



PATAGONIA GOLD PLC

Patagonia Gold Plc

**Annual Report
(Expressed in US Dollars)**

**For The Year Ended
31 December 2015**

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CORPORATE AND SHAREHOLDER INFORMATION

Directors

Carlos J Miguens (*Chairman*)
William H Humphries (*Managing Director – retired 10 June 2015*)
Gonzalo Tanoira (*Finance Director*)
Christopher van Tienhoven (*Executive Director – appointed 10 June 2015*)
Edward J Badida (*Non-Executive Director*)
Manuel de Prado (*Non-Executive Director*)
Glenn Featherby (*Non-Executive Director*)

Chief Executive Officer

Christopher van Tienhoven

Chief Financial Officer

Gonzalo Tanoira

Chief Operations Officer

Matthew Boyes
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Solicitors

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Registrars and Transfer Agents

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Nominated Adviser

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BOARD OF DIRECTORS

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

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

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

Edward J. Badida (*Non-Executive Director and Chairman of the Audit Committee*) 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. Ed has served as Chief Financial Officer and/or has been a board member of more than 20 public companies listed on the TSX, TSX-V and AIM. He has additionally held management positions at accounting firms PricewaterhouseCoopers and KPMG.

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

Glenn Featherby (*Non-Executive Director*) 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 is currently Executive Chairman of ASX-listed Hawkey Oil and Gas Limited and Non-Executive Chairman of Forte Energy NL which is listed on both ASX and AIM. 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.

CHAIRMAN'S STATEMENT

I am pleased to present the 2015 Annual Report of Patagonia Gold Plc ("Patagonia Gold" or the "Company").

Following the retirement in June 2015 of William Humphries, who served as the Company's CEO for almost 15 years, Patagonia Gold appointed Christopher van Tienhoven as the new CEO and as a member of the Board. Christopher has vast experience in the mining industry and his recent appointment to the Company will be of great benefit to Patagonia Gold at a time when it is facing a number of new challenges. On behalf of Patagonia Gold, I wish our new CEO the best of success in this new role.

In December 2015, Argentina elected a new government. The change of government, which has resulted in a number of new political and economic measures being implemented by the newly elected administration, such as the Peso devaluation and the elimination of foreign exchange restrictions, has been positively received by the market, and we hope this will lead to a much improved political and economic environment for future investment in Argentina.

In terms of our operation, 2015 has been a challenging year for the mining sector generally, and our Lomada de Leiva ("Lomada") gold mine has not been exempt from this. We experienced higher production costs due to an increase in local costs coupled with the fixed exchange rate, together with lower production. During the last quarter of the year, part of the operating difficulties were overcome and the Peso devaluation implemented by the new government has helped to lower our production costs. The Lomada heap leach project is an important part of the Company as it is currently the primary source of income. Gold production from Lomada is expected to continue until the end of 2017 even though the mining operation will be suspended from the end of May 2016, as gold is expected to continue to be recovered from the heap leach for at least 12 months thereafter. Following a series of updates and pre-feasibility industry studies, the Company is also, subject to funding, seeking to develop a small scale heap leach operation at Cap-Oeste during 2016. Annual gross revenues for 2015 totalled US\$26.13 million at an average gold price of US\$1,165 per ounce.

The gold price remained relatively steady throughout 2015 and has been showing signs of improvement since the beginning of 2016. Given the current low commodity prices and expectations for an improvement in the mining industry in the mid to long term, we believe that there will be numerous joint ventures and acquisition opportunities for the Company to consider. In line with these prospects for an improvement in the markets, Patagonia Gold maintains its commitment to the region, particularly Argentina.

Despite the difficulties experienced over recent years by the mining industry in general and the Company in particular, I uphold my commitment to continue to support the Company.

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

Carlos Miguens
Non-Executive Chairman

14 April 2016

REPORT FROM THE MANAGING DIRECTOR / CHIEF EXECUTIVE OFFICER

2015 was a transition year for Patagonia Gold with a change in CEO and a focus on stabilising production and reducing operating costs. As a result of the changes implemented throughout the year, it was pleasing that during the fourth quarter production at Lomada returned to budgeted levels and nominal profitability.

Total production at the Lomada mine in 2015 was 21,521 ounces of gold. A total of 22,227 ounces of gold were sold during 2015 at an average gross price of US\$1,165 per ounce, with annual gross revenues of US\$26.13 million.

As the economics of the Cap-Oeste open pit and underground operations, in conjunction with the Cap-Oeste South-East (“COSE”) underground project, have improved following the changes in the economic environment in Argentina, the Company has continued to review alternatives to bringing the projects into production. In February 2016 the Company announced that it would commence construction of a heap leach Lomada type project at Cap-Oeste (in Bajada) to treat open pitable oxide material amenable to heap leach processing. The construction of a heap leach project at Cap-Oeste, which is subject to funding, will provide a seamless transition from the Company’s current mining operation at Lomada, which, once completed will provide the Company with the cash flow to meet its short-term financing commitments and at the same time allow the Company to continue exploring identified targets in the region. The Company expects to implement the project in a cost-efficient manner by using the experienced team from Lomada. The project, subject to funding, is anticipated to commence production during Q3 2016 and the total gold equivalent production during the 24 month expected mine life, is estimated to be approximately 82,000 ounces. Alternatives to treat the higher grade sulphide ore continue to be reviewed and if implemented, would result in increasing the project’s mine life to six years with the development of the two underground projects at Cap-Oeste and COSE.

In January 2016 Patagonia Gold entered into an option agreement with Trilogy Mining Corporation (“Trilogy”) to acquire up to 100% of the San José advance exploration gold project (“San José Project”) in Uruguay. This agreement represents a great opportunity to acquire additional gold projects with good geological potential in a new jurisdiction, enabling the Company to diversify its regional operations and risks.

In view of the current market conditions, the Company continues to endeavour to achieve operating efficiencies and during 2015, Patagonia Gold adopted several measures aimed at achieving cost reductions and optimising its organisational structure. As a result of these measures, the cost savings achieved during 2015 were in the region of US\$1.0 million. The Company recognises that this is a continual process and is committed to further optimising costs, with the prime objective of maximising the funds that are available to be invested in exploration and development of its projects.

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

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

Christopher van Tienhoven
Chief Executive Officer

14 April 2016

OPERATIONS REPORT

Patagonia Gold Plc

Patagonia Gold is a gold and silver mining and exploration company, principally operating in Argentina. The Company's growth strategy aims to develop a number of projects located in the province of Santa Cruz in the southern Patagonia region of Argentina, a mineral-rich region that hosts several medium sized producing assets such as the Cerro Vanguardia Mine (AngloGold Ashanti), Manantial Espejo (Pan American Silver Corp.) and the world class Cerro Negro mine (Goldcorp Inc.) currently under development.

The Company holds, directly or indirectly through its subsidiaries or under option agreements, the mineral rights to over 220 property interests in Argentina, Chile and Uruguay. These include the mineral rights to 67 property interests in the province of Santa Cruz in Argentina 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").

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

Fomicruz acquired 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 four main properties discussed below.

Patagonia's Properties

The Lomada gold project (the "Lomada Project") is located in the La Paloma property block approximately 120 kilometres to the north of the El Tranquilo property block. Following successfully completing a heap leach trial at the Lomada Project, it was brought into full production in 2013.

Patagonia's flagship project is the Cap-Oeste gold and silver project (the "Cap-Oeste Project") located in the El Tranquilo property block approximately 65 kilometres southwest of the town of Bajo Caracoles in Santa Cruz. The Company's aim is to continue to expand the Cap-Oeste Project resource base and, subject to funding, to develop an initial open pit mine with a heap leach pad, with production expected to commence in Q3 2016.

Two kilometres along strike from the Cap-Oeste Project is the smaller but strategically vital COSE project (the "COSE Project"). The Company plans, subject to funding, to commence development and mining of the COSE Project in conjunction with the Cap-Oeste Project as one expanded project.

The La Manchuria property block is located approximately 50 kilometres to the southeast of the El Tranquilo property block and hosts the La Manchuria Project. La Manchuria is currently being evaluated as a potential source of heap leach feed for the Cap-Oeste heap leach pad.

Exploration of the El Tranquilo block has been halted as of November 2015 and first pass exploration of regional permits commenced, first pass grass roots investigations at Las Lajas and Los Toldos has been completed plus follow up work at La Manchuria and also Sarita also commenced. A team has been dispatched to Uruguay to commence a ground magnetics survey and carry out first mapping and geochemical sampling programmes. An IP survey is also scheduled and expected to be underway in April 2016, the objective being to have preliminary drill ready targets by May 2016.

OPERATIONS REPORT (continued)

Resources delineated as at 31 December 2015, which takes into account production at Lomada during 2015, are listed in the table below:

<i>Area Name</i>	<i>INDICATED RESOURCES</i>				<i>Metal (oz)</i>		
	<i>Indicated Tonnes</i>	<i>Au</i>	<i>Grade (g/t)</i>		<i>Au</i>	<i>Ag</i>	<i>AuEq*</i>
La Manchuria	425,705	2.95	135	4.07	40,380	1,848,211	55,684
COSE	49,000	27.8	1,466	52.2	44,000	2,325,000	83,000
Cap-Oeste	14,585,000	1.82	56.32	2.76	855,000	26,407,000	1,295,000
Lomada	4,000,465	0.48	NA	NA	61,919	NA	61,919
TOTAL Indicated					<u>1,001,299</u>	<u>30,580,211</u>	<u>1,495,603</u>

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

INDICATED + INFERRED RESOURCES

	<i>Au</i>	<i>Ag</i>	<i>AuEq*</i>
Total Indicated and Inferred (oz)	<u>1,424,360</u>	<u>34,075,447</u>	<u>2,061,011</u>

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

Lomada Project

The Lomada mine produced 21,521 ounces of gold in 2015 with annual sales of 22,227 ounces of gold and a gross revenue of US\$26.13 million. All-in costs for the Lomada Project were US\$1,196 per ounce.

2015 represented a very poor year for the Lomada Project due to targeted material movements not being achieved, which resulted in production being negatively affected and costs increasing dramatically on a dollar per ounce basis. 2016 has commenced considerably better with the scheduled production of 9,000 ounces for Q1 2016 having been met. During 2015, machine availability and longer than necessary importation delays were the main reasons for excessive down time. Importation restrictions have, for the most part, now been lifted since the new government was elected and as a result, lead times have been drastically reduced. Patagonia Gold expects the new regulations to positively impact its operations going forward.

Operations at Lomada are scheduled to be suspended by May 2016 as near mine exploration continues. The mining fleet and staff will be relocated directly into the Cap-Oeste heap leach development with an anticipated required transitional period of approximately two months before the full fleet will be operational in Cap-Oeste.

The heap leach pad at Lomada will continue to operate at full capacity, although gold production from Lomada will drop considerably from August through to mid-2017, although at the present time guidance

OPERATIONS REPORT (continued)

of the final estimated production cannot be provided. The performance of the pad will be evaluated as the irrigation reaches the full design throughput of 2m³/T of ore. Currently the main heap leach pad has received 82% of its design irrigation quota.

Exploration on the 40,000 hectare La Paloma block is ongoing and detailed ground magnetics, and a geochemical, trenching and drilling programme will be continuing throughout 2016. The objective is to replenish and expand the 30,000 ounces of production per annum and explore the previously under-explored La Paloma block. Historical drilling encountered mineralisation at depth which is open in all directions however, there has been limited success from the current drilling program in delineating a viable mineable resource. Drilling will continue on targets close to the existing pit along strike and down dip of the Lomada mineralisation at the Breccia Sofia target and should a mineable resource be identified, mining operations will re-commence.

Cap-Oeste Project

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

Since acquiring the property from Barrick in 2007, the Company has drilled 563 holes by May 2015 for a total of 106,153 metres. In this time the Company has produced several resource updates with the latest JORC compliant resource estimate completed by CUBE Consulting Pty Ltd (based in Perth, Australia). The current JORC Indicated resource contains 14.1Mt @ 1.96 g/t Au and 59.29 g/t Ag for a contained 887k ounces of Au and 26.9M ounces of Ag with Inferred resource category material of 7.7Mt @ 1.46 g/t Au and 23.39 g/t Ag for a contained 360k ounces of Au and 5.8M ounces of Ag.

The initial focus at Cap-Oeste is on the development of an open pit mine and heap leach pad with a 24 month mine life. Throughput will be similar to that of Lomada, with an initial 1.55Mt @ 2.23 g/t Au and 80g/t Ag loaded to the new pad. Underground mine development studies have also been completed on the COSE and Cap-Oeste orebodies which contain deeper cyanide leachable resources, processing options remain either the possibility to agglomerate and heap leach the ore or assess third party treatment routes. No decision to date has been taken on which route will be adopted.

Testwork continues on the sulphide material in search of a suitable solution to recover the gold trapped in the refractory portion and the non-refractory mineralisation. A mine design accessing only the super high grade portion of the Cap-Oeste mineralisation is underway with various treatment options including third party toll treatment as a potential route to unlock the contained value and produce positive cash flow. A mixture of very high grade COSE style mineralisation has been identified within areas previously classified as refractory sulphide, this mineralisation has abundant free gold and very high grade leachable silver sulphides present within the sulphide envelope. This data has now been included into the existing resource and underground mine study.

COSE Project

The COSE Project, located two kilometres along strike from the Cap-Oeste Project, is currently planned, subject to funding, to be the next project within the Company's portfolio to be developed. COSE is a fault breccia hosted quartz sulphide rich Au-Ag 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 COSE Project was previously undrilled and initial drilling results indicated that the grades intersected might lead to the delineation of a stand-alone resource for short-term development. This proved to be the case with a resource of slightly below 100,000 AuEq ounces being delineated in approximately 69,000 tonnes of material in the updated resource estimate prepared in March 2015. Wide

OPERATIONS REPORT (continued)

low grade or diffuse zones of Ag rich low-grade Au mineralisation characterise the mineralisation outcrops at surface and within the first 130 metres vertically down dip. Below 130 metres and continuing to a currently delineated depth of 260 metres, the width of the fault hosted breccia decreases and the grade of both Au and Ag increase exponentially leading in turn to the overall resource grade being estimated in excess of 44 g/t Au Eq. The mineralised structure containing the COSE deposit remains open at depth and along strike. Future deeper drilling which is required in order to test the down dip potential of the deposit will be carried out from underground.

In 2010 the Company filed the maiden NI 43-101 resource estimate for the COSE Project. A preliminary economic assessment (“PEA”) was completed to establish viability for the construction, mining and processing of the deposit. The PEA showed the project could be constructed and mined out in a 23-month period and to have very attractive financial characteristics that included a production rate of 3,600 tonnes per month at a cash cost of US\$167 per tonne, net revenue of US\$63.7 million (assuming gold price of US\$1,204 per ounce and Ag of US\$23.75 per ounce) and a net present value of US\$56.8 million at an 8% discount rate, an extraordinary internal rate of return of 870% and a payback period of only two months after the start of production.

One geotechnical and met testwork hole was drilled during 2015 and this material utilised in a gold deportment and flotation testwork programme currently underway at BASE Metallurgical Laboratories Ltd in Canada, preliminary data show good recovery to floatation although final results are not yet on hand. Once available these will be published.

La Manchuria Project

The La Manchuria Project is located approximately 44 kilometres south-east of the Cap-Oeste and COSE deposits and represents a large system of low sulphidation style vein hosted gold-silver (Au-Ag) mineralisation which outcrops at surface. Shortly after acquisition from Barrick in 2007, the Company launched a three-year exploration programme that included soil geochemistry, mapping, trenching, petrographic analysis and topographic surveying. To date, the Company has completed three drilling campaigns for a total of 20,993 metres of diamond and reverse circulation drilling on this project.

An NI 43-101 resource estimate, released in September 2010, listed Indicated Resources at 55,684 ounces of AuEq and Inferred Resources of 90,682 ounces of AuEq. High-grade gold and silver mineralisation is open along strike to northeast and southeast.

Exploration Summary

The exploration strategy during the reporting period has changed significantly from being largely focussed on exploration of the El Tranquilo and La Paloma blocks in Santa Cruz, to a more regionally focussed greenfields exploration strategy, both in Argentina and Uruguay. Exploration has been undertaken over the El Tranquilo, Manchuria Sur, Las Lajas, La Paloma and Sarita blocks in Santa Cruz, data review in Chubut and Rio Negro as well as commencement of field work on the San José Project in Uruguay.

<i>Type</i>	<i>Volume</i>	<i>Comment</i>
Mapping	193km ²	Las Lajas, Cerro Vasco and San José
Soil Geochemistry	14	Orientation Survey at San José Project (Uruguay)
Ground Magnetics	1219 line-km	El Tranquilo, La Paloma, and San José
Gradient Array IP	11 line-km	Propiedad 29
Pole-Dipole IP	13.5 line-km	Cap-Oeste-Valle infill
Rock Chip Sampling	651 samples	Mostly at Las Lajas and Cerro Vasco
Sawn channels	430.2m	
Trenching	2113m	
RC Drilling	–	
Diamond Drilling	4884m	El Tranquilo, Manchuria Sur and La Paloma

OPERATIONS REPORT (continued)

El Tranquilo Project

The detailed Pole-Dipole (PDP) IP survey over the Cap-Oeste – COSE corridor was completed during the reporting period, with infill lines acquired to better define anomalies for targeting a diamond drilling programme which commenced during late September 2015.

La Pampa Prospect. Two deep diamond holes were drilled to test a strong Chargeability anomaly along the projected extension of the Cap-Oeste-COSE structural corridor. The holes intersected broad zones of arsenopyrite rich, Cap-Oeste style mineralisation but gold grades averaged only 0.18ppm.

Cap-Oeste Prospect. A single PQ diamond hole was drilled to collect metallurgical samples from the deep levels of the deposit, in the vicinity of hole CO-317-D. The metallurgical hole (COM-017-D) intersected a 19m wide zone of Cap-Oeste style mineralisation in the target zone however there was no obvious COSE style mineralisation intersected.

38 coarse reject composite samples, representing potentially economic grades from historic drill intercepts were selected from 30 drill holes located in the lower part of main (A) ore-shoot at Cap-Oeste. The weighted average Au recovery for all samples tested was 58.5% enhanced by better recoveries associated with higher grades, including values up to 84.4%.

COSE Prospect. A single PQ diamond hole was drilled to collect metallurgical samples. Discontinuous mineralisation was intersected between 216.6m and 243.0m, from which seven samples were selected for metallurgical testing. The highest assays reported from the testwork programme were 307ppm Au and 3940ppm Ag in different samples.

El Valle Prospect. The PDP IP survey defined a coincident Chargeability-Resistivity anomaly deep beneath a hydrothermal eruption breccia where gold grades to 1.8ppm are associated with very high pathfinder element concentrations. A single diamond hole tested the target which was found to be a sub-volcanic trachytic dome with a pyritic halo, of the same suite that also underlies the Cap-Oeste deposit and Don Pancho prospects. The most significant assay from the hole was 1.2m at 408ppm Ag.

Propriedad 29 Prospect. Reconnaissance mapping and sampling defined breccias and veins with strongly elevated pathfinder elements (including the highest surface Hg grades reported from the El Tranquilo project) and anomalous Au grades to 0.67ppm Au. Ground magnetic and Gradient Array IP surveys were completed over the prospect followed by two short diamond drill holes to test what were considered to be the best targets. No anomalism was reported.

La Paloma Project

Exploration work at the La Paloma project during the reporting period focussed primarily on the Lomada, Brecha Sofia and Cerro Vasco prospects.

Lomada. A 26.5km² ground magnetic survey was completed over the Lomada south area during September 2015. Subsequent processing of the data has revealed numerous strong lineaments of which some are ore controlling structures at Lomada.

Five shallow diamond drill holes were drilled to test structures mapped and sampled at Lomada south. The holes intersected the structures but Au values were only weakly anomalous, to 0.12ppm.

Bandurria Prospect. The prospect is located immediately to the west of the La Paloma block, in vacant ground. Two main systems with crustiform and carbonate replacement vein textures are evident at the prospect with Au reported from the western vein only although the eastern vein system shows good textures and may be mineralised at depth. Assays up to 9.52ppm Au and anomalous values reported over approximately 500m of strike length. Negotiations are in progress to secure tenure over the prospect which is situated within the Cueva de los Manos archaeological reserve, although approximately 15km from the main site.

OPERATIONS REPORT (continued)

Brecha Sofia Prospect. After a land access stalemate with the owner of Estancia La Cantera for many years, access terms were recently agreed. A review of the historic Brecha Sofia drilling revealed potential for a high grade underground structure to exist. Intersections of 12m at 5.0ppm Au, 3.2m at 13.1ppm Au and 3.0m at 140.6m are all open at depth. A short drill programme of 695m involving re-entry and extension of historic drill holes was completed during March. The holes intersected hydrothermal breccia in the target zone and assays are anticipated during April 2016.

Cerro Vasco Prospect. Exploration work was recommenced at the prospect after an absence of three years. A 19km² ground magnetic survey was completed in conjunction with extensive reconnaissance mapping and sampling. The magnetics have revealed strong lineaments of which the most dominant coincide very well with some IP Gradient Array anomalies, the Brecha La Emilia mineralisation and sporadic occurrences of mineralised float samples. A rotary air blast drilling programme is proposed to test beneath the widespread recent cover sequence.

La Manchuria Sur Project

Four diamond drill holes for 473m were drilled at three prospects within the La Manchuria Sur (Fomicruz) block.

Cerro Turulo Prospect. Two diamond holes were drilled to test:

- (a) the SE extension of strongly elevated surface channel samples (to 14.5ppm Au and 234ppm Ag); and
- (b) a very strong PDP-IP Chargeability anomalies, coincident with strong Resistivity gradient and ground magnetic lineament.

The holes returned weak gold grades to 0.62ppm, with a best intersection of 13.4m at 0.35ppm Au, hosted within a magmatic andesite breccia with pyrite matrix, which accounts for the very high chargeability response.

Tres Lagos Prospect. A single diamond hole tested beneath a surface channel that reported 2.0m at 4.36ppm Au and 174.7ppm Ag. The hole intersected silicified hydrothermal breccia but no significant precious metal assays were reported.

Veta Speme Prospect. A single diamond drill hole tested the main structure beneath channel samples up to 3.88ppm Au. The hole intersected tectonic and hydrothermal breccia with strong silicification and alteration however, there were no significant assays reported.

Las Lajas Project

Reconnaissance exploration commenced at the Las Lajas (Formicruz) project during December 2015. Reconnaissance mapping and sampling has been progressing steadily across the block with encouraging results reported from the La Ultima prospect, where two targets have been defined with rock-chip samples reporting grades to 0.74ppm Au and 13.6ppm Ag from locally banded and brecciated epithermal quartz veins.

The first pass mapping and sampling at Las Lajas is almost complete and the exploration team will soon move to the Los Toldos block to undertake a similar style of programme there.

Sarita Project

Sampling and mapping commenced during the period at the Sarita project after a 4-year hiatus. Previous work focussed largely on the central rhyolite dome target, looking for Las Calandrias style dome hosted mineralisation. The current programme will target the extensive vein system in greater detail with the objective of defining high shoots which can justify drilling. A large ground magnetic surveys is proposed.

OPERATIONS REPORT (continued)

Santa Cruz Tenement Rationalisation Project

The Corporate Geoscience Group (CGSG), a Perth, Australia based geological consultancy was engaged to undertake a review of the company's tenure in Santa Cruz with the objective of independently identifying and ranking areas with high prospectivity, utilising all available geological, geophysical, remote sensing and past exploration information.

The principal datasets utilised in the review included regional geological mapping, regional wide spaced aeromagnetic data and most importantly, detailed topographic lineament analysis in conjunction with Landsat 8 multi-spectral data to define silicified (topographic high) lineaments coincident with clay-goethite-ferric iron alteration to indicate hydrothermally altered terrain.

The review identified the Cañadon Largo, Las Lajas and Sarita blocks as having the greatest potential for discovery and delineation of significant gold-silver epithermal mineral systems. Hence, these blocks should be retained in full. Areas of particular exploration interest have been identified by CGSG for each of these blocks.

Additionally, CGSG have identified several areas with high potential for gold mineralisation outside of the PGSA tenements.

Chubut and Rio Negro Provinces

After a long absence from exploration in Chubut and Rio Negro due to the legislative limitations on development of mineral projects in these jurisdictions, it has been decided to reassess the company's extensive tenure in light of the recent political changes at a federal level. Although there have been no changes to the respective moratoria, it is possible that the provincial administrations may review the current legislation with a view to loosening some of the constraints.

The objective of the current programme is to review all PGSA tenure in both provinces, validate databases, define targets, rank the prospectivity of the projects and develop work programmes so that the Company is in an informed position, and prepared to act should any changes be announced in future.

San José Project, Uruguay.

An agreement was signed with Trilogy Mining Corporation (TMC) to earn into the San José Gold Project in San José Department, southern Uruguay in late January. TMC has compiled a dominant land package on the San José Greenstone Belt (SJGB) within the early Proterozoic Piedra Alta Terrane, with a combined land package totaling 458km². The SJGB is a lower Proterozoic metamorphic belt (+/- 2Ga) comprising greenschist to lower amphibolite facies metasediments and metavolcanics with frequent large granitic-granodioritic intrusives. The geological setting appears typical of the terranes that host some of the world's most prolific Orogenic gold belts.

Historical exploration in the area has defined shear hosted gold mineralisation at several prospects but there has been little exploration during the last 20 years. Over a period of several years, TMC have conducted extensive stream sediment sampling to define areas of interest.

Exploration work has commenced with one PGSA geologist working together with the Trilogy staff to try to rapidly develop drill targets. The programme proposed incorporates geological mapping, soil geochemistry, ground magnetics, Gradient Array IP and trenching programmes to develop drill targets for testing by mid-year. The Company's magnetometer was taken to Uruguay and to date 330 line-km of data acquisition has been completed at 2 prospects; Zona 15 and Los Panaderos. Although outcrop is very sparse over much of project area, geological mapping has been progressing at the Zona 14, Zona 15 and Los Panaderos prospects with the new magnetic data proving a valuable aid to structural interpretation.

OPERATIONS REPORT (continued)

A 79 line-km Gradient Array IP survey over the area was proposed to commence during March but this has been delayed due to complications with the leasing of the geophysical equipment so alternative arrangements, including purchasing the equipment or bringing contractors from Argentina are being investigated.

Social and economic responsibility

Patagonia 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 attempts, where possible, to hire local personnel and use local contractors and suppliers.

Matthew Boyes

Chief Operations Officer

14 April 2016

STRATEGIC REPORT

Business review and future developments

The purpose of the review is to show how the Company assesses and manages risk and uncertainty and adopts appropriate policies and targets. Further details of the Group's business are also set out in the Chairman's Statement on page 4, the Report of the CEO on page 5, and the Operations Report on pages 6 to 13, which are incorporated in this report by reference.

Principal activities

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

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

Patagonia Gold's growth strategy includes the following:

- Mining operations will be suspended at Lomada at the end of May 2016 and gold production is expected to continue to leach for approximately 12 – 18 months thereafter. Near mine exploration continues with a view to resuming mining operations and continue production.
- Development of an open pit mine and small heap leach operation at Cap-Oeste commenced in March 2016 with initial earthworks movement. Pending funding and issuance of permits construction of the leach pad, gold plant and related infrastructure will follow with a view to commencing production during Q3 2016. The total initial production from the project is currently estimated to be approximately 82,000 ounces of AqEq. Alternatives to add resources to this project will continue in parallel. The Company will also continue to review alternatives to treat the high grade ore from COSE and Cap-Oeste underground mines, either through the construction of a plant at site or through the use of other processing facilities in the Province.
- The Company has started exploration work on the recently announced earn in agreement in Uruguay and hopes to start drilling in Q2 2016 once historical data has been processed and preliminary exploration, mainly geophysics, has been completed.
- A review of the Company's project portfolio in Santa Cruz and Rio Negro. The properties in Chubut will also be reviewed in case the ban on mining is lifted as a result of the political changes taking place in Argentina.
- The Company continues to look out for M&A opportunities that have synergies with its skill set with a proven track record of transitioning from being an exploration company to a producer.

Principal risks and uncertainties

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

Financing

The Directors have prepared cash flow projections through to December 2017 that demonstrate that, subject to the availability of funding from existing and additional lines of credit and the raising of new equity capital, which will enable the Group to finance the construction and completion of the Cap-Oeste heap leach project, the on-going cash flow from Lomada, projected cash generation from Cap-Oeste, and anticipated VAT recovery will enable the Group to meet all of its financial commitments, including

STRATEGIC REPORT (continued)

scheduled loan repayments, as they fall due over a period of at least 12 months from the date of this report. The Directors are confident in the Group's ability to secure the requisite funding to finance the development of the Cap-Oeste heap leach project.

Exploration and the development of the Group's other properties and mining interests will primarily be financed from a combination of revenue and net cash inflows generated from its operating activities at Lomada and Cap-Oeste (once the proposed heap leach project has been developed) and the raising of new equity capital and/or local debt financing in Argentina.

The Directors are confident in their ability to secure any additional financing required based on positive discussions held with lending institutions in Argentina and significant shareholders. If the Group is unable to obtain additional financing as needed, some interests may be relinquished and/or the scope and nature of the operations may be reduced.

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 within the El Tranquilo Block where geophysical, geochemical and drilling programmes were completed. Exploration of the El Tranquilo block has now been halted as the focus has now moved to covering previously unexplored regional licences.

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

Currency

The currency risk diminished in December 2015 when the peso was devalued approximately 40% and exchange controls were lifted. The Group presents its financial results in United States dollars ("USD"). The Group commenced commercial production at its Lomada Project main heap leach operation in the third quarter of 2013. Gold production is shipped to Republic Metals in Miami and proceeds from the gold sales, denominated in USD, are transferred to Argentina within 84 days from customs and clearance where the funds are converted to Argentine peso. The Group does not engage in active hedging to minimise exchange rate risk but does keep the process under review. Equity capital is raised in British

STRATEGIC REPORT (continued)

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 it has the opportunity to.

Environmental and other regulatory requirements

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

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:

<i>Non-financial KPIs</i>		<i>Financial KPIs</i>	
Health and safety management	Lost time injury frequency rate. Medical treatment injury frequency rate.	Shareholder return	Share price performance.
Environment management	Compliance with strict jurisdictional environmental policies.	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. Attracting qualified employees for key positions.	Working capital	Monitoring working capital. Ensuring adequate liquidity.

Non-Financial KPIs

- **Health and Safety Management:** The Company’s Health and Safety Department is staffed by three qualified and experienced personnel. During the year 2015, the Lost Time Injury Frequency Rate for the Company was 20.44, the Lost Time Injury Incidence Rate was 28.36 and the Medical Treatment Injury Frequency Rate was 0.205% 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 2015, PGSA presented 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.
- **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 Project. Gold production reached design capacity 1,750 ounces per month in November 2013 and increased to

STRATEGIC REPORT (continued)

the planned 3,000 ounces per month in late July 2014. The Lomada Project produced 21,521 ounces of gold in 2015 with annual sales of 22,227 ounces of gold and a gross revenue of US\$26.128 million, with all-in costs for the Lomada Project of US\$1,196 per ounce. Operations at Lomada are scheduled to be suspended by May 2016 as near mine exploration continues.

- **Human Resource Management:** During 2015, the employee retention rate was 85% and the Group 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 5.71% 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.

Financial KPIs

- **Shareholder Return:** The Company's share price continues to be impacted by the downturn in the capital markets most notably in the precious metals sector. Patagonia Gold's share price went from a high of 3.63 pence in January 2015 to 1.05 pence in October 2015. The closing mid-market price of the Company's ordinary shares on 31 December 2015 was 1.75 pence, down from 3.50 pence at 31 December 2014.
- **Exploration Expenditure:** For the majority of 2015, exploration activities focussed on the El Tranquilo and La Paloma blocks in Santa Cruz with the objective of delineating mineralisation that could contribute to the resources of the Cap-Oeste and Lomada projects respectively.

A detailed structural-lithological re-interpretation of the Cap-Oeste/COSE corridor and immediate environs was undertaken which has led to a vastly improved geological understanding the area. This work was complemented with the acquisition of an extensive Pole-Dipole IP geophysical survey over the area, which generated multiple new targets of which some were drill tested late in the year. In addition, exploration activity on the El Tranquilo block targeted the Calafate, Monte Leon, La Canada 2, and Valle prospects. A rigorous study of mineralisation at the Cap-Oeste project was completed during the year enabling a much improved definition of the distribution of two phases of mineralisation; an early arsenic and iron sulphide rich phase followed by a precious metal rich, sulphide poor phase. This new interpretation was subsequently validated by drilling that intersected very high grades of non-refractory gold-silver mineralisation.

Geological mapping, sampling and an extensive ground magnetic survey conducted in the vicinity of the Lomada Project to delineate additional resources revealed previously unrecognised gold bearing structures, of which some were drill tested. An evaluation of historic drilling at the Brecha Sofia prospect located 2km NE of Lomada has defined deep drilling targets that will be tested during 2016.

Ground magnetic and induced polarisation surveys were completed over several prospects in the Manchuria Sur block located approximately 60km SE of Cap-Oeste with a short drilling programme late in the year.

Late in 2015 the Company refocussed exploration resources onto greenfields projects in Santa Cruz with the objective of discovering new resources in the very poorly explored Los Toldos, Las Lajas, Sarita, Santa Catalina, Canadon Largo and Bajo Pelegrini blocks. To aid this programme the company engaged Corporate Geoscience Group (CGSG) of Perth Australia to conduct an independent appraisal and prospectivity ranking for all of the Company's tenements in Santa Cruz province to prioritise targets and enable future tenement rationalisation.

- **Exploration Development:** There have been no additions to the Group's resource base in 2015. The Measured and Indicated resources at Lomada were depleted to 61,919 ounces through production while the inferred category remained unchanged at 73,726 ounces.

STRATEGIC REPORT (continued)

- Working Capital: At 31 December 2015, working capital netted to US\$(15.3) million, a decline of US\$10.8 million from the 31 December 2014 working capital of US\$(4.5) million. This was due to there being US\$3.9 million less cash on hand, US\$1.3 million decrease in gold inventory, a US\$1.8 million decrease in available-for-sale current financial assets, a US\$5.3 million increase in short-term loans plus a US\$0.4 million decrease in trade and other receivables, offset by a US\$1.9 million decrease in trade and other payables.

All significant information is detailed in the Operations Report on pages 6 to 13 and is published on our website at www.patagoniagold.com.

Directors

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

At 14 April 2016, 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.

Risk factors

Details of the principal financial risk factors affecting the Company can be found in Note 24 to the financial statements on page 61.

Subsequent events

Significant events since the year end are detailed in the Report of the CEO on page 5, the Operations Report on pages 6 to 13, the Report of the Directors on pages 19 to 23 and in the Notes to the financial statements on pages 34 to 68.

Future developments

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

Subsidiary companies

Details of the Company's subsidiaries can be found in Note 15 to the financial statements on page 55.

Further information

Further information can be found in the Report of the Directors on pages 19 to 23.

On behalf of the Board of Directors

Christopher van Tienhoven

Executive Director

14 April 2016

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 2015. All amounts are expressed in US\$ (“\$”) except where indicated.

Financial instruments

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

Going concern

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

The Group is an advanced gold and silver exploration and development company which commenced commercial production of gold in July 2013 upon the successful commissioning of the Lomada Project.

Following the decision to suspend mining operation at Lomada, Patagonia Gold’s growth strategy includes the development of a heap leach operation at Cap-Oeste, subject to funding, along the same lines as Lomada and identifying additional resources to maintain a design capacity production of approximately 3,500 ounces per month. In addition, the Company will continue exploration activities to identify a mineable resource to be able to recommence operations at Lomada as well as to review alternatives to treat the high grade ore from COSE and Cap-Oeste underground projects, which may include the construction of a small treatment facility at Cap-Oeste or the use of existing facilities in Province.

The Directors have prepared cash flow projections through to December 2017. These demonstrate that, subject to the availability of funding from existing and additional lines of credit and the raising of new equity capital, which will enable the Group to finance its capital expenditure requirements at Cap-Oeste, the on-going cash flow from Lomada, projected cash generation from Cap-Oeste, and anticipated VAT recovery, will enable the Group to meet all of its financial commitments, including scheduled loan repayments, as they fall due over a period of at least 12 months from the date of this report. The Directors are confident in the Group’s ability to secure the requisite funding to finance development of the Cap-Oeste heap leach project.

Exploration and the development of the Group’s other properties and mining interests will primarily be financed from a combination of revenue and net cash inflows generated from its operating activities at Lomada and Cap-Oeste (once the proposed heap leach project has been developed) and the raising of new equity capital and/or local debt financing in Argentina.

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

Share capital

In February 2015, the Company allotted 1,111,111 new ordinary shares of 1p each to certain of the Company’s advisers in lieu of cash payments.

REPORT OF THE DIRECTORS (continued)

On 24 June 2015, following consultation with the Company's advisors, 12,241,993 ordinary shares in the Company were issued in lieu of the outstanding fees owed to Directors for their services during 2014, under each Director's terms of appointment. The shares were deemed to be allotted for cash at a market price of 2.81 pence each being the volume weighted average share price for the Company for the 30 day period prior to the date of the announcement.

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 (2014: US\$nil).

Substantial shareholdings

In addition to the interest of Carlos J. Miguens disclosed below, at 14 April 2016, the Company had been notified of, or was aware of, the following interests of 3% or more in its issued share capital:

<i>Ordinary Shares of 1 pence:</i>	<i>Number</i>	<i>Percentage</i>
Carlos J. Miguens	213,785,822	20.17
Cinco Vientos Uruguay SA	45,897,392	4.33
Van Eck Global	38,603,767	3.64

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:

<i>Ordinary Shares of 1p:</i>	<i>14 April 2016</i>	<i>31 December 2015</i>	<i>31 December 2014</i>
Carlos J. Miguens	213,785,822	213,785,822	211,187,533
William H. Humphries – <i>Retired 10 June 2015</i>	N/A	N/A	30,892,699
Gonzalo Tanoira	11,543,348	11,543,348	10,191,035
Christopher van Tienhoven – <i>Appointed 10 June 2015</i>	3,000	3,000	N/A
Edward J. Badida	351,352	351,352	351,352
Manuel de Prado	197,635	197,635	197,635
Glenn Featherby	3,219,063	3,219,063	2,151,447

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

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

- to Carlos J. Miguens US\$114,622 (2014: US\$123,570) for his services as Director and Chairman;
- to William H. Humphries through his company Mining Management-Europe (MM-E) US\$50,900 (2014: US\$280,092) for his services as Director and Chief Executive Officer of Patagonia Gold Plc. through to the date of his retirement;
- to Gonzalo Tanoira US\$114,622 (2014: US\$65,904) for his services as Director;
- to Christopher van Tienhoven US\$91,752 (2014: US\$Nil) for his services as Director and CEO;
- to Edward J. Badida US\$61,132 (2014: US\$65,904) for his services as Director and Chairman of the Audit Committee;

REPORT OF THE DIRECTORS (continued)

- to Manuel de Prado US\$45,849 (2014: US\$49,428) for his services as Director; and
- to Glenn Featherby US\$45,849 (2014: US\$49,428) for his services as Director.

Of the above, US\$382,075 remained unpaid at the year-end.

No Director received any other bonus or benefits-in-kind in 2015 or 2014.

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

On 31 March 2015, Christopher van Tienhoven was awarded 10,000,000 share options at an exercise price of 2.5p with an expiry date of 30 March 2025 on his appointment as CEO.

No other Director exercised or was awarded any options during the year.

At 31 December 2015, the Directors were interested in unissued ordinary shares granted to them by the Company under share options in their names and/or under controlled subsidiaries:

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

The Company's ordinary shares were traded on AIM and the GBP market price of those shares ranged between 1.05 pence and 3.63 pence during the year. The closing mid-market price of the Company's ordinary shares on 31 December 2015 was 1.75 pence (31 December 2014: 3.50 pence).

Corporate governance

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

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

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

The Audit Committee, which comprises 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.

REPORT OF THE DIRECTORS (continued)

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 as required to assist the Company and the Board in fulfilling their respective corporate governance responsibilities under applicable securities laws, instruments, rules and policies and regulatory requirements, to promote a culture of integrity throughout the Company and to assist the Company in identifying and recommending new nominees for election to the Board.

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

Internal control

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

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

Directors' service agreements

William H. Humphries retired from the Board on 10 June 2015 with immediate effect.

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

Annual General Meeting

The Company's Annual General Meeting is convened for 10 May 2016 at 11.00 am to be held at the offices of Stephenson Harwood LLP located at 1, Finsbury Circus, London EC2M 7SH. The notice of Annual General Meeting is attached with the financial statements. The notice includes items of Special Business and an explanation regarding such business can be found at the end of the notice.

The Directors who retire by rotation are Carlos Miguens and Gonzalo Tanoira who, being eligible, offer themselves for re-election. In addition, Christopher van Tienhoven, who was appointed to the Board after the last Annual General Meeting, retires in accordance with the Articles of Association and, being eligible, offer himself for election.

REPORT OF THE DIRECTORS (continued)

Directors' indemnification provisions

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

Auditors

Grant Thornton UK LLP has expressed willingness to continue in office. In accordance with Section 489(4) of the Act, a resolution to re-appoint Grant Thornton UK LLP as auditor of the Company will be proposed at the Annual General Meeting to be held on 10 May 2016.

By Order of the Board

Nigel Everest
Company Secretary
14 April 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

The Directors confirm that:

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PATAGONIA GOLD PLC

We have audited the financial statements of Patagonia Gold Plc for the year ended 31 December 2015 which comprise the consolidated and parent company statements of financial position, the consolidated statement of comprehensive income, the consolidated and parent company statement of changes in equity, the consolidated and parent company statements of cash flow, 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 Directors' Responsibilities Statement set out on page 24, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2015 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 – Company financial statements - Carrying value of investment in subsidiary companies

In forming our opinion on the parent company financial statements, which is not modified, we have considered the adequacy of the disclosure made in Note 15 to the financial statements concerning the carrying value of the parent company investment in its subsidiaries. The conditions explained in Note 15, indicate the existence of a material uncertainty that may cast significant doubt over the parent company carrying value of investment in its subsidiaries.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
PATAGONIA GOLD PLC (continued)**

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.

Philip Westerman

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

London

14 April 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2015

<i>(Thousands of \$)</i>	Note	2015	2014
Continuing operations			
Revenue	5	\$26,128	\$35,867
Cost of sales		<u>(29,731)</u>	<u>(26,102)</u>
Gross (loss)/profit		<u>\$ (3,603)</u>	<u>\$ 9,765</u>
Exploration costs		<u>(5,491)</u>	<u>(5,179)</u>
Administrative costs			
Share-based payments charge	27	(97)	(555)
Other administrative costs	8	<u>(11,304)</u>	<u>(10,605)</u>
		(11,401)	(11,160)
Finance income	6	2,832	1,202
Finance costs		<u>(782)</u>	<u>(1,011)</u>
Loss before taxes		(18,445)	(6,383)
Income tax benefit/(charge)	10	<u>4,051</u>	<u>(372)</u>
Loss for the year		(14,394)	(6,755)
Attributable to non-controlling interest	23	(1,310)	(335)
Attributable to equity share owners of the parent		<u>(13,084)</u>	<u>(6,420)</u>
		(14,394)	(6,755)
Other comprehensive expense:			
Items that will not be reclassified to profit or loss:			
Loss on revaluation of available-for-sale financial assets		(9)	(9)
Items that may be reclassified subsequently to profit or loss:			
Exchange loss on translation of foreign operations		<u>(5,521)</u>	<u>(5,249)</u>
Other comprehensive loss for the year		<u>(5,530)</u>	<u>(5,258)</u>
Total comprehensive loss for the year:		<u><u>\$(19,924)</u></u>	<u><u>\$(12,013)</u></u>
Total comprehensive loss for the year attributable to:			
Non-controlling interest		(1,310)	(335)
Owners of the parent		<u>(18,614)</u>	<u>(11,678)</u>
		<u><u>\$(19,924)</u></u>	<u><u>\$(12,013)</u></u>
Net loss per share (\$)			
Basic loss per share	11	\$(0.01)	\$(0.01)
Diluted loss per share	11	<u><u>\$(0.01)</u></u>	<u><u>\$(0.01)</u></u>

The notes on pages 34 to 68 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 December 2015

<i>(Thousands of \$)</i>	Note	2015	2014
ASSETS			
Non-current assets			
Property, plant and equipment	14	\$6,327	\$11,789
Mineral properties	13	3,280	5,191
Mining rights	12	3,588	3,687
Available-for-sale financial assets	24	7	18
Other receivables	16	7,767	12,408
Deferred tax asset	10	4,790	2,694
		<u>25,759</u>	<u>35,787</u>
Current assets			
Available-for-sale financial assets	6	–	1,792
Inventory	18	2,253	3,525
Trade and other receivables	17	455	878
Cash and cash equivalents	19	1,694	5,588
		<u>4,402</u>	<u>11,783</u>
Total assets		<u><u>\$30,161</u></u>	<u><u>\$47,570</u></u>
LIABILITIES			
Current liabilities			
Short-term loans	20	13,346	8,046
Trade and other payables	20	6,371	8,241
		<u>19,717</u>	<u>16,287</u>
Non-current liabilities			
Long-term loans	21	1,681	2,786
Provisions	21	607	1,133
		<u>2,288</u>	<u>3,919</u>
Total liabilities		<u>22,005</u>	<u>20,206</u>
EQUITY			
Share capital	22	15,690	16,256
Share premium account		154,090	161,285
Currency translation reserve		(11,746)	(15,453)
Share-based payment reserve		17,238	17,990
Accumulated losses		<u>(166,553)</u>	<u>(153,461)</u>
Equity attributable to shareholders of the parent		8,719	26,617
Non-controlling interest	23	<u>(563)</u>	<u>747</u>
Total equity		<u>8,156</u>	<u>27,364</u>
Total liabilities and equity		<u><u>\$30,161</u></u>	<u><u>\$47,570</u></u>

Company Registered number 3994744

These financial statements were approved by the Board of Directors on 14 April 2016 and were signed on its behalf by:

Gonzalo Tanoira
Director

The notes on pages 34 to 68 form part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION
at 31 December 2015

<i>(Thousands of \$)</i>	Note	2015	2014
ASSETS			
Non-current assets			
Property, plant and equipment	14	\$26	\$67
Investment in subsidiary companies	15	117,841	115,000
Available-for-sale financial assets	24	7	18
		<u>117,874</u>	<u>115,085</u>
Current assets			
Trade and other receivables	17	29	4,243
Cash and cash equivalents	19	289	4,804
		<u>318</u>	<u>9,047</u>
Total assets		<u><u>\$118,192</u></u>	<u><u>\$124,132</u></u>
LIABILITIES			
Current liabilities			
Short-term loans	20	4,096	–
Trade and other payables	20	847	5,174
Total liabilities		<u>4,943</u>	<u>5,174</u>
EQUITY			
Share capital	22	15,690	16,256
Share premium account		154,090	161,285
Currency translation reserve		5,733	2,090
Share-based payment reserve		17,238	17,990
Accumulated losses		(79,502)	(78,663)
Total equity		<u>113,249</u>	<u>118,958</u>
Total liabilities and equity		<u><u>\$118,192</u></u>	<u><u>\$124,132</u></u>

Company Registered number 3994744

These financial statements were approved by the Board of Directors on 14 April 2016 and were signed on its behalf by:

Gonzalo Tanoira
Director

Patagonia Gold Plc

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2015

(Thousands of \$)

Note	Equity attributable to shareholders of the parent					Total attributable to owners	Non-controlling interests	Total equity
	Share capital	Share premium account	Currency translation reserve	Share-based payment reserve	Accumulated losses			
At 1 January 2014	\$14,108	\$160,087	\$(21,547)	\$18,804	\$(147,294)	\$24,158	\$1,082	\$25,240
Changes in equity for 2014								
Share-based payment	27	-	-	555	-	555	-	555
Issue of share capital								
Issue by placing	22	2,901	10,505	-	-	13,406	-	13,406
Transaction costs of placing		-	(513)	-	-	(513)	-	(513)
Exercise of option	22	86	603	-	(262)	689	-	689
Transactions with owners		2,987	10,595	-	293	14,137	-	14,137
Loss for the year		-	-	-	(6,420)	(6,420)	(335)	(6,755)
Other comprehensive income (loss):								
Revaluation of available-for-sale financial assets		-	-	-	(9)	(9)	-	(9)
Exchange differences on translation to \$		(839)	(9,397)	6,094	(1,107)	(5,249)	-	(5,249)
Total comprehensive income/(loss) for the year		(839)	(9,397)	6,094	(1,107)	(6,429)	(335)	(12,013)
At 31 December 2014		16,256	161,285	(15,453)	17,990	(153,461)	747	27,364
Changes in equity for 2015								
Share-based payment	27	-	-	97	-	97	-	97
Issue of share capital								
Issue by placing	22	210	409	-	-	619	-	619
Transaction costs of placing		-	-	-	-	-	-	-
Exercise of option	22	-	-	-	(1)	1	-	-
Transactions with owners		210	409	-	96	716	-	716
Loss for the year		-	-	-	(13,084)	(13,084)	(1,310)	(14,394)
Other comprehensive income (loss):								
Revaluation of available-for-sale financial assets		-	-	-	(9)	(9)	-	(9)
Exchange differences on translation to \$		(776)	(7,604)	3,707	(848)	(5,521)	-	(5,521)
Total comprehensive income/(loss) for the year		(776)	(7,604)	3,707	(848)	(13,093)	(1,310)	(19,924)
At 31 December 2015		\$15,690	\$154,090	\$(11,746)	\$17,238	\$(166,553)	\$(563)	\$8,156

The notes on pages 34 to 68 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2015

(Thousands of \$)

	Note	Share capital	Share premium account	Currency translation reserve	Share-based payment reserve	Accumulated losses	Total
At 1 January 2014		\$14,108	\$160,087	\$(2,927)	\$18,804	\$(75,439)	\$114,633
Changes in equity for 2014							
Share-based payment	27	–	–	–	555	–	555
Issue of share capital							
Issue by placing	22	2,901	10,505	–	–	–	13,406
Transaction costs of placing		–	(513)	–	–	–	(513)
Exercise of option	22	86	603	–	(262)	262	689
Transactions with owners		2,987	10,595	–	293	262	14,137
Loss for the year		–	–	–	–	(3,477)	(3,477)
Other comprehensive income (loss):							
Revaluation of available-for-sale financial assets		–	–	–	–	(9)	(9)
Exchange differences on translation to \$		(839)	(9,397)	5,017	(1,107)	–	(6,326)
Total comprehensive income/(loss) for the year		(839)	(9,397)	5,017	(1,107)	(3,486)	(9,812)
At 31 December 2014		16,256	161,285	2,090	17,990	(78,663)	118,958
Changes in equity for 2015							
Share-based payment	27	–	–	–	97	–	97
Issue of share capital							
Issue by placing	22	210	409	–	–	–	619
Transaction costs of placing		–	–	–	–	–	–
Lapse of option	22	–	–	–	(1)	1	–
Transactions with owners		210	409	–	96	1	716
Loss for the year		–	–	–	–	(831)	(831)
Other comprehensive income (loss):							
Revaluation of available-for-sale financial assets		–	–	–	–	(9)	(9)
Exchange differences on translation to \$		(776)	(7,604)	3,643	(848)	–	(5,585)
Total comprehensive income/(loss) for the year		(776)	(7,604)	3,643	(848)	(840)	(6,425)
At 31 December 2015		\$15,690	\$154,090	\$5,733	\$17,238	\$(79,502)	\$113,249

The notes on pages 34 to 68 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2015

<i>(Thousands of \$)</i>	Note	2015	2014
Operating activities			
Loss for the year		\$(14,394)	\$(6,755)
Adjustments for:			
Finance income	6	(2,832)	(1,202)
Finance costs		782	1,011
Depreciation	12, 13 & 14	2,728	5,717
Share issue in lieu of payables	22	619	–
Decrease/(Increase) in available-for-sale financial assets		1,792	(1,792)
Decrease/(increase) in inventory		1,272	(584)
Decrease/(increase) in trade and other receivables		5,064	(846)
(Increase)/Decrease in deferred tax asset		(2,096)	875
(Decrease)/increase in trade and other payables		(1,870)	94
(Decrease)/increase in provisions		(526)	57
Share-based payments charge	27	97	555
Net cash used in operating activities		<u>(9,364)</u>	<u>(2,870)</u>
Investing activities			
Finance income	6	2,832	1,202
Purchase of property, plant and equipment	14	(454)	(2,461)
Additions to mineral properties	13	(93)	(705)
Proceeds from disposal	14	282	87
Net expense income from trial production	13	–	–
Net cash used in investing activities		<u>2,567</u>	<u>(1,877)</u>
Financing activities			
Finance costs		(782)	(1,011)
Increase in Loans	20 & 21	18,516	12,330
Repayment of Loans	20 & 21	(14,512)	(16,790)
Proceeds from issue of share capital	22	–	13,406
Transaction costs of placing	22	–	(513)
Proceeds from exercise of options	22	–	689
Net cash from financing activities		<u>3,222</u>	<u>8,111</u>
Net (decrease)/increase in cash and cash equivalents		(3,575)	3,364
Cash and cash equivalents at beginning of year		5,588	981
Effects of exchange rate fluctuations on cash and cash equivalents		(319)	1,243
Cash and cash equivalents at end of year		<u><u>\$1,694</u></u>	<u><u>\$5,588</u></u>

The notes on pages 34 to 68 form part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS
for the year ended 31 December 2015

<i>(Thousands of \$)</i>	Note	2015	2014
Operating activities			
Loss for the year		\$(831)	\$(3,477)
Adjustments for:			
Finance income	6	(1,437)	(449)
Finance costs		20	102
Depreciation	14	40	47
Share issue in lieu of payables	22	619	–
Decrease/(Increase) in trade and other receivables		4,214	(2,463)
(Decrease)/increase in trade and other payables		(4,327)	344
Share-based payments charge	27	97	555
Net cash (used in) from operating activities		<u>(1,605)</u>	<u>(5,341)</u>
Investing activities			
Increase in investment in subsidiary companies	15	(8,246)	(1,490)
Finance income	6	1,437	449
Purchase of property, plant and equipment	14	(1)	–
Net cash used in investing activities		<u>(6,810)</u>	<u>(1,041)</u>
Financing activities			
Finance costs		(20)	(102)
Increase in Loans	20	4,096	–
Repayment of Loans	20	–	(3,040)
Proceeds from issue of share capital	22	–	13,406
Transaction costs of placing	22	–	(513)
Proceeds from exercise of options	22	–	689
Net cash from financing activities		<u>4,076</u>	<u>10,440</u>
Net increase/(decrease) in cash and cash equivalents		(4,339)	4,058
Cash and cash equivalents at beginning of year		4,804	79
Effects of exchange rate fluctuations on cash and cash equivalents		<u>(176)</u>	<u>667</u>
Cash and cash equivalents at end of year		<u><u>\$289</u></u>	<u><u>\$4,804</u></u>

The notes on pages 34 to 68 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

The financial statements on pages 27 to 33 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 \$0.8 million in 2015 (2014: \$3.5 million).

2. 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 which commenced commercial production of gold in July 2013 upon the successful commissioning of its new gold processing facility at the Lomada Project.

Following the decision to suspend mining operations at Lomada, Patagonia Gold’s growth strategy includes the development of a heap leach operation at Cap-Oeste, subject to funding, along the same lines as Lomada and identifying additional resources to maintain a design capacity production of approximately 3,500 ounces per month. In addition, the Company will continue exploration activities to identify a mineable resource to be able to recommend operations at Lomada as well as to review alternatives to treat the high grade ore from COSE and Cap-Oeste underground projects which may include the construction of a small treatment facility at Cap-Oeste or the use of existing facilities in Province.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. Going concern (continued)

The Directors have prepared cash flow projections through to December 2017. These demonstrate that, subject to the availability of funding from existing and additional lines of credit and the raising of new equity capital, which will enable the Group to finance its capital expenditure requirements at Cap-Oeste, the on-going cash flow from Lomada, projected cash generation from Cap-Oeste and anticipated VAT recovery will enable the Group to meet all of its financial commitments, including scheduled loan repayments, as they fall due over a period of at least 12 months from the date of this report. The Directors are confident in the Group's ability to secure the requisite funding to finance development of the Cap-Oeste heap leach project.

Exploration and the development of the Group's other properties and mining interests will primarily be financed from a combination of revenue and net cash inflows generated from its operating activities at Lomada and Cap-Oeste (once the proposed heap leach project has been developed) and the raising of new equity capital and/or local debt financing in Argentina.

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

3. Significant accounting policies

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

Basis of consolidation

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

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

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

Revenue recognition

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

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. Revenue from commercial production was therefore recognised from 1 July 2013.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Significant accounting policies (continued)

Foreign currency

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

The financial statements of the Group and the Company are presented in \$. The Directors believe that the \$ more accurately reflects the gold and silver markets and is the main currency of both income and on-going capital expenditure of the Group. For presentation purposes assets, liabilities and equity, excluding retained earnings, are translated to \$ at exchange rates at the reporting date. Income and expenses are translated to \$ at the average exchange rate for the period in which the transaction arose. The GBP/\$ closing exchange rate as at 31 December 2015 was 1.4802 (2014: 1.5532) whilst the average rate for the year ended 31 December 2015 was 1.5283 (2014: 1.6476). For the year ended 31 December 2015, a translation loss of \$5.5 million is recognised resulting from the translation to \$ of the Company's foreign operations (2014: translation loss \$5.2 million).

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

Share-based payments

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Significant accounting policies (continued)

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 10 years are capitalised as intangible assets and are measured initially at cost and amortised on a straight-line basis over the term of the rights. Amortisation is charged to administrative expenses in the Statement of Comprehensive Income.

Mineral properties

Once the technical feasibility study is completed, subsequent exploration and development expenses are capitalised as mineral properties. Engineering expenditures incurred to design the size and scope of the project, environmental assessments, permitting, and surface rights acquisitions are capitalised in mineral properties. Upon reaching the development stage, these capitalised costs will be amortised using the unit-of-production method over the estimated period of economically recoverable resources.

Assets under construction

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Significant accounting policies (continued)

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

Property, plant and equipment

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

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

Straight-line basis

Office equipment	5 – 10 years
Vehicles	5 years
Machinery and equipment	3 years
Buildings	20 years

Unit of production

Plant Depreciation of the plant commenced October 2011 and is depreciated on a unit-of-production method over the estimated period of economically recoverable resources.

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Significant accounting policies (continued)

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 2013 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, the closure was completed during 2015.

Income taxes

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Significant accounting policies (continued)

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

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

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

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

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

Financial liabilities

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

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

Restoration, rehabilitation and environmental costs

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Significant accounting policies (continued)

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 2014 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Significant accounting policies (continued)

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

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

Critical accounting estimates and judgements

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

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

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 forty-year period from the date of the agreement and are amortised on a straight-line basis over forty years commencing in 2012. The Directors consider that this basis remains appropriate.
- Reviewing the recoverability of VAT balances due to the Group. The directors have considered in year and post year-end approvals set by the Mining Secretary in Argentina and consider the VAT receivable as at 31 December 2015 to be recoverable in full and no provision is considered necessary. Good progress has been made during 2015 to recover VAT receivables that arose in prior years. The VAT balances arising are largely due to the Group in less than one year and the directors are confident that an element of the balances will be recovered in this time period. These amounts have been classified as a non-current asset as there remains uncertainty over the exact timing of recovery, as management's on-going dialogue with the government indicate that approval by the Mining Secretary and receipt of some of the funds may require a time frame of more than one year. See Note 16.
- Carrying value of the parent company investment in its subsidiaries. The Directors have reviewed the carrying value of the parent company investment in its subsidiaries. They consider that based on the cash flow projections prepared to December 2017, and the longer term business plan that includes an assessment of resources available and potential cash and profit generation from these resources, that the prospects for the subsidiary company operations in South America are positive, and are confident that the value of investment made into these subsidiary companies to undertake exploratory activities will enable the parent company to recover the carrying value of its investment. The Directors recognise that due to the exploratory nature of the company operations and future plans, and the ability to raise adequate financing to implement these plans, there is a significant degree of uncertainty regarding the timing of recovery of this investment.

Based on the above the Directors therefore do not consider that any provision for impairment is required at 31 December 2015.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Significant accounting policies (continued)

- 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 2015 are explained in Note 27 of the financial statements.

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. From 1 March 2011, the Board determined that exploration costs on the COSE Project be capitalised from that date forward as mineral properties – assets in the course of construction, prior to the receipt of full permitting for mining the mineral property.
- Provisions for environmental reclamation require judgment in determination of future obligations and are based on assessments of technical, legal and economic factors. Management is required to make estimates of future costs the Group will likely incur in order to complete the reclamation and remediation work required to comply with existing laws and regulations. The ultimate cost is uncertain and estimates vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques and changes to the life of the mine. See Note 21.
- 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 IAS37. 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.
- 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 the remaining amount will be utilised against taxable income in 2016.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Significant accounting policies (continued)

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 2015 and to the extent that they have been adopted by the European Union.

New and revised standards that are effective for annual periods beginning on or after 1 January 2015

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2015. Information on these new standards is presented below:

- 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 judgments 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;
- 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 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.
- 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;

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. Segmental analysis

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

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

Net loss

(Thousands of \$)

	<i>Lomada Project</i>	<i>COSE Project</i>	<i>Argentina and Chile</i>	<i>United Kingdom</i>	<i>Canada</i>	<i>Total</i>
2015						
Revenue	\$26,128	\$-	\$-	\$-	\$-	\$26,128
Cost of sales	(29,731)	-	-	-	-	(29,731)
Gross Profit	\$(3,603)	\$-	\$-	\$-	\$-	\$(3,603)
Exploration costs	-	-	(5,491)	-	-	(5,491)
Administrative costs						
Share based payments charge	-	-	-	(97)	-	(97)
Depreciation and amortisation	(460)	-	(2,228)	(40)	-	(2,728)
Other administrative costs	-	-	(6,675)	(1,849)	(52)	(8,576)
	(460)	-	(8,903)	(1,986)	(52)	(11,401)
Finance income	-	-	1,395	1,437	-	2,832
Finance costs	-	-	(762)	(20)	-	(782)
Loss before taxes	(4,063)	-	(13,761)	(569)	(52)	(18,445)
Income tax benefit	-	-	4,051	-	-	4,051
Loss for the year	\$(4,063)	\$-	\$(9,710)	\$(569)	\$(52)	\$(14,394)
2014						
Revenue	35,867	-	-	-	-	35,867
Cost of sales	(26,102)	-	-	-	-	(26,102)
Gross Profit	\$9,765	\$-	\$-	\$-	\$-	\$9,765
Exploration costs	-	-	(5,179)	-	-	(5,179)
Administrative costs						
Share based payments charge	-	-	-	(555)	-	(555)
Depreciation and amortisation	(1,183)	-	(4,487)	(47)	-	(5,717)
Other administrative costs	-	-	(1,928)	(2,904)	(56)	(4,888)
	(1,183)	-	(6,415)	(3,506)	(56)	(11,160)
Finance income	-	-	753	449	-	1,202
Finance costs	-	-	(909)	(102)	-	(1,011)
Profit/(loss) before taxes	8,582	-	(11,750)	(3,159)	(56)	(6,383)
Income tax charge	-	-	(372)	-	-	(372)
Profit/(loss) for the year	\$8,582	\$-	\$(12,122)	\$(3,159)	\$(56)	\$(6,755)

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. Segmental analysis (continued)

Total assets and total liabilities

(Thousands of \$)

	<i>Total Assets</i>		<i>Total Liabilities</i>	
	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>
Argentina and Chile ¹	\$19,339	\$26,733	\$12,706	\$12,217
Argentina – Lomada Project	9,371	14,074	4,399	6,456
United Kingdom	352	5,095	4,900	1,493
Argentina – COSE Project	1,099	1,664	–	–
Canada	–	4	–	40
	<u>\$30,161</u>	<u>\$47,570</u>	<u>\$22,005</u>	<u>\$20,206</u>

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

<i>(Thousands of \$)</i>	<i>2015</i>	<i>2014</i>
Argentina ¹	<u>\$5,491</u>	<u>\$5,179</u>

¹ 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

(Thousands of \$)

	<i>2015</i>	<i>2014</i>
Bank interest		
Investment income	\$1	\$1
	<u>2,831</u>	<u>1,201</u>
	<u>\$2,832</u>	<u>\$1,202</u>

During the year, the Company purchased Argentine bonds (BODEN 2015) for \$3.0 million (2014: \$2.0 million). During the twelve months ended 31 December 2015, the Company recorded investment income on redemption of the bonds of \$1.4 million (twelve months ended 31 December 2014: \$0.4 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.

<i>(Thousands of \$)</i>	<i>2015</i>	<i>2014</i>
Fair value of bonds held at end of year	<u>\$–</u>	<u>\$1,792</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Staff numbers and costs

<i>(Thousands of \$)</i>	<i>2015</i>	<i>2014</i>
Wages and salaries	\$6,957	\$7,250
Social security costs	1,119	956
	<u>\$8,076</u>	<u>\$8,206</u>
	<i>2015</i>	<i>2014</i>
	<i>Number</i>	<i>Number</i>
The average number of employees (including Directors) by location during the year was:		
Argentina—operations	127	116
Argentina and Chile – exploration and administration	59	48
Canada – administration	1	1
United Kingdom – administration	3	4
Spain – administration	1	1
	<u>191</u>	<u>170</u>

8. Other administrative costs

<i>(Thousands of \$)</i>	<i>2015</i>	<i>2014</i>
General and administrative	\$4,275	\$2,784
Argentine statutory taxes	932	758
Professional fees	630	737
Payments under operating leases	177	182
Foreign currency translation loss	4,902	3,604
Parent and subsidiary company Directors' remuneration	722	960
Profit on sale of assets	(1,465)	(132)
Depreciation charge	2,629	5,617
Amortisation of mining rights	99	100
Depreciation allocated to inventory	(1,862)	(4,168)
VAT expense / (income)	60	(153)
Consultancy fees	205	316
	<u>\$11,304</u>	<u>\$10,605</u>

9. Remuneration of Directors and key management personnel

Parent Company Directors' emoluments:

<i>(Thousands of \$)</i>	<i>2015</i>	<i>2014</i>
Directors' fees	\$433	\$676
Directors salary	92	–
	<u>\$525</u>	<u>\$676</u>

See Report of the Directors on pages 19 to 23 for individual Directors' remuneration and share option awards.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

In 2015, the highest paid Director was due \$115 thousand (2014: \$284 thousand). This amount does not include any share-based payments charge.

The directors had an unrealised gain of \$Nil (2014: \$74 thousand) from the exercise of share options during the year ended 31 December 2015.

On 24 June 2015, following consultation with the Company's advisors, 12,241,993 ordinary shares in the Company were issued in lieu of the outstanding fees owed to Directors for their services during 2014, under each Director's terms of appointment. The shares were deemed to be allotted for cash at a market price of 2.81 pence each being the volume weighted average share price for the Company for the 30 day period prior to the date of the announcement.

Key management personnel emoluments:

<i>(Thousands of \$)</i>	Note	2015	2014
Share-based payments charge	27	\$97	\$392
Salaries		315	273
Other compensation, including short-term benefits		468	716
		<u>\$880</u>	<u>\$1,381</u>

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. Income tax

The current income tax expense for the year on the ordinary business of the Group was \$166 thousand (2014: \$393 thousand).

Factors affecting the income tax expense for the year

The following table reconciles the reported income tax expense to the estimated income tax recovery that would have been obtained by applying the Group's 2015 and 2014 UK Statutory tax rate to the Group's loss before income tax. Items shown in other comprehensive expense are not expected to have a material impact on the year's income tax expense.

<i>(Thousands of \$)</i>	<i>2015</i>	<i>2014</i>
Current tax:		
Current tax on operations for the year	<u>\$166</u>	<u>\$393</u>
Factors affecting tax charge for the year:		
Loss on ordinary activities before taxation	<u>\$18,445</u>	<u>\$6,383</u>
Income tax at the standard UK corporation tax rate of 20% (2014: 21%)	(3,689)	(1,340)
Different local tax rates	(2,621)	(381)
Expenses not deductible for tax purposes	281	(86)
Losses and other temporary differences unrecognised and carried forward:		
– to future periods – UK	152	769
– to future periods – Argentina	1,660	1,038
Change in expected recovery of deferred tax asset	<u>–</u>	<u>(21)</u>
Total deferred tax (benefit)/charge for the year on ordinary business	<u>(4,217)</u>	<u>(21)</u>
Exchange differences	<u>2,121</u>	<u>(854)</u>
Deferred Asset carried forward	<u>\$4,790</u>	<u>\$2,694</u>
Total income tax:		
Tax on operations for the year	166	393
Change in expected recovery of deferred tax asset	<u>(4,217)</u>	<u>(21)</u>
Tax (credit)/charge for the period	<u>\$(4,051)</u>	<u>\$372</u>

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 2015 of approximately \$15.3 million – £10.3 million (2014: \$15.5 million – £10.0 million) that may be utilised against future taxable income. UK losses and other temporary differences may be carried forward indefinitely to reduce taxable income in the future.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. Income tax (continued)

Subsidiary companies in Argentina have unrecognised tax losses at 31 December 2015 of approximately \$21.5 thousand – AR\$ 278 thousand (2014: \$2.6 million – AR\$ 22.2 million) which may be used against future taxable income. These losses expire as follows:

<i>Year</i>	<i>AR\$</i> <i>(in Thousands)</i>	<i>US\$</i>
2016	28	2
2017	23	2
2018	11,659	901
2019	126	10
2020	<u>31,779</u>	<u>2,456</u>

Subsidiary companies in Argentina have cumulative unused exploration costs related to different mining projects as at 31 December 2015 of approximately \$31.4 million – AR\$ 406.8 million (2014: \$41.9 million – AR\$ 358.1 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 \$4.8 million (2014: \$2.7 million) related to the tax losses accumulated from the Lomada Project has been recognised as at 31 December 2015. Of this amount \$0.2 million is expected to be utilised against taxable income in 2016 and the remaining \$4.6 million to be utilised against taxable income in 2017. Following IAS1.56 the entire deferred tax asset is shown as non-current.

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

The standard UK corporation tax rate reduced from 21% in the year to 31 March 2015 to 20% in the year to 31 March 2016. Following announcements from the UK Chancellor of the Exchequer, corporation tax rates will remain at 20% for the year ending 31 March 2017.

11. Loss per share

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

	<i>Year to</i> <i>31 December</i> <i>2015</i>	<i>Year to</i> <i>31 December</i> <i>2014</i>
Loss after tax (<i>Thousands of \$</i>)	\$ (13,084)	\$ (6,420)
Weighted average number of shares	<u>1,053,955,080</u>	<u>873,856,656</u>
Basic and diluted loss per share (\$)	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Loss per share (continued)

At 31 December 2015, there were 95,158,000 (31 December 2014: 85,383,000) share options and 24,705,000 warrants (31 December 2014: 24,705,000) in issue, which would have a potentially dilutive effect on the basic profit per share in the future.

12. Mining rights

<i>(Thousands of \$)</i>	<i>Amount</i>
At 1 January 2014	\$3,787
Additions	–
Amortisation charge for the year	(100)
Exchange differences	–
At 31 December 2014	<u>\$3,687</u>
At 1 January 2015	3,687
Additions	–
Amortisation charge for the year	(99)
Exchange differences	–
At 31 December 2015	<u>\$3,588</u>

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Mineral properties

(Thousands of \$)

	<i>Mining assets</i>	<i>Surface rights acquired</i>	<i>Assets in the course of construction</i>	<i>Total</i>
Cost				
At 1 January 2014	\$3,436	\$2,431	\$1,953	\$7,820
Additions	527	—	178	705
Disposals	—	—	—	—
Exchange differences	(752)	(581)	(467)	(1,800)
At 31 December 2014	<u>\$3,211</u>	<u>\$1,850</u>	<u>\$1,664</u>	<u>\$6,725</u>
At 1 January 2015	3,211	1,850	1,664	6,725
Additions	92	—	1	93
Disposals	—	—	—	—
Exchange differences	(1,001)	(630)	(566)	(2,197)
At 31 December 2015	<u>\$2,302</u>	<u>\$1,220</u>	<u>\$1,099</u>	<u>\$4,621</u>
Amortisation				
At 1 January 2014	542	—	—	542
Charge for the period	1,183	—	—	1,183
Exchange differences	(191)	—	—	(191)
At 31 December 2014	<u>\$1,534</u>	<u>\$—</u>	<u>\$—</u>	<u>\$1,534</u>
At 1 January 2015	1,534	—	—	1,534
Charge for the period	461	—	—	461
Exchange differences	(654)	—	—	(654)
At 31 December 2015	<u>\$1,341</u>	<u>\$—</u>	<u>\$—</u>	<u>\$1,341</u>
Net book value				
At 31 December 2015	<u>\$961</u>	<u>\$1,220</u>	<u>\$1,099</u>	<u>\$3,280</u>
At 31 December 2014	<u>\$1,677</u>	<u>\$1,850</u>	<u>\$1,664</u>	<u>\$5,191</u>

Mining assets

The Lomada Project 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 were offset against the capitalised costs of Lomada Project development in compliance with IAS 16. Amortisation is charged based on the unit-of-production method.

Surface rights

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Mineral properties (continued)

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

(Thousands of \$)

	<i>GROUP COMPANY</i>						
	<i>Office equipment and vehicles</i>	<i>Machinery and equipment</i>	<i>Buildings</i>	<i>Plant</i>	<i>Improve- ments and advances</i>	<i>Total</i>	<i>Office equipment</i>
Cost							
At 1 January 2014	\$717	\$9,640	\$844	\$10,055	\$493	\$21,749	\$274
Additions	9	501	—	1,117	834	2,461	—
Transfers	—	960	135	45	(1,140)	—	—
Disposals	—	(87)	—	—	—	(87)	—
Exchange differences	(120)	(2,307)	(202)	(2,407)	(118)	(5,154)	(16)
At 31 December 2014	<u>\$606</u>	<u>\$8,707</u>	<u>\$777</u>	<u>\$8,810</u>	<u>\$69</u>	<u>\$18,969</u>	<u>\$258</u>
At 1 January 2015	606	8,707	777	8,810	69	18,969	258
Additions	153	158	—	106	37	454	1
Transfers	2	45	—	3	(50)	—	—
Disposals	(86)	(639)	—	—	—	(725)	(56)
Exchange differences	(127)	(2,962)	(265)	(2,997)	(24)	(6,375)	(12)
At 31 December 2015	<u>\$548</u>	<u>\$5,309</u>	<u>\$512</u>	<u>\$5,922</u>	<u>\$32</u>	<u>\$12,323</u>	<u>\$191</u>
Depreciation							
At 1 January 2014	385	1,867	49	1,505	—	3,806	155
Disposals	—	(87)	—	—	—	(87)	—
Charge for the year	95	868	14	3,544	—	4,521	47
Exchange differences	(67)	(437)	(12)	(544)	—	(1,060)	(11)
At 31 December 2014	<u>\$413</u>	<u>\$2,211</u>	<u>\$51</u>	<u>\$4,505</u>	<u>\$—</u>	<u>\$7,180</u>	<u>\$191</u>
At 1 January 2015	413	2,211	51	4,505	—	7,180	191
Disposals	(62)	(381)	—	—	—	(443)	(56)
Charge for the year	105	778	14	1,271	—	2,168	40
Exchange differences	(125)	(866)	(22)	(1,896)	—	(2,909)	(10)
At 31 December 2015	<u>\$331</u>	<u>\$1,742</u>	<u>\$43</u>	<u>\$3,880</u>	<u>\$—</u>	<u>\$5,996</u>	<u>\$165</u>
Net book value							
At 31 December 2015	<u>217</u>	<u>3,567</u>	<u>469</u>	<u>2,042</u>	<u>32</u>	<u>6,327</u>	<u>26</u>
At 31 December 2014	<u>\$193</u>	<u>\$6,496</u>	<u>\$726</u>	<u>\$4,305</u>	<u>\$69</u>	<u>\$11,789</u>	<u>\$67</u>

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 \$50 thousand (2014 \$1.1 million) came into use and were subsequently reclassified as plant.

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. Investment in subsidiary companies

COMPANY

(Thousands of \$)

	<i>2015</i>	<i>2014</i>
Balance at 1 January	\$115,000	\$120,496
Capital contributions during the year	8,246	1,490
Exchange differences	<u>(5,405)</u>	<u>(6,986)</u>
Balance at 31 December	<u>\$117,841</u>	<u>\$115,000</u>

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

The Directors have reviewed the carrying value of the parent company investment in its subsidiaries. They consider that based on the cash flow projections prepared to December 2017, and the longer term business plan that includes an assessment of resources available and potential cash and profit generation from these resources, that the prospects for the subsidiary company operations in South America are positive, and are confident that the value of investment made into these subsidiary companies to undertake exploratory activities will enable the parent company to recover the carrying value of its investment. The Directors recognise that due to the exploratory nature of the company operations and future plans, and the ability to raise adequate financing to implement these plans, there is a significant degree of uncertainty regarding the timing of recovery of this investment.

Based on the above the Directors therefore do not consider that any provision for impairment is required at 31 December 2015.

Company

		<i>2015</i>	<i>2014</i>	
	<i>Country of incorporation</i>	<i>Percentage shareholding</i>	<i>Percentage shareholding</i>	<i>Nature of business</i>
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

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Other receivables

Non-current assets

(Thousands of \$)

	GROUP		COMPANY	
	2015	2014	2015	2014
Recoverable VAT	\$7,549	\$12,191	\$—	\$—
Other receivables	218	217	—	—
	<u>\$7,767</u>	<u>\$12,408</u>	<u>\$—</u>	<u>\$—</u>

The directors have considered in year and post year-end approvals set by the Mining Secretary in Argentina and consider the VAT receivable as at 31 December 2015 to be recoverable in full and no provision is considered necessary. Good progress has been made during 2015 to recover VAT receivables that arose in prior years. The VAT balances arising are largely due to the Group in less than one year and the directors are confident that an element of the balances will be recovered in this time period. These amounts have been classified as a non-current asset as there remains uncertainty over the exact timing of recovery, as management's on-going dialogue with the government indicate that approval by the Mining Secretary and receipt of some of the funds may require a time frame of more than one year.

17. Trade and other receivables

Current assets

(Thousands of \$)

	GROUP		COMPANY	
	2015	2014	2015	2014
Other receivables	\$426	\$672	\$—	\$—
Intercompany receivables	—	—	—	4,037
Prepayments and accrued income	24	126	24	126
UK Recoverable VAT	5	65	5	65
Recharge of costs owed by Landore Resources Limited (Note 26)	—	15	—	15
	<u>\$455</u>	<u>\$878</u>	<u>\$29</u>	<u>\$4,243</u>

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

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

There are no past due debtors.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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.

<i>(Thousands of \$)</i>	<i>GROUP</i>		<i>COMPANY</i>	
	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>
Work in process				
Gold held on carbon	\$2,253	\$3,525	—	—
	<u>\$2,253</u>	<u>\$3,525</u>	<u>\$—</u>	<u>\$—</u>

The cost of inventories recognised as an expense and included in the cost of sales amounted to \$27.3 million (2014: \$22.5 million).

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

19. Cash and cash equivalents

<i>(Thousands of \$)</i>	<i>GROUP</i>		<i>COMPANY</i>	
	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>
Bank and cash balances	\$1,617	\$5,526	\$212	\$4,742
Short-term deposits	77	62	77	62
	<u>\$1,694</u>	<u>\$5,588</u>	<u>\$289</u>	<u>\$4,804</u>

20. Trade and other payables

Current liabilities

<i>(Thousands of \$)</i>	<i>GROUP</i>		<i>COMPANY</i>	
	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>
Trade and other payables	\$5,598	\$7,197	\$31	\$449
Intercompany payables	—	—	43	3,681
Short term loans	13,346	8,046	4,096	—
Other accruals	773	1,044	773	1,044
	<u>\$19,717</u>	<u>\$16,287</u>	<u>\$4,943</u>	<u>\$5,174</u>

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 USD and are at fixed rates of interest. Loans are provided from a range of banks.

Interest rates on short term loans ranged from 2.5% to 34.0%, priority has been given to repaying those at the higher rates.

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. Loans and provisions

(Thousands of \$)

	<i>GROUP</i>		<i>COMPANY</i>	
	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>
Long term loans	\$1,681	\$2,786	\$—	\$—
Provisions	607	1,133	—	—
	<u>\$2,288</u>	<u>\$3,919</u>	<u>\$—</u>	<u>\$—</u>

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:

Interest rates on long term loans ranged from 7.0% to 17.1%.

(Thousands of \$)

	<i>Reclamation and remediation provision⁽ⁱ⁾</i>	<i>Tax provision⁽ⁱⁱ⁾</i>	<i>Other⁽ⁱⁱⁱ⁾</i>	<i>Total</i>
Balance at 1 January 2015	\$778	\$300	\$55	\$1,133
Net additions/(reductions)	<u>(405)</u>	<u>(102)</u>	<u>(19)</u>	<u>(526)</u>
Balance at 31 December 2015	<u>\$373</u>	<u>\$198</u>	<u>\$36</u>	<u>\$607</u>

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

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

(iii) Provision for road traffic accident. (Note 30.)

NOTES TO THE FINANCIAL STATEMENTS (continued)**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)

	<i>Number of ordinary shares</i>	<i>Amount</i>
At 1 January 2014	855,652,565	\$14,108
Issue by placing	182,688,427	2,849
Issue in lieu of Director's fees	3,074,331	52
Exercise of options	5,187,000	86
Exchange difference on translation to \$	—	(839)
At 31 December 2014	<u>1,046,602,323</u>	<u>\$16,256</u>
At 1 January 2015	1,046,602,323	16,256
Issue in lieu of professional fees	1,111,111	17
Issue in lieu of Director's fees	12,241,993	193
Exchange difference on translation to \$	—	(776)
At 31 December 2015	<u>1,059,955,427</u>	<u>\$15,690</u>

In February 2015, the Company allotted 1,111,111 new ordinary shares of 1p each to certain of the Company's advisers in lieu of cash payments.

On 24 June 2015, following consultation with the Company's advisers, 12,241,993 ordinary shares in the Company were issued in lieu of the outstanding fees owed to Directors for their services during 2014, under each Director's terms of appointment. The shares were deemed to be allotted for cash at a market price of 2.81 pence each being the volume weighted average share price for the Company for the 30 day period prior to the date of the announcement.

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)

22. Share capital (continued)

The total number of warrants over ordinary shares outstanding at December 31, 2015 was as follows:

<i>Date of grant</i>		<i>No of warrants</i>	<i>Exercise price (pence)</i>	<i>Remaining contractual life (years)</i>
31 October 2012	Directors	2,065,263	24.75	1.84
	Other subscribers	19,699,737	24.75	1.84
30 November 2012	Other subscribers	2,940,000	28.05	1.92
		<u>24,705,000</u>		

23. Non-controlling interest

GROUP

(Thousands of \$)

	<i>Amount</i>
At 1 January 2015	\$747
Share of operating losses – Lomada de Leiva	<u>(1,310)</u>
At 31 December 2015	<u>\$(563)</u>

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

24. Financial instruments

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

Financial assets

(Thousands of \$)

	GROUP		COMPANY	
	2015	2014	2015	2014
Available-for-sale financial assets	\$7	\$18	\$7	\$18
Cash and cash equivalents	6,915	8,132	294	4,884
	<u>\$6,922</u>	<u>\$8,150</u>	<u>\$301</u>	<u>\$4,902</u>

Financial liabilities

(Thousands of \$)

	GROUP		COMPANY	
	2015	2014	2015	2014
Financial liabilities measured at amortised cost	<u>\$20,625</u>	<u>\$18,028</u>	<u>\$4,128</u>	<u>\$449</u>

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

Financial instruments measured at fair value

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

24. Financial instruments (continued)

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

<i>(Thousands of \$)</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
As at 31 December 2015				
Listed securities	<u>\$7</u>	<u>\$-</u>	<u>\$-</u>	<u>\$7</u>
As at 31 December 2014				
Listed securities	<u>\$1,810</u>	<u>\$-</u>	<u>\$-</u>	<u>\$1,810</u>

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.

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 2015 the price ranged from \$1,049 to \$1,296 per ounce, with an average market price of \$1,160 per ounce (2014: \$1,266 per ounce). The Group's policy is to sell gold at prevailing market prices. No financial instruments have exposure to gold prices.

NOTES TO THE FINANCIAL STATEMENTS (continued)

24. Financial instruments (continued)

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.

<i>(Thousands of \$)</i>	2015	2014
Gold	<u>\$2,612</u>	<u>\$3,588</u>

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 2015, Patagonia Gold held cash balances denominated in GBP, \$ and Canadian dollars ("CAD") and had trade and other payables denominated in GBP and \$.

The functional currency of PGSA is the AR\$. As at 31 December 2015, PGSA held cash balances denominated in AR\$, \$, CAD and GBP.

The functional currency of Minera Minamalu S.A. ("MMSA") is AR\$. As at 31 December 2015, MMSA held cash balances denominated in AR\$.

Financial assets and liabilities held by group companies in currencies other than the particular company's functional currency are subject to foreign currency risk. During the year ended 31 December 2015, the GBP/\$ exchange rate experienced a fluctuation of 10% from its lowest to highest levels. Based on \$ financial assets and liabilities at 31 December 2015 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 2015, 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

<i>(Thousands of \$)</i>	2015	2014
Increase/(decrease) in net loss for the year	<u>\$387</u>	<u>\$(59)</u>

Foreign currency rate strengthened

<i>(Thousands of \$)</i>	2015	2014
Decrease/(increase) in net loss for the year	<u>\$469</u>	<u>\$(77)</u>

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 0.20% (2014: 0.20%) and for \$ was 0.50% (2014: 0.60%). If interest rates in 2015 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 2015.

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

<i>(Thousands of \$)</i>	2015	2014
Operating leases which expire:		
Within one year	\$141	\$178
Within two to five years	–	–
After five years	25	169
	<u>\$166</u>	<u>\$347</u>

The Group has a number of operating lease agreements involving office and warehouse space with maximum terms of three years. In 2015, no operating lease payments were recognised as an expense within exploration costs (2014: \$None).

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. Related parties

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

<i>(Thousands of \$)</i>	Notes	2015	2014
Landore Resources Limited	(i)	\$30	\$150
Cheyenne S.A.	(ii)	6	75
MB Holding S.A.	(iii)	–	11
Agropecuaria Cantomi S.A.	(iv)	126	124

- (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 2015 of \$Nil (31 December 2014: \$30 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) In prior periods 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.
- (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.

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

27. Share-based payments charge

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

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

	2015		2014		2014	
	<i>Weighted average exercise price pence \$</i>		<i>Weighted average exercise price pence \$</i>		<i>Number of options</i>	
Outstanding at the beginning of the year	15.46	\$0.242	85,383,000	15.46	\$0.242	84,070,000
Granted during the year	2.50	0.037	10,000,000	7.875	0.130	7,000,000
Exercised during the year	–	–	–	8.00	0.132	(5,187,000)
Lapsed during the year	7.72	0.114	(225,000)	14.75	0.243	(500,000)
Outstanding and exercisable at the end of the year	13.97	\$0.207	95,158,000	15.30	\$0.238	85,383,000

Options outstanding at 31 December 2015 have an exercise price in the range of \$0.037 (2.5 pence) per option to \$0.918 (62.00 pence) per option and a weighted average contractual life of 6.08 years.

NOTES TO THE FINANCIAL STATEMENTS (continued)

27. Share-based payments charge (continued)

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

	2015	2014
Weighted average share price	2.50p (\$0.037)	9.19p (\$0.143)
Exercise price	2.50p (\$0.037)	9.19p (\$0.143)
Expected volatility (expressed as a percentage used in the modelling under Black-Scholes model)	52.00%	47.49%
Dividend yield	nil	nil
Option life (maximum)	10 years	10 years
Risk free interest rate (based on national government bonds)	0.5%	0.5%

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

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

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

<i>(Thousands of \$)</i>	2015	2014
New options granted in the year	<u>\$97</u>	<u>\$555</u>

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

The total number of options over ordinary shares outstanding at 31 December 2015 was as follows:

<i>Date of grant</i>	<i>Employees entitled</i>	<i>No of options</i>	<i>Exercise price (pence)</i>	<i>Remaining contractual life (years)</i>
17 May 2006	Senior management	200,000	14.5	0.38
1 March 2007	Employees	75,000	6.875	1.17
23 May 2007	Senior management	200,000	8.0*	1.39
5 June 2007	Director and employees	1,100,000	8.0*	1.43
5 June 2007	Employee	25,000	10.5	1.43
3 June 2008	Director and employees	1,125,000	8.0*	2.42
9 June 2009	Employees	1,175,000	12.0	3.44
23 June 2009	Directors and senior management	17,913,000	12.25	3.48
17 June 2010	Directors and employees	5,850,000	15.00	4.47
1 August 2010	Employee	300,000	15.00	4.59
10 February 2011	Directors	5,500,000	11.00***	5.12
21 February 2011	Senior management	800,000	11.00***	5.15
9 May 2011	Employees	500,000	43.50	5.36
13 May 2011	Directors and senior management	4,400,000	11.00***	5.37
24 May 2011	Senior management	1,000,000	39.00	5.40
10 June 2011	Employees	1,250,000	11.00***	5.45
10 June 2011	Employees	925,000	40.00	5.45
15 August 2011	Employee	200,000	62.00	5.63
1 September 2011	Senior management	500,000	11.00***	5.67
1 November 2011	Directors	750,000	11.00***	5.84
1 November 2011	Directors	750,000	50.25	5.84
6 December 2011	Employee	20,000	54.00	5.94

NOTES TO THE FINANCIAL STATEMENTS (continued)

27. Share-based payments charge (continued)

<i>Date of grant</i>	<i>Employees entitled</i>	<i>No of options</i>	<i>Exercise price (pence)</i>	<i>Remaining contractual life (years)</i>
31 January 2012	Directors	4,500,000	11.00***	6.09
1 July 2012	Senior management	1,500,000	25.00	6.50
3 December 2012	Senior management and employees	3,000,000	22.75	6.93
9 January 2013	Directors	14,500,000**	22.75	7.03
27 February 2013	Senior management	1,000,000	15.50	7.16
12 June 2013	Employee	150,000	10.50	8.45
12 September 2013	Directors	1,500,000	11.00	8.70
19 September 2013	Director and senior manager	6,000,000	11.75	8.72
10 October 2013	Employees	1,450,000	11.75	8.78
25 July 2014	Director and senior management	7,000,000	7.875	8.57
31 March 2015	Senior management	10,000,000	2.50	9.25
		95,158,000		

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

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

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

28. Auditor's remuneration

<i>(Thousands of \$)</i>	<i>GROUP</i>		<i>COMPANY</i>	
	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>
Fees payable to the Company's auditor for the audit of the consolidated annual accounts	\$95	\$110	\$14	\$15
Fees payable to the Company's auditor and its associates for other services:				
– Tax	8	9	8	9
– Other	3	3	–	–

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

29. Financial commitments

Property, plant and equipment

During 2015, the Group did not enter into any purchase commitments relating to the purchase of heavy duty mining equipment (31 December 2014: \$0.5 million).

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 2015 include amounts provided in relation to a contingent liability.

Road Traffic Accident

In October 2011 and March 2012, following a fatal road traffic accident in Argentina, compensation claims were made outside of the life insurance policy held by PGSA. These are non-judicial claims against PGSA that have been partially settled through a mediation process among PGSA, the automobile insurance company, and the claimants. According to those settlement agreements, the automobile insurance company paid the agreed compensations to the claimants, while PGSA committed to afford some of the court expenses and settlement fees. On 7 October 2014, PGSA was notified of the judicial complaint for compensation for moral damages, loss of economic aid, and expenses, filed by the inheritors of one of the victims against PGSA, amounting to \$0.246 million (AR\$2.1 million) plus interest. As at 31 December 2015, the plaintiff claims compensation relating to loss of economic aid and expenses, items that have already been covered under an out-of-court previous settlement by the labor risk insurance company of PGSA. So, as at that date, the claim remains partially outstanding with respect to the moral damages item and a provision of \$36 thousand (AR\$470 thousand) has been recorded.

31. Subsequent events

Trilogy Mining Corporation

In January 2016, Patagonia Gold entered into an option agreement with Trilogy Mining Corporation (“Trilogy”) to acquire up to 100% of the San José Project in Uruguay. This joint venture business with Trilogy represents a great opportunity to acquire additional gold projects with good geological potential in a new jurisdiction, enabling the Company to diversify its regional operations and risks.

Patagonia Gold Plc
(the “Company”)

(incorporated in England and Wales with registered number 3994744)

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the Company will be held on 10 May 2016 at 11.00 a.m. at the offices of Stephenson Harwood LLP, 1 Finsbury Circus, London EC2M 7SH to consider and, if thought fit, to pass the following resolutions which in the case of resolutions 1 to 6 (inclusive) will be proposed as ordinary resolutions and in the case of resolution 7 will be proposed as a special resolution:

ORDINARY RESOLUTIONS

1. To receive and, if approved, adopt the financial statements of the Company for the year ended 31 December 2015 and the reports of the Directors and auditors thereon.
2. To re-elect Carlos J Miguens, Chairman, who retires by rotation, as a Director of the Company.
3. To re-elect Gonzalo Tanoira, Finance Director, who retires by rotation, as a Director of the Company.
4. To elect Christopher van Tienhoven, who was appointed to the Board of Directors following the last Annual General Meeting, as a Director of the Company.
5. To re-appoint Grant Thornton UK LLP as auditors to the Company to hold office from the conclusion of the Annual General Meeting until the conclusion of the next Annual General Meeting and to authorise the Directors to determine the auditor’s remuneration.
6. THAT the Directors be and they are hereby generally and unconditionally authorised for the purposes of Section 551 of the Companies Act 2006 (the “Act”) to exercise all the powers of the Company to allot shares in the Company and grant rights to subscribe for or to convert any securities into shares in the Company subject to the following conditions:
 - (a) that the maximum aggregate nominal amount of shares to be allotted in pursuance of such authority shall be £3,533,184.76; and
 - (b) that this authority shall expire on the earlier of 30 June 2017 or the conclusion of the Company’s next Annual General Meeting unless revoked, varied or renewed before that date save that the Company may, before such expiry, make an offer or agreement which would or might require shares in the Company to be allotted or rights to subscribe for or to convert any securities into shares in the Company to be granted after such expiry and the Directors may allot shares in the Company or grant rights to subscribe for or to convert any securities into shares in the Company in pursuance of such offer or agreement notwithstanding that the authority conferred hereby has expired.

This resolution revokes and replaces all unexercised authorities previously granted to the Directors to allot shares and grant rights to subscribe for or convert any securities into shares in the Company but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities.

SPECIAL RESOLUTION

7. THAT (conditional upon the passing of the Ordinary Resolution numbered 6 above) the Directors be and they are hereby generally and unconditionally empowered pursuant to Section 570 of the Act to exercise all powers of the Company to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the general authority conferred by resolution 6 above as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:
 - (a) in connection with an offer of such securities by way of a rights issue, open offer or any other pre-emptive offer to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to

NOTICE OF ANNUAL GENERAL MEETING (continued)

fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange; and

- (b) otherwise than pursuant to sub-paragraph (a) above, the allotment of equity securities for cash up to an aggregate nominal amount of £1,059,955.43

Provided that this authority shall expire on the earlier of 30 June 2017 or the conclusion of the Company's next Annual General Meeting unless revoked, varied or renewed before such date, save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred hereby has expired. This resolution revokes and replaces all unexercised authorities previously granted to the Directors to allot shares and grant rights to subscribe for or convert any securities into shares in the Company but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities.

By Order of the Board

Nigel Everest
Company Secretary

15 April 2016

Registered office:
1 Finsbury Circus
London
EC2M 7SH

NOTICE OF ANNUAL GENERAL MEETING (continued)

Notes to the Notice of Annual General Meeting

Appointment of Proxy

1. Shareholders entitled to attend and vote at the meeting may appoint one or more proxies to attend, speak and vote in their place. A proxy need not be a shareholder of the Company.
2. Shareholders may appoint one or more proxy provided each proxy is appointed to exercise rights attached to different shares. Shareholders may not appoint more than one proxy to exercise rights attached to any one share. Please contact the Company's Registrars, Computershare Investor Services PLC, on 0370 702 0000 or copy the Form of Proxy, if you wish to appoint more than one proxy.
3. A vote withheld option is provided on the Form of Proxy to enable you to instruct your proxy not to vote on any particular resolution. However, it should be noted that a vote withheld in this way is not a "vote" in law and will not be counted in the calculation of the votes "For" and "Against" a resolution.
4. A Form of Proxy is attached with this document, and members who wish to use it should see that it is deposited, and any power of attorney or other authority (if any) under which it is executed (or a notarially certificated copy of such authority) must be duly completed, executed and deposited, with the Company's Registrars, Computershare Investor Services PLC, at The Pavilions, Bridgwater Road, Bristol BS99 6ZY by no later than 11.00 a.m. on 6 May 2016 which is the time not less than 48 hours before the time fixed for the meeting (or adjournment thereof) weekends and bank holidays excluded. Completing and posting of the Form of Proxy will not preclude shareholders from attending and voting in person at the Annual General Meeting should they wish to do so.

Entitlement to attend and vote

5. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered in the Register of Members of the Company as at 6.00 p.m. on 6 May 2016, or in the event that the meeting is adjourned, as at 6.00 p.m. on the day two days before the date of the adjourned meeting, shall be entitled to attend or vote at the aforesaid meeting in respect of the number of shares registered in their name at that time. Changes to entries in the Register of Members after 6.00 p.m. on 6 May 2016 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

CREST

6. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) of it by using the procedures described in the CREST Manual. CREST personal members, sponsored CREST members and CREST members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action for them.
7. To complete a valid proxy appointment or instruction using the CREST service, the CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must in order to be valid, be transmitted and received by Computershare Investor Services PLC (Participant ID 3RA50) by no later than 11.00 a.m. on 6 May 2016 which is the time not less than 48 hours before the time fixed for the meeting (or any adjournment thereof), weekends and bank holidays excluded. The time of receipt of the instruction will be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which Computershare Investor Services PLC is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
8. CREST members and, where applicable, CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will apply to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s) to ensure that his CREST sponsor or voting service provider(s) take(s) the necessary action to ensure that a message is transmitted by means of the CREST system by a particular time. CREST members and, where applicable, their CREST sponsors or voting service provider(s) should refer to the sections of the CREST Manual concerning practical limitations of the CREST system and timings.
9. The Company may treat a CREST Proxy Instruction as invalid as set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Corporate representatives

10. A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same shares.

Copies of Service Contracts and Letters of Appointment

11. Copies of the Executive Directors' service contracts and non-executive Directors' letters of appointment are available for inspection at the registered office of the Company during usual business hours and will be available on the day of the Annual General Meeting from 10.45 a.m. until the conclusion of the Annual General Meeting.

Explanatory Notes to Resolutions 6 and 7

12. The purpose and effect of the Resolutions to be proposed as Resolutions 6 and 7 (inclusive) are explained in the Appendix to this Notice.

NOTICE OF ANNUAL GENERAL MEETING (continued)

**Appendix to Notice of Annual General Meeting
Explanatory Notes to Resolutions 6 and 7**

Resolution 6 – Authority to Allot Securities

Resolution 6 will be proposed as an Ordinary Resolution to provide the Directors with authority to issue new ordinary shares up to an aggregate nominal value of £3,533,184.76, representing approximately 33.33% of the Company's issued share capital as at the date of the Notice of Annual General Meeting and to expire on the earlier of 30 June 2017 or the conclusion of the Company's next Annual General Meeting. Other than any issues of securities that may be required to be made pursuant to the share incentive plans, the Directors have no present intention of issuing any new ordinary shares, but believe it to be in the best interests of the Company for the Board to be granted this authority to take advantage of appropriate opportunities.

Resolution 7 – Authority to Disapply Statutory Pre-Emption Rights

Resolution 7 will be proposed as a Special Resolution to approve a disapplication of pre-emption rights on allotments for cash up to an aggregate nominal amount of £1,059,955.43 representing approximately 10% of the present issued share capital as at the date of the Notice of Annual General Meeting. This Resolution, if approved, will enable the Board, for the period expiring on the earlier of 30 June 2017 or the conclusion of the Company's next Annual General Meeting, to allot a limited number of equity securities for cash without regard to statutory pre-emption rights. Other than any issues of securities which may be required to be made pursuant to the share incentive plans, the Directors have no present intention of exercising this authority, but believe it to be in the best interests of the Company for the Board to be granted this power to take advantage of appropriate opportunities.

Patagonia Gold Plc
Form of Proxy
(the “Company”)

(incorporated in England and Wales with registered number 3994744)

For use at the Annual General Meeting of the Company

I/We

of

being (a) member(s) of the above named Company hereby appoint the Chairman of the Meeting or

as my/our proxy in respect of ordinary shares of 1 pence each in the capital of the Company to vote for me/us on my/our behalf at the Annual General Meeting of the shareholders of the Company to be held at the offices of Stephenson Harwood LLP, 1 Finsbury Circus, London EC2M 7SH on 10 May 2016 at 11.00 a.m. and at any adjournment thereof and to speak and vote thereat as indicated below.

Please indicate with an “X” if this is one of multiple proxy appointments being made. (See note 2)

Please indicate with an “X” in the appropriate space how you wish your votes to be cast:

Resolution number	For	Against	Withheld
1. Ordinary Resolution to receive and adopt the financial statements of the Company for the year ended 31 December 2015			
2. Ordinary Resolution to re-elect Carlos J Miguens as a Director			
3. Ordinary Resolution to re-elect Gonzalo Tanoira as a Director			
4. Ordinary Resolution to elect Christopher van Tienhoven as a Director			
5. Ordinary Resolution to re-appoint Grant Thornton UK LLP as auditors and to authorise the Directors to determine the remuneration of the auditors			
6. Ordinary Resolution to empower the Directors to allot shares for the purposes of section 551 of the Companies Act 2006			
7. Special Resolution to empower the Directors to allot equity securities pursuant to section 570 of the Companies Act 2006			

Signature(s) or common seal

Date

Notes

1. A proxy need not be a member of the Company. Your proxy can exercise all or any of your rights to attend, speak and vote at the Annual General Meeting.
2. To appoint more than one proxy, (an) additional proxy form(s) may be obtained by contacting the Company’s Registrars, Computershare Investor Services PLC, on 0370 702 0000 (telephone provider’s costs to this number may vary) or you may copy this form. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given and return all forms together in the same envelope. If you sign and return this Form of Proxy with no name inserted in the box, the Chairman of the meeting will be deemed to be your proxy. Where you appoint as your proxy someone other than the Chairman, you are responsible for ensuring that they attend the meeting and are aware of your voting intentions.
3. If you do not indicate how you wish your proxy to use your vote in a particular matter, the proxy will exercise his/her discretion as to how he/she votes and as to whether or not he/she abstains from voting. To direct your proxy how to vote on the resolutions, mark the appropriate box with an ‘X’. To abstain from voting on a resolution, select the relevant “Withheld” box. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution.
4. In the case of a corporation this Form of Proxy must be executed under seal or under the hand of an officer or attorney duly authorised in writing.
5. Forms of Proxy, to be valid, must be completed and signed and must be lodged, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, with the Company’s registrars, Computershare Investor Services PLC, at The Pavilions, Bridgwater Road, Bristol BS99 6ZY by no later than 11.00 a.m. on 6 May 2016 which is the time not less than 48 hours before the time appointed for holding the meeting or adjournment thereof (weekends and bank holidays excluded).
6. In the case of joint holders, the signature of any one of them will suffice, but if a holder other than the first-named holder signs, it will help the Registrars if the name of the first-named holder is given. Where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company’s register of members in respect of the joint holding (the first-named being the most senior).
7. Any alteration to this form must be initialled.
8. Completion and return of this Form of Proxy does not preclude a member subsequently attending and voting at the meeting. If you have appointed a proxy and attend the meeting in person, your appointment will automatically terminate.
9. CREST members should use the CREST electronic proxy appointment service and refer to Notes 6-9 of the Notice of Annual General Meeting in relation to the submission of a proxy appointment via CREST.
10. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.



[RETURN IN ENVELOPE SUPPLIED]

