



# MERCATOR GOLD PLC

**MERCATOR GOLD PLC**  
**("Mercator Gold" or the "Company")**

**London 31 March 2008**

## **Interim Results (unaudited) for the Six Months to 31 December 2007**

### **Highlights**

- Commercial gold production commenced in October 2007;
- Gold sold during period 7,028 ounces, yielding revenue of A\$6.4m at an average price realised per ounce of A\$912 (US\$806);
- Vigorous exploration programme continues to produce promising results;
- ASX listing expected to take place in next 12 weeks;
- Technical due diligence completed on sale of non-core assets for shares (approximately 30%) in Silver Swan Group Ltd (ASX: SSW).

"These results cover a landmark period in Mercator's development that has seen the Company commence commercial gold production and continue to lay the groundwork for considerable growth in its output over the coming years. The Company is in excellent shape, focusing on production, growth and exploration in Meekatharra according to plan.

I look forward to reporting progress on various fronts in the coming months."

Patrick Harford, Managing Director

For further information please contact:

**Mercator Gold plc**

Terry Strapp, Chairman

Patrick Harford, Managing Director

Email: [info@mercatorgold.com](mailto:info@mercatorgold.com)

Website: [www.mercatorgold.com](http://www.mercatorgold.com)

Tel: +61 (0) 412 228 422

Tel: +44 (0) 20 7929 1010

**Bankside Consultants Ltd**

Simon Rothschild, Keith Irons, Oliver Winters

Tel: +44 (0) 20 7367 8888

**AIM: MCR**

## **MANAGING DIRECTOR'S REPORT**

Mercator Gold plc is pleased to provide interim results for the six month period to 31 December 2007. These results cover a landmark period in Mercator's development that has seen the Company commence commercial gold production and continue to lay the groundwork for considerable growth in its output over the coming years.

The Company sold a total of 7,028 ounces during the period, generating total receipts of A\$6.4m. The average price realised was A\$912 per ounce (US\$806), while the spot gold price ranged between A\$858 (US\$758) and A\$942 (US\$ 795) per ounce. Actual gold produced equated to 9,510 ounces taking account for gold-in-circuit and remaining unsold as of 31 December 2007.

The Company intends to list its shares on the Australian Stock Exchange in the next 12 weeks.

The loss for the period of £3.5m was in line with expectations and reflects the cost of establishing commercial gold production at Meekatharra, encompassing the re-commissioning of the Bluebird mill. The Group is adopting IFRS for the first time in compliance with best practice and international regulations. The loss includes the write-off of approximately £468,000 of goodwill, which has taken place as a result of the adoption of IFRS accounting rules, and a foreign exchange loss of £1.2 million, both of which are non-cash items.

### **Exploration**

Throughout the period under review the Company has maintained a vigorous exploration programme on its tenements. Promising drilling results at the Euro Project, Fenian West and the Macquarie prospect were announced on 26 February 2008.

### **Sale of Non-Core Assets to Silver Swan**

The Company received notice earlier this month of the successful completion of technical Due Diligence by Silver Swan Group ('Silver Swan') on the package of Mercator's non-core exploration tenements that it is proposed Silver Swan will acquire (see announcement dated 20 February 2008). Silver Swan shareholders will vote on the transaction on 21 April 2008. On completion of the transaction, Mercator will hold approximately 30% of Silver Swan.

### **Prospects**

Mine planning and costing is underway for our underground operation at Paddy's Flat. The Company is in excellent shape, notwithstanding increasing cost pressures within the sector, with production in place and growing according to plan.

### **Information Flow**

Mercator plans to release a quarterly report covering the period 1 January-31 March 2008 by the end of April 2008.

Patrick Harford  
Managing Director  
31 March 2008

## Consolidated Profit and Loss Account

For the six months ended 31 December 2007

	6 months to 31 December 2007 (unaudited) £	6 months to 31 December 2006 (unaudited) £	12 months to 30 June 2007 (audited) £
Revenue from continuing operations	3,378,469	-	-
Other income	143,590	417,963	728,642
Total revenue	3,522,059	417,963	728,642
Finance costs	(45,503)	(92,022)	(199,747)
Administration and other expenses	(7,040,427)	(1,341,210)	(3,344,664)
(Loss) before income tax expense	(3,563,871)	(1,015,269)	(2,815,769)
Tax Expense	-	-	(60,116)
<b>(Loss) after income tax expense</b>	<b>(3,563,871)</b>	<b>(1,015,269)</b>	<b>(2,875,885)</b>
<b>Loss attributable to equity holders of the legal parent</b>	<b>(3,563,871)</b>	<b>(1,015,269)</b>	<b>(2,875,885)</b>
Loss per share	(6)p	(1.9)p	(5.18)p

## Unaudited Consolidated Balance Sheet

For the six months ended 31 December 2007

	Note	6 months to 31 December 2007 (unaudited) £	6 months to 31 December 2006 (restated) £	12 months to 30 June 2007 (restated) £
<b>Fixed assets</b>				
Intangible		22,664,039	14,168,042	16,016,099
Property, plant and equipment		6,767,288	3,738,268	6,798,177
Total fixed assets		29,431,327	17,906,310	22,814,276
<b>Current assets</b>				
Derivative financial instruments		917,173	-	-
Inventories		1,319,425	91,810	163,766
Trade and other receivables		3,663,594	390,017	437,237
Cash and cash equivalents		808,788	7,406,500	6,647,665
<b>Total current assets</b>		<b>6,708,980</b>	<b>7,888,327</b>	<b>7,248,668</b>
<b>Current Liabilities</b>				
Trade and other payables		(6,064,420)		
Derivative financial instruments		(1,888,047)	(672,155)	(1,242,737)
<b>Net current assets</b>		<b>(1,243,487)</b>	<b>7,216,172</b>	<b>6,005,931</b>
<b>Total assets less current liabilities</b>		<b>28,187,840</b>	<b>25,122,482</b>	<b>28,820,207</b>
<b>Non-Current Liabilities</b>				
Financial liabilities		(2,528,501)	(900,681)	-
Provisions		(1,323,208)	(1,207,200)	(1,270,380)
<b>Net assets</b>		<b>24,336,131</b>	<b>23,014,601</b>	<b>27,549,827</b>
<b>Capital and reserves</b>				
Issued capital		6,050,158	5,158,765	6,024,658
Share premium account		26,782,056	22,232,895	26,650,806
Reserves		1,775,811	470,348	1,622,600
Retained losses		(10,271,894)	(4,847,407)	(6,748,237)
Total equity		24,336,131	23,014,601	27,549,827

## Unaudited Consolidated Statement of Changes in Equity

	Issued capital £	Share Premium Account £	Accumulated losses £	Share based payments reserve £	Foreign exchange reserve £	Options reserve £	Other reserves £	Cash Flow Hedge reserve £	Total £
<b>At 1 July 2006</b>	<b>5,155,382</b>	<b>22,215,983</b>	<b>(3,832,138)</b>	<b>1,239,720</b>	<b>(929,394)</b>	<b>1,153</b>	<b>128,773</b>	<b>-</b>	<b>23,979,479</b>
Exchange Differences on translation of foreign operations	-	-	-	-	30,094	-	-	-	30,095
Total income and expense for the period recognised directly in equity	-	-	-	-	30,094	-	-	-	30,095
Profit for the period	-	-	(1,015,269)	-	-	-	-	-	(1,015,269)
Total recognised income/expense for the period	-	-	(1,015,269)	-	-	-	-	-	(1,015,269)
Cost of share-based payment	-	-	-	-	-	-	-	-	-
Share Issuances	3,383	16,912	-	-	-	-	-	-	-
Equity dividends	-	-	-	-	-	-	-	-	-
<b>At 31 December 2006</b>	<b>5,158,765</b>	<b>22,232,895</b>	<b>(4,847,407)</b>	<b>1,239,720</b>	<b>(899,300)</b>	<b>1,153</b>	<b>128,773</b>	<b>-</b>	<b>23,014,600</b>
<b>At 1 July 2006</b>	<b>5,155,382</b>	<b>22,215,983</b>	<b>(3,832,138)</b>	<b>1,239,720</b>	<b>(929,394)</b>	<b>1,153</b>	<b>128,773</b>	<b>-</b>	<b>23,979,479</b>
Exchange Differences on translation of foreign operations	-	-	-	-	1,311,121	-	-	-	1,311,121
Total income and expense for the period recognised directly in equity	-	-	-	-	1,311,121	-	-	-	1,311,121
Profit for the period	-	-	(2,875,885)	-	-	-	-	-	(2,875,885)
Total recognised income/expense for the period	-	-	(2,875,885)	-	-	-	-	-	(2,875,885)
Cost of share-based payment	-	-	-	-	-	-	-	-	-
Share Issuances	869,276	4,434,823	-	-	-	-	(128,773)	-	5,175,326
Equity dividends	-	-	-	-	-	-	-	-	-
<b>At 30 June 2007</b>	<b>6,024,658</b>	<b>26,650,806</b>	<b>(6,708,023)</b>	<b>1,239,720</b>	<b>381,727</b>	<b>1,153</b>	<b>-</b>	<b>-</b>	<b>27,590,041</b>
<b>At 1 July 2007</b>	<b>6,024,658</b>	<b>26,650,806</b>	<b>(6,708,023)</b>	<b>1,239,720</b>	<b>381,727</b>	<b>1,153</b>	<b>-</b>	<b>-</b>	<b>27,590,041</b>
Exchange Differences on translation of foreign operations	-	-	-	-	945,820	-	-	-	-
Loss on cash flow hedges, net of tax	-	-	-	-	-	-	-	-	-
Total income and expense for the period recognised directly in equity	-	-	-	-	945,820	-	-	(970,874)	(25,053)
Profit for the period	-	-	-	-	-	-	-	-	-
Total recognised income/expense for the period	-	-	-	-	-	-	-	-	-
Cost of share-based payment	-	-	-	178,265	-	-	-	-	178,265
Share Issuances	25,500	131,250	(3,563,871)	-	-	-	-	-	3,407,121
Equity dividends	-	-	-	-	-	-	-	-	-
<b>At 31 December 2007</b>	<b>6,050,158</b>	<b>26,782,056</b>	<b>(10,271,894)</b>	<b>1,417,985</b>	<b>1,327,547</b>	<b>1,153</b>	<b>-</b>	<b>(970,874)</b>	<b>24,336,132</b>

# Unaudited Consolidated cash flow statement

For the six months ended 31 December 2007

	6 months to 31 December 2007 £	6 months to 31 December 2006 (restated) £	12 months to 30 June 2007 (restated) £
Revenue from sale of goods and services	3,739,554	-	179,530
Payments to suppliers	(6,659,188)	(1,605,35)	(3,204,439)
Other income	143,590	289,269	549,112
Interest paid	(45,508)	-	(41,422)
<b>Net cash (outflow) from operating activities</b>	<b>(2,821,552)</b>	<b>(1,316,086)</b>	<b>(2,517,219)</b>
<b>Cash flow from investing activities</b>			
Payments for property, plant and equipment	(737,126)	(947,930)	(2,959,430)
Payments for exploration and development	(6,438,452)	(3,639,028)	(5,956,926)
<b>Net cash (outflow) from investing activities</b>	<b>(7,175,578)</b>	<b>(4,586,958)</b>	<b>(8,916,356)</b>
<b>Financing</b>			
Proceeds from borrowings	2,481,280	-	-
Proceeds from issue of ordinary share capital	156,750	-	4,162,217
<b>Net cash inflow from financing</b>	<b>2,638,030</b>	<b>-</b>	<b>4,163,217</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(7,359,100)</b>	<b>(5,903,044)</b>	<b>(7,271,358)</b>
Cash and cash equivalents at beginning	6,647,665	13,297,216	13,297,216
Effects of exchange rates on cash and cash equivalents	200,194	12,328	621,807
<b>Cash and cash equivalents at end of year</b>	<b>(511,241)</b>	<b>7,406,500</b>	<b>6,647,665</b>
<b>Note:</b>			
Cash and cash equivalents consists of the following:			
Cash and Cash Equivalents	808,788	7,406,500	6,647,665
Bank Overdraft (included within trade and other payables)	(1,320,029)	-	-
<b>Cash and cash equivalents</b>	<b>(511,241)</b>	<b>7,406,500</b>	<b>6,647,665</b>

The consolidated cash flow has been presented in the presentation format as required by IAS 7

## **1 BASIS OF PREPARATION OF INTERIM REPORT**

### **Reverse acquisition accounting and IFRS**

The Interim financial report has been prepared using accounting policies consistent with International Financial Reporting Standards (IFRS) for the first time. For all affected years, the trading results, assets and liabilities have been re-presented under the reverse acquisition rules as required by IFRS 3, this is explained more fully in note 2 below.

The information for the period ended 31 December 2007 is not audited and does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The interim accounts for the six month period to 31 December 2006 were also unaudited.

The information for the year ended 30 June 2007, even though unaudited, is taken from the unqualified statutory accounts for the year then ended, modified for the transition to IFRS, in particular the application of reverse acquisition accounting, as explained in note 2 and the reconciliation table in note 4.

## **2 ACCOUNTING POLICIES**

### **Basis of Accounting**

The interim financial report has been prepared using accounting policies consistent with International Financial Reporting Standards (IFRS) for the first time. The consolidated Group has chosen not to apply any transition exemptions under IFRS 1 therefore has applied full IFRS retrospectively. The financial statements have been prepared under the historical cost basis, as modified by the fair value through profit and loss or equity in relation to derivative instruments. The Group has not decided to adopt any other IFRS accounting standards. The principal accounting policies adopted are set out below.

### **Basis of Consolidation**

The acquisition of Mercator Gold Australia Pty Ltd by Mercator Gold PLC meets the definition of a reverse acquisition as defined by IFRS 3. As a result, although the accounts are issued under the name of the legal parent (Mercator Gold PLC), the accounts presented are a continuation of the accounts of Mercator Gold Australia Pty Ltd.

#### *Fair Value Consideration*

The fair value of the Mercator Gold Australia Pty Ltd shares at the date of the business combination was not clearly evident. As a consequence the fair value of the legal parent's share was used prior to the business combination to calculate the initial share for share exchange on 8 August 2004. Included within the Heads of Agreement was deferred consideration payable to the vendors upon the Group making the election to earn a 45% equity interest in the Annean Joint Venture.

The consideration for the Acquisition was satisfied by the issue of 2,000,000 shares on 8 August 2004, 2,000,000 options on 29 September 2004 and issue of 2,000,000 deferred share considerations on 26 January 2005.

#### *Fair Value Attribution of Net Assets*

There were no fair value attributions to the legal parent's net assets as it has been presumed by management that the book value of assets equated to its fair values.

At the date of business combination, there was goodwill of £467,694 which was written off against opening accumulated loss reserves.

As a result of applying reverse acquisition accounting, the consolidated IFRS financial information of Mercator Gold PLC is a continuation of the financial information of Mercator Gold Australia Pty Ltd and its subsidiaries. The retained earnings shown for all affected periods are those for Mercator Gold Australia Pty Ltd and its subsidiaries.

### **Translation of financial statements of foreign entities**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Pounds Sterling, which is the legal parent's functional and presentational currency.

#### *Transactions and Balances*

Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Foreign exchange gains and losses resulting from settling foreign currency transactions, as well as from restating foreign currency denominated monetary assets and liabilities, are recognised in the income

statement, except for differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are recognised directly in equity.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined.

#### *Group Companies*

The results and financial position of all group companies that have a functional currency different from the presentation currency are translated into the presentational currency as follows:

- a) Assets and liabilities for each balance sheet are translated at the closing rate of exchange at the date of each balance sheet
- b) Income and expenses for each income statement are translated at average rate of exchange (unless the average rate is not a reasonable approximation of the cumulative effects of rates prevailing at the dates of the transactions); and
- c) All resulting exchange differences are recognised directly in equity.

On consolidation, exchange differences arising from the translation of a net investment in foreign operations, are taken to shareholder's equity. When a foreign operation is disposed of or sold, exchange differences recognised in equity will be recycled to the income statement to form part of the gain or loss on sale.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The minority interest in the net assets and net results are shown separately in the consolidated balance sheet and consolidated income statement.

#### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

#### **Impairment of tangible and intangible assets excluding goodwill**

At each balance sheet date, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates that recoverable amount of the cash-generated unit to which the asset belongs. An intangible asset with indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair values less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimate of future cash flows have not been adjusted.

In the recoverable amount of an asset (or cash-generated unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a re valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised by the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a re valued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### **Trade receivables**

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

#### **Cash and Cash Equivalents**

"Cash and cash equivalents" includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

## **Derivatives**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as:

Hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Trading derivatives are classified as current assets. The fair value of derivatives is determined with reference to publicly disclosed gold curve information. The value attached to the derivatives coincides with the maturity dates of the derivatives and this value is then discounted back using the basic rate of interest as published by the Federal Reserve.

The Group has accounted for the fair values of both the call and put options in accordance with their legal structure and has not netted these fair values.

### *Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedged is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in the income statement within other income or other expenses.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

The Group has decided not to separate out time and intrinsic value but retain one single fair value to all option derivatives and measure hedge effectiveness consistent with this.

The Group has made the assessment that these forecast sales are highly probable on the basis of the Group having a JORC compliant gold reserve and has predicted the approximate date of gold delivery with reference to the Gold Life of Mine plan.

## **Payables**

Trade and other payables represent liabilities for goods and services provided to the Company prior to the year end and which are unpaid. These amounts are unsecured and have 30-60 day payment terms.

## **Employee Benefits**

### *Wages and Salaries, Annual Leave and Sick Leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of balance sheet date are recognised in respect of employees' services rendered up to balance sheet date and measured at amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when leave is taken and measured at the actual rates paid or payable. Liabilities for wages and salaries are included as part of Other Payables and liabilities for annual and sick leave are included as part of Employee Benefit Provisions.

### *Long Service Leave*

Liabilities for long service leave are recognised as part of the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees to the balance sheet date using the projected unit credit method. Consideration is given to expected future salaries and wages levels, experience of employee departures and periods of service. Expected future payments are discounted using national



government bond rates at balance sheet date with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

### **Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

### **Contributed Equity**

Ordinary shares are classified as equity.

Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the purchase consideration.

### **Exploration and evaluation expenditure**

Exploration and evaluation expenditure encompasses expenditures incurred by the Company in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Exploration and evaluation expenditure incurred by the Company is accumulated for each area of interest and recorded as an asset if:

- (i) the rights to tenure of the area of interest are current; and
- (ii) at least one of the following conditions is also met:
  - (1) the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; and
  - (2) exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

For each area of interest, expenditure incurred in the acquisition of rights to explore is capitalised, classified as tangible or intangible, and recognised as an exploration and evaluation asset. Exploration and evaluation assets are measured at cost at recognition. Exploration and evaluation expenditure incurred by the Company subsequent to acquisition of the rights to explore is expensed as incurred.

The recoverable amount of each area of interest is determined on a bi-annual basis and the provision recorded in respect of that area adjusted so that the net carrying amount does not exceed the recoverable amount. For areas of interest that are not considered to have any commercial value, or where exploration rights are no longer current, the capitalised amounts are written off against the provision and any remaining amounts are charged against profit.

Recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

### **Goods and Services and Value Added Tax**

Revenues, expenses and assets are recognised net of GST except where GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

### Restoration and Rehabilitation Expenditure

The Company provides for the future cost of rehabilitating and closing its mining operation, regardless of when that operation is expected to cease. A provision for restoration is required to be brought to account as soon as there is a probable outflow of resources that can be measured reliably. The provision for restoration is based on the discounted cash flow of the expected future cost.

### Share Based Payments

The Company provides benefits to employees (including directors) of the Company in the form of share-based payment transactions, whereby employees render services in exchange for shares or options over shares ("equity-settled transactions").

The fair value of options is recognised as an expense with a corresponding increase in equity (share option reserve). The fair value is measured at grant date and recognised over the period during which the holder become unconditionally entitled to the options. Fair value is determined by an independent valuer using a Black-Scholes option pricing model. The cumulative expense recognised between grant date and vesting date is adjusted to reflect the directors' best estimate of the number of options that will ultimately vest because of internal conditions of the options, such as the employees having to remain with the Company until vesting date, or such that employees are required to meet internal sales targets. No expense is recognised for options that do not ultimately vest because internal conditions were not met. An expense is still recognised for options that do not ultimately vest because a market condition was not met.

Where the terms of options are modified, the expense continues to be recognised from grant date to vesting date as if the terms had never been changed. In addition, at the date of the modification, a further expense is recognised for any increase in fair value of the transaction as a result of the change.

Where options are cancelled, they are treated as if vesting occurred on cancellation and any unrecognised expenses are taken immediately to the income statement. However, if new options are substituted for the cancelled options and designated as a replacement on grant date, the combined impact of the cancellation and replacement options are treated as if they were a modification.

### Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

## 3 PROFIT PER SHARE

The calculation is based on the profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares:

	<b>6 Months to 31 December 2007</b>	<b>6 Months to 31 December 2006</b>	<b>12 Months to 30 June 2007</b>
Profit /(Loss) for the period	<b>£(3,563,871)</b>	<b>£(1,015,269)</b>	<b>£(2,875,885)</b>
Weighted average number of shares undiluted	<b>62,258,365</b>	<b>53,568,566</b>	<b>55,547,888</b>
Weighted average number of shares diluted	<b>62,258,365</b>	<b>53,568,566</b>	<b>55,547,888</b>

#### 4 EXPLANATION OF TRANSITION TO IFRS

The Group has applied IFRS 1 "First Time Adoption of International Financial Reporting Standards" as a starting point for reporting under IFRS. The Group's date of transition is 1 July 2006 and comparative information has been restated to reflect in the Group's adoption of IFRS except where otherwise required or permitted by IFRS 1. Note 2 fully explains the impact of IFRS 3.

IFRS 1 required an entity to comply with IFRS and IAS effective at the reporting date for its first financial statements prepared under IFRS. As a general rule, IFRS 1 requires such standards to be applied retrospectively. However, the standard allows several optional exemptions from full retrospective application.

The Group has not elected to take advantage of any of the available exemptions. As a consequence of this, Business combinations made prior to 1 July 2006 have been accounted for under IFRS 3 "Business Combinations". Share based payments transactions have been applied to equity settled share based payment transactions that was granted and vested post 1/1/05 as required by p.60 of IFRS 2, there were no equity settled share based payment transactions that was granted prior to 1/1/05 but after 7 November 2002 and vested post 1/1/05.

The reconciliations of equity and losses as required by IFRS 1, are set out below.

As IFRS requires a different basis of preparation of the accounts as explained in note 1 and 2, it is not possible to publish full reconciliation tables as required by IFRS 1. However the tables below show the reconciliation of key published amounts for the affected periods previously presented under UKGAAP:

#### RECONCILIATION OF NET ASSETS FROM UK GAAP TO IFRS

	12 months ended 30 June 2007	6 months ended 31 December 2006
	£	£
UK GAAP loss for the financial period as previously reported	(2,875,885)	(1,015,269)
<b>(Loss) from continuing operations – IFRS</b>	<b>(2,875,885)</b>	<b>(1,015,269)</b>

#### RECONCILIATION OF NET ASSETS FROM UK GAAP TO IFRS

	30 June 2007	31 December 2006	1 July 2006
	£	£	£
Net Assets per UK GAAP	27,549,827	23,014,601	23,979,479
Goodwill Uplift on Reverse Acquisition (i)	-	-	467,694
Goodwill Written off to opening Accumulated Losses (i)	-	-	(467,694)
Cost of Share Based Payments	-	-	927,043
Cost of Issue of Warrants in relation to equity raising	-	-	312,677
Allocation to Share Based Payments Reserve	-	-	(1,239,720)
<b>Net Assets - IFRS</b>	<b>27,549,827</b>	<b>23,014,601</b>	<b>23,979,479</b>

(i) Note the reverse acquisition occurred on 4 August 2004 which represented the date of share for share exchange.

## Company Information

Company Number 05079979

### Directors

T J Strapp	Non-Executive Chairman
P A Harford	Managing Director
D Geldard	Chief Operating Officer
M J de Villiers	Finance Director
M Elias	Non-Executive Director
R N Allen	Non-Executive Director

### Advisers:

#### Nominated Adviser & Stockbroker

Cenkos Securities plc  
6.7.8 Tokenhouse Yard  
London EC2R 7AS

#### Stockbroker

Ocean Equities Limited  
3 Copthall Avenue  
London EC2R 7BH

### Secretary and Registered Office

M J de Villiers  
3<sup>rd</sup> Floor  
Peek House  
20 Eastcheap  
London EC3M 1EB  
Tel: +44 (0)20 7929 1010  
Fax: +44 (0)20 7929 1015  
[Email: info@mercatorgold.com](mailto:info@mercatorgold.com)  
[Website: www.mercatorgold.com](http://www.mercatorgold.com)

### Registrars

Computershare Ltd  
The Pavilions  
Bridgwater Road  
Bristol  
BS18 9AE

### Auditors

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

### 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](mailto:admin@mercatorgold.com.au)

### Bankers

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

### Solicitors (UK)

Cobbetts LLP  
58 Mosley Street  
Manchester M2 3HZ

### Financial Public Relations Consultants

Bankside Consultants Ltd  
1 Frederick's Place  
Old Jewry  
London EC2R 8AE

### Solicitors (Australia)

Blakiston & Crabb  
1202 Hay Street  
West Perth, WA 6005  
Australia

Loeb Aron & Company Ltd  
Georgian House  
63 Coleman Street  
London EC2R 5BB