



## Patagonia Gold PLC : Final Results

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Patagonia Gold PLC

29 April 2013

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### **Patagonia Gold ("Patagonia Gold" or the "Company")**

#### **2012 Year End Financial Results**

Patagonia Gold Plc (AIM: PGD, TSX: PAT), advanced mining exploration company with gold and silver projects in the southern Patagonia region of Argentina, announces the financial results for the year ended December 31, 2012. These preliminary results are presented in United States dollars ("\$\$") unless otherwise stated.

#### **2012 FINANCIAL HIGHLIGHTS**

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

#### Subsequent Events

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

#### **2012 OPERATIONAL HIGHLIGHTS**

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- In January and March 2012, Patagonia Gold announced new drilling results for the Cap-Oeste Project, confirming the continuation of high-grade gold and silver mineralisation along strike to the northwest of the Main Shoot of the Cap-Oeste deposit.
- In February 2012, the Phase 3 drilling campaign at the Cap-Oeste Project, consisting of 57 drill holes totalling 20,210 metres, was completed.

- In February 2012, the Company hosted an industry analyst tour of its main properties in the province of Santa Cruz, Argentina.
- In February 2012, the Company announced the test metallurgical results for the Cap-Oeste Project, which highlighted the potential for good recoveries of both gold and silver.
- In March 2012, the Company announced that two drill holes were completed on the Cap-Oeste South East Project ("COSE Project") to obtain material for metallurgical test work and for a smelter off-take marketing study. In addition, four step-out holes along strike of COSE to the northwest toward the Cap-Oeste mineralisation reported elevated gold and silver values.
- Phase 4 of the drilling campaign at the Cap-Oeste Project commenced in February 2012 and focused on extending the resource envelope from the Cap-Oeste deposit along strike two kilometres to La Pampa and exploring the 1.8 kilometres of unexplored strike between the Cap-Oeste and the COSE Projects. As of the end of May 2012, 43 drill holes totalling 12,010 metres were completed.
- In May 2012, the Company completed the expansion of the heap leach trial at the Lomada Project to 135,000 tonnes with all under irrigation. Primary reconciliation data shows excellent recovery rates over the first 36 days with 64% contained gold recovered to carbon.
- In May 2012, the approval permit was received for construction of the gold processing facility. Construction was completed in November 2012.
- The final Environmental Impact Assessment (EIA) for the full Lomada Project was submitted to the Secretary of Mines, Santa Cruz on May 29, 2012. This represented the final requirement before approval could be granted by the Secretary of Mines for the Company to commence full production at the Lomada Project.
- In July 2012, the Company announced new drilling results for the COSE Project, including the discovery of a new zone of high-grade mineralisation to the northwest of the COSE deposit.
- On September 10, 2012, the Company announced an updated resource estimate for the Cap-Oeste Project. Indicated resources increased by 24% to 1,197,000 ounces AuEq and included a 30% increase in grade to 4.78 g/t AuEq.
- On November 22, 2012, the Company received the full and final permit for the development and production of the Lomada Project main heap leach from the State Secretary of Mines, Santa Cruz. Construction of the full-scale heap leach is underway and full commercial production is planned for late second quarter of 2013.
- On November 26, 2012, the Company announced the successful commissioning of the new gold room production facility. Gold production commenced and the first doré ingot was poured on November 22, 2012.

*The following financial statements for the Company are abbreviated versions. The Company's complete financial statements for the twelve months ended December 31, 2012 with the notes thereto and the related Management Discussion and Analysis can be found either on Patagonia Gold's website at [www.patagoniagold.com](http://www.patagoniagold.com) or on SEDAR at [www.sedar.com](http://www.sedar.com) in due course. All amounts are in US\$ thousands, except share and per share amounts.*

## **About Patagonia Gold**

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

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

### **CAUTIONARY STATEMENT AND TECHNICAL INFORMATION REGARDING FORWARD-LOOKING INFORMATION:**

The Company's production decision in respect of the the Lomada project and La Bajada property are not based on a feasibility study of mineral reserves demonstrating economic and technical viability and therefore readers are cautioned that there is increased uncertainty and there are economic and technical risks of failure associated with such production decisions.

This news release includes certain information that may constitute "forward-looking information" under applicable securities legislation. Forward looking information includes, but is not limited to, statements about the commencement of production operations at the Lomada Project and at the Bajada property strategic plans, mineral resources estimates, future operations, results of exploration, future works programs, capital expenditures and objectives. Forward-looking information is necessarily based on a number of estimates and assumptions that, while considered reasonable, are subject to known and unknown risks, uncertainties, and other factors which may cause the actual results and future events to differ materially from those expressed or implied by such forward-looking information, including the risks identified in the Company's public disclosure. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. All forward-looking information contained in this press release is given as of the date hereof and is based upon the opinions and estimates of management and information available to management at the date hereof. The Company disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

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## **Chairman's statement**

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

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

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

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

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

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

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

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

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

**Carlos Miguens**  
*Chairman*

## **Managing Director's Report**

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

### **Advancing Our Agenda**

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

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

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

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

#### **Moving Into Gold Production**

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

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

#### **Improving Outlook For Cap-Oeste**

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

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

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

#### **The Way Forward**

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

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

#### **Bill Humphries**

*Managing Director / Chief Executive Officer*

## **Operations Report**

### **Patagonia Gold's Properties**

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

Patagonia Gold, through its 90%-owned operating company Patagonia Gold S.A. ("PGSA") and its 100%-owned exploration company Minera Minamalu S.A., owns exploration and development properties that cover a total of 350,000 hectares in Santa Cruz. Of this total, approximately 200,000 hectares were acquired in 2007 when PGSA purchased the entire

exploration property portfolio of Barrick Gold Corp. in the very prospective volcanic plateau of the Deseado Massif. PGSA further expanded its land position by adding 100,000 hectares when it entered into an agreement with Fomicruz, the Santa Cruz government's mining company, in 2011. The remaining 50,000 hectares were acquired in smaller parcels.

Santa Cruz is the location of PGSA's four main properties. Cap-Oeste is the flagship project and the main focus of the Company is to bring it into development as a stand-alone mine. Two kilometres along strike from Cap-Oeste is the smaller but strategically vital Cap-Oeste South-East (COSE) Project. The Lomada de Leiva and La Manchuria Projects are 120 kilometres and 50 kilometres away, respectively. The Lomada Project is located to the northwest close to Cerro Negro and the La Manchuria Project is situated within a regional corridor some 50 kilometres to the southeast.

Several of PGSA's properties host mineralisation that is not typical of epithermal vein systems. The properties are characterized by low sulphidation, epithermal style gold-silver deposits hosted within hydrothermal breccias or fault hosted breccias, with widths up to 35 metres of Bonanza grade mineralisation being intersected. The Cap-Oeste Project falls into this category, as does the COSE Project. Classic low sulphidation epithermal veins with high grade gold/silver intersected within narrow steeply dipping structures characterise other properties in the region. The diversity and varied mineralisation styles differ with regards to location within the Deseado Massif.

Since the acquisition of the Barrick properties, the Company has rapidly grown its resource base through the implementation of a thorough and aggressive exploration and development programme. Exploration activities have consisted of surface sampling, trenching, geophysics, drilling and mapping Patagonia Gold has the added advantage of having the Santa Cruz government as a strategic partner. Fomicruz gained 10% of PGSA and in return, PGSA acquired rights to explore, develop and mine 100,000 hectares of Fomicruz's mining properties. This strategic partnership also aims to develop a number of PGSA's projects, including the four main properties cited above.

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

#### **Lomada de Leiva Project**

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

Exploration drilling on the property soon after its acquisition in 2007 confirmed promising historical drill data and a NI 43-101 resource report was quickly filed the same year. A Preliminary Economic Assessment, or scoping study, followed in 2009. It found that the Lomada Project's minimal capital requirements, low cash cost of \$299 per ounce of gold and strong cash flow potential made it suitable for a heap leach ore processing operation, and construction began in 2010. A 50,000 tonne trial heap leach operation used feed from surface mining onsite and tested according to specification during 2011. This trial pad has since been expanded to 135,000 tonnes and irrigation was completed during 2012. Permission was received to expand the pad further to 315,000 tonnes in conjunction with the construction of the fully permitted main heap leach pad.

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

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

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

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

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

Mining in early 2013 has been carried out with a contract fleet pending the arrival of PGSA's own fleet in country. The main excavator, trucks, loaders and ancillary mining gear are all onsite. With the new machinery and with the onsite blasting magazines permitted and mine camp installed, production will be increased to the full rate of 65,000 tonnes of rock per month. Initially the mine will be operated on a single 12-hour shift basis. The addition of a second shift and the acquisition

of minor capital items in order to expand crushing capacity would double the mine output if required. This option is currently being evaluated.

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

### **Cap-Oeste Project**

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

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

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

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

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

### **COSE Project**

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

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

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

Wide low-grade or diffuse zones of silver-rich, low-grade gold mineralisation characterise the mineralisation outcrops at surface and within the first 130 metres vertically down dip. Below 130 metres and continuing to a currently delineated depth of 260 metres, the width of the fault-hosted breccia decreases and the grade of both gold and silver increases exponentially. This has led to the overall resource grade being estimated in excess of 90 g/t gold equivalent. The mineralisation is still open at depth and one of the objectives of the decline development is to create a drill access gallery area to fully test the down dip potential.

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

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

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

#### **La Manchuria Project**

Shortly after the La Manchuria property was acquired in 2007, PGSA launched a three-year exploration program that included soil geochemistry, mapping, trenching, petrographic analysis and topographic surveying. Three drill campaigns in three years have been completed encompassing 110 drill holes totalling 17,847 metres.

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

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

#### **El Tranquilo and Regional Exploration**

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

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

#### **Social and Economic Responsibility**

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

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

**Matthew Boyes**  
Chief Operations Officer

### **Preliminary results** **Condensed consolidated statement of comprehensive income** **for the year ended December 31, 2012**

	2012	2011
<i>(Thousands of \$)</i>		
<b>Continuing operations</b>		
Exploration costs	\$ (14,356)	\$ (16,193)
Administrative costs		
Share-based payments charge	(5,284)	(8,481)
Other administrative costs	(6,472)	(8,691)
	(11,756)	(17,172)
Finance income	4,929	228
Finance costs	(68)	(30)
<b>Loss before taxes</b>	<b>(21,251)</b>	<b>(33,167)</b>
Income tax benefit	476	-
<b>Loss for the year</b>	<b>(20,775)</b>	<b>(33,167)</b>
Non-controlling interest	-	-
<b>Other comprehensive (loss)/income</b>		
Loss on revaluation of available-for-sale financial assets	(31)	(131)
Exchange loss on translation of foreign operations	(5,119)	(566)
<b>Other comprehensive loss for the year</b>	<b>(5,150)</b>	<b>(697)</b>

<b>Total comprehensive loss for the year attributable to owners of the parent</b>	\$ (25,925)	\$ (33,864)
<b>Net loss per share (\$)</b>		
Basic loss per share	\$ (0.03)	\$ (0.05)
Diluted loss per share	\$ (0.03)	\$ (0.05)

**Preliminary results**  
**Condensed consolidated statement of financial position**  
**at December 31, 2012**

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

**Preliminary results**  
**Condensed consolidated statement of changes in equity for**  
**the year ended December 31, 2012**

<i>(Thousands of \$)</i>	<i>Equity attributable to shareholders of the parent</i>						<i>Non-controlling interests</i>	<i>Total equity</i>
	<i>Share capital</i>	<i>Share premium account</i>	<i>Currency translation reserve</i>	<i>Share-based payment reserve</i>	<i>Accumulated losses</i>	<i>Total attributable to owners</i>		
At January 1, 2011	\$10,454	\$ 81,508	\$ 1,850	\$ 2,967	\$ (81,903)	\$ 14,876	\$ -	\$ 14,876

<b>Changes in equity for 2011</b>								
Share-based payment	-	-	-	8,481	-	8,481	-	8,481
Share-based payment on acquiring mining rights	-	-	-	-	-	-	3,986	3,986
Issue of share capital								
Issue by placing	933	38,255	-	-	-	39,188	-	39,188
Transaction costs of placing	-	(1,424)	-	-	-	(1,424)	-	(1,424)
Exercise of option	46	573	-	(201)	201	619	-	619
Transactions with owners	979	37,404	-	8,280	201	46,864	3,986	50,850
Loss for the year	-	-	-	-	(33,167)	(33,167)	-	(33,167)
<b>Other comprehensive income (loss):</b>								
Revaluation of available-for-sale financial assets	-	-	-	-	(131)	(131)	-	(131)
Exchange differences on translation to \$	(52)	(1,707)	1,499	(306)	-	(566)	-	(566)
Total comprehensive income (loss) for the year	(52)	(1,707)	1,499	(306)	(33,298)	(33,864)	-	(33,864)
<b>At December 31, 2011</b>	<b>11,381</b>	<b>117,205</b>	<b>3,349</b>	<b>10,941</b>	<b>(115,000)</b>	<b>27,876</b>	<b>3,986</b>	<b>31,862</b>
<b>Changes in equity for 2012</b>								
Share-based payment	-	-	-	5,284	-	5,284	-	5,284
Issue of share capital								
Issue by placing	1,024	23,436	-	-	-	24,460	-	24,460
Transaction costs of placing	-	(797)	-	-	-	(797)	-	(797)
Exercise of option	177	1,579	-	(589)	589	1,756	-	1,756
Transactions with owners	12,582	141,423	3,349	15,636	(114,411)	58,579	3,986	62,565
Loss for the year	-	-	-	-	(20,775)	(20,775)	-	(20,775)
<b>Other comprehensive income (loss):</b>								
Revaluation of available-for-sale financial assets	-	-	-	-	(31)	(31)	-	(31)
Exchange differences on translation to \$	544	5,924	(12,278)	586	105	(5,119)	-	(5,119)
Total comprehensive income (loss) for the year	544	5,924	(12,278)	586	(20,701)	(25,925)	-	(25,925)
<b>At December 31, 2012</b>	<b>\$13,126</b>	<b>\$147,347</b>	<b>\$(8,929)</b>	<b>\$16,222</b>	<b>\$(135,112)</b>	<b>\$32,654</b>	<b>\$3,986</b>	<b>\$36,640</b>

## Preliminary results Consolidated statement of cash flows for the year ended December 31, 2012

	2012	2011
<i>(Thousands of \$)</i>		
<b>Operating activities</b>		
Loss for the year	\$ (20,775)	\$ (33,167)
Adjustments for:		
Finance income	(20)	(228)
Depreciation	1,050	814
Increase in inventory	(2,641)	(2,239)
Increase in trade and other receivables	(2,445)	(3,177)
Increase in deferred tax asset	(581)	-
Increase (decrease) in trade and other payables	(1,273)	3,672
Increase in provisions	252	663
Share-based payments charge	5,284	8,481
<b>Net cash used in operating activities</b>	<b>(21,149)</b>	<b>(25,181)</b>
<b>Investing activities</b>		
Finance income	20	228
Purchase of property, plant and equipment	(6,059)	(7,503)
Additions to mineral properties	(2,255)	(4,988)
Proceeds from disposal	250	-
Proceeds from sale of gold	768	-
<b>Net cash used in investing activities</b>	<b>(7,276)</b>	<b>(12,263)</b>
<b>Financing activities</b>		
Proceeds from issue of share capital	23,663	37,764

Proceeds from exercise of options	1,756	619
<b>Net cash from financing activities</b>	<b>25,419</b>	<b>38,383</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(3,006)</b>	<b>939</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>10,946</b>	<b>10,242</b>
<b>Effects of exchange rate fluctuations on cash and cash equivalents</b>	<b>(3,277)</b>	<b>(235)</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 4,663</b>	<b>\$ 10,946</b>

## NOTES

### 1. Basis of preparation

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

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

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

The financial information is presented in United States dollars ("\$"). The functional currency of the Company is British pounds sterling ("GBP"). Where indicated, financial information incorporated within these financial statements is rounded to the nearest thousand. Operations denominated in other currencies are included in this financial information in accordance with the accounting policies set out in Note 3 to the full financial statements.

A separate statement of comprehensive income for the Company has not been presented as permitted by section 408 of the Companies Act 2006. The Company made a comprehensive loss of \$3.0 million in 2012 (2011: \$15.0 million).

### Audit Information

The financial information set out in this preliminary announcement does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006. The consolidated statement of financial position at 31 December 2012 and the consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows and associated notes for the year then ended have been extracted from the Group's statutory financial statements for the year ended 31 December 2012 (which have not yet been filed with Companies House) upon which the auditor's opinion is unqualified and does not include any statement under Section 498 (2) or (3) of the Companies Act 2006. The audited financial statements for the year ended 31 December 2011 have been filed with Companies House. The auditor's opinion was unqualified, and did not include any statement under Section 498 (2) or (3) of the Companies Act 2006.

### 2. Going concern

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

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

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

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

rate to continue to meet commitments as they fall due.

### 3. Loss per share

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

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

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

At December 31, 2012, there were 76,445,000 (December 31, 2011: 64,145,000) share options and 24,705,000 warrants (December 31, 2011: Nil) in issue, which would have a potentially dilutive effect on the basic profit per share in the future. On February 27, 2013 the Company placed 41,196,687 new ordinary shares. The basic and diluted loss per share for 2012 remains \$(0.03) after taking this placing into account.

### 4. Annual Report and Annual General Meeting

The Annual General Meeting of Company will be held on Friday, 14 June 2013 at 11.00 am at The Cavalry & Guards Club, 127 Piccadilly, London W1V 0PX.

The Annual Report for the year ended 31 December 2012 is available from today on the Company's website [www.patagoniagold.com](http://www.patagoniagold.com). The Annual Report will be posted to shareholders and copies of the report will be available from the Company's registered office at 15 Upper Grosvenor Street London W1K 7PJ shortly.

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