



## Patagonia Gold PLC : Final Results

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Preliminary Announcement

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

**Final results**  
**for the year ended 31 December 2010**

The Board of Patagonia Gold Plc is pleased to announce its audited results for the year to 31 December 2010.

### **Chairman's statement**

2010 has been another year of continuing exploration success as the Company has accelerated its transition towards becoming a gold producer in the Santa Cruz Province of Argentina.

The financial results show a loss of £7,301,054 (2009: £7,304,729). The direct exploration costs incurred in the year were £4,681,867 which reflected the level of exploration activity that has been carried out on our portfolio of Santa Cruz properties.

Exploration activities were financed by equity share placements in April 2010. More recently further fundraisings just completed raised £24.25 million at 42p per share.

These recent fundraisings will enable the Company to accelerate its drilling programme at the flagship Cap-Oeste gold and silver project and in parallel to commence the development and construction works for the high grade COSE gold and silver project.

Full details of these projects are set out in the Managing Director's and Operations report which follow. Recently the Company has announced that it has delineated in excess of 1.1 million ounces of gold equivalent in compliant categories. All of the projects concerned have significant potential for growth. In addition the Lomada de Leiva project is about to move into gold production having been constructed and mined on time and within budget.

Santa Cruz Province is a very active mining region and other companies operating there are also showing good results. The gold price is strong and now testing the \$1,500 per ounce level which makes our low cost projects more valuable.

With the accelerated pace of our drilling programme in Santa Cruz shareholders will have noticed an increase in the newsflow as we endeavour to announce material developments as promptly as possible. With work in hand and in prospect we anticipate no let up in the information flows in the rest of this year and beyond.

Historically the Company has reported its financial results in British pounds sterling, not least because it is incorporated in the United Kingdom and its shares are listed on the AIM market in London. The market for gold is denominated principally in US dollars and the Board has decided that it is appropriate that in future as the Company is transformed from an exploration company to an operating company, the majority of whose costs and revenues will be US dollar denominated, to report to its shareholders in US dollars. This decision will be implemented commencing with the year beginning 1 January 2011. We hope that this is a change that will be welcomed by our shareholders and will facilitate comparison of our operating and financial performance with our peers in Argentina and elsewhere in the Americas.

In the course of recent months, as the Company's transition from an exploration company to an operating mining company has accelerated, Bill Humphries and his colleagues have devoted a great deal of time and effort in the assembly of the necessary management and staff to plan, develop and operate our mines to the highest possible standard. In February this year we held a Board meeting in Patagonia. All members of the Board attended the meeting and took the opportunity to spend three days visiting the more important exploration sites, reviewing drilling programmes, and inspecting the new heap leach mining project at Lomada which will very shortly commence production.

This provided Board members with the opportunity to meet a broad cross section of the senior and operating management team

now in place, as well as our team of geologists, consulting geologists and technical staff. The Board expressed great confidence in the quality, depth and experience of the team that has been established.

Sir John Craven  
*Non-Executive Chairman*

6 May 2011

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### **Managing Director's report**

The last 12 months have seen Patagonia Gold Plc's (PGD) Operations team achieve several significant milestones towards the development of our properties in the Santa Cruz Province of Argentina.

Firstly, in September 2010 PGD announced the La Manchuria maiden resource which took our Resource base to over 1 million ounces of gold equivalent (AuEq), all Canadian National Instrument 43-101 compliant. This was followed in March 2011 by the release of the COSE maiden resource, which further elevated our Resource base to 1,143,759 ounces AuEq, achieved in just four years since acquisition of the Santa Cruz properties.

Secondly, PGD has taken an important step towards becoming a gold producer with the recent completion of the construction and commissioning of the large trial Heap Leach operation at its Lomada project. Irrigation is now in progress and PGD expects to produce up to 2,500 ounces of gold from the trial during the next six months.

Subject to the success of the trial and further permitting, PGD will expand the existing trial from 50,000 tonnes to 200,000 tonnes in the second half of 2011, after which construction of the main Heap Leach project will commence for full production, an estimated 21,000 ounces of gold per annum, by Q3 2012.

A further achievement in March 2011 has been the completion of successful negotiations with Barrick to amend the original property acquisition agreement, eliminating the 'Back in Right' in exchange for a 2.5 per cent. Net Smelter Return (NSR) royalty. Full details are in the Operations report.

At Cap-Oeste, PGD's flagship project, a 19,000 metre infill and expansion drilling campaign is in progress with expected completion by mid June 2011, after which a resource update will be carried out by independent engineers. Results to date are very encouraging and management expects a significant increase in the resource. Planning for the next stage of drilling at Cap-Oeste is currently in progress.

Just 2 kilometres along strike to the southeast of Cap-Oeste and now part of the overall Cap-Oeste project, a Resource and Preliminary Economic Assessment, completed on the high grade COSE project in March 2011, has shown this project to be extremely robust, returning an NPV of US\$93.8m at a gold price of US\$1,418/oz and silver US\$35/oz over a short mine life of 23 months.

PGD has already received approval for the development of a decline access for underground drilling at COSE as well as bulk sampling for metallurgical test works. With the receipt of the Resource and the Preliminary Economic Assessment, PGD can now finalise the permit application for the mining of the entire ore-body and the construction of infrastructure and processing facilities on site at the COSE project. PGD is targeting the commencement of construction of the underground access in Q4 2011.

A further 9 kilometres along strike to the southeast PGD's exploration teams have discovered the exciting Monte Leon prospect where a drilling campaign is currently under way on a 1.8 kilometre long target area. Monte Leon, together with the 'drill target' prospects, Sarita and El Bagual and numerous other prospects waiting drilling, have the potential to provide future growth for PGD.

PGD has 10 full time geologists, supported by two consulting geologists and over 40 technical staff, operating in Santa Cruz on the three advanced projects and on exploration of other properties in our large prospective portfolio.

In addition, PGD is currently assembling an experienced development team to take advanced projects, including Lomada, COSE, and Cap-Oeste into production.

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

6 May 2011

## Operations report

Patagonia Gold Plc (PGD) is a precious metals exploration and production company operating in Argentina. Through its 100 per cent. owned subsidiary in Argentina, Patagonia Gold S.A. (PGSA), it is actively engaged in mineral exploration in the Patagonia region of the country. PGSA holds the mineral rights to 200 properties, for 7,384 square kilometres, predominantly in the southern provinces of Santa Cruz and Chubut.

During 2010, PGSA has focused its efforts on its highly prospective portfolio of properties in the Santa Cruz province, concentrating both on expanding and infilling PGSA's flagship Cap-Oeste deposit and the adjacent high grade COSE deposit on the El Tranquilo property block, as well as developing the Lomada de Leiva project on the La Paloma property block, towards the first gold production of the Company.

Since acquisition of the Santa Cruz properties in 2007, PGSA has rapidly grown through successful exploration and development having so far delineated gold resources totalling **1,143,759 ounces (oz) of gold equivalent (AuEq)** on the Cap-Oeste, COSE and Manchuria and Lomada deposits, all Canadian National Instrument 43-101 (NI 43-101) compliant.

DEPOSIT	INDICATED (76.7%)		INFERRED (24.3%)		TOTAL AuEq (Oz)
	Gold (oz)	Silver (oz)	Gold (oz)	Silver (oz)	
Cap-Oeste	362,040	14,503,120	46,090	1,604,030	655,930
COSE	39,847	1,283,412	26,565	855,050	106,393
La Manchuria	40,317	1,848,211	72,335	2,335,236	146,366
Lomada	161,346	0	73,725	0	235,070
<b>TOTAL</b>	<b>603,550</b>	<b>17,634,743</b>	<b>218,715</b>	<b>4,794,316</b>	<b>1,143,759</b>

The Lomada Trial Heap Leach project was commissioned during Q2 2011, and the necessary permits were obtained to commence the decline for underground drilling at COSE.

## 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.

Patagonia Gold's 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, has set out the key terms and conditions for the development of PGSA's mining properties in the province, including the Lomada de Leiva, Cap Oeste, COSE and La Manchuria gold and silver deposits, together with other mining properties currently owned by Fomicruz SE.

The volcanic plateau of the Deseado massif of Santa Cruz is 60,000 square kilometres in area and hosts several mines such as Cerro Vanguardia, Mina Martha, Manantial Espejo, San Jose Huevos Verdes, as well as various advanced projects such as Cerro Negro and Cerro Moro, together with 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.

## Amendment of Barrick Agreement

During March 2011, PGSA successfully negotiated with Barrick Exploraciones Argentina S.A. and Minera Rodeo S.A. (Barrick) to amend the original property acquisition agreement, eliminating the 'Back in Right' in exchange for a 2.5 per cent. Net Smelter Return (NSR) royalty.

The Barrick property portfolio consisted of 70 expedients (mineral titles) in six groups covering approximately 200,000 hectares in the highly prospective Deseado massive region of the Santa Cruz Province in Argentine Patagonia which were acquired by Patagonia Gold during 2007. This portfolio includes PGD's flagship project Cap-Oeste, as well as the Lomada, COSE and La Manchuria gold and silver deposits.

Within the original Agreement, Barrick retained the right to purchase an aggregate interest of up to 70 per cent. in any of the six groups upon the delineation of a Canadian National Instrument 43-101 (NI 43-101) Indicated Resource of 2,000,000 ounces or greater of gold or gold equivalent, on a forward looking basis (the 'Back In Right').

In exchange for the elimination of the 'Back in Right', Barrick will receive a 2.5 per cent. NSR on all future production of mineral products on those properties pertaining to the Agreement. The royalty will not apply to PGD's other Santa Cruz properties, or those acquired in the Fomicruz Agreement.

## El Tranquilo Property

The El Tranquilo property block, covering over 80 square kilometres, is located approximately 65 kilometres southeast of the town of Bajo Caracoles in Santa Cruz, and 120 kilometres to the southeast of PGSA's Lomada de Leiva gold project where a trial heap leach project is currently in operation.

El Tranquilo contains PGSA's flagship project, the Cap-Oeste gold and silver deposit, together with the 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 kilometres and 20 kilometres respectively from the Cap-Oeste gold and silver project.

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

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

To date, the El Tranquilo property block holds a combined NI 43-101 compliant resource of **762,323 ounces of gold equivalent**, with 85 per cent. in the indicated category, on the Cap-Oeste deposit and the adjacent COSE deposit.

During November 2010, PGSA received approval of the biannual Environmental Impact Report (EIR) for the El Tranquilo property block from the State Secretary of Mining, Province of Santa Cruz, Argentina. The EIR provided for 200,000 metres of drilling on the Cap-Oeste deposit. In addition the EIR included a provision for the development of a decline access for underground drilling at COSE as well as a bulk sampling for metallurgical test works, and a provision for a further 200,000 metres of drilling at COSE gold-silver project and other prospective targets within the property block.

## Cap-Oeste Gold and Silver Project

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 Resource of 655,930 ounces of gold equivalent so far, with 88 per cent. in the Indicated 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 19,000 metre diamond drilling campaign commenced in Q4 2010 to increase the resource base of the Cap-Oeste deposit. The existing Resource is 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.

Accordingly, 12,000 metres of the current programme is allocated to infill this area down to 125 metres depth at 25 metre x 25 metre spacing designed at bringing any increase in the Resource into the Measured and Indicated categories. The remaining 7,000 metres is aimed at extending the Main shoot and E shoot down plunge and along strike.

Initial results are 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 12.72g/t gold and 265g/t silver, and drill hole CO-166-D intersecting 435.40g/t gold and 1,006g/t silver over 1.1 metres within the Esperanza Fault zone.

Reported results of this drilling campaign include:

<i>Hole No.</i>	<i>From metres</i>	<i>Interval metres</i>	<i>Grade Au g/t</i>	<i>Grade Ag g/t</i>
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

The Esperanza Fault zone runs east-west sub-parallel on surface to the northwest trending Cap-Oeste Bonanza Fault. The two fault zones have opposite dips indicating that they will intersect below the current known mineralisation providing a significant exploration target.

Both shoots remain open. Further results are pending. This drill campaign is scheduled for completion in June 2011, after which a Resource Update is anticipated to be completed by Q3 2011.

## COSE deposit

The COSE deposit is an advanced exploration target associated with the larger Cap-Oeste gold-silver deposit located 2 kilometres to the northwest. It was detected in 2009 through a geophysical survey which identified a large anomaly similar to the Cap-Oeste deposit signature. A follow-up reconnaissance exploration programme including detailed mapping, trenching, sampling, and exploratory drill holes identified an auriferous breccia beneath the geophysical anomaly.

An initial drilling campaign completed on COSE in Q2 2010 delineated a mineralised breccia zone, containing exceptional high

grade gold and silver, within an area 120 metres down dip by 35 metres along strike with a true width of 3.5 to 4.5 metres.

The second stage extension and infill drilling campaign at COSE, comprising a further 23 diamond HQ core drill holes, for 6,582 metres, was completed in Q4 2010. The drilling campaign, designed to define the limits of the high grade mineralisation for a maiden resource. The mineralisation remains open in all directions.

### Significant intersections include:

Hole No.	From	Interval	Grade	Grade
	metres	metres	Au g/t	Ag g/t
CSE-044-D	206.40	1.50	43.45	5,106
and	233.80	5.86	95.32	6,093
including	237.00	0.85	475.50	38,134
CSE-047-D	253.00	5.00	162.78	8,622
including	253.40	0.50	794.00	70,626
CSE-049-D	238.96	5.47	274.88	10,378
including	243.00	0.80	269.90	67,578
CSE-050-D	218.20	5.22	51.47	1,939
including	218.20	0.80	171.40	10,289
including	204.83	0.71	192.00	26,598
CSE-057-D	208.02	4.09	121.82	2,404
CSE-063-D	287.20	6.80	38.66	587
including	287.20	1.80	131.02	1,469
CSE-065-D	200.50	3.50	31.92	66
and	232.40	1.00	346.60	16,519

In March 2011, Chlumsky, Armbrust & Meyer L.L.C. (CAM) of Lakewood, Colorado, completed an audit and review of the maiden COSE Resource, as well as a Preliminary Economic Assessment to define the potential viability for the construction, mining and processing of the COSE deposit.

The COSE Mineral Resource estimate defined a combined total of 34,395 tonnes at 60.06 grams per tonne (g/t) gold and 1,933.07g/t silver for 106,393 ounces AuEq. CAM reported the following NI 43-101 compliant resources for the COSE project:

### Total INDICATED Resources Undiluted COSE Project

Tonnes	Grade			Ounces contained metal		
	Au (g/t)	Ag (g/t)	AuEq (g/t)	Au Metal (oz)	Ag Metal (oz)	AuEq Metal (oz)
20,637	60.06	1,933.07	96.21	39,847	1,283,412	63,836

### Total INFERRED Resource

Tonnes	Grade			Ounces contained metal		
	Au (g/t)	Ag (g/t)	AuEq (g/t)	Au metal (oz)	Ag metal (oz)	AuEq metal (oz)
13,758	60.06	1,933.07	96.21	26,565	855,050	42,557

# AuEq values are calculated at 53.5:1 Au:Ag ratio

SGS Minerals Chile completed the preliminary metallurgical testing, consisting of cyanide leaching in bottle-roll tests and gravity separation tests, on 25 composites of samples from the first 43 drill holes from COSE. The gold range of the composites was from 1.2 to 1,276.0g/t and the silver ranged from 13 to 45,118g/t. The cyanide leaching tests reported an average recovery above 75 per cent. for gold and 55 per cent. for silver after 72 hours with recovery continuing. The gravity concentration tests recovered 60 per cent. of the gold and 35 per cent. of the silver indicating that PGSA can process the high grade ore on site substantially reducing processing costs.

### Preliminary economic assessment

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 mechanised cut and fill mining method be adopted for the extraction of the COSE deposit. This style of mining method, although initially requiring greater quantities of sublevel development, is more appropriate for mining of narrow vein structurally controlled deposits such as COSE as dilution and ore-loss can be far better controlled. A total ore movement of 120T per day or 3600T per month has been used as the base case production forecast for the mine.

### Mineable Reserves

Classification	Tonnes	Diluted mineable reserves applying 98 per cent. recovery factor					
		Au (g/t)	Ag (g/t)	AuEq(g/t)	Au (Oz)	Ag (Oz)	AuEq (Oz)
Probable	39,111	51.76	1,665	82.88	65,081	2,094,235	104,225

The "Probable" mining reserve estimates are in part based on Inferred resources as a scoping level assessment and are therefore non-compliant under the NI 43-101.

Base case metal prices used for Preliminary Economic Assessment are Au \$1,204/oz, Ag \$23.75/oz, with recoveries of 95 per cent. and 90 per cent. respectively. All cash flow calculations are based upon an undiscounted model due to total project timeline of 23 months and include a 10 per cent. royalty payable for exported concentrates. Dilution of 0.25 metres either side of the stope and a 98 per cent. recovery factor was applied to calculate the diluted mineable reserves.

### Capex assumptions

## Mining Capex:

Mining CAPEX and OPEX is estimated at US\$ 24,440,000, which includes the 1,980 metres of main decline ramp access, ore development, cross cuts and stoping of the ore. Total cost per tonne for production during the 11 month production period is estimated at US\$167/t and total development cost is estimated at US\$14,252,000.

## Process Capex

3 main treatment or process routes were considered for the treatment of the COSE ore:

1. Direct Shipping, involves mining and crushing of the material on site and then shipping the ore via road and sea to a suitable smelter for direct smelting to recover the gold and silver.
2. Construction of a crushing and cyanide leaching circuit at the La Bajada property and processing through a Merrill Crowe circuit and production of 'Dore' on site.
3. Gravity separation and smelting of Au and Ag on site to produce 'Dore'.

Process facility CAPEX estimates and metal recoveries are tabled below for the three separate treatment routes:

<i>Treatment route</i>	<i>CAPEX requirement (US\$000's)</i>	<i>Metal recoveries Au;Ag</i>
Direct Shipping	2,700	93;90
High NaCN Leach Merrill Crowe	8,100	87;65
Gravity concentrate-Smelting	5,900	60;50

## Cash-flow assumptions

Cash-flow calculations for 3 different scenarios were studied and NPV sensitivity analysis for adjusted Au and Ag prices are shown below. All cash-flow sensitivities were run on the Direct Shipping option treatment route due to the smaller initial CAPEX (US\$2,768,000) and higher potential revenue.

Base case metal price assumptions were provided by CAM and represent a trailing 36 month and Future looking 24 months calculated price giving a base case gold price of US\$ 1,204/oz and base case silver price of US\$ 23.75/oz.

<i>Au price (US\$)</i>	<i>Ag price (US\$)</i>	<i>Au-Ag Price sensitivity analysis was run for the following metal prices: NPV (US\$ m)</i>
1,203	23.75	63.7
1,000	20	46.5
1,100	22	55.2
1,400	30	84.7
1,418	35	93.8

## Payback

68 per cent. of contained gold and silver will be mined within the first four months of production enabling payback of capital after just 14 months from commencement of the decline.

## Planning

With the receipt of the Resource and the Preliminary Economic Assessment, PGD can now finalise the permit application for the mining of the entire ore-body and the construction of infrastructure and processing facilities on site at the COSE project for approval.

The COSE deposit remains open at depth. Future drilling in order to expand the deposit will be carried out from underground.

## Monte Leon Prospect

The Monte Leon prospect is located 11 kilometres to the southeast of the Cap-Oeste deposit and within the same structural corridor. The Monte Leon prospect is both within the El Tranquillo mineral property block and PGSA's 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 1.01g/t gold over 48 metres, including 5.05g/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 programme comprising 16 trenches (TR-006-MLN to TR-021-MLN), for a total length of 4,007 metres, has been completed during Q1 2011 over the Vein zone.

Results from the trenching programme 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.

A 3,500 metre diamond core HQ drilling programme has commenced on the Vein zone. Results of this drilling are pending.

## La Marciana Prospect

The newly-discovered La Marciana Prospect, identified using high-definition Landsat imagery, is located on the southeast continuation of the Cap-Oeste structural corridor, approximately 20 kilometres 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 kilometres containing the Main and Western sinter areas. The results of this geophysical survey will facilitate future exploration targeting.

## La Manchuria Property

The La Manchuria property, consisting of five mining concessions covering 5,575 hectares, is located approximately 50 kilometres to the southeast of and within carting distance of the Cap-Oeste project. The La Manchuria Property contains the Main Zone deposit.

## Main Zone

PGSA has completed three drilling campaigns on the Main Zone over three years, for a total 17,853 metres on 95 holes.

Geological appraisal of the 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.

A NI 43-101 compliant Mineral Resource Estimate, completed by Micon International Limited (Micon) during Q3 2010 on the La Manchuria gold and silver deposit, has defined a combined total of **146,366 ounces of gold equivalent (AuEq)** above a cut-off grade of 0.75 grams/tonne (g/t) AuEq. The uncapped Resource estimate shows a combined total of 239,609 ounces AuEq above a cut-off grade of 0.75g/t AuEq.

The La Manchuria gold and silver deposit remains open to the north, south and at depth.

La Manchuria - Mineral Resource Summary (above a cut-off of 0.75 AuEq (g/t))

<i>Indicated</i>		<i>Grade (g/t)</i>			<i>Metal (Oz)</i>		
<i>Domain</i>	<i>Tonnes</i>	<i>Au</i>	<i>Ag</i>	<i>AuEq</i>	<i>Au</i>	<i>Ag</i>	<i>AuEq</i>
Oxide	141,570	1.91	139.1	3.12	8,675	633,338	14,198
Hypogene	284,136	3.46	133.0	4.54	31,642	1,214,873	41,486
Total	425,705	2.95	135.0	4.07	40,317	1,848,211	55,684

  

<i>Inferred</i>		<i>Grade (g/t)</i>			<i>Metal (Oz)</i>		
<i>Domain</i>	<i>Tonnes</i>	<i>Au</i>	<i>Ag</i>	<i>AuEq</i>	<i>Au</i>	<i>Ag</i>	<i>AuEq</i>
Oxide	496,179	1.33	42.5	1.66	21,138	678,485	26,462
Hypogene	972,840	1.64	53.0	2.05	51,197	1,656,751	64,220
Total	1,469,020	1.53	49.4	1.92	72,335	2,335,236	90,682

The following economic assumptions were used in calculating the AuEq grade of each block:

Gold price:	US\$ 925.00/oz	Gold recovery:	95 per cent.
Silver price:	US\$ 14.50/oz	Silver recovery:	60 per cent.

The low ratio of Indicated to Inferred (38 per cent. to 62 per cent.) of the La Manchuria Resource together with the significant reduction of metal content of approximately 40 per cent. between the uncapped and capped combined resources, 239,609 ounces

AuEq to 146,366 ounces AuEq, clearly indicates the need for more work to better define the geological controls on the high grade mineralisation as well as the need to decrease the spacing of the drill holes.

Accordingly, an infill drilling programme, designed to reduce the drill hole spacing from a nominal 25 metres to 12.5 metres, has been planned for drilling in early 2012.

## La Paloma Property Block

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 gold project and the adjacent Breccia Sofia prospect.

## Lomada de Leiva Gold Project

The Lomada project currently contains a NI 43-101 compliant resource of 161,346 ounces of gold in the Measured and Indicated categories, with a further 73,725 ounces of gold in the Inferred category for a total of 235,071 ounces of gold.

In April 2010, PGSA obtained the necessary permits to commence the trial operation. The first stage of the Lomada project consisted of constructing a 50,000 tonne trial heap leach pad and processing facility, which based on 70 per cent. recovery, is estimated to yield approximately 2,500 ounces of gold for the first 6 metre loading.

Construction of the heap leach pad commenced in late September 2010. The heap leach pad's 100 metre x 100 metre base area, pregnant and barren solution ponds, plant site and emergency containment dam, mining and placement of approximately 50,000 tonnes of ore on the heap leach pad were completed during Q1 2011.

The processing facility and irrigation system were completed and commissioned in April 2011. The first production of gold is expected in May 2011.

Subject to successful leaching and additional permitting, further loading and production from the first stage heap leach will continue until the main five million tonne heap leach project is fully operational.

The features of the main heap leach project are:

1. Low pre-production capital of \$8.5 million.
2. Production of 21,000 oz. of gold/year, for a mine life of seven years, at a cash cost of \$299/oz.
3. Project cash flow before tax, of \$137.5 million, based on a cash price of \$1,400/oz gold.

## Lomada Resource upgrade

Patagonia Gold commenced during Q4 2010 an extension and infill drilling campaign, comprising 35 diamond drill holes HQ core for 4,441 metres, aimed at enlarging the Resource and advancing the Inferred part of the Resource into an Indicated category.

The campaign was completed during Q1 2011 and the highly encouraging results include:

<i>Hole No.</i>	<i>From</i>	<i>To</i>	<i>Interval</i>	<i>Grade</i>
	<i>metres</i>	<i>metres</i>	<i>metres</i>	<i>Au g/t</i>
LLD10-01	93.00	99.00	6.00	11.22
including	95.00	97.00	2.00	20.30
LLD10-03	71.00	85.00	14.00	6.29
LLD10-14	54.00	74.00	20.00	6.86
including	60.00	67.00	7.00	14.52
LLD10-17	61.00	79.00	18.00	10.95
including	73.00	78.00	5.00	27.14
LLD10-24	98.00	107.00	9.00	4.37

PGSA has retained mining engineers, Chlumsky, Armbrust and Meyer, LLC (CAM) of Lakewood, Colorado, to prepare a NI 43-101 report for the upgrade of the resource at Lomada, scheduled for completion in Q2 2011.

The upgraded Resource, together with the results from the trial Lomada project, will be used to revise the 2009 Scoping study of the Lomada project prior to the commencement of the main heap leach project.

## Estancia El Rincon acquisition

The Lomada project is located on the Estancia El Rincon, comprising 6,700 hectares of land purchased in July 2010. The agreement includes a sale back to the sellers after mining and or exploration have ceased for a period of two years (except cases of force majeure).

## Regional exploration

In addition to the three main property blocks; El Tranquilo, La Paloma and La Manchuria, containing the advanced projects, Cap-Oeste, Lomada and Manchuria respectively, 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 having now been completed on the majority of the properties. A second pass detailed exploration of the more prospective properties is in progress. This second pass is designed to identify drill targets which to date have successfully been defined on the Sarita, El Bagual and Comino properties.

## Sarita Property

The Sarita property, area 7,890 hectares, is located 50 kilometres to the southeast of PGSA's La Manchuria project and 9

Kilometres 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 83.4g/t gold and up to 15,444g/t silver, as well as > 1 per cent. copper in separate samples. A trenching programme 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 1g/t gold, up to 4.88g/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 2,500m RC drilling programme is scheduled to commence in Q4 2011 at Sarita to test the above mentioned discoveries.

## El Bagual Property

The property, area 5,717 hectares, is located in a circular structure, 5 kilometres 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 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 2011.

## 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 Secretary of Mining 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 relevant authorities.

The Provincial Mining Secretary's agents together with representatives from the local communities have frequently inspected our exploration activities, specifically during the drilling and construction of the trial heap leach operation. They have expressed their satisfaction towards the responsible manner in which the Company carries out its operations.

PGSA is a responsible mining company and has strict codes of conduct and internal guidelines in respect to dealing with not only environmental issues but landowners and local inhabitants of areas under exploration. This ensures ongoing support for Patagonia Gold's 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 as soon as possible.

### Consolidated statement of comprehensive income for the year ended 31 December 2010

	Note	2010 £	2009 £
<b>Continuing operations</b>			
Exploration costs		(4,681,867)	(4,707,868)
Administrative costs			

Share based payments charge	(492,025)	(1,263,468)	
Other administrative costs	(2,191,656)	(1,354,476)	
	(2,683,681)	(2,617,944)	
Finance income	74,541	26,995	
Finance costs	(10,047)	(5,912)	
<b>Loss for the period attributable to equity holders</b>	<b>(7,301,054)</b>	<b>(7,304,729)</b>	
Other comprehensive income/(loss)			
Gain on revaluation of available-for-sale financial assets	36,667	10,784	
Exchange gain/(loss) on translation of foreign operations	177,043	(746,793)	
<b>Other comprehensive income/(loss) for the period</b>	<b>213,710</b>	<b>(736,009)</b>	
<b>Total comprehensive loss for the period attributable to equity holders</b>	<b>(7,087,344)</b>	<b>(8,040,738)</b>	
<b>Loss per share (pence)</b>			
Basic loss per share	4	(1.13)	(1.28)
Diluted loss per share	4	(1.13)	(1.28)

### Consolidated balance sheet at 31 December 2010

	Note	2010 £	2009 £
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	2,862,027	635,482
Available-for-sale financial assets		159,608	122,941
Other receivables	6	2,335,962	1,617,315
		5,357,597	2,375,738
<b>Current assets</b>			
Trade and other receivables		68,144	89,776
Cash and cash equivalents		6,798,179	2,894,477
		6,866,323	2,984,253
<b>Total assets</b>		<b>12,223,920</b>	<b>5,359,991</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Bank overdraft		(176,853)	-
Trade and other payables		(2,307,974)	(1,691,385)
		(2,484,827)	(1,691,385)
<b>Non-current liabilities</b>			
Provisions		(121,959)	(1,315)
<b>Total liabilities</b>		<b>(2,606,786)</b>	<b>(1,692,700)</b>
<b>Net assets</b>		<b>9,617,134</b>	<b>3,667,291</b>
<b>EQUITY</b>			
Equity attributable to equity holders of the parent			
Share capital		6,758,528	5,936,028
Share premium account		52,694,509	40,971,847
Translation reserve		(119,794)	(296,837)
Share-based payment reserve		1,918,049	1,468,809
Retained loss		(51,634,158)	(44,412,556)
<b>Total equity</b>		<b>9,617,134</b>	<b>3,667,291</b>

### Consolidated statement of changes in equity for the year ended 31 December 2010

	Share capital £	Share premium account £	Translation reserve £	Share- based payment reserve £	Retained loss £	Total £
<b>Balance at 1 January 2009</b>	4,735,528	33,339,372	449,956	205,341	(37,118,611)	1,611,586
<b>Changes in equity for 2009</b>						
Share-based payment						
Re-priced options	-	-	-	384,802	-	384,802
New options	-	-	-	878,666	-	878,666
Issue of share capital	1,200,000	8,100,000	-	-	-	9,300,000
Issue by placing						

Transaction costs of placing	-	(471,025)	-	-	-	(471,025)
Exercise of option	500	3,500	-	-	-	4,000
Transactions with owners	1,200,500	7,632,475	-	1,263,468	-	10,096,443
Loss for the period	-	-	-	-	(7,304,729)	(7,304,729)
<b>Other comprehensive income/(loss):</b>						
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	-	-	(746,793)	-	(7,293,945)	(8,040,738)
<b>Balance at 31 December 2009</b>	5,936,028	40,971,847	(296,837)	1,468,809	(44,412,556)	3,667,291
<b>Changes in equity for 2010</b>						
Share-based payment	-	-	-	492,025	-	492,025
Issue of share capital						
Issue by placing	812,500	12,187,500	-	-	-	13,000,000
Transaction costs of placing	-	(553,651)	-	-	-	(553,651)
Exercise of option	10,000	88,813	-	(42,785)	42,785	98,813
Transactions with owners	822,500	11,722,662	-	449,240	42,785	13,037,187
Loss for the period	-	-	-	-	(7,301,054)	(7,301,054)
<b>Other comprehensive income/(loss):</b>						
Revaluation of available-for-sale financial assets	-	-	-	-	36,667	36,667
Exchange differences on translation of foreign operations	-	-	177,043	-	-	177,043
Total comprehensive income/(loss) for the period	-	-	177,043	-	(7,264,387)	(7,087,344)
<b>Balance at 31 December 2010</b>	6,758,528	52,694,509	(119,794)	1,918,049	(51,634,158)	9,617,134

### Consolidated cash flow statement for the year ended 31 December 2010

	<i>Year to 31 December 2010 £</i>	<i>Year to 31 December 2009 £</i>
<b>Cash flow from operating activities</b>		
Loss for the year	(7,301,054)	(7,304,729)
Adjustment for:		
Interest income	(74,541)	(26,995)
Depreciation	73,865	46,884
(Increase) in other receivables	(697,015)	(341,011)
Increase in trade payables	616,589	223,185
Increase/(decrease) in long-term provisions	120,644	(205,743)
Share-based payments	492,025	1,263,468
<b>Net cash used in operating activities</b>	<b>(6,769,487)</b>	<b>(6,344,941)</b>
<b>Cash flows from investing activities</b>		
Interest received	74,541	26,995
Purchase of property, plant and equipment	(2,306,087)	(71,627)
<b>Net cash used in investing activities</b>	<b>(2,231,546)</b>	<b>(44,632)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of share capital	12,446,349	8,828,975
Proceeds from exercise of options	98,813	4,000
<b>Net cash from financing activities</b>	<b>12,545,162</b>	<b>8,832,975</b>
<b>Net increase in cash and cash equivalents</b>	<b>3,544,129</b>	<b>2,443,402</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>2,894,477</b>	<b>1,069,373</b>
<b>Effects of foreign exchange movements</b>	<b>182,720</b>	<b>(618,298)</b>
<b>Cash and cash equivalents at end of period</b>	<b>6,621,326</b>	<b>2,894,477</b>

### Notes to the financial statements for the year ended 31 December 2010

#### 1. Publication of non statutory accounts

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 balance sheet at 31 December 2010 and the consolidated statement of changes in equity, consolidated cashflow statement and associated notes for the year then ended have been extracted from the Group's

financial statements for the year ended 31 December 2010 (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.

## 2. Results of Patagonia Gold Plc

Included in the consolidated loss attributable to the shareholders of Patagonia Gold Plc is a loss of £2,112,738 (2009: £2,153,963), which has been dealt with in the accounts of the holding company. As permitted by Section 408 of the Companies Act 2006, the parent Company's profit and loss account has not been included in these financial statements.

## 3. 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. 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.

## 4. 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 31 December 2010</i>	<i>Year to 31 December 2009</i>
Loss after tax (£)	(7,301,054)	(7,304,729)
Weighted average number of shares	647,624,975	572,842,503
Basic and diluted loss per share (pence)	(1.13)	(1.28)

## 5. Property, plant and equipment

Following the Group's accounting policy, exploration expenditure is not capitalised until future recovery of these costs is considered probable. At 31 December 2010 only the Lomada de Leiva project had reached this stage which, together with the acquisition of related plant and equipment, has contributed to the increase in the net book value of property, plant and equipment.

## 6. Other receivables

Non current receivables

	2010	2009
	£	£
Recoverable VAT	2,335,962	1,617,315
	<u>2,335,962</u>	<u>1,617,315</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 2010 to be recoverable in full and no provision is considered necessary.

## 7. Post balance sheet events

### *Amendment to Barrick Agreement*

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. 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.

### *Share Placing*

On 19 April 2011 the Company placed 45,238,095 new ordinary shares to a value of £19 million to fund working capital and exploration expenditure.

On 28 April 2011, the Company placed 12,500,000 new ordinary shares to a value of £5.25 million to fund working capital and exploration expenditure.

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

*Director*

*Placing shares subscribed*

Sir John Craven	476,190
C J Miguens	3,497,115
W H Humphries	476,190
G Tanoira	145,713

The total issued share capital after these placings is 734,515,878 ordinary shares of 1 pence each.

## **8. Annual Report**

The Annual Report for the year ended 31 December 2011 will be posted to shareholders shortly. The Annual General Meeting of Company will be held on Wednesday, 8 June 2011 at 11.00 am in the Oxford Suite at the London Marriott Hotel, 140 Park Lane, London.

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

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