Company : Mercator Gold plc
TIDM : MCR
Headline : Mercator Gold plc - Final Results
Released : 07:00 31-Oct-06
Number : 2504L

31 October 2006

Mercator Gold plc

("Mercator" or the "Company")

Ticker- AIM:MCR

PRELIMINARY ANNOUNCEMENT OF AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2006

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.

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

Consolidated Profit and Loss Account

For the year ended 30 June 2006

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

	2006	2005
	£	£
Fixed assets		
Intangible	10,529,014	1,453,885
Tangible	2,859,412	65,934
Total fixed assets	13,388,426	1,519,819
Current assets		
Stocks	91,687	-
Debtors	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	(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	(854,784)	-
Provisions for liabilities	(1,205,594)	-
Net assets	23,979,480	2,096,647
Capital and reserves		
Called -up share capital	5,355,215	871,198
Share premium account	22,528,660	2,492,599
Merger reserve	(399,831)	(399,831)
Other reserves	128,774	-
Profit and loss account	(3,633,338)	(867,319)
Equity shareholders' funds	23,979,480	2,096,647

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

Consolidated Cash Flow statement

For the year ended 30 June 2006

	2006	2005
	£	£
Net cash outflow from operating activities	(376,588)	(527,002)
Returns on investments and servicing of finance	138,752	29,718
Capital expenditure and financial investment	(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	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		
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	954,467
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

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)

Notes:

1 The financial information set out above does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The consolidated profit and loss account, consolidated statement of total recognised gains and losses, consolidated balance sheet, reconciliation of shareholders’ funds and consolidated cash flow statement have been extracted from the Group's 2006 statutory financial statements upon which the auditors' opinion is unqualified and contained no statements under s237 of the Companies Act 1985.

2 The loss per share is calculated by reference to the loss for the year of £1,836,625 (2005: £867,319) and the weighted average number of Shares in issue during the year 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.

3 No dividend is proposed in respect of the period.

4 **Selected 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 abovementioned 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 principals 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.

5 Copies of the Annual Report and Accounts for the year ended 30 June 2006 will be posted to shareholders by 1 November 2006 and will be available, free of charge, from the Company's registered office at Peek House, 3rd Floor, 20 Eastcheap, London, EC3M 1EB, for a period of 14 days from the date of their posting. The financial statements will be delivered to the Registrar of Companies following the conclusion of the annual general meeting.

For further information please contact:

Mercator Gold plc
Patrick Harford, Managing Director Tel: +44 (0) 20 7929 1010

Email: info@mercatorgold.com
Website: www.mercatorgold.com

Parkgreen Communications
Justine Howarth / Ana Ribeiro Tel: +44 (0) 20 7493 3713