



## Patagonia Gold PLC : Interim Results

Released : 27.09.2007

Patagonia Gold PLC  
27 September 2007

PATAGONIA GOLD PLC

INTERIM RESULTS

for the six months ended 30 June 2007

27 September 2007

Patagonia Gold plc announces its unaudited results for the six months ended 30 June 2007

### Chairman's Statement

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

As a result the acquisition cost of £2,484,388 for the Barrick properties in Santa Cruz have been expensed. This has increased the loss for the six month period to £4,527,625 (2006: loss £1,276,395). The balance of £2,043,237 reflected increased exploration expenditures and administrative expenses in the six month period.

In July 2007 we raised £2 million by placing new ordinary shares at 8.5p per share. This fund raising was over 50 per cent. supported by the Argentinean Directors, their families and Bill Humphries. Therefore the Group is now funded for next season's corporate and exploration activities.

### OPERATIONS

During the first six months of 2007 Patagonia Gold (PGD) carried out a substantial exploration programme on the newly acquired 100 per cent. owned Santa Cruz properties, details of which are set out below. The majority of our exploration efforts were concentrated on La Paloma, the most advanced property in the portfolio.

#### La Paloma Property

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

Lomada de Leiva Project - A drilling campaign, consisting of 62 drill holes for 8,862 metres has been completed on the Lomada de Leiva Project. The drilling was designed to validate historical drill data and to infill and extend the existing resource for definition to Canadian National Instrument 43-101 standards. The resource statement is currently being prepared for release later this year.

The drilling campaign proved successful, consistently intersecting wide zones of gold mineralisation including hole LLR-04 reporting 28 metres at 5.71 g/t gold and hole LPD-34 reporting 36 metres at 3.52 g/t gold.

Breccia Sofia Prospect - Drilling on the adjacent Breccia Sofia prospect has also been completed.

The results included a 1 metre section of 27.10 g/t gold and values generally indicate that a broad zone of gold grades >1g/t gold exists on strike 500 metres from the Lomada de Leiva resource area.

#### El Tranquilo Property

The El Tranquilo property block, covering over 40 square kilometres, is located approximately 120 kilometres to the south east of La Paloma in the Santa Cruz province and contains the Cap Oeste Prospect and Breccia Valentino Prospect. Property 29 'La Bajada' is contiguous with El Tranquilo and contains a number of gold anomalous and geologically encouraging areas.

Cap Oeste Prospect - Detailed mapping and trenching has exposed a breccia hosted in felsic volcanics over a strike of 900 metres. The breccia is open to the north where it is covered by Quaternary sedimentation and to the south where it is obscured by a resistant silica cap. The prospect has never been drilled.

PGD has undertaken an exploration programme in order to plan a drill campaign. Validation of historical data included detailed mapping, taking rock chip samples and trenching for sawn channel sampling. Results from the trenching include; 37.5 metres at 1.89g/t gold.

The combination of ore grade to highly anomalous gold values from surface over wide zones throughout the Cap Oeste Prospect provides for a potentially bulk mineable gold resource style target that will be drill tested in the forthcoming drill campaign.

Breccia Valentina Prospect - The Breccia Valentina Prospect is located less than 5 kilometres along strike from the highly prospective Cap Oeste Prospect.

Breccia Valentina is interpreted as a structurally controlled phreatic breccia pipe characterised at surface by high level silica hosting highly anomalous gold in veins and breccias formed in association with an adjacent dome. This compelling conceptual target, the model for which potentially hosts economic gold grades at depth, is typical of other Pacific Rim phreatic breccias hosting economic gold resources.

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

#### La Manchuria Property

The La Manchuria property, covering 5,575 hectares, is located approximately 150 kilometres to the south east of the La Paloma property in the Santa Cruz province of Argentina. The Manchuria 'Main zone' Prospect is within the same regional corridor that contains the operational mines, Mina Martha to the south and Huevos Verdes to the north.

PGD has undertaken a vigorous exploration and validation programme at La Manchuria in order to plan for a drilling campaign. Validation of historical data included; taking rock chip samples, cutting of new sawn channel samples along side of previous sawn channels and the re-sampling of drill cores.

These above three prospects are all located within easy trucking distance of each other. Furthermore the La Manchuria property is located only 60 kilometres from an existing mine.

#### Exploration programme for second half of 2007

Preparations are well advanced for a proposed 10,000 metre drill programme on the above properties, scheduled to commence in October 2007, of which: 3,000 metres is allocated for La Paloma to target potential resources adjacent to Lomada del Leiva; 3,500 metres is allocated for La Manchuria to infill the Main Zone in order to establish a NI43-101 compliant resource and 3,500 metres for Breccia Valentina and Cap Oeste on targets defined by this season's exploration.

Environmental Impact Assessments for these programmes have been approved, and drilling contracts awarded.

Shareholders will be kept regularly informed by press releases over the next few months with respect to the progress on the drilling and exploration programmes.

Sir John Craven  
Chairman

27 September 2007

Unaudited condensed consolidated interim income statement  
FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Six months to 30 June 2007 £	Six months to 30 June 2006 £	Year to 31 December 2006 £
Continuing operations			
Exploration costs	(3,662,592)	(1,131,983)	(1,653,426)
Administrative costs	(837,005)	(648,266)	(1,145,564)
Impairment of goodwill	-	(399,121)	(15,054,025)
Profit on disposal of HPD New Zealand Limited	-	873,595	873,595
Finance income	25,813	29,380	52,295
Finance costs	(53,841)	-	(75,629)
Loss for the period	(4,527,625)	(1,276,395)	(17,002,754)
Earnings per share (pence)			
Basic earnings per share	(1.35)	(0.48)	(6.30)
Diluted earnings per share	(1.35)	(0.48)	(6.30)

Unaudited condensed consolidated interim balance sheet  
AT 30 JUNE 2007

	30 June 2007 £	30 June 2006 £	31 December 2006 £
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment	41,190	43,951	40,214
Goodwill	-	14,657,525	-
Financial assets	150,980	85,210	85,210
Other receivables	234,235	273,021	227,032
	426,405	15,059,707	352,456
Current assets			
Trade and other receivables	205,227	179,309	202,682
Financial assets	-	923,599	-
Cash at bank and in hand	426,511	1,157,431	966,143
	631,738	2,260,339	1,168,825
Total assets	1,058,143	17,320,046	1,521,281
<b>LIABILITIES</b>			
Current liabilities			
Trade and other payables	(345,328)	(800,754)	(301,220)
Total liabilities	(345,328)	(800,754)	(301,220)
Net assets	712,815	16,519,292	1,220,061
<b>EQUITY</b>			
Equity attributable to equity holders of the parent			
Share capital	3,343,935	2,679,065	2,731,065
Share premium account	26,635,949	22,921,188	23,389,188
Translation reserve	300,785	345,510	238,907
Profit and loss account	(29,567,854)	(9,426,471)	(25,139,099)
Total equity	712,815	16,519,292	1,220,061

Unaudited condensed consolidated interim statement of changes in equity  
FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Share Capital £	Share premium account £	Translation reserve £	Profit and loss account £	Total £
Balance at 31 December 2005	2,522,814	20,577,439	-	(8,150,076)	14,950,177

Changes in equity for first half of 2006					
Exchange differences on translation of foreign operations	-	-	345,510	-	345,510
Net income recognised directly in equity					
Loss for the period	-	-	-	(1,276,395)	(1,276,395)
Total recognised income and expense for the period					
Issue of share capital	156,251	2,343,749	-	-	2,500,000
Balance at 30 June 2006	2,679,065	22,921,188	345,510	(9,426,471)	16,519,292
Balance at 31 December 2005					
	2,522,814	20,577,439	-	(8,150,076)	14,950,177
Changes in equity for 2006					
Exchange differences on translation of foreign operations	-	-	238,907	-	238,907
Net income recognised directly in equity					
Loss for the period	-	-	-	(17,002,754)	(17,002,754)
Share based payment	-	-	-	13,731	13,731
Total recognised income and expense for the period					
Issue of share capital	208,251	2,811,749	-	-	3,020,000
Balance at 31 December 2006	2,731,065	23,389,188	238,907	(25,139,099)	1,220,061
Changes in equity for first half of 2007					
Exchange differences on translation of foreign operations	-	-	61,878	-	61,878
Net income recognised directly in equity					
Loss for the period	-	-	-	(4,527,625)	(4,527,625)
Share based payment	-	-	-	98,870	98,870
Total recognised income and expense for the period					
Issue of share capital	612,870	3,246,761	-	-	3,859,631
Balance at 30 June 2007	3,343,935	26,635,949	300,785	(29,567,854)	712,815

Unaudited condensed consolidated interim cash flow statement  
FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Six months to 30 June 2007 £	Six months to 30 June 2006 £	Year to 31 December 2006 £
Cash flow from operating activities			
Loss after taxation	(4,527,625)	(1,276,395)	(17,002,754)
Adjustment for:			
Interest income	(25,813)	(29,380)	(52,295)
Depreciation and impairment	12,487	9,209	15,072,099
Profit on disposal of HPD New Zealand Limited	-	(873,595)	(873,595)
(Increase)/decrease in trade and other receivables	(9,748)	(22,616)	(158,802)
Increase/(decrease) in trade payables	44,108	207,336	(629,641)
Settlement of convertible debt for equity	-	520,000	520,000
Share based payments	98,870	-	13,731
Net cash used in from operating activities	(4,407,721)	(1,465,441)	(3,111,257)
Cash flows from investing activities			
Interest received	25,813	29,380	52,295
Proceeds on disposal of Glass Earth shares	-	893,994	893,994
Purchase of property, plant and equipment	(9,880)	-	22,050
Proceeds on disposal of HPD New Zealand Limited	-	(25,093)	(25,093)
Net cash from investing activities	15,933	898,281	943,246

Cash flows from financing activities			
Proceeds from issue of share capital	3,859,630	2,500,000	3,020,000
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Net cash from financing activities	3,859,630	2,500,000	3,020,000
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Net (decrease)/increase in cash and cash equivalents	(532,158)	1,932,840	851,989
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Cash and cash equivalents at beginning of period	966,143	147,965	147,965
Effects of foreign exchange movements	(7,474)	225	(33,811)
Cash and cash equivalents at end of period	426,511	2,081,030	966,143
	=====	=====	=====

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2007

1. Basis of preparation

These condensed consolidated interim financial statements are for the six months ended 30 June 2007 and are prepared under the recognition and measurement rules of IFRS 1. They have been prepared in accordance with the requirements of IFRS 1 'First-time Adoption of International Financial Reporting Standards' relevant to interim reports, because they are part of the period covered by the Group's first IFRS financial statements for the year ended 31 December 2007. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2006.

These condensed consolidated interim financial statements (the interim financial statements) have been prepared in accordance with the accounting policies set out below which are based on the recognition and measurement principles of IFRS 1 in issue as adopted by the European Union (EU) and are effective at 31 December 2007, our first annual reporting date at which we are required to use IFRS accounting standards adopted by the EU.

Patagonia Gold Plc's consolidated financial statements were prepared in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) until 31 December 2006. The date of transition to IFRS was 1 January 2006. The comparative figures in respect of 2006 have been restated to reflect changes in accounting policies as a result of adoption of IFRS. The changes are listed below.

The financial information set out in this interim report does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The Group's statutory financial statements for the year ended 31 December 2006, prepared under UK GAAP, have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under Section 237(2) of the Companies Act 1985.

Going concern

These interim condensed consolidated financial statements are prepared on a going concern basis which the Directors believe to be appropriate for the following reasons:

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

The Directors have prepared cash flow information for the period ending 12 months from the date of approval of these financial statements. On the basis of the cash flow information the Directors are of the opinion that the Company will require additional financial resources to enable the Group to undertake an optimal programme of exploration appraisal activity over the next twelve months, and to meet its commitments.

On 19 July 2007 the Company placed shares to a value of £2 million to fund the next 12 months' operations. The financial statements do not include any adjustments, particularly in respect of tangible fixed assets, investments, loans and provisions for winding up which would be necessary if the Company and Group ceased to be a going concern.

2. Summary of significant accounting policies

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

statements.

## 2. Summary of significant accounting policies (continued)

### Share based payments

The share option programme allows Directors and employees to acquire shares of the Company. IFRS 2 has been applied in the preparation of these accounts. The fair value is measured at the grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where variations are due only to share prices not achieving the threshold for vesting.

### Basis of consolidation

The Group accounts include the Company and its subsidiary undertakings made up to each period end. 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 are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under Section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account.

### Exploration expenditure

When the Group has incurred expenditure on mining properties that have not reached the stage of commercial production the costs of acquiring the rights to such properties, and related exploration and development costs are deferred where the expected recovery of costs is considered probable by the successful exploitation or sale of the asset. Exploration costs on properties where insufficient exploration has taken place to ascertain future recoverability are expensed. Where mining properties are abandoned, the deferred expenditure is written-off in full.

### Goodwill

Goodwill which represents the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is capitalised and reviewed annually for impairment. Goodwill is carried at cost less accumulated impairment losses. Negative goodwill is recognised immediately after acquisition in the income statement. Goodwill written-off to reserves prior to the date of transition to IFRS remains in reserves. There is no reinstatement of goodwill that was amortised prior to the transition to IFRS. Goodwill previously written-off to reserves is not written back to the income statement on subsequent disposal.

### Business combinations

The Group has taken advantage of the business combinations exemption which allows the Group not to restate business combinations prior to January 2006. Instead, the existing goodwill has been frozen at that date, tested for impairment and not subsequently amortised.

### Impairment

Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable an asset is reviewed for impairment. An asset's carrying value is written down to its estimated recoverable amount if that amount is less than the asset's carrying amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

## 2. Summary of significant accounting policies (continued)

### Foreign currency

The Group's functional currency is United States dollars being the currency by which the Group is mainly influenced with regard to labour, material and other costs whilst operating in Argentina. For reporting purposes, the Group's presentational currency is British pounds sterling (GBP). Foreign currency transactions by Group companies are recorded in their functional currencies at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities have been translated at rates in effect at the balance sheet date. Any realised or unrealised exchange adjustments have been charged or credited to income. On consolidation the accounts of overseas subsidiary undertakings are

translated into the presentational currency of the Group at the rate of exchange ruling at the balance sheet date and income and expenditure account items are translated at the average rate for the period. The exchange difference arising on the retranslation of opening net assets is classified within equity and is taken directly to the translation reserve. All other translation differences are taken to the income and expenditure statement.

#### Financial assets and liabilities

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument and are generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

When shares are issued, any component that creates a financial liability of the Group is presented as a liability in the balance sheet; measured initially at fair value net of transaction costs and thereafter at amortised cost until extinguished on conversion or redemption. The remainder of the proceeds on issue is allocated to the equity component and included in shareholders' funds, net of transaction costs. The carrying amount of the equity component is not remeasured in subsequent years.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest rate method, less appropriate allowances for estimated irrecoverable amounts. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

#### 3. Share issue

During the period to 30 June 2007 1,920,506 shares were issued to satisfy share options previously granted under Patagonia Gold's employee share option scheme. Shares issued and authorised for the period to 30 June 2007 may be summarised as follows:

6 months to 30 June 2007 - unaudited

Authorised 500,000,000 ordinary shares of 1 pence each	£
At 1 January 2007 273,106,435 ordinary shares of 1 pence each	2,731,065
Issue of shares 61,287,066 ordinary shares of 1 pence each	612,870
At 30 June 2007 334,393,501 ordinary shares of 1 pence each	3,343,935

6 months to 30 June 2006 - unaudited

Authorised 350,000,000 ordinary shares of 1 pence each	£
At 1 January 2006 252,281,435 ordinary shares of 1 pence each	2,522,814
Issue of shares 15,625,025 ordinary shares of 1 pence each	156,251
At 30 June 2006 267,906,460 ordinary shares of 1 pence each	2,679,065

Year to 31 December 2006 - unaudited

Authorised 350,000,000 ordinary shares of 1 pence each	£
At 1 January 2006 252,281,435 ordinary shares of 1 pence each	2,522,814
Issue of shares 20,825,025 ordinary shares of 1 pence each	208,250
At 31 December 2006 273,106,435 ordinary shares of 1 pence each	2,731,065

The share issues yielded £3,859,630 in cash and the weighted average share price was 6.30p.

#### 4. Earnings per share

The potential ordinary shares which arise as a result of the options in issue are not dilutive under the terms of IAS 33 because they would not increase the loss per share. Accordingly there is no difference between the basic and dilutive loss per share.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

	6 months to 30 June 2007 (unaudited)	6 months to 30 June 2006 (unaudited)	Year to 31 December 2006 (unaudited)
Loss after tax (£)	(4,527,625)	(1,276,395)	(17,002,754)
Weighted average number of shares	153,097,421	131,376,334	269,548,193
Basic and diluted earnings per share (pence)	(1.35)	(0.48)	(6.30)

## 5. Explanation of transition to IFRS

As stated in the Basis of Preparation, these are the Group's first condensed consolidated interim financial statements for part of the period covered by the first IFRS annual consolidated financial statements prepared in accordance with IFRS.

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

- Cumulative translation differences on foreign operations are deemed to be final at 1 January 2006. Any gains and losses recognised in the consolidated income statement on subsequent disposal of foreign operations will exclude translation differences arising prior to the transition date.
- The entity has elected not to apply IAS 21 'The Effects of Changes in Foreign Exchange Rates' retrospectively to goodwill and fair value adjustments arising on business combinations before the Group's date of transition to IFRS. Such goodwill and fair value adjustments are not treated as foreign currency assets and so are not retranslated at each reporting date.
- IFRS 3 'Business Combinations' is applied from 1 January 2006 and not retrospectively to earlier business combinations.

## 6. Effect of IFRS application

The valuation of the investments has not been restated as at 30 June and 31 December 2006 as recalculated values are not materially different from the book value at those dates.

## 7. Acquisition of Barrick's property portfolio in Santa Cruz Argentina

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

Under the terms of the acquisition agreement, PGSA has committed to complete a minimum level of expenditure of US\$10 million on the Properties over a five year period. This will include a commitment of US\$1.5 million in the first 18 months.

Copies of this Interim Statement will be posted to shareholders shortly. Additional copies will be available from the Company's registered office at 15 Upper Grosvenor Street, London W1K 7PJ and may also be downloaded from the Company's website at '[www.patagoniagold.com](http://www.patagoniagold.com)'.

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