PATAGONIA GOLD PLC

Annual Report 2011

Rock Solid

Solid Growth

Targeting an Annual Production of

+200,000

Ounces of Gold by 2015

CORPORATE PROFILE Patagonia Gold Plc is an advanced mining exploration company that seeks to grow shareholder value through the acquisition, exploration and development of gold and silver projects in the southern Patagonia region of Argentina. The Company is primarily focused on the development of two properties: the flagship Cap-Oeste project and the nearby COSE project, which is expected to begin generating free cash flow by 2013. Patagonia Gold, indirectly through its subsidiaries or under option agreements, has mineral rights to over 220 properties in several provinces of Argentina and Chile, covering approximately 800,000 hectares, being one of the largest landholders in the province of Santa Cruz. The Company is headquartered in London, with subsidiary offices in Buenos Aires and Toronto.

Patagonia Gold is listed on the Toronto Stock Exchange (TSX) under the symbol PAT and has been listed on the AIM market of the London Stock Exchange under the symbol PGD since 2003.

Solid Investment

Solid Portfolio of Advanced Exploration Projects

Solid Properties in Mining-Friendly Santa Cruz Province

Solid Geological Prospectivity and Significant Land Holdings in the Deseado Massif

Solid Strategic Partnership With Fomicruz, the mining arm of Santa Cruz Province

Solid Exploration Program to Grow Resources

Solid Experienced Team With Extensive In-Country Expertise

Solid Momentum

Corporate History

FEBRUARY
- Patagonia Gold enters into agreement with Barrick Gold to acquire exploration properties in Santa Cruz, Argentina

MARCH/JULY
- Two equity offerings completed for gross proceeds of £3.7 million

MAY
- Patagonia Gold and Fomicruz enter into Letter of Intent to create strategic partnership to explore & develop Santa Cruz properties

JANUARY/JULY/OCTOBER
- Three equity offerings completed for gross proceeds of £6.1 million

Corporate Activity

2007

Exploration & Development

2008

AUGUST
- Initial resource estimate for Lomada de Leiva Project

OCTOBER
- Initial resource estimate for Cap-Oeste Project

NOVEMBER
- Scoping study completed for Lomada de Leiva Project

MARCH
- Equity offering completed for gross proceeds of £9.3 million

MAY
- Patagonia Gold and Fomicruz ratify strategic partnership to explore & develop Santa Cruz properties

2009

SEPTEMBER
- Resource update for Cap-Oeste Project

MAY
- Equity offering completed for gross proceeds of $20.1 million (£13.0 million)

2010

SEPTEMBER
- Construction of trial heap leach pad commences at Lomada de Leiva Project
- Resource estimate for La Manchuria Project

NOVEMBER
- Environmental Impact Assessment approved for the El Tranquilo property block

MARCH
- Agreement with Barrick Gold amended to remove back-in right, replaced it with 2.5% net smelter return royalty

APRIL
- Two equity offerings completed for gross proceeds of $39.2 million (£24.2 million)

OCTOBER
- Patagonia Gold and Fomicruz formalize strategic partnership with shareholder agreement to explore & develop Santa Cruz properties

DECEMBER
- Patagonia Gold commences trading on Toronto Stock Exchange under symbol PAT

2011

MARCH
- Resource estimate for COSE Project
- Preliminary Economic Analysis for COSE Project

NOVEMBER
- Resource update for Cap-Oeste Project

Chairman's Statement

I am pleased to present the 2011 Annual Report of Patagonia Gold Plc. The 2011 report includes a new section entitled the Management Discussion and Analysis ("MD&A"), which is mandatory for companies listed on the Toronto Stock Exchange ("TSX"), which we hope you will find instructive and useful.

The Company achieved rapid progress during the year as we executed our strategy, accelerating the transition from an exploration company to a precious metals producer. We are well on track towards our objective of producing 200,000 ounces of gold a year by 2015.

Our exploration program in 2011 more than doubled the metres drilled in 2010. Assays confirmed strong mineralization, with the results set out in several new NI 43-101 compliant reports that raised the total indicated resources to 1.3 million ounces of gold equivalent. We focused exploration at our flagship Cap-Oeste Project while at the nearby high-grade COSE gold project we paved the way for an intensive mine development schedule that aims for gold production to begin in early 2013. Meanwhile, at our Lomada de Leiva Project, we achieved gold production at a surface mine and pilot heap leach pad and are preparing to quadruple its processing capacity in 2012 to full commercial production.

Our exploration and development activities during the first five months of 2011 were financed by an equity placement in April 2010. In April and May 2011, we replenished the Company's balance sheet with equity offerings that raised gross proceeds of $39.2 million. At year end the Company's cash position was $11.3 million.

To broaden Patagonia Gold's exposure to global equity markets, the Board of Directors listed the Company's shares on the TSX in December 2011. In addition to providing direct access to a larger and more diverse audience of investors, the initiative will add to the liquidity of Patagonia Gold's shares and broaden the Company's international profile with research coverage from North American equity analysts. Of course the Company's shares continue to be listed on the AIM market in London.

As Patagonia Gold evolves from an exploration operation to a mining company, revenues and expenses will increasingly be denominated in U.S. dollars. To reflect this, we changed our reporting currency from sterling to the U.S. dollar.

During 2011 Patagonia Gold negotiated two important arrangements with other companies. First, we fundamentally changed the 2007 land acquisition agreement with Barrick Gold Corporation by negotiating the removal of a back-in right (that could have resulted in Barrick regaining control of the properties under certain circumstances). This was replaced with a 2.5% net smelter return royalty, which more closely aligns our interests with those of Barrick.

We also finalized a definitive shareholder agreement with Fomicruz, the mining company owned by the Santa Cruz provincial government. Details are set out elsewhere in this report, but the accord's significance lies in a strategic long-term partnership being forged with an Argentinean government agency. The agreement reinforces our close ties to the Province of Santa Cruz. Fomicruz will be represented by resident management and board members who bring extensive in-country knowledge and experience. They share a common vision with Patagonia Gold and support our strategy by acting as a vital link with Argentinean governments, communities and stakeholders.

Patagonia Gold's Board of Directors underwent some changes during 2011. Richard Prickett, who has contributed greatly to the company over the past several years, retired and his wise counsel will be missed. We made two new appointments to the board, Gary A. Sugar and Edward J. Badida, both leading figures in the Canadian financial and mining community, whose diverse strengths will serve the Company well as Patagonia Gold embarks on an important new phase of development and growth in 2012.

Sir John Craven
Non-Executive Chairman
April 24, 2012

Report from the Managing Director/Chief Executive Officer

Patagonia Gold has moved strongly forward during the past 12 months, continuing exploration on its highly prospective properties in Santa Cruz province, Argentina, as well as preparing for precious metal production. The Company has accelerated exploration drilling to increase mineable resources on our flagship Cap-Oeste project as well as assertively pursuing mine development and processing initiatives that aim to begin generating cash flow in 2013.

In November 2011 Patagonia Gold reported updated indicated resources totalling 1,247,837 ounces AuEq and inferred resources totalling 435,935 ounces AuEq on the Cap-Oeste, COSE, La Manchuria and Lomada deposits, all Canadian National Instrument 43-101 compliant. There is considerable potential for resource expansion, with mineralization at the Cap-Oeste and La Manchuria projects remaining open in all directions, and mineralization at COSE open down plunge.

Patagonia Gold's aim is to fund growth internally with sales of gold and silver mined from its properties. With this objective in mind, the Company's COSE property has been the focal point of considerable development within the past year.

In March 2011 the Company successfully completed a Preliminary Economic Assessment for COSE, which returned a Net Present Value of $63.7 million at a gold price of $1,204 per ounce and silver at $23.75 per ounce over a mine life expected to last only 23 months. The internal rate of return is expected to be an extraordinary 870%.

During the third quarter of 2011 preparations began for underground mine development at COSE. By yearend, our key management team was in place, including Project Manager, Underground Engineers and Geologists. Residential buildings were completed, new mining equipment had been delivered onsite and workshops and processing facilities were well underway.

Mining at COSE is scheduled to begin in early 2013, and is expected to start generating revenue in the second quarter of 2013. Over the subsequent 12 months, COSE will partly fund development of the Cap-Oeste property into production.

Patagonia Gold has achieved another step in becoming a commercial gold producer, with further advancement of the heap leach operation at its Lomada project. The pilot project operated successfully at an initial capacity of 50,000 tonnes in late 2011, and during 2012 it will be quadrupled in size to a production level of 200,000 tonnes. Design of the processing facility, or "gold room", is complete and commissioning is scheduled for the second quarter of 2012.

By early 2013 Lomada is expected to be producing 21,000 ounces of gold a year at an average cash cost of $325 per ounce of gold. At that level, Lomada will be generating sufficient cash flow to fund all exploration drilling at our Santa Cruz properties for a mine life of at least seven years.

Patagonia Gold has also been active on its other properties. During 2011, 8,800 metres of drilling was conducted on several prospects in close proximity to the Cap-Oeste and COSE projects. Much of this exploration work was at Monte Leon, where 5,188 metres was drilled on a newly discovered, 1.8 kilometre long mineralized target area.

During 2012 Patagonia Gold achieved several important corporate milestones. A significant amendment was made to the original property acquisition agreement with Barrick Gold that eliminated Barrick's back-in right, in exchange for a 2.5% net smelter return royalty. This change will ensure there will be no future impediments to property development and control.

At yearend 2011 Patagonia Gold formalized an agreement with Fomicruz, the mining company owned by the Santa Cruz government. The accord contributes substantial land holdings for exploration and development by Patagonia Gold. In addition, the Company mitigated property ownership risk by negotiating deals with landowners that extend surface mining rights at Cap-Oeste, COSE and Lomada.

Since inception, Patagonia Gold has built a highly knowledgeable Argentinean management team and skilled local work force with extensive in-country mining experience. In addition, the Company maintains close ties to the Argentinean business community, providing an important liaison with the national and provincial governments.

Going forward, Patagonia Gold will continue to execute on its growth strategy, which consists of:

1. Expanding resources at Cap-Oeste in preparation for mine development;
2. Accelerating development and mining of COSE to partly fund Cap-Oeste;
3. Expanding the Lomada heap leach operation to fund exploration activities; and
4. Exploring prospective properties to discover new deposits.

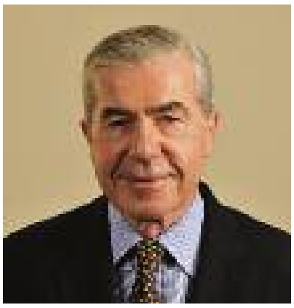
An ambitious 80,500 metre drilling program is in progress on our properties in Santa Cruz, of which 40,500 metres has been planned for our flagship project, Cap-Oeste. Other prospective locations within the same property block and within mine trucking distance will be drilled, including COSE, Monte Leon, La Pampa, La Marciana, Vetas Norte and Don Pancho. The Company will also continue exploration on other prospects including La Manchuria, as well as regional targets Sarita, El Bagual and Bajo Pellegrini.

Patagonia Gold is well on its way to achieving its growth objective of producing 200,000 ounces of gold a year by 2015. The Company has achieved major milestones, thanks to the skill and diligence of its staff, the assistance and goodwill of its Argentinean hosts, the advice and counsel of its Board of Directors and the confidence of its shareholders. As Patagonia Gold reaches towards its goals in 2012, we look forward to a future of achievement, prosperity and excitement.

Bill Humphries
Managing Director/Chief Executive Officer
April 24, 2012

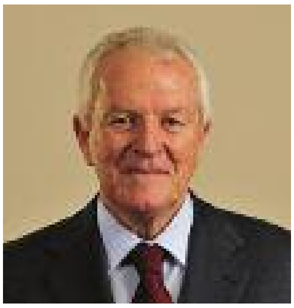
La Bajada crew

Board of Directors



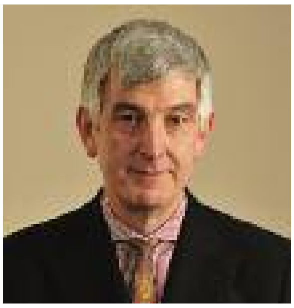
Sir John Craven *(Non-Executive Chairman)* joined the Board in 2004. Sir John was formerly Chairman of Morgan Grenfell Plc, a member of the Board of Managing Directors of the Deutsche Bank Group and Chairman of Lonmin Plc. In addition he has served on the boards of a number of other major companies, 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 of Cerveceria & Malteria Quilmes, one of Argentina's largest brewing companies for 11 years, until its sale to Ambev. He is the President of MB Holding S.A. and a Director of a number of other companies. Carlos is a co-founder and Vice-President of A.E.A. (Asociación Empresaria Argentina). He has also been the President of Patagonia Gold S.A. since its inception.

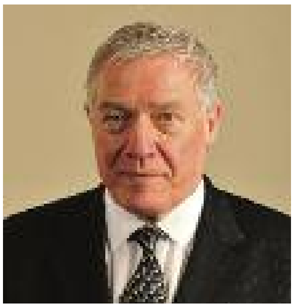


William H. Humphries *(Managing Director/Chief Executive Officer)* has been a Director of the Company since its inception and has over 40 years' experience in the mining and civil engineering industries. From January 1999 Bill was Managing Director of Brancote Holdings Plc until its acquisition by Meridian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

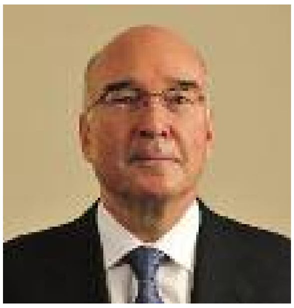
Gonzalo Tanoira *(Finance Director)* has been a Director of the Company since its inception. He is also a Director of S.A. San Miguel, an Argentine publicly traded lemon producer, since April 2003 and President since April 2010. He was also Director and Vice-President of Avex, an Argentine poultry production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



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.



Edward J. Badida *(Non-Executive Director)* is a Chartered Accountant with over 40 years of financial management and corporate governance experience. He is currently Chief Financial Officer of Temex Resources Corp. and Rio Silver Inc., both listed on the TSX Venture Exchange. Over the past decade Ed has also served as Chief Financial Officer and/or has been a board member of 10 other companies listed on either the TSX or the TSX-V. He has additionally held management positions at accounting firms PricewaterhouseCoopers and KPMG.



Gary A. Sugar *(Non-Executive Director)* is an investment banker who retired in 2011 as Managing Director of RBC Capital Markets, where he worked since 1979. He specialized in the mining sector, particularly in mergers and acquisitions, debt and equity financings, initial public offerings and corporate banking relationships. Gary brings experience across a broad range of commodities and geographic regions, particularly in the domains of corporate development, valuation and M&A transactions.

Operations Report

Patagonia Gold Plc is focused primarily on exploration in the Santa Cruz province of Argentina through its 90%-owned Argentinean subsidiary Patagonia Gold S.A.

Santa Cruz is a mining-friendly province with a vigorous and growing mining industry. The volcanic plateau of the Deseado Massif of Santa Cruz is six million hectares in area and hosts geological formations that are highly prospective for precious metals. Mineralization generally takes the form of low-sulphidation epithermal, "bonanza" vein style gold-silver deposits and their brecciated equivalent.

Proving up mineralization can require a substantial amount of drilling, but the rewards can be great. Many of the high grade geological structures in the region are host to some of the lowest cost gold and silver operations in the world as new mines are brought to production.

These attributes have attracted mining companies that have created a number of highly productive precious metal mines and advanced projects. As a result, Santa Cruz benefits from an accommodating regulatory regime, existing infrastructure and a skilled work force that understands exploration and mining.

Breccia: A Matrix for Precious Metals

Breccia is a type of rock formed of broken fragments of coarse-grained gravel or stone that are fused together in a finer-grained matrix that can be different from or similar to the fragments themselves. Breccias have a number of differing origins derived from the geological events that gave rise to their formation. Typical types include igneous breccia, tectonic breccia, sedimentary breccia, hydrothermal breccia and impact breccia. Breccia constitutes one of the main geological formations that host gold in economically mineable concentrations.

2011 Operational Highlights

During the year, Patagonia Gold increased total indicated resources by 67% to 1,247,837 ounces of gold equivalent (AuEq). Inferred resources grew by 202% to 435,935 ounces AuEq.

The resource growth was achieved with 61,650 metres of exploration drilling in 2011, an increase of 34,748 metres or 129% from 2010. Exploration expenditures totalled $18.7 million, an increase of $11.5 million or 160% over the previous year.

- **MARCH –** An NI 43-101 compliant resource and Preliminary Economic Assessment was filed for the COSE Project. The resource included 63,835 ounces AuEq in the indicated category and 42,557 ounces AuEq in the inferred category, grading 60 g/t gold and 1,933 g/t silver.

- **MARCH –** Patagonia Gold negotiated changes to the 2007 property acquisition agreement with Barrick Gold. The new accord removes Barrick's back-in right and replaces it with a 2.5% net smelter return royalty.

- **MAY –** Construction of the Lomada Project heap leach trial was completed on time and on budget, and was successfully commissioned to begin testing at the 50,000 tonne level.

- **OCTOBER –** Patagonia Gold formalized a shareholder's agreement with Fomicruz, the mining arm of the government of Santa Cruz Province. The pact sets out terms for a strategic partnership to develop certain mining properties in Santa Cruz.

- **OCTOBER –** Construction began on a new camp and workshop facilities at the COSE Project site to prepare for mine development.

- **NOVEMBER –** The Company filed an updated NI 43-101 resource summary for the Cap-Oeste Project. Indicated resources increased by 165% to 966,972 ounces AuEq and inferred resources grew by 324% to 228,968 ounce AuEq.

- **DECEMBER –** The Company acquired surface rights to the 20,000 hectare Estancia El Tranquilo property, which provides for the unencumbered development of its projects in the area.

- **DECEMBER –** The Lomada Project 50,000 tonne trial heap leach operation concluded after successfully testing according to specification.

- **DECEMBER –** Patagonia Gold Ordinary Shares begin trading on the Toronto Stock Exchange under the symbol PAT; trading continues on AIM under the symbol PGD.

Patagonia Gold's Properties

Patagonia Gold Plc's ("Patagonia" or the "Company) growth strategy aims to develop a number of projects located in the province of Santa Cruz in Argentina, a mineral-rich region that hosts several medium sized producing assets such as Cerro Vanguardia (AngloGold Ashanti), San Jose Mine (Hochschild Mining Plc), Manantial Espejo (Pan American Silver Corp) and the world class Cerro Negro mine currently under development (Goldcorp Inc.).

Patagonia's 90%-owned operating company, Patagonia Gold S.A. ("PGSA"), owns exploration and development properties that cover a total of 350,000 hectares in Santa Cruz Province. Of this total, approximately 200,000 hectares were acquired in 2007 when PGSA purchased Barrick Gold Corporation's ("Barrick") entire exploration property portfolio in the very prospective volcanic plateau of the Deseado Massif. PGSA further expanded its land position by adding 100,000 hectares when it entered into the Fomicruz agreement in 2011. The remaining 50,000 hectares were acquired in smaller parcels.

Santa Cruz Province is the location of PGSA's four main properties (see map on next page). Cap-Oeste is the flagship project and the main focus of the Company is to bring the Cap-Oeste Project into development as a stand alone mine. Two kilometres along strike from Cap-Oeste is the smaller but strategically vital Cap-Oeste South-East (COSE) Project. The Lomada de Leiva and La Manchuria Projects are 120 kilometres and 50 kilometres away, respectively. The Lomada Project is located to the northwest close to Cerro Negro and the La Manchuria Project is situated within a regional corridor some 50 km's to the southeast. The other exploration leases within the PGSA portfolio are shown on the map along with the locations of the major producing and late stage development assets currently within the Deseado Massif.

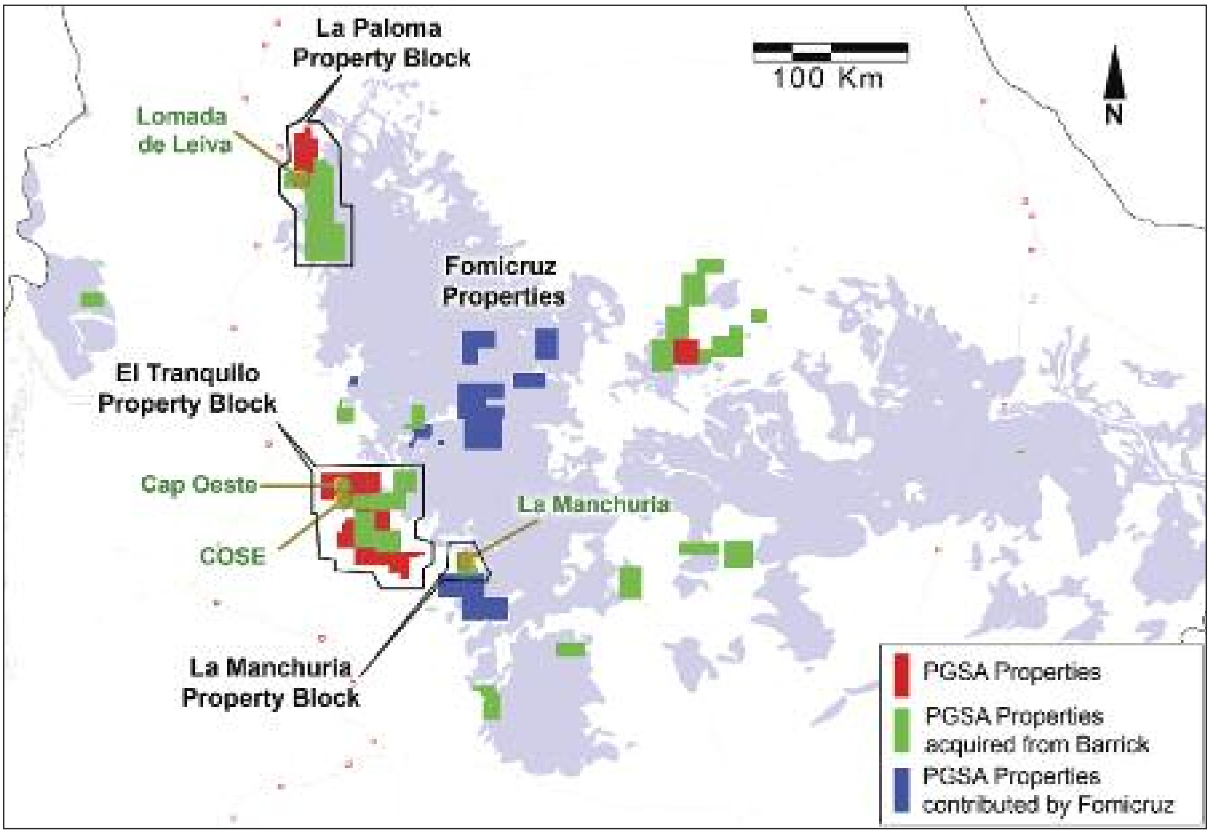
Several of PGSA's properties host mineralization that is not typical of epithermal vein systems. The properties are characterized by low sulphidation, epithermal style gold-silver deposits hosted within hydrothermal breccias or fault hosted breccias, with widths up to 35 metres of Bonanza

2011 Indicated Resources

		Grade (g/t)			Metal (Oz)		
Project	Tonnes	Au	Ag	AuEq	Au	Ag	AuEq
Cap-Oeste	8,182,948	2.28	74.71	3.68	599,570	19,656,004	966,972
COSE	20,637	60.06	1,933.07	96.21	39,850	1,282,582	63,835
Manchuria	425,705	2.95	135.00	4.07	40,317	1,848,211	55,684
Lomada	5,002,016	1.00	NA	NA	161,346	NA	161,346
Total Indicated					841,083	22,786,797	1,247,837

2011 Inferred Resources

		Grade (g/t)			Metal (Oz)		
Project	Tonnes	Au	Ag	AuEq	Au	Ag	AuEq
Cap-Oeste	2,420,252	2.01	49.85	2.94	156,465	3,878,940	228,968
COSE	13,758	60.06	1,933.07	96.21	26,566	855,055	42,558
Manchuria	1,469,020	1.53	49.4	1.92	72,335	2,335,236	90,682
Lomada	3,412,270	0.67	NA	NA	73,727	NA	73,727
Total Inferred					329,093	7,069,231	435,935



Location of PGSA Properties in Santa Cruz Province

grade mineralization being intersected. The Cap-Oeste Project falls into this category, as does the COSE Project. Classic low sulphidation epithermal veins with high grade Au-Ag intersected within narrow steeply dipping structures characterize other properties. The diversity and varied mineralization styles differ with regards to location within the Deseado Massif.

Since the acquisition from Barrick, the Company has rapidly grown its resource base through the implementation of a thorough and aggressive exploration and development program. Exploration activities have consisted of surface sampling, trenching, geophysics, drilling and mapping. Resources delineated to date are listed in the table on page 12.

Patagonia has the added advantage of having the Santa Cruz government as a strategic partner. Fomicruz, a government-owned mining company, gained 10% of PGSA in return for the rights to explore, develop and mine 100,000 hectares of Fomicruz's mining properties. This strategic partnership with Fomicruz also aims to develop a number of PGSA's projects, including the four main properties cited above.

The extensive historical exploration database, highly prospective geology, well-developed infrastructure, receptive provincial government and local workforce that understands mining make Santa Cruz an ideal location for mining exploration and development.

Cap-Oeste Project

The Cap-Oeste Project is Patagonia's flagship project. It is located within a structural corridor extending 6 km from the La Pampa prospect in the northwest to the Tango prospect in the southeast (see map). The Cap-Oeste deposit to date has an identified and delineated strike extent of 1.1 kilometres.

Since acquiring the property from Barrick in 2007, PGSA has drilled 340 holes for a total of 74,817 metres in that period to December 31, 2011. During that time, PGSA has filed three NI 43-101 resource estimates. The most recent, filed in November 2011, described Phase II and III exploration activities consisting of geologic mapping, excavation of five trenches and gathering of 82 channel samples, 295 drill holes totaling 48,858 metres, a petrographic study, topographic survey, three-dimensional modeling and geophysical surveys. Subsequent to December 31, 2011, the Company provided two updates of drill results and reported metallurgical testwork findings in the first quarter of 2012.

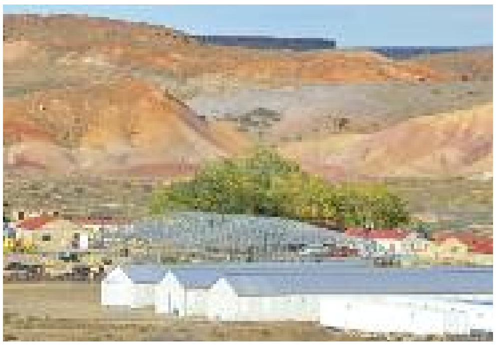
The rapid expansion of the mineralized deposit at the Cap-Oeste Project is reflected in the NI 43-101 resource estimates. In the most recent update, filed in November 2011, the Company reported indicated resources totaled 966,972 ounces of gold equivalent, which was 165% higher than the previous NI 43-101 resource estimate in September 2009. Inferred resources amounted to 228,968 ounces, or 324% higher than the previous estimate.

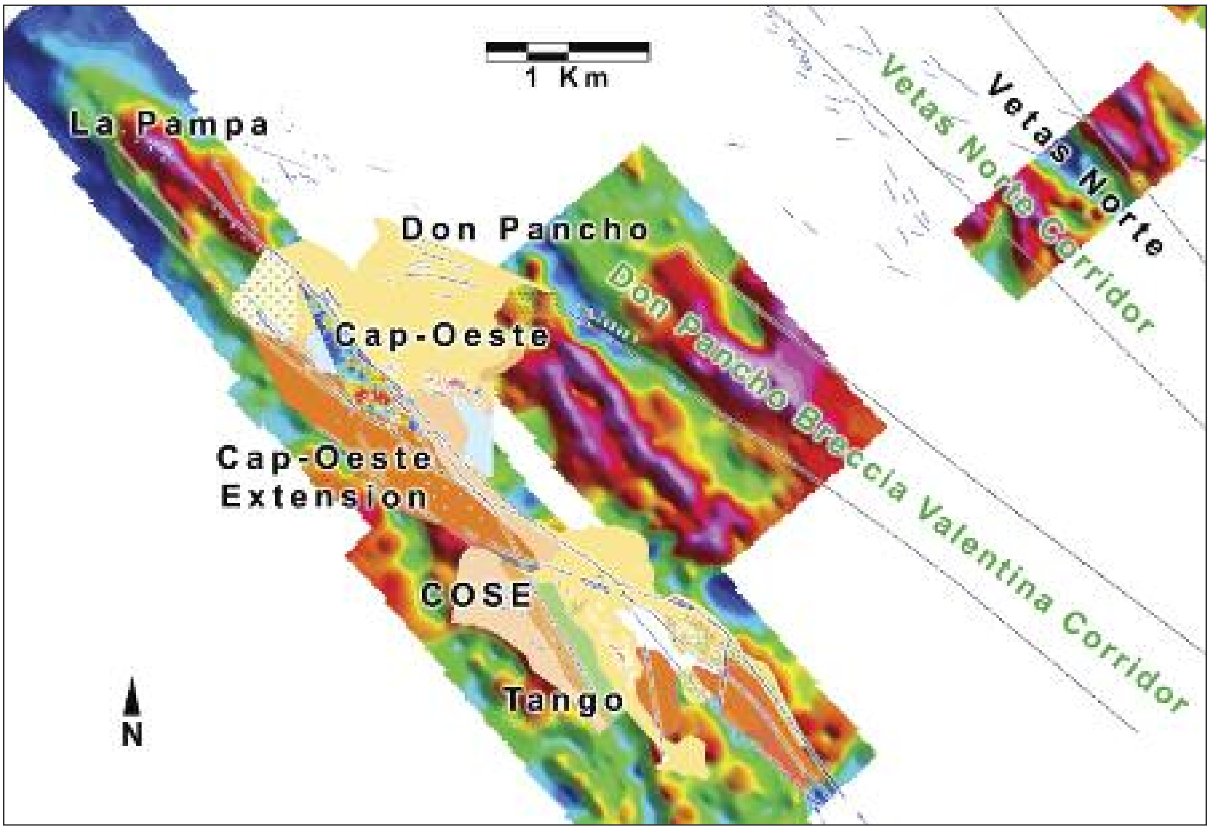
The most recent metallurgical testwork results, reported in February 2012, were highly encouraging. Oxide samples recovered up to 98.8% gold and 97.5% silver, while sulphide samples returned up to 88.3% gold and 95.5% silver. Additional metallurgical testwork programs are ongoing and will continue throughout the pre-feasibility and feasibility study period. Currently a testwork program analysing 1,000 kg of material is scheduled to commence in the second quarter of 2012 and conclude in the third quarter.

The Phase III infill and extension drilling campaign at Cap-Oeste consisted of 57 drill holes totaling 20,210 metres. It concluded in early February to allow for the preparation of a fourth NI 43-101 resource estimate, scheduled for release in second quarter of 2012.

Phase IV step-out drilling at Cap-Oeste began in March 2012 with three rigs turning on the property. A program totalling 40,500 metres of diamond drilling has been approved for 2012 with the focus on the six kilometre structural corridor from La Pampa to Tango and including the COSE Project.

The development timeline for Cap-Oeste expects to have the pre-feasibility study completed by early 2013, a full feasibility study filed by the end of 2013, permitting and commencement of construction in 2014 and full production commencing in 2015.





Cap-Oeste and COSE Project Areas

COSE Project

Cap-Oeste Southeast (COSE), located two km along strike from Cap-Oeste, is scheduled to be the second mine to be brought into production within the PGSA portfolio. The primary objective is to capitalize on the significant short-term cash flow which the COSE Project can potentially provide and to reduce the overall reliance on external funding for the construction of the main Cap-Oeste Project.

COSE is a fault breccia hosted quartz sulphide rich Au Ag system hosted within the intersection of the steeply dipping COSE (extension of Bonanza) fault and cross cutting northeast and southwest trending structures. The mineralization was discovered in early 2010 during exploration along the Bonanza fault towards Tango. Results from initial drilling indicated that the grades intersected might lead to the delineation of a stand-alone resource for short-term development. This proved to be the case with a resource in excess of 100,000 AuEq ounces being delineated in approximately 36,000 tonnes of material.

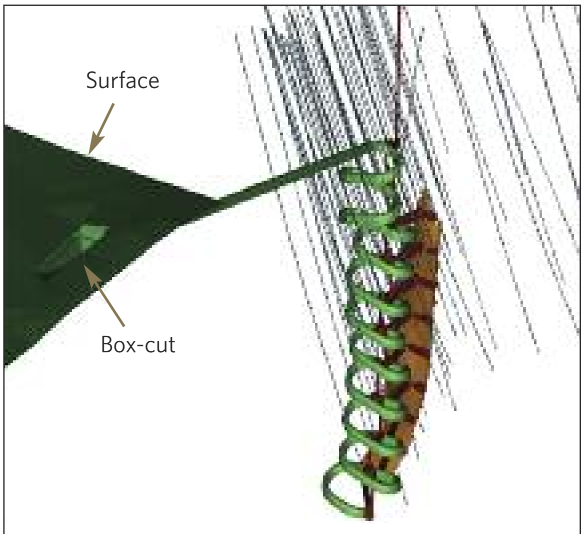
In 2010 the company filed the maiden NI 43-101 resource estimate for the COSE Project. At the same time a preliminary economic assessment, or scoping study, was completed to establish viability for the construction, mining and processing of the deposit. Drilling continued in 2011, and at the end of the year, a total of 69 holes had been completed as part of a multi-year campaign totaling almost 20,000 metres from 2008 to 2011.

Wide low grade or diffuse zones of Ag rich low-grade Au mineralization characterize the mineralization outcrops at surface and within the first 130 metres vertically down dip. Below 130 metres and continuing to a currently delineated depth of 260 metres, the width of the fault hosted breccia decreases and the grade of both Au and Ag increase exponentially leading in turn to the overall resource grade being estimated in excess of 90 g/t AuEq. The mineralization is still open at depth and one of the objectives of the decline development is to create a drill access gallery area to fully test the down dip potential.

The scoping study showed the deposit to have very attractive financial characteristics that included a production rate of 3,600 tonnes per month at a cash cost of $167 per tonne, net revenue of $63.7 million (assuming gold price of $1,204 per ounce and Ag of 23.75 per ounce), net present value of $56.8 million at an 8% discount rate, an extraordinary internal rate of return of 870% and a payback period of only two months after the start of production.

These figures position the COSE Project as a near-term gold mine with a 13-month production lifespan, during which it can generate internal funding for the development of Cap-Oeste. Construction of the decline is scheduled to begin in second quarter of 2012 and is expected to take twelve months to complete. COSE is scheduled to begin production of resources in early 2013 and continue into 2014, approximately one year before the Cap-Oeste Project is slated to begin producing gold in 2015.

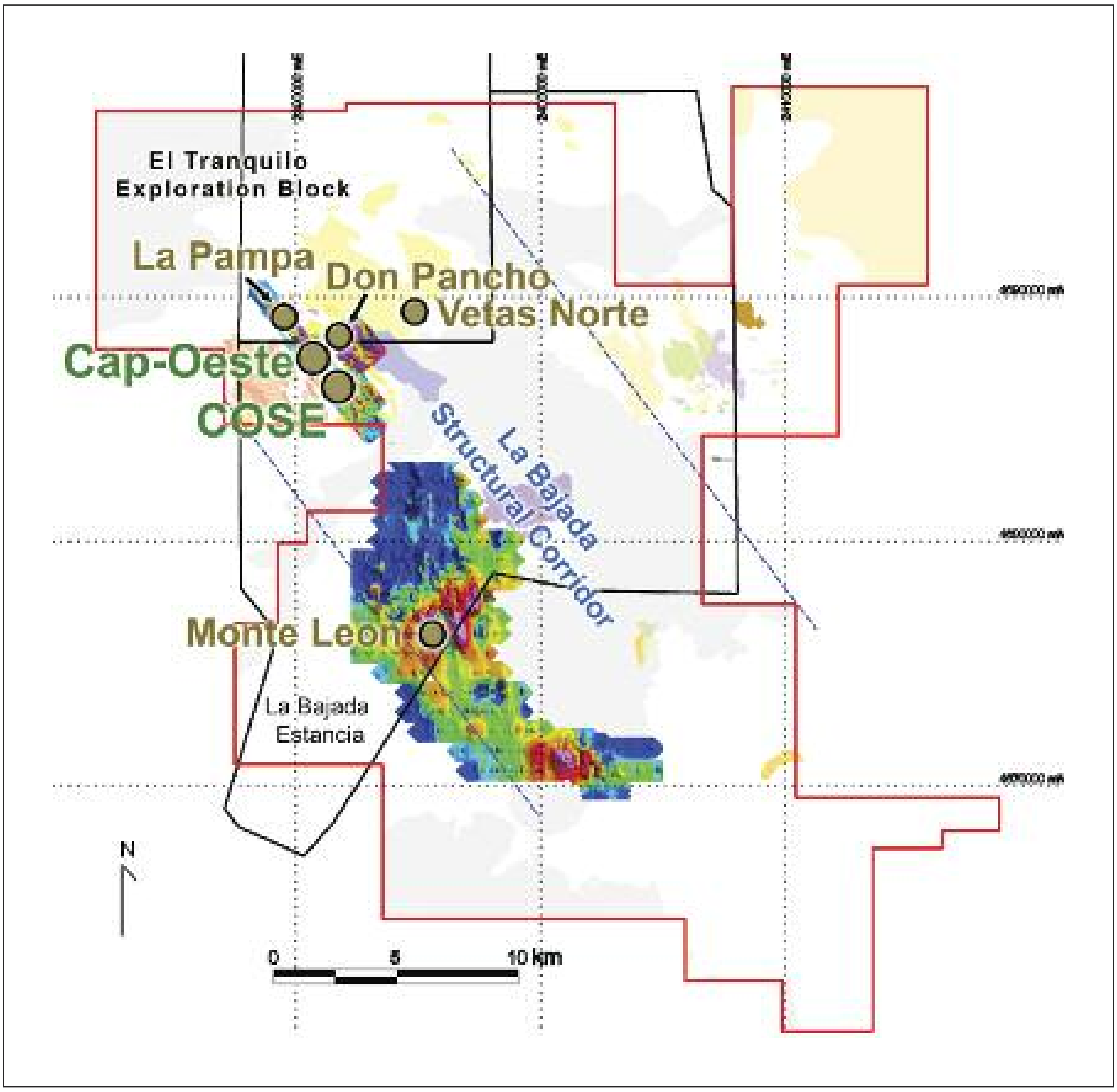
The deposit will be accessed via an underground decline from surface, mining will be carried out via implementation of various methods including hand held, long hole or mechanized and underhand cut-and-fill pattern stoping. The material brought to the surface will be crushed, process bagged and sold as concentrate for smelter feed offshore.



Proposed Dimensions

Box cut to 15 metres depth | Decline 4.5x4.3x1,980 metres

COSE Underground Access



El Tranquilo Property Block



Lomada de Leiva Project

The Lomada de Leiva Project is spearheading the Company's growth strategy by being the first mine to begin full-scale gold production.

Exploration drilling on the property soon after its acquisition in 2007 confirmed promising historical drill data and an NI 43-101 resource report was quickly filed the same year. A Preliminary Economic Assessment, or scoping study, followed in 2009. The scoping study found that the Lomada Project's minimal capital requirements, low cash cost of $299 per ounce of gold and strong cash flow potential made it suitable for a heap leach processing operation, and construction began in 2010. A 50,000 tonne trial heap leach operation used feed from surface mining onsite and tested according to specification during 2011. The leach pad is being expanded in the second phase of testing with a capacity of 200,000 tonnes in 2012. The final EIA is scheduled for submission early second quarter of 2012 and represents the final step in the application process for the final permit and start up of full-scale production.

Design of the gold processing facility, or "gold room", is complete and commissioning is scheduled for the second quarter of 2012. Commercial production is scheduled to be under way in first quarter of 2013. At full capacity, the operation is expected to produce over 21,000 ounces of gold per year and the revenue will be used to fund the Company's annual exploration budget.

La Manchuria Project

The La Manchuria Project is unique among PGSA's main properties in that it is a "greenfield" site with no previous history of exploration or mining. Shortly after it was acquired in 2007, PGSA launched a three-year exploration program that included soil geochemistry, mapping, trenching, petrographic analysis and topographic surveying. Three drill campaigns in three years have been completed encompassing 110 drill holes totalling 17,847 metres.

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

Exploration in 2012 is planned to consist of a 4,000 metre drill campaign, together with sampling and assaying of 1,200 samples.

Social and Economic Responsibility

Patagonia Gold maintains a strong awareness of its responsibilities towards the environment and existing social structures.

Careful attention is given to ensure that all exploration and development work is carried out strictly within the guidelines of the relevant mining and environmental acts. Patagonia Gold attempts, where possible, to hire local personnel and use local contractors and suppliers.

Matthew Boyes
Chief Operations Officer
April 24, 2012

Solid Financial Base

Management's Discussion & Analysis

This Management's Discussion and Analysis ("MD&A") of the financial position and the results of operations of Patagonia Gold Plc ("Patagonia" or the "Company") (AIM: PGD, TSX: PAT) is the responsibility of management and has been prepared as at April 24, 2012. The Board of Directors of Patagonia (the "Board") carries out its responsibility by reviewing this disclosure principally through its audit committee and it approves this disclosure prior to its publication.

This MD&A provides a review of the consolidated financial position, results of operations, cash flow and performance of Patagonia for the years ended December 31, 2011, 2010 and 2009. It should be read in conjunction with the Company's audited consolidated financial statements and notes to those statements.

All financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and as issued by the International Accounting Standards Board.

All amounts are expressed in United States dollars ("$"), except where indicated.

This MD&A contains forward-looking information and forward-looking statements within the meaning of applicable securities laws. See the "Forward Looking Information" below.

2011 Financial Highlights

- In April and May, the Company raised approximately $39.2 million in equity capital before expenses. These funds were used in 2011 to finance the accelerated drilling program at the Company's flagship Cap-Oeste gold and silver Project ("Cap-Oeste Project"), the construction and operation of the Lomada de Leiva gold project ("Lomada Project") heap leach trial and to commence the development and construction of the high-grade Cap-Oeste South East Project ("COSE Project").
- There were three new management appointees during the year – Philip C. Yee as Chief Financial Officer, Matthew Boyes as Chief Operations Officer and Stephen Ball as Mine Manager for the COSE Project.
- In November, the Company appointed two new independent directors to the Board – Edward J. Badida and Gary A. Sugar, and in December, Richard Prickett retired from the Board.
- In November, Patagonia appointed Computershare Investor Services PLC as Registrars to the Company.
- On December 7, 2011, the Company's shares commenced trading on the Toronto Stock Exchange ("TSX") under the symbol "PAT". The Company continues to trade on the London Alternative Investment Market ("AIM") exchange under the symbol "PGD".
- In December, the Company appointed Mirabaud Securities LLP to act as its broker in the United Kingdom ("U.K.").
- As at December 31, 2011, the Company had $10.9 million in cash and cash equivalents, net of a bank overdraft.

2011 Operational Highlights

- In March, the Company filed a National Instrument 43-101 ("NI 43-101") Compliant Resource and Preliminary Economic Assessment ("PEA") on the COSE gold and silver deposit. The Resource included 63,835 ounces of gold equivalent ("AuEq") in the indicated category and 42,557 ounce AuEq in the inferred category grading 60.06 g/t gold and 1,933 g/t silver.
- In March, Patagonia and Barrick Exploraciones Argentina S.A. and Minera Rodeo S.A. (the "Barrick Sellers") amended the property acquisition agreement (the "Barrick Agreement"), whereby the "Back in Right" was exchanged for a 2.5% net smelter return ("NSR") royalty in favour of the Barrick Sellers on all future production of mineral products from the properties sold to Patagonia Gold S.A. ("PGSA") under the Barrick Agreement.
- In May, the construction of the Lomada Project heap leach trial was completed on time and on budget, and was successfully commissioned.

- In October, Patagonia and PGSA formalized the "Fomicruz Agreement" with Fomento Minero de Santa Cruz Sociedad del Estado ("Fomicruz"), an established mining company wholly-owned by the government of Santa Cruz, which set out the terms and conditions for a strategic partnership for the future development of certain PGSA mining properties in the Province of Santa Cruz. This agreement required Fomicruz to contribute the rights to explore and mine 100,000 hectares of its mining properties, in exchange for a 10% interest in PGSA.
- In October, Patagonia commenced construction of a new camp and workshop facilities at the COSE Project site.
- In November, the Company filed an updated NI 43-101 compliant resource for the Cap-Oeste Project increasing indicated resources by 165% to 966,972 ounces AuEq and increasing inferred resources by 324% to 228,968 ounce AuEq.
- For 2011, Patagonia completed 61,650 metres of exploration drilling for the year, an increase of 34,748 metres or 129.2% from 2010 exploration drilling of 26,902 metres. Exploration expenditures increased to $18.7 million in 2011 from $7.2 million in 2010, an increase of $11.5 million or 159.7% from 2010.
- In 2011, the Company filed two NI 43-101 technical reports during the year. An initial resource was established at the COSE Project and a second resource update was completed for the Cap-Oeste Project. As a result, total overall indicated resources for the Company increased by 67% to 1,247,837 ounces AuEq and total overall inferred resources rose by 202% to 435,935 ounces AuEq.
- In December 2011, the Company acquired the surface rights to the 20,000 hectare Estancia El Tranquilo property. Patagonia considers the ownership of this land and the mineral rights essential for the orderly and unencumbered development of its projects.

Subsequent Events:

- In January and March 2012, Patagonia announced new drilling results for the Cap-Oeste Project, confirming the continuation of high-grade gold and silver mineralization along strike to the northwest of the Main Shoot of the Cap-Oeste deposit.
- In February 2012, the Phase III drilling campaign at the Cap-Oeste Project, consisting of 57 drill holes totalling 20,210 metres was completed.
- In February 2012, the Company hosted an industry analyst tour of its main properties in Santa Cruz.
- In February 2012, the Company announced the test metallurgical results for the Cap-Oeste Project, which highlighted the potential for good recoveries of both gold and silver.
- In March 2012, the Company announced that two drill holes were completed on the COSE deposit to obtain material for metallurgical test work and for a smelter off-take marketing study. In addition, four step-out holes along strike of COSE to the northwest towards the Cap-Oeste mineralization reported elevated gold and silver values.
- Phase IV drilling at the Cap-Oeste Project is in progress. It is focussed on extending the resource envelope from the Cap-Oeste deposit along strike two kilometres to La Pampa and exploring the 1.8 kilometres of unexplored strike between the Cap-Oeste and the COSE Projects.

Patagonia's Business

Patagonia is an advanced gold and silver exploration and development company operating in Argentina with a focus on the southern Patagonian province of Santa Cruz. Management is based in Buenos Aires, Argentina, London, U.K. and Toronto, Canada and the principal exploration office is located in Perito Moreno, Santa Cruz, Argentina.

Patagonia's primary listing is on the AIM in London, U.K. On December 7, 2011, the Company's shares commenced trading on the TSX.

STRATEGY

The Company is actively engaged in mineral exploration in the Patagonia region of Argentina and has developed a portfolio of highly-prospective grassroot and more advanced projects, with many that exhibit the potential to host high-grade, gold-silver breccia and vein systems. The focus is to grow the Company's resources and advance them into production. The Company's aim is to become a 200,000 ounce per annum gold equivalent producer by 2015.

Patagonia's near-term strategy is:

1. To continue to expand resources at the Company's flagship Cap-Oeste Project,
2. To 'fast track' the development and mining of the COSE Project as a means of generating significant near-term cash flow to self-finance a sizeable portion of the development requirements for the Cap-Oeste Project, and
3. To expand the Lomada Project heap leach pad capacity to 200,000 tonnes from the current 50,000 tonne trial size. With production at the heap leach facility forecast to begin in the fourth quarter of 2012, the Lomada Project is expected to generate sufficient cash flow to fund the Company's annual exploration budget over the seven year life of mine of the project.

In 2012, the COSE Project will be in development phase and the Lomada Project is expected to begin producing gold.

The Company has provided certain forward-looking information regarding its strategy, which is subject to various risks and uncertainties. Some of the risks, uncertainties and assumptions underlying this information can be found in the section entitled "Forward-Looking Information" below.

LOCATIONS

Through its Argentinean subsidiaries, primarily the 90% owned PGSA and the wholly-owned subsidiaries Minera Minamalu S.A. ("MMSA"), Leleque Exploracion S.A. ("LESA"), Huemules S.A. and Patagonia Gold Chile S.C.M., the Company holds, directly or indirectly, the mineral rights to over 220 property interests (minas and cateos) in three provinces in Argentina and in Chile covering approximately 800,000 hectares.

These include the mineral rights for 67 property interests in the Province of Santa Cruz covering approximately 190,000 hectares held by PGSA and 51 property interests covering approximately 156,000 hectares held by MMSA. Within these property interests, the Company owns the surface rights to over 63,000 hectares of land encompassing the Estancia La Bajada, Estancia El Tranquilo and a portion of the Estancia El Rincon. Patagonia also has mineral rights to property interests in the Province of Chubut and the Province of Rio Negro.

Santa Cruz Province

The Company is currently focussed on exploration and development of its projects and prospects in the Santa Cruz Province of Argentina. The Company considers Santa Cruz Province, which has an active petroleum and mining industry, to be mining friendly. The volcanic plateau of the Deseado Massif of Santa Cruz is six million hectares in area and hosts several mines including Cerro Vanguardia, Mina Martha, Manantial Espejo, San Jose Huevos Verdes, as well as various advanced projects such as Cerro Negro and Cerro Moro. These operations and projects are predominantly low sulphidation, epithermal vein style gold-silver deposits, which have been the traditional geological target for this region. As a consequence, Santa Cruz Province benefits from existing infrastructure and a workforce that understands exploration and mining.

For a location map of the Company's projects and of other established mines and advanced projects in Santa Cruz Province, please see the Operations Report in the 2011 Annual Report.

Patagonia holds a number of advanced exploration projects and highly prospective properties in Santa Cruz Province and is concentrating its exploration and development efforts on three distinct areas, namely the El Tranquilo, La Manchuria and La Paloma property blocks, all of which are held through its Argentine subsidiary, PGSA:

1. The El Tranquilo property block hosts the Cap-Oeste Project, the Company's flagship project and the COSE Project as well as the Monte Leon, La Marciana, Don Pancho, Breccia Valentina, Vetas Norte, Felix and Laguna prospects. Within the approximately 80,000 hectare El Tranquilo property block, the Company owns the surface and mineral rights to the Estancia La Bajada and Estancia El Tranquilo properties, which comprise over 56,500 hectares;
2. The La Manchuria property block consists of five expedients (mining concessions) covering approximately 5,575 hectares. This block is located approximately 50 kilometres to the southeast of the El Tranquilo property block and it hosts the La Manchuria Project which includes the La Manchuria Main Zone gold and silver Project ("La Manchuria Project"); and
3. The La Paloma property block covers over 44,000 hectares and is located approximately 120 kilometres to the north of the El Tranquilo property block. It hosts the Lomada Project. Also within the La Paloma property block, PGSA owns the surface and mineral rights to a portion of the Estancia El Rincon, which comprises 6,700 hectares.

Geology

The Cap-Oeste, COSE and Lomada (no economic silver) Projects are low sulphidation, epithermal "bonanza" style gold-silver deposits and their brecciated equivalent. Typical of such deposits is wide areas of mineralization with very high gold and silver values.

For example, the current NI 43-101 indicated resource for the Cap-Oeste Project includes 8.2 million tonnes grading 2.28 grams per tonne ("g/t") gold and 74.7 g/t silver resulting in a total AuEq of 3.68 g/t based on a 53.5:1 gold:silver ratio. Of this total, there are 3.1 million tonnes with an average AuEq grade of 7.21 g/t, using a 3.00 g/t cut-off grade. The grades for the COSE Project are even more impressive. The NI 43-101 indicated resource for the COSE Project includes 20,637 tonnes grading 60.06 g/t gold and 1,933.07 g/t silver. In addition, the inferred resource for the COSE Project includes 13,758 tonnes at the same grade.

The PGSA exploration team spent much of 2011 developing an improved understanding of the geological setting and structural controls for the low sulphidation, epithermal "bonanza" style gold-silver deposits within the PGSA licences. These areas were the main focus of the 2011 drilling program with 46,245 metres of drilling completed at the Cap-Oeste Project and 3,306 metres at the COSE Project.

Patagonia is benefitting from the experience and knowledge gained from the results of the extensive drilling program in 2011. This unique geology offers the potential of low mining costs because of the greater widths associated with breccias and higher gold and silver grades. In 2012, the plan is to continue extensive extension drilling at the Cap-Oeste Project and the surrounding areas.

Chubut Province

In June 2006, the Government of Chubut Province introduced a provisional law banning mining and mineral exploration activities for a period of three years. The ban covered a specified area in the western sector of the Province where a number of MMSA's exploration properties are located, including the historical Huemules gold mine and the advanced Crespo Project.

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

Patagonia is in regular communication to build trust and co-operation with both local and regional governments in Chubut Province, the Argentine (federal) mining chambers and associated stakeholders in an effort to lift the ban and to recommence mining activities in the Province.

Key Resources and Competencies

Management and the Board have extensive country, international exploration, development and mining experience, considerable operational knowledge and expertise, and extensive experience in global capital markets.

A large part of the management team has worked together in Argentina for many years and have significant and extensive Argentine knowledge and experience. Argentine-based management and representatives on the Board provide support to the strategy by building and maintaining relationships with Argentine government institutions, communities and stakeholders. An important member of the Board, Carlos J. Miguens, has a sizeable shareholding in the Company (13.9%) and as an Argentine national, he provides valuable support for the execution of corporate strategy. On a combined basis, the Miguens-Bemberg family hold 37.0% of the shareholding in the Company and provide strong support and assistance.

In addition, Fomicruz which is owned and operated by the government of the Province of Santa Cruz is a 10% shareholder in PGSA. Fomicruz shares a common vision with the Company and also provides support for permitting, licences, imports, community relations, etc. The Company expects that it will continue to receive support from Fomicruz and the government of the Province of Santa Cruz.

2011 Overall Performance

The key performance driver for Patagonia is continued growth of the Company's resource base through the acquisition, exploration and development of the Company's projects and prospective mineral properties. By acquiring and exploring prospects of geological merit, the Company increases its chances of finding and developing an economic deposit to add to its growing resources.

In 2011, a number of major achievements positioned the Company for continued future growth:

1. The Company's drilling program increased significantly in 2011 to 61,650 metres from 26,902 metres in 2010, with 46,245 metres or 75.0% of the total metres completed at the Cap-Oeste Project. As a result, the Cap-Oeste Project reported an updated NI 43-101 resource in November 2011 totalling 966,972 ounces AuEq in the indicated category and 228,968 ounces AuEq in the inferred category.
2. The Company also reported an initial NI 43-101 resource of 63,835 ounces AuEq in the indicated category and 42,557 ounces AuEq in the inferred category at the COSE Project along with producing a NI 43-101 PEA on the project. Site works construction commenced at COSE in 2011 and camp facilities have been completed.
3. The heap leach trial at the Lomada Project was completed on time and on budget in 2011 and was successfully commissioned. Expansion of the heap leach to production levels is underway and the main heap leach production is expected to begin in the fourth quarter of 2012.
4. The terms of the Barrick Agreement were amended to replace the "Back In Right" with a 2.5% NSR royalty.
5. The Fomicruz Agreement was signed. Fomicruz contributed the rights to explore and mine 100,000 hectares of their prospective mining properties to PGSA in exchange for a 10% shareholding in PGSA.
6. Patagonia successfully inter-listed on the TSX and commenced trading on December 7, 2011.

The Company also conducted extensive exploration drilling at a number of prospects in the El Tranquilo property block in 2011, including the Monte Leon, La Marciana, Sarita, Tango and La Pampa prospects. The primary focus was on the Monte Leon prospect where 5,188 metres of drilling was completed in 2011 and results were encouraging enough to plan an additional 5,000 metres of drilling at Monte Leon for 2012. The Company continues to believe that the area around the Cap-Oeste and COSE Projects hold significant potential. See below for more details on the 2012 Exploration Program.

THE BARRICK AGREEMENT

On February 21, 2007, the Company entered into the Barrick Agreement with the Barrick Sellers pursuant to which PGSA acquired Barrick Gold Corporation's ("Barrick") entire exploration property portfolio, which was located in Santa Cruz Province. The Barrick portfolio consisted of 70 expedientes (mineral titles) in six groups covering approximately 200,000 hectares in the Deseado Massif region of Santa Cruz Province. This portfolio included the majority of the El Tranquilo, La Manchuria and La Paloma property blocks, which in turn hosts the Company's Cap-Oeste, COSE and La Manchuria gold and silver deposits and the Lomada gold deposit.

In consideration for the sale of the Barrick properties, the Company paid the Barrick Sellers $800,000 and issued convertible loan notes (the "Barrick Notes") with an aggregate principal amount of £2,162,093. The Barrick Notes were convertible into a number of shares of the Company ("shares") equal to 10% of the shares in issue, following the conversion of the Barrick Notes (including those shares issued pursuant to the conversion). On February 28, 2007, the Barrick Sellers converted the Barrick Notes into 30,345,160 shares at an issue price of 7.125 pence per share. As at April 24, 2012, the Barrick Sellers held 28,323,264 shares representing 3.85% of the total outstanding shares.

The Barrick Agreement also provided for the following:

- PGSA agreed to spend a minimum of $10.0 million on "in-ground" expenditures over a five year period. This expenditure commitment has been completed.
- Within 90 days of the delineation of an indicated NI 43-101 resource of 200,000 troy ounces or greater of gold or AuEq on the La Paloma property block, which hosts the Lomada gold deposit, the Barrick Sellers would be entitled to receive a cash payment of $1.5 million from PGSA. This threshold has not been reached.
- The Barrick Sellers retained the right to purchase an aggregate interest of up to 70% in the properties sold to PGSA under the Barrick Agreement upon the delineation of an indicated resource of 2.0 million ounces or greater of gold or AuEq (the "Back In Right").

On March 23, 2011, PGSA entered into an amending agreement (the "Barrick Amending Agreement") with the Barrick Sellers to eliminate the Back In Right in exchange for a 2.5% NSR royalty (the "Barrick Royalty") in favour of the Barrick Sellers on all future production of mineral products from the properties sold to PGSA under the Barrick Agreement. The Barrick Royalty does not apply to the Company's other properties located in Santa Cruz province or to the Fomicruz Properties (as defined below).

THE FOMICRUZ AGREEMENT

On May 7, 2008, PGSA entered into a Letter of Intent (the "Fomicruz LOI") with Fomento Minero de Santa Cruz Sociedad del Estado ("Fomicruz"), an established mining company, wholly-owned by the government of Santa Cruz Province. The Fomicruz LOI established the key terms and conditions of a strategic partnership between PGSA and Fomicruz for the future development of certain PGSA mining properties in the Province, including the Company's Cap-Oeste, COSE, La Manchuria Main Zone and Lomada Projects, together with certain prospective properties previously owned by Fomicruz.

On May 21, 2009, the strategic partnership was formally ratified by the parties, and, on October 14, 2011, Patagonia, PGSA and Fomicruz entered into a definitive strategic partnership agreement in the form of a shareholders' agreement (the "Fomicruz Agreement") governing the affairs of PGSA and the relationship between the Company and Fomicruz. Pursuant to the Fomicruz Agreement, Fomicruz acquired a 10% interest in PGSA, with the Company retaining a 90% interest in PGSA. PGSA retains approximately 100,000 hectares of its mining properties in Santa Cruz Province, including properties in the La Paloma, El Tranquilo and La Manchuria property blocks, with its other mining properties being transferred to the Company's wholly-owned subsidiary, MMSA. In exchange for its 10% interest in PGSA, Fomicruz contributed to PGSA the rights to explore and mine approximately 100,000 hectares of Fomicruz's mining properties for a period of 40 years, denominated as La Manchuria, Kaiken, La Marcelina, San Vicente, El Condor, La Asturiana, La Esperanza and La Ultima (the "Fomicruz Properties"), and located in the Deseado Massif, in close proximity to PGSA's El Tranquilo and La Manchuria property blocks.

The key terms and conditions of the Fomicruz Agreement include the following:

- The Company will fund 100% of all exploration expenditures on the PGSA properties to the pre-feasibility stage, with no dilution to Fomicruz.
- It is intended that the properties of PGSA that reach the feasibility stage for subsequent mining will be transferred to a new company (the "New Company") in which the Company and Fomicruz will maintain the same percentage shareholding interest as they have in PGSA, respectively, and the Company will continue funding 100% of all the investment. Further, the Company and Fomicruz will enter into a shareholders' agreement containing the same terms and conditions as the Fomicruz Agreement, as applicable.
- However, after the pre-feasibility stage is reached, Fomicruz is obliged to pay its 10% share of the funding incurred thereafter on the PGSA properties, plus annual interest at LIBOR +1% to the Company. Such debt and interest payments will be guaranteed by an assignment by Fomicruz of 50% of the future dividends otherwise payable to Fomicruz on its shares in the New Company.
- Over a five year period, the Company through PGSA is required to invest $5.0 million on exploration expenditures on the Fomicruz Properties, whose rights to explore and mine were contributed to PGSA as part of the Fomicruz Agreement.
- In the event that either the Company or Fomicruz are in material breach of the Fomicruz Agreement, subject to a 30 day cure period, the non-breaching party will have the right to terminate the Fomicruz Agreement. If the Fomicruz Agreement is terminated as a result of a material breach by the Company, the Fomicruz Properties will be returned to Fomicruz. If the Fomicruz Agreement is terminated as result of a material breach by Fomicruz, Fomicruz will transfer all of its shares in PGSA to the Company at the amount equal to the value at which the Fomicruz Properties were transferred to PGSA.
- The Company will manage the exploration and potential future development of the PGSA properties.
- PGSA's Board of Directors is composed of seven directors, with the Company entitled to appoint five directors and Fomicruz entitled to appoint two directors.

As a result of the Fomicruz Agreement, Patagonia significantly expanded its land position to approximately 350,000 hectares in the very prospective, volcanic plateau of the Deseado Massif of Santa Cruz which hosts several mines in production as well as various advanced projects.

For a location map of the Patagonia properties, the properties acquired from Barrick and the properties acquired from Fomicruz, please see the Operations Report in the 2011 Annual Report.

THE 2011 EXPLORATION PROGRAM AND GROWTH IN RESOURCES

For the year ended December 31, 2011, Patagonia significantly increased its exploration drilling program to 61,650 metres from 26,902 metres drilled in 2010, an increase of 34,748 metres or 129.2%. This also represented a significant increase over the 2009 drilling program. Exploration expenditures for the year ended December 31, 2011 totalled $18.7 million, an increase of $11.5 million or 159.7% over exploration costs for the year ended December 31, 2010 of $7.2 million and an increase of $11.2 million or 149.3% over the level of exploration spending in 2009.

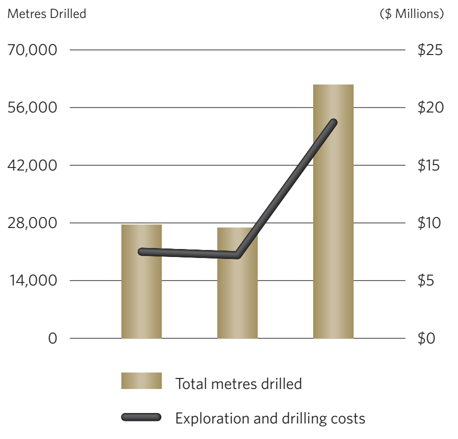
For more details on the metres drilled and exploration spending during the 2009 to 2011 period, please see the table and chart below.

Patagonia's Exploration Program, 2009-2011

(metres drilled)	2009	2010	2011
Cap-Oeste	10,293	3,082	46,245
COSE	4,651	11,837	3,306
La Manchuria	7,019	2,611	-
Lomada	1,149	4,602	2,484
Monte Leon	-	-	5,188
La Pampa	658	3,077	-
Tango	-	583	1,858
Sarita	-	-	1,273
La Marciana	-	-	1,296
Felix	1,851	-	-
Vetas Norte	696	-	-
Don Pancho	787	-	-
La Puma	516	-	-
Other	-	1,110	-
Total Metres Drilled	27,620	26,902	61,650

	2009	2010	2011
Exploration and drilling costs (millions)	$ 7.5	$ 7.2	$ 18.7
Exploration and drilling cost/metre	$ 271.50	$ 269.02	$ 303.64

Total Metres Drilled and Exploration and Drilling Costs



A total of $18.7 million was spent on exploration and drilling for the year ended December 31, 2011. Of this amount, $2.5 million was related to the development of the COSE and Lomada Projects and was capitalized. The remaining $16.2 million was expensed as exploration costs.

The majority of the 2011 exploration drilling program including 46,245 metres or 75.0% of the total was focused on the Cap-Oeste Project. These expenditures were directed at infill as well as extension drilling to increase resources. The second largest drilled property in 2011 was the Monte Leon prospect where 5,188 metres or 8.4% of the total metres were drilled. At COSE, 3,306 metres were drilled in 2011 and the related drilling costs were capitalized as COSE has transitioned to the development phase.

The table below demonstrates the success of the 2011 exploration program in increasing resources. During the year, the Company filed two NI 43-101 technical reports on the Cap-Oeste and COSE Projects, resulting indicated resources increasing by 67.2% to 1,247,837 ounces AuEq and inferred resources increasing by 201.7% to 435,935 ounces AuEq. At the Cap-Oeste Project, mineralization remains open in all directions. At the COSE Project, mineralization remains open down dip.

(AuEq oz)	Indicated Resources	Inferred Resources
2011	1,247,837	435,935
2010	746,511	144,494
Increase	501,326	291,441
	67.2%	201.7%

The Company plans to issue a new resource update for the Cap-Oeste Project in the second quarter of 2012.

The table below provides a breakdown of indicated and inferred resources by project as at April 24, 2012.

2011 Indicated Resources

			Grade (g/t)			Metal (Oz)	
Project	Tonnes	Au	Ag	AuEq	Au	Ag	AuEq
Cap-Oeste	8,182,948	2.28	74.71	3.68	599,570	19,656,004	966,972
COSE	20,637	60.06	1,933.07	96.21	39,850	1,282,582	63,835
Manchuria	425,705	2.95	135.00	4.07	40,317	1,848,211	55,684
Lomada	5,002,016	1.00	NA	NA	161,346	NA	161,346
Total Indicated					841,083	22,786,797	1,247,837

2011 Inferred Resources

			Grade (g/t)			Metal (Oz)	
Project	Tonnes	Au	Ag	AuEq	Au	Ag	AuEq
Cap-Oeste	2,420,252	2.01	49.85	2.94	156,465	3,878,940	228,968
COSE	13,758	60.06	1,933.07	96.21	26,566	855,055	42,558
Manchuria	1,469,020	1.53	49.4	1.92	72,335	2,335,236	90,682
Lomada	3,412,270	0.67	NA	NA	73,727	NA	73,727
Total Inferred					329,093	7,069,231	435,935

2012 EXPLORATION PROGRAM

Expenditures related to exploration and drilling is forecast to increase significantly in 2012 to $32.9 million in order to support continued growth in resources. The Company plans to drill 80,500 metres during the year, an increase of 18,850 metres or 30.6% over 2011. The cost per metre drilled in 2012 is expected to be $409.15 per metre, an increase of $105.51 per metre or 34.8% over the $303.64 per metre cost in 2011. This increase for 2012 is due to higher expected costs related to wages, contractor drilling, laboratory services, and other exploration related expenditures as a result of deeper drilling requirements than in previous years as well as to expected high inflation in Argentina.

The table below breaks down 2012 forecast exploration drilling by property block.

Patagonia's Exploration Program, 2011-2012

(metres drilled)	2011	Budget 2012	Increase/ (Decrease)
Cap-Oeste	46,245	40,500	(5,745)
COSE	3,306	4,000	694
Monte Leon	5,188	5,000	(188)
La Pampa	-	3,000	3,000
Tango	1,858	-	(1,858)
La Marciana	1,296	4,000	2,704
Vetas Norte	-	6,000	6,000
Don Pancho	-	3,000	3,000
Total for El Tranquilo Property Block	57,893	65,500	7,607
La Manchuria	-	4,000	4,000
Total for La Manchuria Property Block	-	4,000	4,000
Lomada	2,484	-	(2,484)
Total for La Paloma Property Block	2,484	-	(2,484)
Sarita	1,273	4,400	3,127
El Bagual	-	2,000	2,000
Bajo Pellegrini	-	2,000	2,000
Other	-	2,600	2,000
Total for Regional Exploration	1,273	11,000	9,727
Total Metres Drilled	61,650	80,500	18,850

	2011	Budget 2012	Increase/ (Decrease)
Exploration and drilling costs (millions)	$ 18.7	$ 32.9	$ 14.2
Exploration and drilling costs/metre	$ 303.64	$ 409.15	$ 105.51

The focus of the 2012 exploration drilling program will again be on the El Tranquilo property block where 65,500 metres of drilling is planned, an increase of 7,607 metres or 13.1% over 2011.

- At the Cap-Oeste Project, 40,500 metres of drilling are planned, a decrease of 5,745 metres or 12.4% from 2011 as step-out drilling is more focused along the Bonanza and Esperanza fault intersection zone.
- At COSE, 4,000 metres of drilling is planned for 2012, an increase of 694 metres or 21.0% over 2011.
- At the Monte Leon, Vetas Norte, La Marciana, La Pampa, and Don Pancho prospects, which are in close proximity to the Cap-Oeste and COSE Projects, a total of 21,000 metres of drilling are planned.

At the La Manchuria property block, 4,000 metres of exploration drilling are planned for the La Manchuria Project in 2012. There was no drilling conducted at the La Manchuria Project in 2011 as drilling resources were redirected to the Cap-Oeste Project.

Regional exploration plans for 2012 include a total of 11,000 metres of drilling at Sarita (4,400 metres), El Bagual (2,000 metres), Bajo Pellegrini (2,000 metres) and other prospects (2,600 metres). This represents a significant increase over 2011 where 1,273 metres were drilled on regional exploration.

Exploration and Development Projects

EL TRANQUILO PROPERTY BLOCK

The El Tranquilo property block contains the Company's flagship property, the Cap-Oeste Project, together with the nearby COSE Project two kilometres to the southeast, as well as a number of prospects along the Cap-Oeste Structural Corridor, the Don Pancho Breccia Valentina Corridor and the Vetas Norte Corridor.

To view a location map of Cap-Oeste and the Cap-Oeste project area, please see the Operations Report in the 2011 Annual Report.

The Monte Leon and La Marciana prospects are located on the southeast continuation of the Cap-Oeste Structural Corridor, 11 kilometres and 20 kilometres respectively from the Cap-Oeste Project. In addition, there are two sub-parallel trends to the northeast containing the Don Pancho and Breccia Valentina prospects (1.5 kilometres) and the Vetas Norte and Felix prospects (6 kilometres). These prospects have been successfully explored over the past three years, including surface sampling, trenching and exploration drilling. All of these prospects warrant follow-up drilling and drilling resources for the Vetas Norte, Monte Leon, La Marciana and Don Pancho prospects are included in the 2012 exploration drilling program.

PGSA and MMSA own a combined 100% interest in the El Tranquilo property block. This includes the surface and mineral rights to the Estancia La Bajada and the Estancia El Tranquilo. In December 2010, Patagonia staked two new exploration claims at the El Tranquilo block totalling 19,736 hectares to cover possible further extensions of the Cap-Oeste structural corridor. The El Tranquilo property block currently covers over 80,000 hectares and is located approximately 65 kilometres southeast of the town of Bajo Caracoles in Santa Cruz Province and 120 kilometres to the southeast of the Lomada Project.

The El Tranquilo property block holds a NI 43-101 compliant resource of 1,030,807 ounces of AuEq in the indicated category and 271,526 ounces of AuEq in the inferred category on the combined Cap-Oeste and the adjacent COSE deposits.

Cap-Oeste Project

The Cap-Oeste Project extends from the La Pampa prospect in the northwest to the Tango prospect in the southeast. Any mineral production from this area will be subject to the Barrick Royalty.

During November 2010, PGSA received approval of the environmental impact assessment ("EIA") for the El Tranquilo property block from the State Secretary of Mining, Province of Santa Cruz, Argentina. The EIA permits 400,000 metres of drilling at the Cap-Oeste Project and other prospects within the El Tranquilo property block, and is subject to renewal by November 2012. PGSA has obtained the relevant permits for the use of water during drilling campaigns, issued by the applicable government water resources authority of the Santa Cruz Province, following the approval of affected surface owners. No other permits are required for the continuation of exploration and/or definition drilling.

Exploration

Subsequent to the completion of the Barrick Agreement in February 2007, PGSA commenced exploration activities at the Cap-Oeste Project that included gridding, surveying, trenching and extensive drilling programs.

Drilling results have confirmed the presence of a wide gold mineralized breccia structure with a core containing bonanza grade gold and silver. The high-grade gold values are associated with bonanza-grade silver. Since inception to December 31, 2011, 376 holes have been drilled for a total of 74,960 metres.

The 2011 exploration program for the Cap-Oeste project included:

- 144 HQ diamond-core drill holes for 46,245 metres
- Total exploration costs for Cap-Oeste in 2011 amounted to $12.8 million

The November 30, 2011 NI 43-101 resource update for the Cap-Oeste Project included the following summary of Phase I and II exploration work:

- The establishment of local grid baseline points at origin to allow projection of trench and drill section data on sections perpendicular to the northwest strike of mineralization.

- Geologic mapping at 1:1,000 scale.
- Excavation and sampling of five trenches (224 metres and 82 channel samples).
- Completion of 48,857.6 metres in 295 drill holes including:
  - 29 reverse-circulation drill holes (totalling 2,044 metres, averaging 66 metres in depth) and 1,669 samples.
  - 60 pre-collar reverse-circulation/diamond holes (totalling 3,680.60 metres and averaging 61.00 metres of reverse-circulation and totalling 7,509.83 metres of HQ-size core diamond drill hole tails) and 5,008 samples.
  - 206 HQ-size diamond drill holes (totalling 35,623.20 metres, averaging 172.92 metres in length) and 9,577 samples. Three of the diamond holes are twin holes of earlier reverse-circulation holes.
- Petrographic study of 28 samples in thin and polished sections.
- Survey topography with a differential GPS and development of a contour map.
- Survey of all drill hole and trench locations in x, y, and z dimensions with a differential GPS.
- Induced polarization/resistivity surveys (seven lines totalling 6.3 line kilometre gradient array; one line totalling 1.6 kilometres pole-dipole) and ground magnetic survey (10 lines totalling 13 line kilometres).

On January 12, 2012, the Company announced an update on drill results from Phase II of the drilling program for the Cap-Oeste Project. Drilling continued to intersect high-grade gold and silver, including 37.4 metres grading 20.04 g/t gold and 206 g/t silver in drill hole CO-317-D.

On March 28, 2012, the Company announced a drilling update on results from Phase III of the drilling program for the Cap-Oeste Project. Phase III consisted of 57 drill holes totalling 20,210 metres and continued to intersect high-grade gold and silver, including 16.3 metres grading 18.97 g/t gold and 282.51 g/t silver in drill hole CO-346-D. Assay results are pending for nine drill holes and will be reported as they are received.

Phase IV drilling is in progress and is focused on extending the resource envelope from the Cap-Oeste Project along strike 2.0 kilometres to La Pampa and exploring the 1.8 kilometres of unexplored strike between the Cap-Oeste Project and the COSE Project.

Mineralization

Gold-silver mineralization at the Cap-Oeste Project is predominantly associated with the northwest-trending Bonanza Fault, which dips 40° to 80° to the southwest. The Bonanza Fault juxtaposes crystal-poor ignimbrite to the west with dominantly crystal-rich ignimbrite to the east, reflecting "west side down" normal displacement, and is interpreted to be one of the bounding structures to a late Jurassic-aged graben or half-graben. Mineralization within and adjacent to the Bonanza Fault is not homogeneously distributed but concentrated in higher-grade lenses or shoots. Projection of drill intercepts into a longitudinal section paralleling the Bonanza Fault defines multiple, northwest plunging higher grade lenses over a strike length of approximately 1,025 metres. The locations of mineralized shoots are thought to be controlled by the interaction of lithologic and structural controls. Throughout the Cap-Oeste Project area this interplay between structure and rock type has created a broadly repetitive geometrical pattern in which five shoots are currently recognized.

Resource Estimates

The Cap-Oeste Project deposit has been the subject of three NI 43-101 technical reports, dated October 10, 2008, September 30, 2009 and November 14, 2011.

Drilling results have confirmed the presence of a wide gold mineralized structure with a core containing bonanza grade gold and silver. The high-grade gold values are associated with bonanza grade silver. The mineralization in the Cap-Oeste Project remains open in all directions.

In the November 2011 Resource update on the Cap-Oeste Project, the updated NI 43-101 indicated resources totalled 966,972 ounces of AuEq and inferred resources totalled 228,968 ounces of AuEq. This represents a 165% increase in indicated resources and a 324% increase in inferred resources from the September 2009 NI 43-101 report. As can be seen in the table below, the growth in NI 43-101 resources since 2008 indicates the growth potential of this deposit.

Growth of Estimated Mineral Resources (Undiluted) – Cap-Oeste Project 2008-2011

Indicated Resources

		Grade (g/t)			Metal (Oz)		
NI 43-101 Report	Tonnes	Au	Ag	AuEq	Au	Ag	AuEq
2008	2,306,938	1.81	42.01	2.46	134,007	3,115,985	181,945
2009	5,629,645	2.00	80.12	3.23	362,040	14,503,120	585,165
2011	8,182,948	2.28	74.70	3.68	599,570	19,656,004	966,972

Inferred Resources

		Grade (g/t)			Metal (Oz)		
NI 43-101 Report	Tonnes	Au	Ag	AuEq	Au	Ag	AuEq
2008	1,819,293	2.17	42.78	2.83	127,046	2,502,728	165,550
2009	1,053,990	1.36	47.33	2.09	46,090	1,604,030	70,767
2011	2,420,252	2.01	49.85	2.94	156,465	3,878,940	228,968

2008: AuEq calculated at 66:1

2009: AuEq calculated at 65:1

2011: AuEq calculated at 53.5:1

In the November 30, 2011 updated resource estimate, total indicated resources for the Cap-Oeste Project totalled 8.2 million tonnes grading 2.28 g/t gold and 74.7 g/t silver, resulting in a 3.68 g/t AuEq. This total includes 3.1 million tonnes with an AuEq grade of 7.21 g/t. It is expected to be mined by underground methods. See the table below for more details.

CAP-OESTE Resource Classification November 2011, Indicated Resources(1)

Cut-off	SG	Tonnes	Au (g/t)	Au (Oz)	Ag (g/t)	Ag (Oz)	AuEq(2) (g/t)	AuEq(2) (Oz)
0.3	2.46	8,182,948	2.28	599,570	74.71	19,656,004	3.68	966,972
1	2.47	6,650,740	2.7	577,686	88.96	19,022,165	4.36	933,241
3	2.48	3,084,805	4.39	435,775	150.52	14,928,467	7.21	714,812

(1) Mineral resources which are not mineral reserves do not have demonstrated economic viability. The estimate of mineral resources may be materially affected by environmental, permitting, legal, title, taxation, socio-political, marketing or other relevant issues.

(2) AuEq ounces calculated at 53.5:1 Ag:Au ratio.

CAP-OESTE Resource Classification November 2011, Inferred Resources(1) (2)

Cut-off	SG	Tonnes	Au (g/t)	Au (Oz)	Ag (g/t)	Ag (Oz)	AuEq(3) (g/t)	AuEq(3) (Oz)
0.3	2.47	2,420,252	2.01	156,465	49.85	3,878,940	2.94	228,968
1	2.48	1,843,359	2.48	146,870	61.9	3,668,795	3.64	215,446
3	2.49	807,534	4.07	105,694	98.53	2,558,206	5.91	153,511

(1) Mineral resources which are not mineral reserves do not have demonstrated economic viability. The estimate of mineral resources may be materially affected by environmental, permitting, legal, title, taxation, socio-political, marketing or other relevant issues.

(2) The quantity and grade of reported inferred resources in this estimate are conceptual in nature and there has been insufficient exploration to define these inferred resources as an indicated or measured mineral resource. It is uncertain if further exploration will result in the upgrading of the inferred resources into an indicated or measured mineral resource category.

(3) AuEq ounces calculated at 53.5:1 Ag:Au ratio

Metallurgical Test Work

On February 21, 2012, Patagonia provided an update on the metallurgical testwork for the Cap-Oeste Project. Two testwork programs were completed to the scoping study level for both sulphide and oxide composite samples and indicated the potential for good recoveries in both gold and silver. Recoveries of gold and silver to concentrate from sulphide samples reported up to 88.3% and 95.5%, respectively, while recoveries of gold and silver from oxide testwork reported up to 98.8% and 97.5%, respectively.

The results were considered highly encouraging. G&T Metallurgical Services was contracted to carry out pre-feasibility level definitive testwork and optimization studies for the Cap-Oeste sulphide and oxide materials. Approximately 1,000 kg of half core is currently being selected with three grade ranges from each material type. Testwork will include flotation rougher and cleaner tests, Knelson gravity separation tests, cyanide leaching, thickening tests, bond rod and ball tests and QEMSCAN PMA.

This testwork program is scheduled to commence in March 2012 and be completed in the third quarter of 2012. Further testwork will be conducted based on the findings of this program as work proceeds on the feasibility study for Cap-Oeste.

Future Exploration

Two drill rigs are currently engaged on the Cap-Oeste Project. The Phase III drilling campaign, consisting of 57 drill holes totalling 20,210 metres was completed in February 2012. Assay results are pending for 26 drill holes and will be reported as they are received and a new fourth resource estimate update is expected in the second quarter of 2012 to include the Phase III drilling campaign.

In 2012, the work program for the Cap-Oeste Project is expected to consist of 40,500 metres of diamond drilling in the year with a budget of $16.7 million. The Cap-Oeste Project remains open along strike in both directions and down dip. Exploration drilling continues along the six kilometres of strike from Pampa in the Northwest to Tango in the Southeast and includes the COSE Project. Resource infill and extension drilling will continue with the aim to achieve a further resource update in 2012.

COSE Project

During the first quarter of 2010, exploration drilling in the environs of the Cap-Oeste Project led to the discovery of a mineralized offshoot, which was named Cap-Oeste South East. The COSE Project is situated in the central portion of the El Tranquilo property block, approximately two kilometres to the southeast of the Cap-Oeste Project. The COSE Project area is 250 square metres. Mineralized areas outside of this area are included in the Cap-Oeste Project. Any mineral production from this area will be subject to the Barrick Royalty.

This deposit was deemed large enough to be considered a project in its own right and drilling was continued on COSE. This campaign was completed during the second quarter of 2010 and the consulting firm of Chlumsky, Armbrust & Meyer, LLC ("CAM") completed an audit and review of the NI 43-101 mineral resource estimate, as well as a PEA to define the potential viability for the construction, mining and processing of the COSE deposit.

The COSE Project occurs wholly within the Estancia La Bajada, which was purchased in December 2008 providing the Company with surface and mining rights. Access to COSE is gained by way of a 3.5 kilometres track from the main access road that connects Estancia la Bajada and the Cap-Oeste Project area. There is abundant unoccupied land in the area, which could eventually serve as the site for mining and processing facilities.

The EIA for the COSE Project included a provision for the development of a decline access for underground drilling, as well as bulk sampling for metallurgical testing, and a provision for a further 200,000 metres of drilling.

The most recent renewal for the EIA was granted on November 4, 2010, with an effective duration of two years. In March 2011, PGSA retained Ausenco Vector to commence baseline studies, with the objective of establishing the pre-development environmental and social characteristics of the COSE Project and its surroundings, and to prepare an updated EIA for the mining of the COSE deposit. The updated EIA is in the process of being prepared and will be submitted for approval once it is completed.

Mineralization

Mineralization at the COSE Project is of the low sulfidation type, based on the presence of fine-grained replacement quartz and adularia, widespread illite alteration, bladed textures indicative of hydrothermal boiling, and a mineral assemblage dominated by marcasite, arsenopyrite and silver-bearing sulphosalts. The presence of anomalous copper and molybdenum associated with higher-grade gold-silver mineralization suggests a component of magmatic-derived fluid.

The COSE deposit occurs predominantly as hydrothermal breccia, in combination with replacement, veinlet and disseminated styles of mineralization, rather than as one or more discrete quartz veins. This is somewhat atypical for Deseado Massif deposits, perhaps reflecting a lack of open space during hydrothermal fluid flow.

Drilling to date has defined a high-grade shoot, approximately 130 metres long and 12 to 15 metres wide, situated in the immediate hanging wall of the COSE Breccia Fault. The mineralized shoot pitches steeply over an approximate 120 metre vertical interval, extending from 135 metres to 255 metres vertically below surface. Blind to the surface, mapping, trench sampling and drilling confirm that the high-grade shoot is overlain by a broad zone of more diffuse mineralization, which yields low-level precious metal and trace element anomalism.

Two main styles of mineralization are apparent in drill cores from the COSE Project. Higher grade gold-silver concentrations are hosted by a distinctive suite of sinuous to weakly bifurcating breccias, comprising argillic altered fragments of volcanic host rock in a matrix of fine grained grey quartz, illite, and carbonaceous material. Lower-grade mineralised envelopes, in which precious metals occur in veinlets and disseminations, are exhibited in the immediate hanging wall and footwall rocks to breccias at the COSE Project.

Drilling

The COSE Project area was previously undrilled. Three drilling campaigns were carried out by PGSA from 2008 to 2010. In 2008, two reverse circulation holes totalling 300 metres were drilled in order to intersect the COSE fault. In 2009 and 2010, a total of 41 diamond drill holes totalling 9,980 metres were drilled over a 250 metre strike length. In 2011, 26 holes were drilled for a total of 3,306 metres.

Alex Stewart Assayers Argentina S.A., an internationally recognized and accredited laboratory compliant to ISO Certified 9001:2000 standards, was contracted for the geochemical analysis of the samples generated during the drilling campaigns at the COSE Project. Acme Analytical Laboratories of Vancouver, British Columbia performed check assays on selected samples.

Metallurgical Testing

SGS Mineral Services ("SGS") in Santiago, Chile performed several tests on a set of samples from the COSE Project including: assays of gold in the metallic fractions, cyanide leaching in bottle tests and gravity separation tests. A total of 70 samples were received by SGS, which were composited into 25 samples at PGSA's request.

After reviewing the preliminary metallurgical results, and considering the tonnage of resources present and the grade in the COSE mineralized shoot, CAM concluded that it would be simpler to mine the resources in the shoot and ship it to a smelter.

On March 28, 2012, the Company announced that two holes drilled into the COSE deposit to obtain material for metallurgical test work and a smelter off-take marketing study returned 7.75 metres grading 34.45 g/t gold and 301.49 g/t silver from drill-hole CSE-075-D and 14.10 metres grading 34.80 g/t gold and 366.8 g/t silver from drill-hole CSE-076-D. The two holes were positioned with the objective of intersecting material considered to be representative of the average head grade for the deposit. The Company has commenced a marketing study for the sale of the resources as direct feed to smelters in Central Asia and China.

In addition, four step-out drill holes were completed along strike of COSE to the northwest towards the Cap-Oeste mineralization and all holes intersected the host fault structure and reported elevated gold and silver values.

Resource Update

The COSE NI 43-101 Technical Report prepared by CAM and dated May 5, 2011 was prepared and reported separately from the Cap-Oeste Project due to the highly-distinctive mineralization at the COSE Project; namely small tonnages of bonanza-grade mineralization in steeply-dipping, narrow vein configuration, which will be mined from underground. This contrasts with the Cap-Oeste Project, which has medium-grade, disseminated mineralization, and which could possibly be mined by open-pit or open-cut methods.

The first NI 43-101 mineral resource estimate for COSE is summarized in the following table.

Summary of Estimated Mineral Resources(1) (Undiluted) – COSE Project

		Grade (g/t)			Metal (Oz)		
Category	Indicated Tonnes	Au	Ag	AuEq	Au	Ag	AuEq(2)
Indicated	20,637	60.06	1,933.07	96.21	39,850	1,282,582	63,835
Inferred(3)	13,758	60.06	1,933.07	96.21	26,566	855,055	42,557

(1) Mineral resources which are not mineral reserves have not demonstrated economic viability. The estimate of mineral resources may be materially affected by environmental, permitting, legal, title, taxation, socio-political, marketing or other relevant issues.

(2) Gold equivalent (AuEq) values are calculated at a ratio of 53.5:1 gold:silver, based on a gold price of US$1,204 per troy ounce and a silver price of US$23.75 per troy ounce, and gold and silver recoveries of 95% and 90%, respectively.

(3) The quantity and grade of reported inferred resources in this estimation are conceptual in nature and there has been insufficient exploration to define these inferred resources as an indicated or measured exploration mineral resource. It is uncertain if further exploration will result in the upgrading of the inferred resources into an indicated or measured resources category.

Because this deposit has only been sampled by surface drilling, a relatively small number of intersections through the shoot are available and there is greater uncertainty than if the deposit had been estimated on the basis of channel samples a metre apart in drifts separated by 25 metres vertically. It is of interest to note that of the 38 holes on which the resource estimate is based:

- One hole accounts for approximately 22% of the contained ounces;
- Five holes account for approximately 70% of the contained ounces (with each of those five holes containing over 10% of the contained ounces); and
- Ten holes account for approximately 87% of the contained ounces.

This confirms the high degree of statistical uncertainty associated with any resources estimate for the COSE Project. In the COSE Technical Report, CAM stated that additional drilling to confirm the area of influence of the five high-grade holes would be prudent. In 2011, 3,306 metres of drilling were completed at the COSE Project.

Preliminary Economic Assessment ("PEA")

The PEA as set out in this MD&A is preliminary in nature, and it includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. There is no certainty that the PEA will be realized.

Mining capital expenditures were estimated at $24.4 million, which includes the 1,980 metres of main decline ramp access, resource development, cross cut and stoping of the resource. Total cost per tonne for production during the 11-month production period was estimated at $167 per tonne and the total development cost is estimated at $14.3 million.

It is assumed that the entire Project will be constructed and mined out in a 23-month period with a 12-month period of pre-production. The production rate is estimated at 3,600 tonnes per month. The overall mining cost is estimated at $14.3 million and the process capital cost is estimated at $2.8 million. Both estimates have a confidence level of ±30%. The COSE Project operating costs are estimated at $413 per diluted tonne of resource or $167 per tonne.

Base case metal prices used for the PEA which are set out in the COSE Technical Report, which can be found on the Company website at www.patagoniagold.com or on SEDAR at www.sedar.com, are $1,204 per ounce of gold and $23.75 per ounce of silver, with recoveries of 95% and 90%, respectively. All cash flow calculations are based on an undiscounted model due to total Project timeline of 23 months and include a 10% royalty payable for exported concentrates.

Based on the direct shipping option treatment route, the results of PEA were:

- Cash cost of $167 per tonne
- Net revenue of $63.7 million, based on a gold price of $1,204 per ounce
- Net present value of $56.8 million at a discount rate of 8%
- Internal rate of return of 870%
- Payback period – two months following start of production

A sensitivity analysis was run on gold and silver prices and the results are found in the table below. The analysis was based on the direct shipping option treatment route only, due to the smaller initial capital expenditure and higher potential revenue.

The Project has the potential to generate significant free cash flow, especially if gold and silver prices remain near current levels. It is expected that 68% of contained gold and silver will be mined within the first four months of production, enabling a payback of capital after just 14 months following commencement of the decline or 2 months after the start-up of production.

Sensitivity Analysis

Gold Price ($/oz)	Silver Price ($/oz)	Net Present Value (Millions $)
$1,204	$23.75	$63.7
$1,000	$20.00	$46.5
$1,100	$22.00	$55.2
$1,400	$30.00	$84.7
$1,418	$35.00	$93.8

Proposed Mining Method

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 mechanized cut and fill mining method be adopted for the extraction of the COSE deposit. Although this mining method initially requires greater quantities of sublevel development, it is more appropriate for mining of narrow vein structurally controlled deposits such as the COSE deposit, as dilution and mineral-loss can be far better controlled. A total resource movement of 120 tonnes per day or 3,600 tonnes per month has been used as the base case production forecast for the mine.

Construction of Site Works

In October 2011, construction of the COSE workshop facilities and seventy-man camp commenced. The underground mine design was completed, and tender documents were sent to qualified contracting groups for purposes of preparing and submitting bids on the construction of the portal, underground decline access and the mining of the COSE Project orebody.

The contractors selected to participate in the tender bid all have international experience and are based in Argentina or other South American neighbouring countries. This is expected to ensure prompt mobilization of staff and equipment. Bids were received from four bidders and a preferred bidder has been selected pending completion of legal due diligence. Work is expected to commence during the second quarter of 2012. Construction of the temporary storage facilities is complete and the maintenance workshop is expected to be completed in April 2012.

The three long lead-time items of critical mining equipment have been purchased and received by PGSA in Buenos Aires. They include:

1) R1600 Caterpillar Underground Load Haul Dump scoop tram machine

2) AD30 Caterpillar Underground truck, 30 tonne payload

3) Boomer 282 ATLAS COPCO twin boom Jumbo drill

The above equipment is on site. Work has commenced on the foundations and construction of the maintenance workshop. Construction of a seventy-man camp, complete with kitchen, dining, laundry and recreational facilities is complete. The construction period of the portal and underground decline is expected to be twelve months followed by production expected for eleven months into 2013.

On October 1, 2011, Mr. Stephen Ball was appointed as the Underground Mine Manager. He will oversee the development and mining at the COSE Project. Mr. Ball has extensive experience in narrow-vein, underground mining and was recently involved with the development of Kinross's Kupol mine in the Russian Far East, as well as the successful start-up of the decline at the Colossus Minerals' Serra Pelada mine in Brazil.

Future Exploration Work

CAM concluded that work on the COSE Project has been successful in identifying mineralization of potential economic interest and further work is warranted to better define resources. Additional drilling may be required to convert currently inferred resources into the indicated category.

With the receipt of the mineral resource estimate and PEA set out in the COSE Technical Report, the Company is finalizing the permit application for the mining of the orebody.

The mineralised structure containing the COSE deposit remains open at depth and along strike. Future deeper drilling which is required in order to test the down dip potential of the deposit will be carried out from underground. Additional drilling is planned between COSE and Cap-Oeste to the northwest.

Exploration continues along the COSE/Cap Oeste corridor, and the potential for additional discoveries throughout the immediate COSE Project area are considered to be high, including the following targets:

- Down plunge extensions to the COSE Breccia shoot.
- Strike extensions to the upper portion of the COSE Breccia system.
- Repetitions of the COSE orebody along the COSE Breccia Fault and/or the COSE/Bonanza Fault system.

In 2012, 4,000 metres of drilling are planned at the COSE Project.

Future Development

The Company plans to spend $17.3 million in 2012 towards the development of the COSE Project including $11.3 million in decline construction and $4.3 million in other capital requirements including a crushing facility and closed workshop area for bagging the minerals. The total estimated capital cost for decline development, mining and crushing of the mineralization over the next 23 months is approximately $33.0 million. Revenue from the COSE Project is expected to be generated starting in the second quarter of 2013. The Company has commenced a marketing study for the sale of the resources as direct feed to smelters in Central Asia and China.

Monte Leon Prospect

The Monte Leon prospect is located 11 kilometres to the southeast of the Cap-Oeste deposit and within the same 24 kilometre Cap-Oeste structural corridor. The Monte Leon prospect is also within both the El Tranquilo mineral property block and the Estancia La Bajada land holding.

The Monte Leon prospect was identified in 2010 by PGSA exploration teams using high-definition Landsat imagery and has been advanced through geophysics, mapping, rock chip sampling, trenching and drilling. Geophysical gradient array induced polarization ("IP") and resistivity surveys have highlighted a continuous 700 m wide x 2,600 m long, north south trending zone of strong chargeability and resistivity which remains open to the north and south.

In May 2011, an initial drilling campaign, consisting of 15 diamond drill-holes for 3,953 metres, was completed on six sections along one kilometre of the geophysical anomaly. Drilling intersected wide, near surface intervals of potentially bulk mineable gold and silver low grade mineralization hosted by extensive zones of hydrothermal brecciation. The drilling also intersected multiple near-vertical, high-grade Au-Ag bearing structures in the deeper portions of five of the initial holes drilled including a high-grade intersection on drill-hole MLN-014-D of 0.70m grading 80.30 g/t gold and 16 g/t silver.

The results from the first pass drilling campaign included:

Hole ID	From metres	Interval metres	Grade Au g/t	Grade Ag g/t	Grade AuEq g/t
MLN-004-D*	122.00	1.50	21.20	321	27.2
MLN-004-D	174.00	2.00	2.92	677	15.6
MLN-003-D	31.05	2.15	16.73	16	17.03
MLN-003-D	85.00	7.00	1.44	1018	20.48
MLN-005-D	138.00	3.00	0.81	267	5.80
MLN-014-D	301.20	0.70	80.30	16	80.60
including	301.50	0.15	570.07	47	570.94

*Previously released without AuEq grade

Gold Equivalent grade calculated at 53.5:1 Ag; Au ratio

Initial metallurgical test work carried out on the above low-grade, wide intervals of near surface mineralization has returned encouraging recoveries of gold in the oxide material. However recoveries of both gold and silver are low in the sulphide material.

Type	Comp A Oxide	Comp B Sulphide	Comp C Sulphide	Comp D Sulphide	Comp E Transitional	Comp F Oxide
Au Rec (%)	79.8	10.3	18.4	17.8	69.0	82.2
Ag Rec (%)	12.8	17.7	23.5	14.6	54.0	49.2

Exploration for potentially bulk mineable gold and silver low grade mineralization within the oxide material will continue to form part of the exploration program on Monte Leon.

Following a thorough review of the geological, assay and metallurgical test work data, PGSA is now focusing exploration on the multiple near-vertical high-grade Au-Ag bearing structures. These structures are traceable over more than 400 metres along strike and approximately 150 metres down dip. PGSA has completed a 4,000 metres (15 holes) infill exploration program to better define the geometry and continuity.

Mineralization intersected in MLN-014-D shows an increase of Au grade at depth consistent with the applied district scale geological model characterized by hot spring and dome breccia-style mineralization intersected at shallower depths within the epithermal system.

The second drilling program, designed to test multiple high-grade Au-Ag vein structures along a 500m strike length of the Monte Leon corridor is underway.

In 2011, 19 holes totalling 5,188 metres of diamond drilling were completed on the Vein zone. This was substantially less than originally planned for 2011 because drilling resources were re-directed to the Cap-Oeste and COSE Projects during the year to further advance those projects and to grow resources.

For 2012, the Company plans to drill 5,000 metres at the Monte Leon prospect.

La Marciana Prospect

The newly discovered La Marciana prospect was also identified using high-definition Landsat imagery. It is located on the southeast continuation of the Cap-Oeste Structural Corridor, approximately 20 kilometres from the Cap-Oeste 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.

This prospect is at an early stage and 5 holes totalling 1,296 metres of drilling were completed at the La Marciana prospect in 2011.

In 2012, the Company plans to complete 4,000 metres in exploration drilling at this Prospect.

Vetas Norte Prospect

There are currently two prospects at Vetas Norte. The Vetas Norte 'Iceberg' Prospect is centred approximately 4.6 kilometres to the north-northeast of the Cap Oeste Project area. To-date, Rock chip sampling, trenching and drilling have identified a 300m wide x 500m long, west northwest 300° trending structural corridor. On a regional scale this corridor correlates with that which hosts the Felix Prospect area, located approximately 5.5 kilometres to the east-southeast.

Geological mapping has been completed at 1:2,000 scale throughout an approximate 300m x 500m area enclosing the Vetas Norte Iceberg Prospect. Mapping and drilling to date has defined two main Jurassic age lithological units. Two main types and trends of veining have been defined both from drilling and surface mapping throughout the Vetas Norte Prospect.

The Vetas Norte 'Laguna' Prospect is centred approximately 1.2 kilometres to the north-northwest of the Iceberg Prospect over which rock chip sampling and trenching to date has defined anomalous to high-grade channel and rock chip samples.

The main targeted structure comprises a moderately north-northeast dipping 2-20m wide zone of hydrothermal brecciation, which has been defined over a strike length of approximately 300m.

At the Vetas Norte Laguna Prospect, plan is to drill six holes oriented to the south-southwest with the aim to intersect the main mineralized structure at approximately 40m and 90m down hole depth respectively in each fence of holes.

The Company is planning 6,000 metres of drilling in 2012 at Vetas Norte.

La Pampa Prospect

La Pampa is the area to the northwest of the Cap-Oeste Project. It has the same geophysical anomaly on trend from the main Cap-Oeste orebody and on the same Bonanza fault. The target is identical to Cap-Oeste but deeper at approximately 500 – 550 metres with similar mineralization style as Cap-Oeste. In 2012, the Company plans to drill 3,000 metres at La Pampa.

LA PALOMA PROPERTY BLOCK

In 2007, PGSA commenced exploration activities on the La Paloma property block following its acquisition under the Barrick Agreement.

Lomada Project

The Lomada Project is located in north-western Santa Cruz Province, on the La Paloma property block, approximately 40 kilometres to the south of the town of Perito Moreno.

Soon after its acquisition, a drilling campaign was initiated and completed at the Lomada Project, designed to validate historical drill data and to infill and extend the potential resource for definition to NI 43-101 standards. In August 2007, CAM completed an initial mineral resource estimate for the Lomada Project that included 161,346 ounces gold in the indicated category and 73,727 ounces gold in the inferred category.

In 2008, CAM completed a scoping study to determine potential economics for mining the Lomada Project and to identify the target resource base that will support mining on the Lomada Project. The scoping study was based on the 2007 mineral resource estimate and investigated three alternative processing options. Published in 2009, the scoping study recommended a run-of-mine ("ROM") heap leaching process that was clearly the most attractive with lower capital cost, higher cash flow and higher profitability, despite lower recoveries. This option required lower pre-production capital of $8.5 million, recoverable within 14 months of start-up, with production of 21,000 ounces of gold per year, for a life-of-mine ("LOM") of seven years, at a cash cost of $299 per ounce of gold, resulting in pre-tax project cash flow of $137.5 million, based on a gold price of $1,400 per ounce of gold and a recovery of 80%.

Highlights:

- NI 43-101 compliant Indicated resources of 161,346 ounces of gold, with a further inferred resource of 73,727 ounces of gold
- Pre-production capital costs of $8.5 million
- Initial production of 2,200 ounces
- Cash costs of $299/ounce
- LOM 7 years, starting in 2012
- Project cash flow before tax, of $137.5 million, based on a gold price of $1,400/oz.
- The Project has considerable growth potential with conversion of the inferred resources by infill drilling together with development of additional resources

During the second quarter of 2009, further successful metallurgical studies were completed which tested the leaching ability of the ROM resources and crushed material at 1/2 inch and four-inch sixes in simulated field conditions through column testing.

Prior to proceeding with the proposed five million tonne heap leach operation, the Company elected to carry out additional field testing on a trial basis. The first stage of the trial heap leach project consisted of constructing a 50,000 tonne trial heap leach pad and processing facility, which based on 70% recovery, is estimated to yield approximately 2,500 ounces of gold for the first six metre loading.

In July 2009, an EIA for the trial heap leach was completed and submitted to the Director of Mining. In April 2010, Patagonia received approval of the EIA for the 50,000 tonne trial heap leach operation from the State Secretary of Mining for the Province of Santa Cruz and the permit for the trial heap leach operation was issued.

In July 2010, PGSA purchased a part of the Estancia El Rincon and obtained ownership of the surface rights comprising 6,700 hectares. The Lomada Project, as well as some other prospective gold areas, is located within the portion of the Estancia El Rincon purchased by PGSA.

Construction of the trial heap leach pad commenced in September 2010 and loading of the pad was completed in the first quarter of 2011. The processing facility and irrigation system was completed and commissioned in May 2011 on time and on budget.

The trial operated to design specifications during the month of June 2011 and gold was accumulated onto activated carbon. However, severe freezing conditions during the Austral winter months of July and August impeded the trial operation with only 25% availability being recorded during those months. Full operation of the trial resumed at the beginning of October and it was completed with the gold recovered and stored on carbon. PGSA is awaiting a final reconciliation of the production figures. These will only be available once the carbon is stripped and the first dore produced.

The design of the gold processing facility ("gold room") for the Lomada mineralization is complete and work is proceeding on contracts for construction of the gold room at the Estancia La Bajada. ANSAC Australia Pty Ltd has been awarded the contract for the construction of the carbon regeneration kiln with delivery estimated at the end of April 2012. Process Equipment International Pty Ltd of Australia has been awarded the contract for the construction of the electro-winning cells with delivery scheduled for early May. INFA S.A. has commenced all tank and civil construction of the gold room and commissioning is scheduled for the second quarter of 2012. The Company expects to extract gold from the carbon in the second quarter of 2012.

Expansion of the trial heap leach pad at the Lomada Project is proceeding on schedule. Loading of the proposed 120,000 tonne expansion to the existing 50,000 tonne trial heap leach pad is underway with over 70,000 tonnes of mineralized material crushed to minus 100 mm loaded on the pad. Irrigation of the first 25,000 tonne cell has commenced and the expanded trial is scheduled for completion by third quarter of 2012.

The main heap leach operation at Lomada is expected to produce over 21,000 ounces of gold per year, at a cash cost of $400 to $450 per ounce, for the minimum expected mine life of seven years. There is potential to grow the project if infill drilling can convert inferred resources to indicated resources and/or if additional resources can be found through further drilling.

Lomada Resource Upgrade

The Lomada Project has growth potential through additional infill drilling of inferred resources and the future development of additional resources. PGSA completed an extension and infill drilling campaign during the first quarter of 2011 aimed at enlarging the resource and advancing the inferred part of the resource into an indicated category.

Pursuant to the Barrick Agreement, within 90 days of the delineation of a NI 43-101 indicated resource of 200,000 troy ounces or greater of gold or AuEq on the La Paloma property block, which hosts the Lomada Project, the Barrick Sellers are entitled to receive a cash payment of $1.5 million from PGSA. To date, this threshold has not been triggered. In addition, pursuant to the Barrick Amending Agreement, all future production of mineral products from the Lomada Project is subject to the Barrick Royalty.

Future Development

An updated EIA is being prepared and will be submitted to the Director of Mining for approval in the second quarter of 2012. The expansion of the heap leach pad to 200,000 tonnes has commenced and AMEC in the U.S. has been contracted to design the final heap leach expansion and undertake geo-technical work.

LA MANCHURIA PROPERTY BLOCK

The La Manchuria property block, which consists of five mining concessions covering 5,575 hectares, is located in the central part of Santa Cruz Province, approximately 50 kilometres to the southeast of and within carting distance of the Cap-Oeste Project. PGSA owns a 100% interest in the La Manchuria property block on which the La Manchuria Project is located. Any mineral production from this area will be subject to the Barrick Royalty.

No previous mining or significant exploration activity has been conducted on the La Manchuria property block and there are no mineral reserves, historic mine workings, tailings, tailings ponds, or waste deposits in the La Manchuria Project area. The property is not subject to any environmental liabilities related to exploration or mining.

Pursuant to the Fomicruz Agreement, PGSA acquired the rights to explore and mine certain mining properties (that comprise part of the Fomicruz Properties) contiguous with the La Manchuria property block to the southeast.

La Manchuria Project

The surface land associated with the La Manchuria Project is the Estancia La Pilarica surface property. In September 2011, PGSA signed a new access and exploration agreement with the landowner of the Estancia La Pilarica, which permits surface land access, exploration, use of water and drilling for a two year period. The agreement is renewable for an additional two year period.

The current EIA with respect to the La Manchuria Project was approved on April 25, 2011 and remains valid until April 2013. PGSA has obtained the relevant permits, issued by the pertinent government water resources authority of Santa Cruz Province, for the use of water during the drill campaigns. No other permits are required for the continuation of exploration and/or definition drilling at the La Manchuria Property.

The La Manchuria Project currently reports a NI 43-101 compliant resource of 55,684 ounces of AuEq in the indicated category and 90,682 ounces of AuEq in the inferred category.

Exploration

Prior to acquisition, no previous mining or significant exploration activity had been conducted on the La Manchuria Project. Since its acquisition in 2007, three phases of exploration from January 2008 to February 2010 have completed soil geochemistry, mapping, trenching, sampling, drilling of 110 holes and 17,847 metres, a petrographic study, and a topography survey. Since the completion of Phase III, another geophysical survey, and more sampling, mapping, trenching and reconnaissance work have been completed.

Exploration drilling planned for the La Manchuria Project in 2011 was deferred and the drilling resources were redirected to the Cap-Oeste Project to advance the project and increase resources. Drilling at the La Manchuria Project will continue again in 2012.

Mineralization

The most important area of mineralization on the La Manchuria Project is located in the area known as the "Main Zone". It is located in the southeast portion of the Jenny property, covering an area 500 metres along strike (northwest/southeast) by 200 metres wide.

Two alteration types have been recognized at the La Manchuria Project: hypogene and supergene. The typical zonation of low sulphidation epithermal systems has been observed on the surface at the La Manchuria Project. The central zone consists of quartz-adularia and pervasive silica-adularia alteration associated with veins and veinlets. The argillic alteration forms a halo surrounding the silicified zone and is in turn surrounded by a propylitic alteration zone. Supergene alteration is uniformly distributed in the rhyolite and blocky dacite to a depth of approximately 25 metres below surface. It has been observed that the veins dominantly strike northwest to north-northwest (azimuth of 315 degrees to 335 degrees) and dip between 75 degrees and 90 degrees to the northeast.

The current estimate of mineral resources at the La Manchuria Project was completed by Micon and set out in the La Manchuria NI 43-101 Technical Report. The effective date of the mineral resources estimate is September 15, 2010.

Summary of Estimated Mineral Resources[1],[2] (Undiluted) – La Manchuria Project

Category	Indicated Tonnes	Grade (g/t) Au	Ag	AuEq[1]	Metal (Oz) Au	Ag	AuEq
Indicated - Oxide	141,570	1.91	139.1	3.12	8,675	633,338	14,198
Indicated - Hypogene	284,136	3.46	133.0	4.54	31,642	1,214,873	41,486
Indicated Total	425,706	2.95	135.0	4.07	40,317	1,848,211	55,684
Inferred - Oxide	496,179	1.33	42.5	1.66	21,138	678,485	26,462
Inferred - Hypogene	972,840	1.64	53.0	2.05	51,197	1,656,751	64,220
Inferred Total	1,469,019	1.53	49.4	1.92	72,335	2,335,236	90,682

(1) The mineral resources were calculated above a break-even cut-off grade of 0.75 g/t AuEq. The AuEq values are calculated at a ratio ranging from 114.67:1 to 127.28:1 gold:silver, based on a gold price of US$925 per troy ounce and a silver price of US$14.50 per troy ounce, and gold and silver recoveries of 95% and 60%, respectively.

(2) The resources were estimated in accordance with the definitions contained in the Canadian Institute of Mining, Metallurgy ("CIM") and Petroleum Standards on Mineral Resources and Reserves Definitions and Guidelines that were prepared by the CIM Standing Committee on Reserve Definitions and adopted by the CIM Council on December 11, 2005.

Metallurgical Testing

PGSA contracted SGS of Santiago, Chile to perform metallurgical tests on the La Manchuria Project samples. The initial tests were to determine the gold and silver recoveries using a cyanide leach on seventeen core reject composite samples. This was followed by gravity and flotation recovery tests on three composites representing mineralization from the southern, northern and central parts of the deposit. SGS has received 24 samples from PGSA to form 17 composite samples.

Metallurgical tests completed to date are preliminary, and show all three operations recover gold and silver to a lesser or greater degree. Further tests are required on a larger sample size to quantify the recoveries in order to design a process flow sheet.

No further metallurgical testing is planned in 2012.

Future Exploration

The exploration plan for 2012 includes a drilling campaign of approximately 4,000 metres and sampling and assaying of approximately 1,200 samples.

More work is required to determine the altitude and orientation of section 5275N as it has an impact on mineralization as well as the lithology. In addition, more work is required to determine the location and altitude of the F1 Fault and a better understanding of the impact of oxidation on the grade and continuity of mineralization is required. Finally, the Company expects to investigate the potential for mineralization along strike. It appears to be open to the northeast and the southeast.

REGIONAL EXPLORATION

In addition to the three main property blocks; El Tranquilo, La Paloma and La Manchuria, Patagonia has a further 20 exploration targets, 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 now completed on the majority of the properties. A second pass detailed exploration program is in progress on the more prospective properties. This second pass is designed to identify successful drill targets on the Sarita, El Bagual and Bajo Pellegrini properties.

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 mineralization has been observed in quartz veins of polymetallic 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 83.4 g/t gold and up to 15,444 g/t silver, as well as > 1 per cent copper in separate samples.

A second style of mineralization 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 1 g/t gold, up to 4.88 g/t gold, in comb quartz and quartz-sulphide breccias. A recently completed geophysical survey has outlined a chargeability anomaly coincident with the most significant mineralization within the above corridor.

A 1,273 metre drilling program covering 10 holes was completed in 2011 at Sarita. Early indications are that Sarita is becoming an interesting target with free silver and significant quantities of silver minerals. Assay results are pending on 925 samples. For 2012, a total of 4,400 metres have been allocated to first pass exploration.

El Bagual Property

The property which includes an area of 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 mineralization 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 6.7 g/t gold. Results from historic drilling include 25.15 metres grading 0.68 g/t Au from 180.15 metres and 45.60 metres grading 0.48 g/t Au from 139 metres.

A 2,000 metre drill program has been designed to test this potential bulk tonnage low-grade target in the first half of 2012.

Outlook

Patagonia's growth strategy includes the development of three key projects including the flagship Cap-Oeste Project which has the potential of important size and grade, and the high-grade, short-term COSE Project which has the potential to begin generating significant free cash flow in 2013 to partially finance the development of the Cap-Oeste Project towards production in 2015.

In addition, the Lomada Project will commence main heap leach gold production in the fourth quarter of 2012 and will generate consistent cash flow to fund the Company's annual exploration budget for its upcoming prospects including Monte Leon and Vetas Norte.

The Company's aim is to become a 200,000 ounce per annum gold equivalent producer by 2015. Access to capital and the continued success of the exploration program are fundamental to the Company's growth and success.

In 2012, the Company is planning the following activities:

Cap-Oeste:

- Complete a fourth NI 43-101 resource update for the second quarter of 2012.
- Continue with extensive metallurgical testing
- Continue extensive drilling activity including 40,500 metres in 2012 on the Cap-Oeste deposit, which remains open along strike in both directions and down plunge.
- Conduct more comprehensive exploration in the area between the Cap-Oeste Project and the COSE Project and expand the resource towards La Pampa.
- Commence a pre-feasibility study in the third quarter of 2012.

COSE:

- Complete and submit an updated EIA in the second quarter of 2012.
- Complete selection of underground contractor and related legal due diligence in the second quarter of 2012.
- Begin construction of decline in the second quarter of 2012.
- Complete construction of crushing facility and processing facility.
- Complete 4,000 metres of drilling to test COSE structure towards Cap-Oeste Project

Lomada:

- Complete and submit an updated EIA in the second quarter of 2012.
- Complete stage two of the trial heap leach project, bringing the total tonnage under irrigation to 200,000 tonnes.
- Receive delivery of carbon regeneration kiln and electro-winning cells in second quarter.
- Complete construction of the gold room and conduct the first gold pour in the second quarter.
- Obtain the permit for full scale production
- Complete purchase of the new mining fleet.

El Tranquilo Property Block:

- Complete 2012 exploration drilling campaigns planned for Vetas Norte (6,000 metres), Monte Leon (5,000 metres), La Marciana (4,000 metres), Don Pancho (3,000 metres) and La Pampa (3,000 metres).

Regional Exploration:

- Complete 2012 exploration drilling campaigns planned for Sarita (4,400 metres), El Bagual (2,000 metres), Bajo Pellegrini (2,000 metres) and other (2,600 metres).

The Company's ability to meet the targets identified above is subject to various risks, uncertainties and assumptions, some of which are discussed under "Risks and Uncertainties" below and can be found in the "Forward-Looking Information" section below.

Results of Operations

The following tables summarise selected financial data for the Company's financial operations for the three months ended December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009 in United States dollars ("$") and using IFRS as adopted by the European Union and as issued by the International Accounting Standards Board.

The Company's functional currency is British pounds sterling ("GBP") but the financial statements of the Company are presented in United States dollars. The Directors believe that the $ more accurately reflects the gold and silver markets and it will become the main currency of both income and on-going capital expenditures of the Company. The Company changed its presentational currency from GBP to $ as at January 1, 2011. The change in presentational currency represents a change in accounting policy and in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors,* it has been accounted for as a prior year adjustment. Amounts previously reported for 2010 in GBP have been restated in $ as described in Note 4 to the financial statements. Amounts previously reported in GBP for 2009 have been translated into $ at the December 31, 2009 rate of exchange of $1.5928 to 1.0 GBP. Selected financial data for the years ended December 31, 2010 and December 31, 2009 has been shown in previously reported GBP as well as translated into $.

Selected Financial Data

Three months ended December 31 (Thousands of $ except per share amounts)	(Audited) **2011**	(Unaudited) 2010
		Restated See Note
Summary statement of comprehensive income		
Continuing operations		
Exploration costs	$ (4,237)	$ (2,319)
Share-based payments charge	(915)	(55)
Administrative costs	(7,484)	(1,223)
Net finance income	116	27
Net loss	(12,520)	(3,570)
Net other comprehensive (loss) gain	1,782	(168)
Total comprehensive loss	$ (10,738)	$ (3,738)
Basic and diluted loss per share	$ (0.02)	$ (0.01)
Summary statement of cash flows		
Net cash used in operating activities	$ 9,149	$ 1,364
Net cash used in investing activities	$ 3,255	$ 2,444
Net cash from financing activities	$ 187	$ 241

As at December 31	(Audited) **2011**	(Unaudited) 2010
Summary statement of financial position		
Total assets	$ 40,336	$ 18,908
Total long-term financial liabilities	$ 852	$ 189
Total liabilities	$ 8,474	$ 4,032

Note: The previously reported numbers for 2010 have been restated in $. This is described in Note 4 to the Company's annual financial statements.

THREE MONTHS ENDED DECEMBER 31, 2011 COMPARED WITH THREE MONTHS ENDED DECEMBER 31, 2010

Statement of Comprehensive Income

The net loss for the fourth quarter 2011 was $12.5 million, $8.9 million higher than the net loss of $3.6 million in the fourth quarter 2010. The increased net loss was primarily the result of higher exploration costs and higher administrative costs.

Exploration costs in fourth quarter 2011 were $4.2 million, $1.9 million higher than the $2.3 million in the fourth quarter 2010. The Company also capitalized an additional $0.2 million of exploration costs in the fourth quarter of 2011 into mineral properties. In the fourth quarter of 2010, $2.0 million of exploration costs were capitalized and reported as mineral properties. These capitalized costs relate to the Lomada Project in 2010 and both the Lomada and the COSE Projects in 2011.

The Company drilled 15,157 metres in the fourth quarter 2011, an increase of 4,145 metres or 37.6% over the fourth quarter 2010 drilling of 11,012 metres. The majority of the drilling in the fourth quarter 2011 was at the Cap-Oeste Project in order to advance the project and to grow resources. In the fourth quarter 2010, over 50% of the drilling activity was focused on the COSE Project in order to support the March 2011 NI 43-101 Compliant Resource and PEA.

Administrative costs in the fourth quarter 2011 were $7.5 million compared with $1.2 million in the fourth quarter 2010, an increase of $6.3 million. The increase includes increased foreign currency translation losses of $2.9 million, an increase in taxes of $1.4 million including VAT, wealth taxes and withholding taxes in Argentina, an increase in salaries of $0.3 million and an increase in professional fees of $0.6 million, primarily related to the new TSX listing and the establishment of the new subsidiary in Canada.

Other comprehensive gain for the fourth quarter 2011 was $1.8 million compared to the other comprehensive loss of $0.2 million in the fourth quarter 2010. The $2.0 million variance was largely due to the exchange gain resulting from the translation to $ of the Company's foreign operations.

Total comprehensive loss in the fourth quarter 2011 was $10.7 million, an increase of $7.0 million from the total comprehensive loss of $3.7 million in the fourth quarter 2010.

Statement of Cash Flows

Net cash used in operating activities in the fourth quarter 2011 was $9.2 million, $7.8 million higher than the $1.4 million in the fourth quarter 2010. This increase in cash used resulted mainly from higher exploration costs of $1.9 million, higher cash administrative costs of $5.7 million and from $1.1 million cash used to build inventory, partially offset by an increase in trade and other payables of $0.7 million.

Net cash used in investing activities in the fourth quarter 2011 totalled $3.3 million, $0.9 million higher than the $2.4 million in the fourth quarter 2010. In the fourth quarter 2011, the Company purchased $2.9 million in property, plant and equipment primarily related to the COSE and Lomada Projects.

Net cash from financing activities in the fourth quarter of 2011 totalled $0.2 million compared to $0.2 million in the fourth quarter of 2010. These amounts represented the proceeds from the exercise of share options.

Selected Financial Data

Years ended December 31 (Thousands of $ except per share amounts)	(Audited) 2011	(Audited) 2010	(Unaudited) 2009	(Audited) 2009
		Restated See Note	Restated See Note	
Summary statement of comprehensive income				
Continuing operations				
Exploration costs	$ (16,193)	$ (7,237)	$ (7,499)	£ (4,708)
Share-based payments charge	(8,481)	(761)	(2,012)	(1,263)
Administrative costs	(8,691)	(3,388)	(2,157)	(1,355)
Net finance income	198	100	33	21
Net loss	(33,167)	(11,286)	(11,635)	(7,305)
Net other comprehensive (loss) gain	(697)	168	17	(736)
Total comprehensive loss	$ (33,864)	$ (11,118)	$ (11,618)	£ (8,041)
Basic and diluted loss per share	$ (0.05)	$ (0.02)	$ (0.02)	£ (0.01)
Summary statement of cash flows				
Net cash used in operating activities	$ 25,181	$ 10,463	$ 10,106	£ 6,345
Net cash used in investing activities	$ 12,263	$ 3,453	$ 71	£ 45
Net cash used from financing activities	$ 38,383	$ 19,392	$ 14,069	£ 8,833

As at December 31 (Thousands of $)	(Audited) 2011	(Audited) 2010	(Unaudited) 2009	(Audited) 2009
		Restated See Note	Restated See Note	
Summary statement of financial position				
Cash and cash equivalents, net of bank overdraft	$ 10,946	$ 10,242	$ 4,610	£ 2,894
Total assets	$ 40,336	$ 18,908	$ 8,537	£ 5,360
Total long-term financial liabilities	$ 852	$ 189	$ 2	£ 1
Total liabilities	$ 8,474	$ 4,032	$ 2,696	£ 1,693

Note: The previously reported numbers for 2010 and 2009 have been restated in $. This is described in Note 4 to the Company's annual financial statements.

FISCAL 2011 COMPARED WITH FISCAL 2010

Statement of Comprehensive Income

Patagonia is an advanced gold and silver exploration and development company. There was no revenue generated in 2011 or in prior years as the Company has been conducting extensive exploration drilling in the Santa Cruz province of Argentina and focussing on growing its resources. The Company is approaching the stage where it expects to begin generating operational revenue in 2012.

Net loss for 2011 was $33.2 million, $21.9 million higher than the net loss of $11.3 million in 2010. The increase in net loss was primarily the result of higher exploration costs, a higher share-based payments charge and higher administrative costs in 2011.

Total exploration expenses in 2011 were $16.2 million, $9.0 million higher than the $7.2 million in 2010 (see the table below). In addition, the Company incurred a further $2.7 million of exploration costs in 2011 that were capitalized and reported in mineral properties. In 2010, $2.0 million of exploration costs were capitalized and reported in mineral properties. These capitalized costs related to the Lomada Project in 2010 and both the Lomada and the COSE Projects in 2011.

In 2011, the Company significantly increased its exploration drilling program to 61,650 metres from 26,902 metres drilled in 2010, an increase of 34,748 metres or 129.2% over 2010 levels. Of the total metres drilled in 2011, 46,245 metres or 75.0% of the total were completed on the Cap-Oeste Project in an effort to grow resources at the flagship project.

Exploration Costs Expensed by Property Block

(Thousands of $)	2011	2010	2009
		Restated See Note	Restated See Note
El Tranquilo	$ 13,957	$ 5,026	$ 4,354
La Manchuria	279	1,262	1,179
La Paloma	-	372	722
Regional Exploration	450	315	583
Other	1,507	262	661
Total Exploration Costs	$ 16,193	$ 7,237	$ 7,499

Note: The previously reported numbers for 2010 and 2009 have been restated in $. This is described in Note 4 to the Company's annual financial statements.

The share-based payments charge in 2011 was $8.5 million compared to $0.8 million in 2010, an increase of $7.7 million. This increase is the result of the higher volume of options issued in 2011 compared to 2010 and a higher expected volatility factor used in the Black-Scholes valuation for 2011 compared to the volatility factor used in 2010. The share-based payments charge is a non-cash item in the Statement of Comprehensive Income.

Administrative costs in 2011 were $8.7 million, compared with $3.4 million in 2010, an increase of $5.3 million. The increase includes increased foreign currency translation losses of $0.3 million, increased taxes of $1.9 million including VAT, wealth taxes and withholding taxes in Argentina, increased depreciation and amortization of $0.7 million, increased director's remuneration of $0.3 million, and an increase in professional and consulting fees of $1.1 million primarily related to the new TSX listing and the establishment of a new subsidiary in Canada.

Net finance income in 2011 was $0.2 million compared with $0.1 million in 2010, an increase of $0.1 million. This increase results from the Company's higher cash balances during the year impacted by lower interest rates.

Other comprehensive loss for 2011 was $0.7 million compared to other comprehensive gain of $0.2 million in 2010. The $0.9 million variance was largely due to the exchange loss resulting from the translation to $ of the Company's foreign operations.

Total comprehensive loss in 2011 was $33.9 million, an increase of $22.8 million from the total comprehensive loss of $11.1 million in 2010.

Statement of Cash Flows

As at December 31, 2011, the Company had $10.9 million in cash and cash equivalents, net of a bank overdraft, an increase of $0.7 million from the December 31, 2010 balance of $10.2 million.

Net cash used in operating activities in 2011 was $25.2 million, $14.7 million higher than the $10.5 million used in 2010. This increase primarily resulted from increased exploration costs of $9.0 million, higher cash administrative costs of $4.4 million, an increase in trade and other receivables of $2.2 million, and cash used in 2011 to build inventory of $2.2 million, partly offset by an increase in trade and other payables of $2.8 million.

Net cash used in investing activities in 2011 totalled $12.3 million, $8.8 million higher than the $3.5 million in 2010. In 2011, the Company invested $7.5 million in property, plant and equipment primarily related to plant and equipment at the Lomada Project and, a building, a new camp and machinery at the COSE Project compared with $0.7 million in 2010 primarily related to the Lomada Project. The Company also capitalized $2.7 million of exploration costs in 2011 related to the Lomada and the COSE Projects and acquired the surface rights for the Estancia El Tranquilo at a cost of $2.3 million. In 2010 the Company capitalized $2.0 million of exploration costs related to the Lomada Project and acquired surface rights for a portion of the Estancia El Rincon at a cost of $0.8 million.

Net cash from financing activities in 2011 was $38.4 million compared with $19.4 million in 2010, an increase of $19.0 million. In April and May 2011, the Company successfully completed a brokered placement that raised $39.2 million (£24.3 million) in capital before transaction costs of $1.4 million, for net proceeds of $37.8 million. These amounts enabled the Company to fund the accelerated drilling program at the Cap-Oeste Project and to commence the development and construction of the COSE Project in 2011.

In May 2010, the Company completed a share issue raising net proceeds of $19.2 million (£12.5 million). These funds were used to finance working capital requirements and the planned exploration program for 2010 focused on the COSE and the Lomada Projects.

Statement of Financial Position

The Company's total assets increased significantly to $40.3 million as at December 31, 2011 compared to $18.9 million as at December 31, 2010, primarily due to a $6.5 million net increase in property plant and equipment, $4.8 million increase in mineral properties, $4.0 million of mining rights acquired from Fomicruz, $2.2 million increase in inventories and a $2.9 million increase in other receivables.

Total liabilities for the Company increased by $4.4 million to $8.4 million as at December 31, 2011 from $4.0 million as at December 31, 2010, primarily due to increased accruals and trade balances payable which were the result of increased exploration and development activity in 2011.

FISCAL 2010 COMPARED WITH FISCAL 2009

Statement of Comprehensive Income

The net loss for 2010 was $11.3 million, similar to the net loss of $11.6 million in 2009. Lower exploration costs and share-based payments charge in 2010 were partly offset by higher administrative costs.

Total exploration costs in 2010 were $7.2 million, relatively comparable with the $7.5 million spent in 2009. In addition, the Company incurred a further $2.0 million of exploration costs in 2010 in respect of the Lomada Project that were capitalized and reported in mining properties. The Company drilled 26,902 metres in 2010 with the majority at the COSE Project. This is slightly less than the 27,620 metres drilled in 2009 with the majority at the Cap-Oeste Project.

The share-based payments charge in 2010 was $0.8 million compared to $2.0 million in 2009, a decrease of $1.2 million. There were a greater volume of options issued in 2009 compared to 2010 but the volatility factor used in the Black-Scholes valuation was higher in 2010 than in 2009. The share-based payments charge is a non-cash item.

Administrative costs in 2010 were $3.4 million compared with $2.2 million in 2009, an increase of $1.2 million. The increase includes increased foreign currency translation losses of $0.7 million and increased director fees of $0.3 million.

Other comprehensive gain in 2010 was $0.2 million and was largely due to the exchange gain resulting from the translation to $ of the Company's foreign operations.

Total comprehensive loss in 2010 was $11.1 million, a reduction of $0.5 million from the total comprehensive loss of $11.6 million in 2009.

Statement of Cash Flows

As at December 31, 2010, the Company had $10.2 million in cash and cash equivalents, net of a bank overdraft, an increase of $5.6 million from the December 31, 2009 balance of $4.6 million.

Net cash used in operating activities in 2010 was $10.5 million, similar to the $10.1 million in 2009. Higher cash administrative costs of $1.2 million and an increase in trade and other receivables of $0.5 million were partially offset by lower exploration costs of $0.3 million, an increase in trade and other payables of $0.5 million and an increase in long-term provisions of $0.5 million.

Net cash used in investing activities in 2010 totalled $3.5 million, $3.4 million higher than the $71 thousand in 2009. In 2010 the Company capitalized $2.0 million of exploration costs related to the Lomada Project and acquired surface rights for a portion of the Estancia El Rincon at a cost of $0.8 million. In addition in 2010, the Company invested $0.7 million in property, plant and equipment primarily related to the Lomada Project.

Net cash from financing activities in 2010 was $19.4 million compared with $14.1 million in 2009, an increase of $5.3 million. In May 2010, the Company completed a share issue raising net proceeds of $19.2 million (£12.5 million). The amount raised in 2010 was used to finance working capital and the planned exploration program for 2010 focused on the COSE and Lomada Projects. In 2009, the Company completed a share issue raising net proceeds of $14.1 million (£8.8 million). The amount raised in 2009 was used to finance working capital and exploration expenditure requirements.

Statement of Financial Position

The Company's total assets increased significantly to $18.9 million at December 31, 2010 compared to $8.5 million as at December 31, 2009, primarily due to the increase in property plant and equipment, increase in mineral properties and cash and cash equivalents remaining from the 2010 share issue.

Summary of Quarterly Results

The following table provides a summary of quarterly results for the past eight quarters ($ millions, except per-share amounts):

Summary of Quarterly Results*

(Millions of $)	2011 Q4	2011 Q3	2011 Q2	2011 Q1	2010 Q4	2010 Q3	2010 Q2	2010 Q1
Exploration costs	$ 4.2	$ 4.0	$ 5.2	$ 2.8	$ 2.3	$ 0.8	$ 2.1	$ 2.0
Share-based payments charge	$ 0.9	$ 0.6	$ 7.0	$ 0.0	$ 0.1	$ 0.0	$ 0.7	$ 0.0
Administrative costs	$ 7.5	$ 0.2	$ 0.6	$ 0.4	$ 1.2	$ 1.4	$ 0.4	$ 0.4
Net loss	$ 12.5	$ 4.7	$ 12.8	$ 3.2	$ 3.6	$ 2.1	$ 3.1	$ 2.5
Basic and diluted loss per share ($)	$ 0.02	$ 0.01	$ 0.02	$ 0.00	$ 0.01	$ 0.00	$ 0.01	$ 0.00

* The unaudited quarterly results have been prepared in accordance with IFRS. In each of the past eight quarters, the Company's functional currency is GBP and the presentational currency is $. See Note 4 to the Company's annual financial statements for a description of the change in presentational currency.

The Company is an advanced gold and silver exploration and development company that is not yet generating revenue. The quarterly net loss is impacted mainly by changes in exploration costs, share-based payments charge and administrative costs.

Exploration costs increase with the amount of drilling activity which has increased significantly in 2011 over 2010 levels. June to August is the exploration drilling low season due to winter weather conditions and exploration activity is also low from early December to the end of January due to end of year seasonal break. Therefore exploration costs are generally expected to be lower in the first and third quarters.

Share-based payments charge varies from quarter to quarter and is totally dependent on the number of share options issued and volatility factor used in the Black-Scholes valuation. This is a non-cash item.

Administrative costs include exchange gains and losses from translation of foreign currency and costs that do not necessarily occur on a regular basis in each quarter such as one time professional fees. Quarterly administrative costs therefore fluctuate from quarter to quarter. The fourth quarter 2011 administrative costs totalled $7.5 million, which was significantly higher than administrative costs in previous quarters. The fourth quarter of 2011 total included a $2.9 million foreign currency translation loss, $1.7 million in respect of VAT, wealth taxes and withholding taxes in Argentina and professional fees of $1.1 million primarily related to the new TSX listing and the new subsidiary in Canada.

Liquidity and Capital Resources

As at December 31, 2011, the Company's cash position totalled $11.3 million, including $7.5 million in short-term deposits and $3.8 million in bank and cash balances. This compares to $10.5 million at December 31, 2010, which included $9.5 million in short-term deposits and $1.0 million in bank and cash balances. At December 31, 2011 working capital totalled $6.3 million compared with $6.8 million at December 31, 2010.

During 2011, the Company issued 2.9 million ordinary shares on the exercise of stock options for net proceeds of $0.6 million and 57.7 million ordinary shares pursuant to a successful brokered placement for net proceeds of $37.8 million. This provided the financing for the Company's increased exploration and development activities in 2011.

The Company is an advanced gold and silver exploration and development company and is approaching the stage where it will begin to generate operational revenue. Patagonia's growth strategy includes the development of three key projects, one of which is the flagship Cap-Oeste Project, the second being the Lomada Project which is expected to generate cash flow commencing in 2012 and the third being the COSE Project which has the potential to begin generating significant free cash flow in 2013.

The Company's current cash position is not sufficient to finance its planned exploration activity in 2012. The Company will need to raise additional finance to satisfy its 2012 forecast cash requirements prior to generating cash flow from its own properties. Certain economic factors such as on-going economic uncertainty, currency volatility and a possible downturn in the global economy could affect the Company's ability to generate funding in the future and also impact the cost of any funding to the Company. The recent volatility in equity and debt markets combined with the Company's need to raise additional finance to satisfy its forecast cash requirements indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to complete its planned exploration and development activity and even to continue as a going concern.

The Company is considering financing options for 2012 and is confident in its ability to secure additional funding at a competitive rate to continue to meet its commitments as they fall due and to undertake the current planned program of activity over the 12 months from the date of this Annual Report.

The Company is not subject to any capital requirements imposed by regulators or lending institutions.

The Company has provided certain forward-looking information regarding its cash requirements, which are subject to various risks and uncertainties. Some of the risks, uncertainties and assumptions underlying this information can be found in the section entitled "Forward-Looking Information" below.

Commitments

In the normal course of business, the Company enters into contracts and performs business activities that give rise to commitments for future minimum payments. The following table summarizes the maturities of the Company's financial liabilities and operating and capital commitments as at December 31, 2011:

Contractual Obligations

		Payments due by period			
(Thousands of $)	Total	Less than one year	1 to 3 years	4 to 5 years	After 5 years
Bank overdraft	$ 380	$ 380	$ -	$ -	$ -
Trade and other payables	7,242	7,242	-	-	-
Operating leases	3,627	1,086	2,541	-	-
Purchase obligations	167	167	-	-	-
	$ 11,416	$ 8,875	$ 2,541	$ -	$ -

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Related Party Transactions

Landore Resources Limited ("Landore")

During the year, the Company was reimbursed $0.1 million (2010: $79 thousand) of costs, consisting mainly of accommodation and travel expenses, from Landore. There was a balance owing to the Company from Landore as at December 31, 2011 of $1 thousand (December 31, 2010: $1 thousand). Landore is a related party because William H. Humphries is a Director and shareholder.

Cheyenne S.A. ("Cheyenne")

During the year, the Company paid $40 thousand (2010: $15 thousand) to Cheyenne for the provision of a private plane to facilitate travel to outlying areas for Directors and senior employees.

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

MB Holding S.A. ("MB")

During the year, the Company paid $26 thousand (2010: $83 thousand) to MB Holding S.A. for the provision of office space and related administrative services in Buenos Aires. MB is a related party because Carlos J. Miguens is a Director and shareholder.

In 2010, the office space and related administrative costs were charged to MB Holdings S.A. In 2011, PGSA moved to a new office owned by three companies, Agropecuaria Cantomi S.A., Lusemana S.A and El Salvador 4040 S.A.

Agropecuaria Cantomi S.A. ("Agropecuaria")

During the year, the Company paid $46 thousand (2010: $Nil) to Agropecuaria Cantomi S.A. for the provision of office space in Buenos Aires.

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

Lusemana S.A. ("Lusemana")

During the year, the Company paid $40 thousand (2010: $Nil) to Lusemana S.A. for the provision of office space in Buenos Aires.

Lusemana is a related party because Diego Miguens is a controlling shareholder and because of his family relationship with Carlos J. Miguens.

El Salvador 4040 S.A. ("El Salvador 4040")

During the year, the Company paid $38 thousand (2010: $Nil) to El Salvador 4040 S.A. for the provision of office space in Buenos Aires.

El Salvador 4040 is a related party because Cristina Miguens is a controlling shareholder and because of her family relationship with Carlos J. Miguens.

Significant Accounting Policies

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The details of the Company's accounting policies are presented in accordance with IFRS as set out in Note 3 to the financial statements. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the year.

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.

Information about the estimates and judgments made by the Company 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:

- The Company as at the date of these financial statements does not have sufficient funding to meet its working capital requirements for the next 12 months. The Company needs to raise additional finance to satisfy its forecast cash requirements to complete the planned exploration and development activity, prior to generating cash flow from its own properties. Certain economic factors such as on-going economic uncertainty, currency volatility and a possible downturn in the global economy could affect the Company's ability to generate funding in the future. Management are confident of raising additional finance based on the success of prior fundraising rounds. The recent volatility in equity and debt markets combined with the Company's need to raise additional finance to satisfy its forecast cash requirements indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. The Company is confident that it 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 program of activity over the 12 months from the date of this Report. Accordingly, the financial statements do not include any adjustments, which would be necessary if the Company ceased to be a going concern.
- Classification of mineral properties – See Note 14. Exploration expenditures relating to a particular project will be written off until such time as the Board has determined that the project is viable based upon a positive feasibility study and a decision to move into production. As at September 1, 2010, the Lomada Project had advanced to trial production and exploration and development costs from that date forward were capitalized as mineral properties – mining assets. From March 1, 2011, the Board determined that exploration costs on the COSE Project should be capitalized from that date forward as mineral properties – assets in the course of construction, prior to the receipt of full permitting for extraction of the ore body.
- Reviewing the recoverability of VAT balances due to the Group. The post year-end approvals set by the Mining Secretary in Argentina considered the Recoverable VAT balances as at December 31, 2011 to be recoverable in full and no provision is considered necessary. The VAT balances receivable are due to the Company in less than one year, but these amounts have been classified as a non-current asset as Management considers the amounts will be received in more than one year. See Note 17.
- Provisions for environmental impact require a judgment, a likely future obligation, based on an assessment of technical, legal and economic factors. Management is required to make estimates of future costs the Company will incur to complete the reclamation and remediation work required to comply with existing law and regulations. The ultimate cost is uncertain and estimates vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques and changes to the life of the mine. See Note 23.

- During 2011, the Company agreed to a 2.5% NSR royalty on all future production of mineral products on the properties acquired from subsidiaries of Barrick. A liability for the potential future NSR royalty payments has not been recognized since the Company is unable to reliably measure such a liability as the projects have not yet commenced production and there is no certainty over the timing of future potential production. See Note 5.
- A cash payment of $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 block. This amount has not been recognized, as there is no certainty of achieving the required Indicated Resource threshold. See Note 5.
- The Company calculates the cost of share-based payments using the Black-Scholes model. Inputs into the model in respect of the expected option life and the volatility factor are subject to management estimate and any changes to these estimates may have a significant effect on the cost. The assumptions used in calculating the cost of share-based payments are explained in Note 29 of the financial statements for the year ended December 31, 2011.
- Fair value of the mining rights acquired from Fomicruz – See Note 13. Fomicruz contributed to PGSA certain mining rights in exchange for a 10% equity interest in PGSA. Pursuant to IFRS 2 *Share-based Payment,* the mining rights acquired have been measured by reference to the estimated fair value of the equity interest given to Fomicruz. Management has estimated the fair value of the 10% interest in PGSA acquired by Fomicruz, on or about October 14, 2011 at $4.0 million. In determining this fair value estimate, management considered many factors including the net assets of PGSA and the illiquidity of the 10% interest. This amount has been recorded as an increase in the equity of PGSA and as a mining right asset. In the consolidated financial statements, the increase in equity in PGSA has been recorded as non-controlling interest.
- The consolidated financial statements of the Company include 100% of the operating losses, assets and liabilities of PGSA and do not recognise the non-controlling interest of Fomicruz in the operating losses of PGSA, as there is no certainty that PGSA will produce revenue in the future in order to recover Fomicruz's share of post pre-feasibility costs as per the Fomicruz Agreement. See Note 13.

CHANGE IN PRESENTATIONAL CURRENCY

Effective from January 1, 2011, the Company changed its presentational currency from GBP to United States dollars. Management believes that the presentational currency will be more accurately represented by the United States dollar reflecting the gold and silver markets while also becoming the main currency of both income and on-going capital expenditure.

The change in presentational currency represents a change in accounting policy and in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors,* it has been accounted for as a prior year adjustment.

Comparative figures for 2010 and 2009, previously reported in GBP, have been translated to $ as follows:

- Assets and liabilities at December 31, 2009 have been translated at the closing rate of exchange on December 31, 2009;
- Income and expenses for 2010 have been translated at the average rate of exchange for 2010;
- Assets and liabilities at December 31, 2010 have been translated at the closing exchange rate on December 31, 2010;
- Equity items on December 31, 2010, excluding accumulated losses and currency translation reserve, have been translated at the exchange rate on December 31, 2010. Accumulated losses at December 31, 2010 have been translated at the average rate of exchange for losses in 2010 and the December 31, 2009 exchange rate for losses accumulated to December 31, 2009;
- Differences arising from translation of the financial statements of the Company's entities to the presentational currency have been included in currency translation reserve; and
- Cash flows have been translated at the rate of exchange at the date of the cash flow. The effect of exchange rate changes on cash and cash equivalents is reported separately in the statement of cash flows.

The impact of the Company changing its presentational currency from GBP to $ is detailed in Note 4 to the annual financial statements.

STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED BY THE COMPANY

The following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after January 1, 2012 or later periods, but the Company has not implemented early adoption.

- IFRS 9 Financial Instruments ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning on or after January 1, 2015, with earlier adoption permitted. Further chapters dealing with impairment methodology and hedge accounting are still being developed.
- IFRS 10 Consolidated Financial Statements ("IFRS 10") supersedes IAS 27 Consolidated and Separate Financial Statements ("IAS 27") and SIC 12 Consolidation – Special Purpose Entities. IFRS 10 revised the definition of control together with accompanying guidance to identify an interest in a subsidiary. However the requirements and mechanics of consolidation and the accounting for any non-controlling interests and changes in control remain the same. IFRS 10 is effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted.
- IFRS 11 Joint Arrangements ("IFRS 11") supersedes IAS 31 Interests in Joint Ventures ("IAS 31"). It aligns more closely the accounting by investors with their rights and obligations relating to the joint arrangement. In addition, IAS 31's option of using proportionate consolidation for joint ventures has been eliminated. IFRS 11 now requires the use of the equity accounting method, which is currently used for investments in associates. IFRS 11 is effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted.
- IFRS 12 Disclosure of Interests in Other Entities ("IFRS 12") integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted.
- IFRS 13 Fair Value Measurement ("IFRS 13") was issued by the IASB on May 12, 2011. IFRS 13 does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted.
- Consequential amendments to IAS 27 and IAS 28 Investments in Associates and Joint Ventures (IAS 28). IAS 27 now only deals with separate financial statements. IAS 28 brings investments in joint ventures into its scope. However, IAS 28's equity accounting methodology remains unchanged. These amendments are effective for financial years beginning on or after January 1, 2013.
- Disclosures – Presentation of Financial Statements – Amendments to IAS 1 ("IAS 1 Amendments") require an entity to group items presented in other comprehensive income into those that, in accordance with other IFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. It is applicable for annual periods beginning on or after July 1, 2012.
- Disclosures – Employee Benefits – Amendments to IAS 19 ("IAS 19 Amendments") include a number of targeted improvements throughout the Standard. The main changes relate to defined benefit plans. They
  - Eliminate the 'corridor method', requiring entities to recognize all gains and losses arising in the reporting period;
  - Streamline the presentation of changes in plan assets and liabilities; and
  - Enhance the disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.

  The amended version of IAS 19 is effective for financial years beginning on or after January 1, 2013.
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine ("IFRIC 20") was issued by the IASB in October 2011. IFRIC 20 clarifies the requirements for accounting for the costs of stripping activity in the production phase when two benefits accrue: (i) usable ore that can be used to produce inventory; and (ii) improved access to further quantities of material that will be mined in future periods. IFRIC 20 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted and includes guidance on transition for pre-existing stripping assets.

The Company's management have yet to assess the impact of IFRS 13, IAS 19 and IFRIC 20. In respect of the other standards, the Directors anticipate that their adoption in future periods will have no material impact on the financial statements of the Company. The Company does not intend to apply any of these pronouncements early.

Internal Control over Financial Reporting

The Company is a designated foreign issuer as defined by the Ontario Securities Commission, and as such the Chief Executive Officer and the Chief Financial Officer are exempt from the representation requirement relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting.

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

There have been no changes in Patagonia's internal control over financial reporting during 2011 that can materially affect, or are reasonably likely to materially affect, internal controls over financial reporting

Financial Instruments

Financial instruments

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

Financial Assets

(Thousands of $)	2011	2010
Available-for-sale financial assets	$ 120	$ 247
Loans and receivables	$ 236	$ 41
Cash and cash equivalents	$ 11,326	$ 10,515

Financial Liabilities

(Thousands of $)	2011	2010
Bank overdraft	$ 380	$ 273
Trade and other payables	$ 7,242	$ 3,570

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

Financial Instruments Measured at Fair Value

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

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

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

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

(Thousands of $)	Level 1	Level 2	Level 3	Total
As at December 31, 2011				
Assets				
Listed securities	$ 120	-	-	$ 120

(Thousands of $)	Level 1	Level 2	Level 3	Total
As at December 31, 2010				
Assets				
Listed securities	$ 247	-	-	$ 247

Financial Instrument Risk

Foreign currency risk – The Company undertakes transactions principally in GBP and $. While the Company continually monitors its exposure to movements in currency rates, it does not utilise hedging instruments to protect against currency risk.

The presentational currency of the Company is the $. The functional currency of Patagonia is GBP. As at December 31, 2011, Patagonia held cash balances denominated in $ and in Canadian dollars and had trade and other payables denominated in Canadian dollars.

The functional currency of PGSA is the Argentinean peso. As at December 31, 2011, PGSA held cash balances denominated in $.

The functional currency of Minera Minamalu S.A. (“MMSA”) is the Argentinean peso. As at December 31, 2011, MMSA held cash balances denominated in $.

The functional currency of Patagonia Gold Canada Inc. is the Canadian dollar. As at December 31, 2011, Patagonia Gold Canada Inc. held cash balances denominated in $.

Financial assets and liabilities held by the Company and its subsidiaries in currencies other than the particular company's functional currency are subject to foreign currency risk. Based on $ financial assets and liabilities at December 31, 2011 held by companies whose functional currency is other than $, if the $ exchange rate weakened/strengthened by 10% against the functional currency exchange rate of each group company as at December 31, 2011, and all other variables held constant, this would have the following impact on the Company's net loss for the year:

Foreign Currency Rate Weakened

(Thousands of $)	2011	2010
Increase in net loss for the year	$ 566	$ 676

Foreign Currency Rate Strengthened

(Thousands of $)	2011	2010
Decrease in net loss for the year	$ 692	$ 872

The impact of the above analysis on the financial assets and liabilities held in GBP and CAD$ against the functional currency of subsidiaries holding such financial assets and liabilities is not material.

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

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

Interest earning balances were held in GBP and $. The weighted average interest rate for GBP was 1.025% (2010: 1.175%) and for $ was 0.90% (2010: 0.875%). If interest rates in 2011 had been 10% higher or lower with all other variables held constant, the impact on net loss for the year would not have been material on the finance income recorded during 2011.

LIQUIDITY RISK

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

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

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

Counterparty credit limits are reviewed by the Directors 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.

Other Risks and Uncertainties

The Company faces a high degree of risk due to the nature of the Company's business and present stage of exploration and development of its mineral properties. An investment in the securities of the Company is subject to various risks and uncertainties, including those set out below, under the heading "Forward-Looking Information" and elsewhere in this MD&A. A prospective investor should carefully consider such risks and uncertainties before making any investment decision. Additional risks and uncertainties not presently known to the Company or that the Company currently deems immaterial may also impair the Company's business operations. If any of the possibilities described in such risks actually occurs, the Company's business, financial condition and operating results could be materially adversely harmed.

The following risk factors, which are not exhaustive, are primarily related to the mineral operations and to financial matters, and they could materially affect the Company's business, financial condition or results of operations and could cause actual events to differ materially from those described in forward-looking statements relating to the Company. For a complete list, please refer to Patagonia's 2011 Annual Information Form which can be found on the Company website at www.patagoniagold.com or on SEDAR at www.sedar.com.

RISKS ASSOCIATED WITH PATAGONIA'S OPERATIONS AND MINERAL EXPLORATION

Operating in a foreign country usually involves uncertainties relating to political and economic matters.

Any change of government may result in changes to government legislation and policy, which may include changes that impact Patagonia's ownership of and its ability to continue exploration and, possibly, the development of its numerous properties. Further, changes in the government may result in political and economic uncertainty, which may cause Patagonia to delay its exploration and, possibly, its development activities or they may decrease the willingness of investors to provide financing to Patagonia. Accordingly, changes in legislation and policy could result in increased costs to explore and develop the Santa Cruz Projects and could require Patagonia to delay or suspend these activities.

While Santa Cruz Province, where Patagonia's principal mineral properties are located, is considered by the Company to be a mining-friendly jurisdiction, certain other provinces in Argentina have enacted various laws either banning mining activities entirely or severely restricting the areas in which mining activities may be carried out. Changes, even if minor in nature, may adversely affect Patagonia's operations.

There is no assurance that Patagonia will acquire the necessary permits and licenses to explore, develop and mine its mineral projects or will be able to comply with the conditions of such permits and licenses.

Patagonia's current exploration program and future operations require licenses and permits from various governmental authorities and such operations are governed by laws and regulations governing various elements of the mining industry. The issuance of such licenses and permits may require conditions to be satisfied and/or be subject to the exercise of discretion by such authorities. In addition, such licenses and permits are subject to changes in regulations and in various operating circumstances. Where required, obtaining necessary licenses and permits can be a complex and time-consuming process. The costs and delays associated with obtaining necessary licences and permits could stop or materially delay or restrict Patagonia from proceeding with the development of an exploration project. There can be no assurance that all permits which Patagonia may require for future exploration or possible future development will be obtainable at all or on reasonable terms. In addition, future changes in applicable laws or regulations could result in changes in legal requirements or in the terms of existing permits applicable to Patagonia or its properties. This could have a negative effect on the Company's exploration activities and/or the ability to develop its properties.

Patagonia received the necessary permit (by virtue of the approval for the relevant EIA) for the heap leach trial at the Lomada Project in April 2010; the amendment to the Lomada EIA for the heap leach expansion was submitted to the State Secretariat of Mining of the Province of Santa Cruz in May 2011. The Company also received the necessary permits (by virtue of approval of the relevant EIAs) for its current activities on the El Tranquilo property block (covering the COSE Project and the Cap-Oeste Project) in November 2010 and for the La Manchuria Project in April 2011. The EIAs must be renewed two years from their respective dates of issuance. The Company is in the process of preparing updated EIAs for both the COSE and the Lomada Projects for submission in the second quarter of 2012.

Changes in the market price of gold, which in the past has fluctuated widely, will affect Patagonia's financial condition.

If Patagonia commences production, the Company's profitability will be dependent upon the market price of gold and any other metals contained in minerals discovered. Historically, gold prices have fluctuated widely and are affected by numerous external factors beyond the Company's control, including industrial and retail supply and demand, the strength of the United States dollar (the currency in which the price of gold is generally quoted), confidence in global monetary system, sales and purchases of gold, exchange rates, expectations with respect to inflation rates, interest rates, changes in global economies, central bank lending, forward sales of gold and other metals, speculative trading, production and cost levels in major producing regions, short-term changes in supply and demand because of speculative hedging activities, terrorism and war, and other global or regional political or economic events.

If the price of gold drops significantly, the economic prospects of the projects in which the Company has an interest could be significantly reduced or rendered uneconomical. Although gold has recently been trading at prices that are historically high, there can be no assurance that these price levels will continue to prevail if and when Patagonia enters production. There is no assurance that, even as commercial quantities of gold and other metals are produced, a profitable market will exist for them. The exact effect of these factors cannot be accurately predicted, but any one of, or any combination of, these factors may result in Patagonia not receiving an adequate return on invested capital and a loss of all or part of an investment in securities of the Company may result.

Dependence on Key Personnel and Limited Management Team

The Company is dependent on the services of its senior executives and full-time equivalent skilled and experienced employees such as exploration geologists and consultants. The loss of any such individuals could have a material adverse effect on the Company's operations. The Company strives to provide its employees with attractive opportunities and to ensure its remuneration policies are competitive in order to attract and retain key employees. The Company's employee base is growing significantly as the Company continues to grow and evolve its projects into development and production.

Patagonia's insurance coverage does not cover all of its potential losses, liabilities and damage related to its business and certain risks are uninsured or uninsurable.

Exploration, development and production operations on mineral properties involve numerous risks, including unexpected or unusual geological operating conditions, rock bursts, cave-ins, ground or slope failures, fires, floods, earthquakes, volcanic eruptions and other environmental occurrences, political and social instability that could result in damage to or destruction of mineral properties, personal injury or death, environmental damage, business interruption, delays in mining caused by industrial accidents or labour disputes, changes in regulatory environment, monetary losses and possible legal liability.

Insurance premiums for the mining industry have increased significantly in recent years. It is not always possible to obtain insurance against all risks and the Company may decide not to insure against certain risks because of uneconomic premiums or other reasons. While Patagonia may obtain insurance against certain risks, such as specific property and general liability, in such amounts as it considers adequate, the nature of these risks are such that liabilities could exceed policy limits or could be excluded from coverage. There are also risks against which Patagonia cannot insure against or which it may elect not to insure. Patagonia has not purchased insurance for environmental liability, earthquake damage, mine flooding, business interruption or other hazards for which Patagonia believes insurance is not generally available on reasonable or acceptable terms. The potential costs which could be associated with any liabilities not covered by insurance or in excess of insurance coverage may cause substantial delays and require significant capital outlays, adversely affecting the future earnings, financial position and competitive position of Patagonia.

Patagonia's mineral projects are in the exploration stage and may not ever result in the development of a producing mine. It is not possible to ensure that Patagonia's current or proposed exploration programs will result in a profitable commercial mining operation.

Patagonia's mineral projects are in the exploration stage. Development of any of the projects will only follow upon, among other things, obtaining satisfactory exploration results and the completion of feasibility or other economic studies. The exploration and development of mineral deposits involve significant financial risks over an extended period of time, which a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an ore body may result in substantial rewards, few exploration properties are ultimately developed into producing mines. Major expenses may be required to establish further mineral resources by drilling and to construct mining and processing facilities at a site. It is impossible to ensure that Patagonia's current or proposed exploration programs will result in a profitable commercial mining operation.

The economics of exploring and developing mineral properties are affected by many factors including capital and operating costs, variations of the grades and tonnages of resources mined, fluctuating mineral market prices, costs of mining and processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. Whether developing a producing mine is economically feasible will depend upon numerous factors, most of which are beyond the control of Patagonia, including: the delineation of economically recoverable reserves, the availability and cost of required development capital, movement in the price of commodities, securing and maintaining title to mining tenements as well as obtaining all necessary consents, permits and approvals for the development of the mine. Should a producing mine be developed at any of Patagonia's mineral properties, other factors will ultimately impact whether mineral extraction and processing can be conducted economically, including actual mineralization, consistency and reliability of resource grades and future commodity prices, as well as the effective design, construction and operation of processing facilities. Patagonia's operating expenses and capital expenditures may increase in subsequent years as consultants, personnel and equipment associated with advancing exploration, development and commercial production of its properties are added. The effect of these factors cannot be accurately predicted, but the combination of these factors may result in Patagonia not receiving an adequate return on invested capital.

Patagonia's estimates of its mineral resources are estimates only and are uncertain by their nature.

There are numerous uncertainties inherent in estimating mineral resources. The figures for mineral resources contained in this MD&A are estimates only. The estimation of mineralization is a subjective process and the accuracy of estimates is a function of quantity and quality of available data, the accuracy of statistical computations, and the assumptions and judgments made in interpreting engineering and geological information.

In respect of mineral resource estimates, no assurance can be given that the anticipated tonnage and grades will be achieved, that the indicated level of recovery will be realized or that the mineral resources can be mined or processed profitably. Estimates of mineral resources necessarily depend upon a number of variable factors and assumptions, including, among others, geological and mining conditions that may not be fully identified by available exploration data or that may differ from experience in current operations, historical production from the area compared with production from other producing areas, the assumed effects of regulation by governmental agencies and assumptions concerning metal prices, exchange rates, interest rates, inflation, operating costs, development and maintenance costs, reclamation costs and the availability and cost of labour, equipment, raw materials and other services required to mine and refine the mineralization. Estimates may have to be recalculated based on changes in mineral prices or further exploration or development activity. This could materially adversely affect estimates of the volume or grade of mineralization or other important factors that influence estimates.

Market price fluctuations for minerals, increased production costs or reduced recovery rates, or other factors can adversely affect the economic viability of a project. There can be no assurance that mineral recoveries in small-scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production.

For these reasons, estimates of Patagonia's mineral resources in this MD&A, including classifications thereof based on probability of recovery, may vary substantially. The actual volume and grade of mineral resources mined and processed may not be as currently anticipated in such estimates. If Patagonia's actual mineral resources are less than its estimates, the Company's results of operations and financial condition may be materially adversely affected.

Mineral resources that are not mineral reserves do not have demonstrated economic viability.

Mineral resources that are not mineral reserves do not have demonstrated economic viability. The Company currently does not have any mineral resources that are classified as mineral reserves. There is no assurance that the mineral resources set out in this MD&A will be ever be classified as proven or probable mineral reserves as a result of continued exploration. In addition, mineral resources that are classified as inferred mineral resources are considered too speculative geologically to have economic considerations applied to them to enable them to be categorised as reserves. Due to the uncertainty which may attach to inferred mineral resources, there is no assurance that the estimated tonnage and grades as stated will be achieved or that they will be upgraded to measured and indicated mineral resources or proven and probable mineral reserves as a result of continued exploration.

Patagonia's exploration and development activities are subject to all of the operational risks and hazards inherent to the mining industry.

Patagonia's activities are subject to all of the hazards and risks normally incidental to exploration and development of mineral properties, including environmental hazards, mechanical equipment performance problems, industrial accidents, labour disputes, drill rig shortages, the unavailability of materials and equipment, encountering unusual or unexpected geologic formations, rock bursts, formation pressures, cave-ins, earthquakes and other Acts of God, flooding, hydrological conditions (including a shortage of water), fires, power failures, landslides and periodic interruptions due to inclement or hazardous weather conditions. Such risks could result in damage to, or destruction of, mineral properties, facilities and equipment, personal injury, death, environmental damage, delays in mining, monetary losses and potential legal liability.

Resource exploration is a speculative business, characterised by certain risks including, among other things, unprofitable efforts resulting from not only the failure to discover mineral deposits but from finding mineral deposits which, though present, are insufficient in quantity and quality to return a profit from development and production. The marketability of minerals may be affected by numerous factors which are beyond Patagonia's control and which cannot be accurately predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment, and such factors as government regulations, including regulations pertaining to royalties, allowable production, exporting of minerals and environmental protection. Any one or a combination of these factors may result in the Company not receiving an adequate return on investment capital.

Patagonia will require additional capital in the future to develop its mineral projects and no assurance can be given that such capital will be available on terms acceptable to Patagonia or at all.

Patagonia has limited financial resources and will have further exploration expenditures and capital requirements as it proceeds to expand exploration activities at its mineral properties, develop any such properties, or take advantage of opportunities for acquisitions, joint ventures or other business opportunities that may be presented to it. The continued exploration and future development of Patagonia's properties will therefore depend on the Company's ability to obtain additional required financing through equity financing, debt financing, joint ventures or other means. In particular, any potential development of its projects requires substantial capital funding which Patagonia cannot currently quantify and does not currently have in place. Patagonia can provide no assurance that it will be successful in obtaining required financing as and when needed and on favourable terms or at all.

Volatile markets for precious metals may make it difficult for the Company to obtain debt or equity financing on favourable terms or at all. Where Patagonia issues shares in the future, such issuance will result in the then existing shareholders of the Company sustaining dilution to their relative proportion of the equity in Patagonia. The Company may incur substantial costs in pursuing future capital requirements, including investment banking fees, legal fees, accounting fees, securities law compliance fees, printing and distribution expenses and other costs. The ability to obtain needed financing may be impaired by such factors as the capital markets (both generally and in the gold industry in particular), the location of the projects in Argentina (a country which is prone to economic and political upheaval), the price of gold on the commodities markets (which will impact the amount of asset-based financing available) and/or the loss of key management personnel. Further, if the price of gold on the commodities markets decreases, then potential revenues from the projects will likely decrease and such decreased revenues may increase the requirements for capital. If Patagonia is unable to obtain additional financing on a timely basis, the Company may be required to reduce the scope or postpone its development or anticipated expansion, forfeit its interest in some or all of its properties, incur financial penalties or reduce or terminate some or all of its operations.

The values attributed to Patagonia's property assets may not be realizable.

Values attributed to the Patagonia's assets may not be realizable. Patagonia's ability to continue as a going concern depends upon a number of significant variables. The amounts attributed to Patagonia's exploration properties in its financial statements represent acquisition and exploration expenditures and should not be taken to represent realizable value. Further, Patagonia has no proven history of performance, revenues, earnings or success. As such, the ability of Patagonia to continue as a going concern will be dependent upon the existence of economically recoverable resources, the ability of Patagonia to obtain the necessary financing to complete the development of its interests, future profitable production or, alternatively, upon the ability of Patagonia to dispose of its interests on a profitable basis.

Fluctuations in the value of the United States dollar, the British pound sterling or the Argentinean peso may adversely affect Patagonia's financial position.

Capital funds for Patagonia have been raised in British pound sterling. Patagonia's mining properties are located in Argentina which subjects Patagonia to foreign currency fluctuation as a significant portion of Patagonia's current and proposed expenditures are made in currencies other than the British pound sterling, including the Argentinean peso and the U.S. dollar. Patagonia does not currently have any hedging contracts in connection with foreign currencies. The depreciation of the pound sterling against the U.S. dollar or the Argentinean peso would increase the costs associated with the exploration and development of Patagonia's properties and potentially increase future operating costs, taxes and royalties paid. The effects of the foreign exchange rate on operating costs and on future cash flows may be significant and such fluctuations may adversely affect Patagonia's profitability, financial position and results of operations.

Patagonia is also subject to foreign currency translation fluctuations. Prior to January 1, 2011, Patagonia's financial results were presented in pounds sterling. As at January 1, 2011, the Company's financial results are presented in U.S. dollars. Therefore, the reported financial position and results of the Company will be impacted by exchange fluctuations between the British pound sterling, the U.S. dollar, the Argentinean peso and other currencies in which Patagonia incurs expenses.

Patagonia is subject to risks relating to a deterioration of global economic conditions.

Global economic market events and conditions, including the sovereign debt crisis in Europe, disruptions in the international credit markets and other financial systems and/or a deterioration of global economic conditions, could impede Patagonia's access to capital or increase the cost of capital. Current global financial conditions have been subject to increased volatility and numerous financial institutions have either gone into bankruptcy or have received capital bailouts or other relief from governmental authorities. Access to financing has been negatively impacted by the risk of sovereign debt default in some countries in Europe, sub-prime mortgages and the liquidity crisis affecting the asset-backed commercial paper market. These factors may impact the ability of Patagonia to obtain equity or debt financing in the future on terms that are favourable and acceptable to it. Although there have been indications of economic recovery through 2011 and early 2012, the future global economic outlook remains relatively uncertain. If these increased levels of volatility and market turmoil were to continue, Patagonia's results of operations could be adversely impacted and the trading price of the shares could be adversely affected.

Estimates and assumptions used in preparing Patagonia's consolidated financial statements and actual amounts could differ.

Preparation of the consolidated financial statements requires the Company to use estimates and assumptions. Accounting for estimates requires the Company to use its judgement to determine the amount to be recorded on its financial statements in connection with these estimates. On an ongoing basis, Patagonia re-evaluates its estimates and assumptions. However, the actual amounts could differ from those based on estimates and assumptions.

RISKS ASSOCIATED WITH THE SHARES GENERALLY

There is no guarantee that an investment in shares of the Company will earn any positive return in the short- or long-term.

There is no guarantee that an investment in shares of the Company will earn any positive return in the short-term or long-term. The mineral exploration and development business is subject to numerous inherent risks and uncertainties, and any investment should be considered a speculative investment. Past successful performance provides no assurance of any future success. The purchase of shares of the Company involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks. An investment in shares of the Company is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment.

Patagonia's Shares are publicly traded and are subject to various factors that may make the Company's share price volatile.

The market price of the Company's shares could fluctuate significantly. The market price may fluctuate based on a number of factors in addition to those listed in this MD&A, including the Company's operating performance and the performance of competitors and other similar companies, the public's reaction to the Company's press releases, other public announcements and the Company's filings with the various securities authorities, changes in earnings estimates or recommendations by research analysts who track the Company or the shares of other companies in the resource sector, changes in general economic conditions, the number of the Company's shares publicly traded, the arrival or departure of key personnel, acquisitions, strategic alliances or joint ventures involving the Company or its competitors, and the factors listed under the heading " Forward-Looking Information".

In addition, the market price of the Company's shares are affected by many variables not directly related to the Company's success and therefore not within the Company's control, including other developments that affect the market for all resource sector shares, the breadth of the public market for the Shares, and the attractiveness of alternative investments. In recent years, the securities markets have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered to be development stage companies, has experienced wide fluctuations which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that such fluctuations will not affect the price of the Company's shares.

Patagonia has never declared or paid any dividends to its shareholders.

The Company does not have a dividend policy and has never declared or paid any dividends to its shareholders. The Company intends to invest all available funds towards the development and growth of its business and does not expect to pay any cash dividends for the foreseeable future. The payment of any cash dividend to shareholders of the Company in the future will be at the discretion of the Directors of the Company and will depend on, among other things, the financial condition, capital requirements and earnings of Patagonia, and any other factors that the directors of the Company may consider relevant.

Outstanding Share Data

The Company's fully diluted share capital as at April 24, 2012 was:

	Outstanding
Ordinary shares	747,515,878
Unexercised share options	57,620,000
Fully diluted	805,135,878

Forward-Looking Information

This MD&A contains "forward-looking information" within the meaning of applicable Canadian securities laws.

The purpose of the forward-looking information is to provide the reader with a description of management's expectations regarding the Company's operational and financial performance and may not be appropriate for other purposes. Forward-looking information is by its nature prospective and requires the Company to make certain assumptions and is subject to inherent risks and uncertainties. There can be no assurance that forward- looking information will prove to be accurate, and readers are cautioned not to place undue reliance on the forward-looking information contained in this MD&A. Generally, but not always, forward-looking information is identifiable by use of the words "continue", "expect", "anticipate", "estimate", "forecast", "believe", "intend", "schedule", "budget", "plan" or "project", or the negative or other variations of these words or comparable terminology, or states that certain actions, events or results "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved. Forward-looking information in this MD&A includes, but is not limited to, statements relating to:

- The future financial and operating performance of Patagonia and its subsidiaries and its mineral properties, including in particular any amounts budgeted by Patagonia for exploration, development and administrative activities;
- Patagonia's requirements for and ability to access additional capital;
- The future price of gold and other metals, including in particular the assumed metal and silver prices used in the calculation of mineral resource estimates and in the preliminary economic analyses for Patagonia's COSE and Lomada Projects;
- Patagonia's strategic plans, including in particular expected drilling programs to be carried out on Patagonia's properties and development to be undertaken at the COSE and Lomada Projects and the timing and duration thereof, and Patagonia's ability to achieve its stated aim of producing 200,000 ounces per annum of gold equivalent by 2015;

- The amount and value of Patagonia's mineral resources, including any stated potential to grow Patagonia's mineral resources, and Patagonia's ability to realize on current and/or future estimates,
- The costs and timing of future exploration, drilling and geological studies (including economic and scoping-level studies) and reports and the anticipated results there from;
- The costs and timing of the development of new deposits, including in particular the expected timing for the completion of the trial heap leach, extraction of gold from carbon and timing of construction of the main heap leach at Patagonia's Lomada project;
- The evolution and economic performance of development projects, including in particular the preliminary economic analyses for Patagonia's COSE and Lomada projects;
- The amount and objectives of future capital expenditures;
- Any expected change or development in governmental regulation of the various aspects of the mineral exploration, development and mining business, including with respect to labour laws and environmental protection; and
- The timing and receipt of approvals and licences under applicable mineral legislation, including in particular approvals for Patagonia's environmental impact reports.

Forward-looking information is based on estimates and assumptions made by management of the Company in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors that management believes are appropriate and reasonable in the circumstances, but there can be no assurance that such estimates and assumptions will prove to be correct. Certain assumptions with respect to the continuous availability of required manpower, the provision of goods and services by contracted parties on agreed timeframes, the success of on-going contractual negotiations and their progression and completion in a timely manner, the accuracy of mineral resource estimates and the Company's ability to successfully develop those mineral resources, there being no occurrence of unusual geological or technical problems, the operation of plant and equipment as anticipated, the continuity of the current favourable price of gold, the Company's continuous access to capital markets, there being no significant adverse changes in governmental regulation of the Company's business and there being no significant adverse events occurring outside of the Company's normal course of business are material assumptions made in preparing forward looking information contained in this MD&A. In addition, the following are material factors that could cause actual results to differ materially from a conclusion, forecast or projection contained in the forward-looking information in this MD&A: political and economic instability and uncertainty in Argentina; changes in government regulations, including environmental regulation, that have an adverse effect on Patagonia's exploration and development activities; the Company's failure to acquire or comply with the necessary permits and licenses to explore, develop and mine its mineral projects; a decline in the market price of gold; the failure of insurance to cover all losses; the Company's failure to maintain title to its properties; the failure of current or proposed exploration programs to result in a profitable commercial mining operation; inaccurate estimates of mineral resources; the Company's inability to develop its projects as anticipated; operational risks and hazards inherent to the mining industry; the Company's dependence on a limited number of mineral projects; risks normally associated with operating in foreign jurisdictions; lack of adequate infrastructure; the Company's failure to obtain capital if and as needed; loss of key personnel; deterioration in the relationship with key third parties; difficulty in recruiting and retaining employees; the Company's inability to acquire other mineral properties; a conflict of interest with management; fluctuations in exchange rates; and the deterioration of global economic conditions. Such factors are described or referred to in more detail below under the heading "Other Risks and Uncertainties". Although the Company has attempted to identify material factors that could cause actual results to differ materially from a conclusion, forecast or projection contained in the forward-looking information, there may be other factors that could cause results to differ from what is anticipated, estimated or intended. All forward-looking information contained in this MD&A is given as of the date hereof and the Company undertakes no obligation to update or revise forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable laws.

Report of the Directors

The Directors present their report and the audited financial statements for Patagonia Gold Plc (the "Company" or "Patagonia") and it's subsidiaries, collectively known as the "Group", for the year ended December 31, 2011. All amounts are expressed in United States dollars ("$"), except where indicated.

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 and the Management's Discussion and Analysis on pages 20 to 65.

Principal Risks and Uncertainties (Note 26)

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) Carefully monitoring and reviewing the amount invested in any one project.

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

Competition

There is strong competition within the mining industry for the identification and acquisition of suitable properties. The Group competes with other exploration and production companies, some of which have greater financial resources than the Group, for the acquisition of properties, leases and other interests as well as for the recruitment and retention of skilled personnel.

Fiscal Regimes

Argentinean fiscal policies are complex, and it is 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 various issues.

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. If the Company is unable to obtain additional financing as needed, some interests may be relinquished and/or the scope of the operations may be reduced.

Currency

The Group reports its financial results 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 British pound sterling ("GBP") to $ 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 that 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 and the Management's Discussion and Analysis on pages 20 to 65, 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 Patagonia's stage of development, are focused on managing the activities inherent in exploration and operational development. 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 strict jurisdictional environmental policies.	Exploration expenditure	Exploration cost per metre drilled. Funding and development costs measured as per anticipated ounce of metals.
Operational success	The number of successful exploration drilling ventures and growth of resources.	Exploration development	Results of scoping and feasibility studies. Growth of resources.
Human resource management	Employee retention rate. Attracting qualified employees for key positions.	Working capital	Monitoring working capital. Ensuring adequate liquidity.

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 requirements to allow the Group to take advantage of exploration opportunities while maximising shareholder value. The Company operates controlled treasury policies that are monitored by the Board to ensure that the needs of the Company are met as they evolve. The impact of the risks required to be discussed in accordance with IFRS 7 are summarised in Note 26 together with detailed discussion and sensitivity analysis relating to these risks.

PGSA and Fomicruz Agreement

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

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

The agreement was formally ratified on May 21, 2009 and formalised on October 14, 2011, through the signature of the Shareholders Agreement ("Fomicruz Agreement") between Patagonia, PGSA, and Fomicruz.

The Fomicruz Agreement sets out the terms and conditions for the management and development of PGSA, where the Company holds a 90% interest with the remaining 10% held by Fomicruz.

Fomicruz contributed to PGSA the rights to explore and mine approximately 100,000 hectares of Fomicruz's mining properties denominated Manchuria, Kaiken, La Marcelina, San Vicente, El Cóndor, La Australiana, La Esperanza and La última (the "Fomicruz Properties") located in the very prospective Deseado Massif, and close to PGSA´s El Tranquilo and La Manchuria block of properties.

The key terms of the Fomicruz Agreement included the following:

- Patagonia funds 100% of all exploration expenditures on PGSA properties to the pre-feasibility stage, with no dilution to Fomicruz.
- After the feasibility stage is reached, Fomicruz is obligated to pay its 10% share of the funding incurred thereafter on the PGSA properties, plus annual interest at LIBOR+1% to the Company. Such debt and interest payments will be guaranteed by an assignment by Fomicruz of 50% of the future dividends otherwise payable to Fomicruz on its shares.
- Over a five-year period, the Company through PGSA is required to invest $5.0 million on exploration expenditures on the Fomicruz Properties, whose rights to explore and mine were contributed to PGSA as part of the Fomicruz Agreement.
- The Company will manage the exploration and potential future development of the PGSA properties.

Acquisition of Barrick's Property Portfolio in Santa Cruz, Argentina

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

On March 23, 2011 the 'Back in Right' from the original property acquisition agreement was eliminated in exchange for a 2.5% Net Smelter Return royalty in favour of the Barrick Sellers on all future production of mineral products on the properties sold to PGSA under the acquisition agreement. Under the original agreement PGSA had granted Barrick an option to buy back up to a 70% interest the properties sold to PGSA under the acquisition agreement upon the delineation of the greater of 2.0 million oz. of gold or gold equivalent NI 43-101 Indicated Resource on that property group going forward.

A further cash payment of $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:

The Group is an advanced gold and silver exploration and development company and is approaching the stage where it will begin to generate operational revenue. Patagonia's growth strategy includes the development of three key projects, one of which is the flagship Cap-Oeste Project, the second being the Lomada Project which is expected to generate cash flow commencing in 2012 and the third being the COSE Project which has the potential to begin generating significant free cash flow in 2013.

The Company as at the date of these financial statements does not have sufficient funding to meet the Group's working capital requirements for the next 12 months. The Group and Company need to raise additional finance to satisfy its forecast cash requirements to complete the planned exploration and development activity, prior to generating cash flow from its own properties.

Certain economic factors such as on-going economic uncertainty, currency volatility and a possible downturn in the global economy could affect the Group and Company's ability to generate funding in the future. Management are confident of raising additional finance based on the success of prior fundraising rounds. The recent volatility in equity and debt markets combined with the Group and Company's need to raise additional finance to satisfy its forecast cash requirements indicates the existence of a material uncertainty that may cast significant doubt on the Group and Company's ability to continue as a going concern.

The Group and Company are confident that they will be able to secure additional funding to enable them to continue to meet their commitments as they fall due and to undertake the current planned program of activity over the 12 months from the date of this 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.

Share Capital

On April 19, 2011, the Company placed 45,238,095 new ordinary shares and on April 28, 2011, the Company placed a further 12,500,000 new ordinary shares for a total of 57,738,095 new ordinary shares, each at a price of 42 pence per share ($39.2 million). The cost of these placements totalled $1.4 million (£0.9 million) resulting in net proceeds of $37.8 million (£23.4 million). $0.9 million (£0.6 million) of the net proceeds are included in share capital and the balance of $36.8 million (£22.8 million) is included in share premium.

During 2011, the Company allotted a total 2,900,000 new ordinary shares pursuant to the exercise of share options for total gross proceeds of $0.6 million (£0.4 million). $46 thousand (£29 thousand) of the gross proceeds are included in share capital and the balance of $0.6 million (£0.4 million) is included in share premium. Details of the share options exercised are as follows:

Date of share issue	Number of shares	Date options exercised
January 5, 2011	100,000	December 20, 2010
February 9, 2011	125,000	February 7, 2011
March 14, 2011	300,000	March 3, 2011
April 20, 2011	400,000	March 29, 2011
May 16, 2011	25,000	May 5, 2011
July 15, 2011	25,000	July 7, 2011
August 5, 2011	25,000	July 27, 2011
August 8, 2011	500,000	July 27, 2011
September 13, 2011	800,000	August 31, 2011
October 10, 2011	500,000	September 30, 2011
December 22, 2011	100,000	December 12, 2011
	2,900,000	

Subsequent Events

Subsequent to December 31, 2011, the Company allotted the following new ordinary shares pursuant to the exercise of share options:

Date of share issue	Number of shares	Date options exercised
March 9, 2012	425,000	February 28, 2012
March 9, 2012	100,000	February 29, 2012
March 19, 2012	3,500,000	March 8, 2012
March 19, 2012	3,500,000	March 12, 2012
March 19, 2012	3,500,000	March 13, 2012
	11,025,000	

Financial Results

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

Dividends

The Directors do not recommend the payment of a dividend (2010: $nil).

Substantial Shareholdings

In addition to the interest of Carlos J. Miguens disclosed below, at April 24, 2012, the Company had been notified of, or was aware of, the following interests of 3% or more in its issued share capital:

Ordinary Shares of 1p:	Number	Percentage
Carlos J. Miguens	103,653,116	13.87
BlackRock Inc.*	70,313,700	9.41
Cinco Vientos Uruguay SA	40,725,269	5.45
Diego Miguens	29,562,152	3.95
Barrick Gold Corporation	28,323,264	3.79
Van Eck Global	25,387,794	3.40
Cristina Miguens	24,485,645	3.28

*The shareholding of BlackRock Inc. includes 57,700,000 shares (7.83%) 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:	April 24, 2012	December 31, 2011	December 31, 2010
Sir John Craven	9,455,190	5,955,190	5,479,000
Carlos J. Miguens	103,653,116	100,153,116	96,656,001
William H. Humphries	18,893,857	14,893,857	14,417,667
Gonzalo Tanoira	6,900,673	6,900,673	6,754,960
Marc J. Sale	1,676,687	1,676,687	1,676,687
Richard Ö. Prickett – *Retired December 2, 2011*	N/A	N/A	7,244,888
Edward J. Badida – *Appointed November 1, 2011*	-	-	-
Gary A. Sugar – *Appointed November 1, 2011*	-	-	-

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 $80,195 (2010: $38,645) for his services as Director and Chairman plus $9,399 social security costs (2010: $3,816).

To Carlos J. Miguens $120,293 (2010: $38,645) for his services as Director and Deputy Chairman.

To William H. Humphries through his company Mining Management-Europe (MM-E) $272,663 (2010: $185,496) for his services as Director and Chief Executive Officer of Patagonia Gold Plc.

To Gonzalo Tanoira $64,156 (2010: $53,717) for his services as Director.

To Richard O. Prickett through his company European Sales Co Ltd $110,268 (2010: $108,206) for his services as Director plus $30,073 termination payment.

To Marc J. Sale through his company Specialist Services, $211,715 (2010: $183,950) in his capacity as a consultant in addition to his Directors' fees of $48,117 (2010: $38,645).

To Edward J. Badida $10,692 (2010: $nil) for his services as Director.

To Gary A. Sugar $8,019 (2010: $nil) for his services as Director.

In addition to the above, Mr Humphries and Mr Miguens were each awarded a bonus of $100,000 in 2011 (2010: $100,000). No other Director received any bonus or benefits-in-kind in 2011 or 2010.

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

The Directors did not exercise options during the year. At December 31, 2011, 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	June 24, 2004	8.00p	1,500,000	June 24, 2004	June 23, 2014
Sir John Craven	June 23, 2009	12.25p	1,500,000	June 23, 2009	June 22, 2019
Sir John Craven	June 17, 2010	15.00p	500,000	June 17, 2010	June 16, 2020
Sir John Craven	February 10, 2011	50.00p	1,500,000	February 10, 2011	February 9, 2021
Sir John Craven	May 13, 2011	42.25p	500,000	May 13, 2011	May 12, 2021
C J Miguens	February 18, 2004	8.00p	1,500,000	February 19, 2004	February 18, 2014
C J Miguens	June 23, 2009	12.25p	6,500,000	June 23, 2009	June 22, 2019
C J Miguens	June 17, 2010	15.00p	1,100,000	June 17, 2010	June 16, 2020
C J Miguens	February 10, 2011	50.00p	2,000,000	February 10, 2011	February 9, 2021
C J Miguens	May 13, 2011	42.25p	900,000	May 13, 2011	May 12, 2021
W H Humphries	October 8, 2002	8.00p	350,000	October 8, 2002	October 8, 2012
W H Humphries	March 7, 2003	8.00p	150,000	March 3, 2009	March 7, 2013
W H Humphries	February 18, 2004	8.00p	3,000,000	February 19, 2004	February 18, 2014
W H Humphries	June 23, 2009	12.25p	4,500,000	June 23, 2009	June 22, 2019
W H Humphries	June 17, 2010	15.00p	1,100,000	June 17, 2010	June 16, 2020
W H Humphries	February 10, 2011	50.00p	2,000,000	February 10, 2011	February 9, 2021
W H Humphries	May 13, 2011	42.25p	900,000	May 13, 2011	May 12, 2021
M J Sale	February 18, 2004	8.00p	1,000,000	February 19, 2004	February 18, 2014
M J Sale	June 5, 2007	8.00p	1,000,000	June 5, 2007	June 4, 2017
M J Sale	June 3, 2008	8.00p	500,000	June 3, 2008	June 2, 2018
M J Sale	June 9, 2009	8.00p	900,000	June 9, 2009	April 1, 2013
M J Sale	June 23, 2009	12.25p	2,600,000	June 23, 2009	June 22, 2019
M J Sale	June 17, 2010	15.00p	825,000	June 17, 2010	June 16, 2020
M J Sale	May 13, 2011	42.25p	550,000	May 13, 2011	May 12, 2021
G Tanoira	February 18, 2004	8.00p	1,281,000	February 19, 2004	February 18, 2014
G Tanoira	June 23, 2009	12.25p	1,719,000	June 23, 2009	June 22, 2019
G Tanoira	June 17, 2010	15.00p	500,000	June 17, 2010	June 16, 2020
G Tanoira	May 13, 2011	42.25p	500,000	May 13, 2011	May 12, 2021
E J Badida	November 1, 2011	50.25p	750,000	November 1, 2011	October 31, 2021
G A Sugar	November 1, 2011	50.25p	750,000	November 1, 2011	October 31, 2021

The Company's ordinary shares were traded on AIM and the GBP market price of those shares ranged between 36.75pence and 71.00pence during the year. The closing mid-market price of the Company's ordinary shares on December 31, 2011 was 42.75pence (December 31, 2010: 58.75pence). During the year the Company successfully applied for dual listing on the Toronto Stock Exchange ("TSX") and commenced trading on December 7, 2011.

Subsequent Events

On January 31, 2012 Carlos J. Miguens and William H. Humphries were each awarded 2,000,000 share options at an exercise price of 42.50p with an expiry date of January 30, 2022.

In March 2012, Sir John Craven, Carlos J. Miguens and William H. Humphries each exercised 3,500,000 share options from this list. As noted above, these 10,500,000 shares were admitted to the AIM market on March 19, 2012.

Corporate Governance

Since December 7, 2011, the ordinary shares of the Company are dual listed trading on AIM and the TSX. At January 1, 2012, the number of shares owned directly or indirectly by residents of Canada was less than 10% of the issued share capital on a fully diluted basis. The Company therefore qualifies as a "designated foreign issuer" under the TSX and is subject to the regulatory requirements of the U.K. Companies on AIM and is 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 Board of Directors manage the Company. The function of the Chairman is to supervise the Board and to ensure that the Board has control of the business, and that of the Managing Director is to manage the Company on the Board's behalf.

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

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

The Audit Committee, which comprises Edward J. Badida (Chairman), Sir John Craven and Gary A. Sugar, all of whom are Non-Executive Directors, 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 (Chairman), Edward J. Badida and Gary A. Sugar 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 and executive officers of the Company, and to develop and submit to the Board recommendations with respect to other employee benefits considered advisable.

The Nomination Committee comprises Sir John Craven (Chairman), Edward J. Badida and Gary A. Sugar all of whom are Non-Executive Directors. Meetings are convened at least twice a year to assist the Company and the Board in fulfilling their respective corporate governance responsibilities under applicable securities laws, instruments, rules and policies and regulatory requirements, to promote a culture of integrity throughout the Company and to assist the Company in identifying and recommending new nominees for election to the Board.

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

Internal Control

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

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

Directors' Service Agreements

Sir John Craven, Carlos J. Miguens, Marc J. Sale, Edward J. Badida and Gary A. Sugar have service arrangements that provide for three months' notice of termination and those of William H. Humphries and Gonzalo Tanoira provide for six months' notice of termination.

Relations with Shareholders

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

Annual General Meeting

The Company's Annual General Meeting is convened for June 6, 2012 at 11.00 am to be held at The Cavalry & Guards Club, 127 Piccadilly, London W1V 0PX. 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 Director who retires by rotation is William H. Humphries who, being eligible, offers himself for re-election. In addition, Edward J. Badida and Gary A. Sugar, who were appointed to the Board since the last Annual General Meeting, retire in accordance with the Articles of Association and, being eligible, offer themselves for 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 has expressed willingness to continue in office. In accordance with Section 489(4) of the Act, a resolution to re-appoint Grant Thornton UK LLP as auditor of the Company will be proposed at the Annual General Meeting to be held on June 6, 2012.

By Order of the Board

Nigel Everest
Company Secretary
April 24, 2012

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

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

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

In so far as each of the Directors is aware:

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

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

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 December 31, 2011 which comprise the consolidated statement of comprehensive income, the consolidated and parent company statements of financial position, the consolidated and company statements of cash flow, the consolidated and company statements of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective Responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 75, 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) and International Standards on Auditing. 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 December 31, 2011 and of the Group's loss for the year then ended;
- The group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- The parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of Matter – Going Concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in Note 2 to the financial statements concerning the company's ability to continue as a going concern. As described in Note 2 the company as at the date of these financial statements does not have sufficient funding to meet the Group's working capital requirements for the next 12 months and needs to raise additional finance to satisfy its forecast cash requirements to complete planned exploration and development activity, prior to generating cash flow from its own properties. This, along with the other matters explained in Note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Separate Opinion in Relation to IFRSs as Issued by the IASB

As explained in Note 1 to the group financial statements, the group in addition to complying with the legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

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

Opinion on Other Matter Prescribed by the Companies Act 2006

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

Matters on Which We are Required to Report by Exception

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

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

Charles Hutton-Potts
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
April 24, 2012

Consolidated Statement of Comprehensive Income

for the year ended December 31, (Thousands of $)	Note	2011	2010
			Restated*
Continuing operations			
Exploration costs		$ (16,193)	$ (7,237)
Administrative costs			
Share-based payments charge	29	(8,481)	(761)
Other administrative costs	9	(8,691)	(3,388)
		(17,172)	(4,149)
Finance income	7	228	115
Finance costs		(30)	(15)
Loss for the year		(33,167)	(11,286)
Other comprehensive (loss)/income			
(Loss)/gain on revaluation of available-for-sale financial assets		(131)	57
Exchange (loss)/gain on translation of foreign operations		(566)	111
Other comprehensive (loss)/income for the year		(697)	168
Total comprehensive loss for the year attributable to owners of the parent		$ (33,864)	$ (11,118)
Net loss per share ($)			
Basic loss per share	12	$ (0.05)	$ (0.02)
Diluted loss per share	12	$ (0.05)	$ (0.02)

* Previously reported numbers are restated in $ – see Note 4.

The notes on pages 85 to 117 form part of these financial statements.

Consolidated Statement of Financial Position

at December 31, (Thousands of $)	Note	2011	2010	2009
			Restated*	Restated*
ASSETS				
Non-current assets				
Property, plant and equipment	15	$ 7,350	$ 801	$ 257
Mineral properties	14	8,419	3,626	755
Mining rights	13	3,986	-	-
Available-for-sale financial assets	26	120	247	196
Other receivables	17	6,536	3,613	2,576
		26,411	8,287	3,784
Current assets				
Inventory	19	2,239	-	-
Trade and other receivables	18	360	106	143
Cash and cash equivalents	20	11,326	10,515	4,610
		13,925	10,621	4,753
Total assets		$ 40,336	$ 18,908	$ 8,537
LIABILITIES				
Current liabilities				
Bank overdraft	21	$ 380	$ 273	$ -
Trade and other payables	22	7,242	3,570	2,694
		7,622	3,843	2,694
Non-current liabilities				
Long-term accruals and provisions	23	852	189	2
Total liabilities		8,474	4,032	2,696
EQUITY				
Share capital	24	11,381	10,454	9,455
Share premium account		117,205	81,508	65,260
Currency translation reserve		3,349	1,850	(473)
Share-based payment reserve		10,941	2,967	2,339
Accumulated losses		(115,000)	(81,903)	(70,740)
Equity attributable to shareholders of the parent		27,876	14,876	5,841
Non-controlling interest	25	3,986	-	-
Total equity		31,862	14,876	5,841
Total liabilities and equity		$ 40,336	$ 18,908	$ 8,537

Company Registered number 3994744

* Previously reported numbers are restated in $ – see Note 4

The notes on pages 85 to 117 form part of these financial statements.

These financial statements were approved by the Board of Directors on April 24, 2012 and were signed on its behalf by:

Gonzalo Tanoira
Director

Company Statement of Financial Position

at December 31, (Thousands of $)	Note	2011	2010	2009
			Restated*	Restated*
ASSETS				
Non-current assets				
Property, plant and equipment	15	$ 137	$ 74	$ 7
Investments in subsidiary undertakings	16	112,933	29,711	18,855
Available-for-sale financial assets	26	120	247	196
		113,190	30,032	19,058
Current assets				
Trade and other receivables	18	718	143	89
Cash and cash equivalents	20	7,787	9,481	3,311
		8,505	9,624	3,400
Total assets		$121,695	$ 39,656	$ 22,458
LIABILITIES				
Current liabilities				
Trade and other payables	22	$ 51,323	$ 1,114	$ 228
Total liabilities		51,323	1,114	228
EQUITY				
Share capital	24	11,381	10,454	9,455
Share premium account		117,205	81,508	65,260
Currency translation reserve		2,108	1,580	-
Share-based payment reserve		10,941	2,967	2,339
Accumulated losses		(71,263)	(57,967)	(54,824)
Total equity		70,372	38,542	22,230
Total liabilities and equity		$121,695	$ 39,656	$ 22,458

Company Registered number 3994744

* Previously reported numbers are restated in $ – see Note 4.

The notes on pages 85 to 117 form part of these financial statements.

These financial statements were approved by the Board of Directors on April 24, 2012 and were signed on its behalf by:

Gonzalo Tanoira
Director

Consolidated Statement of Changes in Equity

for the year ended December 31, 2011 (Thousands of $)	Note	Share capital	Share premium account	Currency translation reserve	Share-based payment reserve	Accumulated losses	Total attributable to owners	Non-controlling interests	Total equity
		Equity attributable to shareholders of the parent							
At January 1, 2010 (restated Note 4*)		$ 9,455	$ 65,260	$ (473)	$ 2,339	$ (70,740)	$ 5,841	$ -	$ 5,841
Changes in equity for 2010									
Share-based payment	29	-	-	-	761	-	761	-	761
Issue of share capital									
Issue by placing	24	1,256	18,839	-	-	-	20,095	-	20,095
Transaction costs of placing		-	(856)	-	-	-	(856)	-	(856)
Exercise of option	24	15	138	-	(66)	66	153	-	153
Transactions with owners		1,271	18,121	-	695	66	20,153	-	20,153
Loss for the year		-	-	-	-	(11,286)	(11,286)	-	(11,286)
Other comprehensive income (loss):									
Revaluation of available-for-sale financial assets		-	-	-	-	57	57	-	57
Exchange differences on translation to $		(272)	(1,873)	2,323	(67)	-	111	-	111
Total comprehensive income (loss) for the year		(272)	(1,873)	2,323	(67)	(11,229)	(11,118)	-	(11,118)
At December 31, 2010 (restated Note 4*)		10,454	81,508	1,850	2,967	(81,903)	14,876	-	14,876
Changes in equity for 2011									
Share-based payment	29	-	-	-	8,481	-	8,481	-	8,481
Share-based payment on acquiring mining rights	13	-	-	-	-	-	-	3,986	3,986
Issue of share capital									
Issue by placing	24	933	38,255	-	-	-	39,188	-	39,188
Transaction costs of placing		-	(1,424)	-	-	-	(1,424)	-	(1,424)
Exercise of option	24	46	573	-	(201)	201	619	-	619
Transactions with owners		979	37,404	-	8,280	201	46,864	3,986	50,850
Loss for the year		-	-	-	-	(33,167)	(33,167)	-	(33,167)
Other comprehensive income (loss):									
Revaluation of available-for-sale financial assets		-	-	-	-	(131)	(131)	-	(131)
Exchange differences on translation to $		(52)	(1,707)	1,499	(306)	-	(566)	-	(566)
Total comprehensive income (loss) for the year		(52)	(1,707)	1,499	(306)	(33,298)	(33,864)	-	(33,864)
At December 31, 2011		$ 11,381	$ 117,205	$ 3,349	$ 10,941	$(115,000)	$ 27,876	$ 3,986	$ 31,862

* Previously reported numbers are restated in $ – see Note 4.

The notes on pages 85 to 117 form part of these financial statements.

Company Statement of Changes in Equity

for the year ended December 31, 2011 (Thousands of $)	Note	Share capital	Share premium account	Currency translation reserve	Share-based payment reserve	Accumulated losses	Total
At January 1, 2010 (restated Note 4*)		$ 9,455	$ 65,260	$ -	$ 2,339	$ (54,824)	$ 22,230
Changes in equity for 2010							
Share-based payment	29	-	-	-	761	-	761
Issue of share capital							
Issue by placing	24	1,256	18,839	-	-	-	20,095
Transaction costs of placing		-	(856)	-	-	-	(856)
Exercise of option	24	15	138	-	(66)	66	153
Transactions with owners		1,271	18,121	-	695	66	20,153
Loss for the year		-	-	-	-	(3,266)	(3,266)
Other comprehensive income (loss):							
Revaluation of available-for-sale financial assets		-	-	-	-	57	57
Exchange differences on translation to $		(272)	(1,873)	1,580	(67)	-	(632)
Total comprehensive income (loss) for the year		(272)	(1,873)	1,580	(67)	(3,209)	(3,841)
At December 31, 2010 (restated Note 4*)		10,454	81,508	1,580	2,967	(57,967)	38,542
Changes in equity for 2011							
Share-based payment	29	-	-	-	8,481	-	8,481
Issue of share capital							
Issue by placing	24	933	38,255	-	-	-	39,188
Transaction costs of placing		-	(1,424)	-	-	-	(1,424)
Exercise of option	24	46	573	-	(201)	201	619
Transactions with owners		979	37,404	-	8,280	201	46,864
Loss for the year		-	-	-	-	(13,366)	(13,366)
Other comprehensive income (loss):							
Revaluation of available-for-sale financial assets		-	-	-	-	(131)	(131)
Exchange differences on translation to $		(52)	(1,707)	528	(306)	-	(1,537)
Total comprehensive income (loss) for the year		(52)	(1,707)	528	(306)	(13,497)	(15,034)
At December 31, 2011		$ 11,381	$ 117,205	$ 2,108	$ 10,941	$ (71,263)	$ 70,372

* Previously reported numbers are restated in $ – see Note 4.

The notes on pages 85 to 117 form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended December 31, (Thousands of $)	Note	2011	2010
			Restated*
Operating activities			
Net loss for the year		$ (33,167)	$ (11,286)
Adjustments for:			
Finance income	7	(228)	(115)
Depreciation	15	814	114
Increase in inventory		(2,239)	-
Increase in trade and other receivables		(3,177)	(1,000)
Increase in trade and other payables		3,672	876
Increase in long-term provisions		663	187
Share-based payments charge	29	8,481	761
Net cash used in operating activities		(25,181)	(10,463)
Investing activities			
Finance income	7	228	115
Purchase of property, plant and equipment	15	(7,503)	(697)
Increase in mineral properties	14	(4,988)	(2,871)
Net cash used in investing activities		(12,263)	(3,453)
Financing activities			
Proceeds from issue of share capital	24	37,764	19,239
Proceeds from exercise of options	24	619	153
Net cash from financing activities		38,383	19,392
Net increase in cash and cash equivalents		939	5,476
Cash and cash equivalents at beginning of year		10,242	4,610
Effects of exchange rate fluctuations on cash and cash equivalents		(235)	156
Cash and cash equivalents at end of year		$ 10,946	$ 10,242

* Previously reported numbers are restated in $ – see Note 4.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts. See Note 20.

The notes on pages 85 to 117 form part of these financial statements.

Company Statement of Cash Flows

for the year ended December 31, (Thousands of $)	Note	2011	2010
			Restated*
Operating activities			
Net loss for the year		$ (13,366)	$ (3,266)
Adjustments for:			
Finance income	7	(211)	(115)
Depreciation	15	25	10
Increase in trade and other receivables		(575)	(54)
Increase in trade and other payables		50,209	886
Share-based payments charge	29	8,481	761
Net cash from (used in) operating activities		44,563	(1,778)
Investing activities			
Increase in investments held in subsidiary companies	16	(83,222)	(10,856)
Finance income	7	211	115
Purchase of property, plant and equipment	15	(87)	(77)
Net cash used in investing activities		(83,098)	(10,818)
Financing activities			
Proceeds from issue of share capital	24	37,764	19,239
Proceeds from exercise of options	24	619	153
Net cash from financing activities		38,383	19,392
Net increase (decrease) in cash and cash equivalents		(152)	6,796
Cash and cash equivalents at beginning of year		9,481	3,311
Effects of exchange rate fluctuations on cash and cash equivalents		(1,542)	(626)
Cash and cash equivalents at end of year		$ 7,787	$ 9,481

* Previously reported numbers are restated in $ – see Note 4.

The notes on pages 85 to 117 form part of these financial statements.

Notes to the Financial Statements
for the year ended December 31, 2011

The financial statements on pages 78 to 84 represent the parent company Patagonia Gold Plc (the "Company") and it's subsidiaries, collectively known as the "Group".

1. Basis of Preparation

Patagonia Gold Plc (the "Company") is a company registered in England and Wales. The Company's ordinary shares are traded on the AIM market of the London Stock Exchange and on the Toronto Stock Exchange.

The consolidated financial statements of the Group and the financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and with the Companies Act 2006 applicable to companies reporting under IFRS. The Group's financial statements have also been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, share-based payment charge and fair value of mining rights acquired.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. Management is also required to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are disclosed in Note 3. The principal accounting policies applied in the preparation of the financial statements are set out in Note 3.

The financial information is presented in United States dollars ("$" or "US$"). The functional currency of the Company is British pounds sterling ("GBP"). Where indicated, financial information incorporated within these financial statements is rounded to thousands. Operations denominated in other currencies are included in this financial information in accordance with the accounting policies set out in Note 3. The Group presents its financial statements in $ as it is the currency most relevant to future activities. Prior to January 1, 2011, financial information was presented in GBP. The change in presentational currency is described in Note 4. As required by IAS 1, as the change in presentational currency was applied retrospectively, three statements of financial position, and related notes have been presented for the Group and Company.

A separate statement of comprehensive income for the Company has not been presented as permitted by section 408 of the Companies Act 2006. The Company made a comprehensive loss of $15.0 million in 2011 (2010: $3.8 million: restated from £2.1 million – see Note 4).

2. Going Concern

These consolidated financial statements are prepared on a going concern basis, which the Directors believe to be appropriate.

The Company as at the date of these financial statements does not have sufficient funding to meet the Group's working capital requirements for the next 12 months. The Group and Company need to raise additional finance to satisfy its forecast cash requirements to complete the planned exploration and development activity, prior to generating cash flow from its own properties. Certain economic factors such as on-going economic uncertainty, currency volatility and a possible downturn in the global economy could affect the Group and Company's ability to generate funding in the future. Management is confident of raising additional finance based on the success of prior fundraising rounds. The recent volatility in equity and debt markets combined with the Group and Company's need to raise additional finance to satisfy its forecast cash requirements indicates the existence of a material uncertainty that may cast significant doubt on the Group and Company's ability to continue as a going concern. The Group and Company are confident that they will be able to secure additional funding to enable them to continue to meet their commitments as they fall due and to undertake the current planned program of activity over the 12 months from the date of this 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.

3. Significant Accounting Policies

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

BASIS OF CONSOLIDATION

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

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

FOREIGN CURRENCY

The Company's functional currency is GBP. The Directors believe that when the Company is in production, the functional currency will be more accurately represented by the $ as it will be the main currency of both income and on-going capital expenditure.

Transactions in foreign currencies are initially recorded in the respective entities functional currency using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates are recognised in the statement of income. Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined. On consolidation, each Group entity translates its' financial statements into $ as outlined below. The functional currencies of the entities in the Group have remained unchanged during the reporting period.

The financial statements of the Group and the Company are presented in $. The Directors believe that the $ more accurately reflects the gold and silver markets and it will become the main currency of both income and on-going capital expenditure of the Group. For presentation purposes assets, liabilities and equity, excluding retained earnings, are translated to $ at exchange rates at the reporting date. Income and expenses are translated to $ at the average exchange rate for the period in which the transaction arose. Exchange differences arising are recognised as a separate component of equity titled "Currency translation reserve". On disposal of a foreign operation the cumulative exchange differences recognised in equity are reclassified to the statement of income and recognised as part of the gain or loss on disposal. Prior to January 1, 2011, the Group and the Company's presentational currency was GBP. The impact of the change in the presentational currency from GBP to $ is set out in Note 4.

SHARE-BASED PAYMENTS

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

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

As share options are exercised, proceeds received net of attributable transaction costs, increase share capital, and where appropriate share premium and the fair value of the exercised options carried in share-based payment reserve is transferred to retained earnings.

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

INVESTMENTS IN SUBSIDIARIES

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

CASH AND CASH EQUIVALENTS

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

INVENTORY

Inventory comprises gold held on carbon and is valued by reference to the costs of extraction, which include mining and processing activities. Inventory and work in process is valued at the lower of the costs of extraction or net realizable value.

EXPLORATION COSTS

Exploration costs are expensed until the determination of the technical feasibility and the commercial viability of the associated project. Exploration costs include costs directly related to exploration and evaluation activities in the area of interest. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when economically recoverable resources are determined to exist, the rights of tenure are current and it is considered probable that that the costs will be recouped through successful development and exploitation of the area, or alternatively by sale of the property. This determination is normally evidenced by the completion of a technical feasibility study. On properties where insufficient exploration has taken place to ascertain future recoverability, exploration costs are expensed.

MINING RIGHTS

Mining rights are rights to explore and mine specified areas of land acquired from the landowner. Mining rights acquired for stated terms in excess of 10 years are capitalised as intangible assets. Mining rights are measured initially at cost and amortized on a straight-line basis over the term of the rights. Mining rights acquired for stated terms of less than 10 years are expensed as exploration costs.

MINERAL PROPERTIES

Once the technical feasibility study is completed, subsequent exploration and development expenses are capitalised as mineral properties. Engineering expenditures incurred to design the size and scope of the project, environmental assessments, permitting, and surface rights acquisitions are capitalised in mineral properties. These mineral properties along with any related assets under the course of construction are considered development properties until commercial production has been reached. Upon reaching commercial production, these capitalised costs will be transferred from development properties to producing properties and will be amortized using the unit-of-production method over the estimated period of economically recoverable resources.

PROPERTY, PLANT AND EQUIPMENT

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

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

Straight-line basis	
Office equipment	5 – 10 years
Vehicles	5 years
Machinery and equipment	3 years
Buildings	50 years
Unit of production	
Plant	Depreciation of the plant is deferred until production at which point they will be depreciated on a unit-of-production method over the estimated period of economically recoverable resources.

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

INCOME TAXES

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

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

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

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

FINANCIAL ASSETS

Financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

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

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

- Cash and cash equivalents
- Loans and receivables
- Available-for-sale financial assets

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. Individual receivables are considered for impairment when they are past due at the balance sheet date or when objective evidence is received that a specific counterparty will default. The Group's trade and other receivables and other receivables fall into this category of financial instruments.

Available-for-sale financial assets include non-derivative financial assets that are either designated as such or do not qualify for inclusion in any of the other categories of financial assets. All financial assets within this category are initially measured at fair value, including transaction costs, with subsequent changes in value recognised in other comprehensive income, 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.

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

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

FINANCIAL LIABILITIES

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

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

RESTORATION, REHABILITATION AND ENVIRONMENTAL COSTS

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

EQUITY

Equity comprises the following:

- "Share capital" represents the nominal value of the Company's ordinary shares.
- "Share premium" represents the excess over nominal value of the fair value of consideration received for ordinary shares, net of expenses of the share issue.
- "Currency translation reserve" represents the differences arising from translation of the financial statements of the Group's foreign entities to the presentational currency of $.
- The Company's "Currency translation reserve" represents the difference arising from translation of the Company's financial statements to the presentational currency of $.
- "Share-based payment reserve" represents equity-settled share-based employee remuneration until such share options are exercised.
- "Accumulated losses" includes all current and prior period profits and losses.
- "Non-controlling interest" is the equity in a subsidiary not attributable, directly or indirectly, to the parent company.

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

LOSS PER SHARE

Loss per share is calculated based on the weighted average number of ordinary shares issued and outstanding. Diluted per share amounts are calculated using the treasury stock method whereby proceeds deemed to be received on the exercise of options in the per share calculation are assumed to be used to acquire ordinary shares. While the Group is in a loss position, the effect of potential issuances of shares under options would be anti-dilutive, and has not been considered.

SEGMENTAL REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing products or services (operating segment) and takes into account the economic environment in which that segment operates. IFRS 8 requires the amount of each operating segment item to be disclosed based on internal management information. The Group's projects, the majority of which are at the exploration or development stage in South America are not regarded as separate segments. As and when each individual project progresses to construction, 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 December 31, 2011 the Lomada Project and the COSE Project are treated as a separate business reporting segments from the Group's other projects.

LEASES

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

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.

NON-CONTROLLING INTERESTS

Non-controlling interests in the Company's less than wholly-owned subsidiaries are classified as a separate component of equity. The consolidated financial statements of the Group include 100% of the operating losses and net assets of subsidiaries in which there is a non-controlling interest if the operating losses of the subsidiary are fully financed by the Group and there is no certainty that the subsidiary will produce revenue in the future.

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 mineral properties – See Note 14. Exploration expenditures relating to a particular project will be written off until such time as the Board has determined that the project is viable based upon a positive feasibility study and a decision to move into production. As from September 1, 2010, the Lomada Project had advanced to trial production and exploration and development costs from that date forward were capitalised as mineral properties – mining assets. From March 1, 2011, the Board determined that exploration costs on the COSE Project should be capitalised from that date forward as mineral properties – assets in the course of construction, prior to the receipt of full permitting for extraction of the ore body.
- 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 Recoverable VAT as at December 31, 2011 to be recoverable in full and no provision is considered necessary. The VAT balances receivable are due to the Group in less than one year, but these amounts have been classified as a non-current asset as management consider the receipt to be more than one year. See Note 17.
- Provisions for environmental impact require a judgment, a likely future obligation, based on an assessment of technical, legal and economic factors. Management is required to make estimates of future costs the Group will incur to complete the reclamation and remediation work required to comply with existing law and regulations. The ultimate cost is uncertain and estimates vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques and changes to the life of the mine. See Note 23.
- During 2011, the Company agreed to a 2.5% Net Smelter Return ("NSR") royalty on all future production of mineral products on the properties acquired from subsidiaries of Barrick Gold Corporation ("Barrick"). A liability for the potential future NSR royalty payments has not been recognized since the Company is unable to reliably measure such a liability as the project has not yet commenced production and there is no certainty over the timing of potential future production. See Note 5.
- A cash payment of $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 block. This amount has not been recognized, as there is no certainty of achieving the required Indicated Resource threshold. See Note 5.
- The Company calculates the cost of share-based payments granted to employees and Directors using the Black-Scholes model. Inputs into the model in respect of the expected option life and the volatility are subject to management estimate and any changes to these estimates may have a significant effect on the cost. The assumptions used in calculating the cost of share-based payments are explained in Note 29 of the financial statements for the year ended December 31, 2011.

- Fair value of the mining rights acquired from Fomicruz, an established mining company, wholly-owned by the government of Santa Cruz Province – See Note 13. Fomicruz contributed to PGSA certain mining rights in exchange for a 10% equity interest in PGSA. Pursuant to IFRS 2 *Share-based Payment,* the mining rights acquired have been measured by reference to the estimated fair value of the equity interest given to Fomicruz. Management has estimated the fair value of the 10% interest in PGSA acquired by Fomicruz, on or about October 14, 2011 at $4.0 million. In determining this fair value estimate, management considered many factors including the net assets of PGSA and the illiquidity of the 10% interest. This amount has been recorded as an increase in the equity of PGSA and as a mining right asset. In the consolidated financial statements, the increase in equity in PGSA has been recorded as non-controlling interest.
- The consolidated financial statements of the Group include 100% of the operating losses, assets and liabilities of PGSA and do not recognise the non-controlling interest of Fomicruz in the operating losses of PGSA, as there is no certainty that PGSA will produce revenue and pay dividends in the future in order to recover Fomicruz's share of post pre-feasibility costs as per the Fomicruz Agreement. See Note 13.

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

(a) New and amended standards adopted by the Group

The Group has adopted the following new and amended IFRS as of January 1, 2011:

- IAS 24 (Revised 2009) Related Party Disclosures (effective January 1, 2011)
- Prepayments of a Minimum Funding Requirement – Amendments to IFRIC 14 (effective January 1, 2011)
- Improvements to IFRS issued May 2010 (some changes effective July 1, 2010, others effective January 1, 2011)

(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 Company's accounting periods beginning on or after January 1, 2012 or later periods, but the Company has not implemented early adoption:

- IFRS 9 Financial Instruments ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning on or after January 1, 2015, with earlier adoption permitted. Further chapters dealing with impairment methodology and hedge accounting are still being developed.
- IFRS 10 Consolidated Financial Statements ("IFRS 10") supersedes IAS 27 Consolidated and Separate Financial Statements ("IAS 27") and SIC 12 Consolidation – Special Purpose Entities. IFRS 10 revises the definition of control together with accompanying guidance to identify an interest in a subsidiary. However the requirements and mechanics of consolidation and the accounting for any non-controlling interests and changes in control remain the same. IFRS 10 is effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted.
- IFRS 11 Joint Arrangements ("IFRS 11") supersedes IAS 31 Interests in Joint Ventures ("IAS 31"). It aligns more closely the accounting by the investors with their rights and obligations relating to the joint arrangement. In addition, IAS 31's option of using proportionate consolidation for joint ventures has been eliminated. IFRS 11 now requires the use of the equity accounting method, which is currently used for investments in associates. IFRS 11 is effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted.
- IFRS 12 Disclosure of Interests in Other Entities ("IFRS 12") integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted.
- IFRS 13 Fair Value Measurement ("IFRS 13") was issued by the IASB on May 12, 2011. IFRS 13 does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted.

- Consequential amendments to IAS 27 and IAS 28 Investments in Associates and Joint Ventures ("IAS 28") were made. IAS 27 now only deals with separate financial statements. IAS 28 brings investments in joint ventures into its scope. However, IAS 28's equity accounting methodology remains unchanged. These amendments are effective for financial years beginning on or after January 1, 2013.
- Disclosures – Presentation of Financial Statements – Amendments to IAS 1 ("IAS 1 Amendments") require an entity to group items presented in other comprehensive income into those that, in accordance with other IFRSs:
  (a) Will not be reclassified subsequently to profit or loss and
  (b) Will be reclassified subsequently to profit or loss when specific conditions are met. It is applicable for annual periods beginning on or after July 1, 2012.
- Disclosures – Employee Benefits – Amendments to IAS 19 ("IAS 19 Amendments") include a number of targeted improvements throughout the Standard. The main changes relate to defined benefit plans. They include:
  - Eliminating the 'corridor method' and requiring entities to recognize all gains and losses arising in the reporting period;
  - Streamlining the presentation of changes in plan assets and liabilities; and
  - Enhancing the disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.

  The amended version of IAS 19 is effective for financial years beginning on or after January 1, 2013.
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine ("IFRIC 20") was issued by the IASB in October 2011. IFRIC 20 clarifies the requirements for accounting for the costs of stripping activity in the production phase when two benefits accrue:
  (i) Usable ore that can be used to produce inventory; and
  (ii) Improved access to further quantities of material that will be mined in future periods. IFRIC 20 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted and includes guidance on transition for pre-existing stripping assets.

The Group's management have yet to assess the impact of IFRS 13, IAS 19 and IFRIC 20. In respect of the other standards the Directors anticipate that their adoption 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.

4. Change in Presentational Currency

With effect from January 1, 2011, the Group and Company changed its presentational currency from GBP to US$. The Directors believe that the presentational currency will be more accurately represented by the US$ reflecting the gold and silver markets while also becoming the main currency of both income and on-going capital expenditure.

The change in presentational currency represents a change in accounting policy and in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors,* has been accounted for as a prior year adjustment.

Comparative figures for 2010 and 2009, previously reported in GBP, have been translated to US$ as follows:

- Assets and liabilities at December 31, 2009 have been translated at the closing rate of exchange on December 31, 2009;
- Income and expenses for 2010 have been translated at the average rate of exchange for 2010;
- Assets and liabilities at December 31, 2010 have been translated at the closing exchange rate on December 31, 2010;
- Cash flows have been translated at the rate of exchange at the date of the cash flow. The effect of exchange rate changes on cash and cash equivalents is reported separately in the statement of cash flows;
- Equity items on December 31, 2010 and December 31, 2009, excluding accumulated losses and currency translation reserve, have been translated at the exchange rate on December 31, 2010 and December 31, 2009, respectively. Accumulated losses at December 31, 2010 have been translated at the average rate of exchange for losses in 2010 and the December 31, 2009 exchange rate for losses accumulated to December 31, 2009; and
- Differences arising from translation of the financial statements of the Group's entities and of the Company to the presentational currency have been included in currency translation reserve.

Exchange rates used were as follows:

	GBP/US$
Closing rate December 31, 2009	1.5928
Closing rate December 31, 2010	1.5468
Average rate for the year 2010	1.5458

The following reconciliations present the impact of the Group and Company changing its presentational currency from GBP to US$.

Reconciliation of Consolidated Statement of Financial Position at January 1, 2010 and December 31, 2010

	GROUP		GROUP	
(in Thousands)	January 1, 2010		December 31, 2010	
	Previously Reported	Restated in US$	Previously Reported	Restated in US$
ASSETS				
Non-current assets				
Property, plant and equipment	£ 162	$ 257	£ 518	$ 801
Mineral properties	474	755	2,344	3,626
Available-for-sale financial assets	123	196	160	247
Other receivables	1,617	2,576	2,336	3,613
	2,376	3,784	5,358	8,287
Current assets				
Trade and other receivables	90	143	68	106
Cash and cash equivalents	2,894	4,610	6,798	10,515
	2,984	4,753	6,866	10,621
Total assets	£ 5,360	$ 8,537	£ 12,224	$ 18,908
LIABILITIES				
Current liabilities				
Bank overdraft	£ -	$ -	£ 177	$ 273
Trade and other payables	1,691	2,694	2,308	3,570
	1,691	2,694	2,485	3,843
Non-current liabilities				
Long-term accruals and provisions	2	2	122	189
Total liabilities	1,693	2,696	2,607	4,032
EQUITY				
Share capital	5,936	9,455	6,759	10,454
Share premium account	40,972	65,260	52,694	81,508
Currency translation reserve	(297)	(473)	(120)	1,850
Share-based payment reserve	1,469	2,339	1,918	2,967
Accumulated losses	(44,413)	(70,740)	(51,634)	(81,903)
Total equity	3,667	5,841	9,617	14,876
Total liabilities and equity	£ 5,360	$ 8,537	£ 12,224	$ 18,908

Reconciliation of Company Statement of Financial Position at January 1, 2010 and December 31, 2010

(in Thousands)	COMPANY January 1, 2010		COMPANY December 31, 2010	
	Previously Reported	Restated in US$	Previously Reported	Restated in US$
ASSETS				
Non-current assets				
Property, plant and equipment	£ 4	$ 7	£ 48	$ 74
Investments in subsidiary undertakings	11,838	18,855	19,208	29,711
Available-for-sale financial assets	123	196	160	247
	11,965	19,058	19,416	30,032
Current assets				
Trade and other receivables	56	89	92	143
Cash and cash equivalents	2,079	3,311	6,129	9,481
	2,135	3,400	6,221	9,624
Total assets	£ 14,100	$ 22,458	£ 25,637	$ 39,656
LIABILITIES				
Current liabilities				
Trade and other payables	£ 143	$ 228	£ 719	$ 1,114
Total liabilities	143	228	719	1,114
EQUITY				
Share capital	5,936	9,455	6,759	10,454
Share premium account	40,972	65,260	52,694	81,508
Currency translation reserve	-	-	1,022	1,580
Share-based payment reserve	1,469	2,339	1,918	2,967
Accumulated losses	(34,420)	(54,824)	(37,475)	(57,967)
Total equity	13,957	22,230	24,918	38,542
Total liabilities and equity	£ 14,100	$ 22,458	£ 25,637	$ 39,656

Reconciliation of Consolidated Statement of Comprehensive Income for the year ended December 31, 2010

(in Thousands)	GROUP 2010 Previously Reported	GROUP 2010 Restated in US$
Continuing operations		
Exploration costs	£ (4,682)	$ (7,237)
Administrative costs		
Share-based payments charge	(492)	(761)
Other administrative costs	(2,192)	(3,388)
	(2,684)	(4,149)
Finance income	75	115
Finance costs	(10)	(15)
Loss for the year	(7,301)	(11,286)
Other comprehensive income		
Gain on revaluation of available-for-sale financial assets	37	57
Exchange differences on translation of foreign operations	177	111
Other comprehensive gain for the year	214	168
Total comprehensive loss for the year	£ (7,087)	$ (11,118)
Net loss per share		
Basic loss per share	£ (1.13)	$ (0.02)
Diluted loss per share	£ (1.13)	$ (0.02)

Reconciliation of Consolidated and Company Statement of Cash Flows for the year ended December 31, 2010

(in Thousands)	GROUP Year to December 31, 2010		COMPANY Year to December 31, 2010	
	Previously Reported	Restated in US$	Previously Reported	Restated in US$
Operating activities				
Net loss for the year	£ (7,301)	$ (11,286)	£ (2,113)	$ (3,266)
Adjustments for:				
Finance income	(75)	(115)	(75)	(115)
Depreciation	74	114	6	10
Increase in trade and other receivables	(697)	(1,000)	(36)	(54)
Increase in trade and other payables	617	876	577	886
Increase in long-term provisions	121	187	-	-
Share-based payments charge	492	761	492	761
Net cash used in operating activities	(6,769)	(10,463)	(1,149)	(1,778)
Investing activities				
Increase in investments held in subsidiary undertakings	-	-	(7,370)	(10,856)
Finance income	74	115	74	115
Purchase of property, plant and equipment	(450)	(697)	(50)	(77)
Increase in mineral properties	(1,856)	(2,871)	-	-
Net cash used in investing activities	(2,232)	(3,453)	(7,346)	(10,818)
Financing activities				
Proceeds from issue of share capital	12,446	19,239	12,446	19,239
Proceeds from exercise of options	99	153	99	153
Net cash from financing activities	12,545	19,392	12,545	19,392
Net increase in cash and cash equivalents	3,544	5,476	4,050	6,796
Cash and cash equivalents at beginning of year	2,894	4,610	2,079	3,311
Effects of foreign exchange movements	183	156	-	(626)
Cash and cash equivalents at end of year	£ 6,621	$ 10,242	£ 6,129	$ 9,481

5. Acquisition of Barrick's Property Portfolio in Santa Cruz, Argentina

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

On March 23, 2011 the 'Back in Right' from the original property acquisition agreement was eliminated in exchange for a 2.5% Net Smelter Return royalty in favour of the Barrick Sellers on all future production of mineral products on the properties sold to PGSA under the acquisition agreement. No revenues have been recognized to date, as the project has not commenced production. Under the original agreement PGSA had granted Barrick an option to buy back up to a 70% interest in the properties sold to PGSA under the acquisition agreement upon the delineation of the greater of 2.0 million oz. of gold or gold equivalent NI 43-101 Indicated Resource on that property group going forward.

In addition, a further cash payment of $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. The amount has not been recognized, as there is no certainty of achieving the required Indicated Resource threshold.

A liability for potential future Net Smelter Royalty payments has not been recognized since the Company is unable to reliably measure such a liability as the project has not yet commenced production and there is no certainty over the timing of potential future production.

6. Segmental Analysis

Management do not currently regard individual projects as separable segments for internal reporting purposes with the exception of the Lomada Project, which has completed the trials stage and is entering full production and the COSE Project where construction work has commenced.

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

Net Loss

(Thousands of $)	2011	2010
United Kingdom	$ (13,366)	$ (3,266)
Canada	(411)	-
Argentina – Lomada Project	-	(372)
Argentina – COSE Project	(17)	(24)
Argentina and Chile[(1)]	(19,373)	(7,624)
	$ (33,167)	$ (11,286)

(1) Segment represents other exploration projects.

Total Assets and Total Liabilities

	Total Assets			Total Liabilities		
(Thousands of $)	2011	2010	2009	2011	2010	2009
United Kingdom	$ 8,164	$ 9,899	$ 3,603	$ 1,027	$ 1,066	$ 228
Canada	9	-	-	70	-	-
Argentina – Lomada Project	9,307	2,037	-	871	-	-
Argentina – COSE Project	2,868	-	-	166	-	-
Argentina and Chile[(1)]	19,988	6,972	4,934	6,340	2,966	2,468
	$ 40,336	$ 18,908	$ 8,537	$ 8,474	$ 4,032	$ 2,696

(1) Segment represents other exploration projects.

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

(Thousands of $)	2011	2010
Argentina – Lomada Project	$ -	$ 391
Argentina – COSE Project	17	-
Argentina[(1)]	16,176	6,846
	$ 16,193	$ 7,237

(1) Segment represents other exploration projects.

In 2010, the costs at the Lomada Project were capitalised from September 1, 2010 onwards and disclosed as mineral properties. See Note 14.

In 2011, the costs at the COSE Project were capitalised from March 1, 2011 onwards and disclosed as mineral properties. See Note 14.

Exploration costs at all the other projects were written off to the statement of comprehensive income in the year they were incurred.

7. Finance Income

(Thousands of $)	2011	2010
Bank interest	$ 228	$ 115

8. Staff Numbers and Costs

(Thousands of $)	2011	2010
Wages and salaries	$ 3,474	$ 1,335
Social security costs	598	394
	$ 4,072	$ 1,729

	2011	2010
	Number	Number
The average number of employees (including Directors) by location during the year:		
Argentina and Chile – exploration	90	52
Canada – administration[(i)]	1	-
United Kingdom – administration	4	4

(i) Philip C. Yee joined the Company in May 2011 and Edward J. Badida and Gary A. Sugar joined the Company in November 2011. Each of these individuals is based in Canada.

9. Other Administrative Costs

(Thousands of $)	2011	2010
General and administrative	$ 1,774	$ 693
Local Argentina taxes	1,497	288
Professional fees	1,448	528
Foreign exchange	980	696
Directors remuneration	953	667
Depreciation	814	114
VAT expense	762	108
Consultancy fees	463	294
	$ 8,691	$ 3,388

10. Remuneration of Directors and Key Management Personnel

Directors' emoluments:

(Thousands of $)	Note	2011	2010
Directors remuneration		$ 209	$ 204
Directors fees		714	463
Termination payments		30	-
Consultancy fees		212	184
Share-based payments charge	29	5,713	484
		$ 6,878	$ 1,335

See Directors report on page 66 for individual Directors remuneration and share option awards.

In 2011, the highest paid Director received $373 thousand (2010: $285 thousand). This amount does not include any share-based payments charge.

Key management personnel emoluments:

(Thousands of $)	Note	2011	2010
Salaries		$ 321	$ -
Other compensation, including short-term benefits		215	-
Share-based payments charge	29	821	-
		$ 1,357	$ -

In 2010, there were no additional key management personnel outside of the Directors as shown above.

11. Income Tax

The current income tax expense for the year on the ordinary business of the Group was $ nil (2010: $ nil).

Factors affecting the income tax expense for the year

The following table reconciles the reported income tax expense to the estimated income tax recovery that would have been obtained by applying the Group's 2011 UK Statutory tax rate to the Group's loss before income tax.

(Thousands of $)	2011	2010
Loss on ordinary activities before taxation	$ (33,167)	$ (11,286)
Loss on ordinary activities before income tax at the standard UK corporation tax rate of 26% (2010: 28%)	(8,623)	(3,160)
Different local tax rates	(1,740)	(561)
Expenses not deductible for tax purposes	730	116
Losses and other temporary differences carried forward		
to future periods – UK	3,188	720
to future periods – Argentina	6,445	2,885
Total income tax expense for the year on ordinary business	$ -	$ -

Factors that may affect future tax charges

The Company has losses and other temporary differences at December 31, 2011 of approximately $23.4 million – GBP 15.1 million (2010: $11.5 million – GBP 7.5 million) that may be utilised against future taxable income. UK losses and other temporary differences may be carried forward indefinitely to reduce taxable income in the future.

Subsidiary companies in Argentina have losses at December 31, 2011 of approximately $1.36 million – AR$5.84 million (2010: $930 thousand – AR$4.0 million) which may be used against future taxable income. These losses expire as follows:

(in Thousands)	AR$	$
2012	486	113
2013	710	165
2014	1,110	258
2015	1,193	277
2016	2,341	547

Subsidiary companies in Argentina have cumulative unused exploration costs at December 31, 2011 of approximately $49.4 million – AR$ 212.5 million (2010: $33.5 million – AR$144.1 million). Exploration costs in Argentina are available to be deducted from taxable income two times as follows 1) in the first five years of production based on production costs, and 2) as a deduction in full from taxable income and carried forward indefinitely.

Deferred tax assets have not been recognised in respect of these available losses and unused exploration costs 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

12. Loss per Share

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

Year to December 31,	**2011**	2010
Loss after tax (Thousands of $)	$ (33,167)	$ (11,286)
Weighted average number of shares	715,991,612	647,624,975
Basic and diluted loss per share ($)	$ (0.05)	$ (0.02)

There is no difference between the diluted loss per share and the basic loss per share presented. Due to the loss incurred in the year the effect of the share options in issue is anti-dilutive.

At December 31, 2011, there were 64,145,000 (December 31, 2010: 49,450,000) share options in issue, which would have a potentially dilutive effect on the basic profit per share in the future.

13. Mining Rights

(Thousands of $)	Amount
At January 1, 2009	$ -
Additions	-
Exchange differences	-
At December 31, 2009	-
At January 1, 2010	-
Additions	-
Exchange differences	-
At December 31, 2010	-
At January 1, 2011	-
Additions	3,986
Exchange differences	-
At December 31, 2011	$ 3,986

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

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

Since mining rights were acquired by the Group in October 2011, management has not yet carried out a review of the carrying value to determine if there is any indication that the assets have suffered an impairment loss.

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

The consolidated financial statements of the Group include 100% of the operating losses, assets and liabilities of PGSA and do not recognise the non-controlling interest of Fomicruz, as there is no certainty that PGSA will produce revenue and pay dividends in the future in order to recover Fomicruz's share of exploration costs.

14. Mineral Properties

(Thousands of $)	Mining assets	Surface rights acquired	Assets in the course of construction	Total
At January 1, 2009	$ -	$ 844	$ -	$ 844
Additions	-	-	-	-
Exchange differences	-	(89)	-	(89)
At December 31, 2009	-	755	-	755
At January 1, 2010	-	755	-	755
Additions	2,037	834	-	2,871
Exchange differences	-	-	-	-
At December 31, 2010	2,037	1,589	-	3,626
At January 1, 2011	2,037	1,589	-	3,626
Additions	2,317	2,266	405	4,988
Exchange differences	(151)	(44)	-	(195)
At December 31, 2011	$ 4,203	$ 3,811	$ 405	$ 8,419

The Lomada Project has completed the trial production phase and will be entering full production phase in 2012. From September 1, 2010 all exploration costs incurred in respect of the project have been capitalised as mineral properties – mining assets.

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

15. Property, Plant and Equipment

(Thousands of $)	Office equipment and vehicles	Machinery and equipment	Buildings	Plant	GROUP Total	COMPANY Office equipment
Cost						
At January 1, 2009	$ 104	$ 174	$ 184	$ -	$ 462	$ 32
Additions	97	63	-	-	160	2
Disposals	-	-	-	-	-	-
Exchange differences	(18)	(19)	(93)	-	(130)	-
At December 31, 2009	183	218	91	-	492	34
At January 1, 2010	183	218	91	-	492	34
Additions	79	225	137	256	697	77
Disposals	-	-	-	-	-	-
Exchange differences	(5)	(9)	(33)	(1)	(48)	(1)
At December 31, 2010	257	434	195	255	1,141	110
At January 1, 2011	257	434	195	255	1,141	110
Additions	512	4,481	867	1,643	7,503	87
Disposals	(11)	-	-	-	(11)	-
Exchange differences	(11)	(32)	(135)	(18)	(196)	-
At December 31, 2011	747	4,883	927	1,880	8,437	197
Depreciation						
At January 1, 2009	53	96	2	-	151	22
Disposals	-	-	-	-	-	-
Charge for the year	72	43	1	-	116	5
Exchange differences	(11)	(21)	-	-	(32)	-
At December 31, 2009	114	118	3	-	235	27
At January 1, 2010	114	118	3	-	235	27
Disposals	-	-	-	-	-	-
Charge for the year	32	78	4	-	114	10
Exchange differences	(4)	(5)	-	-	(9)	(1)
At December 31, 2010	142	191	7	-	340	36
At January 1, 2011	142	191	7	-	340	36
Disposals	(11)	-	-	-	(11)	-
Charge for the year	115	637	22	40	814	25
Exchange differences	(12)	(41)	(1)	(2)	(56)	(1)
At December 31, 2011	234	787	28	38	1,087	60
Net book value						
At December 31, 2011	513	4,096	899	1,842	7,350	137
At December 31, 2010	115	243	188	255	801	74
At December 31, 2009	$ 69	$ 100	$ 88	$ -	$ 257	$ 7

16. Investments

COMPANY

(Thousands of $)	2011	2010	2009
At January 1,			
Investments in subsidiaries	$ 29,711	$ 18,855	$ 9,534
Capital contributions during the year	83,222	10,856	9,321
At December 31,	$ 112,933	$ 29,711	$ 18,855

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

The Company's investment in subsidiaries have been considered for impairment at December 31, 2011 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 consider that a further impairment charge is necessary.

Company	Country of incorporation	2011 Percentage shareholding	2010 Percentage shareholding	Nature of business	2011 Thousands of $	2010 Thousands of $	2009 Thousands of $
Patagonia Gold S.A.	Argentina	90	100	Exploration	105,182	29,711	18,855
Minera Minamalu S.A.	Argentina	100	100	Exploration	7,751	-	-
Patagonia Gold Canada Inc.	Canada	100	-	Administration	-	-	-
Patagonia Gold Chile S.C.M.	Chile	100	100	Exploration	-	-	-
At December 31,					112,933	29,711	18,855

At December 31, 2011, 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

17. Other Receivables

Non-current Assets

(Thousands of $)	GROUP 2011	GROUP 2010	GROUP 2009	COMPANY 2011	COMPANY 2010	COMPANY 2009
Recoverable VAT	$ 6,536	$ 3,613	$ 2,576	$ -	$ -	$ -

The Directors consider recoverable VAT at December 31, 2011 to be recoverable in full based on post year-end approvals set by the Mining Secretary in Argentina.

18. Trade and Other Receivables

Current Assets

(Thousands of $)	GROUP 2011	GROUP 2010	GROUP 2009	COMPANY 2011	COMPANY 2010	COMPANY 2009
Recharge of costs owed by Landore Resources Limited (Note 28)	$ 1	$ 1	$ -	$ 1	$ 1	$ -
Recoverable VAT	35	18	11	35	18	11
Other receivables	241	41	86	599	78	32
Prepayments and accrued income	83	46	46	83	46	46
	$ 360	$ 106	$ 143	$ 718	$ 143	$ 89

All trade and other receivable amounts are short-term.

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

There are no past due debtors.

19. Inventory

Inventory comprises gold held on carbon resulting from the trial heap leach operation at the Lomada Project and is valued by reference to the costs of extraction and processing.

20. Cash and Cash Equivalents

(Thousands of $)	GROUP 2011	GROUP 2010	GROUP 2009	COMPANY 2011	COMPANY 2010	COMPANY 2009
Bank and cash balances	$ 3,833	$ 1,047	$ 1,312	$ 294	$ 13	$ 13
Short-term deposits	7,493	9,468	3,298	7,493	9,468	3,298
	$ 11,326	$ 10,515	$ 4,610	$ 7,787	$ 9,481	$ 3,311

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include cash on hand and in banks, net of an outstanding bank overdraft. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position as follows:

(Thousands of $)	GROUP 2011	GROUP 2010	GROUP 2009
Cash and cash equivalents per the consolidated statement of financial position	$ 11,326	$ 10,515	$ 4,610
Bank overdraft	(380)	(273)	-
Cash and cash equivalents per the consolidated statement of cash flows	$ 10,946	$ 10,242	$ 4,610

21. Bank Overdraft

Bank overdraft comprises amounts due to a bank pursuant to a short term credit arrangement arranged by a subsidiary company to bridge finance between capital contributions from the parent. The amount was repaid in full by January 12, 2012.

22. Trade and Other Payables

Current Liabilities

	GROUP			COMPANY		
(Thousands of $)	**2011**	2010	2009	**2011**	2010	2009
Trade and other payables	$ 6,497	$ 3,114	$ 2,485	$ 282	$ 41	$ 19
Intercompany payables	-	-	-	50,296	617	-
Accruals and deferred income	745	456	209	745	456	209
	$ 7,242	$ 3,570	$ 2,694	$ 51,323	$ 1,114	$ 228

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

23. Long-term Accruals and Provisions

Non-current Liabilities

	GROUP			COMPANY		
(Thousands of $)	**2011**	2010	2009	**2011**	2010	2009
Long-term provisions	$ 852	$ 189	$ 2	$ -	$ -	$ -

The carrying values of the long-term provisions are considered to be a reasonable approximation of fair value. The timing of any resultant cash outflows being uncertain by their nature. The movement in the long-term provisions comprise of the following:

(Thousands of $)	Reclamation and remediation provision(i)	Tax provision(ii)	Other(iii)	Total
Balance at January 1, 2011	$ 189	$ -	$ -	$ 189
Additions	2	429	232	663
Balance at December 31, 2011	$ 191	$ 429	$ 232	$ 852

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

(ii) This amount relates to local Argentine tax provisions.

(iii) See Note 32.

24. Share Capital

Authorised

1,000,000,000 ordinary shares of 1 pence each

Issued and fully paid ordinary shares of 1 pence each ($0.015)	Number of ordinary shares	Amount
At January 1, 2010	593,602,783	$ 9,455
Issue by placing	81,250,000	1,256
Exercise of Option	1,000,000	15
Exchange difference on translation to $	-	(272)
At December 31, 2010	675,852,783	10,454
At January 1, 2011	675,852,783	10,454
Issue by placing	57,738,095	933
Exercise of Option	2,900,000	46
Exchange difference on translation to $	-	(52)
At December 31, 2011	736,490,878	$ 11,381

On April 19, 2011, the Company placed 45,238,095 new ordinary shares and on April 28, 2011, the Company placed a further 12,500,000 new ordinary shares for a total of 57,738,095 new ordinary shares, each at a price of 42 pence per share ($39.2 million). The cost of these placements totalled $1.4 million (£0.9 million) resulting in net proceeds of $37.8 million (£23.4 million). $0.9 million (£0.6 million) of the net proceeds are included in share capital and the balance of $36.8 million (£22.8 million) is included in share premium.

During 2011, the Company allotted a total 2,900,000 new ordinary shares pursuant to the exercise of share options for total gross proceeds of $0.6 million (£0.4 million). $46 thousand (£29 thousand) of the gross proceeds are included in share capital and the balance of $0.6 million (£0.4 million) are included in share premium. Details of the share options exercised are as follows:

Date of share issue	Number of shares	Date options exercised
January 5, 2011	100,000	December 20, 2010
February 9, 2011	125,000	February 7, 2011
March 14, 2011	300,000	March 3, 2011
April 20, 2011	400,000	March 29, 2011
May 16, 2011	25,000	May 5, 2011
July 15, 2011	25,000	July 7, 2011
August 5, 2011	25,000	July 27, 2011
August 8, 2011	500,000	July 27, 2011
September 13, 2011	800,000	August 31, 2011
October 13, 2011	500,000	September 30, 2011
December 22, 2011	100,000	December 12, 2011
	2,900,000	

25. Non-controlling Interests

GROUP

(Thousands of $)	Amount
At January 1, 2009	$ -
Transactions	-
At December 31, 2009	-
At January 1, 2010	-
Transactions	-
At December 31, 2010	-
At January 1, 2011	-
Impact of change in ownership interest	3,986
At December 31, 2011	$ 3,986

On October 14, 2011, Patagonia, PGSA and Fomicruz entered into the Fomicruz Agreement (Note 13). Pursuant to the Fomicruz Agreement, Fomicruz contributed to PGSA the rights to explore and mine approximately 100,000 hectares of Fomicruz's mining properties in Santa Cruz Province in exchange for a 10% equity interest in PGSA.

The fair value of the rights to explore and mine approximately 100,000 hectares has been estimated by management at $4.0 million in accordance with IFRS 2 *Share-based Payments,* this amount has been recorded as an increase in the equity of PGSA and mining rights. In the consolidated financial statements, the increase in equity of PGSA has been recorded as non-controlling interest.

26. Financial Instruments

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

Financial Assets

	GROUP			COMPANY		
(Thousands of $)	**2011**	2010	2009	**2011**	2010	2009
Available-for-sale financial assets	$ 120	$ 247	$ 196	$ 120	$ 247	$ 196
Loans and receivables	241	41	86	599	78	32
Cash and cash equivalents	$ 11,326	$ 10,515	$ 4,610	$ 7,787	$ 9,481	$ 3,311

Financial Liabilities

	GROUP			COMPANY		
(Thousands of $)	**2011**	2010	2009	**2011**	2010	2009
Bank overdraft	$ 380	$ 273	$ -	$ -	$ -	$ -
Trade and other payables	$ 7,242	$ 3,570	$ 2,694	$ 351	$ 41	$ 19

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

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

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

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

The following table presents financial assets and liabilities measured at fair value in the 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:

(Thousands of $)	Level 1	Level 2	Level 3	Total
As at December 31, 2011				
Listed securities	$ 120	$ -	$ -	$ 120
As at December 31, 2010				
Listed securities	247	-	-	247
As at December 31, 2009				
Listed securities	$ 196	$ -	$ -	$ 196

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

CAPITAL MANAGEMENT

The Group's capital management objectives are:

- To ensure the Group's ability to continue as a going concern;
- To 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 the Group's means.

The Group monitors capital on the basis of the carrying amount of equity less cash and cash equivalents as presented on the face of the 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.

MARKET RISK

Foreign currency risk – The Group undertakes transactions principally in GBP and $. While the Group continually monitors its exposure to movements in currency rates, it does not utilise hedging instruments to protect against currency risk.

The presentational currency of the Group is the $. The functional currency of Patagonia is GBP. As at December 31, 2011, Patagonia held cash balances denominated in $ and Canadian dollars and had trade and other payables denominated in Canadian dollars.

The functional currency of PGSA is the Argentinean peso. As at December 31, 2011, PGSA held cash balances denominated in $ and GBP and had a $ bank overdraft.

The functional currency of Minera Minamalu S.A. ("MMSA") is the Argentinean peso. As at December 31, 2011, MMSA held cash balances denominated in $.

The functional currency of Patagonia Gold Canada Inc. is the Canadian dollar. At December 31, 2011, Patagonia Gold Canada Inc. held cash balances denominated in $.

Financial assets and liabilities held by group companies in currencies other than the particular company's functional currency are subject to foreign currency risk. Based on $ financial assets and liabilities at December 31, 2011 held by companies whose functional currency is other then $, if the $ rate weakened/strengthened by 10% against the functional currency exchange rate of each group company at December 31, 2011, and all other variables held constant, this would have the following impact on the Group's net loss for the year:

Foreign Currency Rate Weakened

(Thousands of $)	**2011**	2010
Increase in net loss for the year	$ 566	$ 676

Foreign Currency Rate Strengthened

(Thousands of $)	**2011**	2010
Decrease in net loss for the year	$ 692	$ 872

The impact of the above analysis on GBP and the Canadian dollar against the functional currency is not material.

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

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

Interest earning balances were held in GBP and $. The weighted average interest rate for GBP was 1.025% (2010: 1.175%) and for $ was 0.90% (2010: 0.875%). If interest rates in 2011 had been 10% higher or lower with all other variables held constant, the impact on net loss for the year would not have been material on the finance income recorded during 2011.

LIQUIDITY RISK

In common with many exploration companies, the Company raises finance for its exploration and development activities in discrete tranches to finance its activities for limited periods only. Further funding is raised as and when required. The Group's policy continues to be to ensure that it has adequate liquidity by careful management of its working capital. See Note 2 for further details on management's response to managing the Group and Company's working capital.

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

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

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

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

27. 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:

GROUP AND COMPANY

(Thousands of $)	2011	2010	2009
Operating leases which expire:			
Within one year	$ 1,086	$ 216	$ 74
Within two to five years	2,541	313	20
After five years	-	-	-
	$ 3,627	$ 529	$ 94

The Group has a number of operating lease agreements involving office and warehouse space with maximum terms of three years. Furthermore, additional commitments exist relating to the construction of the gold processing facilities at the Lomada Project. In 2011, $0.3 million (2010: $0.1 million) of operating lease payments were recognised as an expense within exploration costs.

28. Related Parties

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

(Thousands of $)	Notes	2011	2010	2009
Landore Resources Limited	(i)	$ 118	$ 79	$ 98
Cheyenne S.A.	(ii)	40	15	-
MB Holding S.A.	(iii)	26	83	56
Agropecuaria Cantomi S.A.	(iv)	46	-	-
Lusemana S.A.	(v)	40	-	-
El Salvador 4040 S.A.	(vi)	$ 38	$ -	$ -

(i) During the year the Company recharged costs, consisting mainly of accommodation and travel expenses, to Landore Resources Limited ("Landore") and there was a balance owing to the Company from Landore at December 31, 2011 of $1.0 thousand (December 31, 2010: $1.0 thousand; December 31, 2009: $nil). Landore is a related party because William H. Humphries is a Director and shareholder.

(ii) During the year the Group paid Cheyenne S.A. ("Cheyenne") for the provision of a private plane to facilitate occasional travel to outlying areas for Directors and senior employees. Cheyenne is a related party because Carlos J. Miguens is a Director and shareholder.

(iii) During the year the Group paid MB Holding S.A. ("MB") for the provision of an office and related administrative services in Buenos Aires. MB is a related party because Carlos J. Miguens is a Director and shareholder.

In 2010, the office space and related administrative costs were charged to MB. In 2011, PGSA moved to a new office owned by three companies, Agropecuaria Cantomi, S.A., Lusemana S.A., and El Salvador 4040 S.A.

(iv) During the year the Group paid to Agropecuaria Cantomi S.A. ("Agropecuaria") for the provision of an office in Buenos Aires. Agropecuaria is a related party because Carlos J. Miguens is a Director and shareholder.

(v) During the year the Group paid Lusemana S.A. ("Lusemana") for the provision of an office in Buenos Aires. Lusemana is a related party because Diego Miguens is a shareholder and because of his family relationship with Carlos J. Miguens.

(vi) During the year the Group paid El Salvador 4040 S.A. ("El Salvador 4040") for the provision of an office in Buenos Aires. El Salvador 4040 is a related party because Cristina Miguens is a shareholder and because of her family relationship with Carlos J. Miguens.

29. Share-based Payments

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

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

	2011 Weighted average exercise price pence	2011 Weighted average exercise price $	2011 Number of options	2010 Weighted average exercise price pence	2010 Weighted average exercise price $	2010 Number of options
Outstanding at the beginning of the year	11.28	$0.174	49,450,000	10.51	$0.167	42,350,000
Granted during the year	44.66	0.176	17,595,000	15.15	0.234	8,100,000
Exercised during the year	13.43	0.215	(2,900,000)	9.88	0.153	(1,000,000)
Outstanding and exercisable at the end of the year	20.33	$0.314	64,145,000	11.28	$0.174	49,450,000

Options outstanding at December 31, 2011 have an exercise price in the range of $0.106 (6.875p) per option to $0.974 (63.00p) per option and a weighted average contractual life of 6.71 years.

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

	2011	2010
Weighted average share price	40.77p ($0.630)	11.25p ($0.174)
Exercise price	41.36p ($0.639)	11.28p ($0.174)
Expected volatility (expressed as a percentage used in the modelling under Black-Scholes model)	59.45%	35.5%
Dividend yield	nil	nil
Option life (maximum)	10 years	10 years
Risk free interest rate (based on national government bonds)	0.5%	0.5%

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

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

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

(Thousands of $)	2011	2010
New options granted in the year	$ 8,481	$ 761

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

The total number of options over ordinary shares outstanding at December 31, 2011 was as follows:

Date of grant	Employees entitled	No of options	Exercise price (pence)	Remaining contractual life (years)
May 31, 2002	Senior management	250,000	8.0*	0.42
September 10, 2002	Employee	25,000	8.0*	0.70
October 8, 2002	Director	350,000	8.0*	0.77
March 7, 2003	Director	150,000	8.0*	1.18
February 18, 2004	Directors	9,687,000	8.0*	2.14
June 24, 2004	Director	1,500,000	8.0*	2.48
November 23, 2004	Senior management	500,000	14.75	2.90
June 22, 2005	Senior management and employee	150,000	7.5	3.47
December 6, 2005	Senior management	100,000	8.0*	3.93
May 17, 2006	Senior management	200,000	14.5	4.38
March 1, 2007	Employees	100,000	6.875	5.17
May 23, 2007	Senior management	200,000	8.0*	5.39
June 5, 2007	Director and employees	1,175,000	8.0*	5.43
June 5, 2007	Employee	25,000	10.5	5.43
June 3, 2008	Director and employees	1,175,000	8.0*	6.42
June 9, 2009	Employees	1,175,000	12.0	7.44
June 9, 2009	Directors	1,400,000#	8.0*	1.25
June 23, 2009	Directors and senior management	21,413,000	12.25	7.48
June 17, 2010	Directors and employees	6,775,000	15.00	8.47
August 1, 2010	Employee	300,000	15.00	8.59
February 10, 2011	Directors	5,500,000	50.00	9.12
February 21, 2011	Senior management	800,000	50.00	9.15
May 9, 2011	Employees	500,000	43.50	9.36
May 13, 2011	Directors and senior management	4,400,000	42.25	9.37
May 24, 2011	Senior management	1,000,000	39.00	9.40
June 10, 2011	Employees	2,175,000	40.00	9.45
August 14, 2011	Former Directors	900,000#	13.65	1.25
August 15, 2011	Employee	200,000	62.00	9.63
September 1, 2011	Senior management	500,000	63.00	9.67
November 1, 2011	Directors	1,500,000	50.25	9.84
December 6, 2011	Employee	20,000	54.00	9.94
		64,145,000		

* On January 19, 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 June 9, 2009, to re-price certain outstanding share options that have been issued to employees who remain within the Group in order to incentivise those individuals and to reflect a more realistic price level given the then current market in the Company's shares. A total of 16,787,000 share options were re-priced to 8p, being a 10% premium to the mid-market price at close of business on January 19, 2009, of which 9,412,000 have not yet been exercised.

The Company's Employee Benefit Trust ("the Trust") that was established on March 5, 2003 has been cancelled. The awards which were made under the Trust to Mr Richard Prickett, Mr Marc Sale, Mr Neil Herbert and the Estate of the late Mr David Dare (deceased) were replaced by ordinary share options. The pricing and terms of these replacement options is equivalent to those of the original awards and has been valued as such. No prior year adjustment was made in respect of these awards based on the values not being significant.

30. Auditors' Remuneration

COMPANY

(Thousands of $)	2011	2010
Fees payable to the Company's auditor for the audit of the Company's annual accounts	$ 59	$ 56
Fees payable to the Company's auditor and its associates for other services:		
– Tax	9	6
– Other	$ 52	$ 2

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.

31. Financial Commitments

Property, Plant and Equipment

During the first quarter of 2012, the Group entered into contracts totalling $1.9 million (December 31, 2010: $0.3 million) with several vendors related to the purchase of equipment and construction of facilities. The amount is payable in 2012.

Fomicruz Agreement

On the Fomicruz Properties whose rights to explore and mine were contributed to PGSA as part of the Fomicruz Agreement signed on October 14, 2011, the Company will invest $5.0 million on exploration expenditures over five years.

Barrick Agreement

In March 2011, Patagonia agreed with the Barrick Sellers to amend the original property acquisition agreement regarding the Cap-Oeste, COSE, Manchuria and Lomada gold and silver deposits, whereby the "Back in Right" was exchanged for a 2.5% NSR royalty, effective immediately. The NSR royalty does not apply to the Company's Santa Cruz properties acquired outside the Barrick Agreement, or to those acquired in the Fomicruz Agreement. A liability for potential future NSR payments has not been recognized since the Company is unable to reliably measure such a liability as the project has not yet commenced production and there is no certainty over the timing of potential future production.

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

32. Contingent Liability

In October 2011, following a fatal road traffic accident in Argentina, a compensation claim was made outside of the life insurance policy held by PGSA. This is a non-judicial claim against PGSA to be negotiated through a mediation process. As at April 24, 2012, the claim remains outstanding and a provision of AR$1.0 million ($0.2 million) has been recorded as of December 31, 2011.

33. Subsequent Events

Share Capital

Subsequent to December 31, 2011, the Company allotted the following new ordinary shares pursuant to the exercise of share options for gross proceeds of $1.75 million (£1.1 million).

Date of share issue	Number of shares	Date options exercised
March 9, 2012	425,000	February 28, 2012
March 9, 2012	100,000	February 29, 2012
March 19, 2012	3,500,000	March 8, 2012
March 19, 2012	3,500,000	March 12, 2012
March 19, 2012	3,500,000	March 13, 2012
	11,025,000	

Share-based Payments

On January 31, 2012, the Company granted options over 4,500,000 Ordinary shares of 1p at an exercise price of 42.50p to Directors and a senior employee of the Company.

In March 2012, the Company allotted a total of 11,025,000 new ordinary shares of 1p each pursuant to the exercise of share options.

As a result of the above, the total number of options outstanding and exercisable on April 24, 2012 is 57,620,000.

34. Reclassification of Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

Glossary

BACKFILL: Primarily waste sand or rock used to support the roof or walls after removal of ore from a stope.

BY-PRODUCT: A secondary metal or mineral product recovered in the milling process such as silver.

CONCENTRATE: A very fine, powder-like product containing the valuable ore mineral from which most of the waste material has been eliminated.

CONTAINED OUNCES: Represents ounces of final product in the ground and yet to be extracted.

DEVELOPMENT: Work carried out for the purpose of opening up a mineral deposit. In an underground mine this includes shaft sinking, crosscutting, drifting and raising. In an open pit mine, development includes removal of overburden.

DILUTION: The effect of waste or low-grade ore which is unavoidably included in the mined ore, lowering the recovered grade.

DORÉ: Unrefined gold and silver bullion bars usually consisting of approximately 90% precious metals that will be further refined to almost pure metal.

DRILLING

Core: Drilling with a hollow bit with a diamond cutting rim to produce a cylindrical core that is used for geological study and assays. Used in mineral exploration.

Infill: Any method of drilling intervals between existing holes, used to provide greater geological detail and to help establish reserve estimates.

EXPLORATION: Prospecting, sampling, mapping, drilling and other work involved in searching for ore.

GRADE: The amount of metal in each ton of ore, expressed as troy ounces per ton or grams per tonne for precious metals and as a percentage for most other metals.

Cut-off grade: the minimum metal grade at which an ore body can be economically mined (used in the calculation of ore reserves).

Mill-head grade: metal content of mined ore going into a mill for processing.

Recovered grade: actual metal content of ore determined after processing.

Reserve grade: estimated metal content of an ore body, based on reserve calculations.

HEAP LEACHING: A process by which gold/copper is extracted by “heaping” crushed ore on sloping impermeable pads and continually applying to the heaps a weak cyanide solution that dissolves the contained gold/copper. The gold/copper solution is then collected for recovery of the contained metals.

HEAP LEACH PAD: A large impermeable foundation or pad used as a base for ore during heap leaching.

MILL: A processing facility whereby ore is finely ground and undergoes physical or chemical treatment to extract metals.

MINING CLAIM: The portion of mineral lands that a party has staked or marked out in accordance with mining laws to acquire the right to explore for and exploit the minerals under the surface.

MINING RATE: Tons of ore mined per specified time period.

NATIONAL INSTRUMENT 43-101 (NI 43-101): A Canadian mineral resource classification method used for the public disclosure of information relating to mineral properties. It is a strict guideline for how public companies can disclose geological information about mineral projects on stock markets supervised by the Canadian regulators. This includes foreign-owned mining entities that may also have listings on stock exchanges outside Canada.

OPEN PIT: A mine where the minerals are mined entirely from the surface.

ORE: Rock, generally containing metallic or non-metallic minerals, which can be mined and processed at a profit.

OREBODY: A sufficiently large amount of ore that can be mined economically.

RECLAMATION: The process by which lands disturbed as a result of mining activity are restored to support continued usage for other purposes.

RECOVERY RATE: A term used in process metallurgy to indicate the proportion of valuable material physically recovered in the processing of ore. It is generally stated as a percentage of the material recovered compared to the total material originally present.

REFINING: The final stage of metal production in which impurities are removed from the molten metal.

RESOURCE: Minerals Resources comprise a concentration or occurrence of material of intrinsic economic interest in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. Mineral Resources are further subdivided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories.

RESERVE: Mineral Reserves are resources known to be economically feasible for extraction. There are two categories: Probable Reserves and Proven Reserves.

Proven Ore Reserve: is the economically mineable part of a Measured Mineral Resource. It includes diluting materials and allowances for losses which occur when the material is mined. This is the highest confidence category of reserve estimate.

Probable Ore Reserve: is the economically mineable part of Indicated, and in some circumstances, a Measured Mineral Resource. It includes diluting material and allowances for losses which may occur when the material is mined. A Probable Ore Reserve has a lower level of confidence than a Proven Ore Reserve but is of sufficient quality to serve as the basis for decision on the development of deposit.

STRIPPING: Removal of overburden or waste rock overlying an orebody in preparation for mining by open pit methods. This is quantified as the total number of tons mined for each ounce of metal recovered as finished product.

TAILINGS: The material that remains after all economically and technically recoverable precious metals have been removed from the ore during processing.

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, June 6, 2012 at 11.00 am The Cavalry & Guards Club, 127 Piccadilly, London W1V 0PX to consider and, if thought fit, to pass the following resolutions which in the case of resolutions 1 to 6 will be proposed as Ordinary Resolutions and in the case of resolution 7 will be proposed as a Special Resolution:

1. To receive and, if approved, adopt the financial statements of the Company for the year ended December 31, 2011 and the reports of the Directors and auditors thereon.
2. To re-elect William H Humphries, Managing Director, who retires by rotation, as a Director of the Company.
3. To elect Edward J Badida, who was appointed to the Board of Directors following the last Annual General Meeting, as a Director of the Company.
4. To elect Gary A Sugar, who was appointed to the Board of Directors following the last Annual General Meeting, as a Director of the Company.
5. To re-appoint Grant Thornton UK LLP as auditors to the Company until the conclusion of the next Annual General Meeting and to authorise the Directors to determine the auditor's remuneration.
6. THAT the Directors be and they are hereby generally and unconditionally authorised for the purposes of Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot shares in the Company and grant rights to subscribe for or to convert any securities into shares in the Company up to an aggregate nominal amount of £2,491,470.42 provided that this authority shall expire on the earlier of June 30, 2013 or the conclusion of the Company's next annual general meeting 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. This resolution revokes and replaces all unexercised authorities previously granted to the Directors to allot shares and grant rights to subscribe for or convert any securities into shares in the Company but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities.
7. THAT (conditional upon the passing of the Ordinary Resolution numbered 6 above) the Directors be and they are hereby generally and unconditionally empowered pursuant to Section 570 of the Act to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the general authority conferred by resolution 6 above as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:
   (a) In connection with an offer of such securities by way of a rights issue, open offer or any other pre-emptive offer to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange; and
   (b) Otherwise than pursuant to sub-paragraph (a) above, allotments of equity securities for cash up to an aggregate nominal amount of £747,515.87 and shall expire on the earlier of June 30, 2013 or the conclusion of the Company's next Annual General Meeting 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. This resolution revokes and replaces all unexercised authorities previously granted to the Directors to allot shares and grant rights to subscribe for or convert any securities into shares in the Company but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities.

By Order of the Board

Nigel Everest
Company Secretary
April 24, 2012

Registered office:

15 Upper Grosvenor Street
London W1K 7PJ

Explanatory Notes to Resolutions 6 and 7

Resolution 6

Resolution 6 will be proposed as an Ordinary Resolution to provide the Directors with authority to issue new ordinary shares up to an aggregate nominal value of £2,491,470.42, representing approximately 33.33% of the Company's present issued share capital, such authority replacing the authority granted at the Company's previous AGM on June 8, 2011 and to expire on the earlier of June 30, 2013 or the conclusion of the Company's next Annual General Meeting. Other than any issues of securities that may be required to be made pursuant to the share incentive plans, the Directors have no present intention of issuing any new Ordinary Shares, but believe it to be in the best interests of the Company for the Board to be granted this authority to take advantage of appropriate opportunities.

Resolution 7

Resolution 7 will be proposed as a Special Resolution to approve a disapplication of pre-emption rights on allotments for cash up to an aggregate nominal amount of £747,515.87 representing approximately 10% of the present issued share capital. This Resolution, if approved, will replace the authority granted at the Company's previous AGM on June 8, 2011 and enable the Board, for the period expiring on the earlier of June 30, 2013 or the conclusion of the Company's next Annual General Meeting, to allot a limited number of equity securities for cash without regard to statutory pre-emption rights. Other than any issues of securities which may be required to be made pursuant to the share incentive plans, the Directors have no present intention of exercising this authority, but believe it to be in the best interests of the Company for the Board to be granted this power to take advantage of appropriate opportunities.

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, Computershare Investor Services PLC, 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, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY by no later than 11.00 am on June 1, 2012 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 June 2, 2012 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 June 1, 2012 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 and non-executive Directors' letters of appointment are available for inspection at the registered office of the Company during usual business hours and will be available on the day of the Annual General Meeting from 10.45 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 Computershare Investor Services PLC (Participant ID 3RA50) by no later than 11.00 am on June 1, 2012 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 Computershare Investor Services PLC is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

   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 at The Cavalry & Guards Club, 127 Piccadilly, London W1V 0PX on Wednesday, June 6, 2012 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 December 31, 2011			
2. Ordinary Resolution to re-elect William H. Humphries as a Director			
3. Ordinary Resolution to elect Edward J. Badida as a Director			
4. Ordinary Resolution to elect Gary A. Sugar as a Director			
5. Ordinary Resolution to re-appoint Grant Thornton UK LLP as auditors and to authorise the Directors to determine the remuneration of the auditors			
6. Ordinary Resolution to empower the Directors to allot shares for the purposes of section 551 of the Companies Act 2006			
7. Special Resolution to empower the Directors to allot equity securities pursuant to section 570 of the Companies Act 2006			

Signature(s) or common seal ______________________________

Date ______________________________

Notes

1. A proxy need not be a member of the Company. Your proxy can exercise all or any of your rights to attend, speak and vote at the Annual General Meeting.
2. To appoint more than one proxy, (an) additional proxy form(s) may be obtained by contacting the Registrars helpline on 0870 702 000 (telephone provider's costs to this number may vary) or you may copy this form. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given and return all forms together in the same envelope.
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, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY by no later than 11.00 am on June 1, 2012 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.

Corporate and Shareholder Information

Directors

Sir John Craven
Non-Executive Chairman

Carlos J. Miguens
Non-Executive Deputy Chairman

William H. Humphries
Managing Director

Gonzalo Tanoira
Finance Director

Marc J. Sale
Technical Director

Edward J. Badida
Non-Executive Director

Gary A. Sugar
Non-Executive Director

Officers

William H. Humphries
Chief Executive Officer

Philip C. Yee
Chief Financial Officer

Matthew Boyes
Chief Operations Officer

Nigel F. Everest
Corporate Secretary

Corporate Address and Registered Office

15 Upper Grosvenor Street
London W1K 7PJ United Kingdom

Telephone 020 7409 7444
Facsimile 020 7499 8811

Company registered number
3994744

Toronto Address

TD Canada Trust Tower,
161 Bay Street, Suite 2700
Toronto, Ontario M5J 2S1 Canada

Investor Relations

Philip C. Yee
Chief Financial Officer
phil_yee@patagoniagold.ca

Barnes Communications Inc.
Toronto, Ontario
www.barnesir.com

Auditors

Grant Thornton UK LLP
Grant Thornton House
Melton Street
London NW1 2EP

Solicitors

Lawrence Graham LLP
4 More London Riverside
London SE1 2AU

Registrars and transfer agents

Computershare Investor Services Plc
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

Computershare Limited
100 University Avenue,
Toronto, Ontario, M5J 2Y1 Canada

Nominated adviser

Strand Hanson Limited
26 Mount Row
London W1K 3SQ

Broker

Mirabaud Securities LLP
33 Grosvenor Place
London SW1X 7HY

Stock exchange listings

AIM: PGD
TSX: PAT

Annual General Meeting

Wednesday, June 6, 2012 at 11 am
The Cavalry and Guards Club
127 Piccadilly, London W1V 0PX



PATAGONIA GOLD PLC

www.patagoniagold.com

Corporate Address
15 Upper Grosvenor Street
London W1K 7PJ United Kingdom

Toronto Address
TD Canada Trust Tower,
161 Bay Street, Suite 2700
Toronto, Ontario M5J 2S1 Canada