



## Patagonia Gold PLC : Half Yearly Report

Released : 29.09.2010

RNS Number : 4604T

Patagonia Gold PLC

29 September 2010

### Patagonia Gold PLC

("PGD" or "the Company")

#### Unaudited condensed consolidated interim statements for the six months ended 30 June 2010

##### Highlights

- Exploration costs in line with expectations at £2.7 million
- Share placing in May 2010 raised £13m before expenses; £10.6 million of cash as at 30 June 2010
- Commenced construction of first gold mine on Lomada de Leiva project with production due to start in the first half of next year
- Total defined resource now 1.3 million ounces of gold equivalent in the Lomada, Cap-Oeste and La Manchuria projects
- Drilling programmes continue on all main prospects

Commenting on the results, Bill Humphries, Managing Director, said:

"We have already made considerable progress this year. Our projects continue to show improving and, in some cases, exceptional results from the drilling campaigns. We have also commenced the construction of our first gold mine."

##### CHAIRMAN'S STATEMENT

I am pleased to present the Company's interim report for the six months ended 30 June 2010.

The financial results show a loss of £3,696,945 (30 June 2009: £4,359,801). These costs are in line with expectations and highlight the exploration activity that has taken place on our portfolio of Santa Cruz properties. The direct exploration costs incurred in the six month period were £2,703,062.

These exploration activities have been financed through the share placement in May 2010 at 16p per share which raised £13 million before expenses. The fund raising was again supported by Directors and their families and increased support from existing and new institutional shareholders. As a result of this the Company is more than fully funded for this seasons' exploration programme, and the bank balances at 30 June 2010 were approximately £10.6 million.

We have commenced construction of our first gold mine on the Lomada de Leiva project. In the pipeline we have more significant gold and silver projects at Cap-Oeste, COSE and La Manchuria. We have so far defined combined Mineral Resources of approximately 1.3 million ounces of gold and silver on our Santa Cruz properties. In addition we have significant exploration potential on many other prospects; further details are set out in the operations report which follows.

Sir John Craven  
Chairman

29 September 2010

##### OPERATIONS REPORT

All of the group's operations in Santa Cruz are managed and operated through its subsidiary, Patagonia Gold SA (PGSA).

During the first half of 2010 we have focused on the development of the Lomada de Leiva Gold Project and on the resource definition of

the gold and silver projects at Cap-Oeste, COSE and La Manchuria. To date we have delineated resources of 1,037,366 ounces of gold equivalent (AuEq) on the Lomada, Cap-Oeste and La Manchuria deposits, all being Canadian National Instrument (NI 43-101) compliant. In addition there are a further approximately 260,000 ounces of AuEq which require further drilling, bringing the total resource to approximately 1.3 million ounces of gold equivalent. We are continuing with our exploration programmes in the immediate vicinity of these projects where we have identified potential drilling targets and mineralisation.

### **La Paloma Property**

The La Paloma property block, covering over 44 sq 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 gold project and the adjacent Breccia Sofia prospect.

### **Lomada de Leiva Gold Project:**

The Lomada de Leiva gold-heap leach project currently contains a NI 43-101 compliant resource of 237,000 ounces (ozs) of gold.

The first stage of the project consists of the construction of a 50,000 tonne trial heap leach, which based on 70% recovery, is estimated to yield approximately 2,200 oz. of gold for the first 6 metre loading.

Earthworks, pad construction, mining and loading continue to progress well and are scheduled for completion in Q4 2010. Tenders for the associated infrastructure are being finalised with completion planned for early Q1 2011. Irrigation of the heap leach pad will then commence with the production of the first gold soon thereafter.

Subject to successful leaching and additional permitting, further loading and production from the first stage heap leach will continue until the main 5 million tonne heap leach project is fully operational, scheduled for Q4 2011.

The features of the main heap leach project are estimated to be:

- Low pre-production capital of \$8.5 million
- Production of 21,000 oz. of gold/year, for a mine life of 7 years, at a cash cost of \$299/oz
- Project cash flow before tax, of \$63.6 million, based on a cash price of \$850/oz. gold

There is significant potential to increase the mine life at Lomada de Leiva with further drilling on the remaining inferred resource not included in the main heap leach project, together with additional extension and exploration drilling on Lomada de Leiva and the adjacent Breccia Sofia prospect.

In addition the recent substantial increase in the gold price will significantly enhance the economics of the project.

The Lomada de Leiva project is located on the Estancia El Rincon. PGSA recently purchased the Estancia El Rincon property comprising 6,700 hectares of land.

### **El Tranquilo Property**

The El Tranquilo property block, covering over 60 square kilometres, contains the Cap-Oeste deposit, the COSE prospect as well as the Vetas Norte and Breccia Valentina structural trends.

The property is located approximately 120km to the south east of the Lomada de Leiva gold project where construction of a heap leach operation is currently in progress.

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

In October 2009, PGSA reported an updated Resource estimate on the Cap-Oeste gold and silver project showing a combined NI 43-101 Resource of 655,932 ounces of gold equivalent so far, with 88% in the indicated category.

A Scoping Study to investigate both open pit and underground mining methods together with various processing operations, including heap leach, was initiated in February 2010 for completion in Q4 2010.

Additional drilling was completed on the main shoot and three other shoots within the resource area which confirmed their down dip continuity.

### **COSE Project:**

The COSE project was discovered by the PGSA exploration team in early 2009 and is centred approximately two kilometres along strike to the south-east of the Cap-Oeste deposit.

A drilling campaign commenced in October 2009 focusing on extending the shoot, both down plunge and up plunge to surface, from the extremely high grade intersections encountered in holes CSE-013-D (4.10 metres @561.60 g/t gold and 28,523 g/t silver) and CSE-27-D (13.93 metres @159.23 g/t gold and 627 g/t silver).

Fred H. Brown, CPG, Pr.Sci.Nat. an independent geological consultant, was contracted by PGSA to review and prepare a three dimensional model and conceptual mineral resource inventory for the COSE prospect, based on the drilling data to date.

The review and conceptual model of the COSE gold and silver prospect has defined 700,000 to 800,000 tonnes of mineralised material

containing between sixty to seventy thousand ounces of gold (Au) and two to three million ounces of silver (Ag), at a cut-off grade of 1.00 gram per tonne (g/t) gold-equivalent (AuEq) and with composite results capped at 90g/t Au and 1000g/t Ag.

Uncapped, the conceptual model defines more than double the metal content in the mineralised zone to a potential 173,000 ounces (oz) AuEq at a cut-off grade of 1.00g/t AuEq.

COSE in-situ conceptual mineral inventory.

Capped

CUT-OFF	1000t	Ag g/t	Ag 1000ozs	Au g/t	Au 1000ozs	AuEq g/t	AuEq 1000ozs
5.0g/t	191	208	1,279	7.37	45	9.45	58
3.0g/t	257	193	1,598	6.18	51	8.11	67
1.0g/t	774	109	2,720	2.64	66	3.74	93

Uncapped

CUT-OFF	1000t	Ag g/t	Ag 1000ozs	Au g/t	Au 1000ozs	AuEq g/t	AuEq 1000ozs
5.0g/t	212	325	2,211	16.64	113	19.89	135
3.0g/t	297	289	2,765	12.46	119	15.35	147
1.0g/t	789	158	4,008	5.25	133	6.83	173

The gold equivalent cut-off was calculated using a gold price of US\$980.00/oz and a silver price of US\$15.00/oz and assuming a gold recovery of 95% and a silver recovery of 60%.

Capping of the COSE deposit has a very great effect on the metal content of the mineral zone. This indicates the need for more work to better define the geological controls on the high grade mineralisation as well as the need to decrease the spacing of the drill holes.

Accordingly, an infill and extension drill programme, consisting of 24 diamond core HQ drill holes for 7,000 metres, has commenced to advance the COSE exploration target to a resource, compliant with NI 43-101, for completion Q1 2011.

PGSA has applied for an exploration permit for an underground access drive, to allow for bulk metallurgical sampling as well as deeper drilling, included in the current Environmental Impact assessment application for the El Tranquilo Property.

**2010-2011 Drilling Season:**

This season's drilling campaign has commenced, focusing on extending the Cap-Oeste and COSE deposits and targeting the potential Cap-Oeste style shoots along the highly prospective Bonanza fault

A total of 32,000 metres of drilling is planned for resource and exploration drilling on the El Tranquilo property for the 2010/2011 field season.

La Manchuria Property

The La Manchuria property, consisting of five expedientes (mining concessions) covering 5,575 hectares, is located approximately 50 kilometres to the south east of and within carting distance of the Cap-Oeste project.

Geological appraisal of the drill-core supports the interpretation of a robust continuous zone of high-grade gold and silver mineralisation. The mineralised 'package' consists of a series of multi-ounce gold-silver discreet but locally continuous epithermal veins contained within more extensive disseminated mineralisation.

PGSA has completed three drilling campaigns on the La Manchuria property over three years.

In April 2010, PGSA contracted Micon International Limited (Micon) to generate a Mineral Resource Estimate and to prepare a supporting NI 43-101 compliant technical report on the La Manchuria gold-silver deposit.

A Mineral Resource Estimate completed on the La Manchuria gold and silver deposit has defined a combined total of 146,366 ounces of gold equivalent (AuEq) above a cut-off grade of 0.75 grams/tonne (g/t) AuEq. The uncapped resource estimate shows a combined total of 239,609 ounces AuEq above a cut-off grade of 0.75g/t AuEq.

The La Manchuria gold and silver deposit remains open both to the North and South and at depth.

**La Manchuria-Mineral Resource Summary (above a cut-off of 0.75 AuEq (g/t))**

Indicated		Grade (g/t)			Metal (Oz)		
Domain	Tonnes	Au	Ag	AuEq	Au	Ag	AuEq
Oxide	141,570	1.91	139.1	3.12	8,675	633,338	14,198
Hypogene	284,136	3.46	133.0	4.54	31,642	1,214,873	41,486

<b>Total</b>	<b>425,705</b>	<b>2.95</b>	<b>135.0</b>	<b>4.07</b>	<b>40,317</b>	<b>1,848,211</b>	<b>55,684</b>
<b>Inferred</b>							
<b>Domain</b>		<b>Grade (g/t)</b>			<b>Metal (Oz)</b>		
	<b>Tonnes</b>	<b>Au</b>	<b>Ag</b>	<b>AuEq</b>	<b>Au</b>	<b>Ag</b>	<b>AuEq</b>
<b>Oxide</b>	496,179	1.33	42.5	1.66	21,138	678,485	26,462
<b>Hypogene</b>	972,840	1.64	53.0	2.05	51,197	1,656,751	64,220
<b>Total</b>	<b>1,469,020</b>	<b>1.53</b>	<b>49.4</b>	<b>1.92</b>	<b>72,335</b>	<b>2,335,236</b>	<b>90,682</b>

The following economic assumptions were used in calculating the AuEq grade of each block:

Gold price:	\$US 925.00/oz	Gold recovery:	95%
Silver Price:	\$US 14.50/oz	Silver recovery:	60%

The low ratio of Indicated to Inferred (38%-62%) of the La Manchuria resource together with the significant reduction of metal content of approximately 40% between the uncapped and capped combined resources, 239,609 ounces AuEq to 146,366 ounces AuEq, clearly indicates the need for more work to better define the geological controls on the high grade mineralisation as well as the need to decrease the spacing of the drill holes.

Accordingly an infill drilling programme is currently being designed to reduce the drill hole spacing from 25 metres to 12.5 metres for planned drilling in early 2011.

#### Regional exploration

PGSA has two geological teams active in the exploration of the highly prospective Santa Cruz mineral claims and mining properties. Most of these properties have received first-pass exploration and two, Sarita and El Bagual, have received second-pass exploration. These two properties are programmed to have advanced exploration completed this season consisting of drilling and trenching.

Full details of exploration and drilling results are set out on the Company's website at [www.patagoniagold.com](http://www.patagoniagold.com)

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#### Unaudited condensed consolidated interim statement of comprehensive income FOR THE SIX MONTHS ENDED 30 JUNE 2010

	<i>Six months to 30 June 2010 (unaudited) £</i>	<i>Six months to 30 June 2009 (unaudited) £</i>	<i>Year to 31 December 2009 (audited) £</i>
<b>Continuing operations</b>			
Exploration costs	(2,703,062)	(2,524,069)	(4,707,868)
Administrative costs			
Share based payments charge	(460,037)	(1,263,468)	(1,263,468)
Other administrative costs	(548,876)	(585,641)	(1,354,476)
	(1,008,913)	(1,849,109)	(2,617,944)
Finance income	17,929	19,455	26,995
Finance costs	(2,899)	(6,078)	(5,912)

<b>Loss for the period attributable to equity holders</b>	<u>(3,696,945)</u>	<u>(4,359,801)</u>	<u>(7,304,729)</u>
<b>Other comprehensive (loss)/income</b>			
(Loss)/gain on revaluation of available-for-sale financial assets	(52,843)	(21,569)	10,784
Exchange differences on translation of foreign operations	(47,910)	(773,123)	(746,793)
<b>Other comprehensive loss for the period</b>	<u>(100,753)</u>	<u>(794,692)</u>	<u>(736,009)</u>
<b>Total comprehensive loss for the period attributable to equity holders</b>	<u>(3,797,698)</u>	<u>(5,154,493)</u>	<u>(8,040,738)</u>
<b>Loss per share (pence)</b>			
Basic loss per share	(0.60)	(0.79)	(1.28)
Diluted loss per share	(0.60)	(0.79)	(1.28)

**Unaudited condensed consolidated interim balance sheet**  
AT 30 JUNE 2010

	<i>30 June 2010 (unaudited)</i>	<i>30 June 2009 (unaudited)</i>	<i>31 December 2009 (audited)</i>
	£	£	£
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	691,264	582,350	635,482
Available for sale financial assets	70,098	90,588	122,941
Other receivables (including recoverable VAT)	2,037,505	1,351,925	1,617,315
	<u>2,798,867</u>	<u>2,024,863</u>	<u>2,375,738</u>
<b>Current assets</b>			
Trade and other receivables	106,418	64,512	89,776
Cash at bank and in hand	10,563,544	5,334,470	2,894,477
	<u>10,669,962</u>	<u>5,398,982</u>	<u>2,984,253</u>
<b>Total assets</b>	<u>13,468,829</u>	<u>7,423,845</u>	<u>5,359,991</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	(667,501)	(695,296)	(1,691,385)
<b>Non-current liabilities</b>			
Long-term accruals and provisions	(1,348)	(179,013)	(1,315)
<b>Total liabilities</b>	<u>(668,849)</u>	<u>(874,309)</u>	<u>(1,692,700)</u>
<b>Net assets</b>	<u>12,799,980</u>	<u>6,549,536</u>	<u>3,667,291</u>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital	6,751,028	5,935,528	5,936,028
Share premium account	52,627,197	40,968,347	40,971,847
Translation reserve	(344,747)	(323,167)	(296,837)
Share based payment reserve	1,918,432	1,468,809	1,468,809
Retained loss	(48,151,930)	(41,499,981)	(44,412,556)
<b>Total equity</b>	<u>12,799,980</u>	<u>6,549,536</u>	<u>3,667,291</u>

**Unaudited condensed consolidated interim statement of changes in equity**  
FOR THE SIX MONTHS ENDED 30 JUNE 2010

	<i>Share</i>		<i>Share based</i>	
<i>Share</i>	<i>premium</i>	<i>Translation</i>	<i>payment</i>	<i>Retained</i>

	<i>capital</i>	<i>account</i>	<i>reserve</i>	<i>reserve</i>	<i>loss</i>	<i>Total</i>
	£	£	£	£	£	£
<b>Balance at 1 January 2009</b>	4,735,528	33,339,372	449,956	205,341	(37,118,611)	1,611,586
<b>Changes in equity for first half of 2009</b>						
Share based payment						
Re-priced options	-	-	-	384,802	-	384,802
New options	-	-	-	878,666	-	878,666
Issue of share capital						
Issue by placing	1,200,000	8,100,000	-	-	-	9,300,000
Transaction costs of placing	-	(471,025)	-	-	-	(471,025)
Transactions with owners	<u>5,935,528</u>	<u>40,968,347</u>	<u>449,956</u>	<u>1,468,809</u>	<u>(37,118,611)</u>	<u>11,704,029</u>
Loss for the period	-	-	-	-	(4,359,801)	(4,359,801)
<b>Other comprehensive loss:</b>						
Revaluation of available-for-sale financial assets	-	-	-	-	(21,569)	(21,569)
Exchange differences on translation of foreign operations	-	-	(773,123)	-	-	(773,123)
Total comprehensive loss for the period	-	-	(773,123)	-	(4,381,370)	(5,154,493)
<b>Balance at 30 June 2009</b>	<u>5,935,528</u>	<u>40,968,347</u>	<u>(323,167)</u>	<u>1,468,809</u>	<u>(41,499,981)</u>	<u>6,549,536</u>
<b>Balance at 1 January 2009</b>	4,735,528	33,339,372	449,956	205,341	(37,118,611)	1,611,586
<b>Changes in equity for 2009</b>						
Share based payment						
Re-priced options	-	-	-	384,802	-	384,802
New options	-	-	-	878,666	-	878,666
Issue of share capital						
Issue by placing	1,200,000	8,100,000	-	-	-	9,300,000
Transaction costs of placing	-	(471,025)	-	-	-	(471,025)
Exercise of option	500	3,500	-	-	-	4,000
Transactions with owners	<u>5,936,028</u>	<u>40,971,847</u>	<u>449,956</u>	<u>1,468,809</u>	<u>(37,118,611)</u>	<u>11,708,029</u>
Loss for the period	-	-	-	-	(7,304,729)	(7,304,729)
<b>Other comprehensive income/(loss):</b>						
Revaluation of available-for-sale financial assets	-	-	-	-	10,784	10,784
Exchange differences on translation of foreign operations	-	-	(746,793)	-	-	(746,793)
Total comprehensive loss for the period	-	-	(746,793)	-	(7,293,945)	(8,040,738)
<b>Balance at 31 December 2009</b>	<u>5,936,028</u>	<u>40,971,847</u>	<u>(296,837)</u>	<u>1,468,809</u>	<u>(44,412,556)</u>	<u>3,667,291</u>
<b>Changes in equity for first half of 2010</b>						
Share based payment	-	-	-	460,037	-	460,037
Issue of share capital						
Issue by placing	812,500	12,187,500	-	-	-	13,000,000
Transaction costs of placing	-	(553,650)	-	-	-	(553,650)
Exercise of option	2,500	21,500	-	(10,414)	10,414	24,000
Transactions with owners	<u>6,751,028</u>	<u>52,627,197</u>	<u>(296,837)</u>	<u>1,918,432</u>	<u>(44,402,142)</u>	<u>16,597,678</u>
Loss for the period	-	-	-	-	(3,696,945)	(3,696,945)
<b>Other comprehensive loss:</b>						
Revaluation of available-for-sale financial assets	-	-	-	-	(52,843)	(52,843)
Exchange differences on translation of foreign operations	-	-	(47,910)	-	-	(47,910)
Total comprehensive loss for the period	-	-	(47,910)	-	(3,749,788)	(3,797,698)
<b>Balance at 30 June 2010</b>	<u>6,751,028</u>	<u>52,627,197</u>	<u>(344,747)</u>	<u>1,918,432</u>	<u>(48,151,930)</u>	<u>12,799,980</u>

## Unaudited condensed consolidated interim cash flow statement

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	<i>Six months to</i>	<i>Six months to</i>	<i>Year to</i>
	<i>30 June</i>	<i>30 June</i>	<i>31 December</i>
	<i>2010</i>	<i>2009</i>	<i>2009</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>
	£	£	£
<b>Cash flow from operating activities</b>			
Loss after taxation	(3,696,945)	(4,359,801)	(7,304,729)
Adjustment for:			
Interest income	(17,929)	(19,455)	(26,995)
Depreciation and impairment	20,946	16,734	46,884
(Increase) in trade and other receivables	(436,832)	(50,357)	(341,011)
(Decrease)/increase in trade payables	(1,023,884)	(772,904)	223,185
Increase/(decrease) in long-term provisions	33	(28,045)	(205,743)
Share based payments	460,037	1,263,468	1,263,468
<b>Net cash used in operating activities</b>	<u>(4,694,574)</u>	<u>(3,950,360)</u>	<u>(6,344,941)</u>
<b>Cash flows from investing activities</b>			
Interest received	17,929	19,455	26,995
Purchase of property, plant and equipment	(60,532)	(5,714)	(71,627)

<b>Net cash from investing activities</b>	<u>(42,603)</u>	<u>13,741</u>	<u>(44,632)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital	12,446,350	8,828,975	8,828,975
Proceeds from exercise of options	24,000	-	4,000
<b>Net cash from financing activities</b>	<u>12,470,350</u>	<u>8,828,975</u>	<u>8,832,975</u>
<b>Net increase in cash and cash equivalents</b>	7,733,173	4,892,356	2,443,402
<b>Cash and cash equivalents at beginning of period</b>	2,894,477	1,069,373	1,069,373
<b>Effects of foreign exchange movements</b>	<u>(64,106)</u>	<u>(627,259)</u>	<u>(618,298)</u>
<b>Cash and cash equivalents at end of period</b>	<u>10,563,544</u>	<u>5,334,470</u>	<u>2,894,477</u>

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

### 1. Basis of preparation

These unaudited interim condensed consolidated financial statements are for the six months ended 30 June 2010. This condensed consolidated half-year financial information does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31<sup>st</sup> December 2009 were approved on 20th May 2010. These accounts which contained an unqualified audit report under Section 495 of the Companies Act 2006 and which did not make any statements under Section 498 of the Companies Act 2006, have been delivered to the Registrar of Companies in accordance with Section 441 of the Companies Act 2006.

These condensed consolidated interim financial statements (the interim financial statements) have been prepared in accordance with the accounting policies adopted in the last annual financial statements for the year to 31 December 2009.

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these condensed consolidated interim financial statements.

#### *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.

On 4 May 2010 the Company placed shares to a value of £13 million. The Directors have prepared cash flow information for 2010 and have considered future possible expenditure covering following years. Based upon the recent financing, the Directors believe that the Company has adequate working capital to cover the 12 months from the date of this Report.

The Directors are confident that the Group will be able to secure additional funding to enable it to continue to meet its commitments as they fall due and to undertake the current planned programme of activity. Accordingly, the financial statements do not include any adjustments which would be necessary if the Company and Group ceased to be a going concern.

#### *Changes in accounting policies and disclosures*

The Group has adopted the following new and amended IFRSs as of 1<sup>st</sup> January 2010:

IFRS 2 (amendments) 'Group Cash-settled Share-based Payment Transactions' - effective 1<sup>st</sup> January 2010. As the parent entity is the only entity within the Group making share-based payments, the adoption of this amendment has no material effect on the Group's financial performance or position for the period ended 30 June 2010.

### 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.

#### **Equity settled share-based payment**

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to "share-based payment reserve".

Modifications to the terms and conditions of a grant of share options to which IFRS 2 has not been previously applied have been recognised to account for any such modifications. The incremental fair value arising between the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification has been recognised in the income statement in line with the share option vesting conditions.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

### Basis of consolidation



The Group financial statements consolidate those of the Company and its subsidiary undertakings made up to each period end. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

## 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.

### **Impairment testing of other intangible assets and property, plant and equipment**

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Other individual assets or cash-generating units that include other intangible assets with an indefinite useful life, and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged *pro rata* to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

## Foreign currency

These condensed consolidated interim financial statements are presented in British pounds sterling (GBP), which is also the functional currency of the parent Company.

Foreign currency transactions are translated from the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates are recognised in profit or loss. Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

In these consolidated interim financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than GBP (the Group's presentation currency) are translated into GBP upon consolidation. The functional currencies of the entities in the Group have remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into GBP at the closing rate at the reporting date. Income and expenses have been translated into GBP at the average rate over the reporting period.

Exchange differences are charged /credited to income and recognised in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognised in equity are reclassified to profit or loss and recognised as part of the gain or loss on disposal.

## Financial assets

Financial assets can be divided into the following categories:

- cash and cash equivalents
- loans and receivables
- available-for-sale financial assets

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether resulting income and expenses are recognised in the income statement or charged directly against equity.

The Group generally recognises all financial assets using settlement day accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. Financial assets that are substantially past due are also considered for impairment. All income and expense relating to financial assets are recognised in the income statement line item "finance costs" or "finance income", respectively.

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They



are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss. The Group's other receivables fall into this category of financial instruments.

Individual receivables are considered for impairment when they are past due at the balance sheet date or when objective evidence is received that a specific counterparty will default.

Available-for-sale financial assets include non-derivative financial assets that are either designated as such or do not qualify for inclusion in any of the other categories of financial assets. All financial assets within this category are measured subsequently at fair value, with changes in value recognised in equity, through the statement of changes in equity. Gains and losses arising from investments classified as available-for-sale are recognised in the income statement when they are sold or when the investment is impaired.

In the case of impairment of available-for-sale assets, any loss previously recognised in equity is transferred to the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment losses recognised previously on debt securities are reversed through the income statement when the increase can be related objectively to an event occurring after the impairment loss was recognised in the income statement.

An assessment for impairment is undertaken at least at each balance sheet date.

The Group has no financial assets at fair value through profit or loss or held-to-maturity investments.

## Financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. All financial liabilities are recorded initially at fair value, net of direct issue costs.

Financial liabilities are recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in the income statement. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

## 3. Employee share schemes

On 1 March 2010 the Group issued 300,000 options at an exercise price of 17.5p per Ordinary share to an employee of the Company pursuant to his contract of employment.

On 17 June 2010 the Group issued 7,000,000 options at an exercise price of 15.0p per Ordinary share to Directors and employees of the Company.

The total expenses recognised for the period arising from share based payments are as follows:

	<i>Six months to 30 June 2010</i>	<i>Six months to 30 June 2009</i>
	£	£
Equity settled share based payments	460,037	878,666
Re-pricing of previously settled share based payments	-	384,802
	<u>460,037</u>	<u>1,263,468</u>

## 4. Share issue

Shares issued and authorised for the period to 30 June 2010 may be summarised as follows:

### 6 months to 30 June 2010 - unaudited

		£
<i>Authorised 1,000,000,000 ordinary shares of 1 pence each</i>		
At 1 January 2010	593,602,783 ordinary shares of 1 pence each	5,936,028
Issue of shares	81,250,000 ordinary shares of 1 pence each	812,500
Exercise of Option	250,000 ordinary shares of 1 pence each	2,500
At 30 June 2010	675,102,783 ordinary shares of 1 pence each	6,751,028

### 6 months to 30 June 2009 - unaudited

		£
<i>Authorised 1,000,000,000 ordinary shares of 1 pence each</i>		
At 1 January 2009	473,552,783 ordinary shares of 1 pence each	4,735,528
Issue of shares	120,000,000 ordinary shares of 1 pence each	1,200,000
At 30 June 2009	593,552,783 ordinary shares of 1 pence each	5,935,528

### Year to 31 December 2009 - audited

		£
<i>Authorised 1,000,000,000 ordinary shares of 1 pence each</i>		
At 1 January 2009	473,552,783 ordinary shares of 1 pence each	4,735,528
Issue of shares	120,000,000 ordinary shares of 1 pence each	1,200,000
Exercise of Option	50,000 ordinary shares of 1 pence each	500
At 31 December 2009	593,602,783 ordinary shares of 1 pence each	5,936,028

The shares issued in the 6 months to 30 June 2010 yielded £12,470,349 in cash after costs and the weighted average share price was 15.98p.

## 5. 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 (NI 43-101 Indicated Resource) on the La Paloma Property Group. In addition PGSA has granted Barrick an option to buy back up to a 70 per cent. interest in any particular property group upon the delineation of the greater of 2 million oz of gold or gold equivalent (NI 43-

101 Indicated Resource) on that Property group going forward.

Under the terms of the acquisition agreement, PGSA committed to complete a minimum level of expenditure of US\$10 million on the Properties over a five year period. This included a commitment of US\$1.5 million in the first 18 months. These commitments had been satisfied by 31 December 2008.

## 6. Loss 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:

	<i>6 months to 30 June 2010 (unaudited)</i>	<i>6 months to 30 June 2009 (unaudited)</i>	<i>Year to 31 December 2009 (audited)</i>
Loss after tax (£)	(3,696,945)	(4,359,801)	(7,304,729)
Weighted average number of shares	619,419,081	551,784,827	572,842,503
Basic and diluted earnings per share (pence)	(0.60)	(0.79)	(1.28)

Copies of this Interim Statement 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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