

**Patagonia Gold plc**  
**(“Patagonia Gold” or “the Company”)**

**Final results**  
**for the year ended 31 December 2007**

The Board of Patagonia Gold is pleased to announce its audited results for the year to 31 December 2007.

**Chairman’s statement**

I am pleased to present the audited results for the year ended 31 December 2007.

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

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

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

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

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

The province of Santa Cruz is host to a number of important operating gold mines as well as to a vibrant petroleum industry. It has a well developed infrastructure and a positive attitude both at government level and in the communities to the responsible exploitation of its mineral resources. Patagonia Gold has developed strong relationships with local communities and land owners as well as with the relevant government departments.

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

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

Sir John Craven

*Chairman*

1 May 2008

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## **Managing Director's report**

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

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

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

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

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

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

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

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

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

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

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

Bill Humphries

*Managing Director*

1 May 2008

## **Operations report**

### **Land holdings**

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

Total area held is 7,117 square kilometres.

In February 2007, the Company and its wholly owned Argentine subsidiary, Patagonia Gold S.A. (PGSA) acquired the rights, title and interest in 70 mining and exploration claims and properties previously held by Barrick Exploraciones Argentina S.A. and Minera Rodeo S.A., being subsidiaries of Barrick Gold Corporation.

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

Under the terms of the acquisition agreement, PGSA has committed to complete a minimum level of expenditure of US\$10 million on the Properties over a five year period. (Note: The current rate of expenditure will achieve this in two years).

A further cash payment of US\$1.5 million will become payable by the Company upon delineation of a 200,000 oz or greater of gold or gold equivalent (NI43-101 Indicated Resource) on the La Paloma Property Group.

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

### **SANTA CRUZ PROVINCE**

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

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

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

### **LA PALOMA PROPERTY**

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

#### **Lomada de Leiva Project**

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

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

Drilling results not previously reported include:

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

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

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

### Geology and mineralisation

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

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

### Lomada de Leiva Gold Resource

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

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

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

The following table is an extract from CAM's report

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

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

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

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

### **Breccia Sofia prospect**

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

Drilling results included:

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

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

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

### **EL TRANQUILO PROPERTY**

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

#### **Cap-Oeste Project**

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

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

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

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

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

Drilling results include:

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

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

### **Geology and mineralisation**

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

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

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

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

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

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

### **Breccia Valentina Prospect**

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

Drilling results included:

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

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

### LA MANCHURIA PROPERTY

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

#### The Main Zone

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

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

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

Results from the initial 15 holes are encouraging and include:

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

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

#### Geology and mineralisation

Gold-silver mineralisation on the La Manchuria prospect is associated with a low- (to intermediate) sulphidation type epithermal quartz-(adularia-illite) vein system hosted within a shallow dipping sequence of Jurassic aged rhyolite tuffs and underlying andesites. Veins are characteristically narrow on average less than 1 metre but

contain bonanza grades of both gold and silver. The veins are strongly structurally controlled with principle veins showing NW to NNW strikes occurring in swarms and densely sheeted zones.

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

### **EXPLORATION**

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

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

### **CHUBUT PROVINCE**

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

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

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

**Summarised consolidated income statement  
for the year ended 31 December 2007**

	2007	2006
	£	<i>Restated</i> £
Exploration costs	(4,867,807)	(1,653,426)
Administration costs	(1,367,727)	(1,145,564)
Impairment of goodwill	-	(15,054,025)
Profit on disposal of HPD New Zealand Limited	-	873,595
Finance income	48,297	52,295
Finance costs	(2,097)	(75,629)
	<hr/>	<hr/>
<b>Net result for the year</b>	<b>(6,189,334)</b>	<b>(17,002,754)</b>
	<hr/>	<hr/>
<b>Loss per share (pence)</b>		
Basic loss per share	(1.86)	(6.30)
Diluted loss per share	(1.86)	(6.30)

**Summarised consolidated balance sheet  
at 31 December 2007**

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

**Summarised consolidated statement of changes in equity**  
**For the year ended 31 December 2007**

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

**Summarised consolidated cash flow statement  
For the year ended 31 December 2007**

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

### **Principal accounting policies**

This statement has been prepared using accounting policies and presentation consistent with those applied in the preparation of the statutory accounts of the Group.

### **Basis of preparation**

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

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

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

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

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

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

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

### **Going concern**

This consolidated financial information is prepared on a going concern basis which the Directors believe to be appropriate for the following reasons:

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

The Directors have prepared cash flow information for 2008. On the basis of the cash flow information the Directors are of the opinion that the Company will require additional financial resources to enable the Group to undertake an optimal programme of exploration appraisal activity over the next twelve months, and to meet its commitments.

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

### **Adoption of IFRS 7 Financial Instruments: Disclosure**

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

### **Issued International Financial Reporting Standards (“IFRS’s”) and interpretations (“IFRICs”) that are not yet effective**

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

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

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

**Summarised notes to the financial information  
for the year ended 31 December 2007**

**1. Explanation of transition to IFRS**

As stated in the Basis of Preparation, this is the Group's first annual consolidated financial information prepared in accordance with IFRS.

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

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

**2. Effect of IFRS application**

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

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

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

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

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

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

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

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

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

Under the terms of the acquisition agreement, PGSA has committed to complete a minimum level of expenditure of US\$10 million on the Properties over a five year period. This included a commitment of US\$1.5 million in the first 18 months. This commitment has been satisfied and at 31 December 2007 expenditure on these Properties amounted to approximately US\$3.67 million.

#### 4. 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:

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

#### 5. Post balance sheet events

##### *Share Placing*

On 9 January 2008, the Company announced that it had placed 45,000,000 new ordinary shares of 1p each in the Company at a price of 5.0p per share to finance working capital and exploration expenditure. Certain of these shares were placed with Directors, as set out below.

<i>Director</i>	<i>Placing shares subscribed</i>
Carlos Miguens	16,822,960
Gonzalo Tanoira	1,380,700

## **6. Publication of non statutory accounts**

The summary accounts set out above do not constitute statutory accounts as defined by Section 240 of the UK Companies Act 1985. The summarised consolidated balance sheet at 31 December 2007 and the summarised consolidated income statement, summarised consolidated statement of changes in equity and the summarised consolidated cash flow statement for the year then ended have been extracted from the Group's 2007 statutory financial statements upon which the auditors' opinion is modified on the basis of an emphasis of matter opinion and going concern. The results for the year ended 31 December 2006 have been extracted from the statutory accounts for that period, which contain a modified auditors' report on the basis of an emphasis of matter opinion and going concern.

## **7. Annual Report**

The Annual Report for the year ended 31 December 2007 will be posted to shareholders shortly. The Annual General Meeting of the Company will be held at the Cavalry & Guards Club, 127 Piccadilly, London W1V 0PX, on 3 June 2008 at 11.00 a.m.