

PATAGONIA GOLD PLC

PRELIMINARY RESULTS

for the year ended 31 December 2005

17 May 2006

Patagonia Gold plc announces its unaudited results for the year ended 31 December 2005.

Chairman's statement

I am pleased to present the unaudited results for the year ended 31 December 2005.

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

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

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

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

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

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

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

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

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

Sir John Craven
Chairman

17 May 2006

Operations report

Summary

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

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

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

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

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

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

Acquisitions

Huemules Project:

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

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

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

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

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

Huemules resource estimate

Au cutoff grade 3.0g/t

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

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

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

Other acquisitions:

PGD has entered into a purchase option agreement with Meridian Gold for the exclusive right to acquire up to 100 per cent. of their exploration properties, Mina Cherque I and Cateo Canadon Verde. The Cherque I property, located within the PGSA Crespo Project, is host for the largest part of the West Veins target, with surface samples showing up to 64 g/t Au and 213 g/t Ag, as described in the following Crespo section. The second property, Cañadon Verde, is strategically situated in the centre of the highly

prospective Carrenleufu Block, located in the Andean cordillera along the border with Chile in south western Chubut. These properties are currently under active exploration.

Exploration

Summary

PGD is maintaining a high level of exploration activity in southern Argentina and Chile with up to ten geologists and supporting technical staff, including consultants Nick Callan and Damien Koerber, operating in the Chubut, Rio Negro and Santa Cruz Provinces of Argentina and across the border in Chile. Internationally renowned consultants Dick Sillitoe and Greg Corbett are used on an as need basis.

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

Argentina

Advanced exploration properties

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

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

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

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

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

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

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

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

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

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

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

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

Other exploration properties

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

Carrenleufu Block: This block of six Cateos, covering 600 square kilometres, is located in the Andean cordillera along the border with Chile in south western Chubut. A stream sediment survey including panned concentration of stream bed sediments and large sediment samples for BLEG analysis over this remote area returned several panned concentrate samples >1 g/t Au and up to 6 g/t Ag as well as anomalous BLEG samples in different drainages.

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

Cerro Cucho: Several campaigns of initial reconnaissance and sampling have been completed within this large and exciting new property located southwest of Tecka in Chubut. Alluvial gold operators have been working in drainages emanating from this property in years past. Initial work has identified significant

quartz veins, vein stockworks, silicification and sulphide mineralization in the south sector, which have reported assay values of up to 1.305 g/t Au, 237 g/t Ag, 2.79 per cent. copper, 1.4 per cent. lead, 0.63 per cent. zinc, and 496 ppm bismuth. Work is continuing to cover the central and northern sectors before weather and snow cover close the season.

Chile

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

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

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

Land Holdings

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

Argentina

- Patagonia total 5,834 square kilometres

Chile

- Region XI 88 square kilometres

The unaudited results of the Group for the full year 2005, with comparative figures for 2004 are set out below:

Consolidated profit and loss account

for the year ended 31 December 2005

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

The unaudited position of the Group as at 31 December 2005, with comparative figures for 2004 are set out below

Consolidated balance sheet

at 31 December 2005

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

The unaudited statement of Group total recognised gains and losses for the full year 2005, with comparative figures for 2004 is set out below

Consolidated statement of total recognised gains and losses

for the year ended 31 December 2005

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

The unaudited cash flows of the Group for the full year 2005, with comparative figures for 2004 are set out below

Consolidated cash flow statement

for the year ended 31 December 2005

	2005 £	2004 £
Net cash outflow from operating activities	4 (2,171,990)	(2,590,954)
Returns on investments and servicing of finance	85,185	54,332
Capital expenditure and financial investment	(220,731)	(12,465)
Acquisitions and disposals	5 (844,415)	70
Net cash outflow before use of liquid resources and financing	(3,151,951)	(2,549,017)
Management of liquid resources	5 2,980,777	(138,630)
Financing	—	2,765,514
(Decrease)/increase in cash in the year	<u>(171,174)</u>	<u>77,867</u>

Notes to the preliminary results statement

I. Basis of preparation

The financial information has been prepared on the same basis and using the same accounting policies as applied in drawing up the Company's statutory financial statements for the year ended 31 December 2004.

Publication of non statutory accounts

The financial information included in this document is unaudited and does not comprise statutory accounts within the meaning of section 240 of the Companies Act 1985. In the opinion of the directors the financial information for this period presents fairly the financial position, results of operations and cashflows for the period in conformity with generally accepted accounting principles. The financial information for the 12 months ended 31 December 2004 has been derived from the group's audited financial statements for that period as filed with the Registrar of Companies and does not constitute the statutory financial statements for that period. The auditors have reported on the 2004 accounts; their report was unqualified and did not contain any statement under section 237 (2) or (3) of the Companies Act 1985.

The principal accounting policies of the company have remained unchanged from the previous year except for the following new standards which have been adopted for the first time:

FRS 17 'Retirements benefits'

FRS 21 'Events after the balance sheet date'

FRS 22 'Earnings per share'

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

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

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

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

2. Loss per share

	£	Weighted average number of shares	2005 per share	£	Weighted average number of shares	2004 per share
Loss attributable to shareholders	(2,856,653)	252,281,435	(1.1p)	(3,018,092)	227,261,899	(1.3p)

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

3. Reconciliation of movements in equity shareholders' funds

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

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

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

5. Analysis of cash flows for headings netting in the cash flow statement

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

6. Acquisition

Year ended 31 December 2005

On 8 December 2004 the Group acquired the entire share capital of Minamalú SA, an Argentine exploration company. The principal assets of that company were 40 per cent. holdings in Huemules SA, Leleque Exploracion SA and Minera Nahuel Pan SA which hold mineral properties in Argentina. The consideration for the acquisition was £520,000 and was satisfied by the issue to the vendors of Minamalú of £520,000 unsecured convertible loan notes 2007 of Patagonia Gold Plc.

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

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

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

7. Analysis of net funds

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

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

8. Post balance sheet events

Disposal of HPD New Zealand Limited

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

Share Placing

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

<i>Director</i>	<i>Placing shares subscribed</i>
Sir John Cravens	1,562,500
Carlos Miguens	2,668,568
William Humphries	390,625
Richard Prickett	390,625

9. Annual Report

The Annual Report for the year ended 31 December 2005 will be posted to shareholders shortly. The Annual General Meeting of the Company will be held on Thursday, 22 June 2006 at 11.00 am at the Cavalry & Guards Club, 127 Piccadilly, London W1V 0PX.