PATAGONIA GOLD

Annual Report and Accounts

For the year ended 31 December 2017

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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)*

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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1 Finsbury Circus
London EC2M 7SH

Registrars and Transfer Agents

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Strand Hanson Limited
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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 2017 Annual Report of Patagonia Gold Plc ("Patagonia Gold" or the "Company").

During 2017, Patagonia Gold continued along its path of transformation which commenced with the management changes introduced in 2015. The highlight of the year was our acquisition of the Calcatreu project from Pan American Silver, which completed in January 2018. Given its size and potential, Calcatreu has become the Company's new flagship project. We are all very excited about this acquisition and look forward to advancing the project during 2018 to unleash its considerable exploration potential in order to increase the existing sizeable resource. To date, exploration has only focused on surface outcropping veins. No exploration has been carried out on the deeper vein extensions and other geophysical targets so we have a significant programme ahead of us involving detailed geophysical and geochemical surveys, all of which data will be compiled into a new resource statement ahead of a feasibility study.

In terms of operations, 2017 was another difficult year for Patagonia Gold given the gold and silver recovery problems at Cap-Oeste. However these issues have been resolved by our management team with the installation of an agglomeration circuit. The result is that during the last quarter of the year production from Cap-Oeste ramped up to forecast parameters, and continues to improve into 2018.

In May 2017, the Company completed the sale of the COSE deposit to Pan American Silver for a total consideration of US$15 million. The sale of COSE was an important milestone for the Company as it realized value from a deposit the Company would not otherwise have developed and marked the start of a commercial relationship between Patagonia Gold and Pan American Silver.

In December 2017, we successfully completed a fundraising which allowed us to conclude the acquisition of the Calcatreu project in January 2018. The mining industry worldwide continues to show signs of improvement. Given the current solid and stable prices of gold and silver, together with expectations for improvement in the mining industry in the short and medium term, and the improved perception of Argentina in international markets, Patagonia Gold is in the right place to benefit from these improved conditions. I continue to believe in the potential of the mining industry in Argentina and continue to support the Company as I have done since its inception.

I should like to thank the Board, management and staff for their determined and continuous efforts over the past year, contributing towards the growth of the Company. In addition, I should also like to take this opportunity to express my sincere thanks to our committed shareholders. I believe we now have the asset that can take us on a path to greater prosperity and I look forward to updating you on our progress during the course of the year.

Carlos J. Miguens
Non-Executive Chairman

12 April 2018

Report from the Chief Executive Officer

2017 was a pivotal year for Patagonia Gold with the completion of the acquisition in January 2018 of the potential world class Calcatreu project from Pan American Silver Corp. ("Pan American"), and the turnaround of operations at Cap-Oeste.

Revenues for 2017 amounted to US$31.9 million (2016: US$30.0 million), below forecast owing mainly to lower initial production from the open pit mine at Cap-Oeste. However, the Company recorded net profits of US$8.1 million (2016: US$1.1 million) for 2017 as a result of the disposal of COSE. Excluding this disposal, the Company reported a net loss of US$5.9 million for the year ended 31 December 2017.

Cap-Oeste's production for 2017 was 20,088 oz AuEq produced, of which 18,845 oz AuEq were sold in the period at an average gross price of $1,258 per oz, generating revenues of $23.9 million.

Forecast production from Cap-Oeste is expected to be approximately 59,083 oz AuEq and 6,267 oz AuEq in each of 2018 and 2019 respectively, in line with previous guidance.

As anticipated, Cap-Oeste will continue providing 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. Subsequent to year-end, short-term debt levels were reduced by US$3.6 million.

The Company continues to review alternatives for development of the high grade ore at Cap Oeste, including the development of an underground mine as well as progressing negotiations with interested third parties.

As previously announced, although mining activities at Lomada gold mine ceased in May 2016, gold continued to be recovered through the ongoing irrigation of the heap leach pad. Total production at Lomada in 2017 was 5,917 oz Au (2016: 22,770 oz Au). A total of 6,337 oz Au (2016: 23,387 oz AU) were sold at an average gross price of $1,257 per ounce (2016: $1,236 per ounce), generating revenues of $8.0 million (2016: 28.6 million), which were above management's expectations. In November 2017 production at Lomada ceased, and is scheduled to return in the middle of 2018 to crush the existing ore on the heap leach and place under irrigation.

In December 2017, with continued support from our existing shareholders, the Company successfully concluded a $10.17 million fundraising to finance the acquisition of the Calcatreu Deposit. On 22 December 2017, the Company signed the Definitive Agreement to acquire all the shares of Minera Aquiline Argentina which owns 100% of the Calcatreu Deposit, from Pan American, for a total consideration of US$15 million. Patagonia Gold made the initial payment of US$5 million on legal completion of the acquisition on 31 January 2018, with the balance of US$10 million falling due on 18 May 2018.

The Calcatreu Deposit adds a near one million ounce resource project to the portfolio of the Company presenting not only a new opportunity for Patagonia Gold to develop and produce from an asset with a potential mine life of over five years, but also one which will enable the Company to diversify its regional operations and its risk profile.

The Company completed the disposal of its COSE gold mine on 31 May 2017 to a subsidiary of Pan American for a total consideration of US$15 million, of which US$7.5 million was paid on 31 May 2017, and US$7.5 million is deferred to 31 May 2018, plus a 1.5% Net Smelter Return royalty. Given the capital that would have been required to develop the COSE underground mine and the clear processing synergies for Pan American, the disposal of COSE was in the best interests of the Company and provides Patagonia Gold with an opportunity to reduce its net debt position.

The Company continues to target operating efficiencies and during 2017 the measures previously adopted continued to achieve cost reductions. 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 for investment in the exploration and development of its projects.

Report from the Chief Executive Officer (continued)

Exploration continues to be a key aspect of the business and the Company has tested several of the projects in its property portfolio, including Sarita and Manchuria in Santa Cruz, Argentina, and San José in Uruguay. Further exploration works are planned on these projects once cash becomes available from Cap-Oeste.

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. 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.

In addition to the usual business to be dealt with at the Annual General Meeting this year, the Company will also be seeking shareholder approval for a capital reorganisation ("Capital Reorganisation"), comprising a consolidation and sub-division of the Company's ordinary shares. The Directors believe that the Capital Reorganisation is necessary to improve the marketability of the Company's ordinary shares by creating a higher trading price per ordinary share, which is expected to reduce volatility in the share price. Accordingly, a consolidation of every 100 existing ordinary shares into one new consolidated ordinary share is proposed. Further details are set out in a circular containing the notice of AGM, to be sent out together with the Annual Report.

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

12 April 2018

Operations Report

The following is a summary of the Company's operations, together with an update on exploration activities for the year 2017.

Company's Properties

The agglomeration circuit at Cap-Oeste was completed during Q3 and has been operating at full capacity since early Q4, A total of 750,000 t @ 2.15 g/t Au and 74 g/t Ag were mined from the Cap-Oeste pit during 2017, and of this material 220,000 t @ 3.06 g/t Au and 98.6 g/t Ag for 32,686 AuEq ounces has been crushed and agglomerated to the end of December 2017 with total gold equivalent production reaching 20,088 oz AuEq for the year. January 2018 has seen a marked improvement in production levels with record monthly production of 3,646 oz AuEq registered for Cap-Oeste with February on target to exceed 4,200 oz AuEq.

Engineering design and the acquisition of a second crushing and mixing circuit is now well underway with all major components purchased and in transit, or being refurbished. This circuit will be installed in Cap-Oeste in late Q2 with the objective of retreating approximately 800,000 t of ore previously stacked before the agglomeration circuit was installed and operational. Due to the high moisture content and considerable clay content, a specialised roll crusher circuit has been sourced to enable this wet material to be treated without blocking the crushing equipment. It is estimated that approximately 15,000 ounces of AuEq metal is still available to be recovered from this ore due to the poor initial recovery obtained from the ROM leaching cycle. Production is scheduled to begin in the middle of 2018.

The purchase of the Calcatreu deposit from Minera Aquiline (Pan American Silver) was completed on January 31 2018 and work has already commenced on the ground with a comprehensive Induced Polarisation study underway. The project has an existing combined Indicated and Inferred resource of in excess of 1Moz of AuEq contained. The resource model was calculated and reported in 2008 at significantly lower gold and silver prices and for this reason the Company has contracted CUBE Consulting to re-run the resource model and update the geological interpretation utilising prevailing metal prices. The update was completed and released on March 26, 2018.

To date, only outcropping vein mineralisation has been systematically drill tested at the Calcatreu project leaving the 8 km structural corridor significantly underexplored. Calcatreu will become the main focus of the Company during 2018 with the objective of increasing the existing resource base through intensive exploration and advancing a feasibility study and preliminary engineering studies by year end.

The Lomada project continued to produce from the heaped stockpiles in 2017 with a total of 6,337 Oz of Au sold during 2017. The mine as previously stated is not in operation and little to no exploration has been completed during 2017. A trial re-crushing programme is scheduled to begin in May 2018 where a package of the higher grade ROM material will be re-crushed and leached to ascertain whether it is viable to re-crush the entire 2Mt stockpile.

The La Manchuria property block is located approximately 50 kilometres to the southeast of the El Tranquilo property block and hosts the La Manchuria Project. A number of options are currently being evaluated to advance the Manchuria and Sarita projects including a joint venture or developing in an agreement with a third party.

Exploration continues on the Uruguay properties with geophysics and soil geochemistry and rock chip sampling continuing across the tenements, additional drilling is programmed for 2018 with Carreta Quemada the first target to be tested.

Operations Report (continued)

The JORC Code compliant resources delineated as at 31 December 2017 (COSE removed) are listed in the table below:

Gross Resources (PGSA-Fomicruz)

Measured Resources

Area Name	*Measured Tonnes*	*Grade (g/t) Au*	*Ag*	*AuEq*	*Metal (oz) Au*	*Ag*	*AuEq*[2]
Cap-Oeste[3]	1,914,000	2.89	47.84	3.58	178,000	2,944,000	220,000
Total Measured	**1,914,000**	**2.89**	**47.84**	**3.58**	**178,000**	**2,944,000**	**220,000**

Indicated Resources

Area Name	*Indicated Tonnes*	*Grade (g/t) Au*	*Ag*	*AuEq*	*Metal (oz) Au*	*Ag*	*AuEq*[2]
Calcatreu[3]	8,816,000	2.43	23.78	2.75	690,000	6,740,000	778,000
La Manchuria	425,705	2.95	135	4.07	40,380	1,848,211	55,684
Cap-Oeste[3]	10,555,741	2.07	62.85	2.97	701,842	21,330,265	1,009,008
Lomada[1]	4,000,465	0.48	NA	NA	61,919	NA	61,919
Total Indicated	**23,797,911**	**1.95**	**39.10**	**2.49**	**1,494,141**	**29,918,476**	**1,904,611**

Inferred Resources

Area Name	*Inferred Tonnes*	*Grade (g/t) Au*	*Ag*	*AuEq*	*Metal (oz) Au*	*Ag*	*AuEq*[2]
Calcatreu[3]	7,571,000	1.41	14.12	1.59	343,000	3,438,000	388,000
La Manchuria	1,469,020	1.53	49.4	1.92	72,335	2,335,236	90,682
Cap-Oeste[3]	4,894,752	1.37	34.74	1.87	215,396	5,466,624	294,126
Lomada[1]	3,412,270	0.672	NA	NA	73,726	NA	73,726
Total Inferred	**17,347,042**	**1.26**	**20.15**	**1.52**	**704,457**	**11,239,860**	**846,534**

Net Attributable Resources (PGSA)

Measured Resources

Area Name	*Measured Tonnes*	*Grade (g/t) Au*	*Ag*	*AuEq*	*Metal (oz) Au*	*Ag*	*AuEq*[2]
Cap-Oeste[3]	1,723,000	2.89	47.84	3.58	160,000	2,649,000	198,000
Total Measured	**1,723,000**	**2.89**	**47.84**	**3.58**	**160,000**	**2,649,000**	**198,000**

Indicated Resources

Area Name	*Indicated Tonnes*	*Grade (g/t) Au*	*Ag*	*AuEq*	*Metal (oz) Au*	*Ag*	*AuEq*[2]
Calcatreu[3]	8,816,000	2.43	23.78	2.75	690,000	6,740,000	778,000
La Manchuria	383,135	2.95	135	4.07	36,342	1,663,390	50,116
Cap-Oeste[3]	9,500,167	2.07	62.85	2.97	631,658	19,197,239	908,108
Lomada[1]	3,600,419	0.48	NA	NA	55,727	NA	55,727
Total Indicated	**22,299,721**	**1.97**	**38.50**	**2.50**	**1,413,727**	**27,600,629**	**1,791,951**

Operations Report (continued)

Inferred Resources

Area Name	*Inferred Tonnes*	*Grade (g/t) Au*	*Ag*	*AuEq*	*Metal (oz) Au*	*Ag*	*AuEq*[2]
Calcatreu[3]	7,571,000	1.41	14.12	1.59	343,000	3,438,000	388,000
La Manchuria	1,322,118	1.53	49.4	1.92	65,102	2,101,712	81,614
Cap-Oeste[3]	4,405,277	1.37	34.74	1.87	193,857	4,919,962	264,714
Lomada[1]	3,071,043	0.672	NA	NA	66,353	NA	66,353
Total Inferred	**16,369,438**	**1.27**	**19.87**	**1.52**	**668,312**	**10,459,674**	**800,681**

[1] *Lomada resource has not been depleted during 2017 to take account of production during the period.*

[2] *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*

[3] *Cap-Oeste resources have been depleted for mining up to the end of December 2017*

[#] *COSE resource removed due to disposal*

[#] *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.*

Argentina

Cap-Oeste Project

The Cap-Oeste Project is located within a structural corridor extending six kilometres 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 kilometres.

The agglomeration circuit at Cap-Oeste was completed during Q3 and has been operating at full capacity since early Q4, A total of 750,000 t @ 2.15g/t Au and 74 g/t Ag were mined from the Cap-Oeste pit during 2017, of this material 220,000 t @ 3.06 g/t Au and 98.6 g/t Ag for 32,686 AuEq ounces has been crushed and agglomerated to the end of December 2017 with total gold equivalent production reaching 20,088 oz AuEq for the year. January 2018 has seen a marked improvement in production levels with record monthly production of 3,646 oz AuEq registered for Cap-Oeste with February on target to exceed 4,200 oz AuEq.

Engineering design and the acquisition of a second crushing and mixing circuit is now well underway with all major components purchased and in transit, or being refurbished. This circuit will be installed in Cap-Oeste in late Q2 with the objective of retreating approximately 800,000 t of ore previously stacked before the agglomeration circuit was installed and operational. Due to the high moisture content and considerable clay content a specialised roll crusher circuit has been sourced to enable this wet material to be treated without blocking the crushing equipment. It is estimated that approximately 15,000 ounces of AuEq metal is still available to be recovered from this ore due to the poor initial recovery obtained from the ROM leaching cycle. Production is scheduled to begin in the middle of 2018.

Cap Oeste contains a high grade resource with approximately 300,000 ounces at 20 g/t Au Eq below the base of the existing pit. Once the open pit has been finalized it will be possible to access these resources by means of an underground mine from the bottom of the open pit. Alternatives to extract value from this high grade deposit are being reviewed.

Calcatreu Project

Calcatreu is located in the province of Rio Negro approximately 80 km south west of the small town of Igeniero Jacobacci. The project was previously explored and drilled up to 2007 by Minera Aquiline before being sold to Pan American Silver. No systematic exploration has been carried out at the project since this date and Patagonia Gold sees good potential to expand and develop the already significant resources located at the project.

Operations Report (continued)

The purchase of the Calcatreu project from Minera Aquiline (Pan American Silver) was completed on January 31 2018 and work has already commenced on the ground with a comprehensive Induced Polarisation study underway. A total of 27 line kilometres of IP geophysics is programmed with the first results due by the end of May after which drill programmes will be designed and commenced and a total of 8000 m has been budgeted for 2018 season. To date, only exposed or outcropping veins were drill tested leaving approximately 8km of the main structural corridor significantly underexplored by modern exploration techniques.

Two visits were made to Rio Negro, to review geology and drill core at the Calcatreu project. There appears to be good potential to increase the resource at the project due to the limited level of exploration completed to date.

As the last reported NI43-101 compliant resource model was reported by MICON International in February of 2008 with prevailing metal prices of $650/oz Au and $12.50/oz Ag, the Company commissioned CUBE Consulting from Perth Australia to complete an updated independent 43-101 compliant resource model utilising current metal prices. As per the RNS dated 26th March 2018 the updated resource model is tabled below:

Indicated Resources

		Grade (g/t)			Contained Metal (oz)		
Zone	*kTonnes*	*Au*	*Ag*	*Au_equ*	*Au*	*Ag*	*Au_equ*[1]
Vein 49	5,688	2.9	26.8	3.2	528	4,893	592
Nelson	1,400	1.6	18.6	1.9	74	839	85
Belen	—	—	—	—	—	—	—
Castro Sur	1,728	1.6	18.1	1.8	88	1,008	101
Total-Indicated	**8,816**	**2.4**	**23.8**	**2.8**	**690**	**6,740**	**778**

Inferred Resources

		Grade (g/t)			Contained Metal (oz)		
Zone	*kTonnes*	*Au*	*Ag*	*Au_equ*	*Au*	*Ag*	*Au_equ*[1]
Vein 49	2,198	1.8	17	2	128	1,201	144
Nelson	1,477	1.5	15.5	1.7	70	736	80
Belen	681	1.6	22.1	1.9	35	483	41
Castro Sur	3,215	1.1	9.8	1.2	110	1,018	123
Total-Inferred	**7,571**	**1.4**	**14.1**	**1.6**	**343**	**3,438**	**388**

[1] *AuEq calculations were carried out using a 76.5:1 Ag:Au ratio*

A full reinterpretation and analysis of all available drill data and existing geological modelling data was undertaken resulting in an overall increase to 1.17 Moz contained AuEq with approximately 130 koz increased in the inferred resource category.

Currently a geophysics team is on the ground and is undertaking the first IP programme along strike from Vein 49 which hosts the majority of the existing published resources; this programme is expected to be completed within the next 2 months with a drill programme to be designed and implemented upon receiving results.

Operations Report (continued)

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 continued to produce with 5,917 oz of gold recovered in 2017 before production stopped in November. A trial re-crushing programme is scheduled to begin in May 2018 where a package of the higher grade ROM material will be re-crushed and leached to ascertain whether it is viable to re-crush the entire 2 Mt stockpile currently stacked at the Lomada heap leach facility. The cost of reprocessing the material is estimated at approximately $4/t, with the crushing and mining equipment required to be relocated from Cap-Oeste circuit. Further updates will be provided once the results of the first re-crushing trial are available.

La Manchuria Project and Sarita projects

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.

In excess of 23.6 line kilometres of IP geophysics have been completed at the Sarita area with several high priority targets identified and drill ready for testing before year end.

Exploration Update Argentina and Uruguay

Exploration during 2017 consisted mainly of regional reconnaissance, geological mapping, trenching, sampling and exploration geophysics carried out at Santa Cruz and Uruguay. The geophysical surveys were Ground Magnetics and Pole-Dipole. Exploration in Argentina has been concentrated at La Manchuria and Sarita. Follow up geophysics and geochemical rock chip and soil programmes have also been completed on the Carreta Quemada and Chamizo projects in Uruguay. Drill targets have been identified at Carreta Quemada. Initial investigations are underway now at Calcatreu with the objective of delineating a drill target in the short term.

Summary table of exploration statistics for 2017

			Volume	
Activity	*Unit*	*Santa Cruz – Argentina*	*San Jose – Uruguay*	*Río Negro*
Stream Sediment Geochemistry	Samples	—	36	—
Soil Geochemistry	Samples	11	73	—
Rock Chip Sampling	Samples	246	80	78
Ground Magnetics	Line-km	1,140.85	928.8	—
Gradient Array IP	Line-km	—	—	—
Pole-Dipole IP	Line-km	45.565	30.775	—
Sawn Channels	metres	15.1	—	—
Sawn Channels	Samples	11	—	—
Trenching	metres	2,649.8	638	—
Trenching	Samples	428	377	—
RAB Drilling	metres	—	—	—
RC Drilling	metres	—	—	—
Diamond Drilling	metres	—	—	—

Table 1. Summary of exploration works completed during 2017

Operations Report (continued)

La Paloma Project

Cerro Vasco

A wide spaced pole-dipole IP survey (13.2 line-km) was completed over the Cerro Vasco prospect, located in the northern part of La Paloma block, approximately 18 km west of the Cerro Negro deposit. Widespread alteration, intense silicification and auriferous veining has been identified within the approximately 25 km^2 prospect area. The IP survey identified many potential drill targets. A soil geochemistry orientation survey was completed.

La Manchuria Project

At La Manchuria project, a detailed pole-dipole induced polarisation (IP) survey was completed over approximately 3 km^2 centred on the known low sulphidation epithermal mineralisation. The geophysical surveys revealed multiple targets in La Manchuria area, with many targets identified through the 3D IP modelled data.

The trenching programme designed to test IP anomalies intersected several structures including quartz veining. Results shows anomalous Au-Ag mineralisation in low-temperature quartz veins, justifying drill testing at depth. Best intercept from trenching in Stefania target resulted in 3.65 m @ 1.24 Au g/t and 21 Ag g/t.

Sarita Project

Extensive ground magnetic and pole-dipole IP geophysical surveys (23.6 line-km) have been completed at the Sarita project, located approximately 10 km NW of Hunt Mining's Mina Martha Ag-Au mine. The project hosts a widespread system of banded low sulphidation Au-Ag veins, encompassing a small rhyolitic dome complex.

Pole-Dipole IP survey indicated a complex environment, but some immediate drill targets are apparent. Detailed review and field checking of the Sarita IP data revealed evidence of previously unrecognised veins. Results received for trench samples show anomalous Au-Ag values up to 2.57 ppm Au and 138 ppm Ag. A drilling proposal has been prepared and is ready for drilling.

Las Lajas

Bajo Pellegrini Project

Mapping, sampling and ground magnetic survey commenced during 2017 after a 5-year hiatus. Rock-chip samples identified an area of interest at the intersection of 2 major structures. The ground magnetic survey shows numerous structures not evident in the field and reveals promising structures at the eastern part of the study area.

San José Project (Uruguay)

The Carreta Quemada properties cover an area of 388 km^2, and Chamizo covers an area of 70 km^2. Both are located on the San José Greenstone Belt within the early Proterozoic Piedra Alta Terrane, approximately 100 kilometres from Montevideo. The previously completed exploration programmes by the Company have identified a number of drill targets.

Chamizo – Zona 13

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

Operations Report (continued)

breccias reflecting both brittle and ductile deformation. Quartz occurs as stringers, porphyroblasts and breccia clasts.

Pole-Dipole IP survey suggest an apparent extension of Tambo Viejo Shear to the west, at least 2.5 km west of Zona 13.

Chamizo – Zona 15 The prospect is defined by a strong, 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. Soil geochemical sample pulps (for ICP assay) intended to outline shear zone on basis of pathfinder elements, indicated moderate associated anomalism.

Carreta Quemada

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. In this area, Pole-Dipole lines show strong anomalies closely associated with soil geochemical anomalies. The best result from trenching at Carreta Quemada are of 40 m at 1.19 ppm Au, including 2 m at 16.2 ppm Au. A drilling programme is planned.

Rock chip sampling at Cobre del Zone reveals basalt hosted disseminated Cu mineralisation possibly related to VMS style mineralisation (base metal values to 0.59% Cu and >1.0% Zn). Tala ground mag survey indicates a probable extension to Carreta Quemada shear zone.

Nueva Helvecia and Colla Prospects

Nueva Helvecia

Panned concentrate sampling at Nueva Helvecia revealed coarse angular gold to ~2 mm. The stream sediment sampling returned 150 ppm Au.

A ground magnetic survey indicates a NW-SE oriented shear zone coincident with elevated Au in rock-chips. The survey extended to cover quartz vein with visible Au.

Strong N-S lineament has been defined. Mapping has identified a 800 m cataclasite zone that is a possible source of coarse gold in stream sediments samples. Soil geochemistry reports a 180 ppb sample on a N-S magnetic lineament. High grade gold, to 69.4 ppm Au, has been reported from a quartz vein at north of Nueva Helvecia prospect, close to prominent N-S magnetic lineament.

Colla

Pole-Dipole IP lines revealed a coherent strong chargeability anomaly directly beneath a 1 m^2 outcrop grading 14.7 ppm Au.

Trenching (Trench COATR-002) returns 8 m at 1.93 ppm Au. Panned concentrate sampling reports up to 32 visible Au grains in single sample.

Ground magnetic and IP surveys at Colla prospect confirmed a 2.2 km long anomalous corridor coincident with known mineralisation. Drilling is required.

Matthew Boyes
Chief Operations Officer

12 April 2018

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 page 5 and 6, and the Operations Report on pages 7 to 13, which are incorporated in this report by reference.

Review of the year

Revenue for the year totalled $31.9 million up from $30.0 million in 2016 due to increased production at Lomada, Cap Oeste starting up and an improvement in the gold price received.

The increase in Cost of Sales to $16.7 million from $14.9 million in 2016 was largely due to the higher costs of Cap-Oeste owing to the recovery problems.

Administrative costs were also increased to $14.0 million from $8.7 million as detailed in Note 8.

Exploration costs for the year were $2.6 million, up from $2.3 million in 2016 while the programme of works was unchanged primarily as a result of no drilling undertaken.

While Lomada continued to perform well during 2017 with production exceeding forecasts, the operations at Cap Oeste were challenging due to lower than expected recoveries due to the high clay content in the ore. The agglomeration circuit was successfully commissioned and during the last quarter production started to increase to design levels.

In April 2017, the Company executed an agreement with Pan American Silver to acquire the Calcatreu project in Rio Negro. After conducting due diligence the Company exercised its option to acquire the project and entered into a Definitive Agreement on 22 December 2017. The transaction was completed on 31 January 2018.

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.

The acquisition of the Calcatreu project was a turning point for the Company as it incorporated a potential world class asset with near one million ounces of resources.

Patagonia Gold's growth strategy includes the following:

- The main focus for the Company going forward will be the exploration of Calcatreu to prove up additional ounces and take the project through to Feasibility Study.
- Operations at Cap Oeste will continue to optimise and generate cash flow to meet the Company's debt obligations and fund exploration activity
- The Company is evaluating the possibility of returning to Lomada de Leiva to crush the ore on the existing pad and put it under irrigation to recover remaining gold ounces that have not been exposed to leaching. It is estimated that a total of 12,000 ounces Au may be recovered.
- As cash flow becomes available from Cap Oeste, the Company will continue its exploration activities at its other main projects, Sarita and Manchuria in Argentina and San Jose in Uruguay.

Strategic Report (continued)

- The Company remains optimistic of possible changes in the legislation in Chubut that may lead to a zoning law where mining may be allowed. If this were to proceed the Company would be in a position to return to the Province and resume exploration activities that were paralysed when the ban of mining was introduced with the Law 5001 of 8 May 2003.
- 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 the key risks that face the Group:

Financing

The debt level of the Company of $27.6 million (2016: $26.2 million) as at 31 December 2017 was high. With the improved production levels at Cap Oeste, the Company has started to reduce its debt levels and it is expected that the debt will continue to be reduced during the year by approximately $18 million. The sale of COSE to Pan American Silver in May 2017 contributed towards the debt reduction. On 31 May 2018, the Company is due to receive the balance of $7.5 million from the sale of COSE. The Company continues to review 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 will meet its financial commitments and reduce its existing debt levels.

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

The Company's main focus 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 acquisition of the Calcatreu project has mitigated the inherent risk of exploration by acquiring ounces at a price per ounce which is lower than the cost of finding ounces by exploration. The Company believes there is significant upside potential at Calcatreu and during the coming year will be engaged in exploration activities at Calcatreu with the aim of increasing the existing identified resources.

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.

Currency

Although the currency risk diminished in December 2015 when the peso was devalued by approximately 40% and exchange controls were lifted, the exchange rate over the last couple of years has not followed the inflation levels and hence there has been a real increase in costs attributable to inflation in local currency.

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 permits for the existing operations are in place. During 2018, the Company will seek environmental permits to advance its exploration activities at Calcatreu.

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 focused 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 five qualified and experienced personnel. During the year 2017, the Lost Time Injury Frequency Rate for the Company was 37.09 (2016: 28.38), the Lost Time Injury Incidence Rate was 52.5 (2016: 42.76) and the Medical Treatment Injury Frequency Rate was 0.371% per man/worked day (2016: 0.298%). The 2017 statistics are higher than those of the previous year due to the construction of the Cap Oeste project during the year, and the introduction and rotation of new employees. The Company is committed to improving its safety record year on year.

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

– Operations: In 2017 Lomada produced 5,917 oz Au which was 175% above budget. Production at Cap Oeste of 20,088 oz AuEq was significantly below forecast due to recovery issues which have been addressed with the introduction of an agglomeration circuit. Production for 2018 is expected to be 59,083 ounces AuEq.

– Human Resource Management: the headcount at the end of 2017 was 212 employees 1% lower than 2016. 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 between 0.85%pence and 2.23 during the year. The closing mid-market price of the Company's ordinary shares on 31 December 2017 was 1.18 pence (31 December 2016: 2.10).
- 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. The mining targets for both ore and waste were below forecast due to low equipment availability due to repeated breakages as a result of an ageing fleet and delays in sourcing spare parts.
- Gold Production: Combined gold production for 2017 from Lomada and Cap-Oeste was 26,005 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 was commissioned in Q3 2017 and during Q4 production started increasing to design levels. Material which was stacked and irrigated will be removed, crushed, agglomerated and placed on the pad again to recover the remaining gold and silver that was previously not recovered due to the percolation issues.
- Exploration Expenditure: During 2017 only minimum exploration work was carried out at the Company's main projects, Manchuria and Sarita in Argentina and San Jose Uruguay. All three projects are drill ready and when funds become available from Cap Oeste the Company will undertake limited drilling campaigns at these projects. Following the purchase of Calcatreu the Company will undertake a comprehensive exploration programme primarily consisting of mapping, geochemistry and geophysics with a view to developing a drill programme to be executed in Q4 2018.
- Working Capital: At 31 December 2017, working capital netted to $2.2 million, an improvement of $16.7 million from the 31 December 2016 working capital of $(14.5) million. This was due to there being $0.5 million more cash on hand, an $11.9 million increase in inventory, a $7.3 million increase in short-term loans plus a $12.6 million increase in trade and other receivables, offset by a $1.1 million increase in trade and other payables.

All significant information is detailed in the Operations Report on pages 7 to 13 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 67.

Strategic Report (continued)

Subsidiary companies

Details of the Company's subsidiaries can be found in Note 15 to the financial statements on page 61.

Further information

Further information can be found in the Report of the Directors on pages 20 to 24.

On behalf of the Board of Directors

Christopher van Tienhoven
Executive Director

12 April 2018

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 2017. 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 November 2020 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 continued to produce gold at approximately 15 ounces per day until November 2017 when production was suspended. The Company has evaluated the possibility and decided to return to Lomada to crush the ore and place it under irrigation to recover remaining ounces. The Company expects to recover approximately 12,000 ounces during a period of 12 – 18 months.

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 were lower than anticipated and the Company installed an agglomeration circuit to improve recovery rates. The agglomeration circuit was commissioned in September 2017 and subsequently production has started to increase to design levels. Although the production for 2017 was significantly below target, Directors are confident that with the increase in production during the Q4 2017, the recovery problems are resolved and that the Company will meet the production target of 2018 of 59,083 oz AuEq. From the expected cash flow generated from Cap Oeste the Company is confident that it will meet its obligations and lower the Company's debt position while at the same time enabling it to continue with its exploration activities. The Company continues to evaluate the alternatives for the development of Cap-Oeste sulphide resources by means of an underground operation which would be financed through internal cash flow, supplier credit and other project financing alternatives.

In May 2017, the Company sold the COSE deposit to Pan American Silver for US$15 million plus a 1.5% royalty. The Company received US$7.5 million upon closing the transaction and the remaining US$7.5 million is due upon start of commercial production or within 12 months of closing whichever occurs sooner. The initial US$7.5 million received in May 2017 was used to reduce the Company's debt position. Given the existing resources the royalty on the COSE deposit represents approximately US$2 million in revenue for the Company at current metal prices expected for Q4 2018. This revenue will further assist the Company in reducing its debt position.

Report of the Directors (continued)

In April 2017 the Company entered into an option to acquire the Calcatreu project from Pan American Silver for US$15 million. In December 2017 the Company exercised the option and entered into a Definitive Agreement to acquire the project. In terms of the agreement the Company would need to make a payment of US$5 million upon closing and US$10 million on 18 May 2018. On 21 November 2017 the Company announced a subscription and open offer to raise US$10.4 million to secure the funds to pay for the upfront payment of Calcatreu and advance the project. Payment of the second instalment will be made from cash flow generated from Cap Oeste.

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.

Share capital

On 7 December 2017, the Company issued 775,725,279 new ordinary shares of 1 pence each at a price of 1 pence per share raising $10.4 million (£7,8 million) under the terms of the Subscription and Open Offer dated 21 November 2017. The proceeds of the Subscription are included in share capital. The cost of the placement of $0.23 million (£0.17 million) are included in share premium.

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 page 5 and 6, and in the Operations Report on pages 7 to 13, also see note 31 to the financial statements.

Future developments

Planned future developments are outlined in the Report of the CEO on page 5 and 6 and in the Operations Report on pages 7 to 13.

Dividends

The Directors do not recommend the payment of a dividend (2016: $nil).

Substantial shareholdings

In addition to the interest of Carlos J. Miguens disclosed below, at 12 April 2018, 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	1,274,121,151	53.91
Arconas International Limited	162,513,246	6.88

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:	*12 April 2018*	*31 December 2017*	*31 December 2016*
Carlos J. Miguens	1,274,121,151	1,274,121,151	592,240,677
Gonzalo Tanoira	17,402,733	17,402,733	17,402,733
Christopher van Tienhoven	2,329,075	2,329,075	2,329,075
Manuel de Prado	4,035,660	4,035,660	4,035,660

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 $15,462 (2016: $58,950) for his services as Director and Chairman;
- to Gonzalo Tanoira $15,462 (2016: $58,950) for his services as Director;
- to Christopher van Tienhoven $240,139 (2016: $182,232) for his services as Director and CEO;
- to Manuel de Prado $15,462 (2016: $28,459) for his services as Director;

Of the above, $129,261 remained unpaid at the year-end.

Christopher van Tienhoven received a bonus of $125,000 during 2017 ($62,500 remained unpaid at the year-end). No other Director received any bonus or benefits-in-kind in 2017 or 2016.

During 2017 a total of 30 million options at 1 pence were awarded to Directors as per the schedule below as an incentive.

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

At 31 December 2017, 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
CJ Miguens	18 December 2017	1.00p	5,000,000	17 December 2018	17 December 2027
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
G Tanoira	18 December 2017	1.00p	5,000,000	17 December 2018	17 December 2027
C van Tienhoven	31 March 2015	2.50p	10,000,000	31 March 2015	30 March 2025
C van Tienhoven	18 December 2017	1.00p	15,000,000	17 December 2018	17 December 2027
M de Prado	12 September 2013	11.00p	750,000	12 September 2013	11 September 2023
M de Prado	18 December 2017	1.00p	5,000,000	17 December 2018	17 December 2027

Report of the Directors (continued)

The Company's ordinary shares are traded on AIM and the GBP market price of those shares ranged between 0.85 pence and 2.23 pence during the year. The closing mid-market price of the Company's ordinary shares on 31 December 2017 was 1.18 pence (31 December 2016: 2.10 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 J. 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.

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 9 May 2018 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 attached 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 9 May 2018.

By Order of the Board

Christopher van Tienhoven
Executive Director

12 April 2018

Directors' Responsibility Statement

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. 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 judgements 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

Opinion

Our opinion on the group financial statements is unmodified

We have audited the group financial statements of Patagonia Gold plc for the year ended 31 December 2017 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in Note 1 to the group 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 give a true and fair view of the consolidated financial position of the group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRSs as issued by the IASB.

Basis for opinion

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

Who we are reporting to

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.

Independent auditor's report (continued)

to the members of Patagonia Gold Plc

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the group financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

- Overall materiality: $794,000 which represents 2.5% of the Group's preliminary total revenues;
- Key audit matters were identified as the accounting of both the acquisition of Calcatreu and disposal of the Cap-Oeste sur Este mining asset (COSE) and going concern.
- We performed a full scope audit of the financial information of the Buenos Aire office in respect of the group consolidation, which covers 100% of revenue. There were no key changes in scope from the prior year.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the group financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How the matter was addressed in the audit
Accounting of the acquisition of Calcatreu and disposal of Cap-Oeste Sur Este mine (COSE) During the period the group formalised its intention to acquire the Calcatreu deposit and also disposed of its COSE project. We therefore identified valuation of financial instruments as a significant risk, as there was a risk that the agreements held embedded derivatives that had not been accounted for correctly which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • The option agreement with Pan American Silver in respect of the Calcatreu acquisition was obtained and read and considered to ensure appropriate treatment and timing in accordance with IFRS 3. • We corroborated the sale of COSE to supporting documentation such as the Sale Purchase Agreement (SPA) and agreed the accounting treatment for the disposal of the COSE project and confirmed that the disclosure requirements were adhered to.

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

Key Audit Matters	How the matter was addressed in the audit
	• For both the sale and acquisition we obtained all the relevant information from the SPAs to be able to agree with management's view that there were no embedded derivatives and confirm appropriate treatment in accordance with IAS 39. The group's accounting policy on financial instruments is shown in note 3 to the financial statements. **Key observations** We are satisfied that the acquisition of Calcatreu has been appropriately treated as a non-adjusting post balance sheet event in accordance with IFRS 3 – Business combinations. There were no issues arising in respect of the disposal of the COSE mining asset.
Going Concern The financial statements are prepared on a going concern basis in accordance with International Accounting Standard (IAS) 1 'Presentation of Financial Statements', under the going concern concept, it is assumed that the group will continue in operation and that there is neither the intention or the need to liquidate the business or to cease trading. This is considered a risk as the Group continues to require finance for ongoing exploration and the Life of Mine Plan Cap-Oeste is less than 2 years. Going Concern was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • We challenged management's cash flow model covering the business for the next five years, performing sensitivity analysis and where appropriate verifying key judgments to workings or external information. • We confirmed the life of mine plans and associated documentation relevant to the going concern assumption and in line with management's cash flow forecasts. • Performance of sensitivity analysis on the assumptions included within the forecast. • We matched actual results compared to management's forecast for the year ended 31 December 2017. • We discussed with management and the Audit Committee, the director's plans for future actions in relation to its going concern assessment, taking into account any relevant events subsequent to the balance sheet date. The group's accounting policy on going concern is shown in note 2 to the financial statements. **Key observations** We have not identified any conditions or events that indicate that the directors' use of the going concern basis of accounting in the preparation of the group financial statements is not appropriate.

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

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

We determined materiality for the audit of the group financial statements as a whole to be $794,000 which is 2.5% of preliminary total revenues. This benchmark is considered the most appropriate because revenues are fundamental to shareholder return and working capital, two key performance indicators which are closely monitored.

We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality for the audit of the group financial statements.

We determined the threshold at which we will communicate misstatements to the audit committee to be $40,000. In addition, we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

The overall approach to the group audit included the group audit team performing a full score audit of the financial information of the Buenos Aires head office, in respect of the parent company and the group consolidation, which covers 100% of revenue. Specified audit procedures were performed by the group audit team on certain material balances and transactions.

Our approach was based on a thorough understanding of Patagonia Gold plc's business and is risk based. We identified and concentrated our resources on areas of higher risk. We undertook substantive testing on significant transactions, account balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the effectiveness of controls over individual systems and the management of specific risks.

Other information

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

In connection with our audit of the group financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the group financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement of the group financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact.

We have nothing to report in this regard.

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

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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 group financial statements are prepared is consistent with the group financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

In the light of the knowledge and understanding of the group 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 in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 25, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of group financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the group financial statements

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

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

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

Other matter

We have reported separately on the parent company financial statements of Patagonia Gold Plc for the year ended 31 December 2017. That report includes details of the parent company key audit matters; how we applied the concept of materiality in planning and performing our audit; and an overview of the scope of our audit. That report includes an emphasis of matter.

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

12 April 2018

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2017

	Note	*2017* *$'000*	*2016* *$'000*
Continuing operations			
Revenue	5	31,899	30,041
Cost of sales		(16,711)	(14,862)
Gross profit		15,188	15,179
Project sale		15,000	—
Project cost of sale		(996)	—
Gain on sale of project		14,004	—
Exploration costs		(2,643)	(2,344)
Administrative costs			
Share-based payments charge	27	(42)	(67)
Other administrative costs	8	(14,004)	(8,679)
		(14,046)	(8,746)
Finance income	6	104	61
Finance costs		(2,460)	(1,976)
Profit before taxes		10,147	2,174
Income tax – charge	10	(2,010)	(1,122)
Profit for the year		8,137	1,052
Attributable to non-controlling interest	23	830	140
Attributable to equity share owners of the parent		7,307	912
		8,137	1,052
Other comprehensive expense:			
Items that may be reclassified subsequently to profit or loss:			
(Loss)/profit on revaluation of available-for-sale financial assets		(9)	27
Exchange loss on translation of foreign operations		(3,140)	(1,985)
Other comprehensive loss for the year		(3,149)	(1,958)
Total comprehensive profit/(loss) for the year:		4,988	(906)
Total comprehensive profit/(loss) for the year attributable to:			
Non-controlling interest		830	140
Owners of the parent		4,158	(1,046)
		4,988	(906)
Earnings per share ($)			
Basic earnings per share	11	0.004	0.001
Diluted earnings per share	11	0.004	0.001

The notes on pages 39 to 74 form part of these financial statements.

Consolidated Statement of Financial Position
at 31 December 2017

	Note	*2017 $'000*	*2016 $'000*
ASSETS			
Non-current assets			
Property, plant and equipment	14	16,387	15,628
Mineral properties	13	8,925	11,716
Mining rights	12	3,388	3,488
Available-for-sale financial assets	24	24	31
Other receivables	16	4,654	7,687
Deferred tax asset	10	2,071	3,753
		35,449	42,303
Current assets			
Inventory	18	22,099	10,163
Trade and other receivables	17	14,682	2,044
Cash and cash equivalents	19	1,284	735
		38,065	12,942
Total assets		73,514	55,245
LIABILITIES			
Current liabilities			
Short-term loans	20	25,317	18,010
Trade and other payables	20	10,534	9,397
		35,851	27,407
Non-current liabilities			
Long-term loans	21	2,310	8,201
Provisions	21	1,570	1,052
		3,880	9,253
Total liabilities		39,731	36,660
EQUITY			
Share capital	22	31,886	19,587
Share premium account		143,690	131,602
Currency translation reserve		300	18,991
Share-based payment reserve		15,503	14,282
Retained earnings		(158,003)	(165,454)
Equity attributable to shareholders of the parent		33,376	19,008
Non-controlling interest	23	407	(423)
Total equity		33,783	18,585
Total liabilities and equity		73,514	55,245

These financial statements were approved by the Board of Directors on 12 April 2018 and were signed on its behalf by:

Christopher van Tienhoven
Director

Company Registered number 3994744

The notes on pages 39 to 74 form part of these financial statements.

Company Statement of Financial Position
at 31 December 2017

	Note	*2017* *$000's*	*2016* *$000's*
ASSETS			
Non-current assets			
Property, plant and equipment	14	—	5
Investment in subsidiary companies	15	88,634	90,033
Available-for-sale financial assets	24	24	31
Mineral properties	13	1,280	800
Other receivables	16	5,787	11,863
		95,725	102,732
Current assets			
Trade and other receivables	17	9,234	38
Cash and cash equivalents	19	22	120
		9,256	158
Total assets		104,981	102,890
LIABILITIES			
Current liabilities			
Short-term loans	20	259	6,705
Trade and other payables	20	283	229
Total liabilities		542	6,934
EQUITY			
Share capital	22	31,886	19,587
Share premium account		143,690	131,602
Currency translation reserve		11,039	18,120
Share-based payment reserve		15,503	14,282
Retained earnings		(97,679)	(87,635)
Total equity		104,439	95,956
Total liabilities and equity		104,981	102,890

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 $10.2 million in 2017 (2016: $8.3 million).

These financial statements were approved by the Board of Directors on 12 April 2018 and were signed on its behalf by:

Christopher van Tienhoven
Director

Company Registered number 3994744

The notes on pages 39 to 74 form part of these financial statements.

Consolidated Statement of Changes in Equity
for the year ended 31 December 2017

		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 2016		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 (loss):									
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
Changes in equity for 2017									
Share-based payment	27	—	—	—	42	—	42	—	42
Issue of share capital									
Issue by placing	22	10,399	—	—	—	—	10,399	—	10,399
Transaction costs of placing	22	—	(231)	—	—	—	(231)	—	(231)
Lapse of option		—	—	—	(153)	153	—	—	—
Exchange differences on translation to $		1,900	12,319	(15,551)	1,332	—	—	—	—
Transactions with owners		12,299	12,088	(15,551)	1,221	153	10,210	—	10,210
Profit for the year		—	—	—	—	7,307	7,307	830	8,137
Other comprehensive income/(expense):									
Revaluation of available-for-sale financial assets		—	—	—	—	(9)	(9)	—	(9)
Exchange differences on translation to $		—	—	(3,140)	—	—	(3,140)	—	(3,140)
Total comprehensive income/(loss) for the year		—	—	(3,140)	—	7,298	4,158	830	4,988
At 31 December 2017		31,886	143,690	300	15,503	(158,003)	33,376	407	33,783

The notes on pages 39 to 74 form part of these financial statements.

Company Statement of Changes in Equity
for the year ended 31 December 2017

	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 2016		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	22	—	(287)	—	—	—	(287)
Issue in lieu of payables	22	399	377	—	—	—	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
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
Changes in equity for 2017							
Share-based payment	27	—	—	—	42	—	42
Issue of share capital							
Issue by placing	22	10,399	—	—	—	—	10,399
Transaction costs of placing		—	(231)	—	—	—	(231)
Lapse of option	22	—	—	—	(153)	153	—
Exchange differences on translation to $		1,900	12,319	(15,551)	1,332	—	—
Transactions with owners		12,299	12,088	(15,551)	1,221	153	10,210
Loss for the year		—	—	—	—	(10,188)	(10,188)
Other comprehensive income (loss):							
Revaluation of available-for-sale financial assets		—	—	—	—	(9)	(9)
Exchange differences on translation to $		—	—	8,470	—	—	8,470
Total comprehensive income/(loss) for the year		—	—	8,470	—	(10,197)	(1,727)
At 31 December 2017		31,886	143,690	11,039	15,503	(97,679)	104,439

The notes on pages 39 to 74 form part of these financial statements.

Consolidated Statement of Cash Flows
for the year ended 31 December 2017

	Note	*2017* *$'000*	*2016* *$'000*
Operating activities			
Profit before tax for the year		10,147	2,174
Adjustments for:			
Finance income	6	(104)	(61)
Finance costs		2,460	1,976
Depreciation	12,13&14	4,862	2,587
Non-cash adjustments		(384)	(179)
Gains on sale of project		(14,004)	—
Share issue in lieu of payables	22	—	776
Increase in inventory		(11,936)	(7,910)
Increase in trade and other receivables	16&17	(2,105)	(1,509)
Decrease in deferred tax		1,682	1,037
Increase in trade and other payables	20	324	2,755
Decrease in provisions		518	445
Taxes paid		(815)	(672)
Share-based payments charge	27	42	67
Net cash (used in)/provided by operating activities		(9,313)	1,486
Investing activities			
Finance income	6	104	61
Purchase of property, plant and equipment	14	(5,659)	(12,521)
Additions to mineral properties	13	(1,167)	(9,931)
Proceeds from disposal	17	7,500	49
Net cash provided by/(used in) investing activities		778	(22,342)
Financing activities			
Finance costs		(2,460)	(1,976)
Increase in Loans	20&21	27,583	38,167
Repayment of Loans	20&21	(25,169)	(25,609)
Proceeds from issue of share capital	22	10,399	10,779
Transaction costs of placing	22	(231)	(287)
Net cash from financing activities		10,122	21,074
Net increase in cash and cash equivalents		1,587	218
Cash and cash equivalents at beginning of year		735	1,694
Effects of exchange rate fluctuations on cash and cash equivalents		(1,038)	(1,177)
Cash and cash equivalents at end of year		1,284	735

The notes on pages 39 to 74 form part of these financial statements.

Company Statement of Cash Flows
for the year ended 31 December 2017

	Note	2017 $'000	2016 $'000
Operating activities			
Loss for the year		(10,188)	(8,320)
Adjustments for:			
Finance income		(1,003)	(347)
Finance costs		357	104
Depreciation	14	5	18
Increase in mineral properties		(480)	(800)
Impairment of investment in subsidiary companies	15	9,413	8,178
Share issue in lieu of payables		—	776
Increase in trade and other receivables	17	(40)	(9)
Increase (decrease) in trade and other payables		54	(618)
Share-based payments charge	27	42	67
Net cash used in operating activities		(1,840)	(951)
Investing activities			
Increase in trade and other receivables	16&17	(3,080)	(11,863)
Finance income		1,003	347
Net cash used in investing activities		(2,077)	(11,516)
Financing activities			
Finance costs		(357)	(104)
Increase in Loans	20	259	6,705
Repayment of Loans	20	(6,705)	(4,096)
Proceeds from issue of share capital	22	10,399	10,779
Transaction costs of placing	22	(231)	(287)
Net cash from financing activities		3,365	12,997
Net (decrease)/increase in cash and cash equivalents		(552)	530
Cash and cash equivalents at beginning of year		120	289
Effects of exchange rate fluctuations on cash and cash equivalents		454	(699)
Cash and cash equivalents at end of year	19	22	120

The notes on pages 39 to 74 form part of these financial statements.

Notes to the Financial Statements
for the year ended 31 December 2017

The financial statements on pages 32 to 38 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 judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement 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 November 2020 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 continued to produce gold at approximately 15 ounces per day until November 2017 when production was suspended. The Company is evaluating the possibility of returning to Lomada to crush the ore and place it under irrigation to recover remaining ounces. The Company expects to recover approximately 12,000 ounces during a period of 12 – 18 months.

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.

Notes to the Financial Statements (continued)
for the year ended 31 December 2017

2. Going concern (continued)

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 were lower than anticipated and the Company installed an agglomeration circuit to improve recovery rates. The agglomeration circuit was commissioned in September 2017 and subsequently production has started to increase to design levels. Although the production for 2017 was significantly below target, Directors are confident that with the increase in production during the Q4 2017 the recovery problems are resolved and that the Company will meet the production target of 2018 of 59,083 oz Au Eq. From the expected cash flow generated from Cap Oeste the Company is confident that it will meet its obligations and lower the Company's debt position while at the same time enabling it to continue with its exploration activities. The Company continues to evaluate the alternatives for the development of Cap-Oeste sulphide resources by means of an underground operation which would be financed through internal cash flow, supplier credit and other project financing alternatives.

In May 2017 the Company sold the COSE deposit to Pan American Silver for US$15 million plus a 1.5% royalty. The Company received US$7.5 million upon closing the transaction and the remaining US$7.5 million is due upon start of commercial production or within 12 months of closing whichever occurs sooner. The initial US$7.5 million received in May 2017 was used to reduce the Company's debt position. Given the existing resources the royalty on the COSE deposit represents approximately US$2 million in revenue for the Company at current metal prices. This revenue will further assist the Company in reducing its debt position.

In April 2017 the Company entered into an option to acquire the Calcatreu project from Pan American Silver for US$15 million. In December 2017 the Company exercised the option and entered into a Definitive Agreement to acquire the project. In terms of the agreement the Company would need to make a payment of US$5 million upon closing and US$10 million on 18 May 2018. On 21 November 2017 the Company announced a subscription and open offer to for US$10.4 million to secure the funds to pay for the upfront payment of Calcatreu and advance the project. Payment of the second instalment would be made from cash flow generated from Cap Oeste.

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.

Notes to the Financial Statements (continued)
for the year ended 31 December 2017

3. Significant accounting policies (continued)

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.

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 2017 was 1.3491 (2016: 1.2336) whilst the average rate for the year ended 31 December 2017 was 1.2885 (2016: 1.3552). For the year ended 31 December 2017, a translation loss of $3.3 million is recognised resulting from the translation to $ of the Company's foreign operations (2016: translation loss $2.0 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).

Notes to the Financial Statements (continued)
for the year ended 31 December 2017

3. Significant accounting policies (continued)

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.

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 2017 was based on cash flow projections through to November 2020. It was concluded that an impairment charge of $9.4 million (2016 $8.2 million) 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.

Notes to the Financial Statements (continued)
for the year ended 31 December 2017

3. Significant accounting policies (continued)

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.

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 2017.

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 to 31 May 2017, exploration costs on the COSE Project were capitalised as mineral properties – assets in the course of construction. On 31 May 2017, the Company completed the sale of the COSE project to a subsidiary of Pan American Silver Corp. for a total consideration of US$15 million.

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 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.

Notes to the Financial Statements (continued)
for the year ended 31 December 2017

3. Significant accounting policies (continued)

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.

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 capitalized 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.

Notes to the Financial Statements (continued)
for the year ended 31 December 2017

3. Significant accounting policies (continued)

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.

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.

Notes to the Financial Statements (continued)
for the year ended 31 December 2017

3. Significant accounting policies (continued)

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.

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.

Notes to the Financial Statements (continued)
for the year ended 31 December 2017

3. Significant accounting policies (continued)

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.

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 2017 the Lomada Project and the Cap-Oeste Project are treated as separate operating reporting segments from the Group's other projects.

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 judgements

Estimates and judgements 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.

Notes to the Financial Statements (continued)
for the year ended 31 December 2017

3. Significant accounting policies (continued)

Information about the estimates and judgements 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 judgements

- 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.
- 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 2017 to be recoverable in full and no provision is considered necessary. 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 November 2020, 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 $9.4 million (2016 $8.2 million) 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 – As at 31 December 2017 the parent company has $13.5 million (2016 $11.5 million) in loans with PGSA. 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.
- 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.
- Provisions for environmental reclamation require judgement 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.
- 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.

Notes to the Financial Statements (continued)

for the year ended 31 December 2017

3. Significant accounting policies (continued)

- 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. Management consider that the deferred tax asset is expected to be utilised against taxable income in 2018.

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 2017 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 2017

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2017. Information on these new standards is presented below:

- IAS 12 'Income Taxes', effective for annual periods beginning on or after 1 January 2017. The amendments aim at clarifying the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value;
- IAS 7 'Statement of Cash Flows' effective for annual periods beginning on or after 1 January 2017. The amendments aim to clarify the provision of disclosures to enable users of financial statements to evaluate changes in liabilities arising from financing activities.
- IFRS 12 'Disclosure of interest in other entities' effective for annual periods beginning on or after 1 January 2017. The amendments clarify the scope of the standard by specifying that the disclosure requirements apply to an entity's interests that are classified in accordance with IFRS 5 Non-current assets held for sale and discontinued operations

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.

Notes to the Financial Statements (continued)
for the year ended 31 December 2017

3. Significant accounting policies (continued)

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 2017

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 Q3 2013 and the Cap-Oeste Project which commenced commercial production in Q4 2016. All revenue in the period is derived from sales of gold and silver.

The Group's net profit 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*	*Total $'000*
2017						
Revenue	7,985	23,914	—	—	—	31,899
Cost of sales	(2,504)	(14,207)	—	—	—	(16,711)
Gross Profit	5,481	9,707	—	—	—	15,188
Project Sale	—	—	15,000	—	—	15,000
Project Cost sale	—	—	(996)	—	—	(996)
Gains on sale of project	—	—	14,004	—	—	14,004
Exploration costs	—	—	—	(2,643)	—	(2,643)
Administrative costs						
Share based payments charge	—	—	—	—	(42)	(42)
Depreciation and amortisation	(125)	(1,705)	—	(3,027)	(5)	(4,862)
Other administrative costs	—	—	—	(7,793)	(1,349)	(9,142)
	(125)	(1,705)	—	(10,820)	(1,396)	(14,046)
Finance income	—	—	—	104	—	104
Finance costs	—	—	—	(2,103)	(357)	(2,460)
Profit/(loss) before taxes	5,356	8,002	14,004	(15,462)	(1,753)	10,147
Income tax charge	—	—	—	(2,010)	—	(2,010)
Profit for the year	5,356	8,002	14,004	(17,472)	(1,753)	8,137

Notes to the Financial Statements (continued)
for the year ended 31 December 2017

5. Segmental analysis (continued)

	Lomada Project $'000	Cap-Oeste Project $'000	COSE Project $'000	Argentina, Uruguay and Chile $'000	United Kingdom $'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

Total assets and total liabilities

	Total assets		Total liabilities	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Argentina – Cap-Oeste Project	49,492	33,406	10,011	8,485
Argentina and Chile[1]	13,682	12,862	28,342	20,449
Argentina – Lomada Project	1,432	7,078	836	834
United Kingdom	1,408	994	542	6,892
Argentina – COSE Project	7,500	905	—	—
	73,514	55,245	39,731	36,660

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

	2017 $'000	2016 $'000
Argentina[1]	2,393	2,115
Uruguay	250	229
	2,643	2,344

[1] Segment represents exploration projects other than the Lomada Project, Cap-Oeste Project and the COSE Project.

Notes to the Financial Statements (continued)
for the year ended 31 December 2017

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 to 31 May 2017, exploration costs on the COSE Project were capitalised as mineral properties – assets in the course of construction. On 31 May 2017, the Company completed the sale of the COSE project to a subsidiary of Pan American Silver Corp. for a total consideration of US$15 million.

From 1 January 2016 onwards, expenditures incurred at the Cap-Oeste Project are capitalised and disclosed as mineral properties – mining assets (See Note 13). From 1 October 2016 certain costs are included in inventory.

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

	2017 *$'000*	*2016* *$'000*
Bank interest	104	61
	104	61

7. Staff numbers and costs

	2017 *$'000*	*2016* *$'000*
Wages and salaries	9,576	8,218
Social security costs	1,514	1,149
	11,090	9,367

	2017 *Number*	*2016* *Number*
The average number of employees (including Directors) by location during the year was:		
Argentina–operations	156	133
Argentina and Chile – exploration and administration	63	60
Canada – administration	—	1
United Kingdom – administration	—	1
Spain – administration	1	1
	220	196

Notes to the Financial Statements (continued)
for the year ended 31 December 2017

8. Other administrative costs

	2017 $'000	2016 $'000
General and administrative	4,088	2,598
Argentine statutory taxes	780	1,036
Professional fees	527	674
Payments under operating leases	126	109
Foreign currency translation loss	5,906	2,616
Parent and subsidiary company Directors' remuneration	277	444
Profit on sale of assets	—	(68)
Depreciation charge	4,762	2,487
Amortisation of mining rights	100	100
Depreciation allocated to inventory	(2,756)	(1,565)
VAT expense	35	114
Consultancy fees	159	134
	14,004	8,679

The increase in 'General and administrative' costs relates to the costs associated with Cap-Oeste generated since it commenced production.

For the same reason, 'Depreciation' has increased.

9. Remuneration of Directors and key management personnel

Parent Company Directors' emoluments:

	2017 $'000	2016 $'000
Directors' fees	45	208
Directors salary	240	182
	285	390

See Report of the Directors on pages 20 to 24 for individual Directors' remuneration and share option awards.

In 2017, the highest paid Director was due $240 thousand (2016: $182 thousand). This amount does not include any share-based payments charge.

The directors had an unrealised gain of $Nil (2016: $Nil) from the exercise of share options during the year ended 31 December 2017.

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 2017

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

Key management personnel emoluments:

	Note	*2017 $'000*	*2016 $'000*
Share-based payments charge	27	42	67
Salaries		120	273
Other compensation, including short-term benefits		165	268
		327	608

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 $2,657 thousand (2016: $962 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 2017 and 2016 UK Statutory tax rate to the Group's profit before income tax. Items shown in other comprehensive expense are not expected to have a material impact on the year's income tax expense.

	2017 $'000	*2016 $'000*
Income tax expense		
Profit on ordinary activities before taxation	10,147	2,174
Expected tax expense at the standard UK corporation tax rate of 19% (2016: 20%)	1,928	435
Adjustments for short term timing differences		
Different local tax rates	1,771	442
Expenses not deductible for tax purposes	(46)	396
Losses and other temporary differences	(2,700)	(311)
Origination and reversal of temporary timing differences	1,057	160
Total tax (credit)/expense	2,010	1,122
Deferred taxation		
At 1 January	3,753	4,790
Exchange differences	(625)	(877)
Charge for the year	(1,057)	(160)
Deferred tax asset at 31 December	2,071	3,753

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 2017 of approximately $33.2 million – £24.5 million (2016: $12.8 million – £10.4 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 2017

10. Income tax (continued)

Subsidiary companies in Argentina have unrecognised tax losses at 31 December 2017 of approximately \$43 thousand – AR\$ 791 thousand (2016: \$2.1 million – AR\$ 34.1 million) which may be used against future taxable income. These losses expire as follows:

Year	*AR\$*	*\$*
	(in Thousands)	
2018	43	3
2019	126	7
2020	149	8
2021	208	11
2022	265	14

Subsidiary companies in Argentina have cumulative unused exploration costs related to different mining projects as at 31 December 2017 of approximately \$13.5 million – AR\$ 251.4 million (2016: \$27.7 million – AR\$ 440.9 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 \$2.1 million (2016: \$3.8 million) related mainly to the depreciation of fixed assets from PGSA has been recognised as at 31 December 2017, this amount is expected to be utilised against taxable income in following years. 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 19% in the year to 31 March 2017 and in the year to 31 March 2018. 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 2017	*Year to 31 December 2016*
Profit after tax (\$'000)	7,307	912
Weighted average number of shares	1,640,881,473	1,391,295,477
Basic and diluted profit per share (\$)	0.004	0.001

At 31 December 2017, there were 171,808,000 (31 December 2016: 93,508,000) share options which would have a potentially dilutive effect on the basic profit per share.

Notes to the Financial Statements (continued)

for the year ended 31 December 2017

12. Mining rights

	Amount $'000
At 1 January 2016	3,588
Amortisation charge for the year	(100)
At 31 December 2016	3,488
At 1 January 2017	3,488
Amortisation charge for the year	(100)
At 31 December 2017	3,388

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 2017

13. Mineral properties

	Mining assets $'000	*Surface rights acquired $'000*	*Assets in the course of construction $'000*	*Total $'000*
Cost				
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
At 1 January 2017	11,796	993	905	13,694
Additions	1,167	—	—	1,167
Disposals	—	—	(772)	(772)
Exchange differences	(1,574)	(146)	(133)	(1,853)
At 31 December 2017	11,389	847	—	12,236
Amortisation				
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
At 1 January 2017	1,978	—	—	1,978
Charge for the period	1,830	—	—	1,830
Exchange differences	(497)	—	—	(497)
At 31 December 2017	3,311	—	—	3,311
Net book value				
At 31 December 2017	8,078	847	—	8,925
At 31 December 2016	9,818	993	905	11,716

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 capitalized will be amortised based on the unit of production method.

Notes to the Financial Statements (continued)
for the year ended 31 December 2017

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 $1.3 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 2017. 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 to 31 May 2017, exploration costs on the COSE Project were capitalised as mineral properties – assets in the course of construction. On 31 May 2017, the Company completed the sale of the COSE project to a subsidiary of Pan American Silver Corp. for a total consideration of US$15 million.

Notes to the Financial Statements (continued)

for the year ended 31 December 2017

14. Property, plant and equipment

	Group						Company
	Office equipment and vehicles $'000	*Machinery and equipment $'000*	*Buildings $'000*	*Plant $'000*	*Improvements and equipment $'000*	*Total $'000*	*Office equipment $'000*
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
At 1 January 2017	1,213	9,844	417	9,069	1,965	22,508	159
Additions	155	4,117	—	508	879	5,659	—
Transfers	—	1,490	—	—	(1,490)	—	—
Disposals	—	—	—	—	—	—	—
Exchange differences	(139)	(1,446)	(61)	(1,335)	(289)	(3,270)	15
At 31 December 2017	1,229	14,005	356	8,242	1,065	24,897	174
Depreciation							
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
At 1 January 2017	362	2,215	44	4,259	—	6,880	154
Charge for the year	194	1,746	8	984	—	2,932	5
Exchange differences	(36)	(521)	(7)	(738)	—	(1,302)	15
At 31 December 2017	520	3,440	45	4,505	—	8,510	174
Net book value							
At 31 December 2017	709	10,565	311	3,737	1,065	16,387	—
At 31 December 2016	851	7,629	373	4,810	1,965	15,628	5

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2017

15. Investment in subsidiary companies

Company

	2017 *$'000*	*2016* *$'000*
Balance at 1 January	90,033	117,841
Capital contributions during the year	28	—
Impairment charge	(9,413)	(8,178)
Exchange differences	7,986	(19,630)
Balance at 31 December	88,634	90,033

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 November 2020, 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, has been used to calculate the Value in Use. As a result of this review, a pre-tax impairment loss of $9.4 million (2016 $8.2m) 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 2017

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 2017 forecasted mining activities to occur until November 2020, with a further two 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 $5.341 million(1).
Gold price	Management have used a gold price of $1,300 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 $12.477 million(1).
Discount rate	A discount rate of 10% (pre-tax) (2016: 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 $5.683 million(1).
Gold production	The life of mine plan was based on gold production of 156 thousand ounces equivalents for the Cap Oeste and Lomada de Leiva 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 $13.111 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

Details of the company's subsidiaries are below:

Company	*Country of incorporation*	*2017 Percentage shareholding*	*2016 Percentage shareholding*	*Nature of business*
Patagonia Gold S.A.	Argentina	90	90	Exploration
Minera Minamalu S.A.	Argentina	100	100	Exploration
Huemules S.A.	Argentina	100	100	Exploration
Leleque Exploración S.A.	Argentina	100	100	Exploration
Patagonia Gold Chile S.C.M.	Chile	100	100	Exploration

Notes to the Financial Statements (continued)
for the year ended 31 December 2017

16. Other receivables

Non-current assets

	Group		Company	
	2017	*2016*	*2017*	*2016*
	$'000	*$'000*	*$'000*	*$'000*
Recoverable VAT	3,735	7,388	—	—
Intercompany receivables	—	—	5,787	11,863
Other receivables	919	299	—	—
	4,654	7,687	5,787	11,863

The Directors consider the VAT receivable as at 31 December 2017 to be recoverable in full and no provision is considered necessary.

The VAT balance accumulated to date that was mostly generated from the Cap Oeste project during the reported period will be used to apply for the reimbursement during 2018 and the estimated recovery time is 1st half of 2019.

Intercompany receivables relate to loan advances from the parent company to PGSA up to 31 December 2017. These loans attract interest at 7%, and are repayable within 2 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	
	2017	*2016*	*2017*	*2016*
	$'000	*$'000*	*$'000*	*$'000*
Other receivables	491	589	17	—
Sale of project (COSE)	7,500	—	—	—
Intercompany receivables	—	—	9,156	15
Prepayments and accrued income	137	22	16	22
Recoverable VAT	6,554	1,433	45	1
	14,682	2,044	9,234	38

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.

The VAT balance to be recovered is related to the unwritten agreement made with the government, pursuant to which the process of approval and receipt of such funds will take a year.

Intercompany receivables relate to loan advances from the parent company to PGSA. These loans attract interest at 7%, and are repayable within 2 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.

There are no past due debtors.

Notes to the Financial Statements (continued)
for the year ended 31 December 2017

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*	
	2017 $'000	*2016 $'000*	*2017 $'000*	*2016 $'000*
Work in process				
Gold held on carbon	2,339	1,455	—	—
Ore stockpiles	17,564	6,319	—	—
Consumables	2,196	2,389	—	—
	22,099	10,163	—	—

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 $14.3 million (2016: $13.1 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*	
	2017 $'000	*2016 $'000*	*2017 $'000*	*2016 $'000*
Bank and cash balances	1,274	657	12	42
Short-term deposits	10	78	10	78
	1,284	735	22	120

20. Trade and other payables

Current liabilities

	Group		*Company*	
	2017 $'000	*2016 $'000*	*2017 $'000*	*2016 $'000*
Trade and other payables	10,112	8,951	30	12
Income tax	169	271	—	—
Intercompany payables	—	—	—	42
Short term loans	25,317	18,010	259	6,705
Other accruals	253	175	253	175
	35,851	27,407	542	6,934

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 2017

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 USD 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	
	2017 *$'000*	*2016* *$'000*	*2017* *$'000*	*2016* *$'000*
Long term loans	2,310	8,201	—	—
Provisions	1,570	1,052	—	—
	3,880	9,253	—	—

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 USD 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 2017	861	161	30	1,052
Net additions/(reductions)	547	(24)	(5)	518
Balance at 31 December 2017	1,408	137	25	1,570

(i) Reclamation and remediation provision relates to the environmental impact of works undertaken as at the balance sheet date. (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 $0.11 million (AR$2.1 million) plus interest. As at 31 December 2017, 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 $25 thousand (AR$470 thousand) has been recorded.

Notes to the Financial Statements (continued)

for the year ended 31 December 2017

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 ($0.013)

	Number of ordinary shares	*Amount $'000*
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
At 1 January 2017	1,587,749,605	19,587
Issue by placing	775,725,279	10,399
Exchange difference on translation to $	—	1,900
At 31 December 2017	2,363,474,884	31,886

On 7 December 2017, the Company issued 775,725,279 new ordinary shares of 1 pence each at a price of 1 pence per share raising $10.4 million (£7.8 million) under the terms of the Subscription and Open Offer dated 21 November 2017. The proceeds of the Subscription are included in share capital. The cost of the placement totalled $0.23 million (£0.17 million) is included in share premium.

Warrants

There are no warrants outstanding at 31 December 2017 as they expired without being exercised during the previous year at the end of their four-year term.

23. Non-controlling interest

Group

	Amount $'000
At 1 January 2017	(423)
Share of operating profits	830
At 31 December 2017	407

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.

Notes to the Financial Statements (continued)
for the year ended 31 December 2017

23. Non-controlling interest (continued)

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*	
	2017 $'000	*2016 $'000*	*2017 $'000*	*2016 $'000*
Available-for-sale financial assets	24	31	24	31
Trade and other receivables	14,545	2,022	9,218	1
Cash and cash equivalents	1,284	735	22	120
	15,853	2,788	9,264	152

Financial liabilities

	Group		*Company*	
	2017 $'000	*2016 $'000*	*2017 $'000*	*2016 $'000*
Financial liabilities measured at amortised cost	37,908	35,433	289	6,717

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.

Notes to the Financial Statements (continued)

for the year ended 31 December 2017

24. Financial instruments (continued)

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 2017				
Listed securities	24	—	—	24
As at 31 December 2016				
Listed securities	31	—	—	31

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

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.

Notes to the Financial Statements (continued)
for the year ended 31 December 2017

24. Financial instruments (continued)

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 2017 the price ranged from $1,148 to $1,350 per ounce, with an average market price of $1,258 per ounce (2016: $1,251 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

	2017	*2016*
	$'000	*$'000*
Gold	3,170	3,004

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 2017, 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$. As at 31 December 2017, PGSA held cash balances denominated in AR$, $, CAD and GBP.

The functional currency of Minera Minamalu S.A. ("MMSA") is AR$. As at 31 December 2017, MMSA held cash balances denominated in AR$ and $.

Notes to the Financial Statements (continued)
for the year ended 31 December 2017

24. Financial instruments (continued)

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 2017, the GBP/$ exchange rate experienced a fluctuation of 10% from its lowest to highest levels. Based on $ financial assets and liabilities at 31 December 2017 held by companies whose functional currency is other than $, if the $ weakened/strengthened by 10% against the functional currency exchange rate of each Group company at 31 December 2017, and all other variables held constant, this would have the following impact on the Group's net profit for the year:

Foreign currency rate weakened

	2017	*2016*
	$'000	*$'000*
Increase/(decrease) in net profit for the year	664	877

Foreign currency rate strengthened

	2017	*2016*
	$'000	*$'000*
Decrease/(increase) in net profit for the year	544	1,184

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 0.05% (2016: 0.13%) and for $ was 0.45% (2016: 0.45%). If interest rates in 2017 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 2017.

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.

Notes to the Financial Statements (continued)
for the year ended 31 December 2017

24. Financial instruments (continued)

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

	2017 *$'000*	*2016* *$'000*
Operating leases which expire:		
Within one year	116	32
Within two to five years	110	12
After five years	—	—
	226	44

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 2017 or 2016.

26. Related parties

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

	Notes	*2017* *$'000*	*2016* *$'000*
Cheyenne S.A.	(i)	—	11
Agropecuaria Cantomi S.A.	(ii)	92	92

(i) In prior periods 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.

(ii) 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.

Notes to the Financial Statements (continued)
for the year ended 31 December 2017

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:

	2017 Weighted average exercise price pence	2017 Weighted average exercise price $	2017 Number of options	2016 Weighted average exercise price pence	2016 Weighted average exercise price $	2016 Number of options
Outstanding at the beginning of the year	14.01	0.171	93,508,000	13.97	0.207	95,158,000
Granted during the year	1.00	0.013	80,000,000	—	—	—
Exercised during the year	—	—	—	—	—	—
Lapsed during the year	8.65	0.117	(1,700,000)	11.63	0.143	(1,650,000)
Outstanding and exercisable at the end of the year	8.01	0.108	171,808,000	14.01	0.171	93,508,000

Options outstanding at 31 December 2017 have an exercise price in the range of $0.013 (1 pence) per option to $0.836 (62.00 pence) per option and a weighted average contractual life of 6.85 years.

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.

	2017	2016
Weighted average share price	1.025p ($0.014)	2.50p ($0.031)
Exercise price	1.000p ($0.013)	2.50p ($0.031)
Expected volatility (expressed as a percentage used in the modelling under Black-Scholes model)	23.57%	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:

	2017 $'000	2016 $'000
New options Granted in the year	16	—
Part vested options granted in prior periods	26	67
	42	67

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2017

27. Share-based payments charge (continued)

The total number of options over ordinary shares outstanding at 31 December 2017 was as follows:

Date of grant	*Employees entitled*	*No of options*	*Exercise price (pence)*	*Remaining contractual life (years)*
3 June 2008	Director and employees	1,125,000	8.0*	0.42
9 June 2009	Employees	1,175,000	12.0	1.44
23 June 2009	Directors and senior management	17,913,000	12.25	1.47
17 June 2010	Directors and employees	5,850,000	15.00	2.46
1 August 2010	Employee	300,000	15.00	2.58
10 February 2011	Directors	5,500,000	11.00***	3.11
21 February 2011	Senior management	800,000	11.00***	3.14
9 May 2011	Employees	500,000	43.50	3.35
13 May 2011	Directors and senior management	4,400,000	11.00***	3.36
24 May 2011	Senior management	1,000,000	39.00	3.40
10 June 2011	Employees	1,250,000	11.00***	3.44
10 June 2011	Employees	925,000	40.00	3.44
15 August 2011	Employee	200,000	62.00	3.62
1 September 2011	Senior management	500,000	11.00***	3.67
1 November 2011	Directors	750,000	11.00***	3.84
1 November 2011	Directors	750,000	50.25	3.84
6 December 2011	Employee	20,000	54.00	3.93
31 January 2012	Directors	4,500,000	11.00***	4.08
1 July 2012	Senior management	1,500,000	25.00	4.50
3 December 2012	Senior management and employees	3,000,000	22.75	4.92
9 January 2013	Directors	14,500,000**	22.75	5.02
27 February 2013	Senior management	1,000,000	15.50	5.16
12 September 2013	Directors	750,000	11.00	5.70
19 September 2013	Director and senior manager	6,000,000	11.75	5.72
10 October 2013	Employees	600,000	11.75	5.78
25 July 2014	Director and senior management	7,000,000	7.875	6.57
31 March 2015	Senior management	10,000,000	2.50	7.25
18 December 2017	Director and senior manager	55,000,000	1.00	9.97
18 December 2017	Employees	25,000,000	1.00	9.97
		171,808,000		

* 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 2017

28. Auditor's remuneration

	Group		Company	
	2017 *$'000*	*2016* *$'000*	*2017* *$'000*	*2016* *$'000*
Fees payable for the audit of the Company	91	87	15	14
Fees payable for the audit of the subsidiaries	69	54	—	—
Tax compliance	8	7	8	7
Audit related assurance services	—	2	—	—

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 2017, the Group entered into purchase commitments totalling $1.07 million (31 December 2016: $0.7 million) related to the purchase of heavy duty mining equipment. Commencing upon receipt of shipment, instalments are payable semi-annually over 10 semesters.

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 2017 or 2016.

31. Subsequent events

On 31 January 2018, the company acquired the Calcatreu gold asset in Rio Negro, Argentina, by way of acquiring 100% of the shares of Minera Acquiline S.A., a subsidiary of Pan American Silver Corporation. The board consider the acquisition to constitute a new opportunity to develop and produce resources as well as enabling the company to diversity its regional operations and improve its risk profile. Total consideration for the acquisition amounted to US$ 15 million. The company made the initial payment of US$ 5 million on legal completion on 31 January 2018, with the balance of US$ 10 million due on 18 May 2018. At this time, management have not been able to ascertain the fair value of the assets acquired or the split with intangibles.

There have been no other significant subsequent events.

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

Opinion

Our opinion on the parent company financial statements is unmodified

We have audited the parent company financial statements of Patagonia Gold plc for the year ended 31 December 2017 which comprise the statement of financial position, the statement of changes in equity, the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

In our opinion the parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 December 2017 and of its loss for the year then ended.
- have been properly prepared in accordance with International Financial Reporting Standards Accounting Practice and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Emphasis of matter –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 and note 15 – Critical accounting estimates and judgements 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. 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.

Who we are reporting to

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.

Independent auditor's report (continued)

to the members of Patagonia Gold Plc

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the parent company financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

- Overall materiality: $514,000 which represents **0.5%** of the company's preliminary total assets.
- The only Key Audit Matter identified was the carrying value of the investment in subsidiaries.
- **We performed a full scope audit of the financial information of the Buenos Aires office in respect of the parent company, which covers 100% of assets. There were no key changes in scope from the prior year.**

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the parent company financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How the matter was addressed in the audit
Carrying value of investment in subsidiaries The investment carrying value of subsidiaries held by Patagonia Gold plc includes a number of judgements which are consequently subject to a high degree of uncertainty and so inherent risk of misstatement. We therefore identified the carrying value of investment in subsidiaries as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • We challenged the group cash flow model, prepared by management with the assistance of an external expert and have performed sensitivity analysis thereon. Where appropriate we have agreed key assumptions to workings or external support. • We have considered the investments in subsidiaries and have challenged and re-worked the impairment assessment performed by management, including recognition of the impairment charge against the carrying value of the investments in the current year as part of the cashflow review detailed above.

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

Key Audit Matters	How the matter was addressed in the audit
	• We reviewed the disclosures within the financial statements in respect of any prevalent political risks and consider these reasonable. The parent company's accounting policy on the carrying value of investment in subsidiaries is shown in note 3 to the financial statements and related disclosures are included in note 15. **Key observations** We have concluded that the impairment charge for the year is appropriate.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our work and in evaluating the results of that work.

We determined materiality for the audit of the parent company financial statements as a whole to be $514,000 which is 0.5% of the company's preliminary total assets. This benchmark is considered the most appropriate because as the main driver of this entity is the assets in which it holds.

We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality.

We determined the threshold at which we will communicate misstatements to the audit committee to be $25,700. In addition, we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

The overall approach to the audit included the audit team performing a full score audit of the financial information of the Buenos Aires head office, in respect of the parent company, which covers 100% of assets. Specified audit procedures were performed by the audit team on certain material balances and transactions.

Our approach was based on a thorough understanding of Patagonia Gold plc's business and is risk based. We identified and concentrated our resources on areas of higher risk. We undertook substantive testing on significant transactions, account balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the effectiveness of controls over individual systems and the management of specific risks.

Other information

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

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

In connection with our audit of the parent company financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the parent company financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement of the parent company financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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 parent company financial statements are prepared is consistent with the parent company 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 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 in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the 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.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 25 the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of parent company financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the parent company financial statements

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

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

Other matters

We have reported separately on the group financial statements of Patagonia Gold Plc for the year ended 31 December 2017. That report includes details of the group key audit matters; how we applied the concept of materiality in planning and performing our audit; and an overview of the scope of our audit.

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

12 April 2018

For your notes