

## Cap-Oeste Project Operations Update

Released : 23.12.2016

RNS Number : 6467S

Patagonia Gold PLC

23 December 2016

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**Patagonia Gold Plc**  
("Patagonia Gold" or the "Company")

### **Cap-Oeste Project Operations Update**

Patagonia Gold Plc, the mining company with gold and silver projects in the southern Patagonia region of Argentina, Chile and Uruguay, is pleased to provide an update on its open pit mine and heap leach processing facility at Cap-Oeste (the "Project").

#### **Highlights**

- Completed updated pit optimisation and resource update for Cap-Oeste
  - forecast total production from Cap-Oeste increased from 82,000 oz AuEq to 186,800 oz AuEq
  - mine life extended from 2 years to 3 years of open pit to July 2019
- Cap-Oeste guidance for 2016 reduced to 3,000 oz AuEq after slower than anticipated initial leaching and percolation issues, 2017 guidance set at 69,800 oz AuEq
  - installation of agglomeration circuit to improve recovery rates underway with engineering advancing well and major items ordered
- Review of COSE suggests ability to extend the life of the Cap-Oeste heap leach pad by an additional 19 months using ore from the COSE underground mine
  - further work being undertaken in this regard
- RC drilling programme completed at Monte Leon to investigate the potential to add further oxide ore to the heap leach pad at Cap-Oeste

#### **Cap-Oeste operations**

Mining operations at Cap-Oeste are progressing as scheduled with November being a record month with the Company mining, for the first time, in excess of 500,000t of total material, including 114,000t of ore at an average grade of 1.58g/t Au and 25g/t Ag being loaded onto the Cap-Oeste heap leach pad (the "Cap-Oeste Pad") and placed under irrigation.

However, gold and silver recovery from the Cap-Oeste Pad to date has been lower than expected, as a result of complications with the recovery process due to lack of percolation of the leaching solution due to a high clay content in the upper sections of the Cap-Oeste orebody. As a result, the Company proposes to install a 500 tonnes per hour agglomeration circuit, in order to seek to improve recovery rates from the Cap-Oeste ore. Agglomeration, with an extremely low dosage of cyanide solution and cement, helps to keep the leaching solution percolating freely and the Company believes that this will increase the overall recovery to the initial forecast recovery of 80% for Au and 40% for Ag.

The agglomeration circuit, including a higher capacity primary impact crusher and conveyor system, has been engineered and all major items have been ordered and are expected to be installed during Q1 2017 at a total cost of approximately US\$3.6 million, which will be funded from supplier and debt financing.

#### **Cap-Oeste pit optimisation and update resource**

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

The pit optimisation was carried out at a price of US\$1,300/oz Au and US\$20/oz Ag and has resulted in an increase in the current pit life for Cap-Oeste from 2 to 3 years, with the pit now forecast for completion in Q3 2019 with a total ore production of 2.03Mt @ 2.99g/t Au and 138g/t Ag for a total recoverable estimated production of 136,000 oz of Au and 3.2Moz of Ag, equating to 186,800 oz AuEq. Pursuant to the pit optimisation, the proposal is to increase the size of the pit to mine the ore previously delineated for the Cap-Oeste underground pit, resulting in the overall material to be moved over the life of the mine increasing from 7.2Mt to 25.2Mt, which will also increase the strip ratio from 3.7 to 11.44 and the ore being mined increasing from 1.55Mt to 2.03Mt. In order to mine the increased material, additional fleet will be required to increase the monthly production with one excavator and two fixed body dump trucks and one additional blast hole drill required at an estimated cost of approximately US\$2.5 million, which the Company anticipates funding from supplier and debt financing.

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

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

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

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

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

Notes:

- (1) AuEq values are calculated at a ratio of 68:1 Ag to Au
- (2) COSE style mineralisation with free milling cyanide recoverable Au and Ag
- (3) Fresh refractory sulphide mineralisation
- (4) Cap-Oeste is 100% owned by Patagonia Gold S.A. ("PGSA"), which is the operator of Cap-Oeste. The Company is interested in 90% of PGSA, with the remaining 10% being held by Santa Cruz government's wholly-owned mining company, Fomento Minero de Santa Cruz Sociedad del Estado. The net attributable resource, shows the 90% of the Cap-Oeste resource which is attributable to the Company

### Cap-Oeste production

As a result of the lower than expected recoveries to date, the proposed installation of the agglomeration circuit in Q1 2017 and the extension of the Cap-Oeste mine life, forecast production for 2016 from Cap-Oeste has been lowered to 3,000 oz AuEq and 69,800 oz AuEq, 46,000 oz AuEq and 68,000 oz AuEq in each of 2017, 2018 and 2019 respectively.

### COSE

The current scheduled mine life for the COSE underground mine is 30 months, including 11 months of pre-production development, with a total of 104kt of ore to be mined at an average grade of 14.85g/t Au and 775.4g/t Ag for a contained 87.5 koz

AuEq. Accordingly, subject to the development of the COSE underground mine, it is proposed that the ore will be treated by the Cap-Oeste Pad and agglomeration circuit, thereby extending the life of the pad by around 19 months.

### Monte Leon

The Company has now received the assay results from its 2,878 metres, 60 holes RC drilling undertaken at the Monte Leon prospect, which is approximately 13 kilometres from the Cap-Oeste Pad, to seek to delineate oxide gold mineralisation that may be scheduled into the Cap-Oeste heap-leach operation after the Cap-Oeste open pit reserves have been depleted.

The drilling has defined three apparent NNW striking corridors of low grade mineralisation, with the central corridor having a strike length of approximately 400 metres. All significant assays of greater than 0.50 ppm Au are summarised below.

Hole ID	Depth from metres	Depth to metres	Length (metres)	Au (ppm)
MLN-047-R	2.0	20.0	18.0	0.70
MLN-048-R	10.0	14.0	4.0	0.89
MLN-048-R	38.0	40.0	2.0	0.73
MLN-049-R	4.0	16.0	12.0	1.61
MLN-050-R	36.0	38.0	2.0	0.53
MLN-052-R	30.0	36.0	6.0	0.64
MLN-053-R	34.0	42.0	8.0	0.81
MLN-054-R	38.0	46.0	8.0	1.13
MLN-055-R	2.0	14.0	12.0	1.37
MLN-056-R	4.0	32.0	28.0	1.04
including	14.0	30.0	16.0	1.28
MLN-057-R	42.0	52.0	10.0	1.09
MLN-058-R	40.0	42.0	2.0	1.15
MLN-059-R	20.0	50.0	30.0	0.97
MLN-060-R	4.0	6.0	2.0	1.03
and	12.0	16.0	4.0	0.98
MLN-060-R	36.0	40.0	4.0	0.64
<b>MLN-061-R</b>	<b>34.0</b>	<b>64.0</b>	<b>30.0</b>	<b>1.53</b>
MLN-062-R	20.0	24.0	4.0	0.55
MLN-063-R	4.0	22.0	18.0	1.12
MLN-064-R	6.0	12.0	6.0	1.29
and	28.0	44.0	16.0	0.66
MLN-065-R	2.0	18.0	16.0	0.61
MLN-066-R	38.0	58.0	20.0	0.62
MLN-067-r	18.0	26.0	8.0	0.78
MLN-068-R	28.0	30.0	2.0	1.36
MLN-069-R	10.0	16.0	6.0	0.80
and	26.0	38.0	12.0	1.57
MLN-070-R	50.0	60.0	10.0	0.62
MLN-072-R	38.0	42.0	4.0	1.22
MLN-073-R	48.0	52.0	4.0	1.38
MLN-074-R	6.0	18.0	12.0	0.98
MLN-075-R	24.0	28.0	4.0	0.71
<b>MLN-077-R</b>	<b>2.0</b>	<b>4.0</b>	<b>2.0</b>	<b>49.25</b>
and	18.0	22.0	4.0	0.55
MLN-079-R	28.0	30.0	2.0	1.00
and	42.0	44.0	2.0	1.16
MLN-081-R	16.0	22.0	6.0	2.43
and	28.0	46.0	18.0	0.82
MLN-082-R	12.0	46.0	34.0	1.22
<b>including</b>	<b>34.0</b>	<b>46.0</b>	<b>12.0</b>	<b>2.03</b>
MLN-083-R	20.0	40.0	20.0	0.60
MLN-084-R	2.0	14.0	12.0	0.56
MLN-085-R	2.0	10.0	8.0	0.73
MLN-090-R	8.0	18.0	10.0	0.70
MLN-091-R	6.0	12.0	6.0	1.23

An internal resource evaluation and pit design is underway and subject to a positive cashflow outcome, the Mt Leon material may become a source of additional heap leach feed for the Cap-Oeste Pad. Based on the initial results and analysis, the Company believes the potential exits for between 20,000 and 25,000 oz Au contained in near surface low grade oxide hosted material, updates will be provided as results become available.

### Glossary of technical terms

Ag	the chemical symbol for Silver
Au	the chemical symbol for Gold
AuEq	gold equivalent, taking into account the amount of AG, calculated at a ratio of 68:1 Ag to Au
g/t	grammes per tonne
Indicated Resource	that part of a Mineral Resource for which quantity, grade or quality, densities,

	shape and physical characteristics are estimated with sufficient confidence to allow the application of modifying factors in sufficient detail to support mine planning and evaluation of the economic viability of the deposit. Geological evidence is derived from adequately detailed and reliable exploration, sampling and testing and is sufficient to assume geological and grade or quality continuity between points of observation
Inferred Resource	that part of a Mineral Resource for which quantity and grade or quality are estimated on the basis of limited geological evidence and sampling. Geological evidence is sufficient to imply but not verify geological and grade or quality continuity
JORC	the Joint Ore Reserves Committee: The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, as published by the Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
koz	thousand ounces
kt	thousand tonnes
LUK/OK	Localised uniform conditioning/Ordinary Kriging
Measured Resource	that part of a Mineral Resource for which quantity, grade or quality, densities, shape, and physical characteristics are estimated with confidence sufficient to allow the application of modifying factors to support detailed mine planning and final evaluation of the economic viability of the deposit. Geological evidence is derived from detailed and reliable exploration, sampling and testing and is sufficient to confirm geological and grade or quality continuity between points of observation where data and samples are gathered
Mineral Resource	a concentration or occurrence of solid material of economic interest in or on the Earth's crust in such form, grade or quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade or quality, continuity and other geological characteristics of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge, including sampling
Moz	million ounces
Mt	million tonnes
oz	ounces
ppm	parts per million
RC	reverse circulation
t	tonnes

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#### **About Patagonia Gold**

Patagonia Gold Plc is a mining company that seeks to grow shareholder value through exploration, development and production of gold and silver projects in the southern Patagonia region of Argentina. The Company is primarily focused on three projects: the flagship Cap-Oeste/COSE project, the La Manchuria project and the Lomada heap leach project. Patagonia Gold, indirectly through its subsidiaries or under option agreements, has mineral rights to over 220 properties in several provinces of Argentina and Chile, and is one of the largest landholders in the province of Santa Cruz.

Matthew Boyes, (BSC. Geology, Fellow AusIMM) Chief Operating Officer for Patagonia Gold Plc and a qualified person as defined in Canadian National Instrument 43-101, has reviewed and verified all scientific or technical mining disclosure contained in this announcement.

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