Patagonia Gold Plc

Directors' Report and Financial Statements
for the year ended 31 December 2005

Contents

Directors and advisers

Directors	Sir John Craven	*(Non-Executive Chairman)*
	Carlos J Miguens	*(Non-Executive Deputy Chairman)*
	William H Humphries	*(Managing Director)*
	Gonzalo Tanoira	*(Finance Director)*
	Richard Ö Prickett	*(Non-Executive Director)*
	Marc J Sale	*(Non-executive Director)*

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Chairman's statement

I am pleased to present the report and accounts for the year ended 31 December 2005.

It has been an active year with a number of achievements that have moved the business forward and position it well for the future. Our achievements include the completion of the acquisition from Meridian Gold of their interests in the Huemules, Leleque and Nahuel Pan properties at a cost of US$1.5 million. We now own 100 per cent. of these highly prospective properties which flank the world class Esquel Project.

Drilling completed in 2003 at the historic Huemules Gold Mine had established the presence of a new high grade shoot containing bonanza grade gold with substantial silver and base metals credits. A study we commissioned by independent consultants during 2005 has confirmed the potential for the size of existing deposits to be increased and for new discoveries. A request to re-open and extend the 2003 Environmental Impact Assessment of Meridian Gold has been presented to the Mines Directorate of Chubut and we await this approval. The Huemules Project is covered in considerable detail in the Operations Report which follows.

Elsewhere we have continued with our parallel strategy of exploring our existing portfolio of properties and selective acquisition of new prospective properties for exploration. We continue to concentrate our exploration efforts on our substantial portfolio of highly prospective properties within Chubut Province in Patagonia as we believe this largely unexplored province has the best potential to host other major gold deposits similar to the Esquel Gold Project.

We have invested considerable time and resources in community relations in order to create support for our activities. As a result we have been successful in obtaining six Environmental Impact approvals for drilling campaigns this past year within Chubut and Rio Negro. These campaigns are currently in progress on three of our principal properties, Crespo and Gastre in Chubut, and at Cerro El Morro in Rio Negro.

In order that the Company can dedicate all its resources and energies in the Patagonia region we announced in December 2005 that we had disposed of our interest in HPD New Zealand Limited to Glass Earth Limited. This transaction was completed in March 2006 and has resulted in us carrying an investment of approximately 15 per cent. in Glass Earth Limited which is now one of the largest mineral explorers in New Zealand.

The financial outcome for the year was in line with our budget expectations with a loss for the year of £2,856,653 (2004: £3,018,092) reflecting the expenditure on our exploration activities and the necessary administrative support. This produced a loss per share of 1.1p, slightly down on the 1.3p per share reported for 2004.

Shortly after the year ended we replenished our resources with a share placement which raised £2.5 million involving 15,625,000 new shares at 16p per share. Members of the Miguens/Bemberg family and of the Board contributed some 60 per cent. of the new money and now hold over 45 per cent. and some 6 per cent. of the Company's share capital respectively.

The sustained rally in the gold price of course enhances the prospective value of our properties and substantially improves the economics of new mine financing and development.

Finally, on behalf of the Board, I would like to thank our operational staff in South America for their commitment and efforts in the year and to thank our shareholders for their continued support. We are confident that this will in due course be handsomely rewarded.

Sir John Craven

Chairman

18 May 2006

Operations report – Property location map

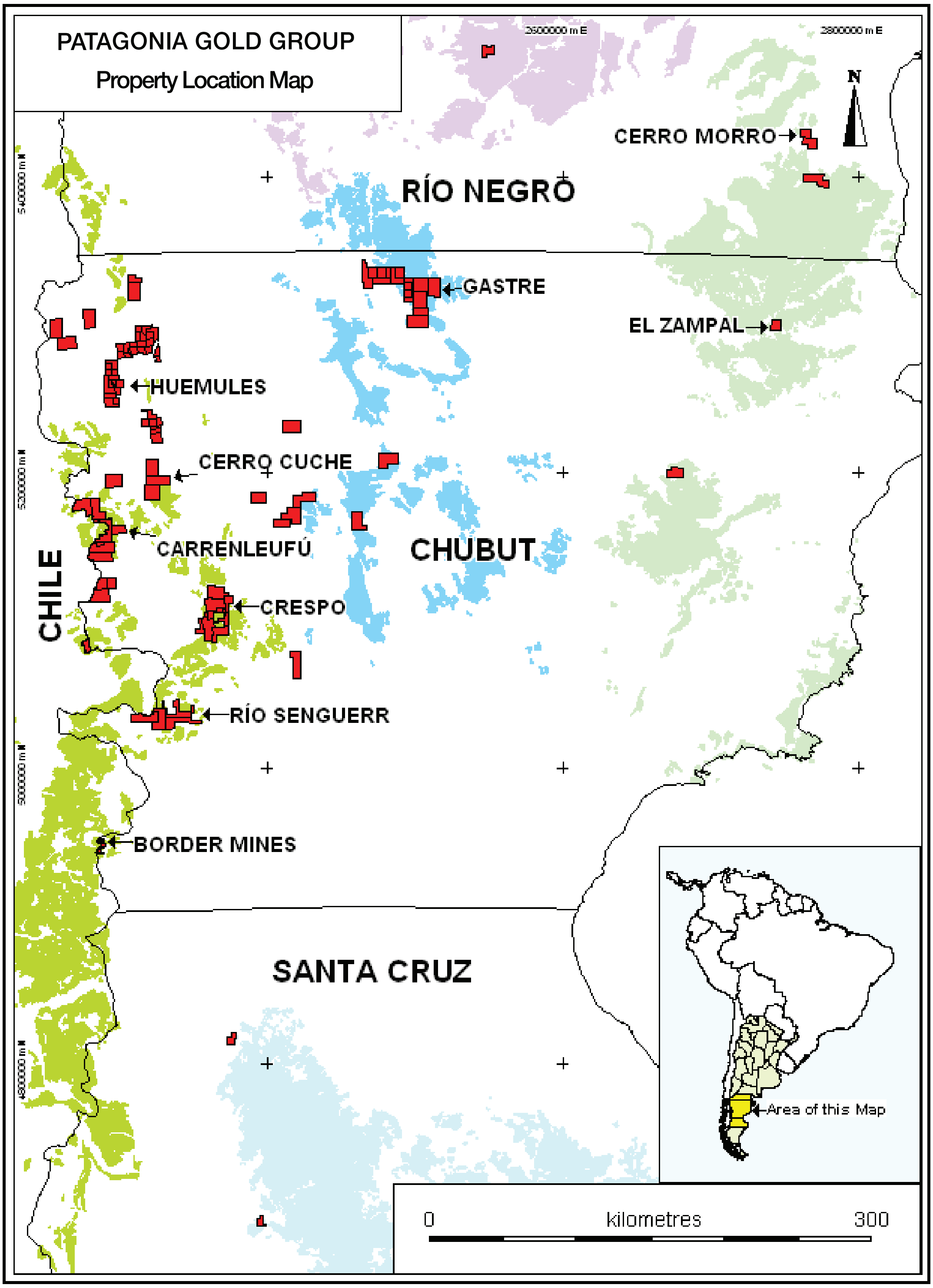


FIGURE 1 Patagonia Gold Group property location map in relation to Jurassic volcanic formations

Operations report

Summary

During the 2005-2006 period, Patagonia Gold Plc ("PGD") has been actively exploring the Patagonia regions of Argentina and Chile with veteran experienced managers leading a skilled team of competent geologists. Exploration Manager Richard Jemielita a PhD in Economic Geology with 23 years of academic, survey and industry experience worldwide, including 15 years in Latin America, joined the team in November.

PGD is advancing rapidly on two fronts, with acquisitions of promising properties, and with field exploration of our own properties.

Successful acquisitions this past year include the remaining 60 per cent. of the Huemules, Leleque and Nahuel Pan exploration companies. As a result of this acquisition, PGD now owns 100 per cent. of a large portfolio of highly prospective properties flanking the world class Esquel Project. In addition, PGD acquired the option to purchase Cherque I (Crespo Project – West Veins target) and Cañadon Verde (Carrenleufu Area) properties.

During the past year considerable efforts have been made with regard to property investigations in Northern Chile which, as a result, have opened the door for other opportunities in that region. Other Argentine properties offered in Rio Negro and Chubut have been reviewed, but rejected as they did not meet our expectations. At the present time, Confidentiality Agreements have been signed with several companies to review data on other promising properties in Patagonia.

On the exploration front, PGD is continuing to build and explore its large portfolio of highly prospective properties. Exploration of Patagonia Gold SA, our wholly owned subsidiary ("PGSA"), properties have led to the approval of six Environmental Impact Assessments in Chubut and Rio Negro and drilling of three targets in the Crespo Block, four targets in the Gastre Block, and the Cerro El Morro Project in eastern Rio Negro. Reconnaissance Exploration has led to the staking of five new Cateos covering highly prospective target areas in the province of Chubut. All of these new properties contain quartz veins with significant gold and/or silver mineralization in surface samples.

Considerable efforts have been exerted by PGSA staff in community relations, which has helped to enhance landowner relations, and has facilitated access by PGSA geologists to numerous areas for prospecting, both on PGSA properties and on "open ground." As well PGSA is leading the effort to organize a Mining Exploration group in Patagonia, in order to better communicate our activities, maximize the contribution of our sector to sustainable development, define the best practices for our industry, co-ordinate our work with the Provincial Mines Directorates, and improve general public knowledge and support for mining and exploration in Patagonia.

Acquisitions

Huemules Project:

With the purchase from Meridian of its 60 per cent. interest in Huemules, Leleque and Nahuel Pan, PGD now holds 100 per cent. interest in three exploration companies, Huemules SA with 14 mineral properties, either owned or under option, Leleque Exploracion SA, with 20 mineral properties, and Minera Nahuel Pan SA, with 11 mineral properties. Huemules SA properties include the historic Huemules mine, which produced bonanza grade gold in the early 1990's.

The Huemules fault-vein system, which controls epigenetic gold and silver mineralization, is over 3 kilometres long, and up to 20 metres wide (Figure 2). Mineralization consists of quartz stockworks (with minor carbonate) with pyrite, chalcopyrite, sphalerite and galena, accompanied by moderately intense chloritisation, silicification and clay.

Operations report continued

The Huemules vein system includes three sectors, designated South, Central and North. At Huemules South, the zone consists of a broad corridor of pyritized and irregularly argillized and/or silicified rock, up to 150 metres wide, containing multiple lenticular, gold-bearing, quartz veins, veinlets and quartz breccia zones. At Huemules North and Central, ore commonly occurs in a well-defined quartz breccia zone of 5 to 15 metres width, containing disseminated pyrite and chalcopyrite, which encloses a single discrete gold-bearing vein.

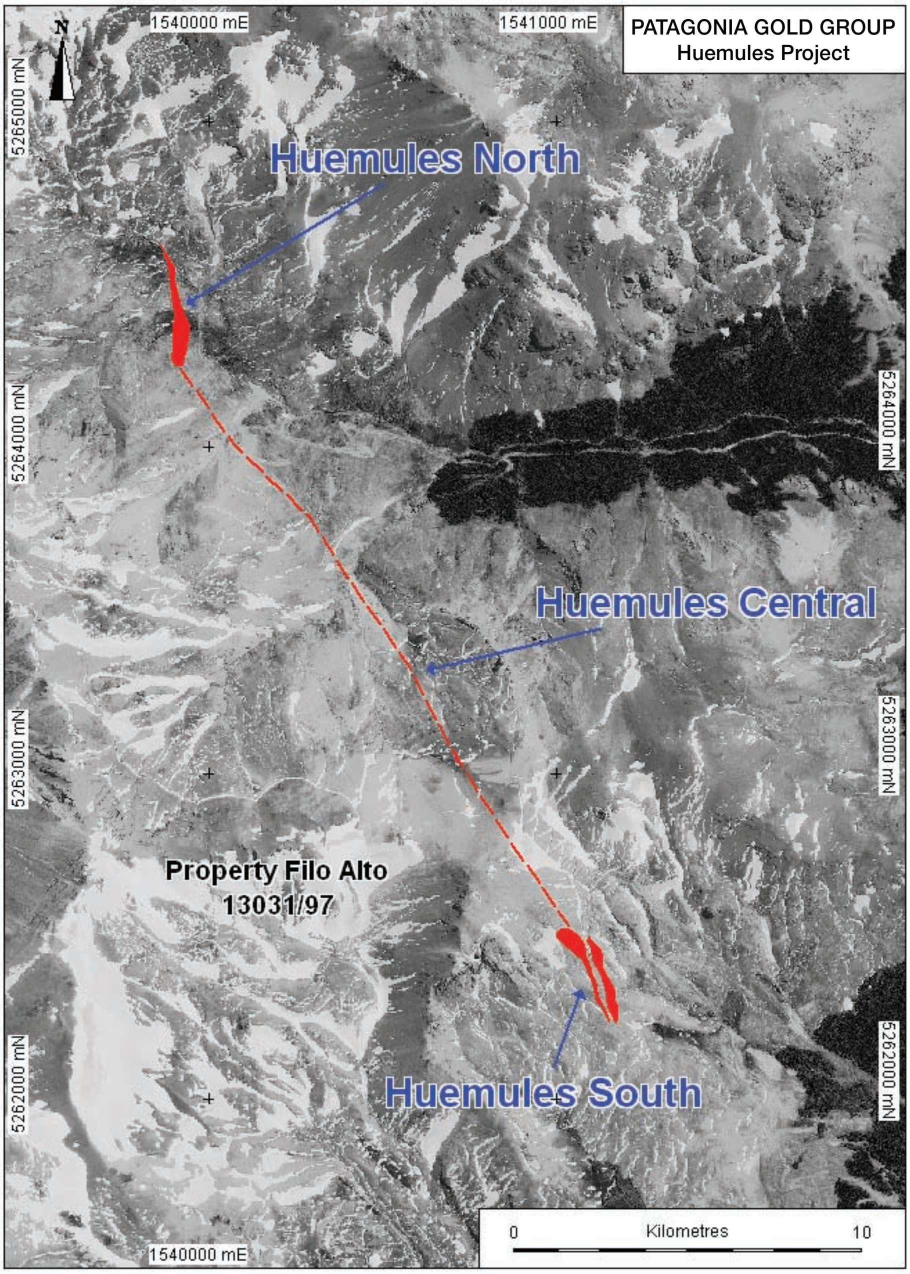


FIGURE 2 Huemules mineralized zones (red) superimposed on an aerial photograph of the area

Operations report continued

Drilling, completed at the historic Huemules Gold Mine in 2003, established the presence of a new high-grade shoot containing bonanza grade gold with substantial silver and base metals credits, including Hole HND-03 assaying 2,338.6 grammes per tonne gold ("g/t Au"), 1,020 grammes per tonne silver ("g/t Ag"), 1.22 per cent. copper ("Cu"), 6.17 per cent. lead ("Pb") and 9.14 per cent. zinc ("Zn") over 0.6 metres. The shoot remains open at depth with grades improving with depth.

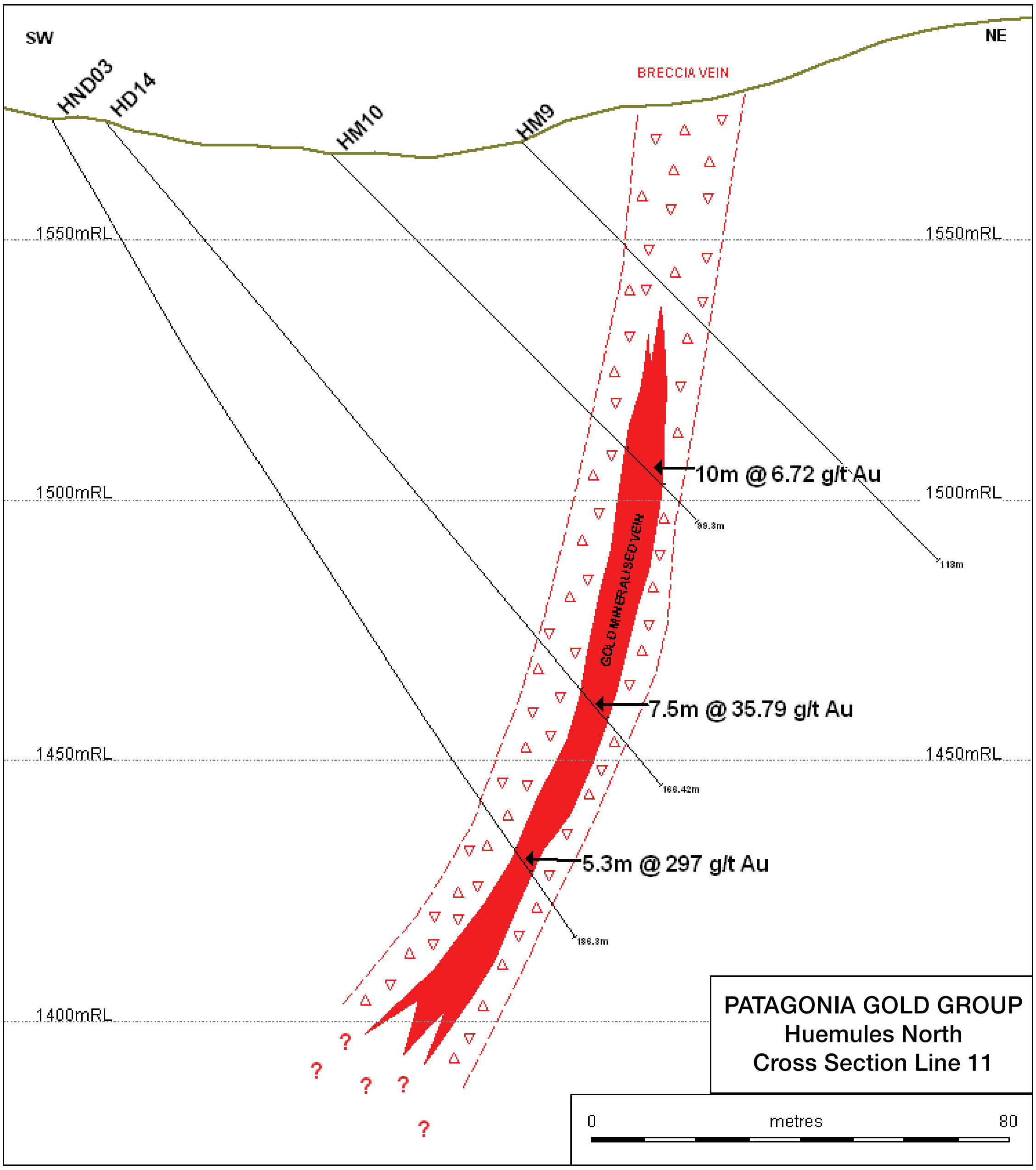


FIGURE 3 Huemules North cross section Line 11 showing the gold mineralized vein surrounded by vein breccia

Operations report continued

Following the acquisition of the Huemules properties, an evaluation of all the existing data and historical reports was initiated. All significant drill intercepts from the Huemules North high grade zone were reviewed (Figure 3), and sample pulps were sent for re-assay. Re-assays confirmed that the original values were accurate. Chlumsky, Armbrust and Meyer L.L.C. ("CAM") an international resources consulting and engineering group from Denver, Colorado, USA, has completed an independent resource review, and recommended a plan for expanding these resources. George Armbrust, consulting Geologist with CAM, reported an inferred resource of 364,657 tonnes @ 9.96 g/t Au, for a total of 116,773 oz of gold, distributed as below. This resource estimate was calculated at a 3.0 g/t Au cutoff grade, and a 1.5 metre minimum true width of vein.

Huemules resource estimate

Au cutoff grade 3.0 g/t

Area	Tonnes	Au g/t	Ag g/t	Cu %	Pb %	Zn %	Cont. oz Au	Cont. oz Ag	Cont. tonnes Cu	Cont. tonnes Pb	Cont. tonnes Zn
Huemules Norte	115,607	18.94	30.18	0.85	0.63	1.31	70,393	112,176	984	724	1,512
Huemules Sur	204,550	6.1	n/a	n/a	n/a	n/a	40,379	—	—	—	—
Huemules Centro	44,500	4.4	n/a	n/a	n/a	n/a	6,001	—	—	—	—
Total Huemules	364,657	9.96					116,773				

CAM also reported that "Exploration potential at Huemules remains very good with the majority of past work focused on limited areas around the high grade shoots. All the identified shoots remain open at depth, often with the best grades at the deeper levels, and a number of ore grade surface showings remain untested."

A contract for access with the land owner at Huemules was successfully negotiated and a work plan for restoration of the access roads and reclamation of the disturbance from previous mining and exploration activities was accepted. A request to re-open and extend the EIA of Meridian Gold from 2003 has been presented to the Mines Directorate of Chubut, and we are waiting for this approval.

Other acquisitions:

PGD has entered into a purchase option agreement with Meridian Gold for the exclusive right to acquire up to 100 per cent. of their exploration properties, Mina Cherque 1 and Cateo Cañadon Verde.

The Cherque I property, located within the PGSA Crespo Project, is host for the largest part of the West Veins target, with surface samples showing up to 64 g/t Au and 213 g/t Ag, as described in the following Crespo section. The second property, Cañadon Verde, is strategically situated in the centre of the highly prospective Carrenleufu Block, located in the Andean cordillera along the border with Chile in south western Chubut. These properties are currently under active exploration.

Operations report continued

Exploration

Summary

PGD is maintaining a high level of exploration activity in southern Argentina and Chile with up to ten 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 need basis.

Exploration emphasis during the past year has been on the completion of surface work followed by scout drilling on the Gastre and Crespo Projects, as well as Cerro El Morro Project in Rio Negro. Reconnaissance work focused on generating new projects through exploration mapping and sampling of numerous ASTER alteration targets in Chubut, as well as follow-up mapping and sampling of previously discovered anomalies.

Argentina

Advanced exploration properties

Crespo Project: The project is located in south-western Chubut 200 kilometres southeast of Esquel, the nearest town, Gobernador Costa, lies immediately to the north of the project. The area is predominantly arid and covered with low scrub with the main activity being sheep farming. The Project area consists of 9 cateos and 5 properties under option, covering an area of 535 square kilometres. The dominant geology of the area mostly comprises subdued outcrops of Jurassic andesite volcanics forming a gentle undulating topography that offers good access. Jurassic volcanics are proven hosts for low sulphidation epithermal gold veins across Patagonia (Figure 1) including Esquel and Cerro Vanguardia.

Reverse circulation drilling rig in operation at the West Veins zone, Crespo

Operations report continued

Exploration of the Crespo Block has reached an advanced stage and all areas to which access has been granted have been thoroughly explored, mapped and sampled. Targets generated by this work, not including the previously drilled Jasper Veins and Cabaña Veins, include the West Veins, North Veins and Paleo Surface areas.

The **West Veins** target consists of several sub-parallel quartz and quartz/carbonate veins up to 1.3 metres wide and extending some 850 metres in length in andesitic volcanics. These low/intermediate-sulphidation veins have produced surface samples reporting up to 64g/t Au and 213g/t Ag, with 5 samples reporting more than 10g/t Au. 17 RC drill holes were drilled on this target, for a total of 1,424 metres.

Preliminary assay results for the first 12 holes showed high values for zinc up to 2.7 per cent., and silver up to 46.8g/t, but sporadic values for gold generally below 1 g/t, although two intercepts of 16.18g/t and 1.01g/t gold were reported.

The **Paleosurface** area is a geochemically anomalous and silicified area of some 300 × 100 metres which has been thoroughly explored by soil sampling, geophysics, and trenching. Rock chip samples from outcrops here yielded low but anomalous gold and base metals values and high arsenic (>10,000 ppm), antimony (4420 ppm), and mercury (73.9 ppm). Geology, including fossil plant remains, and geochemistry indicate that a paleosurface hot spring environment is preserved here that may be related to epithermal mineralization. Potentially gold-silver mineralized veins or "feeder structures" could be preserved at depth. A drill program of six RC drill holes totaling 1135 metres was completed to intersect such veins or structures. Sample results are pending.

The **North Veins** target was defined in 2005, and consists of multiple northwest and northeast trending silicified structures with surface samples reporting values up to 7.5 g/t Au and 43.9 g/t Ag (separate samples), Pb up to 2.96 per cent., Zn up to 2540 ppm, and As >10,000 ppm. The mineralized structures are up to 1.5m in width, and cover a zone of about 1.5 kilometres in length. Ten RC drill holes have been drilled to test the down-dip potential of this target, totalling approximately 725 metres. Results are pending.

The discovery of new veins and the extension of known mineralization in the Crespo Project area confirm this as a gold rich district of high potential.

The ***Gastre Block:*** consisting of 10 cateos covering 900 square kilometres, is located in north central Chubut within the proven mineralized belt extending from IMA's Navidad silver project in the southeast to Aquiline's tenements containing the Calcatreu gold project in the northwest. The Gastre Block is considered extremely prospective for both base metal and precious metal mineralization. The mineralization discovered to date is related to a robust linear structure in the same orientation and along strike from Navidad to the east.

Mapping and sampling over the Copper Hill and Copper Dome areas in the southern part of the Gastre Block has been completed, including soil grid sampling and trenching where warranted. Best samples to date include values of up to 3.2 per cent. Cu and 170 g/t Ag in the Copper Hill area, and 1.05 g/t Au in the Copper Dome area. To the north of Copper Hill, several new Au anomalous silicified structures were identified, sampled, and trenched, with surface samples showing up to 5 g/t Au. Two kilometres to the south of Copper Hill, the "Sheeted Veins" area, where surface chip samples to date have reported values up to 10.35 g/t Au and 43.4 g/t Ag, has been sampled and mapped in detail. To test all of these exciting targets, a comprehensive scout drilling programme has been completed, including 14 drill holes totalling approximately 1430 metres. Results are pending.

Operations report continued

Chip Channel Sampling of Sheeted Vein Target – Gastre

A comprehensive stream sediment programme totalling some 510 stream sediment samples and 197 Bulk Leach Extractable Gold ("BLEG") samples was completed across the entire Gastre Block (109,322 hectares), and successfully identified mineralization in Properties 1, 17, 18 and 23, including the Copper Dome, Copper Hill and Sheeted Vein targets. All ASTER alteration targets in and surrounding the Gastre property have been systematically examined by our geologists, mapped, and sampled.

Operations report continued

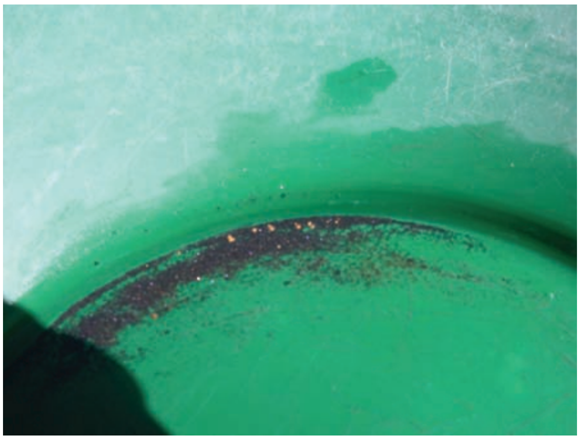
Property 36: The **Cerro El Morro** property which occupies 10,000 hectares in eastern Rio Negro is drill-ready, and PGSA has finally received the approval of an EIA for drilling. A geophysics (combined magnetic, IP and chargeability) survey over the veins has better defined the controlling structures, which in places have no surface expression. One of the veins is now traceable for more than a kilometre and contains values in the southeast of 3.67 g/t Au and 269 g/t Ag increasing to 24.6 g/t Au and 233 g/t Ag in the northwest, with geophysics indicating that the structure becomes considerably wider in the northwest.

A 2,000 metres scout drill programme commenced in May, and results are pending.

Other exploration properties

El Zampal: This new area is located some 120 kilometres northwest of Puerto Madryn and was identified from the ASTER remote sensing study as a visible alteration target. Due to the close proximity to Puerto Madryn and low elevation, it is a year-around prospect, which can be worked in the coming winter. Preliminary mapping and sampling has been completed, and mineralization is interpreted to be an east-west-trending silver-lead mineralized structure, with an outcrop area of approximately 500 × 500 metres. The subtle outcropping structures form up to 30 metres wide zones that are open along strike (under thin alluvial cover) in both directions and comprise intense silicification, brecciation, and quartz-opaline silica veining, along with strong manganese – iron staining and gossan. Surface samples reported values of up to 114 g/t Ag and 1.88 per cent. Pb. The area is largely covered with alluvial sediments, so more detail mapping, sampling and trenching is required to know the full potential of this target.

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 (Figure 1). A stream sediment survey including panned concentration of stream bed sediments and large sediment samples for BLEG analysis over this remote area returned several panned concentrate samples >1 g/t Au and up to 6 g/t Ag as well as anomalous BLEG samples in different drainages.



Gold panning at Carrenleufu

Visible gold in panned concentrates was observed. Follow-up work of the southern anomalous drainage identified more visible gold in panned concentrates. Exploration efforts are continuing to identify the source of this gold mineralization as well as investigating other anomalies in the property.

Operations report continued

Cerro Cuche: Several campaigns of initial reconnaissance and sampling have been completed within this large and exciting new property located southwest of Tecka in Chubut. Alluvial gold operators have been working in drainages emanating from this property in years past. Initial work has identified significant quartz veins, vein stockworks, silicification and sulphide mineralization in the south sector, which have reported assay values of up to 1.305 g/t Au, 237 g/t Ag, 2.79 per cent. copper, 1.4 per cent. lead, 0.63 per cent. zinc, and 496 ppm bismuth. Work is continuing to cover the central and northern sectors before weather and snow cover close the season.

Chile

Exploration: A regional targeting study of Chilean Patagonia based on alteration, structure, and available (government) geochemical information was completed by our geologists in Chile, which identified 60 possible targets. The best 15 targets were selected for follow-up work this field season. To date, the most promising find is the La Poza – Paulina area (Target 14) located near Fachinal west of Chile Chico. Patagonia Gold SCM ("PGSCM") tenements Delta 1-16 have been placed over this area.

Mineralization at La Poza – Paulina is stratiform and stratabound carbonate replacement style lead-zinc-silver. High silver values on PGD claims have been found in float (up to 396 g/t Ag) and in a massive galena outcrop (529 g/t Ag and 25.6 per cent. Pb). Another outcrop located stratigraphically higher reported 84 g/t Ag, 5.26 per cent. Pb, and 0.54 per cent. Zn in a volcaniclastic horizon. There is significant potential here for discovery of more carbonate replacement style lead-silver mineralization, and these types of deposits can attain significant tonnages and grades.

Epithermal quartz-silica vein structures carrying anomalous gold, silver, arsenic and mercury values have also been identified on our Pedregoso claims located south of Chile Chico and southeast of Coeur d'Alene's Cerro Bayo silver-gold mine (reported reserves of 0.45 million ounces Au and 21 million ounces Ag). These exposures are interpreted to represent a higher level in the epithermal system relative to the Cerro Bayo deposits so they have potential at depth and may, in fact, be a lateral extension of the Cerro Bayo epithermal system.

Land Holdings

PGD, through its three 100 per cent. controlled subsidiaries, PGSA and Minamalú SA in Argentina, and PGSCM in Chile, holds exploration or mineral exploitation permits or has under option or option to purchase the following property areas:

Argentina

- Patagonia total 5,834 square kilometres

Chile

- Region XI 88 square kilometres

Report of the Directors

The Directors present their report and the audited financial statements for the year ended 31 December 2005.

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 4 to 13.

Placing of new ordinary shares

On 17 January 2006, the Company announced that it had placed 15,625,000 new ordinary shares of 1p each at a price of 16p per share to finance working capital and exploration expenditure.

Acquisition of Minamalú

On 8 December 2004, the Company completed the acquisition of the entire issued share capital of Minamalú SA ("Minamalú"), an Argentine exploration company which held 40 per cent. interests in each of Huemules SA, Leleque Exploracion SA and Minera Nahuel Pan SA.

On 28 October 2005, Minamalú acquired the outstanding 60 per cent. interests in Huemules SA, Leleque Exploracion SA and Minera Nahuel Pan SA for a further consideration of US$1,500,000. Following these acquisitions, the Company owns 100 per cent. of Minamalú and its subsidiaries.

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 (2004: *£nil*).

Substantial shareholdings

In addition to the interest of C J Miguens disclosed below, at 8 May 2006, the Company had been notified of, or was 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	18,067,009	6.74
Cristina Miguens	16,184,095	6.04
Diego Miguens	16,184,094	6.04
Chase Nominees Ltd	12,041,400	4.49
Merrill Lynch Gold & General Fund	11,000,000	4.11

Report of the Directors continued

Political and charitable contributions

The Group made no political or charitable donations during the year (2004: *£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.

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 and at the date of this report, were as follows:

Ordinary Shares of 1p:	18 May 2006	31 December 2005	31 December 2004
Sir John Craven	2,562,500	1,000,000	1,000,000
C J Miguens	39,608,950	36,940,382	36,940,382
W H Humphries	6,890,625	6,500,000	5,875,000
M J Sale	1,450,687	1,450,687	1,450,687
G Tanoira	3,995,437	3,995,437	3,995,437
R Ö Prickett	6,374,888	5,984,263	5,984,263

As referred to in note 10 to the financial statements, 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, and were outstanding at 31 December 2004 and 2005, and at the date of this Directors' Report.

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

No options were exercised by the Directors during the year. At 31 December 2005, 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.

Report of the Directors continued

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 6.125p and 12.275p during the year. The closing mid-market price of the Company's ordinary shares on 31 December 2005 was 9.5p (31 December 2004: 12.25p).

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, a member of the Board of Managing Directors of the Deutsche Bank Group and a director of a number of other companies.

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

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.

Report of the Directors continued

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, Non-executive Chairman of Sanatana Diamonds Inc and a Non-Executive Director of The Capital Pub Company PLC and Asian Growth Properties Limited.

Marc J Sale *(Non-Executive Director)* is a member of the Australian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists with over 25 years' experience with mineral exploration and development companies. He managed the operations of the Company from May 2002 to June 2005 and, prior to joining the Company, was Project Manager for Brancote Holdings PLC's Esquel Gold and Silver Project in Argentina.

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.

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 established Committees to fulfil specific functions:

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.

The *Remuneration Committee* chaired by Mr Prickett, comprises the Non-Executive Directors. Meetings are convened to monitor, assess and report to the full Board on all aspects and policy relating to the remuneration of Executive 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 an appropriate level of 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. Site visits are made as required both by certain Directors and senior management. In this way the key risk areas can be monitored effectively and specialist expertise applied in a timely and productive manner.

Report of the Directors continued

Directors' service agreements

Sir John Craven, Mr Miguens, Mr Prickett and Mr Sale have service arrangements which provide for three months' notice of termination and those of Mr Humphries 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 Directors who retire by rotation are William Humphries and Richard Prickett who, being eligible, offer themselves for re-election.

Resolution 5 is proposed as an Ordinary Resolution to increase the authorised share capital of the Company from £3,000,000 to £3,500,000 by the creation of a further 50,000,000 Ordinary Shares of 1p each ranking pari passu in all respects as one class of shares with the existing Ordinary Shares in the capital of the Company. This will enable the Directors to seek increased authorities for the issue of new ordinary shares covered by resolutions 6 and 7 below.

Resolution 6 is proposed as an Ordinary Resolution to provide the Directors with authority to issue new ordinary shares up to an aggregate nominal value of £820,935.65, representing 30.64 per cent of the Company's present issued share capital, such authority replacing the resolution passed on 13 January 2004 and to expire on 22 June 2011. Other than any issues of Ordinary Shares which may be required to be made pursuant to the Share Incentive Plans, the Directors have no present intention of issuing any of the authorised but unissued Ordinary Share capital of the Company, but believe it to be in the best interests of the Company for the Board to be granted this authority to take advantage of appropriate opportunities.

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 £820,935.65 representing 30.64 per cent. of the present issued share capital. This Resolution, if approved, will authorise to the Board, for the period expiring 22 June 2011, to disapply statutory pre-emption rights up to the level of the Directors' general authority to allot the Company's ordinary shares. 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.

By Order of the Board

J P Gorman

Secretary

18 May 2006

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

United Kingdom company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group and parent company financial statements in accordance with UK Accounting Standards.

The Group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the Group and the parent company and of the profit or loss for that period.

In preparing these 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 and the parent company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Report of the independent auditor

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 Group and parent company financial statements (the "financial statements") of Patagonia Gold Plc for the year ended 31 December 2005 which comprise the Group profit and loss account, the Group and Company balance sheets, the Group cash flow statement, the Group statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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 auditors' 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' responsibilities for preparing the Directors' report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of Directors' responsibilities on page 19. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 other transactions is not disclosed.

We read other information contained in the Directors' report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and 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.

Report of the independent auditor continued

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Group's and the parent company's affairs as at 31 December 2005 and of the Group's loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

Chartered Accountants
Registered Auditor
London

18 May 2006

Consolidated profit and loss account

for the year ended 31 December 2005

	Note	2005 £	*2004 £*
Administrative expenses and exploration costs		(2,119,173)	*(2,314,904)*
Amortisation of goodwill	8	(793,000)	*(757,520)*
Operating loss		(2,912,173)	*(3,072,424)*
Share of operating loss in associate	10	(29,665)	—
Total operating loss:			
Group and share of associate		(2,941,838)	*(3,072,424)*
Interest receivable	2	85,185	*54,332*
Loss on ordinary activities before taxation	3	(2,856,653)	*(3,018,092)*
Tax on loss on ordinary activities	6	—	—
Retained loss for the year	18	(2,856,653)	*(3,018,092)*
Loss per share (basic and diluted)	7	(1.1p)	*(1.3p)*

Consolidated balance sheet

at 31 December 2005

	Note	2005 £	*2004* *£*
Fixed assets			
Intangible assets – goodwill	8	15,054,025	*14,865,923*
Tangible fixed assets	9	62,379	*45,240*
Investments	10	85,210	*85,210*
Total fixed assets		15,201,614	*14,996,373*
Debtors			
Amounts falling due over one year	11	271,987	*235,663*
Current assets			
Debtors	12	183,877	*106,692*
Cash at bank and in hand	13	147,965	*3,299,916*
		331,842	*3,406,608*
Creditors: amounts falling due within one year	14	(833,161)	*(787,134)*
Net current (liabilities)/assets		(501,319)	*2,619,474*
Total assets less current liabilities		14,972,282	*17,851,510*
Creditors: Amount falling due after more than one year	15	(22,105)	*(61,340)*
Net assets		14,950,177	*17,790,170*
Capital and reserves			
Called up share capital	16	2,522,814	*2,522,814*
Share premium account	17	20,577,439	*20,577,439*
Profit and loss account	18	(8,150,076)	*(5,310,083)*
Equity shareholders' funds	19	14,950,177	*17,790,170*

These financial statements were approved by the Board of Directors on 18 May 2006
and were signed on its behalf by:

Gonzalo Tanoira
Director

The notes on pages 26 to 40 form part of these financial statements.

Company balance sheet
at 31 December 2005

	Note	2005 £	2004 £
Fixed assets			
Tangible fixed assets	9	478	*4,103*
Investments	10	19,967,723	*17,836,775*
		19,968,201	*17,840,878*
Current assets			
Debtors	12	798,978	*500,357*
Cash at bank and in hand	13	97,151	*3,200,992*
		896,129	*3,701,349*
Creditors: amounts falling due within one year	14	(673,513)	*(653,806)*
Net current assets		222,616	*3,047,543*
Net assets		20,190,817	*20,888,421*
Capital and reserves			
Called up share capital	16	2,522,814	*2,522,814*
Share premium account	17	20,577,439	*20,577,439*
Profit and loss account	18	(2,909,436)	*(2,211,832)*
Equity shareholders' funds	19	20,190,817	*20,888,421*

These financial statements were approved by the Board of Directors on 18 May 2006 and were signed on its behalf by:

Gonzalo Tanoira
Director

The notes on pages 26 to 40 form part of these financial statements.

Consolidated statement of total recognised gains and losses

for the year ended 31 December 2005

	2005 £	2004 £
Loss for the financial year	(2,856,653)	*(3,018,092)*
Net exchange difference on the retranslation of net investments	16,660	*(188,319)*
Total gains and losses since last annual report	(2,839,993)	*(3,206,411)*

Consolidated cash flow statement

for the year ended 31 December 2005

	Note	2005 £	2004 £
Net cash outflow from operating activities	20	(2,171,990)	*(2,590,954)*
Returns on investments and servicing of finance	2	85,185	*54,332*
Capital expenditure and financial investment	21	(220,731)	*(12,465)*
Acquisitions and disposals	21	(844,415)	*70*
Net cash outflow before use of liquid resources and financing		(3,151,951)	*(2,549,017)*
Management of liquid resources	21	2,980,777	*(138,630)*
Financing		—	*2,765,514*
(Decrease)/increase in cash in the year	13	(171,174)	*77,867*

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.

In common with many exploration companies, the Company raises finance for its exploration and appraisal activities in discrete tranches. Further funding is raised as and when required. However there is no guarantee that additional funding will be forthcoming.

The Directors are of the opinion that the cash raised in the Group share placement which was undertaken on 24 January 2006, and is disclosed in note 25, will be adequate to enable the Group to undertake its planned exploration and appraisal activities for the next twelve months and accordingly have prepared the accounts on a going concern basis.

Basis of consolidation

The Group accounts include the Company and its subsidiary undertakings made up to 31 December 2005. 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.

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. Exploration costs on properties where insufficient exploration has taken place to ascertain future recoverability are expensed. Where mining properties are abandoned, the deferred expenditure is written off in full.

Intangible assets – 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 or termination is calculated after charging the unamortised amount of any related goodwill.

Principal accounting policies continued

Only mineral reserves and resources that in the opinion of the Directors can be reliably valued (usually proven reserves) are recognised separately in the assessment of fair values on acquisition. Other potential reserves and resources and mineral rights are not separately recognised and accordingly goodwill may include amounts in respect of these items.

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

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.

Deferred tax assets are recognised only when there is evidence of sufficient future taxable profits for the reversal of timing differences to affect the future amounts of tax payable.

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.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Principal accounting policies continued

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.

New accounting standards

In these financial statements the following new standards have been adopted for the first time:

FRS 17 'Retirement benefits'

FRS 21 'Events after the balance sheet date'

FRS 22 'Earnings per share'

FRS 25 'Financial Instruments: Disclosure and Presentation' – presentation requirements.

The adoption of the above mentioned accounting standards has not had a material impact on the financial statements.

Notes to the financial statements

for the year ended 31 December 2005

1. Segmental analysis

	Loss before taxation		Net assets/(liabilities)	
	2005	*2004*	2005	*2004*
	£	*£*	£	*£*
United Kingdom	(744,256)	*(782,554)*	438,455	*2,712,033*
Argentina and Chile	(1,946,995)	*(2,106,303)*	14,497,712	*15,082,581*
New Zealand	(165,402)	*(129,235)*	14,010	*(4,444)*
	(2,856,653)	*(3,018,092)*	14,950,177	*17,790,170*

2. Interest receivable

	2005	*2004*
	£	*£*
Interest receivable	85,185	*54,332*

3. Notes to the profit and loss account

	2005	*2004*
	£	*£*
(a) The loss on ordinary activities before taxation is stated after charging:		
Operating lease charges: land and buildings	21,518	*28,272*
Depreciation of tangible fixed assets	40,892	*20,296*
Amortisation of goodwill	793,000	*757,520*
Auditors' remuneration:		
– audit (Company: £8,400 (2004: £8,000))	52,295	*47,500*
– other fees paid to the auditors and their associates	2,250	*6,250*

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 2005

4. Staff numbers and costs

	2005 £	*2004 £*
Staff: (excluding Directors)		
Wages and salaries	154,250	*116,945*
Social security costs	20,159	*24,717*
	174,409	*141,662*

	2005 Number	*2004 Number*
The average number of employees (excluding Directors) by location during the year:		
Argentina and Chile – exploration	14	*17*
United Kingdom – administration	1	*1*

5. Remuneration of Directors

Directors emoluments:

	2005 £	*2004 £*
Sir John Craven[(1)]	25,000	*12,500*
European Sales Co Ltd for the services of R Ö Prickett	40,000	*65,000*
MM-E for the services of W H Humphries	25,000	*25,000*
Carlos Miguens	28,250	*28,250*
Marc Sale[(2)]	137,521	*105,000*
Gonzalo Tanoira	34,750	*34,750*
	290,521	*270,500*

(1) Appointed 24 June 2004

(2) The remuneration of Mr Sale includes £31,500 (2004: £nil) in respect of payments into a defined contribution pension scheme on his behalf, and an amount of £1,021 (2004: £nil) paid in respect of a health insurance premium. Apart from these amounts, no Director received any bonus or benefits in kind in 2005 (2004: £nil).

Notes to the financial statements continued

for the year ended 31 December 2005

6. Tax on loss on ordinary activities

The tax charge for the year was £nil *(2004: £nil)*.

Factors affecting the tax charge for the year

	2005 £	*2004 £*
Loss on ordinary activities before taxation	(2,856,653)	*(3,018,092)*
Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 30 per cent.	(856,996)	*(905,428)*
Different local tax rates	(65,286)	*(66,080)*
Expenses not deductible for tax purposes	6,066	*14,166*
Losses and other timing differences carried forward to future periods	916,216	*957,342*
Current tax charge for the year	—	—

Factors that may affect future tax charges

The Group has losses and other timing differences of approximately £7,000,000 (2004: £5,600,000) which may be utilised against future tax liabilities. A deferred tax asset has not been recognised in respect of these amounts.

7. Loss per share

	£	Weighted average number of shares	2005 per share	£	Weighted average number of shares	*2004 per share*
Loss attributable to shareholders	(2,856,653)	252,281,435	(1.1p)	(3,018,092)	227,261,899	(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 2005

8. Intangible assets – goodwill

	£
Cost	
At 1 January 2005	15,649,618
Additions	981,102
At 31 December 2005	16,630,720
Amortisation	
At 1 January 2005	783,695
Charge for the year	793,000
At 31 December 2005	1,576,695
Net book value	
At 31 December 2005	15,054,025
At 31 December 2004	14,865,923

The recovery of goodwill is uncertain and is dependent on achieving commercial production or realising value through other means such as disposals.

9. Tangible fixed assets

	GROUP				COMPANY
	Office equipment £	Machinery and equipment £	Vehicles £	Total £	Office equipment £
Cost					
At 1 January 2005	24,015	19,739	26,388	70,142	12,760
Additions	11,452	20,236	20,162	51,850	—
Exchange differences	2,612	3,261	4,385	10,258	—
At 31 December 2005	38,079	43,236	50,935	132,250	12,760
Depreciation					
At 1 January 2005	11,042	5,384	8,476	24,902	8,657
Charge for the year	7,534	16,540	16,818	40,892	3,625
Exchange differences	963	1,139	1,975	4,077	—
At 31 December 2005	19,539	23,063	27,269	69,871	12,282
Net book value					
At 31 December 2005	18,540	20,173	23,666	62,379	478
At 31 December 2004	12,973	14,355	17,912	45,240	4,103

Notes to the financial statements continued

for the year ended 31 December 2005

10. Investments

Share in joint venture and associated undertakings

GROUP

	£
At 1 January 2005	(61,340)
40 per cent. share of net loss	(29,665)
Reversal arising from acquisition by Minamalú of outstanding interests in associated undertakings	91,005
At 31 December 2005	—

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.

On 28 October 2005, Minamalú acquired the outstanding 60 per cent. interests in Huemules SA, Leleque Exploracion SA and Minera Nahuel Pan SA for a further consideration of US$1,500,000. Following these acquisitions, the Company owns 100 per cent. of Minamalú and its subsidiaries.

The following information is disclosed in accordance with FRS9 'Associates and Joint Ventures' and all amounts represent the Group's share.

	2005 Interest in associates £	*2004 Interest in associates £*
Operating loss	(29,665)	*—*
Interest receivable	—	*—*
Retained loss for the year	(29,665)	*—*
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)*

Notes to the financial statements continued

for the year ended 31 December 2005

10. Investments continued

	2005 £	*2004 £*
Other investments	85,210	*85,210*

COMPANY

	£
Investments	
At 1 January 2005	17,836,775
Capital contributions during the year	1,286,353
Addition on acquisition of Minamalú SA	844,595
At 31 December 2005	19,967,723

Company	Country of incorporation	Percentage share-holding	Nature of business	Group companies £	Other £	2005 £	*2004 £*
Pensacola Holdings Limited	BVI*	100	Holding Co.	2,087,885	—	2,087,885	*1,375,708*
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.	16,235,258	—	16,235,258	*15,855,556*
Minamalú SA	Argentina	100†	Holding Co.	1,559,069	—	1,559,069	*520,000*
Other				—	85,210	85,210	*85,210*
At 31 December 2005				19,882,513	85,210	19,967,723	*17,836,775*

* British Virgin Islands

† Including 5 per cent. held indirectly

At 31 December 2005, the Company had 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	100
Leleque Exploración SA	Minamalú SA	Argentina	Exploration	100
Minera Nahuel Pan SA	Minamalú SA	Argentina	Exploration	100

** As described in note 25, the Company entered into an agreement on 22 December 2005 to dispose of all the issued and outstanding shares of HPD New Zealand Limited which were held by the Company's wholly owned subsidiary, HPD Investments Limited. This disposal was completed on 29 March 2006.

At 31 December 2005 the market value of the Group's other investments was £88,431 (2004: *£67,405*).

Notes to the financial statements continued

for the year ended 31 December 2005

11. Debtors – amounts falling due after more than one year

	GROUP		COMPANY	
	2005	*2004*	2005	*2004*
	£	*£*	£	*£*
Recoverable VAT	271,987	*235,663*	—	—
	271,987	*235,663*	—	—

12. Debtors – amounts due within one year

	GROUP		COMPANY	
	2005	*2004*	2005	*2004*
	£	*£*	£	*£*
Amounts owed by associates	—	*9,344*	—	—
Amounts owed by Landore Resources Limited (note 26)	547	*5,615*	547	*5,615*
Amounts owed by subsidiaries	—	—	724,799	*424,824*
Recoverable VAT	10,355	—	10,355	*11,746*
Other debtors	140,838	*77,998*	44,355	*44,437*
Prepayments and accrued income	32,137	*13,735*	18,922	*13,735*
	183,877	*106,692*	798,978	*500,357*

13. Cash

	GROUP		COMPANY	
	2005	*2004*	2005	*2004*
	£	*£*	£	*£*
Bank and cash balances	53,742	*224,916*	2,928	*125,992*
Short term deposits	94,223	*3,075,000*	94,223	*3,075,000*
	147,965	*3,299,916*	97,151	*3,200,992*

14. Creditors: amounts falling due within one year

	GROUP		COMPANY	
	2005	*2004*	2005	*2004*
	£	*£*	£	*£*
Convertible Loan Notes (note 10)	520,000	*520,000*	520,000	*520,000*
Sundry creditors	164,750	*173,386*	50,763	*40,057*
Accruals and deferred income	148,411	*93,748*	102,750	*93,749*
	833,161	*787,134*	673,513	*653,806*

Notes to the financial statements continued

for the year ended 31 December 2005

15. Creditors: amounts falling due after more than one year

	GROUP		COMPANY	
	2005	*2004*	2005	*2004*
	£	*£*	£	*£*
Sundry creditors	22,105	—	—	—
Provision for deficit of associates (note 10)	—	*61,340*	—	—
	22,105	*61,340*	—	—

Sundry creditors are all due after more than five years.

16. Called up share capital

	2005	*2004*
	£	*£*
Authorised		
300,000,000 (2004: 300,000,000) ordinary shares of 1 pence each	3,000,000	*3,000,000*
Allotted, called up and fully paid		
252,281,435 (2004: 252,281,435) ordinary shares of 1 pence each	2,522,814	*2,522,814*

There were no allotments of issued share capital of the Company during the year. Since the year end, the Company has placed 15,625,000 new ordinary shares of 1p each at a price of 16p per share to finance working capital and exploration expenditure.

Share options outstanding at 31 December 2005 were as follows:

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
2,305,000	01.04.13	13.5p
9,687,000	18.02.14	15.75p
1,500,000	23.06.14	13.75p
1,000,000	22.11.14	14.75p
2,522,814	21.03.08	15.0p
725,000	21.06.15	7.5p

17. Share premium account

GROUP AND COMPANY

	£
At 1 January and 31 December 2005	20,577,439

Notes to the financial statements continued

for the year ended 31 December 2005

18. Profit and loss account

	GROUP £	COMPANY £
At 1 January 2005	(5,310,083)	(2,211,832)
Retained loss for the year	(2,856,653)	(697,604)
Exchange differences arising on retranslation	16,660	—
At 31 December 2005	(8,150,076)	(2,909,436)

19. Reconciliation of movements in equity shareholders' funds

	2005 £	*2004 £*
GROUP		
Loss attributable to shareholders	(2,856,653)	*(3,018,092)*
Exchange differences arising on retranslation	16,660	*(188,319)*
Issues of shares	—	*2,765,514*
Net decrease in shareholders' funds	(2,839,993)	*(440,897)*
Equity shareholders' funds at beginning of year	17,790,170	*18,231,067*
Equity shareholders' funds at end of year	14,950,177	*17,790,170*

	2005 £	*2004 £*
COMPANY		
Loss attributable to shareholders	(697,604)	*(809,831)*
Issues of shares	—	*2,765,514*
Net (decrease)/increase in shareholders' funds	(697,604)	*1,955,683*
Equity shareholders' funds at beginning of year	20,888,421	*18,932,738*
Equity shareholders' funds at end of year	20,190,817	*20,888,421*

Notes to the financial statements continued

for the year ended 31 December 2005

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

	2005 £	*2004 £*
Operating loss: Group (2004: Group and share of joint venture and associate)	(2,941,838)	*(3,072,424)*
Depreciation and amortisation	833,892	*777,816*
(Increase)/decrease in debtors	(36,829)	*(263,825)*
(Decrease)/increase in creditors	(78,985)	*(32,521)*
Increase in other provisions	51,770	*—*
Net cash outflow from operating activities	(2,171,990)	*(2,590,954)*

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

	2005 £	*2004 £*
Returns on investments and servicing of finance		
Bank interest received	85,185	*54,332*
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(51,850)	*(12,465)*
Funding of associate	(168,881)	*—*
	(220,731)	*(12,465)*
Acquisitions and disposals		
Acquisition of additional interest in associates	(844,595)	*—*
Cash acquired on acquisition of Minamalú SA	180	*70*
	(844,415)	*70*
Management of liquid resources		
Withdrawals from/(increase to) short term deposits	2,980,777	*(138,630)*
Financing		
Issue of share capital	—	*2,800,750*
Expenses in connection with the issue of shares	—	*(35,236)*
	—	*2,765,514*

Notes to the financial statements continued

for the year ended 31 December 2005

22. Acquisition

Year ended 31 December 2005

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 of £520,000 unsecured convertible loan notes 2007 of Patagonia Gold Plc.

On 28 October 2005, the outstanding 60 per cent. shareholdings in the above three associates of Minamalú were acquired for a further consideration of US$1,500,000 (£844,595).

	Net book value £	Fair value adjustment £	Fair value of net assets £
Intangible assets	1,249,628	(1,249,628)	—
Tangible fixed assets	847	(847)	—
Non current debtors	24,170	—	24,170
Amounts owed to Group	(76,625)	—	(76,625)
Cash at bank and in hand	180	—	180
Creditors	(175,237)	—	(175,237)
Net assets/(liabilities)	1,022,963	(1,250,475)	(227,512)
Existing 40 per cent. of net liabilities			91,005
Net liabilities acquired			(136,507)
Cash paid as consideration			844,595
Goodwill arising on acquisition			981,102

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

23. Analysis of net funds

	At 1 January 2005 £	Cashflow £	At 31 December 2005 £
Bank and cash balances	224,916	(171,174)	53,742
Short term deposits	3,075,000	(2,980,777)	94,223
Convertible loan notes	(520,000)	—	(520,000)
Net funds	2,779,916	(3,151,951)	(372,035)

There were no material differences between the fair value and the book value of the Group's financial assets and liabilities as at 31 December 2005 and 31 December 2004.

Notes to the financial statements continued

for the year ended 31 December 2005

24. Operating lease commitments

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

	2005 £	*2004 £*
GROUP AND COMPANY		
Operating leases which expire:		
Within one year	25,167	*—*
Within two to five years	—	*28,272*
	25,167	*28,272*

25. Post balance sheet events

Disposal of HPD New Zealand Limited

The Company announced on 23 December 2005 that an agreement had been reached on 22 December 2005 for Glass Earth Limited, a New Zealand company, to acquire all the issued and outstanding shares of HPD New Zealand Limited which were held by the Company's wholly owned subsidiary, HPD Investments Limited. The consideration payable by Glass Earth Limited is 12,665,000 common shares and 6,332,500 share warrants with a strike price of C$0.25 which are exercisable for a period of two years. The disposal was completed on 29 March 2006, when the closing share price for Glass Earth Limited was C$0.17 per share.

Share Placing

On 17 January 2006, the Company announced that it has placed 15,625,000 new ordinary shares of 1p each in the Company at a price of 16p per share to finance working capital and exploration expenditure. Certain of these shares were placed with Directors, as set out below.

Director	Placing shares subscribed
Sir John Craven	1,562,500
Carlos Miguens	2,668,568
William Humphries	390,625
Richard Prickett	390,625

26. Related parties

Landore Resources Limited ("Landore")

During the year the Company recharged £40,805 (2004: *£5,759*) of costs, consisting mainly of accommodation and travel expenses, to Landore and there was a balance owing to the Company from Landore at 31 December 2005 of £547 (2004: *£5,615*).

Landore is a related party because Mr Humphries and Mr Prickett are Directors and shareholders.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Patagonia Gold Plc will be held on Thursday, 22 June 2006 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 6 will be proposed as Ordinary Resolutions and in the case of resolution 7 will be proposed as a Special Resolution:

ORDINARY BUSINESS

1. To receive and, if approved, adopt the financial statements of the Company for the year ended 31 December 2005 and the reports of the Directors and auditors thereon.

2. To re-elect Mr William H Humphries, Managing Director, who retires by rotation, as a Director of the Company.

3. To re-elect Mr Richard Ö Prickett, Non-executive Director and Chairman of the Audit and Remuneration Committees, who retires by rotation, as a Director of the Company

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.

SPECIAL BUSINESS

5. THAT the authorised share capital of the Company be increased from £3,000,000 to £3,500,000 by the creation of a further 50,000,000 ordinary shares of 1p each ranking *pari passu* in all respects as one class of shares with the existing ordinary shares in the capital of the Company.

6. THAT (conditional upon the passing of the ordinary resolution numbered five above) the Directors be generally and unconditionally authorised (in substitution for any existing such authorities) for the purposes of Section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities up to an aggregate nominal amount of £820,935.65 provided that this authority shall expire on 22 June 2011 unless revoked or renewed before that date and that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority conferred hereby has expired and in this resolution the expression "relevant securities" and references to the allotment of relevant securities shall bear the same respective meanings as in Section 80 of the Act.

7. THAT (conditional upon the passing of the ordinary resolution numbered six above) 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 resolution six above 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

Notice of Annual General Meeting continued

(b) otherwise than pursuant to sub-paragraph (a) above, allotments of equity securities for cash up to an aggregate nominal amount of £820,935.65.

and shall expire on 22 June 2011 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 2006

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 2006 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 2006 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).

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 Thursday, 22 June 2006 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	Abstain
1. Ordinary Resolution to receive and adopt the 2005 accounts			
2. Ordinary Resolution to re-elect Mr W H Humphries			
3. Ordinary Resolution to re-elect Mr R Ö Prickett			
4. Ordinary Resolution to re-appoint KPMG Audit Plc as Auditor and to authorise the Directors to determine the remuneration of the Auditor			
5. Ordinary Resolution to increase the authorised share capital of the Company			
6. Ordinary Resolution to empower the Directors to allot equity securities generally			
7. 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, Capita Registrars (Proxies), 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.

Second fold

BUSINESS REPLY SERVICE
Licence No. MB 122

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First fold

Capita Registrars (Proxies)
PO Box 25
BECKENHAM
Kent
BR3 4BR

Third fold and tuck in

Patagonia Gold Plc
15 Upper Grosvenor Street
London WIK 7PJ
www.patagoniagold.com