



African Eagle
Resources plc

Consolidated Interim
Financial Statements
30 June 2007

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Chairman's Statement

Highlights so far in 2007

- £7.4M raised on Alt^x listing in Johannesburg in August
- Progress to pre-feasibility at Mkushi and delineation of new high-grade L-Zone
- Partnership signed with Randgold on Miyabi and drilling already well advanced
- Ndola Copperbelt project advancing positively in partnership with Phelps Dodge
- Phase-1 drilling completed to test Kampumba (Tandalwe Hill) oxide copper zone
- Formal resource estimate at Eagle Eye (Mweze) and new drill targets identified
- Drilling to commence shortly at Dutwa, Igurubi and new Rupa projects in Tanzania
- Uranium division established to drive forward significant project assets
- Alliance with Troll Mining on uranium, copper and gold projects in southern Tanzania
- Mokambo South licence granted in the Zambian Copperbelt

Statement by John Park, African Eagle's Chairman:

Dear shareholder,

This has been an active and successful period for your Company, culminating in our share listing on the Johannesburg Alt^x exchange at the end of August.

The Company's strategy of focusing on making discoveries, maintaining a diverse exploration portfolio and signing up partners to ensure timely development of our advanced projects, has proved to be extremely successful.

African Eagle and its partners have made excellent progress on many of our projects and I believe that we are well on track to our goal of holding significant interests in several revenue-generating mines within three to five years.

Corporate

The Company's ground-breaking secondary listing of its shares on the Johannesburg Alt^x exchange with a R88 million placing to South African investors, together with a further £1.1 million raised in the UK, must rate as a remarkable corporate success.

We are proud to have notched up some important Alt^x firsts:

- we are the first AIM-listed resource company without South African assets or previous South African connections to list on Alt^x;
- we are the first AIM company to raise capital through a secondary Alt^x listing; and
- this is the biggest capital-raising on Alt^x to date by an exploration and development company.

The South African market's understanding of mining and Africa together with its current appetite for exploration, coupled with the relative ease of meeting Alt^x's listing requirements, ranked high amongst African Eagle's reasons for choosing Alt^x over other markets.

African Eagle now has 22% of its shares on its South African register and we believe that altogether, about 30% of its shares are South African managed. The capital we raised means that African Eagle's exploration programme will be fully funded for at least the next 24 months, and together with JV partners' funding commitments, the Company will have enough capital to bring most of its key projects to the feasibility stage.

Additional good news for our UK based private investors is that Her Majesty's Revenue and Customs have confirmed to us that they now do not consider Alt^x to be a "recognised exchange" for UK tax purposes. This ruling means that the Company's dual listing does not disturb the beneficial tax status granted to AIM-listed shares in the UK.

Strategy

The period has seen the further development of the Company's strategy and business model, namely to continue to focus on exploration, making discoveries and maintaining a diverse exploration portfolio, while signing up partners with the engineering and mining skills and capital to ensure timely development of our advanced projects.

The signature in May of our deal bringing Randgold Resources into the Miyabi Gold Project is a major step along this path. Randgold has a record of exploration and development success, notably the Morila and Yalea gold mines in Mali, and Tongon in Côte d'Ivoire. Randgold began work at Miyabi almost as soon as the agreement was signed and it has now almost completed its phase-1 drilling programme.

The Company's establishment of a Uranium Division was another significant step during the period. There are 8 projects which have uranium potential, with targets including calcrete and playa type deposits in Neogene to recent sediments, sandstone hosted deposits of Karoo and Cretaceous ages and vein deposits in crystalline basement rocks. The portfolio includes 11 licences and 8 applications, with a total area of some 13,000 square kilometres.

There are listed uranium exploration companies with far fewer and less promising assets than these. In order to optimise value to shareholders, the Company has been investigating a number of alternative ways to develop these uranium licences, including exploring them in-house, joint venturing with a uranium specialist company, or developing them in a new listed subsidiary.

Our strategic alliance with a Tanzanian company Troll Mining, signed in May gives African Eagle a majority interest in a portfolio of promising uranium, gold and copper prospects.

In Mozambique, we established a local company for our exploration operations. We also signed a farm-out agreement with Pan African Mining Corp for the exploration of the Fingoe area of northwest Mozambique.

Research Note

A Research Note on the Company was recently written by Loeb Aron & Company Ltd, and we have made this available for download from our web site.

The Note concludes that "African Eagle combines the potential of grassroots exploration plays with a number of less speculative resource definition and development projects being carried forward by partners. A 'by parts' market valuation, carried out on a reasonably conservative basis, suggests a present day market value of 24.7p per share. Our 12-month target, based on outcomes of reasonably high

probability, is 30.7p per share. African Eagle is now well funded, active and likely to be increasingly news generative”.

The Note supports the Company’s contention that it is now in a very strong position, with several advanced projects progressing towards production decisions, resting on a firm foundation of earlier stage projects. The analysts vindicate African Eagle’s strategy of signing up industry partners to bring projects into production as quickly as possible.

The Note may be viewed at www.africaneagle.co.uk/investors/LoebNoteSept07.pdf

Project Updates

Mkushi

Mkushi in Zambia is our nearest to production project and we hope to give the green light to development by the end of next year. The high resolution airborne geophysical survey carried out in Q1 showed geological and structural features in extraordinary detail and the soil geochemical survey revealed unexpected as well as predicted copper targets. Follow-up ground geophysical and additional geochemical surveys are underway to investigate these targets.

Drilling by our development partner CGA Mining revealed a new mineralised structure, now known as L-Zone, with intercepts up to 37m at 2.4% copper. CGA is on track to produce a pre-feasibility study in the coming weeks and is likely to announce a significant resource update, having increased the total drilling from 10,000m to more than 25,000m since entering the joint venture in July 2006. The metallurgical, environmental and mine planning work for the pre-feasibility study is also well advanced.

Ndola

The systematic exploration of our 450km² Ndola licence in Zambia is also progressing very well. Again, the high resolution airborne geophysical survey and the soil geochemical survey have given us important geological and structural insights, and with our partner Phelps Dodge (now part of Freeport-McMoRan) we have identified several promising copper targets. Drilling at Msindu, the first of these, intercepted significant copper mineralisation. Geophysical electromagnetic surveys are underway to help elucidate the complex structure in this area. Assay and drill results are currently being analysed and it is hoped these will be received shortly.

Miyabi

After Mkushi, Miyabi in Tanzania is our next most advanced project. As noted above, our development partners on the Miyabi Gold Project, Randgold Resources, mobilised a diamond drill rig very soon after signing the earn-in agreement in early May, and the phase one programme is now almost complete. This drilling was aimed principally at helping Randgold’s geologists to understand the shear zones and geological structures at Miyabi. Randgold has until May 2008 to elect to fund and perform the pre-feasibility to earn a 50% interest in the project. The Company is expecting the current gold resource of just over half a million ounces to increase, as there are many anomalies still to be drilled.

Eagle Eye

At our Eagle Eye project in Zambia the soil geochemical grid has been extended to cover almost all of the prospective area of the iron-oxide copper gold system. As part of its Competent Person’s Report for our

Alt^x listing, SRK Consulting (UK) Limited carried out a formal resource estimate on the Mweze area. SRK's JORC indicated resource estimate, based on the 10 holes drilled which have intersected the Mweze mineralised zone to date, was 1.4Mt at 1.2% copper. More important than the estimate itself was the insights which the 3-dimensional modelling provided into the structural and geological controls on the mineralisation. These insights will be used to site new drill holes later this year. We have also identified new drill targets from our thorough review of past data, and a trenching programme is underway to fine-tune these.

Other exploration activities

Tanzania

Positive progress has been made with our holdings in the Lake Victoria Goldfield, where results from the Dutwa and Rupa projects have been especially encouraging. We have started exploration of the Troll licences in southwest Tanzania and early results are promising.

Zambia

We have conducted a drilling programme at Tandalwe Hill in the Kampumba project area, together with a complete soil geochemistry survey of the licence. The drill will now move to test targets in the Lunga licence.

Most recently, the Company was granted the Mokambo South licence, an area of the Zambian Copperbelt lying on the eastern limb of the Mufulira Syncline and containing a significant mineralised zone over which drilling was carried out in the 1950s and 1970s. The Company will explore this area and the adjacent Mokambo North licence in partnership with Copperbelt Minerals Limited.

Mozambique

We completed the regolith sampling programme at Namama (Majele) and we expect the multi-element assay results very soon.

We made application for 11 new exploration licences covering areas prospective for gold, silver, nickel, uranium and other commodities.

Conclusion

I believe that African Eagle has adopted the right strategy, combining the comfort of portfolio diversity with the ability to advance projects as fast as possible towards production. We have the right people looking for the right commodities in the right geological and political settings. With our partners' funding of advanced projects to feasibility we can use the cash in the bank to fund our next two years' exploration programmes.

**John Park
Chairman
African Eagle Resources plc**

28 September 2007

Financial Review

	6 months to 30 June 2007 Unaudited £	6 months to 30 June 2006 Unaudited £	Year to 31 December 2006 Unaudited £
Loss before tax	(444,709)	(638,444)	(1,298,927)
Cash and cash equivalents	1,711,806	3,717,063	2,516,712
Deferred exploration costs	8,683,795	7,698,774	7,172,869
Net Assets	10,791,136	11,728,390	10,019,027
Loss per share – basic & diluted	(0.3p)	(0.5p)	(1.0p)
Headline loss per share – basic & diluted	(0.3p)	(0.4p)	(0.8p)

The loss for the 6 months to 30 June 2007 at £444,709 is £193,735 lower than for the corresponding period last year. This variance can be explained by a lower write-off of project costs (£119,287) and a favourable movement in exchange rates (£79,206), due ostensibly to a strengthening in the Zambian Kwacha versus the pound. Employee benefits expense of £271,099 included a share based payment of £79,268 relating to employee share options. No options were granted during the period.

Cash and cash equivalents at the end of the period were £1,711,806 of which £1.3M is on deposit. These deposits are kept under regular review, with reference to future expenditure requirements, and to maximise interest receivable. As referred to in the Chairman's Statement and under note 5, the Company successfully listed on the Johannesburg Stock Exchange (Alt^x) in August 2007. A fund raising accompanied the listing and circa £7.4M gross was raised at 14.07 South African Rand (ZAR) to the pound. The majority of this financing was raised in South Africa in Rand with £1.1M raised in the UK. The ZAR proceeds were remitted to the UK in late August and apart from circa ZAR 10M, the funds have now been converted into sterling at ZAR 14.45 to the pound. The exchange rate loss arising on the transaction together with the listing expenses will be recorded against the share premium account at the year end. The available cash resources will enable the Company to finance its exploration plans over the next 24 months.

The main deferred exploration assets at the balance sheet date are: Miyabi, Tanzania (£2.3M), Mkushi, Zambia (£1.7M), Sasare/Eagle Eye, Zambia (£1.3M) and Ndola, Zambia (£0.8M). The main operational activity undertaken by the Company during the first half of 2007 has been at the Ndola licence. This work has been financed through a share subscription with Phelps Dodge Mining (Zambia) Ltd (PDMZ) which raised £0.7M in February 2007. It is anticipated that PDMZ will apply for a second tranche of shares to a value of US\$1M during the second half of the year. Drilling commenced at Miyabi during the period although this expenditure is being met by our partner Randgold Resources as part of the joint venture announced in May 2007.

Both the loss per share and the headline loss per share improved versus the comparative period last year.

Net assets at £10.8M are £0.8M up on December 2006 but £0.9M down on June 2006. In comparison with June 2006 cash and cash equivalents reduced by £2.0M while deferred exploration costs increased by £1.0M.

Condensed Consolidated interim income statement

	6 months to 30 June 2007	6 months to 30 June 2006	Year to 31 December 2006
Note	Unaudited £	Unaudited £	Unaudited £
Depreciation expense	(41,894)	(39,851)	(68,895)
Employee benefits expense	(271,099)	(243,776)	(498,287)
Impairment of deferred exploration expenditure	(44,008)	(163,297)	(215,201)
Foreign exchange gain/(loss)	27,082	(52,124)	(263,378)
Other expenses	(174,100)	(166,025)	(354,432)
Operating loss	(504,019)	(665,073)	(1,400,193)
Financial income:			
Bank interest receivable	59,310	26,629	101,266
Loss before tax	(444,709)	(638,444)	(1,298,927)
Income tax expense	-	-	-
Loss for the period	(444,709)	(638,444)	(1,298,927)
Loss per share:			
Basic loss per share	4	(0.3p)	(0.5p)
Diluted loss per share	4	(0.3p)	(1.0p)

All operations are continuing

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

Condensed Consolidated interim balance sheet

	30 June 2007	30 June 2006	31 December 2006
Note	Unaudited £	Unaudited £	Unaudited £
ASSETS			
Non-current assets			
Property, plant and equipment	178,426	204,933	153,495
Goodwill	106,188	106,188	106,188
Available for sale investments	9,819	8,091	10,117
Deferred exploration costs	8,683,795	7,698,774	7,172,869
Total non-current assets	8,978,228	8,017,986	7,442,669
Current assets			
Other receivables	294,364	140,765	240,466
Cash and cash equivalents	1,711,806	3,717,063	2,516,712
Total Current assets	2,006,170	3,857,828	2,757,178
Total assets	10,984,398	11,875,814	10,199,847

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

Condensed Consolidated interim balance sheet (continued)

	30 June 2007	30 June 2006	31 December 2006
Note	Unaudited £	Unaudited £	Unaudited £
LIABILITIES			
Current liabilities			
Trade and other payables	(193,262)	(147,424)	(180,820)
Total liabilities	(193,262)	(147,424)	(180,820)
Net assets	10,791,136	11,728,390	10,019,027
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	3 1,540,341	1,475,358	1,478,249
Share premium account	3 12,415,012	11,789,457	11,803,913
Merger reserve	705,723	705,723	705,723
Available for sale revaluation reserve	(8,169)	(10,138)	(7,929)
Foreign currency reserve	(1,006,936)	(308,581)	(1,471,535)
Retained losses	(2,854,835)	(1,923,429)	(2,489,394)
Total equity	10,791,136	11,728,390	10,019,027

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

Condensed Consolidated interim statement of changes in equity

	Note	Share capital £	Share premium account £	Merger reserve £	Available for sale revaluation reserve £	Foreign currency reserve £	Retained losses £	Total equity Unaudited £
Balance at 31 December 2005		1,129,550	7,953,968	705,723	(9,957)	-	(1,390,051)	8,389,233
Changes in equity for first half of 2006								
Loss for period		-	-	-	-	-	(638,444)	(638,444)
Exchange differences on translation of foreign operations		-	-	-	-	(308,581)	-	(308,581)
Available for sale investments		-	-	-	(181)	-	-	(181)
Total recognised income and expense for the period		1,129,550	7,953,968	705,723	(10,138)	(308,581)	(2,028,495)	7,442,027
Issue of share capital		345,808	4,037,576	-	-	-	-	4,383,384
Share issue costs		-	(202,087)	-	-	-	-	(202,087)
Share based payments		-	-	-	-	-	105,066	105,066
Balance at 30 June 2006		1,475,358	11,789,457	705,723	(10,138)	(308,581)	(1,923,429)	11,728,390

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

Condensed Consolidated interim statement of changes in equity (continued)

	Share capital	Share premium account	Merger reserve	Available for sale revaluation reserve	Foreign currency reserve	Retained losses	Total equity Unaudited
Note	£	£	£	£	£	£	£
Balance at 31 December 2005	1,129,550	7,953,968	705,723	-	-	(1,390,051)	8,399,190
Changes in accounting policy	-	-	-	(9,957)	-	-	(9,957)
Restated balance at 31 December 2005	1,129,550	7,953,968	705,723	(9,957)	-	(1,390,051)	8,389,233
Changes in equity for 2006							
Loss for period	-	-	-	-	-	(1,298,927)	(1,298,927)
Exchange differences on translation of foreign operations	-	-	-	-	(1,471,535)	-	(1,471,535)
Available for sale investments	-	-	-	2,028	-	-	2,028
Total recognised income and expense for the period	1,129,550	7,953,968	705,723	(7,929)	(1,471,535)	(2,688,978)	5,620,799
Issue of share capital	348,699	4,052,531	-	-	-	-	4,401,230
Share issue costs	-	(202,586)	-	-	-	-	(202,586)
Share based payments	-	-	-	-	-	199,584	199,584
Balance at 31 December 2006	1,478,249	11,803,913	705,723	(7,929)	(1,471,535)	(2,489,394)	10,019,027

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

Condensed Consolidated interim statement of changes in equity (continued)

	Share capital	Share premium account	Merger reserve	Available for sale revaluation reserve	Foreign currency reserve	Retained losses	Total equity Unaudited
Note	£	£	£	£	£	£	£
Balance at 31 December 2006	1,478,249	11,803,913	705,723	(7,929)	(1,471,535)	(2,489,394)	10,019,027
Changes in equity for 2007							
Loss for period	-	-	-	-	-	(444,709)	(444,709)
Exchange differences on translation of foreign operations	-	-	-	-	464,599	-	464,599
Available for sale investments	-	-	-	(240)	-	-	(240)
Total recognised income and expense for the period	1,478,249	11,803,913	705,723	(8,169)	(1,006,936)	(2,934,103)	10,038,677
Issue of share capital	62,092	613,535	-	-	-	-	675,627
Share issue costs	-	(2,436)	-	-	-	-	(2,436)
Share based payments	-	-	-	-	-	79,268	79,268
Balance at 30 June 2007	1,540,341	12,415,012	705,723	(8,169)	(1,006,936)	(2,854,835)	10,791,136

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

Condensed Consolidated interim cash flow statement

	6 months to 30 June 2007 Unaudited £	6 months to 30 June 2006 Unaudited £	Year to 31 December 2006 Unaudited £
Note			
Cash flows from operating activities			
Loss after taxation	(444,709)	(638,444)	(1,298,927)
<i>Adjustments for:</i>			
Depreciation	41,894	39,851	68,895
Profit on disposal of property, plant and equipment	(512)	-	(1,615)
Interest income	(59,310)	(26,629)	(101,266)
Impairment of deferred exploration expenditure	44,008	163,297	215,201
Share based payments	79,268	105,066	199,584
(Increase)/decrease in other receivables	(43,149)	31,438	(92,970)
Increase in trade and other payables	21,315	8,655	12,801
Net cash used in operating activities	(361,195)	(316,766)	(998,297)
Cash flows from investing activities			
Payments to acquire property, plant and equipment	(55,917)	(3,504)	(20,977)
Payments for deferred exploration expenditure	(1,134,568)	(1,258,652)	(1,834,550)
Proceeds from sale of equipment	512	-	1,615
Interest received	59,310	26,629	101,266
Net cash used in investing activities	(1,130,663)	(1,235,527)	(1,752,646)
Cash flows from financing activities			
Proceeds from issue of share capital	673,191	4,181,297	4,198,644
Net cash used in financing activities	673,191	4,181,297	4,198,644
Net (decrease)/increase in cash and cash equivalents	(818,667)	2,629,004	1,447,701
Cash and cash equivalents at beginning of period	2,516,712	1,097,881	1,097,881
Exchange gain/(loss)	13,761	(9,822)	(28,870)
Cash and cash equivalents at end of period	1,711,806	3,717,063	2,516,712

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

Notes to the condensed consolidated interim financial statements

1 NATURE OF OPERATIONS AND GENERAL INFORMATION

African Eagle Resources plc (“African Eagle” or the “Company”) is a public limited company incorporated and domiciled in England and is listed on the Alternative Investment Market (“AIM”) of the London Stock Exchange. African Eagle is a holding company of a mineral exploration and development group of companies (the “Group”). The principal activities of the Group are the exploration and development of mineral deposits, especially copper and gold, in eastern and central Africa.

African Eagle listed on the Alternative Exchange of the Johannesburg Exchange (AltX) on 24 August 2007 (see note 5 “Events after the balance sheet date”). The listing was accompanied by a fund raising which raised gross circa £7.4M. This ensures the Group has sufficient resources to finance its exploration activities over the next 2 years. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

African Eagle’s consolidated interim financial statements are presented in Pounds Sterling (£), which is also the functional currency of the parent company.

These consolidated interim financial statements have been approved for issue by the Board of Directors on 27 September 2007.

The financial information set out in this interim report does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The Group's statutory financial statements for the year ended 31 December 2006, prepared under UK GAAP, have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified.

2 SUMMARY OF ACCOUNTING POLICIES

a) Statement of Compliance and basis of preparation

Prior to 2007, the Group prepared its audited financial statements and unaudited interim financial statements under UK Generally Accepted Accounting principles (UK GAAP). From 1 January 2007, the Group is required to prepare annual consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). As the 2007 annual financial statements will include comparatives for 2006, the Group's date of transition to IFRS is 1 January 2006 with the 2006 comparatives restated to IFRS. Thus these interim financial statements for the period ended 30 June 2007 have been prepared by applying the recognition and measurement provisions of IFRS and the accounting policies to be adopted for the annual accounts.

An exercise to assess the full impact that the change to IFRS has had on the Group's reported equity, reported losses and accounting policies, has been completed. In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its previous basis of accounting (UK GAAP).

The financial information for the twelve months ended 31 December 2006 has been derived from the group's audited financial statements for the period as filed with the Registrar of Companies and adjusted for the transition to IFRS. It does not constitute the financial statements for that period. The auditor's report on the statutory financial statements for the year ended 31 December 2006 was unqualified and did not contain any statement under Section 237(2) or (3) of the Companies Act 1985.

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these condensed consolidated interim financial statements.

The Group has elected to apply the following IFRS 1 exemptions and transitional provisions:

Business combinations exemption

The Group has taken advantage of the business combinations exemption which allows the Group not to restate business combinations prior to 1 January 2006. Instead, the existing goodwill has been frozen at that date, tested for impairment and not subsequently amortised.

Share based compensation

The Group has used the exemption under IFRS 1 and has only included those equity instruments granted after 7 November 2002 that had not vested as of 1 January 2006. All share options issued subsequent to that date have been expensed as appropriate in accordance with IFRS 2, "Share Based Payments".

Cumulative translation differences exemption

The Group has elected to set previously accumulated translation differences to zero at the transition date.

b) Basis of consolidation

The Group financial statements consolidate those of the Company and its subsidiary undertakings drawn up to 30 June 2007.

The acquisition of African Eagle Resources Limited and its subsidiary Katanga Resources Limited 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. In the consolidated accounts the shares issued were accounted for at fair value with an appropriate transfer to the merger reserve. African Eagle Resources Limited has since been dissolved and its investment in Katanga Resources Limited transferred to Twigg Resources Limited and the Company. Under IFRS 1 the Group has elected to apply the business

combination exemption which allows the Group not to restate business combinations prior to 1 January 2006. From this date the goodwill arising on acquisition has been frozen. There have been no business combinations since the 1 January 2006.

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, and balances are eliminated on consolidation.

c) Property, plant and equipment

Property, plant and equipment are held at historical cost net of depreciation and any provision for impairment. Depreciation is calculated to write down the cost or valuation less estimated residual value of all property, plant and equipment over their estimated useful economic lives. The rates generally applicable are:

Motor vehicles	25%
Fixtures and fittings	25%
Leasehold Improvements	Depreciated over the life of the lease

Material residual value estimates are updated as required, but at least annually, whether or not the asset has been revalued. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

d) Exploration and development costs

The Group has elected to apply the transitional provisions under IFRS 6 ("Exploration for and Evaluation of Mineral Resources") which permits the existing accounting policy under UK GAAP for accounting for and capitalisation of mineral exploration costs. The policy adopted under UK GAAP is based on the Statement of Recommended Practice "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities" revised in June 2001 (the SORP currently in effect).

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.

All costs incurred prior to obtaining the legal right to undertake exploration and evaluation activities on a project are written-off to the income statement as incurred.

Exploration and evaluation costs arising following the acquisition of an exploration licence are capitalised on a project-by-project basis, pending determination of the technical feasibility and commercial viability of the project. Costs incurred include appropriate technical and administrative overheads. Deferred exploration costs are carried at historical cost less any impairment losses recognised.

When it is determined that such cost 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 income statement.

e) Impairment

Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable an asset is reviewed for impairment. An asset's carrying value is written down to its estimated recoverable amount if that amount is less than the asset's carrying amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

Impairment reviews for deferred exploration and evaluation costs are carried out on a project by project basis, with each project representing a potential single cash generating unit. An impairment review is undertaken when indicators of impairment arise but typically when one of the following circumstances apply:

- (i) title to the asset is compromised;
- (ii) variations in metal prices that render the project uneconomic; and
- (iii) unexpected geological occurrences that render the resource uneconomic

f) Taxation

Current income tax assets and liabilities comprise those obligations to, or claims from fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the period.

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

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

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

g) Share based payments

Share based payment arrangements granted after 7 November 2002 which have not vested by 1 January 2006 are recognised in the financial statements.

All goods and services received in exchange for the grant of any share based payment are measured at their fair values. Where employees are rewarded using share based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions. Shares options granted by the Group vest 1 year from the date of grant.

All equity-settled share based payments are ultimately recognised as an expense in the income statement with a corresponding credit to retained losses in the balance sheet.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are revised subsequently if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options that have vested are not exercised.

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

h) Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets include cash and cash equivalents, trade and other receivables, equity instruments of another enterprise and are initially recognised in the balance sheet at fair value, net of transaction costs where applicable. Thereafter, their carrying value depends on how those financial instruments have been classified. Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less from acquisition.

Financial assets are divided into the following categories: loans and receivables; financial assets at fair value through the income statement; available for sale assets; and held to maturity investments. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which they were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

Trade and other receivables are categorised as "loans and other receivables". Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these assets are measured at amortised cost using the effective interest method less provision for impairment. Any change in their value is recognised in the income statement.

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. The financial liabilities included in the accounts are recorded initially at fair value, net of direct issue costs.

Recognition of trade and other payables occurs when a Group company becomes a party to the contractual provisions of the instrument. Most obligations are legally enforceable and arise under contractual arrangements. These include amounts owed for assets purchased or services obtained (trade creditors). Accrued expenses are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier. The recognition of accrued expenses results directly from the recognition of expenses for items of goods and services consumed during the period. The initial measurement of trade and other payables is usually at fair value.

The Group has not entered into any derivative financial instruments for hedging or any other purpose.

Interest is recognised using the effective interest method which calculates the amortised cost of a financial asset and allocates the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

i) Available for sale

Available for sale financial assets include non-derivative financial assets that are either designated as such or do not qualify for inclusion in any of the other categories of financial assets. All financial assets within this category are measured subsequently at fair value, with changes in value recognised in equity, through the statement of changes in equity. Gains and losses arising from investments classified as available for sale are recognised in the income statement when they are sold or when the investment is impaired.

In the case of impairment of available for sale assets, any loss previously recognised in equity is transferred to the income statement.

j) Income and expense recognition

The Group's only income is interest receivable from bank deposits. Operating expenses are recognised in the income statement upon utilisation of the service or at the date of their origin. Interest received is recognised using the effective interest method which calculates the amortised cost of a financial asset and allocates the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. All other income and expenses are reported on an accrual basis.

k) Foreign currency translation

The financial information for the Group is presented in pounds sterling, which is also the functional currency of the parent company. Sterling is the currency that management uses when controlling and monitoring the performance of the group.

Items included in the financial statements of each of the Group's subsidiaries are measured using the functional currency with the exception of Twigg Gold Limited (a Tanzanian based subsidiary) which is measured in US dollars.

In the financial statements of the parent and subsidiaries, foreign currency transactions are translated into the functional currency of the subsidiary using the exchange rates prevailing at the date of the transaction. Exchange rate differences arising when monetary items are settled or upon translation at the spot rate ruling at the end of the period are separately reported in the income statement.

In the consolidated financial statements, all separate financial statements of subsidiary entities, originally presented in a currency different from the Group's presentation currency, have been converted into sterling.

Assets and liabilities have been translated into sterling at the closing rate at the balance sheet date. Income and expenses have been translated into sterling at the average rates over the reporting period. Any differences arising from this procedure have been charged/credited to the "Foreign currency reserve" in

equity.

Exchange differences arising on a reporting entities net investment in a foreign operation are recognised in the consolidated financial statements in a separate component of equity ("Foreign currency reserve"). These exchange differences will be recognised in the income statement on disposal of the net investment.

l) Equity

Equity comprises the following:

- "Share capital" is the nominal value of equity shares.
- "Share premium account" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- "Merger reserve" is the difference between the net assets of the subsidiary acquired and the nominal value of the consideration (e.g. shares issued) to acquire the subsidiary
- "Available for sale revaluation reserve" represents the difference between the fair value of the available for sale investments and the acquisition cost of those investments.
- "Foreign currency reserve" represents the differences arising from translation of investments in overseas subsidiaries.
- "Retained losses" represents retained earnings.

m) Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

n) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash on hand and demand deposits together with other short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

o) Goodwill

Goodwill which represents the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is capitalised and reviewed annually for impairment. Goodwill is carried at cost less accumulated impairment losses.

Goodwill written off to reserves prior to date of transition to IFRS remains in reserves. There is no reinstatement of goodwill that was amortised prior to transition to IFRS. Goodwill previously written off to reserves is not written back to the income statement on subsequent disposal.

3 Share issues

During the period to 30 June 2007 6,209,254 shares were issued of which 300,500 shares were issued to satisfy share options previous granted under the Company's employee share option scheme and 5,908,754 shares were issued to Phelps Dodge Mining (Zambia) Limited (PDMZ) under the terms of the Ndola, Zambia earn-in agreement. Shares issued and allotted during the period to 30 June 2007, together with the 2006 comparatives are summarised below:

6 months to 30 June 2007

	Number	Share capital	Share premium
At 1 January 2007	147,824,890	1,478,249	11,803,913
Issue of shares	6,209,254	62,092	613,535
Expenses on share issues	-	-	(2,436)
At 30 June 2007	<u>154,034,144</u>	<u>1,540,341</u>	<u>12,415,012</u>

6 months to 30 June 2006

	Number	Share capital	Share premium
At 1 January 2006	112,954,962	1,129,550	7,953,968
Issue of shares	34,580,825	345,808	4,037,576
Expenses on share issues	-	-	(202,087)
At 30 June 2006	<u>147,535,787</u>	<u>1,475,358</u>	<u>11,789,457</u>

Year to 31 December 2006

	Number	Share capital	Share premium
At 1 January 2006	112,954,962	1,129,550	7,953,968
Issue of shares	34,869,928	348,699	4,052,531
Expenses on share issues	-	-	(202,586)
At 31 December 2006	<u>147,824,890</u>	<u>1,478,249</u>	<u>11,803,913</u>

The issue of shares yielded £675,627 gross in the period with related expenses amounting to £2,436. PDMZ acquired 5,908,754 shares for £651,588 at a price of 11.0275 pence per share representing a 10% premium to the average closing mid-market price of African Eagle's shares for the 10 consecutive dealing days immediately proceeding 15 February 2007.

The employee share options were exercised at 8 pence per share and the weighted average share price at the date of exercise was 10.14 pence per share.

An agreement dated 14 March 2007, was entered into between African Eagle and Loeb Aron & Company Ltd., under which, warrants to subscribe for up to 600,000 ordinary shares in the Company will be issued in two tranches at a subscription price of 18 pence per warrant share. The subscription period terminates on the third anniversary of the date of issuance.

Additional shares have been issued after the balance sheet date and these are listed under "Events after the balance sheet date" in note 5.

4 Loss per share

The calculation of basic loss per share is based on the loss for the period of £444,709 (June 2006: £638,444; December 2006: £1,298,927) divided by the weighted average number of shares in issue during the period of 152,144,955 (June 2006: 123,437,168; December 2006: 135,728,466).

In calculating the diluted loss per share potential ordinary shares such as share options and warrants have not been included as they would have the effect of decreasing the loss per share. Decreasing the loss per share would be antidilutive.

Headline loss per share has been calculated in accordance with the Institute of Investment Management and Research's ("IIMR") Statement of Investment Practice No.1 entitled 'The Definition of Headline Earnings'. The calculation of headline loss per share is based on the loss for the period adjusted for profit

on sale of fixed assets, loss on impairment of exploration assets and the tax impact of these adjustments as calculated below divided by the weighted average number of shares in issue during the year. No diluted headline loss per share has been calculated as it would be antidilutive by reducing the headline loss per share.

	6 months to 30 June 2007 Unaudited £	6 months to 30 June 2006 Unaudited £	Year to 31 De Unaudited £
Loss for the period	(444,709)	(638,444)	(1,298,927)
Adjusted for:			
Profit on sale of fixed assets	(512)	-	(1,615)
Loss on impairment of exploration assets	44,008	163,297	215,201
Tax impact of these adjustments	(13,049)	(48,989)	(64,076)
Headline loss	(414,262)	(524,136)	(1,149,417)
Weighted average number of shares in issue	152,144,955	123,437,168	135,728,466
Basic & diluted headline loss per share	(0.3p)	(0.4p)	(0.8p)

5 Events after the balance sheet date

The financial statements were authorised for issue by the Board of Directors on the 27 September 2007. The following non-adjusting events arose after the balance sheet date:

Placing of Shares

The Company announced the exercise of employee share options on the 27 July 2007 whereby employees exercised 15,000 share options at 8p to purchase ordinary shares in the Company.

On 31 July 2007 African Eagle announced a £7.4M (ZAR 104,231,315 at ZAR 14.07 to the pound) capital raising in South Africa and confirmed its intention to list on the Johannesburg Stock Exchange (Alt^x). African Eagle's corporate adviser and Alt^x Sponsor, Nedbank Capital, advised the Company that it had received irrevocable applications from South African investors to subscribe for 45,457,310 shares for a total of ZAR 88,641,755 gross. In addition African Eagle had received an irrevocable application from JP Morgan Fleming Natural Resources Fund, a long standing UK shareholder, for 8,000,000 shares, equivalent to ZAR 15,600,000 gross.

On the 24 August the Company announced that it had listed on the Alternative Exchange of the Johannesburg Stock Exchange (Alt^x).

Other Announcements

On 18 September 2007 the Company announced that it had been awarded Mokambo South prospecting licence.

6 Explanation of transition to IFRS

Basis of transition to IFRS

As stated in the Basis of Preparation, these are the Group's first condensed consolidated interim financial statements for part of the period covered by the first IFRS annual consolidated financial statements prepared in accordance with IFRS. An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set out below.

The accounting policies as set out in note 2 have been applied in preparing the restatement of the financial statements for the periods ending 30 June 2006 and 31 December 2006 and the actual performance for the period ending 30 June 2007.

The rules for first time adoption under IFRS 1, "First time adoption of IFRS" allow the Group to take advantage of a number of exemptions. These exemptions are designed to simplify the transition process. The Group has adopted the following exemptions:

IFRS 1 exemptions:

1. Business combinations exemption

The Group has elected the business combinations exemption under IFRS 1, which allows the Company not to restate business combinations prior to 1 January 2006.

2. Share based compensation

The Group has used the exemption under IFRS 1 and has only included those equity instruments granted after 7 November 2002 that had not vested as of 1 January 2006. All share options issued subsequent to that date have been expensed as appropriate in accordance with IFRS 2, "Share Based Payments".

3. Cumulative translation differences exemption

The Group has elected to set previously accumulated translation differences to zero at the transition date.

Reconciliation of equity at 1 January 2006

	UK GAAP Audited £	Note a £	Note b £	IFRS Unaudited £
ASSETS				
Non-current assets				
Property, plant and equipment	250,362	-	-	250,362
Goodwill	106,188	-	-	106,188
Available for sale investments	18,372	(9,957)	-	8,415
Deferred exploration costs	7,169,287	-	-	7,169,287
Current assets				
Other receivables	176,039	-	-	176,039
Cash and cash equivalents	1,097,881	-	-	1,097,881
Current liabilities				
Trade and other payables	(418,939)	-	-	(418,939)
Net assets	<u>8,399,190</u>	<u>(9,957)</u>	<u>-</u>	<u>8,389,233</u>
EQUITY				
Share capital	1,129,550	-	-	1,129,550
Share premium account	7,953,968	-	-	7,953,968
Merger reserve	705,723	-	-	705,723
Share based payment reserve	92,871	-	(92,871)	-
Available for sale revaluation reserve	-	(9,957)	-	(9,957)
Retained losses	(1,482,922)	-	92,871	(1,390,051)
Total equity	<u>8,399,190</u>	<u>(9,957)</u>	<u>-</u>	<u>8,389,233</u>

Reconciliation of equity at 30 June 2006

	UK GAAP Unaudited £	Note a £	Note b £	Note d £	Note e £	IFRS Unaudited £
ASSETS						
Non-current assets						
Property, plant and equipment	204,933	-	-	-	-	204,933
Goodwill	72,890	-	-	33,298	-	106,188
Available for sale investments	18,229	(10,138)	-	-	-	8,091
Deferred exploration costs	7,698,774	-	-	-	-	7,698,774
Current assets						
Other receivables	140,765	-	-	-	-	140,765
Cash and cash equivalents	3,717,063	-	-	-	-	3,717,063
Current liabilities						
Trade and other payables	(147,424)	-	-	-	-	(147,424)
Net assets	<u>11,705,230</u>	<u>(10,138)</u>	<u>-</u>	<u>33,298</u>	<u>-</u>	<u>11,728,390</u>
EQUITY						
Share capital	1,475,358	-	-	-	-	1,475,358
Share premium account	11,789,457	-	-	-	-	11,789,457
Merger reserve	705,723	-	-	-	-	705,723
Share based payment reserve	197,937	-	(197,937)	-	-	-
Available for sale revaluation reserve	-	(10,138)	-	-	-	(10,138)
Foreign currency reserve	-	-	-	-	(308,581)	(308,581)
Retained losses	(2,463,245)	-	197,937	33,298	308,581	(1,923,429)
Total equity	<u>11,705,230</u>	<u>(10,138)</u>	<u>-</u>	<u>33,298</u>	<u>-</u>	<u>11,728,390</u>

Reconciliation of equity at 1 January 2007

	UK GAAP Audited £	Note a £	Note b £	Note d £	Note e £	IFRS Unaudited £
ASSETS						
Non-current assets						
Property, plant and equipment	153,495	-	-	-	-	153,495
Goodwill	39,593	-	-	66,595	-	106,188
Available for sale investments	18,046	(7,929)	-	-	-	10,117
Deferred exploration costs	7,172,869	-	-	-	-	7,172,869
Current assets						
Other receivables	240,466	-	-	-	-	240,466
Cash and cash equivalents	2,516,712	-	-	-	-	2,516,712
Current liabilities						
Trade and other payables	(180,820)	-	-	-	-	(180,820)
Net assets	<u>9,960,361</u>	<u>(7,929)</u>	<u>-</u>	<u>66,595</u>	<u>-</u>	<u>10,019,027</u>
EQUITY						
Share capital	1,478,249	-	-	-	-	1,478,249
Share premium account	11,803,913	-	-	-	-	11,803,913
Merger reserve	705,723	-	-	-	-	705,723
Share based payment reserve	292,455	-	(292,455)	-	-	-
Available for sale revaluation reserve	-	(7,929)	-	-	-	(7,929)
Foreign currency reserve	-	-	-	-	(1,471,535)	(1,471,535)
Retained losses	(4,319,979)	-	292,455	66,595	1,471,535	(2,489,394)
Total equity	<u>9,960,361</u>	<u>(7,929)</u>	<u>-</u>	<u>66,595</u>	<u>-</u>	<u>10,019,027</u>

Reconciliation of profit for the 6 months ended 30 June 2006

	UK GAAP Unaudited £	Note b £	Note c £	Note d £	IFRS Unaudited £
Depreciation expense	-	-	(39,851)	-	(39,851)
Administrative expenses	(541,181)	-	507,883	33,298	-
Share based payments	(105,066)	105,066	-	-	-
Employee benefits expense	-	(105,066)	(138,710)	-	(243,776)
Impairment of deferred exploration expenditure	-	-	(163,297)	-	(163,297)
Foreign exchange losses	(52,124)	-	-	-	(52,124)
Other expenses	-	-	(166,025)	-	(166,025)
Operating loss	<u>(698,371)</u>	<u>-</u>	<u>-</u>	<u>33,298</u>	<u>(665,073)</u>
Financial income:					
Bank interest receivable	26,629	-	-	-	26,629
Loss before tax	<u>(671,742)</u>	<u>-</u>	<u>-</u>	<u>33,298</u>	<u>(638,444)</u>
Income tax expense	-	-	-	-	-
Loss for the period	<u><u>(671,742)</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>33,298</u></u>	<u><u>(638,444)</u></u>

Reconciliation of profit for the year to 31 December 2006

	UK GAAP Audited £	Note b £	Note c £	Note d £	IFRS Unaudited £
Depreciation expense	-	-	(68,895)	-	(68,895)
Administrative expenses	(1,003,826)	-	937,231	66,595	-
Share based payments	(199,584)	199,584	-	-	-
Employee benefits expense	-	(199,584)	(298,703)	-	(498,287)
Impairment of deferred exploration expenditure	-	-	(215,201)	-	(215,201)
Foreign exchange losses	(263,378)	-	-	-	(263,378)
Other expenses	-	-	(354,432)	-	(354,432)
Operating loss	<u>(1,466,788)</u>	<u>-</u>	<u>-</u>	<u>66,595</u>	<u>(1,400,193)</u>
Financial income:					
Bank interest receivable	101,266	-	-	-	101,266
Loss before tax	<u>(1,365,522)</u>	<u>-</u>	<u>-</u>	<u>66,595</u>	<u>(1,298,927)</u>
Income tax expense	-	-	-	-	-
Loss for the period	<u><u>(1,365,522)</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>66,595</u></u>	<u><u>(1,298,927)</u></u>

Reconciliations between IFRS and UK GAAP

Notes to the Reconciliations

(a) Investments in Listed Companies

The Group in applying IAS 32 and IAS 39 has valued the listed shares in Sub-Sahara Resources N.L. at fair value. This investment is treated as “available for sale financial assets” and the movement in fair value has been recognised through equity.

(b) Share based payments

Under UK GAAP, the Group recorded the credit to equity arising on share based payments as a separate reserve. On moving to IFRS, it has been determined that this reserve may be eliminated against retained losses.

(c) Administrative expense

Under IFRS the Group has adopted the consolidated income statement, “expense by nature” as opposed to “expense by function”. The main change is to replace administrative expense and share based payments as reported under UK GAAP with: employee benefits; depreciation; impairment of deferred exploration and other expenses.

(d) Goodwill amortisation

IFRS 3 prohibits the amortisation of goodwill. The standard requires goodwill to be carried at cost from the transition date. Impairment reviews are required annually or when there are indications the carrying value may not be recoverable. The goodwill amortised under UK GAAP during 2006 has been reversed in the income statement with a resulting impact on retained losses in the balance sheet. The directors are satisfied that the value of goodwill has not been impaired.

(e) Foreign currency reserve

A translation reserve was created for the exchange differences arising from the retranslation of the opening net investment in subsidiaries.

Explanation of material adjustments on the cash flow statement

Interest received has been reclassified under net cash used in investing activities where, under UK GAAP, it formed part of the return on investments and servicing of finance.

The movement in liquid resources, which comprise the cash equivalents of the Group, was classified as a cash flow under UK GAAP. Under IFRS, liquid resources have been reclassified as cash equivalents and movements and are a component of the increase or decrease in cash and cash equivalents in the year.

There are no other material differences between the cash flow statement presented under IFRS and the cash flow statement presented under UK GAAP.