Patagonia Gold Plc

Annual Report

2008

Contents

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	Carlos J Miguens	*(Non-Executive Deputy Chairman)*
	William H Humphries	*(Managing Director)*
	Gonzalo Tanoira	*(Finance Director)*
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Deputy Chairman's statement

I am pleased to present the 2008 Annual Report for Patagonia Gold Plc.

2008 has seen a huge transformation in the Company's prospects as a direct result of the exploration successes on the Santa Cruz projects which were acquired in 2007.

The financial results show a loss of £5,803,394 (2007: £6,189,334). These losses reflect the level of expenditure on drilling and exploration activities through the year which are written off as incurred in line with our prudent accounting policies.

This expenditure has been financed by three placings of new shares at prices ranging from 4.5p to 6.75p to raise a total of approximately £6 million. The majority of these funds raised were provided mainly by my family, Bill Humphries and the Bemberg family. The Company was fortunate to have the support of this substantial shareholder group when capital markets were all but shutdown due to the global financial turmoil.

More recently, in March, the Company successfully completed a share placement, through our brokers Matrix Corporate Capital LLP, raising £9.3 million at 7.75p per share. This issue was well supported and the shares have been trading at a premium since then. As a result the Company is fully funded for our 2009 programme and has no debt.

The Company, on 14 April, formalised the strategic partnership with Fomicruz. Both parties are contributing approximately 100,000 hectares each in the Santa Cruz province which include Lomada de Leiva, Cap-Oeste and La Manchuria gold and silver projects. The Company will retain a 90 per cent. stake in the new venture and will be responsible for running the operation. Fomicruz will assist with the permitting process and provide oversight for all environmental and social aspects of the development process.

Our drilling and exploration programmes have produced excellent results during 2008 and full details are set out in the Managing Director's and Operations report which follow. In addition the Company is developing a small-scale gold production start up at its Lomada de Leiva Project. This is a significant step for the Company and all being well, cash flow is anticipated by mid 2010. The Cap-Oeste Project is much larger and the upgraded resource estimate due out later this year should confirm a second potential gold mine.

It is worth mentioning that the business model of the Company has always been to search and identify near surface gold projects which by definition will be much cheaper to mine. We estimate the production cost of gold from the Lomada de Leiva project to be approximately US$300 per oz while Cap-Oeste should be less than that. In the context of a gold price of nearly US$900 per oz this leaves a large margin and shows that these projects should not be sensitive, unless there is quite extraordinary volatility in the gold price. Much has been written about the gold price in the financial crisis and there is consensus amongst analysts around the world that a trading range of US$750 to US$1,000 per oz is likely in the medium term.

We are actively drilling and continuing to explore the Santa Cruz projects and there will be regular progress reports over the coming months as the information is gathered.

Finally on behalf of the Board, I would like to thank all our staff for the continued commitment and excellent performance during the past year and also to thank our shareholders for their support.

Carlos Miguens

Deputy Chairman

27 April 2009

Managing Director's report

Patagonia Gold Plc's (PGD) Operations Team has enjoyed considerable exploration success on the newly acquired properties in the Santa Cruz province of southern Argentina.

In only the second year of exploration on these properties drilling has already defined two resources with a combined total of 640,000 ounces of gold equivalent (gold plus silver credits) both compliant to Canadian National Instrument 43-101 (NI43-101).

Over 25,000 metres of drilling together with extensive field exploration has been carried out on two of the most advanced properties; El Tranquilo, containing the Cap-Oeste Project and numerous other exploration targets, and La Manchuria, containing the 'Main Zone' prospect.

In addition, considerable progress has been achieved in advancing the Lomada de Leiva Project, La Paloma property, towards gold production by mid 2010.

Cap-Oeste Project. By June 2008, a resource oriented drilling campaign, consisting of 95 drill holes for 11,328 metres was completed on the Cap-Oeste Project. Drill results confirmed the presence of a wide gold mineralised structure (Bonanza Fault), over 1.2 kilometres of strike and down dip to ~200 metres. The structure remained open at depth and along strike in both directions.

From this initial campaign, PGD published a maiden resource of 403,000 ounces of gold equivalent, NI43-101 compliant, including a high grade shoot containing 135,408 ounces of gold at 13.17 g/t and 2,297,652 ounces of silver at 227.56 g/t at a 5 grams per tonne (g/t) cut-off.

The initial Cap-Oeste Resource was delineated at a low discovery cost of just US$8 per ounce of gold equivalent.

Drilling recommenced in October 2008 with the aim of infilling and expanding the high grade shoot and has now extended the mineralised fault structure to over 400 metres from surface.

Drilling will continue up to the onset of the southern winter, circa mid-May. On completion, all data will be collated for a resource estimate update, which is expected to report a significant increase in contained gold and silver.

PGD intends to progress Cap-Oeste through the feasibility and development stages with the aim of achieving gold production in the second half of 2012.

Scout drilling has also commenced on six highly prospective targets on the El Tranquillo property block within 6 kilometres of the Cap-Oeste Project with promising mineralisation intersected in most holes drilled to date. Results are pending.

La Manchuria 'Main Zone' Project is located just 50 kilometres to the east of Cap-Oeste.

An 8,116 metre drilling campaign, completed on the Main Zone in 2008, has confirmed and extended the high grade gold with bonanza silver mineralisation, including 1.1 metres at 82.47 g/t gold and 10,485 g/t siver in hole LM-030, to the south for 300 metres. Interpretation of geophysics clearly shows the structure extending further south for over 2,000 metres.

Results are sufficiently encouraging for a resource infill and extension drilling campaign to be initiated this coming southern spring in October 2009 to advance this project towards resource definition.

Managing Director's report
continued

Lomada de Leiva Project contains a resource of 161,346 ounces of gold in the measured and indicated categories with an additional inferred resource of 73,725 ounces of gold NI43-101 compliant.

In November 2008, PGD reported that a positive Scoping Study had been completed on the Lomada de Leiva Gold Project utilizing a Run-of-Mine (ROM) heap leaching process.

The report highlighted a low capex. of US$8.5 million with an annual cash flow of US$10 million based on the current gold price. Full details are set out in the Operations report which follows.

Significant upside remains by increasing the size of the resource at Lomada de Leiva and the adjacent Breccia Sofia prospect.

PGD is pressing on with the technical and baseline environmental studies with the aim to become a gold producer by mid 2010.

PGD has seven 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.

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.

Bill Humphries
Managing Director

27 April 2009

Geological team – El Tranquilo

Operations report

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

Total area held is 6,899 square kilometres.

Area of operation

Operations report
continued

Santa Cruz Province

In February 2007 PGSA acquired the rights, title and interest in 70 mining and exploration claims and properties, for approximately 200,000 hectares, previously held by subsidiaries of the Barrick Gold Corporation.

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

During 2008, PGSA focused all of its exploration efforts on the newly acquired properties in the Santa Cruz province. 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.

Drilling and exploration was concentrated on the Cap-Oeste Project, on the El Tranquilo Property, and the La Manchuria Project with developmental exploration work being conducted at Lomada de Leiva Project at La Paloma. The Company now has two compliant, reportable gold Resources, which total over 640,000 ounces of gold equivalent.

PGSA and Fomicruz agreement

In May 2008 PGSA, entered into a Letter of Intent ("LOI") with Fomento Minero de Santa Cruz Sociedad del Estado ("Fomicruz SE"), a well established and respected mining company wholly owned by the pro-mining government of Santa Cruz Province, Argentina.

The LOI sets out the key terms and conditions of a strategic partnership between PGSA and government owned Fomicruz SE for the future development of PGSA's mining properties in Santa Cruz province, including the Lomada de Leiva gold project and the Cap-Oeste and La Manchuria Main Zone gold and silver projects, together with properties currently owned by Fomicruz SE.

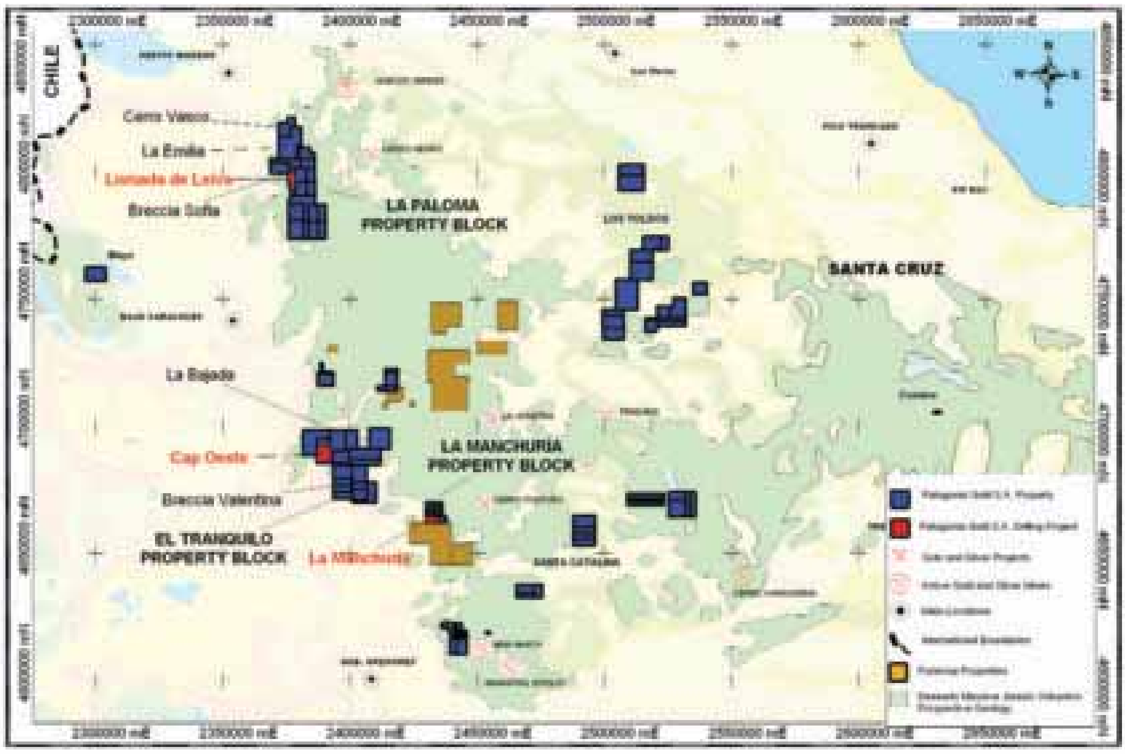
PGSA and Fomicruz SE will, subject to the approval by their respective Board of Directors, enter into a detailed Shareholders Agreement which will include the following terms:

- A new company ("NEWCO") will be created in which PGSA will acquire a 90 per cent. interest and Fomicruz SE will acquire a 10 per cent. interest.
- PGSA will contribute to NEWCO approximately 100,000 hectares of its mining properties in Santa Cruz province consisting of the La Paloma, El Tranquilo and La Manchuria block of properties.
- Fomicruz SE will contribute to NEWCO approximately 100,000 hectares of mining properties located in the very prospective Deseado Massif, close to PGSA´s El Tranquilo and La Manchuria block of properties.
- PGSA will invest US$5 million, over a five year period, on exploration expenditures on the properties contributed by Fomicruz SE.

Operations report
continued

- PGSA will fund all the exploration expenditures on NEWCO´s properties to pre-feasibility stage.
- Further development of the properties, through feasibility to production, will be funded on a pro-rata basis.
- PGSA will manage the exploration and potential future development on the properties.

The Agreement was formally ratified on 14 April 2009.



Santa Cruz properties

El Tranquilo Property

The El Tranquilo Project 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 as well as the Breccia Valentina and Vetas Norte trends.

The Cap-Oeste Project is situated within an approximate 8 kilometres wide x 10 kilometres long window of variably 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.

Operations report
continued

To June 2008, a resource oriented drilling campaign, consisting of 95 drill holes for 11,328 metres was completed on the Cap-Oeste structure. Drill results confirmed the presence of a wide gold mineralised structure (Bonanza Fault), over 1.2 kilometres of strike and down dip to ~200 metres, with a core (the Main Shoot) containing high grade to bonanza gold and silver values.

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

Chlumsky, Armbrust and Meyer, LLC. (CAM) of Lakewood, Colorado, was retained by Patagonia Gold Plc (PGD) to independently define and describe a gold-silver Resource at Cap-Oeste which complies with Canada National Instrument 43-101 (NI 43-101).

The estimate, published in October 2008, reported the following resource at 0.30 grams per tonne gold cut-off:

Indicated Resource of 149,842 ounces gold and 3,647,751 ounces silver
Inferred Resource of 154,257 ounces gold and 3,282,074 ounces silver

At 5 grams per tonne (g/t) cut-off, the high grade 'Main Shoot' contained 135,408 ounces of gold at 13.17 g/t and 2,297,652 ounces of silver at 227.56 g/t.

The initial Cap-Oeste Resource was delineated with just 11,329 metres of drilling at a low discovery cost of US$8 per ounce of gold equivalent.

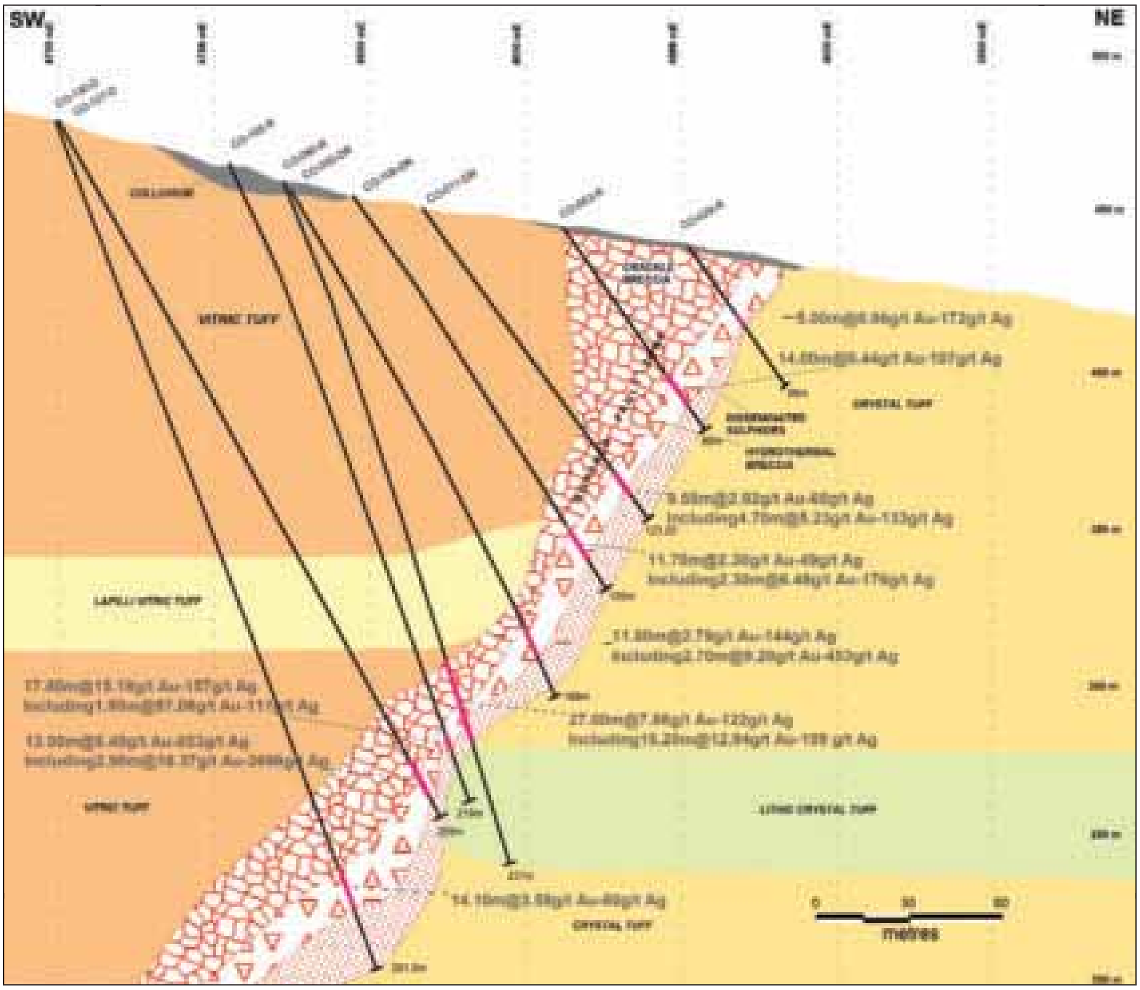
Exploration drilling, completed in the same campaign, comprising of 25 Reverse Circulation (RC), confirmed the structure to extend to over 2,200 metres of strike.

Metallurgical work on drill residues from the initial drill phase in the oxide material are extremely encouraging, with the average gold recovered after six hours being 96.3 per cent. improving to 97.2 per cent. after 24 hours. The sulphidic material report lower recoveries but leaching was still progressing when the tests were stopped at 24 hours.

The Cap-Oeste mineralised structure (Bonanza Fault) identified in mapping and trenching for over 6 kilometres, appears as an extremely robust trend in hi-resolution landsat-style imagery and forms part of a structural zone, which not only continues outside the drill area but also extends south towards the sub-parallel Breccia Valentina structure.

A geophysical survey programme completed in 2008, covered 98.5 kilometres of ground magnetics and 71 kilometres of Induced Polarity (IP) gradient array. The IP results have defined the Cap-Oeste structure as a strong linear resistive contrast over 1,800 metres but which continues as a robust anomaly outside the area of the resource drill area, specifically the geophysical survey indicated similar strength anomalies about two kilometres along strike to the north west and the south east of the Main Shoot area.

Operations report
continued



Cap-Oeste Section N10000

PGSA recommenced drilling in October with the aim of infilling and expanding the high grade Main Shoot. Drilling has now extended the mineralised fault structure to over 400 metres from surface. A total of 147 drill holes, for 22,000 metres, have been completed to the time of writing this report, with results available to CO-140-D.

Operations report
continued

Cap-Oeste **significant Drill Hole Intersections from CO-97-D**

Drill Hole No.	From (m)	Interval (m)	Au g/t	Ag g/t
CO-097-DR	132.92	6.80	10.92	1711
including	132.92	2.62	24.27	3963
CO-099-D	80.10	10.40	12.02	178
including	80.10	1.18	100.80	953
CO-104-DR	171.00	15.25	6.10	1777
including	178.00	8.25	9.73	2716
CO-105-DR	186.95	17.80	15.18	157
including	193.10	1.90	97.06	111
CO-107-DR	181.00	19.60	5.82	247
including	189.70	8.55	10.89	486
CO-108-DR	70.10	9.65	14.88	592
including	75.5.0	1.25	26.70	2478
CO-110-DR	152.30	4.20	10.32	1490
including	152.30	2.08	19.05	2818
CO-119-DR	258.00	13.20	14.54	186
including	261.00	2.00	40.32	400
including	268.00	1.00	35.54	764
CO-123-DR	257.90	16.10	5.86	260
including	269.57	3.53	14.02	629
CO-125-DR	278.00	10.00	5.29	860
including	280.50	2.08	18.97	3990
CO-127-DR	234.50	13.00	5.40	853
including	244.60	2.90	16.37	2695
CO-129-D	278.00	15.80	5.22	126
including	244.60	2.90	16.37	2696

Gold values indicate that the mineralisation of the system remains persistent at depth.

Drilling will continue up to the onset of the southern winter, circa mid-May. On completion all data will be collated for a resource estimate update.

PGD has retained Micon of Toronto, Canada, to independently prepare a resource upgrade at Cap-Oeste, which complies with Canada National Instrument 43-101 (NI 43-101). The report is scheduled for completion in the third quarter of 2009.

Geology and mineralisation. The Cap-Oeste mineralisation is localised along the regional scale north west trending, moderate to steeply south west dipping Bonanza Fault which has been geologically mapped at surface and defined under post mineral cover by geophysics over a collective strike length of almost 6 kilometres. In Cap-Oeste this fault is defined at the juxtaposed contact between a sub horizontal +280 metres thick volcanic package of variably welded, quartz crystal poor, vitric ash to lithic lapilli tuff and a +200 metres thick sequence of quartz crystal rich tuff unit.

Operations report
continued

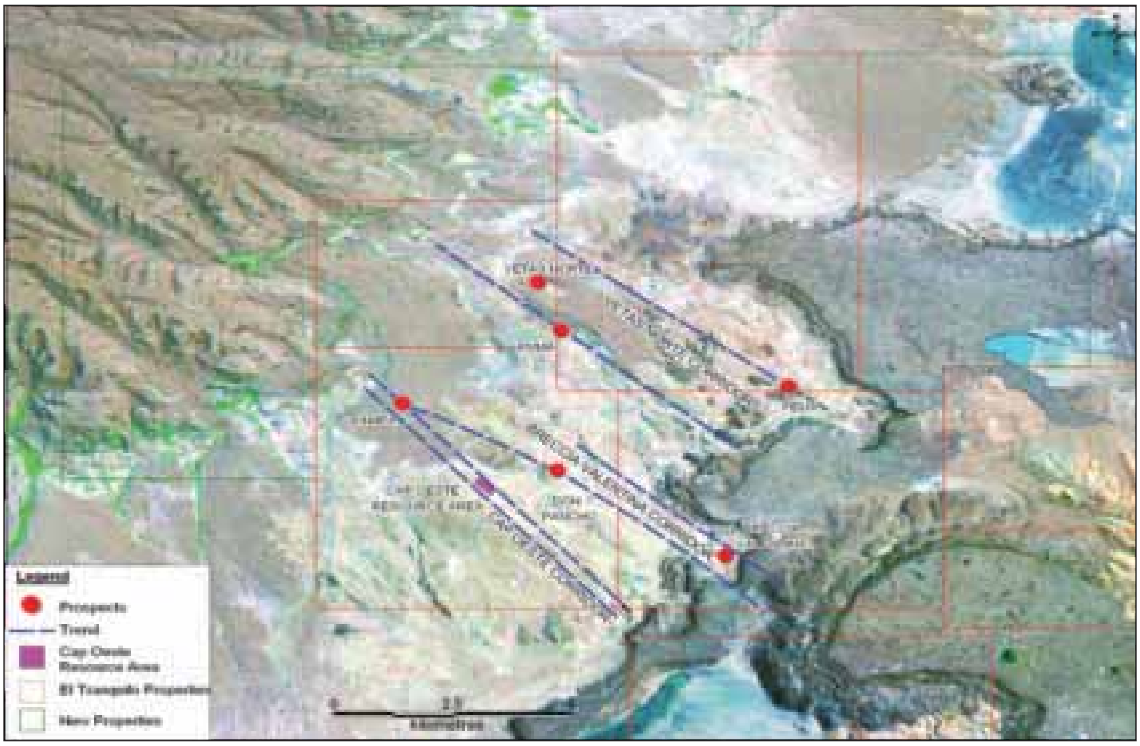
At least 200 metres of downward displacement of the south western hanging wall block is indicated by the relative position of displaced volcanic stratigraphy on either side of the fault. The geometry of the ore shoots is controlled by the intersection of the Bonanza Fault with an oblique west north-west trending fracture corridor.

Exploration. Patagonia Gold has three geological teams active in the exploration of the El Tranquilo property block.

The geophysics survey results also identified similar signatures to Cap-Oeste in the sub parallel structures of the Breccia Valentina (1.5 kilometres to the north east and also trending 320°) and the Vetas Norte structure a further 2,500 metres to the north east on a similar sub parallel trend.

Hi-definition Landsat imagery has enabled 'ground truthing' and subsequent mapping and sampling of both these trends, which are more accurately described as structural corridors, has returned anomalous gold and silver in grab samples and subsequent sawn rock samples

Don Pancho prospect is located in a flex in the Breccia Valentina corridor. Five trenches were excavated, covering 404 metres, based on the highly encouraging mapping and rock chip sampling which contained values up to 9.61 g/t gold and 572 g/t silver. Sample results from the trench were highly anomalous, including from trench 004, 5.0 metres at 1.20 g/t Au and 55 g/t Ag. These values are proportionately similar to the original trenching results from the Cap-Oeste Resource area which is only 1,100 metres to the south west.



El Tranquilo exploration targets

Operations report
continued

A nine drill-hole Reverse Circulation (RC) drilling campaign, for 780 metres, has been completed on Don Pancho. Results are pending.

La Puma prospect was also trenched after mapping and sampling identified a 3 kilometre structure containing mineralised outcrop. Sawn channels on these outcrops retuned sample values of up to 9.32 g/t gold and 104 g/t silver.

A six drill hole RC drilling campaign, for 516 metres, has been completed at Puma. Results are pending.

Vetas Norte prospect is 1,500 metres along strike from La Puma and contains an area of epithermal quartz blocks which have returned up to 1.85 g/t gold and 28 g/t silver. The initial exploration drill hole below an anomalous channel sample intersected 10 metre zone of altered siliceous quartz-pyrite vein material, a step back intersected multiple zones over 5 metre of quartz – sulphide material. Results are pending.

Drilling is continuing at Vetas Norte with a further six RC drill holes planned for a total of 765 metres.

Pampa prospect. The Cap-Oeste trend has a strike of 320° whereas the deflected Don Pancho trend is 290°. The zone where these two trends intersect, some 2 kilometres along strike to the north west of the current Resource area of Cap-Oeste is marked by a significant geophysical and vegetation anomaly. This zone is named Pampa, as it is a flat colluvium covered area and does not contain any outcrop.

Drill rigs – La Pampa and Cap-Oeste

Operations report
continued

The Pampa prospect is considered a prime drill target. Initial exploration drilling on the southern section of this intersection zone, has retuned highly anomalous path finder elements as well as elevated gold values.

A diamond drill exploration programme, 12 holes for 1,440 metres, is planned to commence in late April.

Smaller exploration drilling campaigns will be carried out on the Felix prospect, four RC drill holes for 330 metres, located along trend to the south-east of La Puma. Here mapping has identified moderately north-east dipping brecciated chalcedonic veins extending over 50 metres in outcrop containing 10.4 g/t gold. At the Cose prospect (Cap-Oeste SE) located along trend to the south-east of Cap-Oeste project, RC exploration holes will target the interpreted extension of the Cap-Oeste structure where it coincides with a geophysical anomaly of high chargeability.

Estancia La Bajada Acquisition. In December 2008, PGSA entered into a purchase agreement for the Estancia La Bajada property comprising 36,544 hectares of land, dwellings, sheds, outbuildings and infrastructure, for the sum of US$950,000 payable over four six monthly instalments.

Estancia La Bajada

With the above acquisition PGSA now has the land surface rights as well as the mineral rights over the majority of the Cap-Oeste Deposit, the Breccia Valentina prospect and other highly prospective areas.

Operations report
continued

La Manchuria Property

The La Manchuria property of five expedients covers 5.5 square kilometres and is located about 50 kilometres to the east of the Cap-Oeste project and contains the 'Main Zone' gold-silver project.

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

Gold-silver mineralisation on the La Manchuria properties 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 only one 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 Main Zone Project is within the same regional corridor that contains the operational mines, Mina Martha to the south and Huevos Verdes to the north.

A drilling campaign, comprising 20 diamond drill-holes for 3,997 metre, was completed on the Main Zone in the first half of 2008. The drilling was designed to infill and twin historic drill holes and to expand the area of mineralisation in order to plan a resource orientated drill programme.

The drilling successfully expanded the Main Zone mineralisation as well as identifying additional veining.

La Manchuria intersection LM-020-D

A second drilling campaign, comprising 20 holes for 4,118.5 metres, was completed in the second half of 2008 designed to further expand and infill the known mineralisation.

Operations report
continued

Significant results include:

Main Zone significant Drill Hole Intersections

Drill Hole No	From (m)	Interval (m)	Au g/t	Ag g/t
LM-020-D	119.50	2.9	22.35	401
including	121.65	1.6	27.53	612
including	121.65	0.7	31.40	246
LM-22-DR	154.35	0.5	16.50	315
and	184.65	2.4	28.82	344
including	184.65	0.7	52.60	581
LM-023-DR	121.00	4.0	13.31	145
including	122.80	2.2	23.78	264
LM-030-DR	127.30	0.6	24.70	3,660
and	142.50	3.0	34.77	4,164
including	143.50	1.1	82.47	10,485
LM-037-DR	155.10	1.5	15.10	29
and	248.65	1.2	118.50	127

The two drilling campaigns, completed in 2008 on the Main Zone, successfully confirmed and extended the mineralised corridor over 300 metres. In drill section the corridor still remains open in both directions as well as down dip.

Interpretation of geophysics over the Main Zone and to the south clearly shows a geophysical anomaly extending southwards for over 2,000 metres. Rock chips and soil sampling of the cover has retuned results highly anomalous in path finder element.

A high definition geophysics survey is programmed for the second half of 2009, in advance of a further infill and exploration programme which will form the basis of a NI-43101 compliant resource.

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 - Development. Soon after acquisition PGSA commenced an infill and extension drilling campaign on Lomada de Leiva and in August 2007 engaged CAM to independently define and describe a gold resource at Lomada de Leiva, NI 43-101 compliant.

The resource estimate reported at 0.30 grams per tonne gold cut-off:

Measured and Indicated Resource at 161,346 ounces gold with an additional Inferred Resource of 73,725 ounces gold. Furthermore, 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.

Operations report
continued

These results supported with the high potential to develop additional resources at Lomada de Leiva, and the adjacent Breccia Sofia were sufficiently encouraging for PGSA to advance this project towards possible production.

Based on the positive developments of the project, PGSA appointed CAM as Independent Engineers to undertake a Scoping Study (preliminary assessment) of the Project Resource. The aim was to determine potential economics for mining Lomada de Leiva and to identify the target resource base that will support mining on that project.

Previous metallurgical testing using the 'bottle roll' technique on a significant number of composite samples showed the ore at Lomada de Leiva to be very amenable to leaching with excellent recoveries averaging 97 per cent. in just 12 hours with material crushed to minus 0.075 millimetres.

For this reason and based on the 1.0 gram per tonne resource CAM elected to conduct the Scoping Study utilising a conventional heap leach operation and because of the prevailing high gold price a duplicate study utilising a milling operation.

The study involved investigating three processing cases; direct milling of the ore in a conventional mill; heap leaching with a crushing stage to minus 12.5 millimetres for improved recovery and Run-of-Mine (ROM) heap leaching with lower capital cost and lower recoveries.

The ROM heap leaching was clearly the most attractive and profitable process and will now be used to advance the project towards production.

Highlights of the ROM heap leaching study (all currency in United States dollars):

- Low pre-production capital cost of $8.5 million recovered within 14 months of start-up. seven years mine life based on an initial resource of 182,369 ounces of gold, with a production of 21,000 plus ounces of gold per year at a cash cost of $299 per ounce.
- Project cash flow, before tax, is $35.3 million based on a price of $650 per ounce gold and a recovery of 80 per cent.. After tax NPV at a 10 per cent. discount rate is $18.9 million.
- Project cash flow, before tax, is $63.6 million based on $850 per ounce gold, and a recovery of 80 per cent.. After tax NPV at a 10 per cent. discount rate is $36.9 million
- Significant upside remains by increasing the size of the resource at Lomada de Leiva and the adjacent Breccia Sofia which would significantly extend the life of the Project.

As a result of the positive Scoping study PGD has decided to progress the Project towards development with the aim of commencing production in the first half of 2010.

Bulk metallurgical column testing is in progress at SGS Lakefield Research in Chile to test the ore over varying times with varying quantities of reagents to optimise the recovery of the gold, (estimated to be 80 per cent. in the Scoping study).

Operations report
continued

Bulk metallurgical column tests

Vector Argentina SA (Vector), who has been responsible for all of PGSA's exploration, environmental permitting for the past three years, has been engaged to provide the Environmental Impact Report (EIR) service for the production stage, scheduled for completion in June 2009.

Vector has also been engaged to develop an integral Base Line Study (BLS) for the Project, scheduled for completion in October 2009.

A 1,500 metre drilling programme will be carried out for geotechnical and sterilisation purposes in May 2009.

PGSA, assisted by Vector, is also preparing an application for an environmental permit, which would allow advanced exploration, for a trial Heap leach operation (trial) of 50,000 tonnes of ore. The trial is designed to field proof the column tests and to demonstrate that the Heap leach process is not harmful to the environment.

Once permitted, construction of the trial pad, mining and loading would take three months to complete. Irrigation would then commence with the first gold produced soon thereafter

Subject to successful trial leaching and permitting, construction of the main heap leach operation is scheduled to commence in the first half of 2010 with production start-up later in the year.

Regional exploration

Patagonia Gold has two geological teams active in the exploration of the highly prospective Santa Cruz mineral claims and mining properties. To date approximately half of these properties have received first-pass exploration.

Operations report
continued

El Bagual Prospect: is an advanced gold prospect located in the centre-north Santa Cruz province. The 5,717 hectares area is situated in a circular structure, 5 kilometres in diameter, hosting favourable lithology (Jurassic volcanic rocks) associated with a prominent lineament trending N-S and NNE where geochemical results highlighted an anomalous Au-Hg corridor within which several targets have been defined.

Mineralisation is composed of gold-bearing chalcedony stockworks / veinlets and infill quartz veins / breccias distributed in two contiguous and subparalell corridors, roughly of 100 metres width. Historic rock chip samples returned up to 2.36 g/t gold. PGSA sampling found multigram gold values with best sample returned up to 6.74 g/t gold and confirmed pathfinder elements. Historic drilling did not fully test the mineralised zone though better results from five scout drilling reported 25.15 metres at 0.68 g/t gold from 180.15 metres (include 2.3 metres at 2.7 g/t gold) and 45.60 metres at 0.48 g/t gold from 139 metres (include 2.0 metres at 1.21 g/t gold).

Sarita Property: the property of 7,890 hectares, in the centre of Santa Cruz province, is located on the same trend as the silver-rich (gold bearing) Mina Martha Mine (Coeur D´Alene) and only 9 kilometres to the North-West. Lineaments from the Martha trend can be traced on satellite imagery into the Sarita property which contains similar lithological units.

Within the Sarita property several mineralised corridors have been identified so far that host quartz veins / breccia structures, trending North-West. Significant mineralisation was found in quartz veins up to 3.00 metres wide composed of quartz + sulphides including sections dominated by polymetallic mineralisation. Textures include crustiform, CRT, massive, comb, sacharoidal quartz and multi-episodic breccias. Rock chip samples have returned a host of anomalous gold samples with up to 2.97 g/t gold and up to 538 g/t silver, as well as > 1 per cent. copper and lead.

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 in the western sector of the province.

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

Accordingly PGSA 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.

PGSA continues to work with both local and regional governments towards the removal of the exclusion area.

Report of the Directors

The Directors present their report and the audited financial statements for the year ended 31 December 2008.

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 Deputy 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 but it should be noted that on 4 March 2009, the Company successfully raised £9.3 million to finance working capital and exploration expenditure as detailed in note 15 to the financial statements. 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 British 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 Deputy 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 focused 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
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	Exploration development	Results of scoping and feasibility studies
Human resource management	Employee retention rate		

Report of the Directors
continued

PGSA and Fomicruz Agreement

In May 2008, PGSA entered into a Letter of Intent (“LOI”) with Fomento Minero de Santa Cruz del Estado (“Fomicruz SE”), a well established and respected mining company wholly owned by the pro-mining government of Santa Cruz Province, Argentina.

The LOI sets out the key terms and conditions of a strategic partnership between PGSA and government owned Fomicruz SE for the future development of PGSA’s mining properties in Santa Cruz Province, including the Lomada de Leiva gold project and the Cap-Oeste and La Manchuria Main Zone gold and silver projects, together with properties currently owned by Fomicruz SE.

The agreement was formally ratified on 14 April 2009.

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 2009 and based upon the recent financing, the Company has adequate working capital.

On 4 March 2009 the Company placed shares to a value of £9.3 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 over the 12 months from the date of this Annual Report. 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 9 January 2008, the Company announced that it had placed 45,000,000 new ordinary shares of 1p each at a price of 5p per share raising £2,250,000 to finance working capital and exploration expenditure.

On 15 July 2008, the Company announced that it had placed 29,629,870 new ordinary shares of 1p each at a price of 6.75p per share raising £2,000,016 to finance working capital and exploration expenditure.

On 22 October 2008, the Company announced that it had placed 41,000,000 new ordinary shares of 1p each at a price of 4.50p per share raising £1,845,000 to finance working capital and exploration expenditure.

Subsequent events

On 4 March 2009, the Company announced that it placed 120,000,000 new ordinary shares of 1p each at a price of 7.75p per share raising £9,300,000 to finance working capital and exploration expenditure.

Report of the Directors
continued

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

Dividends
The Directors do not recommend the payment of a dividend (2007: £*nil*).

Substantial shareholdings
In addition to the interest of C J Miguens disclosed below, at 27 April 2009, 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	92,515,376	15.59
Cinco Vientos Uruguay SA	40,453,980	6.82
BlackRock (formerly Merrill Lynch) Gold & General Fund	53,615,000	9.03
Barrick Gold Corporation	30,345,160	5.11
Diego Miguens	29,270,726	4.93
Cristina Miguens	29,270,726	4.93

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:

	27 April 2009	31 December 2008	31 December 2007
Ordinary Shares of 1p:			
Sir John Craven	4,479,000	4,479,000	2,997,500
C J Miguens	92,515,376	92,515,376	56,214,866
W H Humphries	13,167,667	11,880,521	9,232,353
M J Sale	1,676,687	1,676,687	1,676,687
G Tanoira	6,672,147	6,672,147	4,730,208
R Ö Prickett	7,244,888	7,244,888	7,244,888

Report of the Directors

continued

No options were exercised by the Directors during the year. At 31 December 2008, 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
M J Sale	03.06.08	9.875p*	500,000	03.06.08	02.06.18
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

* See the re-pricing recommendation below

The Company's Employee Benefit Trust ("the Trust") which was established on 5 March 2003 has been cancelled. The Awards which were made under the Trust to Mr Richard Prickett and Mr Marc Sale will be replaced by ordinary share options.

On 19 January 2009 the Board of Directors agreed, following a recommendation from the Company's remuneration committee and subject to subsequent approval by shareholders at the Company's next Annual General Meeting, to re-price certain outstanding share options that have been issued to employees who remain within the Group in order to incentivise those individuals and to reflect a more realistic price level given the current market in the Company's shares. A total of 16,787,000 share options will be re-priced to 8p, being a 10 per cent. premium to the mid-market price at close of business on 19 January 2009.

Included are the following grants of options to Directors:

Director	Share options re-priced	New exercise price	Original exercise price(s)
Sir John Craven	1,500,000	8p	13.75p
Carlos Miguens	1,500,000	8p	15.75p
William Humphries	3,500,000	8p	13.50 to 15.75p
Gonzalo Tanoira	1,281,000	8p	15.75p
Richard Prickett	3,406,000	8p	13.50 to 15.75p
Marc Sale	3,400,000	8p	9.875 to 15.75p

The Company's ordinary shares are traded on AIM and the market price of those shares ranged between 4.00p and 11.75p during the year. The closing mid-market price of the Company's ordinary shares on 31 December 2008 was 5.25p (31 December 2007: 6.375p).

Report of the Directors
continued

Corporate governance

The ordinary shares of the Company are traded on AIM. Companies on AIM are not required to make an annual statement to shareholders regarding compliance with The Combined Code on Corporate Governance. However, the following statements are made in respect of corporate governance.

Board of Directors

Sir John Craven (Non-Executive Chairman) joined the Board in 2004. Sir John was formerly Chairman of Morgan Grenfell plc and a member of the Board of Managing Directors of the Deutsche Bank Group and recently retired as Non-Executive Chairman of Lonmin plc. Sir John has a number of other Directorships.

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 a Director of Sociedad Argentina de Energía S.A., one of the largest power generation 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 July 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, an Argentine publicly traded lemon producer, as well as 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 (Director of Operations) 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.

Report of the Directors
continued

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

The Board has established Committees to fulfil specific functions:

The Audit Committee which comprises Sir John Craven and Richard Prickett (Chairman), 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 comprises Sir John Craven, Carlos Miguens and Richard Prickett (Chairman) all of whom are 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, Carlos Miguens, Richard Prickett and Marc Sale have service arrangements which provide for three months' notice of termination and those of William Humphries and Gonzalo Tanoira provide for six months' notice of termination.

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

Annual General Meeting
The Directors who retire by rotation are William Humphries and Richard Prickett who, being eligible, offer themselves for re-election.

Report of the Directors
continued

Resolution 5 is proposed as an Ordinary Resolution to re-price the exercise price of outstanding options over up to 16,787,000 ordinary shares of 1p each in the capital of the Company.

Resolution 6 is proposed as an Ordinary Resolution to provide the Directors with authority to issue new ordinary shares up to an aggregate nominal value of £1,500,000, representing 25.3 per cent. of the Company's present issued share capital, such authority replacing the resolution passed on 3 June 2008 and to expire on 9 June 2014. 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 £1,500,000 representing 25.3 per cent. of the present issued share capital. This Resolution, if approved, will authorise the Board, for the period expiring 9 June 2014, 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.

Directors' indemnification provisions

Under Article 231 of the Company's Articles of Association (as amended on 4 November 2008), subject to the provisions of the Companies Act 2006 (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 231 shall be deemed not to provide for, or entitle any such person to, indemnification to the extent that it would cause Article 231 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.

Auditors

Grant Thornton UK LLP have expressed willingness to continue in office. In accordance with Section 489(4) of the Companies Act 2006, a resolution to re-appoint Grant Thornton UK LLP as auditor of the Company will be proposed at the Annual General Meeting to be held on 9 June 2009.

By Order of the Board

Nigel Everest
Secretary

27 April 2009

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 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 consolidated and Company financial statements (the 'financial statements') of Patagonia Gold Plc for the year ended 31 December 2008 which comprise the principal accounting policies, the consolidated income statement, the consolidated and Company balance sheets, the consolidated and Company cash flow statements, the consolidated and Company statements of changes in equity, and notes 1 to 21. 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, and 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 Deputy 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 Deputy Chairman's statement, Directors' report, 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.

Report of the independent auditor
continued

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

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

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 2008 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 2008;
- 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.

In our opinion the Group financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 December 2008 and of its loss for the year then ended.

GRANT THORNTON UK LLP
Registered Auditors
Chartered Accountants
London

27 April 2009

Consolidated income statement

for the year ended 31 December 2008

	Note	2008 £	2007 £
Exploration costs		(4,523,460)	(4,867,807)
Administration costs		(1,342,430)	(1,367,727)
Finance income	3	67,318	48,297
Finance costs		(4,822)	(2,097)
Net loss for the year	2	(5,803,394)	(6,189,334)
Loss per share (pence)			
Basic loss per share		(1.37)	(1.86)
Diluted loss per share		(1.37)	(1.86)

Consolidated balance sheet

at 31 December 2008

	Note	2008 £	2007 £
ASSETS			
Non-current assets			
Property, plant and equipment	9	739,234	66,199
Available for sale financial assets	11	112,157	146,666
Other receivables	12	1,301,301	351,316
		2,152,692	564,181
Current assets			
Trade and other receivables	12	64,779	224,630
Cash at bank and in hand	13	1,069,373	661,793
		1,134,152	886,423
Total assets		3,286,844	1,450,604
LIABILITIES			
Current liabilities			
Trade and other payables	14	(1,468,200)	(534,922)
Non-current liabilities			
Long-term accruals and provisions	14	(207,058)	—
Total liabilities		(1,675,258)	(534,922)
Net assets		1,611,586	915,682
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	15	4,735,528	3,579,229
Share premium account		33,339,372	28,400,654
Translation reserve		449,956	103,907
Share based payment reserve		205,341	112,600
Retained loss		(37,118,611)	(31,280,708)
Total equity		1,611,586	915,682

These financial statements were approved by the Board of Directors on 27 April 2009 and were signed on its behalf by:

Gonzalo Tanoira
Director

The notes on pages 46 to 61 form part of these financial statements.

Company balance sheet

at 31 December 2008

	Note	2008 £	2007 £
ASSETS			
Non-current assets			
Property, plant and equipment	9	4,835	4,589
Investments in subsidiary undertakings	10	6,587,276	1,527,948
Available for sale financial assets	11	112,157	146,666
		6,704,268	1,679,203
Current assets			
Trade and other receivables	12	54,812	98,523
Cash at bank and in hand	13	473,251	559,853
		528,063	658,376
Total assets		7,232,331	2,337,579
LIABILITIES			
Current liabilities			
Trade and other payables	14	(2,264,496)	(1,680,283)
Total liabilities		(2,264,496)	(1,680,283)
Net assets		4,967,835	657,296
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	15	4,735,528	3,579,229
Share premium account		33,339,372	28,400,654
Translation reserve		(1,035,829)	(174,945)
Share based payment reserve		205,341	112,600
Retained loss		(32,276,577)	(31,260,242)
Total equity		4,967,835	657,296

These financial statements were approved by the Board of Directors on 27 April 2009 and were signed on its behalf by:

Gonzalo Tanoira
Director

The notes on pages 46 to 61 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2008

	Note	Share capital £	Share premium account £	Translation reserve £	Share based payment reserve £	Retained loss £	Total £
Balance at 31 December 2006		2,731,065	23,389,188	238,907	13,731	(25,152,830)	1,220,061
Exchange differences on translation of foreign operations		—	—	(135,000)	—	—	(135,000)
Revaluation of available-for-sale financial assets		—	—	—	—	61,456	61,456
		2,731,065	23,389,188	103,907	13,731	(25,091,374)	1,146,517
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	(31,280,708)	(5,042,817)
Share based payment	20	—	—	—	98,869	—	98,869
Issue of share capital							
Issue by placing	15	525,508	3,143,222	—	—	—	3,668,730
Conversion of Loan Notes	15	303,451	1,858,641	—	—	—	2,162,092
Exercise of option	15	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
Changes in equity for 2008							
Exchange differences on translation of foreign operations		—	—	346,049	—	—	346,049
Revaluation of available-for-sale financial assets		—	—	—	—	(34,509)	(34,509)
		3,579,229	28,400,654	449,956	112,600	(31,315,217)	1,227,222
Net income recognised directly in equity							
Loss for the period		—	—	—	—	(5,803,394)	(5,803,394)
Total recognised income and expense for the period		3,579,229	28,400,654	449,956	112,600	(37,118,611)	(4,576,172)
Share based payment	20	—	—	—	92,741	—	92,741
Issue of share capital							
Issue by placing	15	1,156,299	4,938,718	—	—	—	6,095,017
Balance at 31 December 2008		4,735,528	33,339,372	449,956	205,341	(37,118,611)	1,611,586

Company statement of changes in equity

for the year ended 31 December 2008

	Note	Share capital £	Share premium account £	Translation reserve £	Share based payment reserve £	Retained loss £	Total £
Balance at 31 December 2006		2,731,065	23,389,188	(118,713)	13,731	(20,147,610)	5,867,661
Exchange differences on translation of foreign operations		—	—	(56,232)	—	—	(56,232)
Revaluation of available-for-sale financial assets		—	—	—	—	61,456	61,456
		2,731,065	23,389,188	(174,945)	13,731	(20,086,154)	5,872,885
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	(31,260,242)	(5,301,203)
Share based payment	20	—	—	—	98,869	—	98,869
Issue of share capital							
Issue by placing	15	525,508	3,143,222	—	—	—	3,668,730
Conversion of Loan Notes	15	303,451	1,858,641	—	—	—	2,162,092
Exercise of option	15	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
Changes in equity for 2008							
Exchange differences on translation of foreign operations		—	—	(860,884)	—	—	(860,884)
Revaluation of available-for-sale financial assets		—	—	—	—	(34,509)	(34,509)
		3,579,229	28,400,654	(1,035,829)	112,600	(31,294,751)	(238,097)
Net income recognised directly in equity							
Loss for the period		—	—	—	—	(981,826)	(981,826)
Total recognised income and expense for the period		3,579,229	28,400,654	(1,035,829)	112,600	(32,276,577)	(1,219,923)
Share based payment	20	—	—	—	92,741	—	92,741
Issue of share capital							
Issue by placing	15	1,156,299	4,938,718	—	—	—	6,095,017
Balance at 31 December 2008		4,735,528	33,339,372	(1,035,829)	205,341	(32,276,577)	4,967,835

Consolidated cash flow statement

for the year ended 31 December 2008

	Year to 31 December 2008 £	Year to 31 December 2007 £
Cash flow from operating activities		
Loss for the year	(5,803,394)	(6,189,334)
Adjustment for:		
Mineral rights acquired through issuance of Loan Notes	—	2,162,093
Interest income	(67,318)	(48,297)
Depreciation and impairment	32,179	24,279
(Increase) in trade and other receivables	(790,134)	(146,232)
Increase in trade payables	933,278	233,702
Increase in long-term provisions	207,058	—
Share based payments	92,741	98,869
Net cash used in operating activities	(5,395,590)	(3,864,920)
Cash flows from investing activities		
Interest received	67,318	48,297
Purchase of property, plant and equipment	(705,214)	(50,264)
Net cash used in investing activities	(637,896)	(1,967)
Cash flows from financing activities		
Proceeds from issue of share capital	6,095,017	3,697,537
Net cash from financing activities	6,095,017	3,697,537
Net increase/(decrease) in cash and cash equivalents	61,531	(169,350)
Cash and cash equivalents at beginning of period	661,793	966,143
Effects of foreign exchange movements	346,049	(135,000)
Cash and cash equivalents at end of period	1,069,373	661,793

Company cash flow statement

for the year ended 31 December 2008

	Year to 31 December 2008 £	Year to 31 December 2007 £
Cash flow from operating activities		
Loss for the year	(981,826)	(11,174,088)
Adjustment for:		
Mineral rights acquired through issuance of Loan Notes	—	2,162,093
Interest income	(20,489)	(38,015)
Depreciation and impairment	1,622	10,113,298
Decrease/(increase) in trade and other receivables	43,711	(12,650)
Increase/(decrease) in trade payables	584,213	(489,057)
Share based payments	92,741	98,869
Net cash (used in)/generated in operating activities	(280,028)	660,450
Cash flows from investing activities		
Increase in investments held in subsidiary undertakings	(5,059,328)	(4,492,583)
Interest received	20,489	38,015
Purchase of property, plant and equipment	(1,868)	(1,667)
Net cash used in investing activities	(5,040,707)	(4,456,235)
Cash flows from financing activities		
Proceeds from issue of share capital	6,095,017	3,697,537
Net cash from financing activities	6,095,017	3,697,537
Net increase/(decrease) in cash and cash equivalents	774,282	(98,248)
Cash and cash equivalents at beginning of period	559,853	714,333
Effects of foreign exchange movements	(860,884)	(56,232)
Cash and cash equivalents at end of period	473,251	559,853

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

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

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 which are stated at fair value. The measurement bases and principal accounting policies of the Group are set out below.

The previous year was the first year when the financial statements were prepared in accordance with IFRS. The date of transition to IFRS was 1 January 2006 (transition date).The Group took advantage of certain exemptions available under IFRS 1 First-time adoption of International Financial Reporting Standards. The exemptions that were used are explained under the respective accounting policy. These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 31 December 2008.

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. 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 2009. 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 over the 12 months from the date of this Annual Report.

On 4 March 2009 the Company placed shares to a value of £9.3 million to fund working capital and exploration expenditure.

Principal accounting policies

continued

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 2007) (effective 1 January 2009)
- IAS 23 Borrowing Costs (revised 2007) (effective 1 January 2009)
- 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)
- IAS 27 Consolidated and Separate Financial Statements (Revised 2008) (effective 1 July 2009)
- Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (effective 1 January 2009)
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements – Costs of Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective 1 January 2009)
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective 1 July 2009)
- Improvements to IFRSs (effective 1 January 2009 other than certain amendments effective 1 July 2009)
- IFRS 3 Business Combinations (Revised 2008) (effective 1 July 2009)
- IFRS 8 Operating Segments (effective 1 January 2009)
- IFRIC 13 Customer Loyalty Programmes (effective 1 July 2008)
- IFRIC 15 Agreements for the Construction of Real Estate (effective 1 January 2009)
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective 1 October 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 but will give rise to differences in presentation and additional disclosures. The Group and Company does not intend to apply any of these pronouncements early.

Principal accounting policies
continued

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 2008. 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.

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.

Equity settled share-based payment
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

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 property, plant and equipment 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
Buildings	50 years

Material residual value estimates are updated as required, but at least annually, whether or not the asset is revalued.

Impairment testing of 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.

Other individual assets or cash-generating units that include 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 consolidated financial statements are presented in British pounds sterling (GBP), which is also the functional currency of the parent Company.

Foreign currency transactions are translated from the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates are recognised in profit or loss. Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than GBP (the Group's presentation currency) are translated into GBP upon consolidation. The functional currency of the entities in the Group have remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into GBP at the closing rate at the reporting date. Income and expenses have been translated into GBP at the average rate over the reporting period.

Principal accounting policies

continued

Foreign currency *continued*

Exchange differences are charged/credited to income and recognised in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognised in equity are reclassified to profit or loss and recognised as part of the gain or loss on disposal.

Financial assets

Financial assets can be divided into the following categories:

- loans and receivables; and
- available-for-sale financial assets.

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. 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 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 segmental reporting the Group does not have separate business reporting segments.

Cash and cash equivalents
Cash and cash equivalents comprise cash in 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.

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.

Principal accounting policies

continued

Leases *continued*

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 9.
- 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 11.
- Reviewing acquisition of Barrick properties to determine whether the agreement included any embedded derivitives in line with applicable accounting standards.

Notes to the financial statements

for the year ended 31 December 2008

1. 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 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 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 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. These commitments have been satisfied, at 31 December 2008 expenditure on these Properties amounted to approximately US$12.16 million (2007: US$3.67 million).

Notes to the financial statements
continued

2. Segmental analysis

Patagonia Gold Plc's losses and its geographic allocation of net assets may be summarised as follows:

	Losses 2008 £	Assets 2008 £	Losses 2007 £	Assets 2007 £
United Kingdom	(981,825)	528,736	(1,060,999)	657,296
Argentina and Chile	(4,821,569)	1,082,850	(5,128,335)	258,386
	(5,803,394)	1,611,586	(6,189,334)	915,682

3. Interest receivable

	2008 £	2007 £
Bank interest receivable	67,318	48,297

4. Loss on ordinary activities

	2008 £	2007 £
The loss on ordinary activities is stated after charging:		
Operating lease charges: land and buildings	72,228	41,594
Depreciation of property, plant and equipment	32,179	24,279

5. Staff numbers and costs

	2008 £	2007 £
Wages and salaries	818,134	318,948
Social security costs	148,817	51,634
	966,951	370,582

	2008 Number	2007 Number
The average number of employees (including Directors) by location during the year:		
Argentina and Chile – exploration	40	31
United Kingdom – administration	3	3

Notes to the financial statements
continued

6. Remuneration of Directors
Directors' emoluments:

	2008 £	2007 £
Directors remuneration	272,428	261,025
Consultancy fees	84,000	88,150
Share based payments	27,684	60,173
	384,112	409,348

Mr Humphries was the highest paid Director.

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

To Mr Humphries through his company Mining Management-Europe (MM-E) £120,000 (2007: £104,167) for his services as Director and Chief Executive of Patagonia Gold SA.

To Mr Prickett through his company European Sales Co Ltd £40,000 (2007: £40,000) for his services as Director.

To Mr Sale through his company Specialist Services, £84,000 (2007: £88,150) in his capacity as a consultant in addition to his Directors' fees of £25,000 (2007: £25,000).

No Director received any bonus or benefits in kind in 2008 or 2007.

There are no key management personnel outside of the Directors as shown above.

7. Income tax expense
The tax charge for the year was £nil (2007: £nil).

Factors affecting the tax charge for the year

	2008 £	2007 £
Loss on ordinary activities before taxation	(5,803,394)	(6,189,334)
Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 28 per cent.(2007: 30 per cent.)	(1,624,950)	(1,856,800)
Different local tax rates	(337,510)	(127,870)
Expenses not deductible for tax purposes	474,858	264,878
Losses and other temporary differences carried forward to future periods – UK	109,625	1,098,467
– Argentina	1,377,977	621,325
Total tax charge for the year	—	—

Notes to the financial statements
continued

7. Income tax expense *continued*

Factors that may affect future tax charges
The Group has losses and other temporary differences of approximately £8,800,000 (2007: £7,000,000) which may be utilised against future tax liabilities. A deferred tax asset has not been recognised in respect of these amounts due to uncertainties surrounding the event and timing of future profits.

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.

8. 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 2008	Year to 31 December 2007
Loss after tax (£)	(5,803,394)	(6,189,334)
Weighted average number of shares	423,543,344	333,053,212
Basic and diluted loss per share (pence)	(1.37)	(1.86)

Notes to the financial statements

continued

9. Property, plant and equipment

Following the Group's accounting policy on page 41, exploration expenditure is not capitalised until future recovery of these costs is considered probable. At 31 December 2008 none of the Company's properties had reached this stage.

	GROUP					COMPANY
	Office equipment £	Machinery and equipment £	Buildings £	Vehicles £	Total £	Office equipment £
Cost						
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
At 1 January 2008	24,575	58,743	—	50,819	134,137	18,341
Additions/(Disposals)	4,144	44,905	645,657	—	694,706	1,868
Exchange differences	(582)	16,816	—	13,056	29,290	—
At 31 December 2008	28,137	120,464	645,657	63,875	858,133	20,209
Depreciation						
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
At 1 January 2008	15,698	35,150	—	17,090	67,938	13,752
Additions/(Disposals)	—	—	—	—	—	—
Charge for the year	2,298	17,877	1,102	10,901	32,179	1,622
Exchange differences	(316)	13,003	—	6,095	18,782	—
At 31 December 2008	17,680	66,030	1,102	34,086	118,899	15,374
Net book value						
At 31 December 2008	10,457	54,433	644,555	29,789	739,234	4,835
At 31 December 2007	8,877	23,593	—	33,729	66,199	4,589

On 15 December 2008, Patagonia Gold entered into a purchase agreement for the Estancia La Bajada property comprising 36,544 hectares of land, dwellings, sheds, outbuildings and infrastructure, for the sum of US$950,000 payable over four six monthly instalments.

Notes to the financial statements
continued

10. Investments
COMPANY

	£
At 1 January 2008	
– Investments in subsidiaries	1,527,948
Capital contributions during the year	5,059,328
At 31 December 2008	6,587,276

The Company investments in subsidiaries have been considered for impairment at 31 December 2008. The Directors did not think that an impairment charge was necessary.

Company	Country of incorporation	Percentage shareholding	Nature of business	Group companies £	2008 £	2007 £
Pensacola Holdings Limited	BVI*	100	Holding Co.	1,651,855	1,651,855	1,462,826
HPD Mining Limited	England	100	Holding Co.	1	1	1
Minera Puerto Madryn SA	Argentina	100	Holding Co.	492,539	492,539	—
Minamalú SA	Argentina	100†	Holding Co.	—	—	65,121
At 31 December				2,144,395	2,144,395	1,527,948

* British Virgin Islands

† Including 5 per cent. held indirectly

At 31 December 2008, 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	43.77
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 56.23 per cent. thereby holding 100 per cent. in total.

Notes to the financial statements
continued

11. Financial assets
GROUP AND COMPANY

	2008 £	2007 £
Financial assets – available for sale financial assets	112,157	146,666

12. Other receivables

Non current receivables

	GROUP		COMPANY	
	2008 £	2007 £	2008 £	2007 £
Recoverable VAT	1,301,301	351,316	—	—
	1,301,301	351,316	—	—

Trade and other receivables

	GROUP		COMPANY	
	2008 £	2007 £	2008 £	2007 £
Recharge of costs owed by Landore Resources Limited (note 19)	6,299	975	6,299	975
Recoverable VAT	3,925	142,224	3,925	31,414
Other receivables	30,101	35,431	20,134	20,134
Prepayments and accrued income	24,454	46,000	24,454	46,000
	64,779	224,630	54,812	98,523
Total trade and other receivables	1,366,080	575,946	54,812	98,523

All other receivable amounts are short-term.

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

There are no past due debtors.

13. Cash and cash equivalent

	GROUP		COMPANY	
	2008 £	2007 £	2008 £	2007 £
Bank and cash balances	604,582	109,635	8,460	7,695
Short term deposits	464,791	552,158	464,791	552,158
	1,069,373	661,793	473,251	559,853

Notes to the financial statements

continued

14. Trade and other payables

Current payables

	GROUP 2008 £	GROUP 2007 £	COMPANY 2008 £	COMPANY 2007 £
Trade and other payables	1,361,750	424,952	13,652	37,336
Accruals and deferred income	106,450	109,970	2,250,844	1,642,947
	1,468,200	534,922	2,264,496	1,680,283

Non-current payables

	GROUP 2008 £	GROUP 2007 £	COMPANY 2008 £	COMPANY 2007 £
Long-term provisions	34,601	—	—	—
Long-term accruals	172,457	—	—	—
	207,058	—	—	—
Total trade and other payables	1,675,258	534,922	2,264,496	1,680,283

Non-current payables comprise deferred consideration for the acquisition of the Estancia La Bajada property and a provision for environmental impact.

The carrying values are considered to be a reasonable approximation of fair value.

15. Called up share capital

	2008 £	2007 £
Authorised		
1,000,000,000 (2007: 500,000,000) ordinary shares of 1 pence each	10,000,000	5,000,000
Allotted, called up and fully paid		
473,552,783 (2007: 357,922,913) ordinary shares of 1 pence each	4,735,528	3,579,229
Balance at 1 January	3,579,229	2,731,065
Conversion of Loan Notes	—	303,451
Exercise of Option	—	19,205
Issue by Placing	1,156,299	525,508
Balance at 31 December	4,735,528	3,579,229

During the year 115,629,870 shares were allotted.

On 9 January 2008, the Company announced that it had placed 45,000,000 new ordinary shares of 1p each at a price of 5p per share raising £2,250,000 to finance working capital and exploration expenditure.

Notes to the financial statements

continued

15. Called up share capital *continued*

On 15 July 2008, the Company announced that it had placed 29,629,870 new ordinary shares of 1p each at a price of 6.75p per share raising £2,000,016 to finance working capital and exploration expenditure.

On 22 October 2008, the Company announced that it had placed 41,000,000 new ordinary shares of 1p each at a price of 4.50p per share raising £1,845,000 to finance working capital and exploration expenditure.

Subsequent events

On 4 March 2009, the Company announced that it placed 120,000,000 new ordinary shares of 1p each at a price of 7.75p per share raising £9,300,000 to finance working capital and exploration expenditure.

16. 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 British pounds sterling and United States 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 functional currency of Patagonia Gold Plc is British pounds sterling. At 31 December 2008, Patagonia Gold Plc held cash balances and investments is denominated in United States dollars.

The functional currency of Patagonia Gold SA is Argentinean peso. At 31 December 2008, Patagonia Gold SA held cash balances denominated in United States dollars.

Foreign currency denominated financial assets and liabilities, translated into British pounds Sterling at the closing rate, are as follows:

		2008			2007	
	GBP	US$	AR$	GBP	US$	AR$
	£	£	£	£	£	£
Financial assets	496,768	685,749	59,867	764,162	23,331	103,372
Financial liabilities	(13,652)	–	(428,788)	(37,336)	–	(14,429)
Short term exposure	483,116	685,749	(368,921)	726,826	23,331	88,943

Notes to the financial statements

continued

16. Financial assets and liabilities *continued*

The following table illustrates the sensitivity of the net result for the year and equity in regards to the Group's financial assets and financial liabilities and the sterling/US dollar and the sterling/Argentinean peso exchange rate.

It assumes a +/– 20 per cent. change of the sterling/US dollar exchange rate for the year ended 31 December 2008 (2007: 10 per cent.) and a +/– 10 per cent. change for the sterling/Argentinean peso exchange rate (2007: 2.5 per cent). Both of these percentages have been chosen to reflect the recent market volatility of the currencies concerned. The sensitivity analysis is based on the Group's foreign currency financial assets and liabilities.

If sterling had weakened against the US dollar and Argentinean peso by the above percentages this would have had the following impact:

		2008			2007	
	GBP £	US$ £	AR$ £	GBP £	US$ £	AR$ £
Net result for the year	–	–	(46,536)	–	–	22
Equity	–	171,437	5,544	–	2,592	2,258

If sterling had strengthened against the US dollar and Argentinean peso by the above percentages this would have had the following impact:

		2008			2007	
	GBP £	US$ £	AR$ £	GBP £	US$ £	AR$ £
Net result for the year	–	–	38,075	–	–	(21)
Equity	–	(114,292)	(4,536)	–	(2,121)	(2,148)

Exposures to foreign exchange rates vary during the year throughout the normal course of the Group's business. The above analysis is considered to be representative of the Group's exposure to currency risk.

Notes to the financial statements
continued

16. Financial assets and liabilities *continued*

Interest rate risk – The Group utilises cash deposits at variable rates 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.

	Weighted average effective percentage interest rate	Fixed interest rate £	Non interest bearing £	Total £
2008				
Financial assets		–	112,157	112,157
Cash at bank	2.53	464,791	604,582	1,069,373
Other receivables		–	1,366,080	1,366,080
Total financial assets		464,791	2,082,819	2,547,610
Financial liabilities		–	(207,058)	(207,058)
Trade payables		–	(1,361,750)	(1,361,750)
Other payables		–	(106,450)	(106,450)
Total financial liabilities		–	(1,675,258)	(1,675,258)
Net financial assets		464,791	407,561	872,352
2007				
Financial assets		–	146,666	146,666
Cash at bank	3.00	552,158	109,635	661,793
Other receivables		–	575,946	575,946
Total financial assets		552,158	832,247	1,384,405
Financial liabilities		–	–	–
Trade payables		–	(424,952)	(424,952)
Other payables		–	(109,970)	(109,970)
Total financial liabilities		–	(534,922)	(534,922)
Net financial assets		552,158	297,325	849,483

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.

Notes to the financial statements
continued

16. Financial assets and liabilities *continued*

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 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.

The current global financial crisis is being monitored by the Board but is not affecting the Company at present. The fluctuations within foreign exchange and commodities markets are currently within budget.

Financial assets

The Group and Company held the following investments in financial assets:

	GROUP		COMPANY	
	2008 £	2007 £	2008 £	2007 £
Available-for-sale financial assets	112,157	146,666	112,157	146,666
Trade and other receivables	60,854	82,406	50,887	67,109
Cash at bank and in hand	1,069,373	661,793	473,251	559,853

Cash at bank and in hand comprise cash and short-term deposits held by the Group treasury function. The carrying amount of these assets is approximately their fair value.

Financial liabilities

The Group and Company held the following financial liabilities:

	GROUP		COMPANY	
	2008 £	2007 £	2008 £	2007 £
Trade and other payables	442,440	51,765	13,652	37,336

Notes to the financial statements
continued

17. Operating lease commitments

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

	2008 £	2007 £
GROUP AND COMPANY		
Operating leases which expire:		
Within one year	41,744	135,762
Within two to five years	7,160	32,400
	48,904	168,162

18. Post balance sheet events

Share Placing

On 4 March 2009, the Company announced that it placed 120,000,000 new ordinary shares of 1p each at a price of 7.75p per share to finance working capital and exploration expenditure.

Certain of these shares were placed with Directors, as set out below.

Director	Placing shares subscribed
William Humphries	1,287,146

19. Related parties

Landore Resources Limited ("Landore")

During the year the Company recharged £31,344 (2007: £33,444) 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 2008 of £6,299 (2007: £975).

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

Cheyenne S.A. ("Cheyenne")

During the year the Group paid £7,505 (2007: £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 Carlos Miguens is a Director and controlling shareholder.

MB Holding S.A. ("MB")

During the year the Group paid £39,556 (2007: £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 Carlos Miguens is a Director and shareholder.

Notes to the financial statements
continued

20. Employee share schemes

Share based payments – Group and Company

During the year ended 31 December 2008, the Company and the Group had 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	1.97
31.05.2002	Senior management	375,000	8.5*	3.42
10.09.2002	Employee	25,000	13.125*	3.70
08.10.2002	Director	350,000	13.5*	3.77
08.10.2002	Senior manager	300,000	13.5	3.77
07.03.2003	Director	150,000	14.0*	4.18
18.02.2004	Directors	9,687,000	15.75*	5.14
24.06.2004	Director	1,500,000	13.75*	5.48
23.11.2004	Senior management	1,000,000	14.75	5.90
22.06.2005	Senior management and employee	725,000	7.5	6.47
06.12.2005	Senior management	150,000	9.75*	6.93
17.05.2006	Senior management	200,000	14.5	7.38
01.03.2007	Employees	175,000	6.875	8.17
23.05.2007	Senior management	200,000	9.375*	8.39
05.06.2007	Director and employees	1,325,000	10.5*	8.43
05.06.2007	Employee	25,000	10.5	8.43
03.06.2008	Director and employees	1,625,000	9.875*	9.42

* See the "subsequent events" paragraph below.

On 21 March 2008 an option held by Numis for 2,522,814 shares expired without being exercised.

Notes to the financial statements
continued

20. Employee share schemes *continued*

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

	2008 Weighted average exercise price pence	2008 Number of options	2007 Weighted average exercise price pence	2007 Number of options
Outstanding at the beginning of the year	14.02	21,114,814	13.22	21,310,320
Granted during the year	9.87	1,625,000	10.00	1,725,000
Exercised during the year	—	—	1.50	(1,920,506)
Expired during the year	15.00	(2,522,814)	—	—
Outstanding at the end of the year	13.57	20,217,000	14.02	21,114,814
Exercisable at the end of the year	13.57	20,217,000	14.02	21,114,814

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 5.7 years.

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

	2008	2007
Weighted average share price	10.2p	10.6p
Exercise price	9.87p	10.0p
Expected volatility (expressed as a percentage used in the modelling under Black-Scholes model)	34.6 per cent.	34 per cent.
Dividend yield	nil	nil
Risk free interest rate (based on national government bonds)	5.0 per cent.	5.5 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:

	2008 £	2007 £
Equity settled share based payments	92,741	98,869

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 10.2, the exercise price of 9.87p, expected volatility of 34.6 per cent., no expected dividends, a term of 10 years and a risk-free interest rate of 5 per cent. The fair value of the liability is remeasured at each balance sheet date and at settlement date.

Notes to the financial statements
continued

20. Employee share schemes *continued*

Subsequent events

On 19 January 2009 the Board of Directors agreed, following a recommendation from the Company's remuneration committee and subject to subsequent approval by shareholders at the Company's next Annual General Meeting, to re-price certain outstanding share options that have been issued to employees who remain within the Group in order to incentivise those individuals and to reflect a more realistic price level given the current market in the Company's shares. A total of 16,787,000 share options will be re-priced to 8p, being a 10 per cent. premium to the mid-market price at close of business on 19 January 2009.

21. Auditors' remuneration

	2008 £	2007 £
Fees payable to the Company's auditor for the audit of the Company's annual accounts	35,000	35,000
Fees payable to the Company's auditor and its associates for other services:		
– Tax	9,040	9,272
– Advice on conversion to IFRS	—	10,000
– Other	8,278	10,600
The audit of the Company's subsidiaries pursuant to legislation	32,096	22,080
Other services pursuant to legislation	—	5,600
Payable to previous auditors re prior year	—	23,605

Fees paid to Grant Thornton UK LLP 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 9 June 2009 at 11.30 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 2008 and the reports of the Directors and auditors thereon.

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

3. To re-elect Mr Richard Prickett, 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 re-pricing of the exercise price of outstanding options over up to 16,787,000 ordinary shares ("Ordinary Shares") of 1p each in the capital of the Company (the "Options") to 8 pence per Option, being a 10 per cent. premium to the mid-market price of an Ordinary Share as at close of business on 19 January 2009 (the date immediately prior to the announcement of the proposed re-pricing) be and is hereby approved.

6. THAT the Directors be and they are hereby generally and unconditionally authorised (in substitution for any existing such authorities) for the purposes of Section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities up to an aggregate nominal amount of £1,500,000 being 25.3 per cent. of the current issued share capital, provided that this authority shall expire on 9 June 2014 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 6 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 6 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:

Notice of Annual General Meeting
continued

(a) in connection with an offer of such securities by way of rights to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange; and

(b) otherwise than pursuant to sub-paragraph (a) above, allotments of equity securities for cash up to an aggregate nominal amount of £1,500,000 being 25.3 per cent. of the current issued share capital

and shall expire on 9 June 2014 unless revoked or renewed before such date, save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred hereby has expired and in this resolution the expression "equity securities" and references to the allotment of equity securities shall bear the same respective meanings as in Section 94 of the Act.

By Order of the Board
Nigel Everest
Company Secretary

Registered office:
15 Upper Grosvenor Street
London W1K 7PJ

27 April 2009

Notes

1. Shareholders entitled to attend and vote at the meeting may appoint one or more proxies to attend, speak and vote in their place. A proxy need not be a shareholder of the Company.
2. Shareholders may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. Shareholders may not appoint more than one proxy to exercise rights attached to any one share. Please contact the Company's Registrars, Capita Registrars if you wish to appoint more than one proxy.
3. A vote withheld option is provided on the Form of Proxy to enable you to instruct your proxy not to vote on any particular resolution. However, it should be noted that a vote withheld in this way is not a "vote" in law and will not be counted in the calculation of the votes "For" and "Against" a resolution.
4. 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 by no later than 11.30 am on 5 June 2009 which is the time not less than 48 hours before the time fixed for the meeting (or adjournment thereof) weekends and bank holidays excluded. 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.
5. 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 5 June 2009 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 5 June 2009 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
6. Copies of the Executive Directors' service contracts 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 11.15 am until the conclusion of the Meeting.

Notice of Annual General Meeting

continued

7. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) of it by using the procedures described in the CREST Manual. CREST personal members, sponsored CREST members and CREST members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action for them.

   To complete a valid proxy appointment or instruction using the CREST service, the CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must in order to be valid, be transmitted and received by Capita Registrars (Participant ID RA 10) by no later than 11.30 am on 5 June 2009 which is the time not less than 48 hours before the time fixed for the meeting (or adjournment thereof). The time of receipt of the instruction will be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which Capita Registrars is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

   CREST members and, where applicable, CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will apply to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s) to ensure that his CREST sponsor or voting service provider(s) take(s) the necessary action to ensure that a message is transmitted by means of the CREST system by a particular time. CREST members and, where applicable, their CREST sponsors or voting service provider(s) should refer to the sections of the CREST Manual concerning practical limitations of the CREST system and timings.

   The Company may treat a CREST Proxy Instruction as invalid as set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

   Completion and return of a Form of Proxy will not preclude members from attending or voting in person at the meeting if they so wish.

8. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the chairman of the meeting as its corporate representative to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representatives in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Company Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details on this procedure. The guidance includes a sample form of appointment letter if the chairman is being appointed as described in (i) above.

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

Produced by Portman Lodge Limited

Form of Proxy
For Annual General Meeting

I/We ______________________________

of ______________________________

____

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

____

in respect of ....Ordinary Shares 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, 9 June 2009 at 11.30 am and at any adjournment thereof and to vote thereat as indicated below.

☐ Please indicate with an 'X' if this is one of multiple proxy appointments being made. (see note 2)

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 2008 accounts			
2. Ordinary Resolution to re-elect Mr William Humphries			
3. Ordinary Resolution to re-elect Mr Richard Prickett			
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 approve the re-pricing of certain outstanding options over ordinary shares			
6. Ordinary Resolution to empower the Directors to allot relevant 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. To appoint more than one proxy, (an) additional proxy form(s) may be obtained by contacting the Registrars helpline on 0871 664 0300 (standard rate of 10p per minute plus any network charges) or you may copy this form. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given and return all forms together in the same envelope.
3. 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.
4. 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.
5. 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 by no later than 11.30 am on 5 June 2009 which is the time not less than 48 hours before the time appointed for holding the meeting (weekends and bank holidays excluded).
6. 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.
7. Any alteration to this form must be initialled.
8. 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.
9. CREST members should use the CREST electronic proxy appointment service and refer to Note 7 of the Notice of Annual General Meeting in relation to the submission of a proxy appointment via CREST.

Second fold

Business Reply
Licence Number
MB 122

First fold

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

Third fold and tuck in

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