FAIRFAX

Non-Independent Research

11th June 2009

Patagonia Gold Plc – BUY

Trial production imminent

AIM PGD.L
www.patagoniagold.com

Share Price 11.75p
(at close 10.06.09)

Shares in issue	593.553m
Market cap	£69.74m
Cash position	$14m

Fairfax I.S. PLC
46 Berkeley Square
Mayfair
London W1J 5AT

Tel: +44 (0)20 7598 5368
Fax: +44 (0)20 7598 5369
Email: info@fairfaxplc.com

Research Analysts
John Meyer +44 (0)20 7598 5364
Email: jmeyer@fairfaxis.com
Marc Elliott +44 (0)20 7460 4393
Email: melliot@fairfaxis.com

Research Team
Aoife McGrath +44 (0)20 7460 54397
Email: amcgrath@fairfaxis.com
Dmitry Kalachev +44 (0)20 7460 4369
Email: dkalachev@fairfaxis.com

Sales/Marketing
James Lesser: +44 (0)20 7598 5364
Jody Downes: +44 (0)20 7460 4375
Sean Perry: +44 (0)20 7598 5367
Callum Petras: +44 (0)20 7598 4042

Corporate Broking
Bruce Evers +44 (0)20 7598 4069

Patagonia Gold is about to start producing gold from its trial heap leach, at the Lomada de Leiva Project in Argentina. By mid 2010 the low-cost, main, heap-leach operation will be underway with production of 21,000oz per annum

December year end	2008A	2009E	2010E	2011E	2012E	2013E
Gold Produced (Moz)	0.00	1.54	18.87	42.97	12.41	15.11
Revenue (USD $m)	**0.00**	**1.38**	**18.74**	**36.29**	**10.48**	**12.76**
EBITDA (USD $m)	-1.96	1.10	12.22	23.34	-0.68	0.60
Pre Tax Profit (USD $m)	**-8.65**	**1.15**	**12.65**	**24.45**	**1.33**	**3.20**
Post tax Profit (USD $m)	**-8.65**	**1.15**	**12.65**	**24.45**	**1.33**	**2.01**
EPS (US cents)	-0.02	0.00	0.02	0.04	0.00	0.00
PE x	-9.24	86.84	7.92	4.10	75.26	49.76
Free Cash (USD $m)	**-8.61**	**1.15**	**12.39**	**23.55**	**-0.10**	**-1.29**

Source: Company data, Fairfax estimates

Valuation shows a greater than 80% upside.

Strong management team with previous success in the development and sale of precious metal deposits in Argentina.

Exploration success: Since acquiring Barrick's exploration portfolio in 2007, Patagonia Gold have outlined resources totalling approximately 0.5moz from Lomada de Leiva and Cap Oeste.

Start small & grow incrementally: The company will fund the development of its main heap-leach at Lomada de Leiva through revenue from its trial heap leach. This will provide proof of concept and reduce the company's risk profile. A similar approach may work at the Cap Oeste project.

Cash Flow from Lomada de Leiva appears sufficient to fund future exploration and contribute to building a mine at Cap Oeste.

Low cash costs & large margin: Average cash costs are projected to be just $333/oz. With our expectations of gold prices in excess of $850 in the medium term, margins are large, meaning the project is insensitive to minor gold price fluctuations.

Simple mining & processing methods: Mining is by simple bench method, no crushing is required and processing is by heap leaching.

Significant exploration upside potential along strike from Lomada de Levia and also along the Bonanza fault that hosts the Cap Oeste deposit.

Mining friendly jurisdiction in Santa Cruz Province.

11th June 2009

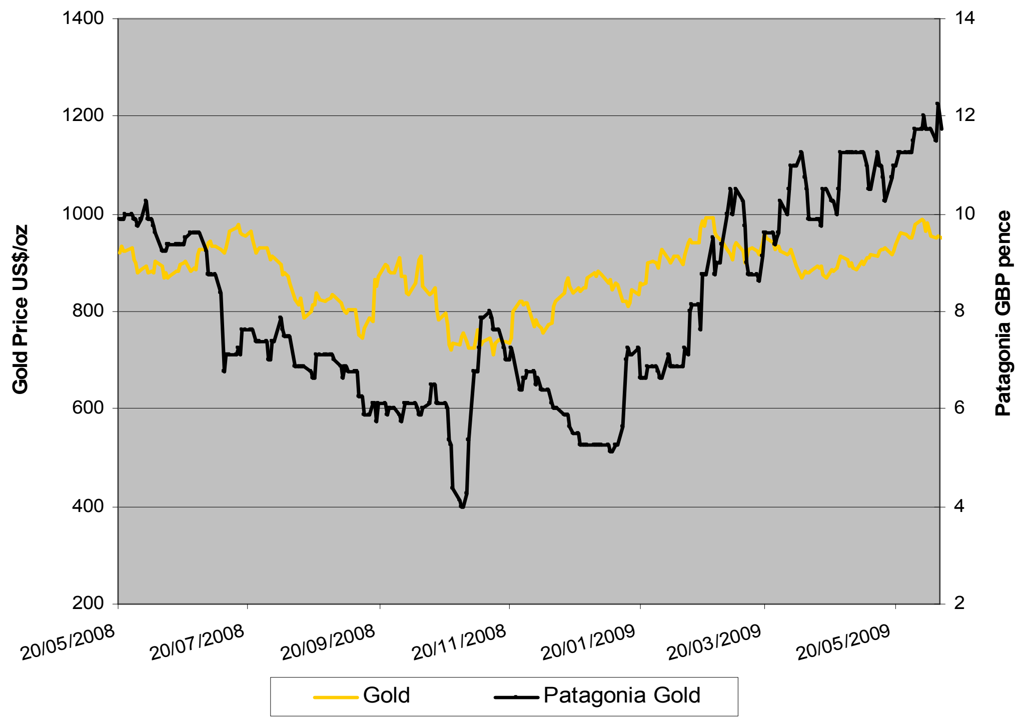
Introduction

Patagonia Gold is an exploration company that is rapidly moving towards becoming a low cost producer (expected in late 2009). The company is focussed on South America and is building a portfolio of properties that have the potential to be developed into multi-million ounce deposits.

Plan for strategic, incremental growth, at least partially funded internally

Management have made the decision to acquire assets, bring them into production quickly and cheaply and grow the company incrementally. This reduces their risk profile, shows proof of concept and generates revenue to at least partially fund growth internally.

Figure 1 – Patagonia Share Price versus gold



Source: *Bloomberg*

NPV Valuation for Lomada de Leiva

NPV valuation based on Measured and Indicated Resources at Lomada de Leiva only

We have calculated an NPV for the Lomada de Leiva project of US$34.6m, using a 10% DCF model. This gives a value per share of 6p but it is very important to note that this valuation is based on the Indicated Resource at Lomada de Leiva alone. It doesn't take into account Inferred Resource ounces at Lomada de Leiva or any existing resource ounces at Cap Oeste. This valuation is therefore a project NPV per share and not a company NPV per share.

Company Valuation

Patagonia, although soon to be a producer is currently an exploration company. Therefore in order to fully value it, account needs to be taken of the upside potential for ounces in the ground at their projects and the ability of the management to bring said ounces into production.

In order to estimate a value for the whole company we took the NPV for Lomada de Leiva and added to it the current cash position of US$13.95m and to a value for both existing resource ounces and exploration blue-sky ounces.

To estimate a value for both ounces in the ground and blue-sky ounces, we calculated an NPV of $190 per ounce from the Lomada de Leiva project NPV. We then discounted this figure by 50% and applied it to all existing Inferred Resource ounces to allow for a 50:50 chance of those ounces actually being produced. We discounted existing Indicated Resource ounces by less, giving these a 75% chance of being mined instead of 50%.

Very strong management team

We have a very strong belief in the ability of the management team to increase the resource base and add significant value in the near future. Going forwards, it is very likely that exploration and development can be at least partially funded from operations. This should help reduce further dilution and increase value on a per share basis.

A number of prospects near Cap Oeste, adding further potential upside

This combined with the demonstrated potential at both Cap Oeste and Lomada de Leiva has led us to estimate an upside of 500,000oz immediately around these deposits to which we applied a conservative 25% chance of being mined. La Manchuria is a very promising prospect showing very high grades in a central core area. The Vetas Norte and Breccia Valentine Trends, although at an early stage of exploration are showing very encouraging geological signs of mineralisation at depth. As a result we have estimated that another 300,000 resource ounces are likely to be added from these areas. We once again applied a conservative 25% chance of these being mined. The prospects on the Vetas Norte and Breccia Valentine trends are within 5km of Cap Oeste meaning that our discounting factor is very conservative and further upside is likely.

Total valuation (tabulated below) therefore includes our original NPV of US$34.6m (based on measured and indicated resource ounces at Lomada de Leiva), a cash position of $13.95m, a value of US$42.65m for other existing resource ounces (not included in the scoping study and NPV valuation) and a value of US$38m for upside ounces (exploration blue-sky), bringing the total valuation to US$129.2m and a per share value of 22p.

Table 1 – Discounting factors applied to existing & upside ounces

Resource Type	Location	No. of ounces	Discount Factor	NPV/oz ($)	Total Value (US$m)
Cash Position					13.95
Total Cash Position					**13.95**
Scoping study ounces	Lomada de Leiva	182,372	1	190	34.6
Total NPV value for ounces included in scoping study					**34.6**
Upside	Lomada de Leiva	200,000	0.25	190	9.50
Upside	Cap Oeste	300,000	0.25	190	14.25
Upside	Others	300,000	0.25	190	14.25
Total value for upside ounces					**38**
Inferred	Lomada de Leiva	70,000	0.5	190	6.65
Inferred	Cap Oeste	154,257	0.5	190	14.65
Indicated	Cap Oeste	149,842	0.75	190	21.35
Total value for existing resource ounces					**42.65**
Overall Value					**129.2**

Source: Company data & Fairfax estimates

Our valuation is based on strip ratios, head grades, quantities mined, heap-leach recovery and costs estimates taken from company data (scoping study) and modified by Fairfax. Gold price assumptions are for $900/oz in 2009, £1,000/oz in 2010 and $850/oz going forwards to 2016. A one-off payment to Barrick of $1.5m, for when the resource exceeds 200,000oz (details below) has been included for payment in 2013.

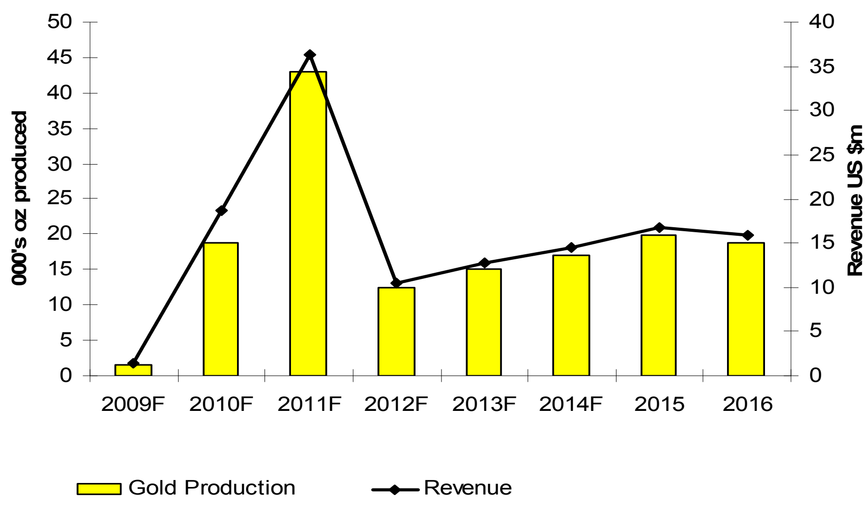
Figure 2 outlines the expected production profile which will exhaust the current Measured and Indicated resource base at Lomada de Leiva by 2016, but doesn't include the full Inferred Resource base or any production from other projects. It is expected that ongoing exploration will enhance resources and support a longer mine life.

Operating Items: The valuation is based an initial production of about 6,000oz from the trial heap-leach during late 2009 and early 2010. The main heap-leach has been predicted to come into production in mid-2010.

Low predicted cash costs of $333/oz

Average cash cost is $333/oz for the life of mine although this varies on a yearly basis. Mining cost is taken as $4.5/tonne and processing cost as $3.5/tonne. Heap leach recovery has been set at a flat rate of 80% for life of mine and refinery recovery at 99%.

Figure 2 – Lomada de Leiva production profile



Source: Company data & Fairfax Estimates

Very low capex, to be fully funded by trial heap-leach (total capex of $10.4m)

Capital costs & financing: The trial heap leach pad is assumed to cost US$1.9m to build plus a minor operating cost. The estimated capital cost of the main heap leach is taken to be US$8.5m to be spent over 2010-2011. It is assumed that this will be funded entirely from revenue from the trial heap leach. This is entirely feasible as the nature of the operation means it can be built and scaled up as revenue becomes available.

Depreciation: We have depreciated all plant and equipment over 7 years (life of mine).

Fiscal Environment: Argentina imposes a 3% royalty and although some of this can be recouped by the company a flat rate of 3% was assumed in the model.

The company has built a large tax credit so it has been assumed that the first 3 years of operation will be tax free. The company is estimated to start paying tax in 2013. The corporate tax regime in Argentina is 37%.

Account was also taken of the 10% JV with Fomicruz so 90% of revenue was attributed to Patagonia Gold.

Conclusion

Production by year end

There are many reasons why Patagonia Gold is a compelling story. We believe the company will deliver on production from the trial heap leach pad at Lomada de Leiva in H2 2009 / very early 2010 and ramp up production from the main heap leach pad in H2 2010. This will show proof of concept and generate income to allow expansion of the company.

Strong management team & long history with company & in-country

The key strengths of the company are the management team and their clear strategy to acquire assets and expand the company by developing them incrementally, cheaply and at low risk. Management have a long history both with the company and with gold exploration in Argentina. Many were involved in the very profitable sale of the large Esquel project. It is also very encouraging that management have been successful in moving projects from exploration to pre-production in a very short period of time and have taken the prudent decision, given current market conditions to commence operating and build the company incrementally. They also have influential local backing from the Miguens family, a prominent business family in the region.

Located in a very favourable region for precious metals deposits

Although not a historically significant mining district, there are a number of other reasonably sized projects in the Santa Cruz region namely Cerro Vanguardia (Anglogold >4Moz) and Cerro Negro (Andean Resources >2Moz) which give the indication that this is increasingly, a more and more desirable geological address in which to be located.

Large potential at Cap Oeste

We believe that the Cap Oeste deposit has the potential to be a company maker. Initial results from other prospects local to it are also very encouraging and we firmly believe that the Breccia Valentine and Vetas Norte trends could add significantly to production from Cap Oeste

Our valuation for the Cap Oeste project appears somewhat conservative and it is likely that greater value should develop as the project and surrounding prospects are evaluated.

Low projected cash costs

From a production viewpoint projected cash costs of approximately $333/oz are at the lower-mid end of the industrial range. It is likely that actual cash costs may be lower. With projected gold prices of $850 in the medium term the operation won't be sensitive to small fluctuations in the gold price.

Low apparent technical risk

Technical risks associated with the simple mining and heap leach processing methods seem low.

Mining friendly jurisdiction

Other major attractions for investors are that Santa Cruz is a mining-friendly jurisdiction and the mutual economic interests of Patagonia Gold and their local government JV partner.

Table 2 – Lomada de Leiva Key Financials

December year end		2007A	2008A	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Gold price	**$/oz**		**873**	**900**	**1000**	**850**	**850**	**850**	**850**	**850**	**850**
Gold produced	**000'oz**		**0**	**2**	**19**	**43**	**12**	**15**	**17**	**20**	**19**
Revenue	**US$**	**0.00**	**0.00**	**1.38**	**18.74**	**36.29**	**10.48**	**12.76**	**14.43**	**16.81**	**15.82**
Exploration Costs	US$	-7.30	-6.79	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Royalty Payments 3%	US$m	0.00	0.00	-0.04	-0.56	-1.09	-0.31	-0.38	-0.43	-0.50	-0.47
Operating expense	US$m	0.00	0.00	-0.16	-5.65	-11.53	-11.20	-10.52	-8.04	-7.46	-6.21
G&A	US$m	-2.06	-2.01	-0.08	-0.57	-1.24	-1.08	-1.07	-1.13	-1.13	-1.03
Other	US$m	0.00	0.00	0.00	0.00	0.00	0.00	-1.50	0.00	0.00	0.00
Interest received	US$m	0.07	0.10	0.05	0.43	1.11	2.01	2.60	2.56	2.59	2.75
Interest paid	US$m	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Depreciation & Amortization	US$m	0.04	0.05	0.01	0.26	0.90	1.44	1.31	1.10	0.92	0.76
Share based payments	US$m	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
PBT	**US$m**	**-9.25**	**-8.65**	**1.15**	**12.65**	**24.45**	**1.33**	**3.20**	**8.49**	**11.21**	**11.61**
Tax Bill	US$m	0.00	0.00	0.00	0.00	0.00	0.00	-1.18	-3.14	-4.15	-4.30
Post tax Profit	**US$m**	**-9.25**	**-8.65**	**1.15**	**12.65**	**24.45**	**1.33**	**2.01**	**5.35**	**7.07**	**7.32**

Source: Company Data & Fairfax Estimates

Table 3 – Lomada de Leiva Cash Flow

Cash flow		2007A	2008A	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Operating											
Profit/(loss) for the year	US$m	-9.25	-8.65	1.15	12.65	24.45	1.33	2.01	5.35	7.07	7.32
Mineral rights acquired thru issuance of loan notes	US$m	3.24	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Depreciation/amortisation	US$m	0.04	0.05	-0.01	-0.26	-0.90	-1.44	-1.31	-1.10	-0.92	-0.76
Increase in trade & other receivables	US$m	-0.22	-1.19	0.00	0.00	0.00	0.00	-2.00	-2.00	-2.00	0.00
Increase in trade payables	US$m	0.35	1.40	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Increase in long-term provisions	US$m	0.00	0.31	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Share based payments	US$m	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest income	US$m	-0.07	-0.10	-0.05	-0.43	-1.11	-2.01	-2.60	-2.56	-2.59	-2.75
Operating cash flow	**US$m**	**-5.91**	**-8.18**	**1.10**	**11.96**	**22.44**	**-2.12**	**-3.89**	**-0.32**	**1.56**	**3.81**
Investing											
Interest	US$m	0.07	0.10	0.05	0.43	1.11	2.01	2.60	2.56	2.59	2.75
Purchase of property, plant & equipment	US$m	-0.08	-1.06	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Investing cash flow	**US$m**	**0.00**	**-0.96**	**0.05**	**0.43**	**1.11**	**2.01**	**2.60**	**2.56**	**2.59**	**2.75**
Financing											
Dividends paid	US$m	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Share based payments expense	US$m	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares issued	US$m	5.55	9.14	13.95	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Loans	US$m	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other	US$m	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financing Cash Flow	**US$m**	**5.55**	**9.14**	**13.95**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Net change of cash	US$m	-0.37	0.01	15.10	12.39	23.55	-0.10	-1.29	2.25	4.15	6.56
Net Cash	**US$m**	**1.08**	**1.00**	**16.10**	**28.49**	**52.04**	**51.94**	**50.64**	**52.89**	**57.04**	**63.60**
FX	US$m	-0.20	0.52								
Free cash flow	**US$m**	**-6.11**	**-8.61**	**1.15**	**12.39**	**23.55**	**-0.10**	**-1.29**	**2.25**	**4.15**	**6.56**

Source: Company Data & Fairfax Estimates

Risks

Political Risk: Political risk in parts of Argentina can be quite high but Santa Cruz is one of the more mining-friendly jurisdictions in which to operate. That Patagonia Gold are in JV with a local mining company wholly-owned by the government, aligns both parties interests and should reduce this risk even further. A strong local partner (Miguens family) is also a plus.

Mining & processing risk: The technical risk associated with a small, simple bench mining and heap-leach operation seems low.

Surface rights risk: In Argentina, surface rights do not come with Mining Rights. The company therefore has to lease or buy the rights from the landowner. Patagonia has already bought the rights over Cap Oeste and will buy the rights for Lomada de Leiva once it is permitted.

Geological Risk: We believe the geological risk is low, as the mineralized structure along which Cap Oeste sits has been identified in mapping and trenching for over 6km. A geophysical survey carried out in 2008 shows a strong resistive anomaly over Cap Oeste. Other targets along strike from Cap Oeste show similar anomalies.

Commodity Risk: Gold prices continue to perform strongly as investors seek "safe haven assets". Long term fear of rapid inflation following the US stimulus packages devaluing the dollar are also holding up gold prices. The development of ETFs (exchange traded funds) has opened up another avenue for gold consumption which is offsetting the weakness from jewellery.

We would expect gold to remain strong for some time, although liquidation of ETFs could bring down prices sharply. However, Patagonia should be a low-cost producer. With global mine supply struggling to maintain current levels, this should provide longer term support for gold.

Strengths

Management experience: Patagonia Gold's key strength is the wealth of experience that the board and management have in gold exploration in Argentina. They have a clear strategy and have previously been successful in the exploration and sale of the large Esquel deposit (>3.8moz Au and 7Moz Ag).

Influential local backing: The Miguens family is a large shareholder in Patagonia Gold. Carlos Miguens is a well known Argentine businessman whose group 'Miguens Bemberg' holds a significant stake in electricity generation in the country.

Geological address: A number of medium to large precious metal deposits have been delineated in the Deseado Massif of Patagonia in recent years showing this to be emerging as a significant district. Patagonia Gold certainly seems to have secured highly prospective ground holdings within the area.

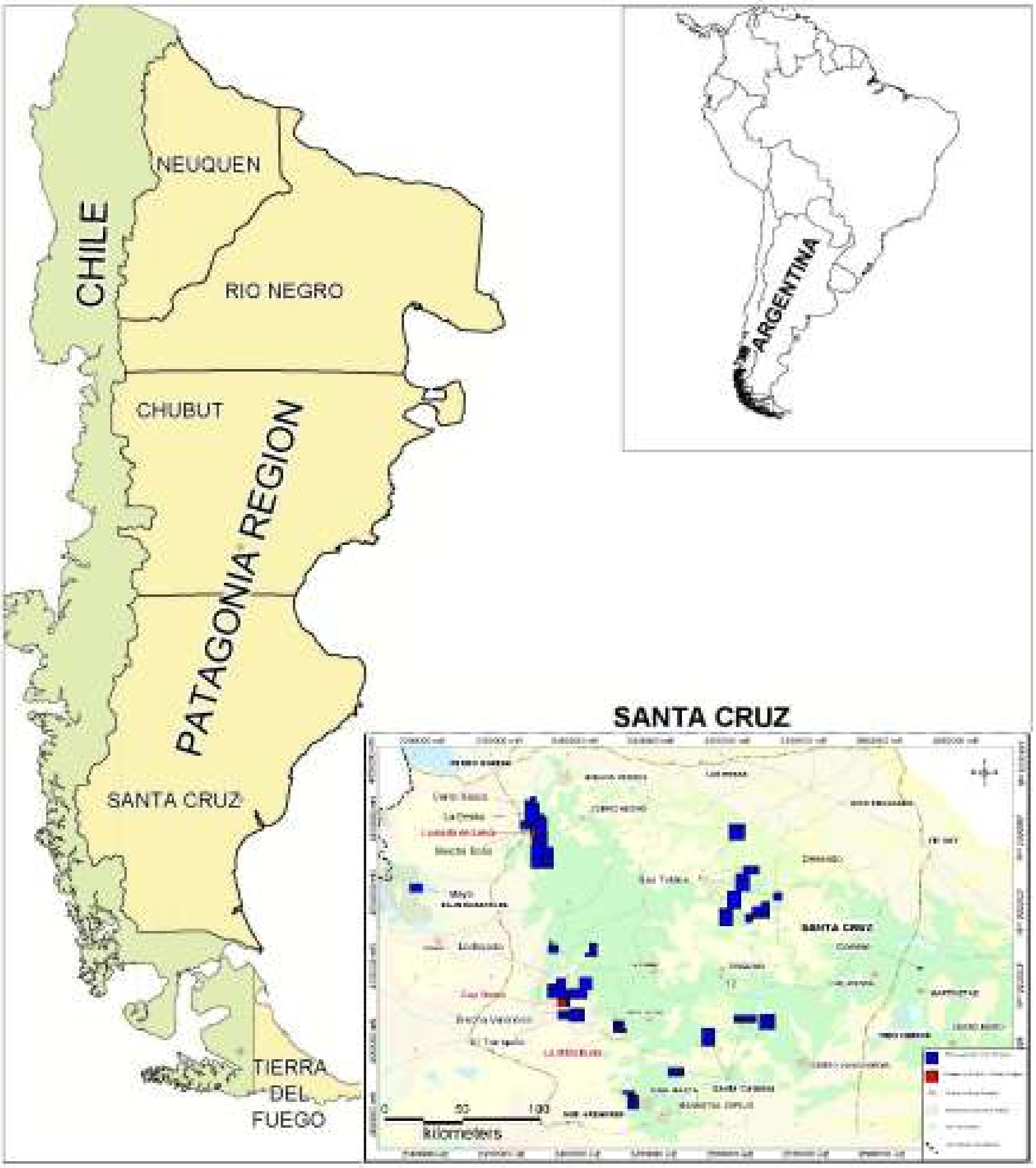
11th June 2009

Company History

Long history of involvement with successful exploration in Argentina

Patagonia Gold Plc, formerly named HPD Exploration Plc was originally incorporated in 2000. It was a wholly owned subsidiary of Brancote Holdings Plc in order to hold exploration projects other than the Esquel Gold Project in Argentina. Brancote Holdings Plc proceeded to de-merge its subsidiary by way of an offer to shareholders and HPD traded on OFEX from January 2001, before changing its name to Patagonia Gold Plc and floating on AIM in March 2003. Brancote Holdings Plc was subsequently acquired by Meridian Gold Inc. in July 2002 for US$368 million.

Figure 3 – Location of tenements in Santa Cruz



Source: Company data

11th June 2009

Review of Operations

Regional Geological Setting

Regionally located in an increasingly favourable geological address

The Santa Cruz licenses are located on the Deseado Massif that covers central and eastern Santa Cruz. This has in recent years indicated its potential as a significant precious metals geological address. A number of large deposits are being delineated or are already in production. These include Cerro Vanguardia (>4Moz Au and >67Moz Ag) currently being mined by AngloGold Ashanti, Marta Mine (>2Moz Au and >50Moz Ag) being mined by Coeur D'Alene and the Cerro Negro Project, owned by Andean Resources that has over 2Moz Au in resource and is at advanced exploration stage. There are also a number of silver mines in the region.

Projects

Highly prospective ground- Barrick Gold projects

Patagonia through its subsidiary Patagonia Gold SA (PGSA) acquired Barrick's highly prospective Santa Cruz exploration portfolio in 2007 and have moved some projects from exploration to resource delineation in under 2 years.

At the moment exploration is focused on the Santa Cruz province as work on their Chubut Province licenses has been suspended until July 2009 due to a government ban.

Strategic partnership with local government

In May 2008, a strategic partnership for the mining of PGSA's Santa Cruz prospects was formed with Fomicruz SE, a mining company wholly owned by the pro-mining government of the Santa Cruz Province.

The main properties currently being worked on are La Paloma (the Lomada de Leiva project), El Tranquille (the Cap-Oeste project) and La Manchuria.

La Paloma Property

237, 000oz Indicated & Inferred Resource

The main zone of interest on this property is the Lomada de Leiva project. This was drilled in 2007 and a NI 43-101 compliant indicated and inferred resource of 237,000oz defined.

Table 4 – Lomada De Leiva Resource Statement

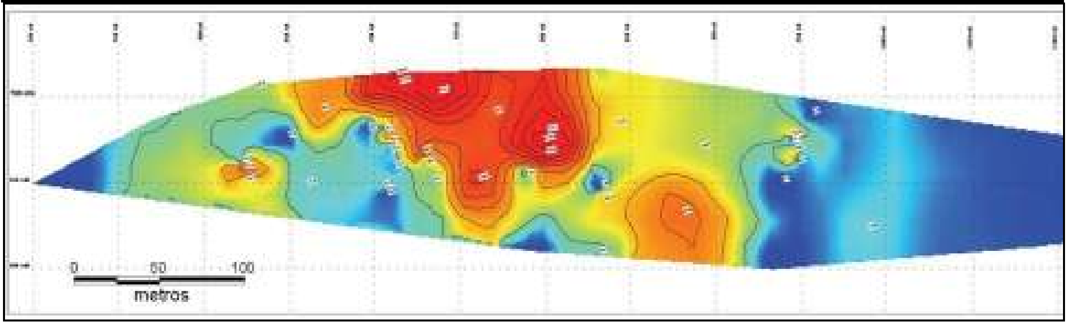
Resource	Cut-off (g/t Au)	Tonnes	Grade (g/t Au)	Contained Gold (troy oz)
Measured	0.3	1,427,628	1.125	51,633
Indicated	0.3	3,574,388	0.955	109,713
Total MI	**0.3**	**5,002,016**	**1.003**	**161,346**
Inferred	0.3	3,412,271	0.672	73,725
Measured	0.5	951,843	1.491	45,630
Indicated	0.5	2,315,170	1.261	93,859
Total MI	**0.5**	**3,267,013**	**1.328**	**139,489**
Inferred	0.5	1,850,623	0.911	54,187

Source: Company data

The geology of the area comprises a sub-horizontal sequence of Jurassic rhyolitic and tuffaceous rocks. Gold mineralization is located in a north-northeast trending, easterly dipping structural corridor that contains brecciated and silicified rocks, cut by fine, anastomosing quartz veins. The mineralization is predominantly hosted in the loose and friable fault breccia matrix and although low grade, it sits in a topographic high, thereby reducing strip ratios. Figure 4 also shows that the higher grades and / or greatest widths are found close to the surface. Review of the geological cross-sections confirms that the highest grades are found close to the surface.

Perfect shape for small open pit

Figure 4 – Gram metre long section of the Lomada de Leiva deposit



Source: Company data

Further potential 500m along strike but possibly limited at depth

The potential to add further ounces is borne out by the Breccia Sofia prospect, 500m along strike to the northeast that also returns good gold and silver grades.

In the latter half of 2008, the company completed a scoping study that looked at a number of options for processing the ore from Lomada de Leiva. The results show that ROM heap leaching is the most attractive option, having a low pre-production CAPEX (approx $8.5m) and low cash operating costs of $299/oz (scoping study estimates not Fairfax estimates), with production of approximately 21,000oz/year from a 182,369oz resource. The ore will be mined and placed on the pad directly as the process of moving the earth is enough to loosen the breccia material sufficiently to allow the leaching fluid to percolate. Not having a need for crushing or grinding circuits greatly reduces CAPEX on the project.

Production starting from trial leach pad by end 2009

The company has decided to progress the project towards development with the aim of commencing production from the main pad in the second half of 2010. Detailed metallurgical testing is underway along with the Environmental Impact Report and a Base Line Study. 1,500m of geotechnical and sterilization drilling will commence in mid 2009 after which a full feasibility will commence, scheduled for completion by the end of 2009.

The company aim to start small by the construction of a trial heap leach pad. It is hoped that this can be completed under the existing exploration permit. Construction, mining and loading should take 3 months and cost approximately $1.9m. This will provide a very good foundation for the full BFS for the project. Based on an 80% recovery rate the trial should yield around 2,000oz from the first 6m loading. Subject to permitting and recoveries, it is hoped that 2-3 further 6m layers can be added producing 4-6,000oz during 2010. The company expect this trial pad to largely fund the construction of the larger pad.

The decision was taken to progress this project to production, without increasing the reserves any further even though obvious potential exists both at Lomada de Leiva and along strike at the Breccia Sofia Project. The reason for this is a clause in the contract requiring the company to pay Barrick US$1.5m when the indicated component of the resource exceeds 200,000oz. This is likely to be paid at some point in the future and for the purposes of our model was included for payment in 2013. This timing is not definite and if it occurs in a year other than 2013, will impact the NPV slightly.

El Tranquille Property

This property is 100% owned by PGD, covers over 40 square kilometres and contains the Cap-Oeste project and the Breccia Valentine and Vetas Norte structural trends which contain a number of prospects.

Continuing good results – growing resource base

In May 2008 an initial drill program was completed and in November a NI 43-101 compliant indicated and inferred resource of 304,099oz Au* and 6,929,825oz Ag was defined on the Cap-Oeste project. A second phase of drilling has been finished and the resource estimate is expected to be updated in August / September.

Table 5 - Resource Statement for Cap-Oeste project

Resource	Cut-off (g/t Au)	Tonnes	Grade (g/t Au)	Contained Au (oz)	Grade (g/t Ag)	Contained Ag (oz)
Indicated (Oxide)	0.3	1,911,998	1.27	78,028	30.74	1,889,762
Indicated (Non-oxide)	0.3	1,316,224	1.7	71,814	41.54	1,757,989
Total Indicated	**0.3**	**3,228,222**	**1.44**	**149,842**	**35.15**	**3,647,751**
Indicated (Oxide)	0.5	1,044,233	2.01	67,368	44.89	1,507,060
Indicated (Non-oxide)	0.5	822,130	2.49	65,701	57.34	1,515,663
Total Indicated	**0.5**	**1,866,363**	**2.22**	**133,069**	**50.37**	**3,022,723**
Inferred (Oxide)	0.3	1,154,369	1.01	37,562	23.53	873,387
Inferred(Non-oxide)	0.3	2,229,978	1.63	116,695	33.6	2,408,687
Total Inferred	**0.3**	**3,384,347**	**1.42**	**154,257**	**30.16**	**3,282,074**
Inferred (Oxide)	0.5	603,533	1.59	30,872	35.55	689,765
Inferred(Non-oxide)	0.5	1,400,547	2.37	106,542	46.2	2,080,371
Total Inferred	**0.5**	**2,004,080**	**2.13**	**137,414**	**42.99**	**2,770,136**
Total Ind & Ind	**0.3**			**304,099***		**6,929,825**
Total Ind & Ind	**0.5**			**270,483****		**5,792,859**

* Quoted in press release

** Likely mineable resource

Source: Company Data

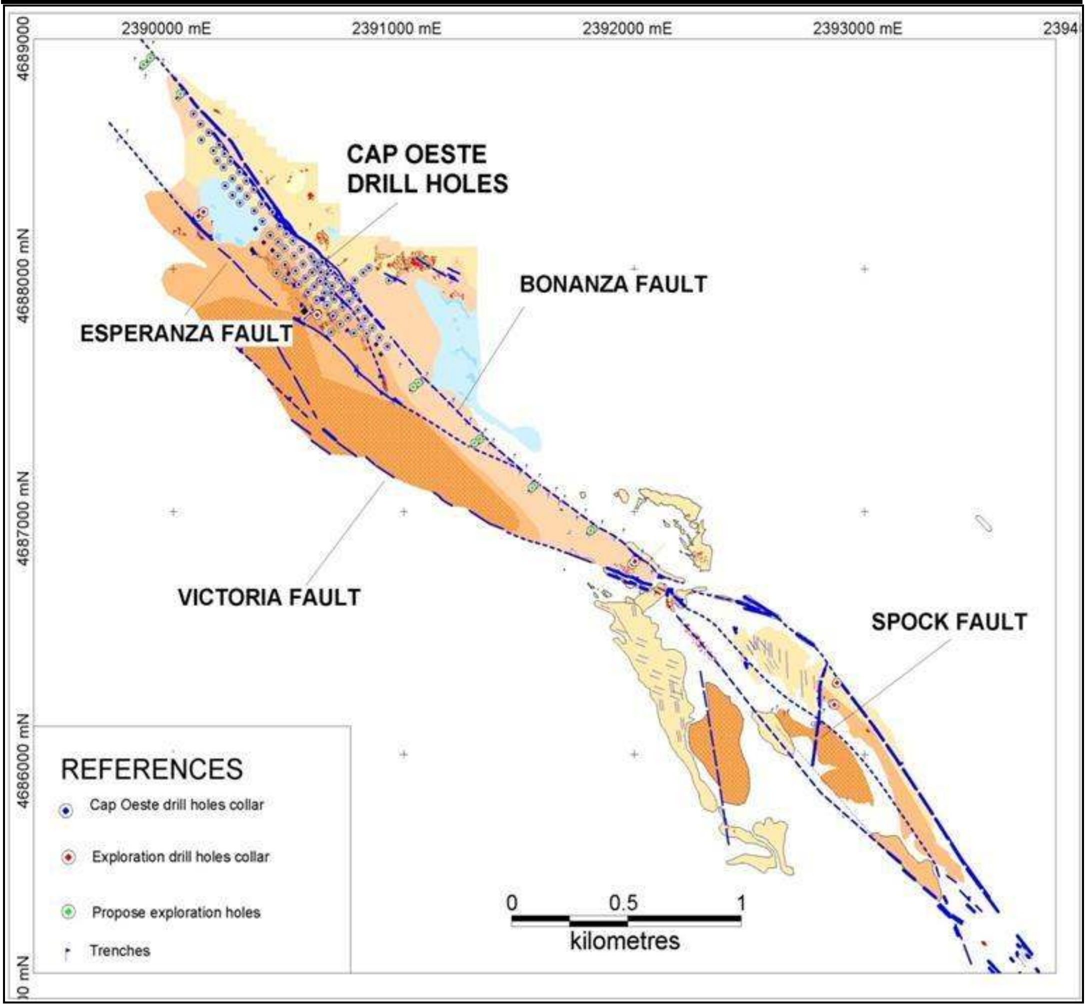
The geology of the area is characterized by sub-horizontal tuffs cross-cut by a NW trending fault system. The focus of the drilling so far has been the NW striking, SW dipping Bonanza Fault. The higher grade zones of mineralization in the core of the deposit are associated with the breccia zone of this fault. Hydrothermal brecciation and veining is found in the hangingwall and pyrite veinlet and disseminated Au-Ag mineralization in the footwall. A typical drilled intercept could be 30m in width.

Structural intersection may host increased grade and / or widths

Currently the drilling depth is approaching the interpreted intersection of the SW dipping Bonanza Fault and the NE dipping Esperanza fault. It is believed this structural intersection will have been very favourable to gold mineralization and may host high grades (Figure 5).

Mineralization is open along strike as the existing resource comes from 1.2km of a currently defined 6km strike length. However, PGSA's ability to extend the Cap-Oeste resource base is limited by a 70% buy-back clause held by Barrick Gold, once the indicated resource exceeds 2Moz Au. One important thing to note is that the buy-back clause only applies to forward looking resources.

Figure 5 Map showing location of ore-bearing structures & drill holes



Source: Company data

Given the in-house experience of heap leach that will be developed at Lomada de Leiva, it may be possible to start processing any low-grade ore from Cap Oeste in the same manner, thereby allowing a small and low cost start to production at this project too.

Vetas Norte & Breccia Valentine Trends showing encouraging results

Exploration on the Vetas Norte and Breccia Valentine trends that are local to Cap Oeste is at an early stage but trench and drill results so far and indications from geological mapping are very encouraging.

La Manchuria Property

The property encompasses four defined zones of epithermal veining and alteration throughout a 600m x 800m NW trending structural corridor. Exploration has defined the two areas for initial focus as the Main and Eastern zones. The majority of drilling to date has been conducted over the central section of the Main zone. Au-Ag mineralization is comprised of NW to NNW trending veins 0.2-1.54m wide which are enveloped by 5-15m wide zones hosting sub-parallel, densely sheeted 1-5cm wide veining. Very high grades have been intersected in a central core area including 1.2m @ 118.5g/t Au and 127g/t Ag, 1.2m @ 58.9g/t Au and 4,150g/t Ag.

Working towards NI 43-101 on third property

Further drilling is planned to enable advancement towards the delineation of a NI 43-101 resource in late 2009.

11th June 2009

The Gold Market

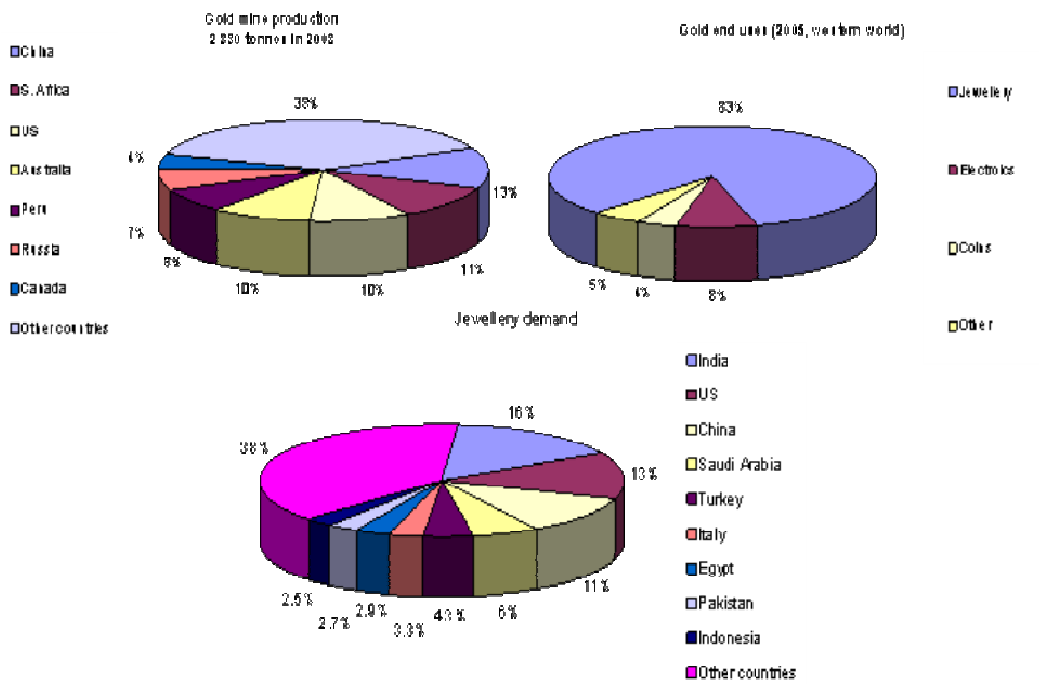
Commodity risk: Gold prices have been strong for some months driven largely by investment demand seeking its safe haven properties and the longer term fear of high inflation devaluing the dollar. The ascendance of exchange traded funds (ETFs) has opened the market up for gold investment to a broader base of investors, albeit at the expense of a jewellery market that has been contracting in response to higher prices.

Investment demand helping support the gold price

Investment Demand: The world's largest gold ETF, SPDR, continues to see high gold reserves, with 36.40Moz at 10th June 2009 making it one of the world's largest gold holders. We are concerned that a collapse in prices could be accelerated by ETF liquidation. In the second half of last year, gold's rally was tempered by funds selling their gold holdings to meet margin calls.

At current levels we do not expect ETF liquidation to be a threat to the market, with the main driver to prices being the weakness or strength of the dollar. However, taking profits could be hard to resist if gold prices rise beyond $1,000/oz, and on the occasions that this has occurred, gold prices rapidly pulled back.

Figure 6 – Gold Supply & Demand 2008



Source: GFMS Annual Gold Survey

Supply decreasing

Supplies: Mine supply has been declining in key regions as mines struggle to build production, and South African ones in particular have faced high costs at the deep operations. China is now the world's largest gold producer and is aiming to produce 290tpa with current (and growing) consumption of 360tpa.

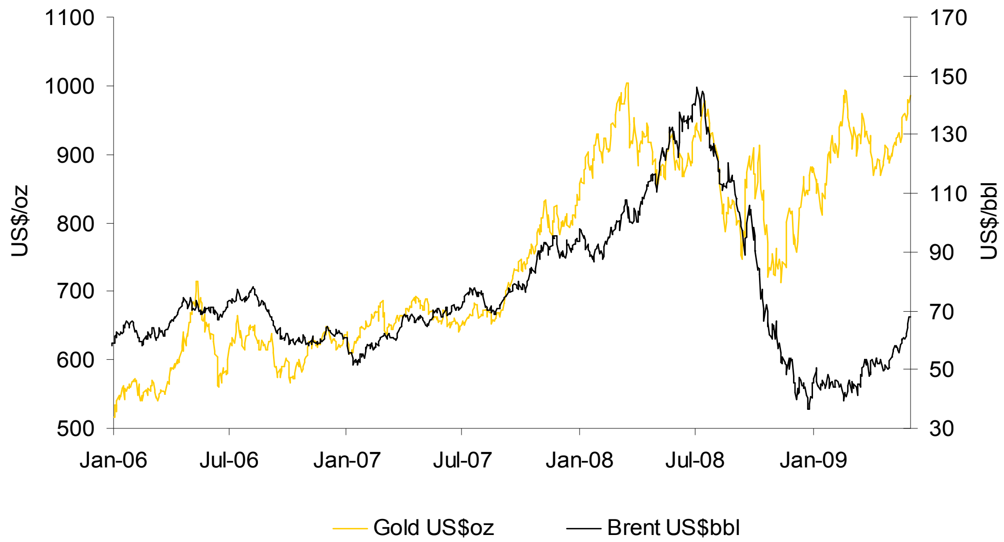
India has historically been the world's largest consumer of gold however, the current environment of high prices is causing a sharp fall in demand. High prices are also encouraging gold scrap recycling (people selling their jewellery) in India and elsewhere. Additionally, there are reports that malls in the US are offering gold recycling services. Recycling is a growing source of supply.

Gold prices likely to hold up in medium-long term

Outlook: In the next few months gold is likely to continue to be very volatile. In the longer term, the stimulus plans by the US and printing of money are likely to lead to devaluation of the dollar which will lift gold prices. Perceived risks by investors that do not know where to put their money is also supporting gold prices. However, nearer term deflationary pressures e.g. falling house and oil prices could limit potential upside for the metal.

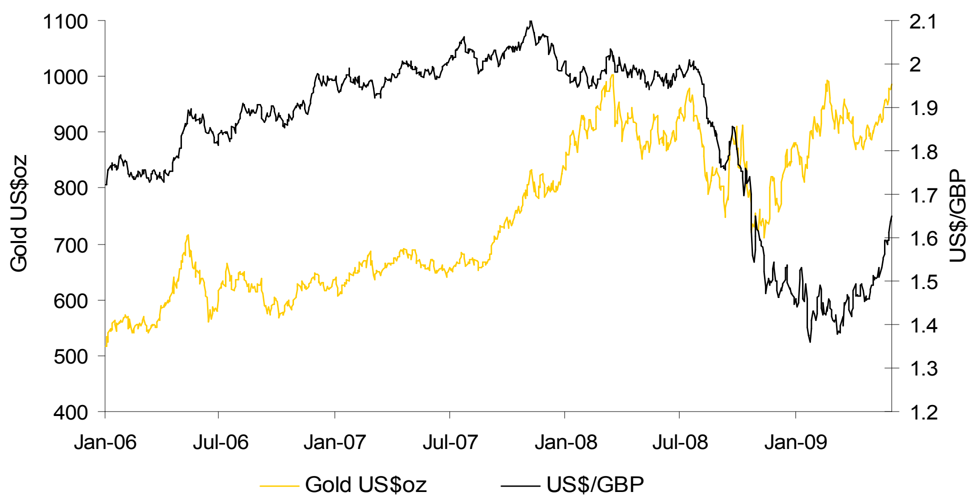
Consultancy group Goldfields Mineral Survey (GFMS) has forecast a gold price range of US$750-1,080/oz this year due to its attraction as a means to preserve wealth for investors. The range does not seem unreasonable.

Figure 7 – Gold Price versus Brent Crude



Source: Bloomberg

Figure 8 – Gold Price versus the US$/GBP ratio



Source: Bloomberg

11th June 2009

Board of Directors

Sir John Craven - Non-Executive Chairman

Sir John recently retired as Non-Executive Chairman of Lonmin plc, and was formerly Chairman of Morgan Grenfell plc, a member of the Board of Managing Directors of the Deutsche Bank Group and a Director of a number of other companies.

Joined the Board in 2004.

Carlos J Miguens - Non-Executive Deputy Chairman

Carlos has extensive business experience in Latin America. He was President for 11 years of Cerveceria & Malteria Quilmes, one of Argentina's largest brewing companies, until its sale to Ambev. He is the Vice President of Central Puerto SA and Hidroelectrica Piedra del Aguila SA, two of the main utilities companies in Argentina. He is also a Director of a number of other companies.

Has been a Director of Patagonia Gold SA since its inception.

William H Humphries - Managing Director

Has over 35 years' experience in the mining and civil engineering industries. From 1996 to 1998 Bill was General Manager of Sardinia Gold Mining SpA and from January 1999 he was Managing Director of Brancote Holdings PLC until its acquisition by Meridian Gold Inc in 2002. He is Chairman of Landore Resources Limited.

Has been a Director of the Company since its inception.

Gonzalo Tanoira - Finance Director

He is a Director and member of the audit committee of SA San Miguel and Central Puerto SA and a Director of Hidroelectrica Piedra del Aguila SA. He is also a Director of a number of other companies. Previously, Gonzalo worked for Bear Stearns & Co. (New York) in its investment banking division for Latin America. He was also an associate at Booz Allen & Hamilton in its Buenos Aires office. Gonzalo holds an MBA from the Wharton School of the University of Pennsylvania.

Has been a Director of Patagonia Gold SA since its inception.

Richard Ö Prickett - Non-Executive Director

Is a chartered accountant and has many years' experience in corporate finance. Richard was Chairman of Brancote Holdings PLC from 1995 until its acquisition by Meridian Gold Inc. in July 2002. He was Chairman of the Company since its inception until June 2004. He is a Director of Landore Resources Limited, and a Non-Executive Director of The Capital Pub Company PLC, Asian Growth Properties Limited and City Natural Resources High Yield Trust PLC and non-executive Chairman of the Lewis Charles Romanian Property Fund Ltd.

Marc J Sale - Non-Executive Director

Is a Fellow of the Australian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists with over 25 years' experience with mineral exploration and development companies. He managed the operations of the Company from May 2002 to June 2005 and, prior to joining the Company, was Project Manager for Brancote Holdings Plc's Esquel Gold and Silver Project in Argentina.

TOP SHAREHOLDERS (>2%)

Shareholder	% Holding
Carlos Miguens	15.59
Merrill Lynch Gold & General Fund	9.03
Cinco Vientos Uruguay SA	6.82
Barrick Gold Corporation	5.11
Christina Miguens	4.05
Diego Miguens	4.93

Source: Company data

11th June 2009

Fairfax Non – Independent Research Disclaimer

This note is a marketing communication and comprises non-independent research. This means it has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination.

This note has been issued by Fairfax I.S. PLC in order to promote its investment services. Neither the information nor the opinions expressed herein constitutes, or is to be construed as, an offer or invitation or other solicitation or recommendation to buy or sell investments. The information contained herein is based on sources which we believe to be reliable, but we do not represent that it is wholly accurate or complete. Fairfax I.S. PLC is not responsible for any errors or omissions or for the results obtained from the use of such information.

No reliance may be placed for any purpose whatsoever on the information, representations, estimates or opinions contained in this note, and no liability is accepted for any such information, representation, estimate or opinion. All opinions and estimates included in this report are subject to change without notice. This [note] is confidential and is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published in whole or in part, for any purpose.

In some cases, this research may have been sent to you by a party other than Fairfax I.S. PLC and, if so, the contents may have been altered from the original, or comments may have been added, which may not be the opinions of Fairfax I.S. PLC. In these cases Fairfax I.S. PLC is not responsible for this amended research.

The investments discussed in this report may not be suitable for all investors. Investors should make their own investment decisions based upon their own financial objectives and financial resources and it should be noted that investment involves risk. Past performance is not necessarily a guide to future performance and an investor may not get back the amount originally invested. Where investment is made in currencies other than the base currency of the investment, movements in exchange rates will have an effect on the value, either favourable or unfavourable.

Fairfax I.S. PLC is a company registered in England and Wales with company number 5496355 and whose registered office address is 7, Queen Street, Mayfair, London W1J 5PB. Fairfax I.S. PLC is authorised and regulated by the Financial Services Authority whose address is 25, The North Colonnade, Canary Wharf, London E14 5HS and is a Member of the London Stock Exchange plc.

For the United States

This research report has been prepared in whole by foreign research analysts who are not associated persons of the member or member organization. These research analysts are not registered/qualified as research analysts with the NYSE and/or FINRA, but instead have satisfied the registration/qualification requirements or other research-related standards of a foreign jurisdiction.

This report has been prepared by Fairfax I.S. PLC for distribution in the United States by Fairfax I.S. (US) LLC to U.S. Institutional clients and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy. The information contained in this report has been compiled from sources believed to be reliable but, while all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should be relied upon as such. All opinions and estimates included herein constitute the judgment of Fairfax I.S. PLC as of the date of this report and are subject to change without notice. From time to time, Fairfax I.S. PLC, its affiliates, and any of its or their officers or directors may have a position, manage a public offering, make markets or have other material financial involvement or otherwise have an interest in transactions in securities which are directly or indirectly the subject of this report.

Fairfax I.S. (US) LLC accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose.

Any U.S. recipient of this report that would like further information regarding any security discussed herein should contact Fairfax I.S. (US) LLC at 646-336-4955. Furthermore, any recipient of this report that would like to effect any transaction in any security discussed herein should contact and place orders with Fairfax I.S. (US) LLC at +44 20 7460 4360 or in the United States 646-336-4955, which without in any way limiting the foregoing, accepts responsibility (solely for purposes of and within the meaning of Rule 15a-6 under the SEC Act of 1934) for this report and its dissemination in the United States."

The Company may distribute research reports produced by foreign broker/dealers. All research reports shall be written by analysts in Europe and the U.K. employed by Fairfax I.S. PLC who are independent of Fairfax I.S. (US) LLC. Under no circumstances shall Fairfax I.S. (US) LLC be in a position to or exercise influence over the activities of the "third party analysts" or over the content of any research reports.