MERCATOR GOLD PLC

Annual Report & Accounts 2008

DIRECTORS
M B Silver *Executive Chairman*
P A Harford *Managing Director*
M J de Villiers *Finance Director*
M Elias *Non-Executive Director*
R N Allen *Non-Executive Director*

COMPANY SECRETARY
M J de Villiers

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COMPANY NUMBER: 5079979

Managing Director's Report

Meekatharra Mining Operations & Refinancing of Mercator Gold Australia Pty Ltd

Mercator Gold Australia Pty Ltd's Meekatharra mining operation commenced gold production in the last quarter of 2007, and produced 9,479 ounces of gold to 31 December 2007, 10,852 ounces to 31 March 2008 and 11,846 ounces to 30 June 2008. Some considerable exploration success was also achieved, with new resources delineated at the Chunderloo and Batavia prospects.

Unfortunately the Meekatharra mining operation experienced substantive operational difficulties relating to the requirement to deviate the Great Northern Highway and a big increase in operating costs brought about by the rising fuel price. The extreme cost inflation experienced by the mining industry as a whole combined with the requirement to deviate the Highway caused Mercator's operations to become unprofitable.

In particular, labour and fuel costs were a severe burden on the Meekatharra operation during its vulnerable start up phase. The need to deviate the Great Northern Highway in order to continue mining the Surprise pit and the extensive delays encountered in obtaining the required approvals to carry out the deviation from the State Government of Western Australia also worked against the operation.

Faced with an untenable situation, the Board of Directors decided to suspend the Australian operation and endeavour to preserve Mercator Gold plc.

Accordingly, on 9 October 2008 Ferrier Hodgson were appointed as administrators to Mercator's Australian operating subsidiary Mercator Gold Australia Pty Ltd (MGA) and on 4 December 2008 MGA executed a Deed of Company Arrangement (DOCA). The DOCA endures for an initial period of six months and can be extended.

As a consequence of the DOCA, MGA's administrators will remain in control of the company, and in concert with MGA's Directors and with Mercator, are working to refinance the Meekatharra operations with a view to recommencing mining activities as appropriate. The DOCA also provides for a moratorium on the claims of creditors.

The refinancing of MGA is being engineered in conjunction with Tulla Resources Group Pty Ltd and various other interested parties. Tulla Resources Group Pty Ltd is an Australian investment company with interests in various commodity sectors as well as mining services.

While both the outcome of the refinancing of MGA and the interest in MGA that will eventually be held by Mercator Gold plc are at this stage uncertain, a number of initiatives are in place to assist with the refinancing:

- A new business plan for the Meekatharra mining complex has been developed, and this will form the basis of the attempted refinancing. The plan contains a review of the Meekatharra resource/reserve base and sets out a programme and budget for a return to profitable production.
- Negotiations between Tulla, the Company and with various other parties are ongoing.
- A valuation of MGA's Meekatharra assets has been carried out for the Administrators by AMC Consultants Pty Ltd. The valuation has been completed but is confidential to the liquidator.

Gold Exploration in Papua, Indonesia

Mercator has an option to acquire an exciting gold project in Papua Province, Indonesia. The project area contains a rich alluvial mining area with potential for ongoing operations to be expanded, while the scope for wider exploration, particularly with regard to the possibility of locating the hard rock source of the alluvial gold now being mined, appears exceptional.

It is anticipated that Mercator will recover its initial investment in the project within an 18 month time-frame and will have a free carried interest in the project.

Acquisition of ACS Asia (1996) Co Ltd, an Asia Pacific-Focused Metal Products Company

Mercator has acquired a 70 per cent interest in ACS Asia, a profitable Asia Pacific-focused metal products business formerly owned by the US industrial conglomerate Tyco International. ACS Asia's product range includes the well known Unistrut brand of construction products, which are manufactured in a modern facility belonging to ACS Asia in Thailand.

Mercator is actively involved in the management of ACS Thailand and has concluded a management agreement with that company that sees a payment of management fees to Mercator Gold plc being made on a monthly basis.

Silver Swan

As a result of the sale in early 2008 of some non-core exploration tenements located near Meekatharra to Silver Swan Group Ltd, an Australian Stock Exchange listed exploration company, Mercator owns ten million Silver Swan ordinary shares and a further four million performance related shares subject to certain conditions, the most notable of which is the proving up by Silver Swan of 350,000 ounces of gold or gold equivalent in the indicated resource category on the tenements sold to it by Mercator.

Silver Swan has made a significant base metal discovery on the tenements acquired from Mercator, and based on the current mid market price Mercator's shares in Silver Swan are worth approximately AUD$2.5 million. Mercator continues to actively monitor the performance of Silver Swan.

Outlook

The Directors of Mercator Gold plc continue to work wholeheartedly towards a viable future for the Company. As well as attempting to complete the refinancing of MGA, Mercator has acquired one promising new asset and is close to acquiring another. In addition, steps have been taken to significantly reduce overheads and conserve the Company's cash resources.

Mercator Gold shares were suspended on AIM immediately following the entry of MGA into administration on 9 October 2008, and will remain suspended pending clarification of the Company's financial position, which is expected during the second quarter of 2009. The Company's shares could conceivably return to trading if the refinancing of MGA is completed successfully, or if the Company reorients itself around one or more new assets.

Patrick Harford
Managing Director

Report of the Directors

The Directors present their report and audited financial statements for the year ended 30 June 2008.

Principal Activities

The principal activities of the Company are those of a holding, management and finance company.

In common with many similar investment holding companies, the Company raises finance for its and its subsidiaries' investment and appraisal activities in discrete tranches which finance activities for limited periods. Further fundraising is undertaken as and when required. The most recent fund raising, during July 2008, was through the placing of ten million ordinary shares at £0.40 per share, raising £4 million.

Reviews of operations and business developments are reported on in the Business Review and within the details of the Financial Statements. The Financial Statements set out the financial position of the Company.

Business Review

MINING

During the financial year to 30 June 2008 the Company and its Australian Subsidiary, Mercator Gold Australia Pty Ltd (MGA), continued developing and bringing into production its gold mining operation at Meekatharra in Western Australia. Gold production commenced in the last quarter of 2007 with the production of 9,479 ounces of gold to 31 December 2007; 10,852 ounces to 31 March 2008; and 11,846 ounces to 30 June 2008.

General industry conditions in the Western Australia gold mining sector became increasingly more difficult as a result of extreme cost inflation. This came about as a result of, amongst other things, energy price increases, price increases and shortages of supplies, labour inflation and shortages of adequately trained and experienced labour and management.

The operations at Meekatharra were also beset by operational problems at the mine which were mostly brought about by a delay in being able to deviate the Great Northern Highway in time to achieve optimal mining of the Surprise Pit, as well as the delay in the granting of the required permits for several other planned pits.

Consequently the Directors of MGA were forced to suspend mining operations at Meekatharra on 9 October 2008 and in consultation with the Commonwealth Bank of Australia, the bank which supplied the working capital facility and associated gold hedge facility, agreed to put MGA into Voluntary Administration and seek a potential route for refinancing the business.

Following the process of putting MGA into Administration on 9 October 2008 the creditors, of which Mercator Gold plc is the largest, agreed to place MGA under a Deed of Company Administration (DOCA) which allows it to seek an alternative route to refinancing the mining operation. The DOCA is the Australian version of the UK's Corporate Voluntary Arrangements and will last for six months from its date of signature on 4 December 2008.

The Directors of both Mercator Gold Australia Pty Ltd and Mercator Gold plc are working with the Administrators and the Tulla Group with which the Company signed a non-binding Memorandum of Understanding in September 2008 to develop a new business plan for the Meekatharra mining area which will form the basis of the refinancing. Negotiations and evaluations of these plans are ongoing and more clarity on this development is expected early in the second quarter of 2009.

OTHER PROJECTS

In addition to its interest in its subsidiary undertaking in Mercator Gold Australia Pty Ltd, the Company has the following additional interests:

a) Gold Exploration in Papua, Indonesia

Since 30 June 2008 the Company has acquired an option in an alluvial gold project in Papua Province, Indonesia. The project area contains a rich alluvial mining area with potential for ongoing operations to be expanded, while the scope for wider exploration, particularly with regard to the possibility of locating the hard rock source of the alluvial gold now being mined, appears probable.

b) Acquisition of ACS Asia

Since 30 June 2008 the Company has acquired a 70% interest in ACS Asia (1996) Company Ltd, a profitable Asia Pacific-focused metal products' business formerly owned by the US industrial conglomerate Tyco International. ACS Asia's product range includes the well-known Unistrut brand of construction products, which are manufactured in a modern facility belonging to ACS Asia in Thailand.

It is anticipated that the Company will seek to recover the purchase price of ACS Asia in a relatively short timescale by finding a more strategic owner for the business, while retaining a carried interest.

c) Silver Swan Group – Acquisition of Shares

As a result of the sale in early 2008 of some non-core exploration tenements located near Meekatharra to Silver Swan Group Ltd, an exploration company listed on the Australian Stock Exchange, the Company owns ten million Silver Swan ordinary shares as well as a further four million performance related shares, which are subject to certain conditions.

Future developments

The Company will continue to focus on seeking a way of refinancing its subsidiary, Mercator Gold Australia Pty Ltd, with the objective of recommencing gold operations to take advantage of the improved operating environment in Western Australia.

The Company will also continue to run its investment in Thailand-based ACS Asia (1996) Company Ltd to achieve maximum cash flow and profitability for the benefit of the Company. This investment and the investment in Silver Swan will be continuously reviewed with consideration being given to realising all or part of these investments on favourable terms.

The existing option acquired over the alluvial gold property in Indonesia is intended for development within another self-funding entity which is intended to be incorporated in Australia. The Company will hold a free carried interest in this entity as an investment interest.

The Company's Directors continue to look for investment opportunities in the mineral sector that would be suitable as acquisitions or investments and that are capable of attracting their own funding.

The Directors are currently in discussions with the Company's advisors to get the Company's share suspension on AIM lifted.

Financial and other risk management objectives and policies

The business of gold mining, exploration and the operation of business in other countries has an inherent risk of the Company failing to discover sufficient viable deposits of gold within the limits of the Company's present resources, being exposed to excessive inflation of input costs, the frustration of supply of necessary raw materials, or government permits and operating permits not being granted. There is also the more recent development of the credit risk and the unpredictable behaviour of project finance institutions.

The Board is aware of these risks and continuously reviews these risks and, when it is able, takes necessary steps to avoid them or limit the Company's operations and investments to their exposure. 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, $AUD and Thai Baht and the Board monitors and reviews this exposure on a regular basis.

The Board recognises the Company's exposure to liquidity risk and that the Company's ability to continue operating is dependent on there being sufficient cash to sustain day-to-day operations while seeking a route to redeveloping the existing operations and new investment opportunities. The Board continually monitors this situation and seeks potential routes to realise part of the Company's investments to maintain adequate levels of solvency to meet the Company's obligations as they fall due.

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

Further details of the Company's financial risk management objectives and policies are set out in Note 19 to the Financial Statements.

Present position of the company

As at 30 June 2008 the Company's financial position was stable, notwithstanding the developments of the last quarter of 2008, and it was anticipated that it would be supported by revenue arising from the operating subsidiary. As disclosed above this no longer remains the case and alternative ways of creating a viable financial entity are being sought, as also disclosed above.

The Company's financial accounts contained within this annual report are prepared on a Company only basis as it was not possible to obtain accounts for the Australian subsidiary, MGA, due to its being in Administration. The Directors also feel it prudent to make a 90% provision of the loan account due from MGA to the Company and have also written down the 100% shareholding in MGA to £1.00.

Following the announcement of MGA being placed in administration, the Company's shares were suspended from trading on AIM pending certainty of the Company's financial situation. In consultation with the Company's advisors the Directors do not believe this can be determined until the outcome of the Administration of MGA and the DOCA. According to the AIM Rules, a company may only be suspended for a period of up to six months, after which the AIM Market may permanently delist the company.

The Business Review contains certain forward looking statements that have been made by the Directors in good faith. By the nature of these statements there can be no certainty that such predictions will be met.

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 4.9 days (2007:1.2 days).

Dividends and profit retention

The results for the year are set out in the Income Statement on page 9. No dividend is proposed in respect of the year (2007: nil). The retained loss for the year of £31,883,479 (2007: profit £829,850) has been taken to reserves.

Directors

The Directors who served during the year were:
Terrence John Strapp *(resigned 25 July 2008)*
Patrick Aloysius Harford
Denis Geldard *(resigned 12 September 2008)*
Michael John de Villiers
Richard Nicholas Allen
Michael Elias

(Note: Michael Bernard Silver was appointed Chairman on 28 July 2008).

In accordance with the Company's Articles of Association at least one third of the Directors must retire by rotation at each Annual General Meeting, and may stand for re-appointment at the Meeting. Accordingly, the longest serving Director retiring by rotation is Mr R N Allen. Mr M B Silver, who was appointed by the Directors after the year end, seeks ratification of his appointment by the shareholders. Mr P A Harford also offers himself for re-election. All, being eligible, offer themselves for re-appointment.

Directors' interests

SHARE INTERESTS

The Directors of the Company who held office at 30 June 2008 held the following beneficial interests, either directly or indirectly, (including interests held by spouses, minor children or associated parties) in the ordinary shares of the Company:

	30 June 2008 No. of Shares	30 June 2007 No. of Shares
T J Strapp	445,000	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	2,392,010	2,292,010

NOTE: Michael Silver held 600,000 shares at 30 June 2008. In the July 2008 Share Placing, a further 1,178,750 shares were purchased by Directors.

Report of the Directors continued

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 year.

	Options issued	Date issued	Expiry date	Exercise price	30 June 2008 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
	525,000	3 Jan 2008	2 Jan 2015	£1.00	525,000
T J Strapp – total	**1,200,000**				**1,200,000**
P A Harford	10,000	29 Sept 2004	28 Sept 2009	£0.80	10,000
	615,000	29 Sept 2004	28 Sept 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
	325,000	3 Jan 2008	2 Jan 2015	£1.00	325,000
P A Harford – total	**1,325,000**				**1,325,000**
D Geldard	200,000	27 Feb 2006	26 Feb 2016	£0.75	200,000
	100,000	10 May 2006	9 May 2016	£0.85	100,000
	350,000	9 Jul 2007	8 Jul 2012	£0.95	350,000
	100,000	3 Jan 2008	2 Jan 2015	£1.00	100,000
D Geldard – total	**750,000**				**750,000**
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
	100,000	3 Jan 2008	2 Jan 2015	£1.00	100,000
M J de Villiers – total	**650,000**				**650,000**
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
	55,000	3 Jan 2008	2 Jan 2015	£1.00	55,000
R N Allen – total	**200,000**				**200,000**
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
	55,000	3 Jan 2008	2 Jan 2015	£1.00	55,000
M Elias – total	**200,000**				**200,000**
Total Directors' options as at 30 June 2008	**4,325,000**				**4,325,000**

Note: Michael Silver also beneficially holds 825,000 Options issued 29 September 2004, expiring 28 September 2009 at £0.80 per share.

Report of the Directors continued

Share capital and substantial share interests

Details of the Company's share capital are disclosed in note 10 of the financial statements.

On 30 March 2009, the Company was aware of the following holdings of 3% or more in the Company's issued share capital:

	Ordinary Shares	%
Rajhi Holdings	12,648,268	17.40
Credit Suisse Securities (Europe) Ltd	6,699,100	9.22
SVM Asset Management	4,923,637	6.77
Majedie Asset Management	4,087,300	5.62
Liontrust Asset Management	4,000,000	5.50
Persistency	2,990,000	4.11
BCM & Partners	2,669,408	3.67
Goldman Sachs Securities (Nominees) Ltd	2,396,071	3.30

This position will remain constant until the Company's shares are released from suspension on AIM.

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 International Financial Reporting Standards as adopted by the European Union. The financial statements are required to give a true and fair view of the state of affairs of the Company and of the loss of the Company for that year. 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;
- 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 enable them to ensure that the financial statements comply with the Companies Acts 1985 and 2006. They are also responsible for safeguarding the assets of the Company 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

The Directors seek, as far as is considered appropriate having regard to the size and nature of activities of the Company, to comply with the Combined Code on Corporate Governance applicable to listed companies. The Board is assisted in this regard by the Remuneration and Audit Committees:

The 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 Company 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 4 to the financial statements and the Directors' options are disclosed above.

The Directors will comply with Rule 21 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.

The Audit Committee

The Audit Committee comprises Michael Silver 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 Company 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 Company. The Committee will have the opportunity to meet the auditors without other executive Board members being present.

Going concern

Based on a review of the Company's budgets and cash flow plans, the Directors are satisfied that the Company has sufficient resources to continue its operations and to meet its commitments for the immediate future. Should the outcome of the administration of the Company's Australian subsidiary prove less favourable than currently expected, the going concern status of the Company may need to be re-evaluated.

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 himself 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. PKF (UK) LLP have expressed their willingness to continue as auditors of the Company.

Patrick Harford
Managing Director

Michael de Villiers
Finance Director

Independent Auditors' Report

For the year ended 30 June 2008

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MERCATOR GOLD plc

We have audited the financial statements of Mercator Gold plc for the year ended 30 June 2008 which comprise the income statement, the balance sheet, the cash flow statement, the statement of changes in shareholders' equity 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 International Financial Reporting Standards ('IFRSs') as adopted by the European Union 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.

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 managing director's report and the directors' report. 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 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.

Adverse opinion in respect of inability to prepare consolidated financial statements

As explained in note 1 to the financial statements the Directors have been unable to prepare consolidated financial statements including the financial results of Mercator Gold Australia Pty Limited, the principal trading subsidiary, which entered into administration after the year end.

The Company is required to prepare consolidated financial statements for the year ended 30 June 2008 in accordance with IFRSs as adopted by the European Union and in our opinion the financial statements do not give a true and fair view and have not been properly prepared in accordance with the Companies Act 1985 in this regard.

In all other respects, in our opinion:

- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of affairs of the Parent Company as at 30 June 2008 and of its loss for the year then ended;
- the Parent Company 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.

Emphasis of matter – Going concern and carrying value of investment in subsidiary company

In forming our opinion, which is not qualified in respect of the matters in this paragraph, we have considered the adequacy of disclosures made in note 1 to the financial statements concerning the Company's ability to continue as a going concern and the carrying value of its investment in the subsidiary, Mercator Gold Australia Pty Limited, of £3,201,760. The Company incurred significant losses in the year ended 30 June 2008 and has continued to incur losses in the subsequent period. The directors are taking a number of steps to reduce the net operating cash outflows of the Company, including proposed sale of certain assets, whilst the subsidiary remains in administration. However, there can be no certainty that the steps taken will be successful in maintaining adequate levels of cash funds for the Company or that the outcome of the administration will be successful for either the subsidiary or the Company. These conditions indicate the existence of material uncertainties which may cast significant doubt about the Company's ability to continue as a going concern and the carrying value of its investment in the subsidiary. These financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern or if a further impairment of the investment in the subsidiary is required.

PKF (UK) LLP
Registered Auditors
London, UK

Income statement

For the year ended 30 June 2008

	Note	2008 £	2007 £
Impairment of investment in and loans to subsidiary	*7*	**(30,044,000)**	-
Administrative expenses		**(1,656,015)**	(887,535)
Operating loss	*3*	**(31,700,015)**	(887,535)
Finance expense	*5*	**(220,224)**	(199,747)
Finance income	*5*	**22,504**	1,977,248
		(31,897,735)	889,966
Loss of associate company attributable to the Company for the year	*7*	**(45,860)**	-
(Loss) / profit for the year, before taxation		**(31,943,595)**	889,966
Corporation tax	*15*	**60,116**	(60,116)
(Loss) / profit for the year after taxation, attributable to equity shareholders of the Company		**(31,883,479)**	829,850
(Loss) / earnings per share (basic and diluted)	*11*	**(50.9)p**	1.5p

All amounts relate to continuing activities.

Balance Sheet

At 30 June 2008

Assets	*Note*	2008 £	2007 £
Non-current assets			
Property, plant and equipment	*6*	**3,686**	9,116
Investments in subsidiaries	*7*	**3,201,760**	31,558,950
Investment in associate	*7*	**1,093,339**	-
		4,298,785	31,568,066
Current assets			
Trade and other receivables	*8*	**79,996**	98,419
Cash and cash equivalents	*9*	**24,902**	1,261,269
		104,898	1,359,688
Total assets		**4,403,683**	32,927,754
Liabilities and equity			
Equity attributable to shareholders			
Share Capital	*10*	**6,267,491**	6,224,491
Share premium	*10*	**27,182,233**	26,963,483
Other reserves		**722,423**	-
Accumulated losses		**(32,313,752)**	(430,273)
		1,858,395	32,757,701
Non-current liabilities			
Interest bearing borrowings	*13*	**2,206,214**	-
Current liabilities			
Trade and other payables	*12*	**339,074**	170,053
Total liabilities		**2,545,288**	170,053
Total equity and liabilities		**4,403,683**	32,927,754

The financial statements were approved and authorised for issue by the Board of Directors on 31 March 2009.

P A Harford
Director

M J de Villiers
Director

31 March 2009

Statement of Changes in Equity

	Note	Share capital £	Share premium £	Accumulated losses £	Other reserves £	Total £
Balance at 1 July 2006		5,355,215	22,528,660	(1,260,123)	128,774	**26,752,526**
Profit for the year ended 30 June 2007		-	-	829,850	-	**829,850**
Total recognised income and expense for the year		-	-	829,850	-	**829,850**
Conversion of 9.25% convertible loan notes		-	128,774	-	(128,774)	-
Issue of shares		869,276	4,638,582	-	-	**5,507,858**
Share issue costs		-	(332,533)	-	-	**(332,533)**
Balance at 30 June 2007	*10*	6,224,491	26,963,483	(430,273)	-	**32,757,701**
Loss for the year ended 30 June 2008		-	-	(31,883,479)	-	**(31,883,479)**
Total recognised income and expense for the year attributable to equity shareholders of the Company		-	-	31,883,479)	-	**(31,883,479)**
Share options expense		-	-	-	476,620	**476,620**
Attributable share of changes in equity of associated company for the year		-	-		20,423	**20,423**
Issue of 8.5% convertible loan notes		-	-	-	225,380	**225,380**
Issue of shares		43,000	218,750	-	-	**261,750**
Balance at 30 June 2008	*10*	6,267,491	27,182,233	(32,313,752)	722,423	**1,858,395**

Cash Flow Statement

For the year ended 30 June 2008

	Note	2008 £	2007 £
Operating activities			
(Loss) / profit for the year before tax		**(31,943,595)**	889,966
Adjustments:			
Impairment of investment in and loans to subsidiary	*7*	**30,044,000**	-
Depreciation expense property, plant and equipment	*6*	**4,145**	3,550
Loss on disposal of property, plant and equipment	*3*	-	1,958
Loss of associate company for the year	*7*	**45,860**	-
Interest income	*5*	**(22,504)**	(1,977,248)
Issue costs amortised – Convertible loan	*5*	**29,992**	38,835
Interest cost imputed on unwinding loan discount	*5*	**35,502**	52,834
Interest paid	*5*	**154,730**	108,078
Share based payments	*10*	**476,620**	-
Corporation tax	*15*	**60,116**	(60,116)
Decrease in accounts receivable		**18,423**	25,993
Increase/(decrease) in accounts payable		**169,021**	(2,232)
Net cash flow used in operations		**(927,690)**	(918,383)
Investing activities			
Purchase of property plant and equipment	*6*	-	(8,666)
Proceeds from sale of equipment		**1,285**	1,015
Advances to subsidiary undertaking	*7*	**(3,030,586)**	(3,999,999)
Loans repaid by subsidiary undertaking	*7*	**225,000**	-
Interest received	*5*	**22,504**	86,544
Net cash used in investing activities		**(2,781,797)**	(3,921,106)
Financing activities			
Proceeds from issue of share capital	*10*	**261,750**	4,162,217
Proceeds from issue of convertible loan notes	*13*	**2,366,100**	-
Interest paid on convertible loan notes	*5*	**(154,730)**	(41,222)
Net cash from financing activities		**2,473,120**	4,120,795
Net change in cash and cash equivalents		**(1,236,367)**	(718,694)
Cash and cash equivalents at beginning of the year		**1,261,269**	1,979,963
Cash and cash equivalents at end of the year	*9*	**24,902**	1,261,269

Notes to the Financial Statements

For the year ended 30 June 2008

1. General information and 'going concern'

The Company is registered under company number 5079979 (England and Wales). The nature of the Company's business is that of an investment holding and management company whose principal investment is in Mercator Gold Australia Pty Limited (MGA) a wholly owned gold mining subsidiary.

Subsequent to the year ended 30 June 2008, the subsidiary, MGA, was placed into Administration on 9 October 2008, pending ongoing efforts to refinance its operations. Consolidated accounts for the Group have not been prepared due to the Company's inability to obtain the necessary accounting information from the subsidiary's administrators. The administrators of the subsidiary are Ferrier Hodgson, Perth, Western Australia.

The Company's listing on the Alternative Investment Market of the London Stock Exchange was temporarily suspended on 9 October 2008, upon the subsidiary being placed under administration and pending the outcome thereof.

Although the Company accounts have been prepared on a going concern basis, the Company's ability to continue as a going concern is largely dependent on the outcome of the subsidiary's period under Administration and / or the Company's ability to finance its alternative business plans. These financial statements reflect the Directors' valuation of the subsidiary, after creating a 90% provision against the loans made to the subsidiary and reducing the value of its investment therein to a nominal amount.

The Directors are taking a number of steps to reduce and contain the cash operating costs of the Company while alternative business opportunities are investigated, including the sale of certain assets to maintain liquidity. There is however a significant risk that the Company may be unable to continue as a going concern.

2. Accounting policies

Overall considerations

The principal accounting policies that have been used in the preparation of these financial statements are summarised below.

Statement of compliance

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and their interpretations as adopted by the International Accounting Standards Board (IASB) as adopted by the European Union except that the operating subsidiary has not been consolidated for the reasons explained in note 1. They have also been prepared in accordance with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

Details of the transition from UK GAAP are provided in note 20.

The financial statements are presented in £GBP to the nearest pound.

New Accounting Standards adopted during the year

IFRS 7 Financial Instruments: disclosures and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective 1 January 2007). IFRS 7 introduces disclosures to improve information about financial instruments. It requires disclosure of quantitative and qualitative information about risk exposure arising from financial instruments, including minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

Accounting Standards and Interpretations not yet applied

The Directors together with their advisers are in the process of evaluating the impact of standards and/or interpretations that have not yet become effective. Listed below are those standards and/or interpretations most likely to impact the Company:

- IAS 1 Presentation of Financial Statements (revised 2007) *(effective 1 January 2009)*
- IAS 23 Borrowing Costs (revised 2007) *(effective 1 January 2009)*
- IAS 27 Consolidated and Separate Financial Statements (Revised 2008) *(effective 1 July 2009)*
- Amendment to IFRS 2 Share-based Payment - Vesting Conditions and Cancellations *(effective 1 January 2009)*
- IFRS 3 Business Combinations (Revised 2008) *(effective 1 July 2009)*
- IFRS 8 Operating Segments *(effective 1 January 2009)*

Based on the Company's current business model and accounting policies it is felt that these standards and/or interpretations are unlikely to have a material impact on the Company's earnings or shareholders' funds.

The amendment to IAS 1 Financial statement presentation released in September 2007 redefines the primary statements and expands on certain disclosures within these. Once adopted the Company's primary statements will be amended to reflect the presentation required.

Cash and cash equivalents

Cash includes petty cash and cash held in current bank accounts. Cash equivalents include short-term investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Property, plant and equipment

Property, plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less any subsequent accumulated depreciation and impairment losses.

Depreciation is charged on each part of an item of property, plant and equipment so as to write off the cost or valuation of assets over their estimated useful lives, using the straight-line method. Depreciation is charged to the income statement. The estimated useful lives are as follows:

Office equipment	3 years
Furniture and fittings	5 years

Expenses incurred in respect of the maintenance and repair of property, plant and equipment are charged against income when incurred. Refurbishments' and improvements' expenditure, where the benefit is expected to be long lasting, is capitalised as part of the appropriate asset.

An item of property, plant and equipment ceases to be recognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset ceases to be recognised.

Impairment testing

Individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may exceed its recoverable amount, being the higher of net realisable value and value in use. Any such excess of carrying value over recoverable amount or value in use is taken as a debit to the income statement.

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Leased assets

In accordance with IAS 17, leases in terms of which a Company assumes substantially all the risks and rewards of ownership are classified as finance leases. All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight line basis over the lease term.

Taxation

Current tax is the tax currently payable based on taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Company are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity, in which case the related deferred tax is also charged or credited directly to equity.

Investments in subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies so as to claim benefit from their activities.

The investments in subsidiaries held by the Company are valued at cost less any provision for impairment that is considered to have occurred, the resultant loss being recognised in the income statement.

Investment in associate

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The investments are initially recognised at cost and adjusted for the Company's share of the changes in the net assets of the investee after the date of acquisition, and for any impairment in value. If the Company's share of losses of an associate exceeds its interest in the associate, the Company continues recognising its share of further losses.

Equity

Equity comprises the following:

- ''Share capital'' represents the nominal value of equity shares.
- ''Share premium'' represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issues.
- "Other reserves'' represent the equity component of convertible debentures issued, plus the equity component of share options issued.
- ''Retained losses'' include all current and prior year results as disclosed in the income statement.

Foreign currency

In accordance with International Accounting Standard 21, transactions entered into by the Company in a currency other than the currency of the primary economic environment in which they operate (the ''functional currency'') are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement.

Share-based employee remuneration

The Company operates equity-settled share-based remuneration plans for remuneration of some of its employees. The Company awards share options to certain Company Directors and employees to acquire shares of the Company.

All goods and services received in exchange for the grant of any share-based payment which vested after the Company's transition to IFRS are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee.

The fair value is appraised at the grant date and excludes the impact of non-market vesting conditions. Fair value is measured by use of the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

All equity-settled share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to ''other reserves''.

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

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital and, where appropriate, share premium.

Financial instruments

The Company's financial assets comprise cash and cash equivalents and loans and receivables. Financial assets are assigned to the respective categories on initial recognition, depending on the purpose for which they were acquired. This designation is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

The Company's loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at fair value on initial recognition. After initial recognition they are measured at amortised cost using the effective interest rate method, less any provision for impairment. Any change in their value is recognised in profit or loss. The Company's receivables fall into this category of financial instruments. Discounting is omitted where the effect of discounting is immaterial. All receivables are considered for impairment on a case-by-case basis when they are past due at the balance sheet date or when objective evidence is received that a specific counterparty will default.

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. Any instrument that includes a repayment obligation is classified as a liability.

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.

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 any repayments and the interest expense is deducted from the carrying amount of the liability.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are further discussed below.

Carrying value of investment in subsidiary

In view of the subsidiary having been placed under administration after the end of the financial year under review, a provision has been made to reduce the net book value of these investments. The provision of 90% has been made and the remaining 10% value of these assets is based upon the Directors' valuation of the net assets that the administration process is likely to yield. Note 7 provides further detail. The key to any re-assessment of this valuation would be the outcome of the subsidiary's period of administration, expected to materialise during the first half of 2009. This is subject to material uncertainty in regard to the recoverable amount of this asset.

Share based payments

The fair value of services received in return for share options granted is measured by reference to the fair value of the share options granted, at date of grant, and this is expensed on a straight line basis over the estimated vesting period. This estimate is determined using an appropriate valuation model considering the effects of the vesting conditions, expected exercise period and the payment of dividends by the Company.

3 Operating loss

The operating loss is stated after charging:	2008 £	2007 £
Depreciation of property, plant and equipment	4,145	3,550
Loss on sale of fixed assets	-	1,958
Operating lease expenses	13,980	13,980
Share based payments	476,620	-
Auditors' remuneration for:		
Audit services	45,400	12,637
Fees payable for other services:		
Other services related to tax	11,600	3,750
Other services related to corporate finance	3,940	-
All other services	-	1,300

4 Staff numbers and costs

	2008 Number	2007 Number
Directors	6	6
Administration	3	3
Total	9	9

The aggregate payroll costs of these persons were as follows:	2008 £	2007 £
Staff wages and salaries	103,892	72,767
Staff share options expense	240,199	-
Staff social security and pension costs	13,558	26,141
Directors remuneration	306,012	256,919
Directors share based payment expense	236,421	-
	900,082	355,827

The highest paid Director received remuneration of £132,834 (2007: £161,703)

Details of each Director's share options and interests in the Company's shares are shown in the Directors' Report on pages 5 and 6.

5 Finance income and expenses

Finance expenses	2008 £	2007 £
Interest cost imputed on unwinding convertible loan discount	35,502	52,834
Issue costs of convertible loan amortised	29,992	38,835
Interest paid on convertible loan	154,730	108,078
	220,224	199,747

Finance income	2008 £	2007 £
Interest on cash and cash equivalents	22,504	86,544
Interest on loan to subsidiary	-	1,890,704
Total	22,504	1,977,248

Notes to the Financial Statements

For the year ended 30 June 2008

6 Property, plant and equipment

Cost	Furniture and fittings £	Office equipment £	Total £
At 30 June 2006	1,335	8,155	9,490
Additions	-	8,666	8,666
Disposals	-	(3,668)	(3,668)
At 30 June 2007	1,335	13,153	14,488
Disposals	-	(1,535)	(1,535)
At 30 June 2008	1,335	11,618	12,953
Depreciation	£	£	£
At 30 June 2006	329	2,188	2,517
Disposals	-	(695)	(695)
Depreciation for the year	267	3,283	3,550
At 30 June 2007	596	4,776	5,372
Disposals	-	(250)	(250)
Depreciation for the year	267	3,878	4,145
At 30 June 2008	863	8,404	9,267
Net book value			
At 30 June 2008	472	3,214	3,686
At 30 June 2007	739	8,377	9,116

The Company's property, plant and equipment are free from any mortgage or charge.

7 Investments

	Investment in associated company £	Investment in subsidiaries £	Loans to subsidiary £	Total £
Cost as at 1 July 2006	-	450,000	25,218,247	**25,668,247**
Advances net of repayments		-	5,890,703	**5,890,703**
Cost as at 1 July 2007	-	450,000	31,108,950	**31,558,950**
Advances net of repayments	-	-	2,805,586	**2,805,586**
Investment in Associate (note below *)	1,118,776	-	(1,118,776)	-
Share of loss in associate	(45,860)	-	-	**(45,860)**
Share of changes in equity of associate	20,423	-	-	**20,423**
Impairment (note below **)	-	(399,999)	(29,644,001)	**(30,044,000)**
Balance at 30 June 2008	1,093,339	50,001	3,151,759	**4,295,099**

At 30 June 2008, the Company has interests in the following investments and subsidiary undertakings.

Subsidiaries:	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
Associate:				
Silver Swan Group Limited	Australia	Mineral exploration	Australia	30% ordinary

The fair value of the listed investment in Silver Swan Group Limited at 30 June 2008 is £1,684,717.

Aggregate amounts relating to associate	2008 £
Assets	645,131
Liabilities	60,148
Revenues	31,845
Loss	85,908

7 Investments *continued*

Notes

* Ten million ordinary shares in Silver Swan Group Limited were acquired by Mercator Gold Australia Pty Limited in exchange for 100% of the right, title and interest of certain non-core tenements held by Mercator Gold Australia Pty Limited. The shares in Silver Swan Group Limited were then transferred to Mercator Gold Plc on 22 April 2008, at their market value as part repayment of the Mercator Gold Plc loan account. The investment was subsequently reduced in value to reflect Mercator Gold plc's share of post acquisition losses and changes in equity.

The Company is entitled to a further four million performance related shares subject to certain conditions, the most notable of which is the proving up by Silver Swan Group Limited of 350,000 ounces of gold or gold equivalent in the indicated resource category on the tenements sold to it by Mercator. No asset has been recognised in the accounts for these future contingent shares as there can be no certainty of the success of the exploration work being undertaken by Silver Swan.

The Company exerts significant influence in Silver Swan Group Limited by virtue of its shareholding and by representation on its Board.

** The value of the loan to Mercator Gold Australia Pty Limited has been impaired due to that subsidiary being placed under Administration on 9 October 2008. After impairment, the investment in that Company has been written down to a nominal amount. The loans to the subsidiary have been written down to represent the Directors' valuation thereof as 10% of their previous book value.

The loans to the subsidiary undertaking are interest free with no fixed repayment schedule. There is significant uncertainty about the recoverability of these loans as discussed in the note on critical accounting judgements and estimates in note 2.

8 Trade and other receivables

	2008 £	2007 £
Prepayments and accrued income	43,605	74,380
Value added tax recoverable	28,391	15,171
Other receivables	8,000	8,868
	79,996	98,419

The assets listed above are unsecured.

The short-term carrying values are considered to be a reasonable approximation of the fair value.

9 Cash and cash equivalents

Cash and cash equivalents at 30 June consisted of the following:

	2008 £	2007 £
Deposits at Barclays Bank, UK	24,620	1,260,115
Cash on hand	282	1,154
	24,902	1,261,269

10 Share Capital and Share Premium Accounts

The share capital of Mercator Gold Plc consists of ordinary shares of a single class. All shares have equal rights to receive dividends or capital repayments and all shares represent one vote at meetings of Mercator Gold Plc.

(a) Authorised share capital

Ordinary shares of £0.10 each	Number of Shares	Nominal Value
At 30 June 2007 and 30 June 2008	200,000,000	£20,000,000

(b) Changes in issued share capital and share premium:

	Number of shares	Nominal Value £	Share premium £	Total £
At 30 June 2007 – Ordinary shares of £0.10 each	62,244,911	6,224,491	26,963,483	33,187,974
Shares issued at £0.75 each – in respect of options converted on 5 July 2007	25,000	2,500	16,250	18,750
Shares issued at £0.60 each – in respect of warrants converted on 09 October 2007	230,000	23,000	115,000	138,000
Shares issued at £0.60 each – in respect of warrants converted on 23 January 2008	50,000	5,000	25,000	30,000
Shares issued at £0.60 each – in respect of options exercised on 23 January 2008	125,000	12,500	62,500	75,000
Balance at 30 June 2008	62,674,911	6,267,491	27,182,233	33,449,724

All the above shares were issued in satisfaction of rights conferred by options' and warrants' conditions and the funds received were added to existing cash resources.

(c) Potential issue of ordinary shares

Share options

During the year the Company granted share options to key personnel to purchase shares in the entity. The options are exercisable at the market price of the shares at the date of grant and most vest immediately.

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2008 £	Number of options 2008	Weighted average exercise price 2007 £	Number of options 2007
Outstanding at the beginning of the year	**0.80**	**5,165,000**	0.80	5,165,000
Granted during the year	**0.99**	**2,810,000**	-	-
Exercised during year	**0.63**	**(150,000)**	-	-
Forfeited during year	**0.82**	**(210,000)**	-	
Exercisable at the end of the year	**0.87**	**7,615,000**	0.80	5,165,000

The options outstanding at 30 June 2008 have an exercise price in the range of £0.60 to £1.20 and a weighted average remaining contractual life of 5.02 years (2007: 7.36 years).

Share warrants	Weighted average exercise price 2008 £	Number of warants 2008	Weighted average exercise price 2007 £	Number of warrants 2007
Outstanding at the beginning of the year	**0.82**	**1,603,450**	0.82	1,603,450
Granted during the year	-	-	-	-
Exercised during the year	**0.60**	**(280,000)**	-	-
Expired in year	**0.85**	**(1,050,000)**	-	-
Exercisable at the end of the year	**0.75**	**273,450**	0.82	1,603,450

Share-based payments

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes valuation model. An expected average life of 3.5 years for the options is used as an input into the model, after incorporating expectations of early option exercises or forfeitures.

Fair value of share options and assumptions

	2008 £	2007 £
Fair value at measurement date	476,620	-
Weighted average share price	£0.8744	-
Weighted average exercise price	£0.9926	-
Expected volatility (expressed as weighted average volatility used in the model using the Black-Scholes model)	35.0%	-
Average option life in years	3.5	-
Expected dividends	-	-
Weighted average risk-free interest rate (based on national government bonds)	4.58%	-

The expected volatility is based on the historical volatility based on the expected life of the share options, adjusted for any expected changes to future volatility due to publicly available information.

There are no service or market related conditions associated with share option exercises.

	2008	2007
Share options granted	2,810,000	-
	£	£
Total expense recognised as employee costs	476,620	-

11 (Loss)/earnings per share

(Loss) /earnings per share is calculated by reference to the loss for the year of £31,883,479 (2007: earnings £829,850) and the weighted number of shares in issue during the year of 62,517,432 (2007: 55,547,888).

The dilutive effect of options on the earnings in 2007 is not material due to the number of shares in issue. There is no dilutive effect of share options on the loss for the current year.

12 Trade and other payables – short term

Trade payables at 30 June consisted of the following:

	2008 £	2007 £
Trade payables	155,666	28,648
Amount due to subsidiary undertaking	49,500	49,500
Amount owed to a Director	2,677	959
Other creditors and accruals	127,587	30,830
Social security and employee taxes	3,644	-
Corporation tax	-	60,116
	339,074	170,053

The payables listed above were all unsecured.

13 Interest bearing liabilities

	2008 £	2007 £
Convertible loan notes – 8.5%	2,206,214	-

On 17 October 2007 the Company issued three-year convertible loan notes carrying a coupon rate of 8.5% interest, payable quarterly in cash or, at the holder's option, by the issue of shares at £0.95 per share for the first year and at £1.20 per share thereafter. After 18 months the Company has the option to redeem the notes at face value plus double the accrued interest outstanding at the time of the Company giving notice of redemption. The holder of the notes has the option of accepting the payment in cash or (in the case of the interest payment, subject to the availability of sufficient authorised, unissued share capital) ordinary shares at the rate of £0.95 per share in years one or two and £1.20 per share in year three.

14 Capital management

The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern and develop its mining activities to provide returns for shareholders and benefits for other stakeholders.

The Company's capital structure comprises all the components of equity (all share capital, share premium, retained earnings when earned and other reserves). When considering the future capital requirements of the Company and the potential to fund specific project development via debt the directors consider the risk characteristics of all the underlying assets in assessing the optimal capital structure.

15 Income tax expense

The relationship between the expected tax expense based on the corporation tax rate of 30% for the year to 30 June 2008 (2007: 30%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2008 £	2007 £
Company (loss) / profit for the year before tax	(31,897,735)	889,966
(Loss) / profit on activities at standard rate of corporation tax of 30%	(9,569,321)	266,990
Expenses not deductible for tax purposes	154,684	10,074
Impairment of subsidiary undertaking	9,013,200	-
Depreciation in excess of capital allowances	430	382
Small companies rate difference	-	(13,557)
Loss carried / (brought) forward	340,891	(203,773)
Tax (income) / expense	(60,116)	60,116

The Company has a potential deferred tax asset of £340,891 in relation to tax losses carried forward. A deferred rax asset has not been recognised in respect of these losses as there is no certainty in regards the level and timing of future profits.

16 Related party transactions

	2008 £	2007 £
Amounts payable to a Director at 30 June	2,677	959

Details of Directors' emoluments are disclosed in note 4

The Directors are the only key management. Transactions with the subsidiary undertaking and associate are disclosed in note 7.

17 Commitments and contingencies

Capital expenditure commitment

The Company had no commitments (2007: nil)) in respect of capital expenditure contracted for but not provided for in these financial statements.

Operating lease commitments

Details of operating lease commitments are set out in note 18 below.

18 Operating leases

Non-cancellable operating lease liabilities of the Company are as follows:

	2008	2007
Payable:	£	£
In less than one year	13,980	13,980
Between one and two years	9,550	13,980
Between two and five years	-	9,550
	23,530	37,510

19 Risk management objectives and policies

The Company's principal financial assets comprise cash and cash equivalents, other receivables and amounts due from its principal operating subsidiary the latter of which is held at cost less a provision for impairment. The Company's liabilities comprise trade payables, other payables and accrued expenses.

All the Company's financial liabilities are measured at amortised cost. All the Company's financial assets are classified as loans and receivables.

The Board of Directors determines as required the degree to which it is appropriate to use financial instruments, commodity contracts or other hedging contracts to mitigate financial risks.

Credit risk

The Company's cash at bank is held at an 'A' rated bank. Cash is held either on current account or on short-term deposit at floating rates of interest determined by the relevant prevailing base rate. The fair value of cash and cash equivalents at 30 June 2008 and 2007 did not differ materially from their carrying value.

The Company has material exposure to receivables risk in respect of the loan to its subsidiary, Mercator Gold Australia Pty Limited, presently under administration. Since the subsidiary is not under the Company's control, this risk cannot presently be mitigated.

Market risk

The Company's financial instruments potentially affected by market risk include bank deposits and trade payables. An analysis is required by IFRS 7, intended to illustrate the sensitivity of the Company's financial instruments (as at year end) to changes in market variables, being exchange rates and interest rates where the Company's exposure to these risks is believed to be material.

Interest rate risk

The Company holds short term bank deposits on which short term fluctuations in the interest rate receivable are to be expected. Since the bank deposits were relatively immaterial and the loan to the subsidiary was interest free, there is no material sensitivity to changes in interest rates.

Foreign currency risk

The Company has little exposure to foreign currency risk and this is not considered to be material. There is no sensitivity to exchange rates because all the Company's assets and liabilities are denominated in £GBP.

Fair value of financial instruments

The fair values of the Company's financial instruments at 30 June 2008 and 2007 did not differ materially from their carrying values.

The Company's long term convertible loan note borrowing, a compound financial instrument, did not differ from its carrying value.

Liquidity risk

The Company, at its present stage of development, has no sales revenues. It therefore finances its operations through the issue of equity share capital and debt in order to ensure sufficient cash resources are maintained to meet short-term liabilities. Management monitors availability of funds in relation to forecast expenditures in order to ensure timely fundraising. Funds are raised in discrete tranches to finance activities for limited periods. Funds surplus to immediate requirements are placed in liquid, low risk investments.

The Company's ability to raise finance is largely subject to market perceptions of its subsidiary's ability to re-commence trading, from which eventual loan repayment or dividends are to be derived. Due to the uncertain state of financial markets there can be no certainty that future funding will continue to be available.

The table below sets out the maturity profile of financial liabilities as at 30 June 2008.

	£'000
Due in less than one month	253
Due between one and three months	36
Due between three months and one year	50
Due after one year	-
	339

In addition, as disclosed in note 13, the Company also has in issue £2,206,214 of convertible loan notes currently classed as non-current liabilities that could be redeemed within one year at the option of the Company.

20 Explanation of transition to IFRS

These are the Company's first annual financial statements prepared in accordance with IFRS.

IFRS accounting policies have been applied in preparing the financial statements for the year ended 30 June 2008, the comparative information presented in these financial statements for the year ended 30 June 2007 and in the preparation of an opening IFRS balance sheet at 1 July 2006 (the Company's date of transition).

Notes to the Financial Statements

For the year ended 30 June 2008

The Company has elected to take advantage of the available exemption from IFRS 2 in respect of share based payment transactions that were granted and vested before the date of transition of 1st July 2006. Therefore, no adjustments have been made in respect of such transactions.

In all other material respects, the Company's accounts prepared under IFRS are the same as they would have been had they been prepared under UK GAAP. In preparing its opening IFRS balance sheet, the Company has therefore not been required to adjust any amounts reported previously in financial statements prepared in accordance with its previous UK GAAP basis of accounting.

The transition from UK GAAP to IFRS has not affected the Company's financial position, financial performance and cash flows. There is therefore no required reconciliation of equity and losses as required by IFRS.

21 Post balance sheet events

- On 9 July 2008 the Company placed 10 million ordinary shares at £0.40 per share, raising £4.0 million of new capital.

- On 29 August 2008 the Company committed to provide £180,000 by way of loan funds to acquire an interest in a Hong Kong registered company whose alluvial gold mining operation is located in the Papuan Province of Indonesia. The funds were advanced to assist in the acquisition of an exploitation licence in that Province and the funds are to be repaid by September 2010. On the granting of the exploitation licence Mercator Gold plc, at its election, may acquire for no additional cost a 20% interest in New Gold Company Ltd which holds the interest in Papua. There is no on-going funding obligation by Mercator although its interest may be subject to dilution.

- On 9 October 2008 the Company requested the suspension of its shares on AIM following the appointment of administrators to the Company's operating subsidiary, Mercator Gold Australia Pty Limited.

- On 3 November 2008, the Company funded the acquisition of a 70% interest in ACS Asia, a profitable Asia Pacific metal products business. The consideration for this acquisition was completed on 17 February 2009 through the issue of 70% of the share capital of the ASC Asia holding company in Hong Kong which holds 100% of ASC Asia. Two of the Company's directors control the board of the Hong Kong holding company. The consideration for this acquisition was £465,751. The total purchase price to be paid by the Hong Kong holding company for ACS Asia to Tyco International was US$2 million, subject to certain contractual conditions, of which US$750,000 has been paid and the remaining possible maximum US$1.25 million of deferred consideration is due to be paid in two six-monthly instalments following the completion of the audit of the transfer balance sheet. This deferred consideration will be funded by ACS Asia's own resources. The acquisition of ACS Asia was made following an introduction by Meridian Capital of which Michael Silver is a founding share holder.

Share Analysis

As at 21 November 2008

Holdings	No of Accounts	No of shares held	% of share capital
1 - 10,000	462	1,557,726	2.14
10,001 - 50,000	123	2,779,497	3.82
50,001 - 100,000	32	2,435,959	3.35
100,001 - 500,000	42	9,865,563	13.58
500,001 - 1,000,000	8	6,029,906	8.3
1,000,001 - 5,000,000	14	30,658,892	42.19
5,000,001 +	2	19,374,368	26.62
Total	**683**	**72,674,911**	**100**

Please note that this document is important and requires your immediate attention. If you are in any doubt as to the action to be taken, please consult an independent adviser immediately.

If you have sold or transferred or otherwise intend to sell or transfer all of your holding of ordinary shares in the Company prior to the Annual General Meeting of the Company on 30 April 2009 at 11.00am, you should send this document, together with the accompanying Form of Proxy, to the (intended) purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was or is to be effected for transmission to the (intended) purchaser or transferee.

MERCATOR GOLD PLC

Company Number: 5079979

Notice of Annual General Meeting

(the "Company")

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of the Company will be held at The East India Club, 16 St James's Square, London SW1Y 4LH on 30 April 2009 at 11.00am in order to consider and, if thought fit, pass resolutions 1 to 6 as Ordinary Resolutions and resolutions 7 and 8 as Special Resolutions:

Ordinary Resolutions

1 To re-elect as a director Michael Bernard Silver 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 Richard Nicholas Allen 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 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.

4 To receive, consider and adopt the directors' report and accounts of the Company for the period ended 30 June 2008.

5 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.

6 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 £10,000,000, provided that 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 Resolution

7 That the Articles of Association of the Company be amended such that the Board of Directors of the Company shall be permitted to authorise any matter proposed to them by a director which would, if not so authorised, involve that director being in breach of his duty to avoid conflicts of interest under section 175 of the Companies Act 2006, by the addition of a new Article 180 in the following terms:

180 the directors may, in accordance with the requirements set out in this article and notwithstanding anything to the contrary in these articles, authorise any matter proposed to them by any director which would, if not authorised, involve a director breaching his duty under section 175 of the Companies Act 2006 to avoid conflicts of interest ("Conflict").

180.1 Any authorisation under this article will be effective only if:

180.1.1 the matter in question shall have been proposed by any director for consideration at a meeting of directors in the same way that any other matter may be proposed to the directors under the provisions of these articles or in such other manner as the directors may determine;

180.1.2 any requirement as to the quorum at the meeting of the directors at which the matter is considered is met without counting the director in question (the "Conflicted Director") (or any other interested director); and

180.1.3 the matter was agreed to without the Conflicted Director (or any other interested director) voting or would have been agreed to if his (or any other interested director's) vote had not been counted.

180.2 Any authorisation of a Conflict under this article may (whether at the time of giving the authorisation or subsequently):

180.2.1 extend to any actual or potential conflict of interest which may reasonably be expected to arise out of the Conflict so authorised;

180.2.2 be subject to such terms and for such duration, or impose such limits or conditions as the directors may determine; and

180.2.3 be terminated or varied by the directors at any time; but

this will not affect anything done by the Conflicted Director prior to such termination or variation in accordance with the terms of the authorisation.

180.3 In authorising a Conflict the directors may decide (whether at the time of giving the authorisation or subsequently) that if the Conflicted Director has obtained any information through his involvement in the Conflict otherwise than as a director of the Company and in respect of which he owes a duty of confidentiality to another person, the Conflicted Director is under no obligation to:

180.3.1 disclose that information to the other directors or to any director or other officer or employee of the Company; or

180.3.2 use or apply that information in performing his duties as a director of the Company;

where to do so would amount to a breach of that confidence.

180.4 Where the directors authorise a Conflict they may provide, without limitation, (whether at the time of giving the authorisation or subsequently) that the Conflicted Director:

180.4.1 is excluded from discussions (whether at meetings of directors or otherwise) related to the Conflict;

180.4.2 is not given any documents or other information relating to the Conflict; and/or

180.4.3 may or may not vote (or may or may not be counted in the quorum) at any future meeting of directors in relation to any resolution relating to the Conflict.

180.5 Where the directors authorise a Conflict, the Conflicted Director will:

180.5.1 be obliged to conduct himself in accordance with any terms imposed by the directors in relation to the Conflict; and

180.5.3 not infringe any duty he owes to the Company by virtue of sections 171 to 177 (inclusive) of the Companies Act 2006 provided he acts in accordance with such terms, limits and conditions (if any) as the directors impose in respect of its authorisation.

180.6 A director is not required, by reason of being a director of the Company (or because of the fiduciary relationship established by reason of being a director of the Company), to account to the Company for any remuneration, profit or other benefit which he derives from or in connection with a relationship involving a Conflict which has been authorised by the directors or by the Company in general meeting (subject in each case to any terms, limits or conditions attaching to that authorisation) and no contract shall be liable to be avoided on such grounds."

8 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 6 above, as if Section 89(1) of the Act did not apply to such allotment, provided that the power conferred by this resolution 8 shall (save as provided in paragraph b and c below) following the passing of this resolution be limited to:

a. 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;

b. notwithstanding paragraph a above, the allotment of equity securities up to an aggregate nominal amount of £10,000,000; and

c. notwithstanding paragraph a above to the allotment of equity securities pursuant to the Loan Note Instrument executed by the Company and dated 15 July 2008, relating to the Unsecured Convertible Loan Notes 2011 ("2011 Loan Notes"), including the allotment of fully paid shares in the capital of the Company in accordance with the terms of the 2011 Loan Notes, in lieu of payment of interest in respect of the 2011 Loan Notes;

and 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.

By order of the Board

M J de Villiers
Secretary

Registered Office: Peek House, 20 Eastcheap, London EC3M 1EB

Dated 6 April 2009

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, Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol BS13 8AE, United Kingdom 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 alterations made to this proxy should be initialled.

5 If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

6 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.

7 Any power of attorney or any other authority under which this proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

8 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.

9 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 11.00am on 28 April 2009, (being not more than 2 business days prior to the time fixed for the Meeting) or, if the Meeting is adjourned, such time being not more than 2 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.

10 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, Computershare Investor Services plc (whose CREST ID is 3RA50) 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 35(5)(A) of the Uncertificated Securities Regulations 2001.

11 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.

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