
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. Prospective investors should also carefully consider the section entitled "Risk factors" set out in Part II of this document.

If you have sold or otherwise transferred all of your Existing Ordinary Shares, please send this document together with the accompanying Application Forms to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee. If you have sold part of your holding of Existing Ordinary Shares, you should refer to the instructions regarding split applications set out on the white Application Form.

A copy of this document, which comprises a prospectus and which has been drawn up in accordance with the requirements of the Public Offers of Securities Regulations 1995, has been delivered for registration to the Registrar of Companies in England and Wales in accordance with Regulation 4(2) of those Regulations.

Application will be made for the entire issued and to be issued share capital of the Company to be admitted to trading on the Alternative Investment Market of the London Stock Exchange ("AIM"). AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Neither the UK Listing Authority nor the London Stock Exchange has examined or approved the contents of this document. It is emphasised that no application is being made for admission of these securities to the Official List of the UK Listing Authority or any other recognised investment exchange. Although the Ordinary Shares can currently be traded on OFEX this facility will close immediately upon the Ordinary Shares being admitted to trading on AIM. It is expected that dealings in the Ordinary Shares will commence on 5 March 2003.

HPD Exploration Plc

(Registered in England and Wales, No. 3994744)

Placing and Open Offer of up to 15,310,165 New Ordinary Shares of 1p each
at 14p per share
with an Excess Application Facility
and

Admission to trading on the Alternative Investment Market

Nominated Adviser and Broker

SEYMOUR PIERCE LIMITED

The Directors of HPD, whose names appear on page 3, accept responsibility for the information contained in this document. To the best of the knowledge of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Copies of this document will be available to the public free of charge at the offices of Seymour Pierce at 29/30 Cornhill, London EC3V 3NF, during normal business hours on any weekday (excluding Saturdays and public holidays) from the date of this document for the period of one month from Admission.

Seymour Pierce Limited which is regulated by the Financial Services Authority is acting as nominated adviser and broker for HPD in connection with the proposed Placing and Open Offer and Admission and for no one else, and will not be responsible to anyone other than HPD for providing the protections afforded to customers of Seymour Pierce Limited or for providing advice in relation to the proposed Placing and Open Offer and Admission.

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Directors, secretary and advisers

Directors:	Richard Öther Prickett FCA William Henry Humphries Marc James Sale Neil Lindsey Herbert FCCA David William Dare MA (Oxon) all of 20 Upper Grosvenor Street London W1K 7PB
Company secretary and registered office:	Neil Lindsey Herbert FCCA 20 Upper Grosvenor Street London W1K 7PB
Nominated adviser and broker:	Seymour Pierce Limited 29/30 Cornhill London EC3V 3NF
Auditors and reporting accountants:	KPMG Audit Plc 8 Salisbury Square London EC4Y 8BB
Solicitors to the Company:	Lawrence Graham 190 Strand London WC2R 1JN
Solicitors to the Placing and Open Offer:	Memery Crystal 31 Southampton Row London WC1B 5HT
Mining consultant:	Richard H. Sillitoe PhD, C.Eng, C.Geol. 27 West Hill Park Highgate Village London N6 6ND
Registrars and receiving agents:	Melton Registrars Limited PO Box 30 Cresta House Alma Street Luton Bedfordshire LU1 2PU

Definitions

“Act”	the Companies Act 1985, as amended
“Admission”	the admission of the entire ordinary share capital of the Company, issued and to be issued pursuant to the Placing and Open Offer, to trading on AIM becoming effective in accordance with the AIM Rules
“AIM”	the Alternative Investment Market of the London Stock Exchange
“AIM Rules”	the rules published by the London Stock Exchange governing admission to and the operation of AIM
“Application Forms”	the white application form and the pink excess application form to be used by Qualifying Shareholders in connection with the Open Offer
“Board” or “Directors”	the board of directors of HPD
“C\$”	Canadian dollars
“Brancote”	Brancote Holdings PLC
“certificated” or “in certificated form”	not in uncertificated form (that is, not in CREST)
“Committed Shares”	means the 1,380,524 New Ordinary Shares that the Directors have irrevocably undertaken to take up under the Open Offer
“Company” or “HPD”	HPD Exploration Plc
“CREST”	the computerised settlement system operated by CRESTCo which facilitates the transfer of title to shares in uncertificated form
“CRESTCo”	CRESTCo Limited
“Existing Ordinary Shares”	the Ordinary Shares in issue prior to the Placing and Open Offer
“HPD Group”	the Company, Pensacola Holdings Ltd, HPD Mining, HPD Investments Limited and HPD New Zealand Limited
“HPD Mining”	HPD Mining Limited, a wholly-owned subsidiary of HPD
“Issue Price”	14p per New Ordinary Share
“Landore”	Landore Resources Inc
“London Stock Exchange”	London Stock Exchange plc
“Minimum Amount”	the sum of £1,225,000, before expenses, comprising £1,031,726.64 underwritten by Seymour Pierce pursuant to the terms of the Placing Agreement and £193,273.36 in aggregate to be subscribed by the Directors
“New Ordinary Shares”	up to 15,310,165 new Ordinary Shares to be issued pursuant to the Placing and Open Offer
“OFEX”	a market operated by OFEX plc and regulated by the Financial Services Authority, which allows trading in the shares of unquoted companies
“Open Offer”	the conditional offer by Seymour Pierce on behalf of the Company to Qualifying Shareholders to subscribe for New Ordinary Shares at the Issue Price, on the terms and subject to the conditions set out in this document

“Ordinary Shares”	ordinary shares of 1p each in the capital of HPD
“Patagonia Gold”	Patagonia Gold S.A., a company registered in Argentina and in which the HPD Group holds a 50 per cent. interest
“Placing”	the conditional placing by Seymour Pierce as agent of the Company of 7,369,476 New Ordinary Shares at the Issue Price pursuant to the Placing Agreement
“Placing Agreement”	the conditional agreement dated 5 February 2003 between the Company and Seymour Pierce relating to the Placing and Open Offer, as described in paragraph 4 of Part VI of this document
“Qualifying Shareholders”	holders of Existing Ordinary Shares whose names appear on the register as at the Record Date excluding certain overseas Shareholders as described in Part III of this document
“Record Date”	the close of business on 3 February 2003
“Regulations”	the Uncertificated Regulations 2001
“Seymour Pierce”	Seymour Pierce Limited
“Shareholders”	holders of Ordinary Shares
“uncertificated” or “in uncertificated form”	recorded in the register as being held in uncertificated form in CREST and title to which, by virtue of the Regulations, may be transferred by means of CREST
“US\$”	United States dollars

Placing and Open Offer statistics

Issue Price	14p
Number of Existing Ordinary Shares	122,481,327
New Ordinary Shares being issued pursuant to the Placing and Open Offer	15,310,165*
Number of Ordinary Shares in issue following the Placing and Open Offer	137,791,493*
Market Capitalisation at the Issue Price	£19,290,809*
Estimated net proceeds of the Placing and Open Offer receivable by the Company	£1.8 million*
Percentage of the enlarged issued ordinary share capital represented by the New Ordinary Shares	11.1 per cent.*

*assuming all the New Ordinary Shares are issued pursuant to the Placing and Open Offer

Expected timetable

Record Date for the Open Offer	3 February 2003
Latest time and date for splitting white Application Forms to satisfy <i>bona-fide</i> market claims under the Open Offer	3.00 pm on 24 February 2003
Latest time and date for receipt of Application Forms and payment in full under the Open Offer	3.00 pm on 26 February 2003
Trading to commence in the Existing Ordinary Shares and the New Ordinary Shares on AIM and, where applicable, New Ordinary Shares credited to CREST	8.00 am on 5 March 2003
Where applicable, definitive share certificates for New Ordinary Shares despatched	by 12 March 2003

Letter from the Chairman

HPD Exploration Plc

(registered in England and Wales, number 3994744)

Directors:

Richard Prickett (Non-executive Chairman)
William Humphries (Managing Director)
Marc Sale (Operations Director)
Neil Herbert (Finance Director)
David Dare (Non-executive Director)

Registered Office:

20 Upper Grosvenor Street
London W1K 7PB

5 February 2003

To HPD Shareholders and, for information only, to the holders of options

Dear Shareholder

Placing and Open Offer of up to 15,310,165 New Ordinary Shares and Admission to AIM

Introduction

Your Board announced today that the Company proposes to raise approximately up to £2.1 million (before expenses) by way of a Placing and Open Offer of up to 15,310,165 New Ordinary Shares at a price of 14p per New Ordinary Share. The Directors have undertaken to subscribe in full for their entitlements under the Open Offer amounting in aggregate to 1,380,524 New Ordinary Shares. The issue of a further 7,369,476 New Ordinary Shares has been underwritten by Seymour Pierce.

Qualifying Shareholders are invited to subscribe for New Ordinary Shares under the Open Offer on the basis of :

1 New Ordinary Share for every 8 Existing Ordinary Shares

held at the Record Date. The Placing and Open Offer is conditional, *inter alia*, on Admission. Qualifying Shareholders are also entitled to apply for additional New Ordinary Shares in excess of their pro-rata entitlement as further described below and in the letter from Seymour Pierce contained in Part III of this document.

Your Board has also applied for the Existing Ordinary Shares and the New Ordinary Shares to be admitted to trading on AIM and have taken the decision to withdraw the Company's shares from trading on OFEX. Although the Ordinary Shares can currently be traded through OFEX, this facility will close immediately upon the Ordinary Shares being admitted to trading on AIM. Admission is expected to become effective and dealing in the Existing Ordinary Shares and the New Ordinary Shares is expected to commence on AIM on 5 March 2003.

Management and background

The HPD Group is an independent minerals exploration group focusing its operational activities on properties in Southern Argentina, through a 50 per cent. interest in Patagonia Gold S.A. The Directors are of the opinion that these properties have excellent potential for epithermal gold and silver mineralisation of a type and in a geographic area of which the management team has considerable experience.

HPD was incorporated in 2000 to act as a holding company for the non-core exploration projects of Brancote and was de-merged from Brancote in November 2000. Brancote proceeded to focus its activities on its core asset, the epithermal gold project at Esquel in Southern Argentina, and it was subsequently acquired by Meridian Gold Inc. in July 2002 for US\$368 million.

The Board of Directors consists of three former directors of Brancote: Richard Prickett, William Humphries and David Dare together with Marc Sale and Neil Herbert. Both Marc Sale and Neil Herbert previously worked with Brancote on the successful development of the Esquel gold project.

The Company also has a 33.5 per cent. interest in Landore Resources Inc. Landore is a Canadian company listed on the Toronto Stock Exchange engaged in the exploration and development of a diverse portfolio of precious and base metal properties located in North America. It is currently focusing exploration activity on its prospective precious metal properties at Junior Lake, Miminiska Lake, Frond Lake and Talbot Lake in Ontario, Canada, on which drilling is scheduled to commence in early 2003.

Patagonia Gold S.A.

The HPD Group has a 50 per cent. interest in Patagonia Gold S.A., an Argentinean registered company with a significant portfolio of exploration properties in Patagonia and through which the HPD Group is focusing its exploration activities. This joint venture is with local partners, the Miguens-Bemberg family, who have important industrial interests in Argentina and who were previously partners of Brancote in the Esquel gold project.

Patagonia Gold's current property portfolio includes over 2,000 sq km in the Rio Negro, Chubut and Santa Cruz provinces of Argentinean Patagonia. These properties are considered to contain prospective geology for low sulphidation epithermal vein gold mineralisation similar to that found at Esquel, Cerro Vanguardia and Huevos Verdes gold deposits in Patagonia, further details of which are set out in the Expert's report in Part IV of this document.

An exploration base, including an office with core yard, has been established in Puerto Madryn, a city with a population of 50,000 on the east coast of Chubut selected for its good access to Patagonia Gold properties by air and road.

HPD has assembled a highly experienced exploration team led by Glen Van Keerkvort, a senior geologist with seven years experience in exploration for epithermal gold mineralisation in Argentina. He was responsible for the discovery of the 750,000 ounces gold "La Cabeza" deposit near Mendoza and the geological mapping of the giant "Pasqua Lama" deposit in southern Argentina.

There are 4 field geologists currently employed by Patagonia Gold concentrating on "first and second pass" exploration of the licensed properties.

Patagonia Gold's exploration programme in Patagonia is focused on low-sulphidation epithermal vein gold deposits, although the strategy adopted could equally well reveal a silver-dominated system, bulk-tonnage gold mineralisation, intermediate or high-sulphidation epithermal deposits or even porphyry copper and skarn systems. Exploration is being undertaken on five volcanic formations in Patagonia, although much of the effort is being assigned to the two mafic-dominated sequences in the Patagonia Andes and Precordillera and in the Somun Cura massif. The reason for this preference is that a large proportion of the gold exploration to date in Patagonia has focused on the felsic-dominated volcanic units because the prospectivity of the other volcanic sequences was not appreciated until the discovery of the Esquel deposit in 1999. Hence, little systematic exploration work has been conducted in the areas of the Lago La Plata Group and Lonco Trapial Formation.

Option agreement

Patagonia Gold has entered into an agreement with Arminex S.A., a subsidiary of APAC Minerals Inc. ("APAC") of Canada for the granting to it of an exclusive option in respect of the Cuya and El Puesto epithermal gold prospects in the Los Menucos district in the Rio Negro province of Southern Argentina.

Patagonia Gold has the option to earn a 50 per cent. interest in the two prospects by investing a total of US\$1.5 million in exploration over 2 years, of which US\$750,000 is to be spent on drilling the Cuya prospect within the first six months of 2003.

After Patagonia Gold has earned its 50 per cent. interest, a joint venture partnership will be established. If at that stage, APAC elects not to participate, Patagonia Gold has the right to earn a further 30 per cent. by spending an additional US\$2 million over 2 years, at which time, APAC may convert its remaining 20 per cent. interest into a 2 per cent. net smelter return.

Exploration and mining in Patagonia

Hard-rock gold exploration in Patagonia has a remarkably short history, commencing with the formal discovery of the Cerro Vanguardia gold-silver deposit by Minera Mincorp (Anglo American Corporation-Peréz Companc) in 1991. Since then, a number of major and junior companies have conducted exploration programmes in the region, primarily in the Deseado massif of Santa Cruz province, where Cerro Vanguardia is located. This activity resulted in discovery of additional gold and silver deposits and prospects, of which Esquel by Minera El Desquite (Brancote and Argentinian partners), Manantial Espejo by Lac Minerals, Martha (Bacon) by Yamana Resources, Huevos Verdes by Minera Andes and Calcatreu by Normandy Mining are judged to be the most important. Other well-known companies that were active at times in Patagonia include Battle Mountain Gold, Gencor, MIM, Minera Mincorp, Newcrest, Newmont, Pegasus, RioTinto and Sunshine Mining.

The main gold mining operation in Patagonia is based on the Cerro Vanguardia deposit, where AngloGold's current annual production is running at 270,000 oz Au, with reserves stated as 4.6 million oz Au averaging 8.67 g/t Au (plus 125 g/t Ag). Another operation is the small, but exceptionally high-grade Martha silver mine, also in the Deseado massif, where Coeur d'Alene Mines has recently announced resources of 4 million oz Ag equivalent averaging 110 oz/t Ag equivalent. Meridian Gold recently acquired the 3.8 million oz Esquel gold deposit from Brancote and its partners and plans to fast track it to production. The Manantial Espejo silver-gold deposit is now owned equally by Silver Standard Resources and Pan American Silver Corp., which reported a measured and indicated resource of 4.39 million tonnes at 4.51 g/t Au and 263.8 g/t Ag. Minera Andes joint-ventured its Huevos Verdes silver-gold prospect in 2002 to Mauricio Hochschild & Cía. Ltda. of Peru, which has announced that construction of a decline is planned. Normandy Mining's Calcatreu silver-gold discovery is in the process of being sold by Newmont Mining, the current owner of Normandy's assets, because of its small size (0.53 million oz Au, 4.6 million oz Ag).

Since the devaluation of the Argentine currency in early 2002 and the consequent three-fold reduction in the cost of holding mining tenement, there has been a marked upswing in gold exploration in Patagonia and a concomitant expansion of mining tenement. Three major companies (AngloGold, Barrick Gold, Teck Cominco), four medium-sized gold/silver companies (Buenaventura, Coeur d'Alene Mines, Iamgold, Meridian Gold) and at least four juniors (IMA, Minera Andes, Oroplata, Tenke Mining) are currently conducting exploration in the region, most of them in the Deseado massif.

Landore

Currently the other significant asset of the Company is its holding of approximately 33.5 per cent. of the share capital of Landore. Landore is a Canadian company listed on the Toronto Stock Exchange ("TSX") engaged in the exploration and development of a diverse portfolio of precious and base metal properties located in North America. The Company owns approximately 12.13 million common shares in Landore (representing approximately 33.5 per cent. of its issued share capital) of which, due to regulatory requirements, 0.9 million are held in escrow until 5 July 2003 (which means that whilst such shares can be voted, they may not be sold, transferred or otherwise dealt with) and a further 4 million of which are subject to statutory restrictions on their transferability until 5 April 2003. In addition the Company holds warrants over a further 2 million Common Shares exercisable at any time on or before 25 November 2003. These warrants (and any Shares arising thereunder) are subject to statutory restrictions on their transfer until 5 April 2003. As at 30 January 2003, the market value of the Company's holding in Landore was approximately C\$2.4m. William Humphries is the president, chief executive officer and a director of Landore. Marc Sale is chief operations officer and a director of Landore.

As an exploration company, Landore has no regular income. Accordingly, Landore has relied on the equity markets and joint ventures to fund its ongoing operations.

Whilst HPD remains a significant shareholder of Landore, the Directors do not intend to compete in mining projects against Landore which primarily focuses on North America.

David Dare, Richard Prickett and William Humphries hold, or are interested in, an aggregate of 4 million common shares in Landore (representing approximately 11 per cent. of its issued share capital). These interests in Landore were acquired pursuant to a private placing in June 2000. In addition, Richard Prickett, William Humphries and Marc Sale hold options to purchase in aggregate a further 800,000 common shares in Landore.

Other interests

The Company is the holding company of HPD Mining which was incorporated in 1989 but has not traded actively since 1992. HPD Mining has held a variety of assets and those it currently holds are detailed below.

- *Southern Gold Resources (USA) Inc*

HPD Mining owns a 20 per cent. interest in Southern Gold Resources (USA) Inc, a company which has the exploration rights to the Cala Abajo copper/gold project in Puerto Rico. Development of the project has been impeded by permitting problems and as a result the shareholding has been written down to a nominal value of £1.

- *Mount Cuthbert copper project*

From January 2001, HPD Mining has been entitled to receive a 2 per cent. net smelter royalty of all minerals and metals produced from properties in the Mount Cuthbert area of Australia. The value of this royalty has been written down to a net book value of £1 because no royalty is currently being received.

HPD Investments Limited is a wholly owned subsidiary of HPD and is registered in British Virgin Islands. The only asset of the company is a wholly owned subsidiary, HPD New Zealand Limited, which was incorporated in New Zealand in August 2002 for the purposes of evaluating certain applications for mineral exploration licenses in that country.

The Placing and Open Offer and Excess Application Facility

The Company proposes to issue up to 15,310,165 New Ordinary Shares pursuant to the Placing and Open Offer at the Issue Price which will raise approximately up to £2.1 million for the Company (before expenses). The Placing and Open Offer is conditional, *inter alia*, upon Admission. Part III of this document comprises a letter from Seymour Pierce inviting Qualifying Shareholders to apply for New Ordinary Shares at the Issue Price on the basis of:

I New Ordinary Share for every 8 Existing Ordinary Shares

held at the Record Date and so in proportion for any other number of Existing Ordinary Shares held. Where appropriate, the entitlement of Qualifying Shareholders will be rounded down to the nearest whole number of New Ordinary Shares and any fractional entitlements to New Ordinary Shares will not be allotted but will be aggregated and sold in the market for the benefit of the Company. The New Ordinary Shares will, when issued and fully paid, rank *pari passu* in all respects with the Existing Ordinary Shares.

The Directors have undertaken to subscribe in full for their entitlements under the Open Offer amounting in aggregate to 1,380,524 New Ordinary Shares. In addition, Seymour Pierce has agreed to underwrite the issue of a further 7,369,476 New Ordinary Shares.

The excess application facility enables Qualifying Shareholders to apply for New Ordinary Shares in excess of their pro-rata entitlements shown on the white Application Form. Applications under the excess application facility may be scaled down in such manner as the Company and Seymour Pierce determine if subscriptions are received for more than the available number of New Ordinary Shares.

Seymour Pierce, as agent for the Company, has agreed to use its reasonable endeavours to place 7,369,476 New Ordinary Shares, some of which will be subject to recall to the extent required to satisfy valid applications under the Open Offer and to the extent that these New Ordinary Shares are not subscribed for by placees or Qualifying Shareholders, Seymour Pierce will itself subscribe for such shares. In addition, all of the Directors have irrevocably undertaken to take up their entitlements under the Open Offer in respect of an aggregate of 1,380,524 New Ordinary Shares.

The Placing and Open Offer is conditional on the Placing Agreement becoming unconditional in all respects and not being terminated in accordance with its terms. The Placing Agreement does not grant Seymour Pierce any right of termination for an event of force majeure. Further details of the Placing Agreement are set out in paragraph 4 of Part VI of this document.

Qualifying Shareholders will receive with this document a white Application Form containing details of their entitlement to subscribe for New Ordinary Shares. Qualifying Shareholders will also receive a pink Excess Application Form to be used in the event that a Qualifying Shareholder wishes to apply for further New Ordinary Shares in addition to their full pro-rata entitlement. To be valid, completed Application Forms and payment in full must be received by the Company's registrars, Melton Registrars Limited, PO Box 30, Cresta House, Alma Street, Luton, Bedfordshire LU1 2PU by no later than 3.00 pm on 26 February 2003.

It is expected that dealings in the New Ordinary Shares and the Existing Ordinary Shares will commence on AIM on 5 March 2003 (or such later time and date as shall be determined by Seymour Pierce and the Company, being not later than 31 March 2003). If Admission has not so occurred, application monies will be returned to applicants without interest as soon thereafter as is practicable.

Further information on the Placing and Open Offer, including the procedure for application and payment, is set out in the letter from Seymour Pierce in Part III of this document and in the Application Forms. The attention of overseas Shareholders is drawn to section entitled "Overseas Shareholders" contained in the letter from Seymour Pierce.

Directors' and other Shareholders' intentions

All of the Directors have irrevocably undertaken to subscribe for their full entitlement to New Ordinary Shares under the Open Offer amounting in aggregate to 1,380,524 New Ordinary Shares.

In addition, certain other Shareholders have irrevocably undertaken not to take up their entitlement to New Ordinary Shares and Seymour Pierce has agreed to use its reasonable endeavours to place these shares.

It is intended that on successful completion of the Placing and Open Offer, the Directors will be granted additional options to subscribe for Ordinary Shares in respect of an aggregate of 855,000 Ordinary Shares. Further details of these options are detailed in paragraph 3(b) of Part VI of this document.

Reasons for the Placing and Open Offer and use of funds

The proceeds of the Placing and Open Offer will be used as working capital to commence the exploration and drilling programme in Patagonia and to cover central overhead costs.

Current trading and prospects

The results of the Group for the year ended 30 September 2002 are incorporated in the Accountants' report contained in Part V of this document. The Group did not generate any revenue and reported a loss after tax for the year of £212,700.

The principal activity of the Company is holding investments in mineral exploration companies involved in the identification, acquisition and development of technically and economically sound mineral projects, either on its own behalf or with joint-venture partners. The Company is currently focusing its activities on the exploration of licensed areas in Patagonia through a 50 per cent. interest in Patagonia Gold S.A. and it does not expect to generate any income during the year ending 30 September 2003 other than interest income on bank deposits.

Details of the Directors

The Board consists of the following Directors:

Richard Prickett, aged 51, Non-executive Chairman

Richard Prickett is a Chartered Accountant and has many years experience in corporate finance. He was Chairman of Brancote Holdings Plc from 1995 until its merger with Meridian Gold Inc. in July 2002. He has been Chairman of HPD Exploration since its inception in November 2000 and he is also a non-executive director of The Capital Pub Company Plc.

William Humphries, aged 61, Managing Director

William Humphries has over 30 years' experience in the mining and civil engineering industries. From 1996 to 1998 he was General Manager of Sardinia Gold Mining SpA and from January 1999 to July 2002 he was Managing Director of Brancote Holdings Plc. In June 2000 he became President of Landore Resources Inc. and he has been Managing Director of HPD Exploration since its inception in November 2000.

Marc Sale, aged 43, Operations Director

Marc Sale has been managing the operations of the Company since May 2002 and is a member of the Australian Institute of Mining and Metallurgy with over 20 years experience with mineral exploration and development companies. Prior to joining the Company he was Project Manager for Brancote Holdings Plc's Esquel gold project in Argentina. He was appointed a director of Landore Resources Inc. in May 2002 and a Director of HPD in September 2002.

Neil Herbert, aged 36, Finance Director and Secretary

Neil Herbert has been Chief Financial Officer and Company Secretary since July 2002. He is a Fellow of the Association of Chartered Certified Accountants and has many years experience in finance management with the accountancy firm PricewaterhouseCoopers and with Antofagasta plc, the South American mining and exploration group. Prior to joining the Company, he was Chief Financial Officer of Brancote Holdings Plc and was appointed a Director of HPD in September 2002.

David Dare, aged 72, Non-executive Director

David Dare has many years experience in the field of corporate legal advice and is a solicitor in private practice. He was Company Secretary of Brancote Holdings Plc from its inception and non-executive Director from 1997 until July 2002. He has been a non-executive Director of HPD since its inception in November 2000 and was Company Secretary until July 2002. He is chairman and director of a number of other companies.

The Company's dividend policy

It is not the Directors' intention to pay any dividends in the short term. The business of the Company is at an early stage of development and it is therefore inappropriate to give an indication of the likely level of any future dividends.

Corporate governance

The Company has taken steps to ensure that, where practicable for a company of its size, the principles of good governance and code of best practice (the "Combined Code") will be complied with and the appropriate corporate governance structures have been put in place.

The Board comprises three executive Directors and two non-executive Directors. The Company will hold at least ten Board meetings throughout the year at which reports relating to the Company's operations, together with financial reports, will be considered. The Board is responsible for formulating, reviewing and approving the HPD Group's strategy, budgets, major items of capital expenditure and acquisitions.

The Audit Committee comprises David Dare (who chairs the Committee) and Richard Prickett. It meets whenever there is business to discuss and in any event, at least twice a year and, within its agreed terms of reference, it is responsible for ensuring that the financial performance of the Company is properly monitored and reported on. It has the opportunity to meet with the Company's auditors without executive Board members being present and will review reports relating to accounts and internal control systems.

The Remuneration Committee comprises Richard Prickett (who chairs the Committee), David Dare and William Humphries. Within its agreed terms of reference, the Remuneration Committee considers and determines the remuneration of the executive Directors and will also consider and determine incentive arrangements for

executives and employees including the Company's share option arrangements. The terms of reference prevent any member of the Remuneration Committee who is an executive Director taking part in any discussions or decisions relating to his own remuneration.

The Company will take all reasonable steps to ensure compliance by Directors and relevant employees with the provisions of the AIM Rules relating to dealings in securities.

Further information

Your attention is drawn to Parts II to VI of this document which provide additional information and in particular the risk factors set out in Part II of this document.

Action to be taken

If you wish to apply under the Open Offer for up to your pro-rata entitlement of New Ordinary Shares as shown on the white Application Form you should complete the white Application Form in accordance with the instructions set out therein and in Part III of this document. In the event that you wish to apply for more than your pro-rata entitlement to New Ordinary Shares, you should complete the white Application Form in respect of your full pro-rata entitlement and in addition complete the pink Application Form for any New Ordinary Shares you wish to apply for in excess of your pro-rata entitlement. You should return the Application Form(s) in the enclosed reply paid envelope with the appropriate remittance for the full amount payable on application, to be received no later than 3.00 pm on 26 February 2003 at the offices of Melton Registrars Limited, PO Box 30, Cresta House, Alma Street, Luton, Bedfordshire LU1 2PU.

Yours sincerely

Richard Prickett
Chairman

Risk factors

AN INVESTMENT IN THE COMPANY IS HIGHLY SPECULATIVE AND INVOLVES A HIGH DEGREE OF RISK as the HPD Group has a short operational history and its principal business activity is that of metal and mineral exploration. In addition to the usual risks associated with an investment in a business at an early stage of development, the Directors believe that, in particular, the following risk factors should be considered. It should be noted that this list is not exhaustive and that other risk factors may apply. An investment in the Company may not be suitable for all recipients of this document.

Investors are accordingly advised to consult an independent financial adviser authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities before making a decision to invest.

For the purposes of this section, references to HPD Group include its associated company Patagonia Gold S.A.

Exploration risks

- The business of exploration for metals and minerals involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. The mining areas presently being assessed by the HPD Group may not contain economically recoverable volumes of metal and mineral deposits.
- The nature of reserve quantification studies means that there can be no guarantee that estimates of quantities and grades of metals and minerals disclosed will be available to extract.
- Whether a metal or mineral deposit will be commercially viable in a mining operation depends on a number of factors, such as the grade of the deposit, prices of the commodities being exploited, currency fluctuations, proximity to infrastructure, financing costs and government regulations relating to prices, taxes, royalties, land tenure, land use, import and export regulations and environmental protection. The effect of these factors cannot be accurately predicted, but any combination of these factors could make a deposit uneconomic.
- The HPD Group's strategy depends on its ability to make additional acquisitions of licensed areas for exploration. The HPD Group cannot guarantee that it will be able to identify appropriate properties or negotiate acquisitions on favourable terms or that it will be able to obtain the financing necessary to complete such future acquisitions.

Financing risks

- The HPD Group has limited financial resources. Further exploration and the development of one or more of the HPD Group's properties will be dependent upon the HPD Group's ability to obtain financing through the joint venturing of projects, equity or debt financing or other means. There can be no assurance that such funding required by the HPD Group will be made available to it and, if such funding is available, that it will be offered on reasonable terms.

Gold price risks

If the market price of gold decreases significantly or for an extended period of time, the value of the Ordinary Shares could be adversely affected. In addition, HPD could determine that it is not economically viable to continue the development of some or all of the HPD Group's current projects.

In the past gold prices have fluctuated widely. Numerous external factors affect gold prices that are beyond the control of HPD. Industry factors that affect gold prices include:

- Industrial and jewelry demand;
- Lending, sales and purchases of gold by governments and central banks;
- Forward sales of gold by producers and speculators;
- Levels of gold production; and
- Rapid short term changes in supply and demand because of speculative or hedging activities.

Gold prices are also affected by macroeconomic factors including:

- Confidence in the global monetary system;
- Expectations of the future rate of inflation;
- The strength of, and confidence in, the US dollar, the currency in which the price of gold is generally quoted, and other currencies;
- Interest rates; and
- Global or regional political or economic events.

Competition

- The HPD Group competes with numerous other companies and individuals in the search for and acquisition of mineral claims, leases and other mineral interests as well as for the recruitment and retention of qualified employees.

Short operating history

- The HPD Group's business operations are at an early stage of development and its success will depend largely upon the outcome of the exploration programmes that the HPD Group is undertaking and proposes to undertake.

Environmental and other regulatory requirements

- As the HPD Group is involved in exploration, it is subject to extensive environmental regulations. While the HPD Group believes that its current provision for compliance with environmental laws and regulations is reasonable, any future changes and development in environmental regulation may adversely affect its operations. The HPD Group may incur significant costs associated with complying with more stringent requirements imposed by new legislation and regulations. This may include the need to increase and accelerate expenditure on environmental rehabilitation, which could have a material adverse effect on the HPD Group's results and financial condition.

Uninsured risks

- The HPD Group, as a participant in exploration programmes, may become subject to liability for hazards which cannot be insured against or against which it may elect not to be insured because of high premium costs or other reasons. The HPD Group may incur liabilities to third parties (in excess of any insurance cover) arising from pollution or other damage or injury.

Political situation in Argentina

- Political and environmental considerations as well as the social and economic processes under way in Argentina may adversely affect the exploration and development of mineral resources in Argentina. Possible sovereign risks include changes in the terms of mining leases, royalty rates, changes in the taxation rate or in current taxation concessions and changes in the ability to enforce legal rights.

Legislative changes

- Changes in government regulations and policies may adversely affect the financial performance of the HPD Group.

General economic conditions

- Changes in the general economic climate in which the HPD Group operates may adversely affect the financial performance of the HPD Group. Factors which may contribute to that general economic climate include the level of direct and indirect competition against the HPD Group, industrial disruption, the rate of growth of gross domestic product, interest rates and the rate of inflation for each country in which the HPD Group operates.

Other risk factors

- The Ordinary Shares will be traded on AIM rather than the Official List of the UK Listing Authority. An investment in shares traded on AIM may carry a higher risk than an investment in shares quoted on the Official List.
- Investors should be aware that the value of the Ordinary Shares may be volatile and may go down as well as up and investors may therefore not recover their original investment, especially as the market in the Ordinary Shares on AIM may have limited liquidity.
- The market price of the Ordinary Shares may not reflect the underlying value of the Company's net assets.
- The price at which investors may dispose of their shares in the Company may be influenced by a number of factors, some of which may pertain to the Company and others of which are extraneous. Investors may realise less than the original amount invested.
- The HPD Group is dependent upon its current executive management team. Whilst it has entered into contractual arrangements with the aim of securing the services of the existing executive management team, the retention of their services cannot be guaranteed. Accordingly, the loss of any key management of the HPD Group may have an adverse effect on the future of the HPD Group's business.

Open Offer letter from Seymour Pierce

**SEYMOUR
PIERCE**

Seymour Pierce Limited
29-30 Cornhill
London
EC3V 3NF

5 February 2003

To Qualifying Shareholders and, for information only, to the holders of options

Dear Shareholder

Placing and Open Offer of up to 15,310,165 New Ordinary Shares and Excess Application Facility

Introduction

It was announced today that the Company is proposing to issue up to 15,310,165 New Ordinary Shares at 14p per share to raise up to approximately £2.1 million (before expenses) by way of a Placing and Open Offer. Your attention is drawn to the letter from the Chairman of your Company in Part I of this document, which sets out the background to and reasons for the Placing and Open Offer.

The Directors have undertaken to subscribe in full for their entitlement under the Open Offer amounting in aggregate to 1,380,524 New Ordinary Shares. In addition, Seymour Pierce has agreed to underwrite the issue of a further 7,369,476 New Ordinary Shares.

This letter and the accompanying Application Forms contain the formal terms and conditions of the Placing and Open Offer and the excess application facility.

Details of the Placing and Open Offer

Seymour Pierce, as agent for and on behalf of the Company, hereby invites Qualifying Shareholders to apply for New Ordinary Shares at an Issue Price of 14p per share, payable in full on application (free of expenses). The Open Offer is made on the terms and subject to the conditions set out in this Part III and in the Application Forms enclosed with this document on the following basis:

1 New Ordinary Share for every 8 Existing Ordinary Shares

registered in the Qualifying Shareholder's name at the close of business on the Record Date and so in proportion for any greater or lesser number of Existing Ordinary Shares then held. Qualifying Shareholders' *pro rata* entitlements are shown on the white Application Form. Holdings of Existing Ordinary Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Open Offer. Where appropriate, the entitlement of Qualifying Shareholders will be rounded down to the nearest whole number of New Ordinary Shares and any fractional entitlements to New Ordinary Shares will not be allotted but will be aggregated and sold in the market for the benefit of the Company.

Qualifying Shareholders may apply for any number of New Ordinary Shares in excess of their pro-rata entitlement. To the extent that the Open Offer is oversubscribed, the excess shares applied for over and above the Qualifying Shareholders pro-rata entitlement may be scaled back in such manner as the Company and Seymour Pierce shall, in their absolute discretion, determine. Any excess monies will be returned to the applicant without interest.

The New Ordinary Shares will rank *pari passu* in all respects with the Existing Ordinary Shares in issue. Application will be made to the London Stock Exchange for the New Ordinary Shares and the Existing Ordinary Shares to be admitted to trading on AIM. The New Ordinary Shares are not being made available in whole or in part to the public except under the terms of the Open Offer.

The Placing and Open Offer is conditional on the Placing Agreement becoming unconditional in all respects and not having been terminated in accordance with its terms. The Placing Agreement does not grant Seymour Pierce any right of termination for any event of force majeure.

All of the Directors have irrevocably undertaken to take up their entitlements under the Open Offer in respect of an aggregate of 1,380,524 New Ordinary Shares. Seymour Pierce, as agent for the Company, has agreed to use its reasonable endeavours to place a further 7,369,476 New Ordinary Shares some of which are subject to recall to the extent required to satisfy valid applications under the Open Offer and to the extent that these New Ordinary Shares are not taken up by placees or Qualifying Shareholders, Seymour Pierce will itself subscribe at the Issue Price for any such New Ordinary Shares.

Procedure for application

Application may only be made for the New Ordinary Shares on the enclosed Application Forms, which are personal to the Qualifying Shareholder named thereon. The Application Forms represent a right to apply for New Ordinary Shares. They are not documents of title and may not be sold, assigned or transferred, except to satisfy *bona fide* market claims in relation to purchases of Existing Ordinary Shares through the market prior to the date on which the Existing Ordinary Shares are marked “ex” the entitlement to participate in the Open Offer pursuant to the Rules of OFEX (the “ex-date”). White Application Forms may be split, but only to satisfy such *bona fide* market claims, up to 3.00 pm on 24 February 2003. Persons who have, prior to the ex-date, sold or otherwise transferred some or all of their Existing Ordinary Shares should contact their stockbroker, bank or other agent authorised under the Financial Services and Markets Act 2000 through whom the sale or transfer was effected and refer to the instructions regarding split applications set out in the white Application Form, since the invitation to subscribe for New Ordinary Shares under the Open Offer may represent a benefit which can be claimed from them by purchasers or transferees under the Rules of OFEX.

In the Open Offer, unlike in a rights issue, the New Ordinary Shares which are not applied for will not be sold in the market for the benefit of those Qualifying Shareholders who do not apply. The Application Forms are not documents of title and cannot be traded.

Qualifying Shareholders who do not wish to apply for any New Ordinary Shares under the Open Offer should not complete or return either Application Form.

The white Application Form shows the number of Existing Ordinary Shares on which the relevant Qualifying Shareholder’s pro-rata entitlement has been based and the number of New Ordinary Shares to which such Qualifying Shareholder is entitled, calculated on the basis described above. Qualifying Shareholders may apply on the white Application Form for any number of New Ordinary Shares up to their respective entitlements calculated on the basis set out above.

In addition, in the event that Qualifying Shareholders wish to apply for more than their pro-rata entitlement to New Ordinary Shares, they should complete the white Application Form in respect of their full pro-rata entitlement and in addition they should complete the pink Excess Application Form for any New Ordinary Shares they wish to apply for in excess of their pro-rata entitlement.

Qualifying Shareholders wishing to apply for New Ordinary Shares should complete and sign the enclosed Application Form(s) in accordance with the instructions thereon and send or deliver it/them in the reply-paid envelope provided, together with a remittance for the full amount payable to Melton Registrars Limited, PO Box 30, Cresta House, Alma Street, Luton LU1 2PU, so as to arrive as soon as possible and in any event not later than 3.00 pm on 26 February 2003, at which time the Open Offer will close. Application Forms received after this time will not be accepted.

Applications will not be acknowledged and, once made, will be irrevocable. Seymour Pierce and the Company reserve the right (but shall not be obliged) to treat Application Forms as valid and binding on the person(s) by whom or for whose benefit they are lodged even if such Application Forms are not completed in accordance with the relevant instructions or not accompanied by a valid power of attorney where required.

Seymour Pierce and the Company further reserve the right (but shall not be obliged) to accept Application Forms either received after 3.00 pm on 26 February 2003 with the envelope bearing a legible postmark not later than 3.00 pm on 25 February 2003 or from authorised persons (as defined in the Financial Services and Markets Act 2000) specifying the New Ordinary Shares applied for and undertaking to lodge the Application Form(s) in due course.

If Application Forms are sent by post, Qualifying Shareholders are recommended to allow at least four working days for delivery. The instructions and other terms set out in the Application Forms are part of the Open Offer.

If you are in any doubt about the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser authorised under the Financial Services and Markets Act 2000 immediately.

Money laundering regulations

To ensure compliance with the Money Laundering Regulations 1993 (the "Regulations"), it is a term of the Open Offer that Melton Registrars may, at its absolute discretion, require verification of identity from any person completing an Application Form (the "Subscriber") and, without prejudice to the generality of the foregoing, in particular any person who either (i) tenders payment by way of a cheque or banker's draft drawn on an account in the name of any person or persons other than the Subscriber; or (ii) appears to Melton Registrars to be acting on behalf of some other person.

For Subscribers resident in the United Kingdom, this may involve verification of names and addresses through a reputable agency. For Subscribers who are not resident in the United Kingdom, verification of identity may be sought from the Subscriber's bankers or from other reputable institutions or professional advisers in the Subscriber's country of residence.

By lodging an Application Form, each Subscriber undertakes to provide such evidence of identity at the time of lodging an Application Form or, at the absolute discretion of the Company, within a reasonable time thereafter (in each case to be determined at the absolute discretion of the Company and Melton Registrars) as may be required to ensure compliance with the Regulations.

If satisfactory evidence of identity has not been received by Melton Registrars within a reasonable period of time, then the Application Form in question may be rejected, in which event the application will not proceed any further and the application monies (without interest) will be returned to the bank account on which the cheque was drawn at the Subscriber's own risk.

Where possible Subscribers should make payment by their own cheque. If a third party cheque, banker's draft or building society cheque is used, the Subscriber should:

- (a) write his/her name and address on the back of the draft or cheque and, in the case of an individual, record his/her date of birth against his/her name; and
- (b) ask the bank or building society (if relevant) to endorse on the reverse of the draft or cheque the full name and account number of the person whose account number is being debited and stamp such endorsement.

The above information is provided by way of guidance to reduce the likelihood of difficulties, delays and potential rejection of an Application Form (but without limiting Melton Registrars' right to require verification of identity as indicated above).

Procedure for payment

All payments must be made by cheque or banker's draft in pounds sterling drawn on a bank or building society in the United Kingdom, the Channel Islands or the Isle of Man, which is either a settlement member of the Cheque and Credit Clearing Company Limited or CHAPS Clearing Company Limited or which has arranged for its cheques and banker's drafts to be cleared through the clearing facilities provided for members of either of those companies, and must bear the appropriate sort code number in the top right hand corner. Any application that does not comply with these requirements may be treated as invalid.

Cheques or banker's drafts should be made payable to "Melton Registrars a/c HPD Exploration Plc" and should be crossed "a/c payee only". Any interest earned on payments made before they are due will be retained for the benefit of the Company.

The Company reserves the right to have cheques presented on receipt and to instruct Melton Registrars to seek special clearance of cheques to allow the Company to obtain value for remittances at the earliest opportunity. Any person returning an Application Form with a remittance in the form of a cheque thereby warrants that the cheque will be honoured on first presentation. If cheques or banker's drafts are presented for payment before the conditions of the Open Offer are fulfilled, the monies will be kept in a separate bank account until the conditions are fully met. In the event that the Open Offer does not become unconditional by 8.00 am on 5 March 2003 (or such later date as agreed between the Company and Seymour Pierce being not later than 31 March 2003) all application monies will be returned to applicants as soon as is practicable thereafter. The interest earned on monies held in the separate bank account will be retained for the benefit of the Company. If any cheque is not honoured on first presentation, the relevant application may be deemed to be invalid.

All documents or remittances sent by an applicant (or as he or she may direct) will be sent through the post at his/her own risk.

All enquiries in connection with the procedure for application and completion of the Application Forms should be addressed to Melton Registrars Limited, PO Box 30, Cresta House, Alma Street, Luton, Bedfordshire LU1 2PU.

If you do not wish to apply for New Ordinary Shares under the Open Offer, you should take no action and should not complete or return either Application Form.

CREST

Although the Open Offer will be processed outside CREST, for the purposes of calculating entitlements under the Open Offer, CREST and non-CREST shareholdings will be treated independently and separate Application Forms will be issued in respect of each. If a Qualifying Shareholder has both an uncertificated and a certificated shareholding in the Company, there will be separate Application Forms dispatched in respect of such holdings.

Qualifying Shareholders holding their Existing Ordinary Shares in certificated form will be allotted all New Ordinary Shares for which they validly apply in certificated form. Qualifying Shareholders holding their Existing Ordinary Shares in uncertificated form will be allotted all New Ordinary Shares for which they validly apply in uncertificated form to the extent that their entitlement arises as a result of their holding of Existing Ordinary Shares in uncertificated form.

Notwithstanding any other provision of this document or of the Application Forms, the Company reserves the right to allot and/or issue any New Ordinary Shares in certificated form. In normal circumstances, this right is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or any part of CREST), or on the part of the facilities and/or systems operated by the Company's registrar in connection with CREST. This right may also be exercised if the correct details in respect of bona fide market claims (such as the member Account ID and Participation ID details) are not provided as requested on the Application Forms.

Qualifying Shareholders who are CREST sponsored members should refer to their CREST sponsor regarding the action to be taken in connection with this document and the Open Offer.

For more information as to the procedure for application in each case, Qualifying Shareholders are referred to the Application Forms.

Settlement and dealings

The result of the Open Offer is expected to be announced on 28 February 2003. Application will be made to the London Stock Exchange for the Existing Ordinary Shares and the New Ordinary Shares, for which valid applications are made pursuant to the Open Offer, to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings in the New Ordinary Shares and the Existing Ordinary Shares will commence on 5 March 2003.

The Existing Ordinary Shares are already admitted to CREST. Accordingly no further application for admission to CREST is required for the New Ordinary Shares, all of which may be held and transferred by means of CREST.

Subject to the conditions of the Open Offer being satisfied or waived, all New Ordinary Shares to be issued in uncertificated form are expected to be credited to the appropriate CREST Stock Accounts on 5 March 2003, unless the Company exercises the right to issue such shares in certificated form, in which case definitive certificates are expected to be dispatched by post on or before 12 March 2003. Subject as aforesaid, definitive certificates for the shares to be issued in certificated form are expected to be dispatched by post on or before 12 March. No temporary documents of title will be issued. Pending dispatch of definitive share certificates, transfers by non-CREST Qualifying Shareholders will be certified against the share register. All documents or remittances sent by or to an applicant (or his agent as appropriate) will (in the latter case) be sent through the post and will (in both cases) be at the risk of the applicant. Qualifying Shareholders in CREST should note that they will be sent no confirmation of the credit of the shares to their CREST Stock Account nor any other written communication by the Company in respect of the issue of New Ordinary Shares. Notwithstanding any other provision in this document, the Company reserves the right to issue any shares in certificated form.

Overseas Shareholders

General

If you are resident in any jurisdiction other than the United Kingdom you are advised to consult a professional adviser immediately.

The making of the Open Offer to persons who are resident in, or citizens of, countries other than the United Kingdom may be affected by the law of the relevant jurisdiction. No person receiving a copy of this document and/or the Application Forms in any jurisdiction other than the United Kingdom may treat the same as constituting an invitation or offer to him, nor should he in any event use such Application Forms, if, in the relevant jurisdiction, such an invitation or offer cannot lawfully be made to him or such Application Forms cannot lawfully be used without contravention of any unfulfilled registration or other legal requirements. In such circumstances this document and/or any Application Form are sent for information only. It is the responsibility of any person receiving a copy of this document and/or Application Forms outside the United Kingdom who wishes to make any application for any New Ordinary Shares pursuant to the Open Offer to satisfy himself as to the full observance of the laws of the relevant jurisdiction, including obtaining all necessary governmental or other consents which may be required and observing all other necessary formalities and paying any issue, transfer or other taxes due in such jurisdiction. Such person should consult their professional advisers as to whether they require any governmental or other consents or need to observe any applicable legal requirements to enable them to apply for New Ordinary Shares pursuant to the Open Offer.

Persons (including, without limitation, nominees and trustees) receiving any Application Form should not in connection with the Open Offer distribute or send it in or into any jurisdiction where to do so would or might contravene local securities laws or regulations. If an Application Form is received by any person in any such jurisdiction, or by the agent or nominee of such a person, he must not seek to take up the New Ordinary Shares except pursuant to an express agreement with the Company. Any person who does forward an Application Form into any such jurisdiction, whether pursuant to a contractual or legal obligation or otherwise should draw the attention of the recipient to the contents of this section. The Company reserves the right to reject a purported application for New Ordinary Shares from Shareholders in any jurisdiction outside the UK, or persons who are acquiring New Ordinary Shares for resale in any such jurisdiction.

The Company reserves the right, in its absolute discretion, to treat the Open Offer as having been declined in a particular case if it believes acceptance may violate applicable legal or regulatory requirements.

US and Canada

Neither the New Ordinary Shares nor the Application Forms have been or will be registered under the US Securities Act of 1933, as amended, or under the securities legislation of any state of the US or any province or territory of Canada and, subject to certain exceptions, may not be offered, sold, delivered, or transferred, directly or indirectly, within the US or Canada or to or for the benefit of a North American Person (as is defined below).

Application Forms will not be sent to Shareholders with registered addresses in the US or Canada nor to Shareholders with registered addresses elsewhere whom the Company knows or reasonably believes to be holding Existing Ordinary Shares for the benefit of a North American Person unless the Company is satisfied that such an allotment is permitted, and this document is therefore sent to any such Shareholders for information only.

The Company reserves the right to reject any Application Form that appears to the Company or its agents to have been executed in or dispatched from the US or Canada or which provides an address in the US or Canada for delivery of definitive share certificates for New Ordinary Shares or which does not make the warranties relating to overseas Shareholders in the Application Forms.

For the purpose of this document and the Application Forms “North American Person” means any person who is a resident of the US or Canada (including corporations, partnerships or other entities created or organised in or under the laws of the US or Canada or any estate or trust which is subject to US federal or Canadian income taxation regardless of the source of its income) and “Canada” includes its possessions and territories.

Australia

No prospectus in relation to the New Ordinary Shares has been or will be lodged with, or registered by, the Australian Securities Commission. New Ordinary Shares may not be offered for subscription or purchase, sold, or delivered, indirectly or directly, nor may any invitation to subscribe for or buy or sell New Ordinary Shares be issued or any draft or definitive document in relation to any such offer, sale or invitation be distributed, in or into the Commonwealth of Australia, its states, territories or possessions (“Australia”) or to or for the account or benefit of any person (including corporations and other entities organised under the laws of Australia but not including a permanent establishment of any such corporation or entity located outside Australia).

Accordingly, no offer of New Ordinary Shares is being made under this document or the Application Forms to Shareholders with registered addresses in, or to residents of, Australia and Application Forms will therefore not be sent to Shareholders with registered addresses in Australia. The Company reserves the right to reject any Application Form which appears to the Company or its agents to have been executed in or dispatched from Australia or which provides an address in Australia for delivery of definitive share certificates for New Ordinary Shares or which does not make the warranties relating to overseas Shareholders in the Application Forms.

South Africa

In order to comply with South African laws, Shareholders with registered addresses in South Africa may also require the approval of the South African exchange control authorities if they wish to take up their entitlement.

Republic of Ireland

No prospectus in relation to the Placing and Open Offer and New Ordinary Shares has been or will be lodged for registration with the Registrar of Companies for the Republic of Ireland. Accordingly, the Open Offer is not being made in the Republic of Ireland and no Application Forms will be sent directly or indirectly to any address in the Republic of Ireland unless otherwise determined by the Company and the Registrars in their absolute discretion. Similarly, unless so determined otherwise, applications sent from or post-marked in the Republic of Ireland, will be deemed to be invalid.

The above comments are intended as a general guide only and do not constitute a definitive statement of the specific laws affecting overseas Shareholders.

It is the responsibility of all persons resident outside the United Kingdom who wish to take up their New Ordinary Shares to satisfy themselves as to full observance of the laws of the relevant territory in connection therewith, including obtaining all necessary governmental and other consents and complying with all formalities to enable them to take up their entitlements.

Overseas Shareholders who are in any doubt as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their entitlement to New Ordinary Shares should consult their professional advisers.

Taxation

Your attention is drawn to the section headed “Taxation” set out in paragraph 7 of Part VI of this document. Any Qualifying Shareholder who is in any doubt as to his or her taxation position should consult a professional adviser without delay.

Further information

Your attention is drawn to the letter from your Chairman which is set out in Part I of this document and to the further information set out in Parts IV to VI (inclusive) of this document and to the terms and conditions set out in the enclosed Application Forms. Your attention is also drawn to the Risk Factors set out in Part II of this document.

Yours faithfully

for and on behalf of Seymour Pierce Limited

Richard Feigen

Managing Director

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Independent geological report

A REVIEW OF PATAGONIA GOLD'S EXPLORATION PROGRAMME IN SOUTHERN ARGENTINA

By

Richard H. Sillitoe PhD, C.Eng, C.Geol
Mining Consultant

30 January 2003

EXECUTIVE SUMMARY

The gold exploration programme being conducted by Patagonia Gold S.A. in Patagonia, southern Argentina, was independently appraised during one week in the region, which included a single-day inspection of one of the 23 currently held properties. The programme is judged to comply in all regards with current industry standards. The gold deposit model being applied is entirely valid and well documented throughout Patagonia. The methodology adopted for target selection is also valid, and has already been shown to be highly effective. The field follow-up of the selected targets employs modern geological concepts coupled with widely used geochemical procedures. At this early stage of the programme, it is premature to comment on the potential of individual properties. However, the programme recommended for ongoing exploration is designed specifically to assess the gold potential of the currently selected as well as additional areas. The assigned budget is in keeping with the programme proposed.

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Introduction

Patagonia Gold S.A. is a 50/50 joint venture between HPD Exploration Plc, a mineral exploration company listed on the London OFEX exchange, and a group of Argentinian investors, principally the Miguens-Bemberg group. Patagonia Gold's gold exploration interests are located in Río Negro, Chubut and Santa Cruz provinces of Patagonia, southern Argentina (Figure 1).

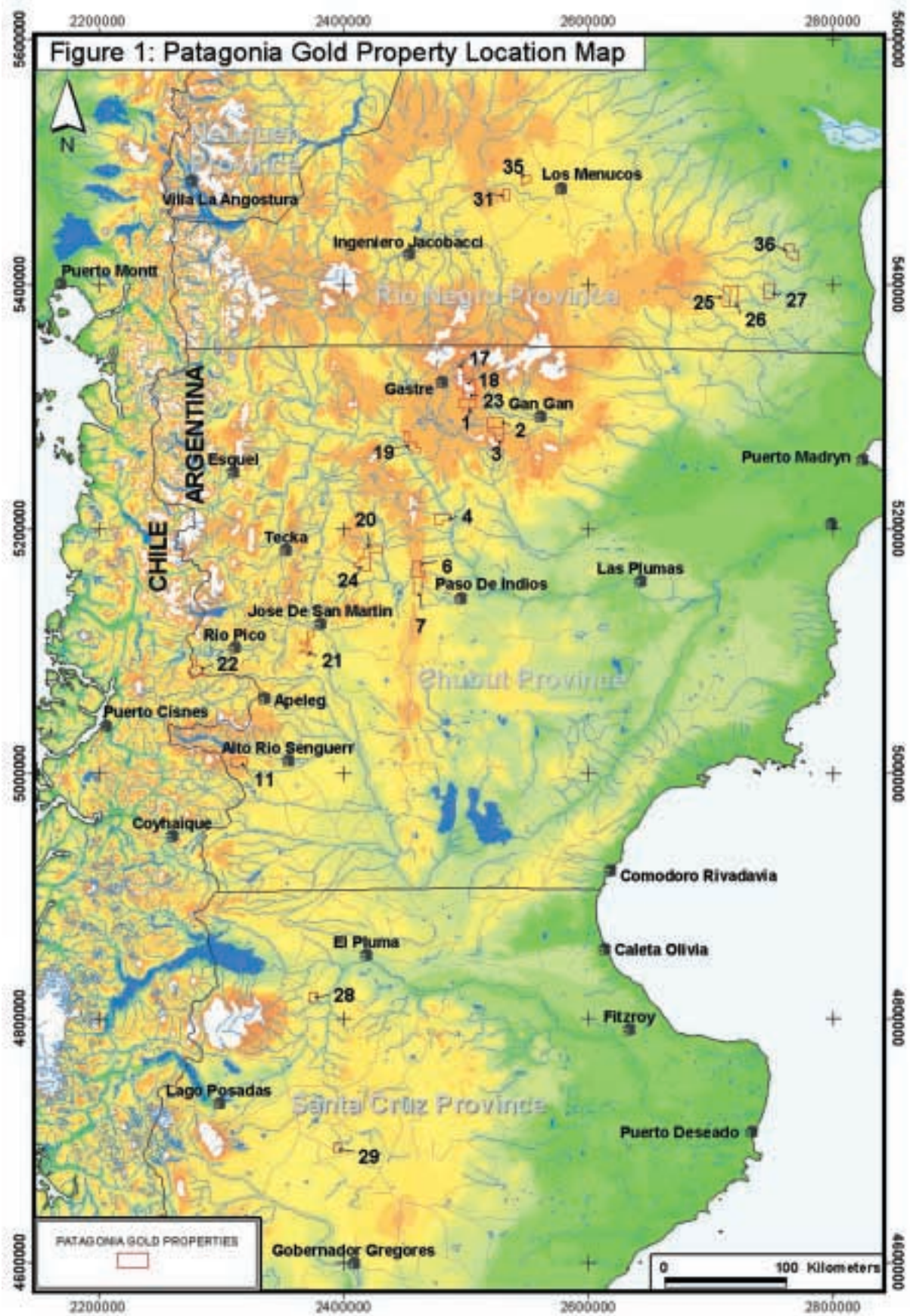
This report was commissioned by Seymour Pierce and HPD Exploration for inclusion in a document to be issued in conjunction with an application for a listing on the London Alternative Investment Market (AIM). The report reviews Patagonia Gold's exploration programme and methodology in Patagonia. The report is based on a one-week visit to Patagonia Gold's base of operations in Puerto Madryn, Chubut province, where samples, maps, satellite imagery and other materials were scrutinised, and extensive discussions were held with Glen Van Kerkvoort, the company's exploration manager, and project geologists. These office activities were supplemented by a one-day field inspection of a single exploration property selected on the basis of the preliminary results obtained so far and ease of access. The review relies heavily on the writer's extensive previous involvement in gold exploration projects in Patagonia over the past 14 years on behalf of seven different companies, including the two principal deposits defined to date (Cerro Vanguardia and Esquel).

Exploration and mining in Patagonia

Hard-rock gold exploration in Patagonia has a remarkably short history, commencing with the formal discovery of the Cerro Vanguardia gold-silver deposit by Minera Mincorp (Anglo American Corporation-Peréz Companc) in 1991. Since then, a number of major and junior companies have conducted exploration programmes in the region, primarily in the Deseado massif of Santa Cruz province, where Cerro Vanguardia is located (Figure 2). This activity resulted in discovery of additional gold and silver deposits and prospects, of which Esquel by Minera El Desquite (Brancote Holdings and Argentinian partners), Manantial Espejo by Lac Minerals, Martha (Bacon) by Yamana Resources, Huevos Verdes by Minera Andes and Calcatreu by Normandy Mining are judged to be the most important (Figure 2). Other well-known companies that were active at times in Patagonia include Battle Mountain Gold, Gencor, MIM, Minera Mincorp, Newcrest, Newmont, Pegasus, RioTinto and Sunshine Mining.

The main gold mining operation in Patagonia is based on the Cerro Vanguardia deposit, where AngloGold's current annual production is running at 270,000 oz Au, with reserves stated as 4.6 million oz Au averaging 8.67 g/t Au (plus 125 g/t Ag). The other operation is the small, but exceptionally high-grade Martha silver mine, also in the Deseado massif, where Coeur d'Alene Mines has recently announced resources of 4 million oz Ag equivalent averaging 110 oz/t Ag equivalent. Meridian Gold recently acquired the 3.8 million oz Esquel gold deposit from Brancote Holdings and its partners and plans to fast track it to production. The Manantial Espejo silver-gold deposit is now owned equally by Silver Standard Resources and Pan American Silver Corp., which reported a measured and indicated resource of 4.39 million tonnes at 4.51 g/t Au and 263.8 g/t Ag. Minera Andes joint-ventured its Huevos Verdes silver-gold prospect in 2002 to Mauricio Hochschild & Cia. Ltda. of Peru, which has announced that construction of a decline is planned. Normandy Mining's Calcatreu silver-gold discovery is in the process of being sold by Newmont Mining, the current owner of Normandy's assets, because of its small size (0.53 million oz Au, 4.6 million oz Ag).

Since the devaluation of the Argentine currency in early 2002 and the consequent three-fold reduction in the cost of holding mining tenement, there has been a marked upswing in gold exploration in Patagonia and a concomitant expansion of mining tenement. Three major companies (AngloGold, Barrick Gold, Teck Cominco), four medium-sized gold/silver companies (Buenaventura, Coeur d'Alene Mines, Iamgold, Meridian Gold) and at least four juniors (IMA, Minera Andes, Oroplata, Tenke Mining) are currently conducting exploration in the region, most of them in the Deseado massif.



Geology of Patagonia

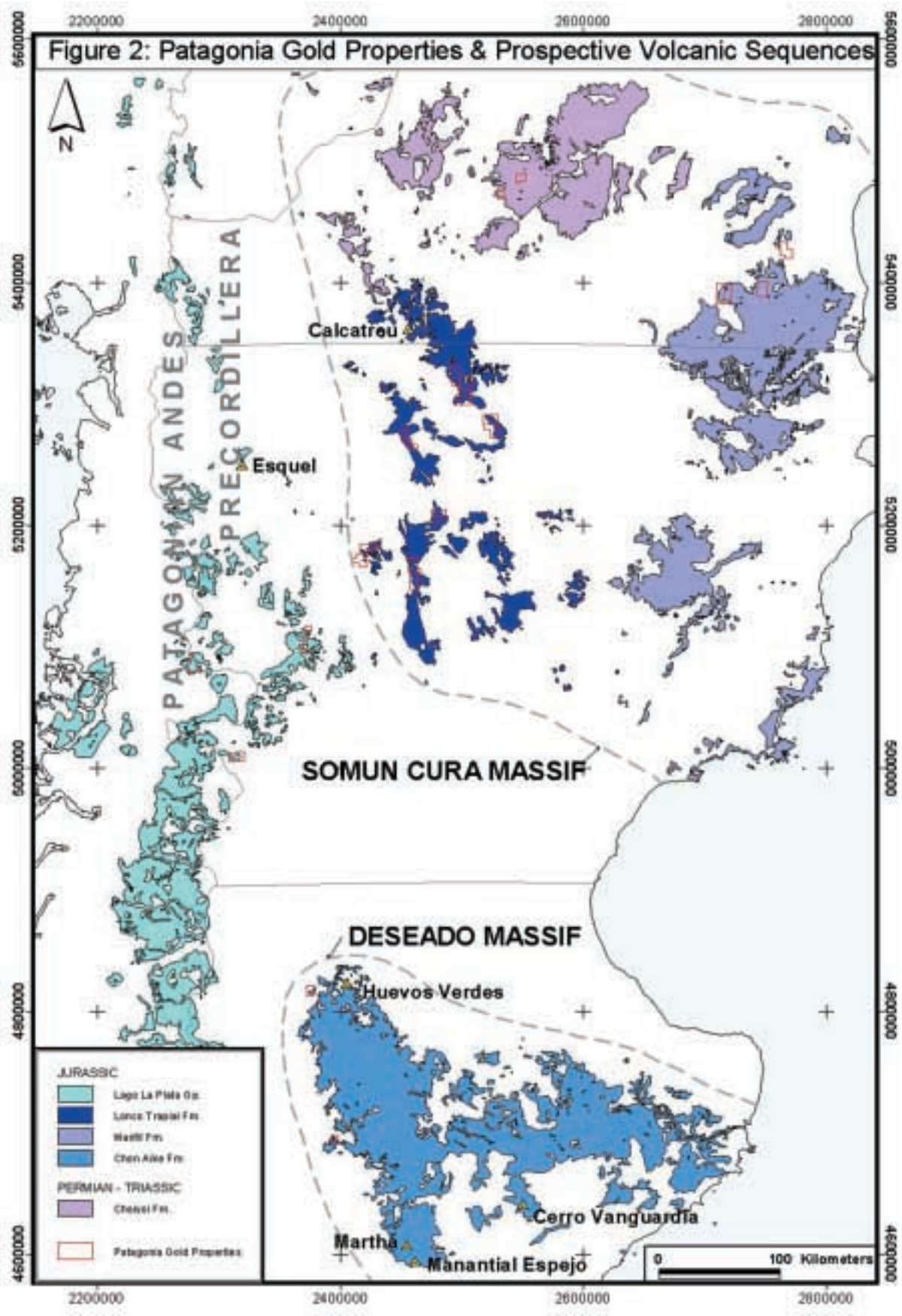
Much of Patagonia within Argentinian territory is underlain by two blocks of cratonic basement, the Somun Cura and Deseado massifs, separated by the San Jorge basin notable for its hydrocarbon production. The westernmost parts of Argentinian Patagonia comprise the eastern limits of the Patagonian Andes, the southern continuation of the topographically higher central Andes.

The Somun Cura and Deseado massifs are underpinned by late Proterozoic and early Paleozoic metamorphic rocks intruded by several poorly defined pulses of Paleozoic granitoids. The Late Permian to Jurassic interval throughout extra-Andean Patagonia and the Patagonian Andes was characterised by regional extension, which gave rise to a series of half-grabens within which volcanic and subordinate sedimentary products accumulated. At broadly the same time in the Patagonian Andes, granitoid plutonic complexes and volcanic rocks were generated in a subduction-related arc, where the extension finally gave way to compressive tectonism in the mid-Cretaceous. The regional extension was brought to a close throughout extra-Andean Patagonia by deposition of the Chubut Group, a thick continental sedimentary package that post-dates all gold mineralization events. The Cenozoic is characterised by widespread sedimentary accumulations and construction of basaltic lava plateaux. Extensive areas of extra-Andean Patagonia were concealed beneath fluvio-glacial outwash during the Plio-Pleistocene glaciation of the Patagonian Andes.

The epithermal gold deposits of Patagonia are almost exclusively confined to volcanic sequences of Jurassic and, to a much lesser extent, Permo-Triassic age. These volcanic units occur in the Somun Cura and Deseado massifs, the Patagonian Andes and the Precordillera along the eastern foothills of the Patagonian Andes (Figure 2). For the sake of simplicity, the volcanic rocks may be subdivided into five broad units, three dominated by felsic ignimbrites and two by andesitic to basaltic flows and fragmental rocks (Figure 2). All the volcanic rock sequences are calc-alkaline and display compositional bimodality, i.e. an association of felsic and mafic rocks without rocks of transitional intermediate compositions, irrespective of whether the felsic or mafic component is volumetrically dominant. Each volcanic sequence is named after the best-known stratigraphic unit in the five regions concerned.

The two most widespread felsic volcanic units are the Chon Aike Formation in the Deseado massif, which is host to the Cerro Vanguardia, Manantial Espejo and Martha deposits, and the Marifil Formation in the eastern part of the Somun Cura massif, where prospect 36, inspected during this review, is located. To these may be added the Permo-Triassic Choyoi Formation in the northern part of the Somun Cura massif, where several epithermal gold prospects are currently under investigation. The more mafic volcanic units are the Lago La Plata Formation (and the broadly equivalent Ibáñez Formation in contiguous parts of Chile) in the Patagonian Andes, which is host to the Esquel gold deposit, and the Lonco Trapial Formation, host to the Calcatreu prospect.

In summary, therefore, the more mafic rock-dominated sequences and their contained epithermal precious-metal mineralization are the products of an extensional volcanic arc along the Patagonian Andes, which expanded eastwards beyond the arc terrane proper into the southwestern part of the Somun Cura cratonic block. In contrast, the rhyolite-dominated sequences and contained epithermal deposits within the Somun Cura and Deseado blocks were generated in a back-arc setting where the extension was linked to opening of the South Atlantic Ocean basin farther to the east.



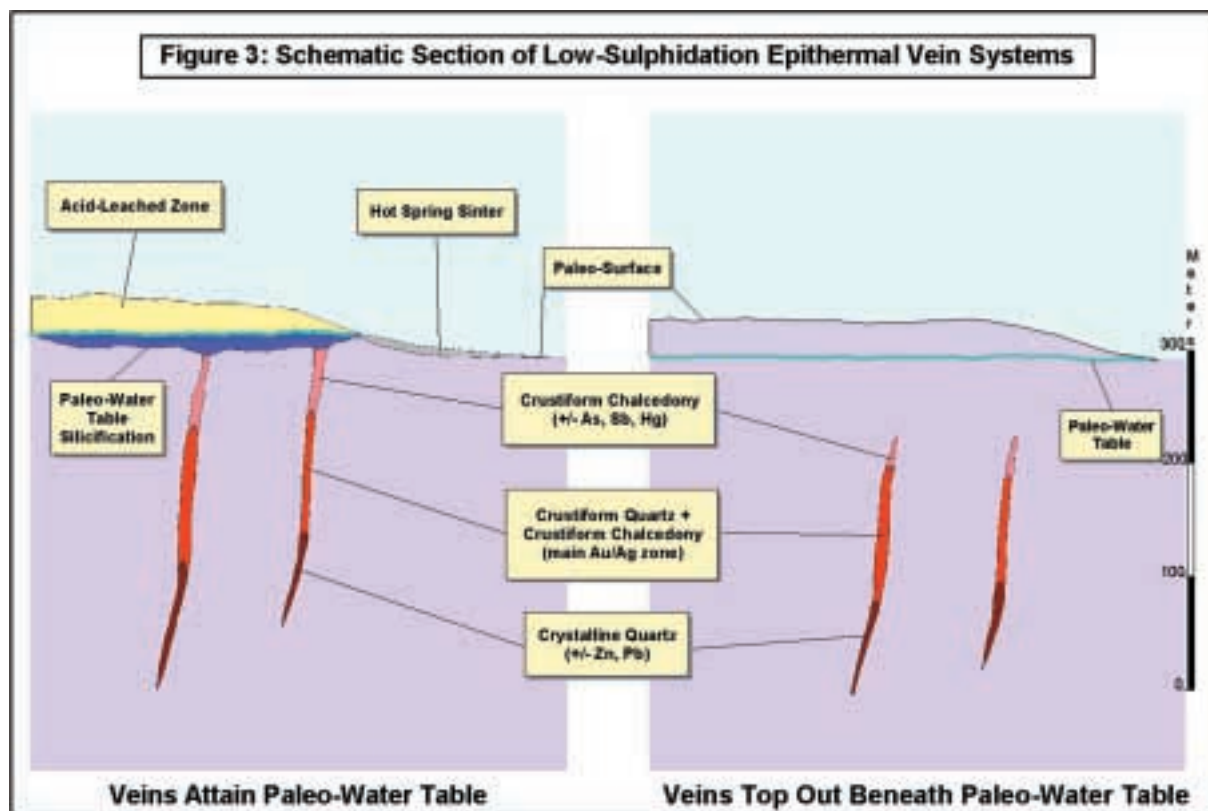
Gold metallogeny of Patagonia

Gold deposits and prospects in Patagonia are essentially all of epithermal type, meaning that they were formed at relatively low temperatures (180-280°C) and shallow depths (<1,000 m) beneath a paleo-surface. The epithermal mineralization throughout Patagonia is believed to be broadly coeval with the felsic-or mafic-dominated volcanic host sequences. In detail, many of the deposits and prospects reveal a spatial and probable genetic connection to volumetrically restricted bodies of rhyolite, including dome complexes, plugs and dykes.

The three main types of epithermal deposits currently recognised worldwide – low-sulphidation, intermediate-sulphidation and high-sulphidation – are all known from Patagonia. The three types were formed from hydrothermal fluids of different compositions, especially with respect to their acidity and redox state, thereby giving rise to the distinctive mineralogy, metal content and alteration features that defines each of them. Nevertheless, in Patagonia, the low-sulphidation type is predominant, includes all the deposits specifically referred to above and is the premier exploration objective of Patagonia Gold.

Low-sulphidation epithermal deposits include low-tonnage, high-grade veins amenable to selective mining as well as large-tonnage, low-grade deposits suitable for open-pit extraction (e.g. Round Mountain, Nevada). Both end-member styles have been explored for in Patagonia but, to date, only vein-type mineralization has been shown to be important. Hence, future potential is judged to lie principally in the vein-type category. A restricted sub-set of low-sulphidation epithermal vein deposits contains bonanza grades, which may be informally defined as at least 1 million oz Au averaging at least 30 g/t. Notably, some 60 per cent. of all bonanza deposits worldwide occur in extensional tectonic settings in association with bimodal volcanic sequences, a volcano-tectonic environment analogous to that in Jurassic times throughout Patagonia. Although the main ore shoot at Cerro Vanguardia is the only known locality in Patagonia that would comply with this definition of a bonanza deposit, smaller tonnages of similarly high-grade ore have been defined at Esquel and Manantial Espejo, and bonanza silver grades are exploited at Martha. A bonanza vein system, like the classic Hishikari gold deposit in Japan, would be the ultimate prize of any exploration programme in Patagonia.

As a result of their near-surface formational environment, low-sulphidation vein gold deposits tend to occupy relatively restricted vertical intervals, typically on the order of 200-300 m. Vein characteristics, in particular the textures of the quartz, change from their tops through the main gold zones down to their low-grade roots (Figure 3). The tops of ore shoots may attain the paleo-water table, within a few metres to >100 m beneath the paleo-surface (depending on the paleo-climate) or, alternatively, may pinch out at substantially greater depths (Figure 3). Where veins approach or attain the paleo-water table, they tend to be capped by zones of massive silicification, marking the water-table position, and highly distinctive, friable, acid-leached rock, both barren of precious-and base metals (Figure 3). Hot-spring sinter may form as a lateral equivalent to an acid-leached zone where the paleo-water table intersects the paleo-surface, i.e. in a topographic depression or valley bottom (Figure 3). Where veins top out at greater depths, however, such prominent surface features appear to be absent and, as in parts of the Esquel deposit, there may be little evidence for the existence of 'blind' veins. Therefore it is clear that differences in the level of erosion both within and between mineralized districts in Patagonia and elsewhere exert a crucial control not only on surface expressions but also on the gold potential (Figure 3).



Patagonia Gold's exploration programme

Patagonia Gold's exploration programme in Patagonia is focused on low-sulphidation epithermal vein gold deposits, although the strategy adopted could equally well reveal a silver-dominated system, bulk-tonnage gold mineralization, intermediate- or high-sulphidation epithermal deposits or even porphyry copper and skarn systems. Exploration is being undertaken in all five volcanic units summarised previously, although much of the effort is being assigned to the two mafic-dominated sequences in the Patagonian Andes and Precordillera and in the Somun Cura massif (Figure 2). The reason for this preference is that a large proportion of the gold exploration to date in Patagonia has focused on the felsic-dominated volcanic units because the prospectivity of the other volcanic sequences was not appreciated until the discovery of the Esquel deposit in 1999. Hence, little systematic exploration work has been conducted in the areas of the Lago La Plata Group and Lonco Trapial Formation.

Interpretation of enhanced satellite imagery was used as the primary means of selecting prospects for ground follow-up. Infoterra of the U.K. carried out the image processing, with band ratio 7/5 employed to depict clay alteration. Additional band ratioing was also used as a technique to highlight certain distinctive lithologies, including rhyolite, quartz vein material, silicification and some other altered rocks. Clay alteration, normally implying the presence of kaolinite, in many epithermal districts, including essentially all those of low-sulphidation type, is largely supergene in origin and the result of acid attack during weathering of pyrite. At the outset, a trial of the methodology over known gold deposits in Patagonia was shown to nicely define the Cerro Vanguardia vein system (Figure 4) and the Huevos Verdes and Esquel districts. In the case of Esquel, however, the clay signature did not precisely pinpoint the vein system but simply emphasised the overall district and nearby areas.



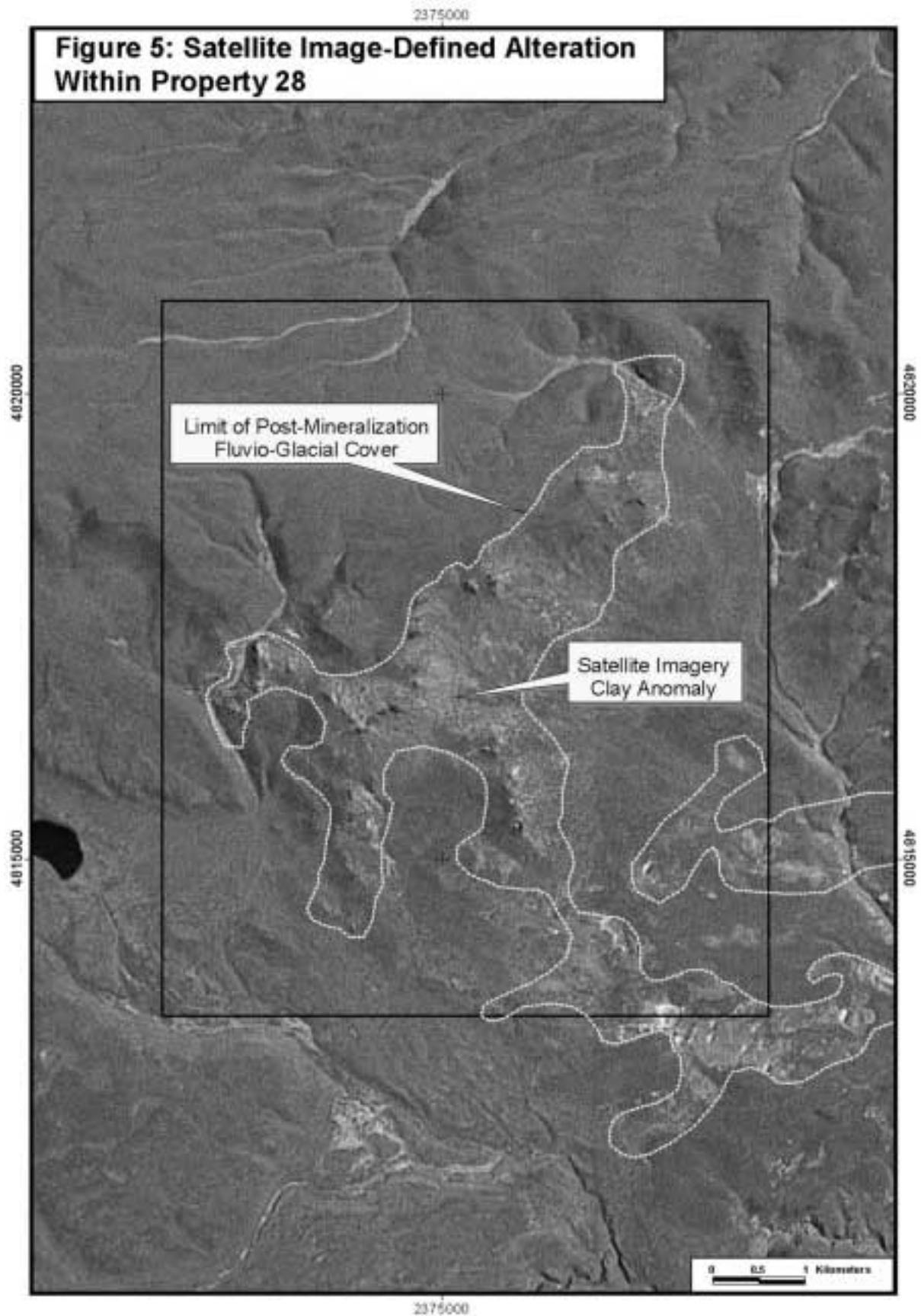


Table 1: Patagonia Gold S.A. properties

Property ID	Mines department identification code	Km ²
1	13847/02	100
2	13848/02	100
3	13849/02	100
4	13850/02	99
6	13851/02	100
7	13852/02	100
11	13855/02	100
17	13873/02	100
18	13874/02	100
19	13875/02	100
20	13880/02	100
21	13876/02	100
22	13877/02	100
23	13879/02	50
24	13881/02	100
25	27050-M-02	100
26	27051-M-02	100
27	27052-M-02	100
28	404826/PATAGONIA/02	50
29	404827/PATAGONIA/02	50
31	27095-02	50
35	27004-02	54
36	27113-M-02	100
TOTAL		2,053

Geological information available on the published quadrangle maps of Patagonia at a scale of 1:250,000 is used to screen and prioritise the resulting anomalies. Clay signatures attributable to river alluvium and margins of salt pans are relatively easily eliminated from further consideration, whereas those due to certain weathered but unmineralized granitoids are somewhat more difficult to exclude. First-priority targets were defined as prominent anomalies, mostly within volcanic terrane, in which a linear trend, possibly indicative of structural control, is discernable (Figure 5). Once experience had been gained, however, it became clear that even some of the small, volcanic-hosted clay anomalies may be equally if not more significant, a conclusion underscored by the case of prospect 36 (Figure 6). Relatively small clay anomalies that abut post-mineralization alluvial, fluvio-glacial (Figure 5) or basaltic volcanic units are particularly emphasised because of the possibility that any mineralization could extend beneath the cover sequences as, for example, it does beneath basalt at Huevos Verdes.

The original intention was to field check all selected clay anomalies before a decision was made to acquire mining tenement. Nevertheless, in view of the mid-year intensification of exploration activity, it was decided to immediately acquire the 23 highest-priority targets (Figure 1; Table 1) because of the risk that they might be picked up by competitor companies. Systematic ground follow-up of the 23 areas commenced in September 2002, with three-quarters of them having been preliminarily inspected and sampled at the time of writing (Table 2). The initial follow-up involves geological reconnaissance designed to detect evidence for vein-type or other mineralization styles, bearing in mind that veins may be wholly or partly concealed beneath barren surface alteration features or even weakly altered rocks, as discussed previously (Figure 3). Any vein material and silicified or otherwise intensely altered rock in either outcrop or float is representatively chip sampled for analysis for Au, Ag, Cu, Pb, Zn, As, Sb and Hg. Where appropriate, drainage geochemistry of target areas is also carried out as an additional means of determining the existence of any exposed mineralization. The —200-mesh fraction of stream silt and a heavy-mineral panned-concentrate are collected for analysis at each sample site, except in large drainage catchments (>5 km²) where a BLEG (bulk leach extraction geochemistry) sample is also taken.

Initial exploration results

As summarised in Table 2, 17 of the clay anomalies have been preliminarily field checked; the other six are pending, several because snow cover has precluded access to date. Importantly, half (nine) of the checked anomalies have reportedly revealed evidence for the existence of epithermal systems, mainly in the form of low- or, possibly, intermediate-sulphidation veins. Three of the areas (1, 18, 23) revealed the presence of veins containing quartz, carbonate and base metals, which could be interpreted in terms of erosion levels too deep for the preservation of auriferous ore shoots (Figure 3) or, alternatively, to imply that the veins are of intermediate- rather than low-sulphidation type. Three of the prospects (28, 29, 31) appear to be clearly of high-sulphidation type because of the presence of vuggy quartz, the product of extreme hypogene leaching by highly acidic fluids. One prospect (24), additional to the nine mentioned above, also reported anomalous levels of As, Sb and Hg and might conceivably be linked somehow to a shallowly exposed epithermal system.

The results to date of the follow-up programme clearly confirm the efficacy of the image-based methodology adopted for area selection in Patagonia. In the context of similar programmes in Patagonia and elsewhere, the proportion of clay anomalies actually coinciding with epithermal systems must be considered as remarkably high. Perpetuation of the same strategy for additional area selection, with the slight interpretational modifications noted below, is an obvious recommendation.

It is worth noting that only two of the 17 field-checked anomalous areas have revealed evidence for previous exploration activity, although it is quite likely that competitor exploration crews have also traversed other areas. Prospect 28, in the Deseado massif, was explored by Mincorp, and three drill holes, all reportedly returning negative results, were drilled to test a restricted part of the area. Prospect 36 abuts the formerly mined Gonzalito lead-zinc-silver district, which comprises deformed lenses of massive sulphide hosted by late Proterozoic amphibolite-facies metamorphic rocks, and may be of sedimentary-exhalative (SEDEX) origin. Notwithstanding the markedly different mineralization style, the epithermal veins recognised within property 36 were also extensively prospected, reportedly for lead and fluorite but not gold. Therefore the area selection strategy is proving effective in pinpointing epithermal systems that may well have gone largely undetected.

Table 2: Summary characteristics and current status of Patagonia Gold properties

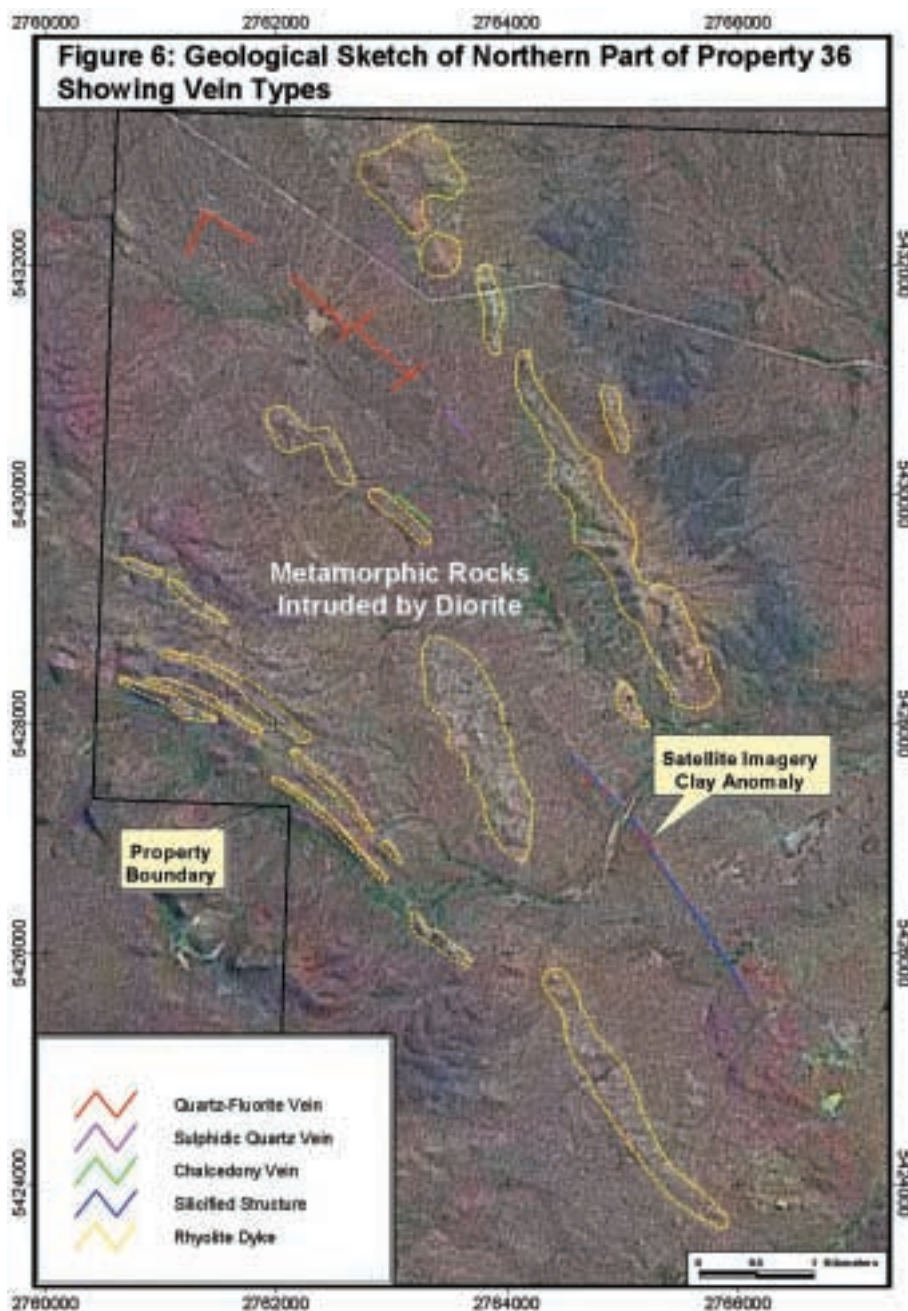
ID	Volcanic Setting	Notable features	Mineralization type	Current status
1	Lonco Trapial Fm.	Felsic domes; narrow quartz-carbonate-base metal veins; quartz-chalcopyrite stockwork with up to 2 g/t Au; barite-galena veins	Deep LS or IS epithermal veins	Additional fieldwork required
2&3	Lonco Trapial Fm.	NW silicified structures; quartz-chlorite veining; no anomalous values	Uncertain	Drainage anomaly requires follow-up
4	Lonco Trapial Fm.	Altered felsic dykes; no anomalous values	None observed	Additional fieldwork required, including follow-up of BLEG anomaly
6&7	Lonco Trapial Fm.	NW structure, possible SE continuation of Willimanco-Nahuel Pan lineament at Esquel		Not yet visited
11	Lago La Plata Gp.	NW andesite dykes & alteration; sericitic alteration with quartz veinlets; base- metal & Ag anomalism (up to 900 g/t Ag)	Possible IS or intrusion-related system	Brief inspection only; work pending
17	Lonco Trapial Fm.	Linear clay anomaly; felsic dykes; no anomalous values	None observed	No further work currently planned
18&23	Lonco Trapial Fm.	Felsic domes; NW structures; quartz-carbonate-base metal veins	Deep LS or IS epithermal veins	Additional fieldwork planned
19	Lonco Trapial Fm.			Not yet visited
20&24	Lonco Trapial Fm.	Silicified sandstone; elevated As-Sb-Hg values	Uncertain	Additional fieldwork required
21	Lago La Plata Gp.			Not yet visited
22	Lago La Plata Gp.	Large extent of alteration could suggest intrusion-related alteration system		Not yet visited
25&26	Marifil Fm.	8x3-km alteration zone; no anomalous values	None observed	Further fieldwork planned on margins of area
27	Marifil Fm.	Isolated veins; values up to 1 g/t Au	LS epithermal veins	No further work currently planned
28	Chon Aike Fm.	Vuggy quartz ledges; As-Sb anomalism; up to 4 g/t Au; may extend beneath fluvio-glacial cover	HS epithermal	Further fieldwork planned, including systematic rock-chip sampling
29	Chon Aike Fm.	Vuggy quartz ledges; weak As-Sb-Hg anomalism; stibnite observed; up to 0.4 g/t Au	HS epithermal	Further fieldwork planned
31	Choiyoi Fm.	Vuggy quartz ledges; no anomalous values	HS epithermal	Further fieldwork planned
35	Choiyoi Fm.			Not yet visited
36	Marifil Fm.	NNW structure with minor clay anomaly; quartz veins; up to 3 g/t Au; local elevated base-metal & As-Sb values	LS epithermal veins	Further fieldwork planned, including systematic rock-chip sampling.

Note: HS = high sulphidation; IS = intermediate sulphidation; LS = low sulphidation

Comments on field inspection

Prospect 36, hosted by the Marifil Formation in the eastern part of the Somun Cura massif (Figure 2), was selected for field inspection because of its interesting geological features and ease of access from Puerto Madryn. As noted above, the area of interest abuts the former Gonzalito lead-zinc-silver mining district.

During this inspection, three texturally distinct epithermal vein types (Figure 6) were pointed out by the project geologist, all of them hosted mainly by equigranular intrusive rock of probable dioritic to monzonitic composition. The intrusion appears to be unconformably overlain, immediately beyond the vein zone, by felsic ignimbrites of the Marifil Formation. Rhyolite dykes that are likely coeval with the Marifil Formation share the north-northwest-striking structural corridor with the veins (Figure 6).



The largest of the vein structures, >2 km long, comprises several short vein segments typically 2 m or so wide. The vein structure possesses several N30°E-striking spur veins (Figure 6). Both vein sets comprise saccharoidal to crystalline quartz displaying abundant carbonate-replacement texture. The quartz is intergrown with fluorite and subsidiary siderite, and contains local concentrations of partly to completely oxidised galena, sphalerite and chalcocopyrite. Late-stage, intensely silicified hydrothermal breccia, containing clasts of vein quartz and fluorite, parallels some of the component veins. The second vein is narrow and limited in strike extent, and is apparently a southeastern extension of the main vein structure (Figure 6). It is made up of limonite-impregnated crystalline quartz and accompanying silicification. Perhaps surprisingly, given its unattractive aspect, one sample of the vein material returned 3 g/t Au and 140 g/t Ag. The third vein is parallel to the first two, also short in exposed length and narrow, and composed of crustiform chalcedony without obvious intergrown fluorite and base-metal minerals (Figure 6). An apparent southeastward continuation of the same structural trend displays intense silicification (Figure 6).

The quartz-fluorite and chalcedony veins are confirmed as low-sulphidation epithermal variants. The chalcedony vein has the most promising appearance, and was formed at shallower depth and/or lower temperature than the quartz-fluorite vein. It is uncertain whether the limonitic quartz vein is of low- or intermediate-sulphidation type. The exposure level of all three veins is considered appropriate for any contained gold values to be detectable at surface. Therefore the potential of the northern half of the property 36 area chip sampled to date should be reflected in the analytical results, many of which are pending.

Proposed exploration programme

Patagonia Gold's main priority in the coming months is to systematically field check the six anomalous areas that have yet to be visited and to conduct more detailed geological traversing and geochemical sampling of all but two of the other prospects, especially eight of the nine detected epithermal systems (Table 2). On the basis of this more detailed work, it should be possible to determine whether or not any of the areas possess the potential for either exposed or concealed low-sulphidation epithermal veins or, alternatively, other mineralization styles. Hence, a prompt decision should be able to be taken regarding whether to proceed to the reconnaissance drilling stage or to recommend relinquishment.

Also important, before or during the 2003 winter, is further scrutiny of the enhanced satellite imagery in order to select a second generation of clay anomalies for follow-up during the following field season. Images generated by different band ratioing techniques will be used extensively because of their apparent ability to enhance siliceous rocks, both quartz veins and rhyolite. The new-generation anomalies will almost certainly prove to be far more subtle than those selected previously. Anomalies defined by very few pixels but displaying apparent structural localisation, and therefore possibly representing veins, will be prioritised.

Use of satellite imagery has its limitations in the Patagonian Andes because of the extensive tree cover. Hence, an alternative means of target selection may have to be considered. Drainage geochemistry appears to be the most appropriate tool, so long as the drainage catchments are free from extensive glacial and fluvio-glacial deposits that may introduce anomalous metal values derived from distant sources. A combined —200-mesh silt and BLEG pilot study downstream from an area of known mineralization is recommended during the 2003-2004 field season.

The budget earmarked for 2003 is considered to be appropriate for the proposed exploration programme, which will involve continued field follow-up of known anomalies besides the generation of new ones. Importantly, the budget should also prove sufficient to enable the drill testing of at least one prospective target as and when it is identified during the year.

Exploration potential

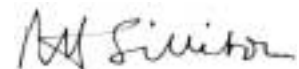
The appreciable number of low-sulphidation epithermal gold deposits and occurrences discovered throughout Patagonia over the last 12 years is quite remarkable, and more are almost certainly there to be found. Moreover, the high-grade, multimillion-ounce Cerro Vanguardia and Esquel deposits are two of the best low-sulphidation epithermal gold deposits in the world. Since the next generation of major discoveries is also thought likely to be of low-sulphidation vein type, surface indications may well prove to be extremely restricted because of the common deficiency of pyrite and, hence, supergene kaolinitic clays, in association with mineralization of this type. Ready recognition of additional deposits is also likely to be further hampered by the generally flat and alluviated nature of the terrain over much of extra-Andean Patagonia and, in parts of the Patagonian Andes, by tree cover.

Further systematic fieldwork, as detailed in the previous section, is required in Patagonia Gold's unexamined clay anomalous areas and newly recognised epithermal prospects before an assessment of their exploration potential can be made. Nevertheless, several of them reportedly possess promising geological features, and prospect 36, described in greater detail above, is confirmed to possess the hallmarks of a low-sulphidation epithermal system. Completion of the geological work and geochemical sampling over prospect 36 will define its gold potential.

Conclusions

On the basis of this appraisal, it is concluded that Patagonia Gold's exploration programme in Patagonia, southern Argentina, is being conducted by competent professionals in complete accord with best industry practice. The tried-and-tested methodology being employed has already shown itself in only a very short space of time to be highly effective. However, it must be emphasised that the current property portfolio will be progressively modified as systematic field and office work proceeds, with tenement being acquired as well as relinquished. The efficient and timely turnover of properties is the essence of effective exploration, and the best means of maximising the chances of discovery.

30 January 2003
Puerto Madryn, Argentina



Richard H. Sillitoe
Ph.D., C.Eng., C.Geol.

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Accountants' report on the HPD Group



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The Directors
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5 February 2003

Dear Sirs

HPD Exploration Plc

We report on the financial information set out below. This financial information has been prepared for inclusion in the prospectus dated 5 February 2003 of HPD Exploration Plc ("the Company").

Basis of preparation

The financial information set out on pages 46 to 60 is based on the audited consolidated financial statements of the Company and of its subsidiary undertakings (collectively referred to as "the Group") for the period 16 May 2000 to 30 September 2002 prepared on the basis described in the Principal Accounting Policies section.

Responsibility

Such financial statements are the responsibility of the directors of the Company who approved their issue.

The Directors of the Company are responsible for the contents of the prospectus dated 5 February 2003 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board of the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us

relating to the audit of the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion the financial information gives, for the purposes of the prospectus, a true and fair view of the state of affairs of HPD Exploration Plc as at the dates stated and of its results and cash flows for the periods then ended. We consent to the inclusion of our report in the prospectus and accept responsibility for it for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 of the Public Offers of Securities Regulations 1995.

Consolidated profit and loss accounts

		Year to 30 September 2002	16 May 2000 to 30 September 2001
	Note	£	£
Administrative expenses		(191,387)	(36,524)
Amortisation of goodwill	6	(23,247)	(19,282)
Other operating income		<u>6,529</u>	<u>—</u>
OPERATING LOSS		(208,105)	(55,806)
Share of operating loss in associate	8	(2,702)	(103,223)
Share of operating loss in joint venture	8	<u>(19,614)</u>	<u>—</u>
TOTAL OPERATING LOSS: GROUP AND SHARE OF JOINT VENTURES AND ASSOCIATES		(230,421)	(159,029)
(Loss) / profit on dilution of interest in associate		(621)	77,520
Interest receivable:			
- Group	2	16,886	18,107
- Share of associate	2	<u>1,456</u>	<u>3,821</u>
		<u>18,342</u>	<u>21,928</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	3	(212,700)	(59,581)
Tax on loss on ordinary activities	4	<u>—</u>	<u>—</u>
RETAINED LOSS FOR THE YEAR / PERIOD	15	<u>(212,700)</u>	<u>(59,581)</u>
LOSS PER SHARE	5	(0.2p)	(0.1p)
DILUTED LOSS PER SHARE	5	(0.2p)	(0.1p)

All activities are continuing.

There is no difference between results as stated and results on a historical cost basis.

Consolidated balance sheets

		30 September 2002		30 September 2001	
	Note	£	£	£	£
FIXED ASSETS					
Intangible assets	6		446,313		443,477
Tangible assets	7		9,500		—
Investments					
- Share of net assets in associate	8	18,650		31,339	
- Other investments	8	<u>1</u>		<u>1</u>	
			<u>18,651</u>		<u>31,340</u>
TOTAL FIXED ASSETS			474,464		474,817
CURRENT ASSETS					
Debtors	9	92,529		1,572	
Cash at bank and in hand	10	<u>530,850</u>		<u>586,114</u>	
			<u>623,379</u>		<u>587,686</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	11	<u>(30,868)</u>		<u>(9,000)</u>	
NET CURRENT ASSETS			<u>592,511</u>		<u>578,686</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			1,066,975		1,053,503
PROVISIONS FOR LIABILITIES AND CHARGES					
Investment in joint venture:					
- Share of gross assets	8	17,125		—	
- Share of gross liabilities	8	<u>(56,397)</u>		<u>—</u>	
			<u>(39,272)</u>		<u>—</u>
Other provisions	12	<u>(27,492)</u>		<u>—</u>	
			<u>(66,764)</u>		<u>—</u>
NET ASSETS			<u>1,000,211</u>		<u>1,053,503</u>
CAPITAL AND RESERVES					
Called up share capital	13		1,047,073		960,253
Share premium account	14		249,111		165,701
Profit and loss account	15		<u>(295,973)</u>		<u>(72,451)</u>
EQUITY SHAREHOLDERS' FUNDS	16		<u>1,000,211</u>		<u>1,053,503</u>

Consolidated statements of total recognised gains and losses

	Year to 30 September 2002 £	16 May 2000 to 30 September 2001 £
Loss attributable to shareholders of HPD Exploration Plc	(212,700)	(59,581)
Unrealised exchange rate movements	<u>(10,822)</u>	<u>(12,870)</u>
TOTAL RECOGNISED LOSSES FOR THE YEAR / PERIOD	<u><u>(223,522)</u></u>	<u><u>(72,451)</u></u>

Consolidated cash flow statements

		Year to 30 September 2002 £	16 May 2000 to 30 September 2001 £
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	17	(227,527)	(27,524)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	18	18,458	16,535
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS	18	(10,000)	—
ACQUISITIONS AND DISPOSALS	19	<u>(6,425)</u>	<u>—</u>
NET CASH OUTFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING		(225,494)	(10,989)
MANAGEMENT OF LIQUID RESOURCES	18	24,933	(554,507)
FINANCING	18	<u>170,230</u>	<u>597,103</u>
(DECREASE) / INCREASE IN CASH IN THE YEAR / PERIOD	20	<u><u>(30,331)</u></u>	<u><u>31,607</u></u>

Principal accounting policies

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

Basis of preparation

The financial information has been prepared in accordance with applicable UK Accounting Standards and under the historical cost convention.

Basis of consolidation

The Group accounts include the Company and subsidiary undertakings made up to 30 September each year. Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year included in the consolidated profit and loss accounts from the date of acquisition or up to the date of disposal.

Investments in which the Group has a long term interest that are jointly controlled are accounted for as joint ventures. The Group's interests in joint ventures are included in the consolidated financial information under the gross equity method. The Group includes separately in its results its share of the results of joint ventures and the Group's share of the net assets of joint ventures are included and disclosed separately in the balance sheets.

The Group's share of profits and losses of associates is included in the consolidated profit and loss accounts and its interest in their net assets is included in the consolidated balance sheets within investments.

Deferred exploration expenditure

When the Group has incurred expenditures 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. Full provision is made in respect of deferred costs on properties in the case that insufficient exploration has taken place to ascertain future recoverability. Where mining properties are abandoned, the deferred expenditure is written off in full.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given and any associated costs over the fair value of the separable net assets acquired) arising on consolidation is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life of 20 years.

Tangible fixed assets

Depreciation is calculated to write down the cost less residual value of office equipment by equal annual instalments over a period of five years.

Fixed asset investments

Fixed asset investments, other than investments in joint ventures and associates, are stated at cost less provision for any impairment.

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss accounts.

The financial statements of foreign subsidiaries, joint ventures and associates are translated at the rates of exchange ruling at the balance sheet date. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash), government securities and investments in money market managed funds.

Notes

1. Segmental analysis

	Profit / (loss) before taxation		Net assets / (liabilities)	
	Year to 30 September 2002 £	16 May 2000 to 30 September 2001 £	Year to 30 September 2002 £	16 May 2000 to 30 September 2001 £
United Kingdom	(191,840)	39,821	1,020,833	1,022,164
Argentina – share of joint venture	(19,614)	—	(39,272)	—
Canada – share of associate	<u>(1,246)</u>	<u>(99,402)</u>	<u>18,650</u>	<u>31,339</u>
	<u>(212,700)</u>	<u>(59,581)</u>	<u>1,000,211</u>	<u>1,053,503</u>

2. Interest receivable

	Year to 30 September 2002 £	16 May 2000 to 30 September 2001 £
Bank interest receivable:		
- Group	16,886	18,107
- Share of associate	<u>1,456</u>	<u>3,821</u>
	<u>18,342</u>	<u>21,928</u>

3. Loss on ordinary activities before taxation

	Year to 30 September 2002 £	16 May 2000 to 30 September 2001 £
(a) The loss is stated after charging / crediting:		
Auditors' remuneration:		
- audit	8,500	3,000
- other fees paid to the auditors and their associates	3,375	2,000
Operating lease charges: land and buildings	13,063	—
Other operating income: management fees	6,529	—
Depreciation	500	—
(b) Staff:		
Wages and salaries	41,028	—
Social security costs	<u>2,481</u>	<u>—</u>
	<u>43,509</u>	<u>—</u>
	2002 Number	2001 Number

The average number of employees by location during the year:

United Kingdom – administration	<u>1</u>	<u>—</u>
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3. Loss on ordinary activities before taxation *continued*

(c) Directors' emoluments:

	Fee	Pension contributions	Year to 30 September 2002	16 May 2000 to 30 September 2001
	£	£	£	£
European Sales Company Limited (for the services of Richard Prickett)	6,250	—	6,250	—
MM-E (for the services of William Humphries)	6,250	—	6,250	—
Marc Sale ⁽¹⁾	5,000	750	5,750	—
Neil Herbert ⁽¹⁾	3,611	542	4,153	—
Dare & Co (for the services of David Dare)	2,500	—	2,500	—
	<u>23,611</u>	<u>1,292</u>	<u>24,903</u>	<u>—</u>

⁽¹⁾ Appointed 10 September 2002

4. Tax on loss on ordinary activities

The tax charge for the year was £nil (2001: £nil)

Factors affecting the tax charge for the year / period

	Year to 30 September 2002	16 May 2000 to 30 September 2001
	£	£
Loss on ordinary activities before taxation	<u>(212,700)</u>	<u>(59,581)</u>
Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 30 per cent.	(63,810)	(17,874)
Expenses not deductible for tax purposes	9,561	5,185
Amortisation of goodwill	6,974	5,785
Loss / profit on dilution of associate not deductible for / chargeable to tax	186	(23,256)
Share of joint venture losses for future utilisation	5,884	—
Share of associate losses for future utilisation	374	29,821
Loss carried forward to future periods	<u>40,831</u>	<u>339</u>
Current tax charge for the year / period	<u>—</u>	<u>—</u>

Factors that may affect future tax charges

The Group has losses and other timing differences of approximately £41,170 (2001: £339) which may be utilised against future tax liabilities. A deferred tax asset has not been recognised in respect of these amounts.

5. Loss per share

	£	Weighted average number of shares	Year to 30 September 2002 Per share	£	Weighted average number of shares	16 May 2000 to 30 September 2001 Per share
Loss attributable to shareholders	<u>(212,700)</u>	<u>97,452,299</u>	<u>(0.2p)</u>	<u>(59,581)</u>	<u>96,025,303</u>	<u>(0.1p)</u>

The diluted loss per share is equal to the basic loss per share because potential ordinary shares are anti-dilutive.

6. Intangible assets – goodwill

	£
COST	
At 1 October 2001	462,759
Arising on the acquisition of a 50 per cent. interest in Patagonia Gold S.A.	<u>26,083</u>
At 30 September 2002	<u>488,842</u>
AMORTISATION	
At 1 October 2001	19,282
Charge for the year	<u>23,247</u>
At 30 September 2002	<u>42,529</u>
NET BOOK VALUE	
At 30 September 2002	<u>446,313</u>
At 30 September 2001	<u>443,477</u>

7. Tangible fixed assets

	Office equipment £
COST	
At 1 October 2001	—
Additions	<u>10,000</u>
At 30 September 2002	<u>10,000</u>
DEPRECIATION	
At 1 October 2001	—
Charge for the year	<u>500</u>
At 30 September 2002	<u>500</u>
NET BOOK VALUE	
At 30 September 2002	<u>9,500</u>
At 30 September 2001	<u>—</u>

The Company's tangible fixed assets were acquired from Brancote Holdings PLC in an arm's length transaction in June 2002.

8. Investments

Share in joint venture and associated undertakings

The Group has a 50 per cent. interest in a joint venture undertaking, Patagonia Gold S.A., and a 25.2 per cent. (2001: 32.3 per cent.) interest in an associated undertaking, Landore Resources Inc. The following information is disclosed in accordance with FRS9 'Associates and Joint Ventures' and all amounts represent the Group's share.

	Interest in associate	Interest in joint venture	Total 2002	Interest in associate 2001
	£	£	£	£
Operating loss	(2,702)	(19,614)	(22,316)	(103,223)
Interest receivable	1,456	—	1,456	3,821
Retained loss for the year / period	<u>(1,246)</u>	<u>(19,614)</u>	<u>(20,860)</u>	<u>(99,402)</u>
Tangible fixed assets	5,785	9,525	15,310	715
Debtors	1,461	3,668	5,129	3,539
Cash at bank and in hand	<u>27,716</u>	<u>3,932</u>	<u>31,648</u>	<u>68,541</u>
	34,962	17,125	52,087	72,795
Creditors: amounts falling due in less than one year	<u>(16,312)</u>	<u>(56,397)</u>	<u>(72,709)</u>	<u>(41,456)</u>
Share of net assets / (liabilities)	<u>18,650</u>	<u>(39,272)</u>	<u>(20,622)</u>	<u>31,339</u>
			2002	2001
			£	£

Other investments

20 per cent. interest in Southern Gold Resources (USA) Inc.

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In the Directors' opinion this investment does not represent an associated undertaking and therefore is not equity accounted, as the Group is unable to exercise significant influence over Southern Gold Resources (USA) Inc.

The Company's investments in subsidiaries, joint ventures and associates, are as follows:

	Country of incorporation	Direct shareholding percentage	Nature of business
At 1 October 2001:			
HPD Mining Limited	England	100	Holding Co.
Landore Resources Inc.	Canada	25.2	Exploration
Additions:			
Pensacola Holdings S.A.	British Virgin Islands	100	Holding Co.
HPD Investments Limited	British Virgin Islands	100	Holding Co.

8. Investments *continued*

The Company has indirect shareholdings in the following companies:

	Holding company	Country of incorporation	Nature of business	Indirect shareholding percentage
At 1 October 2001:				
Southern Gold Resources (USA) Inc.	HPD Mining Limited	USA	Exploration	20
Additions during the year:				
HPD New Zealand Limited	HPD Investments Limited	New Zealand	Exploration	100
Patagonia Gold S.A.	Pensacola Holdings S.A.	Argentina	Exploration	50

In September 2002 the Company acquired Pensacola Holdings Limited which is a holding company with a 50 per cent. direct interest in Patagonia Gold S.A. Further details of the assets and liabilities acquired are given in Note 19.

9. Debtors

	2002 £	2001 £
Amounts owed by Landore Resources Inc.	33,208	—
Amounts owed by Patagonia Gold S.A.	48,260	—
Recoverable VAT	11,061	—
Prepayments and accrued income	—	1,572
	<u>92,529</u>	<u>1,572</u>

10. Cash at bank and in hand

	2002 £	2001 £
Bank and cash balances	1,276	31,607
Short term deposits	<u>529,574</u>	<u>554,507</u>
	<u>530,850</u>	<u>586,114</u>

11. Creditors: amounts falling due within one year

	2002	2001
	£	£
Other creditors	5,048	—
Accruals and deferred income	<u>25,820</u>	<u>9,000</u>
	<u>30,868</u>	<u>9,000</u>

12. Provisions for liabilities and charges: other provisions

	£
At 1 October 2001	—
Provision for National Insurance Contributions on share options	<u>(27,492)</u>
At 30 September 2002	<u>(27,492)</u>

13. Called up share capital

	2002	2001
	£	£
Authorised		
200,000,000 Ordinary Shares of 1 pence each	<u>2,000,000</u>	<u>2,000,000</u>
Allotted, called up and fully paid		
104,707,327 (2001: 96,025,303) Ordinary Shares of 1 pence each	<u>1,047,073</u>	<u>960,253</u>

The following allotments of the issued share capital of the Company have taken place during the year:

	Date	Total number of shares issued	Issue price	Cash flows 2002 £
Exercise of share options	30.07.02	7,682,024	1.5p	115,230
Exercise of share options	06.08.02	750,000	5.5p	41,250
Exercise of share options	13.08.02	<u>250,000</u>	5.5p	<u>13,750</u>
		<u>8,682,024</u>		<u>170,230</u>

On 21 October 2002 the Company placed a total of 17,574,000 Ordinary Shares at an issue price of 13.5 pence.

Share options at 30 September 2002:

Number of Ordinary Shares	Last exercise date	Price pence
1,920,506	21.11.10	1.5
150,000	21.12.10	1.5
575,000 ⁽¹⁾	31.05.12	8.5
25,000	10.09.12	13.175

⁽¹⁾ Options were exercised in respect of 200,000 shares on 29 October 2002.

On 8 October 2002 options were granted in respect of 2,245,000 Ordinary Shares at an exercise price of 13.5 pence and an expiry date of 8 October 2012.

14. Share premium account

	£
At 1 October 2001	165,701
Premiums on issues during the year	<u>83,410</u>
At 30 September 2002	<u><u>249,111</u></u>

15. Profit and loss account

	Group £
At 1 October 2001	(72,451)
Retained loss for the year	(212,700)
Unrealised exchange rate movements	<u>(10,822)</u>
At 30 September 2002	<u><u>(295,973)</u></u>

16. Reconciliation of movements in equity shareholders' funds

	Year to 30 September 2002 £	16 May 2000 to 30 September 2001 £
Loss attributable to shareholders	(212,700)	(59,581)
Exchange differences arising on translation	(10,822)	(12,870)
Issues of shares	<u>170,230</u>	<u>1,125,954</u>
Net (decrease) / increase in shareholders' funds	(53,292)	1,053,503
Equity shareholders' funds at beginning of year / period	<u>1,053,503</u>	<u>—</u>
Equity shareholders' funds at end of year / period	<u><u>1,000,211</u></u>	<u><u>1,053,503</u></u>

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

	Year to 30 September 2002 £	16 May 2000 to 30 September 2001 £
Operating loss: group and share of joint ventures and associates	(230,421)	(159,029)
Share of loss in associate	2,702	103,223
Share of loss in joint venture	19,614	—
Depreciation and amortisation	23,747	19,282
Increase in debtors	(92,529)	—
Increase in creditors	21,868	9,000
Increase in other provisions	<u>27,492</u>	<u>—</u>
Net cash outflow from operating activities	<u>(227,527)</u>	<u>(27,524)</u>

18. Analysis of cash flows for headings netted in the cash flow statement

	Year to 30 September 2002 £	16 May 2000 to 30 September 2001 £
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Bank interest received	<u>18,458</u>	<u>16,535</u>
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Payments to acquire tangible fixed assets	<u>(10,000)</u>	<u>—</u>
MANAGEMENT OF LIQUID RESOURCES		
Short term deposits	<u>24,933</u>	<u>(554,507)</u>
FINANCING		
Issue of share capital	<u>170,230</u>	<u>597,103</u>

19. Acquisitions and disposals

	Patagonia Gold S.A. £	50 per cent. acquired £	Fair value adjustments £	Fair value to Group £
Tangible fixed assets	18,653	9,326	(194)	9,132
Intangible fixed assets	36,637	18,318	(18,318)	—
Debtors	7,444	3,722	(668)	3,054
Cash at bank and in hand	8,448	4,224	—	4,224
Creditors	<u>(72,137)</u>	<u>(36,068)</u>	<u>—</u>	<u>(36,068)</u>
Net liabilities	<u>(955)</u>	<u>(478)</u>	<u>(19,180)</u>	<u>(19,658)</u>
Cash consideration				<u>(6,425)</u>
Goodwill arising on acquisition				<u>26,083</u>

19. Acquisitions and disposals *continued*

In September 2002 the Group acquired a 50 per cent. interest in Patagonia Gold S.A. by acquiring 100 per cent. of Pensacola Holdings Limited. The fair value adjustments arise because of differences between local accounting treatment and UK GAAP, in particular, the treatment of deferred exploration expenditure which has been fully provided for in accordance with the Group's policy.

	Brancote Mining Limited £	Landore Resources Inc. £	34.39 per cent. acquired £	Fair value adjustment £	Fair value to Group £
Tangible fixed assets	—	671	231	—	231
Intangible fixed assets	—	754,705	259,539	(259,539)	—
Investments	1	—	—	—	1
Debtors	—	1,354	466	—	466
Cash at bank and in hand	—	237,879	81,804	—	81,804
Creditors	—	(47,719)	(16,410)	—	(16,410)
Net assets	<u>1</u>	<u>946,890</u>	<u>325,630</u>	<u>(259,539)</u>	<u>66,092</u>
Ordinary Shares issued by the Company					<u>(528,851)</u>
Goodwill arising on acquisition					<u>462,759</u>

On 20 November 2000 Brancote Holdings PLC's shareholding in Landore Resources Inc., and its 100 per cent. shareholding in HPD Mining Limited (formerly Brancote Mining Limited), were transferred into the Company in exchange for an issue of Ordinary Shares. On 22 November 2000, the Company was de-merged from Brancote Holdings PLC by way of an offer to shareholders. The fair value adjustment arises because of a difference between the local accounting treatment and UK GAAP in the treatment of deferred exploration expenditure, which has been fully provided for in accordance with the Group's policy.

20. Analysis of net cash

	At 1 October 2001 £	Cashflow £	At 30 September 2002 £
Bank and cash balances	31,607	(30,331)	1,276
Short term deposits	554,507	(24,933)	529,574
Net cash	<u>586,114</u>	<u>(55,264)</u>	<u>530,850</u>

21. Operating lease commitments

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

	2002 £	2001 £
Operating leases which expire:		
Within one year	<u>13,750</u>	<u>—</u>

22. Related parties

The Company had a related party, Brancote Holdings PLC, because D W Dare, W H Humphries and R Ö Prickett were Directors of both companies until 4 July 2002 when they resigned their directorships with that company on its acquisition by Meridian Gold Inc. In November 2000 the Company acquired HPD Mining Limited (formerly Brancote Mining Limited) and its interest in Landore Resources Inc. from Brancote Holdings PLC. In June 2002 the Company acquired tangible fixed assets from Brancote Holdings PLC for £10,000.

23. Post balance sheet events

On 21 October 2002 the Company placed 17,574,000 Ordinary Shares at an issue price of 13.5 pence, for a total of £2,372,490.

On 4 December 2002 the Company acquired a further 4,000,000 shares in Landore Resources Inc. for a total amount of £408,439 increasing its shareholding to 12,125,680 shares and its overall interest from 25.2 per cent. to 33.5 per cent.

Yours faithfully

KPMG Audit Plc

Additional information

I. Incorporation and share capital

- (a) The Company was incorporated in England and Wales under the name YPCS 103 PLC with limited liability as a public limited company on 16 May 2000 under the Act. The Company is registered in England and Wales with registered number 3994744. The Company's registered office address and principal place of business is 20 Upper Grosvenor Street, London W1K 7PB. The Company changed its name to HPD Exploration Plc on 31 October 2000.
- (b) The principal legislation under which the Company operates is the Act.
- (c) On 10 November 2000, the Registrar of Companies issued a certificate to the Company under section 117 of the Act entitling it to commence business and to borrow.
- (d) The liability of the members of the Company is limited.
- (e) The Company's principal activity is that of a holding company. Its subsidiaries are set out below:

Name	Country of Incorporation	Status	Percentage interest	Shares held by
Pensacola Holdings Ltd	British Virgin Islands	Private limited company	100	HPD
HPD Mining Limited	England and Wales	Private limited company	100	HPD
HPD Investments Limited	British Virgin Islands	Private limited company	100	HPD
HPD New Zealand Limited	New Zealand	Private limited company	100	HPD Investments Limited

In addition the HPD Group has interests in the following undertakings:

Name	Country of Incorporation	Status	Percentage interest	Shares held by
Patagonia Gold S.A.	Argentina	Private limited company	50	Pensacola Holdings Ltd

- (f) The authorised and issued share capital of the Company at the date of this document is:

Authorised £	Ordinary Shares	Issued and fully paid £	Ordinary Shares
2,000,000	200,000,000	1,224,813.27	122,481,327

Upon Admission and completion of the Placing and Open Offer, the authorised and issued share capital of the Company (i) assuming the Minimum Amount is subscribed; and (ii) assuming that all of the New Ordinary Shares are subscribed for under the Placing and Open Offer, will be:

Authorised £	Ordinary Shares	Issued and fully paid £	Ordinary Shares
(i) 2,000,000	200,000,000	1,304,813.27	131,231,327
(ii) 2,000,000	200,000,000	1,377,914.93	137,791,492

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- (g) The following alterations in the issued share capital of the Company have taken place since incorporation:
- (i) The Company was incorporated with an authorised share capital of £100,000 divided into 100,000 ordinary shares of £1 each, two of which were issued, nil paid, to the subscribers to the memorandum of association.
 - (ii) By a resolution of the Company passed on 2 November 2000 each of the issued and unissued shares of £1 each in the capital of the Company was divided into 100 Ordinary Shares of 1p each and the authorised share capital of the Company was increased from £100,000 to £2,000,000 by the creation of a further 190 million Ordinary Shares of 1p each.
 - (iii) The 200 Ordinary Shares arising on the sub-division of the subscriber shares were transferred to Brancote and its nominee on 2 November 2000.
 - (iv) On 2 November 2000, 9,999,800 Ordinary Shares were issued for cash to Brancote at par.
 - (v) On 20 November 2000 the Company issued 52,885,037 Ordinary Shares to Brancote, credited as fully paid, in exchange for the transfer to the Company of Brancote's entire shareholding in Landore.
 - (vi) On 4 January 2001, the Company issued 32,140,266 Ordinary Shares at 1.5p per share by means of a placing to certain institutional and other investors.
 - (vii) On 9 January 2001, the Company issued 1,000,000 Ordinary Shares at 1.5p per share by means of a placing to certain institutional and other investors.
 - (viii) On 25 July 2002, 5 August 2002, 9 August 2002 and 29 October 2002, the Company issued 7,682,025, 750,000, 250,000 and 200,000 Ordinary Shares respectively pursuant to the exercise of certain share options.
 - (ix) On 21 October 2002, the Company issued 17,574,000 Ordinary Shares at 13.5p per share by means of a placing to certain institutional and other investors.
 - (x) It is anticipated that up to 15,310,165 New Ordinary Shares will be issued at 14p per share pursuant to the Placing and Open Offer.
- (h) By a resolution dated 2 November 2000 the Directors were generally and unconditionally authorised for the purposes of section 80 of the Act to allot relevant securities for an aggregate nominal value not exceeding £1,999,998, such authority expiring on 1 November 2005 unless revoked or renewed before that date. The Directors were empowered, pursuant to section 95 of the Act, to allot equity securities (within the meaning of section 94(2) of the Act) for cash as if section 89(1) of the Act did not apply to such allotment for the purposes of the allotment of equity securities up to an aggregate nominal amount of £1,999,998 such authority expiring on 1 November 2005.
- (i) A resolution has been proposed at the forthcoming Annual General Meeting of the Company to be held on 12 March 2003, to replace the Directors' existing section 95 authority detailed in paragraph (h) above with a new authority over a lesser number of equity securities up to an aggregate nominal value of £220,000.
- (j) The following options over Ordinary Shares have been granted by the Company to certain persons pursuant to individual option agreements:

Date of grant	Ordinary Shares	Exercise price	Exercise period
21.12.00	150,000	1.5p	21.12.00 to 21.12.10
31.05.02	475,000	8.5p	31.05.02 to 31.05.12
10.09.02	25,000	13.125p	10.09.02 to 10.09.12
08.10.02	300,000	13.5p	08.10.02 to 08.10.12

The aggregate number of options outstanding at the date of this document as detailed above and in paragraph 3(b) below is 4,715,506. In addition it is intended that a further 855,000 options exercisable at the Issue Price will be issued to the Directors following Admission. Further details are set out in paragraph 3(b) below.

- (k) A summary of the main conditions and procedures for conversion of the options detailed in paragraph 1(j) above and paragraph 3(b) below is as follows:
- (i) The options may be exercised by the option holder on 14 days' prior written notice at any time during the exercise period and shall lapse on the earliest of the following dates to occur:
 - (1) the end of the exercise period; and
 - (2) the date of commencement of a winding up of the Company.
 - (ii) In the event of the death of the option holder, the option may be exercised by the option holder's personal representative. The option must be exercised not later than six months from the date of death or if later, one month from the grant of probate or letters of administration but in any event not later than 12 months from the date of death. If the option is not exercised it shall lapse.
 - (iii) If before the option lapses, there is a variation or reorganisation of the share capital (for example by reason of a rights issue or capitalisation of reserves, or a reduction, subdivision or consolidation of capital), the subscription price and/or the number of the shares in respect of which the option may be exercised may be adjusted by the Company to the extent the auditors consider fair and reasonable. However, the aggregate subscription price payable on exercise of the option shall not be increased, and the subscription price shall not be reduced below the nominal value of an ordinary share.
 - (iv) During any time that the Company is subject to a takeover offer or a compromise arrangement under section 425 of the Act, options shall become exercisable (and on each occasion for a further six month period) following which they shall lapse.
 - (v) During any time that the Company is subject to a compulsory acquisition, the option may be exercised at any time while the offeror remains bound or entitled to acquire any ordinary share following which it shall lapse.
 - (vi) An option holder may, with the consent of an acquiring company, release each subsisting and unexercised option for a new right which is equivalent to his option but which relates to shares in the acquiring company or a company which has control of the acquiring company or a company which is or has control of a company which is a member of a consortium owning either the acquiring company or a company which has control of the acquiring company.
 - (vii) The option deed may be varied by a supplemental deed executed by the Company and the option holder.
 - (viii) The Company and the option holder may assign their rights under the option deed with the consent of the other party.
- (l) Save as detailed in this paragraph 1 and paragraph 3(b) below, in the period since incorporation no other capital of the Company has been allotted and no capital of the Company is proposed to be issued or is under option or is agreed to be put under option.

2. Summary of memorandum and articles of association

The principal objects of the Company, which are set out in clause 4(a) of its memorandum of association, are to carry on business as a general commercial company. The articles of association of the Company contain, *inter alia*, provisions to the following effect:

(a) Voting rights

Subject to paragraph 2(f) below, and to any special terms as to voting upon which any shares may for the time being be held, on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by its duly appointed representative shall have one vote and on a poll every member present in person or by representative or proxy shall have one vote for every ordinary share in the capital of the Company held by him. A proxy need not be a member of the Company.

(b) Variation of rights

If at any time the capital of the Company is divided into different classes of shares all or any of the rights or privileges attached to any class of shares in the Company may be varied or abrogated with the consent in writing of the holders of three-fourths in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class. At every such separate general meeting (except an adjourned meeting), the quorum shall be two persons holding or representing by proxy one-third in nominal value of the issued shares of that class.

(c) Alteration of capital

The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of a larger nominal value, sub-divide all or any of its shares into shares of a smaller nominal value and cancel any shares not taken, or agreed to be taken, by any person. The Company may, subject to the Act, by special resolution reduce or cancel its share capital or any capital redemption reserve or share premium account.

Subject to and in accordance with the provisions of the Act, the Company may purchase its own shares (including any redeemable shares), provided that the Company shall not purchase any of its shares unless such purchase has been sanctioned by an extraordinary resolution passed at a separate meeting of the holders of any class of shares convertible into equity share capital of the Company.

(d) Transfer of shares

A member may transfer all or any of his shares (1) in the case of certificated shares by instrument in writing in any usual or common form or in such other form as may be approved by the Directors and (2) in the case of uncertificated shares through CREST in accordance with and subject to the Uncertificated Securities Regulations 1995 and the facilities and requirements of the relevant system concerned. The instrument of transfer of a certificated share shall be executed by or on behalf of the transferor and, if the share is not fully paid, by or behalf of the transferee. The Directors may in their absolute discretion refuse to register a transfer of any share which is not fully paid, provided that dealings in the shares are not prevented from taking place on an open and proper basis. Subject to paragraph 2(f) below, the articles of association contain no restrictions on the free transferability of fully paid shares provided that the transfer is in respect of only one class of share and is accompanied by the share certificate and any other evidence of title required by the Directors and that the provisions in the articles of association relating to the deposit of instruments for transfer have been complied with.

(e) Dividends

- (i) The Company may by ordinary resolution in general meeting declare dividends provided that no dividend shall be paid otherwise than out of profits available for the purpose and no dividend shall exceed the amount recommended by the Directors. The Directors may from time to time pay such interim dividends as appear to the Directors to be justified.
- (ii) Subject to the rights of persons, if any, holding shares with special dividend rights, and subject to paragraph 2(f) below, all dividends shall be apportioned and paid *pro rata* according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid or credited as paid in advance of calls shall be regarded as paid on shares for this purpose.
- (iii) All dividends unclaimed for a period of 12 years after having been declared shall if the Directors so resolve be forfeited and shall revert to the Company.
- (iv) There is no fixed date on which an entitlement to dividend arises.

(f) Suspension of rights

If a member or any other person appearing to be interested in shares held by such shareholder has been duly served with notice requiring the disclosure of information relating to beneficial ownership of shares, and is in default in supplying to the Company within 28 days (or such other period as may be specified in such notice) the information thereby required, then (if the Directors so resolve) such member shall not be entitled to vote or to exercise any right conferred by membership in relation to meetings of the Company in respect of the shares which are the subject of such notice. Where the holding represents more than 0.25 per cent. of the issued shares of that class, the payment of dividends may be withheld, and such member shall not be entitled to transfer such shares otherwise than by an arm's length sale.

(g) Return of capital

Subject to any preferred, deferred or other special rights, or subject to such conditions or restrictions to which any shares in the capital of the Company may be issued, on a winding-up or other return of capital, the holders of ordinary shares are entitled to share in any surplus assets *pro rata* to the amount paid up on their ordinary shares. A liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by the Act, divide amongst the members in specie or in kind the whole or any part of the assets of the Company, those assets to be set at such value as he deems fair. A liquidator may also vest the whole or any part of the assets of the Company in trustees on trusts for the benefit of the members.

(h) Pre-emption rights

There are no rights of pre-emption under the articles of association of the Company, either in respect of transfers of issued ordinary shares, or in respect of the allotment of new shares in the Company.

In certain circumstances, the Company's shareholders may have statutory pre-emption rights under the Act in respect of the allotment of new shares in the Company. These statutory pre-emption rights would require the Company to offer new shares for allotment to existing shareholders on a *pro rata* basis before allotting them to other persons. In such circumstances, the procedure for the exercise of such statutory pre-emption rights would be set out in the documentation by which such shares would be offered to the Company's shareholders.

(i) Borrowing powers

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets both present and future (including uncalled capital) and to issue debenture stock or any other securities whether outright or as collateral security for any debt, liability or obligation of the Company or any third party. The aggregate amount at any one time owing by the Company and all its subsidiaries in respect of monies borrowed by them or any of them (exclusive of monies borrowed by the Company or any of its subsidiaries from such companies) shall not at any time without the previous sanction of the shareholders in general meeting exceed the higher of £5 million or a sum equivalent to three times the aggregate of the nominal capital of the company for the time being issued and paid up and the amounts standing to the credit of the share premium account, capital redemption reserve and profit and loss account of the Company and each of its subsidiary companies.

3. Directors' and other interests

- (a) The interests of the Directors and their immediate families (including connected persons within the meaning of section 346 of the Act) in the issued share capital of the Company which have been notified to the Company pursuant to sections 324 to 328 of the Act as at the date of this document and as they will be immediately following Admission and completion of the Placing and Open Offer, and all of which are beneficial, are as follows:

	At the date of this document		On Admission		
	Ordinary Shares	Percentage of issued share capital	Ordinary Shares	Percentage of issued share capital ⁽ⁱ⁾	Percentage of issued share capital ⁽ⁱⁱ⁾
R.Ö. Prickett ^(iv)	4,704,012	3.84	5,292,013	4.03	3.84
W.H. Humphries	4,591,012	3.75	5,200,000 ⁽ⁱⁱⁱ⁾	3.96	3.77
D.W. Dare	209,680	0.17	235,890	0.18	0.17
M.J. Sale	1,289,500	1.05	1,450,687	1.11	1.05
N.L. Herbert	250,000	0.20	281,250	0.21	0.20

(i) assuming the Minimum Amount is subscribed under the Placing and Open Offer.

(ii) assuming all of the New Ordinary Shares are subscribed for under the Placing and Open Offer.

(iii) in addition to taking up his entitlement under the Open Offer, William Humphries has agreed to purchase 35,112 of the firm placed shares.

(iv) Richard Prickett has agreed to sub-underwrite a further 34,364 shares. The table above does not include those shares.

- (b) The Directors are also interested in unissued Ordinary Shares granted to them by the Company under share options held by them pursuant to individual option agreements. The main conditions and procedures for the conversion of these options are summarised in paragraph 1(k) above.

	Date of grant	Exercise price	Ordinary Shares	Exercise period
D.W. Dare	21.11.00	1.5p	1,920,506	21.11.00 to 21.11.10
R.Ö. Prickett	08.10.02	13.5p	350,000	08.10.02 to 08.10.12
W.H. Humphries	08.10.02	13.5p	350,000	08.10.02 to 08.10.12
D.W. Dare	08.10.02	13.5p	175,000	08.10.02 to 08.10.12
M.J. Sale	08.10.02	13.5p	620,000	08.10.02 to 08.10.12
N.L. Herbert	08.10.02	13.5p	450,000	08.10.02 to 08.10.12

The following options will be granted to the Directors following Admission. These options to subscribe for Ordinary Shares will be exercisable over a ten-year period at the Issue Price and will be on similar terms to their existing options:

R.Ö. Prickett	150,000
W.H. Humphries	150,000
D.W. Dare	75,000
M.J. Sale	280,000
N.L. Herbert	200,000

- (c) Marc Sale and Neil Herbert have entered into service agreements with the Company dated 19 December 2002. Each agreement is terminable upon six months' notice by either party. The remuneration provisions under the agreements provide that Mr Sale shall receive a basic salary of £90,000 per annum and Mr Herbert £65,000 per annum. In addition, each is entitled to a discretionary bonus of up to 40 per cent. of their respective base salary and a contribution of up to 15 per cent. of such salary to a personal pension scheme nominated by them.

William Humphries provides services to HPD pursuant to the terms of an appointment letter between Mining Management – Europe and the Company dated 19 December 2002. The agreement is terminable upon six months' written notice by either party. The remuneration provisions under such agreement provide for a fee of £25,000 per annum to be paid to Mining Management – Europe.

Richard Prickett provides services to HPD as a non-executive Director pursuant to the terms of an appointment letter between European Sales Company Limited and the Company dated 19 December 2002 and receives an annual fee of £25,000. David Dare provides his services as a non-executive Director to HPD under the terms of an appointment letter between him and the Company dated 19 December 2002 and receives an annual fee of £10,000. Both such appointments are terminable on three months' written notice by either party.

- (d) Save as set out above, there are no service agreements in existence between any of the Directors and the Company or any subsidiary which cannot be determined by the employing company without payment of compensation (other than statutory compensation) within one year.
- (e) No Director is or has been interested in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company and which was effected by the Company or any of its subsidiaries and remains in any respect outstanding or unperformed.
- (f) No loans made or guarantees granted or provided by the Company to or for the benefit of any Director are outstanding.
- (g) The aggregate remuneration paid and benefits in kind granted to the Directors for the year ended 30 September 2002 was £24,903. The estimated aggregate remuneration payable and benefits in kind to be granted to the Directors for the current financial year ending 30 September 2003 under the arrangements in force at the date of this document are £238,250 excluding discretionary bonuses not to exceed £62,000.
- (h) Save as disclosed in paragraph 3(a) above on the basis set out therein and as set out below, none of the Directors is aware of any interest (within the meaning of Part VI of the Act) which represents or will represent three per cent. or more of the issued share capital of the Company or which directly or indirectly, jointly or severally, exercises or could exercise control of the Company as at the date of this document or following Admission and completion of the Placing and Open Offer (but taking no account of any New Ordinary Shares subscribed or taken up by such Shareholders pursuant to the Placing and Open Offer):

	At the date of this document		On Admission	
	Ordinary Shares	Percentage of issued share capital	Percentage of issued share capital ⁽ⁱ⁾	Percentage of issued share capital ⁽ⁱⁱ⁾
Matapos Holdings Ltd	14,486,886	11.8	11.0	10.5
AMVESCAP PLC*	12,745,628	10.4	9.7	9.2
Aim Trust PLC	5,712,500	4.7	4.4	4.2

(i) assuming the Minimum Amount is subscribed under the Placing and Open Offer.

(ii) assuming all of the New Ordinary Shares are subscribed for under the Placing and Open Offer.

*The Company has been notified that the aggregate interest of AMVESCAP arises through the interests of its subsidiaries Vidacos Nominees Ltd and Close Nominees Ltd which hold 5,682,009 and 7,063,619 Existing Ordinary Shares respectively (which are held on behalf of INVESCO Perpetual UK Smaller Companies Growth Fund and INVESCO English & International Trust PLC respectively).

(i) In addition to their directorships in the Company, the Directors have held the following directorships and/or been a partner in the following partnerships within the five years prior to the date of this document:

(i) **R.Ö. Prickett:** Current: HPD Mining; European Sales Company Limited; The Capital Pub Company PLC; Probus Estates PLC.

Past: Brancote Holdings PLC; Brancote Australia NL (in liquidation); Minera El Desquite S.A.; Brancote Ireland Limited; Insider Magazines PLC; Lockton Inns PLC; Prickett & Co; Regent Inns PLC; PrimeEnt PLC; Robert Fraser & Company Limited; South Beach Café Limited; South Beach Café (London) Limited; NC Assets Limited; Anglo Minerals Limited; Premier Land Management Services Limited.

R.Ö. Prickett was appointed a non-executive director of Cloud Cover Limited in June 1996 and resigned in November 1996. On 12 June 1997, approximately 6 months after his resignation, Cloud Cover Limited went into liquidation.

R.Ö. Prickett was a director of Brancote Australia NL at the time it was placed in voluntary administration on 3 March 2000. The company was subsequently placed in creditors' voluntary liquidation. The company's sole creditor at such time was Brancote which subsequently wrote off all outstanding debt due from Brancote Australia NL. The liquidation has since been finalised and the company will formally be struck off in due course.

(ii) **D.W. Dare:** Current: Barn Developments Limited; Baroque Ventures Limited; Dare & Co Limited; Dianne Operating Limited; GulfMark North Sea Limited; Gulf Offshore N.S. Limited; Halkin Securities Limited; Marco Polo Travel Limited; Riverside Securities Limited; S.E.A. Personnel Services Limited; Sea Truck (UK) Limited; North Sea Rescue Services Limited.

Past: Brancote Holdings PLC; Halkin Consultancy Limited; Gabriel Investments Limited; Resource Investments PLC; Wafa Limited; NC Assets Limited.

After its flotation under the Business Expansion Scheme and during a re-financing D.W. Dare, at the request of the director of corporate finance of one of the clearing banks, joined the board and became chairman of R.M.R. Limited. Shortly after that re-financing, on 19 June 1989 R.M.R. Limited went into liquidation.

(iii) **W.H. Humphries:** Current: HPD Mining; Ladybank Holdings Pty Ltd; Landore; Tolo Pty Ltd; Bolwarra Pty Ltd; Regal Petroleum PLC; Patagonia Gold; Pensacola Holdings Ltd; HPD Investments Ltd.

Past: Brancote Holdings PLC; Anglo Minerals Limited; Minera El Desquite S.A.; Urntarli Pty Ltd; Harle Pty Ltd; Cordon Leleque S.A.; Minera Huemules S.A.; Nahuel Pan S.A.

W.H. Humphries is or was a director of the following family-owned companies which went into receivership, liquidation, administration or creditor arrangement. W.H. Humphries Nominees Pty Ltd was put into liquidation in January 1991. Urntali Pty Ltd was put into receivership in January 1991, coming out of receivership in 1994 following the sale of assets. Bolwarra Pty Ltd entered into a deed of arrangement with its creditors in January 1994, which was cleared in August 1994. Tolo Pty Ltd went into voluntary administration in January 1994, and came out of administration in December 1995.

(iv) **M.J. Sale:** Current: Landore; Patagonia Gold; Pensacola Holdings Ltd; HPD Investments Ltd; HPD Mining; HPD New Zealand Ltd.

Past: Cordon Leleque S.A.; Minera Huemules S.A.; Minera Nahuel Pan S.A.

(v) **N.L. Herbert:** Current: HPD Mining; HPD New Zealand Ltd.

Past: None.

(j) Save as disclosed in paragraph 3(i) above, no Director:

(i) has any unspent convictions in relation to indictable offences; or

(ii) has been bankrupt or the subject of an individual voluntary arrangement, or has had a receiver appointed to any asset of such Director; or

(iii) has been a director of any company which, at the time or within 12 months after his ceasing to be a director, had a receiver appointed or went into compulsory liquidation, creditors voluntary liquidation, administration or company voluntary arrangement, or made any composition or arrangement with its creditors generally or with any class of its creditors; or

(iv) has been a partner of any partnership which, at the time or within 12 months after his ceasing to be a partner, went into compulsory liquidation, administration or partnership voluntary arrangement, or had a receiver appointed to any partnership asset; or

(v) has had any public criticism by statutory or regulatory authorities (including recognised professional bodies); or

(vi) has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

4. Material contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company and its subsidiaries during the two years preceding the date of this document and are or may be material:

(a) A share purchase agreement dated 30 August 2002 made between HPD and Kendale Capital Inc ("Kendale") pursuant to which HPD acquired the entire issued share capital of Pensacola Holdings Ltd for US\$10,000. The agreement contains warranties and guarantees from Kendale in favour of HPD relating to Pensacola Holdings Ltd.

(b) A shareholder agreement relating to Patagonia Gold dated 22 November 2002 and entered into between HPD's wholly owned subsidiary Pensacola Holdings Ltd ("Pensacola") and Minera Puerto Madryn SA ("MPM") containing provisions regulating their relationship as shareholders in Patagonia Gold on the basis that Pensacola will manage Patagonia Gold and MPM will assist in those matters where knowledge of the

local market and conditions are necessary. The agreement provides, *inter alia*, for the right of each party to appoint a director in respect of each 15 per cent. of Patagonia Gold's share capital held by them and for Pensacola to nominate the President and Vice President of the board and the general manager of the company. The agreement sets out certain matters which require approval of 70 per cent. of the shareholders and provides for both tag-alongs and a right of first refusal for each party upon any proposed disposal of the shares held by the party. The agreement also contains provision for termination in the event of insolvency of either party or material breach of the agreement and, where a material breach has occurred, the party may either acquire the shares of the defaulting party at 85 per cent. of market value or dispose of its shares to the defaulting party at 115 per cent. of market value. The agreement contains a funding commitment from the shareholders of up to \$2 million per annum by way of subscription for shares and to the extent either party does not wish to subscribe for such shares, the other party may subscribe for all or any of such shares.

- (c) The Placing Agreement dated 5 February 2003 between (1) Seymour Pierce and (2) the Company pursuant to which conditional upon, *inter alia*, Admission taking place on or before 5 March 2003, (or such later time and date as shall be determined by Seymour Pierce and the Company, being not later than 31 March 2003) Seymour Pierce has agreed to use reasonable endeavours to procure subscribers at the Issue Price in respect of 7,369,476 New Ordinary Shares. To the extent that these shares are not taken up by placees or Qualifying Shareholders, Seymour Pierce has agreed to subscribe itself at the Issue Price for any such Shares.

The Placing Agreement contains indemnities and warranties from the Company in favour of Seymour Pierce together with provisions which enable Seymour Pierce to terminate the Placing Agreement in certain circumstances prior to Admission including where the warranties are found not to be true or accurate in any material respect. The Placing agreement does not contain any right for Seymour Pierce to terminate in the event of force majeure.

Under the Placing Agreement the Company has agreed to pay Seymour Pierce a fee of £75,000 and a commission of £30,951.80.

- (d) A Nominated Adviser Agreement dated 5 February 2003 between (1) the Company, (2) the Directors and (3) Seymour Pierce pursuant to which the Company and its Directors have appointed Seymour Pierce to act as nominated adviser to the Company for the purpose of the AIM Rules. The Company has agreed to pay Seymour Pierce a fee of £15,000 per annum for its services as nominated adviser, together with all reasonable expenses and VAT. The agreement contains certain undertakings and indemnities given by the Company and its Directors in respect of, *inter alia*, compliance with all applicable laws and regulations. The agreement continues for a fixed period of one year from Admission and thereafter is subject to termination on the giving of three months' notice.
- (e) A Broker Agreement dated 5 February 2003 between (1) the Company, (2) the Directors and (3) Seymour Pierce pursuant to which the Company and its Directors have appointed Seymour Pierce to act as broker to the Company for the purpose of the AIM Rules. The Company has agreed to pay Seymour Pierce a fee of £10,000 per annum for its services as broker, together with all reasonable expenses and VAT. The agreement contains certain undertakings and indemnities given by the Company and its Directors in respect of, *inter alia*, compliance with all applicable laws and regulations. The agreement continues for a fixed period of one year from Admission and thereafter is subject to termination on the giving of three months' notice.

5. Working capital

The Directors, having made due and careful enquiry, are of the opinion that following completion of the Placing and Open Offer, and on the assumption that the Minimum Amount is raised, the working capital available to the HPD Group is sufficient for its present requirements, that is for at least 12 months from the date of Admission.

6. Litigation

No legal or arbitration proceedings are active, pending or threatened against, or being brought by, any member of the HPD Group which are having or may have a significant effect on the Company's financial position.

7. Taxation

The information in this section is based on the Directors' understanding of current tax law and Inland Revenue practice. The following should be regarded as a summary and should not be construed as constituting advice. Investors are strongly advised to take their own independent tax advice.

Under current United Kingdom taxation legislation, no withholding tax will be deducted from dividends paid by the Company.

Individual Shareholders resident for tax purposes in the United Kingdom should generally be entitled to a tax credit in respect of any dividend received. The amount of this tax credit in respect of dividends paid is currently set at 1/9 of the amount of the dividend. Such an individual Shareholder's liability to United Kingdom income tax is calculated on the aggregate of the dividend and the tax credit which will be regarded as the top slice of the individual's income. The tax credit is therefore currently set at 10 per cent. of the combined amount of the dividend and the tax credit. The tax credit will be available to offset such Shareholder's liability (if any) to income tax on the dividend. A Shareholder liable to income tax at the higher rate (currently 40 per cent.) will be liable to pay additional income tax. The lower rate of income tax on dividend income is 10 per cent. This will mean that the tax credit will discharge the income tax liability of an individual Shareholder who is not liable to income tax at a rate greater than the basic rate. The higher rate of income tax on dividend income is 32.5 per cent. Accordingly a Shareholder who is a higher rate taxpayer has further income tax to pay at a rate of 22.5 per cent. of the dividend and related tax credit. If the tax credit exceeds the Shareholder's overall liability to income tax, he will be unable to claim payment of the excess in cash from the Inland Revenue.

A Shareholder that is a company resident (for taxation purposes) in the United Kingdom and receives a dividend paid by the Company will not be subject to tax in respect of the dividend.

The right of a Shareholder who is not resident (for tax purposes) in the United Kingdom to a tax credit in respect of a dividend received from the Company and to claim payment of any part of that tax credit will depend on the existence and terms of a relevant double tax convention concluded with the United Kingdom. However, the reduction in the amount of the tax credit which took effect from 6 April 1999 will eliminate or almost eliminate double tax treaty payments. Shareholders who are not resident in the United Kingdom should consult their own tax advisers concerning their liabilities on dividends received, whether they are entitled to claim any part of the tax credit and, if so, the procedure for so doing.

8. General

- (a) Save as disclosed in Part I, no exceptional factors have influenced the Company's activities and there are no significant investments in progress. There are no patent or intellectual property rights, licences or particular contracts which are or may be of fundamental importance to the HPD Group's business.
- (b) The gross proceeds of the Placing and Open Offer assuming the Minimum Amount is subscribed under the Placing and Open Offer will be £1,225,000. The expenses of Admission and the Placing and Open Offer are estimated to be £320,000, including VAT, and are payable by the Company.

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- (c) Except for fees payable to the professional advisers whose names are set out on page 3 above and payments to trade suppliers, no person has received any fees, securities in the Company or other benefit to a value of £10,000 or more, whether directly or indirectly, from the Company within the twelve months preceding the application for Admission, or has entered into any contractual arrangement to receive from the Company, directly or indirectly, any such fees, securities or other benefit on or after Admission.
 - (d) Seymour Pierce has given and not withdrawn its written consent to the issue of this document with the inclusion herein of the references to its name in such forms and context in which it appears.
 - (e) KPMG Audit Plc has given and has not withdrawn its written consent to the inclusion in this document of its report in Part V of this document and the references to its report and to its name in such forms and context in which they appear.
 - (f) Richard Sillitoe has given and has not withdrawn his written consent to the inclusion in this document of his report dated 30 January 2003 and of references thereto and to himself in the form and context in which they appear.
 - (g) The current accounting reference period of the Company will end on 30 September 2003.
 - (h) The Issue Price represents a premium over nominal value of 13p per Ordinary Share.
 - (i) The financial information in relation to the HPD Group set out in the accountants report in Part V of this document does not comprise statutory accounts as referred to in section 240 of the Act. The statutory accounts for the Company for the 17 month period ended 30 September 2001 and for the year ended 30 September 2002 have been delivered to the Registrar of Companies in England and Wales. All such accounts contain a report from the auditors under section 235 of the Act and none of such reports was qualified or contained a statement under section 237(2) of the Act.
 - (j) In the opinion of the Directors, the Minimum Amount must be raised by the Open Offer pursuant to section 21 of Schedule 1 of the Public Offers of Securities Regulations.

9. Availability of prospectus

Copies of this document will be available free of charge at the registered office of the Company and at the offices of Seymour Pierce, 29/30 Cornhill, London EC3V 3NF during normal business hours on any week day (excluding Saturdays and public holidays) until the date falling one month after the date of Admission.

5 February 2003