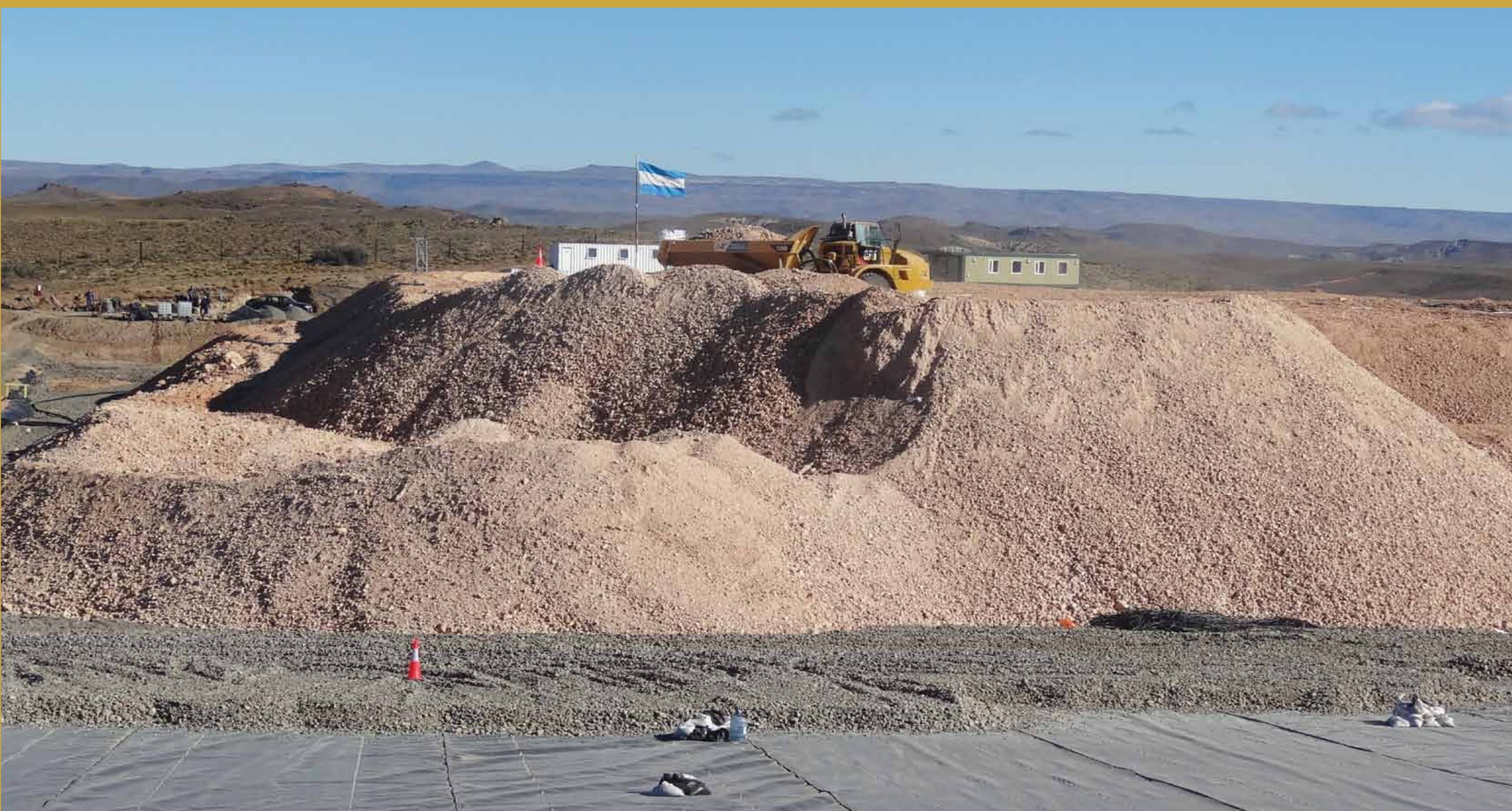
PATAGONIA GOLD PLC

2012 Annual Report



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

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

Dollar amounts are expressed in U.S. dollars ($) unless otherwise stated.

Investment Highlights




- Gold Production and Generating Free Cash Flow
- Portfolio of Advanced High Grade Exploration Projects
- Geological Prospectivity and Significant Land Holdings in the Deseado Massif
- Extensive Exploration Programme to Grow Resources
- Strategic Partnership with Fomicruz, the mining arm of Santa Cruz Province
- Experienced Management with Extensive In-Country Expertise

Chairman's Statement

I am pleased to present the 2012 Annual Report of Patagonia Gold Plc.

During 2012, Patagonia Gold turned the corner from an exploration and development company to a gold producer.

Our surface mine and trial heap leach pad at Lomada de Leiva was brought onstream and the gold room production facility was successfully commissioned and doré production commenced in November 2012. Construction of the first stage of the fully permitted Lomada Project main heap leach is well advanced and on target for commencement of operations in late second quarter of 2013.

Due to challenging capital market conditions during 2012, Patagonia Gold was only able to raise half the required funds to carry out the planned works on its three main projects. Accordingly, the Company directed all available funds toward the completion of the Lomada Project. As of May 2012, Cap-Oeste drilling and COSE underground development have been put on hold until the equity markets improve or until the Lomada Project generates excess funds.

In February 2013 the Company successfully completed an equity fundraising of $9.4 million. The proceeds, along with revenue from gold sales, will be used to fund the construction of the Lomada Project main heap leach operation, as well as fund continuing development of the Cap-Oeste/COSE Projects and other highly prospective projects.

Exploration drilling in the past year successfully increased the Cap-Oeste deposit indicated resource to 1.20 million ounces of gold equivalent, with an increase of 30% in grade, bringing Patagonia Gold's global resources to 1.88 million ounces of gold equivalent, all NI 43-101 compliant. Much of the exploration activity in 2012 was at the Company's flagship Cap-Oeste gold-silver project, where drilling has intersected mineralisation over a distance in excess of 1,200 metres along the Bonanza Fault structure. Additionally, an IP geophysical survey conducted over the Cap-Oeste/COSE structure and NW El Tranquilo block has revealed two new IP anomalies parallel to the Cap-Oeste/COSE anomaly itself, indicating significant gold mineralisation potential.

Patagonia Gold's Board of Directors underwent a marked change this year. In January 2013, Sir John Craven retired as Chairman after many years of dedicated service. I have taken on the position of Chairman from my previous role as Deputy Chairman. On behalf of the Board, my family and myself, I would like to express my appreciation for Sir John's substantial contribution to Patagonia Gold. Also leaving the Board in February 2013 is Gary Sugar, whom I thank for his efforts over the past year.

Of tremendous importance during 2012 was the effort and collaboration of Fomicruz, the government-owned mining company, and the people and communities of Santa Cruz. Our progress is also due to the hard work and dedication of our management team and all our staff. I would like to thank them on behalf of the Board of Directors. We are counting on them to continue their contribution to the successful growth of Patagonia Gold.

Looking ahead, I believe that 2013 will be a year of achievement as Patagonia Gold attains significant milestones in production and exploration. I look forward to reporting further developments and growth to our shareholders in the upcoming year.

Carlos Miguens
Chairman
April 25, 2013

Report from the Managing Director/Chief Executive Officer

Patagonia Gold achieved several major milestones during 2012. The most significant of these was our transition from an advanced exploration company to a gold producer in November 2012, when we poured our inaugural gold ingot from the Lomada de Leiva heap leach project ("Lomada Project") in the province of Santa Cruz, Argentina.

Advancing Our Agenda

Following the global financial slump of 2008, the Board of Directors elected to develop the Lomada Project because of its minimal capital requirements and low cash cost of production, which offered the fastest path to self-sufficiency. A preliminary economic assessment was completed in 2009, and that led to the development of a 50,000 tonne trial heap leach pad in 2011, expanded to a level of 135,000 tonnes in 2012. The purpose of the trial was to optimise the heap leach operation and promote social awareness in a region unfamiliar with this mining process.

In spite of difficult capital markets, Patagonia Gold raised approximately $24.5 million through two equity offerings in 2012 and a further $9.4 million from a third offering in February 2013. Combined with gold sales proceeds from the Lomada Project, this provides sufficient funding for completion of the main heap leach, continued development of the Cap-Oeste and COSE Projects, as well as other highly prospective targets.

Last November, Patagonia Gold received the full and final permit to proceed with the large-scale Lomada Project from the State Secretary of Mines, Santa Cruz. Construction of the first stage of the main heap leach project is well advanced and on target for commencement of operations in late second quarter of 2013. When fully operational, the main heap leach is anticipated to achieve full commercial production of 21,000 ounces of gold per annum.

Expansion of the existing processing plant is in progress and will increase throughput to 160 cubic metres per hour of gold-laden solution flowing from the heap leach pad. Meanwhile, camp and mine facilities construction is nearing completion. Principal mining equipment, including a Liebherr R974 excavator and three Volvo A40F dump trucks, has been received on site and will commence operations in April 2013.

Moving into Gold Production

The gold processing facility was commissioned in November 2012, allowing gold generated from the trial heap leach pad to be smelted into gold doré. The first two pours totalled 2,811 ounces of gold, generating proceeds of $4.6 million, $0.8 million of which was received in December 2012. This cash flow has enabled the development and construction of the main heap leach to be internally fully funded to commercial production. The Company is maintaining its guidance of production cash costs below $500 per ounce of gold from the Lomada Project.

As a result of available funds being directed toward the Lomada Project to advance it to commercial production, construction of the underground access decline for the COSE Project has been postponed until it can be funded either through equity raisings or by excess funds generated from the Lomada Project. Our revised schedule anticipates work at COSE to resume in late 2013 or early 2014.

Improving Outlook for Cap-Oeste

Another significant milestone during 2012 was the completion of the fourth resource upgrade on the Company's flagship project, the high grade gold/silver Cap-Oeste deposit. The new estimate increased the indicated category by 24% to 1,197,000 ounces of gold equivalent (AuEq) and improved grade by 30% to 4.78g/t AuEq.

The Cap-Oeste mineralisation has now been intersected over a distance exceeding 1,200 metres along the Bonanza Fault structure, the majority of which is concentrated within a strike length of 650 metres by 350 metres in depth and in excess of 12 metres in average true width. A drill programme of 12,700 metres is currently under way on the highly prospective corridor between the bonanza COSE deposit and the Cap-Oeste deposit.

To further identify zones of prospective mineralisation, an expanded geophysical study was completed over the Cap-Oeste/COSE structure and northwest El Tranquilo block. Preliminary results have revealed two completely new large geophysical anomalies striking in the same direction as the Cap-Oeste/COSE anomaly, offset by approximately 700 metres. The anomalies are similar in intensity and size to the existing anomalies over Cap-Oeste/COSE and Don Pancho, both areas of known significant mineralisation. A preliminary exploration programme is planned to drill test both new targets during the 2013 campaign while exploring the highly prospective corridors of these properties.

The Way Forward

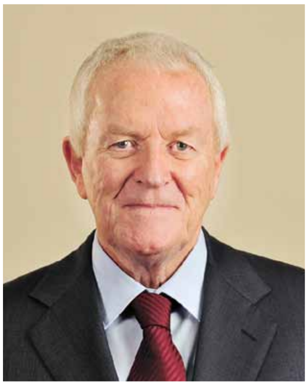
Patagonia Gold continues to assertively explore its portfolio of highly prospective gold properties, so far delineating indicated resources totalling 1,478,000 ounces AuEq and inferred resources totalling 398,000 ounces AuEq on the Cap-Oeste, COSE, Manchuria and Lomada deposits. There remains considerable potential for resource expansion with mineralisation at the Cap-Oeste and La Manchuria Projects remaining open in all directions and mineralisation at COSE open down plunge.

Our progress during 2012 has laid the foundation for 2013 to be our most exciting year ever. Patagonia Gold is now a gold producer, and the cash flow generated by the Lomada Project is enabling it to fund its own enlargement to full commercial dimensions by late second quarter of 2013. Meanwhile, internal cash reserves will be deployed to continue development of our main Cap-Oeste and COSE Projects as we continue to explore for new discoveries on our other properties. Thanks to the skill and dedication of our management, staff and technical team, our Company is well on its way to achieving its growth objective of producing 200,000 ounces of gold a year by 2016.

Bill Humphries
Managing Director/Chief Executive Officer
April 25, 2013

Board of Directors

Carlos J. Miguens *(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 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. (an 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 São 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 in 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.

Board of Directors

Edward J. Badida *(Non-Executive Director)* is a Chartered Professional Accountant and 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 a Director of 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 the accounting firms PricewaterhouseCoopers and KPMG.

Manuel de Prado *(Non-Executive Director)* has more than 25 years of experience in the financial services sector. He was head of Chase Manhattan S.G.I.I.C., covering Private Banking and Asset Management in Spain and Portugal. Previously, Manuel was Managing Director for more than 10 years at Chase Manhattan Bank, in charge of Corporate Lending and Investment Banking in Spain. Most recently he has been a Director of Oquendo Corporate S.L. in Madrid, an independent financial advisory firm specialising in mergers and acquisitions and other corporate finance related transactions. Manuel has a BA in Economics and Business Administration from ICADE.

Glenn Featherby *(Non-Executive Director)* is a Chartered Accountant and has over 30 years of experience in corporate advisory services and has worked extensively in the resources sector. He began his career with KPMG in Perth and London before establishing his own accounting practice in Perth in 1997. Glenn is currently executive Chairman of Hawkley Oil and Gas Limited and non-executive Chairman of Forte Energy NL, each of which is listed on the ASX. He was previously Finance Director of AIM-listed Regal Petroleum Plc and a non-executive Director of TSX- and AIM-listed European Goldfields Limited.

Patagonia Gold Plc is focused primarily on exploration in Santa Cruz Province in Argentina through its 90%-owned Argentine 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. Mineralisation generally takes the form of low-sulphidation, epithermal "bonanza" vein style gold-silver deposits and their brecciated equivalent.

Proving up mineralisation 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.

JANUARY & MARCH

Drilling results released for Cap-Oeste, confirming continuation of high grade gold and silver mineralisation along strike.

FEBRUARY

Phase 3 Cap-Oeste drilling campaign completed, consisting of 57 drill holes totalling 20,210 metres; Phase 4 campaign begins.

Test metallurgical results released for Cap-Oeste, indicating strong potential for good recoveries of gold and silver.

Mining investment analysts tour main properties in Patagonia.

MAY

Lomada heap leach pad expansion from 50,000 to 135,000 tonnes completed; irrigation started.

Phase 4 Cap-Oeste drilling campaign concluded with 43 holes totalling 12,010 metres.

Permit awarded for gold room processing facility; construction scheduled for completion in fourth quarter 2012.

Final Environmental Impact Assessment for full Lomada Project submitted to Secretary of Mines, Santa Cruz.

JULY

Drilling results for COSE Project released, showing discovery of new zone of high grade mineralisation northwest of main deposit.

SEPTEMBER

Updated NI 43-101 resource estimate filed for Cap-Oeste Project; indicated resources increased by 24% to new high of 1.2 million ounces AuEq.

NOVEMBER

Full and final permit issued for Lomada main heap leach pad by Secretary of Mines, Santa Cruz.

Gold room production facility commissioned; first gold doré ingot poured.

Patagonia Gold's Properties

The growth strategy of Patagonia Gold Plc ("Patagonia Gold" or the "Company") aims to develop a number of projects in the province of Santa Cruz in Argentina. This is a mineral-rich region that hosts several medium-sized mines such as Cerro Morro (Yamana Gold Inc.), 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 Gold, through its 90%-owned operating company Patagonia Gold S.A. ("PGSA") and its 100%-owned exploration company Minera Minamalu S.A., owns exploration and development properties that cover a total of 350,000 hectares in Santa Cruz. Of this total, approximately 200,000 hectares were acquired in 2007 when PGSA purchased the entire exploration property portfolio of Barrick Gold Corp. 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 an agreement with Fomicruz, the Santa Cruz government's mining company, in 2011. The remaining 50,000 hectares were acquired in smaller parcels.

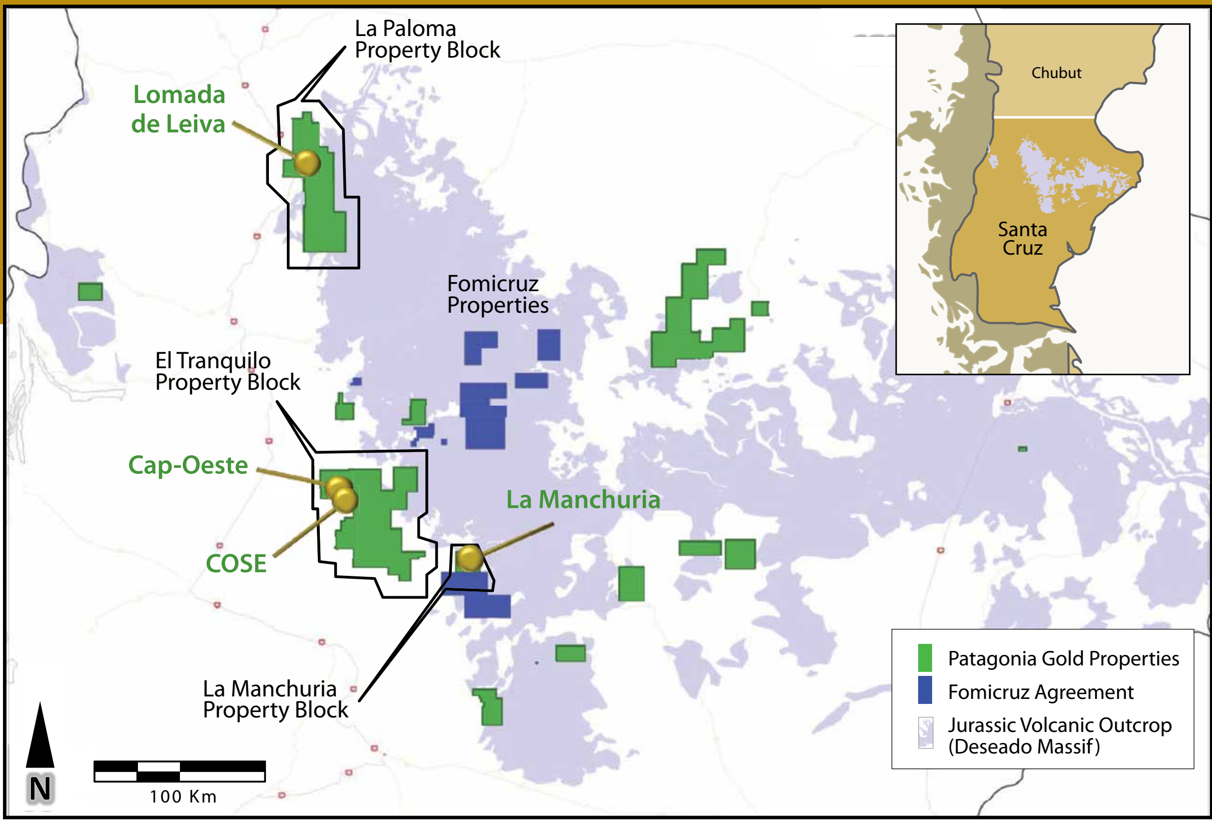
Santa Cruz is the location of PGSA's four main properties (see map at right). Cap-Oeste is the flagship project and the main focus of the Company is to bring it into development as a stand-alone mine. Two kilometres along strike from Cap-Oeste is the smaller but strategically vital Cap-Oeste South-East (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 kilometres 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 mineralisation that is not typical of epithermal vein systems. The properties are characterised by low sulphidation, epithermal style gold-silver deposits hosted within hydrothermal breccias or fault hosted breccias, with widths of up to 35 metres of bonanza grade mineralisation being intersected. The Cap-Oeste Project falls into this category, as does the COSE Project. Classic low sulphidation epithermal veins with high grade gold/silver intersected within narrow, steeply dipping structures characterise other properties in the region. The diversity and varied mineralisation styles differ according to location within the Deseado Massif.

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

Patagonia Gold has the added advantage of having the Santa Cruz government as a strategic partner. Fomicruz gained 10% of PGSA and in return, PGSA acquired rights to explore, develop and mine 100,000 hectares of Fomicruz's mining properties. This strategic partnership 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 a local workforce that understands mining make Santa Cruz an ideal location for mining exploration and development.



Location of Patagonia Gold Properties in Santa Cruz Province

2012 Indicated Resources

		Grade (g/t)			Metal (Oz)		
Project	Tonnes	Au	Ag	AuEq	Au	Ag	AuEq
Cap-Oeste	7,790,000	2.93	99.00	4.78	734,000	24,801,000	1,197,000
COSE	20,637	60.06	1,933.07	96.21	39,850	1,282,582	63,835
La 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					975,513	27,931,793	1,477,865

2012 Inferred Resources

		Grade (g/t)			Metal (Oz)		
Project	Tonnes	Au	Ag	AuEq	Au	Ag	AuEq
Cap-Oeste	2,369,000	1.52	52.50	2.50	116,000	4,001,000	191,000
COSE	13,758	60.06	1,933.07	96.21	26,566	855,055	42,558
La Manchuria	1,469,020	1.53	49.40	1.92	72,335	2,335,236	90,682
Lomada	3,412,270	0.67	NA	NA	73,727	NA	73,727
Total Inferred					288,628	7,191,291	397,967

NA = not applicable

Patagonia Gold's Properties

Lomada de Leiva Project

The Lomada Project is spearheading Patagonia Gold's growth strategy by being the first project from the Company's group of assets to begin gold production. Pouring of doré commenced in November 2012, with full production targeted for mid-2013.

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. It found 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. This trial pad has since been expanded to 135,000 tonnes and irrigation was completed during 2012. Permission was received to expand the pad further to 315,000 tonnes in conjunction with the construction of the fully permitted main heap leach pad.

Construction of the first stage of the Lomada main heap leach pad is well advanced and on target for commencement of operations in late second quarter of 2013. The total pad area has been stripped of topsoil, which is being stacked for later rehabilitation purposes. Earthworks for infrastructure, holding and containment dams are under way. The plastic membrane and irrigation pipework for the expansion area have been delivered. The textured liner for the main pad, plus associated pumps and minor steel piping, are scheduled for installation in the second quarter of 2013. The gold-laden, or "pregnant", solution will be pumped from the heap leach pad to the existing processing plant that was constructed for the trial in 2011.

An expansion of the existing plant is also under way, with an additional six carbon columns currently under construction, designed to increase the plant throughput to 160 cubic metres per hour of pregnant solution. In addition, the explosives magazine has also been completed and is awaiting final approval from the regional and federal government agencies before being put into service. Camp and mine facilities are also being completed and will be fully operational by mid-second quarter of 2013.

The "gold room" smelting facility is now fully operational and commissioned. PGSA has successfully poured in excess of 2,800 ounces since commissioning and is scheduled to be in full production by late second quarter of 2013.

The Company completed its first gold sales in December 2012, generating $0.8 million from 425.67 ounces of gold produced during the commissioning of the gold room. A further 2,384.84 ounces of gold and 32.9 ounces of silver were sold on February 26, 2013 for revenue of $3.8 million.

To accelerate gold production, the Company is expanding the existing trial pad of 135,000 tonnes to 315,000 tonnes. This will allow the main production to be advanced by several months. Preparation of the expansion is well advanced, with earthworks completed, the liner installed and the lining of the bottom half of the main pad under way. In the meantime, mining and loading of rock onto the existing pad has already commenced, with irrigation in progress. Gold recoveries from the Lomada deposit continue to be excellent, with more than 50% of the continued gold recovered to carbon within the first 30 days of irrigation and 70% after 120 days. The gold purity is also extremely high, with sold doré to date containing up to 98.9% gold with additional minor silver and other impurities.

Mining in early 2013 has been carried out with a contract fleet pending the arrival of PGSA's own fleet in country. The main excavator, trucks, loaders and ancillary mining gear are all onsite. With the new machinery and with the onsite blasting magazines permitted and mine camp installed, production will be increased to the full rate of 65,000 tonnes of rock per month. Initially the mine will be operated on a single 12-hour shift basis. The addition of a second shift and the acquisition of minor capital items in order to expand crushing capacity would double the mine output if required. This option is currently being evaluated.

Near mine exploration is commencing at Lomada and Cerro Vasco in the second quarter of 2013 with the primary objective of increasing the global resources for Lomada, now that a fully permitted and commissioned processing facility is in operation. High grade underground potential exists nearby at Breccia Sofia, along with regional targets close to surface within the mineralised corridor to the northwest and southeast of the existing mineralisation.

Cap-Oeste Project

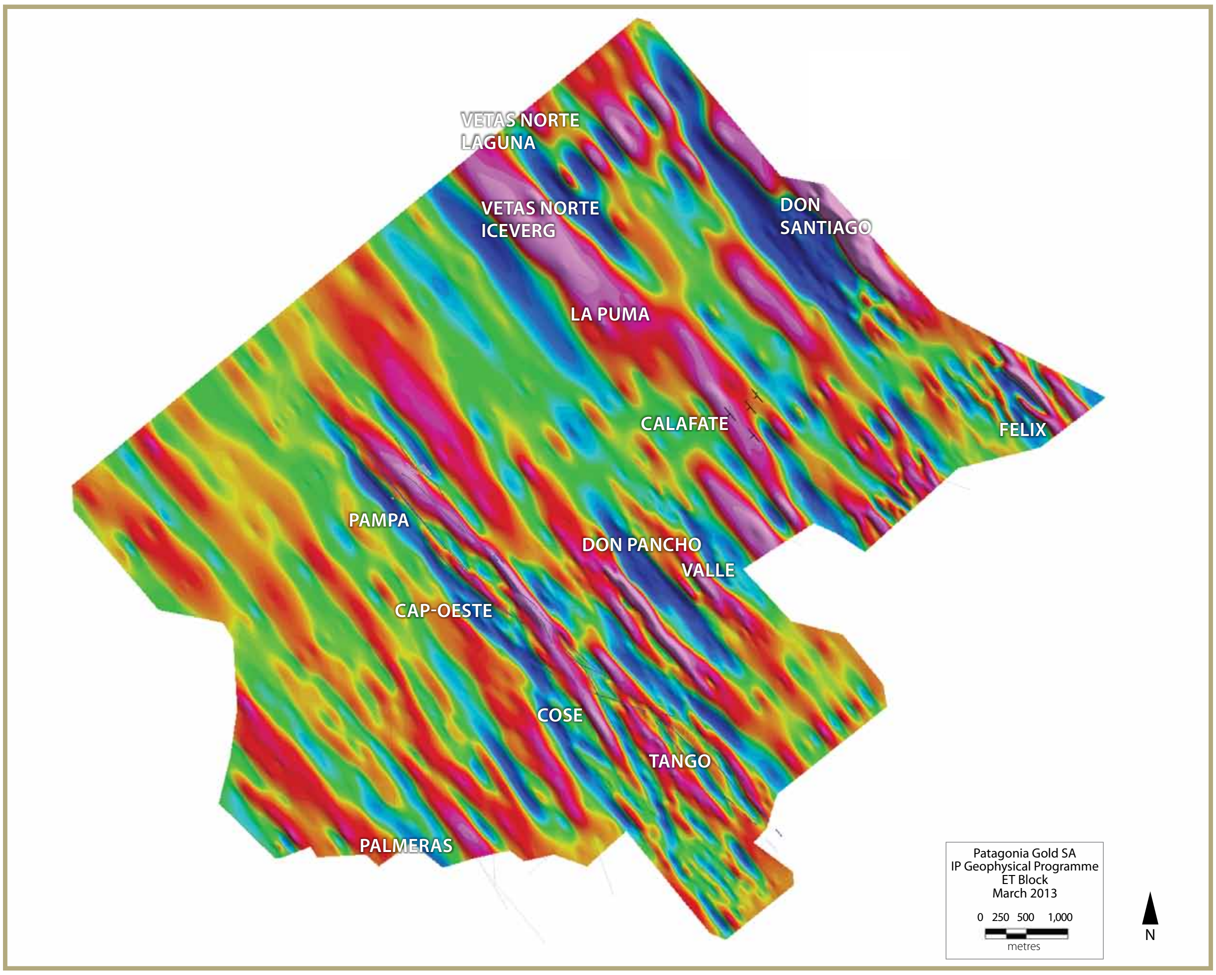
Cap-Oeste is Patagonia Gold's flagship project. It is located within a structural corridor extending six kilometres from the La Pampa prospect in the northwest to the Tango prospect in the southeast (see map). The Cap-Oeste deposit to date has an identified and delineated strike extent of 1.2 kilometres.

Since acquiring the property from Barrick in 2007, PGSA has drilled 400 holes for a total of 92,359 metres to February 25, 2013. During that time, PGSA has filed four NI 43-101 resource estimates. The most recent, filed in December 2012, described Phase II, III and the initial portion of Phase IV exploration activities, consisting of geologic mapping, excavation of five trenches, gathering of 82 channel samples, 352 drill holes totalling 78,673 metres, a petrographic study, topographic survey, three-dimensional modelling and geophysical surveys.

The rapid expansion of the mineralised deposit at the Cap-Oeste Project is reflected in the NI 43-101 resource estimates. In the most recent update, filed in September 2012, the Company reported indicated resources totalling 1,197,000 ounces of gold equivalent, which was 24% higher than the previous NI 43-101 resource estimate in November 2011. Inferred resources amounted to 191,000 ounces of gold equivalent.

Phase IV drilling was halted in May 2012, with a total of 43 HQ diamond drill holes completed for a total of 12,010 metres. No further drilling was completed in the third or fourth quarters of 2012 due to budgetary restraints. Drilling between Cap-Oeste and COSE re-commenced in February 2013, and the main objective of the 2013 drill programme will be to test the Bonanza Fault extension between Cap-Oeste and COSE and also test geophysical targets recently identified by an expanded Induced Polarisation (IP) geophysical programme carried out over the NW section of the El Tranquilo block. A total of 113.95 line kilometres of IP gradient survey was completed, with a Pole-Dipole programme also performed over a strong IP anomaly to the SW of COSE. Re-interpretation and target generation are currently under way on this data and are scheduled to be drill tested along with two other targets at Don Pancho and Palmeras in the second quarter of 2013.

The development timeline for Cap-Oeste will see a pre-feasibility study commence in mid-2013, with a full feasibility study to follow in 2014, followed by permitting, financing and construction.



Cap-Oeste Project Area

Patagonia Gold's Properties

COSE Project

In 2010 the Company filed the maiden NI 43-101 resource estimate for the COSE Project. At the same time a 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 totalling almost 20,000 metres from 2008 to 2011.

In 2012 a further seven diamond holes for 2,907 metres were completed in the second quarter in a step-out programme aimed at testing IP geophysical anomalies and the strike extent of the COSE faults in the area previously only sparsely tested between the current delineated COSE deposit and the Cap-Oeste deposit. A total of 107 holes for 22,638 metres of drilling has now been completed on the structure, with drilling under way again as of February 2013.

COSE is a fault breccia hosted, quartz sulphide-rich gold/silver system hosted within the intersection of the steeply dipping COSE (extension of Bonanza) fault and cross-cutting northeast and southwest trending structures. The mineralisation was discovered in early 2010 during exploration along the Bonanza Fault toward Tango. Initial drilling results 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.

Wide low grade or diffuse zones of silver-rich, low grade gold mineralisation characterise the mineralisation 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 gold and silver increases exponentially. This has led to the overall resource grade being estimated in excess of 90 g/t gold equivalent. The mineralisation 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 a gold price of $1,204 per ounce and a silver price 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.

Due to poor capital market conditions and budgetary constraints in 2012, development of COSE has been postponed. As the COSE deposit is very amenable to recovery through conventional Merrill Crowe (the same process route which will be applied to Cap-Oeste oxide), PGSA is currently studying the option to combine the production of the Cap-Oeste oxide and COSE rock for processing at the same facility. This strategy would eliminate the need to direct ship to a smelter offshore and hence increase the total attributable revenue from COSE, while reducing royalties and taxes. This outcome would place PGSA in a stronger cash position to continue with the construction and development of the sulphide resource at Cap-Oeste. This examination will be undertaken in conjunction with the Cap-Oeste pre-feasibility study, commencing in the second quarter of 2013.

Mining of the COSE deposit has been evaluated primarily from an underground perspective with the development of a decline and sub-level stoping to extract the rock. An open pit extraction method could also be pursued if mined in conjunction with the Cap-Oeste oxide mineralisation. Open pit mining could potentially give access to areas of lower grade bulk mineralisation located above and in the hangingwall and footwall of the COSE fault breccia, which would otherwise be uneconomic by using underground extraction methods. These options will be evaluated during 2013.

Patagonia Gold's Properties

La Manchuria Project

Shortly after the La Manchuria property was acquired in 2007, PGSA launched a three-year exploration programme 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 mineralisation is open along strike to northeast and southeast.

No exploration drilling was completed during 2012. Exploration activities are scheduled to re-commence in the third quarter of 2013 on the Manchuria block with a focus on increasing the global resource at the project and testing the multitude of regional targets located within the property.

El Tranquilo and Regional Exploration

El Bagual, Cerro Vasco and Monte Leon targets are all to be drill tested during the 2013 exploration campaign. Monte Leon is being explored for a high-tonnage, low grade oxide target along with high grade quartz vein hosted sulphide mineralisation. Cerro Vasco, which is located approximately 15 kilometres directly along strike from Lomada and 20 kilometres directly west of Cerro Negro, contains two high priority targets. The first is a breccia system similar to the system currently being mined at Lomada and an outcropping at surface, with systematic rock chip samples testing up to 44 g/t gold. The second is a large silica cap proximal to the breccia system.

El Bagual is located in the centre of the Deseado Massif and represents another large system of mineralisation drilled by Barrick but as yet not followed up by PGSA. The system is completely oxidised to at least 150 metres below surface and hosts wide intersections of up to 28 metres @ 0.50 g/t and 38 metres @ 0.38 g/t from 50 metres below surface. Grade also increases with depth. The system is a bulk tonnage target potentially suitable for heap leach processing and is scheduled for drill testing in late third quarter or early fourth quarter of 2013.

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 25, 2013

Financial Section

TABLE OF CONTENTS

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") of the consolidated financial position and the results of operations of Patagonia Gold Plc ("Patagonia Gold" or the "Company") (AIM: PGD, TSX: PAT) is the responsibility of management and has been prepared as at April 25, 2013. The Board of Directors of Patagonia Gold (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 Gold for the years ended December 31, 2012, 2011 and 2010. 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.

2012 FINANCIAL HIGHLIGHTS

- In June 2012, Patagonia Gold raised approximately $12.4 million in equity capital before expenses. These funds were used to further develop the Lomada de Leiva gold project ("Lomada Project"), including expansion of the trial heap leach and construction of the new gold processing facility that was commissioned and commenced production of doré in November 2012, and to provide general working capital for the Company.
- On June 6, 2012, the Company held its Annual General Meeting and all resolutions put to the shareholders of the Company were duly passed.
- The Company realised a $4.9 million investment gain on the purchase and sale of Argentine bonds during the year.
- In October and November 2012, Patagonia Gold raised approximately $12.1 million in equity capital before expenses. These funds were used to develop the main heap leach at the Lomada Project subsequent to receiving the full and final permit in November, repay the overdraft account and to provide general working capital for the Company.
- In December 2012, the Company received $0.8 million in sales proceeds from the sale of the first gold pour at the new gold processing facility to an external refinery in Canada.
- As at December 31, 2012, the Company had $4.7 million in cash and cash equivalents.

Subsequent Event

- On February 27, 2013, the Company raised $9.4 million in equity capital before expenses. The net proceeds of the subscription will be used to fund exploration and drilling expenditures on the Cap-Oeste and Cap-Oeste South East ("COSE") Projects and to provide general working capital for the Company.
- In March 2013, the Company received $3.8 million in sales proceeds from the sale of the second gold pour.

2012 OPERATIONAL HIGHLIGHTS

- In January and March 2012, Patagonia Gold announced new drilling results for the Cap-Oeste Project, confirming the continuation of high grade gold and silver mineralisation along strike to the northwest of the Main Shoot of the Cap-Oeste deposit.
- In February 2012, the Phase 3 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 the province of Santa Cruz, Argentina.
- 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 Cap-Oeste South East Project ("COSE Project") 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 toward the Cap-Oeste mineralisation reported elevated gold and silver values.
- Phase 4 of the drilling campaign at the Cap-Oeste Project commenced in February 2012 and focused 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. As of the end of May 2012, 43 drill holes totalling 12,010 metres were completed.
- In May 2012, the Company completed the expansion of the heap leach trial at the Lomada Project to 135,000 tonnes with all under irrigation. Primary reconciliation data shows excellent recovery rates over the first 36 days with 64% contained gold recovered to carbon.
- In May 2012, the approval permit was received for construction of the gold processing facility. Construction was completed in November 2012.
- The final Environmental Impact Assessment (EIA) for the full Lomada Project was submitted to the Secretary of Mines, Santa Cruz on May 29, 2012. This represented the final requirement before approval could be granted by the Secretary of Mines for the Company to commence full production at the Lomada Project.
- In July 2012, the Company announced new drilling results for the COSE Project, including the discovery of a new zone of high grade mineralisation to the northwest of the COSE deposit.
- On September 10, 2012, the Company announced an updated resource estimate for the Cap-Oeste Project. Indicated resources increased by 24% to 1,197,000 ounces AuEq and included a 30% increase in grade to 4.78 g/t AuEq.
- On November 22, 2012, the Company received the full and final permit for the development and production of the Lomada Project main heap leach from the State Secretary of Mines, Santa Cruz. Construction of the full-scale heap leach is under way and full commercial production is planned for late second quarter of 2013.
- On November 26, 2012, the Company announced the successful commissioning of the new gold room production facility. Gold production commenced and the first doré ingot was poured on November 22, 2012.

PATAGONIA GOLD'S BUSINESS

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

Patagonia Gold's primary listing is on AIM in London, UK. 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.

Patagonia Gold's near-term strategy is to:

1. Continue extensive drilling to expand resources at the Company's flagship Cap-Oeste Project.
2. Expand the Lomada Project existing trial heap leach pad from its current 135,000 tonne capacity to 315,000 tonnes to accelerate gold production. Mining of the mineralised content onto the existing pad commenced with irrigation in late February 2013.

3. Complete construction and development of the fully permitted main heap leach at the Lomada Project, scheduled for commencement of operations in late second quarter of 2013. The Lomada Project is expected to generate sufficient cash flow to fund the Company's annual exploration budget and fund working capital requirements over the seven-year life of the Lomada Project.
4. Develop and mine 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.

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 Argentine subsidiaries, primarily the 90% owned Patagonia Gold S.A. ("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.

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 the Estancia El Rincon. Patagonia Gold 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 focused on exploration and development of its projects and prospects in the Santa Cruz Province of Argentina. The Company considers Santa Cruz, 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.

Patagonia Gold holds a number of advanced exploration projects and highly prospective properties in Santa Cruz 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 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 covering approximately 5,575 hectares 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, together with the Breccia Sofia and Cerra Vasco prospects. Also within the La Paloma property block, PGSA owns the surface and mineral rights to the Estancia El Rincon, which comprises 6,700 hectares.

Chubut Province

In June 2006, the Government of Chubut 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.

In June 2012, the Governor of Chubut Province submitted to the provincial legislature a draft law which, if passed, would regulate all future mining and oil and gas activities in the province. The draft legislation is in parliament undergoing review and debate.

Patagonia Gold is in regular communication to build trust and co-operation with both local and regional governments in Chubut, the Argentine (federal) mining chambers and associated stakeholders in order to re-commence mining activities in the Province as soon as possible once the new legislation has passed.

Geology

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

For example, the September 10, 2012 updated resource estimate for the Cap-Oeste Project includes 7.8 million tonnes grading 2.93 grams per tonne ("g/t") gold and 99.0 g/t silver resulting in a total AuEq of 4.78 g/t based on a 53.5:1 gold:silver ratio. Of this total, there are 2.8 million tonnes with an average AuEq grade of 8.16 g/t, based on a 3.00 g/t cut-off grade. The grades for the COSE Project are even more impressive. The 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 grades.

The PGSA exploration team has developed a good understanding of the geological setting and structural controls for the low sulphidation, epithermal "bonanza" style gold-silver deposits within the PGSA licences. These areas are the main focus of the 2012 drill programme with 20,302 metres of drilling completed at the Cap-Oeste Project and 5,202 metres completed at the COSE Project in 2012.

Patagonia Gold is benefitting from the experience and knowledge gained from the results of the extensive drilling programmes over the past few years. This unique geology offers the potential of low mining costs because of the greater widths associated with breccias and the higher gold and silver grades. The Company plans to continue its extensive extension drilling campaign at the Cap-Oeste Project and the surrounding areas in 2013.

Key Resources and Competencies

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

A large number of the management team have 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. Carlos J. Miguens, the Chairman, holds 13.8% of Patagonia Gold shares and as an Argentine national, he provides valuable support for the execution of corporate strategy. On a combined basis, the Miguens-Bemberg family holds 42.5% of the shareholding in the Company and provides strong support and assistance.

In addition, Fomento Minero de Santa Cruz, Sociedad del Estado ("Fomicruz"), an established mining company wholly owned and operated by the government of Santa Cruz, is a 10% shareholder in PGSA. This strategic relationship is governed by a shareholders' agreement (the "Fomicruz Agreement") governing the affairs of PGSA and the relationship between the Company and Fomicruz. Fomicruz shares a common vision with the Company and also provides support for permitting, licencing, imports, community relations, etc. The Company expects that it will continue to receive support from Fomicruz and the government of Santa Cruz.

2012 OVERALL PERFORMANCE

Patagonia Gold was impacted by the challenging capital market conditions that were experienced and the difficulties faced by mining sector companies in attracting capital investment in 2012. The Company raised approximately $24.5 million in 2012, which was below financial requirements for the full schedule of activities planned for 2012. As a result, the Company adjusted priorities during the year and reallocated available funds with a focus on implementing near-term cash flow initiatives, including the Lomada Project, and postponing its drilling programme starting in May 2012. As a consequence, there was no exploration drilling completed from May 2012 to December 2012 but the Company retained its exploration crews and geologists on staff for the full year. Patagonia Gold raised an additional $9.4 million in February 2013 to re-commence its drilling programme on Cap-Oeste/COSE and surrounding areas.

The Company was successful in achieving two key strategic milestones in 2012, including:

1. Production of the first doré bar from the commissioning of the new gold room production facility in November 2012. Production continued in January 2013.
2. Receipt of the full and final permit for the Lomada Project main heap leach from the State Secretary of Mines, Santa Cruz in November 2012 with construction of the main heap leach commencing in December 2012 and commercial operations and production scheduled for late second quarter of 2013.

In addition, a number of achievements during the year position the Company for continued future growth:

1. The Company's drilling programme completed a total of 30,659 metres in the first five months of 2012, including 20,302 metres drilled at the Cap-Oeste Project. This amount was less than planned for the year as a result of directing available funds toward the development of the Lomada Project and construction of the new gold processing facility in 2012.
2. The Company continues to grow its resource base and announced an updated NI 43-101 resource estimate for the Cap-Oeste Project in September 2012. The filing increased indicated resources by 24% to 1,197,000 ounces AuEq and included a 30% increase in grade to 4.78 g/t AuEq.
3. A step-out drill programme to the northwest of COSE discovered a new zone of high grade mineralisation that is hosted within the same fault breccia that contains the bonanza grades of the COSE deposit. The Company will continue with the COSE drill programme in 2013.
4. Construction of the first stage of the fully permitted Lomada Project main heap leach is well advanced and on target for commencement of leaching in late second quarter of 2013. To accelerate gold production, the Company elected to expand the existing trial pad from 135,000 tonnes to 315,000 tonne capacity with irrigation that commenced in the first quarter of 2013. This has allowed the main gold production to be advanced by several months.
5. An expanded geophysical IP study was conducted over the Cap-Oeste Project and COSE Project structures and surrounding areas. Preliminary results have revealed two new large IP anomalies parallel to and similar in intensity to the Cap-Oeste Project and the COSE Project.
6. During the year, the Company raised gross proceeds of approximately $24.5 million through the placing of ordinary shares in June, October and November 2012. The net proceeds of these placings were used to further develop the Lomada Project main heap leach toward commercial production in late second quarter of 2013 and to provide general working capital for the Company. The Company raised additional gross proceeds of $9.4 million through a subscription financing on February 27, 2013. These net proceeds will be used for the Company's drilling programme in 2013 and to fund exploration and drilling expenditure on the Cap-Oeste and COSE Projects and to provide general working capital for the Company in the first half of 2013 and until the Lomada main heap leach is in commercial production, expected in late second quarter.

2012 EXPLORATION PROGRAMME AND RESOURCES

For the year ended December 31, 2012, Patagonia Gold completed 30,659 metres of drilling. All the drilling in 2012 was completed in the first five months of the year as the Company postponed the 2012 drilling programme in May and re-directed available funds and resources toward the development of the Lomada near-term cash flow project and construction of the new gold processing facility, commissioned in November 2012.

Expenditures related to exploration and drilling in 2012 totalled $16.6 million, including $4.4 million in stand-still exploration overhead costs from the period May 2012 to December 2012, when there was no exploration drilling carried out and the Company retained its geologists and exploration personnel. As a result, the true cost per metre drilled for 2012 is based on the exploration costs incurred in the first five months of 2012, totalling $12.2 million, and excludes the exploration overhead costs for the remainder of 2012 when there was no drilling conducted.

The cost per metre drilled in the period January 2012 to May 2012 amounted to $396.56 per metre, an increase of $92.92 per metre or 30.6% over the $303.64 per metre cost reported for 2011. The increased cost per metre for 2012 is due primarily to increased labour and material costs due to high inflation in Argentina in 2012 and the fewer metres drilled in 2012.

For more details on the metres drilled and exploration spending during the years 2010 to 2012, please refer to the table and chart below.

Patagonia's Exploration Programme

(metres drilled)	**2012**	2011	2010
Cap-Oeste	20,302	46,245	3,082
COSE	2,907	3,306	11,837
La Manchuria	–	–	2,611
Lomada	–	2,484	4,602
Monte Leon	–	5,188	–
La Pampa	2,295	–	3,077
Tango	–	1,858	583
Sarita	2,693	1,273	–
La Marciana	–	1,296	–
Felix	–	–	–
Vetas Norte	2,462	–	–
Don Pancho	–	–	–
La Puma	–	–	–
Other	–	–	1,110
Total Metres Drilled	30,659	61,650	26,902

	2012	2011	2010
Exploration and drilling costs (2012: January – May) (millions)	$ 12.2	$ 18.7	$ 7.2
Exploration and drilling cost/metre	$ 396.56	$ 303.64	$ 269.02

A total of $16.6 million was spent on exploration and drilling expenditures for the year ended December 31, 2012, $2.1 million less than the $18.7 million spent for the year ended December 31, 2011. Of the $16.6 million total for 2012, $2.2 million was related to the development of the COSE and Lomada Projects during the year and was capitalised. The remaining $14.4 million was expensed as exploration costs in the year. For 2011, $2.5 million of the $18.7 million was related to the development of the COSE and Lomada Projects in the year and was capitalised. The remaining $16.2 million was expensed as exploration costs in 2011.

The majority of the exploration drilling expenditures for the year ended December 31, 2012 were completed at the Cap-Oeste Project, including 20,302 metres or 66.2% of the 30,659 total metres drilled in the year. These expenditures were directed at infill as well as extension drilling with the objective of achieving continued growth of the Company's resource base.

On September 10, 2012, the Company issued an updated resource estimate for the Cap-Oeste Project reporting a 24% increase in the indicated resource to 1,197,000 ounces including a 30% increase in grade to a weighted average of 4.78 g/t. The resource remains open down dip and along strike in both directions.

The table below provides a breakdown of indicated and inferred resources by project as at April 25, 2013.

2012 Indicated Resources

		Grade (g/t)			Metal (Oz)		
Project	Tonnes	Au	Ag	AuEq	Au	Ag	AuEq
Cap-Oeste	7,790,000	2.93	99.00	4.78	734,000	24,801,000	1,197,000
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					975,513	27,931,793	1,477,865

2012 Inferred Resources

		Grade (g/t)			Metal (Oz)		
Project	Tonnes	Au	Ag	AuEq	Au	Ag	AuEq
Cap-Oeste	2,369,000	1.52	52.5	2.50	116,000	4,001,000	191,000
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					288,628	7,191,291	397,967

The 2013 drilling campaign at the Cap-Oeste Project commenced in February 2013 with 18,700 metres of drilling planned for the year.

DEVELOPMENT AND EXPLORATION PROJECTS

La Paloma Property Block

PGSA commenced exploration activities on the La Paloma property block in 2007 following acquisition of the entire Santa Cruz exploration property portfolio from Barrick Gold Corporation ("Barrick") in February 2007 under a property acquisition agreement (the "Barrick Agreement"). The La Paloma property block, covering over 44 square kilometres, is located approximately 40 kilometres to the south of the town of Perito Moreno in the Province of Santa Cruz and contains the Lomada Project and the adjacent Breccia Sofia Prospect.

With the August 2007 initial resource estimate for the Lomada Project, the La Paloma property block holds a total resource of 161,346 ounces of gold in the indicated category and 73,727 ounces of gold in the inferred category.

Pursuant to the Barrick Agreement, within 90 days of the delineation of an indicated resource estimate of 200,000 troy ounces or greater of gold or gold equivalent on the La Paloma property block, which hosts the Lomada Project, Barrick is 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 Agreement, all future production of mineral products from the Lomada Project is subject to a 2.5% net smelter return ("NSR") royalty ("Barrick Royalty").

Lomada Project

The Lomada Project is located in the La Paloma property block in northwestern Santa Cruz, 40 kilometres south of the town of Perito Moreno. Pursuant to the Barrick Agreement, all future mineral production from the Lomada Project is subject to the Barrick Royalty. For background on the Barrick Royalty, please see the Barrick Agreement section in the 2012 Annual Information Form.

The surface lands associated with the Lomada Project are situated within the ranching area referred to as the Estancia El Rincon. It includes 6,700 hectares of surface and mining rights, which are owned by PGSA subsequent to the purchase transaction in July 2010.

Soon after the acquisition from Barrick, 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, Chlumsky, Armbrust and Meyer, LLC ("CAM") of Lakewood, Colorado completed an initial mineral resource estimate for the Lomada Project that included 161,346 ounces of gold in the indicated category and 73,727 ounces of gold in the inferred category. There is no economic silver at the Lomada Project.

In 2009, CAM completed a scoping study to determine the economics of the project and to identify the target resource base that would support development and mining at the Lomada Project. CAM investigated three alternative processing options and recommended a run-of-mine ("ROM") heap leach process that, despite lower recoveries, required lower capital costs and provided stronger cash flow and higher profitability. This option required pre-production capital of $8.5 million and based on a gold price assumption of $1,400 per ounce and a recovery of 80%, was recoverable within 14 months of start-up. Initial production would consist of 2,200 ounces of gold and annual production of 21,000 ounces for a life-of-mine ("LOM") period of seven years, at a cash cost of $299 per ounce, resulting in pre-tax project cash flow of $137.5 million. The project also has considerable growth potential with conversion of the inferred ounces by infill drilling together with development of additional resources.

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. The Company also completed successful metallurgical testing of the leaching ability of the ROM resources and crushed material in simulated field conditions through column testing.

In July 2009, an Environmental Impact Assessment ("EIA") for the Lomada Project trial heap leach was submitted to the State Secretary of Mining for the Province of Santa Cruz and the permit approving the 50,000 tonne trial heap leach was received in April 2010. 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. The trial heap leach operated to design specifications and was completed successfully in December 2011 with the gold recovered and stored on carbon.

In May 2012, the approval permit for the operation of the new gold processing facility ("Gold Room") was received and the EIA report for the 5.0 million tonne main heap leach operation was submitted to the Secretary of Mining of Santa Cruz. The submission of this report represented the final step required by the Secretary of Mining before full permitting and approval can be granted to commence full production. The full and final permit for the development and production of the main heap leach operation at the Lomada Project was received from the Secretary of Mining on November 22, 2012.

INFA S.A. was contracted for construction of the Gold Room; ANSAC Australia Pty Ltd was contracted to construct the carbon regeneration kiln; and Process Equipment International Pty Ltd was contracted for the construction of the electrowinning cells. A new PC6 mobile crusher was commissioned in February to be used directly at the mining face and to crush the material to minus 100mm. The Company elected to expand the existing heap leach trial in two stages to a total of 135,000 tonnes to test the leaching kinetics and recovery of the material from the new crusher and to determine the cash operating costs per tonne of ore processed. In May 2012, the Company announced that expansion of the trial heap leach to 135,000 tonnes was complete and testwork reported substantially improved recovery rates.

On November 26, 2012, the Company announced the first doré production from the Lomada Project through commissioning of the Gold Room. A total of 1,040 kilograms of loaded carbon from the Lomada heap leach trial with a grade of 16,800 g/t gold was successfully eluted. A doré bar of 23.022 kilograms containing 425.67 ounces of gold was produced and transported to an external refinery.

The Company commenced construction of the main heap leach pad in December 2012 and expects completion by late second quarter of 2013. Development construction is fully funded to production supported by proceeds from gold sales from original and extended heap leach. Proceeds of $0.8 million in 2012 and $3.8 million in 2013 from the first and second gold pours have been received. The initial shipment of principal mining equipment was received and assembled in March and is in operation at the site. This includes a Liebherr R974 excavator and three Volvo A40F trucks. Additional heavy duty equipment including a Liebherr PR754A bulldozer and a L586HL loader have arrived at site in early April 2013.

Forecast production from the Lomada Project for the second half of 2013 is 14,000 ounces of gold. Total additional capital requirements to bring Lomada to full production are estimated at $7.0 million, bringing the total CAPEX for the project to $16.0 million. The additional CAPEX includes the purchase of new mining equipment of $4.2 million.

The main heap leach operation at Lomada is expected to produce approximately 21,000 ounces of gold per year, at a cash cost below $500 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.

El Tranquilo Property Block

PGSA commenced exploration activities on the El Tranquilo property block in 2007 following its acquisition of the entire Santa Cruz exploration property portfolio under the Barrick Agreement. No previous mining or significant exploration activity was conducted on the El Tranquilo property block prior to its acquisition. PGSA and MMSA own a combined 100% interest in the El Tranquilo property block. This includes both the surface and mineral rights to the Estancia La Bajada and the Estancia El Tranquilo, which contain the Company's Cap-Oeste and COSE Projects.

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 and 120 kilometres to the southeast of the Lomada Project, and 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.

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 (six kilometres). These prospects have been successfully explored over the past three years, including surface sampling, trenching and exploration drilling.

With the September 10, 2012 updated resource estimate for the Cap-Oeste Project, the El Tranquilo property block holds a total resource of 1,260,835 ounces of AuEq in the indicated category and 233,558 ounces of AuEq in the inferred category on the combined Cap-Oeste and the adjacent COSE deposits.

Cap-Oeste Project

The Cap-Oeste Project is located in the El Tranquilo property block in the central portion of Santa Cruz and extends from the La Pampa prospect in the northwest to the Tango prospect in the southeast. Pursuant to the Barrick Agreement, all future mineral production from the Cap-Oeste Project is subject to the 2.5% net smelter return ("NSR") royalty ("Barrick Royalty"). For background on the Barrick Royalty, please see the Barrick Agreement section in the 2012 Annual Information Form.

The surface lands associated with the Cap-Oeste Project are situated completely within the farms referred to as Estancia La Bajada and Estancia El Tranquilo, which are both owned by MMSA subsequent to their purchase in December 2008 and January 2012, respectively.

All exploration activity at Cap-Oeste has been conducted in accordance with the legal requirement for an approved biannual environmental impact assessment ("EIA") for the El Tranquilo property block approved by the relevant provincial mining authorities. In November 2010, PGSA received approval of the EIA for the El Tranquilo property block from the State Secretary of Mining, Province of Santa Cruz, Argentina permitting 400,000 metres of drilling at the Cap-Oeste Project and other prospects within the El Tranquilo property block. Drilling activity at Cap-Oeste was postponed in May 2012 for the remainder of the year and available funds and resources were re-directed toward development of the near-term cash flow Lomada Project. As a result, PGSA has not completed the total amount of metres approved in the November 2010 EIA and renewal of the EIA has been delayed. An updated EIA will be presented in the second quarter of 2013 for renewal purposes. PGSA has obtained the relevant permits from the applicable government water resources authority of the Province of Santa Cruz for the use of water during drilling campaigns. No other permits are required for the continuation of exploration or definition drilling.

Exploration

Subsequent to the completion of the Barrick Agreement in February 2007, PGSA commenced extensive exploration activities at the Cap-Oeste Project, which included gridding, geological mapping, surveying, excavation, trenching and extensive drilling. Drilling results have confirmed the presence of a wide gold mineralised 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, 2012, 438 holes have been drilled for a total of 92,359 metres.

On January 12, 2012, the Company announced drill results from Phase II of the drilling programme for the Cap-Oeste Project. Drilling along strike to the northwest of the main shoot 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. This phase of drilling was closed at the end of January to allow for the preparation of a fourth resource estimate update by CAM, issued on September 10, 2012.

On March 28, 2012, the Company announced a drilling update on results from Phase III of the drilling programme, which was completed in February. Phase III drilling was focused along strike to the northwest of the main shoot and consisted of 57 drill holes totalling 20,210 metres. Drilling 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.

Phase IV drilling commenced in February and continued through to May 2012 with 43 HQ diamond core drill holes completed for a total of 12,010 metres to support the next resource update expected in 2013.

Drilling for the remainder of 2012 was suspended in response to limiting capital market conditions. A total of 62 holes for a total of 18,975 metres were drilled at the Cap-Oeste Project in 2012 and assay results have been received for all drill holes and final quality assurance/quality control checks have been completed. Drilling re-commenced in February 2013 and is focusing 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.

Mineralisation

Gold-silver mineralisation 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. Mineralisation 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 mineralised 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 recognised.

The Cap-Oeste mineralisation has been intersected over a distance in excess of 1,200 metres along the Bonanza Fault structure, the majority of which is concentrated within a strike length of 650 metres by 350 metres in depth and in excess of 12 metres in average true width. The thickening of the mineralisation is due to areas of dilation where two or more major structures intersect. These zones of structural complexity exhibit the most potential for future resource expansion and are now the focus of future exploration. The Cap-Oeste deposit remains open along strike in both directions and down dip.

Metallurgical Test Work

On February 21, 2012, Patagonia Gold provided an update on the metallurgical testwork for the Cap-Oeste Project. Two testwork programmes were completed by G&T Metallurgical Services Ltd ("G&T") to the scoping study level for both sulphide and oxide composite samples. The results were highly encouraging 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.

G&T also performed pre-feasibility level definitive testwork and optimisation studies for the Cap-Oeste sulphide and oxide materials. Approximately 1,000 kg of half core was selected with three grade ranges from each material type and testwork included flotation rougher and cleaner tests, Knelson gravity separation tests, cyanide leaching, thickening tests, bond rod and ball tests and QEMSCAN PMA. Further testwork will be conducted based on the findings of this programme as work proceeds on the feasibility for Cap-Oeste.

Resource Estimates

The Cap-Oeste Project deposit has been the subject of four technical report updates prepared in accordance with NI 43-101, dated October 10, 2008, September 30, 2009, November 14, 2011 and September 10, 2012.

CAM was contracted to independently audit and classify the latest updated mineral resource estimate on the Cap-Oeste Project dated September 10, 2012. The updated indicated resources totalled 1,197,000 ounces of AuEq and updated inferred resources totalled 191,000 ounces of AuEq. This represents a 24% increase in indicated resources from the previous November 2011 technical report.

As can be seen in the table below, the growth in the mineral resource estimates since 2008 indicates the growth potential of this deposit.

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
2012	7,790,000	2.93	99.00	4.78	734,000	24,801,000	1,197,000

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
2012	2,369,000	1.52	52.5	2.50	116,000	4,001,000	191,000

2008: AuEq calculated at 66:1

2009: AuEq calculated at 65:1

2011 & 2012: AuEq calculated at 53.5:1

The latest updated resource estimate reports total indicated resources for the Cap-Oeste Project at 7.8 million tonnes grading 2.93 g/t gold and 99.0 g/t silver, resulting in a 4.78 g/t AuEq. This total includes 2.8 million tonnes with an AuEq grade of 8.16 g/t.

See the table on the next page for more details.

Cap-Oeste Resource Classification September 2012, 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	7,790,000	2.93	734,000	99.00	24,801,000	4.78	1,197,000
1	2.47	6,409,000	3.43	706,000	112.50	23,177,000	5.52	1,138,000
3	2.48	2,841,000	5.2	475,000	158.10	14,442,000	8.16	745,000

(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 September 2012, 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	2,369,000	1.52	116,000	52.50	4,001,000	2.50	191,000
1	2.48	1,406,000	2.05	93,000	55.10	2,489,000	3.08	140,000
3	2.49	239,000	3.42	26,000	41.40	318,000	4.16	32,000

(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.

Future Exploration

Quantec Geoscience of Santiago, Chile completed an expanded Induced Polarisation ("IP") study over the Cap-Oeste/COSE structure and northwest El Tranquilo property block. Preliminary results have revealed two new IP anomalies striking in the same direction as the Cap-Oeste/COSE structure and offset by approximately 700 metres. These anomalies are significant since their intensity and size are very similar to the existing geophysical anomalies over the Cap-Oeste/COSE and Don Pancho structures, both with significant known mineralisation.

Drilling re-commenced in February 2013 on the Cap-Oeste structure to further explore this highly prospective zone. In March 2013, a second drill commenced drilling on the highly prospective corridor between the bonanza grade COSE deposit and the Cap-Oeste deposit in order to follow up the high grade intersections encountered in the 2012 drilling campaign. The initial programme comprises 50 diamond core drill holes for 12,700 metres. Additional drills will be brought in as and when required should potential resources be identified.

Drilling is also planned for the adjacent Don Pancho prospect, where exploration drilling in 2009 identified high grade gold/silver near surface, and on the Palmeras prospect, which was identified by the recently completed IP geophysical programme.

COSE Project

The COSE Project is located in the central portion of the El Tranquilo property block, approximately two kilometres to the southeast of the Cap-Oeste Project. In 2010, exploration drilling in the vicinity of the Cap-Oeste Project led to the discovery of this high grade mineralised offshoot. Pursuant to the Barrick Agreement, all future mineral production from the COSE Project is subject to the Barrick Royalty.

The existing EIA for the COSE Project includes a provision for the development of a decline access for underground drilling, as well as bulk sampling for metallurgical testing, and provision for a further 200,000 metres of drilling. An updated EIA will be presented in the second quarter of 2013 for renewal purposes.

Mineralisation

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

Two main styles of mineralisation 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.

The COSE deposit is located 150 metres below surface and will be mined by underground methods with a decline access utilising a mechanised sub-level stoping method for the extraction of the deposit.

Drilling

In 2008, two drill holes totalling 300 metres were drilled, which intersected the COSE fault. From 2009 to 2011, a total of 67 diamond drill holes totalling 13,286 metres were drilled over a 250 metre strike length. In 2012, 10 holes were drilled for a total of 2,907 metres. A total of 107 holes, including geotechnical and water monitoring totalling 22,638 metres, have been completed to date on the COSE Project and the area directly surrounding the delineated resource.

Drilling defined a high grade shoot situated in the immediate hanging wall of the COSE breccia fault. The mineralised shoot pitches steeply over an approximate 120 metre vertical interval, extending from 135 metres to 255 metres vertically below surface.

In May 2012, seven drill holes for 2,907 metres were completed along strike toward the Cap-Oeste Project identifying a new zone of high grade mineralisation. Highlights include drill hole CSE-081-D intersecting 2.30 metres grading 16.35 g/t gold and 248.45 g/t silver.

The mineralised structure containing the COSE deposit remains open at depth and along strike. Future deeper drilling is required to test the down dip potential of the deposit and will be carried out from underground.

Resource

The COSE Technical Report dated May 5, 2011 was prepared by CAM.

The mineral resource estimate for COSE is summarised in the following table.

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

Category	Indicated Tonnes	Grade (g/t) Au	Ag	AuEq	Metal (oz) 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 mineral resource. It is uncertain if further exploration will result in the upgrading of the inferred resources into an indicated or measured resources category.

With the receipt of the mineral resource estimate and preliminary economic assessment set out in the COSE NI 43-101 Technical Report, the Company has received the permit to commence construction of the underground decline and is finalising the permit application for mining.

Metallurgical Testing

SGS Mineral Services ("SGS") in Santiago, Chile performed tests on samples from the COSE Project, including assays of gold in the metallic fractions, cyanide leaching in bottle tests and gravity separation tests. After reviewing the preliminary metallurgical results, the Company is considering various options for processing including direct shipping to smelter and CIL.

Preliminary Economic Assessment ("PEA")

CAM completed an audit and review of the mineral resource estimate, as well as the PEA to define the potential viability for the construction, mining and processing of the COSE deposit. 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 categorised as mineral reserves. There is no certainty that the PEA will be realised.

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. The entire COSE Project would be constructed and mined out in a 23-month period with a 12-month period of pre-production. 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 two months after the start-up of production. The production rate is estimated at 3,600 tonnes per month or 120 tonnes per day. The process capital cost is estimated at $2.8 million and cash costs are estimated at $413 per diluted tonne of resource or $167 per tonne.

Base case metal prices used for the PEA are $1,204 per ounce of gold and $23.75 per ounce of silver, with recoveries of 95% and 90%, respectively, resulting in net revenue of $63.7 million. This represents a net present value of $56.8 million at a discount of 8%. All cash flow calculations are based on an undiscounted model due to the relatively short project timeline of 23 months and include a 10% royalty payable for exported concentrates.

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.

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

The COSE Project has the potential to generate significant free cash flow, especially if gold and silver prices remain near current levels.

Construction

Construction of the COSE Project workshop, storage facilities and 70-man camp were completed in 2012. Three long lead-time items of critical mining equipment, including an underground load haul dump scoop tram, a 30-tonne underground truck and a twin boom jumbo drill, have been purchased and received at the site. The underground mine design is complete and a qualified contractor has been selected for the construction of the portal, underground decline access and the mining of the COSE Project, and is pending completion of legal due diligence.

Future Development

Construction of the portal and underground decline access has been delayed to ensure all available effort and funds are focused toward bringing the Lomada Project main heap leach into full production. In the meantime, the heavy mining equipment and infrastructure purchased for the COSE Project is currently being utilised on the Lomada Project main heap leach construction.

Drilling re-commenced in February 2013 on the COSE structure to further explore the highly prospective zone identified last season.

La Manchuria Property Block

PGSA commenced exploration activities on the La Manchuria property block in 2007 following acquisition of the entire Santa Cruz property portfolio from Barrick in February 2007 under the Barrick Agreement. The La Manchuria property block, which consists of five mining concessions covering 5,575 hectares, is located in the central part of Santa Cruz, 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. Pursuant to the Barrick Agreement, all future mineral production from the La Manchuria property block is subject to the Barrick Royalty.

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

La Manchuria Project

The La Manchuria Project is located in the La Manchuria property block. Pursuant to the Barrick Agreement, all future mineral production from the La Manchuria Project is subject to the Barrick Royalty.

The surface land associated with the La Manchuria Project is situated completely within the ranch property referred to as the Estancia La Pilarica. PGSA signed a September 2011 access and exploration agreement with the landowner of the Estancia La Pilarica that 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, 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 resource estimate of 55,684 ounces of AuEq in the indicated category and 90,682 ounces of AuEq in the inferred category.

Exploration

Since 2007, three phases of exploration have been conducted on the project including drilling of 110 holes for 17,847 metres. No drilling is planned for 2013.

Mineralisation

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

Two alteration types have been recognised 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.

Metallurgical Testing

Metallurgical tests completed to date are preliminary. Early indications from bottle roll testwork indicate amenability to cyanide extraction for both Au and Ag with high recoveries.

Resource

The current estimate of mineral resources at the La Manchuria Project was completed by Micon and set out in the September 15, 2010 La Manchuria Technical Report.

Summary of Estimated Mineral Resources(1)(2) (Unaudited) – 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
Indicated – Oxide	496,179	1.33	42.5	1.66	21,138	678,485	26,462
Indicated – 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 in 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.

The technical information in this MD&A has been reviewed and approved by Matthew Boyes, COO, a QP as defined by NI 43-101.

El Tranquilo and Regional Exploration

The Monte Leon, Cerro Vasco and El Bagual prospects will be drill tested during the 2013 exploration campaign. A total of 26 diamond core HQ holes for 6,000 metres are programmed for 2013.

Monte Leon is a high tonnage low grade oxide target containing high grade quartz vein hosted sulphide mineralisation.

Cerro Vasco, located approximately 15 kilometres directly along strike from Lomada and 20 kilometres directly west of Goldcorp's Cerro Negro Project, contains two high priority targets. The first is a breccia system similar to that currently being mined at Lomada and outcropping at surface with gold in rock chip samples up to 44 g/t. The second is a large silica cap proximal to the breccia system.

El Bagual, located in the centre of the Deseado Massif, represents another large system of mineralisation drilled by Barrick but as yet not followed up by PGSA. The system is completely oxidised to at least 150 metres below surface and hosts wide intersections up to 28 metres at 0.50 g/t and 38 metres at 0.38 g/t from 50 metres below surface with grades increasing with depth. El Bagual is a potential bulk tonnage target possibly suitable for heap leaching.

OUTLOOK

Patagonia Gold's aim is to become a 200,000 ounce per annum gold equivalent producer by 2016. The Company's growth strategy is centred around the development of the flagship Cap-Oeste Project.

The development of the high grade COSE Project is scheduled for 2013/14. COSE has the potential to begin generating significant free cash flow to finance a portion of the development of the Cap-Oeste Project.

Development of the Lomada heap leach project commenced in November 2012 upon receipt of the full and final permit from the Secretary of Mines of Santa Cruz. The main heap leach is expected to be in commercial production in late second quarter of 2013 and will generate consistent cash flow to fund the Company's exploration programme and working capital requirements for 2013 and future years.

The Company raised approximately $24.5 million in equity capital before expenses in 2012 and an additional $9.4 million in February 2013. Access to capital and the continued success of the exploration programme are fundamental to the Company's growth and success.

For 2013, the Company is planning the following activities:

Lomada Project:

- Complete the construction and development of the main heap leach and commence commercial production by late second quarter of 2013.
- Continue production of gold from new gold processing facility with regular monthly sales commencing in second quarter of 2013.
- Complete purchase of the new mining fleet with delivery of remaining units in April 2013.
- Continue drilling and exploration to enlarge the Lomada resource base.

Cap-Oeste/COSE Projects and surrounds:

- Continue drilling and exploration to enlarge the Cap-Oeste and COSE deposits.
- Conduct exploration including drilling on Don Pancho, Monte Leon and surrounds.
- Continue work on pre-feasibility study including metallurgical testing.

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 unaudited financial data for the Company's financial operations for the three months ended December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010 in U.S. 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 pound sterling ("GBP") but the financial statements of 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 expenditures of the Company. The Company changed its presentation currency from GBP to $ as at January 1, 2011.

Selected Financial Data

Three months ended December 31 (Thousands of $ except per share amounts)	(Unaudited) **2012**	(Unaudited) 2011
Summary statement of comprehensive income		
Continuing operations		
Exploration costs	$ (2,311)	$ (4,237)
Share-based payments charge	(3,013)	(915)
Administrative costs	(1,471)	(7,484)
Net finance income (loss)	(19)	116
Loss before taxes	(6,814)	(12,520)
Income tax benefit	476	–
Loss for the quarter	(6,338)	(12,520)
Net other comprehensive (loss) gain	(3,202)	1,782
Total comprehensive loss	$ (9,540)	$ (10,738)
Basic and diluted loss per share	$ (0.01)	$ (0.02)
Summary statement of cash flows		
Net cash used in operating activities	$ 5,301	$ 9,149
Net cash used in investing activities	$ 1,858	$ 3,255
Net cash from financing activities	$ 11,587	$ 187

As at December 31	(Audited) **2012**	(Audited) 2011
Summary statement of financial position		
Total assets	$ 43,713	$ 40,336
Total non-current liabilities	$ 1,104	$ 852
Total liabilities	$ 7,073	$ 8,474

Three Months Ended December 31, 2012 Compared with Three Months Ended December 31, 2011

Statement of Comprehensive Income

The net loss for the fourth quarter of 2012 was $6.3 million, $6.2 million lower than the net loss of $12.5 million reported in the fourth quarter of 2011. The decrease in net loss was primarily the result of lower exploration and administrative costs offset by higher share-based payments charge and an income tax benefit as a result of tax loss carry forwards offsetting income tax expense in the three-month period ending December 31, 2012.

Exploration costs totalled $2.3 million in the fourth quarter of 2012, $1.9 million lower than the $4.2 million reported in the fourth quarter of 2011. The Company did not conduct any drilling in the fourth quarter of 2012 as the 2012 drilling programme was halted in May 2012 for the remainder of the year as available funds were used to advance the Lomada Project. However, the Company chose to retain its exploration crews and geologists during this down period so the lower exploration costs in the fourth quarter of 2012 are a result of maintaining exploration overhead with no drilling activity completed. In the fourth quarter of 2011, 15,157 metres were completed with the majority of the drilling at the Cap-Oeste Project in order to advance the project and support the September 2012 resource estimate update for Cap-Oeste.

The share-based payments charge totalled $3.0 million in the fourth quarter of 2012, $2.1 million higher than the $0.9 million reported in the fourth quarter of 2011. The share-based payments charge is a non-cash item in the Statement of Comprehensive Income and the main reason for the increase is due to 17.5 million options granted in the fourth quarter of 2012 compared to 1.5 million options granted in the fourth quarter of 2011.

Administrative costs in the fourth quarter 2012 totalled $1.5 million compared with $7.5 million in the fourth quarter of 2011, a decrease of $6.0 million. This decrease is due mainly to a foreign currency translation difference of $4.5 million resulting from a translation gain of $1.6 million in the fourth quarter of 2012 compared to a translation loss of $2.9 million reported in the fourth quarter of 2010 and is a result of the devaluation of the GBP in the fourth quarter of 2012 relative to 2011. In addition, the fourth quarter of 2012 reported $0.6 million lower withholding taxes for foreign suppliers as a result of reduced purchases from overseas in 2012 stemming from the obstacles to transferring foreign currencies from Argentina in 2012. Legal fees in the fourth quarter of 2012 were $0.4 million lower than in the fourth quarter of 2011 with increased legal costs in 2011 related to the accident lawsuit. The VAT write-off in the fourth quarter of 2012 totalled $0.1 million, $0.3 million less than the fourth quarter of 2011, and there was no legal provision recorded in the fourth quarter of 2012 compared to $0.2 million for the fourth quarter of 2011.

The Company reported a net finance loss of $19 thousand for the fourth quarter of 2012 compared to net finance income of $116 thousand for the fourth quarter of 2011. The main reason for the difference is the lower amount of funds available for interest bearing deposits in 2012.

Other comprehensive loss for the fourth quarter of 2012 was $3.2 million compared to the other comprehensive gain of $1.8 million reported for the fourth quarter of 2011. The $5.0 million variance was due to a larger exchange gain from fluctuation in exchange rates in 2012 that were used in translation to $ of the Company's foreign operations.

Total comprehensive loss in the fourth quarter of 2012 was $9.5 million, a decrease of $1.2 million from the total comprehensive loss of $10.7 million reported for the fourth quarter of 2011.

Statement of Cash Flows

Net cash used in operating activities in the fourth quarter of 2012 was $5.3 million, $3.8 million less than the $9.1 million in the fourth quarter of 2011. This decrease in cash used is a result of the lower administrative and exploration costs of $6.0 million and $1.9 million, respectively, offset by the repayment of the overdraft facility of $3.5 million as disclosed in Note 20 and the deferred tax asset of $0.6 million as disclosed in Note 10.

Net cash used in investing activities in the fourth quarter of 2012 totalled $1.9 million, $1.4 million less than the $3.3 million in the fourth quarter of 2011. This decrease is due primarily to reduced spending in 2012 and lower purchases of property, plant and equipment in the fourth quarter of 2012 ($1.8 million) versus the fourth quarter of 2011 ($2.9 million).

Net cash from financing activities in the fourth quarter of 2012 totalled $11.6 million compared to $0.2 million in the fourth quarter of 2011 as a direct result of the $12.1 million raised in the October and November 2012 capital placement. There was no capital raise conducted in the fourth quarter of 2011.

Selected Financial Data

Years ended December 31 (Thousands of $ except per share amounts)	(Audited) **2012**	(Audited) 2011	(Unaudited)(1) 2010
Summary statement of comprehensive income			
Continuing operations			
Exploration costs	$ (14,356)	$ (16,193)	$ (7,237)
Share-based payments charge	(5,284)	(8,481)	(761)
Administrative costs	(6,472)	(8,691)	(3,388)
Net finance income	4,861	198	100
Loss before taxes	(21,251)	(33,167)	(11,286)
Income tax benefit	476	–	–
Loss for the year	(20,775)	(33,167)	(11,286)
Net other comprehensive (loss) gain	(5,150)	(697)	168
Total comprehensive loss	$ (25,925)	$ (33,864)	$ (11,118)
Basic and diluted loss per share	$ (0.03)	$ (0.05)	$ (0.02)
Summary statement of cash flows			
Net cash used in operating activities	$ 21,149	$ 25,181	$ 10,463
Net cash used in investing activities	$ 7,276	$ 12,263	$ 3,453
Net cash from financing activities	$ 25,419	$ 38,383	$ 19,392

As at December 31 (Thousands of $)	(Audited) **2012**	(Audited) 2011	(Unaudited)(1) 2010
Summary statement of financial position			
Cash and cash equivalents, net of bank overdraft	$ 4,663	$ 10,946	$ 10,242
Total assets	$ 43,713	$ 40,336	$ 18,908
Total non-current liabilities	$ 1,104	$ 852	$ 189
Total liabilities	$ 7,073	$ 8,474	$ 4,032

(1) Year ended December 2010, audited in GBP.

Fiscal 2012 Compared with Fiscal 2011

Statement of Comprehensive Income

Patagonia Gold is an advanced gold and silver exploration and development company that commenced development of the main heap leach operation at the Lomada Project in late 2012. The Company received the full and final permit for the development and production of the Lomada main heap leach from the State Secretary of Mines, Santa Cruz on November 22, 2012 and commenced construction of the full-scale heap leach, scheduled to be completed and in commercial production by late second quarter of 2013. In addition, the Company successfully commissioned the new gold room production facility in November 2012 and poured the first doré ingot from the gold inventory accumulated on carbon from the trial heap leach. Proceeds of $0.8 million from the sale of this first trial inventory pour was received in December 2012 and is offset against the capitalised costs of the Lomada Project in accordance with IFRS. Operational revenue will be recorded once commercial production at the main heap leach commences, expected in late second quarter of 2013. The Company plans to continue its focus on conducting extensive exploration drilling in Santa Cruz and on growing its resource base in 2013.

Net loss for the year ended December 31, 2012 was $20.8 million, $12.4 million less than the net loss of $33.2 million for the same 12-month period ending December 31, 2011. The decrease in net loss reported for 2012 was primarily the result of the $4.9 million investment gain realised on the purchase and sale of Argentine bonds in 2012 and from lower share-based payments charge, exploration and administrative costs in 2012 compared to the previous year.

Total exploration costs expensed for the year ended December 31, 2012 were $14.4 million, $1.8 million lower than the $16.2 million reported for the year ended December 31, 2011 (see the table below). Drilling activity was lower in 2012 as a result of re-directing available funding to the development of the Lomada Project and completion of the new gold processing facility commissioned in November 2012. In addition, the Company incurred a further $2.1 million of exploration costs at the COSE Project in 2012 that are capitalised and reported in mineral properties. In 2011, $2.7 million of exploration costs related to the Lomada and COSE Projects were capitalised and reported in mineral properties.

The following chart summarises exploration costs expensed by property block for El Tranquilo (including Cap-Oeste Project, COSE Project, La Pampa and Vetas Norte), La Manchuria (including Manchuria Project), Regional Exploration and other prospective targets for the years ended December 31, 2012, 2011 and 2010:

Exploration Costs Expensed by Property Block

(Thousands of $)	**2012**	2011	2010
El Tranquilo	$ 12,370	$ 13,957	$ 5,026
La Manchuria	65	279	1,262
Regional Exploration	392	450	315
Other	1,529	1,507	634
Total Exploration Costs	$ 14,356	$ 16,193	$ 7,237

The share-based payments charge for the year ended December 31, 2012 was $5.3 million, $3.2 million lower than the $8.5 million reported for the year ended December 31, 2011, resulting from lower volatility and a lower market share price than in the previous year. The share-based payments charge is a non-cash item in the Statement of Comprehensive Income.

Administrative costs in 2012 totalled $6.5 million compared with $8.7 million in 2011, a decrease of $2.2 million. This decrease is due mainly to a foreign currency translation difference of $2.4 million resulting from a translation gain of $1.4 million in 2012 compared to a translation loss of $1.0 million reported in 2011 and is a result of the devaluation of the GBP in 2012 relative to 2011.

Net finance income for the year ended December 31, 2012 was $4.9 million, $4.7 million higher than the $0.2 million reported for the year ended December 31, 2011. This increase results from the $4.9 million investment gain realised on the purchase and sale of Argentine bonds in 2012. There were no Argentine bond transactions in 2011.

Other comprehensive loss for the year ended December 31, 2012 was $5.1 million compared to other comprehensive loss of $0.7 million for the year ended December 31, 2011. The $4.4 million variance was largely due to the larger exchange loss in 2012 resulting from the translation to $ of the Company's foreign operations.

Total comprehensive loss for the year ended December 31, 2012 was $25.9 million, $8.0 million lower than the total comprehensive loss of $33.9 million reported for the year ended December 31, 2011. The difference between the years is due to the $4.9 million in investment gain realised on the purchase and sale of Argentine bonds in 2012, lower share-based payments charge, administrative and exploration costs of $3.2 million, $2.2 million and $1.8 million, respectively, partially offset by the $4.5 million higher foreign exchange loss on translation of foreign operations in 2012.

Statement of Cash Flows

As at December 31, 2012, the Company had $4.7 million in cash and cash equivalents, net of a bank overdraft, a decrease of $6.2 million from the December 31, 2011 net balance of $10.9 million.

Net cash used in operating activities for the year ended December 31, 2012 totalled $21.1 million, $4.1 million lower than the $25.2 million net cash used for the year ended December 31, 2011. The difference is primarily the result of lower administrative costs of $2.2 million and lower exploration costs of $1.8 million (resulting in an $8.8 million lower net loss in 2012) offset by a $4.9 million decrease in trade and other payables and an $0.8 million increase in trade and other receivables in 2012.

Net cash used in investing activities for the year ended December 31, 2012 totalled $7.3 million, $5.0 million lower than the $12.3 million used in the year ended December 31, 2011. Cash outflow was decreased by a reduction in costs capitalised to mineral properties ($2.7 million), reduced property, plant and equipment purchases ($1.4 million) as a result of a reduction in spending in 2012, $0.8 million in proceeds from the sale of gold in 2012 and $0.2 million in proceeds from disposals.

Net cash from financing activities for the year ended December 31, 2012 was $25.4 million, $13.0 million lower than the $38.4 million net cash from investing activities for the year ended December 31, 2011. In June, October and November 2012, the Company successfully completed brokered placements that raised $24.5 million in capital before transaction costs of $0.8 million, for net proceeds of $23.7 million. In addition, the Company received proceeds from the exercise of options of $1.7 million in 2012, a $1.1 million increase from the $0.6 million proceeds from the exercise of options in 2011.

Statement of Financial Position

The Company's assets totalled $43.7 million as at December 31, 2012, a $3.4 million increase from total assets of $40.3 million as at December 31, 2011. This increase is primarily due to higher property, plant and equipment of $4.5 million, a $2.0 million higher recoverable VAT balance and a $2.6 million increase in gold inventory, partially offset by a $6.3 million reduction in cash and cash equivalents as at December 31, 2012.

Total liabilities for the Company were $7.1 million as at December 31, 2012, a $1.4 million decrease from total liabilities of $8.5 million as at December 31, 2011. The decrease is due to lower trade balances payable as at December 31, 2012 as a result of the reduction in expenditures in 2012.

Fiscal 2011 Compared with Fiscal 2010

Statement of Comprehensive Income

The net loss for the year ended December 31, 2011 was $33.2 million, $21.9 million higher than the net loss of $11.3 million for the year ended December 31, 2010. The increased net loss in 2011 is primarily the result of higher expenditure activity in 2011 including higher exploration costs of $9.0 million, higher share-based payments charge of $7.7 million and higher administrative costs of $5.3 million than reported for the year ended December 31, 2011.

Exploration costs expensed in the year ended December 31, 2011 totalled $16.2 million, $9.0 million higher than the $7.2 million expensed for the year ended December 31, 2010 due primarily to the larger exploration programme in 2011. In 2011, the Company also incurred an additional $2.7 million in exploration costs for the Lomada and COSE Projects that were capitalised and reported in mineral properties. For 2010, $2.0 million of exploration costs related to the Lomada Project were capitalised and reported as mineral properties.

In 2011, the Company significantly increased its exploration programme to 61,650 metres, a 129.2% increase from the 26,902 metres drilled for 2010. The majority of the increased drilling was focused on the Cap-Oeste Project in order to advance the project and to grow the resource base. Of the total drilled in 2011, 46,245 metres or 75.0% were completed at the Cap-Oeste Project. The Company issued an updated NI 43-101 technical resource update for the Cap-Oeste Project in November 2011.

The share-based payments charge for 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 totalled $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 amortisation of $0.7 million, increased Directors' 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 to $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, a $0.9 million change from other comprehensive gain of $0.2 million for 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 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 totalled $25.2 million, $14.7 million higher than the $10.5 million net cash used in 2010. This increase in cash primarily resulted from increased exploration costs of $9.0 million, higher administrative costs of $4.4 million, an increase in trade and other receivables of $2.2 million and cash used of $2.2 million in 2011 to build inventory, partially 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 used 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, new camp and machinery at the COSE Project compared with $0.7 million invested in property, plant and equipment in 2010 primarily related to the Lomada Project. The Company also capitalised $2.7 million of exploration costs in 2011 related to the Lomada and COSE Projects and acquired the surface rights for the Estancia El Tranquilo at a cost of $2.3 million. In 2010, the Company capitalised $2.0 million of exploration costs related to the Lomada Project and acquired the surface rights to 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 in capital, before transaction costs of $1.4 million, for net proceeds of $37.8 million. These amounts enable the Company to fund the accelerated drilling programme 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. These funds were used to finance working capital requirements and the planned exploration programme for 2010 focused on the COSE and 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. The increase was primarily due to a $6.5 million increase in property, plant and equipment, $4.8 million increase in mineral properties, $4.0 million of mining rights acquired from Fomicruz, a $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.

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 $)	**2012 Q4**	**2012 Q3**	**2012 Q2**	**2012 Q1**	2011 Q4	2011 Q3	2011 Q2	2011 Q1
Exploration costs	$ 2.3	$ 2.1	$ 3.4	$ 6.6	$ 4.2	$ 4.0	$ 5.2	$ 2.8
Share-based payments charge	$ 3.0	$ 0.2	$ 0.1	$ 2.0	$ 0.9	$ 0.6	$ 7.0	$ 0.0
Administrative costs	$ 1.5	$ 1.5	$ 2.1	$ 1.4	$ 7.5	$ 0.2	$ 0.6	$ 0.4
Net loss	$ 6.3	$ 2.1	$ 2.3	$ 10.1	$ 12.5	$ 4.7	$ 12.8	$ 3.2
Basic and diluted loss per share ($)	$ 0.01	$ 0.00	$ 0.01	$ 0.01	$ 0.02	$ 0.01	$ 0.02	$ 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 $.

The Company is an advanced gold and silver exploration and development company that commenced production of trial heap leach gold in 2012 from the new gold processing facility commissioned in November 2012. Subsequent to receiving the full and final permit for the Lomada Project main heap leach from the province of Santa Cruz, also in November 2012, the Company has commenced development of the Lomada Project main heap leach operation, expected to be completed and in full commercial production in late second quarter of 2013. The quarterly net loss is impacted mainly by changes in exploration costs, share-based payments charge and administrative costs.

Exploration costs are dependent upon the amount of drilling activity, which was less in the second half of 2012 as a result of the Company's decision to focus available funds on advancing the near-term cash flow generating Lomada Project and the construction and commissioning of the new gold processing facility in November 2012. June to August is typically the low season for exploration drilling in Santa Cruz due to harsh winter weather conditions and exploration activity is also reduced from early December to the end of January due to the end of year seasonal break. As a result, exploration costs are generally expected to be lower in the first and third quarters of each year.

The share-based payments charge varies from quarter to quarter and is totally dependent on the number of share options issued and the volatility factor used in the Black-Scholes valuation. The share-based payments charge 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 or even amount basis in each quarter, such as Argentine withholding taxes on foreign purchases and one-time professional or legal fees. Quarterly administrative costs, therefore, can fluctuate from quarter to quarter. Fourth quarter administrative costs are lower than the previous three quarters in 2012 due primarily to the significant foreign currency translation gain of $1.7 million as a result of devaluation of GBP reported in the fourth quarter compared to foreign translation losses reported in the first and second quarters and minimal foreign translation gain reported in the third quarter. This decrease was partially offset by higher Argentine withholding taxes on foreign purchases in the fourth quarter of $0.1 million and higher legal fees reported in the fourth quarter of $0.5 million compared to the previous three quarters. The second quarter administrative costs were higher than the first and third quarter due to higher foreign currency translation loss, higher amount of unrecoverable VAT and higher legal fees.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2012, the Company's cash position totalled $4.7 million in cash and cash equivalents, including $3.3 million in short-term deposits and $1.4 million in bank and cash balances. This compares to $11.3 million at December 31, 2011, which included $7.5 million in short-term deposits and $3.8 million in bank and cash balances. As at December 31, 2012, working capital netted to $4.8 million, a decrease of $1.5 million from working capital of $6.3 million at December 31, 2011, due to $6.7 million less cash and cash equivalents, partially offset by a $2.6 million increase in gold inventory and a $1.3 million reduction in trade and other payables as at December 31, 2012.

During 2012, the Company issued 11.2 million ordinary shares on the exercise of stock options for net proceeds of $1.8 million and 64.9 million ordinary shares pursuant to a successful brokered placement for net proceeds of $23.7 million. This provided financing to develop the Lomada heap leach project toward gold production in November 2012 and provided general working capital for the Company in 2012. In addition, the Company announced a successful subscription financing for net proceeds of $9.3 million on February 27, 2013. These proceeds will be used to fund exploration and drilling expenditures at the Cap-Oeste and COSE Projects and to provide general working capital for the Company in the first half of 2013.

In 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 drilling programme and development activities in 2011.

In March 2012, the Company entered into an overdraft facility in the amount of $3.5 million. The overdraft facility bore interest at 2.73% per annum and was for the period of May 2012 to November 2012, when the Company repaid the facility in full. There was no overdraft facility in place prior to March 2012.

In June, July and September 2012, the Company purchased Argentine bonds (BODEN 2012) totalling $10.7 million, which were transferred to its Argentine subsidiaries as capital contributions and subsequently redeemed by the subsidiary companies during the year. There were no Argentine bond transactions in 2011. These debt securities are accounted for as assets held for trading as they are not being held for investment gain purposes and are held by the subsidiary companies for a short time frame before redemption. During 2012, the Company recorded finance income in the Statement of Comprehensive Income in the amount of $4.9 million (2011: $Nil) from the redemption of the bonds. There are no bonds on hand as at December 31, 2012.

On January 24, 2013, the Company purchased additional debt securities in the form of Argentine bonds (BODEN 2015) for $2.7 million and transferred these bonds to its Argentine subsidiaries as capital contributions. These bonds were redeemed by the subsidiaries in February 2013, resulting in finance income of $1.4 million.

Patagonia Gold is an advanced gold and silver exploration and development company, which commenced production of gold in November 2012 upon the successful commissioning of its new gold processing facility. Gold production is scheduled to continue in 2013 with processing of the remaining inventory from the trial heap leach together with production from the expanded trial heap leach. Commencement of commercial production from the Lomada main heap leach is expected by late second quarter of 2013.

Patagonia Gold's growth strategy includes the development of three key projects:

- The flagship Cap-Oeste Project, which reported an updated resource estimate in September 2012 and is the continued focus of extensive exploration and growth for the Company.
- The Lomada Project heap leach, which commenced gold production in November 2012 with commercial production forecast in late second quarter of 2013. The Lomada Project will generate regular cash flow to fund exploration and working capital requirements for the Company over its seven-year life of mine. For 2013, the Company is expecting to produce approximately 20,600 ounces of gold from Lomada with total gold sales of approximately 22,180 ounces of gold. Cash flow from gold sales in 2013 is expected to total approximately $31.9 million, assuming a $1,600 per ounce gold price.
- The COSE Project, which has significant high grade mineralisation and the potential to begin generating free cash flow in 2014, which will be used to finance the development of Cap-Oeste.

The Company's cash proceeds from the sale of Lomada trial heap leach inventory in 2013 (3,000 ounces approximating $4.6 million) and approximately $1.4 million from the redemption of Argentine bonds in February 2013 will be used to complete the construction of the Lomada Project main heap leach. The $9.3 million in net proceeds from the February 27, 2013 subscription financing will be used to fund exploration and drilling expenditures on the Cap-Oeste and COSE Projects and to provide general working capital for the Company for the first and second quarters of 2013. Regular monthly cash flow from the Lomada Project main heap leach commercial production is expected to commence in late second quarter of 2013 and is targeted to finance the Company's extensive exploration programme for the remainder of 2013. The Company is also considering use of these funds to finance the development of the COSE Project portal/underground decline and its short-term production programme later in 2013 or 2014. The Company will also be investigating opportunities to raise additional capital financing to support earlier development of the COSE Project.

The Company's monthly cash operating costs for 2013 are approximately $3.8 million per month in the current plan. With cash inflow of $31.9 million from gold sales, $9.3 million in net proceeds from the February 2013 subscription financing and $1.4 million in finance income from the redemption of Argentine bonds in February 2013, the Company has sufficient funds in 2013 to complete construction of the Lomada Project main heap leach and bring the operation into commercial production in late second quarter and also complete 18,700 metres of exploration drilling planned for the Cap-Oeste Project in 2013. The Company is confident in its ability to undertake the current planned programme of activity over the next 12 months from the date of this report.

The Company is also evaluating additional strategies and corresponding financing requirements for 2013 and beyond and is confident in its ability to secure additional funding at a competitive rate to continue to meet commitments as they fall due.

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 summarises the maturities of the Company's financial liabilities and operating and capital commitments as at December 31, 2012:

Contractual Obligations

		Payments due by period			
(Thousands of $)	Total	Less than one year	1 to 3 years	4 to 5 years	After 5 years
Trade and other payables	$ 5,969	$ 5,969	$ –	$ –	$ –
Operating leases	374	287	87	–	–
Purchase obligations	7,900	–	–	7,900	–
	$ 14,243	$ 6,256	$ 87	$ 7,900	$ –

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

Directors

During the year ended December 31, 2012, the Company paid Directors $699 thousand in Directors fees (year ended December 31, 2011: $714 thousand), $53 thousand in consultancy fees (year ended December 31, 2011: $212 thousand), $Nil in Directors remuneration (year ended December 31, 2011: $209 thousand) and $Nil in termination payments (year ended December 31, 2011: $30 thousand).

Key Management Personnel

Key management personnel during the year ended December 31, 2012 were paid $434 thousand in salaries (year ended December 31, 2011: $321 thousand) and $76 thousand in other compensation, including short-term benefits (year ended December 31, 2011: $215 thousand). In addition, the Company recorded a share-based payments charge (non-cash) of $960 thousand (year ended December 31, 2011: $821 thousand).

Landore Resources Limited ("Landore")

During the year ended December 31, 2012, the Company was reimbursed $87 thousand (year ended December 31, 2011: $118 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, 2012 of $1 thousand (December 31, 2011: $1 thousand). Landore is a related party because William H. Humphries is a Director and shareholder.

Cheyenne S.A. ("Cheyenne")

During the year ended December 31, 2012, the Company paid $76 thousand (year ended December 31, 2011: $40 thousand) to Cheyenne for the provision of a private plane to facilitate occasional travel to outlying areas for Directors and senior employees. Cheyenne is a related party because Carlos J. Miguens is a Director and shareholder.

MB Holding S.A. ("MB")

During the year ended December 31, 2012, the Company paid $12 thousand (year ended December 31, 2011: $26 thousand) to MB 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.

Agropecuaria Cantomi S.A. ("Agropecuaria")

During the year ended December 31, 2012, the Company paid $39 thousand (year ended December 31, 2011: $46 thousand) to Agropecuaria for the provision of office space in Buenos Aires. Agropecuaria is a related party because Carlos J. Miguens is a Director and shareholder.

Lusemana S.A. ("Lusemana")

During the year ended December 31, 2012, the Company paid $36 thousand (year ended December 31, 2011: $40 thousand) to Lusemana 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 ended December 31, 2012, the Company paid $39 thousand (year ended December 31, 2011: $38 thousand) to El Salvador 4040 for the provision of office space 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.

SIGNIFICANT ACCOUNTING POLICIES

Significant Accounting Policies and Estimates

The preparation of the Company's consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The critical estimates, assumptions and judgements applied in the preparation of the Company's audited consolidated financial statements are consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2011. For a description of the Company's critical estimates, assumptions, and judgements, please refer to Note 3 in the Company's audited consolidated financial statements for the year ended December 31, 2012.

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 Gold'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 Gold's internal control over financial reporting during the year ended December 31, 2012 that can materially affect, or are reasonably likely to materially affect, internal control over financial reporting.

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. Other than the below risks, the material risks and uncertainties affecting the Company, their potential impact and the Company's principal risk-management strategies are substantially unchanged from those disclosed in the 2011 Annual Report, which can be found on the Company's website at www.patagoniagold.com or on SEDAR at www.sedar.com.

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

While Santa Cruz, where Patagonia Gold'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 Gold's operations.

Patagonia Gold 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 Gold or at all.

Patagonia Gold 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 Gold'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 Gold cannot currently quantify and does not currently have in place. Patagonia Gold can provide no assurance that it will be successful in obtaining required financing as and when needed 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 Gold 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 Gold. 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 Gold 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.

Patagonia Gold 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, economic uncertainty in the U.S., disruptions in the international credit markets and other financial systems and/or a deterioration of global economic conditions, could impede Patagonia Gold'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 Gold 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 2012 and 2013, the future global economic outlook remains relatively uncertain. If these increased levels of volatility and market turmoil were to continue, Patagonia Gold's results of operations could be adversely impacted and the trading price of the shares could be adversely affected.

OUTSTANDING SHARE DATA

The Company's fully diluted share capital as at April 25, 2013 is as follows:

	Outstanding
Ordinary shares	854,577,565
Unexercised share options	76,045,000
Outstanding warrants	24,705,000
Fully diluted	955,327,565

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 Gold and its subsidiaries and its mineral properties, including in particular any amounts budgeted by Patagonia Gold for exploration, development and administrative activities;
- Patagonia Gold'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 Gold's COSE and Lomada Projects;
- Patagonia Gold's strategic plans, including in particular expected drilling programmes to be carried out on Patagonia Gold's properties and development to be undertaken at the COSE and Lomada Projects and the timing and duration thereof, and Patagonia Gold's ability to achieve its stated aim of producing 200,000 ounces per annum of gold equivalent by 2016;
- The amount and value of Patagonia Gold's mineral resources, including any stated potential to grow Patagonia Gold's mineral resources, and Patagonia Gold's ability to realise 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 therefrom;
- The costs and timing of the development of new deposits, including in particular the expected timing for the completion of the construction of the main heap leach at Patagonia Gold's Lomada Project and the estimated capital and operating expenditures for the Lomada Project;
- The evolution and economic performance of development projects, including in particular the preliminary economic analyses for Patagonia Gold's COSE and Lomada Projects;
- Near-term cash flow projects and estimates of capital requirements;
- 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 Gold'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 Gold's exploration and development activities; the Company's failure to acquire or comply with the necessary permits and licences 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 programmes 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.

The Directors present their report and the audited financial statements for Patagonia Gold Plc (the "Company" or "Patagonia Gold") and its subsidiaries, collectively known as the "Group", for the year ended December 31, 2012. All amounts are expressed in United States dollars ("$"), except where indicated.

PRINCIPAL ACTIVITIES

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

Through its 90% owned subsidiary Patagonia Gold S.A. ("PGSA"), the Group successfully commissioned its new gold room processing facility in November 2012 and commenced production of doré from the trial heap leach inventory. The Group expects commercial production from the Lomada Project main heap leach to commence in late second quarter of 2013.

Patagonia Gold's growth strategy includes the development of three key projects:

- The flagship Cap-Oeste Project, which reported an updated resource estimate in September 2012 and is the continued focus of extensive exploration and growth for the Group.
- The Lomada Project heap leach will generate regular cash flow to fund exploration and working capital requirements for the Group over its seven-year life of mine. For 2013, the Group is expecting to produce approximately 20,600 ounces of gold from Lomada with total gold sales of approximately 22,180 ounces. Cash flow from gold sales in 2013 is expected to amount to approximately $31.9 million, assuming a $1,600 per ounce gold price.
- The COSE Project, which has significant high grade mineralisation and the potential to begin generating free cash flow in 2014, will be used to finance the development of Cap-Oeste.

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 2, the Managing Director/CEO Report on page 4, the Operations Report on page 8 and the Management's Discussion and Analysis on page 20.

PRINCIPAL RISKS AND UNCERTAINTIES

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

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 projects, debt financing, farm-outs or other means. There is no assurance that the Group will be successful in obtaining the required financing. If the Group is unable to obtain additional financing as needed, some interests may be relinquished and/or the scope of the operations may be reduced.

Patagonia Gold was impacted by the challenging capital market conditions that were experienced and the difficulties faced by mining sector companies in attracting capital investment in 2012. The Company raised $24.5 million in equity capital before expenses in 2012 and a further $9.4 million in February 2013 but this amount was short of the full requirement for the year. In addition, the Group commenced production of gold in November 2012 and regular commercial production is scheduled to commence in late second quarter of 2013. The proceeds from the gold sales, together with the proceeds from the fundraising in February 2013, will be used to fund the exploration programme and working capital requirements for 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. The Group postponed its exploration drilling programme in May 2012 for the remainder of the year and re-directed available funds and resources to develop the Lomada near-term cash flow heap leach project and to complete construction of the new gold room processing facility commissioned in November 2012. Exploration drilling re-commenced in February 2013 at the Cap-Oeste and COSE Projects.

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

Argentine fiscal policies are complex, and it is 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 monitors banking, customs and taxation developments and advises the Group on the handling of various issues including foreign exchange controls and cash transfers in and out of Argentina.

Currency

The Group presents its financial results in \$. The Group is expecting to commence commercial production at its Lomada Project main heap leach operation in late second quarter of 2013. Gold production is shipped to Toronto, Canada for refining and proceeds from the gold sales, denominated in \$, are transferred to Argentina within 84 days from customs and clearance, where the funds are converted to the Argentine peso ("AR\$"). The Group does not engage in active hedging to minimise exchange rate risk but does keep the process under review. Equity capital is raised in British pounds sterling ("GBP"). Prior to contributing capital to the subsidiary companies, Patagonia Gold converts the GBP to \$ and transfers the \$ to Argentina where they are converted to the AR\$. The Group takes advice from FX traders and takes advantage of 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. For exploration and production to continue on any properties, the Group must obtain and retain regulatory approval and there is no assurance that such approvals will continue. 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.

In May 2012, the Group received the approval permit to build the gold room processing facility. On November 22, 2012, the Group received the full and final permit for the development and production of the Lomada Project main heap leach from the State Secretary of Mines, Santa Cruz.

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 2, the Managing Director/CEO Report on page 4, the Operations Report on page 8 and the Management's Discussion and Analysis on page 20, which are incorporated in this report by reference.

KEY PERFORMANCE INDICATORS

The Board sets relevant Key Performance Indicators (KPIs), which, for a company at Patagonia Gold'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.
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.

Non-Financial KPIs

- Health and Safety Management: During 2012, the Company launched a new Health and Safety Department staffed by three qualified and experienced personnel. During the year, the Lost Time Injury Frequency Rate for the Company was 23.27, the Lost Time Injury Incidence Rate was 4.04 and the Medical Treatment Injury Frequency Rate was 1.613% per man/worked day.
- Environment Management: Patagonia Gold is compliant with Santa Cruz jurisdictional environmental policy requirements. During 2012, PGSA presented Environmental Impact Assessment ("EIA") reports, prepared in compliance with provincial and national environmental laws and regulations, to the Secretary of Mines, Santa Cruz for development of the COSE Project ramp, approved in May 2012, and the Lomada Project main heap leach, which was approved in November 2012. In addition, quarterly water quality assays and reports were prepared and environmental baselines were in compliance for the four projects comprising the resource base for the Company. PGSA also successfully passed several on-site inspections conducted by provincial authorities.
- Operational Success: In September 2012, the Company announced an updated resource estimate for the Cap-Oeste Project. Indicated resources increased by 24% to 1,197,000 ounces gold equivalent and included a 30% increase in grade to 4.78 g/t gold equivalent. Due to budgetary constraints, the Company postponed its exploration drilling programme in May 2012 and re-directed available funds and resources to the development of the Lomada Project and construction of the new gold processing facility, commissioned in November 2012. During 2012, the Company completed 30,659 metres of drilling with the majority of drilling at the Cap-Oeste Project. Gold production commenced in 2012 and the first doré ingot was poured in November 2012.
- Human Resource Management: During 2012, the employee retention rate was 87% and the Company was successful in retaining key personnel in a difficult market with increasing demand for experienced mining personnel from competitors in the region. The turnover in key positions was 1% during the year and subsequent to receipt of the permits for construction at the Lomada and COSE Projects, PGSA has been successful in attracting qualified employees for key positions in operations and exploration. The Company has introduced a plan for the evaluation of personnel in the areas of productivity, health and safety, training skills and environmental compliance.

Financial KPIs

- Shareholder Return: The Company's share price was impacted by the significant downturn in the capital markets in 2012, most notably in the precious metals sector. Patagonia Gold's share price went from a high of 49.50 pence in January 2012 to 14.00 pence in July 2012. The closing mid-market price of the Company's ordinary shares on December 31, 2012 was 22.375 pence, down from 42.75 pence at December 31, 2011.
- Exploration Expenditure: The Group postponed its exploration drilling programme in May 2012 for the remainder of the year and re-directed available funds and resources to the Lomada near-term cash flow heap leach project. The exploration cost per metre of drilling in the first five months of 2012 was $396.56/metre, a 30.6% increase from the 2011 exploration cost per metre of $303.64. This increase was due to higher wages and higher input costs from high inflation in Argentina in 2012.
- Exploration Development: On September 10, 2012, the Group announced an updated resource estimate for the Cap-Oeste Project. Indicated resources increased by 24% to 1,197,000 ounces gold equivalent and included a 30% increase in grade to 4.78 g/t gold equivalent.
- Working Capital: At December 31, 2012, working capital netted to $4.8 million, a decrease of $1.5 million from the December 31, 2011 working capital of $6.3 million. This decrease was due to there being $6.7 million less cash on hand, offset by a $2.6 million increase in gold inventory and a $1.3 million reduction in trade and other payables as at December 31, 2012.

All significant information is detailed in the Operations Report and Management's Discussion and Analysis and published on our website at www.patagoniagold.com.

FINANCIAL INSTRUMENTS

The Company's principal 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 25 together with detailed discussion and sensitivity analysis relating to these risks.

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, which commenced production of gold in November 2012 upon the successful commissioning of its new gold processing facility at the Lomada de Leiva Project. Gold production is scheduled to continue in 2013 with processing of the remaining inventory from the trial heap leach together with production from the expanded trial heap leach. Commencement of commercial production from the Lomada main heap leach is expected by late second quarter of 2013.

Patagonia Gold'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 generating free cash flow, and the third being the COSE Project which has the potential to begin generating significant free cash flow in 2014.

The Company's cash proceeds from the sale of Lomada trial heap leach inventory in 2013 (3,000 ounces approximating $4.6 million) and approximately $1.4 million from the redemption of Argentine bonds in February 2013 will be used to complete the construction of the Lomada Project main heap leach. The $9.3 million in net proceeds from the February 27, 2013 subscription financing will be used to fund exploration and drilling expenditures on the Cap-Oeste and COSE Projects and to provide general working capital for the Company in the first and second quarters of 2013. Regular monthly cash flow from the Lomada Project main heap leach commercial production is expected to commence in late second quarter of 2013 and is targeted to finance the Company's extensive exploration programme for the remainder of 2013. The Company is also considering using these funds to finance the development of the COSE Project portal/underground decline and its short-term production programme later in 2013 or 2014. The Company will also be investigating opportunities to raise additional capital financing to support earlier development of the COSE Project.

The Group's monthly cash operating costs for 2013 are approximately $3.8 million per month in the current plan. With cash inflow of $31.9 million from gold sales, $9.3 million in net proceeds from the February 2013 subscription financing and $1.4 million finance income from the redemption of Argentine bonds in February 2013, the Group has sufficient funds in 2013 to complete construction of the Lomada Project main heap leach and bring the operation into commercial production in late second quarter of 2013 and also complete 18,700 metres of exploration drilling planned for the Cap-Oeste Project in 2013. The Group is confident in its ability to undertake the current planned programme of activity over the next 12 months from the date of this report.

The Group and Company are also evaluating additional strategies and corresponding financing requirements for 2013 and beyond and are confident in their ability to secure additional funding at a competitive rate to continue to meet commitments as they fall due.

SHARE CAPITAL

On June 6, 2012, the Company placed 32,000,000 new ordinary shares, each at a price of 25 pence per share ($12.4 million). The cost of these placements totalled $0.3 million (£0.2 million), resulting in net proceeds of $12.1 million (£7.8 million). $0.5 million (£0.3 million) of the net proceeds is included in share capital and the balance of $11.6 million (£7.5 million) is included in share premium.

On October 25, 2012, the Company placed 29,020,000 new ordinary shares, each at a price of 22.5 pence per share ($10.5 million) and on November 27, 2012, the Company placed a further 3,920,000 new ordinary shares, each at a price of 25.5 pence per share ($1.6 million). The cost of these placements totalled $0.5 million (£0.3 million), resulting in net proceeds of $11.6 million (£7.2 million). $0.5 million (£0.3 million) of the net proceeds is included in share capital and the balance of $11.1 million (£6.9 million) is included in share premium.

The placements of October and November were combined with the issue of warrants. Subscribers for the new ordinary shares have been issued with three quarters of a warrant for every such new ordinary share so subscribed (with fractional entitlements rounded down to the nearest whole warrant). A total of 24,705,000 warrants have been issued pursuant to the placements. The warrants are exercisable into ordinary shares on a one for one basis at a price equal to a 10% premium to the placing price at any time up to four years from the subscription date. The warrants are non-transferable save in limited circumstances. Details of the warrants outstanding at December 31, 2012 can be found in Note 23.

During 2012, the Company allotted a total of 11,200,000 new ordinary shares pursuant to the exercise of share options for total gross proceeds of $1.8 million (£1.1 million). $0.2 million (£0.1 million) of the gross proceeds is included in share capital and the balance of $1.6 million (£1.0 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
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
May 30, 2012	25,000	May 15, 2012
June 1, 2012	25,000	May 23, 2012
June 11, 2012	100,000	May 16, 2012
December 12, 2012	25,000	November 14, 2012
	11,200,000	

Subsequent event

On February 27, 2013, the Company placed 41,196,687 new ordinary shares, each at a price of 15.0 pence per share ($9.4 million). The cost of the placement totalled $16.0 thousand (£10.6 thousand), resulting in net proceeds of $9.3 million (£6.2 million). $0.6 million (£0.4 million) of the net proceeds is included in share capital and the balance of $8.7 million (£5.8 million) is included in share premium.

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 (2011: $Nil).

SUBSTANTIAL SHAREHOLDINGS

In addition to the interest of Carlos J. Miguens disclosed below, at April 25, 2013, 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	118,072,109	13.82
BlackRock Inc.*	69,778,631	8.17
Cinco Vientos Uruguay SA	56,920,252	6.66
Van Eck Global	42,655,607	4.99
Diego Miguens	29,562,152	3.46
Barrick Gold Corporation	28,323,264	3.31
William H. Humphries	27,550,541	3.22

* The shareholding of BlackRock Inc. includes 57,700,000 shares (6.75%) 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 25, 2013	December 31, 2012	December 31, 2011
Sir John Craven – *Retired January 9, 2013*	N/A	9,455,190	5,955,190
Carlos J. Miguens	118,072,109	104,954,776	100,153,116
William H. Humphries	27,550,541	26,050,541	14,893,857
Gonzalo Tanoira	6,900,673	6,900,673	6,900,673
Marc J. Sale	1,676,687	1,676,687	1,676,687
Edward J. Badida	–	–	–
Gary A. Sugar – *Resigned February 18, 2013*	N/A	–	–
Manuel de Prado – *Appointed April 8, 2013*	–	–	–
Glenn Featherby – *Appointed April 8, 2013*	666,667	–	–

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

During the year the Company made payments to the Directors as follows:

To Sir John Craven $79,235 (2011: $80,195) for his services as Director and Chairman plus $9,319 for social security costs (2011: $9,399).

To Carlos J. Miguens $118,852 (2011: $120,293 plus bonus of $100,000) for his services as Director and Deputy Chairman.

To William H. Humphries through his company Mining Management-Europe (MM-E) $269,399 (2011: $272,663 plus bonus of $100,000) for his services as Director and Chief Executive Officer of Patagonia Gold Plc.

To Gonzalo Tanoira $63,388 (2011: $64,156) for his services as Director.

To Marc J. Sale through his company Specialist Services $52,889 (2011: $211,715) in his capacity as a consultant in addition to his Directors' fees of $47,541 (2011: $48,117).

To Edward J. Badida $63,388 (2011: $10,692) for his services as Director.

To Gary A. Sugar $47,541 (2011: $8,019) for his services as Director.

No Director received any other bonus or benefits-in-kind in 2012 or 2011.

Following the fundraising of October 2012, William H. Humphries holds warrants over 2,065,263 ordinary shares as detailed in Note 23.

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

In March 2012, Sir John Craven, Carlos J. Miguens and William H. Humphries each exercised 3,500,000 share options. As noted above, the 10,500,000 shares arising upon exercise of these options were admitted to the AIM market on March 19, 2012. On October 29, 2012, Marc J. Sale transferred options over 900,000 ordinary shares of one pence each to a party connected to him. Marc J. Sale is now interested in 6,475,000 options over ordinary shares in the Company.

No other Director exercised or transferred any options during the year.

At December 31, 2012, the Directors were 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	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	June 23, 2009	12.25p	4,500,000	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
C. J. Miguens	January 31, 2012	42.50p	2,000,000	January 31, 2012	January 30, 2022
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
W. H. Humphries	January 31, 2012	42.50p	2,000,000	January 31, 2012	January 30, 2022
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 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 14.00 pence and 49.50 pence during the year. The closing mid-market price of the Company's ordinary shares on December 31, 2012 was 22.375 pence (December 31, 2011: 42.75 pence).

Subsequent event

On January 9, 2013 Sir John Craven was awarded 1,500,000 share options, Carlos J. Miguens 9,000,000 share options, William H. Humphries 3,000,000 share options and Gonzalo Tanoira 1,000,000 share options at an exercise price of 22.75p, with an expiry date of January 08, 2023. These options were awarded pursuant to a Board recommendation of October 2012 and subject to performance criteria, each of which had been met by December 31, 2012.

CORPORATE GOVERNANCE

Since December 7, 2011, the ordinary shares of the Company have been dual listed, trading on AIM and the TSX. At January 1, 2013, 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 remains qualified as a "designated foreign issuer" under the TSX and is subject to the regulatory requirements of UK 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 manages 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.

Following the retirement of Sir John Craven and the resignation of Gary A. Sugar, Gonzalo Tanoira and Marc J. Sale have been appointed to the Audit Committee and Carlos J. Miguens and Marc J. Sale to the Remuneration and Nomination Committees, each appointment being on an interim basis.

The Audit Committee, which comprises Edward J. Badida (Chairman), Gonzalo Tanoira and Marc J. Sale, 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 Carlos J. Miguens (Chairman), Edward J. Badida and Marc J. Sale. 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 Carlos J. Miguens (Chairman), Edward J. Badida and Marc J. Sale. 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 by 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 retired from the Board and Committees on January 9, 2013, having given the required notice.

Gary A. Sugar resigned from the Board and Committees on February 18, 2013, having given the required notice.

Carlos J. Miguens, Marc J. Sale, Edward J. Badida, Manuel de Prado and Glenn Featherby 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 14, 2013 at 11.00 am to be held at The Cavalry and 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 Directors who retire by rotation are Carlos J. Miguens and Gonzalo Tanoira who, being eligible, offer themselves for re-election.

DIRECTORS' INDEMNIFICATION PROVISIONS

Under Article 230 of the Company's Articles of Association, subject to the provisions of the Companies Act 2006 (the "Act"), but without prejudice to any indemnity to which he may be otherwise entitled, every Director, Auditor, Secretary or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all costs, charges, losses, damages and liabilities incurred by him in the actual or purported execution and/or discharge of his duties or exercise of his powers and/or otherwise in relation to or in connection with his duties, powers or office, provided that Article 30 shall be deemed not to provide for, or entitle any such person to, indemnification to the extent that it would cause Article 230, or any element of it, to be treated as void under the Act.

AUDITORS

Grant Thornton UK LLP has expressed willingness to continue in office. In accordance with Section 489(4) of the Act, a resolution to re-appoint Grant Thornton UK LLP as auditor of the Company will be proposed at the Annual General Meeting to be held on June 14, 2013.

By Order of the Board

Nigel Everest
Company Secretary
April 25, 2013

Statement of Directors' Responsibilities

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

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("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 judgements and accounting estimates that are reasonable and prudent;
- State whether applicable IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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.

The Directors confirm that:

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

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

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, 2012 which comprise the consolidated statement of comprehensive income, the consolidated and company statements of financial position, the consolidated and company statements of changes in equity and the consolidated and company statements of cash flow and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Statement of Directors' Responsibilities set out on page 61, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at December 31, 2012 and of the Group's loss for the year then ended;
- The financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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 its 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 25, 2013

Consolidated Statement of Comprehensive Income

for the year ended December 31, (Thousands of $)	Note	2012	2011
Continuing operations			
Exploration costs		$ (14,356)	$ (16,193)
Administrative costs			
Share-based payments charge	28	(5,284)	(8,481)
Other administrative costs	8	(6,472)	(8,691)
		(11,756)	(17,172)
Finance income	6	4,929	228
Finance costs		(68)	(30)
Loss before taxes		(21,251)	(33,167)
Income tax benefit	10	476	–
Loss for the year		(20,775)	(33,167)
Non-controlling interest	24	–	–
Other comprehensive (loss)/income			
Loss on revaluation of available-for-sale financial assets		(31)	(131)
Exchange loss on translation of foreign operations	3	(5,119)	(566)
Other comprehensive loss for the year		(5,150)	(697)
Total comprehensive loss for the year attributable to owners of the parent		$ (25,925)	$ (33,864)
Net loss per share ($)			
Basic loss per share	11	$ (0.03)	$ (0.05)
Diluted loss per share	11	$ (0.03)	$ (0.05)

The notes on pages 71 to 102 form part of these financial statements.

Consolidated Statement of Financial Position

at December 31, (Thousands of $)	Note	2012	2011
ASSETS			
Non-current assets			
Property, plant and equipment	14	$ 11,881	$ 7,350
Mineral properties	13	8,387	8,419
Mining rights	12	3,886	3,986
Available-for-sale financial assets	25	94	120
Other receivables	16	8,716	6,536
		32,964	26,411
Current assets			
Deferred tax asset	10	581	–
Inventory	18	4,880	2,239
Trade and other receivables	17	625	360
Cash and cash equivalents	19	4,663	11,326
		10,749	13,925
Total assets		$ 43,713	$ 40,336
LIABILITIES			
Current liabilities			
Bank overdraft	19	$ –	$ 380
Trade and other payables	21	5,969	7,242
		5,969	7,622
Non-current liabilities			
Provisions	22	1,104	852
Total liabilities		7,073	8,474
EQUITY			
Share capital	23	13,126	11,381
Share premium account		147,347	117,205
Currency translation reserve		(8,929)	3,349
Share-based payment reserve		16,222	10,941
Accumulated losses		(135,112)	(115,000)
Equity attributable to shareholders of the parent		32,654	27,876
Non-controlling interest	24	3,986	3,986
Total equity		36,640	31,862
Total liabilities and equity		$ 43,713	$ 40,336

Company Registered number 3994744

The notes on pages 71 to 102 form part of these financial statements.

These financial statements were approved by the Board of Directors on April 25, 2013 and were signed on its behalf by:

Gonzalo Tanoira
Director

Company Statement of Financial Position

at December 31, (Thousands of $)	Note	2012	2011
ASSETS			
Non-current assets			
Property, plant and equipment	14	$ 137	$ 137
Investment in subsidiary companies	15	118,048	112,933
Available-for-sale financial assets	25	94	120
		118,279	113,190
Current assets			
Trade and other receivables	17	1,380	718
Cash and cash equivalents	19	3,342	7,787
		4,722	8,505
Total assets		$ 123,001	$ 121,695
LIABILITIES			
Current liabilities			
Trade and other payables	21	$ 21,175	$ 51,323
Total liabilities		21,175	51,323
EQUITY			
Share capital	23	13,126	11,381
Share premium account		147,347	117,205
Currency translation reserve		(1,160)	2,108
Share-based payment reserve		16,222	10,941
Accumulated losses		(73,709)	(71,263)
Total equity		101,826	70,372
Total liabilities and equity		$ 123,001	$ 121,695

Company Registered number 3994744

The notes on pages 71 to 102 form part of these financial statements.

These financial statements were approved by the Board of Directors on April 25, 2013 and were signed on its behalf by:

Gonzalo Tanoira
Director

Consolidated Statement of Changes in Equity

for the year ended December 31, 2012 (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, 2011		$ 10,454	$ 81,508	$ 1,850	$ 2,967	$ (81,903)	$ 14,876	$ –	$ 14,876
Changes in equity for 2011									
Share-based payment	28	–	–	–	8,481	–	8,481	–	8,481
Share-based payment on acquiring mining rights	12	–	–	–	–	–	–	3,986	3,986
Issue of share capital									
Issue by placing	23	933	38,255	–	–	–	39,188	–	39,188
Transaction costs of placing		–	(1,424)	–	–	–	(1,424)	–	(1,424)
Exercise of option	23	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
Changes in equity for 2012									
Share-based payment	28	–	–	–	5,284	–	5,284	–	5,284
Issue of share capital									
Issue by placing	23	1,024	23,436	–	–	–	24,460	–	24,460
Transaction costs of placing		–	(797)	–	–	–	(797)	–	(797)
Exercise of option	23	177	1,579	–	(589)	589	1,756	–	1,756
Transactions with owners		12,582	141,423	3,349	15,636	(114,411)	58,579	3,986	62,565
Loss for the year		–	–	–	–	(20,775)	(20,775)	–	(20,775)
Other comprehensive income (loss):									
Revaluation of available-for-sale financial assets		–	–	–	–	(31)	(31)	–	(31)
Exchange differences on translation to $		544	5,924	(12,278)	586	105	(5,119)	–	(5,119)
Total comprehensive income (loss) for the year		544	5,924	(12,278)	586	(20,701)	(25,925)	–	(25,925)
At December 31, 2012		$ 13,126	$ 147,347	$ (8,929)	$ 16,222	$ (135,112)	$ 32,654	$ 3,986	$ 36,640

The notes on pages 71 to 102 form part of these financial statements.

Company Statement of Changes in Equity

for the year ended December 31, 2012 (Thousands of $)	Note	Share capital	Share premium account	Currency translation reserve	Share-based payment reserve	Accumulated losses	Total
At January 1, 2011		$ 10,454	$ 81,508	$ 1,580	$ 2,967	$ (57,967)	$ 38,542
Changes in equity for 2011							
Share-based payment	28	–	–	–	8,481	–	8,481
Issue of share capital							
Issue by placing	23	933	38,255	–	–	–	39,188
Transaction costs of placing		–	(1,424)	–	–	–	(1,424)
Exercise of option	23	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
Changes in equity for 2012							
Share-based payment	28	–	–	–	5,284	–	5,284
Issue of share capital							
Issue by placing	23	1,024	23,436	–	–	–	24,460
Transaction costs of placing		–	(797)	–	–	–	(797)
Exercise of option	23	177	1,579	–	(589)	589	1,756
Transactions with owners		12,582	141,423	2,108	15,636	(70,674)	101,075
Loss for the year		–	–	–	–	(3,004)	(3,004)
Other comprehensive income (loss):							
Revaluation of available-for-sale financial assets		–	–	–	–	(31)	(31)
Exchange differences on translation to $		544	5,924	(3,268)	586	–	3,786
Total comprehensive income (loss) for the year		544	5,924	(3,268)	586	(6,633)	(2,847)
At December 31, 2012		$ 13,126	$ 147,347	$ (1,160)	$ 16,222	$ (73,709)	$ 101,826

The notes on pages 71 to 102 form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended December 31, (Thousands of $)	Note	2012	2011
Operating activities			
Loss for the year		$ (20,775)	$ (33,167)
Adjustments for:			
Finance income	6	(20)	(228)
Depreciation	12,13 & 14	1,050	814
Increase in inventory		(2,641)	(2,239)
Increase in trade and other receivables		(2,445)	(3,177)
Increase in deferred tax asset		(581)	–
Increase (decrease) in trade and other payables		(1,273)	3,672
Increase in provisions		252	663
Share-based payments charge	28	5,284	8,481
Net cash used in operating activities		(21,149)	(25,181)
Investing activities			
Finance income	6	20	228
Purchase of property, plant and equipment	14	(6,059)	(7,503)
Additions to mineral properties	13	(2,255)	(4,988)
Proceeds from disposal	13	250	–
Proceeds from sale of gold	13	768	–
Net cash used in investing activities		(7,276)	(12,263)
Financing activities			
Proceeds from issue of share capital	23	23,663	37,764
Proceeds from exercise of options	23	1,756	619
Net cash from financing activities		25,419	38,383
Net increase/(decrease) in cash and cash equivalents		(3,006)	939
Cash and cash equivalents at beginning of year		10,946	10,242
Effects of exchange rate fluctuations on cash and cash equivalents		(3,277)	(235)
Cash and cash equivalents at end of year		$ 4,663	$ 10,946

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 19.

The notes on pages 71 to 102 form part of these financial statements.

Company Statement of Cash Flows

for the year ended December 31, (Thousands of $)	Note	2012	2011
Operating activities			
Loss for the year		$ (3,004)	$ (13,366)
Adjustments for:			
Finance income	6	(20)	(211)
Depreciation	14	41	25
Increase in trade and other receivables		(662)	(575)
(Decrease)/increase in trade and other payables		(30,148)	50,209
Share-based payments charge	28	5,284	8,481
Net cash (used in) from operating activities		(28,509)	44,563
Investing activities			
Increase in investment in subsidiary companies		(5,115)	(83,222)
Finance income	6	20	211
Purchase of property, plant and equipment	14	(36)	(87)
Net cash used in investing activities		(5,131)	(83,098)
Financing activities			
Proceeds from issue of share capital	23	23,663	37,764
Proceeds from exercise of options	23	1,756	619
Net cash from financing activities		25,419	38,383
Net increase (decrease) in cash and cash equivalents		(8,221)	(152)
Cash and cash equivalents at beginning of year		7,787	9,481
Effects of exchange rate fluctuations on cash and cash equivalents		3,776	(1,542)
Cash and cash equivalents at end of year		$ 3,342	$ 7,787

The notes on pages 71 to 102 form part of these financial statements.

The financial statements on pages 64 to 70 represent the parent company Patagonia Gold Plc (the "Company") and its 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 judgement 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 ("$"). The functional currency of the Company is British pounds sterling ("GBP"). Where indicated, financial information incorporated within these financial statements is rounded to the nearest thousand. 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.

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 $3.0 million in 2012 (2011: $15.0 million).

2. GOING CONCERN

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

Patagonia Gold is an advanced gold and silver exploration and development company, which commenced production of gold in November 2012 upon the successful commissioning of its new gold processing facility. Gold production is scheduled to continue in 2013 with processing of the remaining inventory from the trial heap leach together with production from the expanded trial heap leach. Commencement of commercial production from the Lomada main heap leach is expected by late second quarter of 2013.

In February 2013, the Company received $3.8 million from the sale of Lomada trial heap leach inventory and $1.4 million finance income from the redemption of Argentine bonds. These funds will be used to complete the construction of the Lomada Project main heap leach. The $9.3 million raised in the February 27, 2013 subscription financing will be used to fund exploration and drilling expenditures on the Cap-Oeste and COSE Projects and to provide general working capital for the Company in the first half of 2013. Regular monthly cash flow will be generated from the Lomada Project main heap leach when commercial production commences in late second quarter of 2013. These funds are targeted to finance the Company's extensive exploration programme for the remainder of 2013 and beyond. The Company is also considering use of these funds to finance the development of the COSE Project portal/underground decline and its short-term production programme later in 2013 or 2014.

The Company will be investigating opportunities to raise additional capital financing to support earlier development of the COSE Project portal/underground decline. The Group and Company are evaluating additional strategies and corresponding financing requirements for 2013 and beyond and are confident in their ability to secure additional funding at a competitive rate to continue to meet commitments as they fall due.

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.

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.

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 consolidated statement of comprehensive income. Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined. 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. The GBP/$ closing exchange rate as at December 31, 2012 was 1.6153 (2011: 1.5453) whilst the average rate for the year ending December 31, 2012 was 1.5847 (2011: 1.6039). For the year ending December 31, 2012, a translation loss of $5.1 million is recognised resulting from the translation to $ of the Company's foreign operations (2011: translation loss of $0.6 million).

Exchange differences arising are recognised in other comprehensive income as a separate component of equity titled "Currency translation reserve". On disposal of a foreign operation the cumulative exchange differences recognised in other comprehensive income are reclassified to profit or loss and recognised as part of the gain or loss on disposal.

Share-based payments

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

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

As share options are exercised, proceeds received net of attributable transaction costs, increase share capital and where appropriate, share premium. The fair value of the exercised options carried in the 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 are valued at the lower of the costs of extraction or net realisable 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 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.

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 and are measured initially at cost and amortised on a straight-line basis over the term of the rights.

Mineral properties

Once the technical feasibility study is completed, subsequent exploration and development expenses are capitalised as mineral properties. Engineering expenditures incurred to design the size and scope of the project, environmental assessments, permitting, and surface rights acquisitions are capitalised in mineral properties. Upon reaching the development stage, these capitalised costs will be amortised using the unit-of-production method over the estimated period of economically recoverable resources.

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	20 years
Unit of production	
Plant	Depreciation of the plant commenced October 2011 and is 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.

All costs incurred and revenue received in relation to the Lomada Project from September 1, 2010 to December 31, 2012 are related to the testing and development phase of the project, prior to commencement of commercial operations. These costs and revenues are capitalised to mineral properties – mining assets. Upon commencement of commercial production, all revenue and operating expenses in respect of mining and processing operations at the Lomada Project will be recognised in the income statement. Commercial production is deemed to commence when the trial phase has ended, construction of the main heap leach operation is complete and recovery rates reach the levels anticipated for commercial exploitation of the project.

Impairment of assets

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

Income taxes

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

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

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

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 change 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, and 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 fall into this category of financial instrument.

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.

Assets held for trading 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 recognised at Fair Value through Profit and Loss (FVTPL), with movements on valuation being recognised directly to the income statement and not through reserves.

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 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 and the Company's financial statements 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. Whilst 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 reported as separate segments. As and when each individual project progresses to construction, trial and then to production stage, it is reported as a separate segment for internal management information. Therefore, for the purposes of segmental reporting, as at December 31, 2012 the Lomada Project and the COSE Project are treated as 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.

Critical accounting estimates and judgements

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

The 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 judgements made by the Group to reach its conclusions are contained in the accounting policies and/or the notes to the financial statements, and the key areas are summarised below:

- Classification of mineral properties – See Note 13. 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 have been capitalised as mineral properties – mining assets. The Lomada Project main heap leach is scheduled to commence commercial production in late second quarter of 2013. From March 1, 2011, the Board determined that exploration costs on the COSE Project be capitalised from that date forward as mineral properties – assets in the course of construction, prior to the receipt of full permitting for mining the mineral property.
- 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, 2012 to be recoverable in full and no provision is considered necessary. The VAT balances receivable are normally due to the Group in less than one year, but these amounts have been classified as a non-current asset as management's on-going dialogue with the government indicate approval by the Mining Secretary and receipt of the funds may require a time frame of more than one year (see Note 16).

- Provisions for environmental reclamation require judgement in determination of future obligations and are based on assessments of technical, legal and economic factors. Management is required to make estimates of future costs the Group will likely incur in order to complete the reclamation and remediation work required to comply with existing laws 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 22).
- In March 2011, the Company agreed to a 2.5% Net Smelter Return ("NSR") royalty on all future production of mineral products from the properties acquired from subsidiaries of Barrick Gold Corporation ("Barrick"). A liability is recognised as sales are made in accordance with IAS 37 (see Note 4).
- A cash payment of $1.5 million will become payable to Barrick upon the delineation of 200,000 ounces or greater of gold or gold equivalent NI 43-101 indicated resource on the La Paloma property block. This amount has not been recognised, as there is no certainty of achieving the required indicated resource threshold (see Note 4).
- 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 estimates 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 for the year ended December 31, 2012 are explained in Note 28 of the financial statements.
- Fair value of the mining rights acquired from Fomicruz, an established mining company wholly-owned by the government of Santa Cruz Province – see Note 12. 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 are measured, by reference to the estimated fair value of the 10% interest in PGSA acquired by Fomicruz on 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 is 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 generate 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 12).

Changes in accounting policies and disclosures

The following IFRS standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after January 1, 2013 or later periods. 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, the option of using proportionate consolidation for joint ventures under IAS 31 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 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.
- 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.
- Disclosures – Offsetting Financial Assets and Financial liabilities (amendments to IFRS 7 *Financial Instruments: Disclosures* (“IFRS 7”)). These disclosures, which are similar to the new U.S. GAAP requirements, would provide users with information that is useful in:

  (a) Evaluating the effect or potential effect of netting arrangements on an entity’s financial position; and

  (b) Analysing and comparing financial statements prepared in accordance with IFRS and U.S. GAAP.

  The amendments to IFRS 7 are effective for financial years beginning on or after January 1, 2013.
- Offsetting Financial Assets and Financial liabilities (amendments to IAS 32 *Financial Instruments: Presentation* (“IAS 32”)). These amendments clarify the meaning of the term “currently has a legally enforceable right to set-off” and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

  The amendments to IFRS 7 are effective for financial years beginning on or after January 1, 2014.

- On December 16, 2011, the International Accounting Standards Board ("IASB") issued Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7 – *Financial Instruments* ("IFRS 7")), which amended the effective date of IFRS 9 to annual periods beginning on or after January 1, 2015, and modified the relief from restating comparative periods and the associated disclosures in IFRS 7.
- On May 17, 2012 the IASB issued *Annual Improvements 2009 – 2011 Cycle*, a collection of amendments to IFRS, in response to six issues addressed during the 2009 – 2011 cycle, as its latest set of annual improvements. These amendments reflect issues discussed by the IASB during the project cycle that began in 2009 and were subsequently included in the exposure draft of proposed amendments to IFRS and Improvements to IFRS (published in June 2011) and are effective for financial years beginning on or after January 1, 2013.
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*.

  The amendments change the transition guidance to provide further relief from full retrospective application and are effective for financial years beginning on or after January 1, 2013.

The Group's management has yet to assess the impact of IFRS 13 *Fair Value Measurement* and IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*. 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. 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 Corp. ("Barrick"). The expenditure commitments totalling $10.0 million, which were given to Barrick, have been fully satisfied.

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 ounces of gold or gold equivalent NI 43-101 indicated resource on that property group going forward ("Back in Right").

On March 23, 2011 the Back in Right from the original property acquisition agreement was eliminated in exchange for a 2.5% NSR 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 recognised to date, as the projects have not commenced production. However, a gold sale from the Lomada Project trial heap leach inventory was completed in December 2012. The proceeds of the sale have been deducted from mineral properties – mining assets (see Note 13) and an appropriate accrual was made for the NSR in compliance with IAS 37, where NSR royalty payments are recognised and accrued once sales are made and the liability to settle the NSR is unconditional.

A payment of $1.5 million will be payable to Barrick upon the delineation of 200,000 ounces or greater of gold or gold equivalent NI 43-101 indicated resource on the La Paloma Property Group. The amount has not been recognised, as there is no certainty of achieving the required indicated resource threshold.

5. SEGMENTAL ANALYSIS

Management does not currently regard individual projects as separable segments for internal reporting purposes, with the exception of the Lomada Project, which has completed the trial stage and is expected to commence commercial production in late second quarter of 2013, 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 $)	**2012**	2011
Argentina and Chile[1]	$ (17,195)	$ (19,373)
United Kingdom	(3,004)	(13,366)
Canada	(576)	(411)
Argentina – COSE Project	–	(17)
	$ (20,775)	$ (33,167)

Total assets and total liabilities

	Total Assets		Total Liabilities	
(Thousands of $)	**2012**	2011	**2012**	2011
Argentina and Chile[1]	$ 20,853	$ 19,988	$ 3,220	$ 6,340
Argentina – Lomada Project	16,597	9,307	3,189	871
United Kingdom	3,726	8,164	658	1,027
Argentina – COSE Project	2,461	2,868	2	166
Canada	76	9	4	70
	$ 43,713	$ 40,336	$ 7,073	$ 8,474

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

(Thousands of $)	**2012**	2011
Argentina[1]	$ 14,356	$ 16,176
Argentina – COSE Project	–	17
	$ 14,356	$ 16,193

1 Segment represents other exploration projects including Cap-Oeste.

From September 1, 2010 onwards, expenditures incurred at the Lomada Project are capitalised and disclosed as mineral properties – mining assets (see Note 13). From April 1, 2011 certain costs are included in inventory.

From March 1, 2011 onwards, expenditures incurred at the COSE Project are capitalised and disclosed as mineral properties – assets in the course of construction (see Note 13).

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

6. FINANCE INCOME

(Thousands of $)	2012	2011
Bank interest	$ 20	$ 228
Investment income	4,909	–
	$ 4,929	$ 228

During the year, the Company purchased Argentine bonds (BODEN 2012) for $10.5 million; these bonds were transferred to its Argentine subsidiaries as capital contributions. During the 12 months ended December 31, 2012, the Company recorded investment income on redemption of the bonds of $4.9 million (12 months ended December 31, 2011: $Nil).

7. STAFF NUMBERS AND COSTS

(Thousands of $)	2012	2011
Wages and salaries	$ 4,855	$ 3,474
Social security costs	1,014	598
	$ 5,869	$ 4,072

	2012 Number	2011 Number
The average number of employees (including Directors) by location during the year:		
Argentina and Chile – exploration and administration	99	90
Canada – administration	3	1
United Kingdom – administration	3	4

8. OTHER ADMINISTRATIVE COSTS

(Thousands of $)	2012	2011
General and administrative	$ 2,579	$ 1,774
Argentine statutory taxes	1,195	1,497
Professional fees	1,003	1,448
Foreign currency transaction (gain)/loss	(1,469)	980
Parent and subsidiary company directors remuneration	1,093	953
Depreciation	1,050	814
VAT expense	618	762
Consultancy fees	403	463
	$ 6,472	$ 8,691

9. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

Parent Company Directors' emoluments:

(Thousands of $)	2012	2011
Directors' fees	$ 699	$ 714
Consultancy fees	53	212
Directors' remuneration	–	209
Termination payments	–	30
	$ 752	$ 1,165

See Report of the Directors on page 51 for individual Director's remuneration and share option awards.

In 2012, the highest paid Director received $269 thousand (2011: $373 thousand). This amount does not include any share-based payments charge.

The Directors had an unrealised gain of $5.0 million (2011: $Nil) from the exercise of share options during the year ended December 31, 2012.

Key management personnel emoluments:

(Thousands of $)	Note	2012	2011
Share-based payments charge	28	$ 4,717	$ 6,534
Salaries		434	321
Other compensation, including short-term benefits		828	1,380
		$ 5,979	$ 8,235

10. INCOME TAX

The current income tax expense for the year on the ordinary business of the Group was $Nil (2011: $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 2012 and 2011 UK Statutory tax rate to the Group's loss before income tax.

(Thousands of $)	2012	2011
Current tax:		
Current tax on operations for the year	$ 153	$ –
Deferred tax:		
Loss on ordinary activities before taxation	$ (20,775)	$ (33,167)
Loss on ordinary activities before income tax at the standard UK corporation tax rate of 24% (2011: 26%)	(4,986)	(8,623)
Different local tax rates	(1,943)	(1,740)
Expenses not deductible for tax purposes	473	730
Losses and other temporary differences unrecognised and carried forward		
to future periods – UK	747	3,188
to future periods – Argentina	5,709	6,445
Change in expected recovery of deferred tax asset	(629)	–
Total deferred taxes	(629)	–
Total income tax benefit for the year on ordinary business	$ (476)	$ –
Factors affecting tax charge for the year:		
Tax on operations for the year	153	–
Change in expected recovery of deferred tax asset	(629)	–
Tax credit for the period	$ (476)	$ –

Factors that may affect future tax charges

The Group contains entities with tax losses and deductible temporary differences for which no deferred tax asset is recognised.

The Company has unrecognised losses and other temporary differences at December 31, 2012 of approximately $33.3 million (GBP 20.5 million) (2011: $23.4 million – GBP 15.1 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 unrecognised tax losses at December 31, 2012 of approximately $617 thousand (AR$3.0 million) (2011: $1.36 million – AR$5.84 million) which may be used against future taxable income. These losses expire as follows:

Year (in Thousands)	AR$	$
2013	196	40
2014	302	62
2015	410	84
2016	890	181
2017	1,227	250

Subsidiary companies in Argentina have cumulative unused exploration costs related to different mining projects as at December 31, 2012 of approximately $56.1 million (AR$275.1 million) (2011: $49.4 million – AR$212.5 million). Under the Argentine law "Ley de Inversiones Mineras No. 24196", which combines the requirements of the federal tax code and the mining code, exploration costs are available to be deducted from taxable income two times, in the following order:

1) as a depreciation on the basis of the units of the project production; and

2) as a deduction in full within the first five years as of the start of the related project production.

A deferred tax asset of $0.6 million related to the tax losses accumulated from the Lomada Project has been recognised as at December 31, 2012. This amount is expected to be fully utilised against taxable income from the Lomada Project in 2013.

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

11. LOSS PER SHARE

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

Year to December 31,	**2012**	2011
Loss after tax (Thousands of $)	$ (20,775)	$ (33,167)
Weighted average number of shares	768,164,963	715,991,612
Basic and diluted loss per share ($)	$ (0.03)	$ (0.05)

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, 2012, there were 76,445,000 (December 31, 2011: 64,145,000) share options and 24,705,000 warrants (December 31, 2011: Nil) in issue, which would have a potentially dilutive effect on the basic profit per share in the future.

On February 27, 2013 the Company placed 41,196,687 new ordinary shares as detailed in Note 32. The basic and diluted loss per share for 2012 remains $(0.03) after taking this placing into account.

12. MINING RIGHTS

(Thousands of $)	Amount
At January 1, 2011	$ –
Additions	3,986
Exchange differences	–
At December 31, 2011	$ 3,986
At January 1, 2012	3,986
Additions	–
Amortisation charge for the year	(100)
Exchange differences	–
At December 31, 2012	$ 3,886

On October 14, 2011, Patagonia Gold, 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 the 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. The initial share of net assets of PGSA ascribed to the non-controlling interest amounted to $4.0 million.

Since mining rights were acquired by the Group in October 2011, management has not 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 40-year period from the date of the agreement. As indicated above, these mining rights have been recorded as an intangible asset and will be amortised on a straight-line basis over 40 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.

13. MINERAL PROPERTIES

(Thousands of $)	Mining assets	Surface rights acquired	Assets in the course of construction	Total
Cost				
At January 1, 2011	$ 2,037	$ 1,589	$ –	$ 3,626
Additions	2,398	2,266	405	5,069
Exchange differences	(151)	(44)	–	(195)
At December 31, 2011	$ 4,284	$ 3,811	$ 405	$ 8,500
At January 1, 2012	4,284	3,811	405	8,500
Additions	149	–	2,106	2,255
Income from trial production	(768)	–	–	(768)
Disposals	(250)	–	–	(250)
Exchange differences	(527)	(591)	(50)	(1,168)
At December 31, 2012	$ 2,888	$ 3,220	$ 2,461	$ 8,569
Amortisation				
At January 1, 2011	–	–	–	–
Charge for the period	81	–	–	81
Exchange differences	–	–	–	–
At December 31, 2011	$ 81	$ –	$ –	$ 81
At January 1, 2012	81	–	–	81
Charge for the period	120	–	–	120
Exchange differences	(19)	–	–	(19)
At December 31, 2012	$ 182	$ –	$ –	$ 182
Net book value				
At December 31, 2012	$ 2,706	$ 3,220	$ 2,461	$ 8,387
At December 31, 2011	$ 4,203	$ 3,811	$ 405	$ 8,419

Mining assets

The Lomada Project has completed the trial heap leach phase and will be entering the full commercial production phase in late second quarter of 2013. From September 1, 2010 all development costs incurred in respect of the project have been capitalised as mineral properties – mining assets. The proceeds received from the December 2012 sale of the gold and silver recovered from the first pour of the Lomada trial heap leach inventory at the newly commissioned gold processing facility was $0.8 million (2011: $Nil). These proceeds are offset against the capitalised costs of the Lomada Project development in compliance with IAS 16. Amortisation is charged based on the unit-of-production method.

Assets in the course of construction

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 mineralisation.

14. PROPERTY, PLANT AND EQUIPMENT

(Thousands of $)	Office equipment and vehicles	Machinery and equipment	Buildings	Plant	Assets in the course of production	GROUP Total	COMPANY Office equipment
Cost							
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
At January 1, 2012	747	4,883	927	1,880	–	8,437	197
Additions	43	1,427	135	349	4,105	6,059	35
Disposals	–	(1)	–	–	–	(1)	–
Exchange differences	(58)	(600)	9	(231)	–	(880)	9
At December 31, 2012	732	5,709	1,071	1,998	4,105	13,615	241
Depreciation							
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
At January 1, 2012	234	787	28	38	–	1,087	60
Disposals	–	(1)	–	–	–	(1)	–
Charge for the year	117	623	19	71	–	830	41
Exchange differences	(24)	(143)	(5)	(10)	–	(182)	3
At December 31, 2012	327	1,266	42	99	–	1,734	104
Net book value							
At December 31, 2012	405	4,443	1,029	1,899	4,105	11,881	137
At December 31, 2011	$ 513	$ 4,096	$ 899	$ 1,842	$ –	$ 7,350	$ 137

15. INVESTMENT IN SUBSIDIARY COMPANIES

COMPANY

(Thousands of $)	**2012**	2011
Balance at January 1,	$ 112,933	$ 29,711
Capital contributions during the year	–	83,250
Exchange differences	5,115	(28)
Balance at December 31,	$ 118,048	$ 112,933

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

The Company's investment in subsidiaries has been considered for impairment as at December 31, 2012 on the basis of recently published exploration results and the progress being made on transitioning projects towards production. The carrying value of the investments is determined after conducting an impairment assessment. The Directors do not consider that a further impairment charge is necessary.

Company	Country of incorporation	**2012** Percentage shareholding	2011 Percentage shareholding	Nature of business	**2012** Thousands of $	2011 Thousands of $
Patagonia Gold S.A.	Argentina	90	90	Exploration	$ 109,939	$ 105,182
Minera Minamalu S.A.	Argentina	100	100	Exploration	8,109	7,751
Huemules SA	Argentina	100	100	Exploration	–	–
Leleque Exploración SA	Argentina	100	100	Exploration	–	–
Patagonia Gold Canada Inc.	Canada	100	100	Administration	–	–
Patagonia Gold Chile S.C.M.	Chile	100	100	Exploration	–	–
At December 31,					$ 118,048	$ 112,933

16. OTHER RECEIVABLES

Non-current assets

	GROUP		COMPANY	
(Thousands of $)	**2012**	2011	**2012**	2011
Recoverable VAT	$ 8,557	$ 6,536	$ –	$ –
Other receivables	159	–	–	–
	$ 8,716	$ 6,536	$ –	$ –

The Directors consider Recoverable VAT at December 31, 2012 to be recoverable in full based on post year-end approvals set by the Mining Secretary in Argentina.

17. TRADE AND OTHER RECEIVABLES

Current assets

(Thousands of $)	GROUP 2012	GROUP 2011	COMPANY 2012	COMPANY 2011
Other receivables	$ 460	$ 241	$ 1,226	$ 599
Prepayments and accrued income	140	83	129	83
UK Recoverable VAT	24	35	24	35
Recharge of costs owed by Landore Resources Limited (Note 27)	1	1	1	1
	$ 625	$ 360	$ 1,380	$ 718

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.

18. 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.

19. CASH AND CASH EQUIVALENTS

(Thousands of $)	GROUP 2012	GROUP 2011	COMPANY 2012	COMPANY 2011
Bank and cash balances	$ 1,352	$ 3,833	$ 31	$ 294
Short-term deposits	3,311	7,493	3,311	7,493
	$ 4,663	$ 11,326	$ 3,342	$ 7,787

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 2012	GROUP 2011
Cash and cash equivalents per the consolidated statement of financial position	$ 4,663	$ 11,326
Bank overdraft	–	(380)
Cash and cash equivalents per the consolidated statement of cash flows	$ 4,663	$ 10,946

The bank overdraft at December 31, 2011 comprised 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.

20. OVERDRAFT FACILITY

In March 2012, the Company entered into an overdraft facility in the amount of $3.5 million. The overdraft facility bore interest at 2.73% per annum for the period of May 2012 to November 2012, when the Company repaid the facility in full.

21. TRADE AND OTHER PAYABLES

Current liabilities

	GROUP		COMPANY	
(Thousands of $)	**2012**	2011	**2012**	2011
Trade and other payables	$ 5,509	$ 6,497	$ 199	$ 282
Intercompany payables	–	–	20,517	50,296
Other accruals	460	745	459	745
	$ 5,969	$ 7,242	$ 21,175	$ 51,323

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

22. PROVISIONS

	GROUP		COMPANY	
(Thousands of $)	**2012**	2011	**2012**	2011
Provisions	$ 1,104	$ 852	$ –	$ –

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

(Thousands of $)	Reclamation and remediation provision(i)	Tax provision(ii)	Other(iii)	Total
Balance at January 1, 2012	$ 191	$ 429	$ 232	$ 852
Net additions	125	93	34	252
Balance at December 31, 2012	$ 316	$ 522	$ 266	$ 1,104

(i) Reclamation and remediation provision relates to the environmental impact of works undertaken as at the balance sheet dates (Note 3).

(ii) Tax provision for withholding tax on foreign suppliers.

(iii) Provision for Santa Cruz Water department assessment and road traffic accident (Note 31).

23. 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, 2011	675,852,783	$ 10,454
Issue by placing	57,738,095	933
Exercise of options	2,900,000	46
Exchange difference on translation to $	–	(52)
At December 31, 2011	736,490,878	11,381
At January 1, 2012	736,490,878	11,381
Issue by placing	64,940,000	1,024
Exercise of options	11,200,000	177
Exchange difference on translation to $	–	544
At December 31, 2012	812,630,878	$ 13,126

Exercise of options

During 2012, the Company allotted a total 11,200,000 new ordinary shares pursuant to the exercise of share options for total gross proceeds of $1.8 million (£1.1 million). Of this total, $0.2 million (£0.1 million) of the gross proceeds is included in share capital and the balance of $1.6 million (£1.0 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
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
May 30, 2012	25,000	May 15, 2012
June 1, 2012	25,000	May 23, 2012
June 11, 2012	100,000	May 16, 2012
December 12, 2012	25,000	November 14, 2012
	11,200,000	

Issue by placing

On June 6, 2012, the Company placed 32,000,000 new ordinary shares, each at a price of 25 pence per share ($12.4 million). The cost of these placements totalled $0.3 million (£0.2 million), resulting in net proceeds of $12.1 million (£7.8 million). Of this total, $0.5 million (£0.3 million) of the net proceeds is included in share capital and the balance of $11.6 million (£7.5 million) is included in share premium.

On October 25, 2012, the Company placed 29,020,000 new ordinary shares, each at a price of 22.5 pence per share ($10.5 million) and on November 27, 2012, the Company placed a further 3,920,000 new ordinary shares, each at a price of 25.5 pence per share ($1.6 million). The cost of these placements totalled $0.5 million (£0.3 million), resulting in net proceeds of $11.6 million (£7.2 million). Of this total, $0.5 million (£0.3 million) of the net proceeds is included in share capital and the balance of $11.1 million (£6.9 million) is included in share premium.

Warrants

The placements of October 2012 and November 2012 were combined with the issue of warrants. Subscribers for the new ordinary shares have been issued with three quarters of a warrant for every such new ordinary share so subscribed (with fractional entitlements rounded down to the nearest whole warrant). A total of 24,705,000 warrants have been issued pursuant to the placements and subscription. The warrants are exercisable into ordinary shares on a one for one basis at a price equal to a 10% premium to the placing price at any time up to four years from the subscription date. The warrants are non-transferable save in limited circumstances.

These warrants are classified as an equity instrument under IAS 32 as they are fixed for fixed (i.e. the subscriber can subscribe for a fixed number of shares in exchange for a fixed price (the subscription price)) and there are no variables to this under the warrant instruments. As an equity instrument the warrants are within the scope of IAS 32 but outside the scope of IAS 39 *Financial Instruments – Recognition and Measurement* and therefore changes in the fair value are not recognised in the financial statements.

The total number of warrants over ordinary shares outstanding at December 31, 2012 was as follows:

Date of grant		Number of warrants	Exercise price (pence)	Remaining contractual life (years)
October 31, 2012	Directors	2,065,263	24.75	3.84
	Other subscribers	19,699,737	24.75	3.84
November 30, 2012	Other subscribers	2,940,000	28.05	3.92
		24,705,000		

24. NON-CONTROLLING INTEREST

GROUP

(Thousands of $)	Amount
At January 1, 2011	$ –
Impact of change in ownership interest	3,986
At December 31, 2011	3,986
At January 1, 2012	3,986
Change in year	–
At December 31, 2012	$ 3,986

On October 14, 2011, Patagonia Gold, PGSA and Fomicruz entered into the Fomicruz Agreement (Note 12). 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 as mining rights. In the consolidated financial statements, the increase in equity of PGSA has been recorded as non-controlling interest.

25. FINANCIAL INSTRUMENTS

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

Financial assets

	GROUP		COMPANY	
(Thousands of $)	**2012**	2011	**2012**	2011
Available-for-sale financial assets	$ 94	$ 120	$ 94	$ 120
Loans and receivables	$ 619	$ 241	$ 1,226	$ 599
Cash and cash equivalents	$ 4,663	$ 11,326	$ 3,342	$ 7,787

Financial liabilities

	GROUP		COMPANY	
(Thousands of $)	**2012**	2011	**2012**	2011
Bank overdraft	$ –	$ 380	$ –	$ –
Trade and other payables	$ 5,969	$ 7,242	$ 649	$ 351

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

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

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

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

(Thousands of $)	Level 1	Level 2	Level 3	Total
As at December 31, 2012				
Listed securities	$ 94	$ –	$ –	$ 94
As at December 31, 2011				
Listed securities	$ 120	$ –	$ –	$ 120

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 fund projects from raising capital from equity placements rather than long-term borrowings;
- To increase the value of the assets of the business; and
- To provide an adequate return to shareholders in the future when new or existing exploration assets are taken into production.

These objectives will be achieved by maintaining and adding value to existing extraction projects and identifying new exploration projects, adding value to these projects and ultimately taking them through to production and cash flow, either with partners or by the 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 statement of financial position. 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 the Argentine peso ("AR$"). 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 Gold is GBP. As at December 31, 2012, Patagonia Gold held cash balances denominated in GBP, $ and Canadian dollars and had trade and other payables denominated in GBP, $ and Canadian dollars.

The functional currency of PGSA is the AR$. As at December 31, 2012, PGSA held cash balances denominated in AR$, $ and GBP.

The functional currency of Minera Minamalu S.A. ("MMSA") is the AR$. As at December 31, 2012, MMSA held cash balances denominated in AR$.

The functional currency of Patagonia Gold Canada Inc. is the Canadian dollar. At December 31, 2012, Patagonia Gold Canada Inc. held cash balances denominated in Canadian dollars and $.

Financial assets and liabilities held by group companies in currencies other than the particular company's functional currency are subject to foreign currency risk. Based on $ financial assets and liabilities at December 31, 2012 held by companies whose functional currency is other than the $, if the $ rate weakened/strengthened by 10% against the functional currency exchange rate of each Group company at December 31, 2012 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 $)	**2012**	2011
Increase in net loss for the year	$ 2	$ 566

Foreign currency rate strengthened

(Thousands of $)	**2012**	2011
Decrease in net loss for the year	$ 3	$ 692

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 the GBP was 0.35% (2011: 1.025%) and for the $ was 0.90% (2011: 0.90%). If interest rates in 2012 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 2012.

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.

26. OPERATING LEASE COMMITMENTS

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

GROUP AND COMPANY

(Thousands of $)	**2012**	2011
Operating leases which expire:		
Within one year	$ 287	$ 1,086
Within two to five years	87	2,541
After five years	–	–
	$ 374	$ 3,627

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 2012, $0.2 million (2011: $0.3 million) of operating lease payments were recognised as an expense within exploration costs.

27. RELATED PARTIES

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

(Thousands of $)	Notes	2012	2011
Landore Resources Limited	(i)	$ 87	$ 118
Cheyenne S.A.	(ii)	76	40
MB Holding S.A.	(iii)	12	26
Agropecuaria Cantomi S.A.	(iv)	39	46
Lusemana S.A.	(v)	36	40
El Salvador 4040 S.A.	(vi)	39	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, 2012 of $1.0 thousand (December 31, 2011: $1.0 thousand). 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 2011, PGSA moved to new office space 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.

28. SHARE-BASED PAYMENTS CHARGE

The Group operates 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:

	2012 Weighted average exercise price pence	2012 Weighted average exercise price $	2012 Number of options	2011 Weighted average exercise price pence	2011 Weighted average exercise price $	2011 Number of options
Outstanding at the beginning of the year	20.33	$ 0.314	64,145,000	11.28	$ 0.174	49,450,000
Granted during the year	26.68	0.423	23,500,000	44.66	0.716	17,595,000
Exercised during the year	9.91	0.157	(11,200,000)	13.43	0.215	(2,900,000)
Outstanding and exercisable at the end of the year	23.81	$ 0.385	76,445,000	20.33	$ 0.314	64,145,000

On January 9, 2013 14,500,000 share options were awarded pursuant to a Board recommendation of October 2012 and subject to performance criteria, each of which had been met by December 31, 2012. These options are included as "granted during the year" in the above table as the option terms were communicated on October 18, 2012.

Options outstanding at December 31, 2012 have an exercise price in the range of $0.111 (6.875p) per option to $1.018 (63.00p) per option and a weighted average contractual life of 7.35 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.

	2012	2011
Weighted average share price	33.13p ($0.535)	40.77p ($0.630)
Exercise price	33.34p ($0.539)	41.36p ($0.639)
Expected volatility (expressed as a percentage used in modelling under the Black-Scholes model)	52.61%	59.45%
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 $)	2012	2011
New options granted in the year	$ 5,284	$ 8,481

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

The total number of options over ordinary shares outstanding at December 31, 2012 was as follows:

Date of grant	Employees entitled	Number of options	Exercise price (pence)	Remaining contractual life (years)
February 18, 2004	Directors	5,187,000	8.00*	1.14
November 23, 2004	Senior management	500,000	14.75	1.90
June 22, 2005	Senior management and employee	150,000	7.50	2.47
December 6, 2005	Senior management	100,000	8.00*	2.93
May 17, 2006	Senior management	200,000	14.50	3.38
March 1, 2007	Employees	100,000	6.875	4.17
May 23, 2007	Senior management	200,000	8.00*	4.39
June 5, 2007	Director and employees	1,175,000	8.00*	4.43
June 5, 2007	Employee	25,000	10.50	4.43
June 3, 2008	Director and employees	1,175,000	8.00*	5.42
June 9, 2009	Employees	1,175,000	12.00	6.44
June 9, 2009	Directors	1,400,000**	8.00*	0.25
June 23, 2009	Directors and senior management	17,913,000	12.25	6.48
June 17, 2010	Directors and employees	5,850,000	15.00	7.47
August 1, 2010	Employee	300,000	15.00	7.59
February 10, 2011	Directors	5,500,000	50.00	8.12
February 21, 2011	Senior management	800,000	50.00	8.15
May 9, 2011	Employees	500,000	43.50	8.36
May 13, 2011	Directors and senior management	4,400,000	42.25	8.37
May 24, 2011	Senior management	1,000,000	39.00	8.40
June 10, 2011	Employees	2,175,000	40.00	8.45
August 14, 2011	Former Directors	900,000**	13.65	0.25
August 15, 2011	Employee	200,000	62.00	8.63
September 1, 2011	Senior management	500,000	63.00	8.67
November 1, 2011	Directors	1,500,000	50.25	8.84
December 6, 2011	Employee	20,000	54.00	8.94
January 31, 2012	Directors	4,500,000	42.50	9.09
July 1, 2012	Senior management	1,500,000	25.00	9.50
December 3, 2012	Senior management and employees	3,000,000	22.75	9.93
January 9, 2013	Directors	14,500,000***	22.75	10.00
		76,445,000		

* 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 J. 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 are equivalent to those of the original awards and have been valued as such. No prior year adjustment was made in respect of these awards based on the values not being significant.

*** On January 9, 2013 14,500,000 share options were awarded pursuant to a Board recommendation of October 2012 and subject to performance criteria, each of which had been met by the year end. These options are included in the above table.

29. AUDITORS' REMUNERATION

(Thousands of $)	GROUP 2012	GROUP 2011	COMPANY 2012	COMPANY 2011
Fees payable to the Company's auditor for the audit of the consolidated annual accounts	$ 101	$ 59	$ 18	$ 18
Fees payable to the Company's auditor and its associates for other services:				
– Tax	$ 9	$ 9	$ 9	$ 9
– Other	$ 85	$ 52	$ –	$ –

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.

30. FINANCIAL COMMITMENTS

Property, plant and equipment

During 2012, the Group entered into purchase commitments totalling $7.9 million (December 31, 2011: $1.9 million) with two vendors related to the purchase of heavy duty mining equipment and construction of facilities. Commencing upon receipt of shipment, instalments are payable to one vendor semi-annually over a two-year period and to the second vendor quarterly over a three-year period.

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 Gold 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 recognised 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 ounces or greater of gold or gold equivalent NI 43-101 Indicated Resource on the La Paloma Property Group.

31. CONTINGENT LIABILITY

Road Traffic Accident

In October 2011 and March 2012, following a fatal road traffic accident in Argentina, compensation claims were made outside of the life insurance policy held by PGSA. These are non-judicial claims against PGSA that have been partially settled through a mediation process among PGSA, the automobile insurance company, and the claimants. According to those settlement agreements, the automobile insurance company paid the agreed compensations to the claimants, while PGSA committed to afford some of the court expenses and settlement fees. As at April 25, 2013, the claim remains partially outstanding and a provision of $0.1 million (AR$0.5 million) has been recorded as of December 31, 2012.

Water Department Assessment

In September 2012, the Water Department of the Province of Santa Cruz imposed a $0.2 million (AR$0.7 million) assessment on PGSA alleging PGSA had been using water without the Water Department's authorisation and delayed filing of monthly reports on volume of water used. PGSA believes the assessment is not justified and has filed an appeal. As at December 31, 2012 PGSA has recorded a provision for the full amount.

32. SUBSEQUENT EVENTS

Available-for-sale financial assets

On January 22, 2013, the Company purchased additional debt securities in the form of Argentine bonds (BODEN 2015) for $2.7 million. All the bonds were redeemed in February 2013 for a net investment gain of $1.4 million.

Share-based payments

On January 9, 2013 14,500,000 share options were awarded pursuant to a Board recommendation of October 18, 2012 and subject to performance criteria, each of which had been met by the year end. Based on the original date of recommendation of the awards, these options are included in the tables and calculations throughout the Report and Accounts for the year ended December 31, 2012.

Share capital

On February 26, 2013, the Company issued, by subscription, 41,196,687 new ordinary shares, each at a price of 15 pence per share, raising $9.4 million (£6.2 million) to finance exploration drilling at the Cap-Oeste and COSE Projects for the first half of 2013 and to provide general working capital for the Company.

In March 2013, the Company allotted 500,000 new ordinary shares of 1p each pursuant to the exercise of share options.

In April 2013, the Company allotted 250,000 new ordinary shares of 1p each pursuant to the exercise of share options.

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 metal, 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.

ORE BODY: 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: Mineral 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: 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: The economically mineable part of an 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 making a decision on the development of a deposit.

STRIPPING: Removal of overburden or waste rock overlying an ore body 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 Friday, June 14, 2013 at 11.00 am at The Cavalry and 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 7 (inclusive) will be proposed as Ordinary Resolutions and in the case of resolution 8 will be proposed as a Special Resolution:

ORDINARY RESOLUTIONS

1. To receive and, if approved, adopt the financial statements of the Company for the year ended December 31, 2012 and the reports of the Directors and auditors thereon.
2. To re-elect Carlos J. Miguens, Chairman, who retires by rotation, as a Director of the Company.
3. To re-elect Gonzalo Tanoira, Finance Director, who retires by rotation, as a Director of the Company.
4. To elect Manuel de Prado, who was appointed to the Board of Directors following the last Annual General Meeting, as a Director of the Company.
5. To elect Glenn Featherby, who was appointed to the Board of Directors following the last Annual General Meeting, as a Director of the Company.
6. To re-appoint Grant Thornton UK LLP as auditors to the Company, to hold office from the conclusion of the Annual General Meeting until the conclusion of the next Annual General Meeting and to authorise the Directors to determine the auditor's remuneration.
7. 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 subject to the following conditions:

   (a) that the maximum aggregate nominal amount of shares to be allotted in pursuance of such authority shall be £2,846,091.88; and

   (b) that this authority shall expire on the earlier of June 30, 2014 or the conclusion of the Company's next Annual General Meeting unless revoked or renewed before that date save 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.
8. THAT (conditional upon the passing of the Ordinary Resolution numbered 7 above) the Directors be and they are hereby generally and unconditionally empowered pursuant to Section 570 of the Act to exercise all powers of the Company to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the general authority conferred by Resolution 7 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, the allotment of equity securities for cash up to an aggregate nominal amount of £853,827.56.

Provided that this authority shall expire on the earlier of June 30, 2014 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 25, 2013

Registered office:

15 Upper Grosvenor Street
London W1K 7PJ

NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING

Appointment of Proxy

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 one or more 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, on their helpline at 0870 702 000 or copy the Form of Proxy, 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, and any power of attorney or other authority (if any) under which it is executed (or a notarially certificated copy of such authority) must be duly completed, executed and deposited, with the Company's Registrars, Computershare Investor Services PLC, at The Pavilions, Bridgwater Road, Bristol BS99 6ZY by no later than 11.00 am on June 12, 2013 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.

Entitlement to attend and vote

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 12, 2013, or in the event that the meeting is adjourned, as at 6.00 pm on the day two days before the date of the adjourned meeting, 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 in the Register of Members after 6.00 pm on June 12, 2013 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

CREST

6. 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.
7. 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 12, 2013 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.
8. 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.
9. The Company may treat a CREST Proxy Instruction as invalid as set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Copies of Service Contracts and Letters of Appointment

10. 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.

Explanatory Notes to Resolutions 7 and 8

11. The purpose and effect of the Resolutions to be proposed as Resolutions 7 and 8 (inclusive) are explained in the Appendix to this Notice.

APPENDIX TO THE NOTICE OF ANNUAL GENERAL MEETING

Explanatory Notes to Resolutions 7 and 8

Resolution 7 – Authority to Allot Securities

Resolution 7 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 £2,846,091.88, representing approximately 33.33% of the Company's issued share capital as at the date of the Notice of Annual General Meeting, such authority replacing the authority granted at the Company's general meeting on January 8, 2013 and to expire on the earlier of June 30, 2014 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 8 – Authority to Disapply Statutory Pre-Emption Rights

Resolution 8 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 £853,827.56, representing approximately 10% of the present issued share capital as at the date of the Notice of Annual General Meeting. This Resolution, if approved, will replace the authority granted at the Company's general meeting on January 8, 2013 and enable the Board, for the period expiring on the earlier of June 30, 2014 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.

The Cavalry and Guards Club has asked the Company to bring to the attention of shareholders attending the Annual General Meeting that the use of mobile telephones is strictly forbidden in any part of the Club, and that gentlemen should wear a tailored jacket and tie at all times in the public areas of the Club (although jackets may be removed during meetings in function rooms).

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 and Guards Club, 127 Piccadilly, London W1V 0PX on Friday, June 14, 2013 at 11.00 am and at any adjournment thereof and to speak and 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, 2012			
2. Ordinary Resolution to re-elect Carlos J. Miguens as a Director			
3. Ordinary Resolution to elect Gonzalo Tanoira as a Director			
4. Ordinary Resolution to elect Manuel de Prado as a Director			
5. Ordinary Resolution to elect Glenn Featherby as a Director			
6. Ordinary Resolution to re-appoint Grant Thornton UK LLP as auditors and to authorise the Directors to determine the remuneration of the auditors			
7. Ordinary Resolution to empower the Directors to allot shares for the purposes of section 551 of the Companies Act 2006			
8. 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 Company's Registrars, Computershare Investor Services PLC, on their helpline at 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. If you sign and return this Form of Proxy with no name inserted in the box, the Chairman of the meeting will be deemed to be your proxy. Where you appoint as your proxy someone other than the Chairman, you are responsible for ensuring that they attend the meeting and are aware of your voting intentions.
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. To direct your proxy how to vote on the resolutions, mark the appropriate box with an 'X'. To abstain from voting on a resolution, select the relevant "Withheld" box. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution.
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 completed and 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, at The Pavilions, Bridgwater Road, Bristol BS99 6ZY by no later than 11.00 am on June 12, 2013, which is the time not less than 48 hours before the time appointed for holding the meeting or adjournment thereof (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. Where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
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 Notes 6-9 of the Notice of Annual General Meeting in relation to the submission of a proxy appointment via CREST.
10. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

DIRECTORS

Carlos J. Miguens
Chairman

Sir John Craven
Non-Executive Chairman
Retired January 9, 2013

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
Resigned February 18, 2013

Manuel de Prado
Non-Executive Director
Appointed April 8, 2013

Glenn Featherby
Non-Executive Director
Appointed April 8, 2013

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
Website www.patagoniagold.com

Company registered number
3994744

INVESTOR RELATIONS

William H. Humphries
Chief Executive Officer
whumphries@tiscali.it

Barnes Communications Inc.
1 Yonge Street, Suite 1504
Toronto, Ontario M5E 1E5
Canada
www.barnesir.com

AUDITORS

Grant Thornton UK LLP
Grant Thornton House
Melton Street
London NW1 2EP
United Kingdom

SOLICITORS

Stephenson Harwood LLP
1 Finsbury Circus
London EC2M 7SH
United Kingdom

REGISTRARS AND TRANSFER AGENTS

Computershare Investor Services Plc
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
United Kingdom

Computershare Limited
100 University Avenue
Toronto, Ontario M5J 2Y1
Canada

NOMINATED ADVISER

Strand Hanson Limited
26 Mount Row
London W1K 3SQ
United Kingdom

BROKER

Mirabaud Securities LLP
33 Grosvenor Place
London SW1X 7HY
United Kingdom

STOCK EXCHANGE LISTINGS

AIM: PGD
TSX: PAT

ANNUAL GENERAL MEETING

Friday, June 14, 2013
at 11 am
The Cavalry and Guards Club
127 Piccadilly
London W1V 0PX
United Kingdom

PATAGONIA GOLD PLC

CORPORATE ADDRESS

15 Upper Grosvenor Street
London W1K 7PJ
United Kingdom

www.patagoniagold.com