
- to increase the value of the assets of the business; and
- to provide an adequate return to shareholders in the future when new or existing exploration assets are taken into production.

These objectives will be achieved by maintaining and adding value to existing extraction projects and identifying new exploration projects, adding value to these projects and ultimately taking them through to production and cash flow, either with partners or by the Group's means.

The Group monitors capital on the basis of the carrying amount of equity less cash and cash equivalents as presented on the face of the statement of financial position. Capital for the reporting periods under review is summarised in the consolidated statement of changes in equity.

The Group sets the amount of capital in proportion to its overall financing structure (i.e. equity and financial liabilities). The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders in the future, return capital to shareholders or issue new shares.

Market risk, including commodity price, foreign currency and interest rate risks

Market risk is the risk that changes in market factors, such as commodity prices, will affect the Group's income or the value of its financial instruments.

Gold price

The market price of gold is one of the most significant factors in determining the profitability of the Group's operations. The price of gold is subject to volatile price movements over short periods of time, especially in the current market environment, and is affected by numerous industry and macro-economic factors that are beyond the Group's control. In 2016 the price ranged from $1,077 to $1,366 per ounce, with an average market price of $1,251 per ounce (2015: $1,160 per ounce). The Group's policy is to sell gold at prevailing market prices. No financial instruments have exposure to gold prices.

The table below summarises the impact of changes in the market price on gold. The impact is expressed in terms of the resulting change in the Group's profit after tax for the year or, where applicable, the change in equity. The sensitivities are based on the assumption that the market price changes by 10% with all other variables held constant. The impact of a similar change in silver is not material to the Group's profit after tax.

Gain/loss associated with 10% increase/decrease from year-end price

	2016	*2015*
	$'000	*$'000*
Gold sales	3,004	2,612

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

24. Financial instruments (continued)

Foreign currency risk – The Group undertakes transactions principally in GBP, $ and AR$. While the Group continually monitors its exposure to movements in currency rates, it does not utilise hedging instruments to protect against currency risk.

The presentational currency of the Group is $. The functional currency of Patagonia Gold is GBP. As at 31 December 2016, Patagonia Gold held cash balances denominated in GBP, $ and Canadian dollars ("CAD") and had trade and other payables denominated in GBP, CAD, AUD and $.

The functional currency of PGSA is the AR$. As at 31 December 2016, PGSA held cash balances denominated in AR$, $, CAD and GBP.

The functional currency of Minera Minamalu S.A. ("MMSA") is AR$. As at 31 December 2016, MMSA held cash balances denominated in AR$.

Financial assets and liabilities held by group companies in currencies other than the particular company's functional currency are subject to foreign currency risk. During the year ended 31 December 2016, the GBP/$ exchange rate experienced a fluctuation of 15% from its lowest to highest levels. Based on $ financial assets and liabilities at 31 December 2016 held by companies whose functional currency is other than $, if the $ weakened/strengthened by 15% against the functional currency exchange rate of each Group company at 31 December 2016, and all other variables held constant, this would have the following impact on the Group's net loss for the year:

Foreign currency rate weakened

	2016	*2015*
	$'000	*$'000*
Increase/(decrease) in net profit for the year	877	387

Foreign currency rate strengthened

	2016	*2015*
	$'000	*$'000*
Decrease/(increase) in net profit for the year	1,184	469

The impact of the above analysis on CAD, AUD and AR$ against the functional currency is not material.

The increase or decrease in net loss is determined in the functional currency but disclosed in the presentational currency. Exposures to foreign exchange rates vary during the year throughout the normal course of the Group's business. The above analysis is considered to be representative of the Group's exposure to currency risk.

Interest rate risk – The Group utilises cash deposits at variable rates of interest for short-term periods, depending on cash requirements. The rates are reviewed regularly and the best rate obtained in the context of the Group's needs. The level of finance income does not significantly affect the results of the Group.

Interest earning balances were held in GBP and $. The weighted average interest rate for GBP was 0.13% (2015: 0.20%) and for $ was 0.45% (2015: 0.50%). If interest rates in 2016 had been 10% higher or lower with all other variables held constant, the impact on net profit for the year would not have been material on the finance income recorded during 2016.

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

24. Financial instruments (continued)

Liquidity risk

In common with many exploration companies, the Company raises finance for its exploration and development activities in discrete tranches to finance its activities for limited periods only. Further funding is raised as and when required. The Group's policy continues to be to ensure that it has adequate liquidity by careful management of its working capital. See Note 2 for further details on management's response to managing the Group and Company's working capital.

Credit risk – Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group does not hold collateral as security.

Credit risk from balances with banks and financial institutions is managed by the Directors. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty.

The Directors review counterparty credit limits on a regular basis. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure.

No material exposure is considered to exist by virtue of the possible non-performance of the counterparties to financial instruments.

25. Operating lease commitments

At the balance sheet date, the Group had outstanding annual commitments under non-cancellable operating leases. The totals of future minimum lease payments under non-cancellable operating leases for each of the following periods are:

Group and Company

	2016	*2015*
	$'000	*$'000*
Operating leases which expire:		
Within one year	32	141
Within two to five years	12	—
After five years	—	25
	44	166

The Group has a number of operating lease agreements involving office and warehouse space with maximum terms of three years. No operating lease payments were recognised as an expense within exploration costs in either 2016 or 2015.

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

26. Related parties

During the year, the following transactions were entered into with related parties:

	Notes	2016 $'000	2015 $'000
Landore Resources Limited	(i)	—	30
Cheyenne S.A.	(ii)	11	6
Agropecuaria Cantomi S.A.	(iii)	92	126

(i) In prior periods the Company recharged costs, consisting mainly of accommodation and travel expenses, to Landore Resources Limited ("Landore"). Landore was a related party because William H. Humphries, who was a Director of the Company until June 2015, is a Director and shareholder of that company.

(ii) During the year the Group paid Cheyenne S.A. ("Cheyenne") for the provision of a private plane to facilitate occasional travel to outlying areas for Directors and senior employees. Cheyenne is a related party because Carlos J. Miguens is a Director and shareholder.

(iii) During the year the Group paid to Agropecuaria Cantomi S.A. ("Agropecuaria") for the provision of an office in Buenos Aires. Agropecuaria is a related party because Carlos J. Miguens is a Director and shareholder.

Details of Directors' and key management personnel remuneration are presented in Note 9.

27. Share-based payments charge

The Group operate a share option plan under which certain employees and Directors have been granted options to subscribe for ordinary shares of the Company.

The number and weighted average exercise prices of share options are as follows:

	2016 Weighted average exercise price pence	2016 Weighted average exercise price $	2016 Number of options	2015 Weighted average exercise price pence	2015 Weighted average exercise price $	2015 Number of options
Outstanding at the beginning of the year	13.97	0.207	95,158,000	15.30	0.238	85,383,000
Granted during the year	—	—	—	2.50	0.037	10,000,000
Exercised during the year	—	—	—	—	—	—
Lapsed during the year	11.63	0.143	(1,650,000)	7.72	0.114	(225,000)
Outstanding and exercisable at the end of the year	14.01	0.171	93,508,000	13.97	0.207	95,158,000

Options outstanding at 31 December 2016 have an exercise price in the range of $0.031 (2.5 pence) per option to $0.765 (62.00 pence) per option and a weighted average contractual life of 5.06 years.

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

27. Share-based payments charge (continued)

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes Model. Details of contractual life and assumptions used in the model are disclosed in the table below.

	2016	*2015*
Weighted average share price	2.50p ($0.031)	2.50p ($0.037)
Exercise price	2.50p ($0.031)	2.50p ($0.037)
Expected volatility (expressed as a percentage used in the modelling under Black-Scholes model)	52.00%	52.00%
Dividend yield	nil	nil
Option life (maximum)	10 years	10 years
Risk free interest rate (based on national government bonds)	0.5%	0.5%

The expected volatility is wholly based on the historic volatility (calculated based on the weighted average remaining life of the share options).

All options are equity settled and there are no performance conditions attached to the options.

Amounts expensed for the year from share-based payments are as follows:

	2016 *$'000*	*2015* *$'000*
New options granted in the year	—	97
Part vested options granted in prior periods	67	—
	67	97

The share-based payments charge is a non-cash item.

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

The total number of options over ordinary shares outstanding at 31 December 2016 was as follows:

Date of grant	*Employees entitled*	*No of options*	*Exercise price (pence)*	*Remaining contractual life (years)*
1 March 2007	Employees	75,000	6.875	0.17
23 May 2007	Senior management	200,000	8.0*	0.39
5 June 2007	Director and employees	1,100,000	8.0*	0.43
5 June 2007	Employee	25,000	10.5	0.43
3 June 2008	Director and employees	1,125,000	8.0*	1.42
9 June 2009	Employees	1,175,000	12.0	2.44
23 June 2009	Directors and senior management	17,913,000	12.25	2.48
17 June 2010	Directors and employees	5,850,000	15.00	3.47
1 August 2010	Employee	300,000	15.00	3.59
10 February 2011	Directors	5,500,000	11.00***	4.12
21 February 2011	Senior management	800,000	11.00***	4.15
9 May 2011	Employees	500,000	43.50	4.36
13 May 2011	Directors and senior management	4,400,000	11.00***	4.37
24 May 2011	Senior management	1,000,000	39.00	4.40
10 June 2011	Employees	1,250,000	11.00***	4.45
10 June 2011	Employees	925,000	40.00	4.45
15 August 2011	Employee	200,000	62.00	4.63
1 September 2011	Senior management	500,000	11.00***	4.67
1 November 2011	Directors	750,000	11.00***	4.84
1 November 2011	Directors	750,000	50.25	4.84
6 December 2011	Employee	20,000	54.00	4.94
31 January 2012	Directors	4,500,000	11.00***	5.09
1 July 2012	Senior management	1,500,000	25.00	5.50
3 December 2012	Senior management and employees	3,000,000	22.75	5.93
9 January 2013	Directors	14,500,000**	22.75	6.03
27 February 2013	Senior management	1,000,000	15.50	6.16
12 September 2013	Directors	750,000	11.00	6.70
19 September 2013	Director and senior manager	6,000,000	11.75	6.72
10 October 2013	Employees	900,000	11.75	6.78
25 July 2014	Director and senior management	7,000,000	7.875	7.57
31 March 2015	Senior management	10,000,000	2.50	8.25
		93,508,000		

* On 19 January 2009 the Board of Directors agreed, following a recommendation from the Company's Remuneration Committee and subsequent approval by shareholders at the Company's Annual General Meeting of 9 June 2009, to re-price certain outstanding share options that have been issued to employees who remain within the Group in order to incentivise those individuals and to reflect a more realistic price level given the then current market in the Company's shares. A total of 16,787,000 share options were re-priced to 8p, being a 10% premium to the mid-market price at close of business on 19 January 2009, of which 7,712,000 have not yet been exercised. The fair value of re-priced options is determined using the same assumptions as for new share options issued in the year as presented above.

** On 9 January 2013 14,500,000 share options were awarded pursuant to a Board recommendation of October 2012 and subject to performance criteria, each of which had been met by the year end.

*** On 29 July 2013 the Board of Directors agreed, following approval by shareholders at the General Meeting of the same date, to re-price certain outstanding share options that have been issued to Directors and employees who remain within the Group in order to incentivise those individuals and to reflect a more realistic price level given the then current market in the Company's shares. A total of 17,700,000 share options were re-priced to 11p, being a 10% premium to the 30 day volume weighted average share price of the Company for the period ended 10 July 2013, none of which have yet been exercised.

Notes to the Financial Statements (continued)
for the year ended 31 December 2016

28. Auditor's remuneration

	Group		Company	
	2016 *$'000*	*2015* *$'000*	*2016* *$'000*	*2015* *$'000*
Fees payable for the audit of the Company	87	95	14	14
Fees payable for the audit of the subsidiaries	54	76	—	—
Tax compliance	7	8	7	8
Audit related assurance services	2	3	—	—

Fees paid to Grant Thornton UK LLP and its associates for non-audit services to the Company itself are disclosed above.

29. Financial commitments

Property, plant and equipment

During 2016, the Group entered into purchase commitments totalling $0.7 million (2015: $nil) related to the purchase of heavy duty mining equipment. Commencing upon receipt of shipment, instalments are payable monthly over 18 months.

Barrick Agreement

In March 2011, Patagonia Gold agreed with the Barrick Sellers to amend the original property acquisition agreement regarding the Cap-Oeste, COSE, Manchuria and Lomada gold and silver deposits, whereby the "Back in Right" was exchanged for a 2.5% NSR royalty, effective immediately. The NSR royalty does not apply to the Company's Santa Cruz properties acquired outside the Barrick Agreement, or to those acquired in the Fomicruz Agreement. A liability for potential future NSR payments has not been recognised since the Company is unable to reliably measure such a liability as the project has not yet commenced production and there is no certainty over the timing of potential future production.

A further cash payment of $1.5 million will become payable to Barrick upon the delineation of 200,000 ounces or greater of gold or gold equivalent NI 43-101 Indicated resource on the La Paloma Property Group.

30. Contingent liability

There were no contingent liabilities at either 31 December 2015 or 2016.

31. Subsequent events

There have been no significant subsequent events.

For your notes