Patagonia Gold Plc

Annual Report
2009

Contents

Directors and advisers

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

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Directors

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 Chairman of Lonmin plc.

Carlos J Miguens (Non-Executive Deputy Chairman) has extensive business experience in Latin America. He was President for 11 years of Cerveceria & Malteria Quilmes, one of Argentina's largest brewing companies, until its sale to Ambev. He is the President of MB Holding S.A. and a Director of a number of other companies. Carlos is a co-founder and a Vicepresident of A.E.A. (Asociación Empresaria Argentina). He has also been the President 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 President 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 from its inception until June 2004. He is a Director of Landore Resources Limited, and a non-executive Director of The Capital Pub Company PLC and of City Natural Resources High Yield Trust PLC and non-executive Chairman of Asian Growth Properties Limited and of The Romania 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. Prior to joining the Company he was Project Manager for Brancote Holdings PLC's Esquel Gold and Silver Project in Argentina which was sold in 2002. Since being appointed as a Director in September 2002 he has managed the operations of the Company, in particular in the Santa Cruz region.

Chairman's statement

I am pleased to present the 2009 Annual Report for Patagonia Gold Plc.

2009 has been a year of exploration success on our Santa Cruz projects.

The financial results show a loss of £7,304,729 (2008: £5,803,394). The results for the year reflect the costs of the grant of new options and the repricing of previous options totalling £1,263,468. The remainder of these costs are in line with expectations and highlight the exploration activity that has taken place on our portfolio of Santa Cruz properties. The direct exploration costs incurred in the year were £4,707,868.

This expenditure has largely been financed by a share placement which raised £9.3 million at 7.75p per share in March 2009. More recently in May 2010 the Company has carried out a further fundraising, through our brokers Matrix Corporate Capital LLP to raise £13 million at 16p per share.

These financings will enable the Company to achieve its goal to become a gold producer initially on a modest scale and to develop larger low production cost gold projects.

Full details of these projects are set out in the Managing Director's and the Operations report which follow. Significantly the Company has just received the permit to commence trial heap leach operations at the Lomada de Leiva project. Very positive exploration results have been published on the Cap-Oeste and Manchuria projects.

The gold price continues to strengthen in these uncertain economic times and this will only serve to increase the valuation of the Company's low cost projects.

We will continue the development and exploration work on all the projects throughout the rest of this year and regular updates will be released to shareholders.

I would like to congratulate the executive team and all our staff for their excellent performance during the past year and also to thank our shareholders for their support.

Sir John Craven
Chairman

20 May 2010

Managing Director's report

2009 has seen Patagonia Gold Plc's (PGD) Operations team enjoy considerable success on our properties in the Santa Cruz province of southern Argentina. Highlights are:

Development

PGD is now poised to become a producer at the Lomada de Leiva Gold project (Lomada).

In April 2010, the State Secretariat of Mining of the Province of Santa Cruz, Argentina, approved the Environmental Impact Study and has now issued the necessary permit for the proposed trial heap leach operation at Lomada. Preparation works are well advanced, including site, mine and plant designs, contracts and selection of contractors, with completion of construction and commencement of irrigation scheduled for Q4 2010.

Lomada 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, with high potential to increase the size.

Exploration

PGD continues to grow its resources and to discover exciting new prospects.

At Cap-Oeste, our flagship project, a revised Resource estimate reported a total of 655,930 ounces of gold equivalent, an increase of 61 per cent. on the 2008 initial resource. Most importantly, the revised Resource now contains approximately 88 per cent. within the Indicated category allowing the project to be advanced to Scoping studies. The Cap-Oeste Resource has been delineated with 25,939 metres of drilling at a low discovery cost of US$10 per ounce of gold equivalent.

In just three years the team has delineated two compliant, reportable gold Resources on the Lomada and Cap-Oeste projects totalling 891,000 ounces of gold equivalent with a third Resource estimate at La Manchuria currently being prepared, scheduled for completion in Q3 2010.

Once again, the sound methods and systematic approach to exploration by our highly skilled geological team has led to the discovery of another exciting high grade shoot on the Cap-Oeste Bonanza Fault structure, COSE, with exceptional high grade gold and silver being reported. Drilling is continuing.

PGD has eight full time Geologists, supported by two consulting Geologists and over 30 technical staff, operating in Santa Cruz on the three advanced projects and on exploration of other properties in our large prospective portfolio. 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*
20 May 2010

La Manchuria

Operations report

Patagonia Gold Plc (PGD) through its 100 per cent. owned subsidiary in Argentina, Patagonia Gold S.A. (PGSA) is actively engaged in mineral exploration in the Patagonia region of Argentina. PGSA holds the mineral rights to 194 properties for 7,351 square kilometres predominantly in the Provinces of Santa Cruz and Chubut.

During 2009, PGSA focused its exploration efforts on its highly prospective properties in the Santa Cruz province, concentrating on the Lomada de Lieva project on the La Paloma property block, PGSA's flagship Cap-Oeste project on the El Tranquilo property block and the La Manchuria project. Since acquisition of the Santa Cruz properties in 2007, PGSA has delineated two compliant, reportable gold Resources totalling 891,000 ounces of gold equivalent. A third Resource estimate at La Manchuria is being prepared, scheduled for completion Q3 2010.

Operations report
continued

Santa Cruz Province

Santa Cruz is a mining friendly province and contains a very active petroleum and mining industry and accordingly all the infrastructure and understanding associated with exploration and mining.

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.

New Mining Legislation

In October 2009, the Santa Cruz province passed new legislation providing for the creation of an "Area of Special Interest for Mining", east of route 40, in which mining activities are encouraged.

The Lomada de Leiva, Cap-Oeste and La Manchuria projects are located within the defined "Area of Special Interest for Mining", as well as the other prospects of the Company and the mining properties optioned by Fomicruz SE.

The new "Area of Special Interest for Mining" permits mining east of route 40, from 4 kilometres of the shores of lakes and the axis of major rivers, and from 10 kilometres of the city limits of towns. In addition, the new legislation also permits the processing of ores from 20 kilometres of these major water features. The law allows for the creation of an ad-hoc committee to evaluate the Environmental Impact Studies of the projects located outside the "Area of Special Interest for Mining".

PGSA and Fomicruz agreement

In April 2009, PGSA formally ratified a strategic partnership agreement 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.

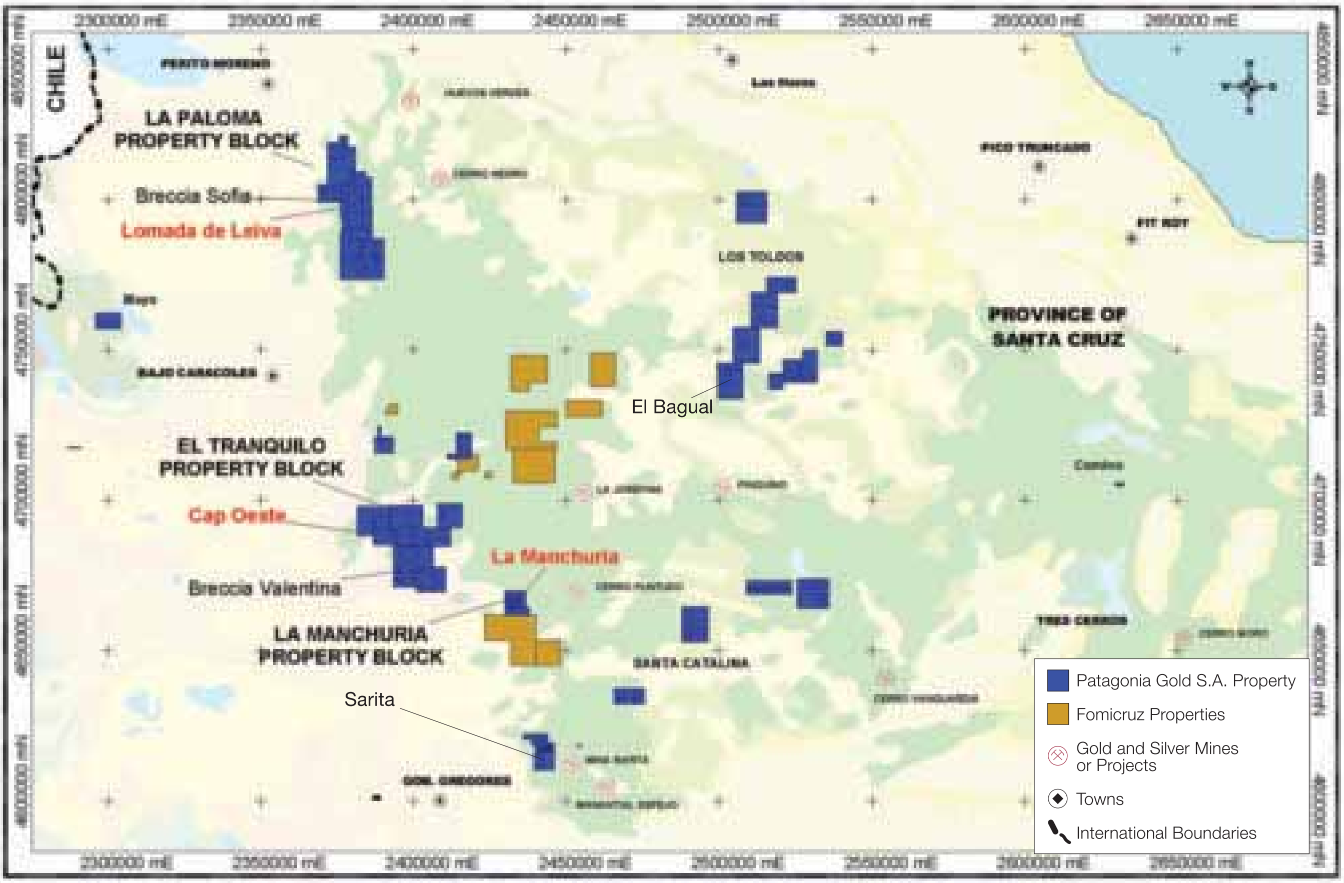
The agreement sets out the key terms and conditions of a strategic partnership between PGSA and government owned Fomicruz SE for the future development of PGSA's mining properties in Santa Cruz province, including the Lomada de Leiva gold project and the Cap Oeste and La Manchuria Main Zone gold and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

The key terms and conditions include:

- 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.

Operations report
continued

- PGSA will invest US$ 5 million, over a five year period, on exploration expenditures on the properties contributed by Fomicruz SE.
- 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.



Province of Santa Cruz showing PGSA and Fomicruz properties

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.

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

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

Lomada de Leiva project

Resource estimate

In 2007, PGSA completed resource drilling and studies on the Lomada de Leiva project (Lomada project). The Resource estimates, completed by independent engineers complying with Canadian National Instrument 43-101 (NI 43-101), using 0.30 grams per tonne gold cut-off are:

Measured and Indicated of **161,346 ounces gold** and additional Inferred Resources of **73,725 ounces gold** at an average grade of 1.1 grams per tonne (g/t).

Preliminary metallurgical studies 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. These results, supported by the high potential to develop additional resources at the Lomada project and the adjacent Breccia Sofia prospect, were sufficiently encouraging to advance the Lomada project towards production.

Scoping study

In 2008, a positive Scoping study was completed on the Lomada project utilising a conventional run of mine (ROM) heap leach operation.

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 $63.6 million based on $850 per ounce gold, and a recovery of 80 per cent.

As a result of the positive Scoping study PGSA decided to progress the project towards development with the aim of commencing production in the first half of 2011.

Development

Further successful metallurgical studies were completed in Q2 2009 to test the leaching ability of the ROM ore in simulated field conditions through column testing.

Prior to proceeding with the proposed five million tonne heap leach operation, PGSA has elected to carry out additional field testing by constructing a 50,000 tonne trial heap leach operation. Accordingly an Environmental Impact Study for the trial heap leach was completed and submitted to the Director of Mining in July 2009.

Operations report
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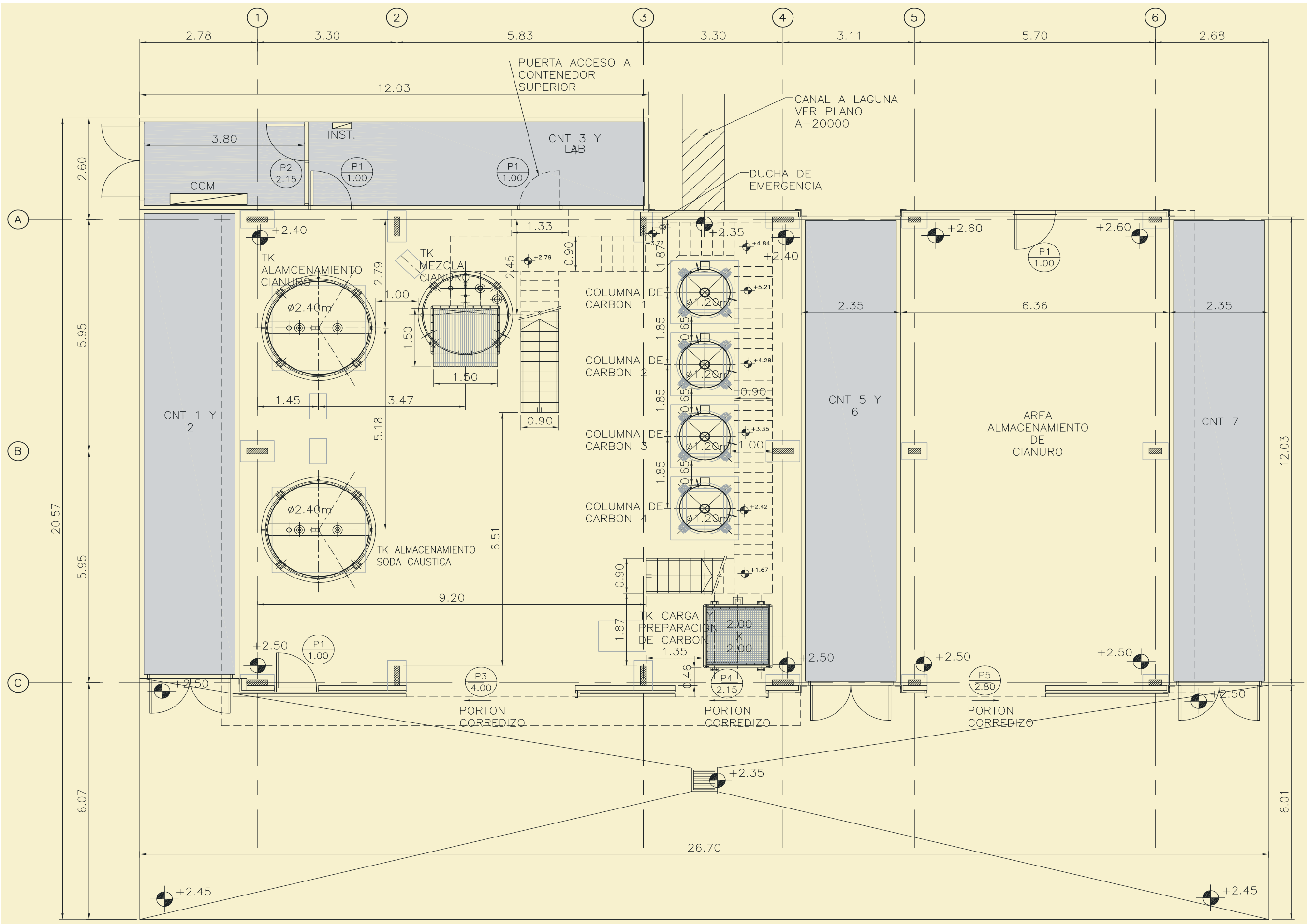
In April 2010, the State Secretariat of Mining of the Province of Santa Cruz, Argentina, approved the Environmental Impact Study and has issued the necessary permit for the proposed trial heap leach operation at the Lomada de Leiva gold project.

Engineering design and procurement contracts for the heap leach operation are well advanced with the fabrication and construction of the elution processing plant scheduled for completion in Q3. Construction of the pad, mining and loading of the trial heap leach will commence at the end of the southern winter and is scheduled for completion in Q4 with irrigation and processing commencing soon thereafter.



Plan of Lomada Trial heap leach plant facilities

Operations report
continued

Subject to successful trial heap leaching and permitting, construction of the main heap leach operation will commence with production start up in the first half of 2011.

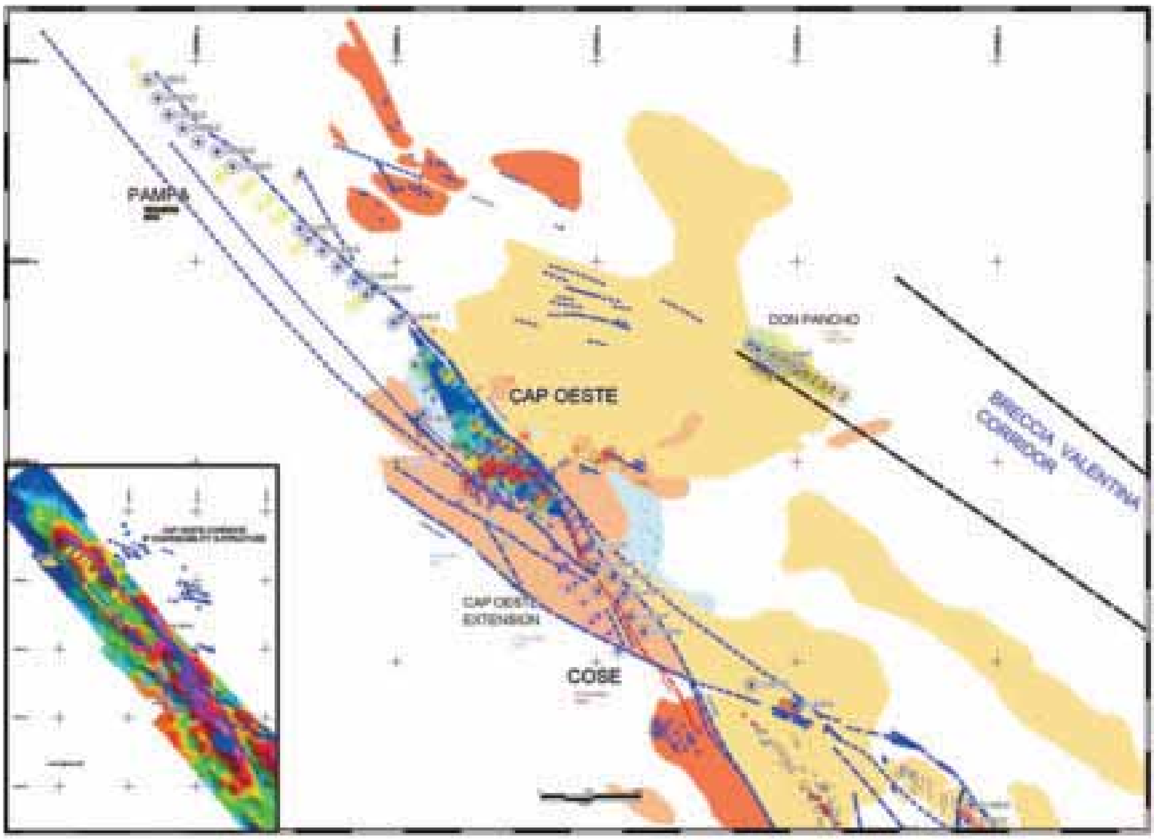
The main heap leach operation at Lomada is expected to produce over 21,000 ounces of gold per year, at a low cash cost of $299 per ounce, for the minimum expected mine life of seven years. The project has considerable growth potential with conversion of the inferred resources by infill drilling together with developing additional resources.

Estancia El Rincon Acquisition

The Lomada de Leiva project is located on the Estancia El Rincon. PGSA is currently finalising a purchase agreement for the Estancia El Rincon property comprising 6,700 hectares of land, dwellings, sheds, outbuildings and infrastructure.

El Tranquilo Property

The El Tranquilo project block covering over 74 square kilometres, is located approximately 120 kilometres south of PGSA's La Paloma property and approximately 65 kilometres southeast of the town of Bajo Caracoles in Santa Cruz. The property contains the Cap-Oeste gold and silver project, the Cap-Oeste South East (COSE) prospect, the Pampa prospect and the Vetas Norte and Breccia Valentina structural trends.



Cap Oeste deposit showing strike extension

Operations report
continued

The Cap-Oeste mineralisation is localised along the regional scale northwest trending, moderate to steeply southwest 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 metre thick volcanic package of variably welded, quartz crystal poor, vitric ash to lithic lapilli tuff and a +200 metre thick sequence of quartz crystal rich tuff unit.

Cap-Oeste Gold and Silver project

Drilling

To June 2009, two drilling campaigns comprising 156 drill holes for 25,939 metres, have been completed on the Bonanza Fault structure, which has currently been defined over 1,200 metres along strike and down dip to approximately 350 metres. The Main Shoot within this structure has been drilled on a spacing of approximately 25 metre centres, with the remainder of the 1,200 metres being drilled on approximately 50 metre centres.

The drilling results have confirmed the presence of a wide gold mineralised structure with a core containing bonanza grade gold and silver. The Bonanza Fault structure remains open at depth and along strike in both directions. The high grade gold values are associated with bonanza grade silver.

Significant results from CO-132 onwards include:

Cap Oeste significant Drill Hole Intersections from CO-130-D

Drill Hole No.	From (m)	Interval (m)	Au g/t	Ag g/t
CO-132-D	280.40	32.70	2.86	45
including	305.85	3.80	5.66	22
CO-139-D	244.70	11.80	15.21	203
including	249.00	5.10	33.34	372
CO-144-D	316.00	33.00	5.77	182
including	326.50	5.00	10.07	150
and	346.05	1.65	43.64	2,137
CO-145-D	271.00	29.90	7.81	315
including	289.95	7.05	21.89	1,003
CO-147A-D	323.00	1.30	13.50	186
CO-148-R	33.00	7.00	6.42	305
including	37.00	2.00	10.38	846
CO-150-D	285.15	4.30	4.18	25
CO-152B-D	300.94	11.06	4.56	17
and	317.30	2.90	10.74	24
CO-154-D	257.90	23.10	5.81	49
including	269.45	9.55	9.38	54
CO-154-D	288.40	6.30	5.64	47
CO-155-D	257.90	23.10	5.81	49
and	300.95	20.50	3.98	189
and	330.00	12.30	2.63	48

Operations report
continued

Resource upgrade
Following the completion of the second drilling campaign, PGSA retained Micon of Toronto, Canada, to independently describe and prepare an updated mineral Resource estimate for the gold-silver deposit discovered at Cap-Oeste, Santa Cruz Province, Argentina, and to prepare a report which complies with the requirements of NI 43-101. The updated estimate, published in October 2009, reported the following resource (with uncapped grades):

Indicated Resource of 362,040 ounces of gold and 14,503,120 ounces of silver
Inferred Resource of 46,090 ounces of gold and 1,604,030 ounces of silver

TOTAL Gold equivalent (1 oz gold equivalent to 65 oz silver) **655,930 ounces** gold Eq

Importantly, the revised Resource contains approximately 88 per cent. in the Indicated category allowing the project to be advanced to Scoping studies. The Cap-Oeste Resource has been delineated with 25,939 metres of drilling at a low discovery cost of US$10 per ounce of gold equivalent.

The following comments are extracts from Micon's report:

Exploration work by PGSA has been successful in locating the Cap-Oeste gold-silver deposit in 2008 and additional delineation drilling during the 2009 field season has been successful in extending the limits of the mineralisation down-plunge to a vertical depth of approximately 370 metres from surface.

Throughout the northern portion of the El Tranquilo property block exploration claims PGSA has defined at least seven areas hosting either gold-silver mineralisation or containing elevated levels of "pathfinder" geochemical metals............These areas are spatially related to three 2/3 kilometres spaced northwest to west northwest trending regional scale mineralised structural corridors...

From the results presented above Micon believes that additional diamond drilling programs are clearly warranted to search for the limits of the Cap-Oeste deposit. Such programmes would test for the continuation of the gold-silver mineralisation along the down plunge projections of the known mineralisation shoots, test the south-eastern and north-western strike projection of the mineralization along the Bonanza fault, and begin testing the Esperanza fault for its potential of hosting additional mineralisation.

End of extract.

These results, supported by the high potential to develop additional Resources at Cap-Oeste, are sufficiently encouraging for PGSA to advance this project towards production.

Scoping study
Accordingly, PGSA has retained Micon to independently assess and prepare a Scoping study with associated metallurgical test work for the gold-silver Resource at Cap-Oeste and to prepare a report which complies with the requirements of NI 43-101 scheduled for completion in Q4 2010.

Drilling has recommenced on the Cap-Oeste project and to date eight holes for 2,203 metres has been drilled on the Main Shoot and several other prospective targets along the original 1,200 metre defined Bonanza Fault. Assays are pending.

Operations report
continued

Estancia Bajada
The Cap-Oeste project and COSE are located on the Estancia Bajada. 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.

COSE Prospect
In 2009, a geophysical survey identified two large anomalies similar to the Cap-Oeste deposit signature, approximately two kilometres along strike to the south-east (COSE) and to the north-west (La Pampa) of the Cap-Oeste project. A follow up reconnaissance exploration programme on COSE including detailed mapping, trenching, sampling and two exploratory drill holes for 300 metres, identified an auriferous breccia beneath the geophysical anomaly with drill hole CSE-02 reporting 12 metres at 2.53 g/t Au including 3 metres at 5.19 g/t Au.

In October, drilling commenced on the COSE prospect to determine the geometry of the mineralisation. The drilling proved highly successful with drill-hole CSE-13-D reporting spectacular results with a 4.10 metre section of the breccia intersecting exceptionally high grade gold and silver values averaging 540 g/t Au and 28,089 g/t Ag.

COSE – Drill core from hole CSE-13 showing 'ruby' silver in the matrix

Operations report

continued

Drilling is continuing and to date 35 drill holes have been completed, for 8,633 metres.

Significant results from COSE include:

Hole No.	From metres	Interval metres	Grade Au g/t	Grade Ag g/t
CSE-013-D	208.30	4.10	540.05	28,089
including	208.30	0.90	166.00	5,464
including	209.20	0.80	402.00	23,341
including	210.00	0.85	2030.40	106,507
CSE-016-D	151.30	7.70	4.56	163
and	163.80	1.00	18.70	346
CSE-17-D	244.00	13.83	13.07	908
including	244.78	2.32	42.98	4,931
CSE-19-D	179.00	1.00	11.10	1,612
CSE-22-D	269.90	3.60	31.36	864
including	269.90	1.25	80.10	2,351
CSE-24-D	240.00	3.30	23.94	373
CSE-27-D	214.17	13.93	159.23	627
including	219.20	1.60	1,284.15	3,977
CSE-28-D	188.60	0.90	9.10	2,872

Currently, close-spaced drilling is being undertaken to delineate the extremely high grade core zone further down plunge, as well as along strike.

Drill holes both up dip and down the inferred plunge of the high grade central zone continue to intersect mineralised breccias reporting spectacular results. The high grade mineralised breccia containing the extremely high grade shoots has now been confirmed down a +80 metre plunge extension. Drill holes have intersected mineralised breccia further down plunge for which results are pending.

The hanging wall to the high grade zone hosts a zone of complex mineralised subsidiary structures which represents an additional broad medium grade target. The relationship between these converging mineralised structures is currently not well understood, though the extremely high grades reported in holes CSE-13-D and CSE-27-D are interpreted as potentially occurring at these structural intersections.

Step out drilling on 100 metre centres has also been conducted over 1 kilometre of strike to the northwest along the chargeability anomaly towards the Cap-Oeste resource area (the Cap-Oeste Extension prospect). Several of these exploration holes have intersected zones of brecciation up to 4 metres in width for which results are pending.

An Environmental Impact Study is currently being prepared for a permit to allow the construction of an underground exploration drive. This sub surface access will allow both underground drilling as well as the collection of a bulk metallurgical sample.

La Pampa Prospect

At the La Pampa Prospect, drilling of 18 holes for 1,606 metres has identified the zone where the Bonanza Fault structure and the Don Pancho corridor intersects.

The breccia intersected shows strong correlation to the high level parts of the Main Shoot. Owing to the higher level in the system the geochemistry is depleted. However, the best intersection of 2.25 metres at 5.71 g/t Au in hole CX-038-D is extremely encouraging and warrants further drilling.

Operations report
continued

Exploration – El Tranquilo

A second important aspect of the geophysics survey results was the identification of 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).

Subsequent drilling on the Breccia Valentina prospect has reported BVA-002-D from 26 metres to 5.2 metres at 3.35 g/t Au.

High-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 which allowed drill hole targeting.

A Reverse Circulation (RC) drilling campaign of 2,252 metres was completed in May 2009 on the Don Pancho, Vetas Norte, Puma and Felix prospects, all located within 5 kilometres of Cap-Oeste.

Significant intersections include:

Hole No.	From metres	Interval metres	Grade Au g/t	Grade Ag g/t
DPA-003-R	23.00	5.00	8.13	250
including	23.00	1.00	20.4	447
and	27.00	1.00	10.9	489
DPA-008-R	44.00	7.00	1.70	10
VNO-001-R	35.00	6.00	0.84	5.0
including	36.00	2.00	1.67	7.5
VNO-08-R	83.00	1.00	15.80	9.0
FLX-001-R	19.00	1.00	63.70	140
FLX-004-R	28.00	5.00	1.32	28
CSE-002-R	134.00	12.00	2.53	5.4
including	142.00	3.00	5.19	60
CX-038-D	114.00	2.25	5.71	3.2

Don Pancho Prospect

The Don Pancho prospect is located in a flex in the Breccia Valentina trend. Results from trench assays were proportionately similar to the original trenching results from the Cap-Oeste gold-silver deposit which is only 1,100 metres to the southwest. Drilling on a short section of the trend has confirmed the presence of high grade gold and silver within a silicified brecciated structure, including drill-hole DP-03 reporting 5 metres at 8.13 g/t gold 250 g/t silver. Don Pancho remains open at depth as well as along strike to the southeast and to the northwest where it intersects the Bonanza Fault in the vicinity of the Pampa prospect.

Operations report
continued

Vetas Norte Prospect

The Vetas Norte Prospect contains an area of epithermal quartz blocks in which sawn channel samples over the limited outcropping vein material returned up to 2.1 metres at 0.68 g/t gold. Textural evidence indicates increased potential for mineralisation at depth. Drill results beneath the outcrops have confirmed this model.

Felix Prospect

The Felix prospect contains both low sulphidation quartz veining as well as low angle silicified brecciated structures. Geological evidence suggests that this prospect is also in the upper levels of a mineralised system. Drilling has confirmed the gold-silver mineralisation of the area intersecting broad zones of mineralisation and high grade gold including drill-hole FLX-001 reporting 1.00 metres at 63.70 g/t gold and 140 g/t silver.

A second drilling campaign was completed at the Felix prospect in Q4 2009 comprising 18 holes for 1,589 metres. Results are pending.

La Pampa – Marc Sale with Exploration Geologists

Operations report
continued

La Manchuria Property

La Manchuria property, consisting of five expedientes (mining concessions) covering 5,575 hectares, is located approximately 50 kilometres to the southeast of and within carting distance of PGD's flagship Cap-Oeste project and contains the Manchuria Main Zone gold-silver project.

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.

Geological appraisal of drill-core supports the interpretation of a robust continuous zone of high grade gold and silver mineralisation. The mineralised 'package' consists of a series of multi-ounce gold-silver discreet but locally continuous epithermal veins contained within more extensive disseminated mineralisation.

La Manchuria Main Zone

In three drilling campaigns, a total of 95 holes comprising 17,853 metres have been completed by PGD on the Manchuria property. In addition to providing the basis of the Resource study, this drilling has also indicated a high potential for the drill extension of the mineralised zone which remains open in all directions.

The recently completed HQ core diamond drill programme, consisting of 55 drill-holes (LM-041-D to LM-095-D) for 9,754 metres, was designed to infill the pre-existing 50 metre line spaced drilling on a 25 metre x 25 metre grid along 400 metres of strike length to allow a Resource estimate to be completed for the Main Zone.

Significant results from Drill Hole LM-060-D include:

La Manchuria significant Drill Hole Intersections from LM-041-D

Drill Hole No	From (m)	Interval (m)	Au g/t	Ag g/t
LM-060-D	96.00	2.00	52.55	3,274
including	96.00	1.00	94.20	5,920
LM-064A-D	154.80	0.50	46.00	603
LM-066-D	112.70	1.50	42.67	589
LM-068-D	72.00	4.50	20.53	198
including	76.00	0.50	178.00	923
and	89.40	1.00	18.80	475
LM-069-D	133.00	1.60	22.60	61
including	133.00	0.50	54.50	123
LM-70-D	82.55	0.50	20.80	511
LM-073A-D	118.00	1.10	60.20	180
LM-074-D	156.20	1.25	49.44	253
LM-081-D	71.20	1.50	23.73	1,280
LM-083-D	84.35	0.50	18.05	8,960
LM-084-D	73.00	0.50	51.40	300
LM-088-D	3.15	0.50	17.25	3,290
LM-093-D	122.20	2.80	26.04	5,224
including	122.70	0.50	145.00	28,207
and	137.55	5.10	25.89	334
including	137.55	0.90	111.00	896

Operations report
continued

Drilling of the Main Zone has confirmed and extended the mineralised package with the potential for high grade gold and silver mineralisation 300 metres to the south and it remains open but obscured by post-mineral cover. 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 south for over 2,000 metres. Rock chips and soil sampling of the cover has returned results highly anomalous in path finder elements.

Micon has been retained to independently prepare a Resource estimate for the Main Zone compliant with NI 43-101 scheduled for completion by Q3 2010.

Scoping studies are scheduled to commence Q1 2011.

La Manchuria drilling – PGSA Geological staff

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.

Sarita property

The property, area 7,890 hectares, is located on the same trend as the silver-rich (gold bearing) Mina Martha Mine (Coeur D´Alene) and only 9 kilometres to the NW. Lineaments from the Martha trend can be traced on satellite imagery into the Sarita property which contains similar lithological units.

Operations report
continued

Detailed mapping and sampling within the Sarita property has identified several discrete mineralised corridors hosting persistent quartz veins/breccia trending NW structures. Significant mineralisation has been observed in quartz veins up to 3 metres wide at surface, composed of quartz + sulphides, 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 Au and up to 15,438 g/t Ag, as well as > 1 per cent. copper and lead.

A trenching programme of over 1,000 metres will be undertaken on the most prospective zones in the veins.

A second style of mineralisation has also being discovered similar to the Las Calandrias deposit. A felsic dome contains an extensive brecciated corridor which to date has been traced over 350 metres and up to 80 metres wide but remains open along strike. Wide spaced sampling has return gold values consistently over 1g/t Au and up to 2.5 g/t. Detailed grid sampling is currently being conducted.

El Bagual Property

The property, area 5,717 hectares, is located in a circular structure, five 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.

Gold mineralisation is hosted by chalcedony stockwork / veinlets and infill quartz veins / breccias distributed in two contiguous, sub-parallel corridors approximatly 100 metres wide. Systematic rock chip sampling returned values up to 6.7g/t gold. Results from historic drilling, include 25.15 metres at 0.68 g/t Au from 180.15 metres and 45.60 metres at 0.48 g/t Au from 139 metres.

A 2,500 metre drill programme has been designed to test this potential bulk tonnage low grade target, scheduled to commence in Q4 2010.

Environmental and Social Corporate Responsibility

PGSA maintains a strong awareness of its responsibilities towards the environment and existing social structures for the contribution to the sustainable development of the local communities.

Careful attention is given to ensure that all exploration work is carried out with the best practices of the industry and following the guidelines of the relevant mining and environmental acts, as well as to the high standards of responsibility PGSA imposes on itself.

Environmental impact studies were completed, submitted and approved by the Mining Directorate before the beginning of all the drilling campaigns conducted by PGSA and for the trial heap leach at Lomada de Leiva. Periodic water monitoring, base line and hydrogeology, among other studies, are carried out on the advanced projects of PGSA by independent consultants and submitted to the related authorities.

The Provincial Mining Directorate's agents together with representatives from the local communities have frequently inspected our exploration activities specifically when drilling and have expressed their satisfaction towards the responsible manner in which the Company carries out its operations.

Operations report
continued

PGSA is a responsible exploration company and has strict code of conduct and internal guidelines in respect to dealing with not only environmental issues but landowners and local inhabitants of areas under exploration since commencement of the prospection stage ensuring the support for our mining activities in the wider community.

Senior Management and Community Relationship personnel represent the Company at meetings with local, provincial and federal government agencies, as well as organising periodic site visits to the projects with local members of the communities and authorities to increase the transparency, information, dialogue and participation along the different stages of development of the projects.

PGSA's policy is to prioritise the hiring of local personnel and consultants and use local contractors and suppliers whenever it is possible. PPGSA, through its community relationship programme, contributes to different actions for the benefit of the region.

Chubut Province

In June 2006 the Provincial Government of Chubut introduced a provisional law banning mining and mineral exploration activities for three years in a specified area in the western sector of the province where a great number of PGSA's exploration properties are located, including the historical Huemules gold mine and the advanced Crespo project.

During 2009 this restriction was extended for another three years until the Provincial Government determines how and when mining and mineral activities can restart in Chubut.

PGSA has been working with both local and regional governments, as well as the Argentine mining chambers and other stakeholders towards building trust and co-operation to lift the ban and recommence the operations in the province.

Report of the Directors

The Directors present their report and the audited financial statements for the year ended 31 December 2009.

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

The purpose of the review is to show how the Company assesses and manages risk and uncertainty and adopts appropriate policies and targets. Further details of the Group's business are also set out in the Chairman's statement on page 4, the Managing Director's report on page 5 and in the Operations report on pages 6 to 21.

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 May 2010, the Company successfully raised £13 million to finance working capital and exploration expenditure as detailed in note 16 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 Chairman's statement on page 4, the Managing Director's report on page 5 and the Operations report on pages 6 to 21, 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	Compliance with the strict environmental policies which are in place	Exploration expenditure	Funding and development costs measured as per anticipated ounce of metals
Operational success	The number of successful exploration drilling ventures and resources added	Exploration development	Results of scoping and feasibility studies Resources added
Human resource management	Employee retention rate		

All KPIs were in line with management expectations for the year.

Report of the Directors

continued

Financial Instruments

The Company's principle treasury objective is to provide sufficient liquidity to meet operational cash flow to allow the Group to take advantage of exploration opportunities whilst maximising shareholder value. The Company operates controlled treasury policies which are monitored by the Board to ensure that the needs of the Company are met as they evolve. The impact of the risks required to be discussed in accordance with IFRS7 are summarised in note 17 together with detailed discussion and sensitivity analysis relating to these risks.

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 2010 and have considered future possible expenditure covering following years. Based upon the recent financing, the Directors believe that the Company has adequate working capital to cover the 12 months from the date of this Annual Report.

On 4 May 2010 the Company placed shares to a value of £13 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 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.

On 16 December 2009, the Company allotted 50,000 new ordinary shares of 1p each pursuant to the exercise of a share option on 4 December 2009.

Report of the Directors
continued

Subsequent events
On 15 January 2010, the Company allotted 250,000 new ordinary shares of 1p each pursuant to the exercise of a share option on 6 January 2010.

On 4 May 2010, the Company announced that it placed 81,250,000 new ordinary shares of 1p each at a price of 16.00p per share raising £13 million to finance working capital and exploration expenditure.

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

Dividends
The Directors do not recommend the payment of a dividend (2008: £nil).

Substantial shareholdings
In addition to the interest of C J Miguens disclosed below, at 20 May 2010, 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	96,656,001	14.32
BlackRock Gold & General Fund	57,365,000	8.50
Cinco Vientos Uruguay SA	40,453,980	5.99
Barrick Gold Corporation	30,345,160	4.49
Diego Miguens	29,270,726	4.34
Taheh International Holding Ltd	28,600,000	4.24
Cristina Miguens	24,048,504	3.56

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

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

Ordinary Shares of 1p:	20 May 2010	31 December 2009	31 December 2008
Sir John Craven	4,479,000	4,479,000	4,479,000
C J Miguens	96,656,001	92,515,376	92,515,376
W H Humphries	14,417,667	13,167,667	11,880,521
M J Sale	1,676,687	1,676,687	1,676,687
G Tanoira	6,754,960	6,672,147	6,672,147
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 2009, 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	8.00p	1,500,000	24.06.04	23.06.14
Sir John Craven	23.06.09	12.25p	1,500,000	23.06.09	22.06.19
C J Miguens	18.02.04	8.00p	1,500,000	19.02.04	18.02.14
C J Miguens	23.06.09	12.25p	6,500,000	23.06.09	22.06.19
W H Humphries	08.10.02	8.00p	350,000	08.10.02	08.10.12
W H Humphries	07.03.03	8.00p	150,000	07.03.03	07.03.13
W H Humphries	18.02.04	8.00p	3,000,000	19.02.04	18.02.14
W H Humphries	23.06.09	12.25p	4,500,000	23.06.09	22.06.19
M J Sale	18.02.04	8.00p	1,000,000	19.02.04	18.02.14
M J Sale	05.06.07	8.00p	1,000,000	05.06.07	04.06.17
M J Sale	03.06.08	8.00p	500,000	03.06.08	02.06.18
M J Sale	09.06.09	8.00p	900,000	09.06.09	01.04.13
M J Sale	23.06.09	12.25p	2,600,000	23.06.09	22.06.19
G Tanoira	18.02.04	8.00p	1,281,000	19.02.04	18.02.14
G Tanoira	23.06.09	12.25p	1,719,000	23.06.09	22.06.19
R Ö Prickett	18.02.04	8.00p	2,906,000	19.02.04	18.02.14
R Ö Prickett	09.06.09	8.00p	500,000	09.06.09	01.04.13
R Ö Prickett	23.06.09	12.25p	2,594,000	23.06.09	22.06.19

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 were replaced by ordinary share options.

The Company's ordinary shares are traded on AIM and the market price of those shares ranged between 5.125p and 18.00p during the year. The closing mid-market price of the Company's ordinary shares on 31 December 2009 was 18.00p (31 December 2008: 5.25p).

Corporate governance

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

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.

Report of the Directors
continued

Annual General Meeting

The Company's Annual General Meeting is convened for 16 June 2010 at 11.00 am to be held at The Cavalry & Guards Club, 127 Piccadilly, London W1V 0PX. The notice of Annual General Meeting is attached with the Financial Statements. The notice includes items of Special Business and an explanation regarding such business can be found at the end of the notice.

The Directors who retire by rotation are Carlos Miguens and Gonzalo Tanoira who, being eligible, offer themselves for re-election.

Directors' indemnification provisions

Under Article 231 of the Company's Articles of Association, 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.

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 16 June 2010.

By Order of the Board

Nigel Everest
Secretary

20 May 2010

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 adequate 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 2006. 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

Independent auditor's report to the members of Patagonia Gold Plc

We have audited the financial statements of Patagonia Gold Plc for the year ended 31 December 2009 which comprise the consolidated statement of comprehensive income, the consolidated and parent Company balance sheet, the consolidated and parent Company statements of changes in equity, the consolidated and parent Company statements of cash flow, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Directors' responsibilities statement set out on page 29, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2009 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Report of the independent auditor
continued

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

David Miller
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

20 May 2010

Consolidated statement of comprehensive income

for the year ended 31 December 2009

	Note	2009 £	2008 £
Continuing operations			
Exploration costs		(4,707,868)	(4,523,460)
Administrative costs			
Share based payments charge	21	(1,263,468)	(92,741)
Other administrative costs	5	(1,354,476)	(1,249,689)
		(2,617,944)	(1,342,430)
Finance income	4	26,995	67,318
Finance costs		(5,912)	(4,822)
Loss for the period attributable to equity holders	3	(7,304,729)	(5,803,394)
Other comprehensive (loss)/income			
Gain/(loss) on revaluation of available-for-sale financial assets		10,784	(34,509)
Exchange differences on translation of foreign operations		(746,793)	346,049
Other comprehensive (loss)/income for the period		(736,009)	311,540
Total comprehensive loss for the period attributable to equity holders		(8,040,738)	(5,491,854)
Loss per share (pence)			
Basic loss per share		(1.28)	(1.37)
Diluted loss per share		(1.28)	(1.37)

Consolidated balance sheet

at 31 December 2009

	Note	2009 £	2008 £
ASSETS			
Non-current assets			
Property, plant and equipment	10	635,482	739,234
Available for sale financial assets	12	122,941	112,157
Other receivables	13	1,617,315	1,301,301
		2,375,738	2,152,692
Current assets			
Trade and other receivables	13	89,776	64,779
Cash at bank and in hand	14	2,894,477	1,069,373
		2,984,253	1,134,152
Total assets		5,359,991	3,286,844
LIABILITIES			
Current liabilities			
Trade and other payables	15	(1,691,385)	(1,468,200)
Non-current liabilities			
Long-term accruals and provisions	15	(1,315)	(207,058)
Total liabilities		(1,692,700)	(1,675,258)
Net assets		3,667,291	1,611,586
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	16	5,936,028	4,735,528
Share premium account		40,971,847	33,339,372
Translation reserve		(296,837)	449,956
Share based payment reserve		1,468,809	205,341
Retained loss		(44,412,556)	(37,118,611)
Total equity		3,667,291	1,611,586

Company Registered number 3994744

These financial statements were approved by the Board of Directors on 20 May 2010 and were signed on its behalf by:

Gonzalo Tanoira
Director

The notes on pages 47 to 63 form part of these financial statements.

Company balance sheet

at 31 December 2009

	Note	2009 £	Amended 2008 £
ASSETS			
Non-current assets			
Property, plant and equipment	10	4,216	4,835
Investments in subsidiary undertakings	11	11,837,882	7,623,105
Available for sale financial assets	12	122,941	112,157
		11,965,039	7,740,097
Current assets			
Trade and other receivables	13	56,141	54,812
Cash at bank and in hand	14	2,078,638	473,251
		2,134,779	528,063
Total assets		14,099,818	8,268,160
LIABILITIES			
Current liabilities			
Trade and other payables	15	(142,890)	(2,264,496)
Total liabilities		(142,890)	(2,264,496)
Net assets		13,956,928	6,003,664
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	16	5,936,028	4,735,528
Share premium account		40,971,847	33,339,372
Share based payment reserve		1,468,809	205,341
Retained loss		(34,419,756)	(32,276,577)
Total equity		13,956,928	6,003,664

These financial statements were approved by the Board of Directors on 20 May 2010 and were signed on its behalf by:

Gonzalo Tanoira
Director

The notes on pages 47 to 63 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2009

	Note	Share capital £	Share premium account £	Translation reserve £	Share based payment reserve £	Retained loss £	Total £
Balance at 1 January 2008		3,579,229	28,400,654	103,907	112,600	(31,280,708)	915,682
Changes in equity for 2008							
Share based payment	21	—	—	—	92,741	—	92,741
Issue of share capital							
Issue by placing	16	1,156,299	4,938,718	—	—	—	6,095,017
Transactions with owners		4,735,528	33,339,372	103,907	205,341	(31,280,708)	7,103,440
Loss for the period		—	—	—	—	(5,803,394)	(5,803,394)
Other comprehensive income/(loss):							
Revaluation of available-for-sale financial assets		—	—	—	—	(34,509)	(34,509)
Exchange differences on translation of foreign operations		—	—	346,049	—	—	346,049
Total comprehensive income/(loss) for the period		—	—	346,049	—	(5,837,903)	(5,491,854)
Balance at 31 December 2008		4,735,528	33,339,372	449,956	205,341	(37,118,611)	1,611,586
Changes in equity for 2009							
Share based payment							
Re-priced options	21	—	—	—	384,802	—	384,802
New options	21	—	—	—	878,666	—	878,666
Issue of share capital							
Issue by placing	16	1,200,000	8,100,000	—	—	—	9,300,000
Transaction costs of placing		—	(471,025)	—	—	—	(471,025)
Exercise of option	16	500	3,500	—	—	—	4,000
Transactions with owners		5,936,028	40,971,847	449,956	1,468,809	(37,118,611)	11,708,029
Loss for the period		—	—	—	—	(7,304,729)	(7,304,729)
Other comprehensive income/(loss):							
Revaluation of available-for-sale financial assets		—	—	—	—	10,784	10,784
Exchange differences on translation of foreign operations		—	—	(746,793)	—	—	(746,793)
Total comprehensive income/(loss) for the period		—	—	(746,793)	—	(7,293,945)	(8,040,738)
Balance at 31 December 2009		5,936,028	40,971,847	(296,837)	1,468,809	(44,412,556)	3,667,291

Company statement of changes in equity

for the year ended 31 December 2009

	Note	Share capital £	Share premium account £	Share based payment reserve £	Retained loss £	Total £
Balance at 1 January 2008 – amended		3,579,229	28,400,654	112,600	(31,260,242)	832,241
Changes in equity for 2008						
Share based payment	21	—	—	92,741	—	92,741
Issue of share capital						
Issue by placing	16	1,156,299	4,938,718	—	—	6,095,017
Transactions with owners		4,735,528	33,339,372	205,341	(31,260,242)	7,019,999
Loss for the period		—	—	—	(981,826)	(981,826)
Other comprehensive income/(loss):						
Revaluation of available-for-sale financial assets		—	—	—	(34,509)	(34,509)
Total comprehensive income/(loss) for the period		—	—	—	(1,016,335)	(1,016,335)
Balance at 31 December 2008 – amended		4,735,528	33,339,372	205,341	(32,276,577)	6,003,664
Changes in equity for 2009						
Share based payment						
Re-priced options	21	—	—	384,802	—	384,802
New options	21	—	—	878,666	—	878,666
Issue of share capital						
Issue by placing	16	1,200,000	8,100,000	—	—	9,300,000
Transaction costs of placing		—	(471,025)	—	—	(471,025)
Exercise of option	16	500	3,500	—	—	4,000
Transactions with owners		5,936,028	40,971,847	1,468,809	(32,276,577)	16,100,107
Loss for the period		—	—	—	(2,153,963)	(2,153,963)
Other comprehensive income/(loss):						
Revaluation of available-for-sale financial assets		—	—	—	10,784	10,784
Total comprehensive income/(loss) for the period		—	—	—	(2,143,179)	(2,143,179)
Balance at 31 December 2009		5,936,028	40,971,847	1,468,809	(34,419,756)	13,956,928

Consolidated cash flow statement

for the year ended 31 December 2009

	Year to 31 December 2009 £	Year to 31 December 2008 £
Cash flow from operating activities		
Loss for the year	(7,304,729)	(5,803,394)
Adjustment for:		
Interest income	(26,995)	(67,318)
Depreciation and impairment	46,884	32,179
(Increase) in other receivables	(341,011)	(790,134)
Increase in trade payables	223,185	933,278
(Decrease)/increase in long-term provisions	(205,743)	207,058
Share based payments	1,263,468	92,741
Net cash used in operating activities	(6,344,941)	(5,395,590)
Cash flows from investing activities		
Interest received	26,995	67,318
Purchase of property, plant and equipment	(71,627)	(705,214)
Net cash used in investing activities	(44,632)	(637,896)
Cash flows from financing activities		
Proceeds from issue of share capital	8,828,975	6,095,017
Proceeds from exercise of options	4,000	—
Net cash from financing activities	8,832,975	6,095,017
Net increase in cash and cash equivalents	2,443,402	61,531
Cash and cash equivalents at beginning of period	1,069,373	661,793
Effects of foreign exchange movements	(618,298)	346,049
Cash and cash equivalents at end of period	2,894,477	1,069,373

Company cash flow statement

for the year ended 31 December 2009

	Year to 31 December 2009 £	Amended Year to 31 December 2008 £
Cash flow from operating activities		
Loss for the year	(2,153,963)	(981,826)
Adjustment for:		
Interest income	(26,234)	(20,489)
Depreciation and impairment	1,688	1,622
(Increase)/decrease in other receivables	(1,329)	43,711
(Decrease)/increase in trade payables	(2,121,606)	584,213
Share based payments	1,263,468	92,741
Net cash (used in)/generated in operating activities	(3,037,976)	(280,028)
Cash flows from investing activities		
Increase in investments held in subsidiary undertakings	(4,214,777)	(5,920,212)
Interest received	26,234	20,489
Purchase of property, plant and equipment	(1,069)	(1,868)
Net cash used in investing activities	(4,189,612)	(5,901,591)
Cash flows from financing activities		
Proceeds from issue of share capital	8,828,975	6,095,017
Proceeds from exercise of options	4,000	—
Net cash from financing activities	8,832,975	6,095,017
Net increase in cash and cash equivalents	1,605,387	(86,602)
Cash and cash equivalents at beginning of period	473,251	559,853
Cash and cash equivalents at end of period	2,078,638	473,251

Principal accounting policies

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

Basis of preparation

The basis of preparation and principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements of Patagonia Gold Plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The Group has adopted the following new and amended IFRSs as of 1 January 2009:

- IAS 1 (revised) 'Presentation of financial statements' – effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group has elected to present the 'Statement of comprehensive income' as a single statement: the 'Consolidated statement of comprehensive income'. Only one comparative period has been presented for the balance sheet as there are no retrospective restatements of any figures from applying the amended IAS 1. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

- IFRS 7 (amendment) 'Financial Instruments – Disclosures' – effective 1 January 2009. The amendment requires enhanced disclosure about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy.

- IFRS 8 'Operating Segments' – effective 1 January 2009. The standard requires disclosure of information about the Group's operating segments and also about the Group's businesses and the geographical area in which it operates.

Principal accounting policies

continued

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

- IFRS 9 'Financial Instruments' – effective 1 January 2013
- IFRIC 14 (amendments) 'Prepayments of a Minimum Funding Requirement' – effective 1 January 2011
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' – effective 1 July 2010
- IFRS 2 (amendments) 'Group Cash-settled Share-based Payment Transactions' – effective 1 January 2010
- IAS 24 (revised 2009) 'Related Party Disclosures' – effective 1 January 2011

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. The Group does not intend to apply any of these pronouncements early.

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 2010. 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 May 2010 the Company placed shares to a value of £13 million to fund working capital and exploration expenditure as detailed in note 16.

The financial statements do not include any adjustments, particularly in respect of tangible fixed assets, investments, loans and provisions for winding up which would be necessary if the Company and Group ceased to be a going concern.

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 2009. 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.

Principal accounting policies
continued

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.

Following the 2006 announcement by the Province of Chubut in Patagonia of a ban for up to three years on virtually all mining and exploration activities, the Board made full provision against goodwill in that year.

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.

The Company's remuneration committee may occasionally recommend to the Board that certain outstanding share options be re-priced in order to incentivise the grantees. Any such re-pricing to be subject to approval by the shareholders in General Meeting, the fair value of the re-priced options would be measured and compared to their original measurement of fair value, any difference being expensed as the options vest immediately.

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.

A prior year adjustment was posted in respect of the restatement of the treatment of investments under IAS21 "The effect of changes in foreign exchange rates" which states that such a non-monetary item which is measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction and not retranslated at the exchange rate prevailing at the year end. The restatement of the treatment

Principal accounting policies
continued

has resulted in an increase in the cost of investment to represent the foreign exchange movements that had been recognised in a translation reserve. The net effect is a cumulative increase to the investment carrying value at 31 December 2009 of £1,525,021.

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.

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 currencies 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.

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.

Principal accounting policies
continued

Financial assets

Financial assets can be divided into the following categories:

- cash and cash equivalents
- loans and receivables
- 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.

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. On initial recognition, loans and receivables are stated at their fair value, 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 initially measured at fair value, including transaction costs, with subsequent 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, subsequent to initial recognition, 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, 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 (operating segment) and takes into account the economic environment in which that segment operates. IFRS8 requires the amount of each operating segment item to be disclosed based on internal management information. At 31 December 2009, all the Groups projects are at the exploration stage in South America and therefore not regarded as separate segments. As and when each individual project progresses to trial and then to production stage, it will become regarded as a separate segment for internal management information. Therefore, for the purposes of segmental reporting, at 31 December 2009 the Group does not have separate business reporting segments.

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

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 to reach their conclusions 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 10.
- 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 12.
- Reviewing acquisition of Barrick properties to determine whether the agreement included any embedded derivitives in line with applicable accounting standards.
- Reviewing the recoverability of VAT balances due to the Group. The Directors have considered post year end approvals set by the Mining Secretary in Argentina and consider the VAT recoverables as at 31 December 2009 to be recoverable in full and no provision is considered necessary.

Notes to the financial statements

for the year ended 31 December 2009

1. Results of Patagonia Gold Plc

Included in the consolidated loss attributable to the shareholders of Patagonia Gold Plc is a loss of £2,153,963 (2008: £981,826), which has been dealt with in the accounts of the holding company. As permitted by Section 408 of the Companies Act 2006, the parent Company's profit and loss account has not been included in these financial statements.

2. 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).

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 going forward.

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 had been fully satisfied by 31 December 2008.

3. Segmental analysis

In line with the Group's accounting policy, the management do not currently regard individual projects as separable segments for internal reporting purposes.

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

	Losses 2009 £	Assets 2009 £	Losses 2008 £	Assets 2008 £
United Kingdom	(2,153,963)	2,119,046	(981,826)	528,736
Argentina and Chile	(5,150,766)	1,548,245	(4,821,568)	1,082,850
	(7,304,729)	3,667,291	(5,803,394)	1,611,586

Patagonia Gold Plc's geographic allocation of exploration costs may be summarised as follows:

	2009 £	2008 £
United Kingdom	—	—
Argentina	4,640,622	4,444,994
Chile	67,246	78,466
	4,707,868	4,523,460

All exploration costs have been written off to the income statement in both 2009 and 2008.

Notes to the financial statements
continued
for the year ended 31 December 2009

4. Interest receivable

	2009 £	2008 £
Bank interest receivable	26,995	67,318

5. Loss on ordinary activities

	2009 £	2008 £
The loss on ordinary activities is stated after charging:		
Operating lease charges: land and buildings	63,257	72,228
Depreciation of property, plant and equipment	46,884	32,179

6. Staff numbers and costs

	2009 £	2008 £
Wages and salaries	704,242	818,134
Social security costs	162,107	148,817
	866,349	966,951

	2009 Number	2008 Number
The average number of employees (including Directors) by location during the year:		
Argentina and Chile – exploration	41	40
United Kingdom – administration	3	3

7. Remuneration of Directors
Directors' emoluments:

	Note	2009 £	2008 £
Directors remuneration		262,228	272,428
Consultancy fees		144,000	84,000
Share-based payments	21	1,112,491	27,684
		1,518,719	384,112

In 2009 the highest paid Director received £144,000 (2008: £120,000).

Notes to the financial statements

continued

for the year ended 31 December 2009

7. Remuneration of Directors *continued*

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

To Mr Humphries through his company Mining Management-Europe (MM-E) £120,000 (2008: £120,000) for his services as Director and Chief Executive of Patagonia Gold SA.

To Mr Prickett through his company European Sales Co Ltd £55,000 (2008: £40,000) for his services as Director.

To Mr Sale through his company Specialist Services, £119,000 (2008: £84,000) in his capacity as a consultant in addition to his Directors' fees of £25,000 (2008: £25,000).

No Director received any bonus or benefits-in-kind in 2009 or 2008.

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

8. Income tax expense

The tax charge for the year on the ordinary business of the Group was £nil (2008: £nil).

Included in administrative costs are income taxes of £24,573 which were paid by two subsidiaries on the write off of balances under the reorganisation of the Group.

Factors affecting the tax charge for the year

	2009 £	2008 £
Loss on ordinary activities before taxation	(7,304,729)	(5,803,394)
Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 28 per cent.(2008: 28 per cent.)	(2,045,324)	(1,624,950)
Different local tax rates	(360,553)	(337,510)
Expenses not deductible for tax purposes	339,426	474,858
Losses and other temporary differences carried forward		
to future periods – UK	238,797	109,625
to future periods – Argentina	1,827,654	1,377,977
Total tax charge for the year on ordinary business	—	—

Factors that may affect future tax charges

The Group has losses and other temporary differences of approximately £10,800,000 (2008: £8,800,000) 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.

Notes to the financial statements
continued
for the year ended 31 December 2009

9. 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 2009	Year to 31 December 2008
Loss after tax (£)	(7,304,729)	(5,803,394)
Weighted average number of shares	572,842,503	423,543,344
Basic and diluted loss per share (pence)	(1.28)	(1.37)

10. Property, plant and equipment

Following the Group's accounting policy on page 42, exploration expenditure is not capitalised until future recovery of these costs is considered probable. At 31 December 2009 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 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
At 1 January 2009	28,137	120,464	645,657	63,875	858,133	20,209
Additions/(Disposals)	4,072	43,690	—	23,865	71,627	1,069
Exchange differences	(1,407)	(19,303)	(114,566)	(11,334)	(146,610)	—
At 31 December 2009	30,802	144,851	531,091	76,406	783,150	21,278
Depreciation						
At 1 January 2008	15,698	35,150	—	17,090	67,938	13,752
Charge for the year	2,298	17,878	1,102	10,901	32,179	1,622
Exchange differences	(316)	13,003	—	6,095	18,782	—
At 31 December 2008	17,680	66,031	1,102	34,086	118,899	15,374
At 1 January 2009	17,680	66,031	1,102	34,086	118,899	15,374
Charge for the year	2,677	27,247	1,102	15,858	46,884	1,688
Exchange differences	(277)	(11,268)	(80)	(6,490)	(18,115)	—
At 31 December 2009	20,080	82,010	2,124	43,454	147,668	17,062
Net book value						
At 31 December 2009	10,722	62,841	528,967	32,952	635,482	4,216
At 31 December 2008	10,457	54,433	644,555	29,789	739,234	4,835

Notes to the financial statements

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for the year ended 31 December 2009

11. Investments

COMPANY

	£
At 1 January 2009 – amended	
Investments in subsidiaries	7,623,105
Capital contributions during the year	3,725,585
Year end exchange rate adjustment	489,192
At 31 December 2009	11,837,882

The Company investments in subsidiaries have been considered for impairment at 31 December 2009 on the basis of recently published exploration results and the progress being made on moving some projects towards production. The carrying value of the investments is stated after impairment provisions made in prior years. The Directors do not think that a further impairment charge is necessary.

Company	Country of incorporation	Percentage shareholding	Nature of business	Amended 2008 £	2009 £	Group companies £
Patagonia Gold SA	Argentina	100	Holding Co.	—	11,837,882	11,837,882
Minera Puerto Madryn SA (MPM SA)	Argentina	100	Holding Co.	1,124,459	—	—
Patagonia Gold Chile S.C.M.	Chile	100	Exploration	—	—	—
Pensacola Holdings Limited*	BVI	100	Holding Co.	6,498,645	—	—
HPD Mining Limited*	England	100	Holding Co.	1	—	—
At 31 December				7,623,105	11,837,882	11,837,882

* since dissolved

During the year the Group began an internal reorganisation of its corporate structure. The Directors believe that the current carrying value of investments should be carried against Patagonia Gold SA as the principal operating subsidiary of the Group. As at the year end, whilst agreed by the Board, the internal reorganisation had not been fully ratified by the relevant local authorities in Argentina.

At 31 December 2009, the Company had the following wholly owned subsidiaries in which it had indirect shareholdings:

	Holding company	Country of incorporation	Nature of business	Percentage indirect shareholding
Patagonia Gold SA	Patagonia Gold Plc/MPM SA	Argentina	Exploration	19
Minamalú SA	Patagonia Gold Plc/MPM SA	Argentina	Exploration	5
Huemules SA	Patagonia Gold Plc/MPM SA	Argentina	Exploration	7
Leleque Exploración SA	Patagonia Gold Plc/MPM SA	Argentina	Exploration	7
Minera Nahuel Pan SA	Patagonia Gold Plc/MPM SA	Argentina	Exploration	7

Notes to the financial statements

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for the year ended 31 December 2009

12. Financial assets

GROUP AND COMPANY

	2009	2008
	£	£
Financial assets – available for sale financial assets	122,941	112,157

13. Other receivables

Non current receivables

	GROUP		COMPANY	
	2009	2008	2009	2008
	£	£	£	£
Recoverable VAT	1,617,315	1,301,301	—	—
	1,617,315	1,301,301	—	—

Trade and other receivables

	GROUP		COMPANY	
	2009	2008	2009	2008
	£	£	£	£
Recharge of costs owed by Landore Resources Limited (note 20)	108	6,299	108	6,299
Recoverable VAT	6,798	3,925	6,798	3,925
Other receivables	53,769	30,101	20,134	20,134
Prepayments and accrued income	29,101	24,454	29,101	24,454
	89,776	64,779	56,141	54,812
Total trade and other receivables	1,707,091	1,366,080	56,141	54,812

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.

Notes to the financial statements

continued

for the year ended 31 December 2009

14. Cash and cash equivalents

	GROUP		COMPANY	
	2009 £	2008 £	2009 £	2008 £
Bank and cash balances	824,018	604,582	8,179	8,460
Short-term deposits	2,070,459	464,791	2,070,459	464,791
	2,894,477	1,069,373	2,078,638	473,251

15. Trade and other payables

Current payables

	GROUP		COMPANY	
	2009 £	2008 £	2009 £	2008 £
Trade and other payables	1,559,988	1,361,750	11,493	13,652
Accruals and deferred income	131,397	106,450	131,397	2,250,844
	1,691,385	1,468,200	142,890	2,264,496

Non-current payables

	GROUP		COMPANY	
	2009 £	2008 £	2009 £	2008 £
Long-term provisions	1,315	34,601	—	—
Long-term accruals	—	172,457	—	—
	1,315	207,058	—	—
Total trade and other payables	1,692,700	1,675,258	142,890	2,264,496

Non-current payables comprise a provision for environmental impact.

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

Notes to the financial statements

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for the year ended 31 December 2009

16. Called up share capital

	2009 £	2008 £
Authorised		
1,000,000,000 (2008: 1,000,000,000) ordinary shares of 1 pence each	10,000,000	10,000,000
Allotted, called up and fully paid		
593,602,783 (2008: 473,552,783) ordinary shares of 1 pence each	5,936,028	4,735,528
Balance at 1 January	4,735,528	3,579,229
Issue by Placing	1,200,000	1,156,299
Exercise of Option	500	—
Balance at 31 December	5,936,028	4,735,528

During the year 120,050,000 shares were allotted.

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. Transaction costs of £471,025 were incurred on this placing and deducted from the share premium account.

On 16 December 2009, the Company allotted 50,000 new ordinary shares of 1p each pursuant to the exercise of a share option on 4 December 2009.

Subsequent events

On 15 January 2010, the Company allotted 250,000 new ordinary shares of 1p each pursuant to the exercise of a share option on 6 January 2010.

On 4 May 2010 the Company placed 81,250,000 shares to a value of £13 million to fund working capital and exploration expenditure. The total issued share capital after this placing is 675,102,783 ordinary shares of 1p each.

17. Financial assets and liabilities

The Group's financial instruments comprise cash and cash equivalents and various items such as trade receivables and 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.

Notes to the financial statements
continued
for the year ended 31 December 2009

17. Financial assets and liabilities *continued*

The functional currency of Patagonia Gold Plc is British pounds sterling. At 31 December 2009, Patagonia Gold Plc held cash balances and investments denominated in United States dollars.

The functional currency of Patagonia Gold SA is Argentinean peso. At 31 December 2009, 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:

		2009			2008	
	GBP £	US$ £	AR$ £	GBP £	US$ £	AR$ £
Financial assets	1,020,927	1,987,187	9,411	496,768	685,749	59,867
Financial liabilities	(11,493)	—	(242,472)	(13,652)	—	(428,788)
Short-term exposure	1,009,434	1,987,187	(233,061)	483,116	685,749	(368,921)

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 +/– 10 per cent. change of the sterling/US dollar exchange rate for the year ended 31 December 2009 (2008: 20 per cent.) and a +/– 10 per cent. change for the sterling/Argentinean peso exchange rate (2008: 10 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:

	2009		2008	
	US$ £	AR$ £	US$ £	AR$ £
Net result for the year	—	(24,867)	—	(46,536)
Equity	220,799	(1,028)	171,437	5,544

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

	2009		2008	
	US$ £	AR$ £	US$ £	AR$ £
Net result for the year	—	20,346	—	38,075
Equity	(180,653)	841	(114,292)	(4,536)

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

for the year ended 31 December 2009

17. 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.

Interest earning balances were held in British pounds sterling and United States dollars. The weighted average interest rate for British pounds sterling was 0.27 per cent. (2008: 3.71 per cent.) and for United States dollars 0.25 per cent. (2008: 1.35 per cent.).

	Weighted average effective percentage interest rate	Fixed interest rate £	Non interest bearing £	Total £
2009				
Financial assets				
Available for sale financial assets		—	122,941	122,941
Loans and receivables	0.26	2,070,459	877,895	2,948,354
Total financial assets		2,070,459	1,000,836	3,071,295
Financial liabilities				
Trade payables		—	(1,559,988)	(1,559,988)
Other payables		—	(131,397)	(131,397)
Total financial liabilities		—	(1,691,385)	(1,691,385)
Net financial assets		2,070,459	(690,549)	1,379,910
2008				
Financial assets				
Available for sale financial assets		—	112,157	112,157
Loans and receivables	2.53	464,791	624,824	1,089,615
Total financial assets		464,791	736,981	1,201,772
Financial liabilities				
Trade payables		—	(1,361,750)	(1,361,750)
Other payables		—	(278,907)	(278,907)
Total financial liabilities		—	(1,640,657)	(1,640,657)
Net financial assets		464,791	(903,676)	(438,885)

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

for the year ended 31 December 2009

17. 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 on-going global financial situation 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	
	2009	2008	2009	2008
	£	£	£	£
Available-for-sale financial assets	122,941	112,157	122,941	112,157
Other receivables	53,877	36,400	20,242	26,433
Cash at bank and in hand	2,894,477	1,069,373	2,078,638	473,251

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	
	2009	2008	2009	2008
	£	£	£	£
Trade and other payables	1,691,385	1,640,657	11,493	13,652

Notes to the financial statements
continued
for the year ended 31 December 2009

17. Financial assets and liabilities *continued*

Financial instruments measured at fair value

IFRS 7.27A. The Group adopted the amendments to IFRS 7 *Improving Disclosures about Financial Instruments* effective from 1 January 2009. These amendments require the Group to present certain information about financial instruments measured at fair value in the statement of financial position. In the first year of application comparative information need not be presented for the disclosures required by the amendment. Accordingly, the disclosure for the fair value hierarchy is only presented for the 31 December 2009 year end.

The following table presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

	Level 1 £	Level 2 £	Level 3 £	Total £
Assets				
Listed securities	122,941	—	—	122,941
Liabilities	—	—	—	—
Net fair value	122,941	—	—	122,941

There have been no transfers between levels 1 and 2 in the reporting period.

Measurement of fair value

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

Listed securities

The listed equity securities are denominated in British pounds sterling and are publicly traded on the London Stock Exchange AIM market. Fair values have been determined by reference to their quoted bid prices at the reporting date.

Notes to the financial statements

continued

for the year ended 31 December 2009

17. Financial assets and liabilities *continued*

Capital management policies and procedures

The Group's capital management objectives are:

- To ensure the Group's ability to continue as a going concern;
- To increase the value of the assets of the business; and
- To provide an adequate return to shareholders in the future when new exploration assets are taken into production.

These objectives will be achieved by maintaining and adding value to existing extraction projects and identifying new exploration projects, adding value to these projects and ultimately taking them through to production and cash flow, either with partners or by our own means.

The Group monitors capital on the basis of the carrying amount of equity less cash and cash equivalents as presented on the face of the balance sheet. Capital for the reporting periods under review is summarised in the consolidated statement of changes in equity.

The Group sets the amount of capital in proportion to its overall financing structure, i.e. equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders in the future, return capital to shareholders or issue new shares.

18. Operating lease commitments

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases. The total commitments due under these leases are shown according to the scheduled expiry dates of the leases as follows:

	2009 £	2008 £
GROUP AND COMPANY		
Operating leases which expire:		
Within one year	46,600	41,744
Within two to five years	12,406	7,160
	59,006	48,904

Notes to the financial statements

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for the year ended 31 December 2009

19. Post balance sheet events

Share Placing

On 4 May 2010 the Company placed 81,250,000 new ordinary shares to a value of £13 million to fund working capital and exploration expenditure.

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

Director	*Placing shares subscribed*
C J Miguens	4,140,625
W H Humphries	1,250,000
G Tanoira	82,813

The total issued share capital after this placing is 675,102,783 ordinary shares of 1 pence each.

20. Related parties

Landore Resources Limited ("Landore")

During the year the Company recharged £61,415 (2008: £31,344) 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 2009 of £108 (2008: £6,299).

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 £Nil (2008: £7,505) 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 £34,978 (2008: £39,556) 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

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for the year ended 31 December 2009

21. Employee share schemes

Share based payments – Group and Company

During the year ended 31 December 2009, 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	0.97
31.05.2002	Senior management	325,000	8.0*	2.42
10.09.2002	Employee	25,000	8.0*	2.70
08.10.2002	Director	350,000	8.0*	2.77
08.10.2002	Senior manager	300,000	13.5	2.77
07.03.2003	Director	150,000	8.0*	3.18
18.02.2004	Directors	9,687,000	8.0*	4.14
24.06.2004	Director	1,500,000	8.0*	4.48
23.11.2004	Senior management	1,000,000	14.75	4.90
22.06.2005	Senior management and employee	725,000	7.5	5.47
06.12.2005	Senior management	150,000	8.0*	5.93
17.05.2006	Senior management	200,000	14.5	6.38
01.03.2007	Employees	175,000	6.875	7.17
23.05.2007	Senior management	200,000	8.0*	7.39
05.06.2007	Director and employees	1,325,000	8.0*	7.43
05.06.2007	Employee	25,000	10.5	7.43
03.06.2008	Director and employees	1,625,000	8.0*	8.42
09.06.2009	Employees	1,675,000	12.0	9.44
09.06.2009	Directors	1,400,000#	8.0*	3.25
09.06.2009	Directors and senior management	21,413,000	12.25	9.48

* On 19 January 2009 the Board of Directors agreed, following a recommendation from the Company's remuneration committee and subsequent approval by shareholders at the Company's Annual General Meeting of 9 June 2009, 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 were re-priced to 8p, being a 10 per cent. premium to the mid-market price at close of business on 19 January 2009.

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 were replaced by ordinary share options.

Notes to the financial statements

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for the year ended 31 December 2009

21. **Employee share schemes** *continued*

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

	2009 Weighted average exercise price pence	2009 Number of options	2008 Weighted average exercise price pence	2008 Number of options
Outstanding at the beginning of the year	13.57	20,217,000	14.02	21,114,814
Granted during the year	11.99	24,488,000	9.87	1,625,000
Exercised during the year	8.00	(50,000)	—	—
Expired during the year	—	—	15.00	(2,522,814)
Cancelled during the year	12.46	(2,305,000)	—	—
Outstanding and exercisable at the end of the year	10.51	42,350,000	13.57	20,217,000

The options outstanding at the year end have an exercise price in the range of 1.5p to 14.75p and a weighted average contractual life of 7.34 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.

	2009	2008
Weighted average share price	7.9p	10.2p
Exercise price	10.46p	9.87p
Expected volatility (expressed as a percentage used in the modelling under Black-Scholes model)	22.5 per cent.	34.6 per cent.
Dividend yield	nil	nil
Risk free interest rate (based on national government bonds)	0.5 per cent.	5.0 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 terms of the re-priced options and the measurement of their estimated fair value is as above.

Notes to the financial statements

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for the year ended 31 December 2009

21. Employee share schemes *continued*

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

	2009 £	2008 £
New options granted in the year	878,666	92,741
Re-priced share options granted in prior years	384,802	—
	1,263,468	92,741

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 7.9p, the exercise price of 10.46p, expected volatility of 22.5 per cent., no expected dividends, a term of 10 years and a risk-free interest rate of 0.5 per cent. The fair value of the liability is re-measured at each balance sheet date and at settlement date.

Subsequent events

On 15 January 2010, the Company allotted 250,000 Ordinary shares of 1p pursuant to the exercise of share options on 6 January 2010.

On 1 March 2010, the Company granted an option over 300,000 Ordinary shares of 1p to an employee of the Company.

As a result of the above, the total number of options outstanding and exercisable becomes 42,400,000.

22. Auditors' remuneration

	2009 £	2008 £
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	4,000	4,000
– Other	1,650	10,778

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 Wednesday, 16 June 2010 at 11.00 am at the Cavalry & Guards Club, 127 Piccadilly, London W1V 0PX to consider and, if thought fit, to pass the following resolutions which in the case of resolutions 1 to 5 will be proposed as Ordinary Resolutions and in the case of resolutions 6 and 7 will be proposed as a Special Resolutions:

ORDINARY BUSINESS

1. To receive and, if approved, adopt the financial statements of the Company for the year ended 31 December 2009 and the reports of the Directors and auditors thereon.

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

3. To re-elect Mr Gonzalo Tanoira, Finance Director, who retires by rotation, as Finance 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 Directors be and they are hereby generally and unconditionally authorised (in substitution for any existing such authorities) for the purposes of Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot shares in the Company and grant rights to subscribe for or to convert any securities into shares in the Company up to an aggregate nominal amount of £1,350,206 (being approximately 20 per cent. of the current issued share capital), provided that this authority shall expire on 16 June 2015 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 shares in the Company to be allotted or rights to subscribe for or to convert any securities into shares in the Company to be granted after such expiry and the Directors may allot shares in the Company or grant rights to subscribe for or to convert any securities into shares in the Company in pursuance of such offer or agreement notwithstanding that the authority conferred hereby has expired.

6. THAT (conditional upon the passing of the Ordinary Resolution numbered 5 above) the Directors be and they are hereby generally and unconditionally empowered (in substitution for any existing such powers) pursuant to Section 570 of the Act to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the general authority conferred by resolution 5 above as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

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

Notice of Annual General Meeting
continued

(b) otherwise than pursuant to sub-paragraph (a) above, allotments of equity securities for cash up to an aggregate nominal amount of £1,350,206 (being approximately 20 per cent. of the current issued share capital) and shall expire on 16 June 2015 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.

7. THAT:

(a) the articles of association of the Company be amended by deleting all the provisions formerly in the Company's memorandum of association which, by virtue of section 28 of the Act, are treated as provisions of the Company's articles of association;

(b) the new articles of association (the "New Articles") of the Company in the form contained in the printed document produced to the Meeting and for the purposes of identification signed by the Chairman, be and are hereby approved and adopted as the New Articles of the Company in place of and to the exclusion of the existing Articles of Association.

By Order of the Board

Nigel Everest
Company Secretary

20 May 2010

Registered office:

15 Upper Grosvenor Street
London W1K 7PJ

Notice of Annual General Meeting
continued

Explanatory Notes to Resolutions 5, 6 and 7

Resolution 5

Resolution 5 will be proposed as an Ordinary Resolution to provide the Directors with authority to issue new ordinary shares up to an aggregate nominal value of £1,350,206, representing approximately 20 per cent. of the Company's present issued share capital, such authority replacing that granted on 9 June 2009 and to expire on 16 June 2015. Other than any issues of securities which may be required to be made pursuant to the share incentive plans, the Directors have no present intention of issuing any new Ordinary Shares, 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.

Resolution 6

Resolution 6 will be proposed as a Special Resolution to approve a disapplication of pre-emption rights on allotments for cash up to an aggregate nominal amount of £1,350,206 representing approximately 20 per cent. of the present issued share capital. This Resolution, if approved, will replace the authority granted on 9 June 2009 and enable the Board, for the period expiring on 16 June 2015, to allot a limited number of equity securities for cash without having to have regard for statutory pre-emption rights. Other than any issues of securities which may be required to be made pursuant to the share incentive plans, the Directors have no present intention of exercising this authority, but believe it to be in the best interests of the Company for the Board to be granted this power to take advantage of appropriate opportunities.

Resolution 7

Resolution 7 will be proposed as a special resolution to adopt the new articles of association (the "New Articles"). The final provisions of the Companies Act 2006 (the "2006 Act") came into force on 1 October 2009 and the Directors propose that the New Articles should be adopted which reflect these provisions. A summary of what the Directors regard as the key new provisions included in the New Articles is set out at the Appendix to this document on page 68.

The provisions governing the operations of the Company are currently set out in its memorandum of association (the "Memorandum") and articles of association. Since 1 October 2009 the 2006 Act provides that the objects clause and all other provisions in the Memorandum including a company's authorised share capital are treated as part of a company's articles of association. However, the Company can remove these provisions by special resolution and unless the Company provides otherwise the Company's objects will be unrestricted. The Company is proposing to remove its objects clause together with all other provisions of its Memorandum which, by virtue of the 2006 Act, are treated as forming part of the Company's articles of association including the Company's authorised share capital requirements. Although the Company will no longer have authorised share capital the Directors will still be limited as to the amount of Ordinary Shares that they can allot at any time because allotment authority continues to be required under the 2006 Act, save in respect of employee share schemes.

Notice of Annual General Meeting
continued

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 11.00 am on 14 June 2010 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 14 June 2010 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 14 June 2010 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 10.45 am until the conclusion of the Meeting.
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 11.00 am on 14 June 2010 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.

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).

Notice of Annual General Meeting
continued

Appendix

The Companies Act 2006 (the "2006 Act") which replaced the Companies Act 1985 has been implemented in stages and is now fully in force. The Company is adopting the new articles of association (the "New Articles") which will reflect the changes in company law brought about by the provisions of the Act which came into force on 1 October 2009. Set out below is a summary of the principal changes between the current articles of association and the proposed New Articles; it is intended to cover only the material differences between the existing articles of association and the New Articles. Accordingly changes of a minor, conforming or technical nature have not been mentioned specifically.

1. The Company's objects

The 2006 Act significantly reduces the constitutional significance of a company's memorandum. The provisions governing the operations of the Company are currently set out in both its memorandum of association and its articles of association. Under the 2006 Act, the memorandum no longer contains an objects clause and simply records the names of the subscribers and the number of shares which each subscriber agreed to take in the Company. Under section 28 of the 2006 Act, the objects clause and all other provisions in the memorandum are treated as part of the articles with effect from 1 October 2009 but the Company can remove these provisions by special resolution. Unless the articles provide otherwise, the Company's objects will be unrestricted. The Company is proposing to remove its objects clause together with all other provisions of its memorandum which, by virtue of the 2006 Act, are treated as forming part of the Company's articles of association as of 1 October 2009. Resolution 7 confirms the removal of these provisions and adopts the New Articles.

2. Limited liability

Under the 2006 Act, the memorandum of association no longer contains a clause stating that the liability of the members of a company is limited. For existing companies, this statement is automatically treated as having moved into the articles on 1 October 2009. As noted in paragraph 1 above, Resolution 7 confirms the removal, from the Company's articles of association, of the provisions of the Company's memorandum of association which are treated as forming part of the Company's articles of association by virtue of section 28 of the 2006 Act, which includes the statement of limited liability. An explicit statement of the members' limited liability is therefore included in the New Articles.

3. Authorised share capital and unissued shares

The 2006 Act abolishes the concept of authorised share capital and under the 2006 Act, the memorandum of association no longer contains a statement of the Company's authorised share capital. For existing companies, this statement is deemed to be a provision of the Company's articles of association setting out the maximum amount of shares that may be allotted by the Company. The adoption of the New Articles by the Company will have the effect of removing this provision relating to the maximum amount. Directors will still need to obtain the usual shareholders' authorisation in order to allot shares, except in respect of employee share schemes.

References to authorised share capital and to unissued shares have therefore been removed from the New Articles.

4. Authority to purchase own shares, consolidate and subdivide shares, and reduce share capital

Under the Companies Act 1985, a company required specific authorisations in its articles of association to purchase its own shares, to consolidate or subdivide its shares and to reduce its share capital. Under the 2006 Act, public companies do not require specific authorisations in their articles of association to undertake these actions, but shareholder authority is still required. Amendments have been made to the New Articles to reflect these changes.

5. The seal

The New Articles provide that instruments (other than share certificates) to which the seal is affixed shall be validly signed by one Director in the presence of a witness, whereas previously the requirement was for signature by two Directors or by one Director and the secretary or by any person who is authorised to do so.

Produced by Portman Lodge Limited

Form of Proxy

I/We

of

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

iin 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 Wednesday, 16 June 2010 at 11.00 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 2009 accounts			
2. Ordinary Resolution to re-elect Mr Carlos Miguens			
3. Ordinary Resolution to re-elect Mr Gonzalo Tanoira			
4. Ordinary Resolution to re-appoint Grant Thornton UK LLP as auditors and to authorise the Directors to determine the remuneration of the auditors			
5. Ordinary Resolution to authorise the Directors to allot shares for the purposes of section 551 of the Companies Act 2006			
6. Special Resolution to empower the Directors to allot equity securities pursuant to section 570 of the Companies Act 2006			
7. Special Resolution to adopt new Articles of Association			

Signature(s) or common seal

Date

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 11.00 am on 14 June 2010 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. A pre-paid envelope is enclosed for your use. 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.

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