

Patagonia Gold Plc

INTERIM STATEMENT
for the six months ended 30 June 2006

Patagonia Gold Plc

Directors and advisers

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

All of

15 Upper Grosvenor Street
London W1K 7PJ
Telephone 020 7409 7444
Facsimile 020 7499 8811
Web site www.patagoniagold.com

Secretary and registered office	Jeremy Gorman 15 Upper Grosvenor Street London W1K 7PJ Company registered number 3994744
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Auditors	KPMG Audit Plc 8 Salisbury Square London EC4Y 8BB
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Solicitors	Lawrence Graham LLP 190 Strand London WC2R 1JN
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Nominated adviser	Strand Partners Limited 26 Mount Row London W1K 3SQ
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Nominated broker	Numis Securities Limited Cheapside House 138 Cheapside London EC2V 6LH
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Registrars and transfer agents	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield West Yorkshire HD8 0LA
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CHAIRMAN'S STATEMENT

The financial outcome for the six month period was in line with our forecasts showing a loss of £1,276,395 (2005 loss £1,520,517). This amount reflected exploration expenditure and administrative expenses partially offset by a contribution of approximately £873,000 from the disposal of our investment in HPD New Zealand Limited to Glass Earth Limited.

Chubut Mining Suspension

As previously announced, the Provincial Government in Chubut has passed a law suspending mining and minerals exploration activities (with the exception of alluvial gold operations) in a specified area on the west side of the Province for up to three years. This area covers a number of our exploration properties including the Huemules project, Leleque and Nahuel Pan areas and the Crespo Project.

We have been advised by our lawyers that this provincial law violates the Company's constitutional right to perform mining and mineral exploration within the existing legal framework within which we operate. Accordingly we have taken legal action in the Argentinean courts to preserve our rights.

We welcome the opportunity for an open and objective study of the environmental implications of mining and exploration in the Province and believe that its conclusions should remove the concerns that have resulted in this temporary suspension. The result of such a study should aid the development of a viable and environmentally sound mining industry in Chubut which will accrue benefits to the community in terms of employment and tax revenues and thus create a climate in which the mining industry and the communities can work together in harmony with shared objectives.

We have therefore stated that we would be delighted to work with the Government and its experts to assist in the development of a code of conduct for the continuation of mining and mineral exploration in the Province of Chubut.

In the light of these developments the Board has decided to concentrate our exploration resources, both financial and human, in other pro-mining provinces such as San Juan and Santa Cruz, until such time as the position becomes clearer in Chubut.

OPERATIONS

Drilling

During the first six months of 2006, Patagonia Gold completed exploratory drilling campaigns on three of its advanced exploration prospects, Crespo and Gastre in the province of Chubut and El Morro in the province of Rio Negro.

Results of the drilling at Crespo, West Veins, are sufficiently encouraging (16.18 g/t gold, 334.0g/t silver and 5.22% zinc over individual 1 metre intersections) to carry out further drilling as and when the Chubut Government's recently imposed 'mining suspension' for this area is lifted.

CRESPO The Crespo Project area is located in western Chubut Province, Argentina, and comprises 14 claims for a total of 59,655 hectares.

Exploration of this large prospective area has reached an advanced stage with all accessible areas being thoroughly explored mapped and sampled. Drill-targets generated

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by this work have included, the Cabana, Jasper and Crespo vein zones, drilled in 2004, and the West and North vein zones, together with the Paleosurface zone, drilled in this recent campaign.

West veins Seventeen reverse circulation (RC) holes were drilled for a total of 1,565 metres into a suite of sub parallel, gold, silver and base metals-mineralized quartz-carbonate veins, exposed along strike for about 800 metres. Individual quartz veins range up to 1 metre wide on surface. Assay results are sufficiently encouraging (16.18 g/t gold, 334.0 g/t silver and 5.22% zinc over individual 1 metre intersections) to carry out further drilling as and when the Chubut Government's recently imposed 'mining suspension' for this area is lifted.

Paleosurface Zone Six RC holes were drilled for a total of 1,135 metres holes, 175 to 199 metres deep, designed to test this conceptual drill target and intersect veins or structure below the sub-horizontal silica cap. Assay results returned one value of 0.110g/t gold and numerous anomalous to high arsenic and antimony.

North veins Eleven RC holes were drilled, for a total of 999 metres, into two separate suites of gold, silver and base metals-mineralized quartz-carbonate veins exposed along strike for about 1,200 metres. Assay results reported lower than those at surface outcrops indicating surface enrichment and were restricted to narrow intersections of 1 metre width.

GASTRE The Gastre project is located in northern Chubut Province and comprises 12 claims for a total of 89,330 hectares

A comprehensive stream sediment and BLEG exploration programme was completed within the Gastre claims and led to identification of precious and base metals values in veins and sheeted vein zones in the southern most claim blocks located immediately northwest of the Navidad silver project.

Fifteen RC holes were drilled, for a total of 1,481 metres, to test potential bulk tonnage copper mineralization below the surface at Copper Hill as well as the lateral and subsurface extensions of gold-silver- base metals mineralized veins. Copper values were elevated in places but were generally lower than outcrop sampling indicating surface enrichment. Potentially economic gold and silver values were restricted to narrow intersections.

Exploration is currently being undertaken at a silver and base metals rich zone in the south west of the Gastre block near to the Navidad silver project.

CERRO EL MORRO Cerro El Morro is located in southeast Rio Negro Province, Argentina and comprises two claims for a total of 9,999 hectares.

A comprehensive geological mapping and sampling programme, together with a geophysical survey, was completed within the claims, identifying a suite of northwest-striking, narrow (mostly <1-2 metre wide), low sulphidation, epithermal silica-quartz-adularia veins.

Thirty-five RC holes were drilled, for a total of 2,571 metres, to test both the veins and geophysical targets. The best result was from drill hole EV 21 returning 1m@ 2.17g/t gold and 106g/t silver. Otherwise values were generally low and intersections narrow.

Exploration in the area is continuing and recent discoveries of extensions to the Cerro El Morro vein fields are under application.

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CURRENT EXPLORATION

The current exploration season has commenced with a high level of activity through the expansion of Patagonia Gold's exploration efforts into San Juan Province in west-central Argentina (contains the world class Valedero Gold deposit).

The regional headquarters, together with our South America Exploration Manager, Richard Jemielita, two geologists and support staff, have been relocated to the city of San Juan. Land access permits to numerous areas have been achieved with a field appraisal already undertaken on one property (results pending).

In addition Patagonia Gold's exploration efforts have been expanded in Santa Cruz Province with the relocation of the Crespo field base, including two geologists and support staff, to the town of Caleta Oliva in northeast Santa Cruz. The geologists are currently exploring open areas in west Santa Cruz where Patagonia Gold already has two highly prospective properties.

Negotiations for possible acquisitions and or joint ventures are currently in progress for substantial properties in both San Juan and Santa Cruz, these provinces both favour the mining industry. Subject to successful outcomes, Patagonia Gold will focus additional geological staff in one or both of these Provinces.

Exploration is also continuing with two geological teams on the Gastre project in Chubut and the Cerro El Morro property in Rio Negro together with a further team on reconnaissance work in Neuquen Province.

Sir John Craven
Chairman

28 September 2006

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Unaudited Consolidated Profit and Loss Account

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Six months to 30 June 2006 £	Six months to 30 June 2005 £
Administrative expenses	(584,747)	(426,562)
Exploration costs	(1,131,983)	(788,391)
Amortisation of goodwill	(399,121)	(378,760)
Other operating income/(expense)	(63,519)	10,073
TOTAL OPERATING LOSS	(2,179,370)	(1,583,640)
Profit on disposal of HPD New Zealand Limited	873,595	-
Interest receivable:		
– Group	29,380	63,123
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	(1,276,395)	(1,520,517)
TAX ON LOSS ON ORDINARY ACTIVITIES	-	-
RETAINED LOSS FOR THE PERIOD	(1,276,395)	(1,520,517)
LOSS PER SHARE (basic and diluted)	(0.48p)	(0.60p)

LOSS PER SHARE

	£	Weighted average number of shares	Six months to 30 June 2006 per share	£	Weighted average number of shares	Six months to 30 June 2005 per share
Loss attributable to shareholders	(1,276,395)	266,790,363	(0.48p)	(1,520,517)	252,281,435	(0.60p)

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Unaudited Consolidated Balance Sheet

AT 30 JUNE 2006

	30 June 2006 £	30 June 2005 £
FIXED ASSETS		
Intangible fixed assets	14,657,525	14,513,583
Tangible fixed assets	43,951	62,610
Investments	85,210	85,210
	<hr/>	<hr/>
TOTAL FIXED ASSETS	14,786,686	14,661,403
	<hr/>	<hr/>
CURRENT ASSETS		
Debtors: amounts falling due in less than one year	179,309	396,301
amounts falling due in more than one year	273,021	16,912
Investments	923,599	-
	<hr/>	<hr/>
	1,375,929	413,213
Cash at bank and in hand	1,157,431	2,245,785
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	2,533,360	2,658,998
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	(800,754)	(618,782)
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NET CURRENT ASSETS	1,732,606	2,040,216
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TOTAL ASSETS LESS CURRENT LIABILITIES	16,519,292	16,701,619
Provision for deficit of associates	-	(61,341)
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NET ASSETS	16,519,292	16,640,278
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CAPITAL AND RESERVES		
Called up share capital	2,679,065	2,522,814
Share premium account	22,921,188	20,577,439
Profit and loss account	(9,080,961)	(6,459,975)
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EQUITY SHAREHOLDERS' FUNDS	16,519,292	16,640,278
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Unaudited Consolidated Statement of Total Recognised Gains and Losses

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Six months to 30 June 2006 £	Six months to 30 June 2005 £
Loss attributable to shareholders of Patagonia Gold PLC	(1,276,395)	(1,520,517)
Unrealised exchange rate movements	345,510	370,623
Total recognised losses for the period	(930,885)	(1,149,894)

Unaudited Consolidated Cash Flow Statement

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Six months to 30 June 2006 £	Six months to 30 June 2005 £
Net cash outflow from operating activities	(1,465,441)	(995,639)
Returns on investments and servicing of finance	(29,380)	(54,303)
Capital expenditure	-	(4,190)
Acquisitions and disposals	(25,093)	-
Net cash outflow before use of liquid resources and financing	(1,519,914)	(1,054,132)
Management of liquid resources	(913,178)	1,128,738
Financing	2,500,000	-
Increase in cash in the period	66,908	74,606

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Notes to the Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2006

1. Goodwill

The directors have noted the temporary mining suspension in Chubut as detailed in the Chairman's statement on page 3 and the potential effect this could have on the value of goodwill. In light of legal advice obtained by the Company and subsequent legal action taken, the directors consider that there has been no impairment of the goodwill and are satisfied that it is appropriate to continue to carry this in the balance sheet.

2. Subsequent events

Conversion of loan notes

a) On 24 July 2006, it was announced that £520,000 unsecured convertible loan notes 2007 were converted into 5,200,000 new ordinary shares of 1p each.

Sale of Glass Earth investment

b) The disposal of our investment in the New Zealand exploration company, Glass Earth Limited, was completed on 31 July 2006. This disposal realised approximately £900,000, the proceeds are to be directed towards funding the Company's exploration programs.

3. This report was prepared on the basis of the accounting policies set out in the most recent set of annual financial statements. The Company has also adopted FRS20 'Share based payments' in the period. This new standard has not significantly impacted the results for the period.

The report was approved by the Board of Directors on 28 September 2006.

The unaudited profit and loss account for each of the six month periods and the unaudited balance sheets as at 30 June 2006 and 30 June 2005 do not amount to full accounts within the meaning of Section 240 of the Companies Act 1985 and have not been delivered to the Registrar of Companies. The interim report is unaudited and does not constitute Statutory Accounts.

4. Copies of this interim statement are available from the Company's registered office at 15 Upper Grosvenor Street, London W1K 7PJ

Registered office: 15 Upper Grosvenor Street, London W1K 7PJ
Registered in England No 3994744