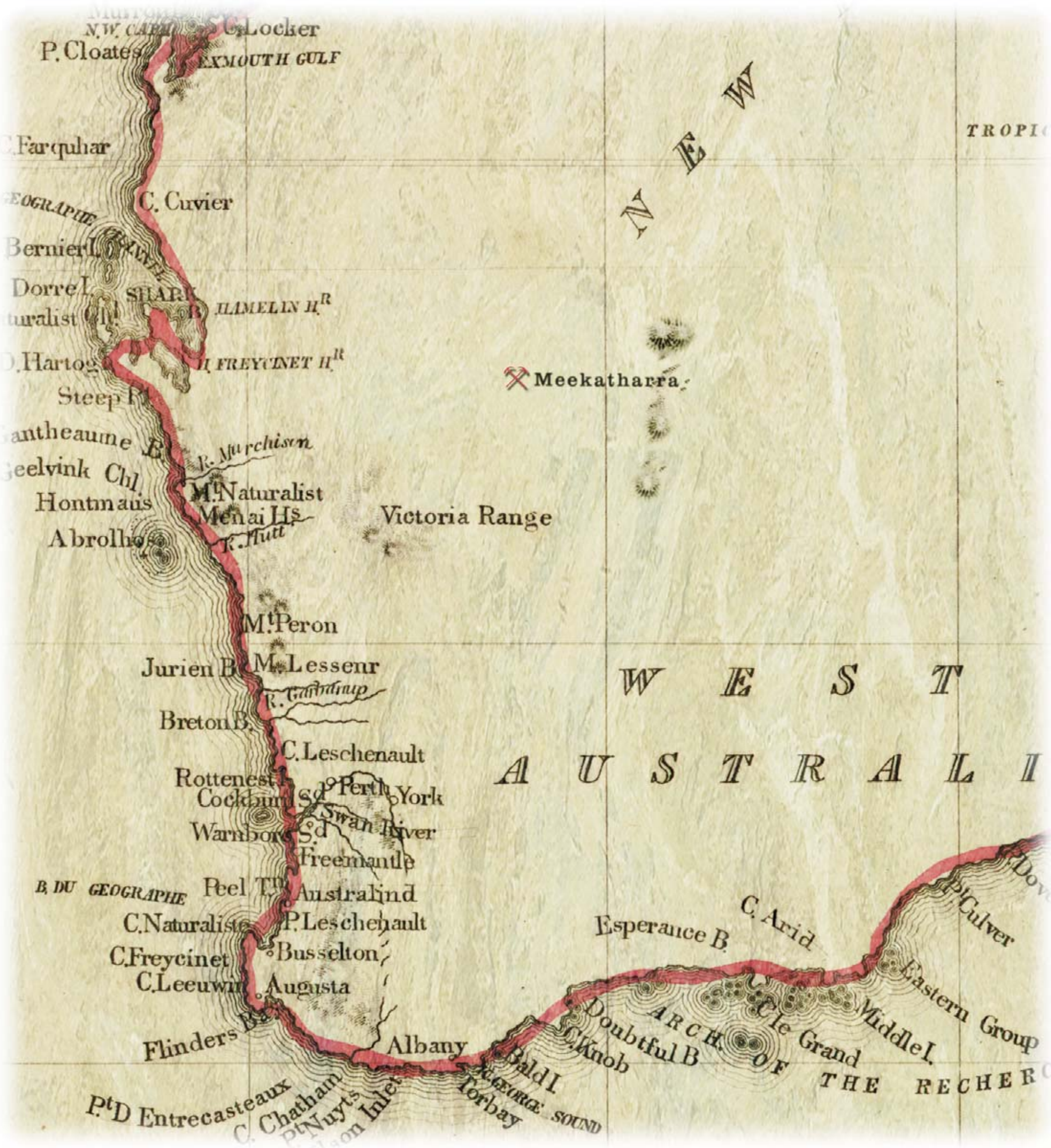
ANNUAL REPORT & ACCOUNTS 2006

MERCATOR GOLD PLC



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MERCATOR’S AIM IS TO ACHIEVE PROFITABLE AND SUSTAINABLE GOLD PRODUCTION

CHAIRMAN'S REPORT

The financial year ended June 2006 was a significant year for Mercator Gold plc.

8 October 2005 marked the first anniversary of our listing on the AIM market of the London Stock Exchange. In that month we also announced our intention to acquire, at a cost of AUD$18 million dollars, 100% control of the St Barbara's Meekatharra Goldfield.

The above acquisition included ownership of four historically productive gold areas namely Paddy's Flat, Yaloginda, Nannine and Reedy. The gold resources contained within these leases now stand at 2,160,000 ounces.

At Yaloginda, as part of the St Barbara purchase, we also acquired the Yaloginda Mill with a rated capacity of 3,000,000 tonnes per annum of oxide material or 1,250,000 tonnes per annum of primary or fresh rock.

The Company's management views the St Barbara acquisition as an opportunity to transform the Company from junior explorer to mid-tier producer and to work towards recommencing production on a profitable and sustainable basis as soon as it is practicable.

To assist us in reaching sustainable and profitable production the Company undertook two major capital raisings:

- the first, in December 2005 raised £10 million at 50p and allowed us to complete the acquisition from St Barbara Ltd on 31 January 2006;
- the second in May 2006 raised a further £10 million at 70p.

Since completing the acquisition and related fundraisings the Company's activities have been primarily focused upon the expansion of its resource base and the lifting of the quality of selected resources to mineable reserve status.

As at the date of this report:

- Total resources had risen from 1,960,000oz to 2,160,000oz.
- Indicated resources had risen from 1,099,000oz to 1,401,000oz.

The indicated resource category is presently the subject of mining studies to assess what proportion may be suitable for profitable mining.

During its long history the Meekatharra district has been at various times a prolific generator of substantial profits from many individual mines and a quiet backwater of the Western Australian mining scene. Mercator intends to bring to the field what we believe has been lacking – namely a commitment to ongoing exploration of the highest technical standards to ensure the producing operation has sufficient reserves/resources to ensure a long term mine life.

The Company's exploration team considers, after an extensive and exhaustive review of over 138,000 drillholes, that the Company's leases contain the potential for sufficient reserves/resources to contribute to a long term mine life provided existing and ongoing exploration expenditure/success is maintained.

We are pleased to have been able to attract and retain a quality team of personnel, with the exploration team headed by Dr Julian Vearncombe and operations headed by Mr Denis Geldard. We also have a group of dedicated professional staff which brings a mixture of youth and experience, enthusiasm and care to the task I believe is necessary in order to ensure the Company meets its defined objectives.

Your Company is also actively involved in the community with proactive policies in regard to employment and participation in community affairs. The introduction of a heritage trail, substantially within the Company's tenements, is an example, together with our concern for the environment and other associated responsibilities.

I look forward to the next exciting year of Mercator's growth and development.

Terrence Strapp
Chairman

MANAGING DIRECTOR'S REPORT



The past year represents a period of significant transition for Mercator Gold plc. We began the year as an exploration company whose key asset was a joint venture over certain areas in the Meekatharra district. By year's end we had gained 100% control of most of the significant assets of the Meekatharra Goldfield. To add value to these assets we have focused on four areas of activity.

Above, from left to right: staff sampling drill core; two drill rigs at Paddy's Flat; geological staff discussing exploration drilling; drilling at Bluebird; drilling near the base of the pit at Bluebird; Yaloginda Mill

1. Exploration and Resource Development

The statutory status of our tenements allowed us to allocate expenditures on the most efficient basis possible. We focused our exploration, at various scales, to ensure tenements were effectively maintained and targets were effectively explored. We sought to develop targets that gave us a reasonable chance of substantially expanding our total resource base. Success in this regard was achieved at both Bluebird and Surprise. In addition to growing our resource base we directed effort to the improvement of its quality. Our stated aim of profitable and sustainable production requires the conversion of resources to reserves. It is therefore pleasing to note a considerable increase in the indicated resource category (30%), which is potentially convertible to probable reserves. Further exploration success at Paddy's Flat, in particular within the Prohibition zone, augurs well for the future. Exploration expenditure in all categories was AUD$7.2 million for the year reflecting the Company's strong commitment to growth by discovery and our confidence in the Meekatharra district.

2. Operations

The acquisition of the Meekatharra assets included the Yaloginda Mill and associated infrastructure. With a rated capacity of 3,000,000 tonnes of oxide ore, or 1,250,000 tonnes of primary ore, the mill has a replacement value of over AUD$50 million and is unencumbered. The absence of such a capital requirement along the Company's path to production represents a substantial opportunity. To further our objective we have commenced a refurbishment programme costing AUD$2.7 million. The mill will be ready to commence treatment of ore early in 2007.

The Company's assets include a number of separate deposits whose resources are considered of sufficient quality to justify mining studies. Our objective is to produce, prior to the recommencement of production, a schedule sufficient to support operations for at least four years. At this time our work is focused on Bluebird and Surprise at Yaloginda and the Prohibition-Vivian-Consols' resources at Paddy's Flat. From each of these we received excellent drilling results over the course of the year.

3. Building our Team

Mercator is a young company and as such is paying much attention to the building of its team. Denis Geldard joined as Operations Director at the time of the asset acquisition. Denis brings exceptional skills to our task of optimising the resources of the Meekatharra district. His experience includes a five-year period as the Operations Manager of one of Meekatharra's most profitable mines. His knowledge of the industry and of the field is outstanding.

The exploration team led by Drs Julian and Susan Vearncombe is one of which we are very proud. The geology of the Western Australian greenstone belts is very complex and Meekatharra is no exception. The excellent quality of the exploration particularly at Surprise and Prohibition during the past year has added considerably to the value of these assets.

4. The Year Ahead

The Company is focused on recommencing production as soon as is practicable. The criteria for recommencement are that it be both profitable and sustainable. Whilst the year saw an historic high for the AUD$ gold price, our planning is essentially conservative. We aim to ensure that the Company can produce very profitably at a gold price of USD$450/oz. Our work in the next 12 months will ensure that this is the case.

Our Responsibilities

Whilst clearly focused on delivering value to our shareholders, the Company recognises a broad range of responsibilities as intrinsic to its success.

Firstly, the safety and health of our staff is our top priority. We aim, through training, for each of our employees to feel and to be secure. Constant attention is directed to this goal at all levels within the Company.

Secondly, the environment in which we live and work is precious to us. We aim to minimise the impact of our activities on it and where possible to enhance it.

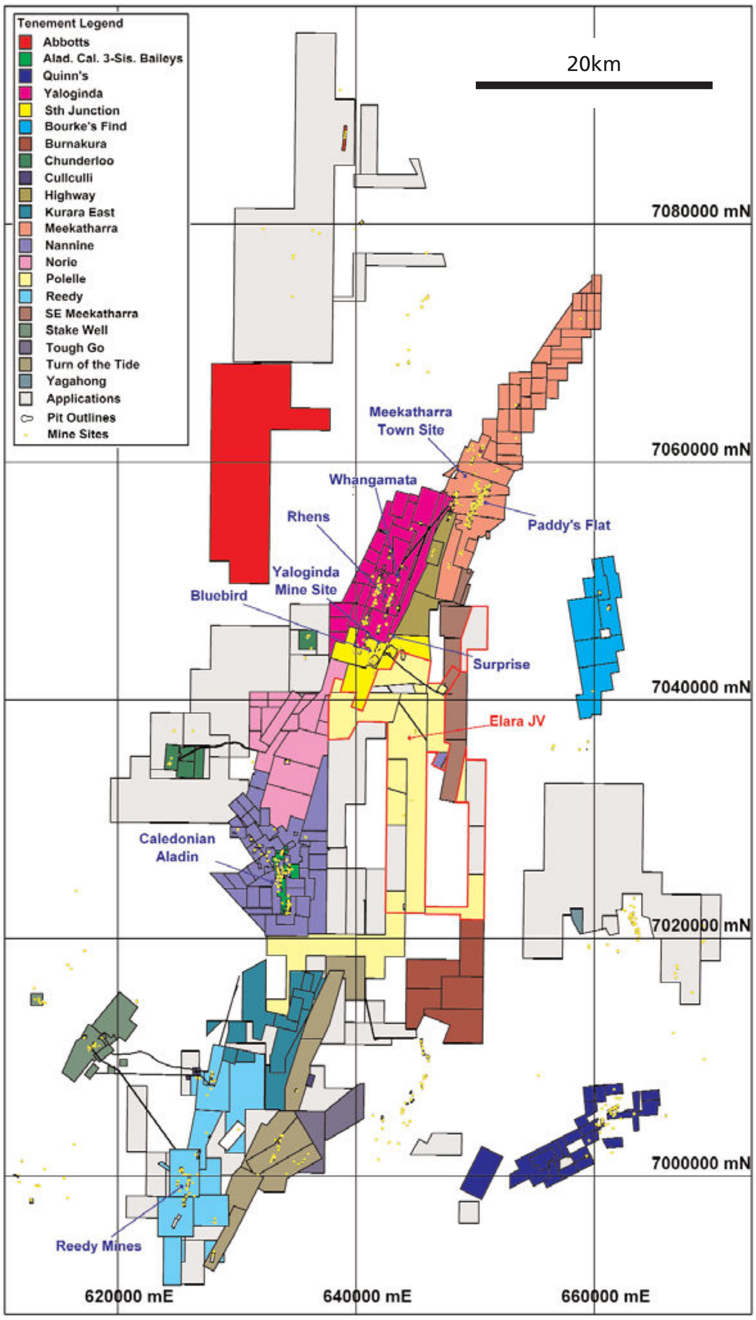
Thirdly, we belong to a community. Meekatharra is a small town but it has a long history based on both the mining and pastoral industries. Where possible we draw on the skills of the community and support local initiatives. Our agreements with the Wadjari Yamatji (formerly Gnoonooru Wadjari) and the Yugunga-Nya groups, aim to ensure long-term partnerships.

Patrick Harford *Managing Director*



During Mercator's second year of exploration at Meekatharra the Company has boosted its tenement holdings significantly by the acquisition of the St Barbara assets including the balance of the joint venture at Yaloginda and Nannine, the Paddy's Flat and Reedy tenements and the plant and mining infrastructure at Yaloginda. Exploration work has been focused on defining viable gold resources capable of sustaining production.

Above, from left to right: company vehicles and office at Yaloginda; South Junction open pit; drilling at Bluebird; great Northern Highway pit; geological staff discuss exploration plans



Mercator's tenements at Meekatharra

Specifically, exploration in 2005-2006 has concentrated on:

- Rapid exploration targeting and resource drilling in areas with demonstrated potential for mineable resources, focusing initially on Bluebird, Surprise and Prohibition-Vivian-Consols (PVC).
- Using up-to-date geological models and data analysis tools including SpaDiS™ to identify both green-field and brown-field exploration targets where large gold deposits may occur and rapidly drill testing these.
- Maximising the benefit of the valuable, yet imperfect, database with an on-going process of data validation, collection of new geology data and at the same time active drilling.
- The consistent use of detailed structural geology to predict the location, continuity directions and shapes of ore zones.
- Keeping abreast of scientific discoveries and using the latest deposit models.

Tenements

Mercator holds a large and strategic tenement portfolio. This holding encompasses most of the gold-prospective portions north and south of Meekatharra, in the Murchison Greenstone Belt, Western Australia. The Company holds about 2000km^2 of tenements granted or in application. Material developments and changes in 2006 with respect to tenements are listed below.

- Deeds of Assignment and Assumption in relation to the "Co-operation and Mining Agreement" between St Barbara Ltd and both the Gnoonooru Wadjari and the Yugunga-Nya claimant groups have been executed transferring the rights and obligations under the Agreements from St Barbara Ltd to Mercator. These agreements provide a prescribed and effective working arrangement with the indigenous people of the region with significant mutual benefits.
- Three plaints against M51/454-5 & 523 were dismissed on 13 July 2006, the decision meaning that Mercator continues to hold the tenements without penalty.
- The Elara Joint Venture remains in force and requires Excalibur Mining Corporation Limited to have expended AUD$3M by 10 November 2006 to earn a 51% interest in the tenements that are the subject of the joint venture.
- Transfers for all granted tenure, some 317 tenements, have been lodged with the DoIR and are currently being processed. Once completed Mercator will be the registered beneficial owner of all tenements.
- To enable the Company to focus attention on the Meekatharra leases, its one remaining New Zealand tenement at Lottin Point is being surrendered.

Resources

Increased resources at Bluebird were announced, giving a revised total resource holding of over 2 million ounces, comprising in the Indicated category 26.2Mt @ 1.7g/t for 1,401,000 ounces and in the Inferred category 15.8Mt @ 1.5g/t for 759,000 ounces. The Company's combined Indicated and Inferred Resources are 42Mt @ 1.6g/t for 2,160,000 ounces. The resources are tabulated below.

	Indicated			Inferred			Total		
	Tonnes	Grade g/t	Ounces	Tonnes	Grade g/t	Ounces	Tonnes	Grade g/t	Ounces
YALOGINDA									
Bluebird	7,939,000	1.6	408,000	2,253,000	1.9	138,000	10,192,000	1.7	546,000
Surprise	1,220,000	0.9	34,000	2,965,000	1.1	107,000	4,185,000	1.0	141,000
Sub Total	**9,159,000**	**1.5**	**442,000**	**5,218,000**	**1.4**	**245,000**	**14,377,000**	**1.5**	**687,000**
PADDY'S FLAT									
Prohibition	1,435,000	4.1	188,000	917,000	2.8	82,000	2,352,000	3.6	270,000
Vivian-Consols	848,000	7.3	199,000	137,000	7.9	35,000	985,000	7.4	234,000
Mickey Doolan	12,375,000	1.0	396,000	7,119,000	0.9	213,000	19,494,000	1.0	609,000
Golden Bar	379,000	1.4	17,000	50,000	1.1	2,000	429,000	1.4	19,000
Sub Total	**15,037,000**	**1.7**	**800,000**	**8,223,000**	**1.2**	**332,000**	**23,260,000**	**1.5**	**1,132,000**
REEDY									
South Emu	618,000	3.4	68,000	100,000	3.0	10,000	718,000	3.4	78,000
Rand	891,000	1.9	55,000	1,458,000	2.7	125,000	2,349,000	2.4	180,000
Jack Ryan	534,000	2.1	36,000	846,000	1.7	47,000	1,380,000	1.9	83,000
Sub Total	**2,043,000**	**2.4**	**159,000**	**2,404,000**	**2.4**	**182,000**	**4,447,000**	**2.4**	**341,000**
TOTAL	**26,239,000**	**1.7**	**1,401,000**	**15,845,000**	**1.5**	**759,000**	**42,084,000**	**1.6**	**2,160,000**

Lake fill sediment at Kuarara East

Database

The Company is creating value from the massive inherited but less than perfect database. Data has been collated from more than twenty five different companies and comprises a wide variety of digital and hard copy sources. The database includes but is not limited to:

DATABASE CONTENT	
Diamond	442 holes for 91,819m
RC	21,289 holes for 1,625,704m
RAB	44,160 holes for 1,389,752m
AC	3,419 holes for 167,876,m
Geophysics	15 different surveys

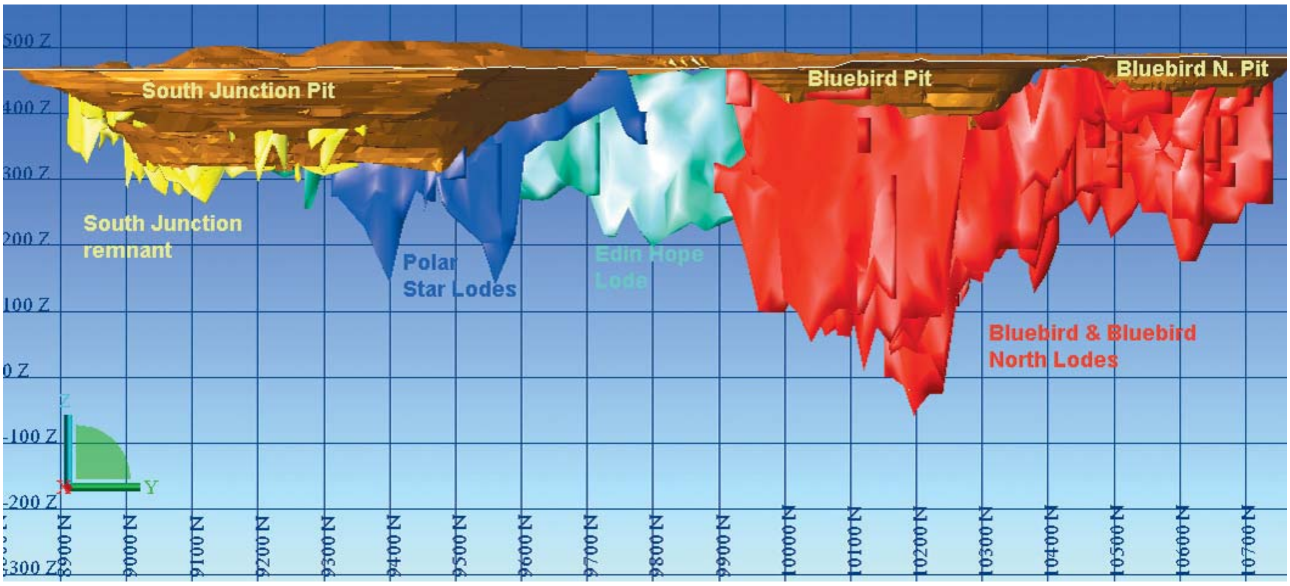
The commercial value of this database is not capable of quantification with any certainty but the directors estimate that at today's values it would cost about AUD$150m (£63m) to acquire anew. These data were collected over a period of rapidly changing technologies from the 1970s pre-computer era, through the initial periods of digital data entry, to the modern period of data-integrating technologies. The data are variable in quality, and Mercator recognises both the strengths and weaknesses of the data. The Company conducts systematic and rigorous data validation.

Bluebird

The Bluebird (including Bluebird North) deposit occurs as quartz-veins within a high-magnesium basalt host rock in a carbonate-altered shear zone. Significant drill results are tabulated below. Bluebird is 1.5km haulage from the Yaloginda mill. At Bluebird, the mineralised structures are steeply dipping and comprise plus 2g/t Au high-grade cores, with surrounding low-grade mineralisation based on a 0.4g/t cut-off.

BLUEBIRD (INCLUDING SOUTH JUNCTION) DRILLING 2005-2006

Hole ID	Depth down angled hole from m	Intersect m @ g/t	Grade thickness g.m/t
06BBRD027	**291**	**23 @ 5.48**	**126.04**
06BBRC019	**72**	**8 @ 11.09**	**88.72**
06BBRC010A	**269**	**9 @ 7.92**	**71.28**
and	**333**	**5 @ 11.26**	**56.3**
06BBRC036	142	2 @ 29.32	58.64
06BBRD021	376	4 @ 10.06	40.24
and	405	17 @ 3.08	52.36
06SJRC015	225	7 @ 4.9	34.3
06BBRC044	131	16 @ 1.99	31.84
06SJRC016	98	10 @ 2.36	23.6
06SRRC017	232	3 @ 6.9	20.7



Bluebird long section of resource wire frame

Each colour represents a different mineralised lode except for the brown which represents past mining.

Mercator commissioned Cube Consulting Pty Ltd (Cube) to provide independent resource evaluations and these were reported recently. The resource figures are summarised in the table below:

TOTAL BLUEBIRD GLOBAL RESOURCE ALL GOLD in +0.4g/t Au wireframe			
Category	**Tonnes**	**Gold g/t**	**Metal (oz)**
Indicated	7,939,000	1.6	408,000
Inferred	2,253,000	1.9	138,000
TOTAL	10,192,000	1.7	546,000

Adding significantly to the Company's confidence in the Bluebird project, the global Indicated resource has increased by 302,000 ounces from last year's Mercator announcement of 2.0Mt @ 1.6g/t for 106,000 ounces. The Bluebird resource above the 300mRL is 316,000 contained ounces. The 300mRL represents a very approximate boundary between open cut and underground mining, at 170m below the current surface and 110m below the base of the Bluebird abandoned pit.

Nearly all the material that may be considered as being amenable to open pit mining at the Bluebird Project is now classified in the Indicated category. This Indicated material can now be included in future pit optimisations for conversion to Probable Reserves. Mercator is currently involved in detailed studies to determine the optimal mining parameters and economics for open pit mining at Bluebird. In this phase of the project, heading towards possible future mining, the work will include consideration of the following aspects of the project: geotechnical, hydrological, metallurgical, mine planning, mine design, mine scheduling and grade control. Further review will be undertaken of the high grade portion of the resource beneath the old Bluebird pit with a view to assessing its suitability for underground mining.

Aerial view of Yaloginda mining infrastructure, camp and plant

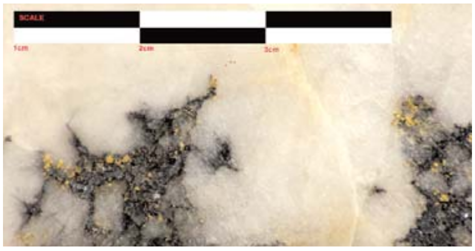
Surprise

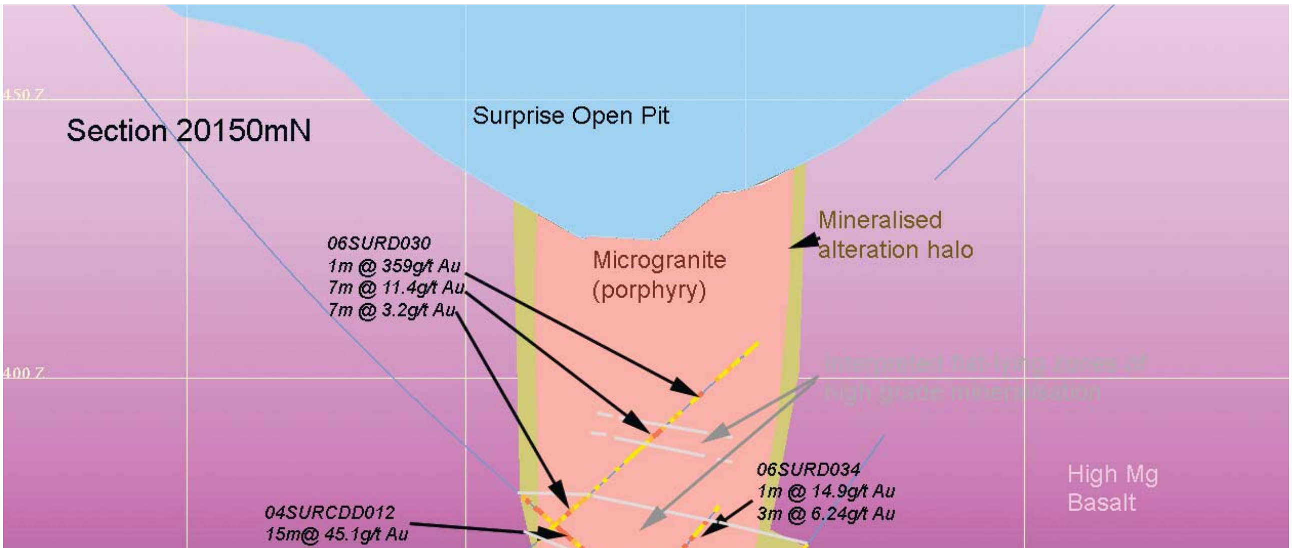
Mercator is currently drilling a programme of infill RC and diamond holes. The primary aim is to improve the level of confidence in the current resource classification and to allow the Company to define a mineable resource at Surprise. An additional aim is to help to better define high-grade domains within the overall mineralised envelope. Several high-grade intersections have been drilled in this latest phase, which support evidence from legacy grade control data, SpaDiS™ analysis, mapping and drill core data that high-grade zones are coincident with flat to shallow-dipping quartz veins.

An independent resource estimate, compliant with the guidelines contained in the JORC Code will be carried out for the Surprise deposit once all results are in from the current drilling programme.

SURPRISE DRILLING 2006

Hole ID	Depth down angled hole from m	Intersect m @ g/t	Grade thickness g.m/t
06SURC031	**139**	**5 @ 77.76**	**388.8**
06SURD030	**114**	**1 @ 358.97**	**358.97**
and	**120**	**7 @ 11.42**	**79.94**
and	142	7 @ 3.2	22.4
06SURC012	**169**	**2 @ 36.25**	**72.5**
06SURC029	**183**	**5 @ 10.04**	**70.2**
06SURC032	163	8 @ 5.54	44.32
06SURC025	203	6 @ 6.24	37.44
06SURC006	149	11 @ 2.83	31.13
06SURC023	27	5 @ 6.05	30.25
06SURC028	173	5 @ 4.15	20.75
06SURD035	112	4 @ 5.03	20.12





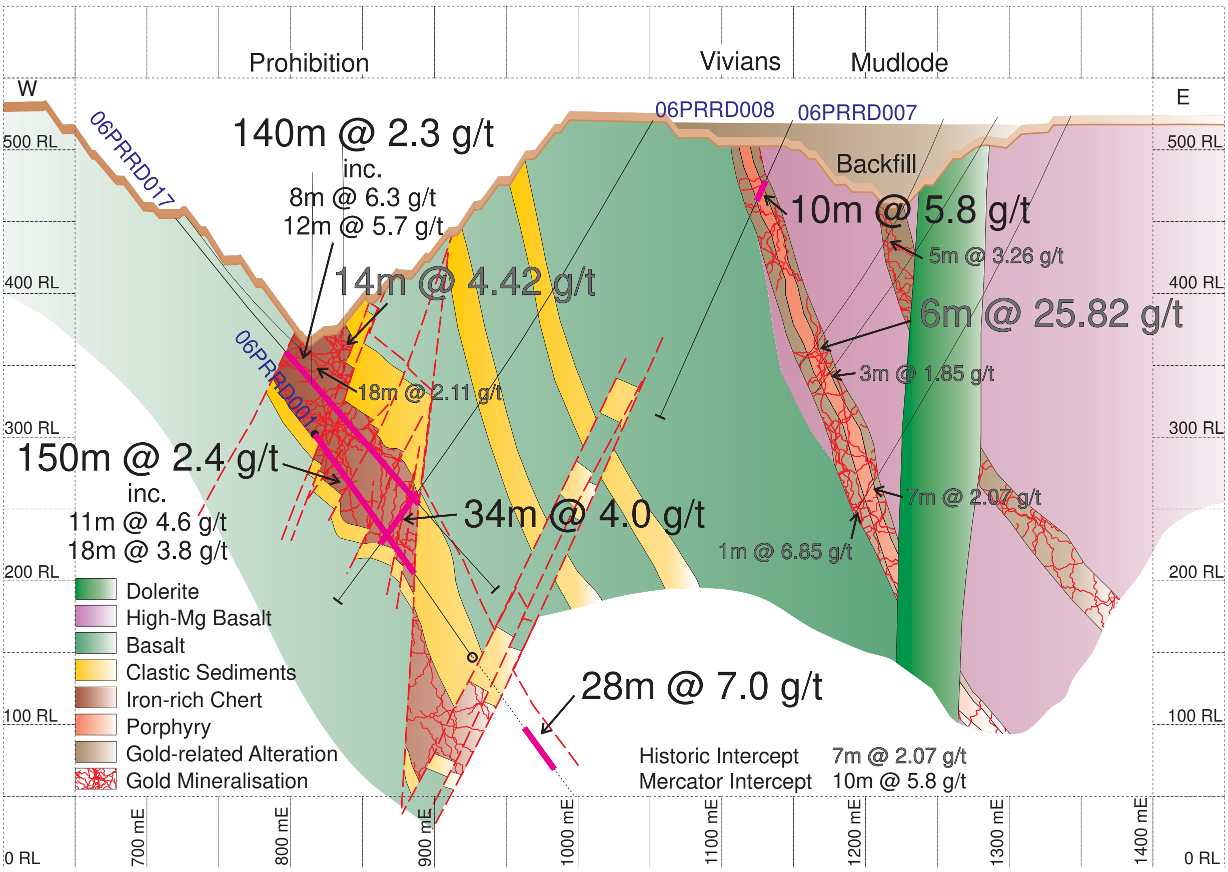
Above: Surprise cross section; top: gold in drill core from hole 06SURD030

Paddy's Flat

The Paddy's Flat area, located adjacent to the Meekatharra town site and 17km north of the Yaloginda gold processing facility, formed part of the 2006 asset purchase. In March 2006 Mercator implemented a number of strategies aimed at both enlarging and improving the quality of legacy resources and moving to mineable resources. To date, a combination of field mapping, structural geology, SpaDiS™ analysis, data validation and detailed logging of drill core has been used to achieve these aims.

Work was initially targeted at the Prohibition–Vivian –Consols (PVC) area. Two styles of mineralisation are evident within the PVC area. The Vivian–Consols mineralisation is characterised by narrow high-grade vein-related mineralisation within and adjacent to porphyry intrusions. The Prohibition mineralisation is characterised by sulphide replacement of iron oxide and fault breccia-related gold enrichment within an extensive iron-rich chert of about 30m thick. SpaDiS™ analysis at the Prohibition pit suggested that the existing resource at Prohibition could be better modelled, and drilling by Mercator at Prohibition demonstrated continuity of mineralisation within and between fault-controlled lodes. At Paddy's Flat data validation, geological mapping and quality structural geology continue synchronously with drilling.

The initial exploration drilling programme at PVC is nearing completion and infill resource drilling on a 40m x 40m spacing commenced in September. Continued drilling, geological modelling and resource modelling will see updated resource figures calculated in the first half of 2007.



Schematic geological section through PVC – 3100mN

PROHIBITION VIVIAN CONSOLS AND MUDLODE (PVC) DRILLING 2006							
Hole ID	**Depth down angled hole from m**	**Intersect m @ g/t**	**Grade thickness g.m/t**	**Hole ID**	**Depth down angled hole from m**	**Intersect m @ g/t**	**Grade thickness g.m/t**
06PRRD001	171	150 @ 2.44	366		148	7 @ 4.2	
including	171	5 @ 4.78			175	8 @ 6.34	
	186	6 @ 4.57			193	12 @ 5.72	
	195	7 @ 4.51		06VIRD002	222	29 @ 4.02	116.58
	204	11 @ 4.59		and	253	18 @ 3.99	71.82
	216	18 @ 3.85		and	273	7 @ 6.76	47.32
	235	5 @ 4.11		06VIRD001	189	26 @ 3.64	94.64
	288	12 @ 2.72		and	178	8 @ 3.53	28.24
and additional intersects	27	7 @ 6.54	45.78	06PRRD008	307	7 @ 13.54	94.78
	402	28 @ 6.96	194.88	and	296	1 @ 24.56	24.56
06PRRD016	102	100 @ 3.47	347	06VIRD004	279	2 @ 44.42	88.84
including	118	4 @ 7.98		06PRRD007	64	10 @ 5.82	58.2
	141	11 @ 2.23		06PRRD004A	305	13 @ 3.88	50.44
	153	7 @ 3.15		and	319	14 @ 3.72	52.08
	164	38 @ 6.05		and	338	3 @ 9.27	27.81
and additional intersect	220	5 @ 4.95	24.75	06PRRD005	364	8 @ 3.45	27.6
06PRRD017	121	140 @ 2.3	322	06PRRD019	49	4 @ 6.6	26.4
including	121	8 @ 6.12		06PRRD013	145	2 @ 12.26	24.52
	131	9 @ 3.38		06PRRD003A	352	6 @ 3.45	20.7

Meekatharra flora and fauna

Meekatharra North Project (Maid Marion)

The Meekatharra project is located 15km north-northeast of Meekatharra township and includes the Maid Marion area on Sherwood station. At Meekatharra North the Company has continued field data collection to produce regolith and geology maps at regional scale, historic data validations and a magnetic lag orientation programme. The Company is currently active with a RC programme and is investigating geophysical exploration options. Maid Marion's intense weathering of the rocks is an important logistical factor for low cost potential future production.

REGIONAL AIRCORE AND RAB DRILLING 2006

Hole ID	Depth down angled hole from m	Intersect m @ g/t	Grade thickness g.m/t
Rhens Air core			
06RNAC047	18	2 @ 5.06	10.12
06RNAC050	85	1 @ 2.73	2.73
06RNAC051	47	1 @ 1.41	1.41
06RNAC055	26	1 @ 1.87	1.87
06RNAC060	38	1 @ 2.67	2.67
06RNAC064	60	2 @ 3.79	7.58
Twelve Mile Well RAB			
06TMRB035	36	4 @ 1.32	5.28
and	48	2 @ 1.02	2.04
06TMRB064	18	2 @ 1.23	2.46
Whangamata RAB			
06WHRB002	22	2 @ 2.03	
and	32	12 @ 1.51	18.12
and	48	12 @ 1.52	18.24
06WHRB007	42	6 @ 2.36	14.16
06WHRB008	70	2 @ 1.23	2.46

Regional exploration

Rotary air blast (RAB) and air-core drilling are low-cost targeting tools and results worthy of follow-up may be concentrations of less than a gram per tonne of gold. RAB and air-core drilling has been undertaken at several prospects with successes at Rhens, Twelve Mile Well and Whangamata. The accompanying table identifies holes with more than 1m @ 1g/t. Significant results will be followed up with RC drilling.

Exploration at Rhens follows from the Company's open pit and regional geology mapping that identified several drilling targets. The best results highlight an east-dipping zone of mineralisation associated with a thick low-grade supergene blanket. Subsequent evaluation will require in-fill AC drilling and follow-up RC drilling.

Exploration at Twelve Mile Well was aimed at testing a regional airborne magnetic structure with a notable NNW trend. The structure is the direct northern extension of the shear zone that hosts gold at both Caledonian and Aladdin open pits. Further drilling is planned.

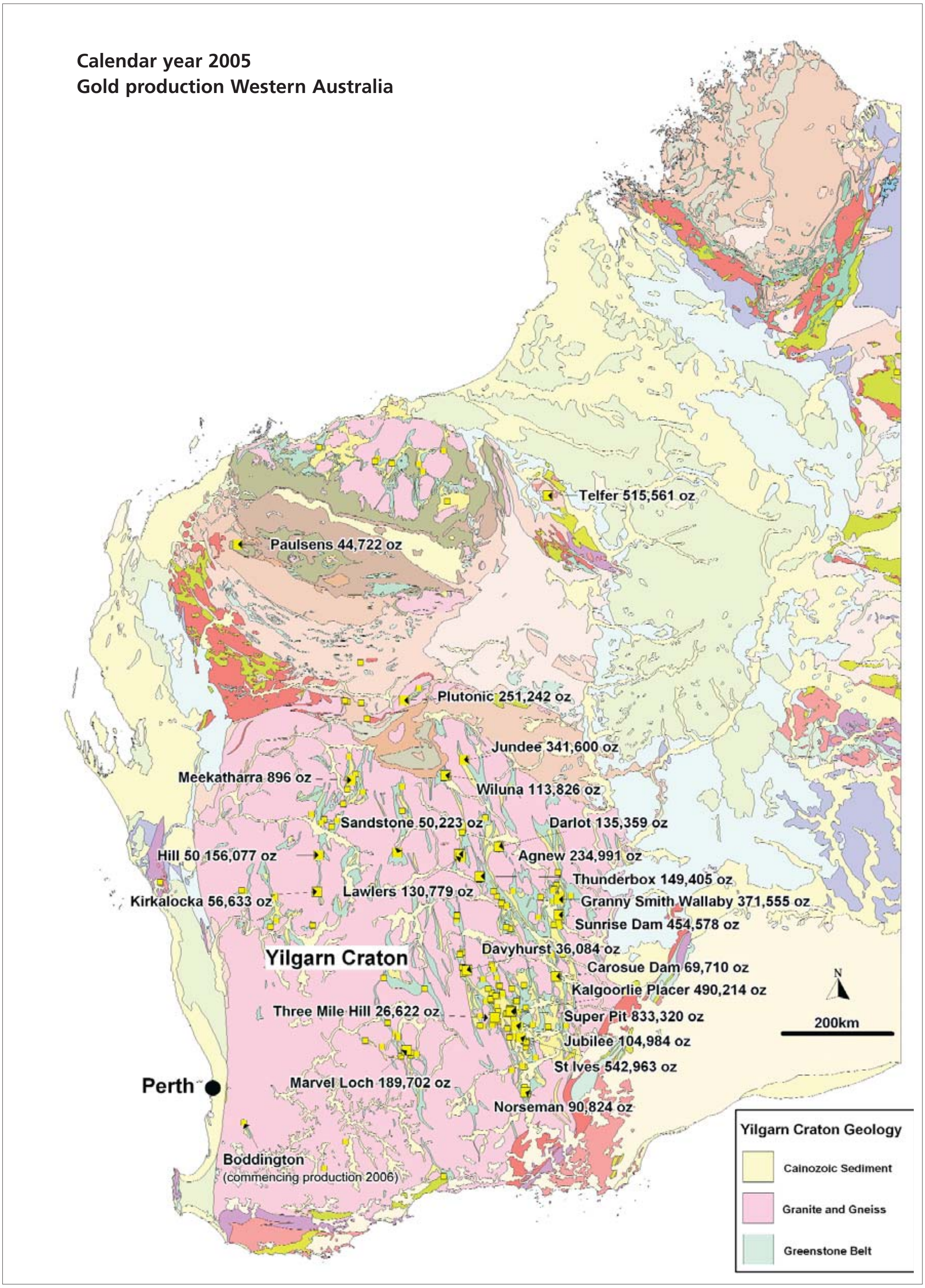
Drilling at Whangamata targeted a SE-NW structural continuation of mineralisation in the abandoned Whangamata open pit. Early results are extremely encouraging and will be followed up with infill RAB and subsequent RC drilling.

In addition to the above drilling programmes, the Company has conducted a detailed but not exhaustive desktop review of its tenements and data. This review highlights a number of exploration opportunities for a variety of commodities including gold, copper and vanadium. These projects are identified on tenements in all corners of the Company's large ground holding. The board of Mercator is currently examining priority and corporate scenarios for funding exploration and maximising the value of all tenements, without distracting from the critical task of identifying mineable resources at Yaloginda and Paddy's Flat.

EXPLORATION PROJECTS				
Project	**Commodity**	**Geology**	**Past exploration**	**Future upside**
Mt Vranizan	Gold	>600m linear of anomalous gold and old workings that have produced about 40,000oz.	RC drilling on about 40m centres including results such as 5m @ 39.2g/t, 3m @ 27.6g/t and 3m @ 21.4g/t.	RAB drilling anomalous soils, RC drilling to verify legacy data and resource evaluation of oxide ores.
Ajax	Gold	Classic Archaean supercrustal sequence overlain by laterites in the Abbotts Greenstone Belt.	Multi-element geochemical anomalies located in the Maglag survey conducted by the Company in late 2005.	RAB drilling areas of anomaly in the Maglag survey.
Bourkes Find	Gold	Mafic and ultramafic volcanic rocks typical of greenstone belt with shear zones and cross faults.	Some old workings and RAB and RC drilling with a best result of 6m @ 17.6g/t.	Data validation, and infill drill programme in mineralised zones and regional RAB programme to identify new resources.
Nannine	Gold	Banded-iron formation and basalts in a folded, sheared and cross faulted sequence, including the Caledonian and Aladdin abandoned mines.	In excess of 200,00oz gold have been produced from this area.	Systematic RAB drilling programme through the faulted central area between Caledonian and Aladdin open pits. Deep RC and diamond core drilling at Aladdin and Nannine Reef.
Yagahong	Copper	North-trending shear zone with northeast cross faults in the typical greenstone belt sequence, including layered intrusion.	In 1971 a copper resource of 1.9Mt @ 0.89% was announced although this would be considered unreportable by today's standards.	Detailed geology review and initial RC and diamond core programme to test copper mineralisation and potential for future resource drilling.
	Titanium and vanadium	The tenements lie immediately north and along strike from a resource of 37Mt @ 0.75% V2O5.	Not known.	Test using geophysics and drilling the probable extension of the layered intrusion.
	Gold	Numerous old workings and surrounding the Gabanintha abandoned mines with resource of 148,000t @ 10.7g/t .	Best result of 4m @ 5.8g/t.	Explore in conjunction with copper search involving regional RAB drilling and focused followed up with RC drilling.
Quinns	Copper, gold	Mafic and felsic volcanic rocks, graphite schist and banded iron formation with large metamorphosed alteration system with andalusite and kyanite.	Copper and separately examined for gold in the past, results include intersects of 4m @ 1.6g/t Au, 5.83% Cu and 24.7g/t Ag, and in the same hole 3m @ 3.3 % Zn. Area has produced about 40,000oz gold.	Detailed technical review including mapping and alteration study to deduce modern genetic model. Geophysical data to be re-analysed and targets tested in RC and diamond core drilling to identify copper-gold resources.
Reedy	Gold	Line of mineralisation along Reedy shear zone, east of the sub-round Reedy granite, that has produced more the 650,000oz gold.	Indicated resource of 2.0Mt @ 2.4g/t for 159,000oz and inferred resource of 2.4Mt @ 2.4g/t for 182,000oz of gold.	Following from detailed data validation and analysis two programmes. The first targeting high-grade underground resources and the second testing regional potential for open pittable oxide ore in the area around Reedy.
Stakewell	Gold	Folded and faulted banded iron formation in mafic volcanic rocks.	Gold previously mined at Kohinoor. Exploration results include 28m @ 2.7g/t.	Detailed structural mapping and drilling across faults to identify new lode positions.

Consent for release

Julian Vearncombe BSc (Hons), PhD, FGS, RPGeo, FAIG is a director of the Company and consents to the inclusion of the exploration information in the form and context in which it appears here. Julian Vearncombe is a Competent Person for the reporting of these results as defined by the JORC Code 2004 Edition.



Calendar year 2005 production - thanks to Surbiton Associates Pty Ltd

Notes: Meekatharra production 896oz – not Mercator   Background geology after geological survey of Western Australia

Terrence John Strapp **CPA, F FIN, MAICD**

Non-executive Chairman (aged 62)

Terry Strapp was appointed as a Director and Chairman on 7 July 2004. He has extensive experience in banking, finance and corporate risk management and has been actively involved in the mining industry for the last twenty years. He is currently Chairman of Oakvale Capital Limited, a leading independent specialist financial risk management business in Australia, is a Director of Ausdrill Limited, Director Acorn-Online Treasury Management Pte Ltd, and Chairman of the Wesley College Endowment Fund. He has held, over the years, numerous positions on public company boards, including as Executive Chairman of Zapopan NL, Chairman of Pac Min Limited (formerly Camelot Resources NL) and as a director of Mount Gibson Mining Limited. He is a Certified Practising Accountant (CPA), a Fellow of the Financial Services Institute of Australasia, and a member of the Australian Institute of Company Directors (MAICD).

Patrick Aloysius Harford **BSc (Hons)**

Managing Director (aged 54)

Patrick Harford was appointed as Managing Director on 22 March 2004. He graduated with Honours in Geomorphology from Melbourne University in 1973. He has had experience in gold and diamond exploration and production in Australia and southern Africa. His past roles have seen Patrick involved with Grants Patch Mining Limited (as Managing Director, when that company operated an alluvial gold mine in the Northern Territory), Zapopan NL (during the period that it located and developed the Mt Todd and Tanami mines in the Northern Territory) and Auridiam Consolidated NL (during that company's successful construction of a two million ton per annum diamond mine in Zimbabwe

Michael John de Villiers
BComm, Professional Accountant (SA) MOID

Finance Director (aged 43)

Michael de Villiers was appointed Finance Director on 22 March 2004. He qualified as a Professional Accountant, (SA) with Ernst & Young in Cape Town. Michael gained his experience as financial manager at mining and chemical operations in Namibia, Botswana, Ghana and Bulgaria. He was previously Finance Director of Oxus Gold plc and Navan Mining plc. He is currently a director of Ariana Resources plc and Davos Resources plc.

Julian Richard Vearncombe
BSc (Hons), PhD, FGS, RPGeo, FAIG

Exploration Director (aged 51)

Dr Julian Vearncombe was appointed Exploration Director on 15 April 2004. He is an experienced geologist, with expertise in finding gold, base metals and kimberlites – he has been a crucial member of exploration teams that have located over five million ounces of gold. His career has involved academia, management, exploration and mine geology; he has established structural controls on mineralisation and developed predictive technologies for the mineral exploration and mining industries. Upon leaving academia, Julian worked as a consultant to various exploration and mining companies. Mine geology projects have included resource geometry evaluation, structural geology and staff training. Exploration projects have included due diligence, geological mapping, spatial pattern analysis, target generation and the identification of joint venture partners and projects.

Denis Geldard
AWASM (Mining Eng), M.Aust IMM

Operations Director (aged 60)

Denis Geldard was appointed Operations' Director on 7 February 2006. He is a mining engineer with considerable international and Australian gold mining experience. He was previously a Senior Manager in the Iluka Resources Ltd Group in Australia, Indonesia and the USA, and has extensive previous production experience managing gold operations in Western Australia including the Meekatharra gold belt. From January 1999 until January 2002 Mr Geldard was the Operations Director of PT Koba Tin.

Richard Nicholas Allen

Non-executive Director (aged 70)

Nick Allen was appointed as a non-executive Director on 7 April 2004. He has worked in the mining industry for over 40 years, primarily in diamond mining and marketing, including lengthy periods with Consolidated African Selection Trust and D Drukker & Zn, a De Beers Industrial distributor in the UK and India.

Michael Elias **BSc (Hons), FAusIMM, CPGeo**

Non-executive Director (aged 55)

Michael Elias was appointed as a non-executive Director on 7 July 2004. He is a geologist with over 30 years' of experience in the mining industry. He has worked with WMC Resources (mainly in nickel projects, including as Chief Geologist Resource Development, Nickel Division) and Geological Survey of Western Australia. He is currently a director of Braemore Resources (AIM), Australian Mines Limited (ASX) and a private consultancy, CSA Australia.

The Directors present their report and audited financial statements for the year ended 30 June 2006.

Principal Activities and Future Developments

The principal activity of the Group is exploration for gold in Australia. The principal activity of the Company is that of a holding company.

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 most recent being May 2006.

Business Review

The Group has undergone a period of substantial growth and development which has culminated in the acquisition of the balance of the Annean Joint Venture assets and mining infrastructure at Meekatharra. These activities are reported on in more detail in the Chairman's Report and the details of the Accounts. The Exploration Report discusses the Groups' results and activities in terms of industry standard key exploration measures. The financial position of the group is detailed in the Consolidated Balance Sheet. At 30 June 2006, the Group's cash balance was £13.3million, which the Directors consider to be adequate to meet its current plans.

Future Developments

The Group will continue to explore the Meekatharra Tenements with a view to establishing mineable resouces suitable for the establishment of a profitable gold mining operation.

Financial and Other Risk Management, Objectives and Policies

The business of gold exploration has an inherent risk of the Company's failing to discover a viable deposit of gold within the limits of the Company's present resources. The Board is aware of this and continuously reviews progress on all of the various exploration targets against planned expenditure and expected outcomes. The Company takes out suitable insurance against operational and corporate risk that are anticipated as being material. The Company does not presently hold any forward or hedge positions in either currency or gold. These are presently not deemed necessary and are reviewed from time to time. There is an inherent risk of operating between different currencies, namely GBP and AUD$ and the Board monitors and reviews this exposure on a regular basis.

The location of the Company's principal operations is in Australia and its corporate base is in the United Kingdom, both of which locations are considered stable, with advanced economic and legal infrastructures.

Further details of the Group's financial risk management objectives and policies are set out in note 17 to the financial statements.

Directors

The Directors who served during the period were:

T J Strapp	
P A Harford	
M J de Villiers	
J R Vearncombe	
D Geldard	*(appointed 7 February 2006)*
S Vearncombe	*(resigned 1 December 2005)*
R N Allen	
M Elias	
P R Loudon	*(resigned 3 November 2005)*

Directors' Interests

Share Interests

All 30 June 2005 comparative numbers of share interests or warrants have been adjusted for the 10:1 share consolidation of 18 January 2006.

The directors of the Company who held office at 30 June 2006 held the following beneficial interests (including interests held by spouses and minor children) in the ordinary shares of the Company:

	30 June 2006 No. of Shares	30 June 2005 No. of Shares
T J Strapp	345,000	20,000
P A Harford	1,650,010	1,650,010
M J de Villiers	277,000	60,000
J R Vearncombe	300,000	300,000
R N Allen	-	-
M Elias	20,000	10,000
D Geldard	-	-
Total	2,592,010	2,040,010

J R Vearncombe and S Vearncombe also have a beneficial interest in a further 60,000 shares (2005: 20,000) through the Vearncombe Superannuation Fund.

Share Options

The directors of the Company held share options granted under the Company's Share Option Scheme, as indicated below. No share options were exercised during the period.

	Options issued	Date issued	Expiry date	Exercise price	30 June 2006 Balance
T J Strapp	75,000	19 Nov 2004	18 Nov 2014	£1.00	75,000
	400,000	31 Jan 2006	30 Jan 2016	£0.60	400,000
	200,000	10 May 2006	9 May 2011	£0.85	200,000
T J Strapp – total	**675,000**				**675,000**
P A Harford	10,000	29 Sept 2004	7 Oct 2009	£0.80	10,000
	815,000	29 Sept 2004	7 Oct 2009	£0.80	815,000
	75,000	19 Nov 2004	18 Nov 2014	£1.00	75,000
	200,000	31 Jan 2006	30 Jan 2016	£0.60	200,000
	100,000	10 May 2006	9 May 2011	£0.85	100,000
P A Harford – total	**1,200,000**				**1,200,000**
M J de Villiers	75,000	19 Nov 2004	18 Nov 2014	£1.00	75,000
	125,000	14 April 2005	13 April 2015	£1.20	125,000
	125,000	31 Jan 2006	30 Jan 2016	£0.60	125,000
	100,000	10 May 2006	9 May 2011	£0.85	100,000
M J de Villiers – total	**425,000**				**425,000**
J R Vearncombe	75,000	29 Sept 2004	7 Oct 2009	£0.80	75,000
	75,000	19 Nov 2004	18 Nov 2014	£1.00	75,000
	125,000	31 Jan 2006	30 Jan 2016	£0.60	125,000
	50,000	10 May 2006	9 May 2011	£0.85	50,000
J R Vearncombe – total	**325,000**				**325,000**
D Geldard	200,000	27 Feb 2006	26 Feb 2016	£0.75	200,000
	100,000	10 May 2006	9 May 2016	£0.85	100,000
D Geldard - total	**300,000**				**300,000**
S Vearncombe	75,000	29 Sept 2004	7 Oct 2009	£0.80	75,000
	75,000	30 June 2005	29 June 2015	£1.00	75,000
	150,000	27 Feb 2006	26 Feb 2016	£0.75	150,000
	50,000	10 May 2006	9 May 2011	£0.85	50,000
S Vearncombe – total	**350,000**				**350,000**
R N Allen	50,000	19 Nov 2004	18 Nov 2014	£1.00	50,000
	75,000	31 Jan 2006	30 Jan 2016	£0.60	75,000
	20,000	23 May 2006	22 May 2011	£0.85	20,000
R N Allen – total	**145,000**				**145,000**
M Elias	50,000	19 Nov 2004	18 Nov 2014	£1.00	50,000
	75,000	31 Jan 2006	30 Jan 2016	£0.60	75,000
	20,000	23 May 2006	22 May 2011	£0.85	20,000
M Elias – total	**145,000**				**145,000**
P R Loudon	100,000	29 Sept 2004	7 Oct 2009	£0.80	100,000
	50,000	19 Nov 2004	18 Nov 2014	£1.00	50,000
P R Loudon – total	**150,000**				**150,000**
Total Directors' options	**3,715,000**				**3,715,000**

Warrant Interests

The directors of the Company who held office at 30 June 2006 held the following beneficial interests (including interests held by spouses and minor children) in warrants to subscribe for ordinary shares of the Company:

	Warrants issued	Date issued	Expiry date	Exercise price	30 June 2006 Balance
M J de Villiers – total	**67,000**	29 Sept 2004	7 Nov 2006	£1.00	**67,000**
J and S Vearncombe Superannuation Fund	**40,000**	29 Sept 2004	7 Nov 2006	£1.00	**40,000**
Total Directors' warrants	**107,000**				**107,000**

Further details of share options and share warrants are in Note 18.

Share Capital

The authorised share capital of the Company at 30 June 2006 was £20,000,000 (2005: £9,000,000) divided into 200,000,000 Ordinary Shares of 10 pence each. (2005: 900,000,000 shares of £0.01 each.)

Section 95 of the Companies Act 1985 provides that any shares being issued for cash must in general be issued to all existing shareholders pro-rata to their holding. However, where directors have a general authority to allot shares they may be given power by the Articles or by a special resolution to allot shares pursuant to the authority as if the statutory pre-emption rights did not exist.

At an Extraordinary General Meeting held on 30 August 2005 the Board was given authority to offer the holders of 8 pence warrants, constituted by a warrant instrument dated 29 September 2004, the entitlement to subscribe for one ordinary share at 8 pence, and for a limited time, to receive one warrant to subscribe for one ordinary share at 10 pence.

On 6 October 2005 the Company issued 12,500,000 ordinary shares of 1 pence each in the share capital of the Company for the exercise of 12,500,000 8 pence warrants. The Company also issued warrants to subscribe for 12,500,000 shares at an exercise price of 10 pence each at any time up to 7 November 2006.

On 26 October 2005 the Company passed the following resolutions:

(a) An ordinary resolution to authorise the Directors, pursuant to section 80 of the Companies Act, to allot relevant securities up to an aggregate nominal amount of £9,000,000 provided that the authority shall expire upon the date falling five years after the passing of the resolution;(b) A special resolution that the Directors be empowered to allot or agree to allot equity securities pursuant to the authority referred to in sub-paragraph (a) above as if section 89(1) of the Companies Act did not apply to such allotment.

On 21 November 2005 the Company issued 20,000 ordinary shares of 1 pence each in the share capital of the Company for the exercise of 20,000 8 pence warrants. The Company also issued warrants to subscribe for 10,000 shares at an exercise price of 10 pence each at any time up to 7 November 2006.

On 14 December 2005 the Company issued 200 Convertible Loan Notes of £5,000 each which are repayable 24 months after issue and may be converted into ordinary shares of 10 pence after 12 months at 60 pence per share.

At an Extraordinary General Meeting held on 18 January 2006 the Directors were authorised to:

(i) consolidate and convert the ordinary shares of 1 pence each into 10 pence each;
(ii) approve the acquisition of the Meekatharra Assets;
(iii) increase the authorised share capital of the Company to £20,000,000 by the creation of 110,000,000 ordinary shares of 10 pence each;
(iv) allot equity security for cash up to an aggregate nominal amount of £20,000,000, such authority to expire on the earlier of 15 months from the date of the resolution or the date of the next Annual General Meeting;
(v) grant the directors one million options at 60 pence for a period of ten years on completion of the Meekatharra Sale Agreement.

On 18 January 2006 the Company issued 18,230,000 shares at 50 pence per share for cash.

On 20 January 2006 the Company granted warrants to subscribe for 273,450 ordinary shares in the Company at a price of 75 pence until 20 January 2009.

On 20 January 2006 the Company granted warrants to subscribe for 50,000 ordinary shares in the Company at a price of 60 pence until 20 January 2009.

On 31 January 2006 the Company issued 11,016,949 shares pursuant to the terms of the sale and purchase agreement with St Barbara Ltd dated 28 October 2005.

On 31 January 2006 the Company granted one million options in terms of the resolution dated 18 January 2006.

On 27 February 2006 the Company granted options to subscribe for 620,000 ordinary shares in the Company at 75 pence until 27 February 2016.

On 21 March 2006 the Company issued 26,365 shares at 60 pence in lieu of interest.

On 2 May 2006 the Company issued 14,285,715 shares at 70 pence for cash.

On 10 May 2006 the Company granted options to subscribe for 700,000 ordinary shares in the Company at 85 pence until 10 May 2011.

On 23 May 2006 the Company granted options to subscribe for 40,000 ordinary shares in the Company at 85 pence until 23 May 2011.

On 27 June 2006 the Company issued 29,142 shares at 60 pence in lieu of interest.

On 11 September 2006 the Company issued 28,828 shares at 60 pence in lieu of interest.

The Company's shares traded between closing prices of 53 pence and 89 pence. At 30 June 2006 the mid-market price was 70 pence.

Substantial Share Interests

The Company had been notified of the following interests in Shares held as at 12 October 2006:

	Ordinary Shares	%
St Barbara Mines	11,016,949	20.56
First State Investments	4,503,571	8.41
Morgan Stanley	3,124,643	5.83
Chasm Lake	2,990,000	5.58
AXA Framlington	2,625,466	4.90
Walker Crips Weddle Beck	2,128,848	3.97
New Star Asset Management	1,740,623	3.25
Resources Services	1,729,186	3.23
Caledonian Capital	1,630,000	3.04
HSBC Republic Bank Suisse	1,610,000	3.00

Statement of Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Corporate Governance and Financial Control

The Board of Directors
The Directors support the highest standards of corporate governance and aim to observe the requirements of the Combined Code to the extent that they consider appropriate in light of the Company's size, stage of development and resources.

The Directors are responsible for the Group's system of internal control and for reviewing its effectiveness. The risk management process and systems of internal control are designed to manage rather than eliminate the risk of failure to achieve the Company's objectives. Any such system of internal financial control can only provide reasonable but not absolute assurance against material misstatement or loss.

At least six Board meetings are held per year at which reports relating to the Group's operations, together with financial reports, are considered. The executive Directors meet regularly to review operational reports from all the Group's areas of operations. The process is used to identify major business risks and evaluate their financial implications and ensure an appropriate control environment. Certain control over expenditure is delegated to on site project managers subject to Board control by means of monthly budgetary reports. Internal financial control procedures include:

- Preparation and regular review of operating budgets and forecasts
- Prior approval of all capital expenditure
- Review and debate of treasury policy
- Unrestricted access of non-executive Directors to all members of senior management.

The Board, in conjunction with members of the Audit Committee, has reviewed the effectiveness of the system of internal control for the period from 26 September 2005 to the date of this report.

Audit Committee
The Audit Committee comprises Terry Strapp as Chairman, and Nick Allen, with Michael de Villiers as Advisor. The Committee meets twice a year and at any other time when it is considered appropriate to consider and discuss audit and accounting related issues. The Committee will make recommendations on the appointment of the auditors and the audit fees, be responsible for ensuring the financial performance of the Group is properly monitored and reported on and will receive and review reports from management and auditors relating to the interim reports, the annual report and accounts and internal control systems of the Group. The Committee will have the opportunity to meet the auditors without other executive Board members being present.

Remuneration Committee
The Remuneration Committee comprises Nick Allen as Chairman and Michael Elias. The Committee will meet at any time when it is considered appropriate to review and make recommendations on the remuneration arrangements for Directors and senior management, including any bonus arrangements and the award of share options, having regard to the performance of the Group and the interests of shareholders. The remuneration and terms of appointment of non-executive Directors will be set by the Board.

Total Directors' emoluments are disclosed in note 6 to the financial statements and the Directors' options are disclosed above. During the reporting period 770,000 options were granted to employees.

The Directors will comply with Rule 19 of the AIM rules relating to Directors' dealings and will take all reasonable steps to ensure compliance by the Company's Directors and applicable employees.

Dividends and Profit Retention

No dividend is proposed in respect of the period and the retained loss for the period of £1,836,625 (2005: £867,319) has been taken to reserves.

Policy on Payment of Suppliers

The Company's policy is to settle terms of payment with its suppliers when agreeing the terms of each transaction, ensuring that suppliers are made aware of the terms of payment, and abiding by the agreed terms. The number of days of trade creditors outstanding at the period end was 15 days.

Provision of information to auditors

In the case of each of the directors who are directors of the Company at the date when this report is approved:

- So far as they are individually aware, there is no relevant audit information of which the Company's auditors are unaware; and
- Each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of the information.

Auditors

A resolution for the reappointment of PKF (UK) LLP will be proposed at the forthcoming annual general meeting.

By order of the Board

M J de Villiers
Secretary
26 October 2006

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MERCATOR GOLD plc

We have audited the group and parent company financial statements ('the financial statements') of Mercator Gold plc for the year ended 30 June 2006 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes. The financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom accounting standards ('United Kingdom Generally Accepted Accounting Practice') are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the chairman's report, the managing director's report, the exploration report and the report of the directors. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

We report to you whether in our opinion the information given in the report of the directors is consistent with the financial statements.

The information in the report of the directors includes that specific information presented in the chairman's report and exploration report that is cross referenced from the business review section of the report of the directors.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the parent company's affairs as at 30 June 2006 and of the Group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the report of the directors is consistent with the financial statements.

PKF (UK) LLP
REGISTERED AUDITORS
London

26 October 2006

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 30 June 2006

	Notes	2006 £	2005 £
Administrative expenses		(2,127,615)	(926,654)
Other income		233,469	-
Operating loss	*4*	(1,894,146)	(926,654)
Interest payable and similar items	*6*	(94,682)	(2,162)
Interest receivable and similar items	*6*	152,203	61,497
Loss on ordinary activities before taxation		(1,836,625)	(867,319)
Taxation	*7*	-	-
Loss on ordinary activities after taxation		(1,836,625)	(867,319)
Loss per share	*8*	(7.5)p	(20.3)p

All amounts relate to continuing activities

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 30 June 2006

	2006 £	2005 £
Loss for the financial year	(1,836,625)	(867,319)
Exchange adjustments on foreign currency net investments	(929,394)	-
Total recognised gains and losses for the financial year	(2,766,019)	(867,319)

CONSOLIDATED BALANCE SHEET

At 30 June 2006

GROUP

	Notes	2006 £	2005 £
Fixed assets			
Intangible	*10*	10,529,014	1,453,885
Tangible	*9*	2,859,412	65,934
Total fixed assets		13,388,426	1,519,819
Current assets			
Stocks	*12*	91,687	-
Debtors	*13*	403,524	194,972
Cash at bank and in hand		13,297,216	954,467
Total current assets		13,792,427	1,149,439
Creditors - amounts falling due within one year	*14*	(1,140,995)	(572,611)
Net current assets		12,651,432	576,828
Total assets less current liabilities		26,039,858	2,096,647
Creditors – amounts falling due after more than one year	*15*	(854,784)	-
Provisions for liabilities	*16*	(1,205,594)	-
Net assets		23,979,480	2,096,647
Capital and reserves			
Called -up share capital	*18(b)*	5,355,215	871,198
Share premium account	*18(b)*	22,528,660	2,492,599
Merger reserve	*18(c)*	(399,831)	(399,831)
Other reserves	*18(d)*	128,774	-
Profit and loss account	*19*	(3,633,338)	(867,319)
Equity shareholders' funds		23,979,480	2,096,647

The financial statements were approved and authorised for issue by the Board of Directors on 26 October 2006

P A Harford
Director

M J De Villiers
Director

26 October 2006

At 30 June 2006

COMPANY

	Notes	2006 £	2005 £
Fixed assets			
Tangible	*9*	6,973	5,622
Investment	*11*	450,000	450,000
Long term loan – subsidiary	*11*	25,218,247	1,720,422
Total fixed assets		25,675,220	2,176,064
Current assets			
Debtors	*13*	124,412	60,539
Cash at bank and in hand		1,979,963	681,246
Total current assets		2,104,375	741,785
Creditors - amounts falling due within one year	*14*	(172,285)	(125,216)
Net current assets		1,932,090	616,569
Total assets less current liabilities		27,607,310	2,792,633
Creditors – amounts falling due after more than one year	*15*	(854,784)	-
Net assets		26,752,526	2,792,633
Capital and reserves			
Called-up share capital	*18(b)*	5,355,215	871,198
Share premium account	*18(b)*	22,528,660	2,492,599
Other reserves	18(d)	128,774	-
Profit and loss account	*19*	(1,260,123)	(571,164)
Equity shareholders' funds		26,752,526	2,792,633

The financial statements were approved and authorised for issue by the Board of Directors on 26 October 2006

P A Harford
Director

M J De Villiers
Director

26 October 2006

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2006

	Notes	2006 £	2005 £
Net cash outflow from operating activities	*20(a)*	(376,588)	(527,002)
Returns on investments and servicing of finance	*20(b)*	138,752	29,718
Capital expenditure and financial investment	*20(c)*	(11,988,877)	(1,541,832)
Net cash outflow before management of liquid resources and financing:		(12,226,713)	(2,039,116)
Management of liquid resources		(12,939,994)	(647,000)
Financing	*20(d)*	25,426,774	2,963,966
Increase in cash in the period		260,067	277,850
Reconciliation of net cash flow to movement in net funds	*20(e)*		
Increase in cash in the period		260,067	277,850
Movement in short term deposits		12,939,994	647,000
Exchange differences		(857,312)	29,617
Increase in cash and short term deposits		12,342,749	954467
Increase in debt due after more than one year		(854,784)	-
Movement in net funds in the period		11,487,965	954,467
Net funds at 30 June 2005		954,467	-
Net funds at 30 June 2006		12,442,432	954,467

SHAREHOLDERS' FUNDS

For the year ended 30 June 2006

	2006 £	2005 £
Loss for the financial year	(1,836,625)	(867,319)
Exchange adjustments on foreign currency net investments	(929,394)	-
Merger reserve arising on consolidation	-	(399,831)
Equity reserve arising on issue of convertible loan notes	128,774	-
New share capital issued	24,520,078	3,363,797
Net addition to shareholders' funds	21,882,833	2,096,647
Opening shareholders' funds	2,096,647	-
Closing shareholders' funds	23,979,480	2,096,647

1 Accounting policies

Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Application of going concern basis and availability of finance

These financial statements are prepared on a going concern basis, notwithstanding the loss for the period to 30 June 2006 of £1,836,625 (2005: £867,319), 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 most recent being in May 2006.

The company is currently undertaking an extensive work programme covering various tenements at Meekatharra. This work programme includes the feasibility studies on projects that are considered to be near term production targets. Following the Company's acquisition of the Yaloginda Mill at Meekatharra, the Company has committed to a refurbishment programme which is scheduled for completion in January, 2007.

The Directors are of the opinion that the Company has sufficient funds to complete the above mentioned work programme and plant refurbishment, for at least the next twelve months from the date of approval of these financial statements. On completion of the feasibility studies of the near term target areas, the Company will be better able to assess the likely timing of gold production, cash flow and further capital expenditure requirements for these areas. This will also determine the future demand for working capital and funding for continued exploration and development work programmes and the requirement, if any, for further fundraising.

Basis of consolidation

The Group accounts consolidate the accounts of Mercator Gold plc and its subsidiary undertaking. The acquisition by the Company of Mercator Gold Australia Pty Ltd in August 2004 was accounted for in accordance with the principles of Merger accounting set out in Financial Reporting Standards 6 on "acquisitions and mergers". Accordingly, the consolidated financial statements are presented as if Mercator Gold Australia Pty Ltd has been controlled by the Company throughout the period from its incorporation on 19 January 2004.

Exploration and development costs

All costs associated with mineral exploration and investments are capitalised on a project-by-project basis, pending determination of the feasibility of the project. Costs incurred include appropriate technical and administrative expenses but not general overheads. If an exploration project is successful, the related expenditures will be transferred to mining assets and amortised over the estimated life of the commercial ore reserves on a unit of production basis. Where a licence is relinquished or a project abandoned, the related costs are written off. Where the Group maintains an interest in a project, but the value of the project is considered to be impaired, a provision against the relevant capitalised costs will be raised.

The recoverability of all exploration and development costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of reserves and future profitable production or proceeds from the disposition thereof.

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual liabilities of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities, and are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any features meeting the definition of a financial liability then such capital is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Financial assets are recognised in the balance sheet at the lower of cost and net realisable value. Provision is made for diminution in value where appropriate.

Compound financial instruments

Compound financial instruments comprise of both liability and equity components. At issue date, the fair value of the liability component is estimated by discounting its future cash flows at an interest rate that would have been payable on a similar debt instrument without any equity conversion option. The liability component is accounted for as a financial liability.

The difference between the net issue proceeds and the liability component, at the time of issue, is the residual or equity component, which is accounted for as an equity instrument.

Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components of the instrument in proportion to the allocation of the proceeds.

The interest expense on the liability component is calculated by applying the effective interest rate for the liability component of the instrument. The difference between any repayments and the interest expense is deducted from the carrying amount of the liability.

Computer Software

Computer software is initially capitalised at cost and amortisation is provided on a straight line basis over the estimated useful life of 3 years. The Company reviews the carrying value on a regular basis and a provision is made in the year that any impairment is determined by management.

Tangible fixed assets

Tangible fixed assets are included at cost less depreciation. Depreciation is calculated to write off office furniture, equipment and vehicles on a straight line basis over their estimated useful lives, which range from three to five years.

Plant and machinery is depreciated over periods which range from 5 to 15 years, once it is ready for use by the Company.

Buildings are depreciated over a period of 20 years once they are ready for use by the Company.

Investments

Investments are included at cost, less provision for impairment, where applicable.

Taxation

The charge for taxation is based on the profit or loss for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19. Deferred tax assets are recognised when it is more likely than not that they will be recovered.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result. For the purpose of consolidation the balance sheets of the foreign subsidiaries are translated at the closing rate and the profit and loss accounts at the average rate during the year. Exchange differences which arise from the translation of the opening assets and results of the foreign subsidiary undertaking are taken to reserves.

Operating lease

Rentals payable under operating leases are charged to the profit and loss account as they fall due, unless such a payment relates to exploration and evaluation costs, in which case it is capitalised.

Other Income

Other income represents rents received from the provision of facilities at the Yaloginda Camp to third parties and is recognised on an accruals basis.

Liquid resources

In accordance with FRS 1 (revised 1996) on "Cash Flow Statements", for cash flow purposes, cash includes net cash in hand and bank deposits payable on demand within one working day and liquid resources include all of the Group's other bank deposits.

2 Segmental analysis

All the Group's activities are related to exploration for and development of gold and related mineral assets in Australia. The directors therefore believe that there is only that single class of business and geographic segment.

3 Employees

	2006	2005
	£	£
Staff costs:		
Salaries and wages	967,388	425,074
Social security costs	60,463	10,231
	1,027,851	435,305

An amount of £522,882 (2005: £106,990) was capitalised as part of deferred exploration and development costs.

The average number of persons employed by the Group was as follows:

	2006	2005
	Number	Number
Management	8	8
Others	28	5
	36	13

4 Operating loss

	2006	2005
The operating loss is stated after charging:	£	£
Depreciation of tangible fixed assets	31,977	12,512
Computer software amortisation	16,210	9,500
Auditors' remuneration		
Audit services – statutory audit, UK	22,325	19,250
Audit services – statutory audit, Australia	15,068	5,750
Further assurance services, UK – relating to AIM admission	46,477	33,500
Tax compliance services – UK	3,550	-
Operating leases – land and buildings	86,441	5,995

The Board reviews the nature and extent of non-audit services to ensure that independence is maintained.

5 Directors' emoluments

	2006	2005
	£	£
Directors' emoluments	393,458	311,998

The highest paid director received remuneration of £112,387 (2005: £77,636).

6 Net interest (payable) / receivable and similar items

	2006	2005
	£	£
Interest payable on bank loans and overdrafts	-	(2,162)
Other interest paid	(632)	-
Interest on 9.25% convertible loan stock	(81,105)	-
Amortisation of convertible loan stock issue costs	(12,945)	-
Total interest and similar charges payable	(94,682)	(2,162)
Interest receivable	152,203	31,880
Foreign exchange gain	-	29,617
Total interest and similar items receivable	152,203	61,497
Net interest (payable) / receivable and similar items	57,521	59,335

The foreign exchange gains in the prior year related to exchange differences on intra-group balances denominated in Pounds Sterling and owed to the Company by its Australian subsidiary. The latter prepares its financial statements in Australian Dollars and recognised in the profit and loss account the exchange difference arising on retranslation of the intra-group balance. Those exchange gains were recognised in the Group's 2005 consolidated financial statements. The directors have considered the nature of this loan and consider this to be a long term investment. As a result, the equivalent exchange movements have been taken to reserves in the current period.

In accordance with requirements of FRS 25, interest on the 9.25% convertible loan stock has been charged at a rate of 18%, the estimated rate that would have applied on a pure loan in the absence of the convertibility feature.

7 Taxation

The Company has made a loss in the United Kingdom. Consequently no liability to United Kingdom taxation arises.

No other company in the Group has made profits liable to taxation.

	2006	2005
Current tax reconciliation	£	£
Loss on ordinary activities before tax	(1,836,625)	(867,319)
Current tax at 30% (2005: 30%)	(550,988)	(260,196)
Effects of:		
Capital allowances in excess of depreciation	47	(610)
Expenses not deductible for tax purposes	127,728	15,757
UK tax losses carried forward	722,715	159,959
Overseas subsidiary tax effect	(299,502)	85,090
Current tax charge	-	-

There was no tax payable for the period ended 30 June 2006 (2005: nil) due to the Company having taxable losses.

The Group's business operations currently comprise mining projects in Australia, which are all currently at an exploration stage. The Group has tax losses carried forward on which no deferred tax asset is recognised that may affect the future tax position, as and when its mining projects reach a development stage. At the year-end deferred tax assets of £4,061,000 (2005: £245,049) have not been recognised because there is insufficient evidence of the timing of future taxable profits against which they can be recovered.

8 Loss per share

Loss per share is calculated by reference to the loss for the period of £1,836,625 (2005: £867,319) and the weighted average number of ordinary shares in issue during the period of 24,583,888 (2005: 4,280,724 - restated to take account of the 10:1 share consolidation on 18 January 2006). There is no dilutive effect of share options or warrants.

9 Tangible fixed assets

Group

	Land and Buildings	Plant and Machinery	Office equipment	Motor vehicles	Total
Cost	£	£	£	£	£
At 1 July 2005	-	29,781	9,552	39,113	78,446
Additions	1,025,835	1,434,844	110,490	259,685	2,830,854
Disposals	-	-	-	(3,379)	(3,379)
Re-classification	-	(29,781)	29,781	-	-
Exchange	-	-	(1,617)	(1,733)	(3,350)
At 30 June 2006	1,025,835	1,434,844	148,206	293,686	2,902,571
Depreciation					
At 1 July 2005	-	8,586	1,010	2,916	12,512
Disposals	-	-	-	-	-
Re-classification	-	(8,586)	8,586	-	-
Depreciation charge for the period	-	-	16,762	15,215	31,977
Exchange	-	-	(811)	(519)	(1,330)
At 30 June 2006	-	-	25,547	17,612	43,159
Net book value					
At 30 June 2006	1,025,835	1,434,844	122,659	276,074	2,859,412
At 30 June 2005	-	21,195	8,542	36,197	65,934

Additions include £2,411,200 in respect of assets acquired from St Barbara Limited.

Company

	Office equipment
Cost	£
At 1 July 2005	5,983
Additions	3,507
At 30 June 2006	9,490
Depreciation	
At 1 July 2005	361
Depreciation charge for the period	2,156
At 30 June 2006	2,517
Net book value	
At 30 June 2006	6,973
At 30 June 2005	5,622

10 Intangible fixed assets

Group	Exploration and development costs	Computer software	Total
Cost	£	£	£
At 1 July 2005	1,430,282	33,103	1,463,385
Additions	9,111,877	49,525	9,161,402
Exchange	(69,373)	(1,505)	(70,878)
At 30 June 2006	10,472,786	81,123	10,553,909
Amortisation			
At 1 July 2005	-	9,500	9,500
Amortisation for the period	-	16,210	16,210
Exchange	-	(815)	(815)
At 30 June 2006	-	24,895	24,895
Net book value			
At 30 June 2006	10,472,786	56,228	10,529,014
At 22 June 2005	1,430,282	23,603	1,453,885

Additions include £4,592,500 in respect of assets acquired from St Barbara Limited.

11 Fixed asset investments

Company	Shares in subidiary undertakings	Loans in subidiary undertakings
Cost	£	£
At 1 July 2005	450,000	1,720,422
Funds advanced during the period	-	23,497,825
At 30 June 2006	450,000	25,218,247

The amount due from subsidiary undertaking has no fixed terms of repayment.

At 30 June 2006, the Company had an interest in the following material subsidiary, which is included in the consolidated financial statements.

Subsidiary undertakings	Country of Incorporation	Principal Activity	Principal Country of Operation	Description and Effective Proportion of Shares Held
Mercator Gold Australia Pty Limited	Australia	Mineral Evaluation & Production	Australia	100% Ordinary

12 Stocks

	Group	
	2006	2005
	£	£
Fuel stocks	35,644	-
Plant consumables	56,043	-
Total stocks	91,687	-

13 Debtors

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Trade debtors	12,799	3,703	12,799	3,703
Other debtors	118,263	80,372	22,069	17,520
Other taxes	176,015	87,250	17,536	15,669
Prepayments and accrued income	96,447	23,647	72,008	23,647
	403,524	194,972	124,412	60,539

14 Creditors - amounts falling due within one year

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Trade creditors	849,341	475,980	65,091	20,253
Amounts owed to subsidiary undertakings	-	-	49,500	37,500
Taxes and social security	107,906	23,530	-	2,487
Other creditors	7,399	600	7,399	600
Accruals and deferred income	176,349	72,501	50,295	64,376
	1,140,995	572,611	172,285	125,216

15 Creditors - amounts falling due after more than one year

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Convertible loan notes - 9.25%	854,784	-	854,784	-

On 14 December 2005, the Company issued two-year convertible loan notes carrying a coupon rate of 9.25% interest, payable quarterly in cash or, at the holder's option, by the issue of shares at £0.60 each. At any time after one year, the holders have the option to convert the face value of their holdings to shares at a price of £0.60 per share. After one year, the Company has the option to redeem the notes at face value plus double the accrued interest outstanding at the time of giving notice. The holder could elect to receive the redemption payment in cash or shares at the rate of £0.60 per share. Any notes remaining on the second anniversary of their issue will be repaid in cash, plus accrued interest.

The value of the loan notes at balance sheet date has been determined in accordance with Financial Reporting Standard FRS 25, as described more fully under accounting policies, note 1.

16 Provision for liabilities and charges

Environmental provision	£
Provided during the year	1,205,594
At 30 June 2006	1,205,594

The provision for environmental rehabilitation relates to the estimated cost of rehabilitation work required to be completed upon cessation of mining activity. The timing of eventual cessation of mining activities and cost of rehabilitation is uncertain. The provision is secured by security deposits of £1,221,669 referred to in note 20 (e).

17 Financial instruments

The Group uses financial instruments, other than derivatives, comprising cash and items such as trade debtors and trade creditors that arise directly from its operations. The purpose of these instruments is to finance the Group's operations.

The main risks which the Group encounters are currency exposure and liquidity risk. The Board reviews and agrees risk management policies which are summarised below.

The Board determines, as required, the degree to which it is appropriate to use financial instruments or hedging contracts or techniques to mitigate risks. During the period ended 30 June 2006 the Group has not entered into any hedging or forward exchange rate contracts.

Currency exposure is managed as far as is practical by financing the Group's development and exploration activity in hard currency and to match the currency of borrowing to expected hard currency revenue streams.

There is no material difference between fair value and book value of financial instruments.

The information below describes the Group's financial instruments. Short-term debtors and creditors are excluded from the numerical disclosures below with the exception of the currency risk disclosures.

(a) Currency risk

The table below shows the extent to which Group companies have monetary assets and liabilities in currencies other than their functional currency. Foreign exchange differences on re-translation of such assets and liabilities are taken to the profit and loss account.

Group Net Foreign Currency Monetary Assets/(Liabilities)

Functional currency of Group operation	GBP £	AUD$
GBP £	-	-
AUD $	-	-
30 June 2006	-	-
GBP £	-	-
AUD $	(1,720,442)	-
30 June 2005	(1,720,442)	-

(b) Financial assets

The currency profile of the financial assets is set out below:	2006	2005
Group	£	£
Cash:		
Pounds Sterling	1,980,463	693,746
Australian Dollars	11,316,753	260,721
	13,297,216	954,467

Financial assets are at floating rates, comprising cash earning interest at various short term rates set with reference to the prevailing LIBOR or equivalent for the relevant country.

(c) Financial liabilities

The Company had a long term financial liability in respect of the unsecured convertible loan notes, more fully described in note 15.

As at 30 June 2006 there were no un-drawn committed facilities.

(d) Liquidity risk

The Group finances its operations through the issue of equity share capital and debt. The Group seeks to manage financial risk, to ensure sufficient liquidity to meet forseeable requirements and to invest cash profitably at low risk. Liquidity risk is further managed by tight controls over expenditure.

(e) Interest rate risk

The Company finances its operations through a mixture of ordinary share capital and debt. Exposure to interest rate risk on its borrowing is limited by the use of fixed rates over short maturities. At 30 June 2006, the unsecured convertible loan notes represented the only outstanding borrowings, bearing a coupon rate of 9.25%. Exposure to interest rate risk on financial assets is limited by use of short term market related deposits.

18 Share Capital and Share Premium Accounts

	Number of Shares	Nominal Value
(a) Authorised share capital	£	£
At 30 June 2005 - Ordinary Shares of £0.01 each	900,000,000	9,000,000
Consolidated into ordinary shares of £0.10 each on 18 January 2006	90,000,000	9,000,000
Creation of additional ordinary shares of £0.10 each on 18 January 2006	110,000,000	11,000,000
At 30 June 2006 - Ordinary Shares of £0.10 each	200,000,000	20,000,000

(b) Changes in issued Share Capital and Share Premium:

For the period ended 30 June 2006	Number of shares	Nominal value	Share premium	Total
		£	£	£
At 30 June 2005 - Ordinary Shares of 1p each	87,119,800	871,198	2,492,599	3,363,797
Share issue on 5 August 2005 - exercise of £0.08 warrants	9,958,094	99,581	697,067	796,648
Share issue costs charged to share premium	-	-	(39,752)	(39,752)
Share issue on 30 September 2005 - exercise £0.08 warrants	2,561,906	25,619	179,333	204,952
Share issue costs charged to share premium	-	-	(10,248)	(10,248)
	99,639,800	996,398	3,318,999	4,315,397
Consolidation into £0.10 shares on 18 January 2006	9,963,980	996,398	3,318,999	4,315,397
Shares issued at £0.50 each - placing on 18 January 2006	18,230,000	1,823,000	7,292,000	9,115,000
Share issue costs charged to share premium	-	-	(586,900)	(586,900)
Shares issued at £0.50 each - for purchase of St Barbara Joint venture interest on 31 January 2006	11,016,949	1,101,695	4,406,780	5,508,475
Shares issued at £0.60 each - in lieu of loan interest on 21 March 2006	26,365	2,637	13,182	15,819
Shares issued at £0.70 each - placing on 2 May 2006	14,285,715	1,428,571	8,571,429	10,000,000
Share issue costs charged to share premium	-	-	(501,401)	(501,401)
Shares issued at £0.60 each - in lieu of loan interest on 27 June 2006	29,142	2,914	14,571	17,485
Ordinary Shares of 10p each	53,552,151	5,355,215	22,528,660	27,883,875

All shares were issued for cash, apart from those issued for acquisition of the balance of the Santa Barbara Joint Venture.

Potential issues of ordinary shares:

Share options and warrants
At 30 June 2006 the Company had 5,035,000 options and 3,124,450 warrants outstanding for the issue of ordinary shares, as follows:

Options

Date of grant	Exercisable from	Exercisable to	Exercise price	Number Granted	Number at 30.06.06
29 September 2004	8 October 2004	7 October 2009	£0.80	2,000,000	2,000,000
19 November 2004	19 November 2004	18 November 2014	£1.00	450,000	450,000
15 December 2004	15 December 2004	14 December 2014	£1.00	10,000	10,000
30 June 2005	30 June 2005	29 June 2015	£1.00	90,000	90,000
14 April 2005	14 April 2005	13 April 2015	£1.20	125,000	125,000
31 January 2006	31 January 2006	30 January 2016	£0.60	1,000,000	1,000,000
27 February 2006	27 February 2006	26 February 2016	£0.75	615,000	615,000
10 May 2006	10 May 2006	9 May 2011	£0.85	700,000	700,000
23 May 2006	23 May 2006	22 May 2011	£0.85	40,000	40,000
30 May 2006	30 May 2006	29 May 2016	£0.76	5,000	5,000
				5,035,000	5,035,000

Warrants

Date of grant	Exercisable from	Exercisable to	Exercise price	Number Granted	Number
23 September 2004	8 October 2004	7 October 2007	£0.60	230,000	230,000
23 September 2004	8 October 2004	7 October 2007	£0.80	50,000	50,000
21 December 2005	20 January 2006	19 January 2008	£0.60	50,000	50,000
20 January 2006	20 January 2006	19 January 2009	£0.75	136,450	136,450
11 April 2005	11 April 2006	11 April 2008	£0.85	1,000,000	1,000,000
20 January 2006	20 January 2006	19 January 2009	£0.75	137,000	137,000
6 October 2005	6 October 2005	7 November 2006	£1.00	1,251,000	1,251,000
				2,854,450	2,854,450
Total contingently issuable shares at 30 June 2006					7,889,450

(c) Merger reserve
The merger reserve arose following the merger with Mercator Gold Australia Pty Limited during 2005.

(d) Other reserves

Equity component of convertible loan notes	Group	Company
	£	£
At 30 June 2005	-	-
Issue of 9.25% unsecured convertible loan notes on 16 December 2005	128,774	128,774
At 30 June 2006	128,774	128,774

The loan notes are more fully described in note 15

19 Profit and loss account

	Group	Company
	£	£
At 30 June 2005	(867,319)	(571,164)
Loss for the period	(1,836,625)	(688,959)
Exchange adjustments on foreign currency net investments	(929,394)	-
At 30 June 2006	(3,633,338)	(1,260,123)

Mercator Gold plc has taken advantage of the exemption permitted by section 230 of the Companies Act 1985 and has not presented its own profit and loss account.

20 Cash flow statement

		2006	2005
		£	£
(a)	Reconciliation of Operating Loss to Operating Cash Flows		
	Operating loss	(1,894,146)	(926,654)
	Depreciation and amortisation charges	48,187	22,013
	Increase in debtors	(208,552)	(194,972)
	Increase in inventories	(91,687)	-
	Increase in creditors	1,769,610	572,611
	Net cash outflow from operating activities	(376,588)	(527,002)
(b)	Returns on investments and servicing of finance		
	Interest received	152,203	31,880
	Interest paid	(13,451)	(2,162)
	Net cash inflow from returns on investments and servicing of finance	138,752	29,718
(c)	Capital expenditure and financial investment		
	Purchase of intangible fixed assets	(9,161,402)	(1,463,385)
	Purchase of tangible fixed assets	(2,830,854)	(78,446)
	Proceeds on sale of tangible fixed assets	3,379	-
	Net cash outflow for capital expenditure and financial investment	(11,988,877)	(1,541,831)
(d)	Financing:		
	Issue of convertible loan stock	940,000	-
	Issue of ordinary shares	24,486,774	2,963,966
	Net cash inflow from financing	25,426,774	2,963,966

(e) Analysis of net funds

	30 June 2005	Cash flow	Non cash items	Exchange adjustment	30 June 2006
	£	£	£	£	£
Cash in hand, at bank	307,467	260,067	-	(16,891)	550,643
Other liquid resources	647,000	12,939,994	-	(840,421)	12,746,573
Debt due after more than one year	-	(940,000)	85,216	-	(854,784)
Net funds	954,467	12,260,061	85,216	(857,312)	12,442,432

Included in liquid resources are deposits of £1,221,669 that are pledged as security against the environmental liability provision. These loans are in the process of being guaranteed and will be released when this process is complete.

The debt due after more than one year relates to convertible loan notes described in note 15.

21 Contingencies and operating lease commitments

At 30 June the Goup had a contingent liability for the possible cost of legal and other fees related to the disputed retention of certain of its non-core mining tenements. The maximium cost of retaining the contested tenements is estimated to be £130,000.

At 30 June 2006 the Group and the Company had commitments under operating leases that expire as follows:

Land and buildings	2006	2005
	£	£
Within 1 year	54,461	-
Within 2 – 5 years	31,980	31,980
Total	86,441	31,980

22 Related party transactions

At 30 June 2006, an amount of £5,839 (2005:nil) was owed to Patrick Harford, a director.

At 30 June 2006, an amount of £13,888 (2005:nil) was owed to Michael de Villiers, a director.

During the period an amount of £205,955 was paid in respect of salaries and a licence fee for the use of SpaDiS™ technology, to Vearncombe & Associated Pty Ltd, a company owned and controlled by Drs Julian and Susan Vearncombe.

During the period an amount of £884 (2005:nil) was paid as a treasury management fee to Oakvale Capital Limited, of which Mr Terry Strapp is a director and shareholder.

Other transactions with Directors are disclosed in Note 5.

23 Post balance sheet events

On 11 July 2006 the Group awarded a contract of £1.2 million for the refurbishment of the Yaloginda Carbon in Pulp Gold Processing Plant, in preparation for returning the plant to full operating capacity.

MERCATOR GOLD PLC

the Company

Company Number :05079979

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the Company will be held at London Capital Club, 15 Abchurch Lane, London, EC4 7BW on 24 November 2006 at 9:30am. The business of the meeting will be:

Ordinary Business

1. To receive, consider and adopt the Company's audited accounts for the year ended 30 June 2006 together with the Directors' Report, and the Auditor's Report on those accounts.
2. To re-appoint PKF (UK) LLP as Auditors of the Company to hold office from the conclusion of the meeting to the conclusion of the next meeting at which accounts are laid before the Company.
3. To authorise the Directors to determine the remuneration of the auditors of the Company.
4. To re-appoint D Geldard who is retiring by rotation under the Articles of Association as a Director of the Company.
5. To re-appoint R N Allen who is retiring by rotation under the Articles of Association as a Director of the Company.

Special Business

To consider and if thought fit, to pass the following resolutions which will be proposed as to resolution 6 as an ordinary resolution and as to resolution 7 as a special resolution

6. THAT the Directors be and they are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 ("the Act") to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £5,000,000, such authority to expire at midnight on the date being fifteen months from the passing of this resolution or, if earlier, on the date of the next Annual General Meeting after the passing of this resolution (unless previously revoked, varied or extended) but so that such authority shall allow the Company to make offers or agreements before the expiry thereof which would or might require relevant securities to be allotted after the expiry of such authority and the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authority had not expired, but this authority shall be in substitution for any authority previously given to the Directors under section 80 of the Act.
7. THAT the Directors be and they are hereby empowered pursuant to section 95 of the Companies Act 1985 ("the Act") to allot equity securities (within the meaning of section 94(2) of the Act) pursuant to the general authority conferred by resolutions as set out in the notice of this meeting for cash as if section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited to the allotment of equity securities up to an aggregate nominal value of £5,000,000 and shall expire on the date being fifteen months from the passing of this resolution or, if earlier, on the date of the next Annual General Meeting after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

Dated this 26th day of October 2006
By order of the Board:

MJ de Villiers
Secretary

Registered office:
3rd floor, Peek House
20 Eastcheap
London EC3M 1EB

NOTES

1. Any member of the Company entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company. A proxy need not preclude a member of the Company from attending and voting at the above meeting if he so desires. To be valid, any appointments of proxies must be deposited at Capita IRG plc, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU no later than 48 hours before the time at which the meeting is scheduled to commence.
2. The following information, which is available for inspection during normal business hours at the registered office of the Company, from the date of this notice until the date of the Annual General Meeting, will also be available for inspection at the place of the Annual General Meeting for a period of 15 minutes prior to the meeting and until the conclusion of the meeting:
   a. Register of interests of Directors in the share capital of the Company;
   b. Copies of services contracts of Directors of the Company.
3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 the Company specifies that only those shareholders registered at 9.30am on 22 November 2006 shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to the Register of Members after 9.30am on 22 November 2006 will be disregarded in determining the rights of any person to attend or vote at the meeting.
4. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message must be transmitted so as to be received by the Company's agent, Capita Registrars (whose CREST ID is RA10) by the specified latest time(s) for receipt of proxy appointments. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed.

   The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 355)(A) of the Uncertificated Securities Regulations 2001.

MERCATOR GOLD PLC

the Company

Company Number: 05079979

FORM OF PROXY

PLEASE USE BLOCK CAPITALS

PLEASE INSERT FULL NAME

I/We

of

PLEASE INSERT FULL ADDRESS

being a member/members of Mercator Gold plc hereby appoint the Chairman of the Meeting or

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 24 November 2006 at London Capital Club, 15 Abchurch Lane, London EC4N 7BW at 9.30am and at any adjournment thereof.

I wish this proxy to be used in connection with those of the Resolutions to be proposed at the Annual General Meeting which are listed below, in the manner set out below, and in connection with any other ordinary business transacted at the meeting.

Signature Date

Please indicate with an "X" in the spaces below how you wish the proxy to vote. Unless otherwise instructed the proxy will at his discretion vote as he thinks fit or abstain from voting in relation to all business of the meeting.

RESOLUTION	For	Against
1. Ordinary Resolution to receive the Company's annual accounts for the year ended 30 June 2006 together with the Director's Report, and the Auditor's Report on those accounts		
2. Ordinary Resolution to re-appoint PKF (UK) LLP as Auditors of the Company to hold office from the conclusion of the meeting to the conclusion of the next meeting at which accounts are laid before the Company.		
3. Ordinary Resolution to authorise the Directors to determine the remuneration of the auditors of the Company.		
4. Ordinary Resolution to re-elect D Geldard who is retiring by rotation under the Articles of Association as a Director of the Company.		
5. Ordinary Resolution to re-elect R N Allen who is retiring by rotation under the Articles of Association as a Director of the Company.		
6. Special Resolution to authorise the Directors to allot relevant securities pursuant to section 80 of the Companies Act 1985.		
7. Special Resolution to authorise the Directors to allot equity securities pursuant to section 95 of the Companies Act 1985.		

NOTES

1. This Form of Proxy is for the use of shareholders only and will be used only for the purpose of demanding or voting on a poll.
2. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote on the member's behalf. If it is wished to appoint as proxy someone other than the Chairman of the meeting, delete the words 'the Chairman of the Meeting' and insert in block capitals the full name of the person(s) to be appointed as proxy, initialling the alteration. A proxy need not be a member of the Company.
3. Completion and return of this Form of Proxy will not preclude a member of the Company from attending and voting in person at the meeting or at any adjournment thereof, if they so choose.
4. Any alteration to this Form of Proxy must be initialled.
5. To be effective this Form of Proxy must be lodged at the address overleaf 48 hours before the meeting, or, in the case of CREST members, by using the CREST electronic proxy appointment service. CREST members should refer to note 4 to the notice of Annual General Meeting in relation to the submission of a proxy appointment via CREST.
6. In the case of a corporation, this Form of Proxy must be executed either under its common seal or under the hand of an officer or attorney duly authorised in writing.
7. In the case of joint holders, the signature of any one of them will suffice but the names of all joint holders should be shown.

FOLD 2

BUSINESS REPLY SERVICE
Licence No. MB122

1

Capita IRG Plc
Proxy Department
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

FOLD 3
(then turn in)

FOLD 1

COMPANY INFORMATION

Company number 05079979 (England and Wales)

Directors

T J Strapp	*Non-executive Chairman*
P A Harford	*Managing Director*
M J de Villiers	*Finance Director*
J R Vearncombe	*Exploration Director*
D Geldard	*Operations Director*
M Elias	*Non-executive Director*
R N Allen	*Non-executive Director*

Secretary and Registered Office
Michael John de Villiers
3rd Floor
Peek House
20 Eastcheap
London EC3M 1EB
United Kingdom

Head Office
3rd Floor
Peek House
20 Eastcheap
London EC3M 1EB
United Kingdom
Tel: +44 (0)20 7929 1010
Fax: +44 (0)20 7929 1015
Email: info@mercatorgold.com
Website: www.mercatorgold.com

Australia Office
Mercator Gold Australia Pty Ltd
41 Kishorn Road
Applecross 6153
Western Australia
Tel: +61 (0)8 9316 9400
Fax: +61 (0)8 9316 9455
Email: admin@mercatorgold.com.au

ADVISERS

Auditors
PKF (UK) LLP
Farringdon Place
20 Farringdon Road
London EC1M 3AP

Registrars
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Bankers
Barclays Bank plc
Town Gate House
Church Street East
Woking
Surrey BX3 2BB

Solicitors (UK)
Cobbetts (UK) LLP
Ship Canal House
King Street
Manchester M2 4WB

Solicitors (Australia)
Blakiston & Crabb
1202 Hay Street
West Perth 6005
Western Australia

Nominated Adviser & Stockbroker
Cenkos Securities Limited
6.7.8 Tokenhouse Yard
London EC2R 7AS

Stockbroker
Ocean Equities Ltd
3 Copthall Avenue
London EC2R 7BH

Public Relations
Parkgreen Communications
1st Floor
Ireland House
150 New Bond Street
London W1S 2AQ

Share Analysis

As at 17 October 2006

Holdings	No of Accounts	No of shares held	% of share capital
1 - 10,000	379	1,111,281	2.08
10,001 - 50,000	68	1,640,728	3.06
50,001 - 100,000	21	1,538,930	2.87
100,001 - 500,000	29	7,123,922	13.29
500,001 - 1,000,000	9	6,220,264	11.61
1,000,001 - 5,000,000	10	18,868,993	35.22
5,000,001 -	2	17,073,861	31.87
Total	518	53,580,979	100

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