Company no. 03994744

PATAGONIA GOLD LIMITED
(FORMERLY KNOWN AS PATAGONIA GOLD PLC)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

Contents

Corporate Information

Directors	Carlos J Miguens Christopher van Tienhoven
Company Secretary and Registered Office	Vistra Company Secretaries Limited First Floor, 10 Temple Back, Bristol, BS1 6FL
Auditors	Grant Thornton UK LLP 30 Finsbury Square London EC2A 1AG

Strategic Report

Business review and future developments

On July 24, 2019, Patagonia Gold Corp. [formerly Hunt Mining Corp ("Hunt")] and Patagonia Gold Plc ("the Company") completed a reverse acquisition ("RTO") resulting in Hunt acquiring all issued shares of the Company in exchange for common shares of Hunt on the basis of 10.76 Hunt shares for each share of the Company. Hunt issued 254,355,192 common shares to the shareholders of the Company representing an ownership interest of approximately 80%. The operating name of Hunt Mining Corp. was changed to Patagonia Gold Corp.

The above transaction was implemented by means of a court-sanctioned scheme of arrangement, on 19 July 2019, under Part 26 of the UK Companies Act 2006 (England & Wales). The Company was then re-registered as a private limited company, as approved at the annual general meeting on 25 July 2019, and the Company was renamed Patagonia Gold Limited.

Going forward the Company is operating as an intermediate holding company to the Patagonia Gold Corporation Group.

Review of the year

During the year ended 31 December 2019 the loss after tax was $31.0 million (2018: $41.0 million). The total administrative costs decreased to US$7.0 million from US$31.7 million, due to a lower impairment charge against the carrying value of investments in subsidiaries. The carrying value of investments in subsidiaries has been assessed using the discounted cash flows of the Cap Oeste mine's latest estimated life of mine plans to calculate the Value in Use. As a result of this review, a pre-tax impairment loss of $5.6 million (2018: $31.4m) has been recognised.

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.

Principal risks and uncertainties

The Company now operates as an intermediate holding company and therefore its principal risks and uncertainties relate to going concern and the intra-group funding of the projects undertaken within its subsidiaries.

Financing

In February 2019, the Company announced the closure of both of its operating units and thus lost its main source of revenue. Subsequently a loan facility was entered into with its major shareholder, Cantomi, a company owned and controlled by the Company's Non-Executive Chairman, Carlos Miguens. As at 31 December 2019, the debt level of the Company remained high at $20.1 million (2018: $11.3 million). Since the year end the loan facility from Cantomi has been extended, see Note 26 and going concern disclosures in the Directors' Report.

Key Performance Indicators

The Board sets relevant Key Performance Indicators (KPIs), since the reverse takeover the Company's roll has changed to become an intermediate holding company and therefore its key performance indicators relate to performance of its investments, managing its overheads, intra group working capital and safeguarding the ownership and financial position of its assets.

Risk factors

Details of the principal financial risk factors affecting the Company can be found in Note 19 to the financial statements.

On behalf of the Board of Directors

Christopher van Tienhoven

Christopher van Tienhoven
Executive Director
31 March 2021

Report of the Directors

The Directors present their report and the audited financial statements for Patagonia Gold Limited (formerly known as Patagonia Gold PLC), for the year ended 31 December 2019. All amounts are expressed in US dollars, except where indicated.

Financial instruments

The Company's treasury objective is to provide sufficient liquidity to meet operational cash flow requirements to allow the Group to take advantage of exploration opportunities while maximising shareholder value. The Company operates controlled treasury policies that are monitored by the Board to ensure that the needs of the Company are met as they evolve. The impact of the risks required to be discussed in accordance with IFRS 7 are summarised in Note 19 to the financial statements together with detailed discussion and sensitivity analysis relating to these risks.

Going concern

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

In February 2019, the Company took the decision to close Lomada and put Cap Oeste on care and maintenance but continues with a residual production at Cap Oeste and at Lomada producing in 2019 a total of 14,554 oz AuEq and a total of 9,878 oz AuEq in 2020. The Company is continuing to evaluate the development of the high-grade underground resource in Cap Oeste which contains approximately 300,000 oz AuEq at 20 g/t Au.

In February 2019, the Company announced that Cantomi Uruguay S.A., a company owned and controlled by the Company's Non-Executive Chairman, Carlos J. Miguens, had provided a two year $15,000,000 loan facility that will be utilized to fund the Company's activities going forward, while the review of the Cap Oeste underground option is ongoing together with the Feasibility Study of its flagship Calcatreu project, as at 31 December 2019 $7,906,065 has been drawn down. On November 17, 2020, the Company announced that it had reached an agreement to extend the maturity of the loan from March 31, 2021 to December 31, 2022. Other than the extension of the maturity, all other terms of the loan remain unchanged.

As at December 31, 2019, the Company has bank indebtedness of $11,979,000 (2018 – $11,275,000) in the form of operating lines of credit which have an interest rate of 1.8% plus refinancing rate and mature on the December 31, 2021. As at December 31, 2019, the interest rate on the lines of credit is 2.75%. The Directors are unable to predict with certainty that the indebtedness will be renewed, but the lines of credit have no specific terms of repayment and the Company renews them every year.

Given the requirement of external financing to continue operations, combined with the fact that the Company's operating lines of credit mature in December 2021, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Despite the material uncertainty the Directors are confident that the Company has sufficient available funding and options available to enable it to continue to meet its commitments as they fall due and to undertake the current planned programme of activity over the 12 months from the date of this Annual Report.

Accordingly, the financial statements do not include any adjustments which would be necessary if the Company ceased to be a going concern.

Financial results

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

Subsequent events

Significant events since the year end are detailed in Note 26 to the financial statements.

Dividends

The Directors do not recommend the payment of a dividend (2018: US$ nil).

Directors and Directors' interests

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

Ordinary Shares of 1p:	*31 December 2019*	*31 December 2018*
Carlos J. Miguens	-	12,741,212
Gonzalo Tanoira (resigned 22 July 2019)	-	174,027
Christopher van Tienhoven	-	23,291
Manuel de Prado (resigned 22 July 2019)	-	40,357

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

During 2019, no options were awarded to Directors (2018: nil). All of the outstanding share options at the start of the year lapsed during the year ended 31 December 2019, as they were all out-of-the money at the time of the reverse takeover.

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 convened in due course.

Christopher van Tienhoven

By Order of the Board

Christopher van Tienhoven
Executive Director
31 March 2021

Directors' Responsibility Statement

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

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

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

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

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

The Directors confirm that:

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

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

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

We have audited the financial statements of Patagonia Gold Limited for the year ended 31 December 2019 which comprise the consolidated statement of comprehensive income, the consolidated and parent company statements of financial position, the consolidated and parent company statements of changes in equity, the consolidated and parent company statements of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

The impact of uncertainties arising from the UK exiting the European Union on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of the withdrawal of the United Kingdom from the European Union(Brexit). All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company associated with a course of action such as Brexit.

Material uncertainty related to going concern

We draw attention to note **2** in the financial statements, which indicates that the Company has bank indebtedness of $11,979,000 (2018 – $11,275,000) in the form of operating lines of credit which have an interest rate of 1.8% plus refinancing rate and mature on the 31 December 2021. The Directors are unable to predict with certainty that the indebtedness will be renewed, but the lines of credit have no specific terms of repayment and the Company renews them every year, these events or conditions, along with the other matters as set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report,[1] other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

- the financial statements are not in agreement with the accounting records and returns; or

- certain disclosures of directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

Responsibilities of directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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.

UK LLP

Sergio Cardoso
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
31 March 2021

Statement of Comprehensive Income
for the year ended 31 December 2019

	Note	*2019* *$'000*	*2018* *$'000*
Continuing operations			
Revenue	4	—	—
Cost of sales		—	—
Gross profit		—	—
Other operating costs	10	(1,919)	—
Exploration costs		(107)	(32)
Administrative costs			
Share-based payments charge	22	(40)	(190)
Other administrative costs	7	(6,920)	(31,655)
		(6,960)	(31,845)
Finance income	5	780	1,735
Finance costs	5	(22,773)	(10,834)
Loss before taxes		(30,979)	(40,976)
Income tax benefit / (charge)	9	—	—
Loss for the year		(30,979)	(40,976)
Attributable to equity share owners of the parent		(30,979)	(40,976)
		(30,979)	(40,976)
Other comprehensive expense:			
Items that may be reclassified subsequently to profit or loss:			
Exchange profit / (loss) on translation to US dollar		1,020	(3,887)
Items that will not be reclassified to profit or loss:			
Changes in the fair value of equity investments at fair value through other comprehensive income		(3)	(13)
Other comprehensive profit / (loss) for the year		1,017	(3,900)
Total comprehensive loss for the year:		(29,962)	(44,876)
Total comprehensive loss for the year attributable to:			
Owners of the parent		(29,962)	(44,876)
		(29,962)	(44,876)

The notes on pages 15 to 36 form part of these financial statements.

Statement of Financial Position
at 31 December 2019

	Note	2019 $'000	2018 $'000
ASSETS			
Non-current assets			
Investment in subsidiary companies	12	49,889	53,685
Property, plant & equipment	11	—	—
Other long term financial assets		8	11
Mineral properties	10	—	1,780
Other receivables	13	—	—
		49,897	55,476
Current assets			
Trade and other receivables	14	14	15,816
Cash and cash equivalents	15	160	100
		174	15,916
Total assets		50,071	71,392
LIABILITIES			
Non-current liabilities			
Long-term loans	17	8,163	—
		8,163	—
Current liabilities			
Short-term loans	16	11,979	11,275
Trade and other payables	16	98	364
		12,077	11,639
Total liabilities		20,240	11,639
EQUITY			
Share capital	18	312	301
Share premium account		140,428	135,625
Capital redemption reserve	18	30,851	29,796
Currency translation reserve		12,993	17,880
Share-based payment reserve		—	14,721
Retained earnings		(154,753)	(138,570)
Total equity		29,831	59,753
Total liabilities and equity		50,071	71,392

These financial statements were approved by the Board of Directors on 31 March 2021 and were signed on its behalf by:

Christopher van Tienhoven

Christopher van Tienhoven
Director

Company Registered number 3994744

The notes on pages 15 to 36 form part of these financial statements.

Statement of Changes in Equity
for the year ended 31 December 2019

	Note	*Share capital* *$'000*	*Share premium account* *$'000*	*Capital redemption reserve* *$'000*	*Currency translation reserve* *$'000*	*Share-based payment reserve* *$'000*	*Accumulated losses* *$'000*	*Total* *$'000*
At 1 January 2018		31,886	143,690	—	11,039	15,503	(97,679)	104,439
Changes in equity for 2018								
Share-based payment	22	—	—	—	—	190	—	190
Lapse of option		—	—	—	—	(98)	98	—
Capital reorganization	18	(31,567)	—	31,567	—	—	—	—
Exchange differences on translation to $		(18)	(8,065)	(1,771)	10,728	(874)	—	—
Transactions with owners		(31,585)	(8,065)	29,796	10,728	(782)	98	190
Loss for the year		—	—	—	—	—	(40,976)	(40,976)
Other comprehensive income (loss):								
Revaluation of equity investments at fair value through other comprehensive income		—	—	—	—	—	(13)	(13)
Exchange differences on translation to $		—	—	—	(3,887)	—	—	(3,887)
Total comprehensive income/ (loss) for the year		—	—	—	(3,887)	—	(40,989)	(44,876)
At 31 December 2018		301	135,625	29,796	17,880	14,721	(138,570)	59,753
Changes in equity for 2019								
Share-based payment	22	—	—	—	—	40	—	40
Lapse of option		—	—	—	—	(14,799)	14,799	—
Exchange differences on translation to $		11	4,803	1,055	(5,907)	38	—	—
Transactions with owners		11	4,803	1,055	(5,907)	(14,721)	14,799	40
Loss for the year		—	—	—	—	—	(30,979)	(30,979)
Other comprehensive income (loss):								
Revaluation of equity investments at fair value through other comprehensive income		—	—	—	—	—	(3)	(3)
Exchange differences on translation to $		—	—	—	1,020	—	—	1,020
Total comprehensive income/ (loss) for the year		—	—	—	1,020	—	(30,982)	(29,962)
At 31 December 2019		312	140,428	30,851	12,993	—	(154,753)	29,831

The notes on pages 15 to 36 form part of these financial statements.

Statement of Cash Flows
for the year ended 31 December 2019

	Note	2019 $'000	2018 $'000
Operating activities			
Loss for the year		(30,979)	(40,976)
Adjustments for:			
Finance income		(780)	(1,735)
Finance costs		1,222	390
Allowances for doubtful debts		21,551	10,444
Increase in mineral properties		(216)	(500)
Impairment of mineral properties	10	1,919	—
Impairment of investment in subsidiary companies	12	5,559	31,419
Decrease (increase) in trade and other receivables	14	(5,749)	11
Increase in trade and other payables		(266)	81
Share-based payments charge	22	40	190
Net cash used in operating activities		(7,699)	(676)
Investing activities			
Increase in investment in subsidiary	12	(43)	—
Increase in trade and other receivables	13&14	—	(10,770)
Finance income		780	1,735
Net cash received from / (used in) investing activities		737	(9,035)
Financing activities			
Finance costs		(1,222)	(390)
Increase in loans	16&17	8,865	15,265
Repayment of loans		—	(4,242)
Net cash from financing activities		7,643	10,633
Net (decrease) increase in cash and cash equivalents		681	922
Cash and cash equivalents at beginning of year		100	22
Effects of exchange rate fluctuations on cash and cash equivalents		(621)	(844)
Cash and cash equivalents at end of year	15	160	100

The notes on pages 15 to 36 form part of these financial statements.

Notes to the Financial Statements for the year ended 31 December 2019

1. Basis of preparation

Patagonia Gold Limited (formerly Patagonia Gold Plc) is a company incorporated and domiciled in England and Wales. The Company's ordinary shares were delisted from the AIM market of the London Stock Exchange in July 2019, as part of the reverse takeover by Hunt Mining Corp. The principal activity of the Company was that of holding company until the reverse takeover and was subsequently that of an intermediate holding company.

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 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.

Consolidated financial statements are not prepared as the company is part of a larger group for which consolidated accounts have been prepared and therefore the company has taken advantage of this exemption provided under the Companies Act 2006. These financial statements therefore present information about the company and not the group.

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 Company'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. The Company presents its financial statements in $ as it is the currency most relevant to future activities.

2. Going concern

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

In February 2019, the Company took the decision to close Lomada and put Cap Oeste on care and maintenance but continues with a residual production at Cap Oeste and at Lomada producing in 2019 a total of 14,554 oz AuEq and a total of 9,878 oz AuEq in 2020. The Company is continuing to evaluate the development of the high-grade underground resource in Cap Oeste which contains approximately 300,000 oz AuEq at 20 g/t Au.

In February 2019, the Company announced that Cantomi Uruguay S.A., a company owned and controlled by the Company's Non-Executive Chairman, Carlos J. Miguens, had provided a two year $15,000,000 loan facility that will be utilized to fund the Company's activities going forward, while the review of the Cap Oeste underground option is ongoing together with the Feasibility Study of its flagship Calcatreu project, as at 31 December 2019 $$7,906,065 has been drawn down. On November 17, 2020, the Company announced that it had reached an agreement to extend the maturity of the loan from March 31, 2021 to December 31, 2022. Other than the extension of the maturity, all other terms of the loan remain unchanged.

As at December 31, 2019, the Company has bank indebtedness of $11,979,000 (2018 – $11,275,000) in the form of operating lines of credit which have an interest rate of 1.8% plus refinancing rate and mature on the December 31, 2021. As at December 31, 2019, the interest rate on the lines of credit is 2.75%. The Directors are unable to predict with certainty that the indebtedness will be renewed, but the lines of credit have no specific terms of repayment and the Company renews them every year.

Given the requirement of external financing to continue operations, combined with the fact that the Company's operating lines of credit mature in December 2021, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Despite the material uncertainty the Directors are confident that the Company has sufficient available funding and options available to enable it to continue to meet its commitments as they fall due and to undertake the current planned programme of activity over the 12 months from the date of this Annual Report.

Accordingly, the Directors have therefore concluded that the financial statements should be prepared on a going concern basis and do not include any adjustments which would be necessary if the Company ceased to be a going concern.

3. Significant accounting policies

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

Foreign currency

The Company's functional currency is GBP. Functional currencies represent the main currencies of both income and on-going capital expenditure. Transactions in foreign currencies are initially recorded in the 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 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. The functional currency of the Company has remained unchanged during the reporting period.

The financial statements of 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 Company. 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 2019 was 1.3185 (2018: 1.2734) whilst the average rate for the year ended 31 December 2019 was 1.2767 (2018: 1.3348). For the year ended 31 December 2019, a translation gain of $1.0 million is recognised resulting from the translation to $ of the Company's reserves (2018: translation loss $3.9 million).

Exchange differences arising are recognised in other comprehensive income as a separate component of equity titled "Currency translation reserve".

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.

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

Investments in subsidiaries

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

The review carried out as at 31 December 2019 was based on cash flow projections through to December 2025. It was concluded that an impairment charge of $5.6 million (2018 $31.4 million) should be recognised against the carrying value of the parent company investment in its subsidiaries.

Cash and cash equivalents

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

Mineral properties

Once the technical feasibility study is completed, subsequent exploration and development expenses are capitalised as mineral properties. Engineering expenditures incurred to design the size and scope of the project, environmental assessments, permitting, and surface rights acquisitions are capitalised in mineral properties. Upon reaching the development stage, these capitalised costs will be amortised using the unit-of-production method over the estimated period of economically recoverable resources. The cost of the Earn-In agreement in relation to Trilogy has been included within mineral properties at 31 December 2019.

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

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

Impairment of assets

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

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

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

Income taxes

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

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

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Company 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 Company 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 instruments

Financial assets and financial liabilities are recognised when the Company becomes party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all of risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

(i) Financial assets

Classification and measurement

The Company classifies its financial assets into the following categories: those to be measured subsequently at fair value (either through other comprehensive income (FVOCI) or through the income statement (FVPL)) and those to be held at amortised cost.

Classification depends on the business model for managing the financial assets and the contractual terms of the cash flows.

Management determines the classification of financial assets at initial recognition. The Company's policy with regard to financial risk management is set out in Note 19. Generally, the Company does not acquire financial assets for the purpose of selling in the short term and does not have any financial assets measured at fair value through the income statement (FVPL) in either the current or prior year.

The Company's business model is primarily that of "hold to collect" (where assets are held in order to collect contractual cash flows).

(a) Financial assets held at amortised cost

This classification applies to the Company's trade & other receivables which are held under a hold to collect business model and which have cash flows that meet the "solely payments of principal and interest" (SPPI) criteria. At initial recognition, trade and other receivables that do not have a significant financing component, are recognised at their transaction price. Other financial assets are initially recognised at fair value plus related transaction costs; they are subsequently measured at amortised cost using the effective interest method. Any gain or loss on derecognition or modification of a financial asset held at amortised cost is recognised in the income statement.

(b) Financial assets held at fair value through other comprehensive income (FVOCI)
This classification applies to the equity investments where the Company has irrevocably elected to present fair value gains and losses on revaluation in other comprehensive income. The election can be made for each individual investment; however, it is not applicable to equity investments held for trading.

Fair value gains or losses on revaluation of such equity investments, including any foreign exchange component, are recognised in other comprehensive income. When the equity investment is derecognised, there is no reclassification of fair value gains or losses previously recognised in other comprehensive income to the income statement.

Dividends are recognised in the income statement when the right to receive payment is established.

Impairment of financial assets
A forward-looking expected credit loss (ECL) review is required for: debt instruments measured at amortised cost or held at fair value through other comprehensive income; loan commitments and financial guarantees not measured at fair value through profit or loss; lease receivables and trade receivables that give rise to an unconditional right to consideration.

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaces IAS 39's 'incurred loss model'. The Company's instruments within the scope of the new requirements included trade and other receivables.

Recognition of credit losses is no longer dependent on the Company first identifying a credit loss event. Instead the Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

As permitted by IFRS 9, the Company applies the "simplified approach" to trade and other receivable balances and the "general approach" to all other financial assets. The simplified approach in accounting for trade and other receivables records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses. The general approach incorporates a review for any significant increase in counterparty credit risk since inception. The ECL reviews include assumptions about the risk of default and expected loss rates.

The nature of the Company's trade and other receivables are such that the expected credit loss is immaterial in the current and prior year, therefore no additional disclosures are considered necessary within the credit risk section of Note 19.

(ii) Financial liabilities
Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Company 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 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.

Equity

Equity comprises the following items, which are adjusted by foreign exchange movements as outlined in the foreign currency accounting policy above:

- "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.

- "Capital redemption reserve" represents the buy-back of deferred shares as part of a share capital reorganisation.
- 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.

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.

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 Company makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The Company 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 Company to reach its conclusions are contained in the accounting policies and/or the notes to the financial statements, and the key areas are summarised below:

Key Estimates and judgements

- Carrying value of the company's investment in its subsidiaries. The Directors have reviewed the carrying value of the company's investment in its subsidiaries. They consider that based on the cash flow projections prepared to December 2025, and the longer-term business plan that includes an assessment of resources available and potential cash and profit generation from these resources, that the prospects for the subsidiary company operations in South America remain positive. The key assumptions inherent in the forecasts and sensitivity to changes in these assumptions are shown in Note 12. Based on the results of the review, the directors have determined that an impairment charge of $5.6 million (2018 $31.4 million) should be recognised. The Directors recognise that the sensitivity of the assumptions used, the exploratory nature of the subsidiary operations and future plans, and the ability to raise adequate financing to implement these plans, indicate the existence of a material uncertainty which may cast significant doubt over the carrying value of the Company's investment in its subsidiary companies.
- Recoverability of intercompany loan balances – As at 31 December 2019 the company has $12.0 million (2018 $8.2m) in loans with PGSA. These loans attract an interest charge of 7%. The directors have reviewed the ability of PGSA to repay these loans based on current forecasts and considered that they were required to make a provision against these loans during the year ended 31 December 2019.
- Recoverability of intercompany receivables relate to advances from the company to PGCAD – As at 31 December 2019 the company has $17.0 million (2018 $15.8 million) in receivables with PGCAD. In addition, the company loaned $0.35 million to its ultimate parent undertaking, Patagonia Gold Corp during the year (2018: $nil) and $0.71 million (2018: $nil) to Hunt Gold USA. The directors have reviewed the ability of PGCAD, Patagonia Gold Corp. and Hunt Gold USA to repay these advances based on current forecast and consider that they were required to make a provision against these loans during the year ended 31 December 2019.

- Classification of mineral properties – See Note 10. 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.

Changes in accounting policies and disclosures

Statement of compliance

The 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 2019 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 2019

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2019. None of these had a material impact on the Company's financial statements. The most significant change to the International Financial Reporting Standards was the application of IFRS 16 "Leases", but this had no impact on the Company as it does not have any leases.

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

At the date of authorisation of these financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the Company.

Management anticipates that all relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. None of the new standards, interpretations and amendments are expected to have a material impact on the Company's financial statements.

4. Revenue

Patagonia Gold is an intermediate holding company and has no revenue. Its costs are outlined further in subsequent Notes 5 to 9.

5. Finance income and finance costs

	2019 $'000	2018 $'000
Interest receivable	780	709
Foreign exchange gains	—	1,026
Finance income	780	1,735
Interest expense	(782)	(390)
Allowance for doubtful debt	(21,551)	(10,444)
Foreign exchange losses	(440)	—
Finance costs	(22,773)	(10,834)

6. Staff numbers and costs

	2019 $'000	2018 $'000
Wages and salaries	307	293
Social security costs	—	—
Share based payments	40	190
	347	483

	2019 Number	2018 Number
The average number of employees (including Directors) was:		
Directors	3	4
	3	4

7. Other administrative costs

	2019 $'000	2018 $'000
General and administrative	20	103
Professional fees	1,034	578
Directors' remuneration	307	293
Impairment of investments (1)	5,559	31,419
Dividend income	—	(738)
	6,920	31,655

(1) See Note 12.

Professional fees were higher in 2019 due to one-off costs associated with the merger.

8. Remuneration of Directors and key management personnel

Directors' emoluments:

	2019 $'000	2018 $'000
Directors' fees	27	48
Director's salary	280	245
	307	293

In 2019, the highest paid Director was due $280 thousand (2018: $245 thousand). This amount does not include any share-based payments charge.

The directors had an unrealised gain of $Nil (2018: $Nil) from the exercise of share options during the year ended 31 December 2019.

Key management personnel emoluments:

	Note	2019 $'000	2018 $'000
Share-based payments charge	22	40	190
Salaries		155	120
Other compensation, including short-term benefits		152	173
		347	483

Key management personnel are defined as the Directors.

9. Income tax

The current income tax for the year on the ordinary business of the Company was $nil (2018: $nil).

Factors affecting the income tax expense for the year

The following table reconciles the reported income tax expense to the estimated income tax recovery that would have been obtained by applying the Company's 2019 and 2018 UK Statutory tax rate to the Company'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.

Income tax expense	**2019 $'000**	**2018 $'000**
Loss on ordinary activities before taxation	(30,979)	(40,976)
Expected tax expense at the standard UK corporation tax rate of 19% (2018: 19%)	(5,886)	(7,785)
Adjustments for short term timing differences		
Expenses not deductible for tax purposes	5,690	7,664
Losses and other temporary differences	196	121
Total tax expense	—	—

Factors that may affect future tax charges

The Company has unrecognised losses and other temporary differences at 31 December 2019 of approximately $15 million – £11.6 million (2018: $14 million – £10.6 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.

The standard UK corporation tax rate remained at 19% in the year to 31 March 2019 and in the year to 31 March 2020. Following announcements from the UK Chancellor of the Exchequer, corporation tax rates will remain at 19% for the years ending 31 March 2021 and 2022.

10. Mineral properties

	Mining assets $'000
Cost	
At 1 January 2018	1,280
Additions	500
At 31 December 2018	1,780
At 1 January 2019	1,780
Additions	139
Exchange differences	63
At 31 December 2019	1,982
Amortisation	
At 1 January 2018	—
Charge for the period	—
At 31 December 2018	—
At 1 January 2019	—
Impairment	1,919
Exchange differences	63
At 31 December 2019	1,982
Net book value	
At 31 December 2019	—
At 31 December 2018	1,780

Mining assets

Trilogy Mining Corporation

In January 2016, Patagonia Gold entered into an earn–in agreement with Trilogy Mining Corporation ("Trilogy") in relation to the San José Project in Uruguay. This has been recognized within mining assets at a cost of $1,982,000 (2018: $1,780,000). In December 2019, the Company announced the termination of its option agreement with Trilogy and in exchange has received common shares of Trilogy, that will result in Patagonia Gold owning 42.5% of the then issued and outstanding shares of Trilogy. Owing to this during the year ended December 31, 2019 the Company has impaired $1,919,000 of mining asset related to San José Project in Uruguay and is recorded in "Other operating costs" in the statement of comprehensive income.

11. Property, plant and equipment

	Office equipment $'000
At 1 January 2018	174
Exchange differences	(10)
At 31 December 2018	164
At 1 January 2019	174
Disposals	(164)
Exchange differences	(10)
At 31 December 2019	—
Depreciation	
At 1 January 2018	174
Charge for the year	—
Exchange differences	(10)
At 31 December 2018	164
At 1 January 2019	174
Charge for the year	—
Disposals	(164)
Exchange differences	(10)
At 31 December 2019	—
Net book value	
At 31 December 2019	—
At 31 December 2018	—

12. Investment in subsidiary companies

	2019 $'000	2018 $'000
Balance at 1 January	53,685	88,634
Capital contributions during the year	43	—
Impairment charge	(5,559)	(31,419)
Exchange differences	1,720	(3,530)
Balance at 31 December	49,889	53,685

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

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

The Directors have reviewed the carrying value of the parent company investment in its subsidiaries. They consider that based on the cash flow projections prepared to December 2028, and the longer-term business plan that includes an assessment of resources available and potential cash and profit generation from these resources, that the prospects for the subsidiary company operations in South America remain positive.

Due to the fact that the carrying value of investments is significantly higher than the net assets of the group, an assessment was carried out of the fair value of PGSA's CGU. A discounted cash flow of the Cap Oeste mine's latest estimated life of mine plans, has been used to calculate the Value in Use. As a result of this review, a pre-tax impairment loss of $5.6 million (2018 $31.4m) has been recognised.

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

Assumption	**Judgements**	**Sensitivity**
Timing of cash flows	Cash flows were forecast over the expected life of Cap Oeste mines. The life of mine plan in December 2019 forecasted mining activities to occur until December 2025, with a further two months during which stockpiles would be processed and rehabilitation costs would be incurred.	An extension or shortening of the mine life would result in a corresponding increase or decrease in impairment, the extent of which it was not possible to quantify.
Production costs	Production costs were forecast based on detailed assumptions, including staff costs, consumption of fuel and reagents, maintenance, and administration and support costs.	An increase or decrease in production costs excluding royalties of 10% would have increased/decreased the pre-tax impairment attributable by $10,512 million[1].
Gold price	Management have used a gold price of $1,550 per ounce, in line with market consensus estimates and management's own view of gold prices over the period of the Life of Mine.	A decrease or increase of 10% in the gold price assumption would have increased/decreased the pre-tax impairment recognised in the year by $13,995 million[1].
Discount rate	A discount rate of 10% (pre-tax) (2018: 10%) was used in the VIU estimation, based on estimations of Patagonia's own cost of capital, adjusted for specific risk factors related to the Cap Oeste LoMP (liquidity risk, production risk, etc).	An increase or decrease in the discount rate of five percentage points would have decreased/increased the pre-tax impairment recognised in the year by $6,918 million[1].
Gold production	The life of mine plan was based on gold production of 240 thousand ounces equivalents for the Cap Oeste Mine.	A 10% decrease or increase in ounces produced, compared with the life of mine gold production, would have increased/decreased the pre-tax impairment recognised in the year by $18,403 million[1].

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

Details of the company's subsidiaries are below:

Company	*Country of incorporation*	*2019 Percentage shareholding*		*2018 Percentage shareholding*	*Nature of business*
Patagonia Gold S.A.	Argentina	90		90	Exploration
Minera Minamalu S.A.	Argentina	100		100	Exploration
Huemules S.A.	Argentina	100		100	Exploration
Leleque Exploración S.A.	Argentina	100		100	Exploration
Minera Aquiline S.A.U.	Argentina	100	(1)	100	Exploration
Patagonia Gold Canada Inc	Canada	100		100	Holding
Patagonia Gold Chile S.C.M.	Chile	100		100	Exploration

(1) Through Patagonia Gold Canada Inc.

13. Other receivables

	2019 $'000	2018 $'000
Intercompany receivables	—	2,703
Allowances for doubtful debts	—	(2,703)
	—	—

Intercompany receivables relate to loan advances from the Company to PGSA up to 31 December 2018. These loans attract interest at 7% and are repayable within 2 years of date of the first disbursement. As at 31 December 2018, the Company has made a provision for impairment against these loans, the impairment has been recognised within the statement of comprehensive income.

14. Trade and other receivables

Current assets

	2019 $'000	2018 $'000
Other receivables	14	7
Intercompany receivables	32,573	23,009
Allowances for doubtful debts	(32,573)	(7,260)
Prepayments and accrued income	—	16
Recoverable VAT	—	44
	14	15,816

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.

Intercompany receivables include loan advances from the parent company to PGSA. These loans attract interest at 7% and are repayable within 2 years of date of the first disbursement. The amounts that were non-current in 2018 of $2,703 thousand, have been reclassified as current as at 31 December 2019. As at 31 December 2019 the Company had made a provision against these loans of $14,537 thousand (2018: $9,963 thousand), the impairment was recognised within the company statement of comprehensive income.

Intercompany receivables also include advances from the parent company to PGCAD $16,976 thousand (2018: $15,749 thousand), to Patagonia Gold Corp $350 thousand (2018: $nil) and Hunt Gold USA $710 thousand (2018: $nil). As at 31 December 2019 the Company had made a provision against these advances of $18,036 thousand, the impairment was recognised within the company statement of comprehensive income.

15. Cash and cash equivalents

	2019 $'000	2018 $'000
Bank and cash balances	8	6
Short-term deposits	152	94
	160	100

16. Trade and other payables

Current liabilities

	2019 $'000	2018 $'000
Trade and other payables	—	110
Short term loans	11,979	11,275
Other accruals	98	254
	12,077	11,639

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

As at December 31, 2019, the Company has bank indebtedness of $11,979,000 (2018 – $11,275,000) in the form of operating lines of credit which have an interest rate of 1.8% plus refinancing rate and mature on the December 31, 2021. As at December 31, 2019, the interest rate on the lines of credit is 2.75%. The lines of credit have no specific terms of repayment and the Company renews them every year.

17. Long term loans

	2019 $'000	2018 $'000
Long-term loans	8,163	—
	8,163	—

During the year the Company received a loan from Cantomi Uruguay S.A., a company owned and controlled by the Company's Non-Executive Chairman, Carlos J. Miguens, at 5% interest per annum, due for repayment in March 2021. Since the year end the maturity date of the loan has been extended, see Note 26.

18. 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. There is just one class of ordinary share.

There were no changes in the number of shares in issue during 2019, the information below relates to the significant changes in the prior year. Movements to share capital and share premium in 2019 arise solely from the retranslation from GBP to USD, as explained in the foreign currency accounting policy.

Capital reorganisation

On 9 May 2018, Patagonia Gold undertook a capital reorganisation of the Company's existing ordinary share capital, reducing the number of existing ordinary shares in issue (the "Existing Ordinary Shares") by a factor of 100. Prior to the consolidation of the Company's share capital, 16 new ordinary shares were issued, so that the total number of ordinary shares were exactly divisible by the consolidation factor of 100.

The capital reorganisation consisted of: the sub-division of each Existing Ordinary Share of 1 pence each into one Interim Ordinary Share of 0.01 pence and one Deferred Share of 0.99 pence; followed by the consolidation of every 100 Interim Ordinary Shares into one new ordinary share of 1 pence (the "New Ordinary Shares"); the sale of all fractional entitlements arising on consolidation; and the buy-back of all of the Company's Deferred Shares of 0.99 pence each and subsequent cancellation of these shares.

As result of the capital reorganisation Patagonia Gold has in issue 23,634,749 New Ordinary Shares of 1 pence each in nominal value. The difference between the nominal value of the share capital prior to the capital reorganisation, of £23,634,749 ($30,096,489), and the nominal value of share capital after it, of £236,347 ($300,965), was recognised within a capital redemption reserve, being £23,398,402 ($29,795,524). The New Ordinary Shares have the same rights and benefits as the previous Existing Ordinary Shares.

After the capital reorganisation the share capital in issued is as follow:

Issued and fully paid ordinary shares of 1 pence each ($0.013)	**Number of ordinary shares**	**Amount $'000**
At 1 January 2018	2,363,474,884	31,886
Net impact of share reorganisation	(2,339,840,135)	(31,567)
Exchange difference on translation to $	—	(18)
At 31 December 2018	23,634,749	301

Effects of the Capital Reorganisation on Share Options

The rules of the Share Option Plan and the terms of the Share Option Deeds provide that, in the event of any consolidation of the share capital of the Company, the number of Ordinary Shares subject to an Option and/or the exercise price payable on exercise of an Option may be adjusted by the Board in such manner as the Board may determine to be appropriate. Additionally, in the case of the Share Option Plan, any such proposed adjustment is required to be confirmed in writing by the Company's auditor (acting as experts and not as arbitrators) as being, in their opinion, fair and reasonable. Such confirmation has been obtained from the Company's auditor.

Accordingly, to reflect the Capital Reorganisation, the Board has reduced the number of shares that are subject to outstanding Options by a multiple of 100 and increase the option exercise price by the same multiple. Any fractional entitlement to shares will be rounded down. The overall amount payable by an Option holder looking to exercise his Option after the Capital Reorganisation will remain the same and the proportion of the issued share capital over which an Option is subsisting will also remain the same.

19. Financial instruments

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

Financial assets

	2019 $'000	2018 $'000
Financial assets at fair value through other comprehensive income	8	11
Trade and other receivables	32,587	25,763
Allowances for doubtful debts	(32,573)	(9,963)
Cash and cash equivalents	160	100
	182	15,911

Financial liabilities

	2019 $'000	2018 $'000
Financial liabilities measured at amortised cost	20,142	11,385

The estimated fair values of the 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.

Financial assets at fair value through other comprehensive income are listed equity securities denominated in GBP and are publicly traded on the AIM market. Fair values have been determined by reference to their quoted bid prices at the reporting date.

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

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

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

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
As at 31 December 2019				
Listed securities	8	—	—	8
As at 31 December 2018				
Listed securities	11	—	—	11

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

Risks and uncertainties

Capital management

The Company's capital management objectives are:

- to ensure the Company'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 Company's means.

The Company 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 Company sets the amount of capital in proportion to its overall financing structure (i.e. equity and financial liabilities). The Company 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 Company may adjust the amount of dividends paid to shareholders in the future, return capital to shareholders or issue new shares.

Market risk, including foreign currency and interest rate risks
Market risk is the risk that changes in market factors, such as foreign currency, will affect the Company's income or the value of its financial instruments.

Foreign currency risk – The Company undertakes transactions principally in GBP and $. While the Company 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 Company is $. The functional currency of Patagonia Gold is GBP. As at 31 December 2019, Patagonia Gold held cash balances denominated in GBP and $ and had trade and other payables denominated in GBP and $.

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 2019, the GBP/$ exchange rate experienced a fluctuation of 11% from its lowest to highest levels. Based on $ financial assets and liabilities at 31 December 2019 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 2019, and all other variables held constant, this would have the following impact on the Company's net loss for the year:

Foreign currency rate weakened

	2019 $'000	2018 $'000
(Decrease) / Increase in net loss / profit for the year	228	451

Foreign currency rate strengthened

	2019 $'000	2018 $'000
Decrease / (increase) in net loss / profit for the year	228	451

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 Company's business. The above analysis is considered to be representative of the Company's exposure to currency risk.

Interest rate risk – The Company 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 Company's needs. The level of finance income does not significantly affect the results of the Company.

Interest earning balances were held in GBP and $. The weighted average interest rate for GBP was 0.2% (2018: 0.2%) and for $ was 0.7% (2018: 0.7%). If interest rates in 2019 had been 10% higher or lower with all other variables held constant, the impact on net profit for the year would not have been material on the finance income recorded during 2019.

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 Company'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 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 Company is exposed to credit risk from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Company 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.

20. Operating lease commitments

At the balance sheet date, the Company had no outstanding annual commitments under non-cancellable operating leases (2018: $nil).

21. Related parties

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

	Notes	2019 $'000	2018 $'000
Cantomi Uruguay S.A.	(i)	8,163	—
Patagonia Gold S.A.	(ii)	3,797	(2,595)
Patagonia Gold Canada Inc	(iii)	1,227	15,749
Patagonia Gold Corp	(iii)	350	—
Hunt Gold USA	(iii)	710	—

(i) During the year the Company obtained a loan from Cantomi Uruguay S.A. of $7,908,000 and incurred interest of $255,000, see Note 17. Cantomi Uruguay is a related party because it is a Company controlled by Carlos J. Miguens.

(ii) In 2019 $3,797,000 loan advances from the company to PGSA. These loans attract interest at 7% and are repayable within 2 years of date of the first disbursement. In 2018 $2,595,000 repayments.

(iii) Advances from the company.

Details of Directors' and key management personnel remuneration are presented in Note 8.

22. Share-based payments charge

The Company operates a share option plan under which certain employees and directors have been granted options to subscribe for ordinary shares of the Company. During the year ended 31 December 2019 all of the share options lapsed as part of the reverse takeover of Patagonia Gold by Hunt Mining, as a result there were no outstanding share options as at 31 December 2019.

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

	2019 Weighted average exercise price		2019	2018 Weighted average exercise price		2018
	pence	$	Number of options	pence	$	Number of options
Outstanding at the beginning of the year	8.01	0.108	171,808,000	8.01	0.108	171,808,000
After Capital reorganization (1)	**800.58**	**10.80**	**1,718,080**	**800.58**	**10.80**	**1,718,080**
Granted during the year	-	-	-	-	-	-
Exercised during the year	-	-	-	-	-	-
Lapsed during the year	**800.58**	**10.80**	**(1,718,080)**	800.00	10.19	(11,250)
Outstanding and exercisable at the end of the year	-	-	-	800.58	10.19	1,706,830

(1) See Note 18

There are no options outstanding as at 31 December 2019. Options outstanding at 31 December 2018 had an exercise price in the range of $1.27 (100p) per option to $78.95 (6,200p) per option and a weighted average contractual life of 5.88 years.

The fair value of services received in return for share options granted was measured by reference to the fair value of share options granted. The estimate of the fair value of the services received was measured based on the Black-Scholes Model. The expected volatility was wholly based on the historic volatility (calculated based on the weighted average remaining life of the share options).

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

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

	2019 $'000	2018 $'000
New options Granted in the year	—	—
Part vested options granted in prior periods	40	190
	40	190

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

23. Auditor's remuneration

	Company	
	2019 $'000	2018 $'000
Fees payable for the audit of the Company	18	17
Fees payable for the audit of the subsidiaries	—	—
Tax compliance	11	13

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

24. Financial commitments

There were no financial commitments as at 31 December 2019 (2018: nil).

25. Contingent liability

There were no contingent liabilities at either 31 December 2019 or 2018.

26. Subsequent events

COVID-19

On March 11 2020, the World Health Organization (WHO) stated the "public health emergency of international concern" and declared the state of pandemic worldwide due to the COVID-19's outbreak in Wuhan, China and its subsequent global spread.

Following this statement, on March 19 2020, the Argentine Government ordered the "Social, Preventive and Compulsory Isolation" (A.S.P.O. for its acronym in Spanish), by Necessity and Urgency Decree No. 297/2020, imposing the borders' closure and stringent restrictions on domestic circulation of individuals. Such measures comprised several exceptions, including activities that were considered "essential" and, therefore, were excluded from such restrictions. Successive Necessity and Urgency Decrees extended the term of the mentioned measures until 8 November 2020. As of 9 November 2020, by Necessity and Urgency Decree No. 875/2020 and its amendments, it was established the Preventive and Compulsory Social Distancing (Di.S.P.O. for its acronym in Spanish) that is in full force and effect through 28 February 2021 and can be extended for as long as it may be considered necessary in view of the epidemiological situation.

Subsequently, on 30 December 2020, the Ministry of Health's Resolution No. 2883/2020, approving the "Strategic COVID-19 Vaccination Plan" in the Republic of Argentina, was issued. It aimed to reduce morbidity, mortality, and socio-economic impacts of the pandemic, based on the stepped and progressive vaccination of certain population groups. On these financial statements' issue date, the said plan is in its initial implementation phase.

Because of the various measures adopted by the Argentine government, and within the scenario of the economic activity's generalised recession, the Company has implemented a protocol establishing the working conditions to operate in strict compliance with the public health standards issued by national and provincial authorities, in order to minimize the risk of contagion of co-workers, clients and providers, and to enable the business continuity. It is worth emphasising that, to these Financial Statements' issue date, the COVID-19 pandemic continues to be a prevalent situation, the duration of which is uncertain, and the measures taken by the different authorities (national, provincial, and pertaining to town) in response thereto are constantly evolving.

Although the continuity of the Company's operation has not been significantly affected, the extent of COVID-19's impact on the operational and financial performance will depend on the evolution of events (including the spread rate and duration, as well as the national and international governmental measures taken in such regard) and on the impact this situation may cause on our main clients, employees, and providers; all of which is uncertain and, at present, not possible to foresee. However, the Company's Management does not anticipate that such impacts will affect the business continuity or the ability to meet financial commitments in the next 12 months.

Subsidiaries Reorganization

Following the year end Patagonia Gold Corp. ("Patagonia" or the "Company") has initiated a corporate reorganization (the "Reorganization") of the entities beneath Patagonia Gold Limited, which will result in Patagonia Gold SA ("PGSA") and Cerro Cazador SA ("CCSA") merging and continuing as one legal entity. The Reorganization will facilitate the development of the Cap Oeste gold / silver underground project ("Cap Oeste"), with Cap Oeste and the Martha processing plant being held by the same legal entity, PGSA. It is also expected to facilitate the development of an exploration program for the La Josefina and La Valenciana gold / silver projects. The Reorganization is expected to be completed by the end of the first quarter 2021 and be effective as of January 1, 2020.

In connection with this Reorganization, Patagonia Gold Corp. also renegotiated the agreement between PGSA and the Provincial State owned Mining Company, Fomento Minero de Santa Cruz Sociedad del Estado ("Fomicruz"), pursuant to which Fomicruz held a 10% interest in PGSA, and the farm-in agreement between CCSA and Fomicruz regarding the La Josefina and the La Valenciana properties. Accordingly, Fomicruz agreed to reduce its interest in PGSA to 5% and to hold a 2% royalty on the properties it contributed to PGSA, with the exception of the La Josefina and La Valenciana properties, where Fomicruz will retain a 5% royalty.

Extension of maturity date of loan facility

On November 17, 2020, Patagonia Gold Corp. announced that it has entered into an agreement with Cantomi Uruguay S.A., a corporation owned and controlled by Patagonia Gold Corp.'s Non-Executive Chairman, Carlos J. Miguens, to extend the maturity of the existing loan with Patagonia Gold Corp and Patagonia Gold Limited from March 31, 2021 to December 31, 2022. Other than the extension of the maturity, all other terms of the loan remain unchanged.

Extension of maturity date of bank indebtedness

On November 17, 2020, the Company announced that it had reached an agreement to extend the maturity date of its bank indebtedness, being its operating lines of credit, from January 31, 2021 to December 31, 2021. Other than the extension of the maturity, all other terms of the operating lines of credit remain unchanged.

Cap Oeste Provisional Permit

On November 23, 2020, the Company announced that it had received a provisional permit to proceed with the development of the Cap Oeste gold/silver underground project.

Brexit

The United Kingdom withdrew from the European Union (Brexit) on 31 December 2020 – the directors do not believe that this has had or will have any impact on the Company.