Patagonia Gold Plc

Annual Report 2010

Contents

Directors and advisers

Directors	Sir John Craven	*(Non-Executive Chairman)*
	Carlos J Miguens	*(Non-Executive Deputy Chairman)*
	William H Humphries	*(Managing Director)*
	Gonzalo Tanoira	*(Finance Director)*
	Richard Ö Prickett	*(Non-Executive Director)*
	Marc J Sale	*(Technical Director)*

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Directors

Board of Directors

Sir John Craven (*Non-Executive Chairman*) joined the Board in 2004. Sir John was formerly Chairman of Morgan Grenfell plc, a member of the Board of Managing Directors of the Deutsche Bank Group and Chairman of Lonmin plc. In addition he has served on the boards of a number of other major companies, including Reuters Group plc, Rothmans International plc and Societe Generale de Surveillance SA.

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

William H Humphries (*Managing Director*) has been a Director of the Company since its inception and has over 40 years' experience in the mining and civil engineering industries. From 1996 to 1998 Bill was General Manager of Sardinia Gold Mining SpA and from January 1999 he was Managing Director of Brancote Holdings PLC until its acquisition by Meridian Gold Inc. in July 2002. He is Chairman of Landore Resources Limited.

Gonzalo Tanoira (*Finance Director*) has been a Director of Patagonia Gold SA since its inception. He is also President and member of the audit committee of SA San Miguel, an Argentine publicly traded lemon producer, Vice-President of Avex, an Argentine poultry production company and a Director of a number of other companies. Previously, Gonzalo worked for Bear Stearns & Co. (New York) in its investment banking division for Latin America. He was also an associate at Booz Allen & Hamilton in its Buenos Aires and Sao Paulo offices. Gonzalo holds an MBA from the Wharton School of the University of Pennsylvania.

Richard Ö Prickett (*Non-Executive Director*) is a chartered accountant and has many years' experience in corporate finance. Richard was Chairman of Brancote Holdings PLC from 1995 until its acquisition by Meridian Gold Inc. in July 2002. He was Chairman of the Company from its inception until June 2004. He is a Director of Landore Resources Limited, and a non-executive Director of The Capital Pub Company PLC and of City Natural Resources High Yield Trust PLC and non-executive Chairman of Asian Growth Properties Limited and of The Romania Property Fund Ltd.

Marc J Sale (*Technical Director*) is a Fellow of the Australian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists with over 25 years' experience with mineral exploration and development companies. Prior to joining the Company he was Project Manager for Brancote Holdings PLC's Esquel Gold and Silver Project in Argentina which was sold in 2002. Since being appointed as a Director in September 2002 he has directed the Company's exploration efforts in the Santa Cruz Province.

Chairman's statement

I am pleased to present the 2010 Annual Report of Patagonia Gold Plc.

2010 has been another year of continuing exploration success as the Company has accelerated its transition towards becoming a gold producer in the Santa Cruz Province of Argentina.

The financial results show a loss of £7,301,054 (2009: £7,304,729).The direct exploration costs incurred in the year were £4,681,867 which reflected the level of exploration activity that has been carried out on our portfolio of Santa Cruz properties.

Exploration activities were financed by equity share placements in April 2010. More recently further fundraisings just completed raised £24.25 million at 42p per share.

These recent fundraisings will enable the Company to accelerate its drilling programme at the flagship Cap-Oeste gold and silver project and in parallel to commence the development and construction works for the high grade COSE gold and silver project.

Full details of these projects are set out in in the Managing Director's and Operations report which follow. Recently the Company has announced that it has delineated in excess of 1.1 million ounces of gold equivalent in compliant categories. All of the projects concerned have significant potential for growth. In addition the Lomada de Leiva project is about to move into gold production having been constructed and mined on time and within budget.

Santa Cruz Province is a very active mining region and other companies operating there are also showing good results. The gold price is strong and now testing the $1,500 per ounce level which makes our low cost projects more valuable.

With the accelerated pace of our drilling programme in Santa Cruz shareholders will have noticed an increase in the newsflow as we endeavour to announce material developments as promptly as possible. With work in hand and in prospect we anticipate no let up in the information flows in the rest of this year and beyond.

Historically the Company has reported its financial results in British pounds sterling, not least because it is incorporated in the United Kingdom and its shares are listed on the AIM market in London. The market for gold is denominated principally in US dollars and the Board has decided that it is appropriate that in future as the Company is transformed from an exploration company to an operating company, the majority of whose costs and revenues will be US dollar denominated, to report to its shareholders in US dollars. This decision will be implemented commencing with the year beginning 1 January 2011. We hope that this is a change that will be welcomed by our shareholders and will facilitate comparison of our operating and financial performance with our peers in Argentina and elsewhere in the Americas.

In the course of recent months, as the Company's transition from an exploration company to an operating mining company has accelerated, Bill Humphries and his colleagues have devoted a great deal of time and effort in the assembly of the necessary management and staff to plan, develop and operate our mines to the highest possible standard. In February this year we held a Board meeting in Patagonia. All members of the Board attended the meeting and took the opportunity to spend three days visiting the more important exploration sites, reviewing drilling programmes, and inspecting the new heap leach mining project at Lomada which will very shortly commence production.

This provided Board members with the opportunity to meet a broad cross section of the senior and operating management team now in place, as well as our team of geologists, consulting geologists and technical staff. The Board expressed great confidence in the quality, depth and experience of the team that has been established.

Sir John Craven
Non-Executive Chairman

6 May 2011

Managing Director's report

The last 12 months have seen Patagonia Gold Plc's (PGD) Operations team achieve several significant milestones towards the development of our properties in the Santa Cruz Province of Argentina.

Firstly, in September 2010 PGD announced the La Manchuria maiden resource which took our Resource base to over 1 million ounces of gold equivalent (AuEq), all Canadian National Instrument 43-101 compliant. This was followed in March 2011 by the release of the COSE maiden resource, which further elevated our Resource base to 1,143,759 ounces AuEq, achieved in just four years since acquisition of the Santa Cruz properties.

Secondly, PGD has taken an important step towards becoming a gold producer with the recent completion of the construction and commissioning of the large trial Heap Leach operation at its Lomada project. Irrigation is now in progress and PGD expects to produce up to 2,500 ounces of gold from the trial during the next six months.

Subject to the success of the trial and further permitting, PGD will expand the existing trial from 50,000 tonnes to 200,000 tonnes in the second half of 2011, after which construction of the main Heap Leach project will commence for full production, an estimated 21,000 ounces of gold per annum, by Q3 2012.

A further achievement in March 2011 has been the completion of successful negotiations with Barrick to amend the original property acquisition agreement, eliminating the 'Back in Right' in exchange for a 2.5 per cent. Net Smelter Return (NSR) royalty. Full details are in the Operations report.

At Cap-Oeste, PGD's flagship project, a 19,000 metre infill and expansion drilling campaign is in progress with expected completion by mid June 2011, after which a resource update will be carried out by independent engineers. Results to date are very encouraging and management expects a significant increase in the resource. Planning for the next stage of drilling at Cap-Oeste is currently in progress.

Just 2 kilometres along strike to the southeast of Cap-Oeste and now part of the overall Cap-Oeste project, a Resource and Preliminary Economic Assessment, completed on the high grade COSE project in March 2011, has shown this project to be extremely robust, returning an NPV of US$93.8m at a gold price of US$1,418/oz and silver US$35/oz over a short mine life of 23 months.

PGD has already received approval for the development of a decline access for underground drilling at COSE as well as bulk sampling for metallurgical test works. With the receipt of the Resource and the Preliminary Economic Assessment, PGD can now finalise the permit application for the mining of the entire ore-body and the construction of infrastructure and processing facilities on site at the COSE project. PGD is targeting the commencement of construction of the underground access in Q4 2011.

A further 9 kilometres along strike to the southeast PGD's exploration teams have discovered the exciting Monte Leon prospect where a drilling campaign is currently under way on a 1.8 kilometre long target area. Monte Leon, together with the 'drill target' prospects, Sarita and El Bagual and numerous other prospects waiting drilling, have the potential to provide future growth for PGD.

PGD has 10 full time geologists, supported by two consulting geologists and over 40 technical staff, operating in Santa Cruz on the three advanced projects and on exploration of other properties in our large prospective portfolio.

Managing Director's report
continued

In addition, PGD is currently assembling an experienced development team to take advanced projects, including Lomada, COSE, and Cap-Oeste into production.

PGD maintains a strong awareness of its responsibilities towards the environment and existing social structures. Careful attention is given to ensure that all exploration work is carried out strictly within the guidelines of the relevant mining and environmental acts. PGD attempts, where possible, to hire local personnel and use local contractors and suppliers.

Bill Humphries
Managing Director

6 May 2011

Lomada Trial Heap Leach Pad

Operations report

Patagonia Gold Plc (PGD) is a precious metals exploration and production company operating in Argentina. Through its 100 per cent. owned subsidiary in Argentina, Patagonia Gold S.A. (PGSA), it is actively engaged in mineral exploration in the Patagonia region of the country. PGSA holds the mineral rights to 200 properties, for 7,384 square kilometres, predominantly in the southern provinces of Santa Cruz and Chubut.

During 2010, PGSA has focused its efforts on its highly prospective portfolio of properties in the Santa Cruz province, concentrating both on expanding and infilling PGSA's flagship Cap-Oeste deposit and the adjacent high grade COSE deposit on the El Tranquilo property block, as well as developing the Lomada de Leiva project on the La Paloma property block, towards the first gold production of the Company.

Operations report
continued

Since acquisition of the Santa Cruz properties in 2007, PGSA has rapidly grown through successful exploration and development having so far delineated gold resources totalling **1,143,759 ounces (oz) of gold equivalent (AuEq)** on the Cap-Oeste, COSE and Manchuria and Lomada deposits, all Canadian National Instrument 43-101 (NI 43-101) compliant.

DEPOSIT	INDICATED (76.7%)		INFERRED (24.3%)		TOTAL
	Gold (oz)	Silver (oz)	Gold (oz)	Silver (oz)	AuEq (0z)
Cap-Oeste	362,040	14,503,120	46,090	1,604,030	655,930
COSE	39,847	1,283,412	26,565	855,050	106,393
La Manchuria	40,317	1,848,211	72,335	2,335,236	146,366
Lomada	161,346	0	73,725	0	235,070
TOTAL	603,550	17,634,743	218,715	4,794,316	1,143,759

The Lomada Trial Heap Leach project was commissioned during Q2 2011, and the necessary permits were obtained to commence the decline for underground drilling at COSE.

Santa Cruz Province

Santa Cruz is a mining friendly province and contains a very active petroleum and mining industry and accordingly all the infrastructure and understanding associated with exploration and mining.

Patagonia Gold's strategic partnership agreement with Fomento Minero de Santa Cruz Sociedad del Estado ("Fomicruz SE"), a well-established and respected mining company wholly owned by the pro-mining government of Santa Cruz Province, has set out the key terms and conditions for the development of PGSA's mining properties in the province, including the Lomada de Leiva, Cap Oeste, COSE and La Manchuria gold and silver deposits, together with other mining properties currently owned by Fomicruz SE.

The volcanic plateau of the Deseado massif of Santa Cruz is 60,000 square kilometres in area and hosts several mines such as Cerro Vanguardia, Mina Martha, Manantial Espejo, San Jose Huevos Verdes, as well as various advanced projects such as Cerro Negro and Cerro Moro, together with numerous smaller prospects and showings. These projects are predominantly low sulphidation epithermal "bonanza" vein style gold-silver deposits and their brecciated equivalent, the main target for exploration in this region.

Amendment of Barrick Agreement

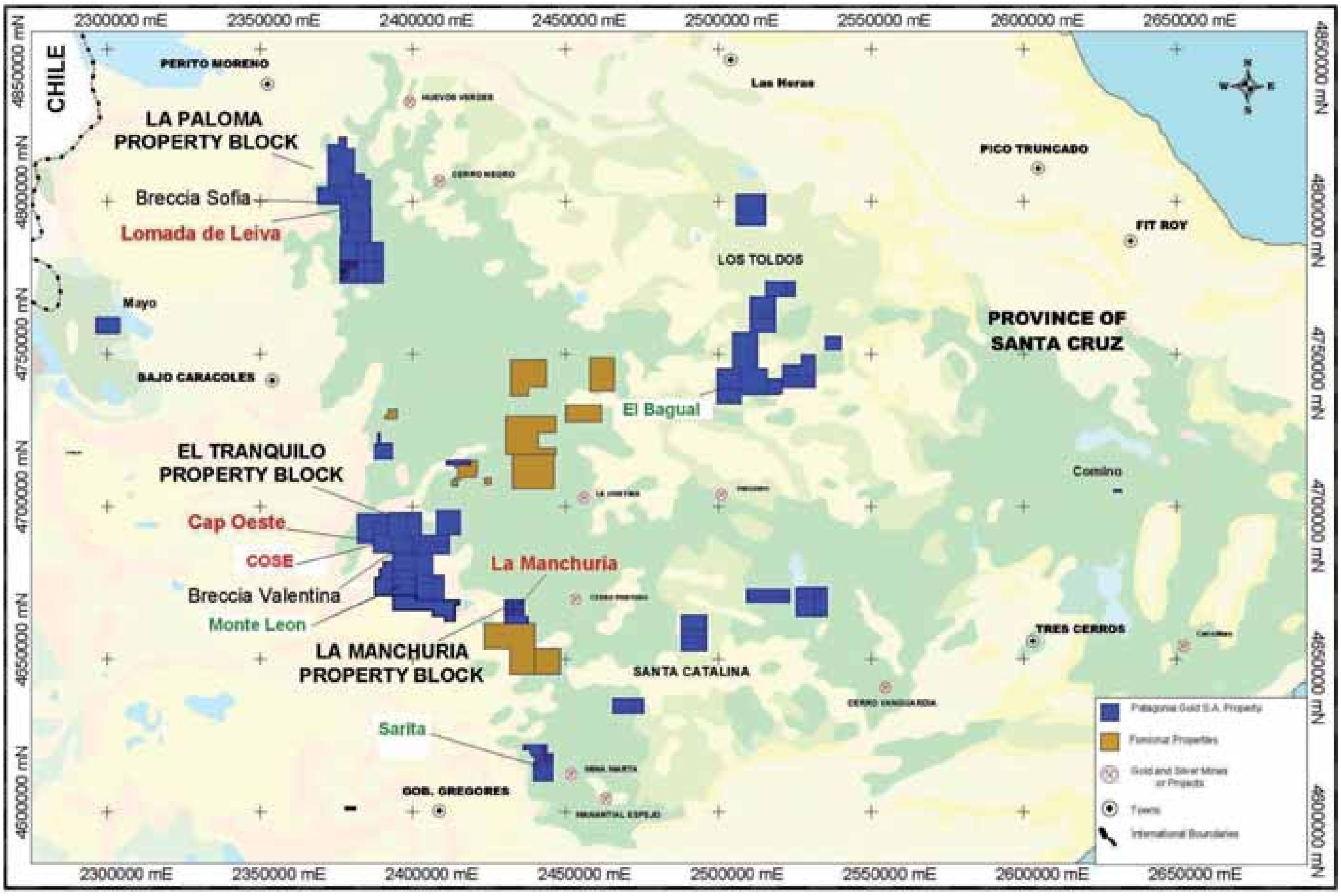
During March 2011, PGSA successfully negotiated with Barrick Exploraciones Argentina S.A. and Minera Rodeo S.A. (Barrick) to amend the original property acquisition agreement, eliminating the 'Back in Right' in exchange for a 2.5 per cent. Net Smelter Return (NSR) royalty.

The Barrick property portfolio consisted of 70 expedients (mineral titles) in six groups covering approximately 200,000 hectares in the highly prospective Deseado massive region of the Santa Cruz Province in Argentine Patagonia which were acquired by Patagonia Gold during 2007. This portfolio includes PGD's flagship project Cap-Oeste, as well as the Lomada, COSE and La Manchuria gold and silver deposits.

Operations report
continued

Within the original Agreement, Barrick retained the right to purchase an aggregate interest of up to 70 per cent. in any of the six groups upon the delineation of a Canadian National Instrument 43-101 (NI 43-101) Indicated Resource of 2,000,000 ounces or greater of gold or gold equivalent, on a forward looking basis (the 'Back In Right').

In exchange for the elimination of the 'Back in Right', Barrick will receive a 2.5 per cent. NSR on all future production of mineral products on those properties pertaining to the Agreement. The royalty will not apply to PGD's other Santa Cruz properties, or those acquired in the Fomicruz Agreement.



Province of Santa Cruz

Operations report
continued

El Tranquilo Property

The El Tranquilo property block, covering over 80 square kilometres, is located approximately 65 kilometres southeast of the town of Bajo Caracoles in Santa Cruz, and 120 kilometres to the southeast of PGSA´s Lomada de Leiva gold project where a trial heap leach project is currently in operation.

El Tranquilo contains PGSA´s flagship project, the Cap-Oeste gold and silver deposit, together with the COSE gold and silver deposit. The Monte Leon and La Marciana prospects are located on the south east continuation of the Cap-Oeste structural corridor, 11 kilometres and 20 kilometres respectively from the Cap-Oeste gold and silver project.

In addition, there are two sub-parallel trends to the northeast containing the Don Pancho and Breccia Valentina prospects (1.5 kilometres) and Vetas Norte, Felix and Laguna prospects (6 kilometres). The above prospects, with the exception of Laguna, have been successfully explored over the past three years, including surface sampling, trenching and exploration drilling; all warrant follow-up drilling.

In December 2010, PGSA staked two new exploration claims at El Tranquilo block, for a total of 19,736 hectares, to cover possible further extensions of the Cap-Oeste structural corridor.

To date, the El Tranquilo property block holds a combined NI 43-101 compliant resource of **762,323 ounces of gold equivalent**, with 85 per cent. in the indicated category, on the Cap-Oeste deposit and the adjacent COSE deposit.

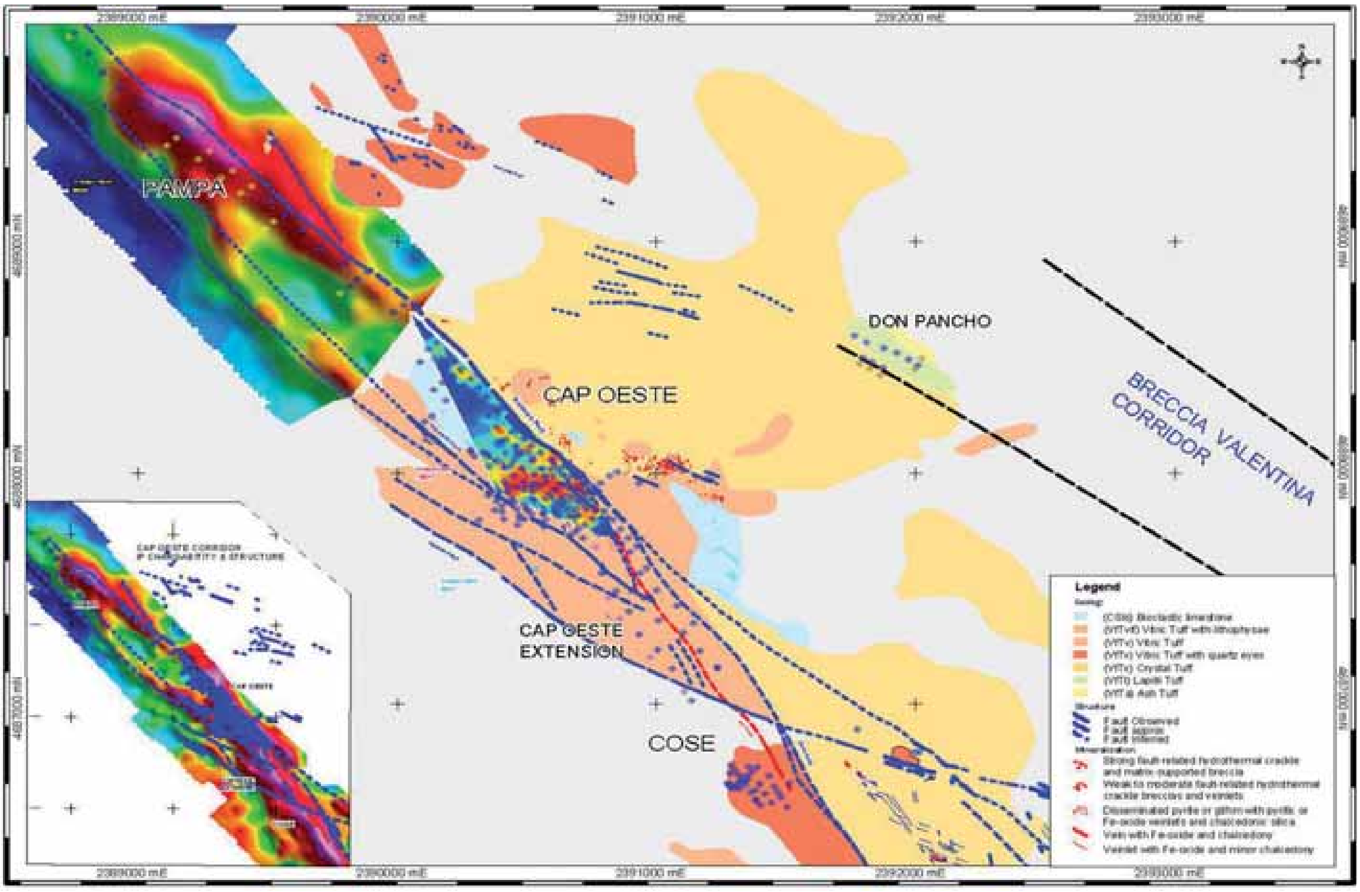
During November 2010, PGSA received approval of the biannual Environmental Impact Report (EIR) for the El Tranquilo property block from the State Secretary of Mining, Province of Santa Cruz, Argentina. The EIR provided for 200,000 metres of drilling on the Cap-Oeste deposit. In addition the EIR included a provision for the development of a decline access for underground drilling at COSE as well as a bulk sampling for metallurgical test works, and a provision for a further 200,000 metres of drilling at COSE gold-silver project and other prospective targets within the property block.

Cap-Oeste Gold and Silver Project

The Cap-Oeste Gold and Siver Project extends from La Pampa in the northwest to The Tango prospect in the southeast.

The Cap-Oeste mineralisation is localised along the regional scale northwest trending, moderate to steeply southwest dipping Bonanza Fault which has been geologically mapped at surface and defined under post mineral cover by geophysics over a collective strike length of almost 6 kilometres. At Cap-Oeste, this fault is defined at the juxtaposed contact between a sub horizontal +280 metre thick volcanic package of variably welded, quartz crystal poor, vitric ash to lithic lapilli tuff and a +200 metre thick sequence of quartz crystal rich tuff unit.

Operations report
continued



Cap-Oeste Project

Cap-Oeste Deposit

An updated Resource estimate, published in September 2009, on the Cap-Oeste gold and silver project reported an NI 43-101 Resource of **655,930 ounces of gold equivalent** so far, with 88 per cent. in the Indicated category. Drilling results confirmed the presence of a wide gold mineralised structure with a core containing bonanza grade gold and silver. The high grade gold values are associated with bonanza grade silver. The mineralisation on the Cap-Oeste project remains open in all directions.

A Scoping study to investigate both open pit and underground mining methods together with various processing operations, including heap leach, was initiated on Cap-Oeste in February 2010. The study was subsequently put on hold following the discovery of the Cap-Oeste South East (COSE) shoot to allow for its inclusion.

Operations report
continued

A 19,000 metre diamond drilling campaign commenced in Q4 2010 to increase the resource base of the Cap-Oeste deposit. The existing Resource is predominantly based on the 150 metre long Main shoot with very little from the remainder of the 1,200 metre strike length due to the sparse density of the drilling.

Accordingly, 12,000 metres of the current programme is allocated to infill this area down to 125 metres depth at 25 metre x 25 metre spacing designed at bringing any increase in the Resource into the Measured and Indicated categories. The remaining 7,000 metres is aimed at extending the Main shoot and E shoot down plunge and along strike.

Initial results are highly encouraging with the Main shoot now extended down to over 400 metres depth, with drill hole CO-168 intersecting 14.50 metres at 10.13g/t gold and 143g/t silver. The adjacent shoot E has been extended down to over 260 metres depth, with drill hole CO-170 intersecting 5.87 metres at 12.72g/t gold and 265g/t silver, and drill hole CO-166-D intersecting **435.40g/t gold and 1,006g/t silver over 1.1 metres** within the Esperanza Fault zone.

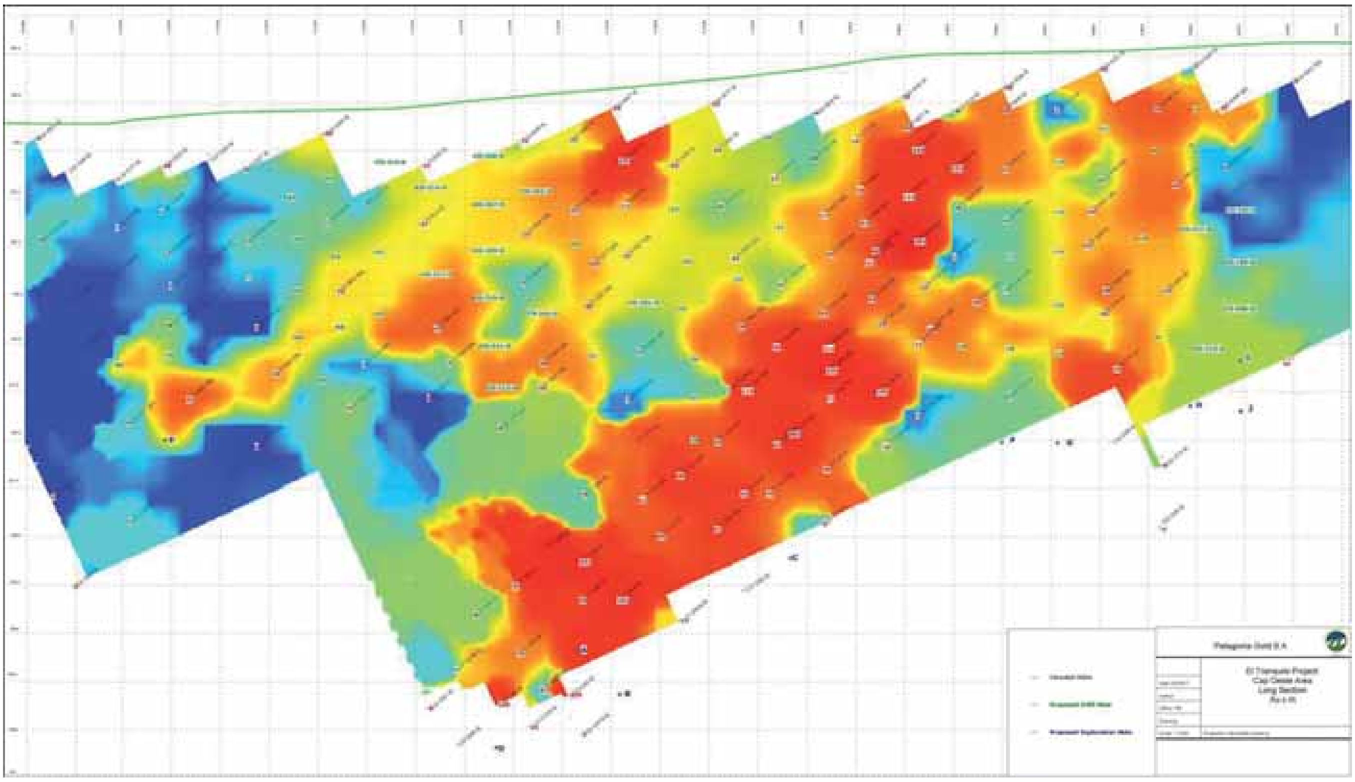
Reported results of this drilling campaign include:

Hole No.	From metres	Interval metres	Grade Au g/t	Grade Ag g/t
CO-156-D	265.00	2.75	4.00	93
CO-161-D	171.70	5.55	3.96	22
CO-162-D	353.30	7.70	26.07	1,322
including	353.30	0.95	96.60	8,152
CO-164-D	155.00	5.00	4.17	108
CO-168-D	401.00	14,50	10.13	143
CO-166-D	270.00	1.10	435.40	1,006
CO-170-D	261.40	5.87	12.72	265

The Esperanza Fault zone runs east-west sub-parallel on surface to the northwest trending Cap-Oeste Bonanza Fault. The two fault zones have opposite dips indicating that they will intersect below the current known mineralisation providing a significant exploration target.

Both shoots remain open. Further results are pending. This drill campaign is scheduled for completion in June 2011, after which a Resource Update is anticipated to be completed by Q3 2011.

Operations report
continued



Cap-Oeste Long Section

COSE deposit
The COSE deposit is an advanced exploration target associated with the larger Cap-Oeste gold-silver deposit located 2 kilometres to the northwest. It was detected in 2009 through a geophysical survey which identified a large anomaly similar to the Cap-Oeste deposit signature. A follow-up reconnaissance exploration programme including detailed mapping, trenching, sampling, and exploratory drill holes identified an auriferous breccia beneath the geophysical anomaly.

An initial drilling campaign completed on COSE in Q2 2010 delineated a mineralised breccia zone, containing exceptional high grade gold and silver, within an area 120 metres down dip by 35 metres along strike with a true width of 3.5 to 4.5 metres.

The second stage extension and infill drilling campaign at COSE, comprising a further 23 diamond HQ core drill holes, for 6,582 metres, was completed in Q4 2010. The drilling campaign, designed to define the limits of the high grade mineralisation for a maiden resource. The mineralisation remains open in all directions.

Operations report
continued

Significant intersections include:

Hole No.	From metres	Interval metres	Grade Au g/t	Grade Ag g/t
CSE-044-D	206.40	1.50	43.45	5,106
and	233.80	5.86	95.32	6,093
including	237.00	0.85	475.50	38,134
CSE-047-D	253.00	5.00	162.78	8,622
including	253.40	0.50	794.00	70,626
CSE-049-D	238.96	5.47	274.88	10,378
including	243.00	0.80	269.90	67,578
CSE-050-D	218.20	5.22	51.47	1,939
including	218.20	0.80	171.40	10,289
including	204.83	0.71	192.00	26,598
CSE-057-D	208.02	4.09	121.82	2,404
CSE-063-D	287.20	6.80	38.66	587
including	287.20	1.80	131.02	1,469
CSE-065-D	200.50	3.50	31.92	66
and	232.40	1.00	346.60	16,519

In March 2011, Chlumsky, Armbrust & Meyer L.L.C. (CAM) of Lakewood, Colorado, completed an audit and review of the maiden COSE Resource, as well as a Preliminary Economic Assessment to define the potential viability for the construction, mining and processing of the COSE deposit.

The COSE Mineral Resource estimate defined a combined total of 34,395 tonnes at 60.06 grams per tonne (g/t) gold and 1,933.07g/t silver for **106,393 ounces AuEq**. CAM reported the following NI 43-101 compliant resources for the COSE project:

Total INDICATED Resources Undiluted COSE Project

		Grade			Ounces contained metal	
Tonnes	Au (g/t)	Ag (g/t)	AuEq (g/t)	Au Metal (oz)	Ag Metal (oz)	AuEq Metal (oz)
20,637	60.06	1,933.07	96.21	39,847	1,283,412	63,836

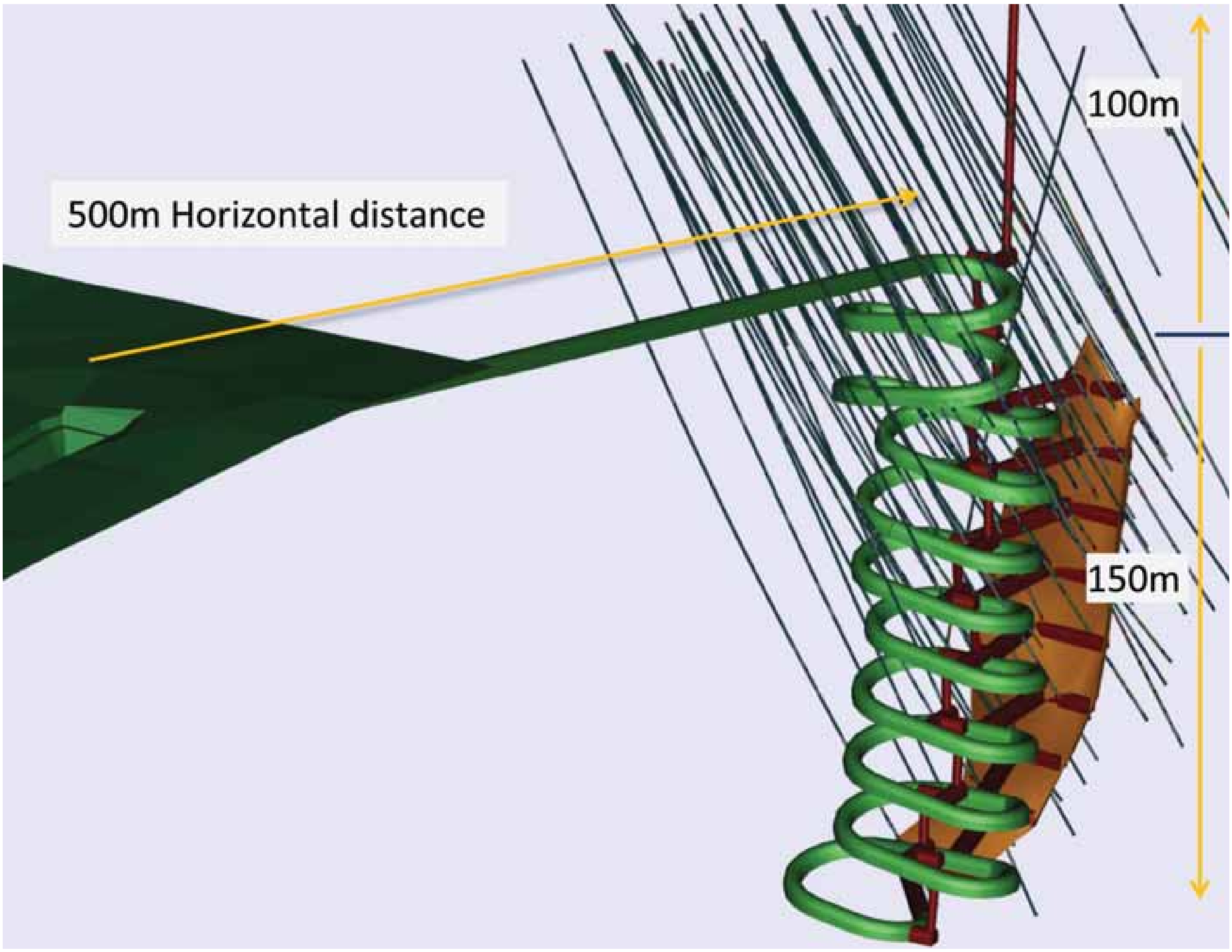
Total INFERRED Resources Undiluted COSE Project

		Grade			Ounces contained metal	
Tonnes	Au (g/t)	Ag (g/t)	AuEq (g/t)	Au metal (oz)	Ag metal (oz)	AuEq metal (oz)
13,758	60.06	1,933.07	96.21	26,565	855,050	42,557

 # AuEq values are calculated at 53.5:1 Au;Ag ratio

Operations report
continued

SGS Minerals Chile completed the preliminary metallurgical testing, consisting of cyanide leaching in bottle-roll tests and gravity separation tests, on 25 composites of samples from the first 43 drill holes from COSE. The gold range of the composites was from 1.2 to 1,276.0g/t and the silver ranged from 13 to 45,118g/t. The cyanide leaching tests reported an average recovery above 75 per cent. for gold and 55 per cent. for silver after 72 hours with recovery continuing. The gravity concentration tests recovered 60 per cent. of the gold and 35 per cent. of the silver indicating that PGSA can process the high grade ore on site substantially reducing processing costs.



COSE Deposit

Operations report
continued

Preliminary economic assessment

The COSE deposit is located 150 metres below surface and will therefore be mined by underground methods with a decline access.

CAM has suggested a mechanised cut and fill mining method be adopted for the extraction of the COSE deposit. This style of mining method, although initially requiring greater quantities of sublevel development, is more appropriate for mining of narrow vein structurally controlled deposits such as COSE as dilution and ore-loss can be far better controlled. A total ore movement of 120T per day or 3600T per month has been used as the base case production forecast for the mine.

Mineable Reserves

Diluted mineable reserves applying 98 per cent. recovery factor							
Classification	Tonnes	Au (g/t)	Ag (g/t)	AuEq(g/t)	Au (Oz)	Ag (Oz)	AuEq (Oz)
Probable	39,111	51.76	1,665	82.88	65,081	2,094,235	104,225

The "Probable" mining reserve estimates are in part based on Inferred resources as a scoping level assessment and are therefore non-compliant under the NI 43-101.

Base case metal prices used for Preliminary Economic Assessment are Au $1,204/oz, Ag $23.75/oz, with recoveries of 95 per cent. and 90 per cent. respectively. All cash flow calculations are based upon an undiscounted model due to total project timeline of 23 months and include a 10 per cent. royalty payable for exported concentrates. Dilution of 0.25 metres either side of the stope and a 98 per cent. recovery factor was applied to calculate the diluted mineable reserves.

COSE Drilling

Operations report
continued

Capex assumptions

Mining Capex:
Mining CAPEX and OPEX is estimated at US$ 24,440,000, which includes the 1,980 metres of main decline ramp access, ore development, cross cuts and stoping of the ore. Total cost per tonne for production during the 11 month production period is estimated at US$167/t and total development cost is estimated at US$14,252,000.

Process Capex
3 main treatment or process routes were considered for the treatment of the COSE ore:

1. Direct Shipping, involves mining and crushing of the material on site and then shipping the ore via road and sea to a suitable smelter for direct smelting to recover the gold and silver.
2. Construction of a crushing and cyanide leaching circuit at the La Bajada property and processing through a Merrill Crowe circuit and production of Dore' on site.
3. Gravity separation and smelting of Au and Ag on site to produce Dore'.

Process facility CAPEX estimates and metal recoveries are tabled below for the three separate treatment routes:

Treatment route	CAPEX requirement (US$000's)	Metal recoveries Au;Ag
Direct Shipping	2,700	93;90
High NaCN Leach Merrill Crowe	8,100	87;65
Gravity concentrate-Smelting	5,900	60;50

Cash-flow assumptions
Cash-flow calculations for 3 different scenarios were studied and NPV sensitivity analysis for adjusted Au and Ag prices are shown below. All cash-flow sensitivities were run on the Direct Shipping option treatment route due to the smaller initial CAPEX (US$2,768,000) and higher potential revenue.

Base case metal price assumptions were provided by CAM and represent a trailing 36 month and Future looking 24 months calculated price giving a base case gold price of US$ 1,204/oz and base case silver price of US$ 23.75/oz.

Au-Ag Price sensitivity analysis was run for the following metal prices:

Au price (US$)	Ag price (US$)	NPV (US$ m)
1,203	23.75	63.7
1,000	20	46.5
1,100	22	55.2
1,400	30	84.7
1,418	35	93.8

Payback
68 per cent. of contained gold and silver will be mined within the first four months of production enabling payback of capital after just 14 months from commencement of the decline.

Planning
With the receipt of the Resource and the Preliminary Economic Assessment, PGD can now finalise the permit application for the mining of the entire ore-body and the construction of infrastructure and processing facilities on site at the COSE project for approval.

The COSE deposit remains open at depth. Future drilling in order to expand the deposit will be carried out from underground.

Operations report
continued

Monte Leon Prospect

The Monte Leon prospect is located 11 kilometres to the southeast of the Cap-Oeste deposit and within the same structural corridor. The Monte Leon prospect is both within the El Tranquillo mineral property block and PGSA's Estancia 'La Bajada'.

Monte Leon prospect was identified in 2010 by PGSA's exploration teams using high-definition Landsat imagery and has been advanced through geophysics, mapping, rock chip sampling and trenching.

The prospect has now been defined over a 400 metre wide x 2,600 metre long north-south trending area hosting outcropping zones of veining, hydrothermal brecciation and silicification. Continuous channel samples in trenching on the 1,800 metre long central area known as the 'Vein zone' have returned grades of up to 1.01g/t gold over 48 metres, including 5.05g/t gold over 7.50 metres. The combined precious metal and pathfinder geochemistry, rock types and textures of mineralisation are all characteristic of that found in the upper paleolevels of epithermal systems elsewhere in the Deseado Massif.

A geophysical dipole gradient array IP and resistivity survey has been conducted at Monte Leon, broadly centred on the Vein zone. This survey has highlighted a continuous 200 metre wide x 1,800 metre long, north-south trending, coincident zone of strong chargeability and resistivity, the strongest part of which extends over a strike length of approximately 700 metre immediately north of the Vein zone and remains open to the north.

A trenching programme comprising 16 trenches (TR-006-MLN to TR-021-MLN), for a total length of 4,007 metres, has been completed during Q1 2011 over the Vein zone.

Results from the trenching programme include:

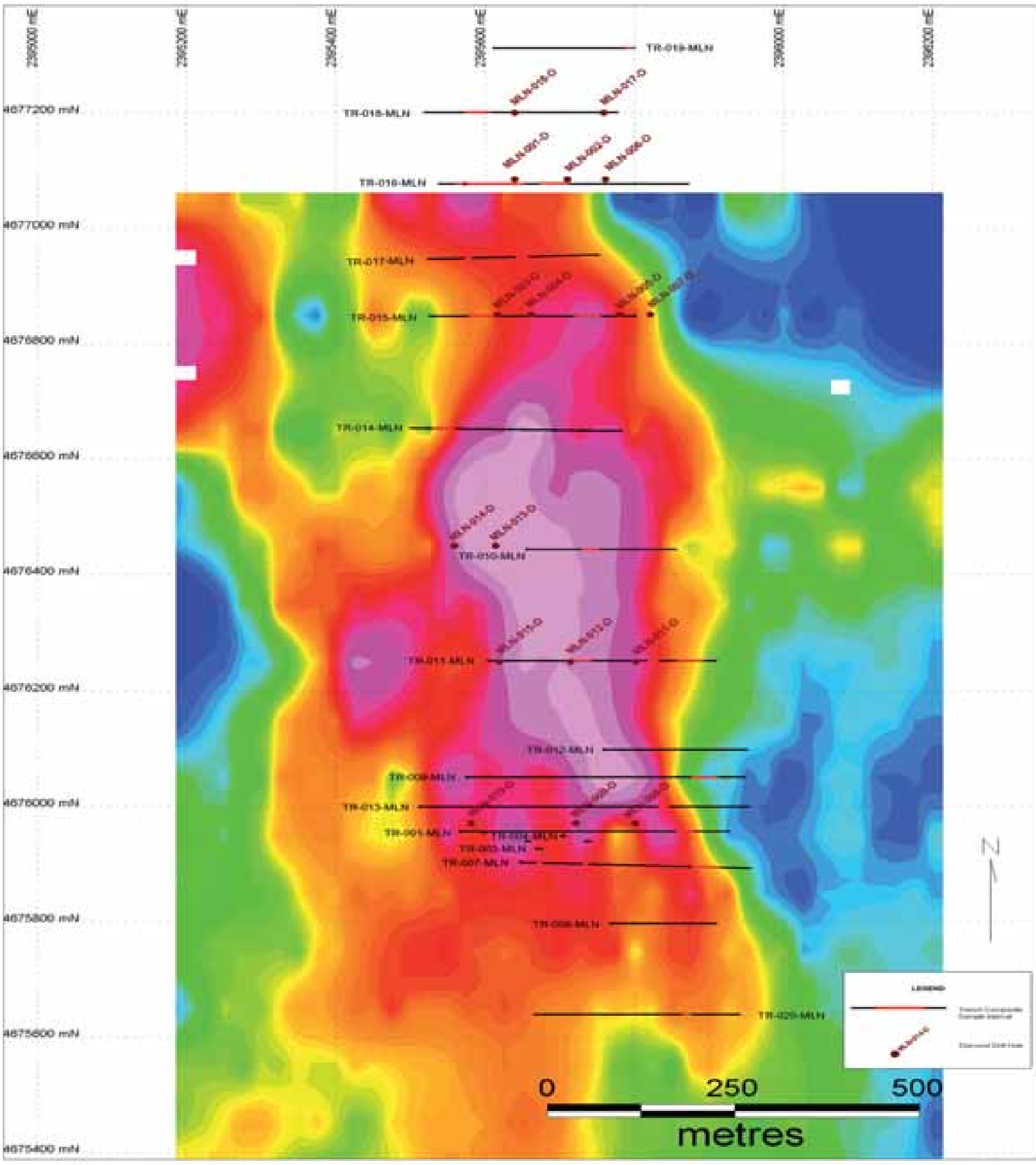
Trench No.	Trench metres	From metres	Interval metres	Grade Au g/t
TR-007-MLN	308	226.80	4.00	1.00
TR-011-MLN	305	217.00	2.00	2.70
and		257.50	26.50	0.48
TR-012-MLN	193	140.50	1.70	1.05
TR-013-MLN	441	320.00	9.50	0.74
TR-014-MLN	259	14.00	24.20	0.47
TR-015-MLN	275	46.00	32.00	0.87
and		200.00	22.00	1.05
TR-016-MLN	181	34.00	5.00	1.80
and		98.50	48.00	1.01
including		98.50	7.50	5.05
TR-018-MLN	260	52.00	28.00	0.30
TR-021-MLN	16	2.00	7.00	0.99

Operations report

continued

Given that the current land surface at Monte Leon is interpreted as being high in a paleo-epithermal system, these anomalous values are very significant and are seen as overlying a potential gold-silver rich system at depth.

A 3,500 metre diamond core HQ drilling programme has commenced on the Vein zone. Results of this drilling are pending.



Monte Leon Prospect

Operations report
continued

La Marciana Prospect

The newly-discovered La Marciana Prospect, identified using high-definition Landsat imagery, is located on the southeast continuation of the Cap-Oeste structural corridor, approximately 20 kilometres from the Cap-Oeste gold and silver project.

At La Marciana, regional mapping and sampling has identified a series of spatially extensive brecciated sinter occurrences. Highly anomalous pathfinder element geochemical results returned from the sampling confirms the potential of the sinters to represent the upper levels of a large scale, hot spring style, precious metal bearing epithermal system, similar to other deposits worldwide, including the world class McLaughlin and Toka Tindung gold deposits.

The central portion of the La Marciana Prospect area encompasses two individual sinter occurrences named the Main and Western sinters of approximately 15 and three hectares respectively. These occurrences are interpreted to be comprised of paleosurface silica rich outflows, potentially originating from concealed feeder structures related to a Jurassic aged, precious metal bearing epithermal system at depth.

A geophysical dipole gradient array IP and resistivity survey has been conducted at La Marciana covering approximately 6 square kilometres containing the Main and Western sinter areas. The results of this geophysical survey will facilitate future exploration targeting.

La Manchuria Property

The La Manchuria property, consisting of five mining concessions covering 5,575 hectares, is located approximately 50 kilometres to the southeast of and within carting distance of the Cap-Oeste project. The La Manchuria Property contains the Main Zone deposit.

La Manchuria

Operations report
continued

Main Zone
PGSA has completed three drilling campaigns on the Main Zone over three years, for a total 17,853 metres on 95 holes.

Geological appraisal of the drill-core supports the interpretation of a robust continuous zone of high-grade gold and silver mineralisation. The mineralised 'package' consists of a series of multi-ounce gold-silver discreet but locally continuous epithermal veins contained within more extensive disseminated mineralisation.

A NI 43-101 compliant Mineral Resource Estimate, completed by Micon International Limited (Micon) during Q3 2010 on the La Manchuria gold and silver deposit, has defined a combined total of **146,366 ounces of gold equivalent (AuEq)** above a cut-off grade of 0.75 grams/tonne (g/t) AuEq. The uncapped Resource estimate shows a combined total of 239,609 ounces AuEq above a cut-off grade of 0.75g/t AuEq.

The La Manchuria gold and silver deposit remains open to the north, south and at depth.

La Manchuria - Mineral Resource Summary (above a cut-off of 0.75 AuEq (g/t)

Indicated		Grade (g/t)			Metal (Oz)		
Domain	Tonnes	Au	Ag	AuEq	Au	Ag	AuEq
Oxide	141,570	1.91	139.1	3.12	8,675	633,338	14,198
Hypogene	284,136	3.46	133.0	4.54	31,642	1,214,873	41,486
Total	425,705	2.95	135.0	4.07	40,317	1,848,211	55,684

Inferred		Grade (g/t)			Metal (Oz)		
Domain	Tonnes	Au	Ag	AuEq	Au	Ag	AuEq
Oxide	496,179	1.33	42.5	1.66	21,138	678,485	26,462
Hypogene	972,840	1.64	53.0	2.05	51,197	1,656,751	64,220
Total	1,469,020	1.53	49.4	1.92	72,335	2,335,236	90,682

The following economic assumptions were used in calculating the AuEq grade of each block:

Gold price:	*US$ 925.00/oz*	*Gold recovery:*	*95 per cent.*
Silver price:	*US$ 14.50/oz*	*Silver recovery:*	*60 per cent.*

The low ratio of Indicated to Inferred (38 per cent. to 62 per cent.) of the La Manchuria Resource together with the significant reduction of metal content of approximately 40 per cent. between the uncapped and capped combined resources, 239,609 ounces AuEq to 146,366 ounces AuEq, clearly indicates the need for more work to better define the geological controls on the high grade mineralisation as well as the need to decrease the spacing of the drill holes.

Accordingly, an infill drilling programme, designed to reduce the drill hole spacing from a nominal 25 metres to 12.5 metres, has been planned for drilling in early 2012.

Operations report
continued

La Paloma Property Block

The La Paloma property block, covering over 44 square kilometres, is located approximately 40 kilometres to the south of the town of Perito Moreno in the Santa Cruz province of Argentina and contains the Lomada de Leiva gold project and the adjacent Breccia Sofia prospect.

Lomada Processing Plant

Operations report

continued

Lomada de Leiva Gold Project

The Lomada project currently contains a NI 43-101 compliant resource of 161,346 ounces of gold in the Measured and Indicated categories, with a further 73,725 ounces of gold in the Inferred category for a total of 235,071 ounces of gold.

In April 2010, PGSA obtained the necessary permits to commence the trial operation. The first stage of the Lomada project consisted of constructing a 50,000 tonne trial heap leach pad and processing facility, which based on 70 per cent. recovery, is estimated to yield approximately 2,500 ounces of gold for the first 6 metre loading.

Construction of the heap leach pad commenced in late September 2010. The heap leach pad's 100 metre x 100 metre base area, pregnant and barren solution ponds, plant site and emergency containment dam, mining and placement of approximately 50,000 tonnes of ore on the heap leach pad were completed during Q1 2011.

The processing facility and irrigation system were completed and commissioned in April 2011. The first production of gold is expected in May 2011.

Subject to successful leaching and additional permitting, further loading and production from the first stage heap leach will continue until the main five million tonne heap leach project is fully operational.

The features of the main heap leach project are:

1. Low pre-production capital of $8.5 million.
2. Production of 21,000 oz. of gold/year, for a mine life of seven years, at a cash cost of $299/oz.
3. Project cash flow before tax, of $137.5 million, based on a cash price of $1,400/oz gold.

Lomada Resource upgrade

Patagonia Gold commenced during Q4 2010 an extension and infill drilling campaign, comprising 35 diamond drill holes HQ core for 4,441 metres, aimed at enlarging the Resource and advancing the Inferred part of the Resource into an Indicated category.

The campaign was completed during Q1 2011 and the highly encouraging results include:

Hole No.	From metres	To metres	Interval metres	Grade Au g/t
LLD10-01	93.00	99.00	6.00	11.22
including	95.00	97.00	2.00	20.30
LLD10-03	71.00	85.00	14.00	6.29
LLD10-14	54.00	74.00	20.00	6.86
including	60.00	67.00	7.00	14.52
LLD10-17	61.00	79.00	18.00	10.95
including	73.00	78.00	5.00	27.14
LLD10-24	98.00	107.00	9.00	4.37

PGSA has retained mining engineers, Chlumsky, Armbrust and Meyer, LLC (CAM) of Lakewood, Colorado, to prepare a NI 43-101 report for the upgrade of the resource at Lomada, scheduled for completion in Q2 2011.

The upgraded Resource, together with the results from the trial Lomada project, will be used to revise the 2009 Scoping study of the Lomada project prior to the commencement of the main heap leach project.

Operations report
continued

Lomada Mine Blast

Estancia El Rincon acquisition

The Lomada project is located on the Estancia El Rincon, comprising 6,700 hectares of land purchased in July 2010. The agreement includes a sale back to the sellers after mining and or exploration have ceased for a period of two years (except cases of force majeure).

Regional exploration

In addition to the three main property blocks; El Tranquilo, La Paloma and La Manchuria, containing the advanced projects, Cap-Oeste, Lomada and Manchuria respectively, PGSA has a further 20 exploration claims, for approximately 133,000 hectares, located within the highly prospective Deseado Massif.

Two exploration teams are dedicated to advancing these 20 claims, with first pass, reconnaissance exploration having now been completed on the majority of the properties. A second pass detailed exploration of the more prospective properties is in progress. This second pass is designed to identify drill targets which to date have successfully been defined on the Sarita, El Bagual and Comino properties.

Operations report
continued

Sarita Property

The Sarita property, area 7,890 hectares, is located 50 kilometres to the southeast of PGSA's La Manchuria project and 9 kilometres to the north-west, and on the same trend, as the silver-rich (gold bearing) Mina Martha Mine (Coeur D´Alene). Lineaments from the Martha trend can be traced on satellite imagery into the Sarita property which also contains similar lithological units.

Detailed mapping and sampling has identified several discrete mineralised northwest corridors hosting persistent quartz veins/breccias. Significant mineralisation has been observed in quartz veins of polymetalic style up to three metres in width. Rock chip samples from discrete vein structures and aligned float have returned gold and silver grades up to 83.4g/t gold and up to 15,444g/t silver, as well as > 1 per cent. copper in separate samples. A trenching programme of > 1,000 metres is in progress.

A second style of mineralisation has also been discovered at Sarita, postulated as analogous to the Las Calandrias deposit. Quartz-breccias, veins and silicified zones hosted in a rhyolitic flow-banded dome within a brecciated corridor, up to 80 metres wide, has been traced over 350 metres and remains open along strike. Wide spaced sampling has returned gold values consistently over 1g/t gold, up to 4.88g/t gold, in comb quartz and quartz-sulphide breccias. A recently completed geophysical survey has outlined a chargeability anomaly coincident with the most significant mineralisation within the above corridor.

A 2,500m RC drilling programme is scheduled to commence in Q4 2011 at Sarita to test the above mentioned discoveries.

El Bagual Property

The property, area 5,717 hectares, is located in a circular structure, 5 kilometres in diameter, hosting favourable lithology (Jurassic volcanic rocks) associated with a prominent lineament trending north-south and north-northeast where geochemical results highlighted an anomalous gold-mercury corridor within which several targets have been defined.

Gold mineralisation is hosted by chalcedony stockwork / veinlets and infill quartz veins / breccias distributed in two contiguous, sub-parallel corridors approximately 100 metres wide. Systematic rock chip sampling returned values up to 6.7g/t gold. Results from historic drilling include 25.15 metres at 0.68 g/t Au from 180.15 metres and 45.60 metres at 0.48 g/t Au from 139 metres.

A 2,500 metre drill programme has been designed to test this potential bulk tonnage low grade target, scheduled to commence in Q4 2011.

Operations report
continued

Lomada – Santa Cruz Mining Secretariat

Environmental and Social Corporate Responsibility

PGSA maintains a strong awareness of its responsibilities towards the environment and existing social structures for the contribution to the sustainable development of the local communities.

Careful attention is given to ensure that all exploration work is carried out with the best practices of the industry and following the guidelines of the relevant mining and environmental acts, as well as to the high standards of responsibility PGSA imposes on itself.

Operations report
continued

Environmental impact studies were completed, submitted and approved by the Secretary of Mining before the beginning of all the drilling campaigns conducted by PGSA and for the trial heap leach at Lomada de Leiva. Periodic water monitoring, base line and hydrogeology, among other studies, are carried out on the advanced projects of PGSA by independent consultants and submitted to the relevant authorities.

The Provincial Mining Secretary's agents together with representatives from the local communities have frequently inspected our exploration activities, specifically during the drilling and construction of the trial heap leach operation. They have expressed their satisfaction towards the responsible manner in which the Company carries out its operations.

PGSA is a responsible mining company and has strict codes of conduct and internal guidelines in respect to dealing with not only environmental issues but landowners and local inhabitants of areas under exploration. This ensures ongoing support for Patagonia Gold's activities in the wider community.

Senior management and community relationship personnel represent the Company at meetings with local, provincial and federal government agencies, as well as organising periodic site visits to the projects with local members of the communities and authorities to increase the transparency, information, dialogue and participation along the different stages of development of the projects.

PGSA's policy is to prioritise the hiring of local personnel and consultants and use local contractors and suppliers whenever it is possible. PGSA, through its community relationship programme, contributes to different actions for the benefit of the region.

Chubut Province

In June 2006, the Provincial Government of Chubut introduced a provisional law banning mining and mineral exploration activities for three years in a specified area in the western sector of the province where a great number of PGSA's exploration properties are located, including the historical Huemules gold mine and the advanced Crespo project.

During 2009, this restriction was extended for another three years until the Provincial Government determines how and when mining and mineral activities can restart in Chubut.

PGSA has been working with both local and regional governments, as well as the Argentine mining chambers and other stakeholders towards building trust and co-operation to lift the ban and recommence the operations in the province as soon as possible.

Report of the Directors

The Directors present their report and the audited financial statements for the year ended 31 December 2010.

Principal activities

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

Business review and future developments

The purpose of the review is to show how the Company assesses and manages risk and uncertainty and adopts appropriate policies and targets. Further details of the Group's business are also set out in the Chairman's statement on page 4, the Managing Director's report on pages 5 and 6 and in the Operations report on pages 7 to 27.

Principal risks and uncertainties

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

Exploration and development risk

There is no assurance that the Group's exploration activities will be successful, and statistically few properties that are explored are ultimately developed into producing mines. Accordingly, the Group is i) seeking to balance this risk by building a portfolio of projects and prospects that carry a range of differing technical and commercial risks, and ii) keeping under careful review the amount invested in any one project.

The Group's operations may also be curtailed, delayed or cancelled as a result of economic, environmental and political conditions in the area of operation.

Competition

There is strong competition within the mining industry for the identification and acquisition of suitable properties. The Group competes with other exploration and production companies, some of which have greater financial resources than the Group, for the acquisition of properties, leases and other interests as well as for the recruitment and retention of skilled personnel. The challenge to management is to secure transactions without having to over-pay.

Fiscal regimes

Argentinean fiscal policies are complex, and it is therefore difficult to distinguish whether a future tax payment is possible or probable. Where a future tax payment is considered to be possible but not probable, no provision has been made in the accounts. Our in country management team constantly monitor developments and advise the Group on the handling of the situation.

Financing

The development of the Group's properties will depend upon the Group's ability to obtain financing primarily through the raising of new equity capital, but also by means of joint-venture of projects, debt financing, farm-downs or other means. There is no assurance that the Group will be successful in obtaining the required financing but it should be noted that during April 2011, the Company successfully raised £24.25 million to finance working capital and exploration expenditure as detailed in note 16 to the financial statements. If the Company is unable to obtain additional financing as needed, some interests may be relinquished and/or the scope of the operations reduced.

Report of the Directors
continued

Currency
The Group reports its financial results in British pounds sterling. However, the market for gold is principally denominated in United States dollars. As the Group has not reached production stage it does not currently engage in active hedging to minimise exchange rate risk, although this will remain under review. The Group takes advice from FX traders and takes advantage of sterling to US dollar exchange rates as and when required.

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

Development and performance of the business
The information that fulfils the requirements of this part of the business review can be found in the Chairman's statement on page 4, the Managing Director's report on pages 5 and 6 and the Operations report on pages 7 to 27, which are incorporated in this report by reference.

Key Performance Indicators
The legislation requires the Board to lay down relevant Key Performance Indicators (KPIs) which, for a company at PGD's stage of development, are focused on managing the activities inherent in exploration and appraisal operations. The KPIs for the Group are as follows:

Non financial KPIs		Financial KPIs	
Health and safety management	Lost time injury frequency rate Medical treatment injury frequency rate	Shareholder return	Share price performance
Environment management	Compliance with the strict environmental policies which are in place	Exploration expenditure	Funding and development costs measured as per anticipated ounce of metals
Operational success	The number of successful exploration drilling ventures and resources added	Exploration development	Results of scoping and feasibility studies. Resources added
Human resource management	Employee retention rate		

All KPIs were in line with management expectations for the year.

All significant information is detailed in the Operations report and published on our website at www.patagoniagold.com.

Financial instruments
The Company's principle treasury objective is to provide sufficient liquidity to meet operational cash flow to allow the Group to take advantage of exploration opportunities whilst maximising shareholder value. The Company operates controlled treasury policies which are monitored by the Board to ensure that the needs of the Company are met as they evolve. The impact of the risks required to be discussed in accordance with IFRS7 are summarised in note 17 together with detailed discussion and sensitivity analysis relating to these risks.

Report of the Directors
continued

PGSA and Fomicruz Agreement

In May 2008, PGSA entered into a Letter of Intent ("LOI") with Fomento Minero de Santa Cruz del Estado ("Fomicruz SE"), a well established and respected mining company wholly owned by the pro-mining government of Santa Cruz Province, Argentina.

The LOI sets out the key terms and conditions of a strategic partnership between PGSA and government owned Fomicruz SE for the future development of PGSA's mining properties in Santa Cruz Province, including the Lomada de Leiva gold project and the Cap-Oeste and La Manchuria Main Zone gold and silver projects, together with properties currently owned by Fomicruz SE.

The agreement was formally ratified on 14 April 2009.

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

The Group announced on 21 February 2007 that it had acquired the rights, title and interest in 70 mining and exploration claims and properties previously held by Barrick Exploraciones Argentina S.A. and Minera Rodeo S.A. being subsidiaries of Barrick Gold Corporation (Barrick). The expenditure commitments totalling US$10 million which were given to Barrick have been fully satisfied.

On 23 March 2011 the 'Back in Right' from the original property acquisition agreement was eliminated in exchange for a 2.5 per cent. Net Smelter Return royalty. Under the original agreement PGSA had granted Barrick an option to buy back up to a 70 per cent. interest in any particular property group upon the delineation of the greater of 2 million oz of gold or gold equivalent NI 43-101 Indicated Resource on that property group going forward.

A further cash payment of US$1.5 million will become payable to Barrick upon the delineation of 200,000 oz or greater of gold or gold equivalent NI 43-101 Indicated Resource on the La Paloma Property Group.

Going concern

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

In common with many exploration companies, the Company raises finance for its exploration and appraisal activities in discrete tranches to finance its activities for limited periods only. Further funding is raised as and when required.

The Directors have prepared cash flow information for 2011 and have considered future possible expenditure covering following years. Based upon the recent financing, the Directors believe that the Company has adequate working capital to cover the 12 months from the date of approval of this Annual Report.

During April 2011 the Company placed shares to a value of £24.25 million. The Directors are confident that the Group will be able to secure additional funding to enable it to continue to meet its commitments as they fall due and to undertake the current planned programme of activity over the 12 months from the date of this Annual Report. Accordingly, the financial statements do not include any adjustments which would be necessary if the Company and Group ceased to be a going concern.

Report of the Directors

continued

Share capital

On 15 January 2010, the Company allotted 250,000 new ordinary shares of 1p each pursuant to the exercise of a share option on 6 January 2010.

On 4 May 2010, the Company announced that it placed 81,250,000 new ordinary shares of 1p each at a price of 16.00p per share raising £13 million to finance working capital and exploration expenditure.

On 14 September 2010, the Company allotted 125,000 new ordinary shares of 1p each pursuant to the exercise of a share option on 8 September 2010.

On 25 October 2010, the Company allotted 375,000 new ordinary shares of 1p each pursuant to the exercise of a share option on 18 October 2010.

On 29 October 2010, the Company allotted 50,000 new ordinary shares of 1p each pursuant to the exercise of a share option on 26 October 2010.

On 8 November 2010, the Company allotted 150,000 new ordinary shares of 1p each pursuant to the exercise of a share option on 4 November 2010.

On 15 November 2010, the Company allotted 50,000 new ordinary shares of 1p each pursuant to the exercise of a share option on 10 November 2010.

Subsequent events

On 5 January 2011, the Company allotted 100,000 new ordinary shares of 1p each pursuant to the exercise of a share option on 20 December 2010.

On 9 February 2011, the Company allotted 125,000 new ordinary shares of 1p each pursuant to the exercise of a share option on 7 February 2011.

On 14 March 2011, the Company allotted 300,000 new ordinary shares of 1p each pursuant to the exercise of a share option on 3 March 2011.

On 20 April 2011, the Company allotted 400,000 new ordinary shares of 1p each pursuant to the exercise of a share option on 29 March 2011.

On 19 April 2011, the Company announced that it placed 45,238,095 new ordinary shares of 1p each at a price of 42p per share raising £19 million to finance working capital and exploration expenditure.

On 28 April 2011, the Company announced that it placed 12,500,000 new ordinary shares of 1p each at a price of 42p per share raising £5.25 million to finance working capital and exploration expenditure.

Financial results

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

Report of the Directors
continued

Dividends
The Directors do not recommend the payment of a dividend (2009: £nil).

Substantial shareholdings
In addition to the interest of C J Miguens disclosed below, at 6 May 2011, the Company had been notified of, or was aware of, the following interests of 3 per cent. or more in its issued share capital:

Ordinary Shares of 1p:	Number	Percentage
Carlos Miguens	100,153,116	13.64
BlackRock Inc.*	70,313,700	9.57
Cinco Vientos Uruguay SA	40,725,269	5.54
Diego Miguens	29,562,152	4.02
Taheh International Holding Ltd	28,750,000	3.91
Barrick Gold Corporation	28,323,264	3.86
Cristina Miguens	24,485,645	3.33

*The shareholding of BlackRock Inc. includes 57,700,000 shares (7.86 per cent.) held by the BlackRock Gold & General Fund.

Creditor payment policy
Although the Company does not follow a specific code when settling its payment obligations with creditors, it is the policy of the Company to ensure that all suppliers of goods and services are paid promptly and in accordance with contractual and legal obligations.

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

Ordinary Shares of 1p:	6 May 2011	31 December 2010	31 December 2009
Sir John Craven	5,955,190	5,479,000	4,479,000
C J Miguens	100,153,116	96,656,001	92,515,376
W H Humphries	14,893,857	14,417,667	13,167,667
M J Sale	1,676,687	1,676,687	1,676,687
G Tanoira	6,900,673	6,754,960	6,672,147
R Ö Prickett	7,244,888	7,244,888	7,244,888

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

During the year the Company paid to the Directors as follows:

To Sir John Craven £25,000 (2009: £25,000) for his services as Director and Chairman plus £2,468 social security costs (2009: £2,478).

To Mr Miguens £25,000 (2009: £25,000) for his services as Director and Deputy Chairman.

To Mr Humphries through his company Mining Management-Europe (MM-E) £120,000 (2009: £120,000) for his services as Director and Chief Executive of Patagonia Gold SA.

Report of the Directors

continued

To Mr Tanoira £34,750 (2009: £34,750) for his services as Director.

To Mr Prickett through his company European Sales Co Ltd £70,000 (2009: £55,000) for his services as Director.

To Mr Sale through his company Specialist Services, £119,000 (2009: £119,000) in his capacity as a consultant in addition to his Directors' fees of £25,000 (2009: £25,000).

In addition to the above, Mr Humphries and Mr Miguens were each awarded a bonus of US$100,000 (£64,637) in 2010. No other Director received any bonus or benefits-in-kind in 2010 or 2009.

Options are held by Directors in their names and/or under controlled subsidiaries.

No options were exercised by the Directors during the year. At 31 December 2010, the Directors were also interested in unissued ordinary shares granted to them by the Company under share options held by them pursuant to individual option agreements:

Name	Date of grant	Exercise price	Ordinary Shares	Due from which exercisable	Expiry date
Sir John Craven	24.06.04	8.00p	1,500,000	24.06.04	23.06.14
Sir John Craven	23.06.09	12.25p	1,500,000	23.06.09	22.06.19
Sir John Craven	17.06.10	15.00p	500,000	17.06.10	16.06.20
C J Miguens	18.02.04	8.00p	1,500,000	19.02.04	18.02.14
C J Miguens	23.06.09	12.25p	6,500,000	23.06.09	22.06.19
C J Miguens	17.06.10	15.00p	1,100,000	17.06.10	16.06.20
W H Humphries	08.10.02	8.00p	350,000	08.10.02	08.10.12
W H Humphries	07.03.03	8.00p	150,000	07.03.03	07.03.13
W H Humphries	18.02.04	8.00p	3,000,000	19.02.04	18.02.14
W H Humphries	23.06.09	12.25p	4,500,000	23.06.09	22.06.19
W H Humphries	17.06.10	15.00p	1,100,000	17.06.10	16.06.20
M J Sale	18.02.04	8.00p	1,000,000	19.02.04	18.02.14
M J Sale	05.06.07	8.00p	1,000,000	05.06.07	04.06.17
M J Sale	03.06.08	8.00p	500,000	03.06.08	02.06.18
M J Sale	09.06.09	8.00p	900,000	09.06.09	01.04.13
M J Sale	23.06.09	12.25p	2,600,000	23.06.09	22.06.19
M J Sale	17.06.10	15.00p	825,000	17.06.10	16.06.20
G Tanoira	18.02.04	8.00p	1,281,000	19.02.04	18.02.14
G Tanoira	23.06.09	12.25p	1,719,000	23.06.09	22.06.19
G Tanoira	17.06.10	15.00p	500,000	17.06.10	16.06.20
R Ö Prickett	18.02.04	8.00p	2,906,000	19.02.04	18.02.14
R Ö Prickett	09.06.09	8.00p	500,000	09.06.09	01.04.13
R Ö Prickett	23.06.09	12.25p	2,594,000	23.06.09	22.06.19
R Ö Prickett	17.06.10	15.00p	825,000	17.06.10	16.06.20

The Company's ordinary shares are traded on AIM and the market price of those shares ranged between 12.00p and 60.00p during the year. The closing mid-market price of the Company's ordinary shares on 31 December 2010 was 58.75p (31 December 2009: 18.00p).

Report of the Directors
continued

Corporate governance
The ordinary shares of the Company are traded on AIM. Companies on AIM are not required to make an annual statement to shareholders regarding compliance with The Combined Code on Corporate Governance. However, the following statements are made in respect of corporate governance.

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

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

The Board has established Committees to fulfil specific functions:

The Audit Committee which comprises Sir John Craven and Richard Prickett (Chairman), monitors and reviews the Group's financial reporting and internal control procedures. Meetings are held as required. A separate internal audit function cannot be justified, at present, in view of the size and scope of the Group's activities. The external auditors are invited to attend at least one meeting of the Audit Committee each year.

The Remuneration Committee comprises Sir John Craven, Carlos Miguens and Richard Prickett (Chairman) all of whom are Non-Executive Directors. Meetings are convened to monitor, assess and report to the full Board on all aspects and policy relating to the remuneration of Executive Directors.

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

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

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

Directors' service agreements
Sir John Craven, Carlos Miguens, Richard Prickett and Marc Sale have service arrangements which provide for three months' notice of termination and those of William Humphries and Gonzalo Tanoira provide for six months' notice of termination.

Report of the Directors

continued

Relations with shareholders

The Company maintains effective contact with principal shareholders and welcomes communications from private investors. Shareholders are encouraged to attend the Annual General Meeting, at which time there is an opportunity for discussion with members of the Board. Press releases together with other information about the Company are available on the Company's website at www.patagoniagold.com.

Annual General Meeting

The Company's Annual General Meeting is convened for 8 June 2011 at 11.00 am to be held in the Oxford Suite at the London Marriott Hotel, 140 Park Lane, London W1K 7AA. The notice of Annual General Meeting is attached with the financial statements. The notice includes items of Special Business and an explanation regarding such business can be found at the end of the notice.

The Directors who retire by rotation are Sir John Craven and Marc Sale who, being eligible, offer themselves for re-election.

Directors' indemnification provisions

Under Article 231 of the Company's Articles of Association, subject to the provisions of the Companies Act 2006 (the "Act"), but without prejudice to any indemnity to which he may be otherwise entitled, every Director, Auditor, Secretary or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all costs, charges, losses, damages and liabilities incurred by him in the actual or purported execution and/or discharge of his duties or exercise of his powers and/or otherwise in relation to or in connection with his duties, powers or office, provided that Article 231 shall be deemed not to provide for, or entitle any such person to, indemnification to the extent that it would cause Article 231 or any element of it, to be treated as void under the Act.

Auditors

Grant Thornton UK LLP have expressed willingness to continue in office. In accordance with Section 489(4) of the Act, a resolution to re-appoint Grant Thornton UK LLP as auditor of the Company will be proposed at the Annual General Meeting to be held on 8 June 2011.

By Order of the Board

Nigel Everest
Company Secretary

6 May 2011

Statement of Directors' responsibilities

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

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

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

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

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

In so far as each of the Directors is aware:

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

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

Report of the independent auditor

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

We have audited the financial statements of Patagonia Gold Plc for the year ended 31 December 2010 which comprise the consolidated statement of comprehensive income, the consolidated and parent Company balance sheet, the consolidated and parent Company statement of changes in equity, the consolidated and parent Company cash flow statement, and related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and auditor

As explained more fully in the statement of Directors' responsibilities set out on page 36 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2010 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Report of the independent auditor
continued

Matters on which we are required to report by exception

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

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

Charles Hutton-Potts
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

6 May 2011

Consolidated statement of comprehensive income

for the year ended 31 December 2010

	Note	2010 £	2009 £
Continuing operations			
Exploration costs		(4,681,867)	(4,707,868)
Administrative costs			
Share based payments charge	21	(492,025)	(1,263,468)
Other administrative costs	5	(2,191,656)	(1,354,476)
		(2,683,681)	(2,617,944)
Finance income	4	74,541	26,995
Finance costs		(10,047)	(5,912)
Loss for the period attributable to equity holders	3	(7,301,054)	(7,304,729)
Other comprehensive income/(loss)			
Gain on revaluation of available-for-sale financial assets		36,667	10,784
Exchange gain/(loss) on translation of foreign operations		177,043	(746,793)
Other comprehensive income/(loss) for the period		213,710	(736,009)
Total comprehensive loss for the period attributable to equity holders		(7,087,344)	(8,040,738)
Loss per share (pence)			
Basic loss per share	9	(1.13)	(1.28)
Diluted loss per share	9	(1.13)	(1.28)

Consolidated balance sheet

at 31 December 2010

	Note	2010 £	2009 £
ASSETS			
Non-current assets			
Property, plant and equipment	10	2,862,027	635,482
Available-for-sale financial assets	12	159,608	122,941
Other receivables	13	2,335,962	1,617,315
		5,357,597	2,375,738
Current assets			
Trade and other receivables	13	68,144	89,776
Cash and cash equivalents	14	6,798,179	2,894,477
		6,866,323	2,984,253
Total assets		12,223,920	5,359,991
LIABILITIES			
Current liabilities			
Bank overdraft	14	(176,853)	—
Trade and other payables	15	(2,307,974)	(1,691,385)
		(2,484,827)	(1,691,385)
Non-current liabilities			
Provisions	15	(121,959)	(1,315)
Total liabilities		(2,606,786)	(1,692,700)
Net assets		9,617,134	3,667,291
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	16	6,758,528	5,936,028
Share premium account		52,694,509	40,971,847
Translation reserve		(119,794)	(296,837)
Share-based payment reserve		1,918,049	1,468,809
Retained loss		(51,634,158)	(44,412,556)
Total equity		9,617,134	3,667,291

Company Registered number 3994744

These financial statements were approved by the Board of Directors on 6 May 2011
and were signed on its behalf by:

Gonzalo Tanoira
Director

The notes on pages 55 to 72 form part of these financial statements.

Company balance sheet

at 31 December 2010

	Note	2010 £	2009 £
ASSETS			
Non-current assets			
Property, plant and equipment	10	48,230	4,216
Investments in subsidiary undertakings	11	19,207,785	11,837,882
Available-for-sale financial assets	12	159,608	122,941
		19,415,623	11,965,039
Current assets			
Trade and other receivables	13	92,283	56,141
Cash and cash equivalents	14	6,129,356	2,078,638
		6,221,639	2,134,779
Total assets		25,637,262	14,099,818
LIABILITIES			
Current liabilities			
Trade and other payables	15	(719,218)	(142,890)
Total liabilities		(719,218)	(142,890)
Net assets		24,918,044	13,956,928
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	16	6,758,528	5,936,028
Share premium account		52,694,509	40,971,847
Share-based payment reserve		1,918,049	1,468,809
Retained loss		(36,453,042)	(34,419,756)
Total equity		24,918,044	13,956,928

These financial statements were approved by the Board of Directors on 6 May 2011 and were signed on its behalf by:

Gonzalo Tanoira
Director

The notes on pages 55 to 72 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2010

	Note	Share capital £	Share premium account £	Translation reserve £	Share-based payment reserve £	Retained loss £	Total £
Balance at 1 January 2009		4,735,528	33,339,372	449,956	205,341	(37,118,611)	1,611,586
Changes in equity for 2009							
Share-based payment							
Re-priced options	21	—	—	—	384,802	—	384,802
New options	21	—	—	—	878,666	—	878,666
Issue of share capital							
Issue by placing	16	1,200,000	8,100,000	—	—	—	9,300,000
Transaction costs of placing		—	(471,025)	—	—	—	(471,025)
Exercise of option	16	500	3,500	—	—	—	4,000
Transactions with owners		1,200,500	7,632,475	—	1,263,468	—	10,096,443
Loss for the period		—	—	—	—	(7,304,729)	(7,304,729)
Other comprehensive income/(loss):							
Revaluation of available-for-sale financial assets		—	—	—	—	10,784	10,784
Exchange differences on translation of foreign operations		—	—	(746,793)	—	—	(746,793)
Total comprehensive income/(loss) for the period		—	—	(746,793)	—	(7,293,945)	(8,040,738)
Balance at 31 December 2009		5,936,028	40,971,847	(296,837)	1,468,809	(44,412,556)	3,667,291
Changes in equity for 2010							
Share-based payment	21	—	—	—	492,025	—	492,025
Issue of share capital							
Issue by placing	16	812,500	12,187,500	—	—	—	13,000,000
Transaction costs of placing		—	(553,651)	—	—	—	(553,651)
Exercise of option	16	10,000	88,813	—	(42,785)	42,785	98,813
Transactions with owners		822,500	11,722,662	—	449,240	42,785	13,037,187
Loss for the period		—	—	—	—	(7,301,054)	(7,301,054)
Other comprehensive income/(loss):							
Revaluation of available-for-sale financial assets		—	—	—	—	36,667	36,667
Exchange differences on translation of foreign operations		—	—	177,043	—	—	177,043
Total comprehensive income/(loss) for the period		—	—	177,043	—	(7,264,387)	(7,087,344)
Balance at 31 December 2010		6,758,528	52,694,509	(119,794)	1,918,049	(51,634,158)	9,617,134

Company statement of changes in equity

for the year ended 31 December 2010

	Note	Share capital £	Share premium account £	Share-based payment reserve £	Retained loss £	Total £
Balance at 1 January 2009		4,735,528	33,339,372	205,341	(32,276,577)	6,003,664
Changes in equity for 2009						
Share-based payment						
Re-priced options	21	—	—	384,802	—	384,802
New options	21	—	—	878,666	—	878,666
Issue of share capital						
Issue by placing	16	1,200,000	8,100,000	—	—	9,300,000
Transaction costs of placing		—	(471,025)	—	—	(471,025)
Exercise of option	16	500	3,500	—	—	4,000
Transactions with owners		1,200,500	7,632,475	1,263,468	—	10,096,443
Loss for the period		—	—	—	(2,153,963)	(2,153,963)
Other comprehensive income/(loss):						
Revaluation of available-for-sale financial assets		—	—	—	10,784	10,784
Total comprehensive income/(loss) for the period		—	—	—	(2,143,179)	(2,143,179)
Balance at 31 December 2009		5,936,028	40,971,847	1,468,809	(34,419,756)	13,956,928
Changes in equity for 2010						
Share-based payment	21	—	—	492,025	—	492,025
Issue of share capital						
Issue by placing	16	812,500	12,187,500	—	—	13,000,000
Transaction costs of placing		—	(553,651)	—	—	(553,651)
Exercise of option	16	10,000	88,813	(42,785)	42,785	98,813
Transactions with owners		822,500	11,722,662	449,240	42,785	13,037,187
Loss for the period		—	—	—	(2,112,738)	(2,112,738)
Other comprehensive income/(loss):						
Revaluation of available-for-sale financial assets		—	—	—	36,667	36,667
Total comprehensive income/(loss) for the period		—	—	—	(2,076,071)	(2,076,071)
Balance at 31 December 2010		6,758,528	52,694,509	1,918,049	(36,453,042)	24,918,044

Consolidated cash flow statement

for the year ended 31 December 2010

	Year to 31 December 2010 £	Year to 31 December 2009 £
Cash flow from operating activities		
Loss for the year	(7,301,054)	(7,304,729)
Adjustment for:		
Interest income	(74,541)	(26,995)
Depreciation	73,865	46,884
(Increase) in other receivables	(697,015)	(341,011)
Increase in trade payables	616,589	223,185
Increase/(decrease) in long-term provisions	120,644	(205,743)
Share-based payments	492,025	1,263,468
Net cash used in operating activities	(6,769,487)	(6,344,941)
Cash flows from investing activities		
Interest received	74,541	26,995
Purchase of property, plant and equipment	(2,306,087)	(71,627)
Net cash used in investing activities	(2,231,546)	(44,632)
Cash flows from financing activities		
Proceeds from issue of share capital	12,446,349	8,828,975
Proceeds from exercise of options	98,813	4,000
Net cash from financing activities	12,545,162	8,832,975
Net increase in cash and cash equivalents	3,544,129	2,443,402
Cash and cash equivalents at beginning of period	2,894,477	1,069,373
Effects of foreign exchange movements	182,720	(618,298)
Cash and cash equivalents at end of period	6,621,326	2,894,477

For the purposes of the consolidated cash flow statement, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts.

Company cash flow statement

for the year ended 31 December 2010

	Year to 31 December 2010 £	Year to 31 December 2009 £
Cash flow from operating activities		
Loss for the year	(2,112,738)	(2,153,963)
Adjustment for:		
Interest income	(74,351)	(26,234)
Depreciation	6,103	1,688
(Increase) in other receivables	(36,142)	(1,329)
Increase/(decrease) in trade payables	576,328	(2,121,606)
Share-based payments	492,025	1,263,468
Net cash used in operating activities	(1,148,775)	(3,037,976)
Cash flows from investing activities		
Increase in investments held in subsidiary undertakings	(7,369,903)	(4,214,777)
Interest received	74,351	26,234
Purchase of property, plant and equipment	(50,117)	(1,069)
Net cash used in investing activities	(7,345,669)	(4,189,612)
Cash flows from financing activities		
Proceeds from issue of share capital	12,446,349	8,828,975
Proceeds from exercise of options	98,813	4,000
Net cash from financing activities	12,545,162	8,832,975
Net increase in cash and cash equivalents	4,050,718	1,605,387
Cash and cash equivalents at beginning of period	2,078,638	473,251
Cash and cash equivalents at end of period	6,129,356	2,078,638

Principal accounting policies

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

Basis of preparation

The basis of preparation and principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements of Patagonia Gold Plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

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 Group's accounting policies.

Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The Group has adopted the following new and amended IFRSs as of 1 January 2010:

- IFRS 2 (amendments) 'Group Cash-settled Share-based Payment Transactions' – effective 1 January 2010. As the parent entity is the only entity within the Group making share-based payments, the adoption of this amendment has no material effect on the Group's financial performance or position for the period ended 31 December 2010.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2011 or later periods, but the Group has not early adopted them:

- IFRS 9 Financial Instruments (effective 1 January 2013)
- IAS 24 (Revised 2009) Related Party Disclosures (effective 1 January 2011)
- Amendment to IAS 32 Classification of Rights Issues (effective 1 February 2010)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective 1 July 2010)
- Prepayments of a Minimum Funding Requirement – Amendments to IFRIC 14 (effective 1 January 2011)
- Improvements to IFRS issued May 2010 (some changes effective 1 July 2010, others effective 1 January 2011)

Principal accounting policies
continued

- Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (effective 1 July 2011)
- Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12 Income Taxes (effective 1 January 2012)

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group. The Group does not intend to apply any of these pronouncements early.

Going concern

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

In common with many exploration companies, the Company raises finance for its exploration and appraisal activities in discrete tranches to finance its activities for limited periods only. Further funding will be required.

The Directors have prepared cash flow information for 2011. The Directors are confident that the Group will be able to secure additional funding to enable it to continue to meet its commitments as they fall due and to undertake the current planned programme of activity over the 12 months from the date of this Annual Report.

During April 2011 the Company placed shares to a value of £24.25 million to fund working capital and exploration expenditure as detailed in note 16.

The financial statements do not include any adjustments, particularly in respect of property, plant and equipment, investments and provisions for winding up which would be necessary if the Company and Group ceased to be a going concern.

Summary of significant accounting policies

Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 31 December 2010. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

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

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group

Principal accounting policies
continued

accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

Equity settled share-based payment

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled share-based payments are ultimately recognised as an expense in the statement of comprehensive income with a corresponding credit to "share-based payment reserve".

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

Investments in subsidiaries

Investments in subsidiaries are stated at cost net of any provision for impairment.

Exploration expenditure

When the Group has incurred expenditure on mining properties that have not reached the stage of commercial production the costs of acquiring the rights to such properties, and related exploration and development costs are deferred where the expected recovery of costs is considered probable by the successful exploitation or sale of the asset.

Exploration costs on properties where insufficient exploration has taken place to ascertain future recoverability are expensed. Where mining properties are abandoned, the deferred expenditure is written-off in full.

Costs are capitalised as intangibles until the project is deemed to be commercially viable at which point costs are transferred to property, plant and equipment and amortised over the life of the mine on a unit of production basis.

Principal accounting policies

continued

Property, plant and equipment

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

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

Office equipment	5 years
Exploration software	5 years
Machinery and equipment	3 years
Vehicles	5 years
Buildings	50 years

Material residual value estimates are updated as required, but at least annually, whether or not the asset is revalued.

Mineral properties, including closure costs, are depreciated on a unit of production basis over the life of the mine.

Impairment testing of other intangible assets and property, plant and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Other individual assets or cash-generating units that include other intangible assets with an indefinite useful life, and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Taxation

Current tax is the tax currently payable based on taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future.

Principal accounting policies
continued

In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the statement of comprehensive income, except where they relate to items that are charged or credited directly to other comprehensive income in which case the related deferred tax is also charged or credited directly to other comprehensive income.

Foreign currency

The consolidated financial statements are presented in British pounds sterling (GBP), which is also the functional currency of the parent Company. It is anticipated that the Company will be in production, on a trial basis, during the second quarter 2011. The Directors believe that once in production, the functional currency of the parent Company will be more accurately represented by the United States dollar reflecting the gold and silver markets whilst also becoming the main currency of both income and ongoing capital expenditure. For this reason the Company also will change its presentational currency to the United States dollar with effect from 1 January 2011 in accordance with IAS 21.

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates are recognised in profit or loss. Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

In these Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than GBP (the Group's presentation currency for this period) are translated into GBP upon consolidation. The functional currencies of the entities in the Group have remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into GBP at the closing rate at the reporting date. Income and expenses have been translated into GBP at the average rate over the reporting period.

Exchange differences are charged/credited to income and recognised in the currency translation reserve in other comprehensive income. On disposal of a foreign operation the cumulative translation differences recognised in other comprehensive income are reclassified to profit or loss and recognised as part of the gain or loss on disposal.

Principal accounting policies

continued

Financial assets

Financial assets can be divided into the following categories:

- cash and cash equivalents
- loans and receivables
- available-for-sale financial assets

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether resulting income and expenses are recognised in the statement of comprehensive income or charged directly against other comprehensive income.

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

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. On initial recognition, loans and receivables are stated at their fair value, they are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss. The Group's other receivables fall into this category of financial instruments.

Individual receivables are considered for impairment when they are past due at the balance sheet date or when objective evidence is received that a specific counterparty will default.

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

In the case of impairment of available-for-sale assets, any loss previously recognised in other comprehensive income is transferred to the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. Impairment losses recognised previously on debt securities are reversed through the income statement when the increase can be related objectively to an event occurring after the impairment loss was recognised in the statement of comprehensive income.

An assessment for impairment is undertaken at least at each balance sheet date.

The Group has no financial assets at fair value through profit or loss or held-to-maturity investments.

Principal accounting policies
continued

Financial liabilities
Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. All financial liabilities are recorded initially at fair value, net of direct issue costs.

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

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

Equity
Equity comprises the following:

- "Share capital" represents the nominal value of equity shares.
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- "Translation reserve" represents the differences arising from translation of investments in overseas subsidiaries.
- "Share-based payment reserve" represents equity-settled share-based employee remuneration until such share options are exercised.

Segmental reporting
A segment is a distinguishable component of the Group that is engaged either in providing products or services (operating segment) and takes into account the economic environment in which that segment operates. IFRS8 requires the amount of each operating segment item to be disclosed based on internal management information. The Group's projects which are at the exploration stage in South America are not regarded as separate segments. As and when each individual project progresses to trial and then to production stage, it will become regarded as a separate segment for internal management information. Therefore, for the purposes of segmental reporting, at 31 December 2010 the Lomada de Leiva project is treated as a separate business reporting segment from the Group's other projects.

Principal accounting policies

continued

Leases

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability. Leases of land and buildings are split into land and buildings elements according to the relative fair values of the leasehold interests at the date of entering into the lease agreement.

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

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

Dividends

Dividend distributions payable to equity shareholders are included in "other short term financial liabilities" when the dividends are approved in General Meeting prior to the balance sheet date.

Critical accounting estimates and judgments

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

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

Information about the estimates and judgments made by the Group to reach their conclusions are contained in the accounting policies and/or the notes to the financial statements, and the key areas are summarised below:

- Classification of mining and exploration interests – note 10.
- Exploration expenditure relating to a particular project will be written off until such time as the Board has determined that the project is viable based upon a positive feasibility study and a decision to move into production.
- Reviewing acquisition of Barrick properties to determine whether the agreement included any embedded derivatives in line with applicable accounting standards.

Principal accounting policies
continued

- Reviewing the recoverability of VAT balances due to the Group. The Directors have considered post year end approvals set by the Mining Secretary in Argentina and consider the VAT recoverables as at 31 December 2010 to be recoverable in full and no provision is considered necessary.
- Provisions for environmental impact require a judgment, a likely future obligation, based on an assessment of technical, legal and economic factors. The ultimate cost is uncertain and estimates vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques and changes to the life of the mine.

Notes to the financial statements

for the year ended 31 December 2010

1. Results of Patagonia Gold Plc

Included in the consolidated loss attributable to the shareholders of Patagonia Gold Plc is a loss of £2,112,738 (2009: £2,153,963), which has been dealt with in the accounts of the holding company. As permitted by Section 408 of the Companies Act 2006, the parent Company's profit and loss account has not been included in these financial statements.

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

The Group announced on 21 February 2007 that it had acquired the rights, title and interest in 70 mining and exploration claims and properties previously held by Barrick Exploraciones Argentina S.A. and Minera Rodeo S.A. being subsidiaries of Barrick Gold Corporation (Barrick). The expenditure commitments totalling US$10 million which were given to Barrick have been fully satisfied.

On 23 March 2011 the 'Back in Right' from the original property acquisition agreement was eliminated in exchange for a 2.5 per cent. Net Smelter Return royalty. Under the original agreement PGSA had granted Barrick an option to buy back up to a 70 per cent. interest in any particular property group upon the delineation of the greater of 2 million oz of gold or gold equivalent NI 43-101 Indicated Resource on that property group going forward.

A further cash payment of US$1.5 million will become payable to Barrick upon the delineation of 200,000 oz or greater of gold or gold equivalent NI 43-101 Indicated Resource on the La Paloma Property Group.

3. Segmental analysis

In line with the Group's accounting policy, the management do not currently regard individual projects as separable segments for internal reporting purposes with the exception of the Lomada de Leiva project, which has reached trials stage.

Patagonia Gold Plc's losses and its geographic allocation of net assets may be summarised as follows:

	Losses 2010 £	Assets 2010 £	Losses 2009 £	Assets 2009 £
United Kingdom	(2,112,738)	5,710,259	(2,153,963)	2,119,046
Argentina – Lomada de Leiva	—	1,317,012	—	—
Argentina – Other and Chile	(5,188,316)	2,589,863	(5,150,766)	1,548,245
	(7,301,054)	9,617,134	(7,304,729)	3,667,291

Patagonia Gold Plc's geographic allocation of exploration costs may be summarised as follows:

	2010 £	2009 £
United Kingdom	—	—
Argentina – Lomada de Leiva	252,829	—
Argentina – Other	4,429,038	4,640,622
Chile	—	67,246
	4,681,867	4,707,868

All exploration costs were written off to the statement of comprehensive income in 2009.

In 2010, the costs at the Lomada de Leiva project were capitalised from 1 September 2010 onwards. Exploration costs at all the other projects in 2010 were written off to the statement of comprehensive income.

Notes to the financial statements
continued

4. Interest receivable

	2010 £	2009 £
Bank interest receivable	74,541	26,995

5. Loss on ordinary activities

	2010 £	2009 £
The loss on ordinary activities is stated after charging:		
Operating lease charges: land and buildings	80,501	63,257
Depreciation of property, plant and equipment	73,865	46,884

6. Staff numbers and costs

	2010 £	2009 £
Wages and salaries	863,597	704,242
Social security costs	254,671	162,107
	1,118,268	866,349

	2010 Number	2009 Number
The average number of employees (including Directors) by location during the year:		
Argentina and Chile – exploration	48	41
United Kingdom – administration	3	3

7. Remuneration of Directors

Directors' emoluments:

	Note	2010 £	2009 £
Directors remuneration		431,493	287,228
Consultancy fees		119,000	119,000
Share-based payments	21	312,934	1,112,491
		863,427	1,518,719

In 2010 the highest paid Director received £184,637 (2009: £144,000).

There are no key management personnel outside of the Directors as shown above.

Notes to the financial statements

continued

8. Income tax expense

The tax charge for the year on the ordinary business of the Group was £nil (2009: £nil).

Factors affecting the tax charge for the year

	2010 £	2009 £
Loss on ordinary activities before taxation	(7,301,054)	(7,304,729)
Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 28 per cent. (2009: 28 per cent.)	(2,044,295)	(2,045,324)
Different local tax rates	(363,182)	(360,553)
Expenses not deductible for tax purposes	75,316	339,426
Losses and other temporary differences carried forward		
to future periods – UK	466,017	238,797
to future periods – Argentina	1,866,144	1,827,654
Total tax charge for the year on ordinary business	—	—

Factors that may affect future tax charges

The Group has losses and other temporary differences of approximately £13,100,000 (2009: £10,800,000) which may be utilised against future tax liabilities. A deferred tax asset has not been recognised in respect of these amounts due to uncertainties surrounding the event and timing of future profits.

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

9. Loss per share

The potential ordinary shares which arise as a result of the options in issue are anti-dilutive under the terms of IAS 33 because they would not increase the loss per share. Accordingly, there is no difference between the basic and dilutive loss per share.

Reconciliations of the loss and weighted average number of shares used in the calculations are set out below:

	Year to 31 December 2010	Year to 31 December 2009
Loss after tax (£)	(7,301,054)	(7,304,729)
Weighted average number of shares	647,624,975	572,842,503
Basic and diluted loss per share (pence)	(1.13)	(1.28)

Notes to the financial statements

continued

10. Property, plant and equipment

Following the Group's accounting policy on page 49, exploration expenditure is not capitalised until future recovery of these costs is considered probable. At 31 December 2010 only the Lomada de Leiva project had reached this stage.

	GROUP							COMPANY
	Office equipment £	Machinery and equipment £	Buildings £	Plant £	Mineral assets £	Vehicles £	Total £	Office equipment £
Cost								
At 1 January 2009	28,137	120,464	645,657	—	—	63,875	858,133	20,209
Additions/(Disposals)	4,072	43,690	—	—	—	23,865	71,627	1,069
Exchange differences	(1,407)	(19,303)	(114,566)	—	—	(11,334)	(146,610)	—
At 31 December 2009	30,802	144,851	531,091	—	—	76,406	783,150	21,278
At 1 January 2010	30,802	144,851	531,091	—	—	76,406	783,150	21,278
Additions	50,872	145,491	627,388	165,324	1,317,012	—	2,306,087	50,117
Disposals	(66)	—	—	—	—	—	(66)	(66)
Exchange differences	(46)	(1,307)	(5,216)	(745)	—	(344)	(7,658)	—
At 31 December 2010	81,562	289,035	1,153,263	164,579	1,317,012	76,062	3,081,513	71,329
Depreciation								
At 1 January 2009	17,680	66,031	1,102	—	—	34,086	118,899	15,374
Charge for the year	2,677	27,247	1,102	—	—	15,858	46,884	1,688
Exchange differences	(277)	(11,268)	(80)	—	—	(6,490)	(18,115)	—
At 31 December 2009	20,080	82,010	2,124	—	—	43,454	147,668	17,062
At 1 January 2010	20,080	82,010	2,124	—	—	43,454	147,668	17,062
Disposals	(66)	—	—	—	—	—	(66)	(66)
Charge for the year	7,142	50,496	2,866	—	—	13,361	73,865	6,103
Exchange differences	(42)	(1,323)	(50)	—	—	(566)	(1,981)	—
At 31 December 2010	27,114	131,183	4,940	—	—	56,249	219,486	23,099
Net book value								
At 31 December 2010	54,448	157,852	1,148,323	164,579	1,317,012	19,813	2,862,027	48,230
At 31 December 2009	10,722	62,841	528,967	—	—	32,952	635,482	4,216

As at 31 December 2010 the Group had the following capital commitment

Letter of Intent with INFA – In November 2010 a Letter of Intent was signed with INFA for site work at Lomada de Leiva. Work commenced in January 2011.

	2010 £	2009 £
Future capital expenditure	194,317	—

Notes to the financial statements

continued

11. Investments

COMPANY

	£
At 1 January 2010	
Investments in subsidiaries	11,837,882
Capital contributions during the year	7,369,903
At 31 December 2010	19,207,785

The Company periodically transfers funds to its subsidiaries in line with the annual budget, as capital contributions.

The Company investments in subsidiaries have been considered for impairment at 31 December 2010 on the basis of recently published exploration results and the progress being made on moving some projects towards production. The carrying value of the investments is stated after impairment provisions made in prior years. The Directors do not think that a further impairment charge is necessary.

Company	Country of incorporation	Percentage shareholding	Nature of business	2009 £	2010 £	Group companies £
Patagonia Gold SA	Argentina	100	Holding Co.	11,837,882	19,207,785	19,207,785
Minera Puerto Madryn SA (MPM SA)*	Argentina	100	Holding Co.	—	—	—
Patagonia Gold Chile S.C.M.	Chile	100	Exploration	—	—	—
At 31 December				11,837,882	19,207,785	19,207,785

* since dissolved

During prior years the Group began an internal reorganisation of its corporate structure. The Directors believe that the current carrying value of investments should be carried against Patagonia Gold SA as the principal operating subsidiary of the Group. As at the year end, whilst agreed by the Board and approved by the local regulatory agency (Inspección General de Justicia), some registration matters remain pending.

At 31 December 2010, the Company had the following wholly owned subsidiaries in which it had indirect shareholdings:

	Holding company	Country of incorporation	Nature of business	Percentage indirect shareholding
Huemules SA	Patagonia Gold Plc/Minera Minamalú	Argentina	Exploration	6.85
Leleque Exploración SA	Patagonia Gold Plc/Minera Minamalú	Argentina	Exploration	5.00

Notes to the financial statements
continued

12. Financial assets
GROUP AND COMPANY

	2010 £	2009 £
Financial assets – available-for-sale financial assets	159,608	122,941

13. Other receivables
Non current receivables

	GROUP		COMPANY	
	2010 £	2009 £	2010 £	2009 £
Recoverable VAT	2,335,962	1,617,315	—	—
	2,335,962	1,617,315	—	—

Trade and other receivables

	GROUP		COMPANY	
	2010 £	2009 £	2010 £	2009 £
Recharge of costs owed by Landore Resources Limited (note 20)	646	108	646	108
Recoverable VAT	11,800	6,798	11,800	6,798
Other receivables	25,673	53,769	50,061	20,134
Prepayments and accrued income	30,025	29,101	29,776	29,101
	68,144	89,776	92,283	56,141
Total trade and other receivables	2,404,106	1,707,091	92,283	56,141

All other receivable amounts are short-term.

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

There are no past due debtors.

Notes to the financial statements
continued

14. Cash and cash equivalents

	GROUP		COMPANY	
	2010	2009	2010	2009
	£	£	£	£
Bank and cash balances	677,079	824,018	8,256	8,179
Short-term deposits	6,121,100	2,070,459	6,121,100	2,070,459
	6,798,179	2,894,477	6,129,356	2,078,638

For the purposes of the consolidated cash flow statement, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the consolidated cash flow statement can be reconciled to the related items in the consolidated balance sheet as follows:

	GROUP	
	2010	2009
	£	£
Cash and cash equivalents per the consolidated balance sheet	6,798,179	2,894,477
Bank overdrafts	(176,853)	—
Cash and cash equivalents per the consolidated cash flow statement	6,621,326	2,894,477

15. Trade and other payables

Current payables

	GROUP		COMPANY	
	2010	2009	2010	2009
	£	£	£	£
Trade and other payables	2,013,126	1,559,988	424,370	11,493
Accruals and deferred income	294,848	131,397	294,848	131,397
	2,307,974	1,691,385	719,218	142,890

Non-current payables

	GROUP		COMPANY	
	2010	2009	2010	2009
	£	£	£	£
Long-term provisions	121,959	1,315	—	—
	121,959	1,315	—	—
Total trade and other payables	2,429,933	1,692,700	719,218	142,890

Non-current payables comprise a provision for remedying the environmental impact of works undertaken at the balance sheet date. The timing of any resultant cash outflows being uncertain by their nature.

The carrying values are considered to be a reasonable approximation of fair value.

	2010	2009
	£	£
Provision for environmental impact		
At 1 January	1,315	—
Increase in provisions during the year	120,644	1,315
At 31 December	121,959	1,315

Notes to the financial statements
continued

16. Called up share capital

	2010 £	2009 £
Authorised		
1,000,000,000 (2009: 1,000,000,000) ordinary shares of 1 pence each	10,000,000	10,000,000
Allotted, called up and fully paid		
675,852,783 (2009: 593,602,783) ordinary shares of 1 pence each	6,758,528	5,936,028
Balance at 1 January	5,936,028	4,735,528
Issue by Placing	812,500	1,200,000
Exercise of Option	10,000	500
Balance at 31 December	6,758,528	5,936,028

During the year 82,250,000 shares were allotted.

On 15 January 2010, the Company allotted 250,000 new ordinary shares of 1p each pursuant to the exercise of a share option on 6 January 2010.

On 4 May 2010 the Company placed 81,250,000 shares to a value of £13 million to fund working capital and exploration expenditure. The total issued share capital after this placing is 675,102,783 ordinary shares of 1p each.

On 14 September 2010, the Company allotted 125,000 new ordinary shares of 1p each pursuant to the exercise of a share option on 8 September 2010.

On 25 October 2010, the Company allotted 375,000 new ordinary shares of 1p each pursuant to the exercise of a share option on 18 October 2010.

On 29 October 2010, the Company allotted 50,000 new ordinary shares of 1p each pursuant to the exercise of a share option on 26 October 2010.

On 8 November 2010, the Company allotted 150,000 new ordinary shares of 1p each pursuant to the exercise of a share option on 4 November 2010.

On 15 November 2010, the Company allotted 50,000 new ordinary shares of 1p each pursuant to the exercise of a share option on 10 November 2010.

Subsequent events

On 5 January 2011, the Company allotted 100,000 new ordinary shares of 1p each pursuant to the exercise of a share option on 20 December 2010.

On 9 February 2011, the Company allotted 125,000 new ordinary shares of 1p each pursuant to the exercise of a share option on 7 February 2011.

On 14 March 2011, the Company allotted 300,000 new ordinary shares of 1p each pursuant to the exercise of a share option on 3 March 2011.

On 20 April 2011, the Company allotted 400,000 new ordinary shares of 1p each pursuant to the exercise of a share option on 29 March 2011.

On 19 April 2011, the Company announced that it placed 45,238,095 new ordinary shares of 1p each at a price of 42p per share raising £19 million to finance working capital and exploration expenditure.

On 28 April 2011, the Company announced that it placed 12,500,000 new ordinary shares of 1p each at a price of 42p per share raising £5.25 million to finance working capital and exploration expenditure.

Notes to the financial statements
continued

17. Financial assets and liabilities

The Group's financial instruments comprise cash and cash equivalents and various items such as trade receivables and trade payables, that arise directly from its operations.

The main purpose of these financial instruments is to finance the Group's operations.

The Board regularly reviews and agrees policies for managing the level of risk arising from the Group's financial instruments. These are summarised below:

Market risk

Foreign currency risk – The Group undertakes transactions principally in British pounds sterling and United States dollars. While the Group continually monitors its exposure to movements in currency rates, it does not utilise hedging instruments to protect against currency risk.

The functional currency of Patagonia Gold Plc is British pounds sterling. At 31 December 2010, Patagonia Gold Plc held cash balances and investments denominated in United States dollars.

The functional currency of Patagonia Gold SA is Argentinean peso. At 31 December 2010, Patagonia Gold SA held cash balances denominated in United States dollars.

Foreign currency denominated financial assets and liabilities, translated into British pounds sterling at the closing rate, are as follows:

		2010			2009	
	GBP	US$	AR$	GBP	US$	AR$
	£	£	£	£	£	£
Financial assets	1,527,513	5,227,282	203,638	1,020,927	1,987,187	9,411
Financial liabilities	(424,370)	—	(134,250)	(11,493)	—	(242,472)
Short-term exposure	1,103,143	5,227,282	69,388	1,009,434	1,987,187	(233,061)

The following table illustrates the sensitivity of the net result for the year and equity in regards to the Group's financial assets and financial liabilities and the sterling/US dollar and the sterling/Argentinean peso exchange rate.

It assumes a +/– 10 per cent. change of the sterling/US dollar exchange rate for the year ended 31 December 2010 (2009: 10 per cent.) and a +/– 10 per cent. change for the sterling/Argentinean peso exchange rate (2009: 10 per cent.). Both of these percentages have been chosen to reflect the recent market volatility of the currencies concerned. The sensitivity analysis is based on the Group's foreign currency financial assets and liabilities.

Notes to the financial statements
continued

17. Financial assets and liabilities *continued*

If sterling had weakened against the US dollar and Argentinean peso by the above percentages this would have had the following impact:

	2010		2009	
	US$	AR$	US$	AR$
	£	£	£	£
Net result for the year	—	1,408	—	(24,867)
Equity	580,809	6,301	220,799	(1,028)

If sterling had strengthened against the US dollar and Argentinean peso by the above percentages this would have had the following impact:

	2010		2009	
	US$	AR$	US$	AR$
	£	£	£	£
Net result for the year	—	(1,152)	—	20,346
Equity	(475,207)	(5,156)	(180,653)	841

Exposures to foreign exchange rates vary during the year throughout the normal course of the Group's business. The above analysis is considered to be representative of the Group's exposure to currency risk.

Interest rate risk – The Group utilises cash deposits at variable rates of interest for short-term periods, depending on cash requirements. The rates are reviewed regularly and the best rate obtained in the context of the Group's needs. The results of the Group are not significantly affected by the level of interest income.

Notes to the financial statements
continued

17. Financial assets and liabilities *continued*

Interest earning balances were held in British pounds sterling and United States dollars. The weighted average interest rate for British pounds sterling was 1.175 per cent. (2009: 0.27 per cent.) and for United States dollars 0.875 per cent. (2009: 0.25 per cent.).

	Weighted average effective percentage interest rate	Fixed interest rate £	Non interest bearing £	Total £
2010				
Financial assets				
Available for sale financial assets		—	159,608	159,608
Loans and receivables	1.03	6,121,100	703,398	6,824,498
Total financial assets		6,121,100	863,006	6,984,106
Financial liabilities				
Bank overdraft		—	(176,853)	(176,853)
Trade payables		—	(2,013,126)	(2,013,126)
Other payables		—	(294,848)	(294,848)
Total financial liabilities		—	(2,484,827)	(2,484,827)
Net financial assets		6,121,100	(1,621,821)	4,499,279
2009				
Financial assets				
Available-for-sale financial assets		—	122,941	122,941
Loans and receivables	0.26	2,070,459	877,895	2,948,354
Total financial assets		2,070,459	1,000,836	3,071,295
Financial liabilities				
Trade payables		—	(1,559,988)	(1,559,988)
Other payables		—	(131,397)	(131,397)
Total financial liabilities		—	(1,691,385)	(1,691,385)
Net financial assets		2,070,459	(690,549)	1,379,910

Liquidity risk

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

Notes to the financial statements
continued

17. **Financial assets and liabilities** *continued*

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

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

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

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

The on-going global financial situation is being monitored by the Board but is not affecting the Company at present.

The fluctuations within foreign exchange and commodities markets are currently within budget.

Financial assets

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

	GROUP		COMPANY	
	2010	2009	2010	2009
	£	£	£	£
Available-for-sale financial assets	159,608	122,941	159,608	122,941
Loans and receivables	26,319	53,877	50,707	20,242
Cash at bank and in hand	6,798,179	2,894,477	2,518,091	2,078,638

Cash at bank and in hand comprise cash and short-term deposits held by the Group treasury function. The carrying amount of these assets is approximately their fair value.

Financial liabilities

The Group and Company held the following financial liabilities:

	GROUP		COMPANY	
	2010	2009	2010	2009
	£	£	£	£
Bank overdraft	176,853	—	—	—
Financial liabilities at amortised cost	2,307,974	1,691,385	25,685	11,493

Notes to the financial statements
continued

17. Financial assets and liabilities *continued*

Financial instruments measured at fair value

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

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

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

The financial assets and liabilities measured at fair value in the balance sheet are grouped into the fair value hierarchy as follows:

	Level 1	Level 2	Level 3	Total
As at 31 December 2010	£	£	£	£
Assets				
Listed securities	159,608	—	—	159,608
Liabilities	—	—	—	—
Net fair value	159,608	—	—	159,608

There have been no transfers between levels 1 and 2 in the reporting period.

	Level 1	Level 2	Level 3	Total
As at 31 December 2009	£	£	£	£
Assets				
Listed securities	122,941	—	—	122,941
Liabilities	—	—	—	—
Net fair value	122,941	—	—	122,941

There were no transfers between levels 1 and 2 in the reporting period.

Measurement of fair value

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

Notes to the financial statements
continued

17. Financial assets and liabilities *continued*

Listed securities
The listed equity securities are denominated in British pounds sterling and are publicly traded on the London Stock Exchange AIM market. Fair values have been determined by reference to their quoted bid prices at the reporting date.

Capital management policies and procedures
The Group's capital management objectives are:

- To ensure the Group's ability to continue as a going concern;
- To increase the value of the assets of the business; and
- To provide an adequate return to shareholders in the future when new exploration assets are taken into production.

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

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

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

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

	2010 £	2009 £
GROUP AND COMPANY		
Operating leases which expire:		
Within one year	139,241	46,600
Within two to five years	202,592	12,406
	341,833	59,006

Notes to the financial statements
continued

19. Post balance sheet events

Amendment to Barrick Agreement
On 23 March 2011 the 'Back in Right' from the original property acquisition agreement was eliminated in exchange for a 2.5 per cent. Net Smelter Return royalty. Under the original agreement PGSA had granted Barrick an option to buy back up to a 70 per cent. interest in any particular property group upon the delineation of the greater of 2 million oz of gold or gold equivalent NI 43-101 Indicated Resource on that property group going forward.

Share Placing
On 19 April 2011 the Company placed 45,238,095 new ordinary shares to a value of £19 million to fund working capital and exploration expenditure.

On 28 April 2011, the Company placed 12,500,000 new ordinary shares to a value of £5.25 million to fund working capital and exploration expenditure.

Certain of these shares were placed with Directors, as set out below.

Director	Placing shares subscribed
Sir John Craven	476,190
C J Miguens	3,497,115
W H Humphries	476,190
G Tanoira	145,713

The total issued share capital after these placings is 734,515,878 ordinary shares of 1 pence each.

20. Related parties

Landore Resources Limited ("Landore")
During the year the Company recharged £50,801 (2009: £61,415) of costs, consisting mainly of accommodation and travel expenses, to Landore and there was a balance owing to the Company from Landore at 31 December 2010 of £593 (2009: £108).

Landore is a related party because William Humphries and Richard Prickett are Directors and shareholders.

Cheyenne S.A. ("Cheyenne")
During the year the Group paid £9,553 (2009: £nil) to Cheyenne for the provision of a private plane to facilitate occasional travel to outlying areas for Directors and senior employees.

Cheyenne is a related party because Carlos Miguens is a Director and controlling shareholder.

MB Holding S.A. ("MB")
During the year the Group paid £53,588 (2009: £34,978) to MB Holding S.A. for the provision of an office and related administrative services in Buenos Aires.

MB is a related party because Carlos Miguens is a Director and shareholder.

Notes to the financial statements
continued

21. Employee share schemes

Share-based payments – Group and Company

During the year ended 31 December 2010, the Company and the Group had share-based payment arrangements in existence which were granted as share option deeds. There are no performance conditions attaching to the options and all options exercised are settled by the issue of new equity shares.

Date of grant	Employees entitled	No of options	Exercise price (pence)	Remaining contractual life (years)
31.05.2002	Senior management	250,000	8.0*	1.42
10.09.2002	Employee	25,000	8.0*	1.70
08.10.2002	Director	350,000	8.0*	1.77
08.10.2002	Senior manager	300,000	13.5	1.77
07.03.2003	Director	150,000	8.0*	2.18
18.02.2004	Directors	9,687,000	8.0*	3.14
24.06.2004	Director	1,500,000	8.0*	3.48
23.11.2004	Senior management	1,000,000	14.75	3.90
22.06.2005	Senior management and employee	700,000	7.5	4.47
06.12.2005	Senior management	100,000	8.0*	4.93
17.05.2006	Senior management	200,000	14.5	5.38
01.03.2007	Employees	125,000	6.875	6.17
23.05.2007	Senior management	200,000	8.0*	6.39
05.06.2007	Director and employees	1,275,000	8.0*	6.43
05.06.2007	Employee	25,000	10.5	6.43
03.06.2008	Director and employees	1,475,000	8.0*	7.42
09.06.2009	Employees	1,375,000	12.0	8.44
09.06.2009	Directors	1,400,000#	8.0*	2.25
23.06.2009	Directors and senior management	21,413,000	12.25	8.48
01.03.2010	Employee	300,000	17.50	9.17
17.06.2010	Directors and employees	6,800,000	15.00	9.47
01.08.2010	Employee	300,000	15.00	9.59
01.09.2010	Employee	500,000	16.00	9.67

* On 19 January 2009 the Board of Directors agreed, following a recommendation from the Company's remuneration committee and subsequent approval by shareholders at the Company's Annual General Meeting of 9 June 2009, to re-price certain outstanding share options that have been issued to employees who remain within the Group in order to incentivise those individuals and to reflect a more realistic price level given the current market in the Company's shares. A total of 16,787,000 share options were re-priced to 8p, being a 10 per cent. premium to the mid-market price at close of business on 19 January 2009.

The Company's Employee Benefit Trust ("the Trust") which was established on 5 March 2003 has been cancelled. The awards which were made under the Trust to Mr Richard Prickett and Mr Marc Sale were replaced by ordinary share options.

Notes to the financial statements
continued

21. Employee share schemes *continued*

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

	2010 Weighted average exercise price pence	2010 Number of options	2009 Weighted average exercise price pence	2009 Number of options
Outstanding at the beginning of the year	10.51	42,350,000	13.57	20,217,000
Granted during the year	15.15	8,100,000	11.99	24,488,000
Exercised during the year	9.88	(1,000,000)	8.00	(50,000)
Cancelled during the year	—	—	12.46	(2,305,000)
Outstanding and exercisable at the end of the year	11.28	49,450,000	10.51	42,350,000

The options outstanding at the year end have an exercise price in the range of 6.875p to 17.50p and a weighted average contractual life of 6.85 years.

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

	2010	2009
Weighted average share price	11.25p	7.9p
Exercise price	11.28p	10.46p
Expected volatility (expressed as a percentage used in the modelling under Black-Scholes model)	35.5per cent.	22.5 per cent.
Dividend yield	nil	nil
Risk free interest rate (based on national government bonds)	0.5 per cent.	0.5 per cent.

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

The terms of the re-priced options and the measurement of their estimated fair value is as above.

The total expenses recognised for the period arising from share based payments are as follows:

	2010 £	2009 £
New options granted in the year	492,025	878,666
Re-priced share options granted in prior years	—	384,802
	492,025	1,263,468

Notes to the financial statements
continued

21. Employee share schemes *continued*

Basis and assumptions for fair value assessment of equity based schemes
The carrying amount of the liability at the end of the prior year has been settled during the current year. The fair value of the share appreciation rights at grant date is determined based on the formula. The model inputs were the share price of 11.25p, the exercise price of 11.28p, expected volatility of 35.5 per cent., no expected dividends, a term of 10 years and a risk-free interest rate of 0.5 per cent. The fair value of the liability is re-measured at each balance sheet date and at settlement date.

Subsequent events
On 5 January 2011, the Company allotted 100,000 new ordinary shares of 1p each pursuant to the exercise of a share option on 20 December 2010.

On 9 February 2011, the Company allotted 125,000 new ordinary shares of 1p each pursuant to the exercise of a share option on 7 February 2011.

On 11 February 2011, the Company granted options over 5,500,000 Ordinary shares of 1p to three Directors of the Company.

On 21 February 2011, the Company granted options over 900,000 Ordinary shares of 1p to three employees and consultants of the Company.

On 14 March 2011, the Company allotted 300,000 new ordinary shares of 1p each pursuant to the exercise of a share option on 3 March 2011.

On 20 April 2011, the Company allotted 400,000 new ordinary shares of 1p each pursuant to the exercise of a share option on 29 March 2011.

As a result of the above, the total number of options outstanding and exercisable becomes 54,925,000.

22. Auditors' remuneration

	2010 £	2009 £
Fees payable to the Company's auditor for the audit of the Company's annual accounts	36,000	35,000
Fees payable to the Company's auditor and its associates for other services:		
– Tax	4,000	4,000
– Other	1,200	1,650

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

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Patagonia Gold Plc (the "Company") will be held on Wednesday, 8 June 2011 at 11.00 am in the Oxford Suite at the London Marriott Hotel, 140 Park Lane, London W1K 7AA to consider and, if thought fit, to pass the following resolutions which in the case of resolutions 1 to 5 will be proposed as Ordinary Resolutions and in the case of resolution 6 will be proposed as a Special Resolution:

ORDINARY BUSINESS

1. To receive and, if approved, adopt the financial statements of the Company for the year ended 31 December 2010 and the reports of the Directors and auditors thereon.

2. To re-elect Sir John Craven, Non-Executive Chairman, who retires by rotation, as Non-Executive Chairman of the Company.

3. To re-elect Mr Marc Sale, Director of Operations, who retires by rotation, as Director of Operations of the Company.

4. To re-appoint Grant Thornton UK LLP as auditors to the Company until the conclusion of the next Annual General Meeting and to authorise the Directors to determine the auditor's remuneration.

SPECIAL BUSINESS

5. THAT, in addition to the Directors' existing authority, the Directors be and they are hereby generally and unconditionally authorised for the purposes of Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot shares in the Company and grant rights to subscribe for or to convert any securities into shares in the Company up to an aggregate nominal amount of £1,817,561.20 provided that this authority shall expire on 8 June 2016 unless revoked or renewed before that date and that the Company may before such expiry make an offer or agreement which would or might require shares in the Company to be allotted or rights to subscribe for or to convert any securities into shares in the Company to be granted after such expiry and the Directors may allot shares in the Company or grant rights to subscribe for or to convert any securities into shares in the Company in pursuance of such offer or agreement notwithstanding that the authority conferred hereby has expired.

6. THAT, in addition to the Directors' existing authority, (conditional upon the passing of the Ordinary Resolution numbered 5 above) the Directors be and they are hereby generally and unconditionally empowered pursuant to Section 570 of the Act to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the general authority conferred by resolution 5 above as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

   (a) in connection with an offer of such securities by way of a rights issue, open offer or any other pre-emptive offer to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange; and

Notice of Annual General Meeting
continued

(b) otherwise than pursuant to sub-paragraph (a) above, allotments of equity securities for cash up to an aggregate nominal amount of £838,206.70 and shall expire on 8 June 2016 unless revoked or renewed before such date, save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred hereby has expired.

By Order of the Board

Registered office:

Nigel Everest
Company Secretary

15 Upper Grosvenor Street
London W1K 7PJ

6 May 2011

Explanatory Notes to Resolutions 5 and 6

Resolution 5

Resolution 5 will be proposed as an Ordinary Resolution to provide the Directors with additional authority to issue new ordinary shares up to a nominal value of £1,817,561.20, representing approximately 24.75 per cent. of the Company's present issued share capital and to expire on 8 June 2016. In addition, the Directors continue to have residual authority from the resolution passed at the 2010 AGM to issue additional new ordinary shares up to a nominal amount of £630,825.05. Accordingly, if Resolution 5 is passed, the Directors will have authority to issue up to an aggregate of 244,838,625 ordinary shares representing approximately 33.33 per cent. of the Company's present issued share capital. Other than any issues of securities which may be required to be made pursuant to the share incentive arrangements, the Directors have no present intention of issuing any new Ordinary Shares, but believe it to be in the best interests of the Company for the Board to be granted this authority to take advantage of appropriate opportunities.

Resolution 6

Resolution 6 will be proposed as a Special Resolution to approve a disapplication of pre-emption rights on allotments for cash up to an aggregate nominal amount of £838,206.70 representing approximately 11.41 per cent. of the present issued share capital, to expire on 8 June 2016. This Resolution, if approved, will be in addition to the residual authority granted on 16 June 2010 in respect of £630,825.05 nominal value of equity securities and will enable the Board to allot up to an aggregate of £1,469,031.75 nominal value of equity securities for cash (representing approximately 20 per cent. of the Company's present issued share capital) without having to have regard for statutory pre-emption rights. Other than any issues of securities which may be required to be made pursuant to the share incentive arrangements, the Directors have no present intention of exercising this authority, but believe it to be in the best interests of the Company for the Board to be granted this power to take advantage of appropriate opportunities.

Notice of Annual General Meeting

continued

Notes

1. Shareholders entitled to attend and vote at the meeting may appoint one or more proxies to attend, speak and vote in their place. A proxy need not be a shareholder of the Company.
2. Shareholders may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. Shareholders may not appoint more than one proxy to exercise rights attached to any one share. Please contact the Company's Registrars, Capita Registrars, if you wish to appoint more than one proxy.
3. A vote withheld option is provided on the Form of Proxy to enable you to instruct your proxy not to vote on any particular resolution. However, it should be noted that a vote withheld in this way is not a "vote" in law and will not be counted in the calculation of the votes "For" and "Against" a resolution.
4. A Form of Proxy is attached with this document, and members who wish to use it should see that it is deposited, duly completed, with the Company's Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU by no later than 11.00 am on 6 June 2011 which is the time not less than 48 hours before the time fixed for the meeting (or adjournment thereof) weekends and bank holidays excluded. Completing and posting of the Form of Proxy will not preclude shareholders from attending and voting in person at the Annual General Meeting should they wish to do so.
5. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered in the Register of Members of the Company as at 6.00 pm on 6 June 2011 shall be entitled to attend or vote at the aforesaid meeting in respect of the number of shares registered in their name at that time. Changes to entries on the Register of members after 6.00 pm on 6 June 2011 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
6. Copies of the Executive Directors' service contracts are available for inspection at the registered office of the Company during usual business hours and will be available on the day of the Annual General Meeting from 10.45 am until the conclusion of the Meeting.
7. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) of it by using the procedures described in the CREST Manual. CREST personal members, sponsored CREST members and CREST members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action for them.

   To complete a valid proxy appointment or instruction using the CREST service, the CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must in order to be valid, be transmitted and received by Capita Registrars (Participant ID RA 10) by no later than 11.00 am on 6 June 2011 which is the time not less than 48 hours before the time fixed for the meeting (or adjournment thereof). The time of receipt of the instruction will be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which Capita Registrars is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

   CREST members and, where applicable, CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will apply to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s) to ensure that his CREST sponsor or voting service provider(s) take(s) the necessary action to ensure that a message is transmitted by means of the CREST system by a particular time. CREST members and, where applicable, their CREST sponsors or voting service provider(s) should refer to the sections of the CREST Manual concerning practical limitations of the CREST system and timings.

   The Company may treat a CREST Proxy Instruction as invalid as set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

   Completion and return of a Form of Proxy will not preclude members from attending or voting in person at the meeting if they so wish.

For your notes

Form of Proxy

For Annual General Meeting

I/We

of

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

as my/our proxy in respect of ....Ordinary Shares to vote for me/us on my/our behalf at the Annual General Meeting of the Shareholders of the Company to be held in the Oxford Suite at the London Marriott Hotel, 140 Park Lane, London W1K 7AA on Wednesday, 8 June 2011 at 11.00 am and at any adjournment thereof and to vote thereat as indicated below.

☐ Please indicate with an 'X' if this is one of multiple proxy appointments being made. (see note 2)

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

Resolution number	For	Against	Withheld
1. Ordinary Resolution to receive and adopt the financial statements of the Company for the year ended 31 December 2010			
2. Ordinary Resolution to re-elect Sir John Craven as a Director			
3. Ordinary Resolution to re-elect Mr Marc Sale as a Director			
4. Ordinary Resolution to re-appoint Grant Thornton UK LLP as auditors and to authorise the Directors to determine the remuneration of the auditors			
5. Ordinary Resolution to empower the Directors to allot shares for the purposes of section 551 of the Companies Act 2006			
6. Special Resolution to empower the Directors to allot equity securities pursuant to section 570 of the Companies Act 2006			

Signature(s) or common seal

Date

Notes

1. A proxy need not be a member of the Company. Your proxy can exercise all or any of your rights to attend, speak and vote at the Annual General Meeting.
2. To appoint more than one proxy, (an) additional proxy form(s) may be obtained by contacting the Registrars helpline on 0871 664 0300 (standard rate of 10p per minute plus any network charges) or you may copy this form. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given and return all forms together in the same envelope.
3. If you do not indicate how you wish your proxy to use your vote in a particular matter, the proxy will exercise his/her discretion as to how he/she votes and as to whether or not he/she abstains from voting.
4. In the case of a corporation this Form of Proxy must be executed under seal or under the hand of an officer or attorney duly authorised in writing.
5. Forms of Proxy, to be valid, must be signed and must be lodged, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, with the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU by no later than 11.00 am on 6 June 2011 which is the time not less than 48 hours before the time appointed for holding the meeting (weekends and bank holidays excluded).
6. In the case of joint holders, the signature of any one of them will suffice, but if a holder other than the first-named holder signs, it will help the Registrars if the name of the first-named holder is given.
7. Any alteration to this form must be initialled.
8. Completion and return of this Form of Proxy does not preclude a member subsequently attending and voting at the meeting. If you have appointed a proxy and attend the meeting in person, your appointment will automatically terminate.
9. CREST members should use the CREST electronic proxy appointment service and refer to Note 7 of the Notice of Annual General Meeting in relation to the submission of a proxy appointment via CREST.

Patagonia Gold Plc
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