Patagonia Gold Plc

Directors' Report and Financial Statements
for the year ended 31 December 2004

Cover: Consulting geologist Nick Callan and assistant, sampling at Cerro Colorado

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Directors and advisers

Directors	Sir John Craven	*(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)*
	Richard Ö Prickett	*(Non-Executive Director)*

All of

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Chairman's statement

The financial result for the year showed a loss after amortisation of goodwill in the sum of £757,520, of £3,018,092 (2003: £1,738,351) representing a loss per share of 1.3p (2003: 1.3p). The increase over the comparative period is a result of the acquisition in December 2003 of the remaining 50 per cent. interest in the Argentinean Joint Venture Company which we now own 100 per cent.

Our budget for exploration and administrative costs runs at approximately US$5 million per annum and has been funded from equity fund raisings. A placing of new shares to raise £2.8million (approximately US$5.25 million) was carried out in November 2004 at 10p per share. Your directors and their associates contributed over half of the funds raised in order to maintain their positions and to underline their confidence in the Company's strategy.

During the year under review the Company has been actively exploring in South America and New Zealand with an emphasis and focus on several new and exciting properties.

Full details of the Company's explorations are set out in the attached Operations Report, the highlights being:

- The discovery of significant copper values and mineralisation at the Gastre property in the north central Chubut province of Argentina.
- Sample values being returned up to 28.1g/t gold at the Cerro Colorado Project in Chubut province south of the Esquel Gold Project.
- A mineralized structure at the Cerro el Morro Project being traced for over a kilometer showing values of up to 24.6 g/t gold. This project is in the Rio Negro province of Argentina.
- The already established Crespo Project in the Chubut Province of Argentina has identified discovery veins which confirm this as a gold rich district of high potential.

In December 2004 we announced the acquisition of Minamalú SA from the Miguens/Bemberg family. The assets of this Company are a 40 per cent. interest in the land adjacent to the Esquel Gold Project. This is a significant new asset for the Company in exploration properties which are in a highly prospective new gold district.

We are most fortunate to have a strong local shareholder base through the Miguens/Bemberg family led by Carlos Miguens and Gonzalo Tanoira. Their involvement and local expertise has assured that we have maintained a social licence for our activities and in addition we adhere to very high environmental standards.

Demand for gold from around the world has put ever more pressure on supply, few major gold projects are coming on stream and the existing projects in production have finite reserves. As a result the gold price has remained strong and above US$400 per oz.

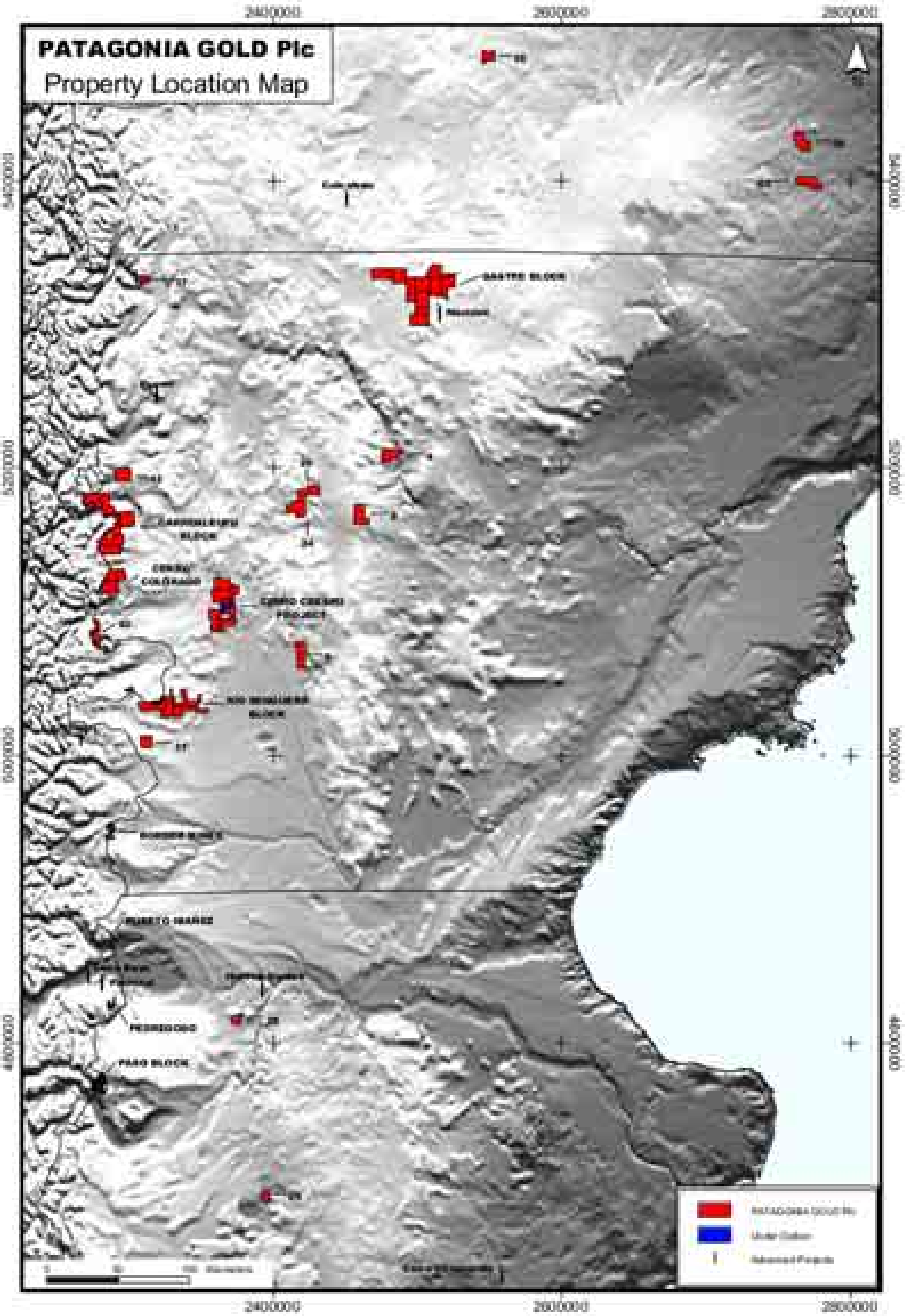
We are fortunate to have a dedicated and professional team running our operations in South America. The Company's objective is to create shareholder value through the discovery of economic mineral deposits and by bringing these to production.

Sir John Craven

Chairman

18 May 2005

Operations report – Property location map



Managing Director's report – Operations

Executive summary

During 2004 Patagonia Gold Plc ("PGD") has continued to consolidate its strong position in the Southern region of South America, maintaining a disciplined approach towards the exploration and development of its substantial property portfolio, the acquisition of new properties and relinquishment of properties that fail to meet expectations.

At the height of the current exploration season PGD had eleven geological exploration teams, supported by two independent Consulting Geologists, working in Southern Argentina in the Rio Negro, Chubut and Santa Cruz provinces and in Southern Chile.

Two substantial exploratory drilling campaigns were completed on properties 600 kilometres apart, in Coyhaique (Chile), and Crespo (Argentina), a commendable achievement for both management and technical staff in just the second full year since the Company's formation. In addition the geological exploration teams continued with the exploration of PGD's other properties bringing several to the point where exploration drilling is now required.

The Crespo project, located in south central Chubut (Argentina), remains the most advanced prospective property in PGD's large portfolio.

Exploratory drilling on the Cabaña and Jasper vein zones, completed in November 2004, returned significant high-grade gold intersections. These values were subsequently established to be associated with supergene enrichment and were generally restricted to the intersection of two main structures. Thus the exploration effort was refocused on other targets of merit within the Project, which now require drilling.

Results from a property wide stream sediment sampling programme has led to the discovery of five additional large vein zones, returning grades of up to 14g/t gold, further confirming Crespo as a gold rich district of high potential.

Drill testing of several of the new discoveries will be carried out in the 2005/6 season.

PGD's other advanced exploration property, showing high potential, is Cerro El Morro, located in the Rio Negro province, where sampling of the many vein sets contained within the property has returned values up to 24.6 g/t gold and 233 g/t silver. An Environmental Impact Study has been completed and submitted for a planned 2,000 metres scout drilling campaign.

There are several other highly prospective properties that have direct drilling targets for next season including Cerro Colorado, located in the Andean cordillera in the Chubut province, where significant values have been returned including 28.1 g/t gold and 233 g/t silver over 2 metres.

The highlight of the period was the exciting discovery at Gastre of significant disseminated copper mineralisation with values of >3 per cent. copper and associated silver values of 170g/t along strike and to the west of IMA's Navidad silver project. PGD's Gastre Block, consists of 10 cateos covering 950 square kilometres, and is located in north central Chubut within the proven mineralised belt that extends from IMA's Navidad silver project in the south east to Aquiline's tenements, containing the Calcatreu gold project, in the north west and is considered extremely prospective to host both base metal and precious metal mineralisation.

Exploration has been intensified at Gastre with two geological teams currently working to prove continuity of mineralisation along the 4.5 kilometre structure that joins the two discoveries, 'Copper Hill' and 'Copper Dome'.

Early in 2004 PGD formed a Public Relations team, located both in Buenos Aires and Chubut, specifically to deal with access for our properties. The team has been working with Federal and Provincial Governments, local authorities and landowners and has been successful in gaining access to many of the areas previously denied.

Managing Director's report – Operations continued

In December 2004 PGD acquired the entire issued capital of Minamalú SA which holds 40 per cent. interests in three exploration companies, Huemules SA with 14 mineral properties, Leleque Exploration SA with 20 mineral properties and Minera Nahual Pan SA with 11 mineral properties. Meridian Gold Inc. holds the remaining 60 per cent. of these companies.

By acquiring Minamalú SA, PGD gained a significant interest in a highly prospective area that is host to the Esquel Gold Project, one of the world's largest high-grade gold deposits.

Intensive property wide exploration of the Coyhaique Project, including drilling of the four main veins, failed to meet expectations. PGD's target at Coyhaique was to identify a substantial economic deposit. Results did not provide sufficient confidence that this target would be achieved. Accordingly the option to purchase was relinquished.

PGD maintains a strong awareness of its responsibilities towards the environment and existing social structures. Careful attention is given to ensure that all exploration work is carried out strictly within the guidelines of the relevant mining and environmental acts. PGD attempts, where possible, to hire local personnel and use local contractors and suppliers.

PGD maintains a professional and extensive exploration commitment in South America with the prime objective of discovering and developing an economical mining project.

Bill Humphries

Managing Director

18 May 2005

Operations report

Land

PGD through its three 100 per cent. controlled subsidiaries, Patagonia Gold SA in Argentina, Patagonia Gold SCM in Chile and HPD New Zealand Inc, hold exploration or mineral exploitation permits or has under application or option to purchase the following property areas:

Argentina

Rio Negro	154 square kilometres
Chubut	3,156 square kilometres
Santa Cruz	70 square kilometres

Chile

Region XI	104 square kilometres

New Zealand

North and South Islands	4,630 square kilometres

Operations report continued

Exploration

PGD is maintaining a high level of exploration activity in southern Argentina and Chile with up to eleven geologists and supporting technical staff, including consultants Nick Callan and Damien Koerber, operating in the Chubut, Rio Negro and Santa Cruz Provinces of Argentina and across the border in Chile.

Internationally renowned consultants Dick Sillitoe and Greg Corbett are used on an as needs basis.

Argentina

Crespo Project: Located in south western Chubut 200 kilometres south east of Esquel, the nearest town is Gobernador Costa immediately to the north of the project. The area is predominantly arid and low scrub with the main activity being sheep farming.

The project area consists of six cateos and three minas under option, covering an area of 535 square kilometres. The dominant geology of the area is Jurassic andesite volcanics forming a gentle undulating topography giving a subdued outcrop character and offering good access. Jurassic volcanics is a proven host for low sulphidation epithermal gold veins, as seen at Esquel and Cerro Vanguardia

Continued exploration of this established gold district has maintained the momentum of discovery.

Following successful exploration drilling of the Cabaña vein on the Crespo Project in early 2004, which produced encouraging results with a high grade shoot being identified at the intersection of the main structure and an east-west vein-set, a follow-up programme was conducted in late 2004.

Significant results include

Hole	From	To	Interval (m)	Gold ppm	Silver ppm
CR-69	7.0	10.0	3.0	13.78	6.7
CR-70	4.0	6.0	2.0	12.03	2.5
CR-70	14.0	16.0	2.0	5.65	0.7
CD-86	28.0	33.6	5.6	8.82	27.1
CD-86	58.5	60.0	1.5	3.02	3.0
CD-86	65.2	67.0	1.8	2.23	1.6

The follow-up exploration drill programme targeted not only the Cabaña vein but also mapped extensions to this and the Jasper vein which had, subsequent to the first programme, been mapped in detail, sampled, trenched and shown to be auriferous. This programme, comprising 45 holes for 2,168 metres, also successfully tested the anomalies defined by a geophysics programme in the Cabaña, Jasper and intervening areas. Buried (hidden) quartz vein structures were intersected but gold tenure was below expectations.

Appraisal of the results of both programmes indicated that the high gold values encountered were associated with supergene enrichment and were generally restricted to the intersection of the two main structures with the remainder of the zones tested returning lower grades and inconsistent depth potential.

Operations report continued

The Crespo Project area contains a number of veins other than Cabaña and Jasper and exploration is continuing with interrogation of the newly acquired high definition 'Quickbird Landsat' in association with the BLEG (Bulk Leach Extractable Gold) anomalies generated from the stream sediment survey. This very successful exploration approach, combined with field investigation continues to reveal targets requiring detailed mapping and sampling. The BLEG survey has proved successful leading to the discovery of the Northern veins, extending over 2.2 kilometres, returning values up to 7.57 g/t gold and the Western veins returning values up to 14.2 g/t gold.

Continued exploration of this established gold district has maintained the momentum of discovery with two new sub parallel veins, extending for over 2.3 kilometres, having recently been discovered in the central southern part of the property. Mapping and sampling of these veins ('V' and 'Y') is currently in progress.

Additionally the Pedro vein has now been extended to over 2 kilometres with a number of grades >3g/t gold.

The recently completed geophysics survey conducted over the 'Paleosurface' successfully defined a 300 metres x 100 metres resistive zone with co-incident chargeability linking the two highest anomalous gold samples. The resistor may be the geophysical signature of a buried vein as it sits under a paleosurface containing fossilized plant remains potentially indicating a hot spring environment related to epithermal mineralisation.

The discovery of new veins and the extension of known mineralisation in the Crespo Project area confirm this as a gold rich district of high potential. Further discoveries are anticipated.

Environmental Impact Studies are currently being prepared for submission in advance of drill testing several of the above targets, anticipated early in the forthcoming field season.

The Gastre Block: Consisting of 10 cateos covering 950 square kilometres, is located in north central Chubut within the proven mineralised belt extending from IMA's Navidad silver project in the south east to Aquiline's tenements containing the Calcatreu gold project in the north west and is considered extremely prospective to host both base metal and precious metal mineralisation.

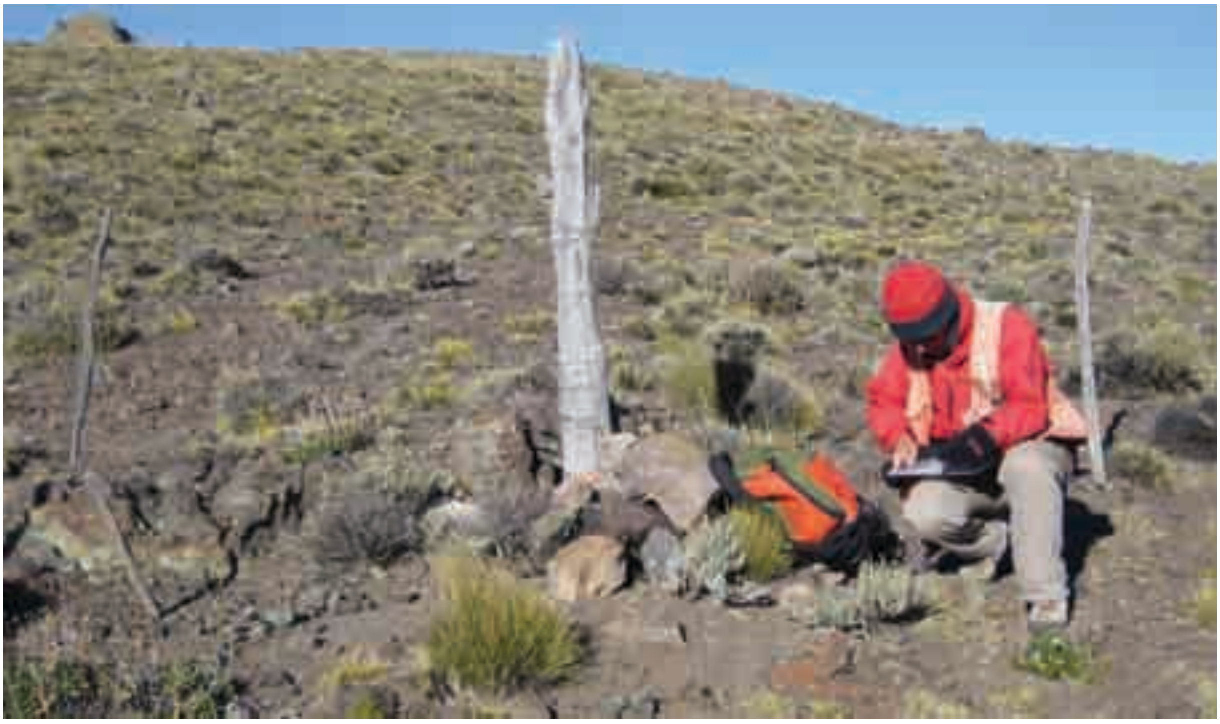
Mapping and sampling of the southern section of the claims, in a zone named Copper Hill, has identified significant disseminated copper mineralisation with values of >3 per cent. copper and associated silver values of 170g/t. The mineralisation is related to a robust linear structure in the same orientation and along strike from one of the major Navidad mineralised zones to the east. Over 4,500 metres to the west of Copper Hill, along the same trend, in an extensive area called Copper Dome, copper mineralisation has also been identified with values over 1 per cent. copper and 50g/t silver.

Significant samples include

Property	Sample	Copper percentage	Silver ppm
	33957	3.10	71.7
Gastre	33958	1.63	37.0
	33959	2.29	47.7
	33962	3.23	170.0
	33964	1.84	89.9

Operations report continued

300 metres south east of Copper Hill at the base of the Canadon Asfalto sequence, (host to the Navidad deposit), rock chip samples have reported results of >3 per cent. copper and 71g/t silver as disseminated mineralisation at the Fenceline Prospect. In addition previous prospecting in an area adjacent to this copper rich trend returned values of up to 5.1g/t gold and 52g/t silver.



Geologist Salvador Broens at the Fenceline Prospect, Gastre

Mapping and sampling of this large area is continuing, expanding from the known mineralisation centres around Copper Hill. Modelling suggests metal zonation with increasing gold potential to the north. Further definition of the mineralised structure will be enhanced by a planned geophysics survey.

Cerro Colorado: This exciting prospect, comprising two 'minas' and a cateo covering almost 200 square kilometres, is located in the Andean cordillera to the south of Esquel, and contains mineralisation and extensive alteration typically associated with a hi-sulphidation gold system. Extensive chip channel sampling over the central zone, 700 metres long by 300 metres wide, of advanced argillic alteration has returned very significant gold results, including:

- 28.1g/t gold and 88.1g/t silver over 2 metres
- 6.22g/t gold and 28.3g/t silver over 7 metres
- 7.31g/t gold and 32.2g/t silver over 5 metres
- 6.65g/t gold and 65.6g/t silver over 7 metres

Operations report continued

The tenor of these results continues to maintain this prospect's importance. The mineralised system is postulated to have a stratigraphic control being fed by NE striking structures. A report on all available information both recent and historic is being collated to assist in planning further infill sampling and detailed mapping prior to drill programme preparation.

The main peak of Cerro Colorado showing intense alteration

Cerro El Morro: Further exploration of this cateo has identified additional veining. Sampling has increased the tenor of the mineralisation with a sample from the last programme returning 24.6g/t gold and 233g/t silver. A recently completed geophysics (combine magnetic, IP and chargeability) survey over the vein field has enabled better definition of the structures, which in places have no surface expression. One of these structures is now traceable for over a kilometre and contains values in the south east of 3.67g/t gold and 269g/t silver increasing to 24.6g/t gold and 233g/t silver in the north west, with geophysics also indicating the structure to be considerably wider in the north west.

An Environmental Impact Study has been submitted to the Rio Negro Province and on receipt of the approval a 2,000 metres scout drill programme will commence. The Cerro El Morro property of 10,000 hectares in eastern Rio Negro is considered a 'year round' location.

Operations report continued

Carrenleufu Block: This block of six cateos, covering 600 square kilometres, is located in the Andean cordillera along the border with Chile in south western Chubut. A stream sediment survey including panned concentration of streambed material and large sediment samples for BLEG analysis over this remote area was completed early in the season. The results from this first pass drainage sampling survey included several panned concentrate samples with values up to 6g/t gold as well as anomalous BLEG samples in different drainages.

Exploration by horse from tented camps in Carrenleufu

Visible gold in panned concentrates was observed. Initial follow-up work of the southern anomalous drainage covering an area of approximately 16 square kilometres has, in a further four localities, identified visible gold in panned concentrates. Exploration efforts are currently focused on identifying the source of this gold mineralisation as well as investigating other anomalies.

PGD is actively exploring the Patagonia regions of Argentina and Chile with an experienced technical exploration manager leading a large team of competent geologists. In association with in the 'field exploration' PGD is also pursuing acquisition opportunities by option or joint venture: Currently four Confidentiality Agreements are in force in order that PGD can review data on other company's properties.

Considerable effort by PGD staff has been exerted in community relations. This has produced more efficient co-ordination with Provincial authorities as well as enhancing landowner relations.

Operations report continued

Minamalú SA: In late December PGD acquired the entire issued capital of Minamalú SA which holds 40 per cent. interests in three exploration companies, Huemules SA with 14 mineral properties, Leleque Exploracion SA with 20 mineral properties and Minera Nahual Pan SA with 11 mineral properties. Meridian Gold holds the remaining 60 per cent. of these companies.

Minamalú SA has a shareholders' agreement with Meridian Gold Inc. for the exploration of the above properties, which has been on hold for the past two years.

Huemules, located 25 kilometres to the west of the Esquel Gold Project in north west Chubut, contains an historic mine, which produced bonanza grade gold in the early 1990's. Leleque and Nahual Pan, located to the north and south respectively of the Esquel Gold Project, are highly prospective exploration properties.

Chile

Exploration: Exploration remains focused in the Puerto Ibanez area and to the south of the Cerro Bayo mine of Coeur which has posted Reserves of 336,000 tons at 7.53 ozs silver and 3g/t gold. Reconnaissance sampling of the latter exploration area has identified geology prospective for both epithermal gold mineralisation as well as gold-silver-base metal mineralisation, with values >5g/t gold and >500g/t silver (separate samples) and as a result 25 new pedimentos have been staked in the Jeinimeni area. Further detailed mapping and sampling is ongoing.

Significant samples include

Property	Sample	Gold ppm	Silver ppm	Lead percentage
	40058	5.15	148.0	4.4
Jeinimeni area	40042	4.00	533.0	0.1
	40050	3.38	2.5	0.1
	40051	2.21	138.0	20.5
	40046	2.16	152.0	0.8
	40053	0.36	48.5	2.8

Coyhaique: Intensive property wide exploration of the Coyhaique project conducted over the 18 months to December 2004, including the drilling of the main veins, failed to meet PGD's expectations.

A revised proposal was made to WestMag Ltd but after no revision was agreed they were advised that PGD no longer wished to proceed with the Option to Purchase the Coyhaique mining concessions.

Inspection of the Coyhaique Project area has recently been undertaken by the Chile environmental agency CONEMA as a requirement to finalise the rehabilitation in line with the approved environmental report.

New Zealand

New Zealand: HPD New Zealand has revised and increased the landholding in both the North and South Islands. Currently under licence or application are 19 Permits totalling 4,630 square kilometres.

Exploration on HPD New Zealand's Permits at Bendigo, Macetown and Nenthorn continues, with extensive soil sampling programmes being carried out on all three properties.

Bendigo Permit-soil sampling has identified the north western extension to the Rise and Shine shear zone. Coincident gold and arsenic results define a strike length of 3 kilometres with a width of 400 metres. Soil sampling is currently underway on the south eastern extension of the zone.

Operations report continued

Macetown Permit-soil sampling, with results of up to 11.3g/t gold, has defined the possible extension of the Premier lode, with mineralisation present over the 1,500 metres tested to date. In addition, the sampling identified a sub-parallel zone. A further 4.5 kilometres of the zone remains to be tested.

Nenthorn Permit-soil sampling has outlined extensions to the Bonanza lode (Lots Wife) and it is clearly defined by over 3.7 kilometres strike of mapped quartz. Two sub parallel linear anomalies have also been defined at Redbank with the southern anomaly extending over 3.6 kilometres.

The Nenthorn Permits are adjacent to the Macraes gold mine Operated by Oceana Gold, which since commissioning in 1990 has produced 1.7 million ozs of gold.

HPD New Zealand property holding in the Otago area of South Island

HPD New Zealand has programmed for a 3,000 metres Reverse Circulation exploratory drilling campaign to be carried out prior to winter on one of the above properties, subject to the results of infill soil sampling and satisfactory access arrangements being completed.

Report of the Directors

The Directors present their report and the audited financial statements for the year ended 31 December 2004. The previous financial statements were for the fifteen months ended 31 December 2003. 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.

A review of the Group's business can be seen in the Chairman's statement on page 3 and in the Operations report on pages 6 to 13.

Placing of new ordinary shares

On 22 November 2004, the Company announced that it had placed 28 million new ordinary shares of 1p each at a price of 10p per share to finance working capital and exploration expenditure.

Acquisition of Minamalú

On 9 December 2004, the Company announced the acquisition of the entire issued share capital of Minamalú SA ("Minamalú"), an Argentine exploration company which holds 40 per cent. interests in each of Huemules SA, Leleque Exploracion SA and Minera Nahuel Pan SA.

The consideration for the acquisition, which completed on 8 December 2004, was £520,000 and was satisfied by the issue to the vendors of Minamalú ("Vendors") of £520,000 unsecured convertible loan notes 2007 of Patagonia Gold Plc ("Loan Notes"). The Loan Notes are redeemable by the Vendors at any time and are convertible upon notice by the Vendors on the basis of 10 ordinary shares for every £1 of the principal amount of the Loan Notes held. Any Loan Notes still outstanding on 8 December 2007 will be redeemed by the Company for cash. The Vendors were all members of the Miguens/Bemberg family and associates and included Carlos Miguens and Gonzalo Tanoira, both directors of the Company, who received consideration comprising £98,800 Loan Notes and £36,400 Loan Notes respectively.

The remaining 60 per cent. shareholdings in the above three companies are held by a wholly owned subsidiary of Meridian Gold Inc ("Meridian"). Minamalú has a shareholders' agreement with Meridian for the exploration and development of the mineral properties held by Huemules SA, Leleque Exploracion SA and Minera Nahuel Pan SA.

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 *(2003: £nil)*.

Report of the Directors continued

Substantial shareholdings

In addition to the interest of C J Miguens disclosed below, at 11 May 2005, 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	6.27
Cristina Miguens	14,159,679	5.61
Diego Miguens	14,159,679	5.61
Phillip Securities (UK) Nominees Ltd PSLNOM account	13,795,075	5.47
Chase Nominees Ltd	12,041,400	4.77
Merrill Lynch Gold & General Fund	9,000,000	3.57

Political and charitable contributions

The Group made no political or charitable donations during the year (*2003: £nil*).

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 2004.

Directors and Director's interests

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

Ordinary Shares of 1p:	31 December 2004	31 December 2003
Sir John Craven (appointed 24 June 2004)	1,000,000	—*
C J Miguens	36,940,382	34,378,262
W H Humphries	5,875,000	5,200,000
M J Sale	1,450,687	1,450,687
G Tanoira	3,995,437	3,717,997
R Ö Prickett	5,984,263	5,309,263

* At the date of appointment

As referred to above, Loan Notes were issued to the following Directors on completion of the acquisition of the entire issued share capital of Minamalú SA in December 2004.

	Loan Notes
C J Miguens	£98,800
G Tanoira	£36,400

Report of the Directors continued

No options were exercised by the Directors during the year. At 31 December 2004, 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
Sir John Craven	24.06.04	13.75p	1,500,000	24.06.04	23.06.14
C J Miguens	18.02.04	15.75p	1,500,000	19.02.04	18.02.14
W H Humphries	8.10.02	13.50p	350,000	8.10.02	8.10.12
W H Humphries	7.03.03	14.00p	150,000	7.03.03	7.03.13
W H Humphries	18.02.04	15.75p	3,000,000	19.02.04	18.02.14
M J Sale	18.02.04	15.75p	1,000,000	19.02.04	18.02.14
G Tanoira	18.02.04	15.75p	1,281,000	19.02.04	18.02.14
R Ö Prickett	18.02.04	15.75p	2,906,000	19.02.04	18.02.14

In addition, the following Directors had awards ("the Awards") over the assets of the Company's 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

The Company's ordinary shares are traded on AIM and the market price of those shares ranged between 10.25p and 18.75p during the year. The closing mid price of the Company's ordinary shares on 31 December 2004 was 12.25p (31 December 2003: 17p).

Corporate governance

The ordinary shares of the Company are traded on AIM. Companies on 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

Sir John Craven (*Non-Executive Chairman*) joined the Board on 24 June 2004. Sir John is Non-Executive Chairman of Lonmin plc and of Fleming Family & Partners Limited and was formerly Chairman of Morgan Grenfell plc and a member of the Board of Managing Directors of the Deutsche Bank Group.

Report of the Directors continued

Carlos J. Miguens (*Non-Executive Deputy Chairman*) 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 SA since its inception and he was formerly a Director of Minera El Desquite SA.

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. He is Chairman of Landore Resources Limited and 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.

Gonzalo Tanoira (*Finance Director*) has been a Director of Patagonia Gold SA since its inception. He was formerly a Director of Minera El Desquite SA 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.

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 is also a Non-Executive Director of The Capital Pub Company PLC.

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

To conform to accepted corporate governance standards, there are three 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 fulfil 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. 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.

Report of the Directors continued

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.

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' service agreements

Sir John Craven, Mr Miguens and Mr Prickett have service arrangements which provide for three months' notice of termination and those of Mr Humphries, Mr Sale and Mr Tanoira provide for six months' notice of termination.

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 at www.patagoniagold.com.

Annual General Meeting

The Director who retires by rotation is M J Sale who, being eligible, offers himself for re-election. In addition, Sir John Craven, who was appointed to the Board since the last Annual General Meeting, retires in accordance with the Articles of Association and, being eligible, offers himself 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 £477,185.65, representing 18.91 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 auditor 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; and
- 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

18 May 2005

Report of the independent auditor

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

Report of the independent auditor to the members of Patagonia Gold Plc

We have audited the financial statements on pages 21 to 38.

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 2004 and of the loss of the Group for the year ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

18 May 2005

Consolidated profit and loss account

for the year ended 31 December 2004

	Note	Year to 31 December 2004 £	*1 October 2002 to 31 December 2003 £*
Administrative expenses and exploration costs		(2,314,904)	*(1,250,605)*
Amortisation of goodwill	6	(757,520)	*(62,550)*
		(3,072,424)	*(1,313,155)*
AIM listing expenses		—	*(297,798)*
Operating loss		(3,072,424)	*(1,610,953)*
Share of operating loss in Patagonian joint venture	8	—	*(433,100)*
Share of operating loss in Canadian associate	8	—	*(253,540)*
Total operating loss:			
Group and share of joint venture and associate		(3,072,424)	*(2,297,593)*
Net profit on disposal of interest in associate		—	*486,178*
Interest receivable:			
– Group	2	54,332	*64,951*
– Share of associates and joint venture	2	—	*8,113*
		54,332	*73,064*
Loss on ordinary activities before taxation	3	(3,018,092)	*(1,738,351)*
Tax on loss on ordinary activities	4	—	*—*
Retained loss for the year/period	14	(3,018,092)	*(1,738,351)*
Loss per share	5	(1.3p)	*(1.3p)*
Diluted loss per share	5	(1.3p)	*(1.3p)*

Consolidated balance sheet

at 31 December 2004

	Note	2004 £	*2003 £*
Fixed assets			
Intangible fixed assets	6	14,865,923	*15,044,831*
Tangible fixed assets	7	45,240	*54,171*
Investments	8	85,210	*85,210*
Total fixed assets		14,996,373	*15,184,212*
Current assets			
Debtors	9	342,355	*145,251*
Cash at bank and in hand	10	3,299,916	*3,083,419*
		3,642,271	*3,228,670*
Creditors: amounts falling due within one year	11	(787,134)	*(181,815)*
Net current assets		2,855,137	*3,046,855*
Total assets less current liabilities		17,851,510	*18,231,067*
Provision for deficit of associates	8	(61,340)	*—*
Net assets		17,790,170	*18,231,067*
Capital and reserves			
Called up share capital	12	2,522,814	*2,242,314*
Share premium account	13	20,577,439	*18,092,425*
Profit and loss account	14	(5,310,083)	*(2,103,672)*
Equity shareholders' funds	15	17,790,170	*18,231,067*

These financial statements were approved by the Board of Directors on 18 May 2005
and were signed on its behalf by:

Gonzalo Tanoira
Director

The notes on pages 25 to 38 form part of these financial statements.

Company balance sheet
at 31 December 2004

	Note	2004 £	*2003 £*
Fixed assets			
Tangible fixed assets	7	4,103	*7,729*
Investments	8	17,836,775	*15,881,359*
		17,840,878	*15,889,088*
Current assets			
Debtors	9	500,357	*225,689*
Cash at bank and in hand	10	3,200,992	*2,952,778*
		3,701,349	*3,178,467*
Creditors: amounts falling due within one year	11	(653,806)	*(134,817)*
Net current assets		3,047,543	*3,043,650*
Net assets		20,888,421	*18,932,738*
Capital and reserves			
Called up share capital	12	2,522,814	*2,242,314*
Share premium account	13	20,577,439	*18,092,425*
Profit and loss account	14	(2,211,832)	*(1,402,001)*
Equity shareholders' funds	15	20,888,421	*18,932,738*

These financial statements were approved by the Board of Directors on 18 May 2005
and were signed on its behalf by:

Gonzalo Tanoira
Director

The notes on pages 25 to 38 form part of these financial statements.

Consolidated statement of total recognised gains and losses

for the year ended 31 December 2004

	Year to 31 December 2004 £	*1 October 2002 to 31 December 2003 £*
Loss attributable to shareholders of Patagonia Gold Plc	(3,018,092)	*(1,738,351)*
Unrealised exchange rate movements	(188,319)	*(69,348)*
Total recognised losses for the year/period	(3,206,411)	*(1,807,699)*

Consolidated cash flow statement

for the year ended 31 December 2004

	Note	Year to 31 December 2004 £	*1 October 2002 to 31 December 2003 £*
Net cash outflow from operating activities	16	(2,590,954)	*(1,486,914)*
Returns on investments and servicing of finance	17	54,332	*64,951*
Capital expenditure and financial investment	17	(12,465)	*(2,760)*
Acquisitions and disposals	17	70	*(37,757)*
Net cash outflow before use of liquid resources and financing		(2,549,017)	*(1,462,480)*
Management of liquid resources	17	(138,630)	*(2,406,796)*
Financing	17	2,765,514	*4,015,049*
Increase in cash in the year/period	19	77,867	*145,773*

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 2004. 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
Machinery and equipment	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 year ended 31 December 2004

1. Segmental analysis

	Loss before taxation		Net assets/(liabilities)	
	Year to 31 December 2004	*1 October 2002 to 31 December 2003*	Year to 31 December 2004	*1 October 2002 to 31 December 2003 Restated*
	£	*£*	£	*£*
United Kingdom	(782,554)	*(899,907)*	2,712,033	*3,136,888*
Argentina and Chile	(2,106,303)	*(428,025)*	15,082,581	*15,258,039*
New Zealand	(129,235)	*(159,917)*	(4,444)	*(163,860)*
Canada – share of associate	—	*(250,502)*	—	—
	(3,018,092)	*(1,738,351)*	17,790,170	*18,231,067*

The prior period comparative for net assets/(liabilities) has been restated to allocate the goodwill arising on the acquisition of Patagonia Gold SA from the United Kingdom to Argentina and Chile.

2. Interest receivable

	Year to 31 December 2004	*1 October 2002 to 31 December 2003*
	£	*£*
Interest receivable:		
– Group	54,332	*64,951*
– Share of joint venture	—	*5,075*
– Share of associate	—	*3,038*
	54,332	*73,064*

3. Loss on ordinary activities before taxation

	Year to 31 December 2004	*1 October 2002 to 31 December 2003*
	£	*£*
(a) The loss is stated after charging		
Auditors' remuneration:		
– audit (Company: £8,000 (2003: £7,500))	47,500	*48,618*
– other fees paid to the auditors and their associates	6,250	*48,694*
Operating lease charges: land and buildings	28,272	*13,063*
Depreciation of tangible fixed assets	20,296	*4,531*
Amortisation of goodwill	757,520	*62,550*

Other fees paid to the auditors principally relate to work carried out in connection with the Company's tax affairs.

Notes to the financial statements continued

for the year ended 31 December 2004

3. Loss on ordinary activities before tax continued

	Year to 31 December 2004 £	*1 October 2002 to 31 December 2003 £*
(b) Staff: (excluding Directors)		
Wages and salaries	116,945	*34,579*
Social security costs	24,717	*3,246*
	141,662	*37,825*

	2004 Number	*2003 Number*
The average number of employees by location during the year:		
Argentina and Chile – exploration	17	—
United Kingdom – administration	1	*1*

(c) Directors' emoluments:

	Year to 31 December 2004 £	*1 October 2002 to 31 December 2003 £*
Sir John Craven(3)	12,500	—
European Sales Co Ltd for the services of R Ö Prickett	65,000	*31,250*
MM-E for the services of W H Humphries	25,000	*31,250*
Carlos Miguens(1)	28,250	—
Marc Sale	105,000	*212,077*
Gonzalo Tanoira(1)	34,750	—
Neil Herbert(2)	—	*195,146*
Dare & Co for the services of D W Dare(2)	—	*22,500*
	270,500	*492,223*
Directors' remuneration recharged to Landore Resources Inc.	—	*(14,075)*
	270,500	*478,148*

(1) Appointed 19 December 2003
(2) Resigned 19 December 2003
(3) Appointed 24 June 2004

The Directors received no bonuses or benefits in kind in 2004.

Notes to the financial statements continued

for the year ended 31 December 2004

4. Tax on loss on ordinary activities

The tax charge for the year was £nil *(2003: £nil)*

Factors affecting the tax charge for the year/period

	Year to 31 December 2004 £	*1 October 2002 to 31 December 2003 £*
Loss on ordinary activities before taxation	(3,018,092)	*(1,738,351)*
Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 30 per cent.	(905,428)	*(521,505)*
Different local tax rates	(66,080)	*(26,199)*
Expenses not deductible for tax purposes	14,166	*114,268*
Losses and other timing differences carried forward to future periods	957,342	*702,660*
Profit on dilution of associate not deductable for tax	—	*(344,375)*
Share of associate losses	—	*75,151*
Current tax charge for the year/period	—	—

Factors that may affect future tax charges

The Group has losses and other timing differences of approximately £5,600,000 (2003: £2,600,000) 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	Year to 31 December 2004 per share	*£*	*Weighted average number of shares*	*1 October 2002 to 31 December 2003 per share*
Loss attributable to shareholders	(3,018,092)	227,261,899	(1.3p)	(1,738,351)	132,214,312	(1.3p)

There is no difference between the basic and diluted loss per share.

Notes to the financial statements continued

for the year ended 31 December 2004

6. Intangible assets – goodwill

	£
Cost	
At 1 January 2004	15,071,006
Additions	578,612
At 31 December 2004	15,649,618
Amortisation	
At 1 January 2004	26,175
Charge for the year	757,520
At 31 December 2004	783,695
Net book value	
At 31 December 2004	14,865,923
At 31 December 2003	*15,044,831*

7. Tangible fixed assets

	GROUP				COMPANY
	Office equipment £	Machinery and equipment £	Vehicles £	Total £	Office equipment £
Cost					
At 1 January 2004	19,363	12,731	27,108	59,202	12,760
Additions	4,670	7,543	252	12,465	—
Exchange difference	(18)	(535)	(972)	(1,525)	—
At 31 December 2004	24,015	19,739	26,388	70,142	12,760
Depreciation					
At 1 January 2004	5,031	—	—	5,031	5,031
Charge for the year	5,924	5,621	8,751	20,296	3,626
Exchange difference	87	(237)	(275)	(425)	—
At 31 December 2004	11,042	5,384	8,476	24,902	8,657
Net book value					
At 31 December 2004	12,973	14,355	17,912	45,240	4,103
At 31 December 2003	*14,332*	*12,731*	*27,108*	*54,171*	*7,729*

Notes to the financial statements continued

for the year ended 31 December 2004

8. Investments

Share in joint venture and associated undertakings

GROUP

	£
At 1 January 2004	—
On acquisition of Minamalú	(61,340)
At 31 December 2004	(61,340)

On 8 December 2004 the Group acquired Minamalú SA, an Argentine exploration company. The principal assets of that company were 40 per cent. holdings in Huemules SA, Leleque Exploracion SA and Minera Nahuel Pan SA These companies hold mineral properties in Argentina. The consideration for the acquisition was £520,000 and was satisfied by the issue to the vendors of Minamalú ("Vendors") of £520,000 unsecured convertible loan notes 2007 of Patagonia Gold Plc ("Loan Notes"). The Loan Notes are redeemable by the Vendors at any time and are convertible upon notice by the Vendors on the basis of 10 ordinary shares for every £1 of the principal amount of the Loan Notes held. Any Loan Notes still outstanding on 8 December 2007 will be redeemed by Patagonia Gold Plc for cash.The Vendors are all members of the Miguens/Bemberg family and associates and include Carlos Miguens and Gonzalo Tanoira, both Directors of Patagonia Gold, who received consideration comprising £98,000 Loan Notes and £36,400 Loan Notes respectively.

Until December 2003 the Group had an interest in a joint venture undertaking, Patagonia Gold SA, 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 SA became a subsidiary. The following information is disclosed in accordance with FRS9 'Associates and Joint Ventures' and all amounts represent the Group's share.

	2004	*2003*		
	Interest in associates £	*Interest in associate £*	*Interest in joint venture £*	*£*
Operating loss	—	*(253,540)*	*(433,100)*	*(686,640)*
Interest receivable	—	*3,038*	*5,075*	*8,113*
Retained loss for the year/period	—	*(250,502)*	*(428,025)*	*(678,527)*
Debtors	78,958	—	—	—
Cash at bank and in hand	15	—	—	—
	78,973	—	—	—
Creditors: amounts falling due in less than one year	(140,313)	—	—	—
Share of net liabilities	(61,340)	—	—	—

Other investments

	2004 £	*2003 £*
Landore Resources Inc.	85,209	*85,209*
Other	1	*1*
	85,210	*85,210*

Notes to the financial statements continued

for the year ended 31 December 2004

8. Investments continued

COMPANY

	£
At 1 January 2004	15,881,359
Capital contributions during the year	1,461,836
Addition on acquisition of Minamalú SA	493,580
At 31 December 2004	17,836,775

Company	Country of incorporation	Percentage direct share-holding	Nature of business	Group companies £	Other £	2004 £	*2003 £*
Pensacola Holdings Limited	BVI*	100	Holding Co.	1,375,708	—	1,375,708	*645,458*
HPD Investments Limited	BVI*	100	Holding Co.	300	—	300	*300*
HPD Mining Limited	England	100	Holding Co.	1	—	1	*1*
Minera Puerto Madryn SA	Argentina	100	Holding Co.	15,881,976	—	15,881,976	*15,150,390*
Minamalú SA	Argentina	100	Holding Co.	520,000	—	520,000	—
Landore Resources Inc.	Canada	2	Exploration	—	85,209	85,209	*85,209*
Other					1	1	*1*
At 31 December 2004				17,777,985	85,210	17,863,195	*15,881,359*

* British Virgin Islands

The Company has indirect shareholdings in the following companies:

	Holding company	Country of incorporation	Nature of business	Percentage indirect shareholding
HPD New Zealand Limited	HPD Investments Limited	New Zealand	Exploration	100
Patagonia Gold SA	Pensacola Holdings SA/ Minera Puerto Madryn SA	Argentina	Exploration	100
Patagonia Gold Chile S.C.M.	Patagonia Gold SA	Chile	Exploration	100
Huemules SA	Minamalú SA	Argentina	Exploration	40
Leleque Exploracion SA	Minamalú SA	Argentina	Exploration	40
Minera Nahuel Pan SA	Minamalú SA	Argentina	Exploration	40

In December 2003 the Company acquired Minera Puerto Madryn SA which is a holding company of a 50 per cent. interest in Patagonia Gold SA. As a result of the acquisition of Minera Puerto Madryn SA, Patagonia Gold SA ceased to be classified as a joint venture and became a subsidiary.

At 31 December 2004 the market value of the Group's holding in Landore as recorded on the Toronto Stock Exchange was £67,405 *(2003: £111,885)*. The Directors have decided not to impair the investment for the time being.

Notes to the financial statements continued

for the year ended 31 December 2004

9. Debtors

	GROUP 2004 £	GROUP 2003 £	COMPANY 2004 £	COMPANY 2003 £
Amounts owed by associates	9,344	—	—	—
Amounts owed by Landore Resources Inc. (note 21)	5,615	*3,999*	5,615	*3,999*
Amounts owed by subsidiaries	—	—	424,824	*161,835*
Recoverable VAT	235,663	*88,213*	11,746	*26,878*
Other debtors	77,998	*40,196*	44,437	*20,134*
Prepayments and accrued income	13,735	*12,843*	13,735	*12,843*
	342,355	*145,251*	500,357	*225,689*

10. Cash

	GROUP 2004 £	GROUP 2003 £	COMPANY 2004 £	COMPANY 2003 £
Bank and cash balances	224,916	*147,049*	125,992	*116,478*
Short term deposits	3,075,000	*2,936,370*	3,075,000	*2,836,300*
	3,299,916	*3,083,419*	3,200,992	*2,952,778*

11. Creditors: amounts falling due within one year

	GROUP 2004 £	GROUP 2003 £	COMPANY 2004 £	COMPANY 2003 £
Convertible Loan Notes (note 8)	520,000	—	520,000	—
Sundry creditors	173,386	*158,317*	40,057	*111,429*
Accruals and deferred income	93,748	*23,498*	93,749	*23,388*
	787,134	*181,815*	653,806	*134,817*

Notes to the financial statements *continued*

for the year ended 31 December 2004

12. Called up share capital

	2004 £	*2003* *£*
Authorised		
300,000,000 *(2003: 300,000,000)* ordinary shares of 1 pence each	3,000,000	*3,000,000*
Allotted, called up and fully paid		
252,281,435 *(2003: 224,231,435)* ordinary shares of 1 pence each	2,522,814	*2,242,314*

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

	Date	Total number of shares issued	Issue price	Cash flows 2004 £
Exercise of share options	23.01.04	50,000	1.5p	750
Placing of shares	22.11.04	28,000,000	10.0p	2,800,000
		28,050,000		2,800,750

Share options at 31 December 2004:

Number of shares	Last exercise date	Price pence
1,920,506	21.11.10	1.5p
100,000	21.12.10	1.5p
350,000	31.05.12	8.5p
25,000	10.09.12	13.125p
650,000	08.10.12	13.5p
150,000	07.03.13	14p
2,300,000	01.04.13	13.5p
9,687,000	18.02.14	13.5p
1,500,000	23.06.14	13.75p
1,000,000	22.11.14	14.75p

Since the year end, the Company has granted further options over 2,522,814 ordinary shares, being 1 per cent. of the present issued capital of the Company, at an exercise price of 15p, exercisable at any time during the three years ending 21 March 2008.

13. Share premium account

GROUP AND COMPANY

	£
At 1 January 2004	18,092,425
Premiums on issues during the year	2,520,250
Issue costs on placing	(35,236)
At 31 December 2004	20,577,439

Notes to the financial statements continued
for the year ended 31 December 2004

14. Profit and loss account

	GROUP £	COMPANY £
At 1 January 2004	(2,103,672)	(1,402,001)
Retained loss for the year	(3,018,092)	(809,831)
Unrealised exchange rate movements	(188,319)	—
At 31 December 2004	(5,310,083)	(2,211,832)

15. Reconciliation of movements in equity shareholders' funds

	Year to 31 December 2004 £	*1 October 2002 to 31 December 2003 £*
GROUP		
Loss attributable to shareholders	(3,018,092)	*(1,738,351)*
Exchange differences arising on translation	(188,319)	*(69,348)*
Issues of shares	2,765,514	*19,038,555*
Net (decrease)/increase in shareholders' funds	(440,897)	*17,230,856*
Equity shareholders' funds at beginning of year/period	18,231,067	*1,000,211*
Equity shareholders' funds at end of year/period	17,790,170	*18,231,067*

	Year to 31 December 2004 £	*1 October 2002 to 31 December 2003 £*
COMPANY		
Loss attributable to shareholders	(809,831)	*(1,215,612)*
Issues of shares	2,765,514	*19,038,555*
Net increase in shareholders' funds	1,955,683	*17,822,943*
Equity shareholders' funds at beginning of year/period	18,932,738	*1,109,795*
Equity shareholders' funds at end of year/period	20,888,421	*18,932,738*

Notes to the financial statements *continued*

for the year ended 31 December 2004

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

	Year to 31 December 2004 £	*1 October 2002 to 31 December 2003 £*
Operating loss: group and share of joint venture and associate	(3,072,424)	*(2,297,593)*
Share of loss in associate	—	*253,540*
Share of loss in joint venture	—	*433,100*
Depreciation and amortisation	777,816	*67,081*
(Increase)/decrease in debtors	(263,825)	*23,809*
Decrease/(increase) in creditors	(32,521)	*60,641*
Decrease in other provisions	—	*(27,492)*
Net cash outflow from operating activities	(2,590,954)	*(1,486,914)*

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

	Year to 31 December 2004 £	*1 October 2002 to 31 December 2003 £*
Returns on investments and servicing of finance		
Bank interest received	54,332	*64,951*
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(12,465)	*(2,760)*
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 SA	—	*(126,885)*
Cash acquired on Patagonia Gold SA becoming a subsidiary	—	*115,007*
Cash acquired on acquisition of Minamalú SA	70	—
	70	*(37,757)*
Management of liquid resources		
Short term deposits	(138,630)	*(2,406,796)*
Financing		
Issue of share capital	2,800,750	*4,077,545*
Expenses in connection with the issue of shares	(35,236)	*(62,496)*
	2,765,514	*4,015,049*

Notes to the financial statements continued
for the year ended 31 December 2004

18. Acquisitions and disposal

Acquisitions

Year ended 31 December 2004

On 8 December 2004 the Group acquired the entire share capital of Minamalú SA, an Argentine exploration company. The principal assets of that company were 40 per cent. holdings in Huemules SA, Leleque Exploracion SA and Minera Nahuel Pan SA which hold mineral properties in Argentina. The consideration for the acquisition was £520,000 and was satisfied by the issue to the vendors of Minamalú ("Vendors") of £520,000 unsecured convertible loan notes 2007 of Patagonia Gold Plc ("Loan Notes").

	Net book value £	Fair value adjustment £	Fair value of net assets £
Investment in associates	368,051	(429,391)	(61,340)
Intangible fixed assets	128	(128)	—
Intercompany	9,344	—	9,344
Non current debtors	7,568	—	7,568
Cash at bank and in hand	70	—	70
Creditors	(14,254)	—	(14,254)
Net assets/(liabilities)	370,907	(429,519)	(58,612)
Convertible debt issued in consideration			520,000
Goodwill arising on acquisition			578,612

The fair value adjustment has been made to write off the intangible assets included in the net book value to align accounting policies with the Group.

19. Analysis of net funds

	At 1 January 2004 £	Cashflow £	Other movements £	At 31 December 2004 £
Bank and cash balances	147,049	77,867	—	224,916
Short term deposits	2,936,370	138,630	—	3,075,000
Convertible loan notes	—	—	(520,000)	(520,000)
Net funds	3,083,419	216,497	(520,000)	2,779,916

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 2004.

Notes to the financial statements continued

for the year ended 31 December 2004

20. Operating lease commitments

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

	2004 £	*2003* *£*
GROUP AND COMPANY		
Operating leases which expire:		
Within one year	—	*51,372*
Within two to five years	28,272	*77,058*
	28,272	*128,430*

21. Related parties

Landore Resources Inc.

During the year the Company recharged £5,759 *(2003: £36,326)* 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 2004 of £5,615 *(2003: £3,999)*.

Minamalú SA

During the year the Group acquired an interest in the share capital of Minamalú SA from two Directors, Carlos Miguens and Gonzalo Tanoira, who disposed of their interest in Minamalú SA for £134,400. Consideration was in the form of Loan Notes which remain outstanding at the year end.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Patagonia Gold Plc will be held on Wednesday, 22 June 2005 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 4 will be proposed as Ordinary Resolutions and in the case of resolution 5 will be proposed as a Special Resolution:

1. To receive and, if approved, adopt the Financial Statements of the Company for the year ended 31 December 2004 and the Reports of the Directors and Auditors thereon.
2. To elect Sir John Craven, Non-executive Chairman, as a Director of the Company having been appointed since the last Annual General Meeting.
3. To re-elect Mr M J Sale, Director of Operations, as a Director of the Company who retires by rotation.
4. To re-appoint KPMG Audit Plc as the Auditor of the Company until the conclusion of the next Annual General Meeting and to authorise the Directors to determine the Auditor's remuneration.
5. 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 £477,185.65.

   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

18 May 2005

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 20 June 2005 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 20 June 2005 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).

For your notes

Produced by Portman Lodge Limited

Form of Proxy

for Annual General Meeting

I/We ______________________________

of ______________________________

____

being (a) member(s) of the above named Company hereby appoint

____

whom failing the Chairman of the Meeting, as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Shareholders of the Company to be held at The Cavalry & Guards Club, 127 Piccadilly, London W1V 0PX on Wednesday, 22 June 2005 at 11.00 am and at any adjournment thereof and to vote thereat as indicated below.

Please indicate with an "X" in the appropriate space how you wish your votes to be cast:

Resolution number	For	Against
1. Ordinary Resolution to receive and adopt the 2004 accounts		
2. Ordinary Resolution to elect Sir John Craven		
3. Ordinary Resolution to re-elect Mr M J Sale		
4. Ordinary resolution to re-appoint KPMG Audit Plc as Auditor and to authorise the Directors to determine the remuneration of the auditor		
5. Special Resolution to empower the Directors to allot equity securities as if Section 89(1) of the Companies Act 1985 did not apply to any such allotment		

Date ______________________________

Signature(s) or common seal ______________________________

____

Notes

1. A proxy need not be a member of the Company.
2. If you do not indicate how you wish your proxy to use your vote in a particular matter, the proxy will exercise his/her discretion as to how he/she votes and as to whether or not he/she abstains from voting.
3. In the case of a corporation this Form of Proxy must be executed under seal or under the hand of an officer or attorney duly authorised in writing.
4. Forms of Proxy, to be valid, must be signed and must be lodged, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, with the Company's registrars, Proxy Department, PO Box 25, Beckenham, Kent BR3 4BR not less than 48 hours before the time appointed for holding the meeting.
5. In the case of joint holders, the signature of any one of them will suffice, but if a holder other than the first-named holder signs, it will help the Registrars if the name of the first-named holder is given.
6. Any alteration to this form must be initialled.
7. Completion and return of this Form of Proxy does not preclude a member subsequently attending and voting at the meeting.

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BUSINESS REPLY SERVICE
Licence No. MB 122

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Capita Registrars
Proxy Department
PO Box 25
BECKENHAM
Kent
BR3 4BR

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Third fold and tuck in

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London WIK 7PJ
www.patagoniagold.com