

**MINERA IRL LIMITED**

**ANNUAL REPORT AND ACCOUNTS**

**FOR THE YEAR ENDED 31 DECEMBER 2013**



## HIGHLIGHTS

- The Corihuarmi Gold Mine 2013 gold production of 25,223 ounces was ahead of forecast, but down 7.7% from 27,321 ounces in 2012.
- 2013 site cash operating costs were \$677/oz, up 16.5% from \$581/oz.
- 2013 gold sales of 25,220 ounces, down 8.2% from 27,462 oz in 2012 and realised gold price of \$1,412/oz, down 15.6% from \$1,673/oz in 2012; resulting in sales revenue of \$35.7 million in 2013, down 22.4% from \$46.0 million in 2012.
- Gross profit down 60.8% to \$7.4 million in 2013, from \$18.9 million in 2012.
- Loss before tax of \$31.6 million (profit before tax of \$8.5 million in 2012), includes \$13.7 million non-cash impairment to the Corihuarmi mine and \$12.5 million non-cash loss on deconsolidation of Don Nicolás following the transaction with Compañía Inversora en Minas (“CIMINAS”).
- Loss after tax of \$33.8 million (profit after tax of \$3.3 million in 2012).
- The Peruvian Ministry of Mines and Energy (“MEM”) approved the Environmental and Social Impact Assessment (“ESIA”) for the Ollachea Gold Project. With government approval of the ESIA, the Company will now focus its efforts to obtain the Construction Permit for the Ollachea Gold Mine. In parallel with these permitting activities, the Company continues to advance project financing negotiations.
- The Company entered into a definitive agreement with CIMINAS, whereby CIMINAS would make a \$45 million investment in Minera IRL Patagonia S.A. (“Minera IRL Patagonia”) to become up to a 45% equity owner of Minera IRL Patagonia. The equity investment, in addition to a \$35 million credit facility CIMINAS has made available, is expected to provide the financing required to develop the Don Nicolás Gold Project in Santa Cruz Project, Argentina.
- Subsequent to the end of the year, construction on the Don Nicolás Gold Project commenced.
- The 1.2km exploration tunnel at Ollachea was completed ahead of schedule and below budget which facilitated the Exploration of the eastern strike extent of the Minapampa Zone by diamond drilling. Three holes were completed all of which intersected potential ore grade gold mineralization.
- Cash held of \$3.4 million as at 31 December 2013. The Company’s debt facility was increased from \$20 million to \$30 million, an increase of \$10 million, of which \$5 million was drawn down during 2013. The remaining \$5 million was drawn subsequent to 31 December 2013, on 31 March 2014.

## CORPORATE INFORMATION

### DIRECTORS

Courtney Chamberlain (Executive Chairman)  
Daryl Hodges (Non-Executive)  
Douglas Jones (Non-Executive)  
Napoleon Valdez Ferrand (Non-Executive)

### COMPANY SECRETARY

Brad Boland

### REGISTERED OFFICE

Ordnance House  
31 Pier Road  
St Helier  
Jersey JE4 8PW

### NOMINATED ADVISOR & BROKER

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88 Wood Street  
London EC2V 7Q4

### CO-BROKER (UK)

FinnCap Limited  
60 New Broad Street  
London EC2M1JJ

### AUDITOR

BDO LLP  
55 Baker Street  
London W1U 7EU  
United Kingdom

### BANKER

Royal Bank of Scotland International Ltd  
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17 Hanover Square  
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### Jersey Law

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### Peruvian Law

Rodrigo, Elias & Medrano  
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### Argentinean Law

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## CHAIRMAN'S STATEMENT

I am pleased to present the Minera IRL Limited Annual Report to shareholders, our eighth as a publicly listed company.

Notwithstanding that 2013 was a difficult year for gold mining investors, I feel we made good progress in advancing our next generation of gold mines towards production. The two most important milestones that we achieved last year were: (1) the arrangement of \$80 million in financing for our Don Nicolás joint venture; and, (2) government approval of the Environmental and Social Impact Assessment ("ESIA") for our flagship Ollachea project.

Our Corihuarmi Gold Mine continued to exceed expectations and provided strong cash contributions in 2013. Whereas we have recorded a gross profit of \$7.4 million, we incurred an after-tax loss of \$33.8 million largely as a result two non-cash charges. As reported in the third quarter of 2013, a loss of \$12.5 million was recorded on the deconsolidation of the Don Nicolás joint venture, as the formerly 100% owned subsidiary became a jointly controlled entity requiring us to fair value our remaining interest. Secondly, an impairment charge of \$13.7 million was recorded against the Corihuarmi mine. The impairment charge is largely the result of the significant drop in the gold price experienced in 2013. The gold price closed at just over \$1,200 per ounce at the end of 2013, compared with a price of \$1,664 per ounce at the end of 2012, a drop of over \$460 per ounce. We responded to the drop in the gold price by cutting discretionary spending and reviewing costs across the Company, which resulted in a reduction in our work force of approximately 30%.

The fall in the gold price and the reducing production at Corihuarmi has also had an effect on our balance sheet. The cash flow from the Corihuarmi mine covered our general and administrative costs and supported a portion of our development activities. However, the financial resources required to advance the major Ollachea project in 2013 exceeded the cash generated by Corihuarmi. The C\$15.6 million equity financing in the first quarter of 2013 was largely applied early in the year at Ollachea to complete the development of the tunnel, underground exploration drilling, engineering work and advanced our environment permit.

We also negotiated a \$10 million increase to the debt facility with Macquarie Bank (total increased to \$30 million) of which \$5 million was drawn in November 2013. At the end of 2013, Minera IRL had a cash balance of \$3.4 million and \$5 million remaining available under the Macquarie Bank facility. However, largely due to ongoing expenditure at Ollachea, we continue to experience a monthly cash burn. We are focused on securing financing for the Ollachea project during 2014 and refinancing the existing Macquarie Bank debt facility which comes due on 30 June 2014. Ollachea remains economically robust at the prevailing gold price and we remain confident an attractive financing package will be assembled and development will commence.

### Projects

#### *Corihuarmi Gold Mine*

The Corihuarmi Gold Mine, located in the Peruvian high Andes, exceeded expectations again in 2013. In line with expectations, grade was lower as the mine matures resulting in declining gold output. Gold production of 25,223 ounces was 8% lower than the previous year, but 5% higher than our forecasted amount. Notwithstanding tight cost control, largely affected by the lower gold production, site cash operating costs<sup>1</sup> increased to \$677 per ounce. Annual revenue totaled \$35.7 million from the sale of 25,220 ounces at an average realized gold price of \$1,412 per ounce. The average gold price received was 16% lower than in 2012 reflecting the sustained lower gold price from April 2013.

Corihuarmi has now been in production for six years and produced over 200,000 ounces of gold. This is well in excess of the feasibility study projections of a four year mine life to produce 112,000 ounces. The current mine life now extends until 2015 but new ideas on potential orebody extensions justify drill testing in the first half of 2014. If successful, we expect further extensions to the mine life.

#### *Ollachea*

Progress continued to be made in advancing Ollachea, Minera IRL's flagship project in southern Peru. The feasibility study, completed in late 2012, was based only on the Minapampa Zone and demonstrated a robust project averaging more than 100,000 ounces per annum over an initial mine life of nine years.

A 1,234 metre long, five metre high by five metre wide exploration drive, which will serve as the production access for the future underground mine, was completed in January 2013. In addition to providing a head start to mine development, the tunnel was highly successful in demonstrating better than expected ground conditions, higher advance rates and low water inflow, all of which auger well for a successful, mechanized underground mining operation. With the tunnel in place, three diamond drill holes were drilled from underground to the east of Minapampa where surface drilling was not possible due to the steep terrain. Each of the three holes intersected a wide intersection with grades higher than the Minapampa resource grade, namely 20 metres of 4.5 g/t Au, 11 metres of 5.5g/t Au and 9 metres of 5.5g/t Au. These holes indicate a major extension of at least 320 metres to the east which remains open and untested both along strike and down-dip. In-fill and extension drilling of this new zone will be high priority when funds are available.

Following the completion of the feasibility study, much effort was directed toward obtaining approval of the ESIA, which was granted in September. With this in place, efforts then focused on securing the Construction Permit, the final significant permit required for development to commence. The Company expects to receive this permit in the second quarter of 2014.

Project financing discussions commenced during 2013 and are ongoing. The objective is to have financing secured during the second quarter of 2014. Negotiations are also underway to select an engineering and construction contractor.

Community relations at Ollachea remain strong, underpinned by Peru's first ever 30-year development and production agreement that was signed in 2012. The Company supports important programs in health and welfare, nutrition, education and sustainable development. The Project already provides considerable employment to members of the community which, in turn, is making a significant contribution to the local economy.

#### *Patagonia*

The Minera IRL Patagonia business unit is located in the mining friendly province of Santa Cruz, Argentina, which is home to a world class, epithermal gold/silver geological district known as the Deseado Massif. A successful feasibility study was completed on the Don Nicolás Project in 2012 based upon an open pit mining operation that will produce an average of over 50,000 ounces of gold per annum during an initial four year mine life. This was followed by the approval of an Environmental Impact Statement ("EIA"). A 10-year Social License Agreement was signed with the nearest communities where strong relationships are being forged.

With the feasibility study and EIA in place, efforts in 2013 switched to securing project financing from sources within Argentina. In August 2013, following lengthy negotiations, Compañía Inversora en Minas ("CIMINAS"), a consortium of Argentina manufacturing companies entered into a Joint Venture (JV) on the Minera IRL Patagonia assets, which includes the Don Nicolás Project. CIMINAS subscribed to \$45 million in equity and will underwrite a \$35 million debt facility for a total of \$80 million. As a result, Minera IRL's equity interest, following CIMINAS' equity contributions, will be reduced to 51%.

With funding secured, an Owner's team was assembled, engineering companies appointed and project development commenced early in 2014. The expectation is that commissioning of the new mine will commence by the end of 2014 and that commercial production will occur in first quarter of 2015.

The exploration team focused on generative initiatives in 2013 and, to conserve cash, no drilling was carried out. However, generative fieldwork was highly successful with three new vein-fields identified in close proximity to the future Don Nicolás infrastructure. Surface and trench sampling have been highly encouraging and have defined drill targets to be tested.

#### **Financial Results**

As expected, production from the Corihuarmi Gold Mine was lower than 2012 but yielded a solid revenue stream of \$35.7 million (2012: \$46.0 million). The decrease in revenue compared to 2012 was due to a combination of lower gold production as well as a lower average realized gold price received, which decreased from \$1,673 per ounce in 2012 to \$1,412 per ounce in 2013. Mining and treatment of 15.0% more ore in 2013 contributed to an increase in the cost of sales to \$28.3 million (2012: \$27.1 million). The combined effect was a decrease in gross profit to \$7.4 million (2012: \$18.9 million).

Administration expenses of \$8.2 million were lower than the prior year (2012: \$9.2 million). As a result of the lower revenue and increase operating costs an operating loss of \$0.5 million was recorded in 2013 (2012: operating profit of \$8.8 million). As discussed above, two non-cash charges were recorded in 2013. A \$12.5 million loss was recorded on the deconsolidation of Minera IRL Patagonia following the loss of control on the transaction with CIMINAS and a \$13.7 million impairment charge was recorded against the Corihuarmi Gold Mine, largely due to the significant drop in the gold price in 2013. The result of the reduced operating profit and non-cash charges was an after-tax loss of \$33.8 million, or \$0.20 per share, compared with after-tax earnings of \$3.0 million, or \$0.02 per share, in 2012.

The Group spent a total of \$16.8 million on development and exploration during the year (2012: \$50.0 million) of which \$16.5 million was added to the intangible assets of the Group (\$13.9 million for the Ollachea project) and \$0.3 million was recognised as an exploration expense in the income statement.

Based on a budgeted gold price of \$1,300 per ounce, we expect to have sufficient cash on hand and cash flow from operations to meet our requirements through to the end of the third quarter of 2014. As a result, the Company will need to secure additional financing prior to the end of the third quarter of 2014. The Company continues to undertake initiatives to reduce expenditures to conserve cash while it seeks additional external financing. The priority use of funds continues to be targeted towards arranging project financing and obtaining the Construction Permit for the Ollachea Gold Project.

#### **Board of Directors and Executive Management**

Mr Ken Judge did not stand for re-election to the Board of Directors at the Annual General Meeting. Mr Judge served as a director for three and a half years. In February 2014, Mr Graeme Ross stepped down as a director after seven years of service. On behalf of the Company and the Board of Directors, I wish to extend my sincere thanks to Messrs Judge and Ross for their long and dedicated contribution to our Board during a time of growth and success.

In February 2014, Mr Daryl Hodges was appointed to the Company's Board of Directors. Mr Hodges has been a trusted financial advisor of the Company for many years and joins a group of three other directors with extensive experience and diverse backgrounds.

In April 2013, Mr Brad Boland was appointed Chief Financial Officer and assumed the responsibilities of Company Secretary in January 2014. Brad brought a wealth of experience to the management team.

#### **Current Investment Climate and Country Outlook**

Peru, the Company's major asset base, continues to have a very strong, stable economy driven by the mining industry. The country has a sustainable average GDP growth rate of 6% and average inflation of 2%. The country has almost 400 operating mines producing over 250 tonnes per day; mining exports in 2013 were over \$23 billion, representing 55% of the country's export income. There are 47 mining projects under development with a total investment of nearly \$60 billion, of which 60% is related to copper projects and 17% to gold projects. The mining workforce is increasing at a rate of 20% per annum. During 2012 and 2013, the Peruvian Government introduced a series of laws designed to facilitate efficient time frames for permitting within the industry and the country maintains trade agreements with more than 17 countries worldwide. All of this, plus excellent exploration potential, makes Peru an attractive destination for foreign investment.

The involvement of and support by local communities remains a key component in successful Peruvian mining projects which, in turn, have a major impact on the local economy, skills, employment, infrastructure and standard of living in regional communities. Minera IRL, through its local subsidiary Minera Kuri Kullu SA, has been a trend setter by granting the local community a 5% equity participation in the Ollachea Project at the start of production. This model is receiving wide interest as a means of forming true and enduring partnerships with local communities. The result is that Minera IRL has managed its mine and projects on schedule and with overwhelming support from the local communities. The outstanding tangible evidence of this is the unprecedented signing of the 30-year development and operating agreement with the Ollachea community.

In Argentina, the economy continues to struggle with high inflation and a difficult investment climate and there are continued issues with currency restrictions, import controls and timely payments of international creditors. However, there is money within Argentina and this provides investment opportunities for export projects if this can be tapped. The financing of Don Nicolás by CIMINAS is an outstanding example.

Notwithstanding the above, Minera IRL has received excellent support from both the Santa Cruz provincial government and the Argentina federal mining ministry. Obtaining approval of the EIA in 2012 took only five months, very rapid by international standards. Above all, we are great believers in the potential of the Deseado Massif, prolific in precious metals, and feel that the outstanding potential to grow our resource base and make new discoveries, potentially world class, outweighs short to medium term political issues.

I wish to convey my sincere appreciation to our fine Board of Directors, management team and all employees for their loyalty, dedication and hard work in building the Company. I would also like to thank our long-term shareholders for their continuing support and to welcome those that have recently joined our Company's register. I feel very confident that continuing potential at Corihuarmi and our next generation of gold mines, places Minera IRL Limited in a very strong position to continue building a mid-tier gold mining company.

Courtney Chamberlain  
Executive Chairman  
Minera IRL Limited 31 March 2014

Note: \$ represents US\$ unless otherwise stated.

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<sup>1</sup> Site operating cash costs include costs such as mining, processing and administration, but are exclusive of royalties, workers' profit participation cost, depreciation, amortization, reclamation, capital, development, exploration and other non-site costs (transport and refining of metals, and community and environmental).

## DIRECTORS' REPORT

The directors have pleasure in presenting their report and the audited financial statements for the year to 31 December 2013.

### PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Minera IRL Group is the development and operation of gold mines in Latin America.

The Group operates the Corihuarmi Gold Mine, has two projects that have reached full feasibility and one is financed and under construction, as well as a number of exploration projects.

A full review of the business and plans for its future development are contained in the Chairman's Statement. A summary of the financial risk management policies and objectives is contained in the notes to the financial statements and the Company's Annual Information Form.

### RESULTS AND DIVIDENDS

The total comprehensive loss for the year after tax was \$34,085,000 (2012: profit of \$3,025,000). No dividend was paid during the year and no final dividend is proposed. A loss of \$33,834,000 (2012: profit of \$3,333,000) is to be transferred to retained earnings.

### DIRECTORS

The names of the directors who served during the year and their interests in the share capital of the Company at the start and the end of the year are:

Director	Ordinary shares of no par value	
	31-Dec-2013	31-Dec-2012
C Chamberlain	3,692,692	3,492,692
D Jones	322,936	322,936
K Judge <sup>(1)</sup>	N/A	1,389,062
G Ross <sup>(2)</sup>	5,000	5,000
N Valdez Ferrand	894,000	894,000

<sup>(1)</sup> Ken Judge did not stand for re-election at Minera IRL Limited's Annual General and Special Meeting on 10 July 2013.

<sup>(2)</sup> Graeme Ross resigned on 10 February 2014. Daryl Hodges was appointed to the Board as Non-Executive Director on the same date.

On 31 December 2013, the directors who served during the year held the following share options under the Minera IRL Limited Incentive Stock Option Scheme:

Director	No. Held 31-Dec-2012	Granted	Exercised	Expired or cancelled	No. Held 31-Dec-2013	Exercise price (£)	Expiry Date
C Chamberlain	250,000	-	-	(250,000)	-	0.62	18-Mar-2013
	750,000	-	-	-	750,000	0.9125	17-Nov-2014
	500,000	-	-	-	500,000	1.08	17-Nov-2015
	470,000	-	-	-	470,000	0.8063	03-Apr-2017
	-	670,000	-	-	670,000	0.15	15-Nov-2018
D Jones	50,000	-	-	(50,000)	-	0.62	18-Mar-2013
	100,000	-	-	-	100,000	0.9125	17-Nov-2014
	120,000	-	-	-	120,000	1.08	17-Nov-2015
	160,000	-	-	-	160,000	0.8063	03-Apr-2017
	-	160,000	-	-	160,000	0.15	15-Nov-2018
K Judge	50,000	-	-	(50,000)	-	0.8875	26-Jan-2015
	120,000	-	-	(120,000)	-	1.08	17-Nov-2015
	160,000	-	-	(160,000)	-	0.8063	03-Apr-2017
G Ross	25,000	-	-	(25,000)	-	0.62	18-Mar-2013
	50,000	-	-	-	50,000	0.9125	17-Nov-2014
	120,000	-	-	-	120,000	1.08	17-Nov-2015
	160,000	-	-	-	160,000	0.8063	03-Apr-2017
	-	160,000	-	-	160,000	0.15	15-Nov-2018
N Valdez Ferrand	50,000	-	-	-	50,000	0.725	01-Jul-2015
	120,000	-	-	-	120,000	1.08	17-Nov-2015
	160,000	-	-	-	160,000	0.8063	03-Apr-2017
	-	160,000	-	-	160,000	0.15	15-Nov-2018

Details of these share options may be found in note 18 to the accounts.

On 28 November 2013, Mr. Chamberlain acquired 200,000 ordinary shares. Otherwise, there have been no other movements in any of the directors' interests in the share capital of the Company between 1 January 2013 and 31 March 2014.

#### DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company maintains appropriate insurance to cover directors' and officers' liability in the course of discharging their duties to the Company. This insurance does not provide cover where a director or an officer has acted dishonestly or fraudulently.

#### DONATIONS

The Company made no charitable donations outside of the areas in which it hopes to establish mines. However, extensive work is done to help the local communities of the Andean Cordillera where the Company is mining or is intending to establish mines, and where the relationship with the local communities is extremely important.

No political donations were made during the past year or the previous year.

**SUBSTANTIAL SHAREHOLDERS**

As at 31 March 2014, the Company has been notified of the following substantial shareholdings in addition to those of the directors:

	Number of Shares	Percentage of Issued Share Capital
Rio Tinto Mining and Exploration Limited	44,126,780	19.3
Midas Capital plc	19,986,900	8.7
Compañía Inversora en Minas S.A.	9,146,341	4.0
BlackRock Investment Management (UK) Limited Managed Funds	7,749,412	3.4
Fratelli Investments Limited	6,863,516	3.0

**SPECIAL BUSINESS AT FORTHCOMING ANNUAL GENERAL AND SPECIAL MEETING**

An ordinary resolution will be proposed at the forthcoming Annual General Meeting to give the directors the authority to allot the Company's Ordinary shares up to a maximum of 50% of shares in issue at the time of the Annual General Meeting. This authority is being sought to give the Company flexibility to make further issues of ordinary shares for the development of the Company's portfolio of properties, the Ollachea project in particular, and for general corporate purposes.

Subject to the passing of this ordinary resolution a special resolution will be proposed to renew the directors' power to disapply the pre-emption rights specified in the Articles of Association of the Company in respect to the allotment of the same approximately 50% of shares in issue. These authorities, if granted, would be valid from the date of the passing of the resolutions until the date of the next Annual General Meeting.

In addition, a special resolution will be proposed to amend the Articles of Association of the Company to remove a restriction on the Company's borrowings. The Company is currently in the process of arranging financing for the Ollachea Gold Project that could include a debt component. The Company's Articles of Association contains a restriction on the borrowings of the Company and its subsidiaries (the "Group"), which states that Group's outstanding borrowing cannot exceed £50,000,000. It is possible that on the completion and drawdown of the expected debt financing for the Ollachea Gold Project that this borrowing restriction will be exceeded. As such, the directors propose that the Articles of Association be amended by deletion of Article 31.2, Article 31.3 and Article 31.4, all of which relate to this restriction.

**DISCLOSURE OF INFORMATION**

So far as each of the directors is aware, there is no information needed by the Group's auditor in connection with the preparation of their report, which they have not been made aware of, and the directors have taken all the steps that they ought to have taken to discover any relevant audit information and to establish that the Group's auditor has been made aware of that information.

By order of the Board

Brad Boland  
Company Secretary

31 March 2014

## DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law in Jersey requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards 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 of the company and the group and of the profit or loss of the company and the group for that period.

In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with IFRSs as adopted by the European Union;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions, to disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the Jersey governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

## INDEPENDENT AUDITOR'S REPORT

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MINERA IRL LIMITED

We have audited the financial statements of Minera IRL Limited for the year ended 31 December 2013 which comprise the consolidated statement of total comprehensive income, statement of financial position, statement of changes in equity, cash flow statement 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.

This report is made solely to the company's members, as a body, in accordance with article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of directors and auditor

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

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implication for our report.

#### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2013 and of the group's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

#### Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the group financial statements, the group, in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the group financial statements comply with IFRSs as issued by the IASB.

### **Emphasis of matter - going concern**

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Group's ability to continue as a going concern. The Group needs to progress fundraising initiatives to fund the development of the Ollachea project and to refinance or renegotiate its existing borrowing facilities in order to remain a going concern. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

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

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper returns adequate for our audit have not been received from branches not visited by us;  
or
- we have not received all the information and explanations which are necessary for the purposes of our audit.

Jason Homewood  
for and on behalf of BDO LLP  
London, UK

31 March 2014

## CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

for the years ended 31 December 2013 and 2012

	Notes	2013 US\$000	2012 US\$000
Revenue		35,706	45,988
Cost of sales		(28,304)	(27,132)
<b>Gross profit</b>		<b>7,402</b>	<b>18,856</b>
Administrative expenses		(8,173)	(9,191)
Exploration costs		(265)	(280)
Share based payments	18	(262)	(585)
Other income	21	750	2
Gain (loss) on disposal of available-for-sale investments		16	(50)
<b>Operating (loss) profit before impairment</b>		<b>(532)</b>	<b>8,752</b>
Impairment charge	10	(13,700)	-
<b>Operating (loss) profit after impairment</b>		<b>(14,232)</b>	<b>8,752</b>
Loss on deconsolidation of subsidiary	7	(12,517)	-
Dilution loss on part disposal of joint venture	12	(574)	-
Share of loss from investment in joint venture	12	(2,028)	-
<b>(Loss) profit before finance items</b>		<b>(29,351)</b>	<b>8,752</b>
Finance income	5	2	289
Finance expense	5	(2,202)	(551)
<b>(Loss) profit before tax</b>	<b>3</b>	<b>(31,551)</b>	<b>8,490</b>
Income tax expense	8	(2,283)	(5,157)
<b>(Loss) profit for the year attributable to the equity shareholders of the parent</b>		<b>(33,834)</b>	<b>3,333</b>
<b>Other comprehensive (loss) income which may be recycled in future periods</b>			
Loss on valuation of available-for-sale investments		-	(274)
Recycled on deconsolidation of subsidiary		(231)	-
Recycled on disposal of available-for-sale investments		(20)	(34)
<b>Total comprehensive (loss) income for the year attributable to the equity shareholders of the parent</b>		<b>(34,085)</b>	<b>3,025</b>
<b>(Loss) earnings per ordinary share (US cents)</b>			
- Basic	9	(19.5)	2.3
- Diluted	9	(19.5)	2.3

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****As at 31 December 2013**

	Notes	2013 US\$000	2012 US\$000
<b>Assets</b>			
Property, plant and equipment	10	5,321	17,986
Intangible assets	11	124,763	159,359
Investment in joint venture	12	43,653	-
Available-for-sale investments	13	30	183
Deferred tax asset	14	-	654
Other receivables and prepayments	15	6,572	13,266
<b>Total non-current assets</b>		<b>180,339</b>	<b>191,448</b>
Inventory	16	3,348	3,486
Other receivables and prepayments	15	1,546	2,917
Current tax recoverable		1,860	-
Cash and cash equivalents	17	3,389	6,246
<b>Total current assets</b>		<b>10,143</b>	<b>12,649</b>
<b>Total assets</b>		<b>190,482</b>	<b>204,097</b>
<b>Equity</b>			
Share capital	18	151,014	134,163
Foreign currency reserve		-	231
Share option reserve	18	1,395	1,705
Revaluation reserve		-	20
(Accumulated losses) retained earnings		(20,381)	12,881
<b>Total equity attributable to the equity shareholders of the parent</b>		<b>132,028</b>	<b>149,000</b>
<b>Liabilities</b>			
Interest bearing loans	19	-	20,000
Trade and other payables	19	14,698	14,000
Provisions	19	3,965	3,178
<b>Total non-current liabilities</b>		<b>18,663</b>	<b>37,178</b>
Interest bearing loans	19	25,135	-
Current tax		-	164
Trade and other payables	19	14,656	17,755
<b>Total current liabilities</b>		<b>39,791</b>	<b>17,919</b>
<b>Total liabilities</b>		<b>58,454</b>	<b>55,097</b>
<b>Total equity and liabilities</b>		<b>190,482</b>	<b>204,097</b>

The consolidated financial statements were approved and authorised for issue by the Board and were signed on its behalf on 31 March 2014.

Courtney Chamberlain  
Executive Chairman

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended 31 December 2013 and 2012

	Note	Share capital US\$000	Foreign currency reserve US\$000	Share option reserve US\$000	Reval- uation reserve US\$000	Retained earnings US\$000	Total US\$000
<b>Balance at 1 January 2012</b>		100,752	231	1,917	328	8,751	111,979
Profit for the year		-	-	-	-	3,333	3,333
Loss on available-for-sale financial assets		-	-	-	(274)	-	(274)
Recycled on disposal of available-for-sale investments		-	-	-	(34)	-	(34)
Total comprehensive income		-	-	-	(308)	3,333	3,025
New share capital subscribed	18	35,564	-	-	-	-	35,564
Cost of share issuance	18	(2,153)	-	-	-	-	(2,153)
Share options issued	18	-	-	585	-	-	585
Exercise of share options	18	-	-	(797)	-	797	-
<b>Balance 31 December 2012</b>		134,163	231	1,705	20	12,881	149,000

	Note	Share capital US\$000	Foreign currency reserve US\$000	Share option reserve US\$000	Reval- uation reserve US\$000	(Accul. Losses) retained earnings US\$000	Total US\$000
<b>Balance at 1 January 2013</b>		134,163	231	1,705	20	12,881	149,000
Loss for the year		-	-	-	-	(33,834)	(33,834)
Recycled on deconsolidation of subsidiary		-	(231)	-	-	-	(231)
Recycled on disposal of available-for-sale investments		-	-	-	(20)	-	(20)
Total comprehensive loss		-	(231)	-	(20)	(33,834)	(34,085)
New share capital subscribed	18	18,504	-	-	-	-	18,504
Cost of share issuance	18	(1,653)	-	-	-	-	(1,653)
Share options issued	18	-	-	262	-	-	262
Expiry/lapse of share options	18	-	-	(572)	-	572	-
<b>Balance 31 December 2013</b>		151,014	-	1,395	-	(20,381)	132,028

**CONSOLIDATED CASH FLOW STATEMENT**

For the years ended 31 December 2013 and 2012

	Notes	2013 US\$000	2012 US\$000
<b>Cash flows from operating activities</b>			
Operating (loss) profit before impairment		(532)	8,752
Depreciation		5,825	4,661
Share based payments	18	262	585
Provision for mine closure costs		231	-
(Gain) loss on disposals of available-for-sale investments		(16)	38
Revaluation of available-for-sale investments		(23)	(50)
Foreign exchange losses relating to non-operating items		-	(77)
Decrease (increase) in inventory		138	(677)
Decrease (increase) in other receivables and prepayments		2,067	(3,600)
Increase (decrease) in trade and other payables		(3,679)	1,357
Payment of mine closure provision	19	(69)	(54)
<b>Net cash inflow from operations</b>		<b>4,204</b>	<b>10,935</b>
Corporation tax paid		(3,003)	(7,363)
Finance income received		2	289
Finance expense paid		(1,083)	(551)
<b>Net cash inflow from operating activities</b>		<b>120</b>	<b>3,310</b>
<b>Cash flows from investing activities</b>			
Proceeds on available-for-sale investments		171	61
Acquisition of property, plant and equipment		(3,902)	(2,062)
Decrease in cash due to deconsolidation of subsidiary		(415)	-
Transaction costs arising on investment in joint venture		(931)	-
Deferred exploration and development expenditures		(16,561)	(49,730)
<b>Net cash outflow from investing activities</b>		<b>(21,638)</b>	<b>(51,731)</b>
<b>Cash flows from financing activities</b>			
Proceeds from the issue of ordinary share capital	18	15,504	35,564
Cost of raising share capital		(1,653)	(2,153)
Receipt of loans	19	4,810	10,000
<b>Net cash inflow from financing activities</b>		<b>18,661</b>	<b>43,411</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(2,857)</b>	<b>(5,010)</b>
Cash and cash equivalents at beginning of year		6,246	11,134
Exchange rate movements		-	122
<b>Cash and cash equivalents at end of year</b>	15	<b>3,389</b>	<b>6,246</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 31 December 2013

#### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Minera IRL Limited (the “Company”) is registered in Jersey and its registered office is at Ordnance House, 31 Pier Road, St. Helier, Jersey.

The principal activity of the Company and its subsidiaries is the exploration for and development of mines for the extraction of metals.

The consolidated financial statements of the Company for the year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as the “Group”).

The financial statements were authorised for issue by the directors on 31 March 2014.

#### Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) in force at the reporting date and their interpretations issued by the International Accounting Standards Board (“IASB”) as adopted for use within the European Union and with IFRS and their interpretations issued by the IASB.

#### Changes in accounting policies

A number of new standards, interpretations and amendments effective for the first time for periods beginning on (or after) 1 January 2013, have been adopted in these financial statements. The nature and effect of each new standard, interpretation and amendment adopted by the group is detailed below.

As the Group has prepared these financial statements in accordance with IFRS and their interpretations by the IASB, early adoption of IFRS 10, IFRS 11 and IFRS 12 has been taken in respect of IFRS for use within the European Union. There has been no significant measurement impact on the consolidated financial statements from the early adoption of these standards and from new standards or interpretations effective in 2013.

#### *Consolidated Financial Statements - IFRS 10*

This standard establishes control as the basis for an investor to consolidate its investee; it defines control as an investor’s power over the investee with exposure, or rights, to variable returns from the investee and the ability to affect the investor’s return through its power over the investee. This standard is effective for years beginning on or after 1 January 2014. At January 1, 2013, the Company adopted this standard and there was no impact on its consolidated financial statements.

#### *Joint Arrangements - IFRS 11*

This standard replaces the guidance in IAS 31 Interests in Joint Ventures. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. Joint venture entities are now accounted for using the equity method. This standard is effective for years beginning on or after 1 January 2014. At 1 January 2013, the Company adopted this standard and there was no impact on its consolidated financial statements.

#### *Disclosure of Interests in Other Entities - IFRS 12*

This IFRS shall be applied by companies with an interest in subsidiaries, joint arrangements, associates or unconsolidated structured entities. The application of this standard intends to enable users of the financial statements to evaluate the nature of and risks associated with a Company’s interests in other entities, and the effects of those interests on its financial position, financial performance and cash flows. Companies will be required to disclose information about significant judgments and assumptions made in determining the control of another entity, the joint control of an arrangement or significant influence over another entity and the type of joint arrangement when the arrangement has been structured through a separate vehicle. This standard is effective for years beginning on or after 1 January 2014. At 1 January 2013, the Company adopted this standard and there was no impact on its consolidated financial statements.

#### *Fair value measurement - IFRS 13*

This IFRS aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. This standard is effective for years beginning on or after 1 January 2014. At 1 January 2013, the Company adopted this standard and the required disclosures.

None of the other new standards, interpretations and amendments, which are effective for periods beginning after 1 January 2013 and which have not been adopted early, are expected to have a material effect on the Group’s future financial statements.

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)****Basis of Preparation and Going Concern**

The financial statements are presented in United States dollars, rounded to the nearest thousand.

The financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future.

At 31 December 2013, the Company had a working capital deficit of \$29,648,000. Current liabilities at 31 December 2013 included a \$25,135,000 interest bearing loan provided by Macquarie Bank Limited ("Macquarie Bank") with a maturity date of 30 June 2014. The current liabilities also included the current portion of the amount due to Rio Tinto Mining and Exploration Limited ("Rio Tinto") under the Mining Rights Transfer Contract for the Ollachea property. Under the Mining Rights Transfer Contract, \$21,500,000 is due to Rio Tinto, with \$7,310,000 due in January 2014 and the balance of \$14,190,000 due in July 2016. Subsequent to 31 December 2013, the \$7,310,000 due to Rio Tinto plus accrued interest of \$128,000 was settled in ordinary shares of Minera IRL Limited.

Having taken into account the cash balance at 31 December 2013, the required payment dates of certain current liabilities, ongoing positive cash flows from the Corihuarmi mine, the final \$5,000,000 that was available under its Macquarie Bank Finance Facility at 31 December 2013 and the ability to manage expenditure, the Directors consider that the Company has sufficient financial resources available to allow fundraising initiatives to be progressed for the funding of the Ollachea project and refinancing or renegotiation of the existing Macquarie Bank facilities due for repayment in June 2014. However, there are risks associated with the operation of a mine, the development and financing of new mining operations and the ability to refinance existing debt, which may give rise to the possibility that insufficient funds will be available when required. Specifically, the Ollachea Gold Project, which has a positive feasibility study completed and an environmental permit, will require additional funding to continue to advance and construct. However, the Directors are confident that existing facilities can be refinanced or renegotiated and such further sources of finance that may be necessary can be secured in the required timescale and on this basis have adopted the going concern basis of preparation.

However, the above conditions indicate the existence of a material uncertainty which may cast doubt on the Company's ability to continue as a going concern. No adjustments that would result from the going concern basis of preparation being inappropriate have been made in the preparation of the financial statements.

**Accounting Policies**

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

**(a) Principles of Consolidation**

The consolidated financial statements incorporate the statements of the Company and enterprises controlled by the Company (its subsidiaries) made up to 31 December each year.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date. The excess of cost of acquisition over the fair value of the Group's share of identifiable net assets acquired is recognised as goodwill. Any excess of the fair value of assets acquired over the cost of acquisition is recognised directly in the consolidated statement of comprehensive income.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition, or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

All intra-Group transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)*****Subsidiaries and Joint Ventures***

These consolidated financial statements include the accounts of the Company, its subsidiaries and joint venture as follows:

	Location	Ownership
Minera IRL Limited	Jersey	-
Minera IRL Peru S.A.	Peru	100%
Compañía Minera Kuri Kullu	Peru	100%
Minera IRL Argentina S.A.	Argentina	100%
Hidefield Gold Limited	UK	100%
Minera IRL Patagonia S.A. (joint venture with CIMINAS)	Argentina	91%
Hidefield Gold (Alaska) Inc.	USA	100%
Minera IRL Chile S.A.	Chile	100%

**(b) Investments in Jointly Controlled Entities (Equity-accounted Investees)**

A joint venture is an arrangement whereby the parties (joint venturers) that have joint control of the arrangement have rights to the net assets of the arrangement. This is an arrangement that involves the use of a separate vehicle, where the individual assets and liabilities of the arrangement reside with the vehicle, in both form and substance.

Joint ventures are accounted for using the equity method and are included in the consolidated statements of financial position as investments in joint ventures. Investments in jointly controlled entities are recognized initially at cost. The cost of the investment includes transaction costs. The Company's share of net earnings (losses), from the date that joint control commences until the date that joint control ceases, is included in the consolidated statements of earnings as a share of net earnings (losses) from investments in joint ventures (net of income tax), after adjustments to align the accounting policies with those of the Company. Profit distributions received or receivable from an investee reduce the carrying value of the investment.

**(b) Revenue Recognition**

The Group enters into contracts for the sale of gold. Revenue arising from gold sales under these contracts is recognised when the price is determinable, the product has been delivered in accordance with the terms of the contract, the significant risks and rewards of ownership have been transferred to the customer and collection of the sales price is reasonably assured. These criteria are assessed to have occurred once the gold has been received by the smelter and a sale price has been agreed for the contained gold.

**(c) Income Tax**

The charge for taxation is based on the profit or loss for the year and takes into account deferred taxation. Deferred tax is expected to be payable or recoverable on differences between the carrying value amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computations, and it is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

**(d) Foreign Currency**

The Group's presentation currency is the US Dollar and has been selected based on the currency of the primary economic environment in which the Group as a whole operates. In addition, the significant entities in the group have a functional currency of the US Dollar.

Transactions in currencies other than the functional currency of a company are recorded at a rate of exchange approximating to that prevailing at the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in currencies other than the functional currency are translated at the amounts prevailing at the balance sheet date and any gains or losses arising are recognised in profit or loss.

**(e) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits and money market investments readily converted to cash. Bank overdrafts are shown within borrowings in current liabilities. For the purposes of the Cash Flow Statements, cash and cash equivalents includes cash on hand and in banks, and money market investments readily convertible to cash, net of outstanding bank overdrafts.

**(f) Trade and Other Receivables**

Trade and other receivables are not interest bearing and are stated at their original invoiced value less an appropriate provision for irrecoverable amounts.

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)****(g) Intangible Assets***Deferred exploration costs*

Once legal title is obtained, exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. Accumulated costs in relation to an abandoned area are written off in full against the results in the year in which the decision to abandon the area is made.

The recoverability of the deferred exploration cost is dependent upon the discovery of economically recoverable ore reserves, continuing compliance with the terms of relevant agreements, the ability of the Group to obtain the necessary financing to complete the development of ore reserves, and the future profitable production or profitable disposal of the area of interest.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

**(h) Property, Plant and Equipment***(i) Owned asset*

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy j below).

*(ii) Subsequent costs*

The Group recognises in the carrying amount of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the consolidated statement of comprehensive income.

*(iii) Depreciation*

Depreciation on these assets is calculated by the straight-line method to allocate their cost over their estimated useful lives, as follows:

- vehicles - 5 years;
- computer equipment - 4 years;
- furniture and fixtures, and other equipment - 10 years;
- buildings - 25 years; and
- land is not depreciated.

The residual values and useful economic lives of all assets are reviewed annually.

Mining assets are depreciated on a straight-line basis over the expected life of the mine. The amount of ore remaining and the expected future life of the mine are reviewed each year.

*(iv) Deferred development costs*

When the technical and commercial feasibility of an area of interest has been demonstrated, financing has been secured and the appropriate permits have been issued, the area of interest enters its development phase. The accumulated costs are transferred from exploration and evaluation expenditure and reclassified as development expenditure.

Once mining commences the asset is amortised on a straight line basis over the expected life of the mine. Provision is made for impairments to the extent that the asset's carrying value exceeds its net recoverable amount.

**(i) Impairment**

Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable the asset is reviewed for impairment. An asset's carrying value is written down to its estimated recoverable amount (being the higher of the fair value, less costs to sell, and value in use) if that is less than the asset's carrying amount.

Impairment reviews for deferred exploration and evaluation costs are carried out on a project-by-project basis, with each project representing a potential single cash generating unit. An impairment review is undertaken when indicators of impairment arise, typically when one of the following circumstances apply:

- Unexpected geological occurrences that render the resource uneconomic;
- Title to the asset is compromised;
- Variations in metal prices that render the project uneconomic; and
- Variations in the currency of operation.

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)****(j) Inventory**

Inventory of consumables is valued at the lower of cost and net realisable value. The value of metal on the leach pads is calculated by applying the estimated cost of production incurred to place the metal on the leach pads to the number of ounces estimated to remain on the leach pads. The value of metal in process is calculated by applying the total cost of production per ounce to the number of ounces which have been extracted from the ore, but not yet been converted into doré bars.

**(k) Trade and Other Payables**

Trade and other payables are not interest bearing and are stated at amortised cost.

**(l) Segment Reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, responsible for allocating resources and assessing performance of operating segments, has been identified as the Executive Chairman together with the Board of Directors.

**(m) Provisions**

Provisions are recognised when the Group has a legal or constructive obligation as a result of past events when it is more likely than not that an outflow of resources will be required to settle the obligation and when the amount of the obligation can be reliably estimated.

**(n) Share Based Payments**

The Group rewards directors, senior executives and certain consultants with share options. These instruments are stated at fair value at the date of grant, using the Black-Scholes valuation model, and are expensed to the income statement over the vesting period of the options. The valuation model requires assumptions to be made about the future, including the length of time the options will be held before they are exercised, the number of option holders who will leave the Company without exercising their options, the volatility of the share price, the risk-free interest rate and the dividend yield on the Company's shares. The resulting valuation does not necessarily reflect the value attributed to the options by the option holders.

**(o) Interest Bearing Borrowings**

Interest bearing borrowings are recognised initially at fair value, less attributable transactions costs. Subsequent to initial recognition they are stated at amortised cost with any difference between cost and redemption value being recognised as a finance cost over the period of the borrowings on an effective interest basis. Interest expense is capitalized once a development decision on an asset is made.

**(p) Available-for-Sale Financial Assets**

Available-for-sale financial assets comprise equity investments. Subsequent to initial recognition these assets are stated at fair value. Movements in fair value are recognised in other comprehensive income, with the exception of impairment losses which are recognised in profit or loss. Fair values are based on prices quoted in an active market if such a market is available. If an active market is not available, the Group establishes the fair value of financial instruments by using a valuation technique, usually discounted cash flow analysis. When an investment is disposed of, any cumulative gains and losses previously recognised in equity are recognised in profit or loss. Dividends are recognised as profit or loss when the right to receive payments is established.

**(q) Significant Accounting Estimates and Assumptions**

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are:

**Impairment**

In undertaking an impairment review for the operating mine or advanced exploration projects an economic model is prepared which includes full details of the mining and processing schedule, head grade, strip ratios of waste to ore, operating costs and capital costs. From this information the amount of gold production is calculated and revenues estimated. Operating costs, including royalties and refining charges, and capital costs are entered and a cash flow model is produced, which is used to calculate the net present value of the pre-tax cash flow from the operation or project. This net present value is then compared to the carrying value of the operation or project on the balance sheet and an assessment is made regarding impairment.

Should any key parameters differ from the assumptions contained within the technical economic model, such as tonnes of ore mined, grade of ore mined, recovery profile or gold price, the net present value will be affected either positively or negatively. If the impact is negative, an impairment charge may be required that has not been recognised in these financial statements.

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)****Depreciation**

The depreciation of the mining assets of the group is calculated on a straight-line basis over the expected life of the mine. This calculation requires regular estimates to be made of the remaining reserves of ore in the mine, and will be subject to revision as further information about the size of the resource becomes available.

**Environmental provisions**

Management uses its judgement and experience to provide for and amortise the estimated costs for decommissioning and site rehabilitation over the life of the mine. The ultimate cost of decommissioning and site rehabilitation is uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites. The expected timing and extent of expenditure can also change, for example in response to changes in ore reserves or processing levels. As a result, there could be significant adjustments to the provisions estimated which could affect future financial results.

**Estimation of recoverable gold contained on the leach pads**

Valuations of gold on the leach pads require estimations of the amount of gold contained on the heaps. These estimations are based on the analysis of samples; historical operating data and prior experience. In addition, it requires an estimation of the costs associated with the gold on the leach pads.

**Valuation of Investment in Joint Venture on Deconsolidation**

The Company's formerly 100% controlled subsidiary, Minera IRL Patagonia S.A. ("Minera IRL Patagonia"), was deconsolidated following the loss of control upon entering into a joint arrangement with Compañía Inversora en Minas ("CIMINAS") on 16 August 2013. For additional details on the transaction see note 7, "Transaction with CIMINAS - Don Nicolás Gold Project". Upon deconsolidation, the Company was required to fair value its remaining interest in the jointly controlled Minera IRL Patagonia. Management determined the estimated fair value of its remaining interest based on the consideration given by CIMINAS to acquire its portion of Minera IRL Patagonia in this arm's length transaction. The expected cash flow from Minera IRL Patagonia's net assets may be different from the cash flow assumptions made by the Company and CIMINAS upon entering in this joint arrangement. As a result, the actual value of the Company's remaining interest in Minera IRL Patagonia may be significantly different than the implied value based on the agreed terms, which could affect future financial results.

**NOTE 2 - SEGMENT REPORTING**

IFRS 8 requires operating segments to be identified on the basis of internal reports on the performance of the managerial units of the Group to the chief operating decision maker, in this case, the Executive Chairman and the Board of Directors. The Group identifies these units primarily according to the country of operation. Within the countries of operation the managerial functions are divided into mining operations, the exploration activities related to the individual properties which the Group has the rights to explore, the activities related to the acquisition of properties and the administration of the Group. The assessment of exploration activities is dependent principally on non-financial data.

The Group has two customers. The following table sets out the income and expenditure of the Group according to these reporting segments:

<b>2013</b>	<b>Peru US\$000</b>	<b>Argentina US\$000</b>	<b>Other US\$000</b>	<b>Total US\$000</b>
Mining revenue	35,706	-	-	35,706
Mining cost of sales	(22,808)	-	-	(22,808)
Mining gross profit	12,898	-	-	12,898
Exploration of properties	(14,456)	(3,801)	-	(18,257)
Capital expenditure	(3,846)	(54)	(2)	(3,902)
Administrative expenses	(4,689)	(601)	(2,883)	(8,173)
Net income (expenditure)	(10,093)	(4,456)	(2,885)	(17,434)
<b>Reconciliations</b>				
<b>Segmental Revenue</b>				
Customer A	31,304	-	-	31,304
Customer B	4,402	-	-	4,402
Group revenues	35,706	-	-	35,706
<b>Segment Result</b>				
Segmental net income (expenditure)	(10,093)	(4,456)	(2,885)	(17,434)
Exploration costs deferred	14,191	3,801	-	17,992
Depreciation	(5,496)	-	-	(5,496)
Capital expenditure	3,846	54	2	3,902
Share based payments	-	-	(262)	(262)
Other income	750	-	-	750
Gain on disposal of available-for-sale investments	-	-	16	16
Group operating loss	3,198	(601)	(3,129)	(532)
Loss on deconsolidation of subsidiary	-	(12,517)	-	(12,517)
Dilution loss	-	(574)	-	(574)
Share of loss from investment in joint venture	-	(2,028)	-	(2,028)
Impairment charge	(13,700)	-	-	(13,700)
Net finance income (expense)	(713)	-	(1,487)	(2,200)
Group loss before tax	(11,215)	(15,720)	(4,616)	(31,551)
<b>Group Assets</b>				
<b>(not allocated for internal reporting)</b>				
Non-current assets	136,196	43,663	480	180,339
Inventory	3,348	-	-	3,348
Current tax recoverable	1,860	-	-	1,860
Other receivables and prepayments	1,333	-	213	1,546
Cash and cash equivalents	2,721	-	668	3,389
Group total assets	145,458	43,663	1,361	190,482

## NOTE 2 - SEGMENT REPORTING (continued)

2012	Peru US\$000	Argentina US\$000	Other US\$000	Total US\$000
Mining revenue	45,988	-	-	45,988
Mining cost of sales	(22,278)	-	-	(22,278)
Mining gross profit	23,710	-	-	23,710
Other income	-	-	2	2
Exploration of properties	(57,603)	(13,562)	-	(71,165)
Capital expenditure	(2,369)	(475)	(5)	(2,849)
Administration	(4,933)	(1,350)	(2,909)	(9,191)
Net income (expenditure)	(41,195)	(15,387)	(2,912)	(59,494)
<b>Reconciliations</b>				
<b>Segmental Revenue</b>				
Customer A	23,968	-	-	23,968
Customer B	22,020	-	-	22,020
Group revenues	45,988	-	-	45,988
<b>Segment Result</b>				
Segmental net income (expenditure)	(41,195)	(15,387)	(2,912)	(59,494)
Exploration costs deferred	57,325	13,560	-	70,885
Depreciation	(4,853)	-	-	(4,853)
Capital expenditure	2,369	475	5	2,849
Share based payments	-	-	(585)	(585)
Loss on disposal of available-for-sale investments	-	-	(50)	(50)
Group operating profit (loss)	13,645	(1,352)	(3,542)	8,752
Net finance income (expense)	(1,363)	-	1,101	(262)
Group profit before tax	12,282	(1,352)	(2,441)	8,490
<b>Group Assets (not allocated for internal reporting)</b>				
Non-current assets	131,345	59,985	118	191,448
Inventory	3,486	-	-	3,486
Other receivables and prepayments	2,831	37	49	2,917
Cash and cash equivalents	4,050	143	2,053	6,246
Group total assets	141,712	60,165	2,220	204,097

**NOTE 3 - (LOSS) PROFIT BEFORE TAX**

	2013 US\$000	2012 US\$000
Auditor's remuneration:		
Audit of group financial statements	143	114
Fees payable to the Company's auditor and its associates in respect of:		
The auditing of accounts of associates of the Company pursuant to legislation	115	143
Taxation services	8	44
Review of interim financial statements	28	18
Issuance services pursuant to legislation	10	-
Share based payments	262	585
Foreign exchange gains	(802)	(77)

**NOTE 4 - STAFF NUMBERS AND COSTS**

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	Number of employees 2013	Number of employees 2012
Corporate finance and administration	48	60
Technical	75	154
Construction and production	445	462
	<b>568</b>	<b>676</b>

The aggregate payroll costs of these persons were as follows:

	2013 US\$000	2012 US\$000
Wages and salaries	10,510	13,818
Social security	1,074	1,695
Share based payments	262	585
	<b>11,846</b>	<b>16,098</b>

**NOTE 5 - FINANCE INCOME (EXPENSE)**

	2013 US\$000	2012 US\$000
Interest income	2	289
Interest expense	(2,202)	(551)
<b>Net finance expense</b>	<b>(2,200)</b>	<b>(262)</b>

## NOTE 6 - REMUNERATION OF KEY MANAGEMENT PERSONNEL

	Salary & fees US\$000	Bonus US\$000	Other Benefits US\$000	Share Based Payments <sup>2</sup> US\$000	2013 Total Remuneration US\$000
<b>2013</b>					
<b>Directors:</b>					
C Chamberlain	492	-	15	43	550
D Jones	24	-	-	10	34
K Judge <sup>1</sup>	12	-	-	-	12
G Ross	24	-	-	10	34
N Valdez Ferrand	24	-	-	10	34
Directors Total	576	-	15	73	664
<b>Non-Directors:</b>	1,472	-	462	127	2,061
<b>TOTAL</b>	2,048	-	477	200	2,725

## Notes:

1. The Director fees were paid to Hamilton Capital Partners Limited, with which Mr Judge is associated. Mr. Judge ceased to be a director as of July 2013.
2. The share based payments were associated with options granted 15 November 2013. The options were granted with a strike price of £0.15 and a term of 5 years. See note 18 for further details.

	Salary & fees US\$000	Bonus US\$000	Other Benefits US\$000	Share Based Payments <sup>2</sup> US\$000	2012 Total Remuneration US\$000
<b>2012</b>					
<b>Directors:</b>					
C Chamberlain	450	53	18	73	594
D Jones	45	-	-	25	70
K Judge <sup>1</sup>	45	-	-	25	70
G Ross	44	-	-	25	69
N Valdez Ferrand	45	-	-	25	70
Directors Total	629	53	18	173	873
<b>Non-Directors:</b>	1,826	256	273	323	2,678
<b>TOTAL</b>	2,455	309	291	496	3,551

## Notes:

1. The Director fees were paid to Hamilton Capital Partners Limited, with which Mr Judge is associated.
2. The share based payments were associated with options granted 3 April 2012. The options were granted with a strike price of £0.81 and a term of 5 years. See note 18 for further details.

**NOTE 7 - TRANSACTION WITH CIMINAS - DON NICOLÁS GOLD PROJECT**

On August 16, 2013, the Company entered into a definitive agreement with Compañía Inversora en Minas (“CIMINAS”), whereby CIMINAS would make a \$45,000,000 investment in Minera IRL Patagonia S.A. (“Minera IRL Patagonia”) to become up to a 45% equity owner of Minera IRL Patagonia. The equity investment in addition to a \$35,000,000 credit facility CIMINAS has made available to Minera IRL Patagonia is expected to provide the financing required to develop Minera IRL Patagonia’s Don Nicolás Gold Project in Santa Cruz Project, Argentina.

In addition, the Company entered into an agreement with Argenwolf S.A. (“Argenwolf”), a business corporation organized and existing under the laws of the Argentine Republic, to provide Argenwolf a 4% equity stake in Minera IRL Patagonia as compensation for arranging the investment by CIMINAS.

As part of the agreement, CIMINAS also subscribed for 9,146,341 ordinary shares of Minera IRL Limited in exchange for \$3,000,000, in equivalent Argentine Pesos, being invested in Minera IRL Patagonia. The 9,146,341 ordinary shares were issued on October 10, 2013. Additional detail is provided under note 18, “Capital and Reserves”.

In the joint arrangement with CIMINAS, the Company will retain at least a 51% interest in Minera IRL Patagonia, down from 100%. Although the Company will retain more than half of the voting shares in Minera IRL Patagonia, management has determined that the Company does not have control by virtue of an agreement with its other shareholders, which requires unanimous consent on decisions concerning relevant activities, resulting in joint control. Consequently, upon entering into the agreement with CIMINAS, the Company’s interest in Minera IRL Patagonia was considered a joint venture and has subsequently been accounted for using the equity method. Additionally, on the loss of control, Minera IRL Patagonia was deconsolidated, the Company’s remaining interest was determined to have a fair value of \$40,001,000 and a loss on the derecognition of Minera IRL Patagonia of \$12,517,000 was recorded on the consolidated statement of loss and comprehensive loss.

The following adjustments were made to the net assets of the consolidated financial statements as of the date of the transaction with CIMINAS, 16 August 2013, to deconsolidate Minera IRL Patagonia on the loss of control:

	<b>US\$000</b>
Property, plant and equipment	2,101
Intangibles	47,222
Other receivables and prepayments - long-term	5,629
Other receivables and prepayments - current	395
Cash	415
Foreign currency reserve	(231)
Trade and other payables - current	(379)
Current taxes	(312)
<b>Net assets</b>	<b>54,840</b>
Loss on derecognition of Minera IRL Patagonia	(12,517)
Investment in Minera IRL Patagonia Joint Venture - 16 August 2013	42,323
Estimated value of Argenwolf’s 4% interest in Minera IRL Patagonia	(2,323)
Fair value of Minera IRL Limited’s interest in Minera IRL Patagonia - 16 August 2013	40,001
Transaction costs	3,254
Carrying value of Minera IRL’s interest in Minera IRL Patagonia - 16 August 2013	43,255

Transaction costs of \$3,254,000 includes an amount of \$2,323,000 which is the estimated fair value of the 4% equity stake in Minera IRL Patagonia provided to Argenwolf as compensation for arranging the investment by CIMINAS.

Details on the investment in the Don Nicolás Joint Venture following the deconsolidation of Minera IRL Patagonia is provided in note 12, “Investment in the Don Nicolás Joint Venture”.

The \$45,000,000 equity investment consists of 4 components (“Tranches”) which are made up of preferred and common equity and are described as follows:

1. Tranche I (Minera IRL Limited Ordinary Shares) - \$3,000,000

CIMINAS subscribed for 9,146,341 ordinary shares of Minera IRL Limited and as consideration CIMINAS contributed \$3,000,000 to Minera IRL Patagonia toward the development of Don Nicolás. The ordinary shares were issued subsequent to 30 September 2013 pursuant to a prospectus supplement to the Company’s base shelf prospectus dated July 12, 2012. Additional details on the share issuance are provided in note 18, “Capital and Reserves”.

**NOTE 7 - TRANSACTION WITH CIMINAS - DON NICOLÁS GOLD PROJECT (continued)**

2. Tranche II - \$7,300,000  
Tranche II provides CIMINAS with a 7.8% equity interest in Minera IRL Patagonia in exchange for an investment of \$7,300,000 and has no preferred rights. As at 31 December 2013, \$1,900,000 had been advance under Tranche II. A dilution loss of \$574,000 was recorded on the \$1,900,000 investment. The remaining \$5,400,000 was advance during the first quarter of 2014.
3. Tranche III (Accelerated Payback) - \$15,000,000  
Tranche III provides CIMINAS with a 16.1% equity interest in Minera IRL Patagonia in exchange for an investment of \$15,000,000. These shares will have preference on dividend payments (doubled to 32.2% of expected cash flows) until the accumulated dividend paid under Tranche III totals \$15,000,000. At which point, the preferred equity held by CIMINAS will be converted to common shares representing a 16.1% interest in Minera IRL Patagonia. In addition to receiving double dividends, Tranche III will receive 60% of the dividends payable to Minera IRL Limited to further accelerate the pay back of Tranche III, until the accumulated amount paid under Tranche III totals \$15,000,000.
4. Tranche IV (Secured) - \$19,700,000  
Tranche IV provides CIMINAS with an option to acquire a 21.1% equity interest in Minera IRL Patagonia in exchange for an investment of \$19,700,000. This preferred interest has an annual secured return of 12.5% during the initial option period. At the end of years 3, 4 and 5 of production, CIMINAS will have the option to request repayment of \$6,566,667 (one-third of the amount of Tranche IV) or convert these preferred shares into common shares that represent approximately 7% of Minera IRL Patagonia. At each of these option dates CIMINAS can convert all of the outstanding preferred shares of Tranche IV into common shares. As guarantee for this Tranche, the Company has pledged in favour of CIMINAS its 51% stake in Minera IRL Patagonia.

Additionally, a Reserve account to guarantee each payment will be setup. The Reserve account will be funded from Minera IRL Patagonia's free cash flow exceeding the dividend distribution capacity. In addition, once the accumulated dividends under Tranche III reach \$15,000,000, the Reserve account will receive 80% of Minera IRL Limited's dividend from Minera IRL Patagonia until the total amount in the Reserve account reaches \$6,566,667. At which point, Minera IRL Limited will receive 100% of the dividends corresponding to its 51% stake in Minera IRL Patagonia.

CIMINAS and Minera IRL Patagonia also entered into an agreement whereby CIMINAS will provide a bridge debt facility of up to \$35,000,000 ("Credit Facility") while Minera IRL Patagonia looks to arrange an Argentina sourced debt facility. In the event that Minera IRL Patagonia is unable to obtain a replacement facility, the Credit Facility will be converted to longer term project financing under the terms of the existing agreement.

The initial term of the Credit Facility is for 12 months from the first disbursement of the funds and accrues interest at a rate of 360-day LIBOR plus 8.0%. Interest is payable at maturity. If alternative debt financing is not secured there is an option to extend the facility for an additional 24 months at an interest rate of 180-day LIBOR plus 8.5%, with a 0.5% step up per quarter (the last quarter of the loan being 180-day LIBOR plus 12.0%). During this extended period, interest is payable semi-annually and repayment of the loan will be in three equal annual instalments, the first being at the beginning of the extended period.

A commitment fee of 2.0% per annum is payable on non-disbursed fund from the closing of the Agreement. The commitment period is for 18 months from the closing of the Agreement. The Credit Facility is senior debt and will have a first degree mining mortgage on Minera IRL Patagonia's mining rights and properties.

## NOTE 8 - INCOME TAX EXPENSE

	2013 US\$000	2012 US\$000
Current tax-foreign	1,629	5,237
Deferred tax-foreign	654	(80)
<b>Income tax expense</b>	<b>2,283</b>	<b>5,157</b>

The income tax expense provision for the year is different than the provision on the (loss) profit before tax at the standard rate of corporation tax of 30% (2012: 30%) based on the Peru tax rate, the location of the Company's main operations. The differences are explained below:

	2013 US\$000	2012 US\$000
<b>Tax reconciliation</b>		
(Loss) profit before tax	(31,551)	8,490
Tax at 30% (2012: 30%)	(9,465)	2,547
<b>Effects (at 30%) of:</b>		
Expenses not deductible for tax purposes	11,807	1,148
Unrecognised deferred tax movements	(59)	775
Withholding tax paid	-	687
<b>Income tax expense</b>	<b>2,283</b>	<b>5,157</b>

At 31 December 2013, the subsidiary operating the Corihuarmi gold mine in Peru, Minera IRL SA, has distributable reserves of \$31,087,000 (2012: \$33,700,000). In the event of a dividend distribution, income tax totalling \$1,243,000 (2012: \$1,348,000) would be payable. No provision has been made for this amount as Minera IRL Limited has control over the timing differences of any distribution and no payment is likely in the foreseeable future.

## NOTE 9 - (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the loss attributable to ordinary shareholders of \$33,834,000 (2012: profit of \$3,333,000) and the weighted average number of ordinary shares outstanding during the year ended 31 December 2013 of 173,524,931 (2012: 145,994,523).

Diluted (loss) earnings per share assumes that dilutive options have been converted into ordinary shares. The calculation is as follows:

	2013 Loss US\$000	2013 Number of shares '000	2013 Loss per share US cents	2012 Profit US\$000	2012 Number of shares '000	2012 Earnings per share US cents
Basic (loss) earnings	(33,834)	173,525	(19.5)	3,333	145,995	2.3
Dilutive effects-options	-	-	-	-	8	-
<b>Diluted (loss) earnings</b>	<b>(33,834)</b>	<b>173,525</b>	<b>(19.5)</b>	<b>3,333</b>	<b>146,003</b>	<b>2.3</b>

As at 31 December 2013, all options were excluded from the calculation of diluted loss per share because they were anti-dilutive. As at 31 December 2012, 150,000 options were included in the calculation of dilutive earnings per share. All other options were excluded because they were anti-dilutive. Note 18, "Capital and Reserves", provides additional detail on the Company's share options.

## NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

	Mining assets & deferred development costs US\$000	Land & buildings US\$000	Motor Vehicles US\$000	Computers & other equipment US\$000	Total US\$000
<b>Cost</b>					
Balance - 1 January 2012	37,555	2,085	2,853	3,272	45,765
Additions	1,615	774	85	376	2,850
Disposals	(37)	-	(64)	-	(101)
<b>Balance - 31 December 2012</b>	<b>39,133</b>	<b>2,859</b>	<b>2,874</b>	<b>3,648</b>	<b>48,514</b>
Balance at 1 January 2013	39,133	2,859	2,874	3,648	48,514
Additions	4,012	185	218	209	4,624
Reclassifications	(316)	316	-	-	-
Transfer from intangibles	4,434	-	-	-	4,434
Deconsolidation on loss of control of Minera IRL Patagonia S.A.	-	(1,684)	(51)	(1,015)	(2,750)
Disposals	(10)	-	(231)	-	(241)
<b>Balance - 31 December 2013</b>	<b>47,253</b>	<b>1,676</b>	<b>2,810</b>	<b>2,842</b>	<b>54,581</b>
<b>Depreciation and impairment losses</b>					
Balance - 1 January 2012	23,624	32	611	1,509	25,776
Depreciation for the year	3,786	57	478	494	4,815
Disposals	(27)	-	(36)	-	(63)
<b>Balance - 31 December 2012</b>	<b>27,383</b>	<b>89</b>	<b>1,053</b>	<b>2,003</b>	<b>30,528</b>
Balance - 1 January 2013	27,383	89	1,053	2,003	30,528
Depreciation for the year	4,781	38	469	537	5,825
Deconsolidation on loss of control of Minera IRL Patagonia S.A.	-	(69)	(50)	(530)	(649)
Impairment	12,412	95	739	454	13,700
Disposals	(8)	-	(136)	-	(144)
<b>Balance - 31 December 2013</b>	<b>44,568</b>	<b>153</b>	<b>2,075</b>	<b>2,464</b>	<b>49,260</b>
<b>Carrying amounts</b>					
Balance - 1 January 2012	13,931	2,053	2,242	1,763	19,989
<b>Balance - 31 December 2012</b>	<b>11,750</b>	<b>2,770</b>	<b>1,821</b>	<b>1,645</b>	<b>17,986</b>
<b>Balance - 31 December 2013</b>	<b>2,685</b>	<b>1,523</b>	<b>735</b>	<b>378</b>	<b>5,321</b>

Mining assets and deferred development costs relate to the Corihuarmi Gold Mine. In 2013, the Company recorded an impairment charge of \$13,700,000 against its Corihuarmi Gold Mine. The impairment was largely the result of the significant decrease in the gold price during 2013. For purposes of this impairment evaluation, estimates of future cash flows from the Corihuarmi mine were used to determine fair value. The future cash flows were derived from Corihuarmi's remaining mine life, estimated to be 22 months, a gold price assumption of \$1,300 per ounce and management's projections for operating costs. The salvage value of mine's assets was estimated to be \$1,024,000 and the resulting cash flow projections were discounted at 7% to arrive at the estimated fair value.

A 10% increase (decrease) in the gold price assumption of \$1,300 per ounce of gold would give rise to a (decrease) increase in impairment of \$4,542,000. A 10% increase (decrease) in the gold production over the remaining 22 month mine life would have a similar impact on the impairment.

## NOTE 11 - INTANGIBLE ASSETS

Deferred Exploration Costs	Ollachea US\$000	Don Nicolás US\$000	Other Peru US\$000	Other Argentina US\$000	Total US\$000
Balance - 1 January 2012	51,256	22,957	6,671	7,590	88,474
Additions	56,299	10,540	1,026	3,020	70,885
Balance - 31 December 2012	107,555	33,497	7,697	10,610	159,359
Additions	13,900	2,761	291	109	17,061
Transfers	-	-	(246)	246	-
Transfer to property, plant and equipment <sup>(1)</sup>	-	-	(4,434)	-	(4,434)
Deconsolidation on loss of control of Minera IRL Patagonia S.A.	-	(36,258)	-	(10,965)	(47,223)
<b>Balance - 31 December 2013</b>	<b>121,455</b>	<b>-</b>	<b>3,308</b>	<b>-</b>	<b>124,763</b>

<sup>(1)</sup> Intangibles transferred to property, plant and equipment were at the Corihuarmi mine.

The Ollachea property includes \$21,500,000 provided in respect of further payments to Rio Tinto, which are detailed in note 19.

The carrying values of the remaining deferred exploration costs at the yearend have been assessed for indications of impairment and the results of these assessments have been sufficiently encouraging to justify the retention of the deferred exploration assets on the consolidated statement of financial position.

Ollachea will require significant project financing in order to bring it into production and convert it into mining assets.

## NOTE 12 - INVESTMENT IN THE DON NICOLÁS JOINT VENTURE

As of 16 August 2013, upon entering into the contractual arrangement with CIMINAS whereby the investment in Minera IRL Patagonia, the subsidiary which holds the Don Nicolás Gold Project, became jointly controlled, the Company's remaining interest in Minera IRL Patagonia was considered a joint venture and has subsequently been accounted for using the equity method. Although the Company will retain more than half of the voting shares in Minera IRL Patagonia, management has determined that the Company does not have control by virtue of an agreement with another shareholder, which requires unanimous consent on decisions concerning relevant activities resulting in joint control.

Summarized financial information for the Don Nicolás Gold Project is as follows:

As at	31 December 2013 US\$000
Cash	2,347
Other current assets	311
Non-current assets	47,653
<b>Total assets</b>	<b>50,311</b>
Trade payable and provisions	1,870
Other current liabilities	240
Non-current liabilities	231
<b>Total liabilities</b>	<b>2,341</b>
<b>Net assets</b>	<b>47,970</b>
<b>Company's share of net assets of joint venture (91%)</b>	<b>43,653</b>

**NOTE 12 - INVESTMENT IN THE DON NICOLÁS JOINT VENTURE (continued)**

	Investment in Don Nicolás Joint Venture US\$000
Balance - 1 January 2013	-
Carrying value of investment on loss of control - 16 August 2013	43,255
Share of losses (net of taxes)	(2,028)
Tranche I investment (issuance of Minera IRL ordinary shares)	3,000
Dilution loss	(574)
<b>Investment in Minera IRL Patagonia Joint Venture - 31 December 2013</b>	<b>43,653</b>

During the period between 16 August 2013 and 31 December 2013, the Company recorded a loss of \$2,028,000 on its share of Minera IRL Patagonia. As the Don Nicolás Gold Project is a development project it did not record any revenue during the period between 16 August 2013 and 31 December 2013.

As outlined under note 7, "Transaction with CIMINAS - Don Nicolás Gold Project", CIMINAS subscribed for 9,146,341 ordinary shares of Minera IRL Limited and as consideration CIMINAS contributed \$3,000,000 to Minera IRL Patagonia toward the development of Don Nicolás. The ordinary shares were issued on 10 October 2013. Additional details on the share issuance are provided in note 18, "Capital and Reserves".

In December 2013, CIMINAS contributed \$1,900,000 of the \$7,300,000 under Tranche II of the equity investment as outlined under note 7, "Transaction with CIMINAS - Don Nicolás Gold Project". The contribution of \$1,900,000 by CIMINAS reduced Minera IRL Limited's interest in the Don Nicolás Joint Venture from 96% to 91% and resulted in a dilution loss of \$574,000.

Subsequent to 31 December 2013, the balance of Tranche II totalling \$5,400,000 was contributed by CIMINAS.

**NOTE 13 - AVAILABLE-FOR-SALE INVESTMENTS**

At 31 December 2013, available-for-sale investments consisted of 398,224 common shares of Alturas Minerals Corp. and 1,233,960 common shares of Alix Resources Corp. which have all been valued at their respective market prices as quoted on the TSX Venture Exchange.

At 31 December 2012, available-for-sale investments consisted of 493,434 common shares of Columbus Gold Corp., 398,224 common shares of Alturas Minerals Corp. and 397,520 common shares of Alix Resources Corp. and have all been valued at their respective market prices as quoted on the TSX Venture Exchange.

**NOTE 14 - DEFERRED TAXATION****Recognised deferred tax assets**

	2013 US\$000	2012 US\$000
Temporary differences	-	654

**Unrecognised deferred tax assets**

The Group has estimated tax losses of approximately \$24,080,000 (2012: \$19,166,000) available to carry forward for offset against future profits. At the year end, a potential deferred tax asset of \$7,304,000 (2012: \$5,561,000) has not been recognised because there is insufficient evidence of the timing of future taxable profits against which they can be recovered.

**NOTE 15 - OTHER RECEIVABLES AND PREPAYMENTS**

	2013 US\$000	2012 US\$000
<b>Non-current assets</b>		
Other receivables	6,467	13,266
Deferred expenses	105	-
	<b>6,572</b>	<b>13,266</b>
<b>Current assets</b>		
Other receivables	1,130	2,032
Prepayments	416	885
	<b>1,546</b>	<b>2,917</b>

Included in other receivables is an amount of \$7,024,000 (2012: \$14,792,000) relating to sales tax paid on the purchase of goods and services in Peru (2012: Peru and Argentina). This balance is expected to be fully recovered in due course against the revenue earned from the exploitation of the Ollachea gold project. Included in the sales tax recoverable is an amount of \$6,467,000 (2012: \$13,178,000) relating to purchases for the Ollachea project (2012: Ollachea and Don Nicolás projects), which is not expected to be recovered in the next accounting period and has therefore been included in non-current assets.

**NOTE 16 - INVENTORY**

	2013 US\$000	2012 US\$000
Gold in process	1,753	2,117
Mining materials	1,595	1,369
	<b>3,348</b>	<b>3,486</b>

**NOTE 17 - CASH AND CASH EQUIVALENTS**

	2013 US\$000	2012 US\$000
Bank balances	3,389	6,246

**NOTE 18 - CAPITAL AND RESERVES**

As at 31 December 2013 and 2012, the Company's share capital is made up of no par shares. There is no upper limit on the value of shares to be issued.

Issued share capital	Ordinary shares
Shares in issue 1 January 2012	119,582,884
Equity offering completed 5 March 2012 for total cash consideration of \$33,363,376	29,260,000
Share options exercised on 2 April 2012 for total cash consideration of \$1,605,500	2,230,000
Share options exercised on 12 April 2012 for total cash consideration of \$595,688	830,000
Shares in issue 1 January 2013	151,902,884
Equity offering <sup>1</sup> completed 7 February 2013 for total cash consideration of \$15,504,000	21,775,000
Equity offering <sup>2</sup> completed 10 October 2013 for \$3,000,000 cash contribution from CIMINAS to Minera IRL Patagonia	9,146,341
<b>Shares in issue 31 December 2013</b>	<b>182,824,225</b>

<sup>1</sup> On 7 February 2013, the Company issued 21,775,000 ordinary shares at a price of \$0.71 per share (equivalent to £0.45 and C\$0.71 based on the exchange rates at pricing) as a prospectus offering of common shares to raise gross proceeds of C\$15,460,000 (\$15,504,000). A total of \$1,631,000 in commissions and professional fees was paid in cash in connection with this offering.

<sup>2</sup> On 10 October 2013, the Company issued 9,146,341 ordinary shares as part of the transaction with CIMINAS (see note 7). In exchange, CIMINAS contributed \$3,000,000 to Minera IRL Patagonia in Argentina (an effective price of \$0.328 per ordinary share). A total of \$22,000 in professional fees was paid in cash in connection with this issuance.

**Share Options**

The Company has a share option scheme for the benefit of directors, employees and consultants of the Group. The purpose of the scheme is to provide incentives to those people whose efforts and skills are most important to the success of the Group, and to ensure that the interests of the management of the Group are fully aligned with the interests of shareholders. The terms of the scheme allow the directors to decide at the date of grant when the option becomes exercisable. Options granted before 17 November 2009 allow for the exercise of half of the options after one year from the date of grant and half after two years. Options granted on or after 17 November 2009 allow immediate exercise. The options lapse on the fifth anniversary of the date of grant and have no performance conditions.

	2013		2012	
	Number of share options	Weighted average exercise price (£)	Number of share Options	Weighted average exercise price (£)
Outstanding - beginning of year	9,730,000	0.88	8,955,000	0.78
Granted during the year	3,975,000	0.16	3,835,000	0.78
Exercised during the year	-	-	(3,060,000)	0.45
Expired during the year	(790,000)	(0.62)	-	-
Lapsed during the year	(905,000)	(0.68)	-	-
Outstanding - end of the year	12,010,000	0.68	9,730,000	0.88
Exercisable - end of the year	12,010,000	0.68	9,730,000	0.88

The average remaining contractual life of the outstanding options as at 31 December 2013 was 3.0 years (2012: 3.0 years).

**NOTE 18 - CAPITAL AND RESERVES (continued)**

On 17 May 2013, the Company granted a total 425,000 incentive stock options at an exercise price of £0.25 for a period of 5 years. Additionally the Company granted 3,550,000 incentive stock options at £0.15 for a period of 5 years on 15 Nov 2013. The options vested immediately upon being granted, and they were fair valued with a Black-Scholes option pricing model using the following assumptions:

Date of Grant	17 May 2013	15 Nov 2013
Share price on date of grant	£0.20	£0.12
Exercise price	£0.25	£0.15
Expected volatility	46%	55.35%
Expected option life	3.5 yrs	3.5 yrs
Risk-free rate of return	0.48%	0.48%
Expected dividends	Nil	Nil
Fair Value	£0.05	£0.04

The fair value of these option grants resulted in a share based payment expense for 2013 totalling \$262,000. In addition, on the expiry and lapsing of 1,695,000 options during 2013 a total of \$572,000 was transferred from share option reserve to (accumulated loss) retained earnings.

On 3 April 2012, the Company granted a total 3,485,000 incentive stock options at an exercise price of £0.81 for a period of 5 years. Additionally, the Company granted 200,000 incentive stock options at £0.59 for a period of 5 years on 14 May 2012. Finally, the Company granted 150,000 incentive stock options at £0.53 for a period of 5 years on 4 September 2012. All of the above options vested immediately upon being granted. These options were fair valued with a Black-Scholes option pricing model using the following assumptions:

Date of Grant	3 April 2012	14 May 2012	4 September 2012
Share price on date of grant	£0.65	£0.47	£0.42
Exercise price	£0.81	£0.59	£0.53
Expected volatility	30%	30%	36%
Expected option life	3.5 yrs	3.5 yrs	3.5 yrs
Risk-free rate of return	0.75%	0.75%	0.75%
Expected dividends	Nil	Nil	nil
Fair Value	£0.10	£0.07	£0.08

The fair value of these option grants resulted in a share based payment expense for 2012 totalling \$585,000.

The following table details the incentive stock options outstanding as at 31 December 2013:

Number of share options	Exercise price	Expiry date
3,350,000	£0.15	November 15, 2018
425,000	£0.25	May 17, 2018
200,000	£0.59	May 14, 2017
3,325,000	£0.81	April 3, 2017
2,510,000	£1.08	November 17, 2015
50,000	£0.73	July 2, 2015
50,000	£0.89	January 26, 2015
2,100,000	£0.91	November 17, 2014
12,010,000	£0.68	

**Other Share Options**

There were no changes in other share options during the year ended 31 December 2013.

	2013		2012	
	Number of share options	Weighted average exercise price (\$)	Number of share options	Weighted average exercise price (\$)
Outstanding - beginning of year	18,786,525	1.06	8,578,431	1.17
Granted during the year	-	-	10,208,094	1.05
Outstanding - end of the year	18,786,525	1.06	18,786,525	1.06
Exercisable - end of the year	18,786,525	1.06	18,786,525	1.06

**NOTE 18 - CAPITAL AND RESERVES (continued)**

These options were issued as additional consideration to Macquarie Bank in connection with the interest bearing loan and had an immaterial fair value. Accordingly all of the proceeds received from the debt facility were attributed to the loan.

The following table details the other share options outstanding as at 31 December 2013:

Number of share options	Exercise price	Expiry date
6,944,444	\$1.08	December 31, 2014
1,633,987	\$1.08	December 31, 2014
680,828	\$1.08	December 31, 2014
4,672,897	\$1.07	December 31, 2014
4,854,369	\$1.03	December 31, 2014
18,786,525	\$1.06	

**Dividends**

The directors do not recommend the payment of a dividend.

**Share Option Reserve**

The share option reserve includes a credit based on the fair value of share options issued and remaining in issue at 31 December 2013.

**Capital Maintenance**

The directors manage the capital resources of the Company to ensure that there are sufficient funds available to continue in business. Share capital is generally raised for the purpose of funding capital developments and significant exploration programmes, and loans for the purpose of funding working capital requirements.

	At 31 December 2013 US\$000	At 31 December 2012 US\$000
Total interest bearing debt	25,135	20,000
Total equity	132,028	149,000
Debt-to-equity ratio	19.0%	13.4%

**NOTE 19 - LIABILITIES****Interest bearing loans**

	At 31 December 2013 US\$000	At 31 December 2012 US\$000
<b>Non-current liabilities</b>		
Bank loans due after one year	-	20,000
<b>Current liabilities</b>		
Bank loans due within one year	25,135	-

As at 31 December 2013, the Group had drawn \$25,000,000 (31 December 2012: \$20,000,000) on the interest bearing loan provided by Macquarie Bank (the "Facility"). In November 2012, the interest bearing loans were amended with the term of the loan being extended from December 31, 2012 to June 30, 2014 and the interest rate increased to LIBOR plus 5% (from LIBOR plus 3.5%). The loan is secured against the assets of the Group, with the exception of the Group's joint venture interest in Minera IRL Patagonia in Argentina. In addition, other share options were granted in connection with the loan extension. See note 18, "Capital and Reserves", for more details on the other share options.

**NOTE 19 - LIABILITIES (continued)**

In August 2013, the Facility was amended to increase the amount available by \$10,000,000, in two separate \$5,000,000 tranches ("Tranche 3" and "Tranche 4"), increasing the total amount available under the Facility to \$30,000,000. The Facility interest rate remains LIBOR plus 5.0%; however, as a condition of drawing down on each additional \$5,000,000 tranche a 0.5% gross revenue royalty on gold production from the Company's Ollachea gold project for the life of mine will be granted to Macquarie Bank (the "Macquarie Royalty"). Once granted, the Company would have the right to buy back and cancel each tranche of the Macquarie Royalty by paying a buyback fee (the "Buyback Fee"). The Buyback Fee would be calculated as the amount required to generate an internal rate of return ("IRR") to Macquarie Bank of 25% for each tranche, but shall not be less than \$2,500,000 for each tranche. The IRR would be calculated using the actual drawdown and actual repayment of each tranche, the upfront fee paid (1.5% of each tranche, payable on drawdown), the interest payments associated with each tranche paid and any payments made under the Macquarie Royalty.

In November 2013, the Company drew down \$5,000,000 under Tranche 3. A total of \$190,000 in fees were paid in connection with this transaction. As required under IAS 39, the Company recorded the present value of the estimated cash flows including the corresponding \$2,500,000 royalty Buyback Fee to determine the effective interest rate. Between the date Tranche 3 was drawn and 31 December 2013, interest expense of \$366,000 was recorded. The liability related to Tranche 3 on the balance sheet as at 31 December 2013 was \$5,135,000. Total debt outstanding under the Facility at 31 December 2013 was \$25,135,000.

Subsequent to 31 December 2013, the Company drew down on the remaining \$5,000,000 under the Macquarie Bank Finance Facility, bringing the total outstanding to \$30,000,000. The corresponding 0.5% gross revenue royalty was registered against the Ollachea property in favour of Macquarie Bank.

**Provisions**

The Company has a provision of \$3,965,000 against the present value of the cost of restoring the Corihuarmi site and Ollachea exploration tunnel site. This provision is an estimate of the cost of reversing the alterations to the environment which had been made up until 31 December 2013. The timing and cost of this rehabilitation is uncertain and depends upon the duration of the mine life and the quantity of ore which will be extracted from the mine. At present time, management estimates that the remaining mine life at Corihuarmi is approximately 22 months. Further, the directors have currently estimated the rehabilitation of the Ollachea exploration tunnel to begin in 11 years based on the time to develop and the projected mine life.

	Environmental provisions US\$000
Balance 1 January 2012	2,443
Additional provision	789
Paid during the year	(54)
Balance 31 December 2012	3,178
Additional provision	856
Paid during the year	(69)
<b>Balance 31 December 2013</b>	<b>3,965</b>

In addition to management's estimates of the costs of site rehabilitation over the life of the mine, the Company has made, and expects to make in the future, expenditures to comply with laws and regulations concerning the protection of the environment. The timing and amount of these expenditures are uncertain and could affect future financial results.

	2013 US\$000	2012 US\$000
<b>Trade and other payables</b>		
<b>Non-current</b>		
Other payables <sup>1</sup>	14,698	14,000
<b>Current</b>		
Trade payables	7,229	8,090
Other payables <sup>1</sup>	7,427	9,665
	<b>14,656</b>	<b>17,755</b>

**NOTE 19 - LIABILITIES (continued)**

<sup>1</sup> On July 11, 2013, the Company and Rio Tinto agreed to an amount of \$21,500,000 as the amount due from the Company to Rio Tinto in connection with the second and final additional payment under the Mining Rights Transfer Contract for the Ollachea property. The amount due is included in the current and non-current portions of trade and other payables. The payment was originally to be made in three separate instalments. The first instalment, representing 34% of the amount due, \$7,310,000, was payable within 90 days of agreeing to the amount due (October 2013); the second instalment, representing 33% of the amount due, \$7,095,000, was payable within 12 months of agreeing to the amount due (July 2014); and, the third and final instalment, representing 33% of the amount due, \$7,095,000, was payable within 24 months of agreeing to the amount due (July 2015). In September 2013 the Company and Rio Tinto amended these payment terms. The due date of the first instalment of \$7,310,000 was rescheduled to January 11, 2014 and the second and third instalments were combined into a final instalment of \$14,190,000, due July 1, 2016. Both instalments accrue interest at an annual rate of 7% and were secured against the Ollachea mining tenements. Under the Ollachea Mining Rights Transfer Contract, up to 80% of the payment could be settled in ordinary shares of Minera IRL Limited at the Company's election.

In December 2013, the Company and Rio Tinto agreed that up to 100% of the first instalment of \$7,310,000 plus the accrued interest of \$128,000 could be settled in shares of the Company. The price per share, for purposes of calculating the number of shares to be issued, on both the first and final instalments, would be the lower of C\$0.179, representing the 5-day volume-weighted-average price ("VWAP") on the Toronto Stock Exchange ("TSX") on date of signing the most recently revised agreement, or the TSX's 5-day VWAP on the day on which an instalment is paid. Subsequent to 31 December 2013, the Company issued 44,126,780 ordinary shares at a price of C\$0.179 to Rio Tinto to settle the first instalment of the final Ollachea payment (\$7,310,000) and accrued interest (\$128,000).

**NOTE 20 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT****Financial instruments**

The Group's principal financial assets comprise of available-for-sale financial investments, cash and cash equivalents, and other receivables. The Company also has amounts due from subsidiaries. With the exception of available-for-sale financial investments, which are recorded at fair value, all of the Group's financial assets are classified as loans and receivables and are measured at amortised cost.

The Group's financial liabilities include trade and other payables, interest bearing loans and other long term liabilities. They are all classified as financial liabilities and measured at amortised cost.

**Risk management**

The Group is exposed to certain financial risks due to its business activities. The potential adverse effects of these risks are constantly assessed by the management of the Group with a view to minimising them, and the directors consider whether it is appropriate to make use of financial instruments for this purpose. The following are major financial risks which the Group is exposed to:

*Exchange rate risk*

The functional currency of the significant entities within the Group is deemed to be the US dollar because the revenues from the sale of minerals are denominated in US dollars and the costs of the Group are likewise predominantly in US dollars. However, some transactions are denominated in currencies other than US dollars. These transactions comprise operating costs and capital expenditure in the local currencies of the countries in which the Group works.

The balances of cash and cash equivalents held in various currencies were:

	2013	2012
	US\$000	US\$000
Pounds sterling	40	72
Australian dollars	25	242
Canadian dollars	28	174
Argentine pesos	-	206
Chilean pesos	6	22
Peruvian nuevo soles	122	1,164
United States dollars	3,168	4,366
	<b>3,389</b>	<b>6,246</b>

**NOTE 20 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)**

The table below shows an analysis of net financial assets and liabilities by currency:

	2013 US\$000	2012 US\$000
Pounds sterling	(184)	(89)
Australian dollars	(120)	(230)
Canadian dollars	(341)	406
Argentine pesos	(46)	5,791
Chilean pesos	5	(7)
Peruvian nuevo soles	4,294	1,605
United States dollars	(48,665)	(39,961)
	<b>(45,057)</b>	<b>(32,485)</b>

The table below shows the profit/(loss) effect on the Group's results of a 10% and 20% weakening or strengthening of the US dollar against the net monetary assets shown in the table above:

	2013 US\$000	2012 US\$000
10% weakening of the US dollar	361	748
20% weakening of the US dollar	722	1,495
10% strengthening of the US dollar	(361)	(748)
20% strengthening of the US dollar	(722)	(1,495)

**Liquidity risk**

Prudent management of liquidity risk implies maintaining sufficient cash and cash equivalents as well as an adequate amount of committed credit facilities. The management of the Group safeguards its cash resources and makes regular forecasts of the requirements to use those resources. If necessary the management adapt their plans to suit the resources available.

An analysis of the financial liabilities presented by maturity is detailed below. The contractual amounts disclosed in the maturity analysis are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in that statement is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period.

2013	Due in less than 3 months US\$000	Due between 3 months to 1 year US\$000	Due between 1 to 5 years US\$000	Total US\$000
<b>Financial Liabilities</b>				
Trade payables	4,208	3,021	-	7,229
Other payables	-	993	16,176	17,169
Other payables - current portion <sup>1</sup>	7,438	-	-	7,438
Interest bearing loan	-	25,750	2,500	28,250
	<b>11,646</b>	<b>29,764</b>	<b>18,676</b>	<b>60,086</b>

<sup>1</sup> "Other payables - current portion" at 31 December 2013 was an amount due to Rio Tinto, with accrued interest, that was settled in ordinary shares of Minera IRL Limited on 28 January 2014. Additional details are provided in note 19, "Liabilities".

2012	Due in less than 3 month US\$000	Due between 3 months to 1 year US\$000	Due between 1 to 5 years US\$000	Total US\$000
<b>Financial Liabilities</b>				
Trade payables	8,090	-	-	8,090
Other payables	-	-	14,000	14,000
Other payables - current portion	-	9,665	-	9,665
Interest bearing loan	-	1,200	20,600	21,800
	<b>8,090</b>	<b>10,865</b>	<b>34,600</b>	<b>53,555</b>

**NOTE 20 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)***Market price of minerals risk*

The Group's business exposes it to the effects of changes in the market price of minerals. Severe changes in the market price of minerals may affect the recoverability of the Group's investments in its mine, exploration assets and mining rights, and of the Company's intercompany receivables. However, considering the market prices in the last few years and available projections of future prices, the management believes that changes in market prices of minerals will not have a damaging impact on the Group's financial statements.

*Credit risk*

The Group is exposed to credit risk in so far as it deposits cash with its banks as detailed in note 17. However the banks used are international institutions of the highest standing. In addition the Group is exposed to sovereign risk in so far as it is owed recoverable sales tax, as detailed in note 15, by the governments of the Latin American countries in which it works.

*Interest rate risk*

The Group has debt denominated in US dollars and is therefore exposed to movements in US dollar interest rates. This debt bears interest at 5% over LIBOR and allows for interest periods of between 30 and 180 days. A change in LIBOR of +/- 1% would not have a material effect on the financial results of the Group or the Company. It is the policy of the Group to settle trade payables within the agreed terms and no interest is incurred on those liabilities.

*Price risk*

Investments by the Group in available-for-sale financial investments expose the Group to price risk. All of the available-for-sale financial investments are valued by reference to quoted market prices. The directors do not consider this risk to be material as the Group does not have a significant portfolio of available-for-sale financial investments.

*Fair values of financial assets and liabilities*

The Group uses various methods in estimating the fair value of financial instruments. The methods comprise of:

Level 1 - the fair value is calculated using quoted prices in active markets.

Level 2 - the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 - inputs for the asset or liability that are not based on observable market data.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below.

	At 31 December 2013 US\$000 Level 1	At 31 December 2012 US\$000 Level 1
<b>Financial assets</b>		
Available-for-sale investments	30	183
	<b>30</b>	<b>183</b>

Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs. The fair value of the listed equity investments are based on quoted market prices.

**NOTE 21 - OTHER INCOME**

In October 2013, the Company signed an agreement transferring mining rights over 802 hectares of its Huaquirca project to arms' length third party for a period of ten years. Consideration for this transfer was a total of \$750,000 (paid) plus a 2% net smelter royalty.

**NOTE 22 - CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES**

The Company is subject to various laws and regulations governing its mining, development and exploration activities. These laws and regulations are continually changing and generally becoming more restrictive. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

During 2013, the Company was issued tax reassessments by the Peruvian tax authorities for the years ended 31 December 2008, 2009 and 2011 related to the deductibility of depreciation claimed by the Company. An appeal filed by the Company with the tax authorities was unsuccessful and the Company subsequently filed an appeal with the Peruvian Tax Court. If the Company is unsuccessful in its appeal of the reassessment, taxes in the amount of approximately \$1,784,000 would be payable.

In June 2013, the Province of Santa Cruz in Argentina passed amendments to the Provincial Tax Code and Provincial Tax Law that imposed a new tax on mining reserves. The law came into effect on July 5, 2013. The tax will amount to 1% of the value of mine reserves reported in feasibility studies and financial statements inclusive of variations resulting from ongoing operations. Regulations require that the tax be calculated on "measured" reserves, and Minera IRL's legal counsel has interpreted this to mean "proven" reserves. The Province has disputed this interpretation but has not provided further clarification on the definition of "measured" reserves, and the effect of this new mining tax is not clear at this time. The Company continues to monitor the situation closely.

The Company has entered into a contract with Generacion Electrica San Gaban SA for the supply of power to the construction and operation of the Ollachea project. The contract includes certain minimum power usages, including the payment of a penalty of \$500,000 in the event that the construction of Ollachea has not commenced by the end of March 2015.

**NOTE 23 - RELATED PARTIES**

The Group's portion of transactions between the Company and its jointly controlled entities are eliminated on consolidation. At 31 December 2013, the Group had receivables from Minera IRL Patagonia totalling \$188,000.

During the year ended 31 December 2013, the Group did not enter into transactions with related parties other than Minera IRL Patagonia as discussed above and with key management as disclosed in note 6.

**NOTE 24 - SUBSEQUENT EVENTS**

On 31 January 2014, the Company issued 1,917,600 ordinary shares at a price of C\$0.179 per share to settle certain accounts payable of the Company in the aggregate amount of C\$343,250.

On 28 January 2014, the Company issued 44,126,780 ordinary shares at a price of C\$0.179 per share to Rio Tinto to settle the first instalment of the final Ollachea payment for \$7,310,000 and accrued interest due of \$128,000. Additional details with respect to the final Ollachea payment are provided under note 19, "Liabilities".

Subsequent to 31 December 2013, the Company drew down on the remaining \$5,000,000 under the Macquarie Bank Finance Facility, bringing the total outstanding to \$30,000,000. The corresponding 0.5% gross revenue royalty was registered against the Ollachea property in favour of Macquarie Bank. Additional details on the Macquarie Bank Facility are provided under note 19, "Liabilities".

In March 2014, the Company sold its Chapi Chapi project in Peru for proceeds of \$1,125,000.