

# Patagonia Gold Plc

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UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS  
for the six months ended 30 June 2008

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# Patagonia Gold Plc

## DIRECTORS AND ADVISERS

<b>Directors</b>	Sir John Craven	<i>(Non-Executive Chairman)</i>
	Carlos J Miguens	<i>(Non-Executive Deputy Chairman)</i>
	William H Humphries	<i>(Managing Director)</i>
	Gonzalo Tanoira	<i>(Finance Director)</i>
	Richard Ö Prickett	<i>(Non-Executive Director)</i>
	Marc J Sale	<i>(Non-Executive Director)</i>

*All of*

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<b>Secretary and registered office</b>	Nigel F Everest 15 Upper Grosvenor Street London W1K 7PJ Company registered number 3994744
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<b>Auditors</b>	Grant Thornton UK LLP Grant Thornton House Melton Street London NW1 2EP
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<b>Solicitors</b>	Lawrence Graham LLP 4 More London Riverside London SE1 2AU
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<b>Registrars and transfer agents</b>	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield West Yorkshire HD8 0LA
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<b>Nominated adviser</b>	Strand Partners Limited 26 Mount Row London W1K 3SQ
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<b>Broker</b>	Matrix Corporate Capital 1 Vine Street London W1J 0AH
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# Patagonia Gold Plc

## CHAIRMAN'S STATEMENT

I am pleased to present the Company's interim report for the six months ended 30th June 2008.

The financial results show a loss of £2,931,639 (2007: £4,527,624). These results 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 £2,280,714.

These exploration activities have been financed through share placements, firstly £2,250,000 at 5p per share in January 2008 and secondly in July 2008 with a further fund raising of £2,000,000 at 6.75p per share. Both of these fund raisings have been largely supported by Directors and their families and by our largest institutional shareholder, Blackrock Gold and General Fund which now has an interest of 8% in the Company. Further fundraisings will be required in order to finance continued exploration activities on the highly prospective Santa Cruz properties.

Sir John Craven

Chairman

29<sup>th</sup> September 2008

## OPERATIONS REPORT

### **El Tranquilo Property**

The El Tranquilo property block, covering over 40 square kilometres, is located approximately 120km to the south east of La Paloma in the Santa Cruz province of Argentina and contains the Cap-Oeste Gold-Silver Project and the Breccia Valentina Prospect.

**Cap-Oeste Gold-Silver Project:** To date, PGD has completed 95 drill holes on the main structure, now named the 'Bonanza vein', for a total of 11,329 metres. Drill-holes have been spaced at approximately 50 metre centres along the known 1,200 metres of the Cap-Oeste structure with closer spacing in the zone of the main shoot. Three rows of 50 metre step-back holes have been completed on most sections covering no less than 150 metres across strike.

Drilling results from Cap-Oeste not previously reported include:

<b>Drill Hole No.</b>	<b>From Metres</b>	<b>Interval metres</b>	<b>Gold g/t</b>	<b>Silver g/t</b>
CO-084-DR	175.00	31.10	1.24	24
including	178.70	2.75	4.14	100
CO-086-DR	193.90	7.10	4.89	208
including	197.10	3.90	7.64	312
CO-089-DR	182.35	21.65	1.24	17
CO-090-DR	192.20	15.30	3.35	20
including	197.00	2.00	19.70	38

Drilling has confirmed the presence of a wide gold bearing structure at surface below which extends a robust core mineralised zone containing bonanza grade gold and silver. The main mineralised structure remains open at depth and along strike in both directions.

A drilling programme due to commence in October will focus on the definition of the high grade shoot within the Bonanza vein, the 'Main zone'. The drill proposal will explore the down dip extension of this high grade shoot as well and infill the 50 metre spaced drill lines. Additional drilling is planned in the New Year which will explore along strike from the existing Main zone which is the focus of the current Resource estimate.

# Patagonia Gold Plc

## OPERATIONS REPORT - continued

At Cap Oeste an exploration drill programme was undertaken to test the north and south extensions of the mapped structure containing the 1,200 metres of strike drilled for the Resource study. A total of 2,290 metres in 23, predominantly RC, holes was drilled. These exploratory holes have reported favourable geochemical results including anomalous gold and silver values.

A more detailed exploration programme is now planned to further define the anomalies identified and extend the known area of mineralization.

Preliminary Metallurgical Studies have been conducted on drill pulp samples by OMAC Laboratories of Ireland. The bottle roll results are extremely encouraging, see Table below and prove the high amenability of the ore material to conventional extraction methods. Further test work will be conducted and will include quantifying the silver recoveries.

<b>Bottle roll test on 500g composite samples</b>			
		6 hours	24 hours
	Gold g/t	% Recovery	% Recovery
composite-1	1.22	96.0	97.5
composite-2	23.75	99.2	98.8
composite-3	0.86	95.2	94.6
composite-4	3.70	93.3	93.1
composite-5	1.37	98.0	97.2
composite-6	8.05	96.8	96.0
composite-7	0.54	96.2	98.3
composite-8	4.60	97.5	99.6
composite-9	17.50	99.2	99.0
composite-10	2.67	93.7	97.2
composite-11	1.23	91.2	94.8
composite-12	0.62	97.4	98.4
composite-13	8.80	99.7	99.3
composite-14	0.62	93.4	95.3
composite-15	26.75	97.6	99.2

Chlumsky, Armbrust and Meyer, LLC. (CAM) of Lakewood, Colorado, has been retained to independently define and describe a gold Resource at Cap-Oeste, which complies with Canada National Instrument 43-101 (NI 43-101). The Resource estimate is near finalisation and will then be announced to shareholders.

### **La Manchuria property**

The La Manchuria property, covering 5,575 hectares, is located approximately 50 kilometres to the east of the Cap-Oeste project in the Santa Cruz province of Argentina and contains the Manchuria 'Main zone' gold-silver project.

**Manchuria "Main Zone" project:** In February-March 2008 PGD completed a diamond drilling campaign, consisting of 20 holes for a total of 3,980 metres, on the 'Main Zone' of the Manchuria gold-silver project, designed to infill and twin historic drill holes as well as expand the area of mineralisation and in order to plan a resource oriented drill program for the second half of this year.

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## OPERATIONS REPORT - continued

Drilling of the Main Zone has confirmed and extended the high-grade gold and silver mineralisation 300m to the south and the zone remains open but obscured by post-mineral cover.

Interpretation of geophysics over the Main Zone and available geochemistry to the south indicates the potential for the structure to extend south for over 2,000 metres.

CAM have already initiated a technical due diligence on the work conducted to date.

### **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 short drill programme was initiated prior to the winter recess and 3 infill holes for 567.1m in the main resource area were drilled. The full programme, designed to expand the known Resource and to follow the recommendations from the Resource and Scoping Studies, will be completed as part of next season's campaign.

Drilling results from Lomada de Leiva not previously reported include:

<b>Drill Hole No.</b>	<b>From Metres</b>	<b>Interval metres</b>	<b>Gold g/t</b>
LL-039-D	58.0	4.0	0.70
LL-041-D	60.0	25.5	0.95
Including	93.0	5.0	2.49

Additional drilling will also test the anomalous structures identified by the detailed geophysics survey.

Chlumsky, Armbrust and Meyer, LLC. (CAM) of Lakewood, Colorado, has been retained to independently define and describe a National Instrument (NI) 43-101 compliant Scoping Study on the Lomada de Leiva Project. The study is near completion and will be reported in due course.

**Breccia Sofia Prospect:** As a follow-up to the exploration drill programme in 2007, five exploration drill holes, for a total of 604.65 metres, have been completed on the mineralised structural corridor along strike to the south of the mineralisation in hole BSR-015 containing 5m @ 17.5g/t Au. Drilling has intersected numerous zones of veining.

Drilling results from Breccia Sofia not previously reported include:

<b>Drill Hole No.</b>	<b>From Metres</b>	<b>Interval metres</b>	<b>Gold g/t</b>
BS-18-D	90.0	4.0	2.47
BS-19-D	80.0	7.0	1.10

Further drilling is planned to define the southern continuation of this mineralised corridor.

### **Strategic Partnership with Fomento Minero de Santa Cruz Sociedad del Estado**

It was announced in May 2008 that Patagonia Gold SA ("PGSA"), has entered into a Letter of Intent ("LOI") with Fomento Minero de Santa Cruz Sociedad del Estado ("Fomicruz SE"), a well established and respected mining company wholly owned by the government of Santa Cruz Province, Argentina.

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## OPERATIONS REPORT - continued

The LOI sets out the key terms and conditions of a strategic partnership between PGSA and government owned Fomicruz SE for the future development of PGSA's mining properties in Santa Cruz province, including the gold and silver projects of Lomada de Leiva, Cap Oeste and La Manchuria Main Zone, together with properties currently owned by Fomicruz SE.

PGSA and Fomicruz SE intend, subject to the approval by their respective Board of Directors, to enter into a detailed shareholder's agreement which is expected to include the following key terms:

- A new company ("NEWCO") will be created in which PGSA will acquire a 90% interest and Fomicruz SE will acquire a 10% interest.
- PGSA will contribute to NEWCO approximately 100,000 hectares of its mining properties in Santa Cruz province consisting of the La Paloma, El Tranquilo and La Manchuria block of properties.
- Fomicruz SE will contribute to NEWCO approximately 100,000 hectares of mining properties located in the very prospective Deseado Massif, close to PGSA's El Tranquilo and La Manchuria block of properties.
- PGSA will invest US\$5 million, over a 5 year period, on exploration expenditures on the properties contributed by Fomicruz S.E.
- PGSA will fund all the exploration expenditures on NEWCO's properties to pre-feasibility stage.
- Further development of the properties, through feasibility to production, will be funded on a pro-rata basis.
- PGSA will manage the exploration and potential future development on the properties.

It is anticipated that the final agreement will be completed by end October 2008.

### **Exploration Programme second half 2008**

Drilling has commenced at La Manchuria in order to advance this project towards Resource status. A second drill rig has been contracted to commence at Cap-Oeste in October. The drill programme on Cap-Oeste has been designed to focus on the already identified high grade shoot in order to expand the Resource. In addition further drilling will be carried out to extend the known mineralisation.

The finalisation of the Scoping Study at Lomada de Leiva and the Resource estimate at Cap Oeste are expected soon and the results will be announced to shareholders.

# Patagonia Gold Plc

## Unaudited condensed consolidated interim income statement

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	<i>Six months to 30 June 2008 (unaudited) £</i>	<i>Six months to 30 June 2007 (unaudited) £</i>	<i>Year to 31 December 2007 (audited) £</i>
<b>Continuing operations</b>			
Exploration costs	(2,280,714)	(3,662,592)	(4,867,807)
Administrative costs	(678,379)	(837,004)	(1,367,727)
Finance income	28,775	25,813	48,297
Finance costs	(1,321)	(53,841)	(2,097)
<b>Loss for the period</b>	<u>(2,931,639)</u>	<u>(4,527,624)</u>	<u>(6,189,334)</u>
<b>Loss per share (pence)</b>			
Basic loss per share	(0.73)	(1.46)	(1.86)
Diluted loss per share	(0.73)	(1.46)	(1.86)

# Patagonia Gold Plc

## Unaudited condensed consolidated interim balance sheet

AT 30 JUNE 2008

	30 June 2008 (unaudited) £	30 June 2007 (unaudited) £	31 December 2007 (audited) £
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	82,294	41,190	66,199
Available for sale financial assets	116,471	150,980	146,666
Other receivables	731,686	234,235	351,316
	<u>930,451</u>	<u>426,405</u>	<u>564,181</u>
<b>Current assets</b>			
Trade and other receivables	241,781	205,227	224,630
Cash at bank and in hand	53,049	426,511	661,793
	<u>294,830</u>	<u>631,738</u>	<u>886,423</u>
<b>Total assets</b>	<u>1,225,281</u>	<u>1,058,143</u>	<u>1,450,604</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	(907,546)	(345,328)	(534,922)
<b>Total liabilities</b>	<u>(907,546)</u>	<u>(345,328)</u>	<u>(534,922)</u>
<b>Net assets</b>	<u>317,735</u>	<u>712,815</u>	<u>915,682</u>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital	4,029,229	3,343,935	3,579,229
Share premium account	30,200,654	26,635,949	28,400,654
Translation reserve	125,053	300,785	103,907
Share based payment reserve	205,341	112,600	112,600
Retained loss	(34,242,542)	(29,680,454)	(31,280,708)
<b>Total equity</b>	<u>317,735</u>	<u>712,815</u>	<u>915,682</u>

# Patagonia Gold Plc

## Unaudited condensed consolidated interim statement of changes in equity FOR THE SIX MONTHS ENDED 30 JUNE 2008

	<i>Share Capital</i> £	<i>Share premium account</i> £	<i>Translation reserve</i> £	<i>Share based payment reserve</i> £	<i>Retained Loss</i> £	<i>Total</i> £
<b>Balance at 31 December 2006</b>	2,731,065	23,389,188	238,907	13,731	(25,152,830)	1,220,061
<b>Changes in equity for first half of 2007</b>						
Exchange differences on translation of foreign operations	—	—	61,878	—	—	61,878
<b>Net income recognised directly in equity</b>						
Loss for the period	—	—	—	—	(4,527,624)	(4,527,624)
<b>Total recognised income and expense for the period</b>	2,731,065	23,389,188	300,785	13,731	(29,680,454)	(3,245,685)
Share based payment	—	—	—	98,869	—	98,869
Issue of share capital	612,870	3,246,761	—	—	—	3,859,631
<b>Balance at 30 June 2007</b>	<u>3,343,935</u>	<u>26,635,949</u>	<u>300,785</u>	<u>112,600</u>	<u>(29,680,454)</u>	<u>712,815</u>
<b>Balance at 31 December 2006</b>	2,731,065	23,389,188	238,907	13,731	(25,152,830)	1,220,061
<b>Changes in equity for 2007</b>						
Exchange differences on translation of foreign operations	—	—	(135,000)	—	—	(135,000)
<b>Net income recognised directly in equity</b>						
Loss for the period	—	—	—	—	(6,189,334)	(6,189,334)
<b>Total recognised income and expense for the period</b>	2,731,065	23,389,188	103,907	13,731	(31,342,164)	(5,104,273)
Share based payment	—	—	—	98,869	—	98,869
Revaluation of available for sale financial assets	—	—	—	—	61,456	61,456
Issue of share capital	848,164	5,011,466	—	—	—	5,859,630
<b>Balance at 31 December 2007</b>	<u>3,579,229</u>	<u>28,400,654</u>	<u>103,907</u>	<u>112,600</u>	<u>(31,280,708)</u>	<u>915,682</u>
<b>Changes in equity for first half of 2008</b>						
Exchange differences on translation of foreign operations	—	—	21,146	—	—	21,146
<b>Net income recognised directly in equity</b>						
Loss for the period	—	—	—	—	(2,931,639)	(2,931,639)
<b>Total recognised income and expense for the period</b>	3,579,229	28,400,654	125,053	112,600	(34,212,347)	(1,994,811)
Share based payment	—	—	—	92,741	—	92,741
Revaluation of available for sale Financial assets	—	—	—	—	(30,195)	(30,195)
Issue of share capital	450,000	1,800,000	—	—	—	2,250,000
<b>Balance at 30 June 2008</b>	<u>4,029,229</u>	<u>30,200,654</u>	<u>125,053</u>	<u>205,341</u>	<u>(34,242,542)</u>	<u>317,735</u>

# Patagonia Gold Plc

## Unaudited condensed consolidated interim cash flow statement

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	<i>Six months to 30 June 2008 £</i>	<i>Six months to 30 June 2007 £</i>	<i>Year to 31 December 2007 £</i>
<b>Cash flow from operating activities</b>			
Loss after taxation	(2,931,639)	(4,527,624)	(6,189,334)
Adjustment for:			
Mineral rights acquired through issuance of Loan Notes	-	-	2,162,093
Interest income	(28,775)	(25,813)	(48,297)
Depreciation and impairment	14,006	12,487	24,279
(Increase) in trade and other receivables	(397,521)	(9,748)	(146,232)
Increase in trade payables	372,624	44,108	233,702
Share based payments	92,741	98,869	98,869
<b>Net cash used in from operating activities</b>	<u>(2,878,564)</u>	<u>(4,407,721)</u>	<u>(3,864,920)</u>
<b>Cash flows from investing activities</b>			
Interest received	28,775	25,813	48,297
Purchase of property, plant and equipment	(30,101)	(9,880)	(50,264)
<b>Net cash from investing activities</b>	<u>(1,326)</u>	<u>15,933</u>	<u>(1,967)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital	2,250,000	3,859,630	3,697,537
<b>Net cash from financing activities</b>	<u>2,250,000</u>	<u>3,859,630</u>	<u>3,697,537</u>
<b>Net (decrease) in cash and cash equivalents</b>	<u>(629,890)</u>	<u>(532,158)</u>	<u>(169,350)</u>
<b>Cash and cash equivalents at beginning of period</b>	661,793	966,143	966,143
<b>Effects of foreign exchange movements</b>	21,146	(7,474)	(135,000)
<b>Cash and cash equivalents at end of period</b>	<u>53,049</u>	<u>426,511</u>	<u>661,793</u>

# Patagonia Gold Plc

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 1. Basis of preparation

These condensed consolidated interim financial statements are for the six months ended 30 June 2008 and are prepared under the recognition and measurement rules of IFRS 1. 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 2007.

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).

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 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 2007, prepared under the recognition and measurement rules of IFRS 1, have been filed with the Registrar of Companies. The auditor's report on those financial statements was not qualified but was modified to include an emphasis of matter in respect of the going concern basis, and did not contain a statement under Section 237(2) of the Companies Act 1985.

The financial information for the six months ended 30 June 2008 and 30 June 2007 is unaudited.

#### *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 will be required.

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

On 15 July 2008 the Company placed shares to a value of approximately £2 million to fund working capital and exploration expenditure. 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.

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

All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2006 are recognised in the financial statements.

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".

# Patagonia Gold Plc

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

### Equity settled share-based payment (*continued*)

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

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 accounts include 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.

### 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 by the Directors. Goodwill is carried at cost less accumulated impairment losses. Negative goodwill is recognised immediately after acquisition in the income statement. Goodwill written-off to reserves prior to 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 elected not to apply IFRS 3 Business Combinations retrospectively to Business Combinations prior to 1 January 2006. Instead, the existing goodwill has been frozen at that date, tested for impairment and not subsequently amortised.

# Patagonia Gold Plc

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

### **Impairment testing of goodwill, 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. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows.

Goodwill, other individual assets or cash-generating units that include goodwill, 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**

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. The ultimate parent Company, Patagonia Gold Plc, is a UK listed company which raises funds for the Group in British pounds sterling (GBP) which are converted into United States dollars as required. Consequently, 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**

Financial assets can be divided into the following categories:

- loans and receivables
- financial assets at fair value through profit or loss
- available-for-sale financial assets
- held-to-maturity investments

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.

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.

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

### Financial assets (*continued*)

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/statement of recognised income and expense. 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 categorised as at fair value through profit or loss are remeasured at each reporting date at fair value, with changes in fair value being recognised in the income statement. All other 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. Share issue

Shares issued and authorised for the period to 30 June 2008 may be summarised as follows:

### 6 months to 30 June 2008 - unaudited

<i>Authorised 1,000,000,000 ordinary shares of 1 pence each</i>		£
At 1 January 2008	357,922,913 ordinary shares of 1 pence each	3,579,229
Issue of shares	45,000,000 ordinary shares of 1 pence each	450,000
At 30 June 2008	402,922,913 ordinary shares of 1 pence each	4,029,229

### 6 months to 30 June 2007 - unaudited

<i>Authorised 500,000,000 ordinary shares of 1 pence each</i>		£
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

### Year to 31 December 2007 - audited

<i>Authorised 500,000,000 ordinary shares of 1 pence each</i>		£
At 1 January 2007	273,106,435 ordinary shares of 1 pence each	2,731,065
Issue of shares	84,816,478 ordinary shares of 1 pence each	848,164
At 31 December 2007	357,922,913 ordinary shares of 1 pence each	3,579,229

The shares issued in the 6 months to 30 June 2008 yielded £2,250,000 in cash and the weighted average share price was 5p.

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## 4. Subsequent events

On 15 July 2008 the Company placed 29,629,870 ordinary 1p shares at 6.75p each to fund working capital and exploration expenditure.

## 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 on the La Paloma Property Group. In addition the Company has granted to Barrick an option to buy back up to a 70 per cent. interest in any particular Property group upon the delineation of a greater than 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 has committed to complete a minimum level of expenditure of US\$10 million on the Properties over a five year period. This included a commitment of US\$1.5 million in the first 18 months. This commitment has been satisfied and at 30 June 2008 expenditure on these Properties amounted to approximately US\$7.59million.

## 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 2008 (unaudited)</i>	<i>6 months to 30 June 2007 (unaudited)</i>	<i>Year to 31 December 2007 (audited)</i>
Loss after tax (£)	(2,931,639)	(4,527,624)	(6,189,334)
Weighted average number of shares	400,944,891	310,579,846	333,053,212
Basic and diluted earnings per share (pence)	(0.73)	(1.46)	(1.86)

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".