Patagonia Gold Plc

Directors' Report and Financial Statements
for the period ended 31 December 2003

Contents

Directors and advisers

Directors

Richard Ö Prickett	*(Non-Executive Chairman)*
Carlos J Miguens	*(Non-Executive Deputy Chairman)*
William H Humphries	*(Managing Director)*
Marc J Sale	*(Director of Operations)*
Gonzalo Tanoira	*(Finance Director)*

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Chairman's statement

This last year has seen the emergence of Patagonia Gold Plc as a significant mineral explorer in the Patagonia district of South America. The financial result for the period under review shows a net loss of £1,738,351 (1.3p per share) reflecting the increased exploration activities of the Group.

The Company has built up a substantial portfolio of exploration properties both in Chile and Argentina totaling in excess of 3,200 sq. kilometers. Operationally, we have had up to ten geological teams in Patagonia led by Marc Sale and Glen Van Kerkvoort. These teams are extremely able and are widely thought to be some of the most effective and technically able in the region.

The Company is carrying out two significant drilling programmes at Coyhaique, Chile and Cerro Crespo, Argentina. A very positive progress report on these programmes was released on 31 March 2004 and full details of these projects are shown in the Operations Report on pages 4 to 13.

During the period there were three important corporate events.

- In March 2003 the Company joined AIM on the London Stock Exchange, following the successful raising of £4 million: £2.3 million through a private placing in October 2002 and £1.7 million through an open offer and private placing on admission to AIM.
- In December 2003 the Company disposed of the majority of its interest in Landore Resources Inc. by way of an offer to existing shareholders. This disposal raised net funds of approximately £1.3 million, which have been deployed on exploration activities in South America.
- In December 2003 we acquired the remaining 50 per cent. of Patagonia Gold S.A. from our joint venture partners the Miguens/Bemberg family. We were delighted that our JV partners have elected to become major shareholders in the Company and as a result Mr Carlos Miguens and Mr Gonzalo Tanoira joined the Board as Deputy Chairman and Finance Director respectively. At that time Mr Neil Herbert and Mr David Dare retired from the Board and we wish to pass on our thanks and good wishes to them for their valued contribution to the Group.

In addition to our interests in South America we own a highly prospective package of exploration properties in New Zealand. As a result of the consolidation of our interests in Patagonia and the focus of the Group, we have offered these properties for sale or joint venture. Discussions have commenced with interested parties and an announcement will be made in due course as to the outcome of these discussions.

During this last year the gold price has stabilised at a level around US$400 per oz and the majority of analysts expect the price to gradually improve in the long term.

Our objective is to discover near surface high grade gold projects which will show a substantial return at current gold prices.

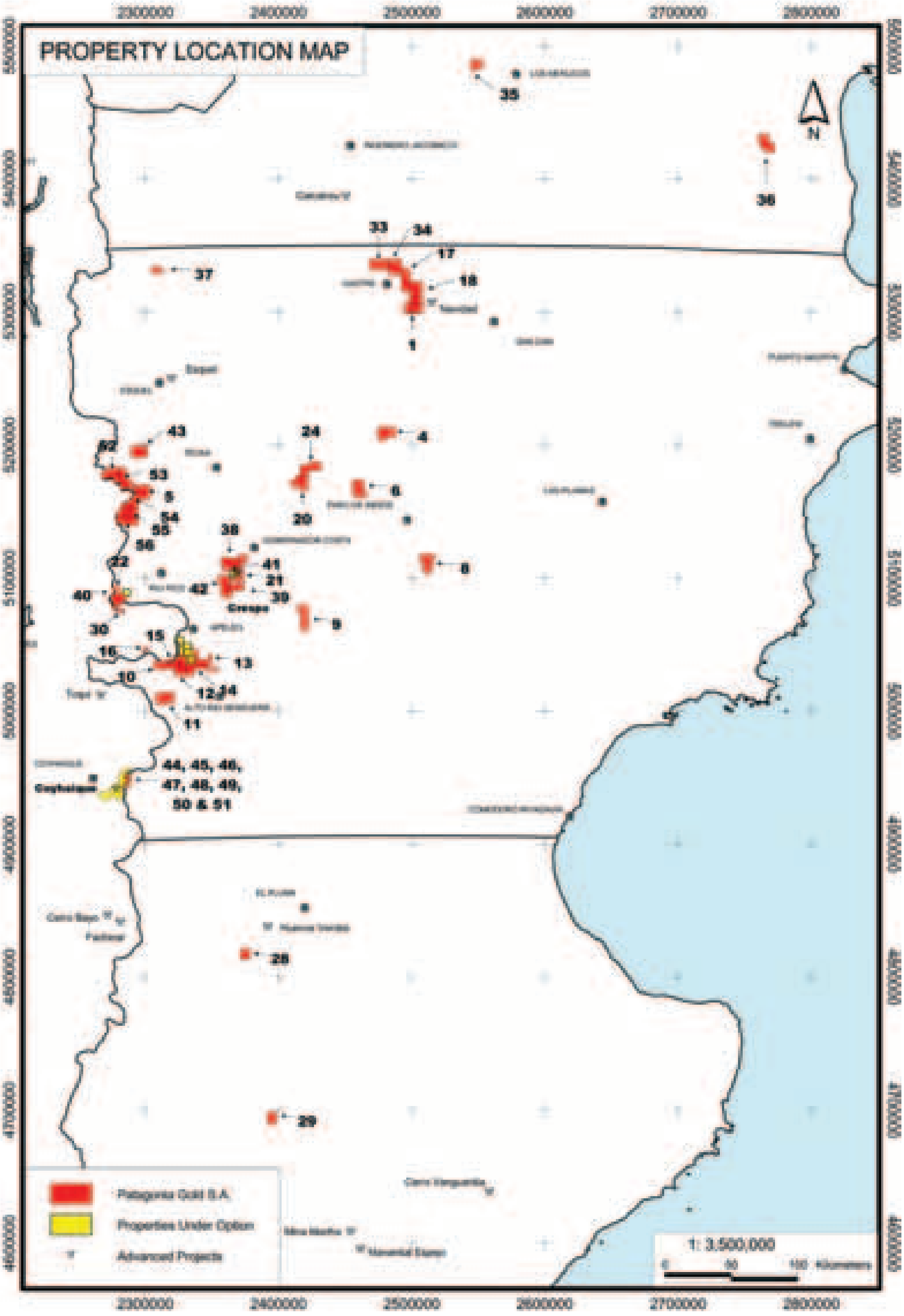
We are also examining a number of new opportunities and shareholders will be kept informed on progress in these matters in due course.

Richard Ö. Prickett

Chairman

11 May 2004

Operations report



Operations report continued

Executive summary

In the short time since the commencement of operations, in September 2002, Patagonia Gold Plc (PG), formerly HPD Exploration Plc, has rapidly developed from a fledgling Junior, with largely unexplored properties in the Chubut province of Argentina, to become one of the most prominent pure exploration companies in the Patagonian region of South America, with a large portfolio of highly prospective properties containing numerous precious metals discoveries together with two advanced projects of Crespo and Coyhaique.

PG has assembled a skilled team of geological professionals, technicians and support staff who operate out of the two main bases at Puerto Madryn, on the east coast of Chubut, and the city of Coyhaique, in southern Chile, with a further field base at the town of Gobernador Costa in west central Chubut for the Crespo project.

At the height of the recent exploration season PG, through its Argentine and Chilean subsidiaries, employed 10 geological teams aided by internationally renowned consultants, Dr Richard Sillitoe and Chris Cooper, together with up to 30 support technicians and field staff.

PG's exploration team enjoys a high discovery rate with over half the properties explored providing sufficiently encouraging results, including the discovery of significant epithermal veins on several of the properties, to warrant second pass exploration, which includes the identification of potential drill targets. This success supports, firstly, the technical management expertise and experience in the selection of the properties and secondly, the tried and tested method of exploration with geologists on the ground.

Undoubtedly the highlight of the period was the discovery on property 21, now the Crespo Project, of the large vein fields, Cabana, Jasper and Crespo, each containing swarms of epithermal veins ranging in thickness from 0.5 metres to 5 metres and reporting chip samples grades of up to 15.8 g/t gold. Crespo was given high priority for second pass intensive exploration and by late 2003 had been selected for an exploration drill campaign.

Drilling commenced in late February of this year and up to the end of April over 5,600 metres of Reverse Circulation (RC) drilling has been completed over the Cabana and Jasper vein fields. Results to date are very encouraging with numerous high-grade intersections being recorded on the Cabana zone. Results are not yet to hand on Jasper.

Drilling is continuing to test the depth of mineralisation and the extension of the east-west structure.

In July 2003 PG entered into an agreement with Westmag Ltd. of Australia for an exclusive option to purchase up to 75 per cent. of their Coyhaique Gold Project, located in southern Chile. Homestake Mining held the property in the early 1990's completing preliminary exploration, which effectively outlined the broad potential of the property.

Drilling commenced in November 2003 and by the completion of the Phase I campaign in late March a total of 5,299 metres of RC drilling had been completed predominately on the two most prominent veins Adriana and Violetta, both massive structures of 4 to 9 metres width and strike length of circa 1,000 metres and 1,500 metres respectively.

The consistency of the grades, generally in the range of 2-4 g/t gold, together with the size of the veins is encouraging. Resource definition and metallurgical studies are currently in progress.

The Coyhaique vein field is substantial, with numerous structures yet untested. Preparations are in hand for next season's drill campaign.

Operations report continued

PG has maintained 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.

Environmental impact studies were completed and submitted for the Cuya, Crespo and Coyhaique projects, the latter being to a pre-feasibility level. The Provincial Mining Directorate's agents together with representatives from the local communities have frequently inspected our activities and have expressed their satisfaction towards the responsible manner in which PG carries out its operations.

PG attempts, where possible, to hire local personnel and use local contractors and suppliers.

An Argentine public relations consultant has been engaged to represent PG at all meetings with local, provincial and federal government agencies.

Land

PG, through its two 100 per cent. controlled subsidiaries, Patagonia Gold SA (PGSA) in Argentina and Patagonia Gold SCM (PSCM) in Chile, hold exploration or mineral exploitation permits or have under application or option to purchase the following property areas:

Argentina	
• Rio Negro	153km^2
• Chubut	2,495km^2
• Santa Cruz	99km^2
• Bagalciaga option	207km^2
Chile	
• Patagonia	53km^2
• WestMag option	197km^2
Total	3,204km^2

In Argentina PGSA has recently lodged applications for a further 5 cateos for a total of 500 km^2 along the Argentine border to the south of Esquel (52 to 56 on the property plan).

Operations report continued

First drill hole on Cabana zone

Crespo

The Crespo Project is located in the south west of Chubut, in Argentine Patagonia, approximately 150km south of Esquel. The total area of the Project is 405km^2, comprising five cateos held 100 per cent. by PG of area 375km^2 and three minas of area 30km^2 which PG has the option to purchase from a third party.

The discovery of the Crespo Project vein fields is considered a textbook success of a mixture of modern and traditional exploration techniques. Initial ground exploration was instigated in the summer of 2002 on Property 21 after satellite image interrogation outlined a favourable alteration and structural setting. Field geologists confirmed the geological potential of the area by mapping and sampling the main zones of veining initially discovered, subsequently named Cabana, Jasper and Crespo. These zones are all centred on cateos held by PG.

This first pass sampling and broad scale mapping was followed up in September of 2003 with more detailed mapping and sampling which successfully defined potential drill targets. An Environmental Impact study was then submitted to the Chubut Mines Department, approval for which was received in December 2003.

The detailed fieldwork formed the basis of an extensive sawn channel sampling programme, which, in turn, led to the definition of the current drill programme at the Cabana and Jasper veins.

Operations report continued

By late April, 102 RC holes, for a total of 5,563 metres, had been drilled along the main outcropping structure at Cabana (3,880m) and the series of sub parallel veins at Jasper (1,683m). Drilling has successfully identified a 200m long 'shoot' containing significant intersections of gold, the more notable of which are tabulated below as well as the surface sawn channel sample results.

Cabana zone

Significant drill hole intersections

Drill hole	From metres	Intersection metres	Gold g/t (ppm)	Silver g/t (ppm)
CR-02	9	8	8.68	4.8
Incl.		2	27.40	11.6
CR-31	27	4	8.57	2.9
CR-33	28	7	8.24	2.9
Incl.		1	41.40	12.4
CR-35	17	4	8.70	3.7
CR-69	7	3	14.51	6.7
CR-70	4	2	9.85	2.5

Significant sawn channel intersections

Channel	From metres	Intersection metres	Gold g/t (ppm)	Silver g/t (ppm)
TCP-02	126.5	3.5	12.50	9.5
TCP-02	137.5	3.5	5.87	2.6
TCP-03	135.5	10.3	9.02	4.5
TCP-05	192.5	4.9	2.86	5.8

Results are pending for the Jasper drilling. Diamond drilling will now be undertaken to assist geological interpretation together with further RC drilling to test deeper sections of the vein in the area of the shoot.

Reconnaissance mapping has shown that the greater Crespo Project area contains potential for further vein field discoveries. A property wide drainage-sampling programme of the Crespo blocks is presently underway with results available to date indicating new zones in the northwest of the property. During this programme several areas of additional veining have been identified which will form the focus of future mapping and sampling.

Coyhaique

The Coyhaique Project is located in Region XI in southern Chile, centred on an area 20 kilometres to the east south east of the regional capital Coyhaique. The Project comprises 78 contiguous mineral concessions totalling 20,800 hectares within an area 30 kilometres long by 4 to 12 kilometres wide adjacent to the Argentine border. Access and infrastructure are excellent.

In July 2003 PG, through its 100 per cent. owned subsidiary PSCM, entered into an agreement with WestMag Limited of Australia for the right to earn 51 per cent. of the Project by spending US$4 million, and then to 75 per cent. with an expenditure of a further US$4 million.

Operations report continued

The project lies at the northwestern margin of the Deseado Massif, a broad volcanic plateau occupying a large area of the Province of Santa Cruz in Argentina, host to numerous significant low sulphidation epithermal gold/silver deposits, including the Cerro Vanguardia mine of Anglogold. The project is also situated in the foothills of the Andean cordillera some 300 kilometres south of the Esquel Gold Project.

The Phase 1 drilling campaign at Coyhaique concluded in March 2004, with 5,299 meters of RC drilling being completed for a total of 81 holes. The majority of these holes were drilled along extensive sections of the two most prominent veins, Adriana and Violeta, at 40-metre spacing close to the outcrop, with 25 metre step-back holes at 80-metre spacing. Other areas drilled with exploratory holes were Valenzuela, The Ridge and Pollux Norte. Systematic trenching and sawn channel sampling has also been undertaken on the above zones.

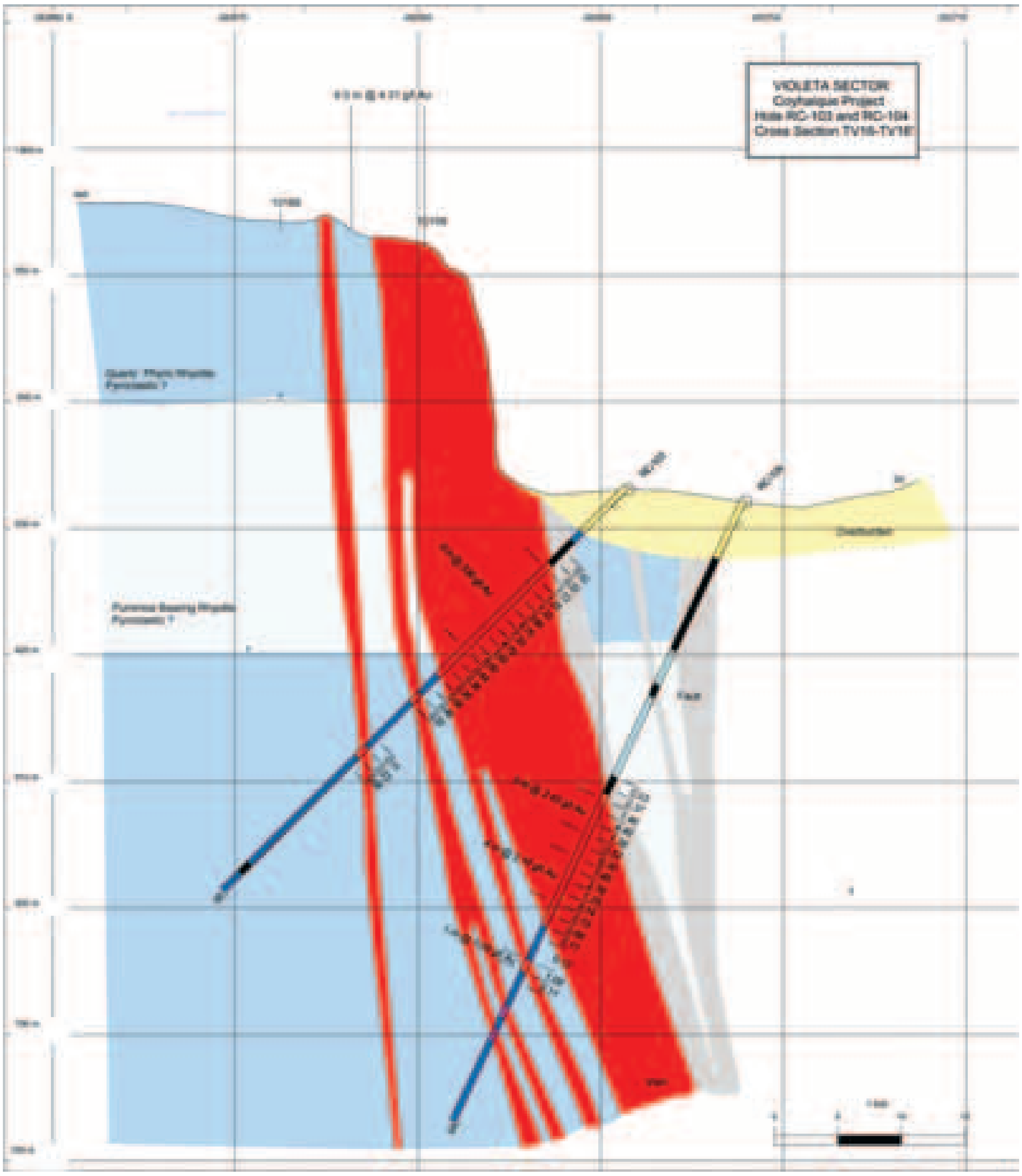
Coyhaique significant drill hole intersections:

Drill hole	From metres	Intersection metres	Gold g/t (ppm)	Silver g/t (ppm)
Violeta vein				
RC-98	49	3	3.64	26.6
RC-103	9	9	3.90	29.1
RC-112	15	3	3.87	17.0
Adriana vein				
RC-58	9	9	3.20	20.9
RC-60	6	8	3.03	34.1
RC-72	35	3	5.63	73.6
RC-75	7	3	4.21	5.0
RC-122	125	4	6.14	24.6

The close pattern drilling and sawn channel sampling on the Adriana and Violeta veins show that the tenor and widths of the structures are maintained in the near surface zone. Interpretation of results indicates the presence of a shoot extending to depth in Adriana and another lesser one in Violeta that are not closed off at depth and will require further drilling to establish their extent. Significant sections of both veins are exposed at surface, Violeta up to 10m in outcrop, giving easy access to potential ore material.

A sawn channel sampling programme of the two main veins has also been completed. Significant channel results received to date include:

Channel	Intersection metres	Gold g/t (ppm)	Silver g/t (ppm)
Adriana vein			
ADR-1	6.0	2.84	29.3
ADR-2	6.0	2.72	33.9
ADR-3	8.0	2.61	20.8
Violeta vein			
VIO-1	5.0	2.71	18.7
VIO-8	4.0	5.26	28.9
VIO-11	1.0	63.90	1,055.0
VIO-16	6.0	4.31	19.5



Sawn channel sampling for other prospects is ongoing, currently focussing on Lilly, Mirador and Susana and has to date produced a number of encouraging results. Exploration of the Project area is continuing with reconnaissance systematically identifying veins and extensions ahead of mapping and sampling.

These works are in preparation for the second Phase drill campaign scheduled to commence later this year.

In-house resource figures are currently being prepared for the Violeta and Adriana veins together with initial metallurgical studies, consisting of bottle roll gold and silver extraction tests.

Operations report continued

Cuya

In early 2003, PGSA entered into an agreement with APAC Minerals Inc. (APAC) of Canada for an exclusive option to purchase up to 80 per cent. of the Cuya and El Puesto epithermal gold prospects in the Los Menucos district in the Rio Negro province of Argentina. The Agreement comprised three concessions totalling 83 km^2 on the Cuya prospect and three concessions totalling 89 km^2 on the El Puesto prospect.

APAC carried out extensive exploration of the Los Menucos district from 1999 to 2001, including 8,000 metres of exploratory drilling, which led to the discovery of the Cuya and the El Puesto prospects. Both properties contain areas of known epithermal gold mineralisation. PG was attracted to Cuya, by previous work carried out on the property by Rio Tinto Mining and Exploration Ltd who's consulting geologist interpreted the Cuya hill to be slightly above the upper levels of high-grade precious metals mineralisation.

After compiling all available data, a diamond and RC drill programme was designed to explore the identified mineralisation as well as to test the above hypothesis.

Drilling commenced in February 2003 with a total of 2,478 metres drilled for 29 holes, comprising 7 diamond holes for 1,071 metres and 22 RC holes for 1,407 metres. Holes were drilled up to depths of 300 metres with no high-grade assays being recorded. Low-grade mineralisation was generally reported from surface to a depth of 80-100 metres.

Better intersections from the drill programme included: CYD-01 from 35.75m with 1.15m @ 1.33g/t gold; CYD-08 from 48.8m with 1.1m @ 2.5g/t gold and CYR-16 from 26m with 2.0m @ 1.13g/t gold.

In light of the unsatisfactory results, PG elected to terminate the agreement and as a result, no further interest has been retained in the Cuya mining concessions.

Exploration

Field exploration is currently being carried out in the following areas of Argentina:

The Gastre block, of 6 contiguous cateos covering 550km^2 square kilometres of ground on a proven mineralised belt, is located in north-central Chubut. The property lies between IMA's silver rich "Navidad" project in the southeast and Aquiline's epithermal gold-silver "Calcatreu" project in the northwest. Numerous alteration centres have been defined with sampling to date returning values up to 2.1 g/t gold, 52g/t silver and 2.3 per cent. copper. Quantec Geophysics has been engaged to conduct a ground geophysical survey to be completed in May aimed at defining drill targets for massive sulphide or vein style mineralisation as part of next season's drilling activity.

On properties 20 and adjacent property 24, field exploration indicates the presence of a buried epithermal vein system evidenced by a silica sinter terraces containing highly anomalous levels of mercury, arsenic and antimony, an extensive area of argillic alteration and anomalous gold returned from sampling of high-level veinlets. Continuing work on this property is aimed at defining prospective structures in order to drill test the appropriate levels for the presence of fissure veins.

Other properties have potential in anomalous geochemistry hosted in favourable geological environments. These include: property 43, reporting >400g/t silver as well as over 1g/t gold; property 36, with gold values over 3g/t and silver up to 139g/t. and the Cristinas block, (under option) which has returned values of 9.6g/t gold and 137g/t silver in separate samples.

CERRA AGUJA

In Chile the Cerro Aguja Prospect (property 30), some 150 km. south of Esquel, is considered a high sulphidation epithermal gold system, such as Barrick Gold's Veladero deposit in Argentina. These systems typically form large low-grade gold deposits. The geology at Cerro Aguja comprises a central diatreme breccia, 1000m long x 250m wide developed at the intersection of northwest and northeast regional faults. Grades of up to 1.90 g/t gold have come from float samples collected adjacent to the pinnacle.

All of these properties will have follow up mapping and sampling scheduled for the next summer field season.

Property acquisition: there are presently two geological teams operating in Chile exploring highly prospective land for possible acquisition, with reconnaissance of areas to the north and the south of Coyhaique revealing prospective geology with significant veining.

New Zealand

PG focuses its activities in New Zealand through its wholly owned subsidiary, HPD New Zealand Limited. This company was formed in August 2002 to explore and develop precious metal properties on the North and South Islands of New Zealand where there exists a high expectation for the potential discovery of significant gold resources.

Twelve properties have been granted to date, comprising 8 Prospecting permits and 4 Exploration permits, with a further two being processed, giving a total area currently under license or application of 5,678km^2.

There are three areas of land holdings. The first, with the most potential at this stage, is in the central Otago region of the south island where significant historical workings exist but very little contemporary exploration has been undertaken. The second is in the north Island where a significant land holding has been acquired in the vicinity of the Waihi gold mine and the third area, considered more grass roots, is located in the Marlborough district on the South Island.

Work programmes for the first year were completed as planned, comprising data assimilation and initial field reconnaissance on the granted Otago permits.

The Otago area consist of four property blocks:

- *Skippers/Macetown:* Historical Production in the area is considerable (one reef reporting 40,000 oz at 16 g/t gold). The Macetown Field has produced in the order of 1.28 tonnes of gold.
- *Bendigo:* This property contains extensive alluvial workings, which have not been adequately explored for a source.
- *Barewood:* Exploration has confirmed the presence of gold in significant concentrations within the Barewood Fault and a number of smaller, parallel structures (chip samples up to 32.2 g/t gold; and in trench channel 6m @ 5.23 g/t gold).
- *Nenthorn:* Gold was discovered in 1888 at Nenthorn and there has been reported mine production of 3,593 oz of gold from 7,157 tons (15.6 g/t recovery grade). The property is within sight of the Macreas Gold Mine, which has produced 1.3 million oz of gold since mining commenced in 1990.

In order to focus all activities on its properties in South America, PG has invited expressions of interest for the outright purchase or Joint Venture proposal, for its 100 per cent. owned exploration company HPD New Zealand Limited and the properties contained therein.

Bill Humphries
Managing Director

11 May 2004

Report of the Directors

The Directors present their report and the audited financial statements for the fifteen months ended 31 December 2003. The previous financial statements were for the year ended 30 September 2002. On 13 January 2004 the Company changed its name from HPD Exploration Plc to Patagonia Gold Plc.

Principal activities and business review

The principal activity of the Company is holding investments in mineral exploration companies involved in the identification, acquisition and development of technically and economically sound mineral projects, either alone or with joint-venture partners.

Until 18 December 2003 the Company had a 50 per cent. interest in Patagonia Gold S.A., an Argentinean company involved in exploration and drilling in southern Argentina. On 18 December 2003 the Company acquired Minera Puerto Madryn S.A. whose principal asset was the remaining 50 per cent. of Patagonia Gold S.A. As a result of this transaction both Patagonia Gold S.A. and Patagonia Gold S.C.M. became wholly owned subsidiaries of the Group. During the period Patagonia Gold S.A. formed a wholly owned subsidiary Patagonia Gold Chile S.C.M., a Chilean company, to undertake exploration and drilling in Southern Chile. The Group also has a wholly owned subsidiary, HPD New Zealand Limited, which is involved in exploration in both the North and South islands of New Zealand.

In December 2003 the Group disposed of most of its interest in Landore Resources Inc. for cash consideration, net of the underwriting costs and legal expenses, of £1,314,881 resulting in a profit on disposal of £486,178.

A review of the Group's business can be seen in the Chairman's statement on page 3.

Financial results

The financial results are as anticipated and reflect the costs of managing and funding the Group's exploration activities and head office costs.

Dividends

The Directors do not recommend the payment of a dividend *(2002: £nil).*

Substantial shareholdings

In addition to the interest of C J Miguens disclosed on page 15, at 19 April 2004, the Company had been notified of, or was otherwise aware of, the following interests of 3 per cent. or more in its issued share capital:

Ordinary Shares of 1p:	Number	Percentage
Maria Luisa Miguens de Tanoira	15,810,949	7.05
Cristina Miguens	14,159,679	6.31
Diego Miguens	14,159,679	6.31
Phillip Securities (UK) Nominees Ltd PSLNOM account	13,795,075	6.15
Chase Nominees Ltd	12,041,400	5.37

Political and charitable contributions

The Group made no political contributions or charitable donations during the period *(2002: £nil).*

Report of the Directors continued

Creditor payment policy

Although the Company does not follow a specific code when settling its payment obligations with creditors, it is the policy of the Company to ensure that all suppliers of goods and services are paid promptly and in accordance with contractual and legal obligations. The Company had no trade creditors at 31 December 2003.

Directors and Director's interests

The Directors who held office during the period and their beneficial interests, including family interests, at the beginning and end of the period were as follows:

	31 December 2003	*30 September 2002*
Ordinary Shares of 1p:		
R Ö Prickett	5,309,263	*4,704,012*
C J Miguens (appointed 19 December 2003)	34,378,262	*N/A*
W H Humphries	5,200,000	*4,591,012*
M J Sale	1,450,687	*289,500*
G Tanoira (appointed 19 December 2003)	3,717,997	*N/A*
N L Herbert (resigned 19 December 2003)	N/A	*250,000*
D W Dare (resigned 19 December 2003)	N/A	*209,680*

No options were exercised by the Directors during the period. At 31 December 2003, the Directors were also interested in unissued Ordinary Shares granted to them by the Company under share options held by them pursuant to individual option agreements:

Name	Date of grant	Exercise price	Ordinary Shares	Date from which exercisable	Expiry date
W H Humphries	8.10.02	13.5p	350,000	8.10.02	8.10.12
W H Humphries	7.03.03	14p	150,000	7.03.03	7.03.13

In addition, the Directors had awards ("the Awards") over the assets of the HPD Exploration Plc Employee Benefit Trust ("the Trust") pursuant to deeds of appointment. The Trust was established on 5 March 2003. The Awards were made by BDO Fidecs Trust Company Limited acting in its capacity as trustee of the Trust on 1 April 2003.

The trustee of the Trust was granted an option over unissued Ordinary Shares pursuant to an employees' share scheme on 1 April 2003. This option permits the trustee of the Trust to acquire up to 2,305,000 Ordinary Shares at an exercise price of 13.5p per Ordinary Share.

The Awards initially track the value of the Company's Ordinary Shares but only to the extent that the value exceeds initial value:

	No of Ordinary Shares	Initial value
R Ö Prickett	350,000	£43,875
R Ö Prickett	150,000	£18,375
M J Sale	620,000	£78,300
M J Sale	280,000	£34,950

Report of the Directors continued

During the period, the following options over the Company's Ordinary Shares were cancelled by Directors:

Name	Date of grant	Exercise price	Ordinary Shares	Date from which exercisable	Expiry date
R Ö Prickett	7.10.2002	13.50p	350,000	8.10.2002	8.10.2012
M Sale	7.10.2002	13.50p	620,000	8.10.2002	8.10.2012
D W Dare	7.10.2002	13.50p	175,000	8.10.2002	8.10.2012
N Herbert	7.10.2002	13.50p	450,000	8.10.2002	8.10.2012

Since 31 December 2003, the following options over the Company's Ordinary Shares were granted to Directors:

Name	Date of grant	Exercise price	Ordinary Shares	Date from which exercisable	Expiry date
R Ö Prickett	18.2.2004	15.75p	2,906,000	19.2.2004	18.2.2014
W H Humphries	18.2.2004	15.75p	3,000,000	19.2.2004	18.2.2014
M Sale	18.2.2004	15.75p	1,000,000	19.2.2004	18.2.2014
C J Miguens	18.2.2004	15.75p	1,500,000	19.2.2004	18.2.2014
G Tanoira	18.2.2004	15.75p	1,281,000	19.2.2004	18.2.2014

The Company's Ordinary Shares were traded on OFEX until 4 March 2003 and thereafter on AIM and the market price of those shares ranged between 9p and 17.75p during the period. The closing mid price of the Company's Ordinary Shares on 31 December 2003 was 17p *(30 September 2002: 13.625p).*

Corporate governance

The Ordinary Shares of the Company were traded on OFEX from 4 January 2001 to 4 March 2003 and thereafter on AIM. Companies on OFEX and AIM are not required to make an annual statement to shareholders regarding compliance with The Combined Code on Corporate Governance. However, the following statements are made in respect of corporate governance.

Board of Directors

Richard Ö. Prickett *(Non-Executive Chairman)* 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 has been Chairman of the Company since its inception and he is also a Non-Executive Director of The Capital Pub Company PLC.

Carlos J. Miguens *(Non-Executive Deputy Chairman)* joined the Board on 19 December 2003. Carlos has extensive business experience in Latin America and is President of Cerveceria & Malteria Quilmes, one of Argentina's largest brewing companies, as well as being a Director of a number of other companies. He has been a Director of Patagonia Gold S.A. since its inception and he was formerly a Director of Minera El Desquite S.A..

William H. Humphries *(Managing Director)* has substantial 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 to July 2002 he was Managing Director of Brancote Holdings PLC. In June 2000 he became President of Landore Resources Inc. and he has been Managing Director of the Company since its inception. He is also a Non-Executive Director of Regal Petroleum Plc.

Marc J. Sale *(Director of Operations)* has been managing the operations of the Company since May 2002 and is a member of the Australian Institute of Mining and Metallurgy with over 20 years' experience with mineral exploration and development companies. Prior to joining the Company he was Project Manager for Brancote Holdings PLC's Esquel Gold and Silver Project in Argentina. Marc was appointed a Director of Landore Resources Inc. in May 2002 and a Director of the Company in September 2002.

Gonzalo Tanoira *(Finance Director)* joined the Board on 19 December 2003. Gonzalo has been a Director of Patagonia Gold S.A. since its inception. He was formerly a Director of Minera El Desquite S.A. before its acquisition by Meridian Gold Inc. and he is also 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.

The Company is managed by the Board of Directors. The function of the Chairman is to supervise the Board and to ensure effective control of the business, and that of the Managing Director is to manage the Company on the Board's behalf.

To facilitate balanced decision taking, there are two Non-Executive Board members.

All Board members have access, at all times, to sufficient information about the business to enable them to fully discharge their duties. Also, procedures exist covering the circumstances under which the Directors may need to obtain independent professional advice at the Company's expense.

The Board has several established Committees to fulfill specific functions:

The *Executive Committee*, chaired by Mr Humphries, consists of the Executive Directors and the Secretary. It has responsibility, insofar as a decision of the full Board is not required, for the day-to-day management of decisions of the Group.

The *Audit Committee* chaired by Mr Prickett, monitors and reviews the Group's financial reporting and internal control procedures. It consists of the Non-Executive Directors. Meetings are held as required. A separate internal audit function cannot be justified, at present, in view of the size and scope of the Group's activities. The external auditors are invited to attend at least one meeting of the Audit Committee each year.

The *Remuneration Committee*, chaired by Mr Prickett, consists of the Non-Executive Directors and the Managing Director. Meetings are convened to monitor, assess and report to the full Board on all aspects and policy relating to the remuneration of Directors. All Directors are required, in turn, to stand for re-election every three years.

Report of the Directors continued

Internal control

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

There is close day-to-day involvement by the Directors in the Group's activities. This includes the comprehensive review of both management and technical reports, the monitoring of foreign exchange and interest rate fluctuations, environmental considerations, government and fiscal policy issues, employment and information technology requirements and cash control procedures. The Director of Operations makes frequent site visits. In this way the key risk areas can be monitored effectively and specialist expertise applied in a timely and productive manner.

Directors' remuneration

Mr Prickett has service arrangements which provide three months' notice of termination and those of Mr Humphries, Mr Sale and Mr Tanoira provide for six months' notice of termination. No service arrangements have been made in respect of Mr Miguens.

Relations with shareholders

The Company maintains effective contact with principal shareholders and welcomes communications from private investors. Shareholders are encouraged to attend the Annual General Meeting, at which time there is an opportunity for discussion with members of the Board. Press releases together with other information about the Company are available on the Company's web site (www.patagoniagold.com).

Annual General Meeting

The Director who retires by rotation is R Ö Prickett who, being eligible, offers himself for re-election. In addition, C J Miguens and G Tanoira, who were appointed to the Board since the last Annual General Meeting, retire in accordance with the Articles of Association and, being eligible, offer themselves for election.

A Special Resolution will be also proposed at the forthcoming Annual General Meeting to approve a disapplication of pre-emption rights on allotments for cash up to an aggregate nominal amount of £757,685.65, representing 33.76 per cent. of the present issued share capital.

This Resolution will authorise to the Board, for the period expiring 12 January 2009, to disapply statutory pre-emption rights up to the level of the Directors' general authority to allot the Company's Ordinary Shares as approved by shareholders at the Extraordinary General Meeting held on 13 January 2004. The Directors have no present intention of exercising this authority.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

Report of the Directors continued

Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

By Order of the Board
J P Gorman
Secretary

11 May 2004

Report of the independent auditors

KPMG Audit Plc
PO Box 695
8 Salisbury Square
London EC4Y 8BB

Independent auditors' report to the members of Patagonia Gold Plc

We have audited the financial statements on pages 21 to 39.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Directors' report and, as described on page 19, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Group is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the loss of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

11 May 2004

Consolidated profit and loss account

for the period 1 October 2002 to 31 December 2003

	Note	1 October 2002 to 31 December 2003 £	*Year to 30 September 2002 £*
Administrative expenses and exploration costs before goodwill amortisation		(1,250,605)	*(191,387)*
Amortisation of goodwill		(62,550)	*(23,247)*
Total administrative expense and exploration costs		(1,313,155)	*(214,634)*
AIM listing expenses		(297,798)	—
Other operating income		—	*6,529*
Operating loss		(1,610,953)	*(208,105)*
Share of operating loss in Patagonian joint venture	8	(433,100)	*(19,614)*
Share of operating loss in Canadian associate	8	(253,540)	*(2,702)*
Total operating loss: Group and share of joint venture and associate		(2,297,593)	*(230,421)*
Profit/(loss) on disposal of interest in associate	19	486,178	*(621)*
Interest receivable	2	73,064	*18,342*
Loss on ordinary activities before taxation	3	(1,738,351)	*(212,700)*
Tax on loss on ordinary activities	4	—	—
Retained loss for the period/year	15	(1,738,351)	*(212,700)*
Loss per share	5	(1.3p)	*(0.2p)*
Diluted loss per share	5	(1.3p)	*(0.2p)*

All activities are continuing during the current and previous period.

There is no difference between results as stated and results on a historical cost basis.

The notes on pages 25 to 39 form part of these financial statements.

Consolidated balance sheet

at 31 December 2003

			31 December		*30 September*
	Note		2003		*2002*
		£	£	*£*	*£*
Fixed assets					
Intangible fixed assets	6		15,044,831		*446,313*
Tangible fixed assets	7		54,171		*9,500*
Investments					
– Share of net assets of associate	8	—		*18,650*	
– Other investments	8	85,210		*1*	
			85,210		*18,651*
Total fixed assets			15,184,212		*474,464*
Current assets					
Debtors	9	145,251		*92,529*	
Cash at bank and in hand	10	3,083,419		*530,850*	
		3,228,670		*623,379*	
Creditors: amounts falling due within one year	11	(181,815)		*(30,868)*	
Net current assets			3,046,855		*592,511*
Total assets less current liabilities			18,231,067		*1,066,975*
Provisions for liabilities and charges					
Investment in joint venture:					
– Share of gross assets	8	—		*17,125*	
– Share of gross liabilities	8	—		*(56,397)*	
		—		*(39,272)*	
Other provisions	12	—		*(27,492)*	
			—		*(66,764)*
Net assets			18,231,067		*1,000,211*
Capital and reserves					
Called up share capital	13		2,242,314		*1,047,073*
Share premium account	14		18,092,425		*249,111*
Profit and loss account	15		(2,103,672)		*(295,973)*
Equity shareholders' funds	16		18,231,067		*1,000,211*

These financial statements were approved by the Board of Directors on 11 May 2004 and were signed on its behalf by:

R Ö Prickett
Director

The notes on pages 25 to 39 form part of these financial statements.

Company balance sheet

at 31 December 2003

	Note	31 December 2003 £	*30 September 2002 £*
Fixed assets			
Tangible fixed assets	7	7,729	*9,500*
Investments	8	15,881,359	*535,276*
		15,889,088	*544,776*
Current assets			
Debtors	9	225,689	*92,529*
Cash at bank and in hand	10	2,952,778	*530,850*
		3,178,467	*623,379*
Creditors: amounts falling due within one year	11	(134,817)	*(30,868)*
Net current assets		3,043,650	592,511
Total assets less current liabilities		18,932,738	*1,137,287*
Provisions for liabilities and charges	12	—	*(27,492)*
Net assets		18,932,738	*1,109,795*
Capital and reserves			
Called up share capital	13	2,242,314	*1,047,073*
Share premium account	14	18,092,425	*249,111*
Profit and loss account	15	(1,402,001)	*(186,389)*
Equity shareholders' funds	16	18,932,738	*1,109,795*

These financial statements were approved by the Board of Directors on 11 May 2004 and were signed on its behalf by:

R Ö Prickett

Director

The notes on pages 25 to 39 form part of these financial statements.

Consolidated statement of total recognised gains and losses

for the period 1 October 2002 to 31 December 2003

	1 October 2002 to 31 December 2003 £	*Year to 30 September 2002 £*
Loss attributable to shareholders of Patagonia Gold PLC	(1,738,351)	*(212,700)*
Unrealised exchange rate movements	(69,348)	*(10,822)*
Total recognised losses for the period/year	(1,807,699)	*(223,522)*

Consolidated cash flow statement

For the period 1 October 2002 to 31 December 2003

	Note	1 October 2002 to 31 December 2003 £	*Year to 30 September 2002 £*
Net cash outflow from operating activities	17	(1,486,914)	*(227,527)*
Returns on investments and servicing of finance	18	64,951	*18,458*
Capital expenditure	18	(2,760)	*(10,000)*
Acquisitions and disposals	18	(37,757)	*(6,425)*
Net cash outflow before use of liquid resources and financing		(1,462,480)	*(225,494)*
Management of liquid resources	18	(2,406,796)	*24,933*
Financing	18	4,015,049	*170,230*
Increase/(decrease) in cash in the period/year	20	145,773	*(30,331)*

The notes on pages 25 to 39 form part of these financial statements.

Principal accounting policies

The following accounting policies have been applied consistently in respect of items which are considered material in relation to the Group's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable UK Accounting Standards and the Companies Act 1985, and under the historical cost convention.

Basis of consolidation

The Group accounts include the Company and its subsidiary undertakings made up to 31 December 2003. Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Investments in which the Group has a long term interest that are jointly controlled are accounted for as joint ventures. The Group's interests in joint ventures are included in the consolidated financial statements under the gross equity method. The Group includes separately in its results its share of the results of joint ventures and the Group's share of the net assets of joint ventures are included and disclosed separately in the balance sheet.

The Group's share of profits and losses of associates is included in the consolidated profit and loss account and its interest in their net assets is included in the consolidated balance sheet within investments.

Under Section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account.

Deferred exploration expenditure

When the Group has incurred expenditure on mining properties that have not reached the stage of commercial production the costs of acquiring the rights to such properties, and related exploration and development costs, are deferred where the expected recovery of costs is considered probable by the successful exploitation or sale of the asset. Full provision is made in respect of deferred costs on properties in the case that insufficient exploration has taken place to ascertain future recoverability. Where mining properties are abandoned, the deferred expenditure is written off in full.

Goodwill

Purchased goodwill arising on consolidation (representing the excess of the fair value of the consideration given and any associated costs over the fair value of the separable net assets acquired) is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life of 20 years. On the subsequent disposal or termination of a business, the profit or loss on disposal on termination is calculated after charging the unamortised amount of any related goodwill.

Tangible fixed assets

Depreciation is provided on a straight line basis at rates calculated to write off the cost of fixed assets to their estimated residual value over their estimated useful lives at the following rates:

Office equipment	5 years
Plant and machinery	3 years
Vehicles	5 years

Principal accounting policies continued

Fixed asset investments

Fixed asset investments are stated at cost less provision for any impairment

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

The assets and liabilities of foreign subsidiaries, joint ventures and associates are translated at the rates of exchange ruling at the balance sheet date. Results of overseas undertakings are translated into sterling at the average rates of exchange for the relevant period. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

Cash and liquid resources

Cash for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash), government securities and investments in money market managed funds.

Notes to the financial statements

for the period 1 October 2002 to 31 December 2003

1. Segmental analysis

	Loss before taxation		Net assets/(liabilities)	
	1 October 2002 to 31 December 2003 £	*Year to 30 September 2002 £*	1 October 2002 to 31 December 2003 £	*Year to 30 September 2002 £*
United Kingdom	(899,907)	*(191,840)*	18,181,719	*1,020,833*
Argentina and Chile	(428,025)	*(19,614)*	213,208	*(39,272)*
New Zealand	(159,917)	—	(163,860)	—
Canada – share of associate	(250,502)	*(1,246)*	—	*18,650*
	(1,738,351)	*(212,700)*	18,231,067	*1,000,211*

2. Interest receivable

	1 October 2002 to 31 December 2003 £	*Year to 30 September 2002 £*
Bank interest receivable:		
– Group	64,951	*16,886*
– Share of joint venture	5,075	—
– Share of associate	3,038	*1,456*
	73,064	*18,342*

3. Loss on ordinary activities before taxation

	1 October 2002 to 31 December 2003 £	*Year to 30 September 2002 £*
(a) The loss is stated after charging:		
Auditors' remuneration:		
– audit (Company: £7,500, *(2002: £5,500)*)	48,618	*8,500*
– other fees paid to the auditors and their associates	48,694	*3,375*
Operating lease charges: land and buildings	13,063	*13,063*
Other operating income: management fees	—	*6,529*
Depreciation of tangible fixed assets	4,531	*500*
Amortisation of goodwill	62,550	*23,247*

Other fees paid to the auditors principally relates to work carried out in connection with the Company's admission to AIM.

3. **Loss on ordinary activities before taxation** continued

	1 October 2002 to 31 December 2003 £	*Year to 30 September 2002 £*
(b) Staff: (excluding Directors)		
Wages and salaries	34,579	*41,028*
Social security costs	3,246	*2,481*
	37,825	*43,509*

	2003 Number	*2002 Number*
The average number of employees by location during the period:		
United Kingdom – administration	1	*1*

(c) Directors' emoluments:

	Fee £	Bonus £	Pension contribution £	Benefits in kind £	Contractual termination payments £	1 October 2002 to 31 December 2003 £	*Year to 30 September 2002 £*
European Sales Co Ltd for the services of R Ö Prickett	31,250	—	—	—	—	31,250	*6,250*
MM-E for the services of WH Humphries	31,250	—	—	—	—	31,250	*6,250*
Carlos Miguens(1)	—	—	—	—	—	—	—
Marc Sale	123,750	69,000	18,563	764	—	212,077	*5,750*
Gonzalo Tanoira(1)	—	—	—	—	—	—	—
Neil Herbert(2)	92,500	38,500	13,875	3,016	47,255	195,146	*4,153*
Dare & Co for the services of D W Dare(2)	12,500	—	—	—	10,000	22,500	*2,500*
	291,250	107,500	32,438	3,780	57,255	492,223	*24,903*
Directors' remuneration recharged to Landore Resources Inc. for Marc Sale						(14,075)	—
						478,148	*24,903*

(1) Appointed 19 December 2003
(2) Resigned 19 December 2003

4. Tax on loss on ordinary activities

	1 October 2002 to 31 December 2003 £	*Year to 30 September 2002 £*
The tax charge for the period/year was £nil *(2002: £nil)*		
Factors affecting the tax charge for the period/year		
Loss on ordinary activities before taxation	(1,738,351)	*(212,700)*
Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 30 per cent.	(521,505)	*(63,810)*
Different local tax rates	(26,199)	—
Expenses not deductible for tax purposes	114,268	*9,560*
Loss carried forward to future periods	702,660	*47,805*
Profit on disposal/dilution of associate not deductible for tax	(344,375)	*187*
Share of joint venture losses for future utilisation	—	*5,884*
Share of associate losses	75,151	*374*
Current tax charge for the period/year	—	—

Factors that may affect future tax charges

The Group has losses of approximately £2,600,000 *(2002: £41,170)* which may be utilised against future tax liabilities. A deferred tax asset has not been recognised in respect of these amounts.

5. Loss per share

	£	Weighted average number of shares	1 October 2002 to 31 December 2003 per share	£	Weighted average number of shares	*Year to 30 September 2002 per share*
Loss attributable to shareholders	(1,738,351)	132,214,312	(1.3p)	(212,700)	97,452,299	*(0.2p)*

The diluted loss per share is equal to the basic loss per share because potential Ordinary Shares are anti-dilutive.

6. Intangible assets – goodwill

	£
Cost	
At 1 October 2002	488,842
Arising on the acquisition of Minera Puerto Madryn S.A.	15,044,923
Arising on the acquisition of increased interest in associated undertaking	341,693
Disposal of interest in associated undertaking	(804,452)
At 31 December 2003	15,071,006
Amortisation	
At 1 October 2002	42,529
Charge for the period	62,550
Disposal of interest in associated undertaking	(78,904)
At 31 December 2003	26,175
Net book value	
At 31 December 2003	15,044,831
At 30 September 2002	446,313

7. Tangible fixed assets

	GROUP				COMPANY
	Office equipment £	Machinery and equipment £	Vehicles £	Total £	Office equipment £
Cost					
At 1 October 2002	10,000	—	—	10,000	10,000
Additions	2,760	—	—	2,760	2,760
Acquisition of subsidiary	6,603	12,731	27,108	46,442	—
At 31 December 2003	19,363	12,731	27,108	59,202	12,760
Depreciation					
At 1 October 2002	500	—	—	500	500
Charge for the period	4,531	—	—	4,531	4,531
At 31 December 2003	5,031	—	—	5,031	5,031
Net book value					
At 31 December 2003	14,332	12,731	27,108	54,171	7,729
At 30 September 2002	9,500	—	—	9,500	9,500

Notes to the financial statements continued

for the period 1 October 2002 to 31 December 2003

8. Investments

GROUP

Share of joint venture and associated undertaking

Until December 2003 the Group had an interest in a joint venture undertaking, Patagonia Gold S.A., and an interest in an associated undertaking, Landore Resources Inc. In December 2003 the Group disposed of most of its interest in Landore Resources Inc. and Patagonia Gold S.A. became a subsidiary (see Note 19). The following information is disclosed in accordance with FRS9 'Associates and Joint Ventures' and all amounts represent the Group's share.

	2003			*2002*		
	Interest in associate £	Interest in joint venture £	£	*Interest in associate £*	*Interest in joint venture £*	*£*
Operating loss	(253,540)	(433,100)	(686,640)	*(2,702)*	*(19,614)*	*(22,316)*
Interest receivable	3,038	5,075	8,113	*1,456*	*—*	*1,456*
Retained loss for the period/year	(250,502)	(428,025)	(678,527)	*(1,246)*	*(19,614)*	*(20,860)*
Tangible fixed assets	—	—	—	*5,785*	*9,525*	*15,310*
Debtors – short term	—	—	—	*1,461*	*3,668*	*5,129*
Cash at bank and in hand	—	—	—	*27,716*	*3,932*	*31,648*
	—	—	—	*34,962*	*17,125*	*52,087*
Creditors: amounts falling due in less than one year	—	—	—	*(16,312)*	*(56,397)*	*(72,709)*
Share of net assets/(liabilities)	—	—	—	*18,650*	*(39,272)*	*(20,622)*

Other investments	2003 £	*2002 £*
20 per cent. interest in Southern Gold Resources (USA) Inc.	1	*1*
3 per cent. interest in Landore Resources Inc.	85,209	*—*
	85,210	*1*

In the Directors' opinion the investment in Southern Gold Resources (USA) Inc. does not represent an associated undertaking and therefore is not equity accounted, as the Group is unable to exercise significant influence over that company.

8. **Investments** continued

COMPANY

Company	Country of incorporation	Percentage direct holding	Nature of business	Group companies £	Other investments £	2003 £	*2002 £*
Pensacola Holdings Limited	BVI*	100	Holding Co.	645,458	—	645,458	*6,425*
HPD Investments Limited	BVI*	100	Holding Co.	300	—	300	—
HPD Mining Limited	England	100	Holding Co.	1	—	1	*1*
Minera Puerto Madryn S.A.	Argentina	100	Holding Co.	15,150,390	—	15,150,390	—
Landore Resources Inc.	Canada	2	Exploration	—	85,209	85,209	*528,850*
Southern Resources (USA) Inc.	USA	20	Exploration	—	1	1	*1*
At 31 December 2003				15,796,149	85,210	15,881,359	*535,276*

* British Virgin Islands

The Company has indirect shareholdings in the following companies:

	Holding company	Country of incorporation	Nature of business	Percentage indirect shareholding
Southern Gold Resources (USA) Inc.	HPD Mining Limited	USA	Exploration	20
HPD New Zealand Limited	HPD Investments Limited	New Zealand	Exploration	100
Patagonia Gold S.A.	Pensacola Holdings S.A./ Minera Puerto Madryn S.A.	Argentina	Exploration	100
Patagonia Gold Chile S.C.M.	Patagonia Gold S.A.	Chile	Exploration	100

In September 2002 the Company acquired Pensacola Holdings Limited which is a holding company with a 50 per cent. direct interest in Patagonia Gold S.A. and in December 2003 the Company acquired Minera Puerto Madryn S.A. which is a holding company for the remaining 50 per cent. interest in Patagonia Gold S.A. As a result of the acquisition of Minera Puerto Madryn S.A., Patagonia Gold S.A. ceased to be classified as a joint venture and became a subsidiary. Details of the assets and liabilities acquired are given in Note 19.

On 1 October 2002 the Company owned 8,125,680 shares in a Canadian mineral exploration company, Landore Resources Inc. ("Landore") which is listed on the Toronto Stock Exchange. During the period from October 2002 and November 2003 the Company acquired a further 6,832,082 shares in Landore before disposing of 14,948,762 shares in December 2003. At 31 December 2003 the Company owned 862,744 shares in Landore representing a 2.0 per cent interest *(30 September 2002: 25.2 per cent.)* of which 685,826 of these shares have a regulatory hold period expiring on 17 February 2004. As a result of the disposal Landore ceased to be classified as an associated undertaking. Details of the assets and liabilities disposed of are given in Note 19. At 31 December 2003 the market value of the Group's holding in Landore as recorded on the Toronto Stock Exchange was £111,885 *(30 September 2002: £814,360)*.

9. Debtors

	GROUP		COMPANY	
	2003	*2002*	2003	*2002*
	£	*£*	£	*£*
Amounts owed by Landore Resources Inc. (note 22)	3,999	*33,208*	3,999	*33,208*
Amounts owed by subsidiaries	—	—	161,835	—
Recoverable VAT	88,213	*11,061*	26,878	*11,061*
Other debtors	40,196	*48,260*	20,134	*48,260*
Prepayments and accrued income	12,843	—	12,843	—
	145,251	*92,529*	225,689	*92,529*

10. Cash

	GROUP		COMPANY	
	2003	*2002*	2003	*2002*
	£	*£*	£	*£*
Bank and cash balances	147,049	*1,276*	116,478	*1,276*
Short term deposits	2,936,370	*529,574*	2,836,300	*529,574*
	3,083,419	*530,850*	2,952,778	*530,850*

11. Creditors: amounts falling due within one year

	GROUP		COMPANY	
	2003	*2002*	2003	*2002*
	£	*£*	£	*£*
Sundry creditors	158,317	*5,048*	111,429	*5,048*
Accruals and deferred income	23,498	*25,820*	23,388	*25,820*
	181,815	*30,868*	134,817	*30,868*

12. Provisions for liabilities and charges: other provisions

GROUP AND COMPANY

	£
At 1 October 2002	27,492
Release of provision for National Insurance Contributions on share options	(27,492)
At 31 December 2003	—

Notes to the financial statements continued

for the period 1 October 2002 to 31 December 2003

13. Called up share capital

Authorised	2003 £	*2002* *£*
300,000,000 (*2002: 200,000,000*) ordinary shares of 1 pence each	3,000,000	*2,000,000*
Allotted, called up and fully paid 224,231,435 (*2002: 104,707,327*) ordinary shares of 1 pence each	2,242,314	*1,047,073*

The following allotments of the issued share capital of the Company have taken place during the period:

	Date	Total number of shares issued	Issue price	Cash flows 2003 £
Placing of shares	29.10.02	17,574,000	13.5p	2,372,490
Exercise of share options	29.10.02	200,000	8.5p	17,000
Open offer to shareholders and placing of shares	05.03.03	12,057,534	14.0p	1,688,055
Shares issued in consideration for the acquisition of Minera Puerto Madryn S.A.	18.12.03	89,692,574		—
		119,524,108		4,077,545

Share options at 31 December 2003:

Number of shares	Last exercise date	Price pence
1,920,506	21.11.10	1.5
150,000[(1)]	21.12.10	1.5
350,000	31.05.12	8.5
25,000	10.09.12	13.125
650,000	08.10.12	13.5
150,000	07.03.13	14
2,305,000	01.04.13	13.5

(1) Options were exercised in respect of 50,000 shares on 23 January 2004.

14. Share premium account

GROUP AND COMPANY

	£
At 1 October 2002	249,111
Premium on issues during the period	17,843,314
At 31 December 2003	18,092,425

15. Profit and loss account

	GROUP £	COMPANY £
At 1 October 2002	(295,973)	(186,389)
Retained loss for the period	(1,738,351)	(1,215,612)
Unrealised exchange rate movements	(69,348)	—
At 31 December 2003	(2,103,672)	(1,402,001)

16. Reconciliations of movements in equity shareholders' funds

	1 October 2002 to 31 December 2003 £	*Year to 30 September 2002* *£*
GROUP		
Loss attributable to shareholders	(1,738,351)	*(212,700)*
Unrealised exchange rate movements	(69,348)	*(10,822)*
Issues of shares	19,038,555	*170,230*
Net increase/(decrease) in shareholders' funds	17,230,856	*(53,292)*
Equity shareholders' funds at beginning of period/year	1,000,211	*1,053,503*
Equity shareholders' funds at end of period/year	18,231,067	*1,000,211*

	1 October 2002 to 31 December 2003 £	*Year to 30 September 2002* *£*
COMPANY		
Loss attributable to shareholders	(1,215,612)	*(167,972)*
Issues of shares	19,038,555	*170,230*
Net increase in shareholders' funds	17,822,943	*2,258*
Equity shareholders' funds at beginning of period/year	1,109,795	*1,107,537*
Equity shareholders' funds at end of period/year	18,932,738	*1,109,795*

Notes to the financial statements continued

for the period 1 October 2002 to 31 December 2003

17. Reconciliation of operating loss to net cash outflow from operating activities

	1 October 2002 to 31 December 2003 £	*Year to 30 September 2002 £*
Operating loss: Group and share of joint venture and associate	(2,297,593)	*(230,421)*
Share of loss in associate	253,540	*2,702*
Share of loss in joint venture	433,100	*19,614*
Depreciation and amortisation	67,081	*23,747*
Increase in debtors	23,809	*(92,529)*
Increase in creditors	60,641	*21,868*
(Decrease)/increase in other provisions	(27,492)	*27,492*
Net cash outflow from operating activities	(1,486,914)	*(227,527)*

18. Analysis of cash flows for headings netted in the cash flow statement

	1 October 2002 to 31 December 2003 £	*Year to 30 September 2002 £*
Returns on investments and servicing of finance		
Bank interest received	64,951	*18,458*
Capital expenditure		
Payments to acquire tangible fixed assets	(2,760)	*(10,000)*
Acquisitions and disposals		
Acquisition of additional interest in associated undertaking	(697,784)	—
Disposal of interest in associated undertaking	1,314,881	—
Capital contributions to joint venture	(642,976)	—
Expenses incurred on acquisition of Minera Puerto Madryn S.A.	(126,885)	—
Cash acquired on Patagonia Gold S.A. becoming a subsidiary	115,007	—
Acquisition of Pensacola Holdings Limited	—	*(6,425)*
	(37,757)	*(6,425)*
Management of liquid resources		
Short term deposits	(2,406,796)	*24,933*
Financing		
Issue of share capital	4,077,545	*170,230*
Expenses in connection with the issue of shares	(62,496)	—
	4,015,049	*170,230*

19. Acquisitions and disposal

Acquisitions

1 October 2002 to 31 December 2003

In December 2003 the Group acquired Minera Puerto Madryn S.A.. The principal asset of that company was a 50 per cent. interest in Patagonia Gold S.A. Fair value adjustments arise because of differences between local accounting treatment and UK GAAP, in particular, the treatment of deferred exploration expenditure which has been fully provided for in accordance with the Group's policy.

	Patagonia Gold S.A. £	50 per cent. acquired £	Minera Puerto Madryn S.A. £	Fair value adjustment £	Fair value to Group £
Tangible fixed assets	46,442	23,221	—	—	23,221
Intangible fixed assets	800,040	400,020	—	(400,020)	—
Debtors	78,446	39,223	—	—	39,223
Cash at bank and in hand	112,274	56,137	2,733	—	58,870
Creditors	(21,682)	(10,841)	(5,005)	—	(15,846)
Net assets/(liabilities)	1,015,520	507,760	(2,272)	(400,020)	105,468

Market value of ordinary shares issued in consideration	15,023,506
Legal expenses incurred	126,885
Goodwill arising on acquisition	15,044,923

Between December 2002 and October 2003 the Group increased its interest in Landore Resources Inc. ("Landore") from 25.2 per cent. to 37.5 per cent. by acquiring 6,823,082 new common shares for cash consideration of £697,784 and a cancellation of a debt of £65,534. The fair value of assets acquired amounted to £421,625 and goodwill arising on acquisition was £341,693. Fair value adjustments arise because of differences between local accounting treatment and UK GAAP, in particular, the treatment of deferred exploration expenditure which has been fully provided for in accordance with the Group's policy.

19. Acquisitions and disposal continued

Year ended 30 September 2002

In September 2002 the Group acquired a 50 per cent. in Patagonia Gold S.A. by acquiring Pensacola Holdings Limited.

Fair value adjustments arise because of differences between local accounting treatment and UK GAAP, in particular, the treatment of deferred exploration expenditure which has been fully provided for in accordance with the Group's policy.

	Patagonia Gold S.A. £	50 per cent. acquired £	Fair value adjustments £	Fair value to Group £
Tangible fixed assets	18,653	9,326	(194)	9,132
Intangible fixed assets	36,637	18,318	(18,318)	—
Debtors	7,444	3,722	(668)	3,054
Cash at bank and in hand	8,448	4,224	—	4,224
Creditors	(72,137)	(36,068)	—	(36,068)
Net liabilities	(955)	(478)	(19,181)	(19,658)
Cash in consideration				(6,425)
Goodwill arising on acquisition				26,083

Disposal

In December 2003 the Group disposed of 14,948,762 of the 15,811,506 shares it owned in Landore and Landore ceased to be an associated undertaking.

	£
Gross proceeds on disposal	1,420,132
Underwriting costs and legal expenses on disposal	(105,251)
Net proceeds on disposal	1,314,881
Accumulated goodwill on disposal	(725,548)
Share of net assets of associate on disposal	(188,364)
Transfer to fixed asset investments	85,209
Profit on disposal of interest in associated undertaking	486,178

20. Analysis of net funds

	At 1 October 2002 £	Cash flow £	At 31 December 2003 £
Bank and cash balances	1,276	145,773	147,049
Short term deposits	529,574	2,406,796	2,936,370
Net funds	530,850	2,552,569	3,083,419

There is no material difference between the fair value and the book value of the Group's financial assets and liabilities as at 31 December 2003.

21. Operating lease commitments

Annual commitments under non-cancellable operating leases for land and buildings are as follows:

	2003 £	*2002* *£*
Operating leases which expire:		
Within one year	51,372	*13,750*
Within two to five years	77,058	*—*
	128,430	*13,750*

22. Related parties

During the period the Company recharged £36,326 *(2002: £33,208)* of costs, consisting mainly of travel expenses, to Landore Resources Inc. and there was a balance owing to the Company from Landore at 31 December 2003 of £3,999 *(2002: £33,208)*.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Patagonia Gold Plc will be held on Thursday 24 June 2004 at 11.00 am at the Cavalry & Guards Club, 127 Piccadilly, London W1V 0PX to consider and, if thought fit, to pass the following resolutions which in the case of resolutions 1 to 5 will be proposed as Ordinary Resolutions and in the case of resolution 6 will be proposed as a Special Resolution:

1. To receive and, if approved, adopt the Financial Statements of the Company for the period ended 31 December 2003 and the Reports of the Directors and Auditors thereon.
2. To re-elect R Ö Prickett, Non-executive Chairman and a member of the Audit and Remuneration Committees, as a Director of the Company who retires by rotation.
3. To elect G Tanoira, Finance Director, as a Director of the Company, having been appointed since the last Annual General Meeting.
4. To elect C J Miguens, Non-executive Deputy Chairman and a member of the Audit and Remuneration Committees, as a Director of the Company, having been appointed since the last Annual General Meeting.
5. To re-appoint KPMG Audit plc as the Auditors of the Company until the conclusion of the next Annual General Meeting and to authorise the Directors to determine the Auditors' remuneration.
6. That the Directors be empowered (in substitution for any existing such powers) pursuant to Section 95 of the Act to allot equity securities for cash pursuant to the general authority conferred by the ordinary resolution passed on 13 January 2004 as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:
    (a) in connection with an offer of such securities by way of rights to holders of Ordinary Shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange; and

    (b) otherwise than pursuant to sub-paragraph (a) above, allotments of equity securities for cash up to an aggregate nominal amount of £757,685.65.

    and shall expire on 12 January 2009 unless revoked or renewed before such date, save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred hereby has expired and in this resolution the expression "equity securities" and references to the allotment of equity securities shall bear the same respective meanings as in section 94 of the Act.

By Order of the Board

J P Gorman FCA
Company Secretary

11 May 2004

Registered Office:
15 Upper Grosvenor Street
London W1K 7PJ

Notes

1. Shareholders entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, vote in their place. A proxy need not be a shareholder of the Company. A Form of Proxy is attached with this document, and members who wish to use it should see that it is deposited, duly completed, with the Company's Registrars not less than 48 hours before the time fixed for the meeting. Completing and posting of the Form of Proxy will not preclude shareholders from attending and voting in person at the Annual General Meeting should they wish to do so.
2. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered in the Register of Members of the Company as at 6.00 pm on 22 June 2004 shall be entitled to attend or vote at the aforesaid meeting in respect of the number of shares registered in their name at that time. Changes to entries on the Register of members after 6.00 pm on 22 June 2004 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
3. Copies of the Executive Directors' service contracts and the Register of Directors' Interests in the share capital of the Company, are available for inspection at the registered office of the Company during usual business hours and will be available on the day of the Annual General Meeting from 10.45 am until the conclusion of the Meeting.

The Cavalry & Guards Club has asked the Company to bring to the attention of shareholders attending the Annual General Meeting that the use of mobile telephones is strictly forbidden in any part of the Club, and that gentlemen should wear a tailored jacket and tie at all times in the public areas of the Club (although jackets may be removed during meetings in function rooms).

Designed and produced by Portman Lodge Limited

Patagonia Gold Plc
15 Upper Grosvenor Street
London W1K 7PJ

www.patagoniagold.com