Patagonia Gold Plc

Annual Report

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)*
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Chairman's statement

I am pleased to present the report and accounts for the year ended 31 December 2007.

This past year has seen a significant improvement in the fortunes of Patagonia Gold with the acquisition of Barrick's Santa Cruz exploration portfolio and the subsequent successful exploration.

This is the Group's first set of audited financial statements prepared under IFRS. A full explanation of the basis of accounting and the effects of the transition to IFRS are set out in the following statement and notes. In addition to this, the most significant change is that exploration expenditure relating to a particular project will be written off until such time as the Board has determined that the project is viable and will be developed.

As a result the acquisition costs of £2,572,350 for the Barrick properties in Santa Cruz have been expensed. This has increased the loss for the year to £6,189,334 (2006: loss £17,002,754). The additional expenditure reflected the cost of increased drilling and exploration activities on the newly acquired properties and administrative expenses for the year.

This expenditure has been financed by two equity fundraisings. In July 2007 we raised £2million by placing new ordinary shares at 8.5p per share and more recently in January 2008 we raised £2.25million by placing new ordinary shares at 5p per share. These fundraisings have been largely supported by Directors and their families and as a result the Argentinean Directors, their families and associates speak for nearly 50 per cent. of the Company. Further fundraisings will be required in order to advance the development programmes of the Santa Cruz properties.

Our drilling and exploration programmes on the Santa Cruz properties during 2007 and early 2008 have produced excellent results, full details of these are set out in the Operations report which follows. It should be noted that the viability of potential gold production at the Lomada de Leiva Project is currently being assessed by consultants. In addition the exceptional drilling results at the Cap-Oeste Project could determine that this project moves rapidly to feasibility stage.

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 level and in the communities to the responsible exploitation of its mineral resources. Patagonia Gold has developed strong relationships with local communities and land owners as well as with the relevant government departments.

As I write this report, we are continuing to actively drill on two projects in the Santa Cruz province and we look forward to positive results from these programmes. We continue to hold valuable properties in the Chubut province where exploration activities are suspended until such time as the Provincial Government determines how and when mining and mineral activities can restart.

Finally on behalf of the Board, I would like to thank all our operational staff in Argentina for the continued commitment and effort in the year and to thank our shareholders for their support.

Sir John Craven
Chairman
1 May 2008

Managing Director's report

Patagonia Gold Plc's (PGD) Operations team has achieved outstanding success in its first year of exploration on the newly acquired properties in the Santa Cruz province, southern Argentina.

Over 30,000 metres of drilling together with extensive field exploration have been carried out on the three advanced properties: La Paloma, containing the Lomada de Leiva Project and the adjacent Breccia Sofia prospect; El Tranquilo, containing the Cap-Oeste Project and the nearby Breccia Valentina prospect and La Manchuria, containing the Main Zone prospect.

The Lomada de Leiva Project has been successfully advanced through drilling to Canadian National Instrument 43-101 (NI43-101) compliant status. This initial resource, of 161,346 ounces of gold in the measured and indicated categories with an additional Inferred resource of 73,725 ounces of gold, together with the excellent metallurgical recoveries of plus 95 per cent. in 24 hours and the high probability of increasing the resource from the surrounding prospects, has encouraged PGD to progress Lomada de Leiva towards production.

Accordingly a Scoping study was initiated in late 2007 and is currently being finalised. Meanwhile a new drilling campaign has commenced on both Lomada de Leiva and Breccia Sofia.

To the south, drilling on the exciting Cap-Oeste Project has confirmed the presence of a wide gold mineralised structure, with a core containing high grade to bonanza gold and silver, extending over 1,200 metres along strike and up to 160 metres in depth. Sufficient drilling has been completed to date on Cap-Oeste for an initial resource definition to NI43-101 standards. Independent engineers have been appointed and have visited site in preparation for commencement of the study in late May.

Cap-Oeste remains open along strike and down dip. In addition there are other similar anomalous structures nearby. Drilling continues on the main structure together with exploratory drilling on these other structures.

At La Manchuria, just 50 kilometres to the east of Cap-Oeste, drilling on the Main Zone prospect has confirmed and extended the high grade gold with bonanza silver (up to 4,920 grammes per tonne) mineralisation to the south for 300 metres. Interpretation of geophysics clearly shows the structure extending further south for over two kilometres.

Results are sufficiently encouraging for a resource infill and extension drilling campaign to be initiated this coming southern spring in October 2008.

PGD has eight full time geologists, supported by two consulting geologists and over 30 technical staff, operating in Santa Cruz on the three advanced projects and on exploration of other properties in our large prospective portfolio. This operations team has worked together since inception of PGD and is highly experienced with both the geology and working in the Patagonia region.

Managing Director's report
continued

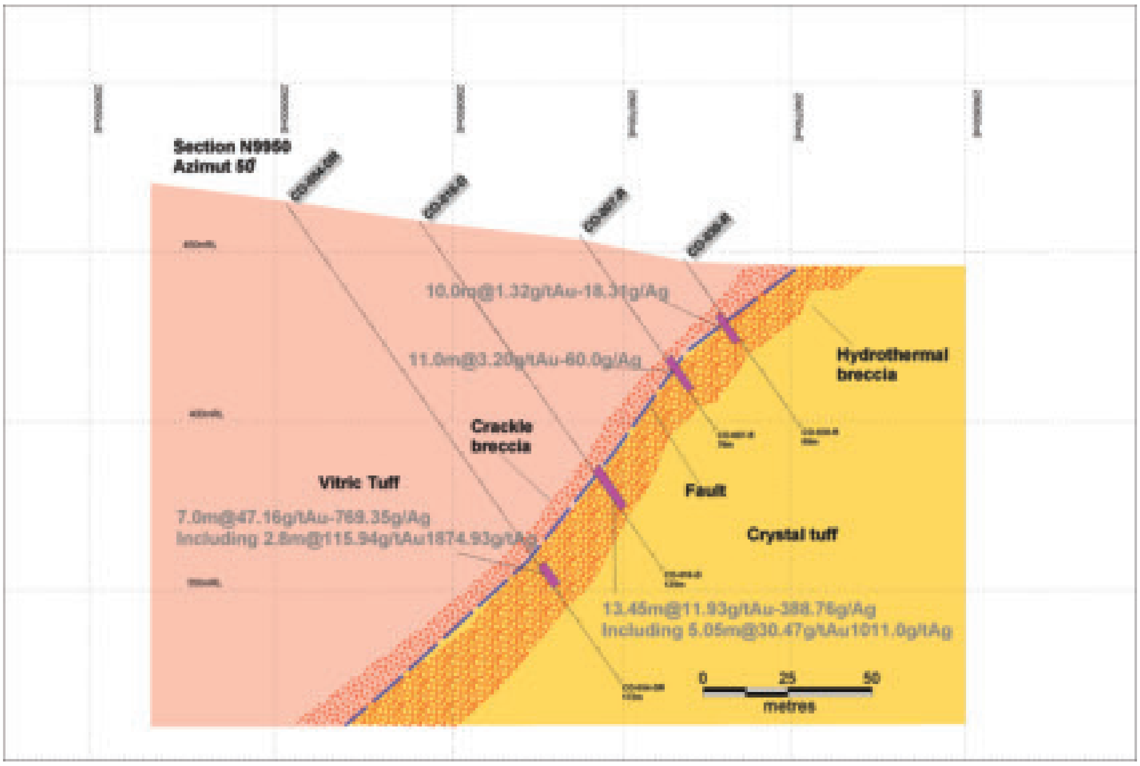
PGD maintains a strong awareness of its responsibilities towards the environment and existing social structures. Careful attention is given to ensure that all exploration work is carried out strictly within the guidelines of the relevant mining and environmental acts. PGD attempts, where possible, to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

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.

Bill Humphries

Managing Director

1 May 2008



Cap-Oeste cross section N9950

Operations report

Land holdings

Patagonia Gold Plc, through its 100 per cent. owned subsidiary in Argentina, Patagonia Gold S.A. (PGSA), operates in five of the Argentine provinces with the emphasis in the Patagonia region.

Total area held is 7,117 square kilometres.

Operations report
continued

In February 2007, the Company and its wholly owned Argentine subsidiary, Patagonia Gold S.A. (PGSA) 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.

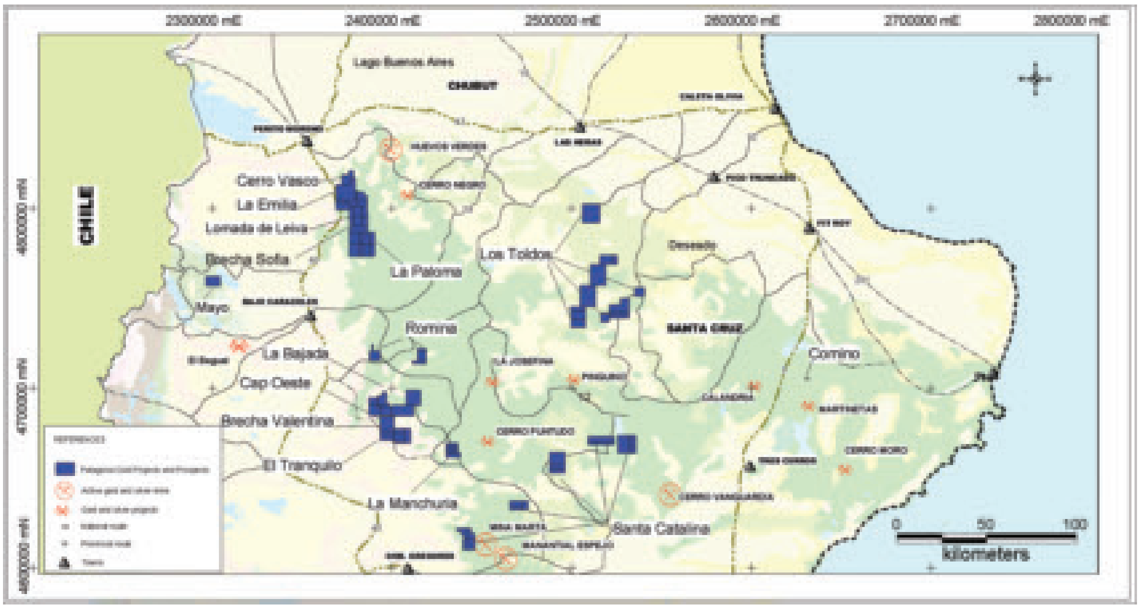
The initial consideration for the Properties was an aggregate of £2,572,350 and comprised (i) a cash payment by PGSA of US$800,000 and (ii) the issue by the Company of £2,162,092.65 of loan notes ('Loan Notes') which were convertible into ordinary shares of 1p each in the capital of the Company at a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

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. (Note: The current rate of expenditure will achieve this in two years).

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 (NI43-101 Indicated Resource) on the La Paloma Property Group.

In addition the Company granted to Barrick an option to buy back up to 70 per cent. interest in any particular Property group upon the delineation of a greater than 2 million oz of gold or gold equivalent (NI43-101 Indicated Resource) on that Property group going forward.

SANTA CRUZ PGSA PROPERTIES



Operations report
continued

SANTA CRUZ PROVINCE

During the past year, PGD has completed a substantial exploration programme on its 100 per cent. owned properties in the Santa Cruz Province.

Exploration efforts were concentrated on the Lomada de Leiva Project at La Paloma, (the most advanced property in the portfolio), Cap Oeste Project on the El Tranquilo property and La Manchuria.

The volcanic plateau of the Deseado massif is 60,000 square kilometres 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.

LA PALOMA PROPERTY

The La Paloma property block, covering over 44 square kilometres, is located approximately 40 kilometres to the south of the town of Perito Moreno in the Santa Cruz province of Argentina and contains the Lomada de Leiva Project and the adjacent Breccia Sofia Prospect.

Lomada de Leiva Project

Lomada de Leiva

Operations report
continued

Lomada de Leiva Project *continued*

At Lomada de Leiva Project a drilling campaign, consisting of 62 drill holes for 8,862 metres, was completed in the first half of 2007. The drilling was designed to validate historical drill data and to infill and extend the potential resource for definition to Canadian National Instrument 43-101 (NI43-101) standards.

The main zone of interest at Lomada de Leiva was drilled over 600 metres along strike intersecting ore grade widths greater than 20 metres and identifying significant potential extending towards Breccia Sofia, some 500 metres to the north east.

Drilling results not previously reported include:

Hole No.	From metres	Interval metres	Grade Au g/t
LPD-27	49.0	17.0	3.15
LPD-32	6.0	10.0	2.54
and	42.0	11.0	3.00
LPD-34	38.0	36.0	3.52
including	59.0	7.0	8.86
LLR-04	49.0	28.0	5.71
including	51.0	8.0	8.27

Drilling identified a second, near vertical, structure within the breccia-hosting structural corridor. The higher-grade intersections appear associated with the intersection of these two zones.

In addition, drilling on the eastern margin of the main zone has revealed a mineralised structure, which could represent a repetition of the gold bearing zone or a sub-parallel structure. A recently completed CSAMT (geophysical) survey has confirmed the potential to the east and south of the existing mineralisation as well as towards Breccia Sofia.

Geology and mineralisation

The geology of the Project area comprises a sub-horizontal sequence of Jurassic aged, rhyolitic flow and ignimbritic rocks of the Chon Aike Formation, which are interpreted to occur at the margin of a large felsic flow dome complex.

Gold mineralisation is dominated in the near surface by oxide gold mineralisation localised in a north-northeast trending, structural corridor, dipping steeply to the east containing brecciated and variably silicified volcanic and tuffaceous rocks which have been cut by a network of fine anastomosing quartz veins and veinlets. The breccia also contains clasts of chalcedonic quartz vein material. Gold is predominantly hosted in the kaolinized fault breccia matrix but is also reporting in the vein quartz and earlier chalcedonic veins over combined widths up to 30 metres.

Lomada de Leiva Gold Resource

Chlumsky, Armbrust and Meyer, LLC. (CAM) of Lakewood, Colorado, was retained by PGD to independently define and describe the potential gold Resource at Lomada de Leiva, to comply with NI 43-101.

Operations report
continued

Lomada de Leiva Gold Resource *continued*

Resource estimates at 0.30 grams per tonne gold (Au) cut-off for Lomada de Leiva are:

Measured and Indicated at 161,346 ounces Au. and additional Inferred Resources of 73,725 ounces Au.

The following table is an extract from CAM's report

Table 1-1
Resource totals

Resource type	Cut-off (g/t Au)	Tonnes	Au Grade (g/t)	Contained Au (Troy oz)
Measured	0.30	1,427,628	1.125	51,633
Indicated	0.30	3,574,388	0.955	109,713
Measured + Indicated	0.30	5,002,016	1.003	161,346
Inferred	0.30	3,412,271	0.672	73,725
Measured	0.50	951,843	1.491	45,630
Indicated	0.50	2,315,170	1.261	93,859
Measured + Indicated	0.50	3,267,013	1.328	139,489
Inferred	0.50	1,850,623	0.911	54,187
Measured	1.00	454,530	2.357	34,451
Indicated	1.00	1,035,423	1.958	65,194
Measured + Indicated	1.00	1,489,953	2.080	99,645
Inferred	1.00	456,543	1.628	23,890

Two thirds of the resource has been categorised as 'measured and indicated' thus substantially reducing the additional amount of drilling required to advance this deposit towards Reserve status.

These results, supported with the high potential to develop additional resources at: Lomada de Leiva, the adjacent Breccia Sofia and nearby Cerro Vasco, are sufficiently encouraging for PGD to advance this Project towards possible production.

Accordingly, PGD appointed CAM as Independent Engineers to undertake a Scoping study (preliminary assessment) to determine potential economics for mining Lomada de Leiva and to identify the target resource base that will support mining on that project. The report on the study is expected in the second quarter of 2008.

Breccia Sofia prospect

In conjunction with the Lomada de Leiva drill programme, 17 RC drill holes for 2,500 metres were drilled at the adjacent Breccia Sofia prospect, infilling and extending the previous drilling.

Operations report
continued

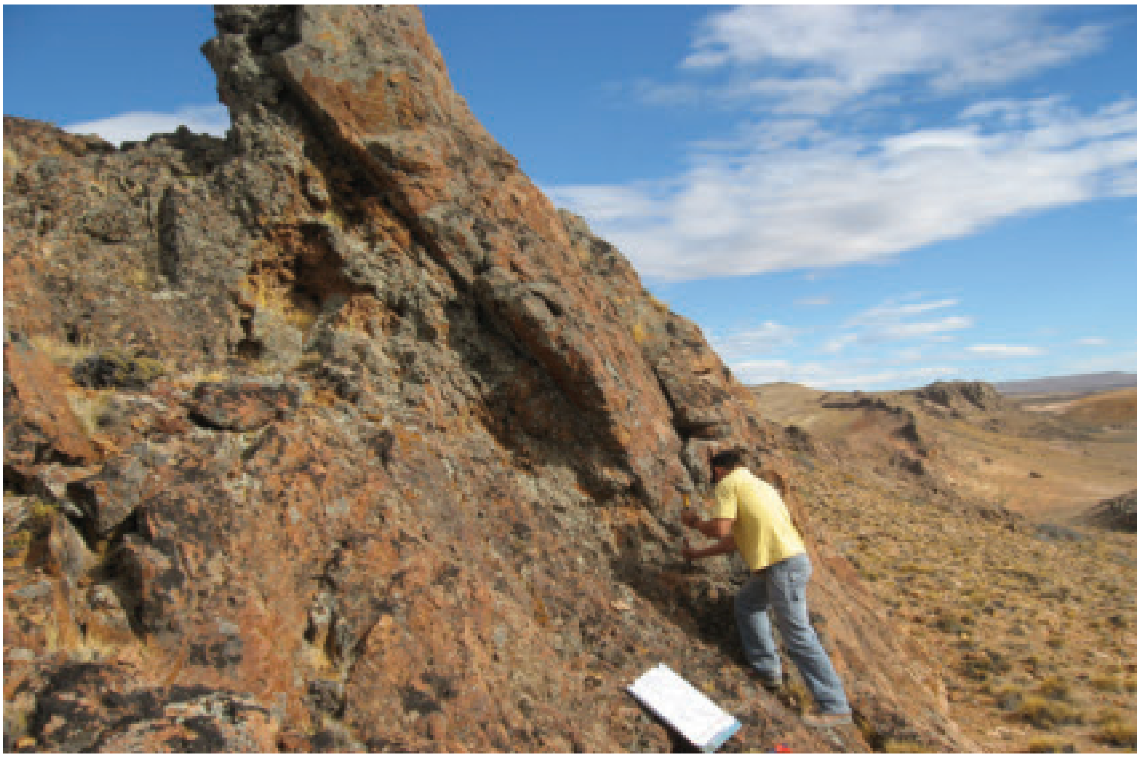
Breccia Sofia prospect *continued*

Drilling results included:

Drill Hole No.	From metres	Interval metres	Grade g/t
BSR-02	92.0	1.0	27.10
and	114.0	9.0	1.74
BSR-06	90.0	4.0	2.88
and	118.0	5.0	3.25
BSR-15	38.0	3.0	2.85
and	48.0	5.0	17.49
BSR-16	25.0	7.0	2.61
BSR-17	42.0	2.0	7.56

The values indicate that a broad zone of gold grades >1g/t gold exists on strike 500 metres from the Lomada de Leiva resource area.

At the time of writing this report a 3,500 metre drilling campaign has commenced on the Lomada de Leiva Project and the adjacent Breccia Sofia prospect to explore anomalies identified by the CSAMT survey and to carry out drilling recommended by CAM from the Scoping study.

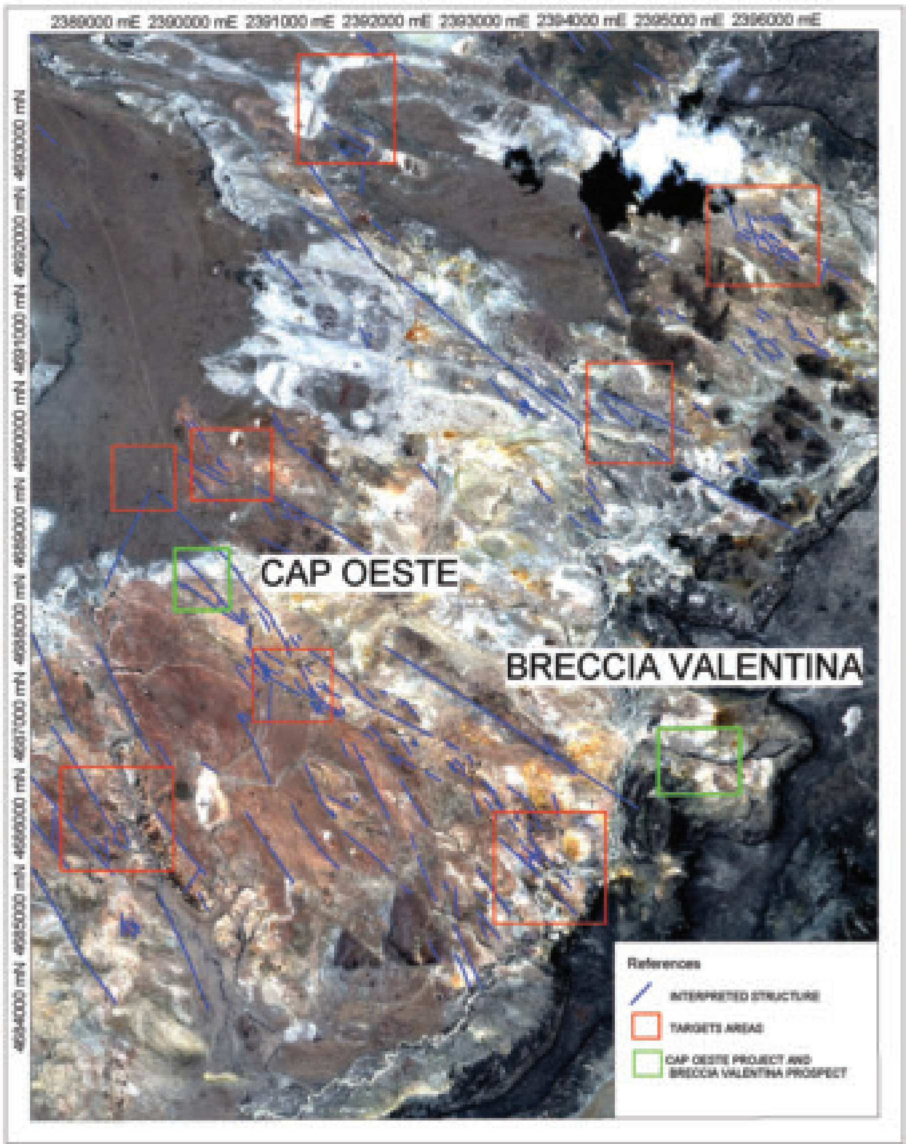


Cap-Oeste structure sampling

Operations report
continued

EL TRANQUILO PROPERTY

The El Tranquilo Property Block, covering over 40 square kilometres, is located approximately 120 kilometres south east of La Paloma and approximately 65 kilometres southeast of Bajo Caracoles in Santa Cruz, and contains the Cap-Oeste Project and Breccia Valentina Prospect.



El Tranquilo Property - Landsat photo

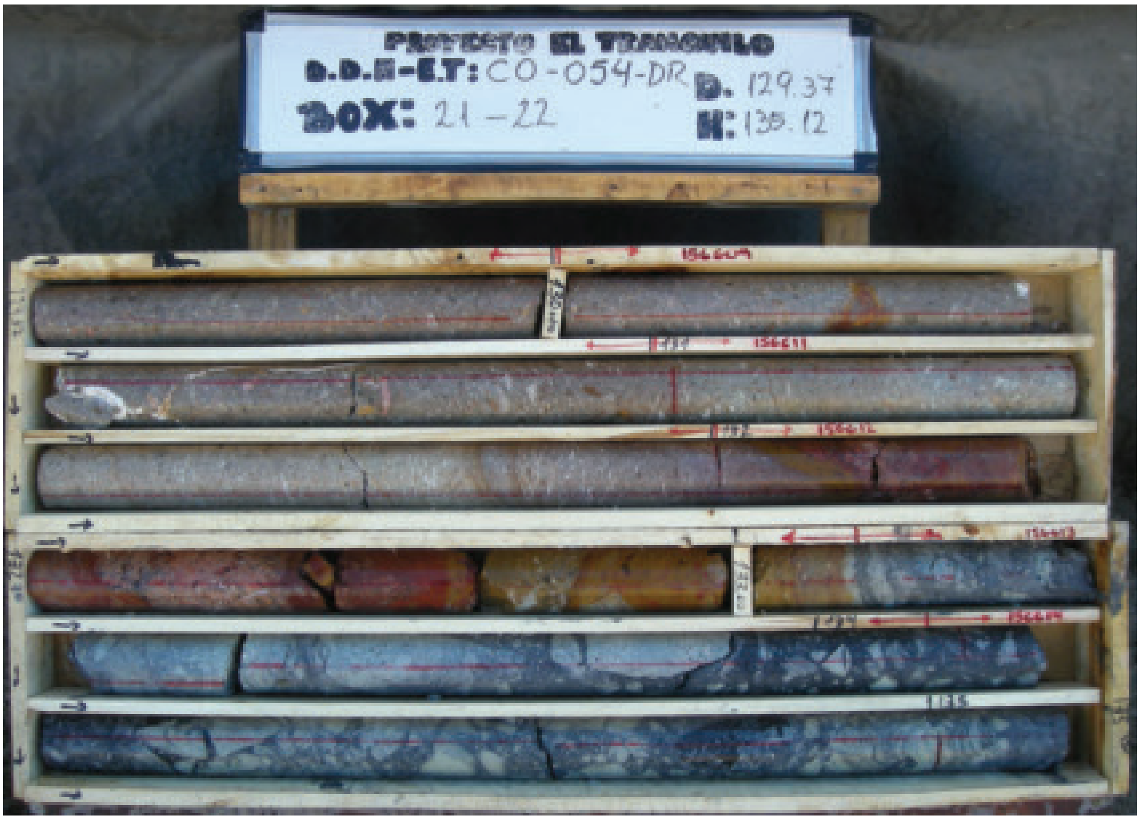
Operations report
continued

Cap-Oeste Project

Cap-Oeste Project and Breccia Valentina Prospect are situated approximately 6 kilometres apart within an 8 kilometre wide x 10 kilometre long window of variable clay-silica-Fe oxide altered Jurassic Chon Aike volcanic rocks. This regional scale window of alteration is surrounded by Tertiary cover rocks which postdate the timing of alteration and related mineralisation within this NE trending regional scale, structural corridor.

In October 2007 an exploration drilling programme commenced on the Cap-Oeste Project designed to test surface trenching and sampling completed by PGD as a follow up to Barrick's earlier work.

Drilling results confirmed the presence of a wide gold mineralised structure with a core containing high grade to bonanza gold and silver values over 400 metres along strike, open at both ends and down dip.



Cap-Oeste high grade core from drill hole 54

Operations report
continued

Cap-Oeste Project *continued*

Recognising the significant potential of the Cap-Oeste Project, the drilling campaign was expanded to test for possible strike and dip extensions and if successful, for resource definition to NI43-101 standards.

To date, 86 drill holes for a total of 9,657 metres have been completed on the Cap-Oeste Project.

Drilling results include:

Drill Hole No.	From metres	Interval metres	Gold g/t	Silver g/t
CO-015-D	75.85	14.35	2.38	18.71
including	75.85	5.25	5.55	28.63
CO-016-D	91.95	13.45	11.93	388.76
including	91.95	5.05	30.47	1,011.56
including	93.15	1.20	94.28	3,410.00
CO-034-D	87.00	5.00	3.28	64.81
CO-036-D	47.10	12.30	14.03	55.91
including	52.60	5.30	31.05	100.35
CO-044-DR	55.00	5.00	5.44	33.49
CO-051-D	79.00	12.00	3.20	26.57
CO-054-D	132.00	7.00	47.16	769.35
including	133.10	2.80	115.94	1,874.93
CO-055-D	160.00	11.80	2.79	144.20
including	168.30	2.70	9.28	453.27

Drill holes with at least one 'step back' hole have now been drilled at approximately 50 metre centres along 1,200 metres of strike of the Cap-Oeste structure. The majority of this zone is covered by a second step back and in the core zone a third step back. This fourth row of holes currently being drilled has proved vertical extension of the mineralised structure >160 metres down dip.

Geology and mineralisation

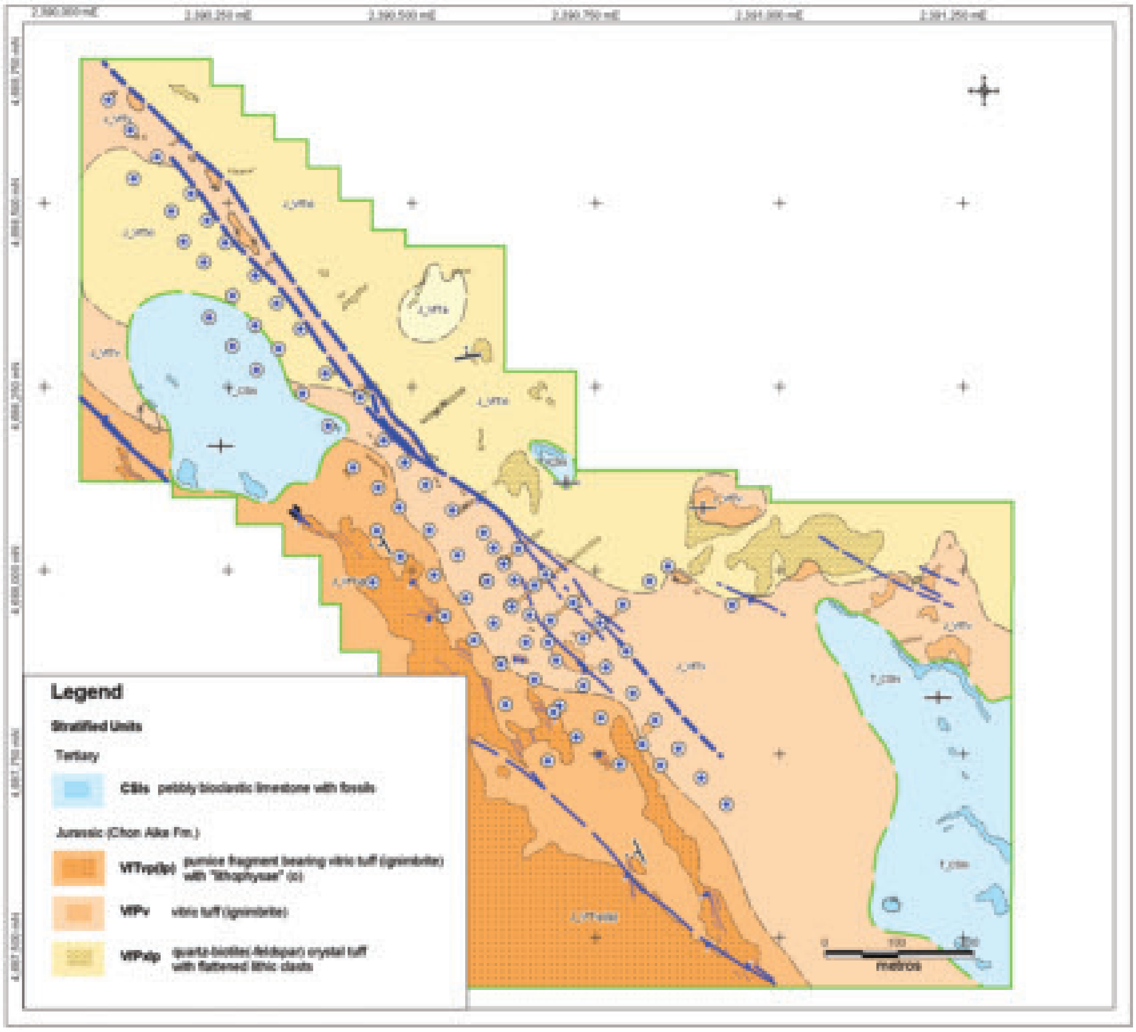
The Cap-Oeste Project geology is characterised by a sub horizontal +150 metre thick sequence of variably welded, ash/vitric tuff which overly a +100 metre thick, quartz crystal tuff unit. Mineralisation is controlled by a regional scale NW striking fault system that has cut the volcanic stratigraphy which in cross section indicates normal vertical displacement greater than 100 metre and a component of right-lateral strike-slip displacement which has juxtaposed the upper and lower tuff units.

Breccia Valentina is interpreted as a structurally controlled phreatic breccia pipe characterised at surface by high level silica hosting highly anomalous gold in veins and breccias formed in association with an adjacent dome.

The El Tranquilo property block also contains other highly prospective areas, which require further exploration in order to define the potential for drill targets.

Operations report
continued

Geology and mineralisation *continued*



Cap-Oeste plan of drill holes

The structure remains open at depth and along strike in both directions.

Recently completed hi-resolution Landsat-style imagery has shown the mineralised structure currently being drilled at Cap-Oeste to be extremely robust forming part of a structural zone, which not only continues outside the drill area but also extends south towards the sub-parallel Breccia Valentina structure.

There are several structures with signatures similar to the main Cap-Oeste structure in the immediate vicinity that have not yet been subject to detailed exploration but have previously reported anomalous gold values. A 1,500 metre exploration drill programme is currently being carried out to test several of these structures.

Operations report
continued

Breccia Valentina Prospect

In late 2007 11 drill holes, for a total of 2,410 metres, were drilled at the Breccia Valentina prospect, located approximately 6 kilometres south east from Cap-Oeste, returning encouraging results.

Drilling results included:

Drill Hole No.	From metres	Interval metres	Gold g/t	Silver g/t
BVA-002-D	26.0	12.5	2.38	12.05
including	28.0	5.2	3.35	11.73
and	128.0	7.0	2.43	38.0
BVA-007-D	63.00	19.00	0.96	6.57
including	76.00	5.00	1.93	8.30
BVA-009-D	101.00	5.00	1.68	3.36

The above results indicate the potential for the gold tenor to improve with depth. Further drilling on Breccia Valentina is being planned for the second half of 2008.

LA MANCHURIA

Operations report
continued

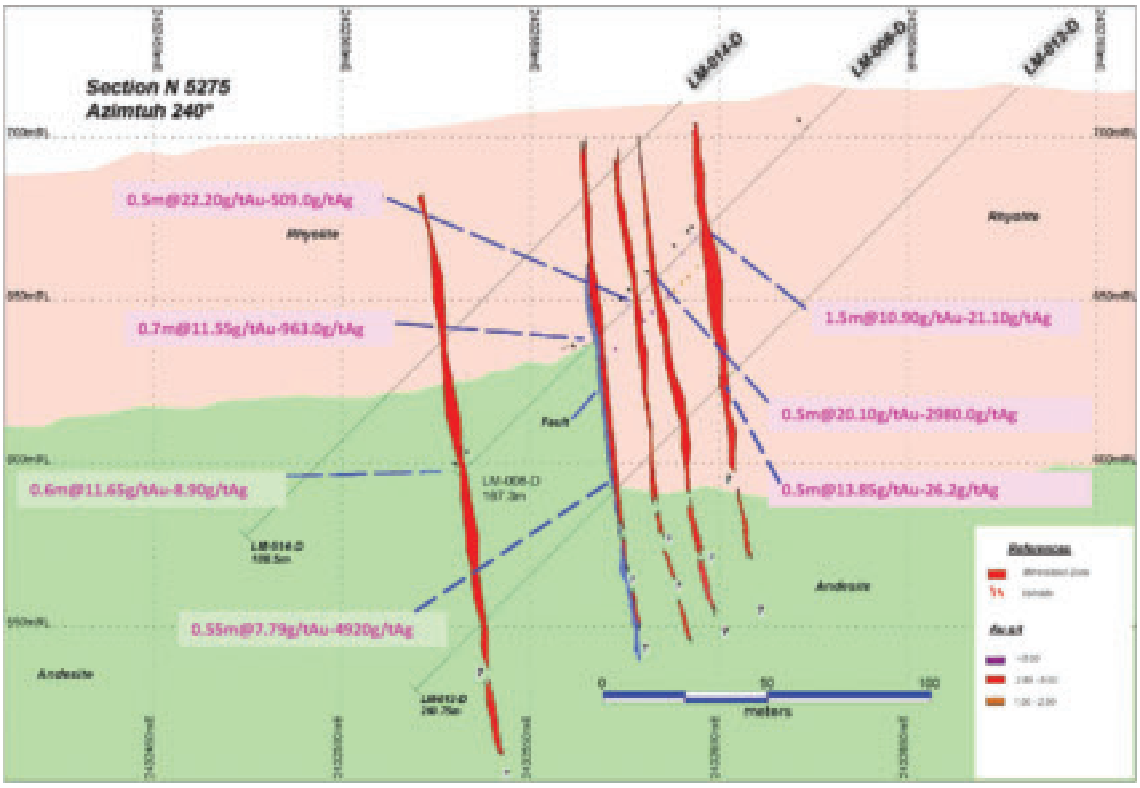
LA MANCHURIA PROPERTY

The La Manchuria property of five expedientes covers 5.5 square kilometres and is located about 150 kilometres to the south east of the La Paloma block.

The Main Zone

Historic exploration work on the Main Zone included soil and rock chip sampling, geophysics, trenching to enable sawn channel sampling and two drill campaigns of reverse circulation (RC) and diamond drill holes comprising 22 drill holes for a total of 3,104 metres.

In February-March 2008 PGD completed a 20 hole diamond drill programme, for a total of 3,980 metres, designed to infill and twin historic drill holes as well as expand the area of mineralisation and in order to plan a resource orientated drill programme for the second half of this year.



La Manchuria cross section N5275

Operations report
continued

The Main Zone *continued*

The drilling confirmed and expanded the Main Zone as well as discovering additional veining which remains open to the south.

Results from the initial 15 holes are encouraging and include:

Drill Hole No.	From metres	Interval metres	Gold g/t	Silver g/t
LM-001-D	52.50	0.80	32.42	61.50
and	125.50	0.40	4.19	666.00
LM-002-D	52.55	1.51	6.38	4,520.53
LM-003-D	47.80	1.15	10.10	16.40
LM-005-D	22.00	0.65	3.17	1,445.00
LM-007-D	63.50	0.60	7.94	801.00
and	87.80	0.50	2.76	1,060.00
LM-008-D	62.30	1.50	10.90	21.10
and	82.00	0.50	20.10	2,980.00
and	90.00	0.50	20.20	509.00
and	105.90	0.70	11.55	963.00
LM-010-D	262.7	0.70	14.25	64.10
and	266.5	1.50	14.85	3.90
LM-011-D	71.3	0.80	13.80	38.70
and	94.4	0.55	12.35	2,220.00
and	172.5	0.50	5.82	1,980.00
LM-012-D	192.6	0.55	7.79	4,920.00
LM-014-D	103.8	1.20	10.30	735.00
LM-015-D	60.70	1.00	20.10	23.30
and	95.25	1.20	58.90	4,150.00

Results for the other 5 holes are pending and will be reported in due course.

Geology and mineralisation

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 Jurassic aged rhyolite tuffs and underlying andesites. Veins are characteristically narrow on average less than 1 metre but contain bonanza grades of both gold and silver. The veins are strongly structurally controlled with principle veins showing NW to NNW strikes occurring in swarms and densely sheeted zones.

The Manchuria 'Main Zone' is within the same regional corridor that contains the operational mines, Mina Martha to the south and Huevos Verdes to the north.

Operations report
continued

EXPLORATION

The Patagonia Gold property '**Cerro Vasco**' is located 10 kilometres to the north of Lomada de Leiva. Exploration has reported rock chip samples of 2.85 metres @ 44.2g/t gold in the central breccia area whilst, immediately to the south, reconnaissance identified copper-lead sulphides together with additional gold and silver mineralisation. The structures containing this mineralisation trend south towards the La Paloma block.

PGD has applied for Cateo La Emilia covering 8,589 hectares, which effectively joins the Cerro Vasco property to the La Paloma Project block. Exploration, in progress, on La Emilia has identified very prospective geology with highly anomalous rock chip sample results and significant mineralisation. Results to date from separate samples of vuggy silica, hydrothermal breccias and quartz veinlets include 8.11g/t Au, 136g/t Ag, 0.96 per cent. Cu as well as highly anomalous lead significant barite.

CHUBUT PROVINCE

In June 2006, the Provincial Government of Chubut introduced a provisional law for up to three years banning mining and mineral exploration activities in a specified area to the west side of the province.

The exclusion area not only included PGD's principal asset, the Huemules mine, but also 85 per cent. of PGD's exploration properties, including the advanced Crespo project.

Accordingly PGD suspended all exploration activities in Chubut until such time that the Provincial Government determines how and when mining and mineral activities can restart in Chubut.

Report of the Directors

The Directors present their report and the audited financial statements for the year ended 31 December 2007.

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 business review is prepared by the Company under 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 on page 3, the Managing Director's report on pages 4 and 5 and in the Operations report on pages 6 to 19.

Principal risks and uncertainties

The Group operates in an uncertain environment that may result in increased risk, costs 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

Argentinean fiscal policies are complex, and it is therefore difficult to distinguish whether a future tax payment is possible or probable. Where a future tax payment is considered to be possible but not probable, no provision has been made in the accounts.

Report of the Directors
continued

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.

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 on page 3, the Managing Director's report on pages 4 and 5 and the Operations report on pages 6 to 19, which are incorporated in this report by reference.

Key Performance Indicators

The legislation requires the Board to lay down relevant Key Performance Indicators (KPIs) which, for a company at PGD's stage of development, are focussed on managing the activities inherent in exploration and appraisal operations. The KPIs 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	Strict environmental policies 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		
Human resource management	Employee retention rate		

Report of the Directors
continued

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.

The Directors have prepared cash flow information for 2008. 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 appraisal activity over the next 12 months, and to meet its commitments.

On 9 January 2008 the Company placed shares to a value of £2.25 million. 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 current planned programme of activity. Accordingly, the financial statements do not include any adjustments which would be necessary if the Company and Group ceased to be a going concern.

Share capital

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 3.

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.

On 19 July 2007, the Company announced that it had placed 23,529,412 new ordinary shares of 1p each at a price of 8.50p per share to finance working capital and exploration expenditure.

Subsequent events

On 9 January 2008, the Company announced that it placed 45,000,000 new ordinary shares of 1p each at a price of 5p per share to finance working capital and exploration expenditure.

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.

Report of the Directors
continued

Dividends

The Directors do not recommend the payment of a dividend (2006: £*nil*).

Substantial shareholdings

In addition to the interest of C J Miguens disclosed below, at 1 May 2008, 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
Carlos Miguens	73,035,306	18.13
Cinco Vientos Uruguay SA	32,344,148	8.03
Barrick Gold Corporation	30,345,160	7.53
Cristina Miguens	24,048,504	5.97
Diego Miguens	24,048,504	5.97
Merrill Lynch Gold & General Fund	19,800,000	4.91
Chase Nominees Ltd	12,041,400	2.99

Political and charitable contributions

The Group made no political or charitable donations during the year (2006: £*nil*).

Creditor payment policy

Although the Company does not follow a specific code when settling its payment obligations with creditors, it is the policy of the Company to ensure that all suppliers of goods and services are paid promptly and in accordance with contractual and legal obligations.

Directors and Director's interests

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

	1 May 2008	31 December 2007	31 December 2006
Ordinary Shares of 1p:			
Sir John Craven	2,997,500	2,997,500	2,562,500
C J Miguens	73,035,306	56,214,866	40,596,950
W H Humphries	9,232,353	9,232,353	6,890,625
M J Sale	1,676,687	1,676,687	1,450,687
G Tanoira	6,110,908	4,730,208	4,359,437
R Ö Prickett	7,244,888	7,244,888	6,374,888

Report of the Directors
continued

No options were exercised by the Directors during the year. At 31 December 2007, 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	Due 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	08.10.02	13.50p	350,000	08.10.02	08.10.12
W H Humphries	07.03.03	14.00p	150,000	07.03.03	07.03.13
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
M J Sale	05.06.07	10.50p	1,000,000	05.06.07	04.06.17
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 5.75p and 10.875p during the year. The closing mid-market price of the Company's ordinary shares on 31 December 2007 was 6.375p (31 December 2006: 6.0p).

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.

Report of the Directors
continued

Board of Directors

Sir John Craven *(Non-Executive Chairman)* joined the Board in 2004. Sir John is Non-Executive Chairman of Lonmin plc, a FTSE 100 company that is one of the three largest producers of platinum group metals in the world, and was formerly Chairman of Morgan Grenfell plc, a member of the Board of Managing Directors of the Deutsche Bank Group and a Director of a number of other companies.

Carlos J Miguens *(Non-Executive Deputy Chairman)* has extensive business experience in Latin America. He was President for 11 years of Cerveceria & Malteria Quilmes, one of Argentina's largest brewing companies, until its sale to Ambev. He is the Vice President of Central Puerto SA and Hidroelectrica Piedra del Aguila SA, two of the main utilities companies in Argentina. He is also a Director of a number of other companies 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 Aguila SA. He is also a Director of a number of other companies. Previously, Gonzalo worked for Bear Stearns & Co. (New York) in its investment banking division for Latin America. He was also an associate at Booz Allen & Hamilton in its Buenos Aires office. Gonzalo holds an MBA from the Wharton School of the University of Pennsylvania.

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

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

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.

Report of the Directors
continued

The Board has established Committees to fulfil specific functions:

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

The *Remuneration Committee* chaired by Mr Prickett, comprises the Non-Executive Directors. Meetings are convened to monitor, assess and report to the full Board on all aspects and policy relating to the remuneration of Executive Directors.

All Directors are required, in turn, to stand for re-election every three years.

Internal control

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

There is an appropriate level of involvement by the Directors in the Group's activities. This includes the comprehensive review of both management and technical reports, the monitoring of foreign exchange and interest rate fluctuations, environmental considerations, government and fiscal policy issues, employment and information technology requirements and cash control procedures. Site visits are made as required both by certain Directors and senior management. In this way the key risk areas can be monitored effectively and specialist expertise applied in a timely and productive manner.

Directors' service agreements

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

Relations with shareholders

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

Annual General Meeting

The Directors who retire by rotation are Sir John Craven and Marc Sale 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 £5,000,000 to £10,000,000 by the creation of a further 500,000,000 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.

Report of the Directors
continued

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 £2,000,000, representing 49.64 per cent. of the Company's present issued share capital, such authority replacing the resolution passed on 28 June 2007 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 (resolution 7) 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 £2,000,000 representing 49.64 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.

Loss of capital

As a result of the Company's conservative accounting policy that expenses all exploration expenditure (see page 42), the net assets of the Company amounted to £657,296 as at 31 December 2007, and are therefore now less than one half of the amount of the Company's called up share capital. In accordance with Section 142 of the Companies Act 1985 (as amended), the Directors are giving the shareholders the opportunity at the Annual General Meeting to consider whether any measures should be taken to deal with the situation.

Full details of the Company's business and strategy is set out in the annual report and accordingly the Directors, having taken advice, do not consider that any further steps need to be taken, although shareholders will nonetheless have an opportunity at the Annual General Meeting to raise any matters relevant to the loss of capital.

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.

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 the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Report of the Directors
continued

Auditors

During 2007 the Company appointed Grant Thornton UK LLP as auditors in place of KPMG Audit Plc.

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of Grant Thornton UK LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

Nigel Everest
Secretary

1 May 2008

Statement of Directors' responsibilities

In respect of the Directors' report and the financial statements

The Directors are responsible for preparing the Annual Report 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 the Directors have elected to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Group and Company and of the loss of the Group and Company 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 International Financial Reporting Standards as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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 Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the Directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

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

Report of the independent auditor

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 2007 which comprise the principal accounting policies, the Consolidated income statement, the Consolidated and parent Company balance sheets, the Consolidated and parent Company cash flow statements, the Consolidated and parent Company statements of changes in members' equity, and notes 1 to 24. 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 annual report, the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of Directors' responsibilities.

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 whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information presented in the Chairman's statement, the Managing Director's report and the Operations report that is cross-referred from the business review section of the Directors' report.

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 other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' report, the Chairman's statement, the Managing Director's report and the Operations report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

Report of the independent auditor
continued

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its loss for the year then ended;
- the parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent Company's affairs as at 31 December 2007;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

As explained in Note 1 to the Group financial statements, the Group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

Emphasis of matter – Going concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosure within the accounting policies on page 39 of 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. The Group incurred a net loss of £6,189,334 during the year ended 31 December 2007 and has not yet generated any revenue from operations. These conditions, along with the going concern accounting policy on page 39 and the disclosures within the Directors report on page 22, indicate that the Group will need to raise additional funds to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

GRANT THORNTON UK LLP
Registered Auditors
Chartered Accountants
London

1 May 2008

Consolidated income statement

for the year ended 31 December 2007

	Note	2007 £	2006 Restated £
Exploration costs		(4,867,807)	(1,653,426)
Administration costs		(1,367,727)	(1,145,564)
Impairment of goodwill		—	(15,054,025)
Profit on disposal of HPD New Zealand Limited		—	873,595
Finance income	5	48,297	52,295
Finance costs		(2,097)	(75,629)
Net result for the year	4	(6,189,334)	(17,002,754)

Loss per share (pence)		
Basic loss per share	(1.86)	(6.30)
Diluted loss per share	(1.86)	(6.30)

Consolidated balance sheet

at 31 December 2007

	Note	2007 £	2006 Restated £
ASSETS			
Non-current assets			
Property, plant and equipment	12	66,199	40,214
Available for sale financial assets	14	146,666	85,210
Other receivables	15	351,316	227,032
		564,181	352,456
Current assets			
Trade and other receivables	15	224,630	202,682
Cash at bank and in hand	16	661,793	966,143
		886,423	1,168,825
Total assets		1,450,604	1,521,281
LIABILITIES			
Current liabilities			
Trade and other payables	17	(534,922)	(301,220)
Total liabilities		(534,922)	(301,220)
Net assets	4	915,682	1,220,061
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	18	3,579,229	2,731,065
Share premium account		28,400,654	23,389,188
Translation reserve		103,907	238,907
Share based payment reserve		112,600	13,731
Retained loss		(31,280,708)	(25,152,830)
Total equity		915,682	1,220,061

These financial statements were approved by the Board of Directors on 1 May 2008 and were signed on its behalf by:

Gonzalo Tanoira
Director

The notes on pages 47 to 61 form part of these financial statements.

Company balance sheet

at 31 December 2007

	Note	2007 £	2006 Restated £
ASSETS			
Non-current assets			
Property, plant and equipment	12	4,589	3,131
Investments in subsidiary undertakings	13	1,527,948	7,148,454
Available for sale financial assets	14	146,666	85,210
		1,679,203	7,236,795
Current assets			
Trade and other receivables	15	98,523	85,873
Cash at bank and in hand	16	559,853	714,333
		658,376	800,206
Total assets		2,337,579	8,037,001
LIABILITIES			
Current liabilities			
Trade and other payables	17	(1,680,283)	(2,169,340)
Total liabilities		(1,680,283)	(2,169,340)
Net assets		657,296	5,867,661
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	18	3,579,229	2,731,065
Share premium account		28,400,654	23,389,188
Translation reserve		(174,945)	(118,713)
Share based payment reserve		112,600	13,731
Retained loss		(31,260,242)	(20,147,610)
Total equity		657,296	5,867,661

These financial statements were approved by the Board of Directors on 1 May 2008 and were signed on its behalf by:

Gonzalo Tanoira
Director

The notes on pages 47 to 61 form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2007

	Note	Share capital £	Share premium account £	Translation reserve £	Share based payment reserve £	Retained loss £	Total £
Balance at 31 December 2005		2,522,814	20,577,439	—	—	(8,150,076)	14,950,177
Exchange differences on translation of foreign operations		—	—	238,907	—	—	238,907
Net income recognised directly in equity							
Loss for the period		—	—	—	—	(17,002,754)	(17,002,754)
Total recognised income and expense for the period		2,522,814	20,577,439	238,907	—	(25,152,830)	(1,813,670)
Share based payment	23	—	—	—	13,731	—	13,731
Issue of share capital	18						
Issue by placing		156,251	2,343,749	—	—	—	2,500,000
Conversion of loan notes		52,000	468,000	—	—	—	520,000
Balance at 31 December 2006		2,731,065	23,389,188	238,907	13,731	(25,152,830)	1,220,061
Changes in equity for 2007							
Exchange differences on translation of foreign operations		—	—	(135,000)	—	—	(135,000)
Net income recognised directly in equity							
Loss for the period		—	—	—	—	(6,189,334)	(6,189,334)
Total recognised income and expense for the period		2,731,065	23,389,188	103,907	13,731	(31,342,164)	(5,104,273)
Share based payment	23	—	—	—	98,869	—	98,869
Revaluation of available for sale financial assets		—	—	—	—	61,456	61,456
Issue of share capital	18						
Issue by placing		525,508	3,143,222	—	—	—	3,668,730
Conversion of loan notes		303,451	1,858,641	—	—	—	2,162,092
Exercise of option		19,205	9,603	—	—	—	28,808
Balance at 31 December 2007		3,579,229	28,400,654	103,907	112,600	(31,280,708)	915,682

Company statement of changes in equity

For the year ended 31 December 2007

	Note	Share capital £	Share premium account £	Translation reserve £	Share based payment reserve £	Retained loss £	Total £
Balance at 31 December 2005		2,522,814	20,577,439	—	—	(2,909,436)	20,190,817
Exchange differences on translation of foreign operations		—	—	(118,713)	—	—	(118,713)
Net income recognised directly in equity							
Loss for the period		—	—	—	—	(17,238,174)	(17,238,174)
Total recognised income and expense for the period		2,522,814	20,577,439	(118,713)	—	(20,147,610)	2,833,930
Share based payment	23	—	—	—	13,731	—	13,731
Issue of share capital	18						
Issue by placing		156,251	2,343,749	—	—	—	2,500,000
Conversion of loan notes		52,000	468,000	—	—	—	520,000
Balance at 31 December 2006		2,731,065	23,389,188	(118,713)	13,731	(20,147,610)	5,867,661
Changes in equity for 2007							
Exchange differences on translation of foreign operations		—	—	(56,232)	—	—	(56,232)
Net income recognised directly in equity							
Loss for the period		—	—	—	—	(11,174,088)	(11,174,088)
Total recognised income and expense for the period		2,731,065	23,389,188	(174,945)	13,731	(31,321,698)	(5,362,659)
Share based payment	23	—	—	—	98,869	—	98,869
Revaluation of available for sale financial assets		—	—	—	—	61,456	61,456
Issue of share capital	18						
Issue by placing		525,508	3,143,222	—	—	—	3,668,730
Conversion of loan notes		303,451	1,858,641	—	—	—	2,162,092
Exercise of option		19,205	9,603	—	—	—	28,808
Balance at 31 December 2007		3,579,229	28,400,654	(174,945)	112,600	(31,260,242)	657,296

Consolidated cash flow statement

For the year ended 31 December 2007

	Year to 31 December 2007 £	Year to 31 December 2006 £
Cash flow from operating activities		
Loss after taxation	(6,189,334)	(17,002,754)
Adjustment for:		
Mineral rights acquired through issuance of Loan Notes	2,162,093	—
Interest income	(48,297)	(52,295)
Depreciation and impairment	24,279	15,072,099
Profit on disposal of HPD New Zealand Limited	—	(873,595)
(Increase) in trade and other receivables	(146,232)	(158,802)
Increase/(decrease) in trade payables	233,702	(629,641)
Settlement of convertible debt for equity	—	520,000
Share based payments	98,869	13,731
Net cash used in operating activities	(3,864,920)	(3,111,257)
Cash flows from investing activities		
Interest received	48,297	52,295
Proceeds on disposal of Glass Earth shares	—	893,994
Purchase of property, plant and equipment	(50,264)	22,050
Proceeds on disposal of HPD New Zealand Limited	—	(25,093)
Net cash (used in)/from investing activities	(1,967)	943,246
Cash flows from financing activities		
Proceeds from issue of share capital	3,697,537	3,020,000
Net cash from financing activities	3,697,537	3,020,000
Net (decrease)/increase in cash and cash equivalents	(169,350)	851,989
Cash and cash equivalents at beginning of period	966,143	147,965
Effects of foreign exchange movements	(135,000)	(33,811)
Cash and cash equivalents at end of period	661,793	966,143

Company cash flow statement

For the year ended 31 December 2007

	Year to 31 December 2007 £	Year to 31 December 2006 £
Cash flow from operating activities		
Loss after taxation	(11,174,088)	(17,238,174)
Adjustment for:		
Mineral rights acquired through issuance of Loan Notes	2,162,093	—
Interest income	(38,015)	(47,994)
Depreciation and impairment	10,113,298	16,631,981
Profit on disposal of HPD New Zealand Limited	—	(873,595)
(Increase)/decrease in trade and other receivables	(12,650)	713,105
Increase/(decrease) in trade payables	(489,057)	975,827
Settlement of convertible debt for equity	—	520,000
Share based payments	98,869	13,731
Net cash generated in operating activities	660,450	694,881
Cash flows from investing activities		
Increase in investments held in subsidiary undertakings	(4,492,583)	(3,891,967)
Interest received	38,015	47,994
Proceeds on disposal of Glass Earth shares	—	893,994
Purchase of property, plant and equipment	(1,667)	(3,914)
Proceeds on disposal of HPD New Zealand Limited	—	(25,093)
Net cash used in investing activities	(4,456,235)	(2,978,986)
Cash flows from financing activities		
Proceeds from issue of share capital	3,697,537	3,020,000
Net cash from financing activities	3,697,537	3,020,000
Net (decrease)/increase in cash and cash equivalents	(98,248)	735,895
Cash and cash equivalents at beginning of period	714,333	97,151
Effects of foreign exchange movements	(56,232)	(118,713)
Cash and cash equivalents at end of period	559,853	714,333

Principal accounting policies

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

Basis of preparation

The consolidated financial statements have been prepared in accordance with applicable International Financial Reporting Standards as adopted by the EU.

The financial statements have been prepared under the historical cost convention except for available for sale financial assets and share based payments which are stated at fair value. The measurement bases and principal accounting policies of the Group are set out below.

The policies have changed from the previous year when the financial statements were prepared under applicable United Kingdom Generally Accepted Accounting Principles (UK GAAP). The comparative information has been restated in accordance with IFRS. The changes to accounting policies are explained in note 1, together with the reconciliation of opening balances. The date of transition to IFRS was 1 January 2006 (transition date).

The Group has taken advantage of certain exemptions available under IFRS 1 First-time adoption of International Financial Reporting Standards. The exemptions used are explained under the respective accounting policy and in Note 1.

The accounting policies that have been applied in the opening balance sheet have also been applied throughout all periods presented in these financial statements. These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 31 December 2007.

Goodwill representing the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired, is capitalised and reviewed annually for impairment by the Directors. Goodwill is carried at cost less accumulated impairment losses. Negative goodwill is recognised immediately after acquisition in the income statement.

Goodwill written off to reserves prior to date of transition to IFRS remains in reserves. There is no re-instatement of goodwill that was amortised prior to transition to IFRS. Goodwill previously written off to reserves is not written back to the income statement on subsequent disposal.

Going concern

These consolidated 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 will be required.

The Directors have prepared cash flow information for 2008. 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 appraisal activity over the next twelve months, and to meet its commitments.

On 9 January 2008 the Company placed shares to a value of £2.25 million to fund working capital and exploration expenditure.

Principal accounting policies
continued

Adoption of IFRS 7 Financial Instruments: Disclosure

All disclosures relating to financial instruments including all comparative information have been updated to reflect the new requirements. The first time application of IFRS 7, however, has not resulted in any prior-period adjustments of cash-flows, net income or balance sheet line items.

Issued International Financial Reporting Standards ("IFRS's") and interpretations ("IFRICS") that are not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but are not yet effective:

- IAS 1 Presentation of financial statements (revised) – effective 1 January 2009
- IAS 23 Borrowing costs (revised 2007) effective 1 January 2009
- IAS 27 (revised) Consolidated and separate financial statements – effective 1 January 2009. The standard requires the effects of all increases or decreases in the ownership of subsidiaries to be recorded in equity if there is no change in control. They will therefore no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost.
- Amendment to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation effective 1 January 2009
- IFRS 2 (Amendment) Share based payment – Vesting conditions and cancellations – effective 1 January 2009
- IFRS 3 (Amendment) Business combinations – effective 1 January 2009
- IFRS 8 Operating Segments – effective 1 January 2009. The segmental information reported under the standard is that which the chief operating decision maker uses internally for evaluating the performance of operating segments and allocating resources to those segments.
- IFRIC 11 (IFRS 2) Group and treasury share transactions – effective 1 March 2007
- IFRIC 12 – Service concession arrangements – effective 1 January 2008
- IFRIC 13 Customer loyalty programmes effective 1 July 2008
- IFRIC 14 (IAS 19) The limit on a defined benefit asset, minimum funding requirements and their interaction – effective 1 January 2008

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group or Company. The Group and Company does not intend to apply any of these pronouncements early.

Summary of significant accounting policies

Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 31 December 2007. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

Principal accounting policies
continued

Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own income statement.

Equity settled share-based payment

All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2006 are recognised in the financial statements.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to "share-based payment reserve".

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

Investments in subsidiaries

Investments in subsidiaries are stated at cost net of any provision for impairment.

Principal accounting policies
continued

Business combinations

The Group has elected not to apply IFRS 3 Business Combinations retrospectively to Business Combinations prior to 1 January 2006. Instead, the existing goodwill has been frozen at that date, tested for impairment and not subsequently amortised.

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.

Property, plant and equipment

Property, plant and equipment is stated at cost or valuation, net of depreciation and any provision for impairment.

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

Impairment testing of goodwill, other intangible assets and property, plant and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows.

Goodwill, other individual assets or cash-generating units that include goodwill, other intangible assets with an indefinite useful life, and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged *pro rata* to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Principal accounting policies
continued

Taxation

Current tax is the tax currently payable based on taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity.

Foreign currency

The Group's functional currency is United States dollars being the currency by which the Group is mainly influenced with regard to labour, material and other costs whilst operating in Argentina. The ultimate parent Company, Patagonia Gold Plc, is a UK listed company which raises funds for the Group in British pounds sterling (GBP) which are converted into United States dollars as required. Consequently, for reporting purposes, the Group's presentational currency is British pounds sterling (GBP). Foreign currency transactions by Group companies are recorded in their functional currencies at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities have been translated at rates in effect at the balance sheet date. Any realised or unrealised exchange adjustments have been charged or credited to income. On consolidation the accounts of overseas subsidiary undertakings are translated into the presentational currency of the Group at the rate of exchange ruling at the balance sheet date and income and expenditure account items are translated at the average rate for the period. The exchange difference arising on the retranslation of opening net assets is classified within equity and is taken directly to the translation reserve. All other translation differences are taken to the income and expenditure statement.

Principal accounting policies
continued

Financial assets

Financial assets can be divided into the following categories:

- loans and receivables
- financial assets at fair value through profit or loss
- available-for-sale financial assets
- held-to-maturity investments

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether resulting income and expenses are recognised in the income statement or charged directly against equity.

The Group generally recognises all financial assets using settlement day accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. Financial assets that are substantially past due are also considered for impairment. All income and expense relating to financial assets are recognised in the income statement line item "finance costs" or "finance income", respectively.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss. The Group's other receivables fall into this category of financial instruments.

Individual receivables are considered for impairment when they are past due at the balance sheet date or when objective evidence is received that a specific counterparty will default.

Available-for-sale financial assets include non-derivative financial assets that are either designated as such or do not qualify for inclusion in any of the other categories of financial assets. All financial assets within this category are measured subsequently at fair value, with changes in value recognised in equity, through the/statement of changes in equity/statement of recognised income and expense. Gains and losses arising from investments classified as available-for-sale are recognised in the income statement when they are sold or when the investment is impaired.

In the case of impairment of available-for-sale assets, any loss previously recognised in equity is transferred to the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment losses recognised previously on debt securities are reversed through the income statement when the increase can be related objectively to an event occurring after the impairment loss was recognised in the income statement.

An assessment for impairment is undertaken at least at each balance sheet date.

The Group has no financial assets at fair value through profit or loss or held-to-maturity investments.

Principal accounting policies
continued

Financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. All financial liabilities are recorded initially at fair value, net of direct issue costs.

Financial liabilities categorised as at fair value through profit or loss are remeasured at each reporting date at fair value, with changes in fair value being recognised in the income statement. All other financial liabilities are recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in the income statement. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

Equity

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares.
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- "Translation reserve" represents the differences arising from translation of investments in overseas subsidiaries.
- "Share-based payment reserve" represents equity-settled share-based employee remuneration until such share options are exercised.

Segmental reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. For the purposes of segment reporting the Group does not have separate business reporting segments.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Principal accounting policies
continued

Leases

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability. Leases of land and buildings are split into land and buildings elements according to the relative fair values of the leasehold interests at the date of entering into the lease agreement.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight line basis over the lease term. Lease incentives are spread over the term of the lease.

Dividends

Dividend distributions payable to equity shareholders are included in "other short term financial liabilities" when the dividends are approved in general meeting prior to the balance sheet date.

Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The Group has evaluated the estimates and assumptions that have been made in relation to the carrying amounts of assets and liabilities in these financial statements. It has concluded that there is no significant risk of these estimates and assumptions causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Information about the estimates and judgments made by the Group are contained in the accounting policies and/or the notes to the financial statements, and the key areas are summarised below:

- Classification of mining and exploration interests – note 12.
- Exploration expenditure relating to a particular project will be written off until such time as the Board has determined that the project is viable based upon a positive feasibility study and a decision to move into production.
- Classification of financial assets – note 14.

Notes to the financial statements

for the year ended 31 December 2007

1. Explanation of transition to IFRS

As stated in the Basis of Preparation, these are the Group's first annual consolidated financial statements prepared in accordance with IFRS.

IFRS 1 permits companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the transition period. These financial statements have been prepared on the basis of taking the following exemptions:

- Cumulative translation differences on foreign operations are deemed to be £nil at 1 January 2006. Any gains and losses recognised in the consolidated income statement on subsequent disposal of foreign operations will exclude translation differences arising prior to the transition date.
- The entity has elected not to apply IAS 21 "The Effects of Changes in Foreign Exchange Rates" retrospectively to goodwill and fair value adjustments arising on business combinations before the Group's date of transition to IFRS. Such goodwill and fair value adjustments are not treated as foreign currency assets and so are not retranslated at each reporting date.
- In accordance with the transitional provisions of IFRS 2, only those awards that were granted after 7 November 2002, and had not yet vested at 1 January 2006, are included.
- IFRS 3 "Business Combinations" is applied from 1 January 2006 and not retrospectively to earlier business combinations.

2. Effect of IFRS application

The valuation of the investments prior to 1 January 2006, the Group's date of transition to IFRS, have not been restated to comply with IFRS 3 "Business Combinations". Goodwill arising from these investments of £15,054,025 has not been restated other than as set out in note below.

Goodwill recognised by the Group on acquisition under UK GAAP was amortised over a period of 20 years. Under IFRS goodwill is not amortised, but tested annually for impairment. The goodwill amortisation charge recognised in accordance with UK GAAP in 2006 was written back.

However Patagonia Gold Plc performed an impairment review of goodwill at the date of transition to IFRS. As a result of this review a £783,695 loss has been recognised in retained earnings at the date of transition in addition to the £14,270,330 already recognised under UK GAAP.

There are no material effects on transition to the loss, cash flow or the balance sheet.

3. 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 previously held by Barrick Exploraciones Argentina S.A. and Minera Rodeo S.A. being subsidiaries of Barrick Gold Corporation (the Vendors).

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

Notes to the financial statements
continued

for the year ended 31 December 2007

3. Acquisition of Barrick's property portfolio in Santa Cruz Argentina *continued*

at a conversion rate of 7.125p per ordinary share, the mid market closing price at 20 February 2007. Accordingly, upon conversion, the Loan Notes would convert into 30,345,160 ordinary shares, representing 10 per cent. of the Company's then 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 all of the Loan Notes.

A further cash payment of US$1.5 million will become payable to Barrick upon the delineation of 200,000 oz or greater of gold or gold equivalent (NI 43-101 Indicated Resource) on the La Paloma Property Group. In addition Patagonia Gold S.A. (PGSA) has granted Barrick 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 (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. This included a commitment of US$1.5 million in the first 18 months. This commitment has been satisfied and at 31 December 2007 expenditure on these Properties amounted to approximately US$3.67 million.

4. Segmental analysis

Patagonia Gold Plc's losses before taxation and its geographic allocation of non-current assets may be summarised as follows:

	Losses 2007 £	Assets 2007 £	Losses 2006 £	Assets 2006 £
United Kingdom	(1,060,999)	657,296	(15,375,383)*	714,875
Argentina and Chile	(5,128,335)	258,386	(1,627,371)	505,186
	(6,189,334)	915,682	(17,002,754)	1,220,061

*These losses in 2006 included an impairment of goodwill loss in the sum of £15,054,025, see page 51 note 11.

5. Interest receivable

	2007 £	2006 £
Bank interest receivable	48,297	52,295

Notes to the financial statements

continued

for the year ended 31 December 2007

6. Loss on ordinary activities after taxation

	2007 £	2006 £
The loss on ordinary activities after taxation is stated after charging:		
Operating lease charges: land and buildings	41,594	53,837
Depreciation of property, plant and equipment	24,279	21,011
Impairment of goodwill	—	15,054,025

7. Staff numbers and costs

	2007 £	2006 £
Wages and salaries	318,948	140,924
Social security costs	51,634	30,306
	370,582	171,230

	2007 Number	2006 Number
The average number of employees (including Directors) by location during the year:		
Argentina and Chile – exploration	31	18
United Kingdom – administration	3	3

8. Remuneration of Directors

Directors' emoluments:

	2007 £	2006 £
Directors remuneration	261,025	181,499
Consultancy fees	88,150	45,900
Share based payments	60,173	—
	409,348	227,399

During the year the Company paid to the Directors as follows:

To Mr Humphries through his company Mining Management-Europe (MM-E) £104,167 (2006: £25,000) for his services as Director and Chief Executive of Patagonia Gold SA.

To Mr Prickett through his company European Sales Co Ltd £40,000 (2006: £40,000) for his services as Director.

To Mr Sale through his company Specialist Services, £88,150 (2006: £45,900) in his capacity as a consultant in addition to his Directors' fees of £25,000 (2006: £25,950).

No Director received any bonus or benefits in kind in 2007 or 2006.

Notes to the financial statements
continued

for the year ended 31 December 2007

9. Income tax expense

The tax charge for the year was £nil (2006: £nil).

Factors affecting the tax charge for the year

	2007 £	2006 £
Loss on ordinary activities before taxation	(6,189,334)	(17,002,754)
Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 30 per cent.	(1,856,800)	(5,100,826)
Different local tax rates	(127,870)	(81,369)
Expenses not deductible for tax purposes	264,878	485,206
Losses and other temporary differences carried forward to future periods – UK	1,098,467	3,577,836
– Argentina	621,325	1,119,153
Current tax charge for the year	—	—

Factors that may affect future tax charges

The Group has losses and other temporary differences of approximately £7,000,000 (2006: £4,690,000) 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.

10. Loss per share

The potential ordinary shares which arise as a result of the options in issue are anti-dilutive under the terms of IAS 33 because they would not increase the loss per share. Accordingly there is no difference between the basic and dilutive loss per share.

Reconciliations of the loss and weighted average number of shares used in the calculations are set out below:

	Year to 31 December 2007	Year to 31 December 2006
Loss after tax (£)	(6,189,334)	(17,002,754)
Weighted average number of shares	333,053,212	269,548,193
Basic and diluted loss per share (pence)	(1.86)	(6.30)

Notes to the financial statements
continued

for the year ended 31 December 2007

11. Intangible assets – goodwill

	£
Carrying amount at 1 January 2006	16,630,720
Accumulated impairment as at 1 January 2006	(1,576,695)
Impairment loss recognised	(15,054,025)
Carrying amount at 31 December 2006	—
Carrying amount at 31 December 2007	—

Following the 2006 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 2006 impairment loss of £15,054,025.

Notes to the financial statements
continued

for the year ended 31 December 2007

12. Property, plant and equipment

	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
At 1 January 2007	21,440	41,089	47,899	110,428	16,674
Additions/(Disposals)	2,713	19,285	5,132	27,130	1,667
Exchange differences	422	(1,631)	(2,212)	(3,421)	—
At 31 December 2007	24,575	58,743	50,819	134,137	18,341
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)	(8,491)	—
At 31 December 2006	15,566	27,380	27,268	70,214	13,543
At 1 January 2007	15,566	27,380	27,268	70,214	13,543
Additions/(Disposals)	—	(4,484)	(20,141)	(24,625)	—
Charge for the year	662	12,479	11,138	24,279	209
Exchange differences	(530)	(225)	(1,175)	(1,930)	—
At 31 December 2007	15,698	35,150	17,090	67,938	13,752
Net book value					
At 31 December 2007	8,877	23,593	33,729	66,199	4,589
At 31 December 2006	5,874	13,709	20,631	40,214	3,131

Notes to the financial statements
continued

for the year ended 31 December 2007

13. Investments

COMPANY

	£
At 1 January 2007	
– Investments in subsidiaries	7,148,454
Capital contributions during the year	4,492,583
Impairment of investments	(10,113,089)
At 31 December 2007	1,527,948

The Company investments in subsidiaries have been impaired down to a nominal value in order to be consistent with the Group's accounting policies.

Company	Country of incorporation	Percentage share-holding	Nature of business	Group companies £	2007 £	2006 £
Pensacola Holdings Limited	BVI*	100	Holding Co.	1,462,826	1,462,826	3,959,691
HPD Mining Limited	England	100	Holding Co.	1	1	1
Minera Puerto Madryn SA	Argentina	100	Holding Co.	—	—	1,354,500
Minamalú SA	Argentina	100†	Holding Co.	65,121	65,121	1,834,262
At 31 December				1,527,948	1,527,948	7,148,454

* British Virgin Islands

† Including 5 per cent. held indirectly

At 31 December 2007, 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	50.3
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

** The Company also had a direct shareholding in Patagonia Gold SA of 49.7 per cent.

Notes to the financial statements
continued

for the year ended 31 December 2007

14. Financial assets

GROUP AND COMPANY

	2007 £	2006 £
Financial assets – available for sale financial assets	146,666	85,210

15. Other receivables

Non current receivables

	GROUP 2007 £	GROUP 2006 £	COMPANY 2007 £	COMPANY 2006 £
Recoverable VAT	351,316	227,032	—	—
	351,316	227,032	—	—

Trade and other receivables

	GROUP 2007 £	GROUP 2006 £	COMPANY 2007 £	COMPANY 2006 £
Recharge of costs owed by Landore Resources Limited (note 23)	975	8,316	975	8,316
Amounts owed by subsidiaries	—	—	—	—
Recoverable VAT	142,224	129,034	31,414	12,859
Other receivables	35,431	44,039	20,134	43,405
Prepayments and accrued income	46,000	21,293	46,000	21,293
	224,630	202,682	98,523	85,873
Total trade and other receivables	575,946	429,714	98,523	85,873

All trade and other receivable amounts are short-term.

The carrying value of all other receivables is considered a reasonable approximation of fair value.

16. Cash and cash equivalent

	GROUP 2007 £	GROUP 2006 £	COMPANY 2007 £	COMPANY 2006 £
Bank and cash balances	109,635	259,047	7,695	7,237
Short term deposits	552,158	707,096	552,158	707,096
	661,793	966,143	559,853	714,333

Notes to the financial statements
continued

for the year ended 31 December 2007

17. Trade and other payables

Current payables

	GROUP		COMPANY	
	2007	2006	2007	2006
	£	£	£	£
Trade and other payables	424,952	211,181	37,336	83,632
Accruals and deferred income	109,970	90,039	1,642,947	2,085,708
	534,922	301,220	1,680,283	2,169,340

The carrying values are considered to be a reasonable approximation of fair value. There are no non current payables.

18. Called up share capital

	2007	2006
	£	£
Authorised		
500,000,000 (2006: 350,000,000) ordinary shares of 1 pence each	5,000,000	3,500,000
Allotted, called up and fully paid		
357,922,913 (2006: 273,106,435) ordinary shares of 1 pence each	3,579,229	2,731,065
Balance at 1 January	2,731,065	2,522,814
Conversion of Loan Notes	303,451	52,000
Exercise of Option	19,205	—
Issue by Placing	525,508	156,251
Balance at 31 December	3,579,229	2,731,065

During the year 84,816,478 shares were allotted.

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 5.

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.

On 19 July 2007, the Company announced that it had placed 23,529,412 new ordinary shares of 1p each at a price of 8.50p per share to finance working capital and exploration expenditure.

Notes to the financial statements
continued

for the year ended 31 December 2007

18. Called up share capital *continued*

Subsequent events

On 9 January 2008, the Company announced that it has placed 45,000,000 new ordinary shares of 1p each at a price of 5p per share to finance working capital and exploration expenditure.

19. Financial assets and liabilities

The Group's financial instruments comprise cash and cash equivalents and various items such as trade receivables, trade payables, that arise directly from its operations.

The main purpose of these financial instruments is to finance the Group's operations.

The Board regularly reviews and agrees policies for managing the level of risk arising from the Group's financial instruments. These are summarised below:

Market risk

Foreign currency risk – The Group undertakes transactions principally in sterling and US dollars. While the Group continually monitors its exposure to movements in currency rates, it does not utilise hedging instruments to protect against currency risk.

The sensitivity analysis used a GBP/US$ exchange rate variation of 10 per cent. to reflect the recent market volatility of these two currencies.

At 31st December 2007	
Closing £/US$ exchange rate	1.9963
Effect on net result of 10 per cent. increase in rate	£472,027
Effect on net result of 10 per cent. decrease in rate	(£576,922)
At 31 December 2006	
Closing £/US$ exchange rate	1.9572
Effect on net result of 10 per cent. increase in rate	£147,943
Effect on net result of 10 per cent. decrease in rate	(£180,819)

Interest rate risk – The Group utilises cash deposits at variable rate of interest for short term periods, depending on cash requirements. The rates are reviewed regularly and the best rate obtained in the context of the Group's needs. The results of the Group are not significantly affected by the level of interest income.

Notes to the financial statements
continued

for the year ended 31 December 2007

19. Financial assets and liabilities *continued*

Liquidity risk

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 Group's policy continues to be to ensure that it has adequate liquidity by careful management of its working capital.

Credit risk – Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group does not have trade receivables and does not hold collateral as security.

Credit risk from balances with banks and financial institutions is managed by the Board. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty.

Counterparty credit limits are reviewed by the Patagonia Board on a regular basis. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure.

No material exposure is considered to exist by virtue of the possible non performance of the counterparties to financial instruments.

20. Operating lease commitments

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

	2007 £	2006 £
GROUP AND COMPANY		
Operating leases which expire:		
Within one year	135,762	50,000
Within two to five years	32,400	82,055
	168,162	132,055

Notes to the financial statements
continued

for the year ended 31 December 2007

21. Post balance sheet events

Share Placing

On 9 January 2008, the Company announced that it had placed 45,000,000 new ordinary shares of 1p each in the Company at a price of 5.0p 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
Carlos Miguens	16,822,960
Gonzalo Tanoira	1,380,700

22. Related parties

Landore Resources Limited ("Landore")

During the year the Company recharged £33,444 (2006: £36,441) 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 2007 of £975 (2006: £8,316).

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 £5,386 to Cheyenne for the provision of a private 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 £42,637 to MB Holding S.A. 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.

Notes to the financial statements
continued

for the year ended 31 December 2007

23. Employee share schemes

Share based payments – Group and Company

During the year ended 31 December 2007, the Company and the Group had 15 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)
21.12.2000	Former employees	100,000	1.5	3.00
31.05.2002	Senior management	375,000	8.5	4.42
10.09.2002	Employee	25,000	13.125	4.42
08.10.2002	Director and senior management	650,000	13.5	4.75
07.03.2003	Director	150,000	14.0	5.17
18.02.2004	Directors	9,687,000	15.75	6.08
24.06.2004	Director	1,500,000	13.75	6.50
23.11.2004	Senior management	1,000,000	14.75	6.92
22.06.2005	Senior management and employee	725,000	7.5	7.50
21.08.2005	Numis*	2,522,814	15.0	0.25
06.12.2005	Senior management	150,000	9.75	7.92
17.05.2006	Senior management	200,000	14.5	8.33
01.03.2007	Employees	175,000	6.875	9.16
23.05.2007	Senior management	200,000	9.375	9.41
05.06.2007	Director and employees	1,350,000	10.5	9.42

Subsequent events

*The option held by Numis above duly expired without being exercised on 21 March 2008.

Notes to the financial statements
continued

for the year ended 31 December 2007

23. Employee share schemes *continued*

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

	2007 Weighted average exercise price pence	2007 Number of options	2006 Weighted average exercise price pence	2006 Number of options
Outstanding at the beginning of the period	13.22	21,310,320	13.21	21,110,320
Granted during the period	10.00	1,725,000	14.50	200,000
Exercised during the period	1.50	(1,920,506)	—	—
Outstanding at the end of the period	14.02	21,114,814	13.22	21,310,320
Exercisable at the end of the period	14.02	21,114,814	13.22	21,310,320

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 5.6 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 model are disclosed in the table below.

	2007	2006
Weighted average share price	10.6p	14.0p
Exercise price	10.0p	14.5p
Expected volatility (expressed as a percentage used in the modelling under Black-Scholes model)	34 per cent.	29 per cent.
Dividend yield	0 per cent.	0 per cent.
Risk free interest rate (based on national government bonds)	5.5 per cent.	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:

	2007 £	2006 £
Equity settled share based payments	98,869	13,731

Notes to the financial statements
continued

for the year ended 31 December 2007

23. Employee share schemes *continued*

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 10.6p, the exercise price of 10p, expected volatility of 34 per cent., no expected dividends, a term of 10.3 years and a risk-free interest rate of 5.5 per cent.. The fair value of the liability is remeasured at each balance sheet date and at settlement date.

24. Auditors' remuneration

	2007 £'000	2006 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	35,000	33,470
Fees payable to the Company's auditor and its associates for other services:		
– Tax	9,272	8,600
– Advice on conversion to IFRS	10,000	—
– Other	10,600	30,941
The audit of the company's subsidiaries pursuant to legislation	22,080	35,290
Other services pursuant to legislation	5,600	4,166
Payable to previous auditors re prior year	23,605	—

Fees paid to Grant Thornton UK LLP and its associates (2006: 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.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Patagonia Gold Plc (the "Company") will be held on 3 June 2008 at 11.00 am at the Cavalry & Guards Club, 127 Piccadilly, London W1V 0PX to consider and, if thought fit, to pass the following resolutions which in the case of resolutions 1 to 6 will be proposed as Ordinary Resolutions and in the case of resolution 7 will be proposed as a Special Resolution:

ORDINARY BUSINESS

1. To receive and, if approved, adopt the financial statements of the Company for the year ended 31 December 2007 and the reports of the Directors and auditors thereon.
2. To re-elect Sir John Craven, Non-Executive Chairman, who retires by rotation, as a Non-Executive Director of the Company.
3. To re-elect Mr Marc Sale, Non-Executive Director, who retires by rotation, as a Non-Executive Director of the Company.
4. To re-appoint Grant Thornton UK LLP 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 £5,000,000 to £10,000,000 by the creation of a further 500,000,000 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 £2,000,000 provided that this authority shall expire on 3 June 2013 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 £2,000,000

and shall expire on 3 June 2013 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.

LOSS OF CAPITAL

The Annual General Meeting is also being called, in accordance with the requirements of Section 142 of the Companies Act 1985 (as amended), for the purpose of considering whether any steps should be taken to deal with the fact that the net assets of the Company have fallen to less than half of its called up share capital. It should be noted that the Directors, having taken advice and given this Notice, do not consider that any further steps need to be taken.

By Order of the Board
Nigel Everest
Company Secretary
1 May 2008

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, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU 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 30 May 2008 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 30 May 2008 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 Tuesday, 3 June 2008 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 2007 accounts			
2. Ordinary Resolution to re-elect Sir John Craven			
3. Ordinary Resolution to re-elect Mr Marc Sale			
4. Ordinary Resolution to re-appoint Grant Thornton UK LLP 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			

Date____

Signature(s) or common seal____

____

Notes

1. A proxy need not be a member of the Company. Your proxy can exercise all or any of your rights to attend, speak and vote at the Annual General Meeting.
2. If you do not indicate how you wish your proxy to use your vote in a particular matter, the proxy will exercise his/her discretion as to how he/she votes and as to whether or not he/she abstains from voting.
3. In the case of a corporation this Form of Proxy must be executed under seal or under the hand of an officer or attorney duly authorised in writing.
4. Forms of Proxy, to be valid, must be signed and must be lodged, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, with the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU 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. If you have appointed a proxy and attend the meeting in person, your appointment will automatically terminate.

Second fold

Business Reply
Licence Number
MB 122

1

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

Third fold and tuck in

First fold

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London W1K 7PJ
www.patagoniagold.com