

Company Registration No. 108890 C

INCAGOLD PLC AND SUBSIDIARIES
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

INCAGOLD PLC AND SUBSIDIARIES

COMPANY INFORMATION

| | | |
|--------------------------|---|--|
| Directors | R M Holmes K P Beard J Brett A D Love J G Martin R D Jordan R W Tilleard P Hofschroer C B Korte D C A Aurell A P Beatty | (Appointed 9 August 2006) (Appointed 6 September 2006) (Appointed 20 April 2006 and resigned 21 February 2007) (Appointed 1 January 2006 and resigned 6 September 2006) (Resigned 20 April 2006) (Resigned 20 April 2006) (Resigned 20 April 2006) (Resigned 20 April 2006) |
| Secretary | K P Beard | |
| Company number | 108890 C | |
| Registered office | 13 - 15 Hope Street Douglas Isle of Man IM1 1AQ | |
| Auditors | Shimmin Wilson & Co. 13 - 15 Hope Street Douglas Isle of Man, IM1 1AQ | |
| Nominated Advisor | City Financial Associates Limited 6 Laurence Pountney Hill London, EC4R 0BL | |
| Registrar | Capita IRG Plc 34 Beckenham Road Beckenham Kent, BR3 4TU | |
| Advocates | Simcocks Advocates Limited Ridgeway House Ridgeway Street Douglas Isle of Man, IM99 1PY | |
| Broker | Seymour Pierce Ellis Limited Talisman House Jubilee Walk Three Bridges Crawley West Sussex, RH10 1LQ | |

INCAGOLD PLC AND SUBSIDIARIES

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INCAGOLD PLC AND SUBSIDIARIES

CHAIRMAN'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2006

Following poor trading in the year to 31 December 2006 IncaGold Plc ("the Company") took the decision in February 2007 to restructure its business in order to reduce overheads and to concentrate on its core area of competency.

This restructuring is now complete, with staff numbers reduced and operations downsized as planned. The Company has exited the box market and no further box production is planned, furthermore old box stocks have been sold off to realise cash. The development and deployment of IncaGold's own digital distribution technology has been mothballed and no further costs will be incurred in this area. Having concluded this exercise, cash flow has stabilised through Q1 2007 and enabled the business to remain within its existing facilities of £100,000 which is guaranteed by the largest shareholder, Ataraxia Investments Ltd., a company controlled by CEO Richard Holmes.

The company is now concentrating solely on licensing its extensive software catalogue of PC and mobile titles to third parties. This is a low overhead, low risk, cash generative business. The Company will continue to acquire new titles for this licensing business going forward.

The Company is striving to significantly increase its revenue from its licensing operations in 2007, whilst carefully managing its costs. In achieving this the Company expects to be able to continue to manage within its existing facilities. In the absence of any additional capital injection this will be a challenging exercise, but the company is cautiously optimistic that this strategy will be successful.

June 2007

.....
Non-Executive Chairman

INCAGOLD PLC AND SUBSIDIARIES

CHIEF EXECUTIVE OFFICER'S STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

As previously reported, 2006 has seen the market for PC CD-ROM product distributed via physical media ("box market") contract far faster than anticipated, not just for IncaGold, but for the PC publishing industry as a whole. This put considerable strain on the resources of the Company in 2006. In preparation for this, from the second half of 2005 through 2006 IncaGold invested over £513,000 in its leading digital distribution technology and associated technical and sales team. Unfortunately, however, the Company ran short of cash resources prior to gaining sales traction from the digital space. As a result, the auditors have, in their audit report, drawn attention to the going concern basis used by the Directors in the accounts. The additional capital injection sought in January 2007 to bring in the digital promotion sales pipeline built didn't come through.

As a result, the Company has had to immediately cut its operations back to its traditional licensing base, a market in which it can operate without further capital. Development in digital distribution has ceased and the Company has completely exited from the box market. I am pleased to be able to report that this restructuring has been completed in the first quarter of 2007 and, although the Company will still face a difficult immediate future, it is now far more soundly based to exploit this sector going forward with a view to returning to profitability in the second half of the year. The board of directors taking the Company forward in 2007 is also united, improved and suited for the task ahead, building a viable future.

The Company has a number of new titles being launched in the first half of 2007 which are expected to generate increasing licensing revenue. In addition, the Company is continuing to invest in further titles for launch later in the year, refreshing the Company's substantial product line-up. Also, the Company has successfully concluded a number of third party mobile deals and licensing arrangements to third party digital distribution partners. The number of IncaGold titles on the shelves, in digital distribution, in promotions and on mobile phone portals world-wide is growing significantly.

Financial overview

Turnover net of returns for the twelve months to 31 December 2006 amounted to £259,000 (twelve months to December 2005: £239,000), an increase of approximately 8 per cent. The net loss before tax for the period, after writing off the remaining net book value of the investment in digital technology of £100,000 amounted to £722,000 (twelve months to 31 December 2005: £575,000).

As at 31 December 2006 the Company was operating in an overdraft position of £37,000 (compared to cash resources as at 31 December 2005 of £537,000). The Company's net assets amount to £259,000 (31 December 2005: £941,000).

Outlook

IncaGold is now focusing on its licensing business on a world-wide basis. With strong developer and customer relationships already established, a large back catalogue of affordable product and a pipeline of quality new titles coming through in 2007, the business is set for revenue growth through 2007. Overheads to support the licensing business have been significantly reduced to a level where the business is expected to return to profitability in the second half of the year.

On behalf of the Board, I would like to thank the remaining management team and staff for their hard work and commitment during this time and we look forward to updating shareholders on progress in our interim results for the half year to 30 June 2007.

.....
R M Holmes
Chief Executive Officer

.....
Date

INCAGOLD PLC AND SUBSIDIARIES

CORPORATE GOVERNANCE FOR THE YEAR ENDED 31 DECEMBER 2006

Although AIM listed companies are not required to report on the Combined Code, the directors are committed to proper standards of corporate governance and will continue to keep procedures under review. The following provides an outline of the principal policies and procedures established by the Board.

Board and Board Committees

The board have convened meetings on a regular monthly basis with a quorum present at every meeting.

The Remuneration Committee is composed of the two non-executive directors and has met twice during the year with both members in attendance. The Remuneration Committee Report is contained within the following section of these financial statements.

The Audit Committee is composed of the Finance Director, and the two non-executive directors. It is intended that the Audit Committee will meet at least twice a year to review the Group's interim and final results. The Committee has met once during the year under review with all members in attendance.

Relationship with shareholders

The Board places considerable importance on creating and maintaining a strong relationship with its shareholders.

Accountability and financial control

The Board has overall responsibility for the systems of financial control. Implementation and maintenance of the financial control systems is the responsibility of executive management. It should be understood, that such systems are designed to provide reasonable but not absolute assurance against material misstatement or loss.

As a result the Group has enhanced the framework of internal financial controls which reflect the current scale of Group activities, the key features of which are as follows:-

Control environment

There are clearly defined organisational responsibilities and the Board is committed to employing suitably qualified staff so that the appropriate level of authority can be delegated with regard to accountability and acceptable levels of risk.

Identification and evaluation of business risks and controls

Management control is exercised at all levels of the Group and is regulated by appropriate limits of authority. The directors have considered various areas of business risks and have developed appropriate policies to manage and diffuse those risks. These policies are reviewed in the light of known and perceived changes to the risks.

Quality and integrity of personnel

The Group attaches high importance to the values of trust, honesty and integrity of personnel in responsible positions and operates a policy of recruitment and promoting suitably experienced personnel with clearly defined accountabilities.

Investment appraisal

Although capital investment is not a significant element of the Group's operations, all major expenditure is included in the annual budget and is reported on to the Board. In addition, all potential and actual acquisition opportunities are regularly reviewed by the Board, both in meetings and by ad hoc reports.

Monitoring

Given the size of the Group and the close day-to-day involvement of the executive directors no formal internal audit is considered necessary.

.....
K.P. Beard
Chairman

.....
Date

INCAGOLD PLC AND SUBSIDIARIES

REPORT OF THE REMUNERATION COMMITTEE FOR THE YEAR ENDED 31 DECEMBER 2006

The policy of the Group is to offer competitive remuneration packages that will attract, retain and motivate experienced and talented individuals who will enhance the value of the Group. The remuneration packages of the executive directors are reviewed and approved by the Remuneration Committee on an annual basis. The remuneration of other employees is the responsibility of the CEO.

Remuneration of the directors

During the year to 31 December 2006, the executive directors are paid a basic salary. In addition, beginning October 2006 certain directors are also eligible for commission on cash generated from new licensing sales. Beginning in April 2006, certain directors are also eligible to receive cash bonuses subject to the Group achieving certain performance criteria, as established by the remuneration committee. These criteria were not met in 2006 and no bonuses were paid. Directors receive no benefits in kind.

The remuneration of non-executive directors is approved by the Board. Individual non-executives do not participate in decisions concerning their own remuneration.

.....
A.D. Love
Chairman of the Remuneration Committee

.....
Date

INCAGOLD PLC AND SUBSIDIARIES

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2006

The directors present their report and financial statements for the year ended 31 December 2006.

Principal activities and review of the business

The IncaGold Group is a publisher of casual computer games and the principal activity of the group continued to be that of the development and sale of computer software.

During the year to 31 December 2005 the company restructured its share capital and, through a Placing of 50 million ordinary shares of £0.00001 each on the Alternative Investment Market, raised capital of £1,500,000 before costs to be used in expanding the Group's activities. Further ordinary shares were issued during the year, details of which are set out in Note 15 to the financial statements.

As reported in Note 1 to the accounts, the Directors have prepared the financial statements on a going concern basis having given consideration to the future cash flows being derived from the restructured licensing business. Following the restructure, the Group has been successful in increasing licensing revenue in 2007. However this is still a new business model for the Group and there remains inherent uncertainty as to whether this revenue growth will remain sustainable at the levels required to ensure that the Group can remain within its facilities going forward. Whilst the Directors are cautiously optimistic that this strategy will be successful, results will need to be carefully monitored throughout 2007 to ensure that the business remains viable.

| Results and dividends | £ |
|----------------------------|------------------|
| Loss for the year | (727,927) |
| Dividends paid | - |
| Retained loss for the year | <u>(727,927)</u> |

It is proposed that the retained loss of £727,927 is transferred to reserves.

Directors and their interests in the shares of the company

The directors' interests at the year end and their interests in the shares of the company were as stated below:

| | Ordinary shares of 0.001p each | |
|------------|--------------------------------|----------------|
| | 31 December 2006 | 1 January 2006 |
| R M Holmes | 68,531,127 | 68,531,127 |
| K P Beard | - | - |
| J Brett | - | - |
| A D Love | - | - |
| J G Martin | 2,033,334 | 2,033,334 |
| R D Jordan | 476,190 | - |

Auditors

Shimmin Wilson & Co. were appointed auditors to the company and in accordance with section 13 of the Companies Act 1982, a resolution proposing that they be reappointed will be put to the Annual General Meeting.

INCAGOLD PLC AND SUBSIDIARIES

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2006

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the company's state of affairs at the end of the year and of its profit or loss for that period.

In preparing these financial statements the directors are required to :

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to assume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Acts 1931 to 2004. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud.

On behalf of the board

.....
R.M. Holmes
Director

.....
Date

INCAGOLD PLC AND SUBSIDIARIES

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INCAGOLD PLC AND SUBSIDIARIES

We have audited the financial statements of INCAGOLD PLC AND SUBSIDIARIES on pages 8 to 23 for the year ended 31 December 2006. These financial statements have been prepared under the historical cost convention and the accounting policies set out herein.

This report is made solely to the company's members, as a body, in accordance with Section 15 of the Companies Act 1982. 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 the directors and auditors

As described in the statement of directors' responsibilities on page 1 the Group's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 are properly prepared in accordance with the Companies Act 1931 to 2004. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Group 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 transactions with the Group is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 judgements 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 which 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.

Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1.1 of the financial statements and in the Directors' Report concerning the uncertainty as to whether revenue growths from the restructured licensing business will remain at levels sufficient to ensure that the Group can remain within its banking facilities. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2006 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Acts 1931 to 2004.

.....
Shimmin Wilson & Co.
Chartered Accountants and Registered Auditors
13 - 15 Hope Street, Douglas, Isle of Man

.....
Date

INCAGOLD PLC AND SUBSIDIARIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2006

| | Notes | 2006 £ | 2005 £ | | |
|--|----------|-----------------------|-------------------------------|-----------------------|-------------------------------|
| Turnover | 2 | 259,313 | 239,126 | | |
| Cost of sales | | (195,944) | (181,187) | | |
| Gross profit | | 63,369 | 57,939 | | |
| Administrative expenses | | (793,892) | (550,799) | | |
| Operating loss | 3 | (730,523) | (492,860) | | |
| Goodwill written off | 3 | - | (100,000) | | |
| Loss on ordinary activities before interest | | (730,523) | (592,860) | | |
| Interest receivable | 4 | 8,399 | 18,293 | | |
| Loss on ordinary activities before taxation | | (722,124) | (574,567) | | |
| Tax on loss on ordinary activities | 6 | (5,803) | (4,780) | | |
| Loss on ordinary activities after taxation | | <u>(727,927)</u> | <u>(579,347)</u> | | |
| Earnings per share | | | | | |
| | | 2006 Basic | 2006 Fully Diluted | 2005 Basic | 2005 Fully Diluted |
| Basic earnings per share | | <u>(£0.0041)</u> | <u>(£0.0040)</u> | <u>(£0.0045)</u> | <u>(£0.0044)</u> |
| (Loss)/profit attributable to ordinary shareholders | | <u>(727,927)</u> | <u>(727,927)</u> | <u>(579,347)</u> | <u>(579,347)</u> |
| Weighted average of ordinary shares in issue in year | | <u>177,372,659</u> | <u>183,372,659</u> | <u>130,037,177</u> | <u>132,635,085</u> |

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.

INCAGOLD PLC AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2006

| | Notes | 2006 | | 2005 | |
|---|-------|------------------|--------------------|------------------|------------------|
| | | £ | £ | £ | £ |
| Fixed assets | | | | | |
| Intangible assets | 7 | | 141,048 | | 160,627 |
| Tangible assets | 9 | | 8,648 | | 10,564 |
| | | | <u>149,696</u> | | <u>171,191</u> |
| Current assets | | | | | |
| Stocks | 12 | 86,205 | | 52,728 | |
| Debtors | 13 | 238,688 | | 324,887 | |
| Cash at bank and in hand | | 1,509 | | 537,511 | |
| | | | <u>326,402</u> | <u>915,126</u> | |
| Creditors: amounts falling due within one year | 14 | <u>(217,006)</u> | | <u>(145,766)</u> | |
| Net current assets | | | <u>109,396</u> | | <u>769,360</u> |
| Total assets less current liabilities | | | <u>259,092</u> | | <u>940,551</u> |
| Capital and reserves | | | | | |
| Called up share capital | 15 | | 1,775 | | 1,765 |
| Share premium account | 15 | | 1,537,336 | | 1,490,879 |
| Profit and loss account | 16 | | <u>(1,280,019)</u> | | <u>(552,093)</u> |
| Shareholders' funds - equity interests | 17 | | <u>259,092</u> | | <u>940,551</u> |

The financial statements were approved by the Board on

.....
Director
R.M. Holmes

.....
Director
K.P Beard

INCAGOLD PLC AND SUBSIDIARIES

COMPANY BALANCE SHEET AS AT 31 DECEMBER 2006

| | Notes | 2006 | | 2005 | |
|---|-------|-----------|----------------|-----------|----------------|
| | | £ | £ | £ | £ |
| Fixed assets | | | | | |
| Intangible assets | 8 | | 151,821 | | 175,000 |
| Tangible assets | 10 | | 8,648 | | 10,028 |
| | | | <u>160,469</u> | | <u>185,028</u> |
| Investments in subsidiaries | 11 | | - | | - |
| | | | <u>160,469</u> | | <u>185,028</u> |
| Current assets | | | | | |
| Stocks | 12 | 86,205 | | 52,728 | |
| Debtors | 13 | 236,101 | | 322,057 | |
| Due from subsidiaries | | - | | - | |
| Cash at bank and in hand | | 1,509 | | 536,504 | |
| | | | <u>323,815</u> | | <u>911,289</u> |
| Creditors: amounts falling due within one year | 14 | (209,725) | | (138,197) | |
| Net current assets | | | <u>114,090</u> | | <u>773,092</u> |
| Total assets less current liabilities | | | <u>274,559</u> | | <u>958,120</u> |
| | | | | | |
| Called up share capital | 15 | | 1,775 | | 1,765 |
| Share premium account | 15 | | 1,537,336 | | 1,490,879 |
| Profit and loss account | | | (1,264,552) | | (534,524) |
| Shareholders' funds - equity interests | | | <u>274,559</u> | | <u>958,120</u> |

The financial statements were approved by the Board on

R.M. HOLMES
.....
Director

K.P. BEARD
.....
Director

INCAGOLD PLC AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

| | 2006 | | 2005 | |
|---|-----------|-----------|-----------|-----------|
| | £ | £ | £ | £ |
| Net cash outflow from operating activities | | (498,618) | | (595,120) |
| Returns on investments and servicing of finance | | | | |
| Interest received | 8,399 | | 18,293 | |
| Net cash inflow for returns on investments and servicing of finance | | 8,399 | | 18,293 |
| Taxation | | (5,803) | | (4,893) |
| Capital expenditure and financial investment | | | | |
| Payments to acquire tangible assets | (12,993) | | (14,541) | |
| Payments to acquire investments | (116,821) | | - | |
| Receipts from sales of tangible assets | 6,412 | | 1,512 | |
| Net cash outflow for capital expenditure | | (123,402) | | (13,029) |
| Net cash outflow before management of liquid resources and financing | | (619,424) | | (594,749) |
| Financing | | | | |
| New loans from directors | - | | | |
| Loans repaid to directors | - | | (31,190) | |
| Issue of ordinary share capital | 50,000 | | 1,160,143 | |
| Cost of share issue | (3,533) | | - | |
| Decrease in debt | - | | - | |
| Net cash inflow from financing | | 46,467 | | 1,128,953 |
| (Decrease)/increase in cash in the year | | (572,957) | | 534,204 |

INCAGOLD PLC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

| | | | | | |
|----------|---|-----------------------|-------------------|-------------------------------|-------------------------|
| 1 | Reconciliation of operating loss to net cash outflow from operating activities | | 2006 | 2005 | |
| | | | £ | £ | |
| | Operating loss | | (730,523) | (492,860) | |
| | Depreciation of tangible assets | | 8,498 | 24,575 | |
| | Amortisation of intangible assets | | 136,400 | 21,400 | |
| | Capitalisation of intangible fixed assets | | - | - | |
| | Goodwill arising on purchase of subsidiary | | - | - | |
| | (Increase)/decrease in stocks | | (33,477) | 648 | |
| | Decrease/(increase) in debtors | | 86,199 | (258,238) | |
| | Increase in creditors within one year | | 34,285 | 109,355 | |
| | | | <u> </u> | <u> </u> | |
| | Net cash outflow from operating activities | | (498,618) | (595,120) | |
| | | | <u> </u> | <u> </u> | |
| 2 | Analysis of net (debt)/funds | 1 January 2006 | Cash flow | Other non-cash changes | 31 December 2006 |
| | | £ | £ | £ | £ |
| | Net cash: | | | | |
| | Cash at bank and in hand | 537,511 | (536,002) | - | 1,509 |
| | Bank overdrafts | - | (36,955) | - | (36,955) |
| | | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| | | 537,511 | (572,957) | - | (35,446) |
| | | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| | Net funds/(debt) | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| | | 537,511 | (572,957) | - | (35,446) |
| | | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| 3 | Reconciliation of net cash flow to movement in net (debt)/funds | | 2006 | 2005 | |
| | | | £ | £ | |
| | (Decrease)/increase in cash in the year | | (572,957) | 534,204 | |
| | | | <u> </u> | <u> </u> | |
| | Movement in net (debt)/funds in the year | | (572,957) | 534,204 | |
| | Opening net funds | | 537,511 | 3,307 | |
| | | | <u> </u> | <u> </u> | |
| | Closing net (debt)/funds | | (35,446) | 537,511 | |
| | | | <u> </u> | <u> </u> | |

INCAGOLD PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

1 Accounting policies

The principal accounting policies, which have been consistently applied in the Group's financial information throughout the period under review, are as follows:

1.1 Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom and on the basis that the Group can continue as a going concern.

The Group meets its day to day working capital requirements through an overdraft facility which is repayable on demand. Having been unsuccessful in raising additional capital to fund the roll out of the Group's digital distribution business, the Group has needed to restructure as a lower cost base licensing only business. As a result the Group is using the full extent of its facilities.

The nature of the Group's business is such that there can be considerable unpredictable variation in the timing of revenues and cash inflows. Furthermore, having restructured the business as a licensing only operation, the forecasting of future revenue streams in which is now a new business model brings additional uncertainty. The directors have prepared projected cash flow information for the period ending 12 months from the date of their approval of these financial statements. On the basis of this cash flow information and discussions with the Group's bankers, the directors consider that the Group will continue to operate within the facility currently agreed and within that which they expect will be agreed on 6th December 2007, when the Group's bankers are due to consider renewing the facility for a further year.

However, the margin of facilities over requirements is not large and, inherently there can be no certainty in relation to these matters, especially giving regards to the volatility of future revenues. On this basis and having regard to the state of affairs of the Group at the date of approval of these financial statements, the directors consider it appropriate to prepare the financial statements on the going concern basis. The financial statements do not include any adjustments that would result from a withdrawal of the overdraft facility by the Group's bankers or lower than anticipated licensing revenues.

1.2 Basis of consolidation

The consolidated financial statements incorporate those of the company and its subsidiary undertakings. Subsidiaries acquired during the year are consolidated using the acquisition method and their results are incorporated from the date that control passes. The difference between the cost of acquisition of shares in the subsidiary and the fair value of the separable net assets acquired is capitalised and written off on a straight line basis over its estimated economic life. Provision is made for impairment. All financial statements are made up to 31 December 2006.

1.3 Turnover

Turnover represents the invoiced amount of sales, excluding value added tax and, in respect of boxed sales only, is net of a deduction of 25% as a provision against future returns.

1.4 Goodwill

Goodwill representing the difference between the purchase price compared with the fair value of net assets acquired is capitalised and written off evenly over the useful life of the assets or over a period of not more than twenty years as in the opinion of the directors this represents the maximum period over which the goodwill is effective.

INCAGOLD PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2006

1 Accounting policies (continued)

1.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation.

Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

| | |
|--------------------------------|--|
| Computer equipment | 33% of cost per annum on a straight line basis |
| Fixtures, fittings & equipment | 33% of cost per annum on a straight line basis |

1.6 Intangible fixed assets

Intangible fixed assets are valued at the cost incurred by the Group in acquiring the rights to the future economic benefits arising from these assets. An annual impairment is carried out by the directors to determine if the current realisable value of intangible assets is greater than their cost, with the carrying value being written down if the current realisable value is determined to be less than cost.

1.7 Stocks of boxed games and games in the course of development

Stocks of boxed games and games in the course of development are valued at the lower of cost and net realisable value. Cost represents all direct expenditure and an appropriate proportion of fixed and variable overheads.

1.8 Royalty payments

Where the company acquires games under licence, royalty payments may be payable on future sales under terms agreed with the vendor. In certain cases royalty payments may be made in advance of sales. Such payments will be carried forward on the balance sheet until the game is released or for a maximum of twelve months. When the game is released royalties arising on sales will be charged to the profit and loss account. Any remaining balances of advances which have not been fully covered by royalties payable on sales after twelve months will be reviewed and written off if necessary.

1.9 Foreign exchange translation

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling on a monthly basis at the average monthly rate applicable. Exchange differences are taken into the profit and loss account for the year.

INCAGOLD PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2006

2 Turnover

As set out in Accounting Policy 1.3, turnover is stated net of a provision in respect of future returns of boxed sales. This provision for the year to 31 December 2006 amounts to £47,478 (2005: £35,203).

The geographical analysis of the turnover is as follows:

| | Turnover | |
|-------------|----------------|----------------|
| | 2006 £ | 2005 £ |
| Europe | 203,154 | 184,647 |
| Australia | - | 1,380 |
| Asia | 19,907 | 31,132 |
| Middle East | 3,570 | - |
| N America | 14,907 | 16,349 |
| S America | 17,775 | 5,618 |
| | <u>259,313</u> | <u>239,126</u> |

The Group's gross profit and net assets are not divisible between different geographical sectors.

3 Operating loss

| | 2006 £ | 2005 £ |
|--|----------------|----------------|
| Operating loss is stated after charging: | | |
| Amortisation of intangible assets | 136,400 | 21,400 |
| Depreciation of tangible assets | 8,498 | 24,575 |
| Goodwill written off | (3,600) | 100,000 |
| Auditors' remuneration | 17,700 | 4,250 |
| Directors' emoluments and other benefits | 163,792 | 184,307 |
| | <u>163,792</u> | <u>184,307</u> |

The comparative figures above include goodwill amounting to £100,000 arising on the acquisition of GP MOB Limited, a wholly owned subsidiary which was acquired on 14 October 2005. The directors considered that this goodwill should be written off in the period in which it had been incurred.

4 Investment income

| | 2006 £ | 2005 £ |
|---------------|--------------|---------------|
| Bank interest | <u>8,399</u> | <u>18,293</u> |

INCAGOLD PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2006

5 Staff costs

| | Year ended 31 December 2006 £ | Year ended 31 December 2005 £ |
|---|-------------------------------------|-------------------------------------|
| Wages and salaries | 250,782 | 243,125 |
| Social security costs | 10,685 | 17,730 |
| | <u>261,467</u> | <u>260,855</u> |
| | | |
| The average number of persons (including directors) employed by the Group was: | 8 | 11 |
| | <u>8</u> | <u>11</u> |

Directors' emoluments

| | Year ended 31 December 2006 £ | Year ended 31 December 2005 £ |
|---|-------------------------------------|-------------------------------------|
| Total emoluments | <u>163,792</u> | <u>184,307</u> |
| | | |
| Details of highest paid director's emolument: Emoluments (excluding pension contributions) | <u>22,125</u> | <u>45,000</u> |

6 Taxation

The Group is subject to taxation on its taxable profits both in the Isle of Man and in Switzerland. Because of trading losses incurred to date, no provision is required for either current or deferred taxation in either location.

During the year the Group has paid taxation amounting to £5,803 (2005: £4,780) in respect of liabilities incurred in earlier years.

INCAGOLD PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2006

7 Intangible fixed assets - Group

| | Goodwill £ | Games portfolio £ | Technology £ | Total £ |
|-----------------------|-------------------|----------------------|-------------------|-------------------|
| Cost | | | | |
| At 1 January 2006 | (17,973) | 175,000 | - | 157,027 |
| Additions | - | - | 116,821 | 116,821 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| At 31 December 2006 | (17,973) | 175,000 | 116,821 | 273,848 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Amortisation | | | | |
| At 1 January 2006 | (3,600) | - | - | (3,600) |
| Charge for the year | (3,600) | 40,000 | 100,000 | 136,400 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| At 31 December 2006 | (7,200) | 40,000 | 100,000 | 132,800 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net book value | | | | |
| At 31 December 2006 | (10,773) | 135,000 | 16,821 | 141,048 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| At 31 December 2005 | (14,373) | 175,000 | - | 160,627 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

The negative goodwill on 1 January 2005 arose on the acquisition accounting of IncaGold GmbH, a wholly-owned subsidiary acquired on 13 December 2004. The fair value of the assets and liabilities of the Subsidiary on acquisition were the same as their carrying value. No profits, losses or cash flows arose within the Subsidiary between the date of acquisition and 31 December 2004.

Depreciation has been charged in full on technology relating to digital distribution which was acquired during the year but which, following the decision to focus on licensing, was subsequently considered to be irrecoverable.

8 Intangible fixed assets - Company

| | Games portfolio £ | Technology £ | Total £ |
|-----------------------|----------------------|-------------------|-------------------|
| Cost | | | |
| At 1 January 2006 | 200,000 | - | 200,000 |
| Additions | - | 116,821 | 116,821 |
| | <u> </u> | <u> </u> | <u> </u> |
| At 31 December 2006 | 200,000 | 116,821 | 316,821 |
| | <u> </u> | <u> </u> | <u> </u> |
| Amortisation | | | |
| At 1 January 2006 | 25,000 | - | 25,000 |
| Charge for the year | 40,000 | 100,000 | 140,000 |
| | <u> </u> | <u> </u> | <u> </u> |
| At 31 December 2006 | 65,000 | 100,000 | 165,000 |
| | <u> </u> | <u> </u> | <u> </u> |
| Net book value | | | |
| At 31 December 2006 | 135,000 | 16,821 | 151,821 |
| | <u> </u> | <u> </u> | <u> </u> |
| At 31 December 2005 | 175,000 | - | 175,000 |
| | <u> </u> | <u> </u> | <u> </u> |

INCAGOLD PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2006

9 Tangible fixed assets - Group

| | Fixtures, fittings & equipment £ | Computer software £ | Total £ |
|-----------------------|---|---------------------------|-------------|
| Cost | | | |
| At 1 January 2006 | 21,867 | 18,319 | 40,186 |
| Additions | 12,993 | - | 12,993 |
| Disposals | (9,036) | - | (9,036) |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 2006 | 25,824 | 18,319 | 44,143 |
| | <hr/> | <hr/> | <hr/> |
| Depreciation | | | |
| At 1 January 2006 | 11,303 | 18,319 | 29,622 |
| On disposals | (2,625) | - | (2,625) |
| Charge for the year | 8,498 | - | 8,498 |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 2006 | 17,176 | 18,319 | 35,495 |
| | <hr/> | <hr/> | <hr/> |
| Net book value | | | |
| At 31 December 2006 | 8,648 | - | 8,648 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| At 31 December 2005 | 10,564 | - | 10,564 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

10 Tangible fixed assets - Company

| | Fixtures, fittings & equipment £ | Computer software £ | Total £ |
|-----------------------|---|---------------------------|-------------|
| Cost | | | |
| At 1 January 2006 | 15,549 | 18,319 | 33,868 |
| Additions | 12,993 | - | 12,993 |
| Disposals | (9,036) | - | (9,036) |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 2006 | 19,506 | 18,319 | 37,825 |
| | <hr/> | <hr/> | <hr/> |
| Depreciation | | | |
| At 1 January 2006 | 5,521 | 18,319 | 23,840 |
| On disposals | (2,625) | - | (2,625) |
| Charge for the year | 7,962 | - | 7,962 |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 2006 | 10,858 | 18,319 | 29,177 |
| | <hr/> | <hr/> | <hr/> |
| Net book value | | | |
| At 31 December 2006 | 8,648 | - | 8,648 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| At 31 December 2005 | 10,028 | - | 10,028 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

INCAGOLD PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2006

11 Investments (company only)

| | Total £ |
|--|--------------------|
| Cost | |
| At 1 January 2006 | 109,090 |
| Disposal on dissolution of subsidiary | (100,000) |
| | <hr/> |
| At 31 December 2006 | 9,090 |
| | <hr/> |
| Provisions for diminution in value | |
| At 1 January 2006 | (109,090) |
| Write off provision on dissolution of subsidiary | 100,000 |
| | <hr/> |
| At 31 December 2006 | (9,090) |
| | <hr/> |
| Net book value | |
| At 31 December 2006 | - |
| | <hr/> <hr/> |
| At 31 December 2005 | - |
| | <hr/> <hr/> |

The company's investments comprise the entire issued share capital of IncaGold GmbH, a company incorporated in Switzerland and acquired on 13 December 2004 for £9,090, and GP MOB Limited ("GP MOB"), a company incorporated in the United Kingdom and acquired on 14 October 2005 for £100,000. Full provision was made for both investments in 2005. The assets of GP MOB were transferred to IncaGold PLC during 2005 and GP MOB was formally struck off the UK Company Register.

| 12 Stocks and work in progress | 2006 £ | 2005 £ |
|---------------------------------------|-------------------|-------------------|
| Group | | |
| Games in the course of development | 45,075 | 31,742 |
| Stock of boxed games | 41,130 | 20,986 |
| | <hr/> | <hr/> |
| | 86,205 | 52,728 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Company | | |
| Games in the course of development | 45,075 | 31,742 |
| Stock of boxed games | 41,130 | 20,986 |
| | <hr/> | <hr/> |
| | 86,205 | 52,728 |
| | <hr/> <hr/> | <hr/> <hr/> |

INCAGOLD PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2006

| 13 Debtors | 2006 | 2005 |
|---|-----------------------|-----------------------|
| | £ | £ |
| Group | | |
| Trade debtors | 92,445 | 174,584 |
| Other debtors | 120,662 | 80,262 |
| Prepayments and accrued income | 25,581 | 70,041 |
| | <u>238,688</u> | <u>324,887</u> |
| | <u><u>238,688</u></u> | <u><u>324,887</u></u> |
| Company | | |
| Trade debtors | 84,071 | 174,584 |
| Amounts owed by subsidiary undertakings | 13,257 | - |
| Other debtors | 120,662 | 80,262 |
| Prepayments and accrued income | 18,111 | 67,211 |
| | <u>236,101</u> | <u>322,057</u> |
| | <u><u>236,101</u></u> | <u><u>322,057</u></u> |

Within the comparative figures prepayments include an amount of £50,000 which was paid as the first instalment of a contract under which intellectual property rights relating to digital distribution technology have been acquired. The total purchase consideration was £250,000.

The contract was signed in December 2005 and finalised in January 2006. Under the terms of the agreement ordinary shares were issued in January 2006 at an issue price of £0.0525 each in respect of a further £50,000. The remaining balance of £150,000 is subject to certain conditions which, if fulfilled, will be satisfied by the issue of further ordinary shares at the same issue price of £0.0525 each.

INCAGOLD PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2006

| 14 Creditors: amounts falling due within one year | 2006 | 2005 |
|--|----------------|----------------|
| | £ | £ |
| Group | | |
| Bank loans and overdrafts | 36,955 | - |
| Trade creditors | 70,006 | 44,430 |
| Taxation and social security | 1,145 | 3,713 |
| Monies due to directors | 925 | 5,560 |
| Other creditors and accruals | 107,975 | 92,063 |
| | <u>217,006</u> | <u>145,766</u> |
| | | |
| Company | | |
| Bank loans and overdrafts | 38,669 | - |
| Trade creditors | 70,009 | 37,211 |
| Taxation and social security | 1,145 | 3,713 |
| Monies due to directors | 925 | 5,210 |
| Other creditors and accruals | 98,977 | 92,063 |
| | <u>209,725</u> | <u>138,197</u> |

Monies due to directors at the year end, as set out above, are in respect of expenses paid by directors on behalf of the company. Such monies will be repaid by the company in the normal course of business.

INCAGOLD PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2006

| | | |
|---|-------------------|-------------------|
| 15 Share capital and share premium - Group and Company | 2006 | 2005 |
| | £ | £ |
| Authorised | | |
| 250,000,000 ordinary shares of 0.001p each | 2,500 | 2,500 |
| | <u> </u> | <u> </u> |
| Allotted, called up and fully paid | | |
| 177,424,845 ordinary shares of 0.001p each | 1,775 | 1,765 |
| | <u> </u> | <u> </u> |

At 1 January 2005 the authorised share capital of the company comprised 2,000,000 ordinary shares at £0.00075 each. On 16 May 2005 the company passed a resolution to subdivide the share capital into 150,000,000 ordinary shares of £0.00001 each. On the same date the company resolved to increase its authorised share capital to £2,500 by the creation of 100,000,000 ordinary shares of £0.00001 each ranking pari passu for all purposes with the existing ordinary shares in the company.

During the year the company issued the following shares:-

| | No. shares | Share capital £ | Share premium £ |
|---------------------------------|-------------------|--------------------|--------------------|
| Issued to LogoOsk (see note 13) | 952,380 | 10 | 49,990 |
| | <u> </u> | <u> </u> | <u> </u> |

Share options

During 2005 Share Options were granted to the directors and employees set out below. The terms of the Options are that they must be exercised between 19 May 2006 and 19 May 2015 and the price shall be 3p per ordinary share.

| Option holder | Number of Shares Under Option |
|---------------|-------------------------------|
| A P Beatty | 1,700,000 |
| J G Martin | 1,040,000 |
| A D Love | 1,000,000 |
| C Korte | 1,000,000 |
| | <u> </u> |
| | <u>4,740,000</u> |

In addition Options over a further 1,260,000 shares were granted to three employees of the company under the same terms as above.

INCAGOLD PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2006

15 Share capital and share premium (continued)

| Share premium account | 2006 £ | 2005 £ |
|---|------------------|------------------|
| Balance on share premium account at 1 January | 1,490,879 | 51,975 |
| Premium on issues of shares | 49,990 | 1,841,402 |
| Costs of issues of shares | (3,533) | (402,498) |
| | <u>1,537,336</u> | <u>1,490,879</u> |

16 Statement of movements on profit and loss account

| | Profit and loss account £ |
|----------------------------|------------------------------------|
| Balance at 1 January 2006 | (552,092) |
| Retained loss for the year | (727,927) |
| | <u>(1,280,019)</u> |

17 Reconciliation of movements in shareholders' funds

| | 2006 £ | 2005 £ |
|--|------------------|----------------|
| Loss for the financial year | (727,926) | (579,347) |
| Proceeds from issue of shares | 50,000 | 1,440,143 |
| Cost of share issue written off to share premium account | (3,533) | - |
| | <u>(681,459)</u> | <u>860,796</u> |
| Net (depletion in)/addition to shareholders' funds | 940,551 | 79,755 |
| Opening shareholders' funds | <u>940,551</u> | <u>940,551</u> |
| Closing shareholders' funds | <u>259,092</u> | <u>940,551</u> |

18 Related party transactions

Control

There is no single controlling party.

Transactions with Related Parties

There were no transactions with related parties during the year.