



Patagonia Gold PLC : Final Results

Released : 21.05.2010

RNS Number : 3103M

Patagonia Gold PLC

21 May 2010

Patagonia Gold Plc ("PGD" or "the Company")

Final results for the year ended 31 December 2009

The Board of Patagonia Gold Plc is pleased to announce its audited results for the year to 31 December 2009.

Chairman's statement

I am pleased to present the 2009 Annual Report for Patagonia Gold Plc.

2009 has been a year of exploration success on our Santa Cruz projects.

The financial results show a loss of £7,304,729 (2008: £5,803,394). The results for the year reflect the costs of the grant of new options and the repricing of previous options totalling £1,263,468. The remainder of these costs are in line with expectations and highlight the exploration activity that has taken place on our portfolio of Santa Cruz properties. The direct exploration costs incurred in the year were £4,707,868.

This expenditure has largely been financed by a share placement which raised £9.3 million at 7.75p per share in March 2009. More recently in May 2010 the Company has carried out a further fundraising, through our brokers Matrix Corporate Capital LLP to raise £13 million at 16p per share.

These financings will enable the Company to achieve its goal to become a gold producer initially on a modest scale and to develop larger low production cost gold projects.

Full details of these projects are set out in the Managing Director's and the Operations report which follow. Significantly the Company has just received the permit to commence trial heap leach operations at the Lomada de Leiva project. Very positive exploration results have been published on the Cap-Oeste and Manchuria projects.

The gold price continues to strengthen in these uncertain economic times and this will only serve to increase the valuation of the Company's low cost projects.

We will continue the development and exploration work on all the projects throughout the rest of this year and regular updates will be released to shareholders.

I would like to congratulate the executive team and all our staff for their excellent performance during the past year and also to thank our shareholders for their support.

Sir John Craven
Chairman

For more information, please contact:

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

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

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

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

Managing Director's report

2009 has seen Patagonia Gold Plc's (PGD) Operations team enjoy considerable success on our properties in the Santa Cruz province of southern Argentina. Highlights are:

Development

PGD is now poised to become a producer at the Lomada de Leiva Gold project (Lomada).

In April 2010, the State Secretariat of Mining of the Province of Santa Cruz, Argentina, approved the Environmental Impact Study and has now issued the necessary permit for the proposed trial heap leach operation at Lomada. Preparation works are well advanced, including site, mine and plant designs, contracts and selection of contractors, with completion of construction and commencement of irrigation scheduled for Q4 2010.

Lomada contains a resource of 161,346 ounces of gold in the measured and indicated categories with an additional Inferred resource of 73,725 ounces of gold, with high potential to increase the size.

Exploration

PGD continues to grow its resources and to discover exciting new prospects.

At Cap-Oeste, our flagship project, a revised Resource estimate reported a total of 655,930 ounces of gold equivalent, an increase of 61 per cent. on the 2008 initial resource. Most importantly, the revised Resource now contains approximately 88 per cent. within the Indicated category allowing the project to be advanced to Scoping studies. The Cap-Oeste Resource has been delineated with 25,939 metres of drilling at a low discovery cost of US\$10 per ounce of gold equivalent.

In just three years the team has delineated two compliant, reportable gold Resources on the Lomada and Cap-Oeste projects totalling 891,000 ounces of gold equivalent with a third Resource estimate at La Manchuria currently being prepared, scheduled for completion in Q3 2010.

Once again, the sound methods and systematic approach to exploration by our highly skilled geological team has led to the discovery of another exciting high grade shoot on the Cap-Oeste Bonanza Fault structure, COSE, with exceptional high grade gold and silver being reported. Drilling is continuing.

PGD has eight full time Geologists, supported by two consulting Geologists and over 30 technical staff, operating in Santa Cruz on the three advanced projects and on exploration of other properties in our large prospective portfolio. PGD maintains a strong awareness of its responsibilities towards the environment and existing social structures. Careful attention is given to ensure that all exploration work is carried out strictly within the guidelines of the relevant mining and environmental acts. PGD attempts, where possible, to hire local personnel and use local contractors and suppliers.

Bill Humphries, *Managing Director*

Operations report

Patagonia Gold Plc (PGD) through its 100 per cent. owned subsidiary in Argentina, Patagonia Gold S.A. (PGSA) is actively engaged in mineral exploration in the Patagonia region of Argentina. PGSA holds the mineral rights to 194 properties for 7,351 square kilometres predominantly in the Provinces of Santa Cruz and Chubut.

During 2009, PGSA focused its exploration efforts on its highly prospective properties in the Santa Cruz province, concentrating on the Lomada de Lieva project on the La Paloma property block, PGSA's flagship Cap-Oeste project on the El Tranquilo property block and the La Manchuria project. Since acquisition of the Santa Cruz properties in 2007, PGSA has delineated two compliant, reportable gold Resources totalling 891,000 ounces of gold equivalent. A third Resource estimate at La Manchuria is being prepared, scheduled for completion Q3 2010.

Santa Cruz Province

Santa Cruz is a mining friendly province and contains a very active petroleum and mining industry and accordingly all the infrastructure and understanding associated with exploration and mining.

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

New Mining Legislation

In October 2009, the Santa Cruz province passed new legislation providing for the creation of an "Area of Special Interest for Mining", east of route 40, in which mining activities are encouraged.

The Lomada de Leiva, Cap-Oeste and La Manchuria projects are located within the defined "Area of Special Interest for Mining", as well as the other prospects of the Company and the mining properties optioned by Fomicruz SE.

The new "Area of Special Interest for Mining" permits mining east of route 40, from 4 kilometres of the shores of lakes and the axis of major rivers, and from 10 kilometres of the city limits of towns. In addition, the new legislation also permits the processing of ores from 20 kilometres of these major water features. The law allows for the creation of an ad-hoc committee to evaluate the Environmental Impact Studies of the projects located outside the "Area of Special Interest for Mining".

PGSA and Fomicruz agreement

In April 2009, PGSA formally ratified a strategic partnership agreement with Fomento Minero de Santa Cruz Sociedad del Estado ("Fomicruz SE"), a well established and respected mining company wholly owned by the pro-mining government of Santa Cruz Province, Argentina.

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

The key terms and conditions include:

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

La Paloma Property

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

The geology of the project area comprises a sub-horizontal sequence of Jurassic aged, rhyolitic flow and ignimbritic rocks of the Chon Aike Formation, which are interpreted to occur at the margin of a large felsic flow dome complex.

Gold mineralisation is dominated in the near surface by oxide gold mineralisation localised in a north-northeast trending, structural corridor, dipping steeply to the east containing brecciated and variably silicified volcanic and tuffaceous rocks which have been cut by a network of fine anastomosing quartz veins and veinlets. The breccia also contains clasts of chalcedonic quartz vein material. Gold is predominantly hosted in the kaolinized fault breccia matrix but is also reporting in the vein quartz and earlier chalcedonic veins over combined widths up to 30 metres.

Lomada de Leiva project

Resource estimate

In 2007, PGSA completed resource drilling and studies on the Lomada de Leiva project (Lomada project). The Resource estimates, completed by independent engineers complying with Canadian National Instrument 43-101 (NI 43-101), using 0.30 grams per tonne gold cut-off are:

Measured and Indicated of 161,346 ounces gold and additional Inferred Resources of 73,725 ounces gold at an average grade of 1.1 grams per tonne (g/t).

Preliminary metallurgical studies showed the ore at Lomada de Leiva to be very amenable to leaching with excellent recoveries averaging 97 per cent. in just 12 hours with material crushed to minus 0.075 millimetres. These results, supported by the high potential to develop additional resources at the Lomada project and the adjacent Breccia Sofia prospect, were sufficiently encouraging to advance the Lomada project towards production.

Scoping study

In 2008, a positive Scoping study was completed on the Lomada project utilising a conventional run of mine (ROM) heap leach operation.

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

- Low pre-production capital cost of \$8.5 million recovered within 14 months of start-up. seven years mine life based on an initial resource of 182,369 ounces of gold, with a production of 21,000 plus ounces of gold per year at a cash cost of \$299

per ounce.

- Project cash flow, before tax, is \$63.6 million based on \$850 per ounce gold, and a recovery of 80 per cent.

As a result of the positive Scoping study PGSA decided to progress the project towards development with the aim of commencing production in the first half of 2011.

Development

Further successful metallurgical studies were completed in Q2 2009 to test the leaching ability of the ROM ore in simulated field conditions through column testing.

Prior to proceeding with the proposed five million tonne heap leach operation, PGSA has elected to carry out additional field testing by constructing a 50,000 tonne trial heap leach operation. Accordingly an Environmental Impact Study for the trial heap leach was completed and submitted to the Director of Mining in July 2009.

In April 2010, the State Secretariat of Mining of the Province of Santa Cruz, Argentina, approved the Environmental Impact Study and has issued the necessary permit for the proposed trial heap leach operation at the Lomada de Leiva gold project.

Engineering design and procurement contracts for the heap leach operation are well advanced with the fabrication and construction of the elution processing plant scheduled for completion in Q3. Construction of the pad, mining and loading of the trial heap leach will commence at the end of the southern winter and is scheduled for completion in Q4 with irrigation and processing commencing soon thereafter.

Subject to successful trial heap leaching and permitting, construction of the main heap leach operation will commence with production start up in the first half of 2011.

The main heap leach operation at Lomada is expected to produce over 21,000 ounces of gold per year, at a low cash cost of \$299 per ounce, for the minimum expected mine life of seven years. The project has considerable growth potential with conversion of the inferred resources by infill drilling together with developing additional resources.

Estancia El Rincon Acquisition

The Lomada de Leiva project is located on the Estancia El Rincon. PGSA is currently finalising a purchase agreement for the Estancia El Rincon property comprising 6,700 hectares of land, dwellings, sheds, outbuildings and infrastructure.

El Tranquilo Property

The El Tranquilo project block covering over 74 square kilometres, is located approximately 120 kilometres south of PGSA's La Paloma property and approximately 65 kilometres southeast of the town of Bajo Caracoles in Santa Cruz. The property contains the Cap-Oeste gold and silver project, the Cap-Oeste South East (COSE) prospect, the Pampa prospect and the Vetas Norte and Breccia Valentina structural trends.

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. In 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 Gold and Silver project

Drilling

To June 2009, two drilling campaigns comprising 156 drill holes for 25,939 metres, have been completed on the Bonanza Fault structure, which has currently been defined over 1,200 metres along strike and down dip to approximately 350 metres. The Main Shoot within this structure has been drilled on a spacing of approximately 25 metre centres, with the remainder of the 1,200 metres being drilled on approximately 50 metre centres.

The drilling results have confirmed the presence of a wide gold mineralised structure with a core containing bonanza grade gold and silver. The Bonanza Fault structure remains open at depth and along strike in both directions. The high grade gold values are associated with bonanza grade silver.

Significant results from CO-132 onwards include:

Cap Oeste significant Drill Hole Intersections from CO-130-D

Drill Hole No.	From (m)	Interval (m)	Au g/t	Ag g/t
CO-132-D	280.40	32.70	2.86	45
including	305.85	3.80	5.66	22
CO-139-D	244.70	11.80	15.21	203
including	249.00	5.10	33.34	372
CO-144-D	316.00	33.00	5.77	182
including	326.50	5.00	10.07	150
and	346.05	1.65	43.64	2,137
CO-145-D	271.00	29.90	7.81	315

including	289.95	7.05	21.89	1,003
CO-147A-D	323.00	1.30	13.50	186
CO-148-R	33.00	7.00	6.42	305
including	37.00	2.00	10.38	846
CO-150-D	285.15	4.30	4.18	25
CO-152B-D	300.94	11.06	4.56	17
and	317.30	2.90	10.74	24
CO-154-D	257.90	23.10	5.81	49
including	269.45	9.55	9.38	54
CO-154-D	288.40	6.30	5.64	47
CO-155-D	257.90	23.10	5.81	49
and	300.95	20.50	3.98	189
and	330.00	12.30	2.63	48

Resource upgrade

Following the completion of the second drilling campaign, PGSA retained Micon of Toronto, Canada, to independently describe and prepare an updated mineral Resource estimate for the gold-silver deposit discovered at Cap-Oeste, Santa Cruz Province, Argentina, and to prepare a report which complies with the requirements of

NI 43-101. The updated estimate, published in October 2009, reported the following resource (with uncapped grades):

Indicated Resource of 362,040 ounces of gold and 14,503,120 ounces of silver

Inferred Resource of 46,090 ounces of gold and 1,604,030 ounces of silver

TOTAL Gold equivalent (1 oz gold equivalent to 65 oz silver) 655,930 ounces gold Eq

Importantly, the revised Resource contains approximately 88 per cent. in the Indicated category allowing the project to be advanced to Scoping studies. The Cap-Oeste Resource has been delineated with 25,939 metres of drilling at a low discovery cost of US\$10 per ounce of gold equivalent.

The following comments are extracts from Micon's report:

Exploration work by PGSA has been successful in locating the Cap-Oeste gold-silver deposit in 2008 and additional delineation drilling during the 2009 field season has been successful in extending the limits of the mineralisation down-plunge to a vertical depth of approximately 370 metres from surface.

Throughout the northern portion of the El Tranquilo property block exploration claims PGSA has defined at least seven areas hosting either gold-silver mineralisation or containing elevated levels of "pathfinder" geochemical metals.....These areas are spatially related to three 2/3 kilometres spaced northwest to west northwest trending regional scale mineralised structural corridors...

From the results presented above Micon believes that additional diamond drilling programs are clearly warranted to search for the limits of the Cap-Oeste deposit. Such programmes would test for the continuation of the gold-silver mineralisation along the down plunge projections of the known mineralisation shoots, test the south-eastern and north-western strike projection of the mineralization along the Bonanza fault, and begin testing the Esperanza fault for its potential of hosting additional mineralisation.

End of extract.

These results, supported by the high potential to develop additional Resources at Cap-Oeste, are sufficiently encouraging for PGSA to advance this project towards production.

Scoping study

Accordingly, PGSA has retained Micon to independently assess and prepare a Scoping study with associated metallurgical test work for the gold-silver Resource at Cap-Oeste and to prepare a report which complies with the requirements of NI 43-101 scheduled for completion in Q4 2010.

Drilling has recommenced on the Cap-Oeste project and to date eight holes for 2,203 metres has been drilled on the Main Shoot and several other prospective targets along the original 1,200 metre defined Bonanza Fault. Assays are pending.

Estancia Bajada

The Cap-Oeste project and COSE are located on the Estancia Bajada. In December 2008, PGSA entered into a purchase agreement for the Estancia La Bajada property comprising 36,544 hectares of land, dwellings, sheds, outbuildings and infrastructure, for the sum of US\$950,000 payable over four six-monthly instalments.

COSE Prospect

In 2009, a geophysical survey identified two large anomalies similar to the Cap-Oeste deposit signature, approximately two kilometres along strike to the south-east (COSE) and to the north-west (La Pampa) of the Cap-Oeste project. A follow up reconnaissance exploration programme on COSE including detailed mapping, trenching, sampling and two exploratory drill holes for

300 metres, identified an auriferous breccia beneath the geophysical anomaly with drill hole CSE-02 reporting 12 metres at 2.53 g/t Au including 3 metres at 5.19 g/t Au.

In October, drilling commenced on the COSE prospect to determine the geometry of the mineralisation. The drilling proved highly successful with drill-hole CSE-13-D reporting spectacular results with a 4.10 metre section of the breccia intersecting exceptionally high grade gold and silver values averaging 540 g/t Au and 28,089 g/t Ag.

Drilling is continuing and to date 35 drill holes have been completed, for 8,633 metres.

Significant results from COSE include:

	From	Interval	Grade	Grade
Hole No.	metres	metres	Au g/t	Ag g/t
CSE-013-D	208.30	4.10	540.05	28,089
including	208.30	0.90	166.00	5,464
including	209.20	0.80	402.00	23,341
including	210.00	0.85	2030.40	106,507
CSE-016-D	151.30	7.70	4.56	163
and	163.80	1.00	18.70	346
CSE-17-D	244.00	13.83	13.07	908
including	244.78	2.32	42.98	4,931
CSE-19-D	179.00	1.00	11.10	1,612
CSE-22-D	269.90	3.60	31.36	864
including	269.90	1.25	80.10	2,351
CSE-24-D	240.00	3.30	23.94	373
CSE-27-D	214.17	13.93	159.23	627
including	219.20	1.60	1,284.15	3,977
CSE-28-D	188.60	0.90	9.10	2,872

Currently, close-spaced drilling is being undertaken to delineate the extremely high grade core zone further down plunge, as well as along strike.

Drill holes both up dip and down the inferred plunge of the high grade central zone continue to intersect mineralised breccias reporting spectacular results. The high grade mineralised breccia containing the extremely high grade shoots has now been confirmed down a +80 metre plunge extension. Drill holes have intersected mineralised breccia further down plunge for which results are pending.

The hanging wall to the high grade zone hosts a zone of complex mineralised subsidiary structures which represents an additional broad medium grade target. The relationship between these converging mineralised structures is currently not well understood, though the extremely high grades reported in holes CSE-13-D and

CSE-27-D are interpreted as potentially occurring at these structural intersections.

Step out drilling on 100 metre centres has also been conducted over 1 kilometre of strike to the northwest along the chargeability anomaly towards the Cap-Oeste resource area (the Cap-Oeste Extension prospect). Several of these exploration holes have intersected zones of brecciation up to 4 metres in width for which results are pending.

An Environmental Impact Study is currently being prepared for a permit to allow the construction of an underground exploration drive. This sub surface access will allow both underground drilling as well as the collection of a bulk metallurgical sample.

La Pampa Prospect

At the La Pampa Prospect, drilling of 18 holes for 1,606 metres has identified the zone where the Bonanza Fault structure and the Don Pancho corridor intersects.

The breccia intersected shows strong correlation to the high level parts of the Main Shoot. Owing to the higher level in the system the geochemistry is depleted. However, the best intersection of 2.25 metres at 5.71 g/t Au in hole CX-038-D is extremely encouraging and warrants further drilling.

Exploration - El Tranquilo

A second important aspect of the geophysics survey results was the identification of similar signatures to Cap-Oeste in the sub parallel structures of the Breccia Valentina (1.5 kilometres to the north east and also trending 320°) and the Vetás Norte structure (a further 2,500 metres to the north east on a similar sub parallel trend).

Subsequent drilling on the Breccia Valentina prospect has reported BVA-002-D from 26 metres to 5.2 metres at 3.35 g/t Au.

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

A Reverse Circulation (RC) drilling campaign of 2,252 metres was completed in May 2009 on the Don Pancho, Vetás Norte, Puma and Felix prospects, all located within 5 kilometres of Cap-Oeste.

Significant intersections include:

	From	Interval	Grade	Grade
Hole No.	metres	metres	Au g/t	Ag g/t
DPA-003-R	23.00	5.00	8.13	250
including	23.00	1.00	20.4	447
and	27.00	1.00	10.9	489
DPA-008-R	44.00	7.00	1.70	10
VNO-001-R	35.00	6.00	0.84	5.0
including	36.00	2.00	1.67	7.5
VNO-08-R	83.00	1.00	15.80	9.0
FLX-001-R	19.00	1.00	63.70	140
FLX-004-R	28.00	5.00	1.32	28
CSE-002-R	134.00	12.00	2.53	5.4
including	142.00	3.00	5.19	60
CX-038-D	114.00	2.25	5.71	3.2

Don Pancho Prospect

The Don Pancho prospect is located in a flex in the Breccia Valentina trend. Results from trench assays were proportionately similar to the original trenching results from the Cap-Oeste gold-silver deposit which is only 1,100 metres to the southwest. Drilling on a short section of the trend has confirmed the presence of high grade gold and silver within a silicified brecciated structure, including drill-hole DP-03 reporting 5 metres at 8.13 g/t gold 250 g/t silver. Don Pancho remains open at depth as well as along strike to the southeast and to the northwest where it intersects the Bonanza Fault in the vicinity of the Pampa prospect.

Vetas Norte Prospect

The Vetas Norte Prospect contains an area of epithermal quartz blocks in which sawn channel samples over the limited outcropping vein material returned up to 2.1 metres at 0.68 g/t gold. Textural evidence indicates increased potential for mineralisation at depth. Drill results beneath the outcrops have confirmed this model.

Felix Prospect

The Felix prospect contains both low sulphidation quartz veining as well as low angle silicified brecciated structures. Geological evidence suggests that this prospect is also in the upper levels of a mineralised system. Drilling has confirmed the gold-silver mineralisation of the area intersecting broad zones of mineralisation and high grade gold including drill-hole FLX-001 reporting 1.00 metres at 63.70 g/t gold and 140 g/t silver.

A second drilling campaign was completed at the Felix prospect in Q4 2009 comprising 18 holes for 1,589 metres. Results are pending.

La Manchuria Property

La Manchuria property, consisting of five expedientes (mining concessions) covering 5,575 hectares, is located approximately 50 kilometres to the southeast of and within carting distance of PGD's flagship Cap-Oeste project and contains the Manchuria Main Zone gold-silver project.

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

Geological appraisal of drill-core supports the interpretation of a robust continuous zone of high grade gold and silver mineralisation. The mineralised 'package' consists of a series of multi-ounce gold-silver discreet but locally continuous epithermal veins contained within more extensive disseminated mineralisation.

La Manchuria Main Zone

In three drilling campaigns, a total of 95 holes comprising 17,853 metres have been completed by PGD on the Manchuria property. In addition to providing the basis of the Resource study, this drilling has also indicated a high potential for the drill extension of the mineralised zone which remains open in all directions.

The recently completed HQ core diamond drill programme, consisting of 55 drill-holes (LM-041-D to LM-095-D) for 9,754 metres, was designed to infill the pre-existing 50 metre line spaced drilling on a 25 metre x 25 metre grid along 400 metres of strike length to allow a Resource estimate to be completed for the Main Zone.

Significant results from Drill Hole LM-060-D include:

La Manchuria significant Drill Hole Intersections from LM-041-D

Drill Hole No	From (m)	Interval (m)	Au g/t	Ag g/t
LM-060-D	96.00	2.00	52.55	3,274
including	96.00	1.00	94.20	5,920
LM-064A-D	154.80	0.50	46.00	603
LM-066-D	112.70	1.50	42.67	589
LM-068-D	72.00	4.50	20.53	198
including	76.00	0.50	178.00	923
and	89.40	1.00	18.80	475
LM-069-D	133.00	1.60	22.60	61
including	133.00	0.50	54.50	123
LM-70-D	82.55	0.50	20.80	511
LM-073A-D	118.00	1.10	60.20	180
LM-074-D	156.20	1.25	49.44	253
LM-081-D	71.20	1.50	23.73	1,280
LM-083-D	84.35	0.50	18.05	8,960
LM-084-D	73.00	0.50	51.40	300
LM-088-D	3.15	0.50	17.25	3,290
LM-093-D	122.20	2.80	26.04	5,224
including	122.70	0.50	145.00	28,207
and	137.55	5.10	25.89	334
including	137.55	0.90	111.00	896

Drilling of the Main Zone has confirmed and extended the mineralised package with the potential for high grade gold and silver mineralisation 300 metres to the south and it remains open but obscured by post-mineral cover. In drill section, the corridor still remains open in both directions as well as down dip. Interpretation of geophysics over the Main Zone and to the south clearly shows a geophysical anomaly extending south for over 2,000 metres. Rock chips and soil sampling of the cover has returned results highly anomalous in path finder elements.

Micon has been retained to independently prepare a Resource estimate for the Main Zone compliant with NI 43-101 scheduled for completion by Q3 2010.

Scoping studies are scheduled to commence Q1 2011.

Regional exploration

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

Sarita property

The property, area 7,890 hectares, is located on the same trend as the silver-rich (gold bearing) Mina Martha Mine (Coeur D'Alene) and only 9 kilometres to the NW. Lineaments from the Martha trend can be traced on satellite imagery into the Sarita property which contains similar lithological units.

Detailed mapping and sampling within the Sarita property has identified several discrete mineralised corridors hosting persistent quartz veins/breccia trending NW structures. Significant mineralisation has been observed in quartz veins up to 3 metres wide at surface, composed of quartz + sulphides, textures include crustiform, CRT, massive, comb, saccharoidal quartz and multi-episodic breccias. Rock chip samples have returned a host of anomalous gold samples with up to 2.97 g/t Au and up to 15,438 g/t Ag, as well as > 1 per cent. copper and lead.

A trenching programme of over 1,000 metres will be undertaken on the most prospective zones in the veins.

A second style of mineralisation has also been discovered similar to the Las Calandrias deposit. A felsic dome contains an extensive brecciated corridor which to date has been traced over 350 metres and up to 80 metres wide but remains open along strike. Wide spaced sampling has return gold values consistently over 1g/t Au and up to 2.5 g/t. Detailed grid sampling is currently being conducted.

El Bagual Property

The property, area 5,717 hectares, is located in a circular structure, five kilometres in diameter, hosting favourable lithology (Jurassic volcanic rocks) associated with a prominent lineament trending N-S and NNE where geochemical results highlighted an anomalous Au-Hg corridor within which several targets have been defined.

Gold mineralisation is hosted by chalcedony stockwork / veinlets and infill quartz veins / breccias distributed in two contiguous, sub-parallel corridors approximately 100 metres wide. Systematic rock chip sampling returned values up to 6.7g/t gold. Results from

historic drilling, include 25.15 metres at 0.68 g/t Au from 180.15 metres and 45.60 metres at 0.48 g/t Au from 139 metres.

A 2,500 metre drill programme has been designed to test this potential bulk tonnage low grade target, scheduled to commence in Q4 2010.

Environmental and Social Corporate Responsibility

PGSA maintains a strong awareness of its responsibilities towards the environment and existing social structures for the contribution to the sustainable development of the local communities.

Careful attention is given to ensure that all exploration work is carried out with the best practices of the industry and following the guidelines of the relevant mining and environmental acts, as well as to the high standards of responsibility PGSA imposes on itself.

Environmental impact studies were completed, submitted and approved by the Mining Directorate before the beginning of all the drilling campaigns conducted by PGSA and for the trial heap leach at Lomada de Leiva. Periodic water monitoring, base line and hydrogeology, among other studies, are carried out on the advanced projects of PGSA by independent consultants and submitted to the related authorities.

The Provincial Mining Directorate's agents together with representatives from the local communities have frequently inspected our exploration activities specifically when drilling and have expressed their satisfaction towards the responsible manner in which the Company carries out its operations.

PGSA is a responsible exploration company and has strict code of conduct and internal guidelines in respect to dealing with not only environmental issues but landowners and local inhabitants of areas under exploration since commencement of the prospecting stage ensuring the support for our mining activities in the wider community.

Senior Management and Community Relationship personnel represent the Company at meetings with local, provincial and federal government agencies, as well as organising periodic site visits to the projects with local members of the communities and authorities to increase the transparency, information, dialogue and participation along the different stages of development of the projects.

PGSA's policy is to prioritise the hiring of local personnel and consultants and use local contractors and suppliers whenever it is possible. PGSA, through its community relationship programme, contributes to different actions for the benefit of the region.

Chubut Province

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

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

PGSA has been working with both local and regional governments, as well as the Argentine mining chambers and other stakeholders towards building trust and co-operation to lift the ban and recommence the operations in the province.

Consolidated statement of comprehensive income for the year ended 31 December 2009

	2009 £	2008 £
Continuing operations		
Exploration costs	(4,707,868)	(4,523,460)
Administrative costs		
Share based payments charge	(1,263,468)	(92,741)
Other administrative costs	(1,354,476)	(1,249,689)
	<u>(2,617,944)</u>	<u>(1,342,430)</u>
Finance income	26,995	67,318
Finance costs	(5,912)	(4,822)
Loss for the period attributable to equity holders	<u>(7,304,729)</u>	<u>(5,803,394)</u>
Other comprehensive (loss)/income		
Gain/(loss) on revaluation of available-for-sale financial assets	10,784	(34,509)
Exchange differences on translation of foreign operations	(746,793)	346,049
Other comprehensive (loss)/income for the period	<u>(736,009)</u>	<u>311,540</u>
Total comprehensive loss for the period attributable to equity holders	<u>(8,040,738)</u>	<u>(5,491,854)</u>
Loss per share (pence)		
Basic loss per share	(1.28)	(1.37)
Diluted loss per share	(1.28)	(1.37)

Consolidated balance sheet
at 31 December 2009

	2009	2008
	£	£
ASSETS		
Non-current assets		
Property, plant and equipment	635,482	739,234
Available for sale financial assets	122,941	112,157
Other receivables	1,617,315	1,301,301
	2,375,738	2,152,692
Current assets		
Trade and other receivables	89,776	64,779
Cash at bank and in hand	2,894,477	1,069,373
	2,984,253	1,134,152
Total assets	5,359,991	3,286,844
LIABILITIES		
Current liabilities		
Trade and other payables	(1,691,385)	(1,468,200)
Non-current liabilities		
Long-term accruals and provisions	(1,315)	(207,058)
Total liabilities	(1,692,700)	(1,675,258)
Net assets	3,667,291	1,611,586
EQUITY		
Equity attributable to equity holders of the parent		
Share capital	5,936,028	4,735,528
Share premium account	40,971,847	33,339,372
Translation reserve	(296,837)	449,956
Share based payment reserve	1,468,809	205,341
Retained loss	(44,412,556)	(37,118,611)
Total equity	3,667,291	1,611,586

Consolidated statement of changes in equity
for the year ended 31 December 2009

	Share capital £	Share premium account £	Translation reserve £	Share based payment reserve £	Retained loss £	Total £
Balance at 1 January 2008	3,579,229	28,400,654	103,907	112,600	(31,280,708)	915,682
Changes in equity for 2008						
Share based payment	-	-	-	92,741	-	92,741
Issue of share capital	-	-	-	-	-	-
Issue by placing	1,156,299	4,938,718	-	-	-	6,095,017
Transactions with owners	4,735,528	33,339,372	103,907	205,341	(31,280,708)	7,103,440
Loss for the period	-	-	-	-	(5,803,394)	(5,803,394)
Other comprehensive income/(loss):						
Revaluation of available-for-sale financial assets	-	-	-	-	(34,509)	(34,509)
Exchange differences on translation of foreign operations	-	-	346,049	-	-	346,049
Total comprehensive income/(loss) for the period	-	-	346,049	-	(5,837,903)	(5,491,854)
Balance at 31 December 2008	4,735,528	33,339,372	449,956	205,341	(37,118,611)	1,611,586
Changes in equity for 2009						
Share based payment	-	-	-	-	-	-
Re-priced options	-	-	-	384,802	-	384,802
New options	-	-	-	878,666	-	878,666

Issue of share capital						
Issue by placing	1,200,000	8,100,000	-	-	-	9,300,000
Transaction costs of placing	-	(471,025)	-	-	-	(471,025)
Exercise of option	500	3,500	-	-	-	4,000
Transactions with owners	<u>5,936,028</u>	<u>40,971,847</u>	<u>449,956</u>	<u>1,468,809</u>	<u>(37,118,611)</u>	<u>11,708,029</u>
Loss for the period	-	-	-	-	(7,304,729)	(7,304,729)
Other comprehensive income/(loss):						
Revaluation of available-for-sale financial assets	-	-	-	-	10,784	10,784
Exchange differences on translation of foreign operations	-	-	(746,793)	-	-	(746,793)
Total comprehensive income/(loss) for the period	<u>-</u>	<u>-</u>	<u>(746,793)</u>	<u>-</u>	<u>(7,293,945)</u>	<u>(8,040,738)</u>
Balance at 31 December 2009	<u><u>5,936,028</u></u>	<u><u>40,971,847</u></u>	<u><u>(296,837)</u></u>	<u><u>1,468,809</u></u>	<u><u>(44,412,556)</u></u>	<u><u>3,667,291</u></u>

**Consolidated cash flow statement
for the year ended 31 December 2009**

	<i>Year to</i> 31 December 2009 £	<i>Year to</i> 31 December 2008 £
Cash flow from operating activities		
Loss for the year	(7,304,729)	(5,803,394)
Adjustment for:		
Interest income	(26,995)	(67,318)
Depreciation and impairment	46,884	32,179
(Increase) in other receivables	(341,011)	(790,134)
Increase in trade payables	223,185	933,278
(Decrease)/increase in long-term provisions	(205,743)	207,058
Share based payments	1,263,468	92,741
Net cash used in operating activities	<u>(6,344,941)</u>	<u>(5,395,590)</u>
Cash flows from investing activities		
Interest received	26,995	67,318
Purchase of property, plant and equipment	(71,627)	(705,214)
Net cash used in investing activities	<u>(44,632)</u>	<u>(637,896)</u>
Cash flows from financing activities		
Proceeds from issue of share capital	8,828,975	6,095,017
Proceeds from exercise of options	4,000	-
Net cash from financing activities	<u>8,832,975</u>	<u>6,095,017</u>
Net increase in cash and cash equivalents	<u>2,443,402</u>	<u>61,531</u>
Cash and cash equivalents at beginning of period	<u>1,069,373</u>	<u>661,793</u>
Effects of foreign exchange movements	<u>(618,298)</u>	<u>346,049</u>
Cash and cash equivalents at end of period	<u><u>2,894,477</u></u>	<u><u>1,069,373</u></u>

**Notes to the financial statements
for the year ended 31 December 2009**

1. Loss per share

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

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

	<i>Year to</i> 31 December 2009	<i>Year to</i> 31 December 2008
Loss after tax (£)	(7,304,729)	(5,803,394)

Weighted average number of shares	572,842,503	423,543,344
Basic and diluted loss per share (pence)	(1.28)	(1.37)

2. Other receivables

Non current receivables

	2009	2008
	£	£
Recoverable VAT	1,617,315	1,301,301
	<u>1,617,315</u>	<u>1,301,301</u>

The Directors have reviewed the recoverability of VAT balances due to the Group, and have considered post year end approvals set by the Mining Secretary in Argentina and consider the VAT recoverables as at 31 December 2009 to be recoverable in full and no provision is considered necessary.

3. Post balance sheet events

Share Placing

On 4 May 2010 the Company placed 81,250,000 new ordinary shares to a value of £13 million to fund working capital and exploration expenditure.

Certain of these shares were placed with Directors, as set out below.

<i>Director</i>	<i>Placing shares subscribed</i>
C J Miguens	4,140,625
W H Humphries	1,250,000
G Tanoira	82,813

The total issued share capital after this placing is 675,102,783 ordinary shares of 1 pence each.

4. Publication of non statutory accounts

The summary accounts set out above do not constitute statutory accounts as defined by Section 435 of the UK Companies Act 2006. The consolidated balance sheet at 31 December 2009 and the summarised consolidated statement of comprehensive income, consolidated statement of changes in equity and the summarised consolidated cash flow statement for the year then ended have been extracted from the Group's 2009 statutory financial statements upon which the auditors' opinion is unqualified. The results for the year ended 31 December 2008 have been extracted from the statutory accounts for that period, which contain an unqualified auditors' report.

5. Annual Report

The Annual Report for the year ended 31 December 2009 will be posted to shareholders shortly. The Annual General Meeting of the Company will be held at the Cavalry & Guards Club, 127 Piccadilly, London W1V 0PX, on Wednesday, 16 June 2010 at 11.00 am.

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

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

END

FR URSBRRSAVUAR