

AFRICAN EAGLE RESOURCES PLC

Annual Report & Accounts 2003



AFRICAN EAGLE RESOURCES explores for and evaluates gold and other mineral resources in eastern and southern Africa.

We are passionate about our business and we have a wealth of experience in exploration and mining, excellent local knowledge of the region, a high-tech approach to exploration and an up-to-date understanding of the geology and economics of mineral deposits.

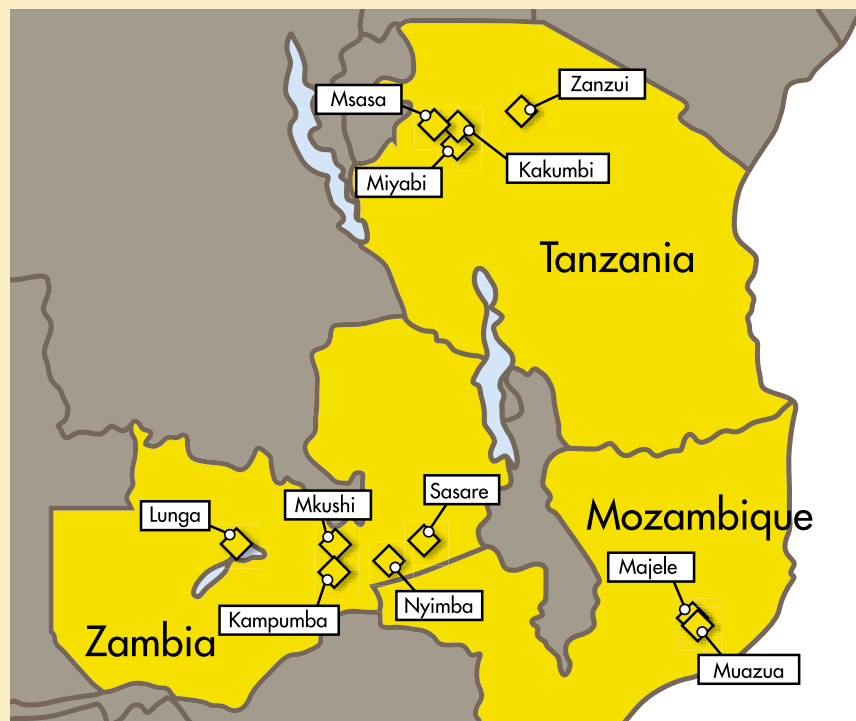
Our objective is to build asset value by using our strengths to discover and develop mineral deposits.

Year in Brief	1
Chairman's Statement	2
Review of Operations	4
Report of the Directors	6
Report of the Independent Auditors	7
Consolidated Profit & Loss Account	8
Consolidated Balance Sheet	9
Company Balance Sheet	10
Consolidated Cash Flow Statement	11
Accounting Policies	12
Notes to the Financial Statements	12
Notice of Annual General Meeting	22
Directors and Advisers	24

The Year in Brief

2003 was an exciting and momentous year for African Eagle, pivoting as it did on the Admission of its shares to trading on AIM of the London Stock Exchange in June. In equity placings at the time of our AIM listing and subsequently the Company has welcomed several new institutional investors onto its share Register and has raised more than £3 million of new equity in a market where, for the first time in many years, metal prices were rising and resources stocks in demand. During the year, African Eagle's exploration activity focused on the Company's gold project at Miyabi in Tanzania and its copper-gold (IOCG) discovery at Eagle Eye in Zambia.

- Admission to AIM
- Finance raised for exploration
- Steady progress at the Miyabi gold project in Tanzania
- Discovery of the Eagle Eye copper-gold (IOCG) deposit in Zambia
- Opening of an office in the City of London



Chairman's Statement

First sustained rise in metals prices for many years

Dear shareholder,

Our most significant corporate achievements of 2003 were the admission of African Eagle's shares to trading on AIM and the raising of new capital. At admission to AIM and since, the Company has welcomed several new institutional investors onto its share Register, raising almost £3.4 million. These funds are allowing the Company to make good progress on our key Miyabi and Eagle Eye projects, and to extend activities into other existing and new project areas.

Last year, especially the months following our AIM admission, saw the first sustained rise in metals prices for many years, fuelled for the most part by rising demand from China and a weak US dollar. Whilst we've since seen something of a correction to this rapid escalation in the prices of metals and shares, the future for explorers with quality projects remains a positive one.

Although rising prices have stimulated the listing of new exploration companies and the search for new sources of supply, the practical difficulties involved in finding new projects and bringing them on-stream mean that it is likely to be several years before a new market equilibrium is established.



With cash in the bank and a portfolio of promising projects in countries with under-explored mineral wealth, growing economies and relatively low political risk, your Company is well placed to take advantage of this period.

I am also pleased to report to you that the Company's new headquarters are now located in the City of London. Opened in March 2004, the Group's new office will allow the Company to maintain better contact with its investors and stakeholders, and to expand its UK-based technical capabilities and corporate relationships.

For reviews of all our projects and to see our news releases, please visit our web site at www.africaneagle.co.uk

Zambia

The exploration highlight of 2003 was our discovery of the Eagle Eye IOCG (iron-oxide-copper-gold) deposit on the Sasare licence in southeast Zambia. In the course of the year, Chris Davies, Dinis Napido and Boniface Lefayi, supported by a contract exploration team from GeoQuest, completed surface surveys over the target area and began a drill programme. The initial drilling results, which your executive Directors will expand on later in this report, were highly promising, and we are looking forward eagerly to re-starting drilling in June this year.

The mineralisation at Eagle Eye is very extensive and has many of the characteristics of IOCG deposits like Olympic Dam and Ernest Henry in Australia, Candelaria in Chile and Salobo in Brazil. While there are no guarantees in early stage mineral exploration, IOCG deposits can be very large.

Discovery of the Eagle Eye copper-gold deposit in southeast Zambia

With all the excitement at Eagle Eye, our other Zambian projects remained rather on the back-burner during 2003, but we have now recruited Clive Arthur as full-time exploration manager for Zambia to be based in Lusaka and we are planning airborne and surface surveys over Eagle Eye, the adjacent Sasare gold project and several other areas, notably Kampumba which contains promising copper-silver-gold mineralisation.

Tanzania

In Tanzania, we made steady progress on the Miyabi gold project. Because of the large area of the Miyabi Gold Corridor (7km x 2km), much of our exploration focused on tracking down the individual gold-bearing structures within it. The results of all our surface surveys and exploratory drilling were thoroughly reviewed by Mark Davey, revealing a number of new target structures which are now being tested by drilling.

As well as the work on the Miyabi Corridor, we have been exploring the rest of our 626 sq km holdings in the area, using airborne geophysical and multi-element soil geochemical surveys to identify other mineralised targets, and indeed these surveys have already revealed at least one significant new gold anomaly.



Our exploration partner at Miyabi, Gold Fields Limited, chose not to exercise its option to enter into a formal joint venture. African Eagle now retains the whole Miyabi project largely unencumbered and will continue its aggressive exploration there, focusing on resource definition. Gold Fields will remain a significant shareholder in African Eagle and will continue to monitor progress at Miyabi in that capacity. The directors believe that this demonstrates Gold Fields' belief that our exploration programme has the potential to uncover a significant gold resource.

Work has also progressed on our other Tanzanian holdings: our shear zone gold discoveries at Kakumbi and Msasa, and the nickel / platinum target at Zanzui. Tanzanian Exploration Manager John McDonald also negotiated options over seven new licences in the Lake Victoria Goldfield.

Mozambique

This year saw the introduction of Mozambique's new mining law, and our two licences have been converted to new-style 5-year holdings. We plan to carry out geochemical soil sampling over the Muazua nickel and Majele gold and base metals targets, with trenching and magnetic surveys to follow.

The African Eagle team is focused on delivering shareholder value. With funds available and a growing asset base of new and existing projects the future looks very exciting for your Company. I take this opportunity to thank the board and our management and advisors for their enthusiasm and motivation during the past year.

John Park
Chairman

Review of Operations

Potential to uncover a significant gold resource

Tanzania

Miyabi

Over the past two years, African Eagle has completed extensive geological, geochemical and geophysical surveys and carried out drilling programmes at Miyabi, especially over the major gold mineralised shear-zone complex which forms the 7km x 2km Miyabi Mineralised Corridor.

African Eagle's past drilling at Miyabi largely focused on structures being worked by local miners, with a view to establishing a geological model for the Corridor. A recent thorough review of all the data has revealed a number of other potentially mineralised targets and a drill programme started in May 2004 will test these and build up the gold resource inventory. The Company's geologists believe that there is potential for a gold resource of at least 1 million ounces to be discovered within the Corridor.

With African Eagle now holding more than 90% of the Miyabi project, the Company is well placed to add substantial value and plans to undertake the next phase of exploration utilising its own resources. For the longer term, several major mining groups have signed Confidentiality Agreements with the Company in relation to exploration

data and the future of the project.

African Eagle will keep potential industry partners informed as to progress with a view to maximising long term value through a joint venture approach to development.

African Eagle has also carried out geochemical and geophysical surveys over the whole 626 square kilometres under the Company's control around Miyabi. These surveys have revealed a significant new gold anomaly, confirming that gold targets exist beyond the main Corridor project area.

Zanzui

African Eagle holds a licence over the southern part of the Zanzui mafic complex, east of the Lake Victoria Goldfield, which has potential for nickel, platinum group metals and gold. In February 2004, the Company signed a joint exploration agreement with Shanta Mining Ltd, which holds options over the licences covering the northern part of the complex. First phase exploration is nearing completion at the time of preparation of this Annual Report.

Other Projects

Msasa and Kakumbi are shear hosted gold targets in the Lake Victoria Goldfield. The Company plans to drill at Msasa during 2004 and is negotiating a farm-in by another company at Kakumbi, which lies adjacent to the 750,000 ounce Nyakafuru deposit.

In line with its strategy of acquiring and cost effectively investigating areas with gold potential, the Company has recently signed 6-month option agreements with local Tanzanian partners over seven prospecting licences in the Lake Victoria Goldfield. If exercised, these options will grant the Group 90% holdings in the properties. Also in line with this strategy, the Group relinquished options over three prospecting licences that failed to meet the Company's exacting standards.



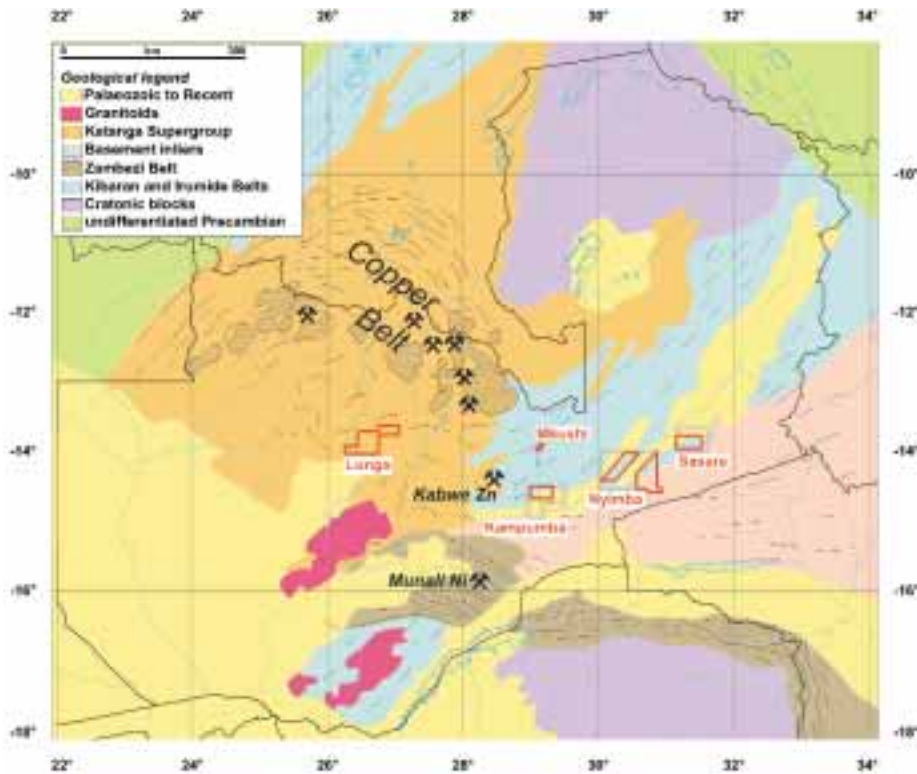


mineralisation at Mkushi, with the aim of extending the existing reported 30 million tonne resource, while at the Nyimba base metal project, the Company plans to conduct geological and geochemical mapping. The Company is also looking for joint venture partners for these projects.

Mozambique

The Company plans to carry out geological and geochemical surveys over the Muazua nickel project in Mozambique, followed by pitting and trenching. At Majele, multi-element geochemical soil sampling and ground magnetic surveys are planned to investigate the gold and sulphide mineralisation. If results are encouraging, drilling will follow.

In April 2004, Clive Arthur joined the Company as Exploration Manager responsible for operations in Zambia and Mozambique. Clive, who will be based in Lusaka, is an economic geologist with over twenty years experience, and his recruitment will enable the Company to progress its exploration at Eagle Eye and the other projects in Zambia and Mozambique.



Zambia

Eagle Eye

The Eagle Eye IOCG (iron-oxide-copper-gold) discovery lies within our Sasare licence in southeast Zambia. During 2003, the Company completed surface surveys over the target area and began drilling. The results were encouraging, demonstrating copper sulphides in the system and showing some impressive mineralised intersections. The drilling programme will recommence at the end of the rainy season, probably late May 2004. The Company also plans to extend its detailed geochemical survey to cover anomalies in the northeast and to conduct a high-resolution airborne geophysical survey over the whole licence area.

The licence also contains the old Sasare Gold Mine, which may be part of the IOCG system. The Company plans to drill the gold-bearing structure, which it believes to have potential as an open pit low-grade high-tonnage operation.

Kampumba

The Tandalwe Hill copper occurrence in Kampumba licence also shows certain IOCG characteristics, and lies on the same crustal-scale Mwembeshi shear zone as Eagle Eye. The Company will fly an airborne geophysical survey and conduct geochemical surveys during 2004, with a view to drilling before the end of the year if results are encouraging.

Lunga

The Lunga licence is prospective for base metal deposits. The Company has contracted an airborne geophysical survey during 2004, to provide a better understanding of the structural controls on mineralisation and to define targets for further drilling. Now that Avmin has relinquished its option over the property, the Company will seek another joint venture partner.

Other projects

African Eagle will commission a geophysical IP survey over the copper

Report of the Directors

The Directors present their report together with the audited financial statements for the year ended 31 December 2003.

Principal activities

The Group's principal activity is mineral exploration.

Business review

A review of the Group's trading during the year is contained in the Chairman's Statement and Review of Operations on Pages 2 to 5.

There was a Group loss after taxation for the year of £365,084 (2002: £522,468).

The Directors do not recommend the payment of a dividend.

Directors

The Directors in office at the end of the year are listed below. Geoffrey Cooper was appointed on 13 October 2003, in place of Herman Oehl who resigned with effect from 5 December 2003.

The interests of the Directors and their families in the shares of the Company at 1 January 2003 and 31 December 2003 were as follows.

	As at 31 December 2003			As at 1 January 2003		
	Ordinary Shares	Warrants	Options	Ordinary Shares	Warrants	Options
John Park	3,508,467	4,171,134	635,000	3,108,467	4,171,134	285,000
Mark Parker	2,256,087	2,424,420	703,000	2,086,087	2,424,420	335,000
Chris Davies	266,667	–	710,000	199,667	191,667	360,000
Euan Worthington	225,000	–	585,000	75,000	75,000	235,000
Geoffrey Cooper	669,300	423,300	–	669,300	423,300	–

Directors' responsibilities for the financial statements

Company law in the United Kingdom requires the Directors to prepare financial statements and the Annual Report for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those 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
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Payment policy and practice

It is the Group's normal practice to settle the terms of payment when agreeing the terms of the transaction, to ensure that suppliers are aware of those terms, and to abide by them. There were no trade creditors at the year end.

Auditors

Grant Thornton offer themselves for reappointment as auditors in accordance with Section 385 of the Companies Act 1985.

On behalf of the Board

M Parker

Director 1 June 2004

Report of the Independent Auditors

To the members of African Eagle Resources plc

We have audited the financial statements of African Eagle Resources plc for the year ended 31 December 2003 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the balance sheets, the consolidated cash flow statement and notes 1 to 22. These 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 the Directors and auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with United Kingdom law and accounting standards 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 United Kingdom Auditing Standards.

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 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if 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 transactions with the Group is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' report, the chairman's statement and the review of operations. 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 opinion

We conducted our audit in accordance with United Kingdom Auditing Standards 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 Group'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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the Group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton

Registered Auditors
Chartered Accountants

Southampton
1 June 2004

Consolidated Profit and Loss Account

For the year ended 31 December 2003

	Note	2003 £	2002 £
Administrative expenses		(378,321)	(528,118)
Interest receivable and similar income		13,237	5,650
Loss on ordinary activities before taxation	2	(365,084)	(522,468)
Tax on loss on ordinary activities	5	-	-
Loss for the financial year	6	(365,084)	(522,468)
Loss per share (pence)	7	(0.9p)	(2.0p)

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 December 2003

	2003 £	2002 £
Loss for the financial year	(365,084)	(522,468)
Currency differences on foreign currency net investments	(73,361)	(66,517)
Total recognised gains and losses	(438,445)	(588,985)

The accompanying notes form an integral part of these financial statements.

Consolidated Balance Sheet

At 31 December 2003

	Note	2003 £	2003 £	2002 £	2002 £
Fixed assets					
Intangible assets	8				
– Goodwill			239,378		305,973
– Other			1,759,644		1,029,517
			1,999,022		1,335,490
Tangible assets	9		55,678		9,364
Investments	10		13,591		13,591
			2,068,291		1,358,445
Current assets					
Debtors	11	24,311		21,976	
Cash at bank and in hand		2,426,474		222,420	
		2,450,785		244,396	
Creditors: amounts falling due within one year	12	(68,508)		(98,894)	
Net current assets			2,382,277		145,502
Total assets less current liabilities			4,450,568		1,503,947
Capital and reserves					
Called up share capital	13		756,895		296,318
Share premium account	14		4,393,848		1,469,359
Other reserves	15		705,723		705,723
Profit and loss account	16		(1,405,898)		(967,453)
Shareholders' funds	17		4,450,568		1,503,947

The financial statements were approved by the Board of Directors on 1 June 2004

M Parker
Director

The accompanying notes form an integral part of these financial statements.

Company Balance Sheet

At 31 December 2003

	Note	2003 £	2003 £	2002 £	2002 £
Fixed assets					
Tangible assets	9		586		880
Investments	10		99,705		99,705
			<u>100,291</u>		<u>100,585</u>
Current assets					
Debtors	11	2,362,338		1,280,864	
Cash at bank and in hand		2,370,331		193,922	
		<u>4,732,669</u>		<u>1,474,786</u>	
Creditors: amounts falling due within one year	12	<u>(36,192)</u>		<u>(48,339)</u>	
Net current assets			<u>4,696,477</u>		<u>1,426,447</u>
Total assets less current liabilities			<u>4,796,768</u>		<u>1,527,032</u>
Capital and reserves					
Called up share capital	13		756,895		296,318
Share premium account	14		4,393,848		1,469,359
Profit and loss account	16		(353,975)		(238,645)
Shareholders' funds			<u>4,796,768</u>		<u>1,527,032</u>

The financial statements were approved by the Board of Directors on 1 June 2004

M Parker
Director

The accompanying notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2003

	Note	2003 £	2003 £	2002 £	2002 £
Net cash outflow before financing	18		(329,236)		(230,753)
Returns on investments and servicing of finance					
Interest received			13,237		5,650
Capital expenditure and financial investment					
Purchase of intangible fixed assets		(808,873)		(362,761)	
Purchase of tangible fixed assets		(53,585)		(1,174)	
Net cash outflow from capital expenditure and financial investment			(862,458)		(363,935)
Movement in liquid resources					
Funds placed on deposit			(2,007,826)		–
Financing					
Issue of shares		3,821,444		749,198	
Share issue costs		(436,378)		(12,764)	
Net cash inflow from financing			3,385,066		736,434
Increase in cash	19		198,783		147,396

Notes to the Financial Statements

For the year ended 31 December 2003

1 Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards and the Statement of Recommended Practice "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities" revised in June 2001 (the SORP).

The principal accounting policies have remained unchanged from the previous year. The policies, which have been reviewed by the Directors in the light of FRS 18 and are considered to remain the most appropriate to the Group's circumstances, are set out below.

Basis of consolidation

The Group financial statements consolidate those of the Company and its subsidiary undertakings drawn up to 31 December 2003.

The acquisition of African Eagle Resources Limited and its subsidiary in 2002 was accounted for using the acquisition method of accounting. The Company took advantage of the merger relief provisions of section 131 of the Companies Act 1985 to record the shares issued in connection with the acquisition at their nominal value.

The combination of the Company with Twigg Resources Limited and its subsidiaries in 2000 was accounted for using merger accounting as applicable to group reconstructions.

Profits or losses on intra group transactions are eliminated on consolidation.

Turnover

Turnover is the total amount receivable by the Group for goods supplied and services provided, excluding VAT and trade discounts.

Depreciation

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets over their expected useful lives. The rates generally applicable are:

Motor vehicles	25%
Fixtures and fittings	25%

Exploration and development costs

In accordance with the full cost method as set out in the SORP, expenditure including directly attributable overheads on the acquisition, exploration and evaluation of interests in licences not yet transferred to a cost pool is capitalised under intangible assets. Cost pools are established on the basis of geographic area. When it is determined that such costs will be recouped through successful development and exploitation or alternatively by sale of the interest, expenditure will be transferred to tangible assets and depreciated over the expected productive life of the asset. Whenever a project is considered no longer viable the associated exploration expenditure is written off to the profit and loss account.

Investments

Investments are included at cost less amounts written off.

Intangible fixed assets

Purchased goodwill is amortised on a straight line basis over its estimated useful economic life of 10 years.

Notes to the Financial Statements

For the year ended 31 December 2003

1 Accounting policies – continued

Goodwill arising on consolidation, representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired, is capitalised and is amortised on a straight line basis over its estimated useful economic life of 5 years.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the Group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Financial instruments

The Group uses financial instruments to manage exposures to fluctuations in interest rates.

Financial assets are recognised in the balance sheet at the lower of cost and net realisable value. Provision is made for diminution in value where appropriate.

Interest receivable and payable is accrued and credited/charged to the profit and loss account in the period to which it relates.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. The financial statements of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are taken directly to reserves. All other exchange differences are dealt with through the profit and loss account.

Liquid resources

Liquid resources comprise cash on short term deposit at not less than 24 hours notice.

2 Loss on ordinary activities before taxation

The loss on ordinary activities before taxation is stated after:

	2003 £	2002 £
Depreciation and amortisation:		
Goodwill	66,595	27,000
Tangible fixed assets	6,797	5,059
Project costs written off	4,744	322,443
Foreign exchange differences	45,964	5,593
Auditors' remuneration:		
– Audit services	10,000	7,500
– Non-audit services: tax compliance	950	500
– Non-audit services: tax advisory	2,198	1,100
– Non-audit services: preparation for AIM admission	–	33,000

In addition to the above, fees of £18,200 paid during the year to the auditors for non-audit services in respect of the Company's AIM listing have been charged to the share premium account.

Notes to the Financial Statements

For the year ended 31 December 2003

3 Segmental analysis

The loss for the financial year and net assets of the Group are attributable to the following geographical segments:

	Loss for the financial year		2003 £	Net assets 2002 £
	2003 £	2002 £		
United Kingdom	(174,903)	(162,067)	2,620,537	484,065
Tanzania	(9,021)	(328,328)	1,205,309	611,970
Mozambique	–	–	338,927	306,725
Zambia	(181,160)	(32,073)	285,795	101,187
	(365,084)	(522,468)	4,450,568	1,503,947

4 Directors and employees

Staff costs during the year were as follows:

	2003 £	2002 £
Wages and salaries	160,030	133,400
Social security costs	14,293	11,099
	174,323	144,499

The average number of employees during year was seven (2002: seven).

Remuneration in respect of Directors was as follows:

	2003 £	2002 £
Emoluments	119,435	101,000
Gains on exercise of share options	2,931	–
	122,366	101,000

None of the Directors participate in Company pension schemes.

Notes to the Financial Statements

For the year ended 31 December 2003

5 Tax on loss on ordinary activities

	2003 £	2002 £
Loss for the year multiplied by standard rate of UK corporation tax 30%	(109,525)	(156,740)
Expenses not deductible for tax purposes	33,860	25,910
Capital allowances for the period in excess of depreciation	(2,290)	(740)
Increase in UK tax losses	39,980	77,245
African losses at 30%	37,975	54,325
Tax charge	-	-
Unrecognised deferred tax asset:		
UK tax losses	212,448	172,468
Depreciation in excess of capital allowances	2,279	4,569
	214,727	177,037

The deferred tax asset would be recoverable if taxable profits were generated.

6 Loss for the financial year

The Company has taken advantage of Section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The Company loss for the year was £115,330 (2002: £133,931).

7 Loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary shareholders £365,084 (2002: £522,468) divided by the weighted average number of shares in issue during the year 41,069,155 (2002: 25,924,803). There is no dilutive effect of share options on the basic loss per share.

Notes to the Financial Statements

For the year ended 31 December 2003

8 Intangible fixed assets				
The Group	Goodwill on consolidation £	Purchased goodwill £	Deferred exploration costs £	Total £
Cost				
At 1 January 2003	317,973	30,000	1,029,517	1,377,490
Foreign currency exchange differences	–	–	(74,002)	(74,002)
Additions	–	–	808,873	808,873
Project costs written off	–	–	(4,744)	(4,744)
At 31 December 2003	317,973	30,000	1,759,644	2,107,617
Amortisation				
At 1 January 2003	24,000	18,000	–	42,000
Charge for the year	63,595	3,000	–	66,595
At 31 December 2003	87,595	21,000	–	108,595
Net book amount at 31 December 2003	230,378	9,000	1,759,644	1,999,022
Net book amount at 31 December 2002	293,973	12,000	1,029,517	1,335,490

9 Tangible Fixed Assets			
The Group	Motor Vehicles £	Fixtures and fittings £	Total £
Cost			
At 1 January 2003	50,614	10,829	61,443
Foreign currency exchange differences	(474)	–	(474)
Additions	34,598	18,987	53,585
At 31 December 2003	84,738	29,816	114,554
Depreciation			
At 1 January 2003	42,763	9,316	52,079
Charge for the year	4,439	2,358	6,797
At 31 December 2003	47,202	11,674	58,876
Net book amount at 31 December 2003	37,536	18,142	55,678
Net book amount at 31 December 2002	7,852	1,512	9,364

The Company	Fixtures and fittings £
Cost	
At 1 January 2003 and at 31 December 2003	1,174
Depreciation	
At 1 January 2003	294
Charge for the year	294
At 31 December 2003	588
Net book amount at 31 December 2003	586
Net book amount at 31 December 2002	880

Notes to the Financial Statements

For the year ended 31 December 2003

10 Investments

	Shares in group undertakings £	Other investments (listed) £	Total £
The Group			
Cost			
At 1 January 2003 and at 31 December 2003	–	13,591	13,591
The Company			
Cost			
At 1 January 2003 and at 31 December 2003	99,705	–	99,705

The market value of the listed investments was £4,269 (2002: £876).

At 31 December 2003 the Group held more than 20% of the equity share capital of the following undertakings:

	Country of registration or incorporation	Class of share capital held	Proportion held		Nature of business
			By the Company	By the Group	
Twigg Resources Limited	England & Wales	Ordinary	100%		Mining exploration
Katanga Resources Limited	Zambia	Ordinary		100%	Mining exploration
Twigg Gold Limited	Tanzania	Ordinary		90%*	Mining exploration
Twigg Minerals Limited	Tanzania	Ordinary		90%*	Dormant

* The remaining 10% of the issued share capital is held by Mr M E Parker as the Group's nominee.

11 Debtors

	The Group 2003 £	The Group 2002 £	The Company 2003 £	The Company 2002 £
Amounts owed by Group undertakings	–	–	2,356,956	1,264,991
Other debtors	24,311	21,976	5,382	15,873
	24,311	21,976	2,362,338	1,280,864

Notes to the Financial Statements

For the year ended 31 December 2003

12 Creditors: amounts falling due within one year

	The Group 2003 £	The Group 2002 £	The Company 2003 £	The Company 2002 £
Social security and other taxes	7,726	4,697	7,726	4,697
Other creditors	41,154	53,073	19,966	37,967
Accruals and deferred income	19,628	41,124	8,500	5,675
	68,508	98,894	36,192	48,339

13 Share capital

	2003 £	2002 £
Authorised 2,000,000 (2002: 1,000,000) ordinary shares of 1p each	2,000,000	1,000,000
Allotted, called up and fully paid 75,689,568 (2002: 29,631,775) ordinary shares of 1p each	756,895	296,318

During the year the Company allotted shares with an aggregate nominal value of £460,577 as follows:

Nature of consideration	Price per share	Number	Share capital £	Share premium £
Cash (on exercise of warrants)	6p	255,000	2,550	12,750
Cash (on exercise of warrants)	8p	35,000	350	2,450
Cash (share placing on admission to AIM)	6p	24,330,733	243,307	1,216,537
Cash (share placing)	6.25p	336,000	3,360	17,640
Cash (share placing)	7p	1,065,000	10,650	63,900
Cash (share placing)	8p	10,000,000	100,000	700,000
Cash (share placing)	10p	3,200,000	32,000	288,000
Cash (share placing)	16.5p	6,836,060	68,360	1,059,589
		46,057,793	460,577	3,360,866

Notes to the Financial Statements

For the year ended 31 December 2003

13 Share capital – continued

The Company has granted options and warrants to subscribe for shares as follows:

	Exercise price	At 1 January 2003	Granted in the year	Exercised or lapsed in the year	At 31 December 2003
Warrants expiring 31 March 2003	20p	200,000	–	(200,000)	
Warrants expiring 31 August 2003	20p	1,354,167	–	(1,354,167)	
Warrants expiring 31 March 2005	6p	17,779,168	–	(255,000)	17,524,168
Warrants expiring 31 March 2005	16.9p	3,703,703	–	–	3,703,703
Warrants expiring 31 March 2005	40p	7,470,540	–	–	7,470,540
Warrants expiring 30 September 2005	11p	–	10,000,000	–	10,000,000
Warrants expiring 31 March 2006	11p	–	1,600,000	–	1,600,000
Warrants expiring 26 June 2006	6p	–	1,250,000	–	1,250,000
Options (26 July 2001 to 26 July 2006)	16p	1,780,000	–	–	1,780,000
Options (15 Feb 2002 to 15 Feb 2007)	8p	323,000	–	(35,000)	288,000
Options (2 May 2003 to 2 May 2008)	8p	–	810,000	–	810,000
Options (1 Oct 2003 to 1 Oct 2008)	11p	–	1,500,000	–	1,500,000
		32,610,578	15,160,000	(1,844,167)	45,926,411

The highest and lowest prices of the Company's shares during the year were 20.75p and 6.25p respectively and the share price at the year end was 17.5p.

14 Share premium account

	£
At 1 January 2003	1,469,359
On shares issued in the year	3,360,866
Expenses of share issues	(436,377)
At 31 December 2003	4,393,848

15 Other reserves

Merger reserve arising on business combinations in prior years

	Twigg Resources Limited £	African Eagle Resources Limited £	Total £
Net assets of subsidiary acquired	480,428	325,000	805,428
Nominal value of shares issued to acquire subsidiary	74,705	25,000	99,705
At 31 December 2003	405,723	300,000	705,723

Notes to the Financial Statements

For the year ended 31 December 2003

16 Profit and loss account

	The Group £	The Company £
At 1 January 2003	(967,453)	(238,645)
Loss for the financial year	(365,084)	(115,330)
Foreign exchange differences	(73,361)	–
At 31 December 2003	(1,405,898)	(353,975)

17 Reconciliation of movements in shareholders' funds

	2003 £	2002 £
At 1 January 2003	1,503,947	1,031,498
Issue of shares	3,385,066	761,434
Loss for the financial year	(365,084)	(522,468)
Other recognised gains and losses	(73,361)	(66,517)
Merger reserve arising on acquisition	–	300,000
At 31 December 2003	4,450,568	1,503,947

18 Net cash outflow from operating activities

	2003 £	2002 £
Operating loss	(378,321)	(528,118)
Depreciation and amortisation	73,392	32,059
Project costs written off	4,744	322,443
Increase in debtors	(2,944)	(9,620)
Decrease in creditors	(26,107)	(47,517)
Net cash outflow from continuing operating activities	(329,236)	(230,753)

19 Reconciliation of net cash flow to movement in net funds

	2003 £	2002 £
Increase in cash	198,783	147,396
Movement in liquid resources	2,007,826	–
Foreign exchange difference	(2,555)	–
Movement in net funds	2,204,054	147,396
Net funds at the beginning of the year	222,420	75,024
Net funds at the end of the year	2,426,474	222,420
Analysis of net funds:		
Liquid resources	2,007,826	–
Cash	373,353	222,420
	2,426,474	222,420

Notes to the Financial Statements

For the year ended 31 December 2003

20 Financial instruments

The Group uses financial instruments, other than derivatives, comprising short term deposits, cash, liquid resources and various items such as sundry debtors and creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are liquidity risk and currency risk. The Directors review and agree policies for managing these risks and these are summarised below.

Short term debtors and creditors have been excluded from all the following disclosures except currency risk.

Liquidity risk

The Group seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

Currency risk

The Group does not hedge its exposure of foreign investments held in foreign currencies. The Group is exposed to translation and transaction foreign exchange risk and takes profits or losses on these as they arise.

Borrowing facilities and interest rate risk

The Group finances its operations through the issue of equity share capital. There is no borrowing and therefore no exposure to interest rate fluctuations. The cash assets as analysed in Note 19 are on short term deposit at variable rates of interest. These deposits are kept under regular review, with reference to future expenditure requirements, to maximise interest receivable.

Fair values

The fair values of the Group's financial instruments are considered equal to the book value.

21 Capital commitments

The Group had no capital commitments at 31 December 2003 or 31 December 2002.

22 Contingent liabilities

The Group had no contingent liabilities at 31 December 2003 or 31 December 2002.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at the Company's offices at 2nd Floor, 6-7 Queen Street, London EC4 on 24 June 2004 at 2:00pm for the following purposes:

Ordinary business

1. To receive the annual report and financial statements for the year ended 31 December 2003
2. To re-elect Mr M E Parker who is retiring by rotation under the Articles of Association as a director of the Company
3. To re-elect Mr G W Cooper who is retiring in accordance with the Articles of Association as a director of the Company
4. To reappoint Grant Thornton as Auditors and to authorise the directors to fix their remuneration

Special business

To consider and if thought fit to pass the following resolutions:

Ordinary Resolution

5. THAT the directors be generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 ("the Act") to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80(2) of the Act), up to an aggregate nominal amount of the authorised but unissued share capital of the Company. The authority will expire on the date of the Company's next Annual General meeting (or if sooner the expiry of 15 months after the passing of this Resolution) except as regards an allotment made pursuant to an offer or agreement made by the Company before such date, such authority to be in substitution for all existing authorities granted to the directors in respect of the allotment of relevant securities.

Special Resolutions

6. THAT new Articles of Association in the form produced to the meeting be and are hereby adopted in complete substitution for the existing Articles of Association
7. THAT the directors be empowered pursuant to Section 95 of the Companies Act 1985 ("the Act") to allot and to make offers or agreements to allot equity securities (as defined by Section 94(2) of the Act) for cash, pursuant to the authority conferred by Resolution 5 above, as if section 89(1) of the Act did not apply to any such allotment, provided that such power is limited to:
 - (i) allotment of equity securities up to the nominal amount of the authorised but unissued share capital of the Company from time to time; and
 - (ii) the allotment of equity securities in connection with any offer by way of rights in favour of the holders of ordinary shares in the Company where the equity securities respectively be attributed to the interests of the ordinary shareholders proportionate to the respective numbers of ordinary shares held by them subject to only such exclusions or other arrangements as the directors deem necessary or expedient to deal with fractional entitlement, legal or practical problems arising in any overseas territory or the requirements of any regulatory body or Stock Exchange.

Such power (unless previously revoked, varied or renewed) to expire at the conclusion of the Annual General Meeting to be held in 2005, (or if sooner the expiry of 15 months after the passing of the 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 pursuant to any such offer or agreement as if the power conferred thereby had not expired.

Notice of Annual General Meeting

The following special business will be conducted at the meeting:

1. Adoption of new Articles of Association
The Company conducted a full review of its constitution in the light of recent legislation, best practice in corporate governance and technological advances, and with advice from its solicitors, determined that the existing Articles should be replaced in their entirety.

Copies of the proposed new Articles are posted on the Company's web site and will be available for inspection at the Company's offices during normal business hours.

2. Authority to allot shares
An Ordinary Resolution (No 5 in the Notice of the Annual General Meeting) and a Special Resolution (no 7 in the Notice) will be proposed to empower the directors to issue and allot shares up to the nominal but unissued share capital of the Company.

The proposed power will expire on the date of the next AGM or 15 months from the date of approval of the Resolutions, whichever is sooner.

By order of the Board

Mark Parker

Company Secretary

Registered Office:

2nd Floor

6-7 Queen Street

London

EC4N 1SP

1 June 2004

Notes:

1. Any member of the Company entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company. A proxy need not preclude a member of the Company from attending and voting at the above meeting if he so desires. To be valid, any appointments of proxies must be deposited at the registered office of the Company no later than 48 hours before the time at which the meeting is scheduled to commence.
2. The following information, which is available for inspection during normal business hours at the registered office of the Company on any weekday (Saturdays and public holidays excepted) from the date of this notice until the date of the General Meeting, will also be available for inspection at the place of the General Meeting for a period of 15 minutes prior to the meeting and until the conclusion of the meeting:
 - Register of interests of directors in the share capital of the Company;
 - Copies of service contracts of directors of the Company.
3. Pursuant to Regulation 34 of the Uncertificated Securities Regulations 2001 the Company specifies that only those shareholders registered at 2:00pm on 22 June 2004 shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their names at that time. Changes to entries on the Register of Members after 2:00pm on 22 June 2004 will be disregarded in determining the rights of any person to attend or vote at the meeting.

Directors

John Park (Chairman)
Mark Parker (Managing Director)
Christopher Davies (Operations Director)
Euan Worthington (Non-executive Director)
Geoffrey Cooper (Non-executive Director)

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Tanzanian Office

Twigg Gold Ltd
PO Box 1866, Mwanza, Tanzania

Zambian Office

Katanga Resources Limited
Grant Thornton Associates, Mukuba Pension House, Dedan Kimathi Road
PO Box 30885, Lusaka, Zambia

Nominated Adviser (AIM)

Nabarro Wells & Co Limited
Saddlers House, Gutter Lane, London EC2V 6HS
www.nabarro-wells.co.uk

Broker

Durlacher Ltd
4 Chiswell Street, London EC1Y 4UP
www.durlacher.com

Auditors and Accountants

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31 Carlton Crescent, Southampton, SO15 2EW
www.gtuk.com

Solicitors

Cobbetts
Ship Canal House, King Street, Manchester M2 4WB
www.cobbetts.co.uk

Registrars

Capita Registrars
Shareholder Services, 34 Beckenham Road, Beckenham, Kent BR3 4TU
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