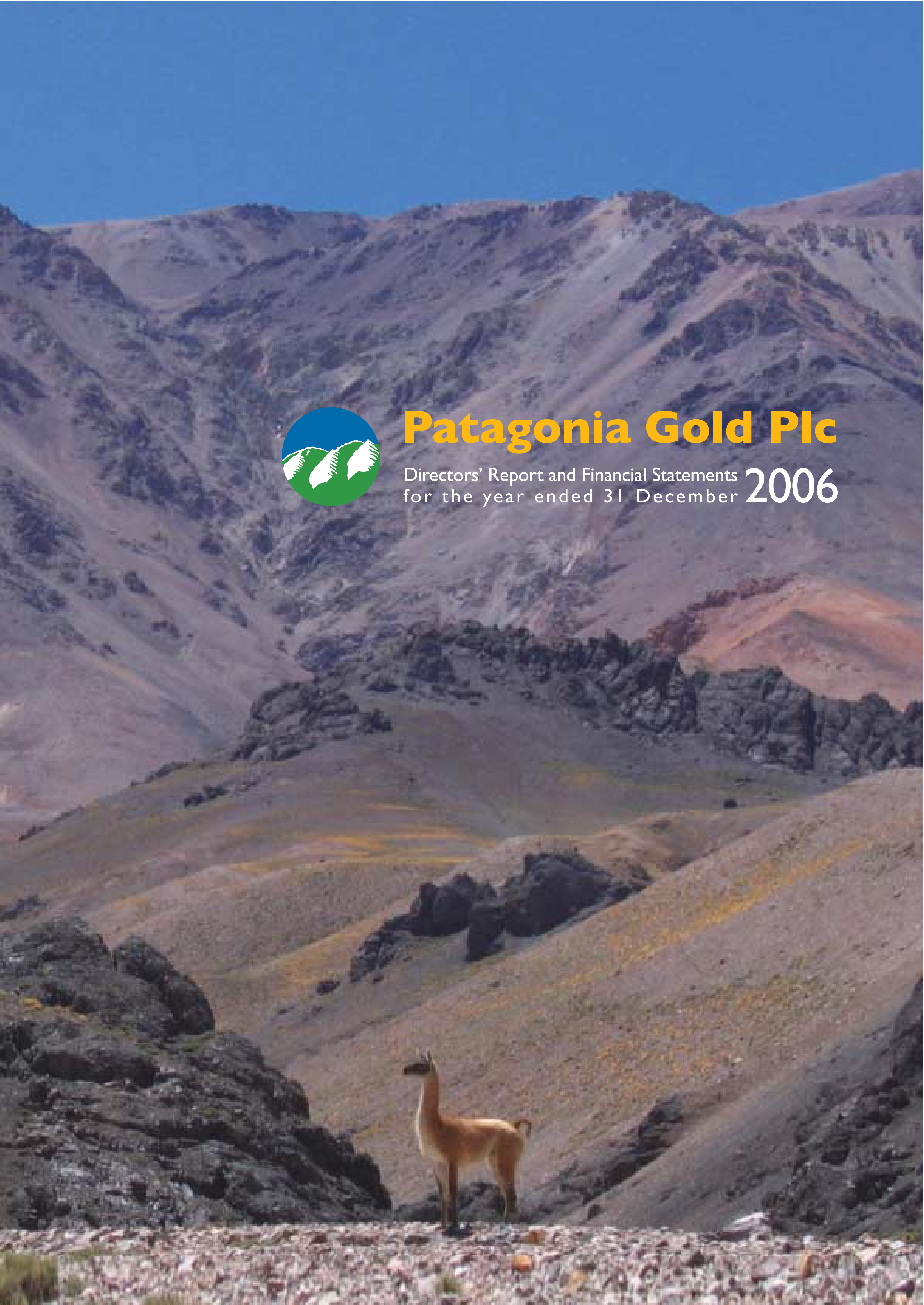
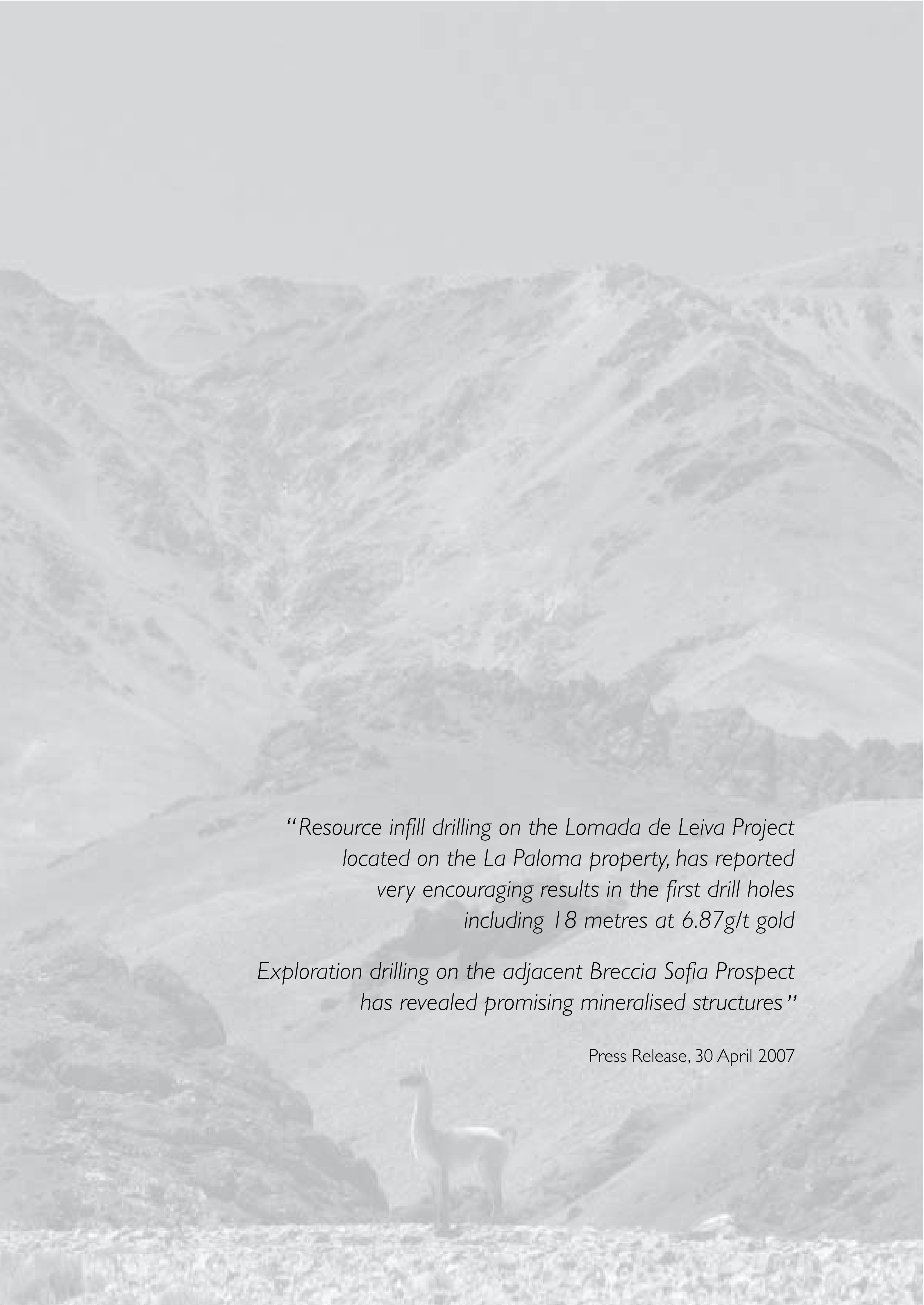


Patagonia Gold Plc

Directors' Report and Financial Statements
for the year ended 31 December 2006



"Resource infill drilling on the Lomada de Leiva Project located on the La Paloma property, has reported very encouraging results in the first drill holes including 18 metres at 6.87g/t gold

Exploration drilling on the adjacent Breccia Sofia Prospect has revealed promising mineralised structures"

Press Release, 30 April 2007

Contents

Directors and advisers

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	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 2006.

It was a period of mixed fortunes for Patagonia Gold. Early in the year, the Government of the Province of Chubut in Patagonia announced a ban for up to three years on virtually all mining and exploration activities in an exclusion zone. The impact on Patagonia Gold of this development is discussed fully in the Managing Director's report which follows my statement. In summary, however, it has forced us to suspend work on the historic Huemules mine which we acquired fully in 2005 and which we had planned to bring back into production.

That constituted a major setback for the Company. While the ban is stated to be temporary in nature and while we are vigorously contesting its legality in the Courts in Argentina at the highest level, the Board decided to adopt the most conservative approach in the presentation of the accounts for the year and has made a full provision against goodwill which largely represents the carrying cost of the Huemules mine. This has resulted in an impairment charge of approximately £14 million. This is not a write off of previously capitalised cash expenditures incurred by the Group but of the goodwill arising from the piecemeal acquisition of the Huemules property.

As explained in our Operations report, it remains our intention to develop the Huemules mine in accordance with the highest internationally agreed environmental standards. In particular, we plan for development to be wholly underground and without the use of cyanide at any stage in the process. We have put the mine on a care and maintenance basis and are actively engaged with the authorities and communities in Chubut with a view to resolving the issues in a constructive manner so that we can go forward as soon as possible with the development of the mine. This we believe to be not only in the interests of our shareholders but also in the best interests of the province, its economy and its citizens.

We have other exploration activities in the Province of Chubut which are also affected by the temporary mining ban; these too have been suspended for the time being and the underlying costs of suspension are included in the impairment charge mentioned above.

As reported in earlier years we also conduct exploration activities in other provinces in Patagonia, most notably in Santa Cruz and Rio Negro. The Province of Santa Cruz is host to a number of important operating gold mines as well as to a vibrant petroleum industry. It has a well developed infrastructure and a positive attitude both at government levels and in the communities to the responsible exploitation of its mineral resources.

In response to the difficulties we encountered in Chubut we have substantially reordered our priorities in Patagonia and it is our intention, at least for the foreseeable future, to concentrate our limited human and financial resources on those provinces which are well disposed towards the mining industry and recognise the benefits that flow from successful exploitation of their mineral resources.

It is in this context that we were delighted to announce early in 2007 the acquisition from Barrick Gold, the world's largest gold mining company, of Barrick's entire Santa Cruz exploration portfolio. The details of this important transaction are set out fully in the Operations report on pages 9 to 19. We were delighted that Barrick, which retains the right on defined terms to buy back into any major development in the portfolio, decided shortly after the transaction was completed to convert the notes we had issued to them as partial consideration for the acquisition into new Patagonia Gold shares with the result that Barrick now owns approximately nine per cent. of our issued share capital. We welcome them as a shareholder and hope to build on this relationship to our mutual benefit in future years.

Chairman's statement
continued

Our initial drilling on the newly acquired properties, which had already been the subject of up to four years' exploration work, has been most encouraging. Details of announcements we have made are set out in the Operations report.

The financial results for the year were in line with our budget and expectations. The loss for the year before giving effect to the impairment charge described above was £2,732,424 or 1.01 pence per share (2005: £2,856,653). Taking account of the impairment charge the loss for the year was £17,002,754. There was no impairment charge in the year ended 31 December 2005.

With effect from 1 January 2007, when we adopted the new International Financial Reporting Standards, the Board has decided that it would be inappropriate to continue to hold historical goodwill as an asset.

Recently we carried out a share placement which raised £1.67 million, involving approximately 29 million new shares at 5.75p per share. Around 71 per cent. of these funds were provided by Board members and their family associates. Further fund-raising will be required in the near future to allow Patagonia Gold to continue with its development programme on the highly prospective Santa Cruz and San Juan properties.

The Santa Cruz properties acquired in February 2007 have given Patagonia Gold a fresh direction whilst still retaining our valuable assets in Chubut. We continue to seek further acquisition opportunities and look forward to continued exploration success in Santa Cruz this year.

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

23 May 2007

Operations report – area location map

Land holdings

Patagonia Gold Plc (PGD) through its three 100 per cent. controlled subsidiaries, Patagonia Gold SA (PGSA) and Minamalú SA in Argentina, and Patagonia Gold SCM (PGSCM) in Chile, hold exploration or mineral exploitation permits or has under application or option to purchase the following property areas:

Argentina	Patagonia total	7,086 square kilometres
Chile	Region XI	88 square kilometres

Managing Director's report

Executive summary

2006/2007 has been a period of contrasting fortunes for Patagonia Gold Plc (PGD).

In the first half of 2006, exploration efforts were concentrated in the Chubut province where PGD had accumulated a substantial portfolio of highly prospective exploration properties over the previous three years.

Having acquired 100 per cent. ownership of the historic Huemules Gold Mine in late 2005, PGD concentrated on bringing the mine back into production as soon as possible, so as to take full advantage of the strong metal prices which had risen over 250 per cent. in the previous three years. The Huemules mine, located some 35 kilometres to the west of the city of Esquel, Chubut Province, contains bonanza gold and silver together with high base metals grades and had been mined for a short period in the early 1990's at an average grade of 220 g/t gold.

In addition, a substantial exploration drilling programme, totalling 7,788 metres, was completed on the Crespo and Gastre projects in Chubut and on the El Morro project in Rio Negro. Results were encouraging particularly from the Western Veins at Crespo.

In June 2006, PGD received a serious set-back to its exploration efforts in Chubut, when the Province introduced a provisional law banning mining and mineral exploration activities for up to three years in a specified area to the west side of the province. The exclusion area not only included the Huemules mine but also 85 per cent. of PGD's exploration properties, including the Crespo project.

Accordingly, PGD moved quickly to mitigate the damage by moving management, exploration teams and support staff into the pro-mining Provinces of San Juan and Santa Cruz to explore on prospective open ground and to seek joint venture and acquisition opportunities in these Provinces and elsewhere. All exploration activities in Chubut were suspended and the regional office in Puerto Madryn was closed. PGD has maintained a small office in Esquel, Chubut, in order to maintain a presence in the area and to be ready to reactivate projects in that Province when the position becomes clearer. In the meantime PGD has taken legal action in the Argentine courts to preserve its rights.

In February 2007, following several months of selective tendering process and due diligence works, PGD announced the acquisition of Barrick's entire exploration property portfolio in the Santa Cruz province of Southern Argentina. The portfolio contained 70 expedientes (mineral titles) in six groups covering approximately 200,000 hectares in the highly prospective Deseado massive region. With this transaction PGD has acquired several advanced exploration properties with up to four years of exploration works completed on them, including the Lomada de Leiva and Breccia Sofia projects which contain an in-house resource of approximately 500,000 ounces of gold. There is also a large area of ground covering prospective geology with minimal previous exploration.

Infill and extension drilling commenced on the Lomada de Leiva and Breccia Sofia projects immediately to advance the in-house resource to Canadian National Instrument (NI) 43-101 compliant status. In addition, exploration and confirmation works commenced on the two other most advanced prospects, La Manchuria and El Tranquilo to define drilling targets for the next exploration season starting in October.

In San Juan PGD has entered into an Option to purchase agreement over exploration properties containing historic artisan gold mines which have not been explored using contemporary methodology or drilled. PGD has regained its exploration momentum with these above acquisitions.

Managing Director's report
continued

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 and to industry standards. PGD attempts, where possible, to hire local personnel and use local contractors and suppliers.

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

Bill Humphries
Managing Director

23 May 2007

Drilling at Lomada de Leiva project

Operations report

Chubut Province - Mining suspension

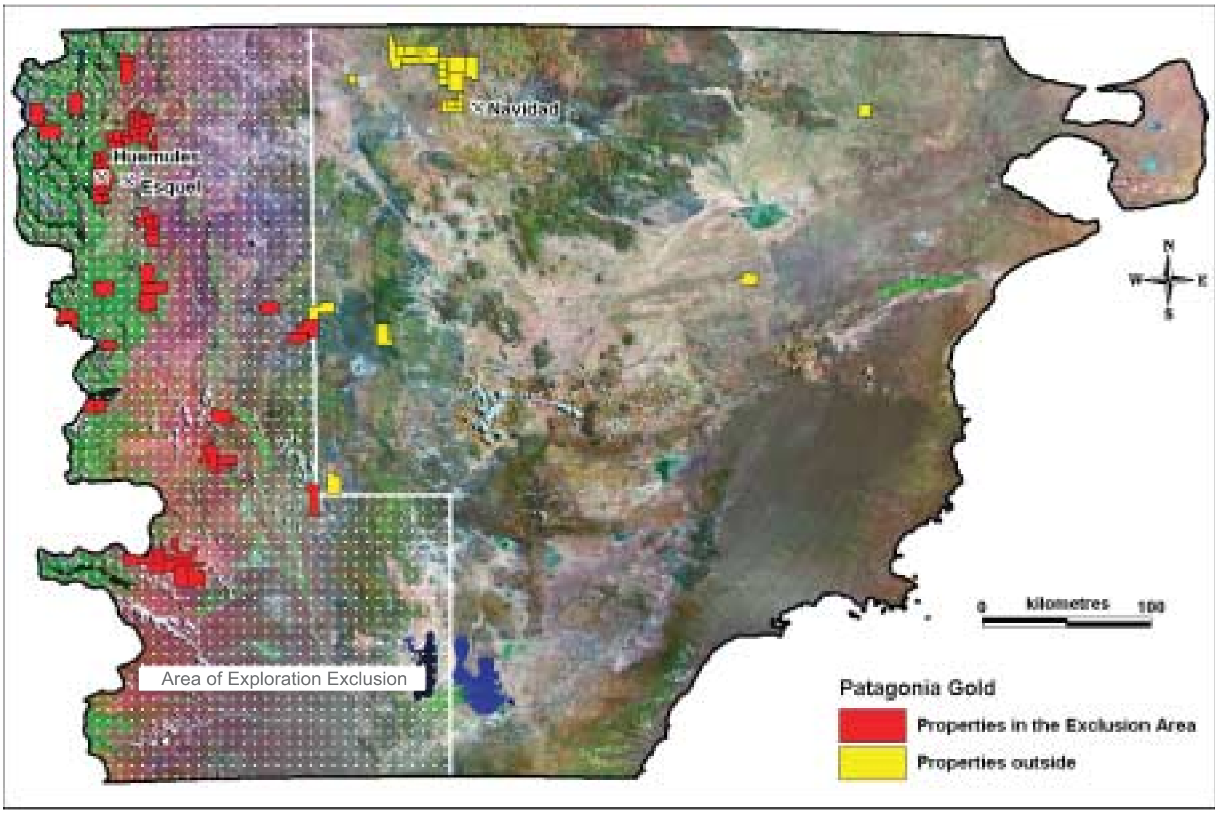
The province of Chubut ratified a law on 29 June 2006 to suspend, for up to three years, all mining activity (except for alluvial gold exploration) in a specific area of the province of Chubut where both Patagonia Gold S.A. and Huemules S.A. were carrying out exploration activities.

Patagonia Gold S.A. and Huemules S.A., both fully owned subsidiaries of PGD filed a legal action against this provincial law through the submission of an injunction in the Civil, Commercial and Mining Court, a legal action provided by the law as a remedy to continue exploration activities.

PGD has been advised by its Argentine lawyers that this provincial law violates the Company's constitutional right to perform mining and mineral exploration within a legal and regulated industry.

The legal action has now moved through the provincial courts in Chubut and is presently awaiting a full hearing in the Supreme Court of Justice in Buenos Aires.

The plans for the development of the Huemules mine for which PGD has filed an application for an Environmental Impact Study for the drilling phase, do not involve any open cast mining or the use of Cyanide.



The Province of Chubut and the exclusion zone imposed in June 2006

Operations report
continued

Acquisitions

Santa Cruz

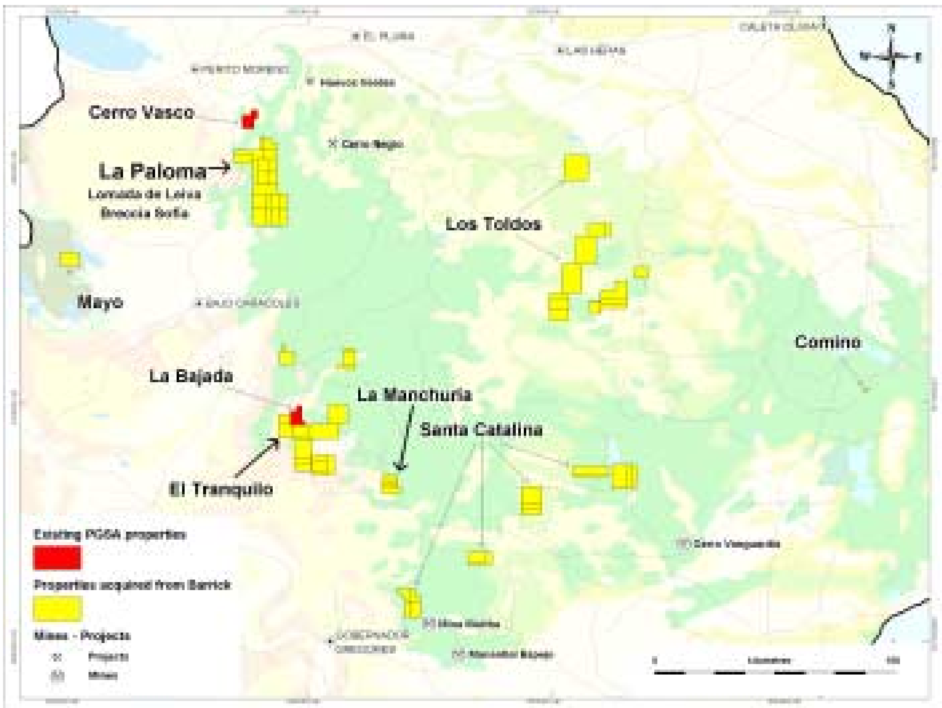
In June 2006, PGD entered into negotiations with Barrick Exploraciones Argentina S.A. for their property portfolio in Santa Cruz. This was concluded in February 2007 with the signing of a purchase agreement.

The Company through its wholly owned Argentine subsidiary, Patagonia Gold S.A. (PGSA) has acquired the rights, title and interest in 70 mining and exploration claims and properties previously held by Barrick Exploraciones Argentina S.A. and Minera Rodeo S.A., being subsidiaries of Barrick Gold Corporation.

The initial consideration payable for the Properties has an aggregate value of approximately £2,572,350 and comprised (i) a cash payment by PGSA of US$800,000 and (ii) the issue by the Company of £2,162,092.65 of loan notes ('Loan Notes') which were convertible into ordinary shares of 1p each in the capital of the Company at a conversion rate of 7.125p. The Loan Notes were converted on 28 February 2007 into 30,345,160 shares representing 10 per cent. of the Company's then issued share capital.

A further cash payment of US$1.5 million will become payable by the Company upon delineation of a 200,000 oz or greater of gold or gold equivalent (NI 43-101 Indicated Resource) on the La Paloma Property Group. In addition the Company has granted to the vendors an option to buy back up to a 70 per cent. interest in any particular Property Group upon the delineation of a greater than 2 million oz of gold or gold equivalent (NI 43-101 Indicated Resource) on that Property Group.

Under the terms of the acquisition agreement PGSA has committed to complete a minimum level of expenditure of US$10 million on the Properties over a five year period.



Santa Cruz Properties

Operations report

continued

The Properties

The 'Barrick properties' are a highly prospective portfolio containing 70 expidentes (mineral titles) in six groups covering approximately 200,000 hectares in the Deseado Massif region of the Santa Cruz province in Patagonia.

The volcanic plateau of the Deseado Massif is 60,000 km^2 in area and hosts several mines and advanced projects such as Cerro Vanguardia, Mina Martha, Manantial Espejo, Huevos Verdes, and Cerro Negro as well as numerous smaller prospects and showings. These projects are low sulphidation epithermal "bonanza" vein style gold-silver deposits, the main target for exploration in this region.

Santa Cruz is a mining friendly province and contains a very active petroleum industry and accordingly all the infrastructure and understanding associated with exploration and mining. The closest town to the main Project area, Perito Moreno, is serviced by bituminised all weather roads.

Lomada de Leiva is the main area and was previously pattern drilled and a preliminary in house resource was calculated.

Lomada de Leiva table of historic drill hole intersections

Lomada de Leiva drill results

Hole ID	From metres	Interval metres	Gold g/t
DDH-LP05	49.00	3.44	3.16
DDH-LP05	86.75	3.29	5.34
DDH-LP05	92.00	5.05	2.26
DDH-LP07	36.00	11.00	5.33
including	38.60	1.40	15.80
DDH-LP07	49.00	17.00	5.45
DDH-LP11	6.80	3.20	5.30
DDH-LP11	12.00	17.60	9.08
including	15.00	1.00	24.70
DDH-LP12	65.90	8.40	1.84
DDH-LP12	78.65	10.00	3.13
DDH-LP13	70.30	5.75	1.36
DDH-LP14A	105.00	4.00	2.85
DDH-LP20	60.50	4.75	3.90
DDH-LP25	21.00	7.15	2.71
DDH-LP30	116.65	9.05	2.05
DDH-LP35	81.00	4.30	2.08
DDH-LP35	88.35	7.35	4.97
including	89.75	1.40	16.70
DDH-LP36	36.95	12.45	2.59
DDH-LP37	63.80	14.70	5.21
including	74.00	1.00	13.30
DDH-LP44	44.00	11.00	3.00

Operations report
continued

Gold mineralisation at Lomada de Leiva occurs in a NNE-striking, steeply ESE-dipping tabular zone (500 metres strike x 200 metres normal to strike) with reported, sometimes high grade gold up to 200 metres (vertical) from the surface. Geology is characterised by gold mineralised breccias mostly containing angular clasts of rhyolite and occasional clasts of crustiform-colloform banded quartz. The breccias have cut and, perhaps, destroyed earlier quartz veins and are themselves cut by at least two phases of narrow chalcedonic quartz veins and late hematite-jarosite veining. Gold could be associated with the quartz vein clasts and/or later chalcedonic quartz veining. These features are not typical of low sulphidation epithermal vein deposits.

Another area drilled by Barrick is the Breccia Sofia zone where the following drill intersections were identified:

Breccia Sofia drill results

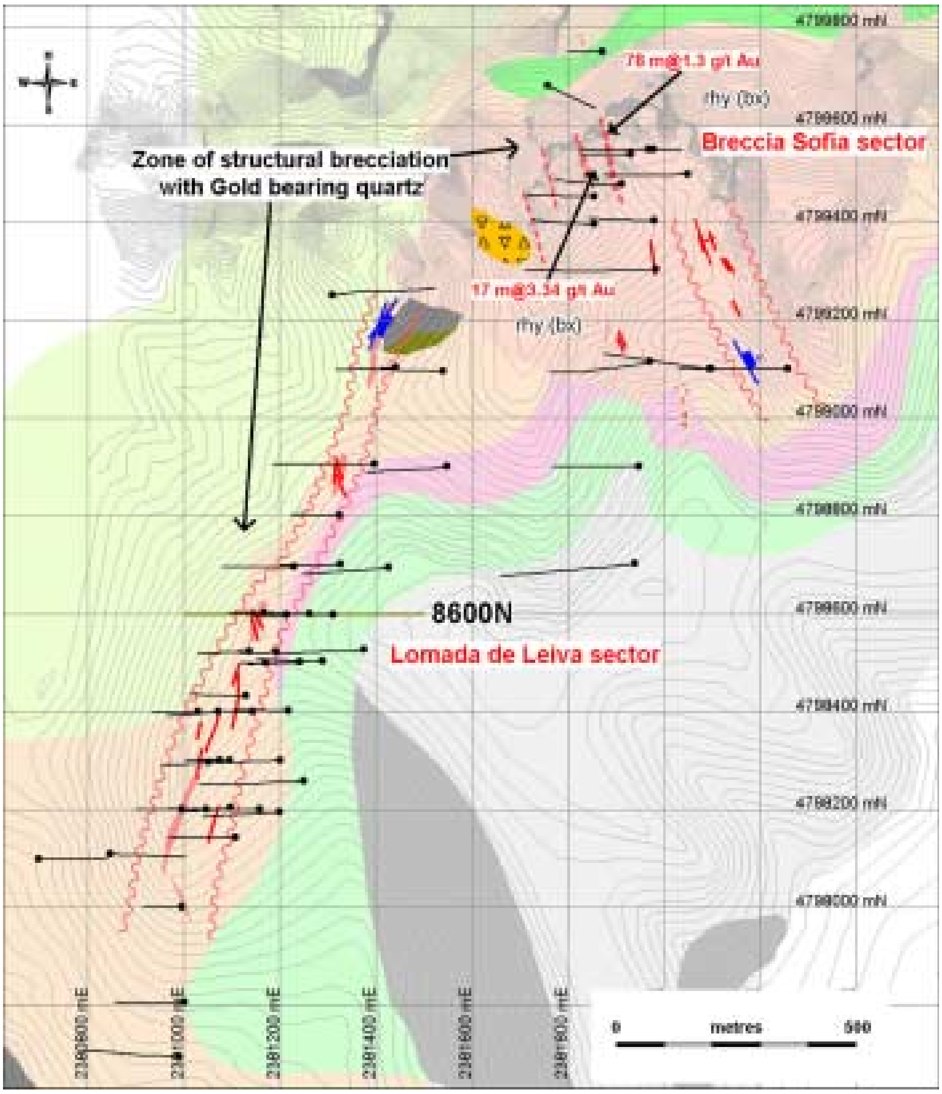
Hole ID	From metres	Interval metres	Gold g/t
DDH-LP42	272.50	3.00	140.61
DDH-LP47	100.00	12.00	2.41
DDH-LP51	251.70	10.00	4.99
DDH-LP54	0.35	17.85	3.50
DDH-LP59	187.00	2.00	8.07
DDH-LP63	101.00	2.00	4.31

The Breccia Sofia zone is characterised by millimetre-wide, gold-bearing, drusy quartz veinlets and breccia matrix that report up to bonanza gold grades (~400 g/t Au). Mineralization here is typical of a low sulphidation epithermal veinlets and stockwork deposit.

The Patagonia Gold property 'Cerro Vasco' just to the north of La Paloma returned rock chip samples of 2.85m @ 44.2 g/t Au in a breccia considered similar to that at La Paloma. An Environmental Impact Study to enable drilling on the property has been approved with the Mines Department.

Rock chip sampling on the Cerro Vasco property, Santa Cruz

Operations report
continued



Lomada de Leiva and Breccia Sofia – Plan of geology with drill holes

Ongoing work

The Agreement with Barrick was finalised in February 2007 and in the same month PGD commenced drilling with one diamond drill rig at Lomada de Leiva, a second drill rig was contracted in March 2007. The current drilling programme has been designed to validate, infill and extend the previous drilling.

This Resource orientated drill programme contains 40 holes for an estimated 5,800 metres of both diamond drilling and RC drilling. The programme includes a number of 'scissors' and 'twins' of both the Barrick drilling and diamond to RC hole comparison for quality control purposes. A programme of exploration drilling on the periphery of the resource area contains a planned 25 holes for a further 3,500 metres of both diamond and RC drilling.

To date, 36 HQ diamond drill holes for 4,947 metres and 21 Reverse Circulation (RC) holes for 2,901 metres, have been completed.

Operations report
continued

Results from the first 9 diamond drill holes are now available and significant intersections are listed in the table below.

Hole ID	From metres	Interval metres	Gold g/t
LPD-01	9.0	18.0	6.87
including	10.0	10.0	10.86
LPD-02	35.0	21.0	4.12
including	46.0	7.0	5.17
LPD-03	90.0	13.0	7.36
including	94	6.0	13.66
LPD-04	63.0	8.0	1.19
and	97.0	12.0	1.32
LPD-06	64.0	24.0	3.05
including	82.0	5.0	7.16
LPD-07	38.0	20.0	2.66
including	48.0	4.0	5.89
LPD-09	73.0	12.0	2.01
and	88.0	10.0	2.07

At Breccia Sofia the exploration programme currently underway contains a planned total of 25 holes for 2,500 metres of RC drilling.

Resource NI 43-101

Chlumsky, Armbrust and Meyer L.L.C. (CAM), an international mineral resources, consulting and engineering group from Lakewood, Colorado, USA have been engaged by Patagonia Gold to complete a resource estimate, to NI 43-101, on the Lomada de Leiva Project area.

As part of this study CAM will give recommendations for infill, down-dip and metallurgical drilling at Lomada de Leiva in preparation for environmental and scoping studies.

Sample pulps and coarse residues from the current drill programme have been submitted for initial metallurgical test work in order to quantify the recovery from the ore material. Gravity extraction test work is also being undertaken.

Other areas

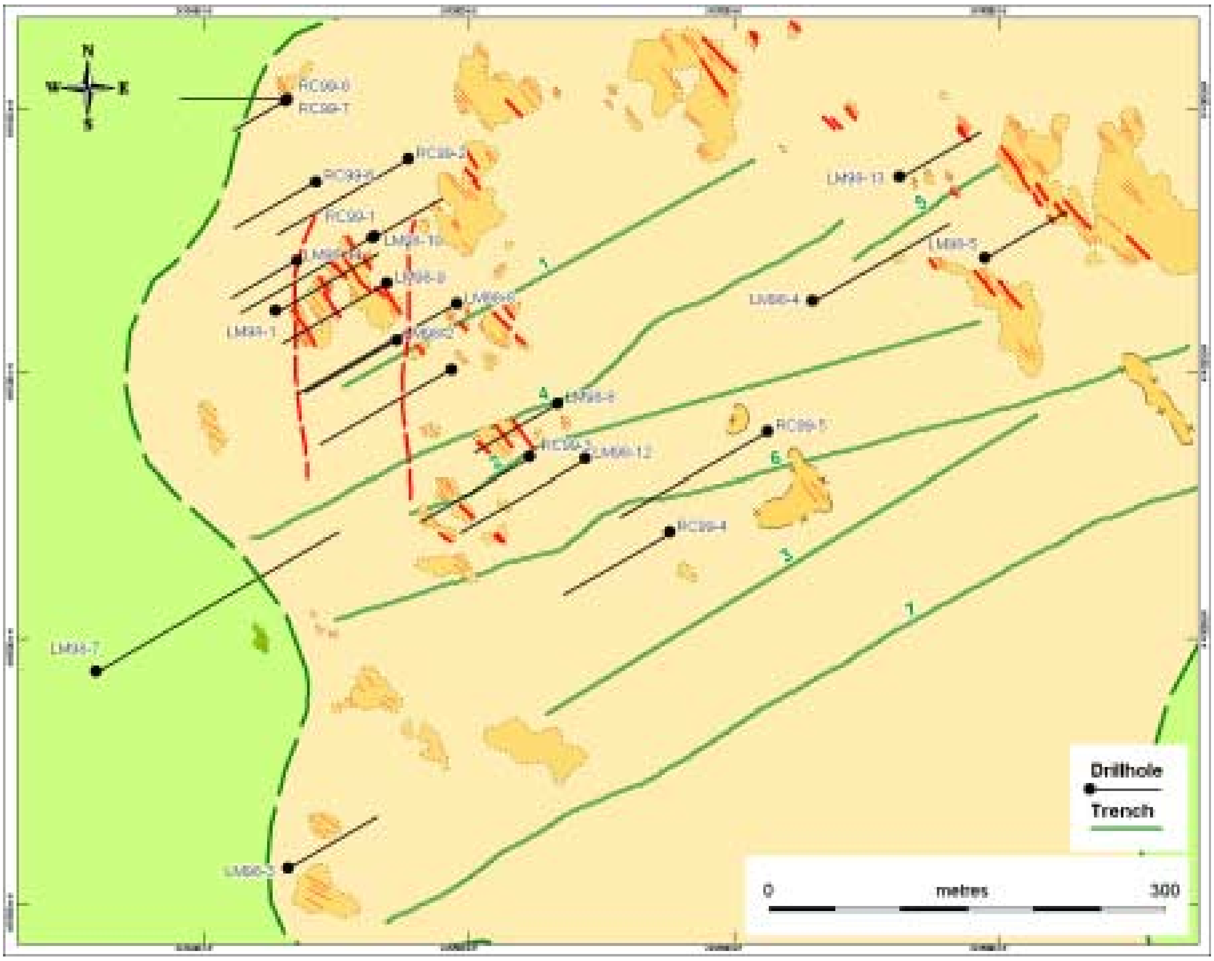
The La Manchuria and El Tranquilo properties are highly prospective and the exploration programmes being conducted were initially orientated towards validation of the historic data and thereafter the preparation for drilling.

La Manchuria

The La Manchuria property of five expidentes covers 5,575 hectares and is located about 130 km to the south east of the La Paloma block.

Gold-silver mineralisation on the La Manchuria prospect is associated with a low-(to intermediate) sulphidation type epithermal quartz-(adularia-illite) vein system hosted within a shallow dipping sequence of rhyolite tuffs and underlying andesites. Veins are strongly structurally controlled with principle veins showing NW to NNW strikes occurring in swarms and densely sheeted zones.

Operations report
continued



La Manchuria drilling and trenching

Previous work has included geological mapping, grid soil sampling, geophysics trenching (channel sampling) and drilling with 14 diamond drill holes for 2,017 metres and 9 RC holes for 1,089 metres.

PGD has undertaken a programme of validation and has re-sampled strategic rock chip locations as well as sawn channel samples and drill core. Results are pending.

Significant potential exists in the more competent andesite, interpreted to under-pin the rhyolite which hosts the gold-silver bearing veins which has been surface sampled and drilled.

A drill programme designed to systematically test the main zone of mineralisation at depth is planned for October.

El Tranquilo

The El Tranquilo properties, which include the existing PGD property, La Bajada, cover an area of 12,000 hectares some 120 km south of La Paloma, and contains a number of mineralised NW trending structures containing evidence for low sulphidation epithermal hydrothermal systems including anomalous gold silver and antimony.

Operations report
continued

The Breccia Valentina localised within a corridor of NW structures contains extensive anomalous gold values reported from historic channel sampling in trenches. Two zones of breccia and stock work have been identified which contain values of:

Stockwork: 44 metres @ 0.276g/t Au including 0.815g/t.
Breccia: 32 metres @ 0.16 g/t Au including 0.795g/t Au

The nearby existence of a paleosurface, containing silicified plant remains, confirms Breccia Valentina represents the upper section of a gold mineralised system.

PGD has undertaken verification sampling of the historic trenches as well as excavated new trenches which were sawn channel sampled. Results are pending. A drill programme is planned for November with the aim of testing the interpreted Breccia Valentina breccia at depth by a fence of diamond drill holes oriented normal to the NW strike direction. The intention is to intersect the feeder at progressively deeper levels extending from 100 metres below the surface.

The Cap Oeste prospect comprises a NW trending structure which was previously trenched with samples reporting anomalous gold values.

Trench 4 contained 42.8 metres @ 0.913 g/t Au, including 5 metres @ 2.127 g/t Au, in Trench 5,100 metres to the north west 69.1 metres @ 0.223 g/t Au was reported and a further 100 metres to the north west in Trench 6, 20.9 metres @ 0.217 g/t was reported. Further to the north west as well as to the south east the structure is under cover.

The mineralised structure lies on a gentle slope about 30-40 metres below a sub horizontal zone of intense silicification interpreted as a silica cap this silicification is typical of alteration which commonly develops within permeable host rocks close to the water table within the upper portion of low sulphidation epithermal gold systems.

Validation work by PGD has included the opening and resampling of historic trenches as well as excavation of additional trenches on 50 spacing. Results are pending. The recent trenching has identified the breccia and stockwork veining over a strike of 900 metres and it is open in all directions. An RC drill programme is planned in October to investigate this very prospective geological structure.

San Juan - El Morado

The two property block optioned from the San Juan owners is located in the east of San Juan province 150 km east of San Juan capital, on the northwest slope of the Sierra de la Huerta, in the Bermejo river valley.

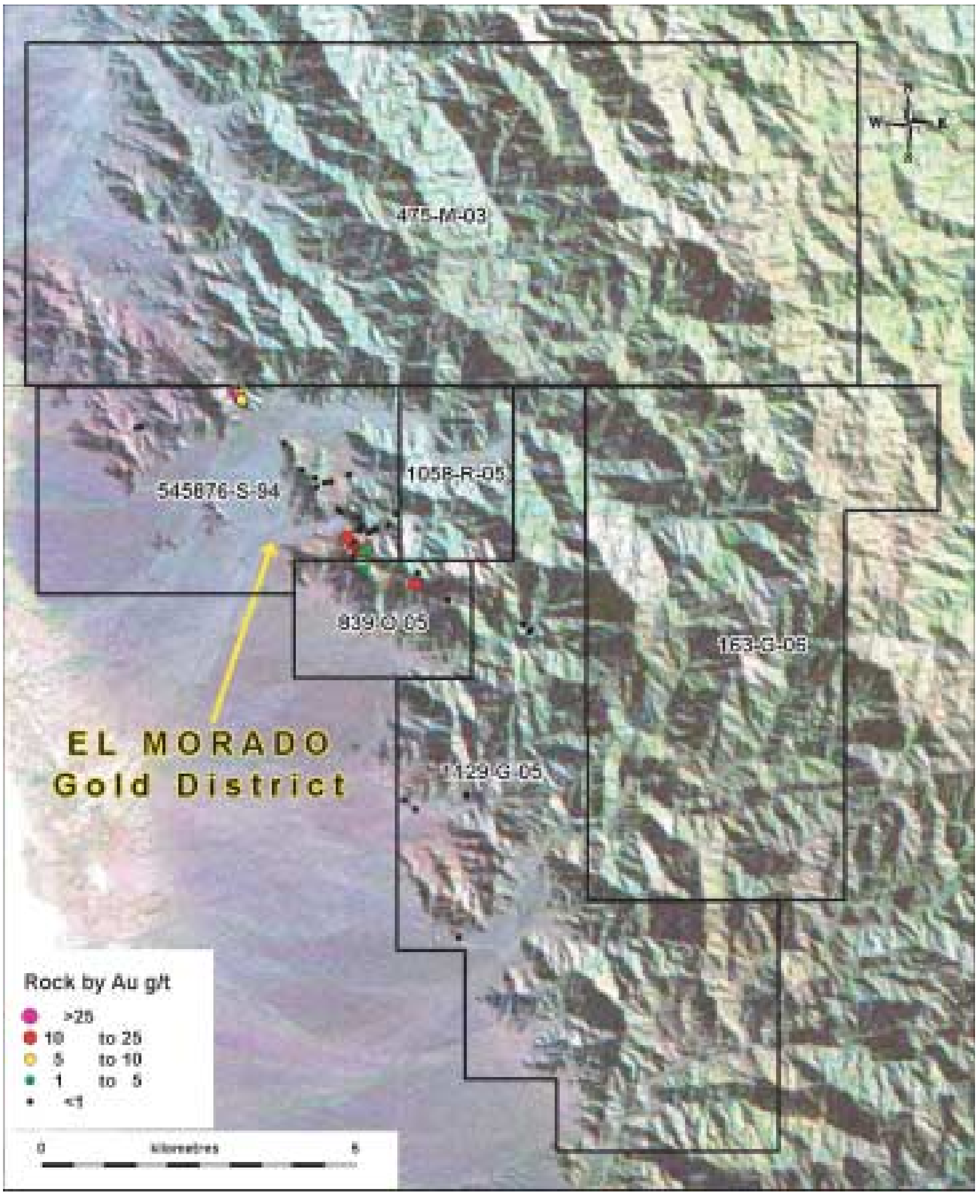
The agreement provides for three annual payments of US$20,000, US$30,000 and US$50,000 with the option to purchase outright for US$300,000 at any time during this three year period less 50 per cent. of any payments already made.

In the El Morado Northwest zone are the historic Garabato and Sanchez II mines, exploited at the end of the 19th century and in the 1940's by the San Juan Mining Company. Some 4 km along strike the El Morado Southeast zone contains three old gold mines called Buena Fortuna, Senda and Pepa, which were exploited in the late 1980's by the current owners.

Operations report
continued

The geology of the area is predominantly schist, gneiss and amphibolites from the igneous-metamorphic basement of the Valle Fértil Complex, these metamorphic rocks contain discontinuous and tectonized marble horizons. The mineralization is concentrated in auriferous quartz lenses in shear zones, the main minerals assemblage is auriferous quartz, pyrite, chalcopyrite, galena, sphalerite and quartz with carbonates as ankerite and black (manganese) oxides.

The quartz lenses occupy a sub-vertical to 75° NE, ESE-WNW fault plane exposed from one to tens of metres along strike and down dip, with widths from 0.3 metres to a maximum of 1.8 metres contained in a metamorphic host rock variously carbonitised and tectonised along the contact.



El Morado Gold District

Operations report
continued

Exploration of the properties has included reconnaissance drainage sampling and rock chip sampling which returned values of up to 28g/t Au, 60 g/t Ag and over 1 per cent. copper lead and zinc. A programme of detailed mapping and channel sampling is in progress in order to prepare for exploration drilling in September.

Exploration

Drilling

During 2006, PGD completed exploration drilling campaigns on three advanced exploration prospects, Crespo and Gastre in the province of Chubut and El Morro in the province of Rio Negro. A total of 84 holes for 7,788 metres generated 4,949 samples for analysis.

Results of the drilling at Crespo, West Veins, are sufficiently encouraging (16.18 g/t gold, 334.0 g/t silver and 5.22 per cent. zinc over individual 1 metre intersections) to carry out further drilling.

Results include:

Crespo West and North veins

Hole ID	From metres	Intersection metres	Gold g/t	Silver g/t	Copper percentage	Lead percentage	Zinc percentage
WV-02	48.0	2.0	8.44	16.8	—	—	—
WV-07	31.0	1.0	1.01	37.1	—	—	1.58
WV-08	85.0	1.0	0.83	47.3	0.25	0.80	2.77
WV-12	102.0	2.0	0.42	231.0	0.43	1.77	4.32
WV-13	113.0	1.0	0.39	119.1	0.29	2.28	3.61
NV-04	43.0	1.0	1.75	0.7	—	—	—
Gastre							
GAS-05	31.0	1.0	1.54	3.9	—	—	—
GAS-10	63.0	1.0	1.66	0.9	—	—	—
GAS-13	6.0	1.0	0.85	1.2	—	—	—
Cerro El Morro							
EM-01	16.0	1.0	2.72	36.2	—	—	—
EM-04	59.0	1.0	1.02	2.9	—	—	—
EM-06	7.0	1.0	1.14	6.4	—	—	—
EM-09	6.0	1.0	1.01	6.7	—	—	—
EM-15	54.0	1.0	1.99	174.0	—	—	—
EM-21	59.0	1.0	2.17	106.8	—	—	—
EM-22	32.0	1.0	1.21	21.0	—	—	—

Crespo: the Crespo Project area is located in the west of Chubut province and is comprised of 14 claims for a total of 59,655 hectares.

Exploration of this large prospective area has reached an advanced stage with all accessible areas being thoroughly explored, mapped and sampled. Drill-targets generated by this work have included the Cabana, Jasper and Crespo vein zones, drilled in 2004, and the West and North vein zones, together with the Paleosurface zone, drilled in this recent campaign.

Gastre: the Gastre project is located in the north of Chubut province and comprises 12 claims for a total of 89,330 hectares

Operations report
continued

A comprehensive stream sediment and BLEG exploration programme was completed within the Gastre claims and led to identification of precious and base metals values in veins and sheeted vein zones in the southernmost claim blocks located immediately northwest of the Navidad silver project.

Further exploration was undertaken at a silver and base metals rich zone in the south west of the Gastre block near to the Navidad silver project.

Cerro El Morro: the Cerro El Morro property is located in southeast Rio Negro province and comprises two claims for a total of 9,999 hectares.

A comprehensive geological mapping and sampling programme, together with a geophysical survey, was completed within the claims, identifying a suite of northwest-striking, narrow (mostly <1-2 metre wide), low sulphidation, epithermal silica-quartz-adularia veins.

Exploration in the area is continuing with the discovery of extensions to the Cerro El Morro vein fields. A cateo application has been submitted.

Other exploration

As a result of the Chubut exclusion zone no further work has been conducted at either Crespo or Huemules.

The Huemules Project remains a high priority for the Company as the area is very prospective. The Huemules vein system includes three sectors, designated Sur, Centro and Norte. At Huemules Sur the zone consists of a broad corridor of pyritised and irregular argillised and or silicified rock up to 150 metres wide, containing multiple lenticular, gold bearing quartz veins, veinlets and quartz breccia zones. At Huemules Norte and Centro it is commonly well-defined quartz breccia zone of 5 to 15 metres width containing disseminated pyrite and chalcopyrite and enclosing a single discrete gold-bearing vein.

CAM international mineral resources, a consulting and engineering group from Lakewood, Colorado, USA, completed an independent resource review in May 2006 reporting an Inferred Resource of 364,657 tonnes @ 9.96g/t Au for a total of 116,773 oz of gold and recommended a plan for expanding the resource.

The Company has undertaken an evaluation of the exploration potential in Argentina. As a result exploration was initiated and continues with a high level of activity through the expansion of PGD's exploration efforts into the 'pro-mining' San Juan province (which contains the world class Veladero gold deposit). The Company has been assessing opportunities in the province and was involved in the assessment of the four property blocks offered in a provincial auction. An option agreement with the owners of the El Morado property block was signed in February 2007.

In parallel to the exploration in the north of Argentina a concerted effort of reconnaissance exploration on open ground in the Santa Cruz province has been ongoing, this has proved successful and several gold mineralised structures have been identified though no cateo applications have been made to date. The potential of Santa Cruz, which contains the Anglo Ashanti Gold Cerro Vanguardia gold-silver mine, has long been realised. PGD has been exploring both the greenfield's exploration and property acquisition potential.

23 May 2007

Report of the Directors

The Directors present their report and the audited financial statements for the year ended 31 December 2006.

Principal activities

The Company has continued to hold 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.

Business review and future developments

This is the first business review prepared by the Company following the UK's adoption of European Union's Accounts Modernisation Directive. The purpose of the review is to show how the Company assesses and manages risk and uncertainty and adopts appropriate policies and targets. Further details of the Group's business are also set out in the Chairman's statement, Managing Director's report and in the Operations report on pages 4 to 19.

Principal risks and uncertainties

The Group operates in an uncertain environment that may result in increased risk, cost pressures and schedule delays. The risks that face the Group are common to all of the Group's mining activities. The following are some of the key risks that face the Group:

Exploration and development risk

There is no assurance that the Group's exploration activities will be successful, and statistically few properties that are explored are ultimately developed into producing mines. Accordingly, the Group is i) seeking to balance this risk by building a portfolio of projects and prospects that carry a range of differing technical and commercial risks, and ii) keeping under careful review the amount invested in any one project.

The Group's operations may also be curtailed, delayed or cancelled as a result of economic, environmental and political conditions in the area of operation.

Competition

There is strong competition within the mining industry for the identification and acquisition of suitable properties. The Group competes with other exploration and production companies, some of which have greater financial resources than the Group, for the acquisition of properties, leases and other interests as well as for the recruitment and retention of skilled personnel. The challenge to management is to secure transactions without having to over pay.

Fiscal regimes

The development of fiscal legislation in Argentina may lead to inherent uncertainties. Legislation is complex, and in some situations fiscal policies can be conflicted within the courts. Management continually monitor fiscal developments to ensure that the Group is responsive to changes in legislation, once these changes become clear.

Financing

The development of the Group's properties will depend upon the Group's ability to obtain financing primarily through the raising of new equity capital, but also by means of joint venture of projects, debt financing, farm-downs or other means. There is no assurance that the Group will be successful in obtaining the required financing. If the Company is unable to obtain additional financing as needed some interests may be relinquished and/or the scope of the operations reduced.

Report of the Directors
continued

Currency

The Group reports its financial results in pounds sterling. However, the market for gold is principally denominated in United States Dollars. As the Group has not reached production stage it does not currently engage in active hedging to minimise exchange rate risk, although this will remain under review.

Environmental and other regulatory requirements

Existing and possible future environmental legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delays in the activities of the Group, the extent of which cannot be predicted. Before exploration and production can commence on any properties, the Group must obtain regulatory approval and there is no assurance that such approvals will be obtained. No assurance can be given that new rules and regulations will not be enacted or existing rules and regulations will not be applied in a manner which could limit or curtail the Group's operations.

Development and performance of the business

The information that fulfils the requirements of this part of the business review can be found in the Chairman's statement, Managing Director's report and the Operations report on pages 4 to 19, which are incorporated in this report by reference.

Key Performance Indicators

The legislation requires the Board to disclose relevant Key Performance Indicators (KPIs) which, for a company at Patagonia's stage of development, are focussed on managing the activities inherent in exploration and appraisal operations. The key performance indicators for the Group are as follows:

Non financial KPIs		Financial KPIs	
Health and safety management	Lost time injury frequency rate Medical treatment injury Frequency rate	Shareholder return	Share price performance
		Funding	Net cash position
Environment management	Number of breaches of the Company's strict environmental policies which are in place	Exploration expenditure	Funding and development costs measured as per anticipated ounce of metals
Operational success	The number of successful exploration drilling ventures Resources added during the period		
Human resource management	Employee retention rate		

Going concern

The attached financial statements are prepared on a going concern basis which the Directors believe to be appropriate for the following reasons:

In common with many exploration companies, the Company raises finance for its exploration and appraisal activities in discrete tranches to finance its activities for limited periods only. Further funding is raised as and when required.

Report of the Directors
continued

The Directors have prepared cash flow information for the period ending twelve months from the date of approval of these financial statements. On the basis of this cash flow information the Directors are of the opinion that the Company will require additional financial resources to enable the Group to undertake an optimal programme of exploration and appraisal activity over the next twelve months, and accordingly further funds will need to be raised during 2007. Whilst the Directors are confident that the Group will be able to secure additional funding to enable it to continue to meet its commitments as they fall due and to undertake the programme described above for at least the next twelve months from the date of approval of these financial statements, there can be no guarantee that this will be the case which may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not include any adjustments, particularly in respect of tangible fixed assets, investments, loans and provisions for winding up which would be necessary if the Company and Group ceased to be a going concern.

Share capital

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.

On 21 July 2006, the Company allotted 5,200,000 new ordinary shares of 1p each in the Company pursuant to the conversion by the noteholders of £520,000 of unsecured convertible loan notes, being all such loan notes which were originally issued on 8 December 2004 on the acquisition of the entire share capital of Minamalú SA, an Argentine exploration company.

On 28 February 2007 the Company allotted 30,345,160 ordinary shares of 1p each to Barrick Exploraciones Argentina S.A. and Minera Rodeo S.A., (together "the Barrick noteholders"), being subsidiaries of Barrick Gold Corporation. This followed the conversion by the Barrick noteholders of £2,162,092.65 of Convertible Loan Notes which had been issued to them on 21 February 2007 as consideration for the acquisition by Patagonia Gold SA of the rights, title and interest in 70 mining and exploration claims and properties. The Loan Notes converted at a price of 7.125p per share. Further details are set out in Note 24.

On 22 March 2007, the Company announced that it had placed 29,021,400 new ordinary shares of 1p each at a price of 5.75p per share to finance working capital and exploration expenditure.

On 30 April 2007, the Company allotted 1,920,506 Ordinary shares of 1p pursuant to the exercise of a share option on 16 April 2007.

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 (2005: *£nil*).

Report of the Directors
continued

Substantial shareholdings

In addition to the interest of C J Miguens disclosed below, at 23 May 2007, 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
Barrick Gold Corporation	30,345,160	9.07
Maria Luisa Miguens de Tanoira	23,060,404	6.90
Cristina Miguens	17,172,095	5.14
Diego Miguens	17,172,094	5.14
Chase Nominees Ltd	12,041,400	3.60
Merrill Lynch Gold & General Fund	11,000,000	3.29

Political and charitable contributions

The Group made no political or charitable donations during the year (2005: *£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 Directors' 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:	23 May 2007	31 December 2006	31 December 2005
Sir John Craven	2,997,500	2,562,500	1,000,000
C J Miguens	51,698,956	40,596,950	36,940,382
W H Humphries	7,940,625	6,890,625	6,500,000
M J Sale	1,676,687	1,450,687	1,450,687
G Tanoira	4,359,437	4,359,437	3,995,437
R Ö Prickett	7,244,888	6,374,888	5,984,263

At 31 December 2005, C J Miguens and G Tanoira held £98,800 and £36,400 unsecured convertible loan notes which had been issued to them as part of the consideration for the acquisition of the entire issued share capital of Minamalú SA in December 2004. On 21 July 2006, C J Miguens and G Tanoira converted their holdings of loan notes into 988,000 and 364,000 Ordinary shares of 1p, respectively.

	Loan Notes 2006	Loan Notes 2005
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 2006, 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 5.00p and 23.05p during the year. The closing mid-market price of the Company's ordinary shares on 31 December 2006 was 6.00p (31 December 2005: 9.5p).

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.

Report of the Directors
continued

Carlos J Miguens *(Non-Executive Deputy Chairman)* has extensive business experience in Latin America. He was President of Cerveceria & Malteria Quilmes, one of Argentina's largest brewing companies, until its sale to Ambev. He is the President of SA San Miguel, the largest lemon producer in Argentina and the Vice President of Central Puerto SA and Hidroelectrica Piedra del Aguila SA, two of the main utilities companies in Argentina. He is also a Director of a number of other companies and has been a Director of Patagonia Gold SA since its inception.

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

Richard Ö Prickett *(Non-Executive Director)* is a chartered accountant and has many years' experience in corporate finance. Richard was Chairman of Brancote Holdings PLC from 1995 until its acquisition by Meridian Gold Inc. in July 2002. He was Chairman of the Company since its inception until June 2004. He is a Director of Landore Resources Limited, and a Non-Executive Director of The Capital Pub Company PLC, Asian Growth Properties Limited and City Natural Resources High Yield Trust Plc.

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.

Report of the Directors

continued

Internal control

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

There is 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.

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 website at www.patagoniagold.com.

Annual General Meeting

The Directors who retire by rotation are Carlos Miguens and Gonzalo Tanoira 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 £3,500,000 to £5,000,000 by the creation of a further 150,000,000 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 £1,600,000, representing 47.85 per cent of the Company's present issued share capital, such authority replacing the resolution passed on 22 June 2006 and to expire on 28 June 2012. 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 also be 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 £1,600,000 representing 47.85 per cent. of the present issued share capital. This Resolution, if approved, will authorise the Board, for the period expiring 28 June 2012, 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.

Report of the Directors

continued

A Special Resolution will be also proposed at the forthcoming Annual General Meeting to approve an amendment to the Articles of Association in respect of the limit on fees payable to the Directors. The limit of £100,000 in respect of the aggregate fees payable to Directors was established in 2000 when the present Articles of Association were adopted. Since that time, the responsibilities of Non-Executive Directors have increased considerably. In light of general increases in Non-Executive Directors' fees, the old limit is no longer sufficient and the Directors are seeking to increase it to £250,000 which is in line with current market practice.

Directors' indemnification provisions

Under Article 160 of the Company's Articles of Association, subject to the provisions of the Companies Act 1985 (the "Act"), but without prejudice to any indemnity to which he may be otherwise entitled, every Director, Auditor, Secretary or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all costs, charges, losses, damages and liabilities incurred by him in the actual or purported execution and/or discharge of his duties or exercise of his powers and/or otherwise in relation to or in connection with his duties, powers or office, provided that Article 160 shall be deemed not to provide for, or entitle any such person to, indemnification to the extent that it would cause Article 160 or any element of it, to be treated as void under the Act.

International Financial Reporting Standards

The financial statements have been prepared in accordance with applicable UK accounting standards. As an AIM listed company, IFRS are required to be adopted in the preparation of the interim accounts for the six months ended 30 June 2007. The Group is in the early stages of assessing the impact that this transition will have on its results.

Work to implement the required changes is being planned and will be actioned before finalisation of the interim accounts.

Disclosure of information to auditors

So far as each Director at the date of approval of this report is aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors

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

By Order of the Board

J P Gorman

Secretary

23 May 2007

Statement of Directors' responsibilities

Statement of Directors' responsibilities in respect of the Report of the Directors and the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the Group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a 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

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 2006 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 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' responsibilities for preparing 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 28. 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 whether in our opinion the information given in the Report of the Directors is consistent with the financial statements. The information given in the Report of the Directors includes that specific information presented in the Operations report that is cross referred from the Business Review section of the Report of the Directors.

In addition we report to you if, in our opinion, 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 the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it.

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 2006 and of the Group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

Emphasis of matter – Going concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in the principal accounting policies set out in the financial statements concerning the availability of funding to allow the Group to continue its intended exploration activities and that additional funding is required to meet its future commitments and continue as a going concern. These conditions indicate the existence of an uncertainty which may cast doubt on the Group's ability to continue as a going concern as described on page 36. The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

KPMG Audit Plc

Chartered Accountants

Registered Auditor

London

23 May 2007

Consolidated profit and loss account

for the year ended 31 December 2006

	Note	2006 £	*2005* *£*
Administrative expenses and exploration costs		(2,874,619)	*(2,119,173)*
Amortisation of goodwill	8	(783,695)	*(793,000)*
Impairment of goodwill	8	(14,270,330)	—
Operating loss		(17,928,644)	*(2,912,173)*
Share of operating loss in associate	10	—	*(29,665)*
Total operating loss:			
Group and share of associate		(17,928,644)	*(2,941,838)*
Interest receivable	2	52,295	*85,185*
Loss on ordinary activities before taxation	3	(17,876,349)	*(2,856,653)*
Tax on loss on ordinary activities	6	—	—
Profit on disposal of HPD New Zealand Limited	10	873,595	—
Loss for the financial year on ordinary activities after taxation	1,16	(17,002,754)	*(2,856,653)*
Loss per share (basic and diluted)	7	(6.3p)	*(1.1p)*

Consolidated balance sheet

at 31 December 2006

	Note	2006 £	*2005* *£*
Fixed assets			
Intangible assets – goodwill	8	—	*15,054,025*
Tangible fixed assets	9	40,214	*62,379*
Investments	10	85,210	*85,210*
Total fixed assets		125,424	*15,201,614*
Debtors			
Amounts falling due over one year	11	227,032	*271,987*
Current assets			
Debtors	11	202,682	*183,877*
Cash at bank and in hand	12	966,143	*147,965*
		1,168,825	*331,842*
Creditors: amounts falling due within one year	13	(301,220)	*(833,161)*
Net current assets/(liabilities)		867,605	*(501,319)*
Total assets less current liabilities		1,220,061	*14,972,282*
Creditors: Amount falling due after more than one year	13	—	*(22,105)*
Net assets		1,220,061	*14,950,177*
Capital and reserves			
Called up share capital	14	2,731,065	*2,522,814*
Share premium account	15	23,389,188	*20,577,439*
Profit and loss account	16	(24,900,192)	*(8,150,076)*
Equity shareholders' funds	17	1,220,061	*14,950,177*

These financial statements were approved by the Board of Directors on 23 May 2007.
and were signed on its behalf by:

Gonzalo Tanoira
Director

The notes on pages 35 to 51 form part of these financial statements.

Company balance sheet
at 31 December 2006

	Note	2006 £	2005 £
Fixed assets			
Tangible fixed assets	9	3,131	*478*
Investments	10	7,233,664	*19,967,723*
		7,236,795	*19,968,201*
Current assets			
Debtors	11	85,873	*798,978*
Cash at bank and in hand	12	714,333	*97,151*
		800,206	*896,129*
Creditors: amounts falling due within one year	13	(2,169,340)	*(673,513)*
Net current (liabilities)/ assets		(1,369,134)	*222,616*
Net assets		5,867,661	*20,190,817*
Capital and reserves			
Called up share capital	14	2,731,065	*2,522,814*
Share premium account	15	23,389,188	*20,577,439*
Profit and loss account	16	(20,252,592)	*(2,909,436)*
Equity shareholders' funds	17	5,867,661	*20,190,817*

These financial statements were approved by the Board of Directors on 23 May 2007.
and were signed on its behalf by:

Gonzalo Tanoira
Director

The notes on pages 35 to 51 form part of these financial statements.

Consolidated statement of total recognised gains and losses

for the year ended 31 December 2006

	2006 £	*2005 £*
Loss for the financial year	(17,002,754)	*(2,856,653)*
Net exchange difference on the retranslation of net investments	238,907	*16,660*
Total gains and losses since last annual report	(16,763,847)	*(2,839,993)*

Consolidated cash flow statement

for the year ended 31 December 2006

	Note	2006 £	*2005 £*
Net cash outflow from operating activities	18	(3,111,257)	*(2,171,990)*
Returns on investments and servicing of finance	19	946,289	*85,185*
Capital expenditure and financial investment	19	22,050	*(220,731)*
Acquisitions and disposals	19	(25,093)	*(844,415)*
Net cash outflow before use of liquid resources and financing		(2,168,011)	*(3,151,951)*
Management of liquid resources	19	(612,873)	*2,980,777*
Financing	19	3,020,000	*—*
Increase/(decrease) in cash in the year	20	239,116	*(171,174)*

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.

New accounting standards

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

FRS 20: Share based payments

FRS 23: The effects of changes in foreign exchange rates

FRS 26: Financial instruments measurement

FRS 28: Corresponding amounts

With the exception of FRS 20, the adoption of the above mentioned accounting standards has not had a material impact on the financial statements.

Share based payments

The share option programme allows Directors and employees to acquire shares of the Company. In accordance with the transitional provisions of FRS 20, only those awards that were granted after 7 November 2002, and had not yet vested at 1 January 2006, are included. The fair value is measured at the grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where variations are due only to share prices not achieving the threshold for vesting.

Basis of consolidation

The Group accounts include the Company and its subsidiary undertakings made up to 31 December 2006. 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.

Principal accounting policies
continued

Going concern

These financial statements are prepared on a going concern basis which the Directors believe to be appropriate for the following reasons:

In common with many exploration companies, the Company raises finance for its exploration and appraisal activities in discrete tranches to finance its activities for limited periods only. Further funding is raised as and when required.

The Directors have prepared cash flow information for the period ending twelve months from the date of approval of these financial statements. On the basis of the cash flow information the Directors are of the opinion that the Company will require additional financial resources to enable the Group to undertake an optimal programme of exploration and appraisal activity over the next twelve months, and to meet its commitments. Accordingly further funds will need to be raised during 2007. These conditions indicate the existence of a material uncertainty. Whilst the Directors are confident that the Group will be able to secure additional funding to enable it to continue to meet its commitments as they fall due and to undertake the programme described above for at least the next twelve months from the date of approval of these financial statements, there can be no guarantee that this will be the case which may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not include any adjustments, particularly in respect of tangible fixed assets, investments, loans and provisions for winding up which would be necessary if the Company and Group ceased to be a going concern.

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.

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.

Goodwill is reviewed anually for impairment, this includes a review of economic, political and financial movements during the period. Where a project is relinquished, abandoned or where there is sufficient uncertainy over the asset's ongoing future commercial value, the associated goodwill is impaired.

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.

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.

Classification of financial instruments issued by the Group

Following the adoption of FRS 25, financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and

b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Principal accounting policies
continued

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy. The finance cost on the financial liability component is correspondingly higher over the life of the instrument.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

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.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Notes to the financial statements

for the year ended 31 December 2006

1. Segmental analysis

	Loss before taxation		Net assets/(liabilities)	
	2006	2005	2006	2005
	£	£	£	£
United Kingdom	(1,105,053)	*(744,256)*	714,875	*438,455*
Argentina and Chile	(15,897,701)	*(1,946,995)*	505,186	*14,497,712*
New Zealand	—	*(165,402)*	—	*14,010*
	(17,002,754)	*(2,856,653)*	1,220,061	*14,950,177*

2. Interest receivable

	2006	2005
	£	£
Interest receivable	52,295	*85,185*

3. Loss on ordinary activities before taxation

	2006	2005
	£	£
The loss on ordinary activities before taxation is stated after charging:		
Operating lease charges: land and buildings	53,837	*21,518*
Depreciation of tangible fixed assets	18,418	*40,892*
Amortisation of goodwill	783,695	*793,000*
Impairment of goodwill	14,270,330	—

4. Staff numbers and costs

	2006	2005
	£	£
Staff: (excluding Directors)		
Wages and salaries	140,924	*154,250*
Social security costs	30,306	*20,159*
	171,230	*174,409*

	2006	2005
	Number	*Number*
The average number of employees (excluding Directors) by location during the year:		
Argentina and Chile – exploration	14	*14*
United Kingdom – administration	1	*1*

Notes to the financial statements continued

for the year ended 31 December 2006

5. Remuneration of Directors

Directors' emoluments:

	2006 £	*2005 £*
Sir John Craven	27,499	*25,000*
European Sales Co Ltd for the services of R Ö Prickett	40,000	*40,000*
MM-E for the services of W H Humphries	25,000	*25,000*
Carlos Miguens	28,250	*28,250*
Marc Sale(1)	25,950	*137,521*
Gonzalo Tanoira	34,750	*34,750*
	181,449	*290,521*

(1) In 2005 the remuneration of Mr Sale included £31,500 in respect of payments into a defined contribution pension scheme on his behalf, and an amount of £1,021 paid in respect of a health insurance premium. Apart from these amounts, no Director received any bonus or benefits in kind in 2006 or 2005.

6. Tax on loss on ordinary activities

The tax charge for the year was £nil *(2005: £nil)*.

Factors affecting the tax charge for the year

	2006 £	*2005 £*
Loss on ordinary activities before taxation	(17,002,754)	*(2,856,653)*
Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 30 per cent.	(5,100,826)	*(856,996)*
Different local tax rates	(81,369)	*(65,286)*
Expenses not deductible for tax purposes	485,206	*6,066*
Losses and other timing differences carried forward to future periods	4,696,989	*916,216*
Current tax charge for the year	—	—

Factors that may affect future tax charges

The Group has losses and other timing differences of approximately £4,960,000 (2005: £7,000,000) which may be utilised against future tax liabilities. A deferred tax asset has not been recognised in respect of these amounts.

The development of fiscal legislation in Argentina may lead to inherent uncertainties. Legislation is both complex, and in certain situations fiscal policies can be conflicted within the Courts. Management continually monitor fiscal developments to ensure that the Group is responsive to changes in legislation, once these changes become clear.

Notes to the financial statements continued

for the year ended 31 December 2006

7. Loss per share

	£	Weighted average number of shares	2006 per share	£	Weighted average number of shares	2005 per share
Loss attributable to shareholders	(17,002,754)	269,548,193	(6.3p)	*(2,856,653)*	*252,281,435*	*(1.1p)*

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

8. Intangible assets – goodwill

	£
Cost	
At 1 January 2006 and 31 December 2006	16,630,720
Amortisation	
At 1 January 2006	1,576,695
Charge for the year	783,695
Impairment of goodwill	14,270,330
At 31 December 2006	16,630,720
Net book value	
At 31 December 2006	—
At 31 December 2005	15,054,025

As referred to in the Chairman's statement on pages 4 and 5, following the announcement by the Province of Chubut in Patagonia of a ban for up to three years on virtually all mining and exploration activities, the Board has made a full provision against goodwill, which largely represents the cost of the Huemules mine. This has resulted in the above impairment charge of £14,270,330.

Notes to the financial statements continued

for the year ended 31 December 2006

9. Tangible fixed assets

	GROUP				COMPANY
	Office equipment £	Machinery and equipment £	Vehicles £	Total £	Office equipment £
Cost					
At 1 January 2006	38,079	43,236	50,935	132,250	12,760
Additions/(Disposals)	(11,527)	3,658	3,802	4,067	3,914
Exchange differences	(5,112)	(5,805)	(6,838)	(17,755)	—
At 31 December 2006	21,440	41,089	47,899	110,428	16,674
Depreciation					
At 1 January 2006	19,539	23,063	27,269	69,871	12,282
Additions/(disposals)	(2,495)	—	(7,089)	(9,584)	—
Charge for the year	1,145	6,524	10,749	18,418	1,261
Exchange differences	(2,623)	(2,207)	(3,661)	(8,492)	—
At 31 December 2006	15,566	27,380	27,268	70,214	13,543
Net book value					
At 31 December 2006	5,874	13,709	20,631	40,214	3,131
At 31 December 2005	18,540	20,173	23,666	62,379	478

10. Investments

Share in joint venture and associated undertakings

GROUP

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

	2006 Interest in associates £	*2005 Interest in associates £*
Operating loss	—	*(29,665)*
Interest receivable	—	—
Retained loss for the year	—	*(29,665)*
Debtors	—	—
Cash at bank and in hand	—	—
Share of net liabilities	—	—

On 28 October 2005, Minamalú acquired the outstanding 60 per cent. interests in Huemules SA, Leleque Exploracion SA and Minera Nahuel Pan SA which were previously accounted for as associated undertakings. Following these acquisitions, the Company owns 100 per cent. of Minamalú and its subsidiaries.

Notes to the financial statements continued

for the year ended 31 December 2006

10. Investments continued

	2006 £	2005 £
Other investments	85,210	*85,210*

COMPANY

	£
At 1 January 2006	19,967,723
Capital contributions during the year	1,901,291
Capital contributions committed but not paid	1,995,670
Dissolution of HPD Investments Limited	(300)
Provision against carrying value of Minera Puerto Madryn SA	(16,630,720)
At 31 December 2006	7,233,664

Company	Country of incorporation	Percentage share-holding	Nature of business	Group companies £	Other £	2006 £	2005 £
Pensacola Holdings Limited	BVI*	100	Holding Co.	3,959,691	—	3,959,691	*2,087,885*
HPD Investments Limited	BVI*	—	Holding Co.	—	—	—	*300*
HPD Mining Limited	England	100	Holding Co.	1	—	1	*1*
Minera Puerto Madryn SA	Argentina	100	Holding Co.	1,354,500	—	1,354,500	*16,235,258*
Minamalú SA	Argentina	100†	Holding Co.	1,834,262	—	1,834,262	*1,559,069*
Other				—	85,210	85,210	*85,210*
At 31 December 2006				7,148,454	85,210	7,233,664	*19,967,723*

* British Virgin Islands

† Including 5 per cent. held Indirectly

During the year the Group disposed of HPD New Zealand Limited, a wholly owned subsidiary of HPD Investments Limited. The Group realised a profit of £873,595 on this transaction. Subsequent to this disposal, HPD Investments Limited was dissolved.

At 31 December 2006, the Company had indirect shareholdings in the following companies:

	Holding company	Country of incorporation	Nature of business	Percentage indirect shareholding
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

Notes to the financial statements continued

for the year ended 31 December 2006

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

	GROUP		COMPANY	
	2006	2005	2006	2005
	£	£	£	£
Recoverable VAT	227,032	271,987	—	—
	227,032	271,987	—	—

Amounts due within one year

	GROUP		COMPANY	
	2006	2005	2006	2005
	£	£	£	£
Amounts owed by Landore Resources Limited (note 25)	8,316	547	8,316	547
Amounts owed by subsidiaries	—	—	—	724,799
Recoverable VAT	129,034	10,355	12,859	10,355
Other debtors	44,039	140,838	43,405	44,355
Prepayments and accrued income	21,293	32,137	21,293	18,922
	202,682	183,877	85,873	798,978
Total debtors	429,714	455,864	85,873	798,978

12. Cash

	GROUP		COMPANY	
	2006	2005	2006	2005
	£	£	£	£
Bank and cash balances	259,047	53,742	7,237	2,928
Short term deposits	707,096	94,223	707,096	94,223
	966,143	147,965	714,333	97,151

13. Creditors

Amounts falling due within one year

	GROUP		COMPANY	
	2006	2005	2006	2005
	£	£	£	£
Convertible Loan Notes (note 14)	—	520,000	—	520,000
Sundry creditors	211,181	164,750	83,632	50,763
Inter company capital contributions committed but not paid	—	—	1,995,670	—
Accruals and deferred income	90,039	148,411	90,038	102,750
	301,220	833,161	2,169,340	673,513

Notes to the financial statements continued

for the year ended 31 December 2006

13. Creditors continued

Amounts falling due after more than one year

	GROUP		COMPANY	
	2006	*2005*	2006	*2005*
	£	*£*	£	*£*
Sundry creditors	—	*22,105*	—	*—*
Total creditors	301,220	*855,266*	2,169,340	*673,513*

14. Called up share capital

	2006	*2005*
	£	*£*
Authorised		
350,000,000 (2005: 300,000,000) ordinary shares of 1 pence each	3,500,000	*3,000,000*
Allotted, called up and fully paid		
273,106,435 (2005: 252,281,435) ordinary shares of 1 pence each	2,731,065	*2,522,814*

During the year 20,825,000 ordinary shares were allotted, as follows:

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.

On 21 July 2006, the Company allotted 5,200,000 new ordinary shares of 1p each in the Company pursuant to the conversion by the noteholders of £520,000 of unsecured convertible loan notes, being all such loan notes which were originally issued on 8 December 2004 on the acquisition of the entire share capital of Minamalú SA, an Argentine exploration company.

Post Balance Sheet events include the allotment of 61,287,066 ordinary shares of 1p each, as follows:

On 28 February 2007 the Company allotted 30,345,160 ordinary shares of 1p each to Barrick pursuant to the conversion by the noteholders of the £2,162,092.65 of Convertible Loan Notes. The Loan Notes converted at a price of 7.125p per share. Further details are set out in Note 24.

On 22 March 2007, the Company announced that it had placed 29,021,400 ordinary shares of 1p each at a price of 5.75p per share to finance working capital and exploration expenditure.

On 30 April 2007, the Company allotted 1,920,506 ordinary shares of 1p pursuant to the exercise of a share option on 16 April 2007.

Notes to the financial statements continued

for the year ended 31 December 2006

14. Called up share capital continued

Share options outstanding at 31 December 2006 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
9,687,000	18.02.14	15.75p
1,500,000	23.06.14	13.75p
1,000,000	22.11.14	14.75p
725,000	21.06.15	7.5p
150,000	05.12.15	9.75p
200,000	16.05.16	14.5p

There are no performance conditions attached to any of the above options.

15. Share premium account

GROUP AND COMPANY	2006 £	*2005 £*
At 31 December	23,389,188	*20,577,439*

The increase in share premium during the year relates to share issues described in Note 14.

16. Profit and loss account

	GROUP £	COMPANY £
At 1 January 2006	(8,150,076)	(2,909,436)
Retained loss for the year	(17,002,754)	(17,356,887)
Exchange differences arising on retranslation	238,907	—
Share based payments charge	13,731	13,731
At 31 December 2006	(24,900,192)	(20,252,592)

17. Reconciliation of movements in equity shareholders' funds

	2006 £	*2005 £*
GROUP		
Loss attributable to shareholders	(17,002,754)	*(2,856,653)*
Exchange differences arising on retranslation	238,907	*16,660*
Share based payments charge	13,731	—
Issues of shares	3,020,000	—
Net decrease in shareholders' funds	(13,730,116)	*(2,839,993)*
Equity shareholders' funds at beginning of year	14,950,177	*17,790,170*
Equity shareholders' funds at end of year	1,220,061	*14,950,177*

Notes to the financial statements continued

for the year ended 31 December 2006

17. Reconciliation of movements in equity shareholders' funds continued

	2006 £	2005 £
COMPANY		
Loss attributable to shareholders	(17,356,887)	*(697,604)*
Share based payments charge	13,731	—
Issues of shares	3,020,000	—
Net (decrease)/increase in shareholders' funds	(14,323,156)	*(697,604)*
Equity shareholders' funds at beginning of year	20,190,817	*20,888,421*
Equity shareholders' funds at end of year	5,867,661	*20,190,817*

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

	2006 £	2005 £
Operating loss	(17,928,644)	*(2,941,838)*
Depreciation and amortisation	801,769	*833,892*
Decrease/(increase) in debtors	(158,802)	*(36,829)*
(Decrease)/increase in creditors	(629,641)	*(78,985)*
Increase in other provisions	—	*51,770*
Impairment of goodwill	14,270,330	—
Share based payments charge	13,731	—
Settlement of convertible debt for equity	520,000	—
Net cash outflow from operating activities	(3,111,257)	*(2,171,990)*

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

	2006 £	2005 £
Returns on investments and servicing of finance		
Bank interest received	52,295	*85,185*
Cash received on disposal of Glass Earth shares	893,994	—
	946,289	*85,185*
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	22,050	*(51,850)*
Funding of associate	—	*(168,881)*
	22,050	*(220,731)*
Acquisitions and disposals		
Acquisition of additional interest in associates	—	*(844,595)*
Cash acquired on acquisition of Minamalú SA	—	*180*
Disposal of HPD New Zealand Limited	(25,093)	—
	(25,093)	*(844,415)*
Management of liquid resources		
Withdrawals from/(increase to) short term deposits	(612,873)	*2,980,777*
Financing		
Issue of share capital	208,251	—
Share Premium	2,811,749	—
	3,020,000	—

Notes to the financial statements continued

for the year ended 31 December 2006

20. Analysis of net funds

	At 1 January 2006 £	Foreign exchange difference £	Non-cash items £	Cash flow £	At 31 December 2006 £
Bank and cash balances	53,742	(33,811)	—	239,116	259,047
Short term deposits	94,223	—	—	612,873	707,096
Convertible loan notes	(520,000)	—	520,000	—	—
Net funds	(372,035)	(33,811)	520,000	851,989	966,143

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 2006 and 31 December 2005.

21. Operating lease commitments

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

	2006 £	*2005 £*
GROUP AND COMPANY		
Operating leases which expire:		
Within one year	50,000	*25,167*
Within two to five years	82,055	*—*
	132,055	*25,167*

22. Employee share schemes

Share based payments – Group and Company

During the year ended 31 December 2006, the Company and the Group had 14 share-based payment arrangements in existence which were granted as share option deeds. There are no performance conditions attaching to the options and all options exercised are settled by the issue of new equity shares.

Date of Grant	Employees entitled	No of options	Exercise price – pence	Remaining contractual life (years)
21.11.2000	Former Director	1,920,506	1.5	3.92
21.12.2000	Former employees	100,000	1.5	4.00
31.05.2002	Senior management	375,000	8.5	5.42
10.09.2002	Employee	25,000	13.125	5.42
08.10.2002	Director and senior management	650,000	13.5	5.75
07.03.2003	Director	150,000	14.0	6.17
01.04.2003	Directors and former Directors	2,305,000	13.5	6.25
18.02.2004	Directors	9,687,000	15.75	7.08
24.06.2004	Director	1,500,000	13.75	7.50
23.11.2004	Senior management	1,000,000	14.75	7.92
22.06.2005	Senior management and employee	725,000	7.5	8.50
21.08.2005	Numis	2,522,814	15.0	1.25
06.12.2005	Senior management	150,000	9.75	8.92
17.05.2006	Senior management	200,000	14.5	9.33

Notes to the financial statements continued

for the year ended 31 December 2006

22. Employee share schemes continued

The number and weighted average exercise prices of share options are as follows:

	2006 Weighted average exercise price *pence*	2006 Number of options	2005 Weighted average exercise price *pence*	2005 Number of options
Outstanding at the beginning of the period	13.21	21,110,320	13.22	17,712,506
Granted during the period	14.50	200,000	13.16	3,397,814
Outstanding at the end of the period	13.22	21,310,320	13.21	21,110,320
Exercisable at the end of the period	13.22	21,310,320	13.21	21,110,320

The options outstanding at the year end have an exercise price in the range of 1.5p to 15.75p and a weighted average contractual life of 6.08 years.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Black-Scholes model. Details of contractual life and assumptions used in the model are disclosed in the table below.

	2006
Fair value at measurement date	£13,731
Weighted average share price	14p
Exercise price	14.5p
Expected volatility (expressed as a percentage used in the modelling under Black-Scholes model)	29 per cent.
Expected dividends	—
Risk free interest rate (based on national government bonds)	4.5 per cent.

The expected volatility is wholly based on the historic volatility (calculated based on the weighted average remaining life of the share options).

The total expenses recognised for the period arising from share based payments are as follows:

	2006 £	*2005 £*
Equity settled share based payments	13,731	—

Basis and assumptions for fair value assessment of equity based schemes

The carrying amount of the liability at the end of the prior year has been settled during the current year. The fair value of the share appreciation rights at grant date is determined based on the formula. The model inputs were the share price of 14p, the exercise price of 14.5p, expected volatility of 29 per cent., no expected dividends, a term of 10.005 years and a risk-free interest rate of 4.5 per cent. The fair value of the liability is remeasured at each balance sheet date and at settlement date.

Notes to the financial statements continued

for the year ended 31 December 2006

23. Auditors' remuneration

	2006 £	2005 £
Fees payable to the Company's auditor for the audit of the financial statements	67,011	61,930
Fees payable to the Company's auditor for other services	6,000	6,000
Audit of the Company's subsidiaries pursuant to legislation	35,290	24,145
Other services pursuant to legislation	4,166	—
	112,467	92,075

Fees paid to KPMG and its associates for non-audit services to the Company itself are not disclosed in the individual accounts of Patagonia Gold Plc because the Company's consolidated accounts are required to disclose such fees on a consolidated basis.

24. Post balance sheet events

Acquisition of Barrick's property portfolio in Santa Cruz Argentina

The Group announced on 21 February 2007 that it had acquired the rights, title and interest in 70 mining and exploration claims and properties currently held by Barrick Exploraciones Argentina S.A. and Minera Rodeo S.A. being subsidiaries of Barrick Gold Corporation.

The initial consideration for the Properties payable to the Vendors had an aggregate value of approximately £2,572,350 and comprised (i) a cash payment by PGSA of US$800,000 and (ii) the issue by the Company of £2,162,092.65 of loan notes, convertible into ordinary shares of 1p each in the capital of the Company at a conversion rate of 7.125p per Ordinary share. Accordingly, upon conversion, the loan notes would convert into 30,345,160 ordinary shares, representing 10 per cent. of the Company's current issued share capital. (as enlarged by the issue of such shares.) To the extent not previously converted or redeemed, the Loan Notes would fall to be repaid by the Company on 20 February 2009. The Loan Notes would become redeemable by the holders thereof after 20 February 2008 and to the extent that any Loan Notes remained outstanding at such time, interest would become payable on the outstanding Loan Notes from the commencement date at the rate of 5.25 per cent. per annum. The Loan Notes could be converted by the Vendors at any time on or after 27 February 2007 and by the Company any time after 31 May 2007.

On 28 February 2007 the Company allotted 30,345,160 ordinary shares of 1p each to Barrick pursuant to the conversion by the noteholders of £2,162,092.65 of the Loan Notes.

A further cash payment of US$1.5 million will become payable to the Vendors upon the delineation of 200,000 oz or greater of gold or gold equivalent on the La Paloma Property group. In addition PGSA has granted to the Vendors an option to buy back up to a 70 per cent. interest in any particular Property group upon the delineation of the greater of 2 million oz of gold or gold equivalent on that Property group.

Under the terms of the acquisition agreement, PGSA has committed to complete a minimum level of expenditure of US$10 million on the Properties over a five year period. This will include a commitment of US$1.5 million in the first 18 months.

Notes to the financial statements continued

for the year ended 31 December 2006

24. Post balance sheet events continued

Share Placing

On 22 March 2007, the Company announced that it had placed 29,021,400 new ordinary shares of 1p each in the Company at a price of 5.75p 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	435,000
Carlos Miguens	11,102,006
William Humphries	1,050,000
Richard Prickett	870,000
Marc Sale	226,000

Exercise of Share Option

On 30 April 2007, the Company allotted 1,920,506 Ordinary shares of 1p pursuant to the exercise of a share option on 16 April 2007.

25. Related parties

During the year the Company paid Mr Sale, a Director, fees of £45,900 (2005: Nil) in his capacity as a consultant geologist.This was in addition to his Directors fees disclosed in Note 5.

Landore Resources Limited ("Landore")

During the year the Company recharged £36,441 (2005: £40,805) 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 2006 of £8,316 (2005: £547).

The Company also holds an investment in Landore, which is disclosed in Note 10.

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

Cheyenne S.A. ("Cheyenne")

During the year the Group paid £4,978 to Cheyenne for the provision of a plane to facilitate occasional travel to outlying areas for Directors and senior employees.

Cheyenne is a related party because Mr Miguens is a Director and controlling shareholder.

MB Holding S.A. ("MB")

During the year the Group paid £39,086 to MB for the provision of an office and related administrative services in Buenos Aires.

MB is a related party because Mr Miguens is a Director and shareholder.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Patagonia Gold Plc (the "Company") will be held on 28 June 2007 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 resolutions 7 and 8 will be proposed as Special Resolutions:

ORDINARY BUSINESS

1. To receive and, if approved, adopt the financial statements of the Company for the year ended 31 December 2006 and the reports of the Directors and auditors thereon.

2. To re-elect Mr Carlos J Miguens, Non-Executive Deputy Chairman, who retires by rotation, as a Non-Executive Director of the Company.

3. To re-elect Mr Gonzalo Tanoira, Finance Director, who retires by rotation, as an Executive Director of the Company.

4. To re-appoint KPMG Audit Plc as auditors to 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 £3,500,000 to £5,000,000 by the creation of a further 150,000,000 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 and they are hereby 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 £1,600,000 provided that this authority shall expire on 28 June 2012 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 and they are hereby 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 £1,600,000.

and shall expire on 28 June 2012 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.

8. THAT Article 85(A) of the articles of association of the Company be amended by the substitution of the amount of £250,000 in place of the present amount of £100,000, and that the amended articles of association in the form produced to the Meeting and initialled by the Chairman for the purposes of identification be and are hereby adopted as the articles of association of the Company in place of and to the exclusion of the existing articles of association of the Company.

By Order of the Board

J P Gorman FCA
Company Secretary

23 May 2007

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 26 June 2007 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 28 June 2007 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 Thursday, 28 June 2007 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	Withheld
1. Ordinary Resolution to receive and adopt the 2006 accounts			
2. Ordinary Resolution to re-elect Mr Carlos Miguens			
3. Ordinary Resolution to re-elect Mr Gonzalo Tanoira			
4. Ordinary Resolution to re-appoint KPMG Audit Plc as auditors and to authorise the Directors to determine the remuneration of the auditors			
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			
8. Special Resolution to amend Article 85(A) of the Articles of Association			

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 Processing Centre, Telford Road, Bicester, Oxfordshire OX26 4LD 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
Licence Number
RRHB-RSXJ-GKCY

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Proxy Processing Centre
Telford Road
BICESTER
Oxfordshire
OX26 4LD

First fold

Third fold and tuck in

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