



## Patagonia Gold PLC : Interim Statement

Released : 28.09.2011

RNS Number : 0567P

Patagonia Gold PLC

28 September 2011

### **Patagonia Gold Plc Interim Statements**

#### **UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS for the six months ended 30 June 2011**

##### **Highlights**

- Exploration costs in line with expectations
- Four delineated NI 43-101 compliant gold resources on Cap-Oeste, COSE, La Manchuria and Lomada properties totalling 866,030 ounces AuEq in indicated and 277,732 ounces AuEq inferred
- Raised \$39.2m in capital to finance accelerated drilling programme and development of COSE project
- Significantly increased drilling programme to 70,500 metres with an \$18.2m budget for 2011
- Discussions on a dual listing on a North American stock exchange

Commenting on the Interim Results, Bill Humphries, Managing Director, said:

"Through the efforts of our outstanding team we continue to make significant progress on our flagship project, Cap-Oeste, together with the development of our COSE and Lomada projects. We will continue to focus on growing resources with the objective of becoming a 200,000 ounce per annum gold equivalent producer by 2015."

The results set out below are an extract from the full Interim Statement, copies of which will be available from the Company's registered office at 15 Upper Grosvenor Street, London W1K 7PJ and may also be downloaded from the Company's website at [www.patagoniagold.com](http://www.patagoniagold.com).

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##### **CHAIRMAN'S INTRODUCTION**

I am pleased to present the Company's interim report for the six months ended 30 June 2011 which, as previously notified, is presented for the first time in United States dollars.

In addition, for the first time, we are presenting a Management's Discussion and Analysis, which gives a full report of the Company's financial position and operational performance, as the Company is contemplating a dual listing of its ordinary shares on a North American stock exchange. This interim report has been prepared by Management, reviewed by the Audit Committee and approved by the Board.

Sir John Craven  
Chairman

27 September 2011

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This Management's Discussion and Analysis ("MD&A") of the financial position and the results of operations of Patagonia Gold Plc ("Patagonia" or the "Company") (AIM: PGD) is the responsibility of management and has been prepared as at September 27, 2011. The board of directors of Patagonia ("the Board") carries out its responsibility by reviewing this disclosure principally through its audit committee and it approves this disclosure prior to its publication.

This MD&A provides a review of the consolidated financial position, results of operations, cash flow and performance of Patagonia for the six months ended June 30, 2011 and June 30, 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. 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" section below.

## **PATAGONIA'S BUSINESS**

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

Patagonia is a publicly listed company on the Alternative Investment Market ("AIM") in London, U.K.

The Board of directors of Patagonia (the "Board") which consists of six members, two of whom are independent from management, is responsible for the stewardship and general supervision of the management of the business. The Board is committed to sound corporate governance practices which are in the interest of the Company's shareholders and contribute to effective and efficient decision-making. The duties and responsibilities of the Board are, amongst other things, to supervise the management of the business and to oversee, directly and through its committees, the business and affairs of Patagonia, which are conducted by its management and to promote the success of the Company for the benefit of its shareholders as a whole. The committees currently consist of the Audit Committee and the Remuneration Committee.

### **Strategy**

Through its 100% owned subsidiary, Patagonia Gold S.A. ("PGSA"), Patagonia's principal business is to hold investments in mineral exploration companies involved in identifying, acquiring and developing technically and economically sound mineral projects, either on its own or with joint-venture partners. PGSA holds the mineral rights to 200 properties covering 738,400 hectares, predominately in the southern provinces of Santa Cruz and Chubut. It has developed a portfolio of highly-prospective, grassroots and more advanced projects, with many that exhibit the potential to host high-grade, gold-silver vein systems. The focus is to grow the Company's resources and advance them into production. The Company's aim is to become a 200,000 ounce per annum gold equivalent producer by 2015.

### **Santa Cruz Province**

The Company considers Santa Cruz to be a mining-friendly province and the province supports an active petroleum and mining industry. The volcanic plateau of the Deseado Massif of Santa Cruz is 6 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. As a consequence, Santa Cruz Province benefits from existing infrastructure and a workforce that understands exploration and mining. In addition, these projects are predominantly low sulphidation epithermal "bonanza" vein style gold-silver deposits and their brecciated equivalent. This geological trait is the main target for exploration in this region.

Patagonia holds a number of advanced exploration projects in Santa Cruz Province and is concentrating exploration efforts on three distinct property blocks including El Tranquilo, La Manchuria and La Paloma:

1. The **El Tranquilo** property block hosts the Cap-Oeste gold and silver project ("Cap-Oeste"), the Company's flagship project and the Cap-Oeste South East project ("COSE") as well as the Monte Leon, La Marciana, Don Pancho, Breccia Valentina, Vetas Norte, Felix and Laguna prospects, as well as the Estancia La Bajada acquisition;
2. The **La Manchuria** property block hosts the Manchuria Main Zone gold and silver project ("Manchuria"); and
3. The **La Paloma** property block hosts the Lomada de Leiva gold project ("Lomada") as well the Estancia El Rincon acquisition.

In addition to these three main property blocks, Patagonia has a further 20 exploration claims for approximately 133,000 hectares located in the highly-prospective Deseado Massif. Drill targets have also been successfully established on the Sarita and El Bagual properties.

### **Chubut Province**

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

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

PGSA has been working with both local and regional governments in Chubut Province, the Argentine (federal) mining chambers and associated stakeholders towards building trust and co-operation in an effort to lift the ban and to recommence mining activities in the Province.

### **History**

In 2007 and 2008, the Company entered into two significant transactions, namely the Barrick Agreement and the Fomicruz Letter of Intent, respectively.

#### Barrick Agreement

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

In consideration for the sale of the Barrick properties, the Company paid the Barrick Sellers \$0.8 million and issued convertible loan notes (the "Barrick Notes") with an aggregate principal amount of £2,162,092.65. The Barrick Notes were convertible into that number of shares of the company ("shares") equal to 10% of the shares in issue following the conversion of the Barrick Notes (including those shares issued pursuant to the conversion). On February 28, 2007, the Barrick Sellers converted the Barrick Notes into 30,345,160 shares at an issue price of 7.125 pence per share. As at September 27, 2011, the Barrick Sellers held 28,323,264 shares representing 3.85% of the total outstanding shares.

The Barrick Agreement also provided for the following:

- PGSA agreed to spend a minimum of \$10.0 million on "in-ground" expenditures over a five year period. This expenditure commitment has been completed.
- Within 90 days of the delineation of an indicated resource (as defined in National Instrument 43-101 ("NI 43-101")) of 200,000 troy ounces or greater of gold or gold equivalent ("AuEq") on the La Paloma property block, which hosts the Lomada deposit, the Barrick Sellers would be entitled to receive a cash payment of \$1.5 million from PGSA. This threshold has not been reached.
- The Barrick Sellers retained the right to purchase an aggregate interest of up to 70% in the properties sold to PGSA under the Barrick Agreement upon the delineation of an indicated resource of 2.0 million ounces or greater of gold or AuEq (the "Back In Right").
- On March 23, 2011, PGSA entered into an amending agreement (the "Barrick Amending Agreement") with the Barrick Sellers to eliminate the Back In Right in exchange for a 2.5% net smelter return ("NSR") royalty (the "Barrick Royalty") in favour of the Barrick Sellers on all future production of mineral products from the properties sold to PGSA under the Barrick Agreement. The Barrick Royalty does not apply to the Company's other properties located in Santa Cruz province or to the Fomicruz Properties (as defined below).

#### Fomicruz Letter of Intent

On May 9, 2008, PGSA entered into a Letter of Intent (the "Fomicruz LOI") with Fomento Minero de Santa Cruz Sociedad del Estado ("Fomicruz SE"), an established mining company, wholly-owned by the government of Santa Cruz Province. The Fomicruz LOI established the key terms and conditions of a strategic partnership between PGSA and Fomicruz SE for the future development of certain PGSA mining properties in the Province, including Patagonia's Cap-Oeste, COSE, Manchuria and Lomada gold and silver projects, together with certain prospective properties previously owned by Fomicruz SE and the Fomicruz LOI envisages that a formal agreement will be entered into in due course (the "Fomicruz Agreement"). On April 14, 2009, the strategic partnership was formally ratified by the parties.

Pursuant to the Fomicruz LOI, Fomicruz SE will acquire a 10% interest in PGSA in exchange for Fomicruz's contribution to PGSA of approximately 100,000 hectares of mining properties (the "Fomicruz Properties") which are in close proximity to Patagonia's El Tranquilo and La Manchuria property blocks. Patagonia will retain a 90% interest in PGSA which, in addition to the 100,000 new hectares contributed by Fomicruz, will also continue to hold approximately 100,000 hectares of the original PGSA mining properties in Santa Cruz Province, including certain properties in the El Tranquilo, La Manchuria and La Paloma property blocks. PGSA-owned properties not included in the Fomicruz Agreement will be transferred to the Company's 100% owned subsidiary, Minera Minamalu.

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

- The Company will fund 100% of all exploration expenditures on PGSA properties to the pre-feasibility stage, with no dilution to Fomicruz. After the pre-feasibility, Fomicruz SE will repay its 10% share of the expenditures, plus interest at LIBOR, through the offset of up to 50% of PGSA dividends, otherwise payable to Fomicruz SE.
- Patagonia will invest \$5 million on exploration on the new Fomicruz Properties contributed to PGSA as part of the Fomicruz Agreement over a five year period. If the Company does not fund such amount within five years, the Fomicruz Properties will be

returned to Fomicruz SE. In the event that any of the Fomicruz Properties are declared of no interest to the Company, then such properties will be returned to Fomicruz SE.

- The Company will manage the exploration and potential future development of the PGSA properties.

## **KEY RESOURCES AND COMPETENCIES**

Management and the Board have extensive international exploration, development and mining experience as well as considerable operational depth and knowledge, and experience in global capital markets. Argentine-based management and representatives on the Board provide support to the strategy by building relationships with Argentine government institutions and stakeholders. The Company expects that it will continue to receive support from the government of the Province of Santa Cruz who will own 10% of PGSA through Fomicruz SE.

## **OVERALL PERFORMANCE**

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

The principal factor affecting Patagonia's performance is the development of two key projects including the flagship Cap-Oeste gold and silver project which has the potential of important size and grade, and the high-grade, short-term COSE project which has the potential to begin generating significant free cash flow in 2013. In addition, access to capital and the continued success of the exploration program are also fundamental to the Company's growth and success.

During 2010 and 2011, the Company focused its efforts on completing the expanded infill drilling at Cap-Oeste and at the nearby high-grade COSE deposit, both located on the El Tranquilo property block. In July 2011, the infill and extension drilling campaign at Cap-Oeste was completed. Further expansion drilling is continuing at the Cap-Oeste deposit, which remains open along strike in both directions and down plunge. In addition, an engineering study is being conducted on the COSE deposit which will support the Environmental Impact Assessment ("EIA") in preparation for construction of the underground decline. Construction of the Lomada trial heap leach facility which began in 2010 was completed in May 2011. The trial heap leach facility operated to design specifications during the month of June with gold successfully being accumulated onto active carbon. However, severe freezing conditions during the Austral winter months of July and August have impeded the trial operation. The trial which will resume at the beginning of October is now expected to be completed at the end of November.

### June 30, 2011 and Subsequent Events - Financing and Corporate Highlights:

(Full details can be found on our website at [www.patagoniagold.com](http://www.patagoniagold.com))

- In May 2010, the Company raised approximately \$20.0 million in equity capital before expenses. The funds were used to advance the Company's various exploration and development projects, to commence work on the Lomada trial heap leach project construction and for general working capital purposes.
- As at December 31, 2010, the Company had \$10.5 million in cash and cash equivalents on hand.
- In March 2011, Patagonia agreed with the Barrick Sellers to amend the original property acquisition agreement regarding the Cap-Oeste, COSE, Manchuria and Lomada gold and silver deposits, whereby the "Back in Right" was exchanged for a 2.5% NSR royalty, effective immediately. The NSR royalty does not apply to the Company's other Santa Cruz properties acquired outside the Barrick Agreement, or those acquired in the Fomicruz Letter of Intent ("LOI").
- In April and May 2011, the Company raised approximately \$39.2 million in equity capital before expenses. The funds will be used to finance an accelerated drilling program at the Company's flagship Cap-Oeste gold and silver project as well as to commence the development and construction of the high-grade COSE gold and silver project.
- On May 24, 2011, Patagonia appointed Philip C. Yee as Chief Financial Officer for Patagonia Gold Plc and its subsidiaries.
- As at June 30, 2011, the Company had \$32.2 million in cash and cash equivalents.
- On July 1, 2011, Patagonia appointed Matthew Boyes as Chief Operating Officer for Patagonia Gold Plc and its subsidiaries.

### June 30, 2011 and Subsequent Events - Exploration and Development Highlights:

- In April 2010, the State Secretariat of Mining of the Province of Santa Cruz, Argentina ("State Secretariat of Mining"), approved the EIA and issued the necessary permit for the proposed trial heap leach project at Lomada.
- In July 2010, Patagonia, through PGSA, purchased Estancia El Rincon, an area of 6,700 hectares, which contains the Lomada trial heap leach gold project, as well as some other highly-prospective gold areas.
- In September 2010, Patagonia reported a NI 43-101 compliant indicated resource estimate for the Manchuria gold and silver deposit of 55,684 ounces of gold equivalent ("AuEq") at a cut-off grade of 0.75 grams/tonne ("g/t") AuEq. There are also 90,682 ounces of AuEq in inferred resources.
- In November 2010, the Company reported exceptionally, high-grade gold and silver mineralization from the COSE project which is located 2 km along strike from the Cap-Oeste gold and silver resource. Drill hole CSE-047 intersected 5.0 metres grading 162.78 g/t gold and 8,622 g/t silver.
- In November 2010, PGSA received approval from the State Secretariat of Mining for the biannual EIA for the El Tranquilo property block. The EIA includes the provision for the development of a decline access for underground drilling at COSE as well as bulk sampling for metallurgical test work.
  - Exceptionally, high-grade gold and silver continued to be encountered on the COSE project including 5.47 metres grading 274.88 g/t gold and 10,378 g/t silver from drill hole CSE-049.
- In January 2011, Patagonia reported additional high-grade gold and silver mineralization from the COSE project, including drill hole CSE-O65-D which intersected 1.0 metre grading 346.6 g/t gold and 16,519 g/t silver.
- In March 2011, a Resource and Preliminary Economic Assessment ("PEA") of the COSE gold and silver deposit reported:
  - Indicated resources of 20,637 tonnes grading 60.06 g/t gold and 1,933 g/t silver for 63,835 ounces of AuEq. There were also inferred resources of 13,758 tonnes, grading 60.06 g/t gold and 1,933 g/t silver for 42,557 ounces of AuEq.
  - A Net Present Value ("NPV") of \$63.7 million, using a base case gold price of \$1,204 per ounce and silver \$23.75 per ounce, over the 23 month life of mine ("LOM").

- Total operating cost ("OPEX") per tonne of production during the 11 month production period is estimated at \$167/t.
- Total OPEX and capital cost ("CAPEX") over the LOM is estimated at \$33.0 million, using the direct shipping option of the mined ore to smelter.
- With a base case gold price of \$1,204/oz and \$23.75/oz for silver, the payback period is two months of production.
- In May 2011, the Lomada trial heap leach project construction was completed on time and on budget; and the project was successfully commissioned. The trial operated to design specifications during the month of June with gold successfully being accumulated onto activated carbon.
- Severe freezing conditions during the Austral winter months of July and August have reduced the trial operation to 25% availability. The trial which will resume at the beginning of October is now expected to be completed at the end of November. Plans are to extract gold from the carbon in early 2012.
- In June 2011, Patagonia reported drilling results from the Monte Leon gold and silver prospect. Specifically, wide, near-surface zones of potentially bulk mineable gold and silver mineralization were found over a strike length of one kilometre including 74 metres at 1.07 g/t gold and 102 g/t silver from drill hole MLN-003. The mineralization remains open along strike to the north and south and down plunge.
- In September 2011, the 2010-2011 infill and extension drilling on the Cap-Oeste gold and silver deposit was completed. Incoming results continue to be extremely encouraging, with bonanza gold and high silver grades intersected in a newly-discovered zone, including 8.91 m grading 70.79 g/t gold and 518 g/t silver in drill hole CO-285.
- An updated NI 43-101 compliant resource for Cap-Oeste is expected in the fourth quarter of 2011.
- Drilling is continuing on the Cap-Oeste deposit which remains open along strike in both directions and down plunge.
- Drilling is also being carried out on La Pampa, COSE east and other prospects along the six kilometre strike extension at the Cap-Oeste project.

### Resources

Since the acquisition of the properties under the Barrick Agreement in 2007, Patagonia has rapidly grown through successful exploration and development of its properties. As at September 27, 2011, the Company has delineated four NI 43-101 compliant gold resources on the Cap-Oeste, COSE, La Manchuria and Lomada projects totalling 866,030 ounces AuEq in indicated and 277,732 ounces AuEq in inferred resources, respectively. At the Cap-Oeste and Manchuria projects, mineralization remains open in all directions.

Indicated Resources		Grade (g/t)			Metal (Oz)		
Project	Tonnes	Au	Ag	AuEq	Au	Ag	AuEq
Cap-Oeste	5,629,645	2.00	80.12	3.23	362,040	14,503,120	585,165
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					603,553	17,633,913	866,030

Inferred Resources		Grade (g/t)			Metal (Oz)		
Project	Tonnes	Au	Ag	AuEq	Au	Ag	AuEq
Cap-Oeste	1,053,990	1.36	47.33	2.09	46,090	1,604,030	70,767
COSE	13,758	60.06	1,933.07	96.21	26,566	855,055	42,557
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	73,726	NA	73,726
Total Inferred					218,717	4,794,321	227,732

The following table shows the extent of drilling and the exploration expenditures incurred over the past two and one-half years as well as the 2011 planned budget for the respective projects. Because COSE has transitioned to the development phase, exploration drilling is not included in the 2011 exploration budget, as the costs are capitalised.

(Total metres drilled)	2009	2010	1H2011A	Budget 2011
Cap-Oeste	10,293	3,082	26,058	47,000
COSE	4,651	11,837	675	-
Manchuria	7,019	2,611	-	4,000
Monte Leon	-	-	3,953	13,000
Lomada	1,149	4,602	2,484	3,000
Other	4,508	4,770	1,631	3,500
	27,620	26,902	34,801	70,500

(Millions US\$)	2009	2010	1H2011A	Budget 2011
Exploration expenditures	\$7.5	\$7.2	\$8.0	\$18.2

In 2011, Patagonia significantly increased its drilling program to 70,500 metres with 47,000 metres or 67% of the exploration expenditures planned for Cap-Oeste. In addition, the budget increased to \$18.2 million for 2011, an increase of almost 250% over 2009 and 2010 exploration expenditure levels. The majority of the 2011 Cap-Oeste exploration expenditures are aimed at the infill and extension drilling.

### EXPLORATION AND DEVELOPMENT PROJECTS

## El Tranquilo Property Block

The El Tranquilo property block, which covers over 80,000 hectares is located approximately 65 km southeast of the town of Bajo Caracoles in Santa Cruz Province, and 120 km to the southeast of the Lomada project.

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

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

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

The El Tranquilo property block holds NI 43-101 compliant resources of 649,000 ounces of AuEq in the indicated category on the combined Cap-Oeste and the adjacent COSE deposits. In addition, there are also 113,324 ounces of AuEq in inferred resources at Cap-Oeste and COSE.

### Cap-Oeste

The Cap-Oeste gold and silver project extends from La Pampa in the northwest to the Tango prospect in the southeast.

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

### Cap-Oeste Deposit

An updated Resource estimate, published in September 2009, on the Cap-Oeste gold and silver project reported an NI 43-101 Indicated resource of 585,165 ounces of Au Eq and 70,767 ounces of AuEq in the Inferred category. Drilling results confirmed the presence of a wide gold mineralised structure with a core containing bonanza grade gold and silver. The high grade gold values are associated with bonanza grade silver. The mineralisation on the Cap-Oeste project remains open in all directions.

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

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

The 2010/2011 infill and extension drilling which consisted of 144 HQ diamond-core drill holes for 31,263 metres was completed in July 2011. Since inception, a total of 57,202 metres has been drilled on Cap-Oeste. Assay results are pending for 14 drill holes.

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

A new zone, has been discovered with results from drill hole CO-284 showing grades including 8.91 metres at 70.79 g/t gold and 518 g/t silver in drill-hole CO-285.

A third drilling campaign has commenced on the Cap-Oeste deposit, which remains open along strike in both directions and down plunge. Drilling is also being carried out on La Pampa, COSE east and other prospects along the six kilometre strike extension of the Cap-Oeste Project.

Results of the infill and extension drilling campaign include:

Hole No.	From metres	Interval metres	Grade Au g/t	Grade Ag g/t
CO-156-D	265.00	2.75	4.00	93
CO-161-D	171.70	5.55	3.96	22
CO-162-D	353.30	7.70	26.07	1,322
including	353.30	0.95	96.60	8,152
CO-164-D	155.00	5.00	4.17	108
CO-168-D	401.00	14.50	10.13	143
CO-166-D	270.00	1.10	435.40	1,006
CO-170-D	261.40	5.87	12.72	265
CO-181-D	137.89	6.73	35.53	53
including	139.34	1.12	116.15	186
CO-187-D	229.10	12.57	3.70	307
including	232.50	2.50	9.35	568
CO-197-D	125.10	2.25	24.50	141

CO-206-D	48.00	3.48	8.76	1,221
CO-213-D	190.00	13.30	8.58	508
including	200.70	2.60	53.74	700
CO-218-D	126.00	8.00	6.14	62
CO-222-D	352.00	31.00	5.29	178
including	360.00	11.00	9.40	381
CO-227-D	344.00	4.35	14.69	383
CO-228-D	192.00	3.10	11.03	455
CO-229-D	389.00	2.00	29.24	563
CO-231-D	189.36	4.44	9.56	64
CO-239-D	120.00	5.00	9.12	176
CO-263-D	240.00	9.00	3.01	357
including	243.84	1.16	9.80	2,199
CO-267-D	244.72	9.28	7.15	206
CO-276-D	212.75	1.90	36.28	390
CO-281-D	318.00	20.00	3.92	48
including	326.42	3.48	9.39	154
CO-284-D	234.00	16.00	5.91	49
and	295.00	62.00	3.88	88
including	343.00	14.00	8.48	255
CO-285-D	349.20	19.20	34.29	255
including	357.34	8.91	70.79	518
including	357.34	0.96	434.38	2362

*\*Intervals reported in the above table are not true thicknesses, PGSA estimates that these intercepts represent between 85-90% of the actual true thickness of mineralisation*

The table below has been included for the purpose of highlighting the consistency of the high grade mineralisation intersected over bonanza grade interval at Cap-Oeste in hole CO-285-D

Hole No	From Metres	Interval (m) Metres	Grade Au g/t	Grade Ag g/t
CO-285-D	357.34	0.96	434.38	2362
CO-285-D	358.30	1.45	45.93	205
CO-285-D	359.75	0.88	18.58	107
CO-285-D	360.63	1.62	7.57	23
CO-285-D	362.25	0.95	16.49	138
CO-285-D	363.20	1.00	6.93	40
CO-285-D	364.20	1.00	85.52	1463
CO-285-D	365.20	1.05	9.92	236

The mineralisation intersected in drill-holes CO-284 and CO-285 is very similar in grade, mineralogy and style to the fault breccia hosted, super high grade, COSE mineralisation located approximately 1.5km to the SE of the Cap-Oeste deposit. This new zone of mineralisation at Cap-Oeste is located close to the interpreted intersection of the Bonanza and Esperanza faults which are considered by management to be crucial in the control of mineralisation within the Cap-Oeste corridor.

Additional drill-holes have been designed both along strike and down dip of the newly discovered zone aimed at finding the location and extent of the potential feeder for this new area of bonanza mineralisation. The intersections in drill-holes CO-284 and CO-285 are two of the best produced since exploration began at the Cap-Oeste deposit four years ago.

These results highlight the undiscovered potential and quality of the projects which exists within the Cap-Oeste corridor.

PGSA has retained Mining Engineers, Chlumsky, Armbrust and Meyer, LLC of Lakewood, Colorado, to independently prepare a report and resource upgrade on the Cap - Oeste deposit which complies with NI 43-101. The report is now scheduled for completion in Q4 2011.

### COSE Project

The COSE Project is situated in the central portion of the El Tranquilo property block, approximately two kms to the southeast of the Cap-Oeste Project. The COSE Project area is 250 square metres. Mineralized areas outside of this area are in the Cap-Oeste Project.

The COSE Technical Report was prepared separately from the Cap-Oeste Project due to the highly-distinctive mineralization at the COSE Project; namely small tonnages of bonanza-grade mineralization in steeply-dipping, narrow vein configuration, which would almost certainly have to be mined underground. This contrasts with the Cap-Oeste Project, which has medium-grade, disseminated mineralization, which could possibly be mined by open-pit or open-cut methods.

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

The most recent renewal for the EIA was granted on November 4, 2010, with an effective duration of two years. In March 2011, PGSA retained Ausenco Vector to commence baseline studies, with the objective of establishing the pre-development environmental and social characteristics of the COSE Project and its surroundings, and to prepare an updated EIA for the mining of the COSE deposit. The updated EIA is expected to be completed in November 2011, when it will be presented to the State Secretary of Mining for review, with approval expected for early 2012.

Pursuant to the Barrick Agreement, as amended by the Barrick Amending Agreement, all future production of mineral products from the COSE Project is subject to the Barrick Royalty.

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

#### *Exploration*

Upon signing the Barrick Agreement in 2007, PGSA began exploration activities throughout the El Tranquilo property block. The COSE deposit was discovered in 2008, initially in trench samples and subsequently in drill intersections. Since that time, exploration has focused on establishing a core resource in the area of strongest epithermal mineralization, although step out exploration drilling is planned in the second half of 2011. As at June 30, 2011, a total of 17,163 metres have been drilled in 65 holes, comprising over 5,600 samples.

#### *Mineralization*

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

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

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

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

#### *Drilling*

All of the drilling including two drilling campaigns from 2008 to 2010 was carried out by PGSA, as the project area was previously undrilled. Drilling of reverse circulation and diamond holes were carried out under contract by Major Drilling S.A., utilizing truck and truck mounted Universal UDR 650 rigs. In 2008, two reverse circulation holes totalling 300 metres were drilled in order to intersect the COSE fault. In 2009 and 2010, a total of 41 diamond drill holes totalling 9,980 metres were drilled over a 250 metre strike length. The entire drilling and sampling process was supervised by a PGSA geologist on-site.

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

In the COSE NI 43-101 Technical Report, Chlumsky, Armbrust & Meyer L.L.C. ("CAM") of Lakewood, Colorado stated that on the basis of statistical checks, and the checks of data entry, the geological database was prepared according to NI 43-101 norms and was suitable for the development of geological and grade models.

#### *Metallurgical Testing*

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

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

CAM completed a mineral resource estimate, which was effective as at May 5, 2011. The mineral resource estimate, which is set out in the COSE Technical Report, is summarized in the following table.

#### **Summary of Estimated Mineral Resources <sup>(1)</sup> (Undiluted) - COSE Project**

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

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

The COSE deposit is located 150 metres below surface and will therefore be mined by underground methods with a decline access. CAM has suggested a mechanized cut and fill mining method be adopted for the extraction of the COSE deposit. Although this mining method initially requires greater quantities of sublevel development, it is more appropriate for mining of narrow vein structurally controlled deposits such as the COSE deposit, as dilution and ore-loss can be far better controlled. A total ore movement of 120 tonnes per day or 3,600 tonnes per month has been used as the base case production forecast for the mine.

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

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

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

#### *Preliminary Economic Assessment ("PEA")*

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

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

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

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

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

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

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

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

<b>Sensitivity Analysis</b>		
<b>Gold Price</b>	<b>Silver Price</b>	<b>Net Present Value</b>
(US\$/oz)	(US\$/oz)	(Millions US\$)
\$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

### *Recommendations and Future Work*

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

With the receipt of the mineral resource estimate and PEA set out in the COSE Technical Report, the Company is now working to finalise the permit application for the mining of the orebody, and the construction of infrastructure and processing facilities.

Critical capital equipment items such as jumbo loader truck have been purchased. Design work has been completed and construction is scheduled to start in the fourth quarter of 2011. The construction period is expected to be twelve months followed by production expected for eleven months in 2013.

Although COSE itself is closed off, the mineralised structure containing the COSE deposit remains open at depth and along strike. Future deeper drilling in order to expand the deposit will be carried out from underground. Additional drilling is planned between COSE and Cap-Oeste to the north-west.

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

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

### Monte Leon Prospect

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

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

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

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

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

Results from the trenching program include:

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

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

In the first half of 2011, a total of 3,953 metres of diamond drilling was completed on the Vein zone. For 2011, the Company expects to drill 13,000 metres.

### La Marciana Prospect

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

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

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

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

### ***La Paloma Property Block***

#### Lomada de Leiva Gold Project

The Lomada gold heap leach project is located in north-western Santa Cruz Province, on the La Paloma property block, approximately 40 km to the south of the town of Perito Moreno.

In August 2007, CAM prepared a mineral resource estimate for Lomada including 161,346 oz contained gold in the indicated category. In addition, there was reported 73,726 oz contained gold in the inferred category.

In 2008, CAM completed a scoping study based on the 2007 mineral resource estimate and investigated three alternative processing options. The run-of-mine heap leaching was clearly the most attractive with lower costs and higher profitability, despite lower recoveries. This option required lower pre-production capital of \$8.5 million, recoverable within 14 months of start-up, with production of 21,000 ounces of gold per year, for LOM of seven years, at a cash cost of \$299 per ounce of gold, resulting in pre-tax project cash flow of \$137.5 million, based on a gold price of \$1,400 per ounce of gold and a recovery of 80%.

Highlights:

- NI 43-101 compliant Indicated resources of 161,346 ounces of gold, with a further inferred resource of 73,726 ounces
- Pre-production capital costs of \$8.5 million
- Initial production of 2,200 ounces
- Cash costs of \$299/ounce
- LOM 7 years, starting in 2012
- Project cash flow before tax, of \$137.5 million, based on a gold price of \$1,400/oz.
- The project has considerable growth potential with conversion of the inferred resources by infill drilling together with developing additional resources

Management decided to proceed with the Lomada heap leach project on a trial basis. The first stage of the trial heap leach project consisted of constructing a 50,000 tonne trial heap leach pad and processing facility, which based on 70% recovery, is estimated to yield approximately 2,500 ounces of gold for the first six metre loading. The trial is expected to yield approximately 2,200 ounces of gold in 120 days.

In April 2010, Patagonia received approval of the EIA from the State Secretary of Mining for the Province of Santa Cruz for the 50,000 tonne trial heap leach operation. Construction of the trial heap leach pad commenced in September 2010 and loading of the pad was completed in the first quarter of 2011. The processing facility and irrigation system was completed and commissioned in May 2011 on time and on budget.

The trial operated to design specifications during the month of June with gold being accumulated onto activated carbon. However, severe freezing conditions during the Austral winter months of July and August have reduced the trial operation with only 25% availability. The trial which will resume at the beginning of October is now expected to be completed at the end of November.

The design of the gold room to process the Lomada gold is now complete and tenders are currently being sought for its construction. The gold room is scheduled to be completed in the first quarter of 2012. Plans are to extract the gold from the carbon in early 2012.

The Company is continuing with the trial in order to determine leaching kinetics and performance to support the design of the main heap leach project in 2012. Following the successful operation of the above trial heap leach pad, the trial will be expanded by raising the pad from the current 6 metres height to 12 metres to test the kinetics of the piling. This will expand the trial from 50,000 tonnes to 180,000 tonnes. The expanded trial is expected to yield approximately 8,000 ounces of gold. Earthworks and liner placement are complete. Ore loading and irrigation is now expected to commence in the fourth quarter 2011.

#### Lomada Resource Upgrade:

The Lomada project has growth potential through additional infill drilling of inferred resources and the future development of additional resources. PGSA recently completed an extension and infill drilling campaign aimed at enlarging the resource and advancing the inferred part of the resource into an indicated category. The campaign was completed during the first quarter of 2011. The Company has retained CAM to complete an upgrade of the mineral resource estimate, scheduled for completion in the third quarter of 2011. The updated mineral resource estimate, together with the results from the trial heap leach, will be used to update the 2009 scoping study prior to the commencement of the main heap leach project.

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

The La Manchuria property block, which consists of five mining concessions covering 5,575 hectares, is located in the central part of Santa Cruz Province, approximately 50 km to the southeast of and within carting distance of the Cap-Oeste project. The La Manchuria Property contains the Main Zone deposit.

Pursuant to the Fomicruz LOI, PGSA will acquire certain mining properties (that comprise part of the Fomicruz Properties) contiguous with the La Manchuria property block to the southeast.

PGSA owns a 100% interest in the La Manchuria property block on which the Manchuria Project is located. Pursuant to the Barrick Agreement, as amended by the Barrick Amending Agreement, all future production of mineral products from the Manchuria Project is subject to the Barrick Royalty.

The surface land associated with the Manchuria project is the Estancia La Pilarica surface property. In September 2009, PGSA signed a new access and exploration agreement with the landowner of Estancia La Pilarica which permits surface land access, exploration, use of water and drilling for a two year period. The agreement is renewable for an additional two year periods.

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

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

#### *Exploration*

Since its acquisition in 2007, three phases of exploration from January 2008 to February 2010 have completed soil geochemistry, mapping, trenching, sampling, drilling of 110 holes and 17,847 metres, a petrographic study, and a topography survey. Since the completion of Phase 3, another geophysical survey, and more sampling, mapping, trenching and reconnaissance work have been completed.

#### *Mineralisation*

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

Two alteration types have been recognised at the Manchuria Project: hypogene and supergene. The typical zonation of low sulphidation epithermal systems has been observed on the surface at the 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° to 335°) and dip between 75° and 90° to the northeast.

#### *Metallurgical Testing*

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

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

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

#### **Summary of Estimated Mineral Resources <sup>(1),(2)</sup> (Undiluted) - Manchuria Project**

<b>Category</b>	<b>Indicated Tonnes</b>	<b>Grade (g/t)</b>			<b>Metal (Oz)</b>		
		<b>Au</b>	<b>Ag</b>	<b>AuEq<sup>(2)</sup></b>	<b>Au</b>	<b>Ag</b>	<b>AuEq</b>
Indicated - Oxide	141,570	1.91	139.1	3.12	8,675	633,338	<b>14,198</b>
Indicated - Hypogene	284,136	3.46	133.0	4.54	31,642	1,214,873	<b>41,486</b>
<b>Indicated Total</b>	<b>425,706</b>	<b>2.95</b>	<b>135.0</b>	<b>4.07</b>	<b>40,317</b>	<b>1,848,211</b>	<b>55,684</b>
Inferred - Oxide <sup>(3)</sup>	496,179	1.33	42.5	1.66	21,138	678,485	<b>26,462</b>
Inferred - Hypogene <sup>(3)</sup>	972,840	1.64	53.0	2.05	51,197	1,656,751	<b>64,220</b>
<b>Inferred Total <sup>(3)</sup></b>	<b>1,469,019</b>	<b>1.53</b>	<b>49.4</b>	<b>1.92</b>	<b>72,335</b>	<b>2,335,236</b>	<b>90,682</b>

<sup>(1)</sup> 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.

<sup>(2)</sup> Gold equivalent (AuEq) values are calculated at a ratio of 53.5:1 gold:silver, based on a gold price of US\$925 per troy ounce and a silver price of US\$14.5 per troy ounce and gold and silver recoveries of 95% and 60%, respectively and a breakeven cutoff of 0.75g/AuEq tonne.

<sup>(3)</sup> 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.

### *Future Work*

PGSA's exploration budget for 2011 and 2012 is approximately \$768,000 and \$362,000, respectively. Further metallurgical testing is not planned for 2011 and 2012. The work includes a drilling campaign of approximately 4,000 metres and sampling and assaying of approximately 1,200 samples.

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

### **Regional Exploration**

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

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

#### Sarita Property

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

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

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

A 2,500 m reverse circulation drilling program is scheduled to commence in the fourth quarter of 2011 at Sarita to test the above mentioned discoveries.

#### El Bagual Property

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

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

A 2,500 metre drill program has been designed to test this potential bulk tonnage low grade target. It is scheduled to commence in the fourth quarter of 2011.

## **OUTLOOK**

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In the second half of 2011, the Company is awaiting the results for or contemplating the following activities:

#### Exploration:

- Additional drilling on the Cap-Oeste project
- Exploration drilling of other targets on the El Tranquilo property block including Monte Leon
- Exploration drilling programs on Sarita and El Bagual prospects

#### Resource Updates:

- Resource upgrade for Cap-Oeste scheduled for the fourth quarter of 2011
- A resource update for the Lomada mineral resource estimate is scheduled for the fourth quarter of 2011

#### Studies:

- Completion of the engineering study on COSE in the fourth quarter of 2011
- An updated EIA for COSE is expected to be complete in the fourth quarter
- Metallurgical testing on Cap-Oeste and Monte Leon

#### Development:

- COSE construction is scheduled to start in the fourth quarter of 2011
- Expansion of trial heap leach project at Lomada

Corporate:

- Patagonia is contemplating a dual listing of its ordinary shares on a North American stock exchange.

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 table summarises selected unaudited financial data for the Company's financial operations for the six months ended June 30, 2011 and 2010 in United States dollars and using International Financial Reporting Standards as adopted by the European Union.

<b>Six months ended June 30</b>	<b>2011</b>	<b>2010</b>
(US\$ millions)		
Cash	\$ 32.18	\$ 15.92
Total assets	48.38	20.30
Total liabilities	(5.10)	(1.01)
Equity	\$ 43.28	\$ 19.29
Exploration costs	\$ (8.01)	\$ (4.12)
Administrative costs	(7.98)	(1.54)
Net finance income	0.02	0.02
Loss for the year attributable to equity holders	\$ (15.97)	\$ (5.64)
Other comprehensive (loss)	(0.52)	(0.65)
Total comprehensive loss	\$ (16.49)	\$ (6.29)
Basic and diluted loss per share (US\$)	\$(0.02)	\$(0.01)

Patagonia is a gold and silver exploration and development company and is approaching the stage where the Company will begin to generate operational revenue.

As at June 30, 2011, the Company's cash balance totaled \$32.2 million in cash and cash equivalents, an increase of \$16.3 million over the June 30, 2010 cash balance of \$15.9 million.

The Company's total assets increased significantly to \$48.4 million as at June 30, 2011 from \$20.3 million as at June 30, 2010, primarily due to the Company's successful completion of a brokered placement in April and May 2011 that raised \$39.2 million in capital before expenses (£24.25 million). Net proceeds were \$37.8 million and these funds will be used to fund the accelerated drill program at Cap-Oeste and to commence the development and construction of the COSE project in 2011.

Total liabilities for the Company increased by \$4.1 million to \$5.1 million as at June 30, 2011 from \$1.0 million as at June 30, 2010, primarily due to increased accruals and trade balances payable as a result of increased exploration activity in 2011.

The following chart summarizes exploration expenditures for the El Tranquilo (including Cap-Oeste and COSE projects), La Manchuria (including Manchuria project), La Paloma (including Lomada project) and Regional Exploration targets for the last two and one-half years:

<b>Exploration Expenditures By Property Block</b>	<b>2009</b>	<b>2010</b>	<b>1H 2011A</b>	<b>Budget 2011</b>
(millions US\$)				
El Tranquilo	\$4.3	\$5.1	\$7.3	\$13.9
La Manchuria	1.1	1.2	0.2	1.3
La Paloma	0.8	0.3	-	-
Regional Exploration	0.6	0.3	0.2	1.4
Other	0.7	0.3	0.3	1.6
Total Exploration Expenditures	\$7.5	\$7.2	\$8.0	\$18.2

Total exploration costs for the six months ended June 30, 2011 were \$8.0 million compared to \$4.1 million in the same period of 2010. In 2011, Patagonia plans to significantly increase its drilling program for the year to approximately 70,500 metres, an increase of 43,598 metres more than 2010, with 68% of the budgeted metres for 2011 targeted for Cap-Oeste. In addition, the exploration budget for 2011 has been increased to \$18.2 million, an increase of over \$10.0 million over 2010 budgeted exploration expenditures.

Total administration costs in the first half of 2011 totaled \$ 8.0 million, an increase of \$6.5 million from \$1.5 million in the same period of 2010. The increase in administrative costs is due primarily to an increase in share-based payments charge, totaling \$6.9 million (a non-cash item) as a result of increased volume of options issued in 2011 and a higher expected volatility factor used in the Black-Scholes valuation in 2011.

Net finance income for the period January 1, 2011 to June 30, 2011 was \$0.02 million, unchanged from the same period a year ago reflecting lower interest despite higher cash balances.

The loss attributable to equity holders for the first six months of 2011 was \$16.0 million compared to \$5.6 million loss for the same period in 2010.

Other comprehensive loss for the period January 1, 2011 to June 30, 2011 amounted to \$0.5 million compared to \$0.6 million for the same period in 2010. The \$0.1 million variance was largely due to the exchange loss on translation to US dollars.

Total comprehensive loss for the six months ended June 30, 2011 was \$16.5 million, an increased loss of \$10.2 million from the total comprehensive loss of \$6.3 million for the same period in 2010. The difference is due primarily to the higher exploration costs, higher administrative costs and higher exchange loss on translation of foreign operations in the six months ended June 30, 2011 than in the same six month period in 2010.

#### Summary of Six Months Results

(US\$ Millions)	1H 2011	2H 2010	1H 2010	2H 2009
Net Loss Attributable to Equity Holders	\$ (16.49)	\$ (4.83)	\$ (6.29)	\$ (4.60)
Net Loss per Share (US Cents)	\$ (2.29)	\$ (0.83)	\$ (0.91)	\$ (0.78)
Exploration and development expenses	\$ (8.01)	\$ (3.11)	\$ (4.13)	\$ (3.48)
Administrative costs	\$ (7.98)	\$ (2.61)	\$ (1.54)	\$ (1.22)

#### LIQUIDITY AND CAPITAL RESOURCES

Liquidity risk is low as the majority of the surplus cash is invested in the U.K. in term deposits with short term duration and cash balances are held primarily in highly-rated U.K. and Argentine financial institutions and are readily available to the Company to meet its working capital requirements and financial obligations as they become due.

Cash flow is closely monitored and is reported to the Board compared to the approved budget for the year. The Company has sufficient working capital to meet its commitments and to complete the exploration and development plans for the year. In addition, the Company remains confident in its ability to secure additional funding for future development as required.

As at June 30, 2011, the Company's cash position totalled \$32.2 million, including \$28.6 million in short-term deposits and \$3.6 million in bank and cash balances. This compares to \$15.9 million as at June 30, 2010 including \$15.2 million in short-term deposits. The higher cash position as at June 30, 2011 is due to the successful brokered placement of \$39.2 million in April and May 2011.

Cash used in investing activities for the period January 1, 2011 to June 30, 2011 totalled \$5.9 million including \$6.0 million spent on purchase of property, plant and equipment. Cash used in investing activities for the period January 1, 2010 to June 30, 2010 was significantly less at \$64,000. This reflects the significant investment and focus of the Company in exploration and development in 2011.

Net cash flow from operating activities amounted to \$9.7 million including \$8.0 million for exploration costs, whilst administrative costs amounted to \$8.0 million including \$6.9 million in share based payments charge. The increase in share based payments charge is due to higher volume of share options issued in 2011 and the higher volatility factor used in the Black-Scholes valuation model in 2011. This was \$2.6 million higher than the net cash used in operating activities for the period January 1, 2010 to June 30, 2010 of \$7.1 million mainly due to higher exploration expenditures in 2011.

Historically, the Company's ability to generate sufficient amounts of cash has been through successful brokered placements. Certain economic factors such as ongoing economic uncertainty, currency volatility and a possible downturn in the global economy could affect the Company's ability to generate funding in the future.

#### SHARES OUTSTANDING

	As at June 30, 2011	As at September 27, 2011
Ordinary Shares	734,540,878	735,890,878
Unexercised Share Options	62,725,000	63,225,000
Fully Diluted	797,265,878	799,115,878

#### INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

There have been no changes in Patagonia's internal control over financial reporting during the six months ended June 30, 2011 that materially affect, or are reasonably likely to materially affect, internal controls over financial reporting.

#### Unaudited condensed consolidated interim statement of comprehensive income FOR THE SIX MONTHS ENDED 30 JUNE 2011

Note	Six months to 30 June 2011 (unaudited)	Six months to 30 June 2010 (unaudited)	Year to 31 December 2010 (audited)
	US\$	US\$	US\$
		Restated*	Restated*

<b>Continuing operations</b>				
Exploration costs	3	(8,013,360)	(4,126,170)	(7,237,230)
Administrative costs				
Share based payments charge		(6,951,177)	(702,237)	(760,572)
Other administrative costs		(1,024,450)	(837,848)	(3,387,862)
		(7,975,627)	(1,540,085)	(4,148,434)
Finance income		81,102	27,368	115,226
Finance costs		(61,723)	(4,425)	(15,531)
<b>Loss for the period attributable to equity holders</b>		<b>(15,969,608)</b>	<b>(5,643,312)</b>	<b>(11,285,969)</b>
<b>Other comprehensive (loss)/income</b>				
(Loss)/gain on revaluation of available-for-sale financial assets		(41,826)	(80,664)	56,680
Exchange differences on translation of foreign operations		(481,013)	(564,411)	110,853
<b>Other comprehensive (loss)/gain for the period</b>		<b>(522,839)</b>	<b>(645,075)</b>	<b>167,533</b>
<b>Total comprehensive loss for the period attributable to equity holders</b>		<b>(16,492,447)</b>	<b>(6,288,387)</b>	<b>(11,118,436)</b>
<b>Loss per share (US\$)</b>				
Basic loss per share		(0.02)	(0.01)	(0.02)
Diluted loss per share		(0.02)	(0.01)	(0.02)

\* Previously reported numbers are restated in United States dollars.

**Unaudited condensed consolidated interim balance sheet  
AT 30 JUNE 2011**

	30 June 2011 (unaudited) US\$	30 June 2010 (unaudited) US\$ Restated*	31 December 2010 (audited) US\$ Restated*
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10,180,884	1,041,804	4,426,984
Available for sale financial assets	214,201	105,645	246,881
Other receivables	5,522,444	3,070,723	3,613,266
	<u>15,917,529</u>	<u>4,218,172</u>	<u>8,287,131</u>
<b>Current assets</b>			
Trade and other receivables	279,035	160,384	105,405
Cash at bank and in hand	32,183,155	15,920,317	10,515,423
	<u>32,462,190</u>	<u>16,080,701</u>	<u>10,620,828</u>
<b>Total assets</b>	<u>48,379,719</u>	<u>20,298,873</u>	<u>18,907,959</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Bank overdraft	-	-	(273,379)
Trade and other payables	(4,685,252)	(1,005,991)	(3,570,151)
	<u>(4,685,252)</u>	<u>(1,005,991)</u>	<u>(3,843,530)</u>
<b>Non-current liabilities</b>			
Long-term accruals and provisions	(411,914)	(2,032)	(188,646)
<b>Total liabilities</b>	<u>(5,097,166)</u>	<u>(1,008,023)</u>	<u>(4,032,176)</u>
<b>Net assets</b>	<u>43,282,553</u>	<u>19,290,850</u>	<u>14,875,783</u>

## EQUITY

### Equity attributable to equity holders of the parent

Share capital	11,765,876	10,174,474	10,454,091
Share premium account	121,080,584	79,314,448	81,507,867
Translation reserve	(1,612,248)	3,359,058	1,850,459
Share based payment reserve	9,869,986	2,891,269	2,966,838
Retained loss	(97,821,645)	(76,448,399)	(81,903,472)
<b>Total equity</b>	<b>43,282,553</b>	<b>19,290,850</b>	<b>14,875,783</b>

\* Previously reported numbers are restated in United States dollars.

### Unaudited condensed consolidated interim statement of changes in equity FOR THE SIX MONTHS ENDED 30 JUNE 2011

	<i>Share capital US\$</i>	<i>Share premium account US\$</i>	<i>Translation reserve US\$</i>	<i>Share based payment reserve US\$</i>	<i>Retained loss US\$</i>	<i>Total US\$</i>
Balance at 1 January 2010 ( <i>restated</i> *)	9,454,905	65,259,958	-	2,339,519	(70,740,320)	6,314,062
Prior year adjustment	-	-	(472,801)	-	-	(472,801)
<b>Balance at 1 January 2010 (restated)</b>	<b>9,454,905</b>	<b>65,259,958</b>	<b>(472,801)</b>	<b>2,339,519</b>	<b>(70,740,320)</b>	<b>5,841,261</b>
<b>Changes in equity for first half of 2010</b>						
Share based payment						
New options	-	-	-	702,237	-	702,237
Issue of share capital						
Issue by placing	1,240,265	18,603,975	-	-	-	19,844,240
Transaction costs of placing	-	(845,136)	-	-	-	(845,136)
Exercise of option	3,816	32,819	-	(15,897)	15,897	36,635
	<u>1,244,081</u>	<u>17,791,658</u>	<u>-</u>	<u>686,340</u>	<u>15,897</u>	<u>19,737,976</u>
Loss for the period	-	-	-	-	(5,643,312)	(5,643,312)
<b>Other comprehensive loss:</b>						
Revaluation of available-for-sale financial assets	-	-	-	-	(80,664)	(80,664)
Exchange differences on translation to United States dollar	(524,512)	(3,737,168)	3,831,859	(134,590)	-	(564,411)
<b>Total comprehensive loss for the period</b>	<b>(524,512)</b>	<b>(3,737,168)</b>	<b>3,831,859</b>	<b>(134,590)</b>	<b>(5,723,976)</b>	<b>(6,288,387)</b>
<b>Balance at 30 June 2010 (restated*)</b>	<b>10,174,474</b>	<b>79,314,448</b>	<b>3,359,058</b>	<b>2,891,269</b>	<b>(76,448,399)</b>	<b>19,290,850</b>
Balance at 1 January 2010 ( <i>restated</i> *)	9,454,905	65,259,958	-	2,339,519	(70,740,320)	6,314,062
Prior year adjustment	-	-	(472,801)	-	-	(472,801)
<b>Balance at 1 January 2010 (restated*)</b>	<b>9,454,905</b>	<b>65,259,958</b>	<b>(472,801)</b>	<b>2,339,519</b>	<b>(70,740,320)</b>	<b>5,841,261</b>
<b>Changes in equity for 2010</b>						
Share based payment						
New options	-	-	-	760,572	-	760,572
Issue of share capital						
Issue by placing	1,255,962	18,839,437	-	-	-	20,095,399
Transaction costs of placing	-	(855,833)	-	-	-	(855,833)
Exercise of option	15,466	137,354	-	(66,137)	66,137	152,820
	<u>1,271,428</u>	<u>18,120,958</u>	<u>-</u>	<u>694,435</u>	<u>66,137</u>	<u>20,152,958</u>
Loss for the period	-	-	-	-	(11,285,969)	(11,285,969)
<b>Other comprehensive income/(loss):</b>						
Revaluation of available-for-sale financial assets	-	-	-	-	56,680	56,680
Exchange differences on translation to United States dollar	(272,242)	(1,873,049)	2,323,260	(67,116)	-	110,853
<b>Total comprehensive loss for the period</b>	<b>(272,242)</b>	<b>(1,873,049)</b>	<b>2,323,260</b>	<b>(67,116)</b>	<b>(11,229,289)</b>	<b>(11,118,436)</b>
<b>Balance at 31 December 2010 (restated)</b>	<b>10,454,091</b>	<b>81,507,867</b>	<b>1,850,459</b>	<b>2,966,838</b>	<b>(81,903,472)</b>	<b>14,875,783</b>
<b>Changes in equity for first half of 2011</b>						
Share based payment	-	-	-	6,951,177	-	6,951,177

Issue of share capital						
Issue by placing	933,048	38,254,952	-	-	-	39,188,000
Transaction costs of placing	-	(1,424,134)	-	-	-	(1,424,134)
Exercise of option	15,352	168,822	-	(93,261)	93,261	184,174
	<u>948,400</u>	<u>36,999,640</u>	<u>-</u>	<u>6,857,916</u>	<u>93,261</u>	<u>44,899,217</u>
Loss for the period	-	-	-	-	(15,969,608)	(15,969,608)
<b>Other comprehensive loss:</b>						
Revaluation of available-for-sale financial assets	-	-	-	-	(41,826)	(41,826)
Exchange differences on translation to United States dollar	363,385	2,573,077	(3,462,707)	45,232	-	(481,013)
	<u>363,385</u>	<u>2,573,077</u>	<u>(3,462,707)</u>	<u>45,232</u>	<u>(16,011,434)</u>	<u>(16,492,447)</u>
Total comprehensive loss for the period	<u>363,385</u>	<u>2,573,077</u>	<u>(3,462,707)</u>	<u>45,232</u>	<u>(16,011,434)</u>	<u>(16,492,447)</u>
<b>Balance at 30 June 2011</b>	<u>11,765,876</u>	<u>121,080,584</u>	<u>(1,612,248)</u>	<u>9,869,986</u>	<u>(97,821,645)</u>	<u>43,282,553</u>

\* Previously reported numbers are restated in United States dollars.

## Unaudited condensed consolidated interim cash flow statement FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Six months to 30 June 2011 (unaudited) US\$	Six months to 30 June 2010 (unaudited) US\$ Restated*	Year to 31 December 2010 (audited) US\$ Restated*
<b>Cash flow from operating activities</b>			
Loss after taxation	(15,969,608)	(5,643,312)	(11,285,969)
Adjustment for:			
Interest income	(81,102)	(27,368)	(115,226)
Depreciation and impairment	144,879	31,974	114,180
(Increase) in trade and other receivables	(2,082,808)	(512,054)	(999,618)
Increase/(decrease) in trade payables	1,115,101	(1,688,047)	876,113
Increase/(decrease) in long-term provisions	223,268	(62)	186,552
Share based payments	6,951,177	702,237	760,572
<b>Net cash from operating activities</b>	<u>(9,699,093)</u>	<u>(7,136,632)</u>	<u>(10,463,396)</u>
<b>Cash flows from investing activities</b>			
Interest received	81,102	27,368	115,226
Purchase of property, plant and equipment	(5,968,913)	(91,229)	(3,567,056)
<b>Net cash from investing activities</b>	<u>(5,887,811)</u>	<u>(63,861)</u>	<u>(3,451,830)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital	37,763,866	18,999,104	19,239,566
Proceeds from exercise of options	184,174	36,635	152,820
<b>Net cash from financing activities</b>	<u>37,948,040</u>	<u>19,035,739</u>	<u>19,392,386</u>
<b>Net increase in cash and cash equivalents</b>	<u>22,361,136</u>	<u>11,835,246</u>	<u>5,477,160</u>
<b>Cash and cash equivalents at beginning of period</b>	<u>10,242,044</u>	<u>4,610,323</u>	<u>4,610,323</u>
<b>Effects of foreign exchange movements</b>	<u>(420,025)</u>	<u>(525,252)</u>	<u>154,561</u>
<b>Cash and cash equivalents at end of period</b>	<u>32,183,155</u>	<u>15,920,317</u>	<u>10,242,044</u>

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

\* Previously reported numbers are restated in United States dollars.

## 1. Basis of preparation

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34 as adopted by the European Union and are for the six months ended 30 June 2011. This condensed consolidated half-year financial information does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2010 were approved on 6 May 2011. These accounts which contained an unqualified audit report under Section 495 of the Companies Act 2006 and which did not make any statements under Section 498(2) or (3) of the Companies Act 2006, have been delivered to the Registrar of Companies in accordance with Section 441 of the Companies Act 2006.

The unaudited condensed interim financial statements for the six months ended 30 June 2011 have been prepared using accounting policies and presentation expected to be adopted in the Group's full financial statements for the year ending 31 December 2011, which are not expected to be significantly different to those set out in the Group's audited financial statements for the year ended 31 December 2010 apart from as discussed in note 2.

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these condensed consolidated interim financial statements.

### *Going concern*

These interim condensed 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.

During April 2011 the Company placed shares to a value of \$39.2 million before expenses (£24.25 million). The Directors have prepared cash flow information for 2011 and have considered future possible expenditure covering following years. Based upon the recent financing, the Directors believe that the Company has adequate working capital to cover the 12 months from the date of this Report.

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. Accordingly, the financial statements do not include any adjustments which would be necessary if the Company and Group ceased to be a going concern.

## 2. Prior Year adjustment

With effect from 1 January 2011, the Group has changed its presentational currency from British pounds sterling (GBP) to United States dollars (US\$). The Directors believe that the presentational currency of the Group will be more accurately represented by the United States dollar reflecting the gold and silver markets whilst also becoming the main currency of both income and on-going capital expenditure.

The change in presentational currency represents a change in accounting policy and in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, has been accounted for as a prior year adjustment. This has resulted in a cumulative amount of US\$2,323,260 being credited to the translation reserve to 31 December 2010, and a further US\$3,462,707 being debited in the 6 months to 30 June 2011.

This debit represents the translation difference arising from re-presenting the comparative figures through to 30 June 2011 in a different presentational currency (US\$) from the historic presentational currency.

Comparative figures previously reported in GBP were translated to US\$ as follows:-

- income and expenses were translated at the average rate for the relevant period,
- assets and liabilities were translated at the closing exchange rate on the relevant balance sheet date, and
- equity items, excluding retained earnings, were translated at the closing rate for the relevant balance sheet date. Retained earnings were translated at the average rate.

Exchange rates used were as follows:-

GBP/US\$

Closing rate 31 December 2009	1.5928
Closing rate 31 December 2010	1.5468
Closing rate 30 June 2011	1.6018
Average rate for the year 2010	1.5458
Average rate for the 6 months to 30 June 2011	1.6160

## 3. Segmental analysis

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

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

<u>Losses</u>	<i>6m to</i> <i>30 June</i> <i>2011</i> US\$	<i>6m to</i> <i>30 June</i> <i>2010</i> US\$	<i>Year to</i> <i>31 December</i> <i>2010</i> US\$
United Kingdom	(7,542,838)	(1,371,620)	(3,265,870)
Argentina - Lomada de Leiva	-	-	-
Argentina - Other and Chile	<u>(8,426,770)</u>	<u>(4,271,692)</u>	<u>(8,020,099)</u>

	<u>(15,969,608)</u>	<u>(5,643,312)</u>	<u>(11,285,969)</u>
<u>Net assets</u>	<i>6m to 30 June 2011 US\$</i>	<i>6m to 30 June 2010 US\$</i>	<i>Year to 31 December 2010 US\$</i>
United Kingdom	28,664,427	15,105,211	8,832,629
Argentina - Lomada de Leiva	4,987,414	-	2,037,154
Argentina - Other and Chile	9,630,712	4,185,639	4,006,000
	<u>43,282,553</u>	<u>19,290,850</u>	<u>14,875,783</u>

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

	<i>6m to 30 June 2011 US\$</i>	<i>6m to 30 June 2010 US\$</i>	<i>Year to 31 December 2010 US\$</i>
United Kingdom	-	-	-
Argentina - Lomada de Leiva	-	289,450	390,823
Argentina - Other	8,013,360	3,836,720	6,846,407
	<u>8,013,360</u>	<u>4,126,170</u>	<u>7,237,230</u>

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

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

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

On 23 March 2011 the 'Back in Right' from the original property acquisition agreement was eliminated in exchange for a 2.5 per cent. Net Smelter Return royalty which does not become a liability until production commences and which will accrue as sales are made. Under the original agreement PGSA had granted Barrick an option to buy back up to a 70 per cent interest in any particular property group upon the delineation of the greater of 2 million oz of gold or gold equivalent NI 43-101 Indicated Resource on that property group going forward.

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

#### 5. Loss per share

The potential ordinary shares which arise as a result of the options in issue are not 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 earnings and weighted average number of shares used in the calculations are set out below:

	<i>6 months to 30 June 2011 (unaudited)</i>	<i>6 months to 30 June 2010 (unaudited)*</i>	<i>Year to 31 December 2010 (audited)*</i>
Loss after tax (US\$)	(15,969,608)	(5,643,312)	(11,285,969)
Weighted average number of shares	695,977,165	619,419,081	647,624,975
Basic and diluted earnings per share (US \$)	\$(0.02)	\$(0.01)	\$(0.02)

\* Previously reported numbers are restated in United States dollars.

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