Mercator Gold plc

Annual Report & Accounts 2007

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*

COMPANY SECRETARY
Michael John de Villiers

REGISTERED OFFICE
Mercator Gold plc
Peek House
20 Eastcheap
London EC3M 1EB
United Kingdom

HEAD OFFICE
Mercator Gold plc
Peek House
20 Eastcheap
London EC3M 1EB
United Kingdom

Tel +44 (0)20 7929 1010
Fax +44 (0)20 7929 1015
info@mercatorgold.com
www.mercatorgold.com

AUSTRALIA OFFICE
Mercator Gold plc
& Mercator Gold Australia Pty Ltd
PO Box 1256
Canning Bridge WA 6153
Australia

41 Kishorn Road
Applecross WA 6153
Australia

Tel +61 (0)8 9316 9400
Fax +61 (0)8 9316 9455
admin@mercatorgold.com.au
www.mercatorgold.com

ADVISERS

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

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

BANKERS
Barclays Bank plc
Town Gate House
Church Street East
Woking
Surrey GU21 6XW

SOLICITORS (UK)
Cobbetts (UK) LLP
58 Mosley Street
Manchester M2 3HZ

SOLICITORS (AUSTRALIA)
Blakiston & Crabb
1202 Hay Street
West Perth WA 6005
Australia

TECHNICAL CONSULTANTS
Snowden Corporate Services Pty Ltd
87 Colin Street
West Perth WA 6005
Australia

Cube Consulting
1111 Hay Street
West Perth WA 6005
Australia

NOMINATED ADVISER & STOCKBROKER
Cenkos Securities plc
6.7.8 Tokenhouse Yard
London EC2R 7AS

STOCKBROKER
Ocean Equities Ltd
3 Copthall Avenue
London EC2R 7BH

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

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

Read Corporate
510A Hay Street
Subiaco WA 6008
Australia

Front cover: First commercial gold pour at Meekatharra in October 2007
This page: Bluebird Mill at Meekatharra

Chairman's Report

It is with great pleasure I present the third Annual Report to Shareholders of Mercator Gold plc in what has been a truly landmark year for your Company.

Firstly, and most importantly, I am pleased to report the numerous milestones achieved during the 2006/7 financial year were free of lost time injuries and environmentally negative incidents. This highlights the commitment and dedication of all staff and employees of Mercator Gold in maintaining the highest levels of safety and environmental practices and is something we will continue to strive for at all times.

On completion of the acquisition of the Meekatharra assets in early 2006 your Company set itself the task of bringing the mines of Meekatharra back into production on a profitable and sustainable basis.

To achieve this objective the Company realised it needed to establish a reserve base sufficient to support production for at least four years at 120,000 ounces per year. The Company's minimum requirement for the recommencement of production was therefore in the order of 500,000 ounces of reserves.

The Company's successful exploration at Surprise and Bluebird at Yaloginda in 2005 and 2006 formed the basis of a prolonged campaign of drilling, whilst the recognition of the potential of the Prohibition-Vivian-Consols area within the Paddy's Flat field became a focus of a second area of successful exploration. Our resources at the beginning of the year were 2,160,000 ounces of gold and have now grown to a total of 2,443,000 ounces of gold.

I am pleased to say the mining studies associated with reserve definition were commenced and largely completed during the year under review and now stand at 504,000 ounces of gold.

Immediately following on from the reserve definition studies the Company moved on its commitment to recommence production at Meekatharra. With reserves sufficient to sustain production for at least four years the Company undertook a thorough refurbishment of the Bluebird mill at a cost of £3 million.

First production is being sourced from the Surprise deposit, which is situated approximately 800 metres from the Bluebird Mill. Surprise contains a number of high grade lenses within a porphyry of generally lower grades, and will be mined over a nine month period. Pre-stripping of the larger and somewhat deeper Bluebird deposit – which lies approximately one kilometre from the Mill – will commence shortly, with ore from Bluebird to be blended with Surprise in the New Year. These deposits will supply approximately 200,000 ounces of production over a 20-22 month period.

Coinciding with the production from the Surprise and Bluebird pits, the Company intends to begin underground development of the highly regarded Paddy's Flat deposits. These deposits will be the source of production for at least two years after the depletion of the Surprise/Bluebird reserves and in our view, have the potential to provide further reserves over many more years. This view is based on the important fact that the Paddy's Flat deposits are open both along strike and at depth.

Our reserves represent only a small portion of the known mineralisation at Paddy's Flat, which has to date produced over 2 million ounces of gold to an average depth of less than 250 metres.

The financial results for the year reflect the ongoing costs associated with putting in place the financing and resources that will allow your Company to take advantage of the current upswing in the international gold market. Your Board remains cautiously optimistic that there is a longer term overall improvement in the West Australian gold mining industry and Mercator has the appropriate asset base to take advantage of this. It is with this opportunity in mind a full listing of Mercator on the Australian Stock Exchange is being considered.

In conclusion, I would like to extend a special thanks to our operational staff for the way they have carried out their tasks during the year – bringing a mine into production is never easy. In particular I would like to thank Denis Geldard, Alan Coles, Laurie Mann and Clarrie Lauritsen for their tireless pursuit of the Company's objectives.

Julian and Sue Vearncombe left the Company as full-time consultants during the course of the year. I thank them for their efforts and wish them well.

Finally, I would like to thank you, our shareholders, for your continuing support in what promises to be another active and exciting year ahead.

Terry Strapp
Chairman

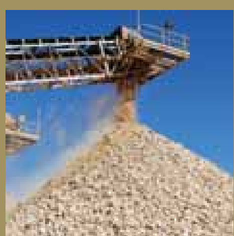
OUR OBJECTIVES ARE

1 TO MAINTAIN OUR EXEMPLARY RECORD IN THE AREAS OF SAFETY AND ENVIRONMENTAL MANAGEMENT

2 TO ENGAGE WITH OUR EMPLOYEES AND THE LOCAL COMMUNITY TO THE BENEFIT OF ALL STAKEHOLDERS

3 TO PRODUCE 120,000 OUNCES OF GOLD IN THE FIRST FULL YEAR OF PRODUCTION BY SEPTEMBER 2008

4 TO GROW OUR RESOURCES BY A FURTHER ONE MILLION OUNCES



5 TO GROW OUR RESERVES BY A MINIMUM OF 220,000 OUNCES.

2007 Highlights

OPERATIONS

→ Initial JORC compliant reserve of 432,000oz Au defined for the Surprise and Bluebird Open Pits and the Prohibition, Vivian-Consols, Fatts and Mudlode underground prospects, providing up to five years of production base from the Meekatharra Gold Operations.

→ Commissioning of the 1.25-3.0 million tonnes per annum Bluebird carbon-in-leach Gold Processing Plant was completed in June 2007 after refurbishment commenced in early July 2006.

→ Installation of a gravity circuit at the Bluebird Plant.

→ Feasibility studies completed for the open pit and underground operations at Surprise, Bluebird, Prohibition, Vivian-Consols, Fatts and Mudlode resulting in Board approval to proceed with production.

→ Recruitment of a highly experienced operations team to commission plant and commence commercial production.

Below: Start of the morning shift at Surprise with 100 tonne dump trucks

PRODUCTION

subsequent to 30 June 2007

→ Subsequent to the end of the financial year 2007, first gold was produced from ore sourced from the Surprise development and overall reserves were increased to 504,000 ounces.

EXPLORATION

→ Exciting new exploration targets identified at virgin Euro Project from high definition magnetic and gravity surveys.

→ Highly experienced international exploration geologist, Mark Csar, appointed as Exploration Manager to pursue Mercator's portfolio of prospective exploration targets.

CORPORATE

→ Repayment of 9.25% Convertible loan through the issue of 1.645m shares.

→ Mining contract awarded to Mining and Civil Australia Pty Ltd to carry out initial open pit mining of the Surprise deposit.

THE BLUEBIRD PROCESSING PLANT IS MOVING TO FULL PRODUCTION WITH AN ANNUALISED TARGET OF 120,000 OUNCES OF GOLD

Review of Operations

MEEKATHARRA GOLD PROJECT

The Meekatharra Gold Project is located 630 kilometres north-east of Perth, Western Australia in an area with a rich gold mining history which began in the early 1930s. Since that time, the broader Meekatharra area has produced some 3.5 million ounces of gold from relatively shallow underground mines and open pits.

After two years of resource definition, drilling, mine modeling, environmental impact studies, Aboriginal heritage reviews, staff recruitments and plant refurbishment, Mercator Gold plc has now made the significant transition from Explorer to Producer/Explorer with maiden production commencing in September 2007.

The Board approved the move into production following feasibility studies into open pit and underground mining scenarios, with initial ore being sourced from the Surprise and Bluebird open pits that are both within one kilometre of the processing plant and mine infrastructure.

SURPRISE

The Surprise Project has reserves of 63,000 ounces (cut) and is a porphyry hosted gold ore body that has a somewhat unique nugget signature. This is demonstrated with the overall grade of 2.4g/t Au and the occurrence of several high grade intervals including 1m @ 359g/t Au from 114m (hole 06SURD030).

Other high grade intercepts include but are not limited to:

06SURC029; 1m @ 16.3g/t Au from 148m,
06SURC029; 5m @ 14.0g/t Au from 183,
06SURC030; 7m @ 11.4g/t from 120m,
06SURC031; 5m @ 77.8g/t Au from 139m and,
06SURC035; 4m @ 5.0g/t from 112m.

Metallurgical test work has shown up to 60% of the gold from the high grade zones will be recovered by the new gravity circuit.

Gold recoveries in the CIL (carbon-in-leach) circuit are expected to be 93% to 97%.

The Surprise open pit is located close to the Great Northern highway, a major artery road servicing the North West iron provinces. Pit design parameters have incorporated extensive geotechnical monitoring equipment to measure earth movement as a risk mitigation tool.

WE HAVE MADE THE SIGNIFICANT TRANSITION FROM EXPLORER TO PRODUCER WITH MAIDEN PRODUCTION IN SEPTEMBER 2007

Left: The mills turning at Bluebird processing plant

BLUEBIRD

The Bluebird open pit has reserves of 133,000 ounces and has previously been mined to 80 metres depth and will require a cut-back to enable an additional 80 metres of planned mining.

There are four ore zones varying in thickness from one to several metres with a distinct advantage for mining of easily identifiable ore from barren waste horizons. This factor will positively impact on grade control and mining costs.

Up to 30% of the gold mined at Bluebird will report as gravity gold.

PROHIBITION-VIVIAN-CONSOLS

The Prohibition-Vivian-Consols deposits contain a reserve of 262,000 ounces. The Vivian-Consols declines will provide direct access to the various lode structures with strike drives following the Vivian-Consols and Mudlode structures and providing both development ore and equally important geological information on the structural controls that will lead to a better understanding of the strike and depth opportunities.

The existing two shafts at the Alberts and Butler mines will provide valuable ventilation and second egress, all of which is positive in terms of development costs. Once the initial decline is connected to the Alberts Shaft, a spur decline will then access the Prohibition ore body.

As the declines are developed, cross-cut drill cuddies will also be developed to enable diamond drilling to test the depth extensions of the various structures. Decline access, strike drives and various development drives will total some 21 kilometres as the final design depths are reached.

The targeted strike extensions may add over 1000 metres to the existing 700 metre strike, with depth extensions initially targeted to 500 metres, adding 200-300 metres to existing old workings.

BLUEBIRD PROCESSING PLANT

The Bluebird carbon-in-leach Processing Plant has a rated capacity of between 1.25 to 3.0 million tonnes per annum (tpa) and underwent a total refurbishment in the 2007 financial year. The plant is currently moving from a commissioning phase to full production with an initial annualised target of 120,000 ounces of gold.

First gold was poured on 1 October 2007.

Metallurgical test work conducted on all of the open pit and underground ore sources has exhibited high to very high gravity gold components, with Surprise and Vivian-Consols expected to range from 30% to 60%. Conventional Carbon-in-Pulp (CIP) will recover 93% to 97% of all ores tested with the exception of Prohibition. This ore body requires a small flotation plant to recover the sulphide fraction which is then subjected to ultra fine grinding and conventional CIP producing recoveries of 93% to 95%.

The first 18 months of production coming from the open pits underpins the Company's ability to effectively develop its underground resources whilst at the same time enabling exploration along strike and at depth in areas that historically show good potential.

Meekatharra is like the Kalgoorlie Golden Mile where several independent gold mines were operated in the 30s and 40s right up to the mid 1980s with varying degrees of success. Meekatharra's Paddy's Flat has also seen a similar development phase with very few of the mines being developed below 250 metres in depth. Mercator Gold has concentrated its efforts on the Prohibition, Vivian-Consols, Fatts and Mudlode deposits over a strike length of some 700 metres and depth to only 250 metres.

COMMUNITY, OCCUPATIONAL HEALTH AND SAFETY

The Company continues to cement relationships with two indigenous groups, the Wadjarri Yamatji and the Yugunga Nya, who represent the traditional land owners of the various tenements held by Mercator Gold Australia Pty Ltd.

During the year, the Company employed a number of local Indigenous people as part of its commitment to the local community and in the spirit of the agreements entered by both parties. Mercator will continue to encourage local people to seek both training and employment whenever opportunities arise.

The 2007 financial year has been exceptional in that Mercator has achieved a record Safety and Environmental outcome with zero LTI's (lost time injuries) and zero level 1 environmental incidents. This is a commendable achievement as it was achieved during a period of Plant refurbishment and drilling programs in extreme weather conditions, ranging from 45 degrees Celsius in summer and zero degrees Celsius in winter.

In addition, the application of daily tool-box meetings and weekly safety meetings was another positive initiative of the Meekatharra site management who have shown a high level of commitment to the areas of health and safety.

During the year Mercator – in addition to the Processing Plant refurbishment – also carried out extensive work to the on-site accommodation facilities which included an upgrade to the wet mess, a new gymnasium, Foxtel television to every room and high speed internet facilities. Grassed areas with native and fruit trees all add to a healthy and comfortable environment for our operational personnel.

MERCATOR EMPLOYS LOCAL INDIGENOUS PEOPLE & ENCOURAGES THEM TO SEEK BOTH TRAINING AND EMPLOYMENT WHENEVER OPPORTUNITIES ARISE

Patrick Harford
Managing Director

Denis Geldard
Chief Operating Officer

The information in this report that relates to Exploration results and Mineral Resources is based on information compiled by Mark Csar. Information in this report relating to Ore Reserves is based on information compiled by Denis Geldard. Mark Csar and Denis Geldard are full time employees of Mercator Gold Australia Pty Ltd and are members of the Australasian Institute of Mining and Metallurgy.

Mark Csar and Denis Geldard have sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activity which they are undertaking to qualify as Competent Persons as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves".

Mark Csar and Denis Geldard consent to the inclusion in the report of the matters based on this information in the form and context in which it appears.

Review of Exploration

Resources

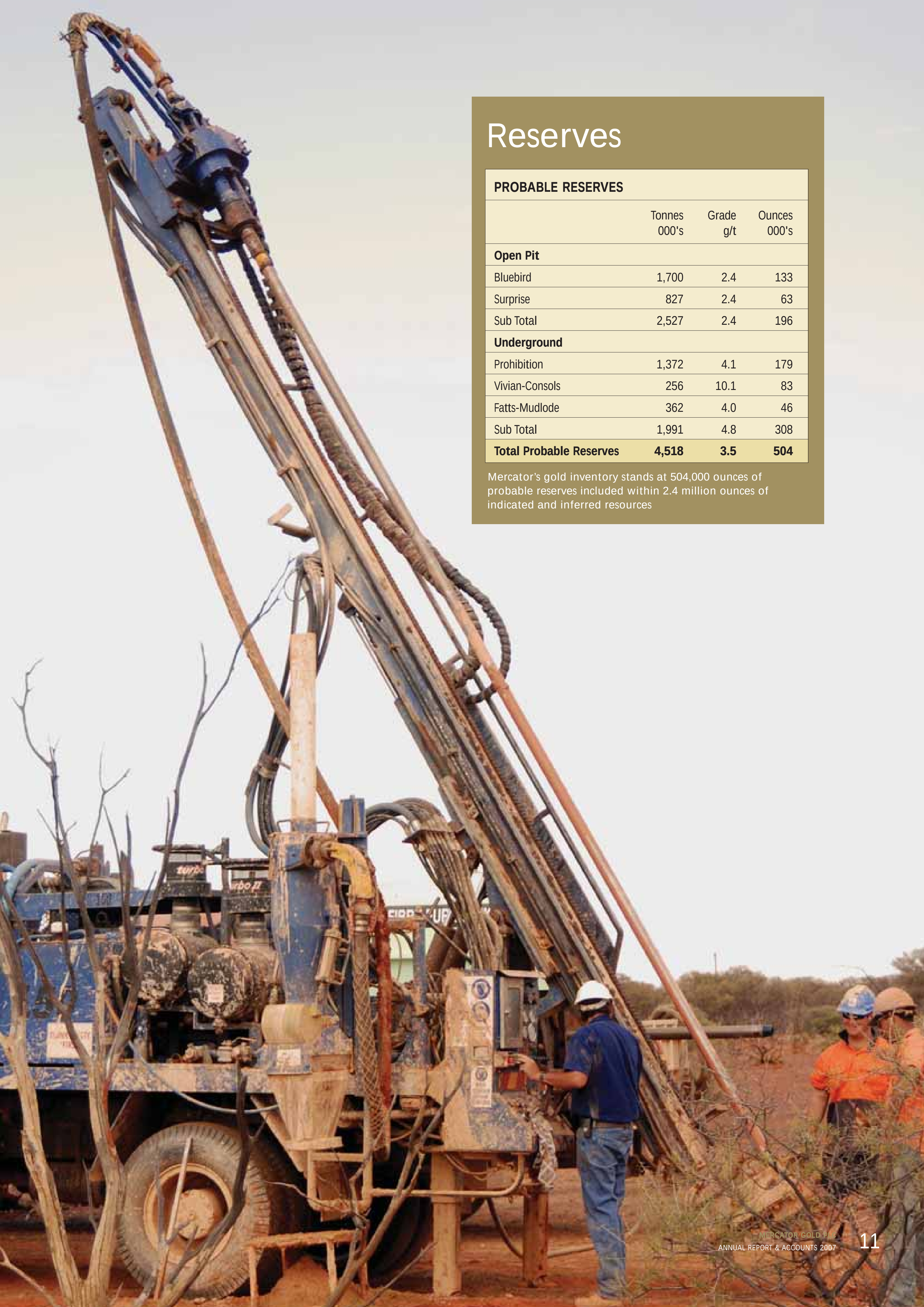
Reserves and Resources as at 19 September 2007

	Indicated			Inferred			Total			2006 - 2007	
	Tonnes 000's	Grade g/t	Oz 000's	Tonnes 000's	Grade g/t	Oz 000's	Tonnes 000's	Grade g/t	Oz 000's	2006 Oz 000's	Variance Oz 000's
YALOGINDA[1]											
Bluebird	5,450	2.0	351	1,660	2.6	137	7,110	2.1	488	546[6]	-58
Bluebird South	1,433	1.1	52	1,346	1.6	68	2,779	1.3	120	-	120
Surprise	2,561	1.3	104	782	0.7	19	3,343	1.1	123	141	-18
Sub Total	9,444	1.7	507	3,788	1.8	224	13,232	1.7	731	687	44
PADDY'S FLAT											
Prohibition[2]	2,510	4.0	320	160	3.9	21	2,670	4.0	341	270	71
Vivian-Consols[3]	406	9.3	121	276	7.4	65	682	8.5	186	234	-48
Fatts[2]	710	2.8	63	-	-	-	710	2.8	63	-	63
Mudlode[4]	170	4.5	24	220	1.1	44	390	5.5	68	-	68
Mickey Doolan[1]	12,375	1.0	396	7,119	0.9	213	19,494	1.0	609	609	-
Ingliston[1]	1,329	1.1	45	100	1.1	4	1,429	1.1	49	-	49
Golden Bar[1]	379	1.4	17	50	1.1	2	429	1.4	19	19	-
Sub Total	17,879	1.7	986	7,925	1.4	349	25,804	1.6	1,335	1,132	203
MEEKATHARRA NORTH[1]											
Maid Marion	706	1.3	29	174	1.2	6	880	1.3	36	-	36
REEDY[5]											
South Emu	618	3.4	68	100	3.0	10	718	3.4	78	78	-
Rand	891	1.9	55	1,458	2.7	125	2,349	2.4	180	180	-
Jack Ryan	534	2.1	36	846	1.7	47	1,380	1.9	83	83	-
Sub Total	2,043	2.4	159	2,404	2.4	182	4,447	2.4	341	341	-
TOTAL RESOURCES	**30,072**	**1.7**	**1,682**	**14,291**	**1.7**	**761**	**44,363**	**1.7**	**2,443**	**2,160**	**283**

[1] Estimated on a 0.5g/t lower cut off grade
[2] Estimated on a 2.0g/t lower cut off grade
[3] Estimated on a 4.0g/t lower cut off grade
[4] Estimated on a 3.0g/t lower cut off grade
[5] Estimated within a geological/alteration envelope approximately equivalent to a lower cut off grade of 0.5g/t
[6] 2006 Bluebird Resource estimation included the Bluebird South area

RESOURCES AT MEEKATHARRA CONTINUE TO BE ADVANCED WITH DRILLING AND MINE DESIGN WORK. IT IS PLANNED THEY WILL BE PROGRESSIVELY UPGRADED TO RESERVES.

Right: Exploration drilling at Euro



Reserves

PROBABLE RESERVES	Tonnes 000's	Grade g/t	Ounces 000's
Open Pit			
Bluebird	1,700	2.4	133
Surprise	827	2.4	63
Sub Total	2,527	2.4	196
Underground			
Prohibition	1,372	4.1	179
Vivian-Consols	256	10.1	83
Fatts-Mudlode	362	4.0	46
Sub Total	1,991	4.8	308
Total Probable Reserves	**4,518**	**3.5**	**504**

Mercator's gold inventory stands at 504,000 ounces of probable reserves included within 2.4 million ounces of indicated and inferred resources

EXPLORATION ACTIVITY

Overview

Mercator's third year has seen the Company mature into a fully-fledged mining operation producing commercial quantities of gold. Exploration has supported Mercator's strong growth by focusing on upgrading resources into reserves, whilst exploration success outside reserve areas has increased the resource base with the addition of two new resource areas – Ingliston and Maid Marion. These new deposits validate exploration models and provide confidence for additional discoveries.

Exploration activity during the financial year consisted of field mapping, geophysical surveys, geochemical surveys, drilling programs and resource estimation work with the total expenditure on exploration for the year totalling A$14m (£5.9m).

Drill activity was largely focused on the two main operating areas: Yaloginda and Paddy's Flat, with 504,000 ounces of reserves being established during the year as well as an increase of 283,000 ounces of gold to the resource base which now totals 2.4 million ounces. Work outside of these areas continues to progress and provides the foundation for further reserve and resource additions during the upcoming years.

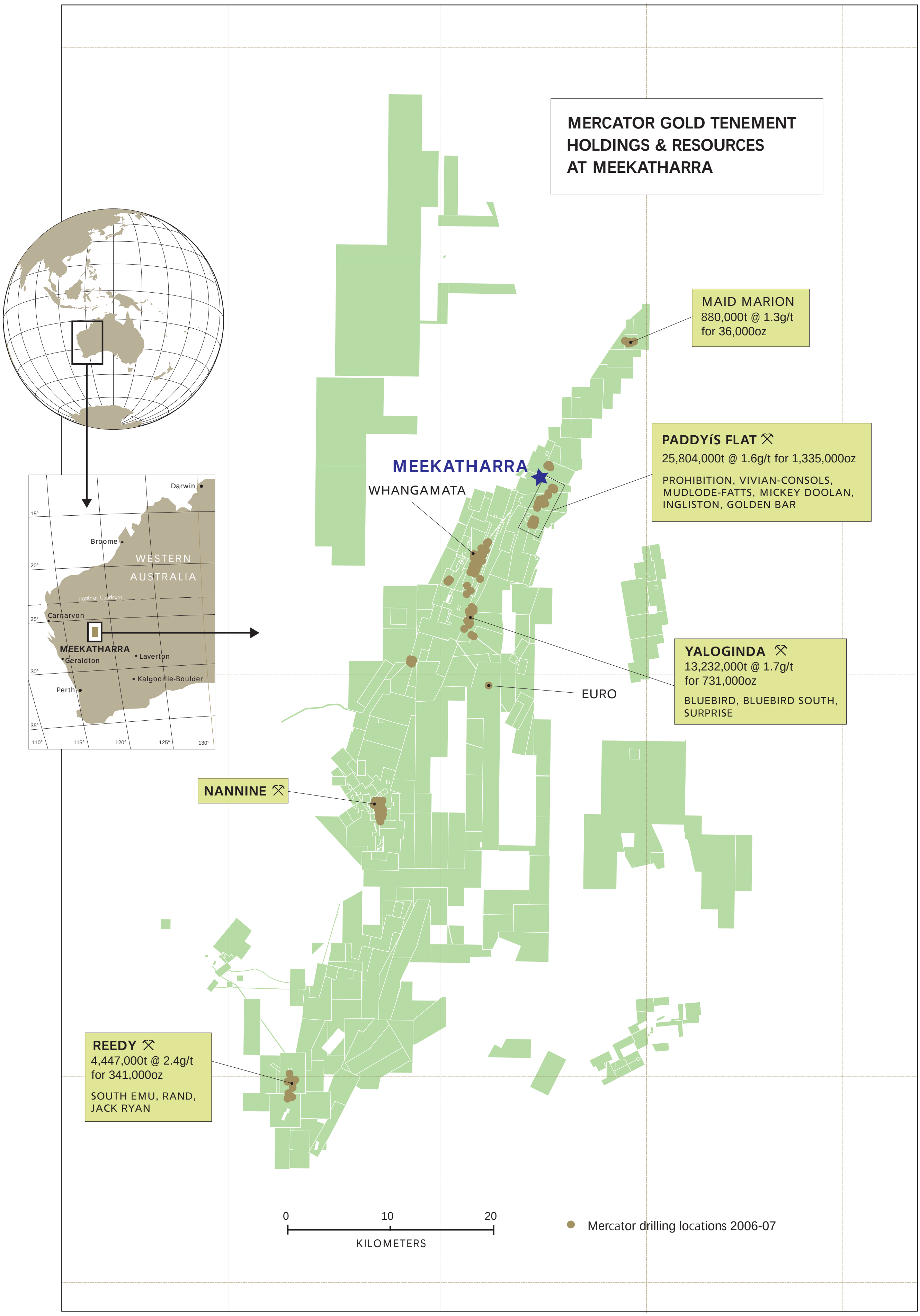
Tenements

Mercator controls approximately 1,770 sq km over 319 granted and 108 in-application tenements in the Meekatharra district. Tenement activity during the year included:

- Mercator's lone New Zealand tenement was surrendered in October 2006 to allow the Company to focus its attention on the Meekatharra tenements.

- The Company's Chunderloo/ Wanganui group of tenements were determined to be less prospective and, as part of Mercator's tenement rationalisation efforts, were subsequently surrendered in May 2007.

DRILLING ACTIVITY	HOLES	METRES
Yaloginda		
Euro	5	893
Great Northern Highway	10	1,706
Maranui	2	350
Rhens	14	1,024
Surprise	113	12,125
Twelve Mile Hill	17	1,030
Whangamata	141	11,592
Zuytdorp	16	967
Sub Total	318	29,687
Paddy's Flat		
Fenian West	16	2,417
Golden Bar	26	1,806
Halcyon	21	1,181
Haveluck	12	642
Ingliston	19	1,733
Prohibition	40	12,862
Vivian-Consols	20	5,407
Sub Total	154	26,048
Other		
Maid Marion	63	7,706
Nannine	191	8,664
Sub Total	254	16,370
Total Drilling	**726**	**72,105**



MERCATOR GOLD TENEMENT HOLDINGS & RESOURCES AT MEEKATHARRA
MAID MARION
880,000t @ 1.3g/t
for 36,000oz
PADDYíS FLAT
25,804,000t @ 1.6g/t for 1,335,000oz
PROHIBITION, VIVIAN-CONSOLS, MUDLODE-FATTS, MICKEY DOOLAN, INGLISTON, GOLDEN BAR
MEEKATHARRA
WHANGAMATA
YALOGINDA
13,232,000t @ 1.7g/t
for 731,000oz
BLUEBIRD, BLUEBIRD SOUTH, SURPRISE
EURO
NANNINE
REEDY
4,447,000t @ 2.4g/t
for 341,000oz
SOUTH EMU, RAND, JACK RYAN
Darwin
Broome
WESTERN AUSTRALIA
Tropic of Capricorn
Carnarvon
MEEKATHARRA
Geraldton
Laverton
Kalgoorlie-Boulder
Perth
15°
20°
25°
30°
35°
110°
115°
120°
125°
130°
0
10
20
KILOMETERS
Mercator drilling locations 2006-07

SURPRISE RESERVE CONTAINS 63,000 OUNCES OF GOLD

YALOGINDA

Overview

The Yaloginda area is located to the immediate southwest of Meekatharra and contains the Bluebird carbon-in-leach gold processing facility as well as several former open pit gold mines and historical gold deposits. Historically, gold mineralisation within the project area has been exploited on at least two geologically distinct lines: the Gibraltar line, where mineralisation is associated with sheared ultramafics and felsic intrusives; and the Rock Lee line, where narrow zones of high-grade gold mineralisation are hosted by BIF units.

Gold mineralisation is generally associated with shear structures, which commonly have been intruded by porphyry. Gold mineralisation typically occurs at the contact between these intrusive bodies and altered ultramafic rocks and is largely hosted by quartz veins and stockworks. The Gibraltar and Rock Lee lines have been intensively explored with more than one million ounces of gold discovered and subsequently mined from more than a dozen deposits along the 18 kilometre trend between Bluebird and Meekatharra.

The Yaloginda area remains an area of great interest and potential due in part to its close proximity to the Bluebird plant. The reserves at Bluebird and Surprise contain 196,000 ounces of gold and the project area remains prospective for high-grade gold zones within larger, low to moderate grade porphyry-hosted gold deposits which have been the main focus of previous mining activity. Ongoing projects being evaluated for high grade ore zones include Batavia, Bluebird South and Bluebird Deeps.

Bluebird

At Bluebird, optimisation and design work produced a new reserve of 133,000 ounces of gold during the year.

The Probable Reserve mining design extends the current pit 100m below the existing pit floor. In addition, the deposit was re-modelled following 2006 drilling which has increased resources for the area by 58,000 ounces from 546,000 to 608,000 ounces and the deposit remains open at depth.

Gold mineralisation at Bluebird occurs within NNE striking, sub-vertical shear zones hosted within predominantly talc-chlorite schist. The mineralised zone is associated with an outer quartz-carbonate alteration and an inner quartz-carbonate-mica alteration. High grade zones appear to be associated with sulphide minerals (mainly pyrite) in regions of quartz-carbonate veining, which form shallow easterly dipping tension gash arrays.

The remnant Bluebird resource, Bluebird South, is adjacent to and beneath the South Junction pit and remains a project for further work and evaluation.

Surprise

Surprise drilling, design and optimisation studies have resulted in a reserve containing 63,000 ounces of gold contained within a resource estimate of 123,000 ounces. Drilling and subsequent re-interpretation and modelling during the year has upgraded much of the previous inferred resource to the indicated resource category.

Gold mineralisation at Surprise is hosted by a north-south trending porphyry and in marginal carbonate-mica altered high-magnesium basalts. Low grade mineralisation is associated with pyrite and high grade mineralisation is associated with recumbent quartz veins and visible gold, resulting in a very high nugget effect in the resource estimation.

Mining reconciliation of the historical pit showed a strong production overcall compared to both cut and uncut resource models. Given historical production overcall and the high nugget effect, the Company has based production schedules on both high-cut and uncut data.

Left: Trucks and excavator in action at Surprise pit

YALOGINDA continued

Euro

Geological mapping, drilling and re-interpretation of the mineralisation as an east – west structure have provided encouragement at the Euro project.

Previously interpreted as a north-south structure, prior drilling results, although significant, were geologically discontinuous.

Geology in the area consists of felsic and intermediate volcanics and intercalated sediments, often strongly schistose and strongly weathered to 100m in depth. Minor interbedded sediments are present and ultramafics have been logged towards the west. Several quartz (+/- feldspar) microgranite intrusives have been logged in RC chips and diamond core. The dominant schistosity dips steeply towards the WSW. Mineralisation appears coincident with quartz veining and is interpreted to be related to faulting in the felsic and intermediate units.

A drilling program to test and define this oxide target will be undertaken in the last quarter of 2007.

Best results to date at Euro include 1m @ 94.3g/t Au, 3m @ 23.8g/t Au and 10m @ 5.0g/t Au. Further significant results are included in the table below.

Hole ID	Interval depth (m)	Intersection
07EURD011	96	6m @ 3.0g/t Au
07EURD011	116	10m @ 5.0g/t Au
07EURD011	221	6m @ 5.1g/t Au
07EURD019A	117	4m @ 3.1g/t Au
07EURD019A	144	4m @ 2.3g/t Au
07EURD020	110	5m @ 3.8g/t Au
07EURD020	155	1m @ 8.0g/t Au
07EURD020	168	3m @ 3.2g/t Au
07EURD021	79	1m @ 94.3g/t Au
07EURD021	102	3m @ 23.8g/t Au
Historical Intercepts		
MMRC004	91	12m @ 3.1g/t Au
MMRC009	152	5m @ 4.1g/t Au
MMRC0019	155	1m @ 30.0g/t Au
MMRC0034	113	2m @ 14.3g/t Au
MMRC0074	150	2m @ 11.6g/t Au
MMRC0078	105	4m @ 9.1g/t Au
MMRC0092	12	10m @ 7.6g/t Au

Whangamata

Whangamata is located approximately 7km north of the Bluebird Mill, where aircore drilling has delineated a continuous mineralised quartz reef of approximately 200m strike at shallow depth to the NNW of the existing Whangamata open pit. Significant oxide mineralised intersections are highlighted in the table below.

Hole ID	Interval depth (m)	Intersection
06WHAC040	52	2m @ 3.6g/t Au
06WHAC041	81	3m @ 2.2g/t Au
06WHAC047	18	2m @ 8.2g/t Au
06WHAC054	55	3m @ 2.2g/t Au
06WHAC055	69	2m @ 4.6g/t Au
06WHAC064	32	3m @ 2.2g/t Au

Right: Surprise porphyry ore after primary crushing

MERCATOR'S GOLD INVENTORY STANDS AT 504,000 OUNCES OF PROBABLE RESERVES INCLUDED WITHIN 2.4 MILLION OUNCES OF INDICATED AND INFERRED RESOURCES


MEEKATHARRA TOWNSITE
HALCYON
ST FRANCIS
COMMODORE
MACQUARIE
BUTLER
LUKES CREEK
GREAT NORTHERN HIGHWAY
INGLISTON SHAFT
READY MIX
INGLISTON SOUTH
GRANTS
PROHIBITION
ALBERTS EAST
GRANTS CENTRAL
MUDLODE
RED SPIDER
VIVIAN
CONSOLS
ALLONS-FISCHER
FATTS
HAUL ROAD
FENIAN
FENIAN WEST
MAGAZINE
MARMONT
GOLDEN BAR
DANUBE
MICKEY DOOLAN
PHAR LAP

PADDY'S FLAT

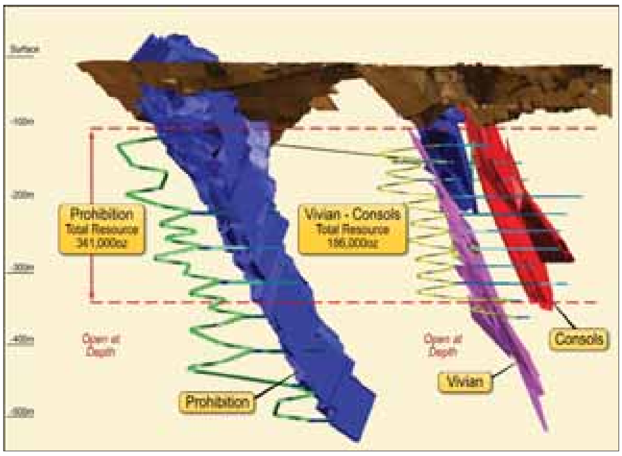
Overview

The Paddy's Flat area has produced the highest grade gold in the region with known deposits over four kilometres of strike length. The area is considered to be highly prospective, particularly from an underground perspective and with 308,000 ounces of gold reserves within 658,000 ounces of resources in underground areas, and 677,000 ounces in open pit resources, the area contains the bulk of the Company's assets.

Further significant expansion to the reserve and resource base is planned as most deposits are open at depth and along strike, particularly for underground operations. Drilling for this expansion is planned from future underground development to take advantage of lower drill costs, better intersection angles and deeper target opportunities.

Prohibition-Vivian-Consols (PVC)

The Prohibition and Vivian-Consols (PVC) lodes are within 300 metres of each other with the deposits planned to be mined concurrently.



Prohibition-Vivian-Consols mining design plan, looking north

Left: Locations of the Mercator Gold projects in the Meekatharra North (Paddy's Flat) area

Additional drilling, modelling and mine design has produced a 2007 reserve of 179,000 ounces of gold at Prohibition within a resource of 341,000 ounces of gold.

The deposit is characterised by an easterly dripping ferruginous chert horizon within a sequence of volcanoclastic sediments and basalt flows that has been cut by numerous westerly dipping faults. High grade mineralisation is primarily located where brittle fracturing from this faulting is widely developed. In these gold-rich zones, the dominant alteration assemblage is characterised by an intense sulphide replacement of mainly pyrite and arsenopyrite.

Significant intersections drilled at Prohibition during the year include but are not limited to:

Hole ID	Interval depth (m)	Intersection
06PRRD028	234	19m @ 5.0g/t Au
06PRRD034	94	12m @ 13.8g/t Au
06PRRD037	254	21m @ 3.1g/t Au
06PRRD040	343	31m @ 2.1g/t Au
06PRRD041	371	30m @ 3.1g/t Au

A high-grade reserve of 83,000 ounces of gold averaging 10.1g/t has been estimated for the Vivian-Consols deposits. All reserves have been estimated from the indicated resources of 121,000 ounces of gold which are a subset of the total 186,000 ounces of gold resource. The Vivian-Consols deposits lie within talc chlorite schists which overlie a sequence of chloritic mafic rocks. The lodes are hosted within an albite rich porphyry that has intruded into the western of two steep, easterly dipping north - south striking shears that cut through the Paddy's Flat area.

Gold mineralisation formed on the hangingwall and footwall contacts of the Vivian and Consols porphyries and in zones where the porphyries have pinched out. Other mineralisation, found within the porphyries is interpreted as very high grade, nuggety narrow quartz veins of limited extent (e.g. 06VIRD004: 2m @ 88.8g/t from 279m). Veins at the south end of Consols have a steep northerly dip whereas further north at Vivian, they appear to line up horizontally and are interpreted as flat structures. Much of the historically high-grade material is reported as coming from these very high-grade quartz veins.

The PVC deposits are open along strike and depth and given their significant potential, these extensions will be a focal point of future exploration activity. Examples of significant intervals below existing reserves include:

Hole ID	Interval depth (m)	Intersection
VIRCD0017	504	1.0m @ 11.3g/t Au
VIRCD0019	399	3.0m @ 18.1g/t Au
93PFDI011	426	2.4m @ 9.0g/t Au
VIRCD030	440	2.0m @ 10.1g/t Au
05VIRCD0014	539	2.0m @ 11.3g/t Au

PADDY'S FLAT continued

Fatts-Mudlode

The Fatts and Mudlode deposits lie on the eastern of the two shears cutting through the Paddy's Flat area with work during the year resulting in a reserve of 46,000 ounces of gold.

The higher grade Mudlode resource contains an estimated 68,000 ounces of gold, strikes sub-parallel to the Vivian lode and is hosted within a sequence of mafic to ultramafic volcanics. Gold mineralisation is controlled by a north-northeast trending, steeply east dipping shear zone and along the main shears, the rocks show a quartz-carbonate-fuchsite-pyrite alteration assemblage coincident with gold.

In a similar manner to Vivian, gold bearing steep quartz lodes are present at Mudlode. Historic records from underground mining at Ingliston/ Alberts (the Mudlode structure) report lodes being sub-vertical in places and tens of centimetres to one metre in width. These tend not to extend much beyond the width of the porphyry, and are very high grade, often above 80g/t gold.

The Fatts deposit is hosted by ultramafics and occurs at depth and along strike of Mudlode. Striking north-south and being relatively large in structure, Fatts mineralisation is considered more amenable to a bulk mining method. The current resource lies between 400rl and 250rl, just over 100m below surface and has no surface expression.

With a resource estimate of 63,000 ounces of gold, the deposit has a different geology to Mudlode in that mineralisation is less discrete with alteration not necessarily correlating to gold mineralisation. Talc-chlorite-carbonate-pyrite alteration is pervasive with magnetite present distal to the mineralised area. Native gold is found as inclusions within pyrite.

Significant intersections for the Fatts and Mudlode deposits include:

Hole ID	Interval depth (m)	Intersection
Mudlode		
96INRC002	205	5m @ 21.3g/t
91IARC001	288	6m @ 34.5g/t
93RFDI017	222	3m @ 32.1g/t
93RFDI017	207	6m @ 16.4g/t
Fatts		
07VIRC001	208	26m @ 2.9g/t
07VIRC002	204	24m @ 3.1g/t
VIRCD033	192	54m @ 4.3g/t
VIRCD029	205	46m @ 4.6g/t

Mickey Doolan and Golden Bar

The Mickey Doolan and Golden Bar deposits contain a total estimated 628,000 ounces of gold resources and are located south of the Consols deposit.

Mineralisation is contained within a widespread area of intense quartz-carbonate-fuchsite-pyrite alteration bounded to the east by a north-south trending shear zone and (typically barren) ultra mafic schist. To the west it is flanked by a quartz-albite porphyry unit.

The deposit is cut and displaced by several north-east trending faults which appear to be hosting high grade gold mineralisation. The pervasive alteration zone generally holds extensive low grade mineralisation of 1-3g/t Au.

Ingliston

The Ingliston deposit contains an estimated 49,000 ounces of gold in resources and lies to the north and along strike of the Consols and Vivian deposits.

The deposit consists of strongly foliated to schistose high-magnesium basalts with mafic schist further to the west. These units have been intruded by vertical to steeply east dipping rhyolitic porphyry with quartz, feldspar and muscovite phenocrysts. Proximal to the intrusive is a quartz-carbonate-fuchsite alteration assemblage, with more distal quartz-carbonate alteration. North of the Ingliston Pit, the porphyry appears to be terminated by faulting, with the alteration continuing to the north, probably along the main structure that the porphyry intruded along.

The bulk of the mineralisation at Ingliston is hosted by the porphyry, with minor low-grade mineralisation in the surrounding alteration zones. Where the porphyry is faulted out, the mineralisation continues in the alteration zone. Significantly, mineralisation remains open at depth along the length of the resource.

Right: Exploration continues in the Meekatharra area

EXPLORATION HAS SUPPORTED MERCATOR'S STRONG GROWTH BY FOCUSING ON UPGRADING RESOURCES INTO RESERVES

Directors' biographies

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

Non-executive Chairman (aged 63)

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 Executive Chairman of Oakvale Capital Limited, a leading independent specialist financial risk management business in Australia, is a Director of Ausdrill Limited, a Director of the MAC Services Group Limited, and Chairman of the Wesley College Endowment Fund. He has held over the years numerous positions on public company boards, including roles as Executive Chairman of Zapopan NL, Chairman of 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 55)

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 Grant's 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 tonnes per annum diamond mine in Zimbabwe.

Denis Geldard

Chief Operating Officer (aged 61)

Denis Geldard was appointed Operations' Director on 7 February 2006 and Chief Operating Officer on 2 February 2007. 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.

Michael John de Villiers

BComm, Professional Accountant (SA), MIOD

Finance Director (aged 44)

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 Norseman Gold plc.

Richard Nicholas Allen

Non-executive Director (aged 71)

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 56)

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.

Report of the Directors

The Directors present their report and audited financial statements for the year ended 30 June 2007.

Principal Activities and Future Developments

The principal activity of the Group is mining and exploration for gold in Australia. The principal activity of the Company is that of a holding and finance 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 A$12m (£5m) bank loan facility in November 2007.

Business Review

The Group has continued to grow and develop the mineral assets at Meekatharra following the acquisitions reported in the previous financial period. These activities are reported on in more detail in the Chairman's Report, Review of Exploration and Review of Operations and the details of the Accounts.

The financial position of the Group is detailed in the financial statements and the information regarding the funding of the Group is provided in Note 1 to those accounts.

Future Developments

The Group is currently developing the Surprise Open Pit and has since the financial year end commenced commercial production of gold. Work continues on the plans to develop the other mining targets at Meekatharra along with the on-going exploration of the Meekatharra Tenements This is further explained in the Chairman's Report, Review of Exploration and Review of Operations.

Financial and Other Risk Management, Objectives and Policies

The business of gold mining and exploration has an inherent risk of the Company's failing to discover sufficient viable deposits 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 risks 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
D Geldard
M J de Villiers
R N Allen
M Elias
J R Vearncombe (resigned 30 June 2007)

Directors' Interests

Share Interests

The directors of the Company who held office at 30 June 2007 held the following beneficial interests (including interests held by spouses and minor children) in the ordinary shares of the Company:

	30 June 2007 No. of Shares	30 June 2006 No. of Shares
T J Strapp	345,000	345,000
P A Harford	1,650,010	1,650,010
D Geldard	-	-
M J de Villiers	277,000	277,000
R N Allen	-	-
M Elias	20,000	20,000
Total	**2,292,010**	**2,292,010**

Share Options

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

	Options issued	Date issued	Expiry date	Exercise price	30 June 2007 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
	615,000	29 Sept 2004	7 Oct 2009	£0.80	615,000
	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	**1,000,000**				**1,000,000**
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**
M J de Villiers	75,000	19 Nov 2004	18 Nov 2014	£1.00	75,000
	125,000	25 Feb 2005	25 Feb 2015	£1.00	125,000
	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	**550,000**				**550,000**
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**
Total Directors' options	**2,815,000**				**2,815,000**

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

Share Capital

The authorised share capital of the Company at 30 June 2007 was £20,000,000 (2006: £20,000,000) divided into 200,000,000 Ordinary Shares of 10 pence each. (2005: 200,000,000)

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 the Annual General Meeting held on 24 November 2006 the Board withdrew Special Resolutions 6 and 7 relating to the allotment of securities pursuant to Sections 80 and 95 of the Companies Act 1985.

At an Extraordinary General Meeting held on 28 February 2007 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 £1,000,000, such authority to expire at midnight on the date being fifteen months from passing of this resolution or if earlier, on the date of the next AGM;

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 allotments.

On 23 March 2007 the Company issued 6,915,000 shares at 65 pence per share for cash.

On 9 July 2007 the Company granted options to subscribe for 350,000 ordinary shares in the Company at 95 pence until 8 July 2012 to a Director, D Geldard.

On 16 October 2007 the Company issued 513 8.5% Convertible Loan Notes of £5,000 each which are repayable 36 months after issue and may be converted into Ordinary Shares of 10 pence after 12 months at 95 pence per share and after 24 months at 120 pence per share.

The Company's shares traded between closing prices of 64.0 pence and 91.5 pence. At 30 June 2007 the mid-market price was 81.5 pence.

Substantial Share Interests

The Company has been notified of the following interests in Shares held as at 26 October 2007 :

	Ordinary Shares	%
Rajhi Holdings	5,460,809	8.74
SVM Asset Management	3,180,137	5.09
Majedie Asset Management	3,000,000	4.80
Chasm Lake Mgmt Services	2,990,000	4.78
Argos Investment Fund	2,450,000	3.92
AXA Framlington	2,258,350	3.61
Bear Stearns Asset Management	2,237,459	3.58
First State Investments (CBA)	2,105,561	3.37

Statement of Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required to 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

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 October 2006 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 5 to the financial statements and the Directors' options are disclosed above.

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 £2,875,885 (2006: £1,836,625), 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 8 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
22 November 2007

Independent Auditor's 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 2007 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 whether in our opinion the information given in the directors' report is consistent with the financial statements. The information in the directors' report includes that specific information presented in the chairman's report, review of exploration and review of operations that is cross referenced from the business review section of the directors' report.

In addition we 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, highlights, review of exploration and review of operations, directors' biographies and 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.

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 2007 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 directors' report is consistent with the financial statements.

PKF (UK) LLP
REGISTERED AUDITORS
London

22 November 2007

Consolidated Profit and Loss Account

For the year ended 30 June 2007

	Notes	2007 £	2006 £
Administrative expenses		(3,344,664)	(2,127,615)
Other income		179,530	233,469
Operating loss	*4*	(3,165,134)	(1,894,146)
Interest payable and similar items	*6*	(199,747)	(94,682)
Interest receivable & similar items	*6*	549,112	152,203
Loss on ordinary activities before taxation		(2,815,769)	(1,836,625)
Taxation	*7*	(60,116)	-
Loss on ordinary activities after taxation		(2,875,885)	(1,836,625)
Basic and diluted loss per share	*8*	(5.18)p	(7.47)p

All amounts relate to continuing activities

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 30 June 2007

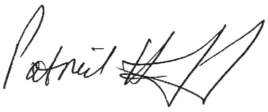
	2007 £	2006 £
Loss for the financial year	(2,875,885)	(1,836,625)
Exchange adjustments on foreign currency net investments	1,270,907	(929,394)
Total recognised gains and losses for the financial year	(1,604,978)	(2,766,019)

Consolidated Balance Sheet

At 30 June 2007

	Notes	2007 £	2006 £
Fixed assets			
Intangible	*10*	16,016,099	10,529,014
Tangible	*9*	6,798,177	2,859,412
Total fixed assets		22,814,276	13,388,426
Current assets			
Stocks	*12*	163,766	91,687
Debtors	*13*	437,237	403,524
Cash at bank and in hand		6,647,665	13,297,216
Total current assets		7,248,668	13,792,427
Creditors – amounts falling due within one year	*14*	(1,242,737)	(1,140,995)
Net current assets		6,005,931	12,651,432
Total assets less current liabilities		28,820,207	26,039,858
Creditors – amounts falling due after more than one year	*15*	-	(854,784)
Provisions for liabilities	*16*	(1,270,380)	(1,205,594)
Net assets		27,549,827	23,979,480
Capital and reserves			
Called-up share capital	*18(b)*	6,224,491	5,355,215
Share premium account	*18(b)*	26,963,483	22,528,660
Merger reserve	*18(c)*	(399,831)	(399,831)
Other reserves	*18(d)*	-	128,774
Profit and loss account	*19*	(5,238,316)	(3,633,338)
Shareholders' funds		27,549,827	23,979,480

The financial statements were approved and authorised for issue by the Board of Directors on 22 November 2007.



P A Harford
Director

M J de Villiers
Director

22 November 2007

Company Balance Sheet

At 30 June 2007

	Notes	2007 £	2006 £
Tangible	*9*	9,116	6,973
Investment	*11*	450,000	450,000
Long term loan – subsidiary	*11*	31,108,950	25,218,247
Total fixed assets		31,568,066	25,675,220
Current assets			
Debtors	*13*	98,419	124,412
Cash at bank and in hand		1,261,269	1,979,963
Total current assets		1,359,688	2,104,375
Creditors – amounts falling due within one year	*14*	(170,053)	(172,285)
Net current assets		1,189,635	1,932,090
Total assets less current liabilities		32,757,701	27,607,310
Creditors – amounts falling due after more than one year	*15*	-	(854,784)
Net assets		32,757,701	26,752,526
Capital and reserves			
Called-up share capital	*18(b)*	6,224,491	5,355,215
Share premium account	*18(b)*	26,963,483	22,528,660
Other reserves	*18(d)*	-	128,774
Profit and loss account	*19*	(430,273)	(1,260,123)
Shareholders' funds		32,757,701	26,752,526

The financial statements were approved and authorised for issue by the Board of Directors on 22 November 2007.

P A Harford
Director

M J de Villiers
Director

22 November 2007

Consolidated Cash Flow Statement

For the year ended 30 June 2007

	Notes	2007 £	2006 £
Net cash outflow from operating activities	*20(a)*	(3,024,909)	(376,588)
Returns on investments and servicing of finance	*20(b)*	507,690	138,752
Capital expenditure and financial investment	*20(c)*	(8,916,356)	(11,988,877)
Net cash outflow before management of liquid resources and financing:		(11,433,575)	(12,226,713)
Management of liquid resources		7,007,533	(12,939,994)
Financing	*20(d)*	4,162,217	25,426,774
(Decrease)/ increase in cash in the period		(263,825)	260,067
Reconciliation of net cash flow to movement in net funds	*20(e)*		
(Decrease)/ increase in cash in the period		(263,825)	260,067
Movement in short term deposits		(7,007,533)	12,939,994
Exchange differences		621,807	(857,312)
(Decrease)/ increase in cash and short term deposits		(6,649,551)	12,342,749
Decrease/ (increase) in debt due after more than one year		854,784	(854,784)
Movement in net funds in the period		(5,794,767)	11,487,965
Net funds at 30 June 2006		12,442,432	954,467
Net funds at 30 June 2007		6,647,665	12,442,432

Consolidated Shareholders' Funds

For the year ended 30 June 2007

	2007 £	2006 £
Loss for the financial year	(2,875,885)	(1,836,625)
Exchange adjustments on foreign currency net investments	1,270,907	(929,394)
Equity reserve (transferred)/ arising on conversion/ issue of convertible loan notes	(128,774)	128,774
New share capital issued	5,304,099	24,520,078
Net addition to shareholders' funds	3,570,347	21,882,833
Opening shareholders' funds	23,979,480	2,096,647
Closing shareholders' funds	27,549,827	23,979,480

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

These financial statements are prepared on a going concern basis, notwithstanding the loss for the period to 30 June 2007 of £2,875,885 (2006: £1,836,625), which the Directors believe to be appropriate for the following reasons:

In common with many mining and exploration companies, the Company has raised finance for its exploration and development activities in discrete tranches to finance its activities for limited periods only and further funding has been raised as and when required. Since the year end the Company has raised £2.5m by issue of a convertible loan note and has arranged a bank loan facility for A$12m (£5m). The Directors are of the opinion that the Company will be able to reach profitable production of gold with these facilities. The Company commenced gold production in October 2007.

Accordingly, the financial statements do not include any adjustments, particularly in respect of fixed assets, investments, loans and provisions for winding up which would be necessary if the Company and Group ceased to be a going concern.

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 Standard 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.

Deferred exploration and evaluation costs

All costs incurred prior to obtaining the legal right to undertake exploration and evaluation activities on a project are written off as incurred. Subsequent to obtaining the legal rights, 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.

Mine development costs

Exploration costs are capitalised as intangible fixed assets until a decision is made to proceed to development. Related costs are then transferred to mining assets. Before reclassification, exploration costs are assessed for impairment and any impairment loss recognised in the profit and loss account. Subsequent development costs are capitalised under mining assets, together with any amounts transferred from intangible exploration assets. Mining assets are amortised over the estimated life of the commercial ore reserves on a unit of production basis.

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 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 the interest expense and interest payments made are included in 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

Depreciation is calculated on a straight line basis over the estimated useful life of the asset as follows:

Office equipment and furniture	20% & 37.5%
Motor vehicles	30%
Buildings	5%
Plant and machinery	Between 6.7% & 20%

Buildings, plant and machinery are depreciated once it is ready for use in production 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

Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Exchange differences are taken into account in arriving at the operating result.

For the purpose of consolidation the balance sheet of the foreign subsidiariary is 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 leases

The rentals payable are charged to the profit and loss account on a straight line basis over the lease term, even if the payments are not made on such a basis, unless such rentals relate to exploration and evaluation costs, in which case it is capitalised.

Other Income

Other income represents rents receivable from third parties and is recognised on an accruals basis.

Provisions

Provisions are recognised when the Group has a legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

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 and staff costs

	GROUP		COMPANY	
	2007	2006	2007	2006
	£	£	£	£
Staff costs:				
Salaries and wages	2,059,614	1,749,032	112,767	103,495
Social security costs	204,894	60,463	26,141	11,397
	2,264,508	1,809,495	138,908	114,892

An amount of £1,372,231 (2006: £522,882) was capitalised as part of deferred exploration and development costs.

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

Management	3	8	-	-
Others	46	28	3	2
	49	36	3	2

4 Operating loss

	2007	2006
The operating loss is stated after charging:	£	£
Depreciation of tangible fixed assets	160,012	31,977
Computer software amortisation	42,422	16,210
Auditors' remuneration		
Fees payable to the Company's auditor for the audit of the Group's financial statements	22,000	29,439
Fees payable to the Company's auditor and its associates in respect of:		
The auditing of accounts of the subsidiary of the Company pursuant to legislation	17,327	15,068
Other services relating to taxation	8,563	5,850
Services relating to corporate finance transactions	3,893	46,477
Operating leases – land and buildings	85,710	86,441

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

5 Directors' emoluments

	2007	2006
	£	£
Directors' emoluments	470,081	393,458

The highest paid director received remuneration of £161,703 (2006: £112,387).

6 Net interest receivable and similar items

	2007	2006
	£	£
Other interest paid	-	(632)
Interest on 9.25% convertible loan stock	(160,912)	(81,105)
Amortisation of convertible loan stock issue costs	(38,835)	(12,945)
Total interest and similar charges payable	(199,747)	(94,682)
Interest receivable	549,112	152,203
Net interest receivable and similar items	349,365	57,521

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.

Further details of these loan notes are given in note 15.

7 Taxation

(a) Tax on loss on ordinary activities

The tax charge comprises:-

Current tax	2007	2006
UK corporation tax on the loss for the period	60,116	-

(b) Factors affecting tax charge for the year

The tax assessed for the year is higher than the standard rate of corporation tax in the UK (30%)

The differences are explained below:	2007	2006
Loss on ordinary activities before tax	(2,815,769)	(1,836,625)
Loss on activities multiplied by the standard rate of corporation tax in the UK (30%)	(844,731)	(550,988)
Expenses not deductible for tax purposes	33,324	127,728
Adjustment in respect of previous year	300,100	-
Overseas loss carried forward	351,414	655,306
Depreciation in excess of capital allowances	383	47
UK loss brought forward/(utilised)	(203,773)	67,410
Small companies rate difference	(13,557)	-
Overseas tax effect	436,056	(299,503)
Current tax charge for period (note 1(a))	60,116	-

The Group's business operations currently comprise mining projects in Australia, none of which are in production at 30 June 2007. 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 profitable operation. At the year-end deferred tax assets of £6,333,000 (2006: £4,061,000) 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 £2,875,885 (2006: £1,836,625) and the weighted average number of ordinary shares in issue during the period of 55,547,888 (2006: 24,583,888). There is no dilutive effect of share options or warrants.

9 Tangible fixed assets

Group

	Land and Buildings	Mine development and associated plant and machinery	Office equipment	Motor vehicles	Total
Cost	£	£	£	£	£
At 1 July 2006	1,025,835	1,434,844	148,206	293,686	2,902,571
Additions	109,180	2,742,887	96,846	10,517	2,959,430
Transferred from intangible fixed assets	-	992,116	-	-	992,116
Disposals	-	-	(2,653)	-	(2,653)
Exchange	55,126	77,105	7,454	15,782	155,467
At 30 June 2007	1,190,141	5,246,952	249,853	319,985	7,006,931
Depreciation					
At 1 July 2006	-	-	25,547	17,612	43,159
Disposals	-	-	(695)	-	(695)
Depreciation charge for the period	-	-	67,649	92,363	160,012
Exchange	-	-	2,915	3,363	6,278
At 30 June 2007	-	-	95,416	113,338	208,754
Net book value					
At 30 June 2007	1,190,141	5,246,952	154,437	206,647	6,798,177
At 30 June 2006	1,025,835	1,434,844	122,659	276,074	2,859,412

Company

	Office equipment
Cost	£
At 1 July 2006	9,490
Additions	8,666
Disposals	(3,668)
At 30 June 2007	14,488
Depreciation	
At 1 July 2006	2,517
Disposals	(695)
Depreciation charge for the period	3,550
At 30 June 2007	5,372
Net book value	
At 30 June 2007	9,116
At 30 June 2006	6,973

10 Intangible fixed assets

Group	Deferred exploration and evaluation costs	Computer software	Total
Cost	£	£	£
At 1 July 2006	10,472,786	81,123	10,553,909
Additions	5,891,119	65,807	5,956,926
Transferred to development costs	(992,116)	-	(992,116)
Exchange	562,786	4,359	567,145
At 30 June 2007	15,934,575	151,289	16,085,864
Amortisation			
At 1 July 2006	-	24,895	24,895
Amortisation for the period	-	42,422	42,422
Exchange	-	2,448	2,448
At 30 June 2007	-	69,765	69,765
Net book value			
At 30 June 2007	15,934,575	81,524	16,016,099
At 30 June 2006	10,472,786	56,228	10,529,014

11 Fixed asset investments

Company	Shares in subsidiary undertakings	Loans in subsidiary undertakings
Cost	£	£
At 1 July 2006	450,000	25,218,247
Funds advanced during the period	-	5,890,703
At 30 June 2007	450,000	31,108,950

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

At 30 June 2007, 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
Island Gold plc	UK	Dormant	UK	100% Ordinary

12 Stocks

	GROUP	
	2007	2006
	£	£
Fuel stocks	104,711	35,644
Plant consumables	59,055	56,043
Total stocks	163,766	91,687

13 Debtors

	GROUP		COMPANY	
	2007	2006	2007	2006
	£	£	£	£
Trade debtors	-	12,799	-	12,799
Other debtors	58,200	118,263	8,868	22,069
Other taxes	240,893	176,015	15,171	17,536
Prepayments and accrued income	138,144	96,447	74,380	72,008
	437,237	403,524	98,419	124,412

14 Creditors - amounts falling due within one year

	GROUP		COMPANY	
	2007	2006	2007	2006
	£	£	£	£
Trade creditors	977,414	849,341	28,648	65,091
Amounts owed to subsidiary undertakings	-	-	49,500	49,500
Taxes and social security	56,987	107,906	-	-
Other creditors	65,483	7,399	2,675	7,399
Accruals and deferred income	82,737	176,349	29,114	50,295
Corporation tax	60,116	-	60,116	-
	1,242,737	1,140,995	170,053	172,285

15 Creditors – amounts falling due after more than one year

	GROUP		COMPANY	
	2007	2006	2007	2006
	£	£	£	£
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 had 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 had 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 shares at the rate of £0.60 per share or in cash.

All the convertible loan notes were converted in the year into ordinary shares in accordance with the provisions of the agreement. Further details are provided in note 18 (b).

16 Provision for liabilities

	GROUP
Environmental rehabiliation provision	£
At 1 July 2006	1,205,594
Exchange loss during the year	64,786
At 30 June 2007	1,270,380

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 £1,288,093 (2006: £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 2007 the Group has not entered into any hedging or forward exchange rate contracts.

Currency exposure is kept under review and, in general, the majority of cash reserves are maintained in the currency required to fund exploration and mine development activities.

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 Group does not hold any monetary assets or liabilities other than the functional currencies of the entities concerned, being pounds Sterling and Australian dollars.

(b) Financial assets

The currency profile of the Group's financial assets is set out below:

	2007	2006
	£	£
Cash:		
Pounds Sterling	1,261,769	1,980,463
Australian Dollars	5,385,896	11,316,753
	6,647,665	13,297,216

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 Group had no long term financial liabilities at 30th June 2007.

(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 Group finances its operations through a mixture of ordinary share capital and debt. At 30th June 2007 there was no debt outstanding.

18 Capital and reserves

	Number of Shares	Nominal Value
(a) Authorised share capital		£
At 30 June 2006 and 30 June 2007 - Ordinary Shares of £0.10 each	200,000,000	20,000,000

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

For the year ended 30 June 2007	Number of shares	Nominal value	Share premium	Total
		£	£	£
At 30 June 2006 – Ordinary Shares of £0.10 each	53,552,151	5,355,215	22,528,660	27,883,875
Shares issued at £0.60 each – in lieu of loan interest on 11 September 2006	28,828	2,882	14,414	17,296
Shares issued at £0.60 each – in lieu of loan interest on 28 December 2006	4,997	500	2,498	2,998
Shares issued on conversion of Convertible loan notes on 16 January 2007	94,167	9,417	47,083	56,500
Shares issued at £0.65 each – Placing for cash on 23 March 2007	6,915,000	691,500	3,803,250	4,494,750
Shares issued at £0.60 each – in lieu of loan interest on 30 March 2007	3,941	394	1,970	2,364
Shares issued on conversion of Convertible Loan on 19 June 2007	1,645,827	164,583	898,141	1,062,724
Share issue costs charged to share premium	-	-	(332,533)	(332,533)
Ordinary Shares of 10p each	62,244,911	6,224,491	26,963,483	33,187,974

All of the above shares were issued to finance the exploration and development activities of the Group.

Potential issues of ordinary shares:

Share options and warrants

At 30 June 2007 the Company had 5,165,000 options and 1,603,450 warrants outstanding for the issue of ordinary shares, as follows:

Options

Date of grant	Exercisable from	Exercisable to	Exercise price	Number Granted	Number at 30.06.07
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	18 November 2014	£1.00	10,000	10,000
25 February 2005	25 February 2005	24 February 2015	£1.00	200,000	200,000
29 March 2005	29 March 2005	28 March 2015	£1.20	125,000	125,000
30 June 2005	30 June 2005	29 June 2015	£1.00	85,000	85,000
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	550,000	550,000
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
				5,165,000	5,165,000

Warrants

Date of grant	Exercisable from	Exercisable to	Exercise price	Number Granted	Number at 30.06.07
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	8 October 2004	19 January 2008	£0.60	50,000	50,000
20 January 2006	20 January 2006	20 January 2009	£0.75	136,450	136,450
11 April 2005	11 April 2007	11 April 2008	£0.85	1,000,000	1,000,000
20 January 2006	20 January 2006	20 January 2009	£0.75	137,000	137,000
				1,603,450	1,603,450
Total contingently issuable shares at 30 June 2007					6,768,450

(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 1 July 2006	128,774	128,774
Conversion of 9.25% unsecured convertible loan notes	(128,774)	(128,774)
At 30 June 2007	-	-

This reserve was transferred into the share premium account on conversion of the convertible loan notes.

19 Profit and loss account

	GROUP	COMPANY
	£	£
At 30 June 2006	(3,633,338)	(1,260,123)
(Loss)/ profit for the period	(2,875,885)	829,850
Exchange adjustments on foreign currency net investments	1,270,907	-
At 30 June 2007	(5,238,316)	(430,273)

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

		2007	2006
		£	£
a)	Reconciliation of Operating Loss to Operating Cash Flows		
	Operating loss	(3,165,134)	(1,894,146)
	Depreciation and amortisation charges	202,434	48,187
	Increase in debtors	(33,713)	(208,552)
	Increase in inventories	(72,079)	(91,687)
	Increase in creditors	41,625	1,769,610
	Loss of disposal of fixed assets	1,958	-
	Net cash outflow from operating activities	(3,024,909)	(376,588)
b)	Returns on investments and servicing of finance		
	Interest received	549,112	152,203
	Interest paid	(41,422)	(13,451)
	Net cash inflow from returns on investments and servicing of finance	507,690	138,752
c)	Capital expenditure and financial investment		
	Purchase of intangible fixed assets	(5,956,926)	(9,161,402)
	Purchase of tangible fixed assets	(2,959,430)	(2,830,854)
	Proceeds on sale of tangible fixed assets	-	3,379
	Net cash outflow for capital expenditure and financial investment	(8,916,356)	(11,988,877)
d)	Financing:		
	Issue of convertible loan stock	-	940,000
	Issue of ordinary shares	4,162,217	24,486,774
	Net cash inflow from financing	4,162,217	25,426,774

e) Analysis of net funds

	30 June 2006 £	Cash flow £	Exchange adjustment £	30 June 2007 £
Cash in hand, at bank	550,643	(263,825)	29,597	316,415
Other liquid resources	12,746,573	(7,007,533)	592,210	6,331,250
Debt due after more than one year	(854,784)	854,784	-	-
Net funds	12,442,432	(6,416,574)	621,807	6,647,665

Included in liquid resources are deposits of £1,288,093 (2006: £1,221,669) that are pledged as security against the environmental liability provision. These liabilities are in the process of being guaranteed and the deposits will become available for use by the Company once the process is complete.

21 Contingencies and operating lease commitments

At 30 June 2007 the Group and the Company had commitments under operating leases that expire as follows :

	GROUP		COMPANY	
Land and buildings	2007	2006	2007	2006
	£	£	£	£
Within 2-5 years	93,825	88,698	51,490	66,470

At 30 June 2007, the Company was committed to £3,405,290, (2006: £3,383,788) in respect of exploration expenses, shire rates and tenement rents required to maintain legal tenure to the mineral tenements .

22 Related party transactions

During the year, an amount of £171,500 (2006:£205,995) was paid in respect of salaries and a license 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 year an amount of £9,910 (2006:£884) was paid as a treasury management fee to Oakvale Capital Limited of which Mr Terry Strapp is a director and shareholder.

23 Post balance sheet events

On 5 October 2007, the Company issued 230,000 ordinary shares of 10p each for 60p each under the terms of warrants granted on 23 September 2004.

On 17 October 2007, the Group raised £2,565,000 through the issue of 8.5% convertible loan notes to provide additional working capital.

In November 2007 the Group raised a A$12m (£5m) bank loan facility to provide additional working capital.

MERCATOR GOLD PLC

the "Company"

Company Number 5079979

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of the Company will be held at Little Ship Club, Bell Wharf Lane, Upper Thames Street, London EC4R 3TB at 11:30am on Friday 21 December 2007 in order to consider and, if thought fit, pass resolutions 1 to 7 as Ordinary Resolutions and resolutions 8 and 9 as Special Resolutions:

Ordinary Resolutions

1 To re-elect as a director Michael John de Villiers who is retiring in accordance with Article 114 of the Company's Articles of Association and who being eligible is offering himself for re-election.

2 To re-elect as a director Michael Elias who is retiring in accordance with Article 114 of the Company's Articles of Association and who being eligible is offering himself for re-election.

3 To re-elect as a director Terrence John Strapp who is retiring in accordance with Article 114 of the Company's Articles of Association and who being eligible is offering himself for re-election.

4 To re-elect as a director Patrick Aloysius Harford who is retiring in accordance with Article 114 of the Company's Articles of Association and who being eligible is offering himself for re-election.

5 To receive, consider and adopt the directors' report and accounts of the Company for the period ended 30 June 2007.

6 To re-appoint PKF (UK) LLP of Farringdon Place, 20 Farringdon Road, London EC1M 3AP as auditors and to authorise the directors to determine their remuneration.

7 Pursuant to Section 80 of the Companies Act 1985 (the "Act") to exercise all or any of the powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of £3,000,000, provided that:

7.1 the authority conferred by this paragraph 7 shall, following the admission of the issued share capital of the Company to trading on the Australian Stock Exchange ("Admission"), be thereafter limited to the allotment of relevant securities up to an aggregate nominal amount equal to one third of the aggregate nominal value of the issued share capital of the Company immediately following Admission; and

7.2 this authority shall, unless previously revoked or varied by the Company in general meeting, expire at the conclusion of the next Annual General Meeting of the Company following the date of the passing of this resolution or (if earlier) 12 months from the date of passing this resolution, but so that the directors may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of that offer or agreement as if the authority hereby conferred had not expired.

Special Resolutions

8 The articles of association of the Company be and they are hereby amended by:

8.1 the addition of the following definitions at the existing Article 2.1.5 of the articles of association:

"ASX"	means Australian Stock Exchange Limited;
"ASX Listing Rules"	means the Listing Rules of ASX and any other rules of ASX which are applicable while the Company is admitted to the Official List of ASX, each as amended or replaced from time to time, except to the extent of any express written waiver by ASX;

8.2 the addition, as Article 176 entitled "ASX Requirements", to the articles of association, of the following Article, and the renumbering of Articles 176 to 178 as Articles 177 to 179 accordingly:

"176 While the Company remains admitted to the Official List of ASX, the following regulations shall apply:-

(a) notwithstanding anything contained in these Articles, if the ASX Listing Rules prohibit an act being done, the act shall not be done;

(b) nothing contained in these Articles prevents an act being done that the ASX Listing Rules require to be done;

(c) if the ASX Listing Rules require an act to be done or not to be done, authority is given for that act to be done or not to be done (as the case may be);

(d) if the ASX Listing Rules require these Articles to contain a provision and it does not contain such a provision these Articles are deemed to contain that provision;

(e) if the ASX Listing Rules require these Articles not to contain a provision and it contains such a provision, these Articles are deemed not to contain that provision; and

(f) if any provision of these Articles is or becomes inconsistent with the ASX Listing Rules, these Articles are deemed not to contain that provision to the extent of the inconsistency."

8.3 the removal of all references to "Extraordinary General Meeting" throughout the Articles, to be replaced by "General Meeting" in line with the Companies Act 2006, thereby resulting in the following specific changes to the Company's Articles:

8.3.1 the deletion of Article 45.1; and

8.3.2 an amendment to Article 46, requiring a period of 14 days notice (rather than 21 days) in order to pass a special resolution at a General Meeting.

9 Pursuant to Section 95 of the Act, to generally empower the directors to allot equity securities (as defined in Section 94(2)) of the Act) for cash, pursuant to the authority conferred upon them by resolution 7 above, as if Section 89(1) of the Act did not apply to such allotment, provided that the power conferred by this para 9 shall be limited as follows:

9.1 (save as provided in paragraph 9.2 below) following Admission to the allotment of equity securities in connection with a rights issue or open offer in favour of ordinary shareholders where the equity securities attributable to the respective interests of all ordinary shareholders are proportionate to the respective numbers of ordinary shares held by them on the record date for any such allotment, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or any stock exchange in any territory;

9.2 notwithstanding paragraph 9.1 above, to the allotment of equity securities up to an aggregate nominal amount equal to five per cent of the aggregate nominal value of the ordinary shares in issue immediately following Admission;

9.3 to the allotment of the Equity Securities pursuant to the Loan Note Instrument executed by the Company and dated 17 October 2007, relating to the Unsecured Convertible Loan Notes 2010 ("2010 Loan Notes"), in accordance with the terms of the 2010 Loan Notes, in lieu of payment of interest in respect of those 2010 Loan Notes; and

The power conferred by this paragraph 9 shall expire at the conclusion of the next Annual General Meeting of the Company or (if earlier) 12 months from the date of passing 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 22nd day of November 2007
By order of the Board:

M J de Villiers
Secretary

Registered office:
Peek House
20 Eastcheap
London EC3M 1EB

NOTES

1 A member entitled to attend and vote at the meeting is also entitled to appoint a proxy to attend and vote on a poll instead of him. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company.

2 Completion and return of the form of proxy will not preclude ordinary shareholders from attending or voting at the meeting, if they so wish.

3 To be effective, this proxy form must be lodged with the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not later than 2 business days before the time of the meeting or any adjournment thereof, together, if appropriate, with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or, where the proxy form has been signed by an officer on behalf of a corporation, a notarially certified copy of the authority under which it is signed.

4 In the case of a joint holding, a proxy need only be signed by one joint holder. If more than one such joint holder lodges a proxy only that of the holder first on the register of members will be counted. Any alternations made to this proxy should be initialled.

5 In the case of a corporation this proxy must be given under its common seal or be signed on its behalf by an attorney or officer duly authorised.

6 A copy of the balance sheet and every document required by law to be annexed to it, which are to be laid before the above mentioned meeting, are enclosed. The register of interests of the directors in the share capital of the company and copies of contracts of service of directors with the Company will be available for inspection at the registered office of the Company during normal business hours (Saturdays and public holidays excepted) from the date of this notice until the conclusion of the Annual General Meeting.

7 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered on the register of members in order to have the right to attend and vote at the Annual General Meeting is 11:30am on 19 December 2007, (being not more than two business days prior to the time fixed for the Meeting) or, if the Meeting is adjourned, such time being not more than two business days prior to the time fixed for the adjourned meeting. Changes to entries on the register of members after that time will be disregarded in determining the right of any person to attend or vote at the Meeting.

8 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.

9 A copy of the amended Articles of Association will be available for inspection at the Company's registered office during normal business hours until the date of the Annual General Meeting.

DESIGNED AND PRODUCED BY SINCLAIR COMMUNICATIONS

Share Analysis

As at 26 October 2007

Holdings	No of Accounts	No of shares held	% of share capital
1-10,000	489	1,636,636	2.61
10,001-50,000	114	2,723,890	4.36
50,001-100,000	21	1,653,068	2.64
100,001-500,000	44	11,511,927	18.42
500,001-1,000,000	11	8,307,413	13.30
1,000,001-5,000,000	15	31,206,168	49.93
5,000,001-	1	5,460,809	8.74
Total	695	62,499,911	100.00

MERCATOR GOLD PLC

HEAD OFFICE
Mercator Gold plc
Peek House
20 Eastcheap
London EC3M 1EB
United Kingdom

Tel +44 (0)20 7929 1010
Fax +44 (0)20 7929 1015
info@mercatorgold.com

AUSTRALIA OFFICE
Mercator Gold plc
& Mercator Gold Australia Pty Ltd
PO Box 1256
Canning Bridge WA 6153
Australia

41 Kishorn Road
Applecross WA 6153
Australia

Tel +61 (0)8 9316 9400
Fax +61 (0)8 9316 9455
admin@mercatorgold.com.au

www.mercatorgold.com