



## Patagonia Gold PLC : Final Results

Released : 28.04.2009

RNS Number : 2489R

Patagonia Gold PLC

28 April 2009

### Patagonia Gold Plc (*'PGD'* or *'the Company'*)

#### Final results for the year ended 31 December 2008

The Board of Patagonia Gold Plc is pleased to announce its audited results for the year to 31 December 2008.

#### **Deputy Chairman's statement**

I am pleased to present the 2008 results for Patagonia Gold Plc.

2008 has seen a huge transformation in the Company's prospects as a direct result of the exploration successes on the Santa Cruz projects which were acquired in 2007.

The financial results show a loss of £5,803,394 (2007: £6,189,334). These losses reflect the level of expenditure on drilling and exploration activities through the year which are written off as incurred in line with our prudent accounting policies.

This expenditure has been financed by three placings of new shares at prices ranging from 4.5p to 6.75p to raise a total of approximately £6 million. The majority of these funds raised were provided mainly by my family, Bill Humphries and the Bemberg family. The Company was fortunate to have the support of this substantial shareholder group when capital markets were all but shutdown due to the global financial turmoil.

More recently, in March, the Company successfully completed a share placement, through our brokers Matrix Corporate Capital LLP, raising £9.3 million at 7.75p per share. This issue was well supported and the shares have been trading at a premium since then. As a result the Company is fully funded for our 2009 programme and has no debt.

The Company, on 14 April, formalised the strategic partnership with Fomicruz. Both parties are contributing approximately 100,000 hectares each in the Santa Cruz province which include Lomada de Leiva, Cap-Oeste and La Manchuria gold and silver projects. The Company will retain a 90 per cent. stake in the new venture and will be responsible for running the operation. Fomicruz will assist with the permitting process and provide oversight for all environmental and social aspects of the development process.

Our drilling and exploration programmes have produced excellent results during 2008 and full details are set out in the Managing Director's and Operations report which follow. In addition the Company is developing a small-scale gold production start up at its Lomada de Leiva Project. This is a significant step for the Company and all being well, cash flow is anticipated by mid 2010. The Cap-Oeste Project is much larger and the upgraded resource estimate due out later this year should confirm a second potential gold mine.

It is worth mentioning that the business model of the Company has always been to search and identify near surface gold projects which by definition will be much cheaper to mine. We estimate the production cost of gold from the Lomada de Leiva project to be approximately US\$300 per oz while Cap-Oeste should be less than that. In the context of a gold price of nearly US\$900 per oz this leaves a large margin and shows that these projects should not be sensitive, unless there is quite extraordinary volatility in the gold price. Much has been written about the gold price in the financial crisis and there is consensus amongst analysts around the world that a trading range of US\$750 to US\$1,000 per oz is likely in the medium term.

We are actively drilling and continuing to explore the Santa Cruz projects and there will be regular progress reports over the coming months as the information is gathered.

Finally on behalf of the Board, I would like to thank all our staff for the continued commitment and excellent performance during the past year and also to thank our shareholders for their support.

Carlos Miguens  
*Deputy Chairman*

For more information, please contact:

Bill Humphries/Richard Prickett  
Patagonia Gold Plc  
Tel: + 44 (0)20 7409 7444  
[www.patagoniagold.com](http://www.patagoniagold.com)  
Trading Symbol PGD.L

Simon Raggett / Angela Peace  
Strand Partners Ltd  
Tel: +44(0)20 7409 3494

Alastair Stratton / Tim Graham  
Matrix Corporate Capital LLP  
Tel : +44(0)20 3206 7206

David Bick / Mark Longson  
Square 1 Consulting  
Tel : +44(0)20 7929 5599

## **Managing Director's report**

Patagonia Gold Plc's (PGD) Operations Team has enjoyed considerable exploration success on the newly acquired properties in the Santa Cruz province of southern Argentina.

In only the second year of exploration on these properties drilling has already defined two resources with a combined total of 640,000 ounces of gold equivalent (gold plus silver credits) both compliant to Canadian National Instrument 43-101 (NI43-101).

Over 25,000 metres of drilling together with extensive field exploration has been carried out on two of the most advanced properties; El Tranquilo, containing the Cap-Oeste Project and numerous other exploration targets, and La Manchuria, containing the 'Main Zone' prospect.

In addition, considerable progress has been achieved in advancing the Lomada de Leiva Project, La Paloma property, towards gold production by mid 2010.

**Cap-Oeste Project.** By June 2008, a resource oriented drilling campaign, consisting of 95 drill holes for 11,328 metres was completed on the Cap-Oeste Project. Drill results confirmed the presence of a wide gold mineralised structure (Bonanza Fault), over 1.2 kilometres of strike and down dip to ~200 metres. The structure remained open at depth and along strike in both directions.

From this initial campaign, PGD published a maiden resource of 403,000 ounces of gold equivalent, NI43-101 compliant, including a high grade shoot containing 135,408 ounces of gold at 13.17 g/t and 2,297,652 ounces of silver at 227.56 g/t at a 5 grams per tonne (g/t) cut-off.

The initial Cap-Oeste Resource was delineated at a low discovery cost of just US\$8 per ounce of gold equivalent.

Drilling recommenced in October 2008 with the aim of infilling and expanding the high grade shoot and has now extended the mineralised fault structure to over 400 metres from surface.

Drilling will continue up to the onset of the southern winter, circa mid-May. On completion, all data will be collated for a resource estimate update, which is expected to report a significant increase in contained gold and silver.

PGD intends to progress Cap-Oeste through the feasibility and development stages with the aim of achieving gold production in the second half of 2012.

Scout drilling has also commenced on six highly prospective targets on the El Tranquillo property block within

6 kilometres of the Cap-Oeste Project with promising mineralisation intersected in most holes drilled to date. Results are pending.

**La Manchuria 'Main Zone' Project** is located just 50 kilometres to the east of Cap-Oeste.

An 8,116 metre drilling campaign, completed on the Main Zone in 2008, has confirmed and extended the high grade gold with bonanza silver mineralisation, including 1.1 metres at 82.47 g/t gold and 10,485 g/t silver in hole LM-030, to the south for 300 metres. Interpretation of geophysics clearly shows the structure extending further south for over 2,000 metres.

Results are sufficiently encouraging for a resource infill and extension drilling campaign to be initiated this coming southern spring in October 2009 to advance this project towards resource definition.

**Lomada de Leiva Project** contains a resource of 161,346 ounces of gold in the measured and indicated categories with an additional inferred resource of 73,725 ounces of gold NI43-101 compliant.

In November 2008, PGD reported that a positive Scoping Study had been completed on the Lomada de Leiva Gold Project utilizing a Run-of-Mine (ROM) heap leaching process.

The report highlighted a low capex. of US\$8.5 million with an annual cash flow of US\$10 million based on the current gold price. Full details are set out in the Operations report which follows.

Significant upside remains by increasing the size of the resource at Lomada de Leiva and the adjacent Breccia Sofia prospect.

PGD is pressing on with the technical and baseline environmental studies with the aim to become a gold producer by mid 2010.

PGD has seven full time Geologists, supported by two consulting Geologists and over 30 technical staff, operating in Santa Cruz on the three advanced projects and on exploration of other properties in our large prospective portfolio.

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

Bill Humphries  
*Managing Director*

27 April 2009

## Operations report

Patagonia Gold Plc (PGD) through its 100 per cent. owned subsidiary in Argentina, Patagonia Gold S.A. (PGSA) operates in four of the Argentine provinces with the emphasis in the Patagonia region.

Total area held is 6,899 square kilometres.

### Santa Cruz Province

In February 2007 PGSA acquired the rights, title and interest in 70 mining and exploration claims and properties, for approximately 200,000 hectares, previously held by subsidiaries of the Barrick Gold Corporation.

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

During 2008, PGSA focused all of its exploration efforts on the newly acquired properties in the Santa Cruz province. Santa Cruz is a mining friendly province and contains a very active petroleum industry and accordingly all the infrastructure and understanding associated with exploration and mining.

Drilling and exploration was concentrated on the Cap-Oeste Project, on the El Tranquilo Property, and the La Manchuria Project with developmental exploration work being conducted at Lomada de Leiva Project at La Paloma. The Company now has two compliant, reportable gold Resources, which total over 640,000 ounces of gold equivalent.

### PGSA and Fomicruz agreement

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

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

PGSA and Fomicruz SE will, subject to the approval by their respective Board of Directors, enter into a detailed Shareholders Agreement which will include the following terms:

- A new company ('NEWCO') will be created in which PGSA will acquire a 90 per cent. interest and Fomicruz SE will acquire a 10 per cent. interest.
- PGSA will contribute to NEWCO approximately 100,000 hectares of its mining properties in Santa Cruz province consisting of the La Paloma, El Tranquilo and La Manchuria block of properties.
- Fomicruz SE will contribute to NEWCO approximately 100,000 hectares of mining properties located in the very prospective Deseado Massif, close to PGSA's El Tranquilo and La Manchuria block of properties.
- PGSA will invest US\$5 million, over a five year period, on exploration expenditures on the properties contributed by Fomicruz SE.
- PGSA will fund all the exploration expenditures on NEWCO's properties to pre-feasibility stage.
- Further development of the properties, through feasibility to production, will be funded on a pro-rata basis.
- PGSA will manage the exploration and potential future development on the properties.

The Agreement was formally ratified on 14 April 2009.

### El Tranquilo Property

The El Tranquilo Project Block, covering over 40 square kilometres, is located approximately 120 kilometres south east of La Paloma and approximately 65 kilometres southeast of Bajo Caracoles in Santa Cruz, and contains the Cap-Oeste Project as well as the Breccia Valentina and Vetas Norte trends.

The Cap-Oeste Project is situated within an approximate 8 kilometres wide x 10 kilometres long window of variably clay-silica-Fe oxide altered Jurassic Chon Aike volcanic rocks. This regional scale window of alteration is surrounded by Tertiary cover rocks which postdate the timing of alteration and related mineralisation within this NE trending regional scale, structural corridor.

To June 2008, a resource oriented drilling campaign, consisting of 95 drill holes for 11,328 metres was completed on the Cap-Oeste structure. Drill results confirmed the presence of a wide gold mineralised structure (Bonanza Fault), over 1.2 kilometres of strike and down dip to ~200 metres, with a core (the Main Shoot) containing high grade to bonanza gold and silver values.

The structure remained open at depth and along strike in both directions.

Chlumsky, Armbrust and Meyer, LLC. (CAM) of Lakewood, Colorado, was retained by Patagonia Gold Plc (PGD) to independently define and describe a gold-silver Resource at Cap-Oeste which complies with Canada National Instrument 43-101 (NI 43-101).

The estimate, published in October 2008, reported the following resource at 0.30 grams per tonne gold cut-off:

Indicated Resource of 149,842 ounces gold and 3,647,751 ounces silver  
Inferred Resource of 154,257 ounces gold and 3,282,074 ounces silver

At 5 grams per tonne (g/t) cut-off, the high grade 'Main Shoot' contained 135,408 ounces of gold at 13.17 g/t and 2,297,652 ounces of silver at 227.56 g/t.

The initial Cap-Oeste Resource was delineated with just 11,329 metres of drilling at a low discovery cost of US\$8 per ounce of gold equivalent.

Exploration drilling, completed in the same campaign, comprising of 25 Reverse Circulation (RC), confirmed the structure to extend to over 2,200 metres of strike.

Metallurgical work on drill residues from the initial drill phase in the oxide material are extremely encouraging, with the average gold recovered after six hours being 96.3 per cent. improving to 97.2 per cent. after 24 hours.

The sulphidic material report lower recoveries but leaching was still progressing when the tests were stopped at 24 hours.

The Cap-Oeste mineralised structure (Bonanza Fault) identified in mapping and trenching for over 6 kilometres, appears as an extremely robust trend in hi-resolution landsat-style imagery and forms part of a structural zone, which not only continues outside the drill area but also extends south towards the sub-parallel

Breccia Valentina structure.

A geophysical survey programme completed in 2008, covered 98.5 kilometres of ground magnetics and 71 kilometres of Induced Polarity (IP) gradient array. The IP results have defined the Cap-Oeste structure as a strong linear resistive contrast over 1,800 metres but which continues as a robust anomaly outside the area of the resource drill area, specifically the geophysical survey indicated similar strength anomalies about two kilometres along strike to the north west and the south east of the Main Shoot area.

PGSA recommenced drilling in October with the aim of infilling and expanding the high grade Main Shoot. Drilling has now extended the mineralised fault structure to over 400 metres from surface. A total of 147 drill holes, for 22,000 metres, have been completed to the time of writing this report, with results available to CO-140-D.

Cap-Oeste significant Drill Hole Intersections from CO-97-D

Drill Hole No.	From (m)	Interval (m)	Au g/t	Ag g/t
CO-097-DR	132.92	6.80	10.92	1711
including	132.92	2.62	24.27	3963
CO-099-D	80.10	10.40	12.02	178
including	80.10	1.18	100.80	953
CO-104-DR	171.00	15.25	6.10	1777
including	178.00	8.25	9.73	2716
CO-105-DR	186.95	17.80	15.18	157
including	193.10	1.90	97.06	111
CO-107-DR	181.00	19.60	5.82	247
including	189.70	8.55	10.89	486
CO-108-DR	70.10	9.65	14.88	592
including	75.5.0	1.25	26.70	2478
CO-110-DR	152.30	4.20	10.32	1490
including	152.30	2.08	19.05	2818
CO-119-DR	258.00	13.20	14.54	186
including	261.00	2.00	40.32	400
including	268.00	1.00	35.54	764
CO-123-DR	257.90	16.10	5.86	260
including	269.57	3.53	14.02	629
CO-125-DR	278.00	10.00	5.29	860
including	280.50	2.08	18.97	3990
CO-127-DR	234.50	13.00	5.40	853
including	244.60	2.90	16.37	2695
CO-129-D	278.00	15.80	5.22	126
including	244.60	2.90	16.37	2696

Gold values indicate that the mineralisation of the system remains persistent at depth.

Drilling will continue up to the onset of the southern winter, circa mid-May. On completion all data will be collated for a resource estimate update.

PGD has retained Micon of Toronto, Canada, to independently prepare a resource upgrade at Cap-Oeste, which complies with Canada National Instrument 43-101 (NI 43-101). The report is scheduled for completion in the third quarter of 2009.

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

At least 200 metres of downward displacement of the south western hanging wall block is indicated by the relative position of displaced volcanic stratigraphy on either side of the fault. The geometry of the ore shoots is controlled by the intersection of the Bonanza Fault with an oblique west north-west trending fracture corridor.

**Exploration.** Patagonia Gold has three geological teams active in the exploration of the El Tranquilo property block.

The geophysics survey results also identified similar signatures to Cap-Oeste in the sub parallel structures of the Breccia Valentina (1.5 kilometres to the north east and also trending 320°) and the Vetas Norte structure a further 2,500 metres to the north east on a similar sub parallel trend.

Hi-definition Landsat imagery has enabled 'ground truthing' and subsequent mapping and sampling of both these trends, which are more accurately described as structural corridors, has returned anomalous gold and silver in grab samples and subsequent sawn rock samples

**Don Pancho prospect** is located in a flex in the Breccia Valentina corridor. Five trenches were excavated, covering 404 metres, based on the highly encouraging mapping and rock chip sampling which contained values up to 9.61 g/t gold and 572 g/t silver. Sample results from the trench were highly anomalous, including from trench 004, 5.0 metres at 1.20 g/t Au and 55 g/t Ag. These values are proportionately similar to the original trenching results from the Cap-Oeste Resource area which is only 1,100 metres to the south west.

A nine drill-hole Reverse Circulation (RC) drilling campaign, for 780 metres, has been completed on Don Pancho. Results are pending.

**La Puma prospect** was also trenched after mapping and sampling identified a 3 kilometre structure containing mineralised outcrop. Sawn channels on these outcrops returned sample values of up to 9.32 g/t gold and 104 g/t silver.

A six drill hole RC drilling campaign, for 516 metres, has been completed at Puma. Results are pending.

**Vetas Norte prospect** is 1,500 metres along strike from La Puma and contains an area of epithermal quartz blocks which have returned up to 1.85 g/t gold and 28 g/t silver. The initial exploration drill hole below an anomalous channel sample intersected 10 metre zone of altered siliceous quartz-pyrite vein material, a step back intersected multiple zones over 5 metre of quartz - sulphide material. Results are pending.

Drilling is continuing at Vetas Norte with a further six RC drill holes planned for a total of 765 metres.

**Pampa prospect.** The Cap-Oeste trend has a strike of 320° whereas the deflected Don Pancho trend is 290°. The zone where these two trends intersect, some 2 kilometres along strike to the north west of the current Resource area of Cap-Oeste is marked by a significant geophysical and vegetation anomaly. This zone is

named Pampa, as it is a flat colluvium covered area and does not contain any outcrop.

The Pampa prospect is considered a prime drill target. Initial exploration drilling on the southern section of this intersection zone, has returned highly anomalous path finder elements as well as elevated gold values.

A diamond drill exploration programme, 12 holes for 1,440 metres, is planned to commence in late April.

Smaller exploration drilling campaigns will be carried out on the Felix prospect, four RC drill holes for 330 metres, located along trend to the south-east of La Puma. Here mapping has identified moderately north-east dipping brecciated chalcidonic veins extending over 50 metres in outcrop containing 10.4 g/t gold. At the Cose prospect (Cap-Oeste SE) located along trend to the south-east of Cap-Oeste project, RC exploration holes will target the interpreted extension of the Cap-Oeste structure where it coincides with a geophysical anomaly of high chargeability.

**Estancia La Bajada Acquisition.** In December 2008, PGSA entered into a purchase agreement for the Estancia La Bajada property comprising 36,544 hectares of land, dwellings, sheds, outbuildings and infrastructure, for the sum of US\$950,000 payable over four six monthly instalments.

With the above acquisition PGSA now has the land surface rights as well as the mineral rights over the majority of the Cap-Oeste Deposit, the Breccia Valentina prospect and other highly prospective areas.

#### **La Manchuria Property**

The La Manchuria property of five expedients covers 5.5 square kilometres and is located about 50 kilometres to the east of the Cap-Oeste project and contains the 'Main Zone' gold-silver project.

**La Manchuria 'Main Zone' Project.** Historic exploration work included soil and rock chip sampling, geophysics, trenching to enable sawn channel sampling and two drill programmes of reverse circulation (RC) and diamond drill holes comprising 22 drill holes for a total of 3,104 metres.

Gold-silver mineralisation on the La Manchuria properties is associated with a low to intermediate sulphidation type epithermal quartz-(adularia-illite) vein system hosted within a shallow dipping sequence of Jurassic aged rhyolite tuffs and underlying andesites. Veins are characteristically narrow on average only one metre but contain bonanza grades of both gold and silver. The veins are strongly structurally controlled with principle veins showing NW to NNW strikes occurring in swarms and densely sheeted zones.

The Main Zone Project is within the same regional corridor that contains the operational mines, Mina Martha to the south and Huevos Verdes to the north.

A drilling campaign, comprising 20 diamond drill-holes for 3,997 metre, was completed on the Main Zone in the first half of 2008. The drilling was designed to infill and twin historic drill holes and to expand the area of mineralisation in order to plan a resource orientated drill programme.

The drilling successfully expanded the Main Zone mineralisation as well as identifying additional veining.

A second drilling campaign, comprising 20 holes for 4,118.5 metres, was completed in the second half of 2008 designed to further expand and infill the known mineralisation.

Significant results include:

#### **Main Zone significant Drill Hole Intersections**

<b>Drill Hole No</b>	<b>From (m)</b>	<b>Interval (m)</b>	<b>Au g/t</b>	<b>Ag g/t</b>
LM-020-D	119.50	2.9	22.35	401
including	121.65	1.6	27.53	612
including	121.65	0.7	31.40	246
LM-22-DR	154.35	0.5	16.50	315
and	184.65	2.4	28.82	344
including	184.65	0.7	52.60	581
LM-023-DR	121.00	4.0	13.31	145
including	122.80	2.2	23.78	264
LM-030-DR	127.30	0.6	24.70	3,660
and	142.50	3.0	34.77	4,164
including	143.50	1.1	82.47	10,485
LM-037-DR	155.10	1.5	15.10	29
and	248.65	1.2	118.50	127

The two drilling campaigns, completed in 2008 on the Main Zone, successfully confirmed and extended the mineralised corridor over 300 metres. In drill section the corridor still remains open in both directions as well as down dip.

Interpretation of geophysics over the Main Zone and to the south clearly shows a geophysical anomaly extending southwards for over 2,000 metres. Rock chips and soil sampling of the cover has returned results highly anomalous in path finder element.

A high definition geophysics survey is programmed for the second half of 2009, in advance of a further infill and exploration programme which will form the basis of a NI-43101 compliant resource.

#### **La Paloma Property**

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

**Lomada de Leiva Project - Development.** Soon after acquisition PGSA commenced an infill and extension drilling campaign on Lomada de Leiva and in August 2007 engaged CAM to independently define and describe a gold resource at Lomada de Leiva, NI 43-101 compliant.

The resource estimate reported at 0.30 grams per tonne gold cut-off:

Measured and Indicated Resource at 161,346 ounces gold with an additional Inferred Resource of 73,725 ounces gold. Furthermore, two thirds of the resource has been categorised as 'measured and indicated' thus substantially reducing the additional amount of drilling required to advance this deposit towards Reserve status.

These results supported with the high potential to develop additional resources at Lomada de Leiva, and the adjacent Breccia Sofia were sufficiently encouraging for PGSA to advance this project towards possible production.

Based on the positive developments of the project, PGSA appointed CAM as Independent Engineers to undertake a Scoping Study (preliminary assessment) of the Project Resource. The aim was to determine potential economics for mining Lomada de Leiva and to identify the target resource base that will support mining on



that project.

Previous metallurgical testing using the 'bottle roll' technique on a significant number of composite samples showed the ore at Lomada de Leiva to be very amenable to leaching with excellent recoveries averaging 97 per cent. in just 12 hours with material crushed to minus 0.075 millimetres.

For this reason and based on the 1.0 gram per tonne resource CAM elected to conduct the Scoping Study utilising a conventional heap leach operation and because of the prevailing high gold price a duplicate study utilising a milling operation.

The study involved investigating three processing cases; direct milling of the ore in a conventional mill; heap leaching with a crushing stage to minus 12.5 millimetres for improved recovery and Run-of-Mine (ROM) heap leaching with lower capital cost and lower recoveries.

The ROM heap leaching was clearly the most attractive and profitable process and will now be used to advance the project towards production.

Highlights of the ROM heap leaching study (all currency in United States dollars):

- Low pre-production capital cost of \$8.5 million recovered within 14 months of start-up. seven years mine life based on an initial resource of 182,369 ounces of gold, with a production of 21,000 plus ounces of gold per year at a cash cost of \$299 per ounce.
- Project cash flow, before tax, is \$35.3 million based on a price of \$650 per ounce gold and a recovery of 80 per cent.. After tax NPV at a 10 per cent. discount rate is \$18.9 million.
- Project cash flow, before tax, is \$63.6 million based on \$850 per ounce gold, and a recovery of 80 per cent.. After tax NPV at a 10 per cent. discount rate is \$36.9 million
- Significant upside remains by increasing the size of the resource at Lomada de Leiva and the adjacent Breccia Sofia which would significantly extend the life of the Project.

As a result of the positive Scoping study PGD has decided to progress the Project towards development with the aim of commencing production in the first half of 2010.

Bulk metallurgical column testing is in progress at SGS Lakefield Research in Chile to test the ore over varying times with varying quantities of reagents to optimise the recovery of the gold, (estimated to be 80 per cent. in the Scoping study).

Vector Argentina SA (Vector), who has been responsible for all of PGSA's exploration, environmental permitting for the past three years, has been engaged to provide the Environmental Impact Report (EIR) service for the production stage, scheduled for completion in June 2009.

Vector has also been engaged to develop an integral Base Line Study (BLS) for the Project, scheduled for completion in October 2009.

A 1,500 metre drilling programme will be carried out for geotechnical and sterilisation purposes in May 2009.

PGSA, assisted by Vector, is also preparing an application for an environmental permit, which would allow advanced exploration, for a trial Heap leach operation (trial) of 50,000 tonnes of ore. The trial is designed to field proof the column tests and to demonstrate that the Heap leach process is not harmful to the environment.

Once permitted, construction of the trial pad, mining and loading would take three months to complete. Irrigation would then commence with the first gold produced soon thereafter

Subject to successful trial leaching and permitting, construction of the main heap leach operation is scheduled to commence in the first half of 2010 with production start-up later in the year.

### **Regional exploration**

Patagonia Gold has two geological teams active in the exploration of the highly prospective Santa Cruz mineral claims and mining properties. To date approximately half of these properties have received first-pass exploration.

**El Bagual Prospect:** is an advanced gold prospect located in the centre-north Santa Cruz province. The 5,717 hectares area is situated in a circular structure, 5 kilometres in diameter, hosting favourable lithology (Jurassic volcanic rocks) associated with a prominent lineament trending N-S and NNE where geochemical results highlighted an anomalous Au-Hg corridor within which several targets have been defined.

Mineralisation is composed of gold-bearing chalcedony stockworks / veinlets and infill quartz veins / breccias distributed in two contiguous and subparallel corridors, roughly of 100 metres width. Historic rock chip samples returned up to 2.36 g/t gold. PGSA sampling found multigram gold values with best sample returned up to

6.74 g/t gold and confirmed pathfinder elements. Historic drilling did not fully test the mineralised zone though better results from five scout drilling reported 25.15 metres at 0.68 g/t gold from 180.15 metres (include 2.3 metres at 2.7 g/t gold) and 45.60 metres at 0.48 g/t gold from 139 metres (include 2.0 metres at 1.21 g/t gold).

Sarita Property: the property of 7,890 hectares, in the centre of Santa Cruz province, is located on the same trend as the silver-rich (gold bearing) Mina Martha Mine (Coeur D'Alene) and only 9 kilometres to the North-West. Lineaments from the Martha trend can be traced on satellite imagery into the Sarita property which contains similar lithological units.

Within the Sarita property several mineralised corridors have been identified so far that host quartz veins / breccia structures, trending North-West. Significant mineralisation was found in quartz veins up to 3.00 metres wide composed of quartz + sulphides including sections dominated by polymetallic mineralisation. Textures include crustiform, CRT, massive, comb, saccharoidal quartz and multi-episodic breccias. Rock chip samples have returned a host of anomalous gold samples with up to 2.97 g/t gold and up to 538 g/t silver, as well as > 1 per cent. copper and lead.

### **Chubut Province**

In June 2006, the Provincial Government of Chubut introduced a provisional law for up to three years banning mining and mineral exploration activities in a specified area in the western sector of the province.

The exclusion area not only included PGSA's principal asset, the Huemules Project, but also 85 per cent. of PGSA's exploration properties, including the advanced Crespo project.

Accordingly PGSA suspended all exploration activities in Chubut until such time that the Provincial Government determines how and when mining and mineral activities can restart in Chubut.

PGSA continues to work with both local and regional governments towards the removal of the exclusion area.

**Summarised consolidated income statement  
for the year ended 31 December 2008**

	2008	2007
	£	£
Exploration costs	(4,523,460)	(4,867,807)
Administration costs	(1,342,430)	(1,367,727)
Finance income	67,318	48,297
Finance costs	(4,822)	(2,097)
<b>Net loss for the year</b>	<b>(5,803,394)</b>	<b>(6,189,334)</b>
<b>Loss per share (pence)</b>		
Basic loss per share	(1.37)	(1.86)
Diluted loss per share	(1.37)	(1.86)

**Summarised consolidated balance sheet  
at 31 December 2008**

	2008	2007
	£	£
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	739,234	66,199
Available for sale financial assets	112,157	146,666
Other receivables	1,301,301	351,316
	2,152,692	564,181
<b>Current assets</b>		
Trade and other receivables	64,779	224,630
Cash at bank and in hand	1,069,373	661,793
	1,134,152	886,423
<b>Total assets</b>	<b>3,286,844</b>	<b>1,450,604</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	(1,468,200)	(534,922)
<b>Non-current liabilities</b>		
Long-term accruals and provisions	(207,058)	-
<b>Total liabilities</b>	<b>(1,675,258)</b>	<b>(534,922)</b>
<b>Net assets</b>	<b>1,611,586</b>	<b>915,682</b>
<b>EQUITY</b>		
<b>Equity attributable to equity holders of the parent</b>		
Share capital	4,735,528	3,579,229
Share premium account	33,339,372	28,400,654
Translation reserve	449,956	103,907
Share based payment reserve	205,341	112,600
Retained loss	(37,118,611)	(31,280,708)
<b>Total equity</b>	<b>1,611,586</b>	<b>915,682</b>

**Summarised consolidated statement of changes in equity  
for the year ended 31 December 2008**

	<i>Share</i>		<i>Share based</i>			<i>Total</i>
	<i>Share</i>	<i>premium</i>	<i>Translation</i>	<i>payment</i>	<i>Retained</i>	
	<i>capital</i>	<i>account</i>	<i>reserve</i>	<i>reserve</i>	<i>loss</i>	
	£	£	£	£	£	£
<b>Balance at</b>						
<b>31 December 2006</b>	2,731,065	23,389,188	238,907	13,731	(25,152,830)	1,220,061
Exchange differences on translation of foreign operations	-	-	(135,000)	-	-	(135,000)
Revaluation of available-for-sale financial assets	-	-	-	-	61,456	61,456
	2,731,065	23,389,188	103,907	13,731	(25,091,374)	1,146,517
<b>Net income recognised directly in equity</b>						
Loss for the period	-	-	-	-	(6,189,334)	(6,189,334)
<b>Total recognised income and expense for the period</b>	2,731,065	23,389,188	103,907	13,731	(31,280,708)	(5,042,817)
Share based payment	-	-	-	98,869	-	98,869
Issue of share capital						
Issue by placing	525,508	3,143,222	-	-	-	3,668,730
Conversion of Loan Notes	303,451	1,858,641	-	-	-	2,162,092
Exercise of option	19,205	9,603	-	-	-	28,808
<b>Balance at 31 December 2007</b>	3,579,229	28,400,654	103,907	112,600	(31,280,708)	915,682
<b>Changes in equity for 2008</b>						
Exchange differences on translation of foreign operations	-	-	346,049	-	-	346,049
Revaluation of available-for-sale financial assets	-	-	-	-	(34,509)	(34,509)
	3,579,229	28,400,654	449,956	112,600	(31,315,217)	1,227,222
<b>Net income recognised directly in equity</b>						
Loss for the period	-	-	-	-	(5,803,394)	(5,803,394)
<b>Total recognised income and expense for the period</b>	3,579,229	28,400,654	449,956	112,600	(37,118,611)	(4,576,172)
Share based payment	-	-	-	92,741	-	92,741
Issue of share capital						
Issue by placing	1,156,299	4,938,718	-	-	-	6,095,017
<b>Balance at 31 December 2008</b>	4,735,528	33,339,372	449,956	205,341	(37,118,611)	1,611,586

**Summarised consolidated cash flow statement  
for the year ended 31 December 2008**

	<i>Year to</i>	<i>Year to</i>
	<i>31 December</i>	<i>31 December</i>
	<i>2008</i>	<i>2007</i>
	£	£
<b>Cash flow from operating activities</b>		
Loss for the year	(5,803,394)	(6,189,334)
Adjustment for:		
Mineral rights acquired through issuance of Loan Notes	-	2,162,093
Interest income	(67,318)	(48,297)
Depreciation and impairment	32,179	24,279
(Increase) in trade and other receivables	(790,134)	(146,232)
Increase in trade payables	933,278	233,702
Increase in long-term provisions	207,058	-
Share based payments	92,741	98,869
<b>Net cash used in operating activities</b>	(5,395,590)	(3,864,920)



<b>Cash flows from investing activities</b>		
Interest received	67,318	48,297
Purchase of property, plant and equipment	(705,214)	(50,264)
<b>Net cash used in investing activities</b>	<b>(637,896)</b>	<b>(1,967)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of share capital	6,095,017	3,697,537
<b>Net cash from financing activities</b>	<b>6,095,017</b>	<b>3,697,537</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>61,531</b>	<b>(169,350)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>661,793</b>	<b>966,143</b>
<b>Effects of foreign exchange movements</b>	<b>346,049</b>	<b>(135,000)</b>
<b>Cash and cash equivalents at end of period</b>	<b>1,069,373</b>	<b>661,793</b>

### Principal accounting policies

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

#### Basis of preparation

The consolidated financial statements have been prepared in accordance with applicable International Financial Reporting Standards as adopted by the EU.

The financial statements have been prepared under the historical cost convention except for available for sale financial assets which are stated at fair value. The measurement bases and principal accounting policies of the Group are set out below.

The previous year was the first year when the financial statements were prepared in accordance with IFRS. The date of transition to IFRS was 1 January 2006 (transition date). The Group took advantage of certain exemptions available under IFRS 1 First-time adoption of International Financial Reporting Standards. The exemptions that were used are explained under the respective accounting policy. These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 31 December 2008.

Goodwill representing the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired, is capitalised and reviewed annually for impairment by the Directors. Goodwill is carried at cost less accumulated impairment losses. Negative goodwill is recognised immediately after acquisition in the income statement.

Goodwill written off to reserves prior to date of transition to IFRS remains in reserves. Goodwill previously written off to reserves is not written back to the income statement on subsequent disposal.

#### Going concern

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

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

The Directors have prepared cash flow information for 2009. The Directors are confident that the Group will be able to secure additional funding to enable it to continue to meet its commitments as they fall due and to undertake the current planned programme of activity over the 12 months from the date of this Annual Report.

On 4 March 2009 the Company placed shares to a value of £9.3 million to fund working capital and exploration expenditure.

### Summarised notes to the financial statements for the year ended 31 December 2008

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

The Group announced on 21 February 2007 that it had acquired the rights, title and interest in 70 mining and exploration claims and properties previously held by Barrick Exploraciones Argentina S.A. and Minera Rodeo S.A. being subsidiaries of Barrick Gold Corporation (the Vendors).

The initial consideration for the Properties payable to the Vendors had an aggregate value of approximately £2,572,350 and comprised (i) a cash payment by PGSA of US\$800,000 and (ii) the issue by the Company of £2,162,092.65 of Loan Notes, convertible into ordinary shares of 1p each in the capital of the Company at a conversion rate of 7.125p per ordinary share, the mid market closing price at 20 February 2007. Accordingly, upon conversion, the Loan Notes would convert into 30,345,160 ordinary shares, representing 10 per cent. of the Company's then issued share capital, (as enlarged by the issue of such shares.) To the extent not previously converted or redeemed, the Loan Notes would fall to be repaid by the Company on 20 February 2009. The Loan Notes would become redeemable by the holders thereof after 20 February 2008 and to the extent that any Loan Notes remained outstanding at such time, interest would become payable on the outstanding Loan Notes from the commencement date at the rate of 5.25 per cent. per annum. The Loan Notes could be converted by the Vendors at any time on or after 27 February 2007 and by the Company any time after 31 May 2007.

On 28 February 2007 the Company allotted 30,345,160 ordinary shares of 1p each to Barrick pursuant to the conversion by the noteholders of all of the Loan

Notes.

A further cash payment of US\$1.5 million will become payable to Barrick upon the delineation of 200,000 oz or greater of gold or gold equivalent (NI 43-101 Indicated Resource) on the La Paloma Property Group. In addition PGSA has granted Barrick an option to buy back up to a 70 per cent. interest in any particular Property group upon the delineation of the greater of 2 million oz of gold or gold equivalent (NI 43-101 Indicated Resource) on that Property group.

Under the terms of the acquisition agreement, PGSA committed to complete a minimum level of expenditure of US\$10 million on the Properties over a five year period. This included a commitment of US\$1.5 million in the first 18 months. These commitments have been satisfied, at 31 December 2008 expenditure on these Properties amounted to approximately US\$12.16 million (2007: US\$3.67 million).

## 2. Loss per share

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

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

	<i>Year to</i>	<i>Year to</i>
	<i>31 December</i>	<i>31 December</i>
	<i>2008</i>	<i>2007</i>
Loss after tax (£)	(5,803,394)	(6,189,334)
Weighted average number of shares	423,543,344	333,053,212
Basic and diluted loss per share (pence)	(1.37)	(1.86)

## 3. Publication of non statutory accounts

The summary accounts set out above do not constitute statutory accounts as defined by Section 240 of the UK Companies Act 1985. The summarised consolidated balance sheet at 31 December 2008 and the summarised consolidated income statement, summarised consolidated statement of changes in equity and the summarised consolidated cash flow statement for the year then ended have been extracted from the Group's 2008 statutory financial statements upon which the auditors' opinion is unqualified. The results for the year ended 31 December 2007 have been extracted from the statutory accounts for that period, which contain a modified auditors' report on the basis of an emphasis of matter opinion and going concern.

## 4. Annual Report

The Annual Report for the year ended 31 December 2008 will be posted to shareholders shortly. The Annual General Meeting of the Company will be held at the Cavalry & Guards Club, 127 Piccadilly, London W1V 0PX, on 9 June 2009 at 11.30 a.m.

Copies of the report will be available from the Company's registered office at 15 Upper Grosvenor Street London W1K 7PJ and also from the Company's website [www.patagoniagold.com](http://www.patagoniagold.com).

---

This information is provided by RNS  
The company news service from the London Stock Exchange

END

FR UBABRKURSUAR