



**PATAGONIA GOLD PLC**

2013 Annual Report



**Patagonia Gold Plc** is a gold and silver mining and exploration company operating in Argentina. The Company's growth strategy is to develop a number of projects located in the province of Santa Cruz in the Southern Patagonia region of Argentina.

This area is a mineral-rich region that hosts several medium sized producing assets such as the Cerro Vanguardia Mine (Anglo Ashanti), Manantial Espejo (Pan American Silver Corp.), San Jose mine (Hochschild) and the world class Cerro Negro mine (Goldcorp Inc.) currently under development.

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## Highlights

### Financial

# \$22.0m

In proceeds from the sale  
of the gold to February 2014

# \$9.3m

Equity capital raised before expenses

# \$5.1m

Investment gain during the year

### Operational

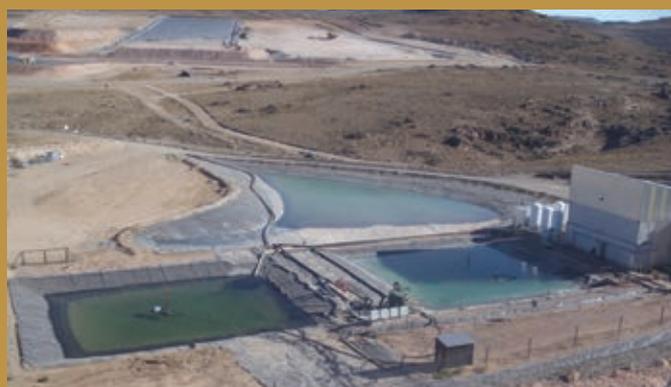
- Lomada has successfully achieved above nameplate production of 1,750 ounces gold per month with an average of 1,807 ounces gold per month being produced since November 2013.
- Works underway at Lomada for increased production of 3,000 ounces gold per month, to be implemented Q2 2014.
- The Cap-Oeste project is to be developed in 2 stages: Stage 1 comprises the Oxide Heap Leach; Stage 2 is designed to process more complex sulphide ore and the COSE ore.
- Stage 1 Cap-Oeste project design work is well advanced for leach pad and plant. First production is targeted for H1 2015.

## Lomada de Leiva Project Full production achieved

Main heap leach pad, with 1.5 MT of capacity available for loading, now fully commissioned with pregnant solution being returned to the processing plant.



Full project details on [page 12](#)



## Chairman's statement



2014 will be a year of achievement as Patagonia Gold attains significant milestones in production and exploration.

I am pleased to present the 2013 Annual Report of Patagonia Gold Plc.

During 2013, Patagonia Gold has concentrated on completing and commissioning our Lomada Heap Leach Project. This was achieved in Q3 2013 with the design recovery of 1,750 ounces of gold per month generating cash flow for the Company from production for the first time.

For the second year running, 2013 proved to be very challenging for the capital markets for mining. Patagonia Gold, however, has continued its growth through this period by focusing on the commissioning of the Lomada Project. The Company has achieved this by raising short-term bank debt to cover necessary sustaining capital, to be repaid with proceeds from gold sales.

As part of its strategy to streamline costs and remain efficient, the Company decided to de-list from the Canadian TSX Stock Exchange. This was accomplished in July 2013 and has since reduced corporate overheads allowing greater funds to be applied towards the development of its projects.

The success of the Lomada Heap Leach Project with its low costs and high returns has encouraged management to press ahead with a similar heap leach project at Cap-Oeste which will substantially increase our cash flow and reduce our overhead and operational costs. The project is planned for start-up in Q1 2015 subject to receiving environmental permits and procuring funding.

Of tremendous importance during 2013 was the effort and collaboration of the management team and all our staff. I would like to thank them on behalf of the Board of Directors. Their hard work is greatly appreciated and we count on them to continue their contribution to the successful growth of Patagonia Gold.

Looking ahead, 2014 will be a year of achievement as Patagonia Gold attains significant milestones in production and exploration. I look forward to reporting further developments and growth to our shareholders in the upcoming year.

**Carlos Miguens**  
Non-Executive Chairman  
16 May 2014

### Sections of interest

- Our company **page 8**
- Operational review **page 10**
- Governance **page 26**

## 2013 operational highlights

### January

Construction of the first stage of the fully permitted Lomada main heap leach project is well advanced and is on target for commencement of operations in H2 2013.



### March

Receipt of US\$3.835 million from second gold pour of 2,385 ounces gold from the Lomada trial heap leach.

Preparation works for the 200,000 tonne expansion of the existing trial heap leach pad are complete with loading of mineralised material, irrigation and production of gold in progress.



### July

Patagonia Gold has produced 5,413 ounces gold to the end of July 2013 for gross proceeds of \$8,005,865 realising an average gold price of \$1,479 per ounce.

The Lomada plant expansion is under way and is scheduled for completion in Q3 2013. All mine facilities have now been constructed along with camp accommodation for mine staff and contractors.



### September

The Lomada trial pad has expanded to a capacity of 300,000+ tonnes and is currently loaded to 73% of its capacity. Main pad is ready to commence loading as and when the extended trial pad is full, anticipated early Q4 2013.



### October

The Lomada mine has achieved scheduled production with 62,000 tonnes of ore at 2.40 g/t gold loaded onto the pad and 1,671 ounces of gold poured. Ramp up to full processing capacity in the plant has commenced.



### November

Lomada has achieved full nameplate production of 1,750 ounces gold per month.



## At a glance

The Company holds directly or indirectly through its subsidiaries or under option agreements, the mineral rights to over 220 property interests in Argentina and Chile.

These include the mineral rights to 67 property interests in the province of Santa Cruz covering approximately 190,000 hectares held by the Company's 90%-owned Argentinian subsidiary Patagonia Gold S.A. ("PGSA") and to 51 property interests covering approximately 156,000 hectares held by the 100%-owned Argentinian subsidiary Minera Minamalu S.A. ("Minamalu").



### La Paloma property

The La Paloma property block, covering over 44 sq km, hosts the Lomada de Leiva gold project.

### Lomada de Leiva Project



- Pouring of doré commenced in November 2012, with full production achieved in 2013.
- Above nameplate production of 1,750 ounces gold per month with an average of 1,807 ounces gold per month being produced since November 2013.

### Gold production

16,426 ounces

to February 2014

➔ [Lomada de Leiva Project details page 12](#)

## El Tranquilo property

The El Tranquilo property block covers over 80 sq km and hosts the Cap-Oeste gold project, consisting of Stage 1 Cap-Oeste Oxide Heap Leach and Stage 2 COSE and Cap-Oeste Sulphide ore processing.

### Cap-Oeste Project



- Cap-Oeste is Patagonia Gold's flagship project.
- First production of Stage 1 Oxide ore targeted for 2015.

#### Gold in the indicated category

1,197,000 ounces AuEq

→ Cap-Oeste Project details  
page 14

### COSE Project



- COSE bonanza grade ore to be developed with Stage 2 Cap-Oeste Sulphide ore processing.
- Pre-Feasibility study underway for the COSE and Cap-Oeste combined project, scheduled for completion later this year.

#### Gold in the indicated category

63,835 ounces AuEq

→ COSE Project details  
page 16

## La Manchuria property

The La Manchuria property block covers over 55 sq km and hosts the La Manchuria deposit and La Manchuria South prospect.

### La Manchuria Project



- Additional studies have confirmed the potential to develop La Manchuria as a bulk tonnage low grade deposit amenable to open-pit mining, heap leach treatment.
- Drilling planned to expand and further define gold and silver mineralisation.

#### Gold in the indicated category

55,684 ounces AuEq

→ La Manchuria Project details  
page 18

## Report from the Managing Director/CEO



The Company's gold revenue will fund expansion of Lomada and further development of Patagonia Gold's other highly-prospective properties, adding significant value for its shareholders.

Patagonia Gold has continued its successful trajectory through 2013 with the construction and commissioning of the main pad and facilities at the Lomada de Leiva heap leach project ("Lomada Project") located in the province of Santa Cruz, Argentina. Full nameplate production capacity of 1,750 ounces per month of gold production was reached during the fourth quarter of 2013.

Total gold production to the end of February 2014 is equal to 16,426 ounces for a revenue of \$22 million. The revenue gained from gold sales has been a vital component of Patagonia Gold's growth strategy, enabling continued exploration and development of the Company's other highly prospective properties including Patagonia Gold's flagship Cap-Oeste Project.

By becoming a producer, Patagonia Gold has infused certainty into its financial position during a time when global market conditions continue to be turbulent. With this in mind, Patagonia Gold decided in January 2014 to expand mining operations at the Lomada Project to 3,000 ounces per month and target an annual production of 31,500 ounces for the 2014 calendar year. By expanding gold production at its Lomada Project to 3,000 ounces per month, Patagonia Gold projects a cash cost reduction to \$550 per ounce, an almost \$100 per ounce savings over the current production cash cost.

Preparations for the mine expansion are currently underway. Additional equipment to expand the mining fleet requiring a disbursement of \$2.1 million, represents the bulk of the capital expenditure and will be delivered to Argentina by the end of May. Expansion of the main pad has been completed and final lining work is being carried on cells two and four; a total capacity of 1.5 MT has now been lined and is ready for loading. The existing plant and gold smelting facilities will not require upgrading as they are already capable of processing plus 40,000 ounces per annum.

Through the past year and into 2014, the Company has continued its plans to develop the flagship Cap-Oeste Project. Patagonia Gold's objective is to expand the existing resource base of 1.5 million ounces of high grade gold-silver resource delineated to date over a 2.1 km strike extent through exploration and drilling, and to develop the main project towards production.

Following the success of the Lomada project the Company has decided to advance Cap-Oeste to production in two phases, the first phase being the construction of a 50,000 ounce per annum capacity heap leach processing facility for the approximately 200,000 ounces of medium grade oxide resource. Engineering and metallurgical studies are well advanced and, subject to available finance and permitting, purchasing and construction will commence later this

year for start-up in the first half of 2015. The targeted combined annual production from the two heap leach projects is 83,000 ounces of gold equivalent, generating in excess of \$100 million per annum of high margin revenue, which will provide significant funding towards exploration drilling and the development of the main Cap-Oeste project.

The second phase will entail the construction of a processing facility capable of treating both the high-grade sulphide hosted mineralisation at Cap-Oeste and the bonanza-grade COSE ore to minimise capital and maximise operating efficiencies. A full updated mine plan and resource estimate will be completed as part of the ongoing feasibility study, scheduled for completion Q4 2014.

Exploration of the Company's large portfolio of properties over the past year has concentrated mainly on field work with trenching on the El Tranquilo Block where numerous drill targets have been identified and on the Manchuria Block where exploration together with a small drill programme have continued to highlight the potential of this area to become a stand-alone mine.

Lomada mining operations, March 2014



Patagonia Gold's exploration over the next year will focus on the delineation of oxide deposits with heap leachable material to supplement the Lomada and Cap-Oeste heap leach feed. Drilling and geophysics programmes have been programmed for 2014 to further explore the El Tranquilo Block, an area containing the Cap-Oeste and COSE deposits but remaining largely unexplored to-date, which Patagonia Gold believes holds vast potential to host further economic gold and silver mineralisation.

The Company has accomplished significant milestones over the past year due to the dedication and abilities of its management, staff and technical team. The year ahead will see Patagonia Gold continue to grow and succeed as it moves towards its expanded gold production goals.

**Bill Humphries**  
Managing Director/  
Chief Executive Officer  
16 May 2014

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## Our company

Patagonia Gold's portfolio of highly prospective grassroots and advanced brownfields projects gives it a good balance of production stability and exploration potential.

The Company is guided by a solid management team who has extensive Argentine knowledge, international mineral exploration, development and mining experience, as well as considerable expertise in global capital markets.

In addition, Patagonia Gold has a strategic partnership with the Santa Cruz government through its mining company Formicruz. This strategic alliance provides Patagonia Gold support with permitting, licensing, imports and community relations.

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## Our near-term strategic priorities:

### Utilise cash flow

Generated through production at the Lomada Project to fund the Company's annual exploration budget and working capital requirements over its seven-year lifecycle.



### Develop and mine

The Sulphide Cap-Oeste and bonanza grade COSE deposits will be developed in tandem to share processing synergies.



## Experience

Experienced management with extensive in-country expertise

## Progress

Core producing projects with highly prospective portfolio of advanced and greenfields exploration projects

## Financial

Gold production and generation of free cash flow

## Growth

Extensive exploration programme to grow resources

Advance Cap-Oeste production in two phases:

### Stage 1

The first stage comprises the construction of a 50,000 ounce per annum capacity heap leach processing facility for the approximately 250,000 ounces of medium-grade oxide resource. Engineering and metallurgical studies are well advanced and, subject to available finance and permitting, purchasing and construction will commence later this year for start-up in the first half of 2015.

Ounces per annum capacity AuEq

50,000

### Stage 2

The second stage will entail the construction of a processing facility capable of treating both the Cap-Oeste sulphide mineralisation and the bonanza grade COSE ore to minimise capital expenditure and maximise operating efficiencies. A full updated mine plan and resource estimate will be completed as part of the ongoing feasibility study, scheduled for completion Q4 2014.

Feasibility study

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# Operational review

## Company overview

Patagonia Gold's operations in Santa Cruz are managed and operated through PGSA. The land holdings in Santa Cruz include approximately 200,000 hectares in the very prospective volcanic plateau of the Deseado Massif acquired from Barrick Gold Corporation ("Barrick") in 2007, and a further 100,000 hectares acquired from the Santa Cruz government's wholly owned mining company, Fomicruz Minero de Santa Cruz Sociedad del Estado ("Fomicruz") in 2011.

Fomicruz obtained 10% of PGSA in return for the rights to explore, develop and mine 100,000 hectares of Fomicruz's prospective mining properties. Patagonia benefits from having the Santa Cruz government as a strategic partner in developing a number of PGSA's projects, including the Lomada de Leiva gold project (the "Lomada Project"), Patagonia's flagship project the Cap-Oeste gold and silver project (the "Cap-Oeste Project"), the Cap-Oeste South-East Project (the "COSE Project"), and the La Manchuria property block.

## Patagonia Gold's properties

Santa Cruz is the location of PGSA's four main properties (see the map opposite). Cap-Oeste is the flagship project; the main focus of the Company is to bring the Cap-Oeste Project into development as a stand-alone mine. Two kilometres along strike from Cap-Oeste is the smaller but strategically vital Cap-Oeste South-East (COSE) Project.

The Lomada de Leiva ("Lomada Project") and La Manchuria Projects are 120 km and 50 km away, respectively.

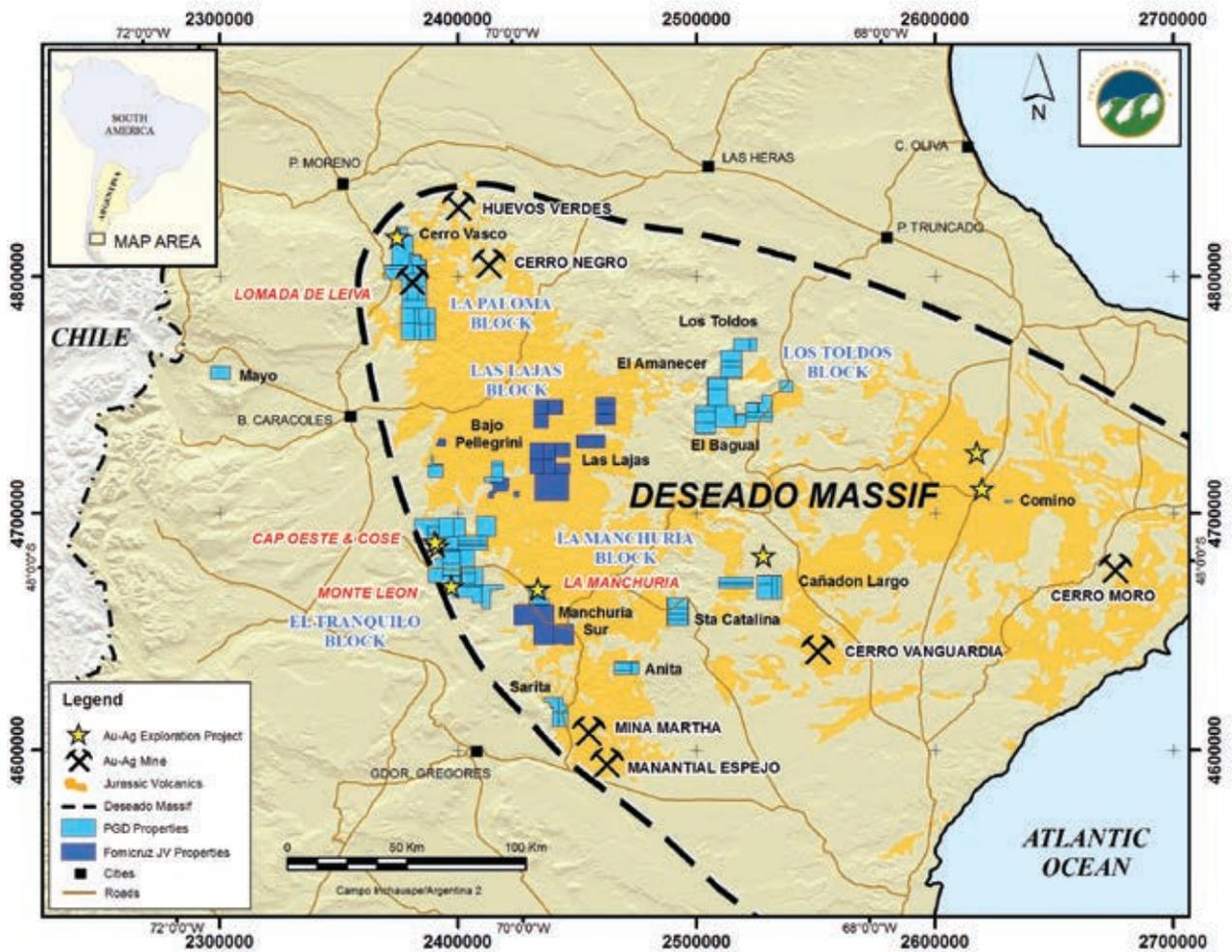
The Lomada Project is located to the north-west close to Cerro Negro and the La Manchuria Project is situated within a regional corridor 50 km to the south-east. The other exploration leases within the PGSA portfolio are shown on the map along with the locations of the major producing and late stage development assets currently within the Deseado Massif.

Patagonia Gold's flagship project is the Cap-Oeste Project, located in the El Tranquilo property block approximately 65 km south-east of the town of Bajo Caracoles in Santa Cruz. The Company's aim is to become a 100,000 ounce per annum gold equivalent producer in the near term, with a tentative timeline for construction of stage 1 commencing in mid-2014 and culminating in gold and silver production in early 2015. The Cap-Oeste sulphide mineralisation, together with ore from the COSE deposit located 2 km along strike of Cap-Oeste, will be developed in unison in the following years to minimise capital and maximise operating efficiencies at the sites.

The La Manchuria property block is located approximately 50 km to the south-east of the El Tranquilo property block and hosts the La Manchuria Project. The Company also has a number of other exploration leases within the Deseado Massif.

Several of PGSA's properties host mineralisation that is not typical of epithermal vein systems. The properties are characterised by low sulphidation, epithermal style gold-silver deposits hosted within hydrothermal breccias or fault hosted breccias, with widths up to 35 m of Bonanza grade mineralisation being intersected. The Cap-Oeste Project falls into this category, as does the COSE Project. Classic low sulphidation epithermal veins with high grade gold-silver intersected within narrow steeply dipping structures characterise other properties. The diversity and varied mineralisation styles differ with regards to location within the Deseado Massif.

Since the property acquisition from Barrick in 2007, the Company has rapidly grown its resource base through the implementation of a thorough and aggressive exploration and development programme.



Property locations within the Deseado Massif area of Santa Cruz province

## Operational review continued

### Lomada de Leiva Project

The Lomada de Leiva (“Lomada”) Project is spearheading the Company’s growth strategy by being the first project from the Patagonia group of assets to begin gold production.

Total gold production to the end of February 2014 is equal to 16,426 ounces for a revenue of:

**\$22,190,000**

Target for annual production for the 2014 calendar year:

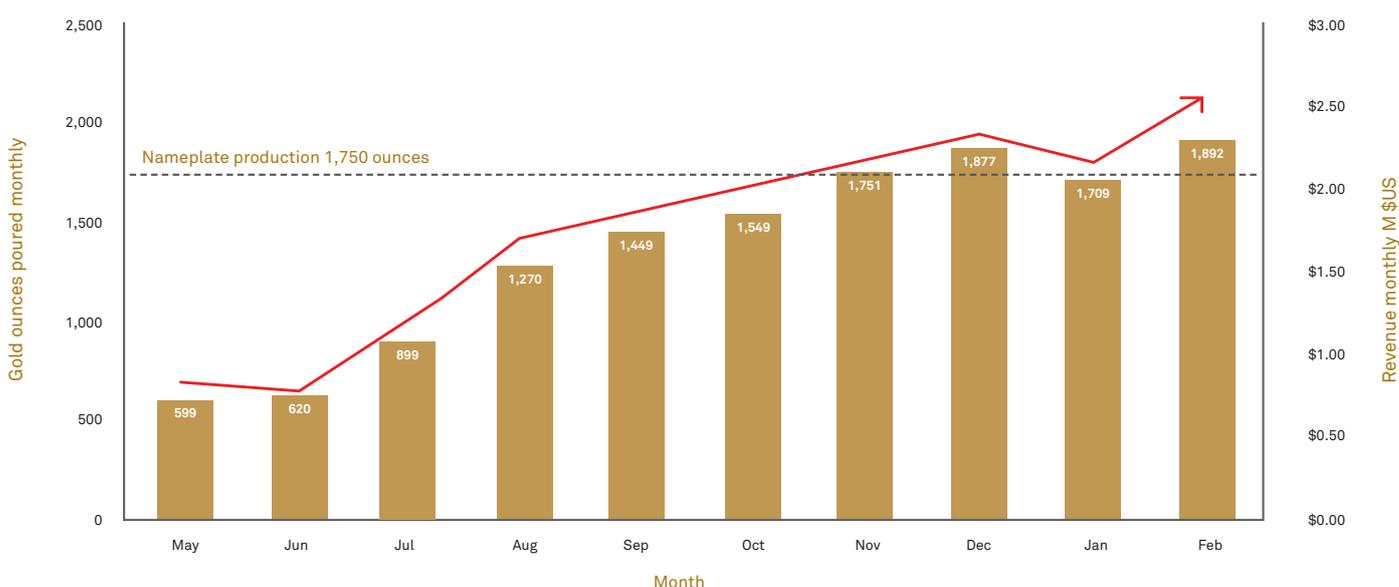
**31,500 ounces**

Lomada is located in the La Paloma property block, approximately 120 km to the north of the El Tranquilo property block. The Company successfully completed a heap leach trial at Lomada and the 2014 year will be the first year of full production with a target of 31,500 ounces production scheduled to be achieved. Exploration activities consisting of surface sampling, trenching, geophysics, drilling and mapping, are ongoing to delineate further resources.

2013 culminated with the commissioning of the main Heap Leach Pad 3 at the Lomada project effectively moving the project into full production phase. Nameplate production capacity of 1,750 ounces per month of gold production was reached during the fourth quarter of 2013. Total gold production to the end of February 2014 is equal to 16,426 ounces for a revenue of \$22,190,000.

First production from the previously extracted gold from the trial commenced in March 2013 and has continued at a steady ramp up pace since then. Cost per ounce of production has steadily fallen throughout the year as efficiencies improved and the total plant throughput has increased along with the addition of mining fleet equipment and the commissioning of the main pad and larger capacity plant. The cash cost per ounce at Lomada for Q4 2013 was \$678 per ounce with all in costs of \$865 per ounce. The average realised gold price was \$1,353 per ounce from May 2013 through February 2014.

Gold production and revenue (\$) since May 2013





Lomada showing solution ponds with main heap leach in background

### Achieving full production



Lomada has successfully achieved above nameplate production of 1,750 ounces gold per month with an average of 1,807 ounces gold per month being produced since November 2013. Fleet availability has improved and the main heap leach production facility and plant expansion continue to positively affect the production and operating efficiencies at the Lomada mine.

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During the year a full mining camp with office facilities has been constructed along with the infrastructure required to maintain and service the mining fleet and plant. The plant expansion has now been completed with the addition of six fully enclosed pressurised columns effectively providing a nameplate throughput capacity of 120 m<sup>3</sup>/hr of pregnant solution; currently the plant is operating at an average hourly throughput of 75–80 m<sup>3</sup>/hr.

In early 2014, the decision was taken to increase mine throughput and product to 3,000 ounces per month and target an annual production of 31,500 ounces for the 2014 calendar year. Additional equipment orders have been placed and scheduled to arrive in Argentina before the end of May 2014 at an estimated delivered cost of \$2.1 million, representing the bulk of the capital cost which will be spent on the project as it stands with the current resource base.

Expansion of the main pad has been completed and final lining work is being carried on cells two and four by a local contractor; a total capacity of 1.5 MT has now been lined and ready for loading. Mobile crushing facilities are now installed at the main pad area, enabling all crushing and rehandle to be completed from this location.

Near-mine exploration is scheduled to commence at Lomada and Cerro Vasco in the fourth quarter of 2014 with the primary objective of increasing the global resources for Lomada. High-grade underground potential exists nearby at Breccia Sofia along with near-surface regional targets within the mineralised corridor to the north-west and south-east of the existing mineralisation.

### Cap-Oeste Project

The Cap-Oeste Project is Patagonia Gold's flagship project, consisting of Stage 1 Cap-Oeste Oxide Heap Leach and Stage 2 COSE and Cap-Oeste Sulphide Process. The Cap-Oeste deposit, delineated for 1.4 km to-date, is located within a structural corridor extending 6 km from the La Pampa prospect in the northwest, to the Tango prospect in the southeast.

Potential gold equivalent  
in oxide open pit:

195,000 ounces

Potential gold equivalent  
in sulphide underground:

823,000 ounces

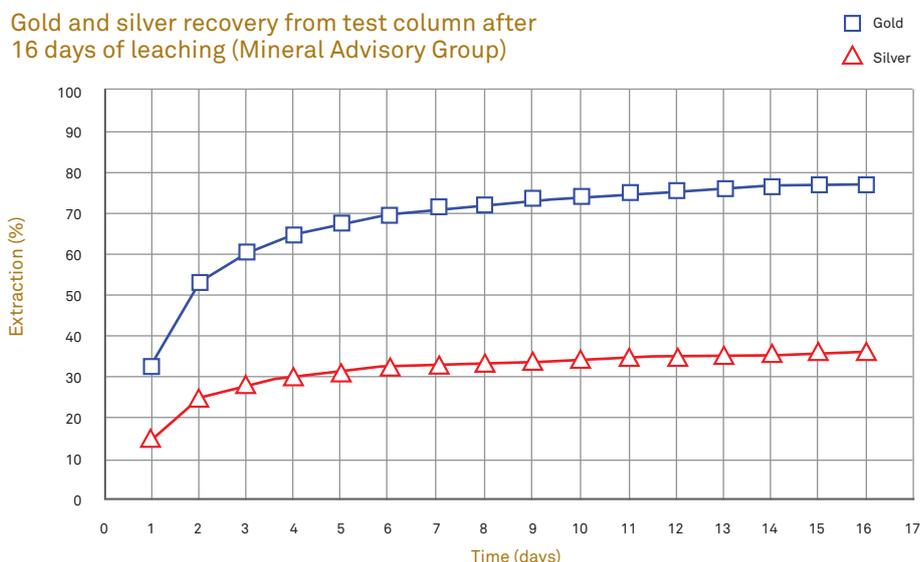
Since acquiring the property from Barrick in 2007, PGSA has drilled 400 holes for a total of 92,359 m in the period to February 2013. During that time, PGSA has filed four NI 43-101 resource estimates. The most recent, filed in December 2012, describes phase II, III and the initial portion of phase IV exploration activities consisting of geologic mapping, excavation of five trenches, gathering of 82 channel samples, 352 drill holes totalling 78,673 m, a petrographic study, topographic survey, three-dimensional modelling and geophysical surveys.

#### Stage 1 Oxide Heap Leach Project

The Cap-Oeste project has now entered into the final stage of development with the Company having decided to advance the project to production in two phases: the first phase being the construction of a 50,000 ounce per annum capacity oxide heap leach processing facility and the second phase which will entail the construction of a flotation and pressure oxidation facility capable of treating both the sulphide hosted mineralisation and the COSE ore.

During Q4 2013, Allard Engineering and Mineral Advisory Group in conjunction with Newfields Inc. were retained for the completion of an engineering study, testwork programme and capex estimates for the Cap-Oeste oxide project. A series of agglomerated column tests were carried out on the Cap-Oeste ore to determine the leach kinetics and recoveries for gold and silver respectively. The ore was crushed to a minus 20 mm passing size and agglomerated with a mixture of water, cement (5 kg per tonne) and cyanide solution (3 kg per tonne) and left to cure for three days in the column before leaching with 300ppm concentration NaCN solution. Recovery curves are shown below: 76.9% of the gold and approximately 36.33% of the silver were liberated into solution within 16 days. The ultimate extractable estimated total recovery for each metal is 83.6% for gold and 39.4% for silver.

Gold and silver recovery from test column after 16 days of leaching (Mineral Advisory Group)





Cap-Oeste drilling

### Golden future



Total production from both Lomada and the Cap-Oeste oxide project is forecast to increase to 72,000 ounces of gold equivalent in 2015, subject to environmental approvals and financing, with first production from Cap-Oeste scheduled for Q1 2015 and full name plate quarterly production of 12,500 ounces expected to be achieved by Q3 2015.

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Plant design and process flow sheets and a preliminary heap leach pad design and plant layout have been completed. The ore is to be agglomerated with the addition of cyanide and cement, and loaded onto the pad via a series of conveyors and a stacking system, reducing compaction and increasing overall recovery from the heap. The plant will use a Merrill Crowe system for recovery of metals through precipitation from the pregnant solution and then direct smelting. The advantages over a carbon recovery circuit are the overall capital cost will be lower and the gold room will require a minimal expansion of smelting capacity to accommodate the additional production.

Capital requirements for the oxide project total \$33.7 million and are scheduled to be invested over a two-year period from construction through to production with a sustaining capital portion of \$8.5 million which includes fleet repayments to be repaid within four years. These estimates are preliminary and will be confirmed once detailed engineering and design is completed although they are expected to remain within +/-15% of this figure.

The development of the Cap-Oeste sulphide mineralisation will continue with ongoing testwork and studies aimed at constructing a processing facility capable of treating both the Cap-Oeste sulphide ore and the COSE mineralisation, essentially minimising capital expenditure and optimising resources within the project. AMEC is continuing with the overall feasibility study for the project with completion scheduled for late 2014.

### COSE Project

The bonanza grade gold and silver COSE deposit, located 1.8 km southeast of the Cap-Oeste deposit, will be developed with Stage 2 Cap-Oeste sulphide ore.

Bonanza gold and silver  
in underground:

105,000 ounces AuEq

In 2010, the Company filed the maiden NI 43-101 resource estimate for the COSE Project. At the same time a PEA, or scoping study, was completed to establish viability for the construction, mining and processing of the deposit.

COSE is a fault breccia hosted quartz sulphide rich gold/silver system hosted within the intersection of the steeply dipping COSE (extension of Bonanza) fault and cross-cutting northeast and southwest trending structures. The mineralisation was discovered in early 2010 during exploration along the Bonanza fault towards the Tango prospect. The existing global resource estimate including inferred material contains approximately 37,000 tonnes @ 60.06 g/t gold and 1,933 g/t silver making it an extremely high-grade, low-tonnage deposit.

Wide low-grade or diffuse zones of silver low-grade gold mineralisation characterise the mineralisation occurring at surface and within the first 130 m vertically down dip. Below 130 m and continuing to a currently delineated depth of 260 m, the width of the fault hosted breccia decreases and the grade of both gold and silver increase exponentially leading in turn to the overall resource grade being estimated in excess of 90 g/t gold equivalent. The mineralisation is still open at depth; one of the objectives of the decline development is to create a drill access gallery area to fully test the down-dip potential.

A drill programme totalling 2,475 m was completed during Q1 2013, targeting a large geophysical anomaly which extends between Cap-Oeste and COSE along strike of the bonanza fault that hosts and controls the mineralisation at both deposits. Broad zones of low grade mineralisation were encountered with significant results that include 66.6 m at 2.04 g/t gold and 36.18 g/t silver from drillhole CSE-091.

COSE mineralised intersections include:

#### Results from COSE 2013 drilling

Hole ID	From (m)	To (m)	Interval (m)	Grade Au (g/t)	Grade Ag (g/t)	Grade AuEq (g/t)
CSE-088-D	180.0	214.0	34.0	2.31	27.14	2.82
including	180.0	188.0	8.0	5.08	83.76	6.64
CSE-089-D	227.7	243.4	15.8	1.18	15.26	1.47
CSE-090-D	130.0	157.0	27.0	1.38	108.26	3.40
CSE-091-D	117.4	184.0	66.6	2.04	36.18	2.71
including	155.5	176.1	20.6	3.01	42.60	3.80
CSE-092-D	151.1	153.9	2.8	5.71	95.12	7.49
CSE-093-D	228.0	233.0	5.0	6.58	14.61	6.85

- Intervals reported in the above table are not true thicknesses and are estimated to represent between 80–85% of the actual true thickness of mineralisation
- AuEq(gold equivalent) ratio is 53.5:1 Ag:Au



Process testwork has continued through 2013 with the objective being to optimise the extraction of gold and silver from the COSE ore. Several different process routes have been investigated with the most likely process involving a combination of floatation and cyanide leaching of the floated concentrate product. Testwork will continue in 2014 as the project is developed in unison with the Cap-Oeste project. Preliminary testwork shows in excess of 97% gold and 98% of the continued silver will report to a concentrate and can then be leached. Optimisation tests to account for the fine clay content within the ore body will need to be completed during the year to finalise the design criteria for the plant.

The mine will be a combination of open pit and underground with anticipated mine life of no more than 20 months from the date of commencement of the pit. As the plant will be shared with Cap-Oeste, capital will be minimised. A full updated mine plan and resource estimate will be completed by AMEC as part of the ongoing feasibility study.

### El Tranquilo and regional exploration

The El Tranquilo block will form the main target area of the Company's exploration effort for 2014. As the Cap-Oeste-COSE project is planned to become a central processing area, a concerted effort will be made to explore the 80,000+ hectares of the El Tranquilo land package.

Ounces of gold equivalent resources already delineated on the block:

1.5 million

A series of 22 target areas have been identified over the last two years with mineralisation discovered at surface in trenches and rock outcrops on prospects such as Valle, Calafate, Felix and the more advanced projects such as Monte Leon and Marciana.

A drill and exploration budget of \$4.5 million has been approved for the 2014 season with drilling scheduled to commence in Q2. The target material is primarily high-grade oxide near-surface low sulphidation mineralisation which can be added to the existing resource base and the planned oxide heap leach project at Cap-Oeste.

A full ground magnetic survey and geochemical survey is also programmed for the block along with continued mapping and an IP geophysical programme to be carried out over the main prospects. Approximately 70% of the entire block remains unexplored, with 1.5 million ounces of gold equivalent resources already delineated on the block. Patagonia believes huge potential exists to add to this resource base.

La Manchuria was advanced during the 2013 season with a drilling programme targeting down-dip extensions, mineralisation at La Manchuria East and additional broad zones of oxide material from surface in La Manchuria central zone. The mineralisation is classic low sulphidation style epithermal gold and silver mineralisation represented by thin, high grade quartz vein hosted material along with wide lower grade halos of potentially heap leachable material.

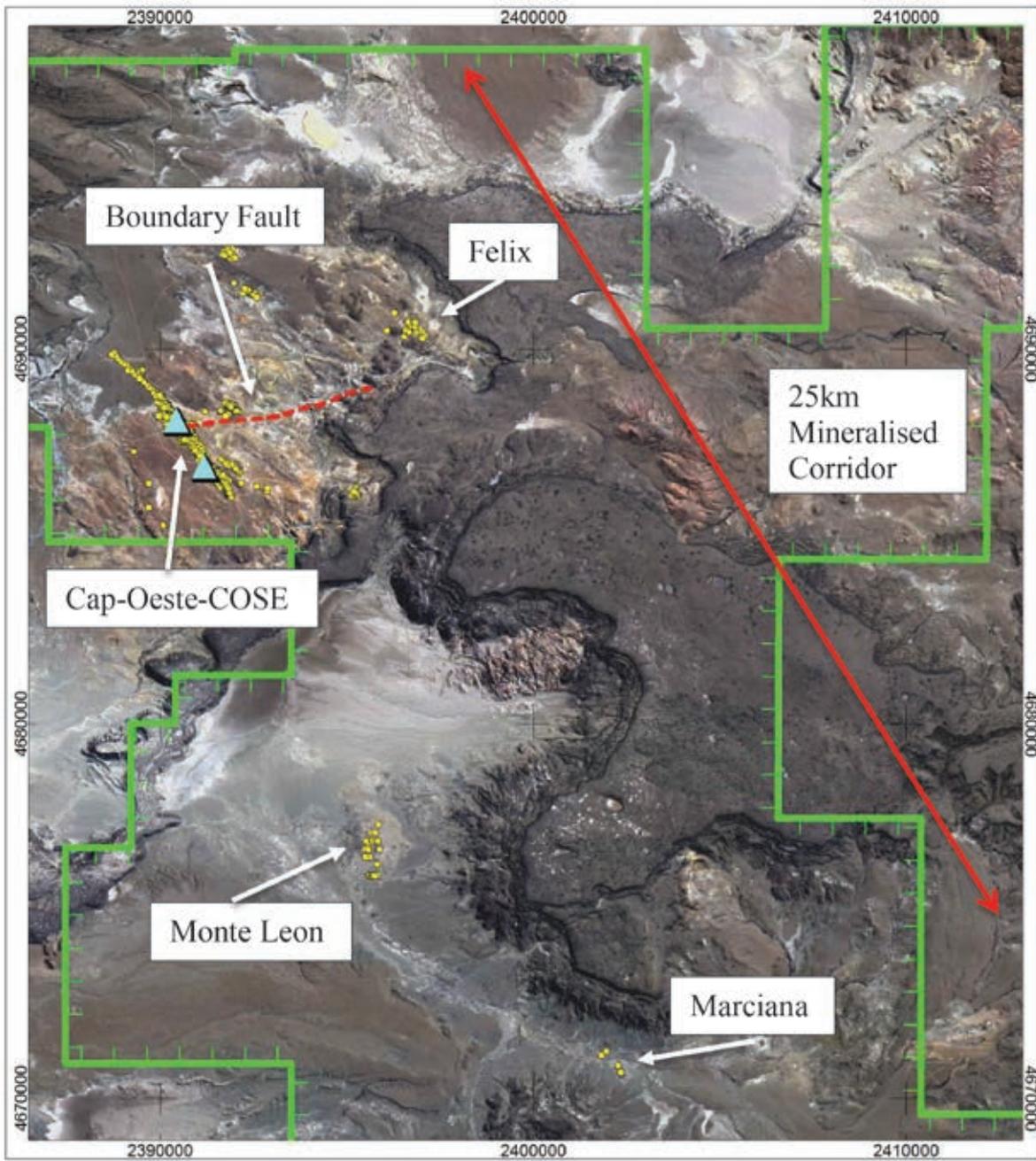
A nine hole, 1,259 metre HQ diameter diamond drill programme was completed at the Manchuria main zone and Manchuria East in May 2013. Results include:

#### La Manchuria 2013 exploration programme

Hole ID	From (m)	To (m)	Length (m)	Au (g/t)	Ag (g/t)	AuEq (g/t)
LM-096-D	136.87	138.00	1.13	6.78	311.00	11.96
LM-097-D	19.00	59.00	40.00	2.11	35.98	2.71
including	39.00	40.00	1.00	16.30	41.20	16.99
and	51.00	52.00	1.00	11.60	58.10	12.57
LM-098-D	59.55	60.50	0.95	8.87	22.50	9.25
LM-099-D	53.50	57.45	3.95	15.97	41.60	16.66
including	55.10	56.40	1.30	29.89	52.25	30.76

- Intervals reported in the above table are not true thicknesses and are estimated to represent between 80–85% of the actual true thickness of mineralisation
- AuEq (gold equivalent) ratio is 60:1 Ag:Au

To date, the Company has completed 20,993 m of diamond and reverse circulation drilling on this project. A resampling programme was completed on previously unsampled diamond core to ascertain the possibility of delineating a large low-grade heap leachable resource. Modelling is continuing and further exploration is planned to the immediate south of the project to test a large silver anomaly discovered with soil geochemical sampling.



El Tranquilo block with exploration targets shown

## Operational review continued

### La Manchuria South

Forming part of the Fomicruz joint venture package of properties, the La Manchuria South Blocks including the Haydee and Rene licences which are located approximately 15 km to the south of La Manchuria project, have shown excellent potential with a series of mineralised occurrences mapped and sampled at surface.

Projects include Veta Speme, Cerro Turulo, Tres Lagunas and Los Domos. Intersections of interest include:

#### Significant intervals, Tres Lagunas and Veta Speme

Channel ID	Area	Length (m)	Au (g/t)	Ag (g/t)
CH-021-VSP	Veta Speme	0.40	0.53	665.1
CH-024-VSP	Veta Speme	1.05	4.60	187.6
CH-030-VSP	Veta Speme	1.00	1.97	72.4
CH-031-VSP	Veta Speme	0.65	4.41	28.9
CH-032-VSP	Veta Speme	0.95	1.71	25.9
CH-001-TLG	Tres Lagunas	1.20	2.13	89.4
CH-009-TLG	Tres Lagunas	3.00	4.40	174.7
CH-013-TLG	Tres Lagunas	1.20	3.31	128.2

Channel sampling from Cerro Turulo which is represented by an outcropping quartz vein structure running in a northwest–southeast orientation and associated with a large hydrothermal breccia and quartz blow has returned some excellent values including 1.1 metres @ 14.46 g/t gold and 234 g/t silver in Channel 18 plus 1.00 m @ 4.50 g/t and 18.50 g/t silver in Channel 01.



Manchuria South – Trenching at Cerro Turulo

### Social and economic responsibility

Patagonia Gold maintains a strong awareness of its responsibilities towards the environment and existing social structures.

Careful attention is given to ensure that all exploration and development work is carried out strictly within the guidelines of the relevant mining and environmental acts. Patagonia Gold attempts, where possible, to hire local personnel and use local contractors and suppliers.



#### Matthew Boyes

Chief Operations Officer

16 May 2014

# Risks and uncertainties

## 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 2, the Report of the Managing Director/CEO on pages 6 to 7 and the Operations Report on pages 10 to 20, which are incorporated in this report by reference.

## Principal risks and uncertainties

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

### Financing

The development of the Group's properties will be through revenue from production and/or the Group's ability to obtain financing primarily through the raising of new equity capital, but also by means of joint venture projects, debt financing or other means. There is no assurance that the Group will be successful in obtaining the required financing. If the Group is unable to obtain additional financing as needed, some interests may be relinquished and/or the scope of the operations may be reduced.

For the second year running, 2013 proved to be very challenging for the capital markets for mining, as a result of which the Company was required to raise short-term bank debt to cover sustaining capital for the commissioning of the Lomada Project. To remain prudent the Company directed all available funds toward the completion of the Lomada Project. Exploration drilling, with the exception of a small programme completed at COSE and Manchuria, was placed on hold until the equity markets improve or until the Lomada Project generates excess funds.

### Exploration and development risk

There is no assurance that the Group's exploration activities will be successful, and statistically few properties that are explored are ultimately developed into producing mines. Accordingly, the Group is:

- (i) seeking to balance this risk by building a portfolio of projects and prospects that carry a range of differing technical and commercial risks; and
- (ii) carefully monitoring and reviewing the amount invested in any one project.

The Group's operations may also be curtailed, delayed or cancelled as a result of economic, environmental and political conditions in the area of operation. Exploration of the Company's large portfolio of properties over the past year has concentrated mainly on field work with trenching on the El Tranquilo Block where numerous drill targets have been identified and on the Manchuria Block where exploration together with a small drill programme has continued to highlight the potential of this area to become a stand-alone mine.

### 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.

### 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 monitors banking, customs and taxation developments and advises the Group on the handling of various issues including foreign exchange controls and cash transfers in and out of Argentina.

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## Risks and uncertainties continued

### Principal risks and uncertainties continued

#### Currency

The Group presents its financial results in United States Dollars (USD). The Group commenced commercial production at its Lomada Project main heap leach operation in third quarter of 2013. Gold production is shipped to Toronto, Canada, for refining and proceeds from the gold sales, denominated in USD, are transferred within 84 days from customs and clearance to Argentina 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 USD and transfers the USD to Argentina where they are converted to Argentine Pesos (ARS). The Group takes advice from FX traders and takes advantage of GBP to USD exchange rates as and when required.

#### 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.

All permits have been received for the development and production of the Lomada Project main heap leach from the State Secretary of Mines, Santa Cruz.

## 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.	Shareholder return	Share price performance.
	Medical treatment injury frequency rate.		
Environment management	Compliance with strict jurisdictional environmental policies.	Exploration expenditure	Exploration cost per metre drilled.
Operational success	The number of successful exploration drilling ventures and growth of resources.	Exploration development	Results of scoping and feasibility studies.
			Growth of resources.
Human resource management	Employee retention rate.	Working capital	Monitoring working capital.
	Attracting qualified employees for key positions.		Ensuring adequate liquidity.

### Non-financial KPIs

- **Health and safety management:** The Company's Health and Safety Department is staffed by three qualified and experienced personnel. During the year 2013, the lost time injury frequency rate for the Company was 15.14, the lost time injury incidence rate was 2.06 and the medical treatment injury frequency rate was 2.38% per man/worked day.
- **Environment management:** The Company's Environmental Department is staffed by three qualified and experienced personnel. Patagonia Gold is compliant with Santa Cruz jurisdictional environmental policy requirements. During 2013, PGSA presented several Environmental Impact Assessment (EIA) reports, prepared in compliance with provincial and national environmental laws and regulations, to the secretary of mines, Santa Cruz for exploration and drilling on each of the property blocks of the Company. In addition, quarterly water quality assays and reports were prepared and environmental baselines were completed in compliance for the four projects comprising the resource base for the Company. PGSA also successfully passed several on-site inspections conducted by provincial authorities.
- **Operational success:** The Group commenced commercial production of gold in July 2013 upon the successful commissioning of its new gold processing facility at the Lomada de Leiva project. Gold production reached nameplate 1,750 ounces per month in November 2013 and has continued at that level to date. During 2014 the Group is expecting to produce approximately 31,500 ounces of gold from Lomada; cash flow from the resulting gold sales is expected to amount to approximately \$38.0 million, assuming a \$1,200 per ounce gold price. During 2013, the Company completed 32 diamond HQ diameter drill holes for a total of 5,908 m of drilling with majority of drilling at the COSE and La Manchuria projects.
- **Human resource management:** During 2013, the employee retention rate was 70.7% and the Company was successful in retaining key personnel in a difficult market with increasing demand for experienced mining personnel from competitors in the region. The turnover was 27% during the year. The Company has introduced a plan for the evaluation of personnel in the areas of productivity, health and safety, training skills and environmental compliance.

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## Key performance indicators continued

### Financial KPIs

- Shareholder return: The Company's share price continues to be impacted by the downturn in the capital markets since early 2012, most notably in the precious metals sector. Patagonia Gold's share price went from a high of 22.75 pence in January 2013 to 7.50 pence in July 2013. The closing mid-market price of the Company's ordinary shares on 31 December 2013 was 11.00 pence, down from 22.375 pence at 31 December 2012.
- Exploration expenditure: Exploration drilling, with the exception of a small programme completed at COSE and Manchuria, was placed on hold until the equity markets improve or until the Lomada Project generates excess funds.
- Exploration development: There have been no additions to the Group's resource base in 2013. The Measured and Indicated resources at Lomada were depleted from 161,346 ounces to 132,849 ounces through production while the Inferred category remained unchanged at 73,735 ounces.
- Working capital: At 31 December 2013, working capital netted to \$(9.3) million, a decrease of \$14.1 million from the 31 December 2012 working capital of \$4.8 million. This decrease was due to there being \$3.3 million less cash on hand, \$1.9 million decrease in gold inventory and \$12.0 million increase in trade and other payables including short-term loans, offset by a \$3.1 million increase in trade and other receivables.

All significant information is detailed in the Operations Report on pages 10 to 20 and is published on our website at [www.patagoniagold.com](http://www.patagoniagold.com).

### Directors

A list of the Directors who served during the year can be found on page 77. Biographies of the current Directors can be found on pages 26 to 27.

At 16 May 2014, each of the Directors has taken all necessary steps to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information and that there is no relevant audit information of which the Company's auditor is unaware. A Letter of Representations to this effect has been delivered to the Company's auditor, Grant Thornton LLP.

### Risk factors

Details of the principal financial risk factors affecting the Company can be found in note 24 on page 66.

### Subsequent events

Significant events since the year end are detailed in the Report of the Managing Director/CEO on pages 6 to 7, the Operations Report on pages 10 to 20, the Report of the Directors on pages 28 to 33 and in the Notes to the Accounts on pages 45 to 74.

### Future developments

Planned future developments are outlined in the Report of the Managing Director/CEO on pages 6 to 7 and in the Operations Report on pages 10 to 20.

### Subsidiary companies

Details of the Company's subsidiaries can be found in note 15 on page 62.

### Further information

Further information can be found in the Report of the Directors on pages 28 to 33.

**This Strategic Report was approved by the Board of Directors and signed on its behalf by:**

**Bill Humphries**

Managing Director/  
Chief Executive Officer

16 May 2014

## **Governance**

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responsibilities

## Board of Directors



**Carlos J. Miguens**



**William H. Humphries**



**Gonzalo Tanoira**

### Position

Chairman

Managing Director/Chief Executive Officer

Finance Director

### Experience

Carlos has extensive business experience in Latin America. He was President of Cerveceria & Malteria Quilmes, one of Argentina's largest brewing companies for eleven years, until its sale to Ambev.

He has been the President of Patagonia Gold S.A. since its inception.

Bill has been a Director of the Company since its inception and has over 40 years' experience in the mining and civil engineering industries.

From January 1999 Bill was Managing Director of Brancote Holdings Plc until its acquisition by Meridian Gold Inc. in July 2002 and from 1996 to 1998 he was General Manager of Sardinia Gold Mining SpA.

Gonzalo has been a Director of the Company since its inception. 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.

### Other appointments

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 AEA (Asociación Empresaria Argentina).

He is currently Chairman of Landore Resources Limited.

He is a Director of S.A. San Miguel, an Argentine publicly traded lemon producer, since April 2003 and Vice President since April 2013.



**Marc J. Sale**

Technical Director

Marc is a Fellow of the Australian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists with over 25 years' experience with mineral exploration and development companies. Prior to joining the Company he was Project Manager for Brancote Holdings Plc's Esquel Gold and Silver Project in Argentina.



**Edward J. Badida**

Non-Executive Director

Ed is a Chartered Professional Accountant (CPA) and a Chartered Accountant (CA) with over 30 years of financial management and corporate governance experience in mining and mineral exploration companies. Over the past decade Ed has served as Chief Financial Officer and/or has been a board member of ten other companies listed on the Toronto Stock Exchange (TSX). He has additionally held management positions at accounting firms PricewaterhouseCoopers and KPMG.



**Manuel de Prado**

Non-Executive Director

Manuel has more than 25 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 ten years at Chase Manhattan Bank, in charge of Corporate Lending and Investment Banking, in Spain.

Manuel has a BA in Economics and Business Administration from ICADE.

Most recently he has been a Director of Oquendo Corporate S.L. in Madrid, an independent financial advisory firm specialising in mergers and acquisitions and other corporate finance related transactions.



**Glenn Featherby**

Non-Executive Director

Glenn is a Chartered Accountant and has over 30 years' experience in corporate advisory services and has worked extensively in the resources sector. He began his career with KPMG in Perth and London before establishing his own accounting practice in Perth in 1997.

He has previously been Finance Director of AIM-listed Regal Petroleum Plc and a Non-Executive Director of Canadian and AIM-listed European Goldfields Limited.

He is currently Executive Chairman of ASX-listed Hawkley Oil and Gas Limited and Non-Executive Chairman of Forte Energy NL which is listed on both ASX and AIM.

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# 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 2013. All amounts are expressed in US\$ (“\$”) except where indicated.

## Principal activities

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

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

Patagonia Gold’s growth strategy includes the development of three key projects:

- The flagship Cap-Oeste Project, which reported an updated resource estimate in September 2012 and is the continued focus of extensive exploration and growth for the Group.
- The Lomada Project heap leach will generate a regular cash flow to fund exploration and working capital requirements for the Group over its seven-year life of mine. For 2014, the Group is expecting to produce approximately 31,500 ounces of gold from Lomada. Cash flow from gold sales in 2014 is expected to amount to approximately \$38.0 million, assuming a \$1,200 per ounce gold price.
- The Group has decided to advance Cap-Oeste to production in two phases, the first phase being the construction of a 50,000 ounce per annum capacity heap leach processing facility for approximately 250,000 ounces of medium-grade oxide resource. Engineering and metallurgical studies are well advanced and, subject to available finance and permitting, purchasing and construction will commence later this year for start-up in the first half of 2015. The targeted combined annual production from the two heap leach projects is 83,000 ounces of gold equivalent, generating in excess of \$100 million per annum of high-margin revenue which will provide significant funding towards exploration drilling and the development of the main Cap-Oeste project. The second phase will entail the construction of a processing facility capable of treating both the high-grade sulphide hosted mineralisation at Cap-Oeste and the bonanza grade COSE ore to minimise capital and maximise operating efficiencies. A full updated mine plan and resource estimate will be completed as part of the ongoing feasibility study, scheduled for completion in Q4 2014.

## Financial instruments

The Company’s principal 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 together with detailed discussion and sensitivity analysis relating to these risks.

## Going concern

The attached financial statements are prepared on a going concern basis, which the Directors believe to be appropriate for the following reasons:

The Group is an advanced gold and silver exploration and development company that commenced commercial production of gold in July 2013 upon the successful commissioning of its new gold processing facility at the Lomada de Leiva Project. Gold production continued and reached nameplate 1,750 ounces per month in November 2013 and has continued at that level or above to date. In January 2014 the Group decided to expand production from Lomada to 3,000 ounces per month to be achieved by late Q2 2014. Minimal capital is required to achieve this expansion.

Patagonia Gold’s growth strategy includes the development of two key projects, one of which is the Lomada Project which is generating free cash flow; the second is the flagship Cap-Oeste/COSE Project which is being developed in two stages, the first stage being an oxide heap leach process from Cap Oeste resource to commence production in 2015 and the second stage being the development of the Cap Oeste sulphide mineralisation together with the high-grade COSE ore.

Regular monthly cash flow from the Lomada Project main heap leach, which commenced commercial production in the third quarter of 2013, is targeted to partly finance the Company’s exploration programme for the remainder of 2014, the expansion of the Lomada heap leach project and continuing studies on the Cap Oeste/COSE project. This planned expansion will require additional capital financing.

The Group is confident in its ability to undertake the current planned programme of activity over the next twelve months from the date of this report.

The Group and Company are also evaluating additional strategies and corresponding financing requirements for 2014 and beyond and are confident in their ability to secure additional funding at a competitive rate to continue to meet commitments as they fall due.

### Share capital

On 27 February 2013, the Company placed 41,196,687 new ordinary shares, each at a price of 15.0 pence per share (\$9.3 million). The cost of the placement totalled \$54.2 thousand (£36.0 thousand) resulting in net proceeds of \$9.2 million (£6.1 million). \$0.6 million (£0.4 million) of the net proceeds are included in share capital and the balance of \$8.6 million (£5.7 million) is included in share premium.

During 2013, the Company allotted a total 1,825,000 new ordinary shares pursuant to the exercise of share options for total gross proceeds of \$245.8 thousand (£159.7 thousand). \$28.1 thousand (£18.2 thousand) of the gross proceeds are included in share capital and the balance of \$217.7 thousand (£141.5 thousand) is included in share premium. Details of the share options exercised are as follows:

Date of share issue	Number of shares	Date options exercised
12 March 2013	500,000	27 February 2013
11 April 2013	250,000	27 March 2013
7 May 2013	900,000	27 March 2013
9 October 2013	175,000	12 September 2013
	1,825,000	

### Subsequent event

Subsequent to 31 December 2013, the Company allotted the following new ordinary shares pursuant to the exercise of share options:

Date of share issue	Number of shares	Date options exercised
29 January 2014	1,281,000	15 January 2014
29 January 2014	2,000,000	16 January 2014
20 February 2014	906,000	7 February 2014
24 February 2014	1,000,000	6 February 2014
	5,187,000	

On 26 February 2014, following consultation with the Company's advisors, 3,074,331 ordinary shares in the Company were issued in lieu of the outstanding fees owed to Directors for their services during 2013, under each Director's terms of appointment. The shares were deemed to be allotted for cash at a market price of 11.38 pence, being the volume weighted average share price for the Company for the 30 day period prior to the date of the announcement as follows:

Name of Director	Period to which remuneration relates	Number of new ordinary shares issued in lieu of fees/salary	Holding of shares following issue of new ordinary shares	% of enlarged issued share capital
Carlos J. Miguens	1 January 2013 – 31 December 2013	658,786	133,338,985	15.43%
William H. Humphries	1 April 2013 – 31 December 2013	1,119,936	28,670,387	3.32%
Gonzalo Tanoira	1 January 2013 – 31 December 2013	351,352	8,775,607	1.02%
Marc J. Sale	1 April 2013 – 31 December 2013	197,635	1,874,322	0.22%
Edward J. Badida	1 January 2013 – 31 December 2013	351,352	351,352	0.04%
Manuel de Prado	1 April 2013 – 31 December 2013	197,635	197,635	0.02%
Glenn Featherby	1 April 2013 – 31 December 2013	197,635	2,151,447	0.25%

These shares were admitted to AIM on 4 March 2014.

# Report of the Directors continued

## 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.

## Dividends

The Directors do not recommend the payment of a dividend (2012: \$Nil).

## Substantial shareholdings

In addition to the interest of Carlos J. Miguens disclosed below, at 16 May 2014, 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	133,338,985	15.43
BlackRock Inc.*	65,237,592	7.59
Van Eck Global	64,768,106	7.50
Cinco Vientos Uruguay SA	38,820,252	4.49
William H. Humphries	28,670,477	3.32
Barrick Gold Corporation	28,323,264	3.28

\* The shareholding of BlackRock Inc. includes 55,700,000 shares (6.45%) held by the BlackRock Gold & General Fund

## 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 1 pence:	16 May 2014	31 December 2013	31 December 2012
Sir John Craven – retired 9 January 2013	N/A	N/A	9,455,190
Carlos J. Miguens	133,338,985	132,680,199	104,954,776
William H. Humphries	28,670,477	27,550,541	26,050,541
Gonzalo Tanoira	8,775,607	7,143,255	6,900,673
Marc J. Sale	1,874,322	1,676,687	1,676,687
Edward J. Badida	351,352	—	—
Gary A. Sugar – resigned 18 February, 2013	N/A	N/A	—
Manuel de Prado – appointed 8 April 2013	197,635	—	N/A
Glenn Featherby – appointed 8 April 2013	2,151,447	1,953,812	N/A

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 Sir John Craven \$1,929 (2012: \$79,235) plus \$84 social security costs (2012: \$9,319) for services through to his retirement date;
- to Carlos J. Miguens \$117,322 (2012: \$118,852) for his services as Director and Chairman;
- to William H. Humphries through his company Mining Management-Europe (MM-E) \$265,931 (2012: \$269,399) for his services as Director and Chief Executive Officer of Patagonia Gold Plc;
- to Gonzalo Tanoira \$62,572 (2012: \$63,388) for his services as Director;
- to Marc J. Sale through his company Specialist Services \$46,929 (2012: \$47,541) for his services as Director in addition to \$Nil (2012: \$52,889) in his capacity as a consultant;
- to Edward J. Badida \$62,572 (2012: \$63,388) for his services as Director and Chairman of the Audit Committee;
- to Gary A. Sugar \$13,071 (2012: \$47,541) for his services as Director through to the date of his resignation;
- to Manuel de Prado \$31,286 (2012: \$Nil) for his services as Director; and
- to Glenn Featherby \$31,286 (2012: \$Nil) for his services as Director.

Of the previous, US\$577,080 remained unpaid at the year end as the Directors look to assist with the Company's short-term cash flow situation. On 26 February 2014, following consultation with the Company's advisors, 3,074,331 ordinary shares in the Company were issued in lieu of these outstanding fees owed to Directors for their services during 2013, under each Director's terms of appointment. These shares were admitted to the AIM market on 4 March 2013.

No Director received any other bonus or benefits-in-kind in 2013 or 2012.

Directors hold options in their names and/or under controlled subsidiaries.

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 31 December 2012. These options were included as "granted during the year ended 31 December 2012" as the option terms were communicated on 18 October 2012.

On 30 April 2013, Marc Sale transferred options over 1,000,000 ordinary shares of 1 pence each to a party connected to him. At 31 December 2013 Marc Sale was interested in 5,475,000 options over ordinary shares in the Company.

No other Director exercised or transferred any options during the year.

At 31 December 2013, the Directors were interested in unissued ordinary shares granted to them by the Company under share options held by them pursuant to individual option agreements:

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
W H Humphries	23 June 2009	12.25p	4,500,000	23 June 2009	22 June 2019
W H Humphries	17 June 2010	15.00p	1,100,000	17 June 2010	16 June 2020
W H Humphries	10 February 2011	11.00p*	2,000,000	10 February 2011	9 February 2021
W H Humphries	13 May 2011	11.00p*	900,000	13 May 2011	12 May 2021
W H Humphries	31 January 2012	11.00p*	2,000,000	31 January 2012	30 January 2022
W H Humphries	9 January 2013	22.75p	3,000,000	9 January 2013	8 January 2023
M J Sale	5 June 2007	8.00p	1,000,000	5 June 2007	4 June 2017
M J Sale	3 June 2008	8.00p	500,000	3 June 2008	2 June 2018
M J Sale	23 June 2009	12.25p	2,600,000	23 June 2009	22 June 2019
M J Sale	17 June 2010	15.00p	825,000	17 June 2010	16 June 2020
M J Sale	13 May 2011	11.00p*	550,000	13 May 2011	12 May 2021
G Tanoira	18 February 2004	8.00p	1,281,000	19 February 2004	18 February 2014
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
E J Badida	1 November 2011	11.00p*	750,000	1 November 2011	31 October 2021
M de Prado	12 September 2013	11.00p	750,000	12 September 2013	11 September 2023
G Featherby	12 September 2013	11.00p	750,000	12 September 2013	11 September 2023

\* 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 11 pence, 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

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# Report of the Directors continued

## Directors and Directors' interests continued

The Company's ordinary shares were traded on AIM and the GBP market price of those shares ranged between 7.50 pence and 22.75 pence during the year. The closing mid-market price of the Company's ordinary shares on 31 December 2013 was 11.00 pence (31 December 2012: 22.375 pence).

Following the fundraising of October 2012, William H. Humphries also holds warrants over 2,065,263 ordinary shares as detailed in note 22.

## Subsequent events

In January 2014, Gonzalo Tanoira exercised 1,281,000 share options from the list on the previous page; the shares were admitted to AIM on 29 January 2014.

## Corporate governance

At a Board Meeting held on 28 June 2013 it was decided that it was no longer beneficial that the ordinary shares of the Company should be dual listed for trading on the London Stock Exchange Alternative Investment Market (AIM) and the Toronto Stock Exchange (TSX). The Company received confirmation from the TSX that its ordinary shares were de-listed from the TSX with effect from the close of business on 12 July 2013 and subsequently received confirmation from the Ontario Securities Commission that it is no longer a reporting issuer in Ontario. The Company remains subject to the regulatory requirements of UK companies on AIM and is not required to make an annual statement to shareholders regarding compliance with the Combined Code on Corporate Governance. However, the following statements are made in respect of 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.

Following the appointment and election of Manuel de Prado and Glenn Featherby as independent Non-Executive Directors of the Company, Carlos J. Miguens, Gonzalo Tanoira and Marc Sale have stood down from their interim appointments to the Audit, Remuneration and Nomination Committees. On 14 June 2013 the Committees were restructured as detailed below.

The Audit Committee, which comprises Edward J. Badida (Chairman), Manuel de Prado and Glenn Featherby, 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. The external auditor is invited to attend at least one meeting of the Audit Committee each year.

The Remuneration Committee comprises Glen Featherby (Chairman), Edward J. Badida 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), Edward J. Badida and Glenn Featherby. Meetings are convened at least twice a year 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

Sir John Craven retired from the Board and Committees on 9 January 2013, having given the required notice.

Gary A. Sugar resigned from the Board and Committees on 18 February 2013, having given the required notice.

Carlos J. Miguens, Marc J. Sale, Edward J. Badida, Manuel de Prado and Glenn Featherby have service arrangements that provide for three months' notice of termination and those of William H. Humphries and Gonzalo Tanoira provide for six months' notice of termination.

### 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](http://www.patagoniagold.com).

### Annual General Meeting

The Company's Annual General Meeting is convened for 25 June 2014 at 11.00 am to be held at The Millennium Hotel London Mayfair, Grosvenor Square, London W1K 2HP. The notice of Annual General Meeting is presented as a separate document from 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 Marc J. Sale 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.

### Auditor

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 25 June 2014.

By order of the Board

### Nigel Everest

Company Secretary

16 May 2014

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## Statement of Directors' responsibilities

### in respect of the Directors' Report and the financial statements

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

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

- select suitable accounting policies and then apply them consistently;
- make 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:

- insofar as each of the Directors is aware there is no relevant audit information of which the Company's auditor is 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.

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# Report of the independent auditor to the members of Patagonia Gold Plc

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

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

## Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' responsibilities set out on page 34, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## Opinion on financial statements

In our opinion:

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

## Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the company's ability to continue as a going concern.

The group incurred a net loss of \$15,161,000 during the year ended 31 December 2013.

As explained in note 2, the Group requires additional working capital to continue to meet commitments as they fall due. The directors are also pursuing alternative sources of funding, but have not yet secured a commitment.

These conditions, along with the other matters explained in note 3 to the financial statements indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

### **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 comply with IFRSs as issued by the IASB.

### **Opinion on other matter prescribed by the Companies Act 2006**

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

### **Matters on which we are required to report by exception**

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

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

### **Charles Hutton-Potts**

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

London

16 May 2014

# Consolidated statement of comprehensive income

## for the year ended 31 December 2013

	Note	2013 \$'000	2012 \$'000
<b>Continuing operations</b>			
Revenue	3	10,182	—
Cost of sales		(9,850)	—
Gross profit		332	—
Exploration costs		(8,309)	(14,356)
<b>Administrative costs</b>			
Share-based payments charge	27	(2,271)	(5,284)
Other administrative costs	8	(12,713)	(6,472)
		(14,984)	(11,756)
Finance income	6	5,180	4,929
Finance costs		(629)	(68)
<b>Loss before taxes</b>		<b>(18,410)</b>	(21,251)
Income tax benefit	10	3,249	476
<b>Loss for the year</b>		<b>(15,161)</b>	(20,775)
Attributable to non-controlling interest	23	(2,904)	—
Attributable to equity share owners of the parent		(12,257)	(20,775)
		(15,161)	(20,775)
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Loss on revaluation of available-for-sale financial assets		(65)	(31)
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Exchange loss on translation of foreign operations	3	(7,935)	(5,119)
<b>Other comprehensive loss for the year</b>		<b>(8,000)</b>	(5,150)
<b>Total comprehensive loss for the year attributable to owners of the parent</b>		<b>(23,161)</b>	(25,925)
<b>Net loss per share (\$)</b>			
Basic loss per share	11	(0.01)	(0.03)
Diluted loss per share	11	(0.01)	(0.03)

The notes on pages 45 to 74 form part of these financial statements.

# Consolidated statement of financial position

## at 31 December 2013

	Note	2013 \$'000	2012 \$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	17,943	11,881
Mineral properties	13	7,278	8,387
Mining rights	12	3,787	3,886
Available-for-sale financial assets	24	29	94
Other receivables	16	11,205	8,716
Deferred tax asset	10	3,569	581
		<b>43,811</b>	33,545
<b>Current assets</b>			
Inventory	18	2,941	4,880
Trade and other receivables	17	1,235	625
Cash and cash equivalents	19	981	4,663
		<b>7,536</b>	10,749
<b>Total assets</b>		<b>48,968</b>	43,713
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	20	18,018	5,969
		<b>18,018</b>	5,969
<b>Non-current liabilities</b>			
Long-term loans	21	4,634	—
Provisions	21	1,076	1,104
<b>Total liabilities</b>		<b>23,728</b>	7,073
<b>EQUITY</b>			
Share capital	22	14,108	13,126
Share premium account		160,087	147,347
Currency translation reserve		(21,547)	(8,929)
Share-based payment reserve		18,804	16,222
Accumulated losses		(147,294)	(135,112)
<b>Equity attributable to shareholders of the parent</b>		<b>24,158</b>	32,654
Non-controlling interest	23	1,082	3,986
<b>Total equity</b>		<b>25,240</b>	36,640
<b>Total liabilities and equity</b>		<b>48,968</b>	43,713

Company registered number 3994744

These financial statements were approved by the Board of Directors on 16 May 2014 and were signed on its behalf by:

**Gonzalo Tanoira**  
 Director

The notes on pages 49 to 74 form part of these financial statements.

# Company statement of financial position

## at 31 December 2013

	Note	2013 \$'000	2012 \$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	119	137
Investment in subsidiary companies	15	120,496	118,048
Available-for-sale financial assets	24	29	94
		<b>120,644</b>	118,279
<b>Current assets</b>			
Trade and other receivables	17	1,780	1,380
Cash and cash equivalents	19	79	3,342
		<b>1,859</b>	4,722
<b>Total assets</b>		<b>122,503</b>	123,001
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	20	7,870	21,175
<b>Total liabilities</b>		<b>7,870</b>	21,175
<b>EQUITY</b>			
Share capital	22	14,108	13,126
Share premium account		160,087	147,347
Currency translation reserve		(2,927)	(1,160)
Share-based payment reserve		18,804	16,222
Accumulated losses		(75,439)	(73,709)
<b>Total equity</b>		<b>114,633</b>	101,826
<b>Total liabilities and equity</b>		<b>122,503</b>	123,001

Company registered number 3994744

These financial statements were approved by the Board of Directors on 16 May 2014 and were signed on its behalf by:

**Gonzalo Tanoira**  
Director

The notes on pages 45 to 74 form part of these financial statements.

# Consolidated statement of changes in equity

## for the year ended 31 December 2013

	Note	Equity attributable to shareholders of the parent							Non-controlling interests \$'000	Total equity \$'000
		Share capital \$'000	Share premium account \$'000	Currency translation reserve \$'000	Share-based payment reserve \$'000	Accumulated losses \$'000	Total attributable to owners \$'000			
<b>At 1 January 2012</b>		11,381	117,205	3,349	10,941	(115,000)	27,876	3,986	31,862	
<b>Changes in equity for 2012</b>										
Share-based payment	27	—	—	—	5,284	—	5,284	—	5,284	
Issue of share capital										
Issue by placing	22	1,024	23,436	—	—	—	24,460	—	2,460	
Transaction costs of placing		—	(797)	—	—	—	(797)	—	(797)	
Exercise of option	22	177	1,579	—	(589)	589	1,756	—	1,756	
Transactions with owners		1,201	24,218	—	4,695	589	30,703	—	30,703	
Loss for the year		—	—	—	—	(20,775)	(20,775)	—	(20,775)	
<b>Other comprehensive income/(loss):</b>										
Revaluation of available-for-sale financial assets		—	—	—	—	(31)	(31)	—	(31)	
Exchange differences on translation to \$		544	5,924	(12,278)	586	105	(5,119)	—	(5,119)	
Total comprehensive income/(loss) for the year		544	5,924	(12,278)	586	(20,701)	(25,925)	—	(25,925)	
<b>At 31 December 2012</b>		13,126	147,347	(8,929)	16,222	(135,112)	32,654	3,986	36,640	
<b>Changes in equity for 2013</b>										
Share-based payment	27	—	—	—	2,271	—	2,271	—	2,271	
Issue of share capital										
Issue by placing	22	620	8,679	—	—	—	9,299	—	9,299	
Transaction costs of placing		—	(54)	—	—	—	(54)	—	(54)	
Exercise of option	22	28	218	—	(140)	140	246	—	246	
Transactions with owners		648	8,843	—	2,131	140	11,762	—	11,762	
Loss for the year		—	—	—	—	(12,257)	(12,257)	(2,904)	(15,161)	
<b>Other comprehensive income/(loss):</b>										
Revaluation of available-for-sale financial assets		—	—	—	—	(65)	(65)	—	(65)	
Exchange differences on translation to \$		334	3,897	(12,618)	451	—	(7,936)	—	(7,936)	
Total comprehensive income/(loss) for the year		334	3,897	(12,618)	451	(12,322)	(20,258)	—	(23,162)	
<b>At 31 December 2013</b>		<b>14,108</b>	<b>160,087</b>	<b>(21,547)</b>	<b>18,804</b>	<b>(147,294)</b>	<b>24,158</b>	<b>1,082</b>	<b>25,240</b>	

The notes on pages 45 to 74 form part of these financial statements.

# Company statement of changes in equity

## for the year ended 31 December 2013

	Note	Share capital \$'000	Share premium account \$'000	Currency translation reserve \$'000	Share-based payment reserve \$'000	Accumulated losses \$'000	Total \$'000
<b>At 1 January 2012</b>		11,381	117,205	2,108	10,941	(71,263)	70,372
<b>Changes in equity for 2012</b>							
Share-based payment	27	—	—	—	5,284	—	5,284
Issue of share capital							
Issue by placing	22	1,024	23,436	—	—	—	24,460
Transaction costs of placing		—	(797)	—	—	—	(797)
Exercise of option	22	177	1,579	—	(589)	589	1,756
Transactions with owners		1,201	24,218	—	4,695	589	30,703
Loss for the year		—	—	—	—	(3,004)	(3,004)
<b>Other comprehensive income/(loss):</b>							
Revaluation of available-for-sale financial assets		—	—	—	—	(31)	(31)
Exchange differences on translation to \$		544	5,924	(3,268)	586	—	3,786
Total comprehensive income/(loss) for the year		544	5,924	(3,268)	586	(3,035)	751
<b>At 31 December 2012</b>		13,126	147,347	(1,160)	16,222	(73,709)	101,826
<b>Changes in equity for 2013</b>							
Share-based payment	27	—	—	—	2,271	—	2,271
Issue of share capital							
Issue by placing	22	620	8,679	—	—	—	9,299
Transaction costs of placing		—	(54)	—	—	—	(54)
Exercise of option	22	28	218	—	(140)	140	246
Transactions with owners		648	8,843	—	2,131	140	11,762
Loss for the year		—	—	—	—	(1,805)	(1,805)
<b>Other comprehensive income/(loss):</b>							
Revaluation of available-for-sale financial assets		—	—	—	—	(65)	(65)
Exchange differences on translation to \$		334	3,897	(1,767)	451	—	2,915
Total comprehensive income/(loss) for the year		334	3,897	(1,767)	451	(1,870)	1,045
<b>At 31 December 2013</b>		<b>14,108</b>	<b>160,087</b>	<b>(2,927)</b>	<b>18,804</b>	<b>(75,439)</b>	<b>114,633</b>

The notes on pages 45 to 74 form part of these financial statements.

# Consolidated statement of cash flows

## for the year ended 31 December 2013

	Note	2013 \$'000	2012 \$'000
<b>Operating activities</b>			
Loss for the year		(15,161)	(20,775)
Adjustments for:			
Finance income	6	(5,180)	(4,929)
Depreciation	12,13,14	3,503	1,050
Decrease/(increase) in inventory		1,939	(2,641)
Increase in trade and other receivables		(3,099)	(2,445)
Increase in deferred tax asset		(2,988)	(581)
Increase/(decrease) in trade and other payables		12,049	(1,273)
Increase in loans and provisions		4,606	252
Share-based payments charge	27	2,271	5,284
<b>Net cash used in operating activities</b>		<b>(2,060)</b>	<b>(26,058)</b>
<b>Investing activities</b>			
Finance income	6	5,180	4,929
Purchase of property, plant and equipment	14	(11,405)	(6,059)
Additions to mineral properties	13	(476)	(2,255)
Proceeds from disposal	13	4	250
Net (expense)/income from trial production	13	(1,062)	768
<b>Net cash used in investing activities</b>		<b>(7,759)</b>	<b>(2,367)</b>
<b>Financing activities</b>			
Proceeds from issue of share capital	22	9,245	23,663
Proceeds from exercise of options	22	246	1,756
<b>Net cash from financing activities</b>		<b>9,491</b>	<b>25,419</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(328)</b>	<b>(3,006)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>4,663</b>	<b>10,946</b>
<b>Effects of exchange rate fluctuations on cash and cash equivalents</b>		<b>(3,354)</b>	<b>(3,277)</b>
<b>Cash and cash equivalents at end of year</b>		<b>981</b>	<b>4,663</b>

The notes on pages 45 to 74 form part of these financial statements.

# Company statement of cash flows

## for the year ended 31 December 2013

	Note	2013 \$'000	2012 \$'000
<b>Operating activities</b>			
Loss for the year		(1,805)	(3,004)
Adjustments for:			
Finance income	6	(5,180)	(4,929)
Depreciation	14	46	41
Increase in trade and other receivables		(400)	(662)
Decrease in trade and other payables		(13,305)	(30,148)
Share-based payments charge	27	2,271	5,284
<b>Net cash used in operating activities</b>		<b>(18,373)</b>	<b>(33,418)</b>
<b>Investing activities</b>			
Finance income	6	5,180	4,929
Purchase of property, plant and equipment	14	(28)	(36)
<b>Net cash used in investing activities</b>		<b>5,152</b>	<b>4,893</b>
<b>Financing activities</b>			
Proceeds from issue of share capital	22	9,245	23,663
Proceeds from exercise of options	22	246	1,756
<b>Net cash from financing activities</b>		<b>9,491</b>	<b>25,419</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(3,730)</b>	<b>(3,106)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>3,342</b>	<b>7,787</b>
<b>Effects of exchange rate fluctuations on cash and cash equivalents</b>		<b>467</b>	<b>(1,339)</b>
<b>Cash and cash equivalents at end of year</b>		<b>79</b>	<b>3,342</b>

The notes on pages 45 to 74 form part of these financial statements.

# Notes to the financial statements for the year ended 31 December 2013

The financial statements on pages 38 to 44 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.

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 \$1.8 million in 2013 (2012: \$3.0 million) which includes an impairment charge of \$1.2 million (2012: \$Nil) following the closure of the Patagonia Gold Canada Inc. office, this charge being eliminated on consolidation.

## 2. Going concern

These consolidated financial statements are prepared on a going concern basis, which the Directors believe to be appropriate.

Patagonia Gold is an advanced gold and silver exploration and development company which commenced commercial production of gold in July 2013 upon the successful commissioning of its new gold processing facility at the Lomada de Leiva Project. Gold production continued and reached nameplate 1,750 ounces per month in November 2013 and has continued at or above that level to date. In January 2014 the Group decided to expand production from Lomada to 3,000 ounces per month to be achieved by late Q2 2014. Minimal capital is required to achieve this expansion.

Regular monthly cash flow from the Lomada Project main heap leach, which commenced commercial production in the third quarter of 2013, is targeted to partly finance the Company's exploration programme for the remainder of 2014, the expansion of the Lomada heap leach project and continuing studies on the Cap Oeste/COSE project. This planned expansion will require additional capital financing.

The Company will be investigating opportunities to raise this additional capital, however, the continued volatility in equity and debt markets coupled with the current gold price indicate the existence of a material uncertainty that may cast significant doubt on the Group and Company's ability to continue as a going concern. The Group and Company are evaluating additional strategies and corresponding financing requirements for 2014 and beyond and are confident in their ability to secure additional funding at a competitive rate to continue to meet commitments as they fall due.

The Group is confident in its ability to undertake the current planned programme of activity over the next twelve months from the date of this report. Accordingly, the financial statements do not include any adjustments, which would be necessary if the Company and Group ceased to be a going concern.

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# Notes to the financial statements continued

## for the year ended 31 December 2013

### 3. Significant accounting policies

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

#### Basis of consolidation

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

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

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

#### Revenue recognition

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

The revenue received from the sale of gold and silver recovered from the Lomada trial heap leach project to 30 June 2013 has been offset against the capitalised costs of Lomada Project development in compliance with IAS 16. Revenue from commercial production has therefore been recognised from 1 July 2013.

#### Foreign currency

The parent company's functional currency is GBP. The Argentine subsidiaries functional currency is US\$ (\$). Both functional currencies represent the main currency 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 ongoing 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 2013 was 1.6488 (2012: 1.6153) whilst the average rate for the year ended 31 December 2013 was 1.5643 (2012: 1.5847). For the year ended 31 December 2013, a translation loss of \$7.9 million is recognised resulting from the translation to \$ of the Company's foreign operations (2012: translation loss \$5.1 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).

### 3. Significant accounting policies continued

#### Share-based payments 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.

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

#### Exploration costs

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

#### Mining rights

Mining rights are rights to explore and mine specified areas of land acquired from the landowner. Mining rights acquired for stated terms in excess of ten 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.

#### Assets under construction

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

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

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# Notes to the financial statements continued

## for the year ended 31 December 2013

### 3. Significant accounting policies continued

#### 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 basis

Plant	Depreciation of the plant commenced October 2011 and is depreciated on a unit-of-production method over the estimated period of economically recoverable resources.
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An asset's residual value, useful life and depreciation method are reviewed and adjusted, if appropriate, on an annual basis.

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

#### Improvements and advances

Improvements and advances at the year end relate to the development and modification of software and plant, 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.

During the year it was decided to close the Toronto offices of Patagonia Gold Canada Inc. (a wholly owned subsidiary of Patagonia Gold Plc) and an appropriate impairment charge has been recognised in the accounts of the Company.

#### 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.

### 3. Significant accounting policies continued

#### Income taxes 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; and
- assets held for trading.

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

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

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

#### Financial liabilities

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

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.

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# Notes to the financial statements continued

## for the year ended 31 December 2013

### 3. Significant accounting policies continued

#### Restoration, rehabilitation and environmental costs

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

#### Equity

Equity comprises the following:

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

Dividend distributions payable to equity shareholders are included in “other short-term financial liabilities” when the dividends are approved in the general meeting prior to the balance sheet date.

#### Loss per share

Loss 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. Whilst 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 2013 the Lomada Project and the COSE 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.

### 3. Significant accounting policies continued

#### 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.

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

- Mining rights – see note 12. The mining rights acquired by PGSA are for a 40-year period from the date of the agreement and are amortised on a straight-line basis over 40 years commencing in 2012. The Directors consider that this basis remains appropriate.
- Reviewing the recoverability of VAT balances due to the Group. The Directors have considered post year-end approvals set by the Mining Secretary in Argentina and consider the recoverable VAT as at 31 December 2013 to be recoverable in full and no provision is considered necessary. The VAT balances receivable are normally due to the Group in less than one year, but these amounts have been classified as a non-current asset as management's ongoing dialogue with the government indicate approval by the Mining Secretary and receipt of the funds may require a timeframe of more than one year. See note 16.
- The Company calculates the cost of share-based payments granted to employees and Directors using the Black Scholes model. Inputs into the model in respect of the expected option life and the volatility are subject to management estimates and any changes to these estimates may have a significant effect on the cost. The assumptions used in calculating the cost of share-based payments for the year ended 31 December 2013 are explained in note 27 of the financial statements. Where there is a modification to the exercise price of existing options which increases the fair value of equity instruments granted by reducing the exercise price, the incremental fair value granted is recorded as an expense in the statement of comprehensive income with a corresponding entry to the share based payment reserve. The incremental fair value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. As the modification occurred after vesting date, the incremental fair value granted is recognised immediately.

#### Critical judgements

- 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. As 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 offset against the capitalised costs of Lomada Project development in compliance with IAS 16. The Lomada Project main heap leach commenced commercial production in the third quarter of 2013. From 1 March 2011, the Board determined that exploration costs on the COSE Project be capitalised from that date forward as mineral properties – assets in the course of construction, prior to the receipt of full permitting for mining the mineral property.
- Provisions for environmental reclamation require 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.
- In March 2011, the Company agreed to a 2.5% Net Smelter Return (NSR) royalty on all future production of mineral products from the properties acquired from subsidiaries of Barrick Gold Corporation ("Barrick"). A liability is recognised as sales are made in accordance with IAS 37. See note 4.
- 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 2013

### 3. Significant accounting policies continued

#### Critical accounting estimates and judgements continued

##### Critical judgements 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. The deferred tax asset recognised in the year related to the tax losses accumulated from the Lomada Project, management consider that two thirds of this amount will be utilised against taxable income from the Lomada Project in 2014 and the remaining one-third will be utilised against taxable income from the Lomada Project in 2015.

#### 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 2013 and to the extent that they have been adopted by the European Union.

##### Applicable amendments to existing standards and interpretations effective in the year

The Company has adopted the following amended IFRS during the year:

- IFRS 7 (amendments as part of improvements to IFRSs issued in 2011) “Financial Instruments: Disclosures”, effective for annual periods beginning on or after 1 January 2013. The amendments to IFRS 7 clarify the required level of disclosures about offsetting financial assets and financial liabilities.
- IFRS 9 (amendments as part of improvements to IFRSs issued in 2010) “Financial Instruments: Recognition and Measurement”, effective for annual periods beginning on or after 1 January 2013. The amendments introduce new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.
- IFRS 12 (standards issued in 2011) “Disclosure of Interests in Other Entities”, effective for annual periods beginning on or after 1 January 2013. The objective of IFRS 12 is to require disclosure of information that enables users of financial statements to evaluate interests in other entities.
- IFRS 13 (standard effective 1 January 2013) “Fair Value Measurement”, Fair value measurement does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. The Group’s management does not consider that this has a significant impact on the Group.
- IAS 1 (amendments to IAS 1) “Presentation of Financial Statements”, the IAS 1 amendments are applicable for annual periods beginning on or after 1 July 2012 and require an entity to group items presented in other comprehensive income into those that, in accordance with other IFRS: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met.
- IAS 32 (amendments as part of improvements to IFRS issued in 2012) “Financial Instruments: Presentation”, effective for annual periods beginning on or after 1 January 2013. The amendments relate to the tax effect of equity distributions.

##### Applicable new standards and amendments to existing standards not yet effective

The following new standards and amendments to existing standards that are relevant to the Company, have been issued but are not effective for the year ending 31 December 2013 and have not been early adopted:

- IFRS 2 (Annual Improvements for 2010-2012 Cycle) “Share-based Payment”, effective for annual periods beginning on or after 1 July 2014. The amendments to IFRS 2 clarify the definition of ‘vesting condition’ and ‘market condition’ and add definitions for ‘performance condition’ and ‘service condition’.
- IFRS 8 (Annual Improvements for 2010-2012 Cycle) “Operating Segments”, effective for annual periods beginning on or after 1 July 2014. The amendments require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments and clarifies that an entity shall only provide reconciliations of the total of the reportable segments’ assets to the entity’s assets if the segments’ assets are reported regularly.

### 3. Significant accounting policies continued

#### Changes in accounting policies and disclosures continued

##### Applicable new standards and amendments to existing standards not yet effective continued

- IFRS 9 “Financial Instruments – Classification and Measurement”, effective for annual periods beginning on or after 1 January 2015. The standard reflects the first phase of the IASB’s three stage project to replace IAS 39. The first phase deals with the classification and measurement of financial assets and financial liabilities. The Company will also consider the impact of the remaining phases of IFRS 9 when completed by the IASB.
- IFRS 10 “Consolidated Financial Statements”, effective for annual periods beginning on or after 1 January 2014. This standard replaces the consolidation sections of IAS 27 and SIC 12. The standard sets out a new definition of control, which exists only when an entity is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to effect those returns through power over the investee.
- IFRS 12 “Disclosure of Interests in Other Entities”, effective for annual periods beginning on or after 1 January 2014. The standard sets out disclosure requirements for investments in subsidiaries, associates, joint ventures and unconsolidated structured entities. The disclosures are aimed to provide information about the significance and exposure to risks of such interests. The most significant impact is in the disclosure requirement for unconsolidated structured entities or off-balance sheet vehicles.
- IFRS 13 (Annual Improvements for 2010-2012 Cycle) “Fair Value Measurement”, effective for annual periods beginning on or after 1 July 2014. The amendment clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.
- IAS 16 (Annual Improvements for 2010-2012 Cycle) “Property, Plant and Equipment”, effective for annual periods beginning on or after 1 July 2014. The amendment clarifies that when an item of PPE is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.
- IAS 24 (Annual Improvements for 2010-2012 Cycle) “Related Party Disclosures”, effective for annual periods beginning on or after 1 July 2014. The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.
- IAS 27 “Separate Financial Statements”, effective for annual periods beginning on or after 1 January 2014. The standard is a consequential amendment as a result of IFRS 10. The amended standard now only deals with separate financial statements.
- IAS 32 “Financial Instruments: Presentation”, effective for annual periods beginning on or after 1 January 2014. The amendment offers clarification of certain aspects concerning the requirements for offsetting financial assets and financial liabilities.
- IAS 38 (Annual Improvements for 2010-2012 Cycle) “Intangible Assets”, effective for annual periods beginning on or after 1 July 2014. The amendment clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

The effect of the new standards and interpretations have been considered by management and are not expected to result in a material adjustment to the consolidated financial statements.

#### 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 IAS 37, 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 2013

### 5. Segmental analysis

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

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

#### Net loss

	Lomada Project \$'000	COSE Project \$'000	Argentina and Chile \$'000	United Kingdom \$'000	Canada \$'000	Total \$'000
<b>2013</b>						
Revenue	10,182	—	—	—	—	10,182
Cost of sales	(9,850)	—	—	—	—	(9,850)
Gross profit	332	—	—	—	—	332
Exploration costs	—	—	(8,309)	—	—	(8,309)
<b>Administrative costs</b>						
Share-based payments charge	—	—	—	(2,271)	—	(2,271)
Depreciation and amortisation	(482)	—	(2,970)	(46)	(5)	(3,503)
Other administrative costs	—	—	(6,137)	(2,815)	(258)	(9,210)
	(482)	—	(9,107)	(5,132)	(263)	(14,984)
Finance income	—	—	—	5,180	—	5,180
Finance costs	—	—	(606)	(23)	—	(629)
<b>Loss before taxes</b>	(150)	—	(18,022)	25	(263)	(18,410)
Income tax benefit	—	—	3,249	—	—	3,249
<b>Loss for the year</b>	(150)	—	(14,773)	25	(263)	(15,161)

	Lomada Project \$'000	COSE Project \$'000	Argentina and Chile \$'000	United Kingdom \$'000	Canada \$'000	Total \$'000
<b>2012</b>						
Revenue	—	—	—	—	—	—
Cost of sales	—	—	—	—	—	—
Gross profit	—	—	—	—	—	—
Exploration costs	—	—	(14,356)	—	—	(14,356)
<b>Administrative costs</b>						
Share-based payments charge	—	—	—	(5,284)	—	(5,284)
Depreciation and amortisation	(120)	—	(887)	(41)	(2)	(1,050)
Other administrative costs	—	—	(2,539)	(2,309)	(574)	(5,422)
	(120)	—	(3,426)	(7,634)	(576)	(11,756)
Finance income	—	—	267	4,662	—	4,929
Finance costs	—	—	(36)	(32)	—	(68)
<b>Loss before taxes</b>	—	—	(17,551)	(3,004)	(576)	(21,251)
Income tax benefit	—	—	476	—	—	476
<b>Loss for the year</b>	(120)	—	(17,075)	(3,004)	(576)	(20,775)

## 5. Segmental analysis continued

### Total assets and total liabilities

	Total assets		Total liabilities	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Argentina and Chile <sup>1</sup>	<b>25,225</b>	20,853	<b>12,050</b>	3,220
Argentina – Lomada Project	<b>21,380</b>	16,597	<b>7,489</b>	3,189
United Kingdom	<b>407</b>	3,726	<b>4,189</b>	658
Argentina – COSE Project	<b>1,953</b>	2,461	—	2
Canada	<b>3</b>	76	—	4
	<b>48,968</b>	43,713	<b>23,728</b>	7,073

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

	2013 \$'000	2012 \$'000
Argentina <sup>1</sup>	<b>8,309</b>	14,356
Argentina – COSE Project	—	—
	<b>8,309</b>	14,356

<sup>1</sup> Segment represents other exploration projects including Cap Oeste

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

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

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

	2013 \$'000	2012 \$'000
Bank interest	<b>119</b>	20
Investment income	<b>5,061</b>	4,909
	<b>5,180</b>	4,929

During the year, the Company purchased Argentine bonds (BODEN 2015) for \$8.6 million (2012: \$10.5 million). During the twelve months ended 31 December 2013, the Company recorded investment income on redemption of the bonds of \$5.1 million (twelve months ended 31 December 2012: \$4.9 million). The debt securities were treated as available-for-sale financial assets as they are quoted in active markets. Fair values have been determined by reference to their quoted bond prices at the reporting date. No bonds were held as at 31 December 2013.

# Notes to the financial statements continued

## for the year ended 31 December 2013

### 7. Staff numbers and costs

	2013 \$'000	2012 \$'000
Wages and salaries	6,579	4,855
Social security costs	1,137	1,014
	<b>7,716</b>	5,869

	2013 Number	2012 Number
The average number of employees (including Directors) by location during the year was:		
Argentina and Chile – exploration and administration	127	99
Canada – administration	1	3
United Kingdom – administration	4	3
Spain – administration	1	—
	<b>133</b>	105

### 8. Other administrative costs

	2013 \$'000	2012 \$'000
General and administrative	3,558	2,354
Argentine statutory taxes	869	1,195
Professional fees	923	1,003
Payments under operating leases	226	225
Foreign currency transaction loss/(gain)	2,590	(1,469)
Parent and subsidiary company Directors' remuneration	932	1,093
Depreciation	3,503	1,050
VAT expense	15	618
Consultancy fees	97	403
	<b>12,713</b>	6,472

### 9. Remuneration of Directors and key management personnel

Parent company Directors' emoluments:

	2013 \$'000	2012 \$'000
Directors' fees	633	699
Consultancy fees	—	53
	<b>633</b>	752

See the Report of the Directors on pages 28 to 33 for individual Directors' remuneration and share option awards.

In 2013, the highest paid Director was due \$266 thousand (2012: \$269 thousand). This amount does not include any share-based payments charge.

None of the Directors exercised share options during the year ended 31 December 2013.

On 26 February 2014, following consultation with the Company's advisors, 3,074,331 ordinary shares in the Company were issued in lieu of \$548 thousand (£350 thousand), representing the outstanding fees owed to Directors for their services during 2013, under each Director's terms of appointment. The shares were deemed to be allotted for cash at a market price of 11.38 pence, being the volume weighted average share price for the Company for the 30 day period prior to the date of the announcement.

## 9. Remuneration of Directors and key management personnel continued

Key management personnel emoluments:

	Note	2013 \$'000	2012 \$'000
Share-based payments charge	27	1,720	4,717
Salaries		373	434
Other compensation, including short-term benefits		780	828
		<b>2,873</b>	5,979

## 10. Income tax

The current income tax expense for the year on the ordinary business of the Group was \$Nil (2012: \$Nil).

### 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 2013 and 2012 UK statutory tax rate to the Group's loss before income tax. Items shown in other comprehensive income are not expected to have a material impact on the year's income tax expense.

	2013 \$'000	2012 \$'000
<b>Current tax</b>		
Current tax on operations for the year	235	153
<b>Deferred tax</b>		
Loss on ordinary activities before taxation	(15,161)	(20,775)
Income tax at the standard UK corporation tax rate of 23% (2012: 24%)	(3,487)	(4,986)
Different local tax rates	(1,750)	(1,943)
Expenses not deductible for tax purposes	(1,138)	473
Losses and other temporary differences unrecognised and carried forward:		
– to future periods – UK	134	747
– to future periods – Argentina	6,241	5,709
Change in expected recovery of deferred tax asset	(3,484)	(629)
Total deferred taxes	(3,484)	(629)
Total income tax benefit for the year on ordinary business	(3,249)	(476)
<b>Factors affecting tax charge for the year</b>		
Tax on operations for the year	235	153
Change in expected recovery of deferred tax asset	(3,484)	(629)
Tax credit for the period	(3,249)	(476)

# Notes to the financial statements continued

## for the year ended 31 December 2013

### 10. Income tax continued

#### 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 2013 of approximately \$13.6 million (£8.3 million) (2012: \$15.1 million (£9.4 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.

Subsidiary companies in Argentina have unrecognised tax losses at 31 December 2013 of approximately \$3.4 million (AR\$ 22.1 million) (2012: \$617 thousand (AR\$ 3.0 million)) which may be used against future taxable income. These losses expire as follows:

Year	AR\$'000	\$'000
2014	302	47
2015	410	63
2016	890	137
2017	1,266	195
2018	19,198	2,956

Subsidiary companies in Argentina have cumulative unused exploration costs related to different mining projects as at 31 December 2013 of approximately \$49.1 million (AR\$ 318.6 million) (2012: \$56.1 million (AR\$ 275.1 million)). Under the Argentine law "Ley de Inversiones Mineras No. 24196", which combines the requirements of the federal tax code and the mining code, exploration costs are available to be deducted from taxable income two times in the following order:

- 1) as a depreciation on the basis of the units of the project production; and
- 2) as a deduction in full within the first five years as of the start of the related project production.

A deferred tax asset of \$3.6 million (2012: \$0.6 million) related to the tax losses accumulated from the Lomada Project has been recognised as at 31 December 2013. Of this amount \$2.4 million is expected to be utilised against taxable income from the Lomada Project in 2014 and the remaining \$1.2 million to be utilised against taxable income from the Lomada Project in 2015. Following IAS 1.56 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 monitors fiscal developments to ensure that the Group is responsive to changes in legislation, once these changes become clear.

The standard UK corporation tax rate reduced from 24% in the year to 31 March 2013 to 23% in the year to 31 March 2014. Following announcements from the UK chancellor of the exchequer, corporation tax rates are expected to reduce to 21% and 20% in years ending 31 March 2015 and 31 March 2016 respectively.

### 11. Loss per share

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

	Year to 31 December 2013	Year to 31 December 2012
Loss after tax (\$'000)	(12,257)	(20,775)
Weighted average number of shares	847,814,242	768,164,963
Basic and diluted loss per share (\$)	(0.01)	(0.03)

There is no difference between the diluted loss per share and the basic loss per share presented. Due to the loss incurred in the year the effect of the share options in issue is anti-dilutive.

At 31 December 2013, there were 84,070,000 (31 December 2012: 76,445,000) share options and 24,705,000 warrants (31 December 2012: 24,705,000) in issue, which would have a potentially dilutive effect on the basic profit per share in the future. Share issues after the balance sheet date, as detailed in note 31, are not considered significant.

## 12. Mining rights

	Amount \$'000
At 1 January 2012	3,986
Additions	—
Amortisation charge for the year	(100)
Exchange differences	—
<b>At 31 December 2012</b>	<b>3,886</b>
At 1 January 2013	<b>3,886</b>
Additions	—
Amortisation charge for the year	<b>(99)</b>
Exchange differences	—
<b>At 31 December 2013</b>	<b>3,787</b>

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.

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 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 40-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 40 years commencing in 2012.

# Notes to the financial statements continued

## for the year ended 31 December 2013

### 13. Mineral properties

	Mining assets \$'000	Surface rights acquired \$'000	Assets in the course of construction \$'000	Total \$'000
<b>Cost</b>				
At 1 January 2012	4,284	3,811	405	8,500
Additions	149	—	2,106	2,255
Net income from trial production	(768)	—	—	(768)
Disposals	(250)	—	—	(250)
Exchange differences	(527)	(591)	(50)	(1,168)
At 31 December 2012	2,888	3,220	2,461	8,569
At 1 January 2013	2,888	3,220	2,461	8,569
Additions	381	—	95	476
Net expense from trial production	1,062	—	—	1,062
Disposals	—	—	—	—
Exchange differences	(895)	(789)	(603)	(2,287)
<b>At 31 December 2013</b>	<b>3,436</b>	<b>2,431</b>	<b>1,953</b>	<b>7,820</b>
<b>Amortisation</b>				
At 1 January 2012	81	—	—	81
Charge for the period	120	—	—	120
Exchange differences	(19)	—	—	(19)
At 31 December 2012	182	—	—	182
At 1 January 2013	182	—	—	182
Charge for the period	482	—	—	482
Exchange differences	(122)	—	—	(122)
<b>At 31 December 2013</b>	<b>542</b>	<b>—</b>	<b>—</b>	<b>542</b>
<b>Net book value</b>				
<b>At 31 December 2013</b>	<b>2,894</b>	<b>2,431</b>	<b>1,953</b>	<b>7,278</b>
At 31 December 2012	2,706	3,220	2,461	8,387

#### Mining assets

The Lomada Project has completed the trial heap leach phase and entered full commercial production in the third quarter 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 are offset against the capitalised costs of Lomada Project development in compliance with IAS 16 (2012: \$0.8 million). Amortisation is charged based on the unit-of-production method.

#### 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 de Leiva project.

#### Assets in the course of construction

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

## 14. Property, plant and equipment

	Group					Company	
	Office equipment and vehicles \$'000	Machinery and equipment \$'000	Buildings \$'000	Plant \$'000	Improvements and advances \$'000	Total \$'000	Office equipment \$'000
<b>Cost</b>							
At 1 January 2012	747	4,883	927	1,880	—	8,437	197
Additions	43	1,427	135	349	4,105	6,059	35
Disposals	—	(1)	—	—	—	(1)	—
Exchange differences	(58)	(600)	9	(231)	—	(880)	9
At 31 December 2012	732	5,709	1,071	1,998	4,105	13,615	241
At 1 January 2013	732	5,709	1,071	1,998	4,105	13,615	241
Additions	98	5,333	35	4,843	1,096	11,405	28
Transfers	—	—	—	3,703	(3,703)	—	—
Disposals	—	(4)	—	—	—	(4)	—
Exchange differences	(113)	(1,398)	(262)	(489)	(1,005)	(3,267)	5
<b>At 31 December 2013</b>	<b>717</b>	<b>9,640</b>	<b>844</b>	<b>10,055</b>	<b>493</b>	<b>21,749</b>	<b>274</b>
<b>Depreciation</b>							
At 1 January 2012	234	787	28	38	—	1,087	60
Disposals	—	(1)	—	—	—	(1)	—
Charge for the year	117	623	19	71	—	830	41
Exchange differences	(24)	(143)	(5)	(10)	—	(182)	3
At 31 December 2012	327	1,266	42	99	—	1,734	104
At 1 January 2013	327	1,266	42	99	—	1,734	104
Disposals	—	(4)	—	—	—	(4)	—
Charge for the year	117	1,087	20	1,702	—	2,926	46
Exchange differences	(59)	(482)	(13)	(296)	—	(850)	5
<b>At 31 December 2013</b>	<b>385</b>	<b>1,867</b>	<b>49</b>	<b>1,505</b>	<b>—</b>	<b>3,806</b>	<b>155</b>
<b>Net book value</b>							
<b>At 31 December 2013</b>	<b>332</b>	<b>7,773</b>	<b>795</b>	<b>8,550</b>	<b>493</b>	<b>17,943</b>	<b>119</b>
At 31 December 2012	405	4,443	1,029	1,899	4,105	11,881	137

Improvements and advances at the year end relate to the development and modification of software and plant, including advance payments. During the year, assets under development with a cost of \$3.7 million came into use and were subsequently reclassified as plant.

# Notes to the financial statements continued

## for the year ended 31 December 2013

### 15. Investment in subsidiary companies

#### Company

	2013 \$'000	2012 \$'000
Balance at 1 January	118,048	112,933
Exchange differences	2,448	5,115
Balance at 31 December	120,496	118,048

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

The Directors do not consider that an impairment charge is necessary.

Company	Country of incorporation	2013 Percentage shareholding	2012 Percentage shareholding	Nature of business
Patagonia Gold S.A.	Argentina	90	90	Exploration
Minera Minamalu S.A.	Argentina	100	100	Exploration
Huemules SA	Argentina	100	100	Exploration
Leleque Exploración SA	Argentina	100	100	Exploration
Patagonia Gold Canada Inc.	Canada	100	100	Administration
Patagonia Gold Chile S.C.M.	Chile	100	100	Exploration

### 16. Other receivables

#### Non-current assets

	Group		Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Recoverable VAT	11,041	8,557	—	—
Other receivables	164	159	—	—
	11,205	8,716	—	—

The Directors consider Recoverable VAT at 31 December 2013 to be recoverable in full based on post year-end approvals set by the Mining Secretary in Argentina.

The Directors have considered post year-end approvals set by the Mining Secretary in Argentina and consider the Recoverable VAT as at 31 December 2013 to be recoverable in full and no provision is considered necessary. The VAT balances receivable are normally due to the Group in less than one year, but these amounts have been classified as a non-current asset as management's ongoing dialogue with the government indicate approval by the Mining Secretary and receipt of the funds may require a timeframe of more than one year.

## 17. Trade and other receivables

### Current assets

	Group		Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Other receivables	1,070	460	1,615	1,226
Prepayments and accrued income	116	140	116	129
UK recoverable VAT	11	24	11	24
Recharge of costs owed by:				
– Landore Resources Limited (note 26)	38	1	38	1
	<b>1,235</b>	625	<b>1,780</b>	1,380

All amounts shown under “Other receivables” are short-term.

Following the closure of the Toronto office, a full impairment provision of \$1.2 million (2012: \$Nil) was taken against the intercompany loans made to Patagonia Gold Canada Inc. in the accounts of the Company. The carrying value of all other trade and other receivables is considered a reasonable approximation of fair value.

There are no past due debtors.

## 18. Inventory

Inventory comprises gold held on carbon 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	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Work in process</b>				
Gold held on carbon	72	4,880	—	—
<b>Finished products</b>				
Gold doré	2,169	—	—	—
	<b>2,941</b>	4,880	—	—

During the year a write-down of inventory to net realisable value of \$1.2 million (2012: \$Nil) was recognised in cost of sales.

The cost of inventories recognised as an expense and included in the cost of sales amounted to \$8.7 million (2012: \$Nil).

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	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Bank and cash balances	916	1,352	14	31
Short-term deposits	65	3,311	65	3,311
	<b>981</b>	4,663	<b>79</b>	3,342

## Notes to the financial statements continued

### for the year ended 31 December 2013

#### 20. Trade and other payables

##### Current liabilities

	Group		Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Trade and other payables	10,187	5,509	149	198
Intercompany payables	—	—	3,681	20,517
Short-term loans	6,831	—	3,040	—
Other accruals	1,000	460	1,000	460
	<b>18,018</b>	5,969	<b>7,870</b>	21,175

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

The Group takes short-term loans for the purpose of financing ongoing operational requirements. The Group's short-term loans are denominated in \$ and are at fixed rates of interest. Loans are provided from a range of banks. During the year, certain short-term loans were secured by an assignment to certain gold sales agreements. The assignment agreement was terminated on 20 February 2014.

#### 21. Loans and provisions

	Group		Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Long-term loans	4,634	—	—	—
Provisions	1,076	1,104	—	—
	<b>5,710</b>	1,104	—	—

The Group takes long-term loans for the purpose of financing ongoing operational requirements. The Group's long-term loans granted to PGSA are denominated in \$ and are at fixed rates of interest. Long-term loans are provided by an Argentinian bank and backed by a letter of guarantee from the Company.

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 <sup>(i)</sup> \$'000	Tax provision <sup>(ii)</sup> \$'000	Other <sup>(iii)</sup> \$'000	Total \$'000
Balance at 1 January 2013	316	522	266	1,104
Net additions/(reductions)	181	(128)	(81)	(28)
<b>Balance at 31 December 2013</b>	<b>497</b>	<b>394</b>	<b>185</b>	<b>1,076</b>

(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) Includes provision for Santa Cruz Water department assessment and road traffic accident (note 30)

## 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 (\$0.016)

	Number of ordinary shares	Amount \$'000
At 1 January 2012	736,490,878	11,381
Issue by placing	64,940,000	1,024
Exercise of options	11,200,000	177
Exchange difference on translation to \$	—	544
At 31 December 2012	812,630,878	13,126
At 1 January 2013	812,630,878	13,126
Issue by placing	41,196,687	620
Exercise of options	1,825,000	28
Exchange difference on translation to \$	—	334
<b>At 31 December 2013</b>	<b>855,652,565</b>	<b>14,108</b>

### Exercise of options

During 2013, the Company allotted a total 1,825,000 new ordinary shares pursuant to the exercise of share options for total gross proceeds of \$245.8 thousand (£159.7 thousand). Of this total, \$28.1 thousand (£18.2 thousand) of the gross proceeds are included in share capital and the balance of \$217.7 thousand (£141.5 thousand) is included in share premium. Details of the share options exercised are as follows:

Date of share issue	Number of shares	Date options exercised
12 March 2013	500,000	27 February 2013
11 April 2013	250,000	27 March 2013
7 May 2013	900,000	27 March 2013
9 October 2013	175,000	12 September 2013
	1,825,000	

### Issue by placing

On 27 February 2013, the Company placed 41,196,687 new ordinary shares, each at a price of 15.0 pence per share (\$9.3 million). The cost of the placement totalled \$54.2 thousand (£36.0 thousand) resulting in net proceeds of \$9.2 million (£6.1 million). \$0.6 million (£0.4 million) of the net proceeds are included in share capital and the balance of \$8.6 million (£5.7 million) is included in share premium.

### Warrants

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

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

# Notes to the financial statements continued

## for the year ended 31 December 2013

### 22. Share capital continued

#### Warrants continued

The total number of warrants over ordinary shares outstanding at 31 December 2013 was as follows:

Date of grant		Number of warrants	Exercise price (pence)	Remaining contractual life (years)
31 October 2012	Directors	2,065,263	24.75	2.84
	Other subscribers	19,699,737	24.75	2.84
30 November 2012	Other subscribers	2,940,000	28.05	2.92
		<b>24,705,000</b>		

### 23. Non-controlling interest

Group	Amount \$'000
At 1 January 2012 and 31 December 2012	3,986
At 1 January 2013	3,986
Share of operating losses – Lomada de Leiva	(2,904)
<b>At 31 December 2013</b>	<b>1,082</b>

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

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

The share of operating losses relates to Lomada de Leiva which commenced production in 2013.

### 24. Financial instruments

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

#### Financial assets

	Group		Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Available-for-sale financial assets	29	94	29	94
Cash and cash equivalents	2,100	5,282	1,743	4,568
	<b>2,129</b>	<b>5,376</b>	<b>1,772</b>	<b>4,662</b>

#### Financial liabilities

	Group		Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Financial liabilities measured at amortised cost	21,652	5,969	3,189	649

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

## 24. Financial instruments continued

### Financial instruments measured at fair value

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

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

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

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

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

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

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

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>As at 31 December 2013</b>				
Listed securities	29	—	—	29
<b>As at 31 December 2012</b>				
Listed securities	94	—	—	94

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

### Capital management

The Group's capital management objectives are:

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

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

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

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

# Notes to the financial statements continued

## for the year ended 31 December 2013

### 24. Financial instruments continued

#### 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 2013 the price ranged from \$1,192 to \$1,690 per ounce, with an average market price of \$1,530 per ounce (2012: \$1,668 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

	2013 \$'000	2012 \$'000
Gold	<b>1,018</b>	—

#### 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 2013, Patagonia Gold held cash balances denominated in GBP, \$ and Canadian Dollars (CAD\$) and had trade and other payables denominated in GBP, \$ and CAD\$.

The functional currency of PGSA is AR\$. As at 31 December 2013, PGSA held cash balances denominated in AR\$, \$ and GBP.

The functional currency of Minera Minamalu S.A. (MMSA) is AR\$. As at 31 December 2013, MMSA held cash balances denominated in AR\$.

The functional currency of Patagonia Gold Canada Inc. is CAD\$. At 31 December 2013, Patagonia Gold Canada Inc. held cash balances denominated in CAD\$.

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 2013, the GBP/\$ exchange rate experienced a fluctuation of 10% from its lowest to highest levels. Based on \$ financial assets and liabilities at 31 December 2013 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 2013, and all other variables held constant, this would have the following impact on the Group's net loss for the year:

#### Foreign currency rate weakened

	2013 \$'000	2012 \$'000
Increase in net loss for the year	<b>216</b>	2

#### Foreign currency rate strengthened

	2013 \$'000	2012 \$'000
Decrease in net loss for the year	<b>265</b>	3

The impact of the above analysis on CAD\$ 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.

## 24. Financial instruments continued

### 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 0.31% (2012: 0.35%) and for \$ was 0.80% (2012: 0.90%). If interest rates in 2013 had been 10% higher or lower with all other variables held constant, the impact on net loss for the year would not have been material on the finance income recorded during 2013.

### Liquidity risk

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

### Credit risk

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

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

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

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

## 25. Operating lease commitments

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

### Group and Company

	2013 \$'000	2012 \$'000
Operating leases that expire:		
Within one year	217	287
Within two to five years	313	87
After five years	—	—
	<b>530</b>	<b>374</b>

The Group has a number of operating lease agreements involving office and warehouse space with maximum terms of three years. Furthermore, additional commitments exist relating to the construction of the gold processing facilities at the Lomada Project. In 2013, \$0.2 million (2012: \$0.2 million) of operating lease payments were recognised as an expense within exploration costs.

## Notes to the financial statements continued

### for the year ended 31 December 2013

#### 26. Related parties

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

	Notes	2013 \$'000	2012 \$'000
Landore Resources Limited	(i)	144	87
Cheyenne S.A.	(ii)	60	76
MB Holding S.A.	(iii)	12	12
Agropecuaria Cantomi S.A.	(iv)	48	39
Lusemana S.A.	(v)	37	36
El Salvador 4040 S.A.	(vi)	37	39

- (i) During the year the Company recharged costs, consisting mainly of accommodation and travel expenses, to Landore Resources Limited ("Landore") and there was a balance owing to the Company from Landore at 31 December 2013 of \$54 thousand (31 December 2012: \$1.0 thousand). Landore is a related party because William H. Humphries is a director and shareholder of that company.
- (ii) During the year the Group paid Cheyenne S.A. ("Cheyenne") for the provision of a private plane to facilitate occasional travel to outlying areas for Directors and senior employees. Cheyenne is a related party because Carlos J. Miguens is a director and shareholder.
- (iii) During the year the Group paid MB Holding S.A. (MB) for the provision of an office and related administrative services in Buenos Aires. MB is a related party because Carlos J. Miguens is a director and shareholder.
- In 2011, PGSA moved to new office space owned by three companies, Agropecuaria Cantomi, S.A., Lusemana S.A., and El Salvador 4040 S.A.
- (iv) 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.
- (v) During the year the Group paid Lusemana S.A. ("Lusemana") for the provision of an office in Buenos Aires. Lusemana is a related party because Diego Miguens is a shareholder and because of his family relationship with Carlos J. Miguens.
- (vi) During the year the Group paid El Salvador 4040 S.A. ("El Salvador 4040") for the provision of an office in Buenos Aires. El Salvador 4040 is a related party because Cristina Miguens is a shareholder and because of her family relationship with Carlos J. Miguens.

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

## 27. Share-based payments charge

The Group operates 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:

	2013			2012		
	Weighted average exercise price		Number of options	Weighted average exercise price		Number of options
	pence	\$		pence	\$	
Outstanding at the beginning of the year	<b>23.81</b>	<b>0.385</b>	<b>76,445,000</b>	20.33	0.314	64,145,000
Granted during the year	<b>11.99</b>	<b>0.188</b>	<b>10,100,000</b>	26.68	0.423	23,500,000
Exercised during the year	<b>8.75</b>	<b>0.137</b>	<b>(1,825,000)</b>	9.91	0.157	(11,200,000)
Lapsed during the year	<b>13.65</b>	<b>0.214</b>	<b>(650,000)</b>	—	—	—
Outstanding and exercisable at the end of the year	<b>15.46</b>	<b>0.242</b>	<b>84,070,000</b>	23.81	0.385	76,445,000

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 31 December 2012. These options were included as “granted during the year ended 31 December 2012” in the above table as the option terms were communicated on 18 October 2012.

Options outstanding at 31 December 2013 have an exercise price in the range of \$0.113 (6.875 pence) per option to \$1.022 (62.00 pence) per option and a weighted average contractual life of 6.94 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.

	2013	2012
Weighted average share price	<b>20.26p (\$0.334)</b>	33.13p (\$0.535)
Exercise price	<b>19.75p (\$0.326)</b>	33.34p (\$0.539)
Expected volatility (expressed as a percentage used in the modelling under Black-Scholes model)	<b>52.07%</b>	52.61%
Dividend yield	<b>Nil</b>	Nil
Option life (maximum)	<b>10 years</b>	10 years
Risk free interest rate (based on national government bonds)	<b>0.5%</b>	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:

	2013 \$'000	2012 \$'000
New options granted in the year	<b>1,619</b>	5,284
Re-priced share options granted in prior years	<b>652</b>	—
	<b>2,271</b>	5,284

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

# Notes to the financial statements continued

## for the year ended 31 December 2013

### 27. Share-based payments charge continued

The total number of options over ordinary shares outstanding at 31 December 2013 was as follows:

Date of grant	Employees entitled	Number of options	Exercise price (pence)	Remaining contractual life (years)
18 February 2004	Directors	5,187,000	8.0*	0.14
23 November 2004	Senior management	500,000	14.75	0.90
22 June 2005	Senior management and employee	125,000	7.5	1.47
6 December 2005	Senior management	100,000	8.0*	1.93
17 May 2006	Senior management	200,000	14.5	2.38
1 March 2007	Employees	75,000	6.875	3.17
23 May 2007	Senior management	200,000	8.0*	3.39
5 June 2007	Director and employees	1,100,000	8.0*	3.43
5 June 2007	Employee	25,000	10.5	3.43
3 June 2008	Director and employees	1,125,000	8.0*	4.42
9 June 2009	Employees	1,175,000	12.0	5.44
23 June 2009	Directors and senior management	17,913,000	12.25	5.48
17 June 2010	Directors and employees	5,850,000	15.00	6.47
1 August 2010	Employee	300,000	15.00	6.59
10 February 2011	Directors	5,500,000	11.00***	7.12
21 February 2011	Senior management	800,000	11.00***	7.15
9 May 2011	Employees	500,000	43.50	7.36
13 May 2011	Directors and senior management	4,400,000	11.00***	7.37
24 May 2011	Senior management	1,000,000	39.00	7.40
10 June 2011	Employees	1,250,000	11.00***	7.45
10 June 2011	Employees	925,000	40.00	7.45
15 August 2011	Employee	200,000	62.00	7.63
1 September 2011	Senior management	500,000	11.00***	7.67
1 November 2011	Directors	750,000	11.00***	7.84
1 November 2011	Directors	750,000	50.25	7.84
6 December 2011	Employee	20,000	54.00	7.94
31 January 2012	Directors	4,500,000	11.00***	8.09
1 July 2012	Senior management	1,500,000	25.00	8.50
3 December 2012	Senior management and employees	3,000,000	22.75	8.93
9 January 2013	Directors	14,500,000**	22.75	9.03
27 February 2013	Senior management	1,000,000	15.50	9.16
12 June 2013	Employee	150,000	10.50	9.45
12 September 2013	Directors	1,500,000	11.00	9.70
19 September 2013	Director and senior manager	6,000,000	11.75	9.72
10 October 2013	Employees	1,450,000	11.75	9.78
		84,070,000		

\* 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 8 pence, 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 11 pence, 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

## 28. Auditor's remuneration

	Group		Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Fees payable to the Company's auditor for the audit of the consolidated annual accounts	133	101	18	18
Fees payable to the Company's auditor and its associates for other services:				
– tax	12	9	12	9
– other	3	85	—	—

Fees paid to Grant Thornton UK LLP and its associates for non-audit services to the Company itself are not disclosed in the individual accounts of Patagonia Gold Plc because the Company's consolidated accounts are required to disclose such fees on a consolidated basis.

## 29. Financial commitments

### Property, plant and equipment

During 2013, the Group entered into purchase commitments totalling \$3.5 million (31 December 2012: \$7.9 million) with two vendors related to the purchase of heavy duty mining equipment and construction of facilities. Commencing upon receipt of shipment, instalments are payable to one vendor semi-annually over a two-year period and to the second vendor quarterly over a three-year period.

### Fomicruz agreement

On the Fomicruz properties whose rights to explore and mine were contributed to PGSA as part of the Fomicruz Agreement signed on 14 October 2011, the Company will invest \$5.0 million on exploration expenditures over five years.

### 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

As shown in note 21, provisions at 31 December 2013 include amounts provided in relation to two contingent liabilities.

### 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. As at 31 December 2013, the claim remains partially outstanding and a provision of \$0.072 million (AR\$0.470 million) has been recorded. As at 16 May 2014, this claim was fully settled.

### Water Department assessment

In September 2012, the Water Department of the Province of Santa Cruz imposed a \$0.11 million (AR\$0.72 million) assessment on PGSA, alleging PGSA had been using water without the Water Department's authorisation and delayed filing of monthly reports on volume of water used. PGSA believes the assessment is not justified and has filed an appeal. The fine has been confirmed by the Water Department Authority, while PGSA filed a petition for payment facilitation plan on May, 2013. The State Attorney of Santa Cruz province (on behalf of the Water Department) and PGSA entered into a transactional agreement by means of which PGSA is allowed to pay the fine in 18 consecutive instalments of AR\$ 0.04 million each with a 1.20% monthly interest calculated on the total debt. The total economic outflow is expected to be \$0.12 million (AR\$0.79 million). Monthly instalments commenced in March 2014.

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## Notes to the financial statements continued

### for the year ended 31 December 2013

#### 31. Subsequent events

##### Share capital

In January 2014, the Company allotted 3,281,000 new ordinary shares of 1 pence each pursuant to the exercise of share options.

In February 2014, the Company allotted 1,906,000 new ordinary shares of 1 pence each pursuant to the exercise of share options.

On 26 February 2014, following consultation with the Company's advisors, 3,074,331 ordinary shares in the Company were issued in lieu of the outstanding fees owed to Directors for their services during 2013, under each Director's terms of appointment. The shares were deemed to be allotted for cash at a market price of 11.38 pence, being the volume weighted average share price for the Company for the 30 day period prior to the date of the announcement. This was treated and recognised as a share based payment during the year.

On 14 May 2014 the Company entered into a letter of guarantee for the purchase of mining equipment on behalf of PGSA to the value €500,000.00.

# Glossary

<b>Backfill:</b>	Primarily waste sand or rock used to support the roof or walls after removal of ore from a stope.
<b>By-product:</b>	A secondary metal or mineral product recovered in the milling process, such as silver.
<b>Concentrate:</b>	A very fine, powder-like product containing the valuable ore mineral, from which most of the waste material has been eliminated.
<b>Contained ounces:</b>	Represents ounces of final product in the ground and yet to be extracted.
<b>Development:</b>	Work carried out for the purpose of opening up a mineral deposit. In an underground mine this includes shaft sinking, crosscutting, drifting and raising. In an open pit mine, development includes removal of overburden.
<b>Dilution:</b>	The effect of waste or low-grade ore which is unavoidably included in the mined ore, lowering the recovered grade.
<b>Doré:</b>	Unrefined gold and silver bullion bars, usually consisting of approximately 90% precious metal, that will be further refined to almost pure metal.
<b>Drilling:</b>	<p><b>Core:</b> Drilling with a hollow bit with a diamond cutting rim to produce a cylindrical core that is used for geological study and assays. Used in mineral exploration.</p> <p><b>Infill:</b> Any method of drilling intervals between existing holes, used to provide greater geological detail and to help establish reserve estimates.</p>
<b>Exploration:</b>	Prospecting, sampling, mapping, drilling and other work involved in searching for ore.
<b>Grade:</b>	The amount of metal in each ton of ore, expressed as troy ounces per ton or grams per tonne for precious metals and as a percentage for most other metals. <ul style="list-style-type: none"> <li><b>Cut-off grade:</b> The minimum metal grade at which an ore body can be economically mined (used in the calculation of ore reserves).</li> <li><b>Mill-head grade:</b> Metal content of mined ore going into a mill for processing.</li> <li><b>Recovered grade:</b> Actual metal content of ore determined after processing.</li> <li><b>Reserve grade:</b> Estimated metal content of an ore body, based on reserve calculations.</li> </ul>
<b>Heap leaching:</b>	A process by which gold/copper is extracted by “heaping” crushed ore on sloping impermeable pads and continually applying to the heaps a weak cyanide solution that dissolves the contained gold/copper. The gold/copper solution is then collected for recovery of the contained metals.
<b>Heap leach pad:</b>	A large impermeable foundation or pad used as a base for ore during heap leaching.
<b>Mill:</b>	A processing facility whereby ore is finely ground and undergoes physical or chemical treatment to extract metals.
<b>Mining claim:</b>	The portion of mineral lands that a party has staked or marked out in accordance with mining laws to acquire the right to explore for and exploit the minerals under the surface.
<b>Mining rate:</b>	Tons of ore mined per specified time period.
<b>National Instrument 43-101 (NI 43-101):</b>	A Canadian mineral resource classification method used for the public disclosure of information relating to mineral properties. It is a strict guideline for how public companies can disclose geological information about mineral projects on stock markets supervised by the Canadian regulators. This includes foreign-owned mining entities that may also have listings on stock exchanges outside Canada.

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## Glossary continued

<b>Open pit:</b>	A mine where the minerals are mined entirely from the surface.
<b>Ore:</b>	Rock, generally containing metallic or non-metallic minerals, which can be mined and processed at a profit.
<b>Ore body:</b>	A sufficiently large amount of ore that can be mined economically.
<b>Reclamation:</b>	The process by which lands disturbed as a result of mining activity are restored to support continued usage for other purposes.
<b>Recovery rate:</b>	A term used in process metallurgy to indicate the proportion of valuable material physically recovered in the processing of ore. It is generally stated as a percentage of the material recovered compared to the total material originally present.
<b>Refining:</b>	The final stage of metal production, in which impurities are removed from the molten metal.
<b>Resource:</b>	Mineral Resources comprise a concentration or occurrence of material of intrinsic economic interest in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. Mineral Resources are further subdivided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories.
<b>Reserve:</b>	Mineral Reserves are resources known to be economically feasible for extraction. There are two categories: Probable Reserves and Proven Reserves.
<b>Proven ore reserve:</b>	The economically mineable part of a Measured Mineral Resource. It includes diluting materials and allowances for losses which occur when the material is mined. This is the highest confidence category of reserve estimate.
<b>Probable ore reserve:</b>	The economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource. It includes diluting material and allowances for losses which may occur when the material is mined. A Probable Ore Reserve has a lower level of confidence than a Proven Ore Reserve but is of sufficient quality to serve as the basis for making a decision on the development of a deposit.
<b>Stripping:</b>	Removal of overburden or waste rock overlying an ore body in preparation for mining by open pit methods. This is quantified as the total number of tons mined for each ounce of metal recovered as finished product.
<b>Tailings:</b>	The material that remains after all economically and technically recoverable precious metals have been removed from the ore during processing.

# Corporate and shareholder information

## Directors

Carlos J. Miguens	Chairman
William H. Humphries	Managing Director
Gonzalo Tanoira	Finance Director
Marc J. Sale	Technical Director
Edward J. Badida	Non-Executive Director
Manuel de Prado	Non-Executive Director
Glenn Featherby	Non-Executive Director

## Chief Executive Officer

William H. Humphries

## Chief Financial Officer

Gonzalo Tanoira

## Chief Operations Officer

Matthew Boyes

## Company Secretary

Nigel F. Everest

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## Registrars and transfer agents

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## Broker

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