Growth Equities & Company Research

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African Eagle Resources plc – Dutwa Focus Set to Finally Deliver Shareholder Value. Speculative buy with 17.1p Target Price.

Drill results from Tanzanian Nickel project Dutwa released in August 2008 kicked off an exciting period for Southern African explorer African Eagle Resource, with a preliminary estimate based on them putting the Dutwa resource at 340,000 tonnes of contained Nickel and 11,000 tonnes of Cobalt, numbers which are likely to increase with drilling completed since then. Even with recovery losses this represents a substantial and almost certainly commercial resource. But this is not a one story company. African Eagle owns a portfolio of strong resource prospects elsewhere in Africa: notably the Mkushi copper project in Zambia and the Zanzui nickel and Miyabi gold projects in Tanzania.

Key Data	
EPIC	AFE
Share Price	4.125p
Spread	3.75p - 4.5p
Total no of Shares	296,762,128
Market Cap	£12.2 million
Net Cash	£2 million (end May 2010)
12 Month Range	3.375p - 11.5p
Market	AIM
Website	www.africaneagle.co.uk
Sector	Mining
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African Eagle believes that its nickel projects, of which Dutwa is the flagship, have a key advantage over most comparable deposits elsewhere: it enjoys unique low-iron metallurgy which should allow the nickel to be extracted efficiently from the ore by simple acid leaching, without recourse to the hi-tech complications of high pressure leaching. The company considers Dutwa to be so different from other surface nickel deposits that it is now calling it an oxide rather than a laterite deposit.

African Eagle has now built up portfolio of projects almost unparalleled in the micro cap sector, the result of an aggressive licence acquisition strategy in the early to mid 2000's. This portfolio endows the company with any number of prospective targets, but Dutwa is the most likely prospect to deliver for shareholders the kind of operational and market progress that the company has hitherto only threatened. While Dutwa is some years from production it appears capable of producing sufficient cash flows to fund progress and development across the remainder of the company's portfolio. In order to maintain momentum at the secondary projects, farm-in partners are actively being sought for them.

Complementing the Dutwa nickel / cobalt target in Tanzania is another nickel target at Zanzui and the gold targets at Miyabi and Igurubi, both now subject to partnership deals. In Zambia African Eagle has 5 copper targets at various stages of development, led by Mkushi and complemented by Mokambo, Ndola, Sasare and Lunga, the last two of which also have gold and uranium potential. The 5 licences in Mozambique are embryonic in comparison to Tanzania and Zambia, while the separate uranium division, with 8 targets spread across all three countries, is also at a very early exploration stage.

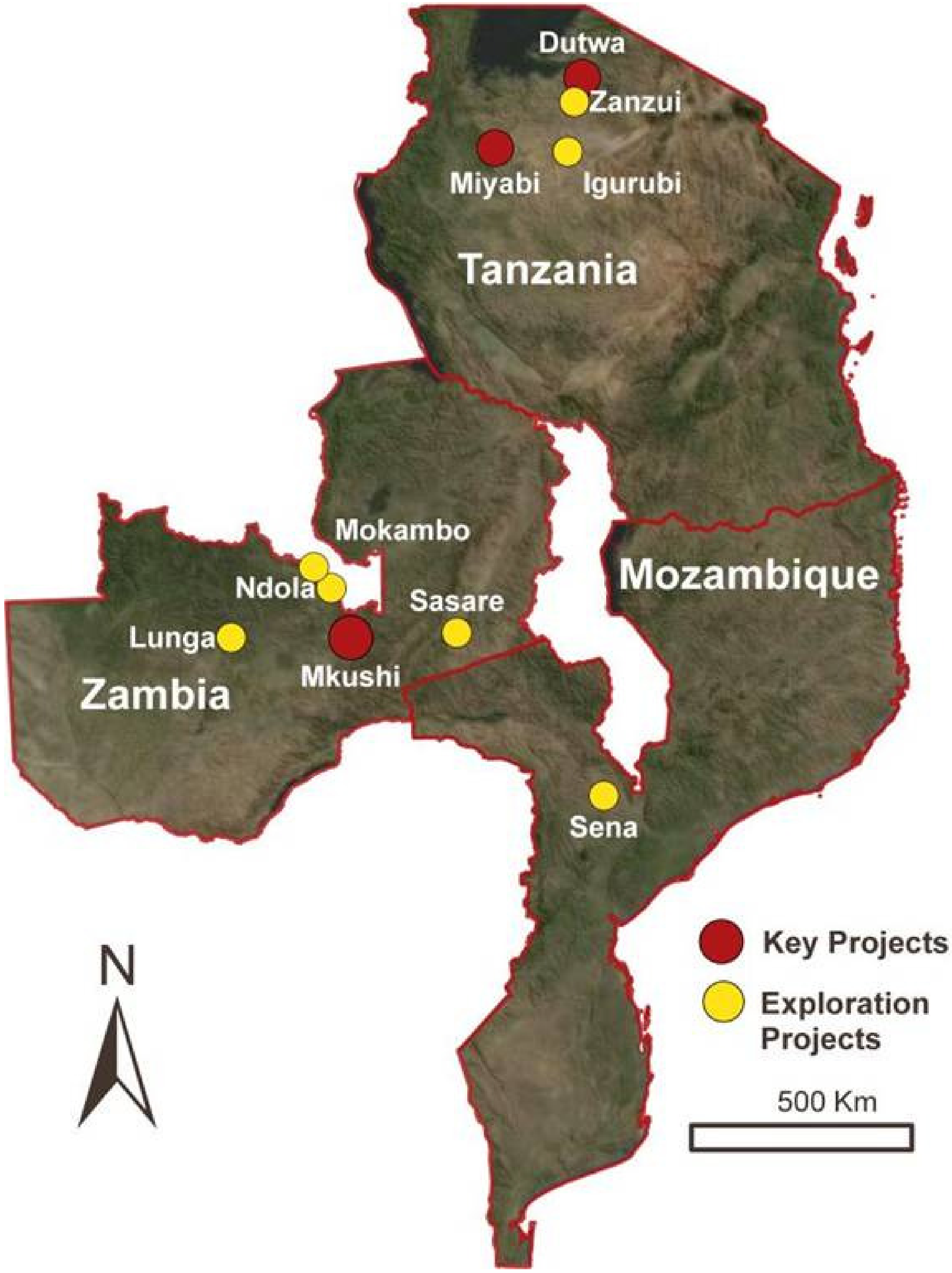
Our valuation of African Eagle is derived from a risk weighted approach with weightings applied based on the confidence in the resource defined and priced at a discount to current commodity prices. A sum of the parts valuation produces a company total of $82.7 million, heavily biased towards Dutwa which accounts for 72% of the projected value. Mkushi and Miyabi are also worthy of mention given their JORC resources and farm-in partners, but the main area of focus will be in upgrading the resource categorisation at Dutwa, with our company valuation increasing to $202 million if it were to upgrade the existing JORC Inferred resource to the Indicated category. Applying a secondary risk weighting of 20% and dividing by the 297 million shares in issue leaves us with a target price of 17.1p for African Eagle which, with both resource size and categorisation upside at Dutwa, is sufficient to justify a stance of **speculative buy**.

Year to 31st Dec	**Sales (£ Million)**	**Pre-tax Profit (£ Million)**	**Earnings Per Share (p)**	**Price Earnings Ratio**	**Dividends Per Share (p)**	**Dividend Yield (%)**
2007A	0	(1.1)	(0.4)	NA	0	0.0
2008A	0	(5.5)	(2.6)	NA	0	0.0
2009A	0	(1.2)	(0.5)	NA	0	0.0
2010E	0	(6.0)	(2.0)	NA	0	0.0

History

Twigg Minerals listed on OFEX (now PLUS Markets) in the year 2000 with the aim of exploring a number of gold prospects in Tanzania. The company made steady progress, particularly at its Miyabi prospect which today, is one of the renamed company's leading prospects. In June 2002 Twigg purchased Australian exploration company Katanga, which owned five copper exploration licences in Zambia, in an all-share deal worth £375,000.

Since acquiring Katanga, Twigg embarked on an aggressive licence acquisition strategy acquiring promising exploration acreage in Tanzania, Zambia and Mozambique. With both copper and gold prices having risen sharply in the previous years, the strategy was sound and left the company with a portfolio of great potential, acquired at a relatively low cost. The company changed its name to African Eagle and moved to the AIM market in June 2003.



A strategic review in 2005 recognized that the AIM market would not continue to support ongoing rounds of fund-raisings by explorers and that there was a need to bring at least one project to a stage where it could generate cash as soon as possible. To that end, African Eagle concluded farm out deals on many of its most advanced properties and while some of these have since been handed back, the company's intent was clear. A listing on the JSE brought more local (operationally speaking) investors on board and provided another market through which to raise capital.

The choice of which project the company should concentrate its efforts and cash was settled by the results of the drilling and metallurgical programmes at Dutwa in the second half of 2008, which revealed a discovery equivalent in cash terms to an 8 to 12 million ounce gold deposit, and lying at the surface to boot! The company moved swiftly to produce an Initial JORC compliant resource estimate in November 2009. Dutwa now provides a clear leader for African Eagle to focus upon, and the company has since put the remainder of its portfolio up for sale as partners are sought to maintain the momentum previously created.

Operations

African Eagle's operations span the 3 Eastern African countries of Tanzania, Zambia and Mozambique. However, with uranium representing such a unique resource, the Company hived these assets off into its own division in the middle of 2007 and thus we separate our commentary here too.

Tanzania

A former British colony, Tanganyika and Zanzibar merged to form Tanzania in 1964 after earlier gaining their independence. Bordering the Indian Ocean, Burundi, Democratic Republic of Congo (DCR), Kenya, Malawi, Mozambique, Rwanda, Uganda and Zambia, Tanzania's climate varies from its costal tropics to its temperate highlands. The legal system is based on English common law with a judicial review of legislative acts. The country is deemed to be relatively politically stable, with agriculture the primary industry and the primary mining industries being diamonds and gold, with several nickel and platinum group mineral (PGM) projects well advanced.

Dutwa – having only really appeared on the company's radar in August 2008, when assay results indicated something very interesting, Dutwa has since overtaken its hitherto more advanced siblings to command African Eagle's primary focus. The key Dutwa licence is 90% owned by African Eagle, which has an option to acquire the remaining interest. In April 2009, the company signed an option to acquire up to 75% of a second deposit at Ngasamo, 6 kilometres west of the Dutwa discovery, and the Company also holds rights to the Zanzui area, 70 kilometres to the south, which appears also to be a similar deposit.

The project is100 kilometres east of the Mwanza railhead and close to the Mwanza-Nairobi truck road, major power line and Lake Victoria.

Geochemical anomalies identified in early 2008 initiated a drilling programme in June 2008 which, by November of the same year, had resulted in an initial JORC Inferred mineral resource estimate by SRK Consulting Ltd of 31 million tonnes at an average grade of 1.1% nickel and 0.034% cobalt for 340,000 tonnes of contained nickel and 11,000 tonnes of contained cobalt (0.5% nickel cut off grade).

Ore	Nickel grade (%)	Cobalt grade (%)	Nickel contained (t)	Cobalt contained (t)
31,000,000	1.10%	0.034%	340,000	11,000

Initial metallurgical testing by Mintek, completed in March 2009, revealed that the ore was likely to be easy to process by standard acid leaching. With these results to hand, African Eagle commissioned a "proof of concept" scoping study from GRD Minproc, to investigate the investment case for the project.

Delivered in the middle of 2009, the scoping study indicated that at the prevailing nickel price of $7/lb, the pre-tax earnings of Dutwa would be $1.5 billion making it highly profitable. Using a 2 million tonne per annum atmospheric pressure tank leach process, capital costs were estimated at $435 million. African Eagle will thus require a larger partner or strategic investor to provide the financing and operational expertise for such a project. Transport costs and the cost of reagents represent a sizeable proportion of operating costs and thus the NPV(10) base case scenario of $109 million is highly sensitive to changes in these inputs. Higher nickel prices improve this picture considerably – at today's price of around $10/lb, life of mine net revenues (EBIT) would be more than $3 billion.

Upon publication of GRD's scoping study results, African Eagle immediately started work on a full feasibility study, which began by focussing on several recommendations made in the scoping study for reducing costs and increasing revenues. Drilling to determine the resource at the nearby Ngasamo deposit and upgrading the global resource model were obvious revenue enhancers, while permitting, transport, reagents and water were some of the areas where costs reductions would be material.

Announced on the 24th of May this year, Mintek Laboratories' Phase 2 metallurgical test work confirmed that the ore from Dutwa could be processed by either heap or tank leaching at normal atmospheric pressure. Column testing using 1 metre columns extracted 73-82% of the nickel within 30 days and 86-92% after 100 days, while up to 60% of the cobalt was extracted within 30 days and 80-85% after 100 days. Acid use was low with 199, 273 and 360 kilograms per tonne respectively used over the 2 week, 1 month and 5 month test periods. Importantly 60-65% of the nickel was extracted within 2 weeks.

Meanwhile tank leach tests at 90 degrees Celsius extracted up to 85% of the nickel within the first 8 hours and averaged 94% over the first 24 hours. Further test work using 6-8 metre high columns is planned as well as mineralogical analysis and beneficiation tests to optimise the leaching processes. African Eagle believes the fast reaction time, solid recovery rates and low acid consumption will have important profitability implications for the project - all the more reason to concentrate efforts at Dutwa.

Drilling at nearby Ngasamo is complete and early indications are that Ngasamo's ore body will add significantly to the overall resource. With the company having agreed to earn up to 75% interest in Ngasamo by carrying out exploration and evaluation work leading to a feasibility study, and drilling currently underway at Zanzui, African Eagle is already thinking beyond Dutwa's currently defined resource.

On the 10th of May, African Eagle commissioned Snowden Mining Industry Consultants to undertake a formal resource statement including the final results from the 66 holes drilled at Ngasamo Hill.

Zanzui – situated a mere 70 kilometres south west of Dutwa, Zanzui consists of 4 licences covering 358 square kilometres. African Eagle holds 90% interests in two licences and 85% in the others. After discovering nickel, cobalt, platinum and gold anomalies during its geochemical survey, and revealing a strongly layered circular basic/ultrabasic complex through ground & airborne geophysical surveys, a 30 hole, 1,940 metre reverse circulation (RC) scout drilling programme was completed. Assay highlights of 1.05% nickel over 42 metres, 0.91% nickel over 33 metres, 1.02% nickel over 24 metres and 1.34% nickel over 18 metres were discovered and African Eagle not only believes it could have another significant Nickel deposit under its wing, but there are obvious potential synergies with having the deposits so close together.

In August 2009, African Eagle received encouraging results from Mintek's bottle roll leach tests at Zanzui. Conducted on the above drill samples, nickel extractions ranged from 55% to 87% (averaged 71%), while cobalt extractions ranged from 21% to 75% (averaged 38%). Acid consumption was particularly encouraging averaging 190 kilograms per tonne (ranging from 140-250 kg/t), and eclipsing the strong results from Dutwa.

A drilling programme is currently underway, designed to outline an inferred resource if a sufficient ore body is present.

Miyabi – is set within a 7 by 2 kilometre gold-bearing corridor and served by a tarred highway 20 kilometres to the north. Work completed by previous partner Randgold Resources in 2007/ 2008 included the drilling of 20 diamond holes totalling 4,078 metres. African Eagle itself has conducted a large number of drill holes with results including 31.1 g/t gold over a 30 metre intersection, 9.7 g/t over 33 metres and 6.9 g/t over 21 metres.

African Eagle's geologists believe there is the potential for a million ounce plus gold deposit and, with drilling having only explored part of the system, have already defined a JORC compliant resource estimate of 520,000 ounces of gold (12.4 million tonnes at 1.3g/t). 71% of this resource is in the Indicated category, while independent metallurgical testing has shown that 95% of the gold is recoverable through a standard leaching process.

On the 14th of May, African Eagle signed a letter of intent with Macquarie Harbour Mining Limited to enter into a joint venture to develop Miyabi. Macquarie will provide all the technical expertise and funding for a feasibility study, with African Eagle retaining a 25% interest in the project. African Eagle's past exploration expenditure will be credited against the development costs if and when that decision is made: this values the total project at some $26 million.

Igurubi – is a gold vein complex set in a 6 kilometre long zone along the contact of granite and greenstone rocks, some 70 kilometres east of the Golden Pride Mine. African Eagle completed surface surveys and drilling which yielded promising results including 7.3 g/t over 6 metres; 14.2 g/t over 4 metres; 24 g/t over 3 metres and 3.7 g/t over 6 metres.

In April 2010, African Eagle signed an agreement for ASX-listed Peak Resources Limited to acquire its interest in the project in exchange for Peak shares, a 2% net smelter return and a commitment to spend at least $1.5 million on exploration. African Eagle has estimated that in present value terms and using reasonable assumptions of success and resource size, the deal is worth £2.6 million to the company.

Zambia

Previously known as Northern Rhodesia, Zambia is a landlocked country in the south of the Africa bordering Tanzania, DRC, Angola, Namibia, Zimbabwe, Mozambique and Malawi. With its historical links to England, the legal system is based on English common law together with customary law and judicial reviews of legislative acts.

African Eagle's operations in Zambia are conducted through Katanga Resources Limited, the group's local operating subsidiary, which has a strong geological and exploration capability. The company holds interests in six projects in Zambia: Ndola and Mokambo owned outright; a 49% interest in Mkushi Copper Mine and 49.9% interests in three more through its interest in Kujima Mining and Exploration Ltd, a Zambian company which now holds the Sasare, Lunga and Kampumba licences.

The company is now looking to divest its Zambian assets, with the objectives of ensuring that all its assets are properly investigated and explored in a timely fashion; obtaining fair value for past investment and intellectual property; and freeing cash and management time for the nickel projects.

Mkushi – lying 150 kilometres from the Zambian copper-belt, the project is set within a copper mining area which was productive until the 1970s when low metal prices and nationalization by the post-colonial Government made the project unattractive. The previous owner of the mine simply walked away, relinquishing its claims, leaving mining equipment and a large tailings dump on the site. The project enjoys good dirt roads out to the nearby sealed Great North Road, together with railway and airstrip access, all within 30 kilometres. The nearby Lumsemfwa dam provides power and water.

African Eagle entered into a joint venture with CGA Mining in July 2006 which, while costing African Eagle 51% of the operation, ensured that its new partner funded and executed a feasibility study over the known deposits.

CGA undertook a resource drilling programme and in August 2008 Snowden Mining Industry Consultants delivered an independently audited JORC compliant Indicated Mineral Resource estimate of 18.5 million tonnes at 0.83% copper at Munshiwemba, based the drilling by CGA and AFE. On the basis of Snowden's deposit model and geotechnical tests by AMC, LQS conducted mine planning and Whittle pit optimisation. This yielded a triple pit configuration which extracted a total of 14.4 million tonnes of ore at a rate of 1.6Mt/yr with a strip ratio of 1:3.2.

CGA also commissioned metallurgical testing by AMMTEC which showed that a simple copper sulphide float circuit would provide recovery of at least a 96% of the sulphides, producing a clean concentrate of at least 30% copper content and low impurity levels.

Metplant (now part of Bateman Engineering) conducted detailed plant design engineering and costing. The proposed plant would cost an estimated $76 million and take two years to complete. Plant operating costs were estimated to be $9.4 million per year, equivalent to $5.90 per tonne of mill feed.

Financial analysis indicated that the overall capital expenditure estimate for the project was $120 million, the total combined operating cost was $28.55 per tonne of ore treated, and revenue was estimated to be $30.31per tonne ore. These numbers assumed treatment of 13.1 million tonnes of ore over an 8 year life of mine.

CGA delivered the draft feasibility study in November 2008, when global markets were in turmoil and the copper price was falling rapidly. CGA and African Eagle therefore agreed to defer a decision on project development, pending an improvement in the economic climate and clarification of the fiscal system under which the project would operate. With a 25 year mining licence in place, the joint venture partners could afford to take a breathing space to look at ways to improve the project economics.

In late 2009, with the world economy appearing to have stabilised, metals prices recovered well from their early 2009 lows, oil and transport costs fallen and the Zambian tax regime again competitive, CGA presented preliminary economics based on a conceptual smaller open pit and an underground mine, feeding a prefabricated modular plant. Changing the mining plan removed the need for expensive upfront pre-strip and provided access to the higher grade ore at depth while the smaller plant reduced capital costs. Preliminary economic modelling of the revised concept indicated that it would be likely to improve the economic return of the project considerably.

There is good potential for discovery of additional copper deposits within the Mkushi area. The Munshiwemba resource is open at depth, where the grade appears to increase. The Mtuga and Coloquo mineralised zones are likely to reward further drilling. Drilling at the Munda target intersected potentially economic mineralisation up to 40 metres wide over a strike length of 1,300 metres and AFE’s exploration work has identified several additional targets which need to be tested.

Mkushi remains an important part of African Eagle’s future with a 25 year mining licence securing the partnership’s rights long into the future.

Mokambo – situated 15 kilometres east of Africa’s largest underground copper mine at Mufulira, Mokambo occupies a 17 kilometre strip of land along the border with the DRC. The company now owns 100% of the project, since its partner Copperbelt Minerals Limited withdrew to focus on its Congo assets. The area was drilled out in the 1960’s and 1970’s with Mufalira Mines preparing a plan to take the project into production where results from this period indicated deposits of 6 million tonnes at 2.4% copper in the south zone and 3.8 million tonnes at 1.7% copper in the north zone.

African Eagle completed geochemical soil sampling, geophysical and geological mapping, trenching and an exploratory drill programme of 12 diamond holes for 2,729 metres. The drilling tested ore shoots defined from the historic drilling, searched for possible extensions of mineralisation along strike, and assessed the potential for up-dip oxide mineralisation. Drill intercepts included 15 metres at 2.44% copper, 12 metres at 2.47% copper, 4.4 metres at 3.5% copper, 4.3 metres at 3.25% copper and 3.1 metres at 3.96% copper.

In June 2009, the company's geologists produced polygonal deposit models of Mokambo North and South using all available drill data. These models do not constitute resources conforming to the JORC code, as the drilling is relatively widely spaced and continuity of the mineralisation could not be established with full confidence, but the resulting deposit estimate of 16.4 million tonnes at 2.19% copper indicates that the area has a significant copper endowment and would be very likely to reward further exploration and delineation.

Ndola – 90 kilometres South East of Mokambo, and covering an area of 428 square kilometres, Ndola is served by the Ndola International Airport together with a good network of roads, railways and power lines. African Eagle holds 100% of the licence and has identified five copper targets: Ndola East, Ndola South, Misundu, Chiwala and Itawa. Ndola East holds a reported pre-JORC resource estimate of 40 million tonnes at a grade of 0.76% copper, which African Eagle's own modelling indicates may be as large as 100 million tonnes at 0.85% copper. Ndola South has been the target of shallow reverse circulation drilling together and induced polarisation geophysical surveying. At Misundu, three diamond drill holes and several percussion drill holes intersected copper mineralisation, including 1.1% copper over a 7 metre intersection at a depth of 58 vertical metres.

The Ndola licence also contains a significant fraction of the Copperbelt's deposits of calcite limestone. At present, most lime used by the mines of the Copperbelt has to be imported, at very high transport costs, currently around $200 per tonne. African Eagle has signed an agreement allowing a Zambian company to develop a lime operation here, in return for a 7.5% free carry in the business.

Sasare Eagle Eye – is a large iron-oxide-copper gold (IOCG) system, comparatively remote and served by bush tracks linked by 90 kilometres of unsealed road to the sealed Great East Road. African Eagle has assembled a substantial database including soil geochemistry, ground and airborne geophysics, geological mapping, trenching and drilling data, but so far has only been able to define a small copper resource within what may be an iron-oxide dominated system. Independant consultant group SRK Consulting, after reviewing the drill data at the Mweze prospect, delineated a JORC compliant copper resource of 1.4 million tonnes at an average grade of 1.2% copper.

An airborne electromagnetic (EM) survey is the logical next step to identify copper-gold drilling targets, and the company is seeking a joint venture partner to accelerate development of the site.

Lunga – Located in the centre of Zambia, Lunga has the potential for copper-gold deposits and shows evidence of calcrete type uranium mineralization. Like Sasare, the area is relatively remote and served by bush tracks, making exploration more difficult. An airborne geophysical magnetic and gamma-ray spectrometric survey was conducted over the licence in 2005, followed by collection of 4,000 soil geochemical samples on a 1,000 x 500 metre grid and then infilled locally on 100 x 50 metre grids. Ground spectrometer surveys on the uranium targets and an airborne EM survey to define copper-gold targets are planned to define drilling targets once a joint venture is secured.

Mozambique

A former Portuguese colony, now a member of the Commonwealth, Mozambique borders the Mozambique Channel, Malawi, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. The legal system is based on Portuguese civil law and customary law, while agriculture dominates the occupation profile and aluminium and petroleum products are the major resource industries. After a period of communist rule the country is now viewed by commentators, including the World Bank, as a model of pro-capitalist development.

African Eagle's operational subsidiary Twigg Exploration and Mining Limitada holds 3 projects. An 80% interest in the tantalum, tin and niobium Majele Project (eastern Mozambique) is being earned by Pacific Wildcat Resources Corporation, while African Queen Mining (formerly Pan African Mining Corporation) continues working the copper, gold and iron prospective Fingoe Project in the west of the country. The three remaining projects are all embryonic with the centrally located Sena project showing significant uranium anomalies and consequently hived off into the company's uranium division.

Uranium

African Eagle set up a Uranium Division in 2007, to hold the uranium rights to several targets within the Company's portfolio in Tanzania, Zambia and Mozambique. The targets include 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 division is currently investigating the best path forward to maximise shareholder value and recently received a proposal, which it is evaluating, to spin out these assets into an Australian IPO.

Uranium Project Portfolio

Asset	Country	Title	Target	Results / plans
Sasare	Zambia	U rights over 100% owned licence.	Karoo sandstone hosted e.g. Kayelekera	Uranium anomaly on airborne survey. Ground follow-up spectrometer survey underway.
Lunga	Zambia	U rights over 100% owned licence.	Calcrete type e.g. Langer Heinrich	Uranium anomaly on airborne survey over a fossil catchment. Ground follow-up spectrometer survey underway.
Shikula	Tanzania	U rights over 2 licences: one held 100% and the other 80%	Karoo sandstone hosted e.g. Kayelekera	Conceptual target
Idiwili / Bundali	Tanzania	U rights over 7 licences, 80% held	Vein and pegmatite type	Uranium anomaly in 1980s regional geochemical survey. Follow-up geochemistry and geology underway.
Nondwa / Wembere	Tanzania	5 licences, 100% owned (1,400 square kilometres)	Calcrete or playa lake type	Conceptual target. Uranex report uranium from auger sampling on adjacent ground.
Tanga	Tanzania	Applications for 3 licences (1,700 square kilometres)	Karoo sandstone hosted e.g. Kayelekera	Conceptual target; similar geology to uranium anomaly on airborne survey just outside area.
Sena	Mozambique	5 licences, 100% owned (4,800 square kilometres).	Cretaceous sandstone hosted	Conceptual target; U source in acid volcanics and redox traps in fluvial channel sequence. Radon survey underway.

Strategy

African Eagle's original strategy was to develop its projects to a stage where they became attractive as acquisition targets for a larger resources company. This involved a wide ranging land grab and has endowed the company with a portfolio of licences unique for a company of its size. Development is still very much at the heart of what the company does but, whereas in the past it has involved advancing multiple projects at a similar pace, the discovery at Dutwa has demanded African Eagle's full attention and thus rapid progress is being made here, at the near-term expense of progress at its other projects.

However, so as to maintain momentum at its other properties, farm in partners have/are being sought not only to provide financial assistance, but also for their engineering and mining skills which have been in short supply within African Eagle, dominated as it is by explorationists. The company has stated that its objectives in these deals are to ensure that all its assets are properly investigated and explored in a timely fashion and to obtain fair value for past investment and intellectual property, as well as to free cash and management time for the nickel projects.

As a diversified exploration company, Africa Eagle spread its risk over a number of projects, commodities and countries, and this diversity is thought a major contributing factor in the market's apparent inability to evaluate the company effectively. African Eagle has responded to this by creating a separate uranium division, but with Dutwa shaping up as the company's hero asset, fringe assets are likely to continue to get overlooked and undervalued by the market. However, while it is tempting to realise value from asset sales or subsidiary listings, it is important African Eagle maintains exposure to a pipeline of projects within its core holding so as to provide the blue sky potential necessary to justify a growth company's valuation. In this respect the expected cash flows from Dutwa will be critical in bringing these new projects into fruition.

Board of Directors

Chairman – Euan Worthington. Mining analyst and corporate finance specialist Worthington complements the board's technical skills with his financial experience. Research, corporate finance and management roles at Hoare Govett, Shearson Lehman, S.G Warburg Securities, BZW and ABN AMRO led to Africa where he advised Sutton Resources on its 10 million ounce Bulyanhulu gold deposit and Falconbridge Gold on its Zimbabwe projects. He is a Fellow and past member of the council of the IMMM, and a member of the SMME and the Association of Mining Analysts.

Managing Director – Mark Parker. After publishing an influential report on the Tanzanian mining industry in 1992, Parker acted on his experience to found African Eagle, then Twigg Minerals, four years later. Starting out with the British Geological Survey where he was involved with numerous exploration projects in the UK, Africa and Latin America, Parker has since managed geophysical surveys, consulted independently and other advisory roles all over the world but it is in Eastern Africa where he has most experience.

Operations Director – Christopher Davies. An African Eagle director since 2001, Davies brings a wealth of experience particularly in Eastern Africa. An exploration geologist for Anglo American Corporation, East Africa manager for SAMAX Gold and independent consulting and exploration project roles in African, South East Asia and Australasia, Davies attended Imperial College London and the Harvard Business School.

Finance Director and Company Secretary – Bevan Metcalf. A director of African Eagle since 2004, Metcalf was given the additional Company Secretary duties in 2005. Metcalf's worked for a number of large listed companies including ICI, SmithKline Beecham and Orion in roles including Head of European Financial Planning, European Controller, Finance Director and Company Secretary.

Non-Executive Director – Geoffrey Cooper. Appointed to the African Eagle board in 2003, Cooper is a founder shareholder of the company. With a legal background, Cooper has worked for Tanganyika Holdings, BP Minerals, and Vodafone in various legal advisory roles after practising as a barrister for six years. Cooper's experience is in project management, contract law and financing.

Significant Shareholders

Those shareholders with a significant interest in African Eagle's issued shares of 296,762,128 are as follows.

Name	Ordinary Shares	% of Ordinary Shares
JP Morgan Asset Management	24,156,461	8.14
Phelps Dodge	10,105,047	3.41
TWP Finance	9,515,499	3.21
Directors	7,182,387	2.42

In addition, there are 12,298,000 options and 600,000 warrants in issue. The options have exercise prices of between 6.5p and 18p and expiry dates between July 2010 and May 2014, while the warrants have an exercise price of 18p and expiry dates between October and December 2010.

SWOT Analysis

<u>Strengths</u>

Diversification – African Eagle's strategic land grab early in its life maximised its chances of finding economic resource targets. With more than 15 projects spread across three countries, exploring for 4 types of minerals, the company is not overly reliant on the success of any one project in the long term.

JORC compliant resources – Dutwa, Mkushi, Sasare Eagle Eye and Miyabi all have JORC compliant resources, with Mkushi also satisfying NI43-101 standards. These industry recognised resource estimates substantially increase the confidence in these projects attracting partners and investors alike.

Pipeline of projects – although obscured by its intense focus on Dutwa, African Eagle is building a long pipeline of projects that it hopes will continue to create value through exploration long into the future. This strategy will become more visible when it establishes a cash generative operation and the internal capability to expedite development of its secondary targets.

Weaknesses

Thinly spread – while diversification is generally a good thing, it can bring problems if the sheer breadth of operations leaves the company unable to bring individual projects into production within reasonable time frames. African Eagle has attempted to mitigate this by seeking earn in partners at a number of its projects so as to maintain momentum and conserve cash.

History of non-delivery - perhaps a symptom of being too thinly spread. African Eagle has been quoted for 10 years and is still some years from generating cash-flow. Farming out project ownership can be a hard pill to swallow when you believe all of your projects are money makers, but common sense tells you that 25% of something is better than 100% of nothing.

Opportunities

Range of prospects – African Eagle has at least five projects (Dutwa, Mkushi, Miyabi, Eagle Eye, Mokambo and Ndola) each of which could be worth more than the company's current market capitalisation. These potential 'company makers', for any number of reasons (distance to production, prevailing economic circumstance, sceptical market, etc) have failed to convince the market, and have thus gone unrewarded. However, we believe that when African Eagle can demonstrate an ability to bring a prospect into production, there will be a significant re-rating of the stock and just reward for patient investors.

Dutwa development – Dutwa has emerged as the leading project in African Eagle's portfolio and one the company is now focused upon. The expected size of Dutwa will likely necessitate a joint venture partner, but we expect African Eagle will only entertain such a situation once it has maximised its value through robust feasibility studies. Once Dutwa is productive, we expect accelerated development programmes at the company's other leading prospects.

Uranium – is experiencing a renaissance in the current climate of environmental concern, and although aspects of the value chain are tightly regulated, there is great potential for a junior exploration company to attract the interest of the larger players seeking a well packaged uranium asset.

Threats

Financial risk – securing the money to continue with its operations despite the company not being expected to generate any cash for a number of years is a risk faced by many exploration companies. African Eagle has avoided the use of debt so as to conserve cash, but the threat remains that further equity issues will be heavily discounted and thus punish existing shareholders.

Resource / exploration risk – identifying a large resource is one thing, but being able to classify it as a reserve and thus of economic value is quite another. African Eagle has commendably identified and produced resource estimates (some being JORC compliant) on a number of its prospects, but the critical issue will be upgrading these resources into the higher confidence categories and thus justifying their mining.

Country / political risk – Zambia, Tanzania and Mozambique have a near-term history of welcoming foreign investment and thus companies operating there can have a higher degree of confidence that operations will not be unduly hampered by governmental interference. However, it only takes a change of leadership to upset the status quo and, while it can happen in any country, there is (rightly or wrongly) a perception of this situation occurring more often in Africa.

Commodity risk – commodity prices are inherently volatile and, with most projects being sensitive to the price received for their output, this is a significant but common risk. There are of course ways to mitigate these risks, such as through forward sales, lowering variable costs and improving operational efficiencies.

Valuation

With African Eagle still being some way from production, we believe a discounted cash flow on even the leading Dutwa project would be highly subjective and give a false sense of accuracy. Thus we have valued each project based on a risk weighted approach to the resources defined and a discounted value of the prevailing commodity prices.

Beginning with our commodity price assumptions, gold is taken at $950 an ounce, nickel $15,000 per tonne, copper $6,000 per tonne and cobalt $80,000 per tonne, while the USD/GBP exchange rate is assumed as $1.30. The table below summarises our valuation with in-situ values attributed in descending order of resource verification status. JORC Indicated resources are given a 3% value, JORC Inferred 1%, in-house estimates 0.2% and historical 3rd party estimates 0.1%.

		Resource	Holding	In-situ	Attrib. Resource	Metal price	Value to AFE
Tanzania							
Dutwa (100%)							
Nickel (tonnes)	JORC Inferred	341,000	100%	1.0%	3,410	15,000	51,150,000
Cobalt (tonnes)	JORC Inferred	10,540	100%	1.0%	105	80,000	8,432,000
Miyabi (25%)							
Gold (ounces)	JORC Inferred	150,800	25%	1.0%	377	950	358,150
Gold (ounces)	JORC Indicated	369,200	25%	3.0%	2,769	950	2,630,550
Zanzui (~87.5%)							
	No resource estimated, thus no value attributed						
Zambia							
Mkushi (49%)							
Copper (tonnes)	JORC Indicated	153,550	49%	3.0%	2,257	6,000	13,543,110
Mokambo (87%)							
Copper (tonnes)	historical estimate	697,000	87%	0.1%	606	6,000	3,638,340
Ndola (100%)							
Copper (tonnes)	historical estimate	320,000	100%	0.1%	320	6,000	1,920,000
Sasare (100%)							
Copper (tonnes)	JORC Inferred	16,800	100%	1.0%	168	6,000	1,008,000
Lunga							
	No resource estimated, thus no value attributed						
Mozambique	No resource estimated, thus no value attributed						
Uranium	No resource estimated, thus no value attributed						
TOTAL							82,680,150

Dutwa is the clear value leader for African Eagle accounting for 72% of the company's value. Mkushi and Miyabi are also important assets for the company given their JORC compliant resource estimates and earn-in partners. Mokambo and Ndola's large historical resource estimates and high ownership stakes are also valuable assets, but it is likely that ownership will be traded for developmental progress at some point. The copper resource at Sasare is currently too small to draw attention, and we have attributed no value to Zanzui, Lunga and any of the Mozambique or uranium assets as they are too embryonic to judge here. The Igurubi transaction frees cash up for the company, but the consideration received is overly reliant upon future uncertain events and subjective assumptions, so its potential value is omitted here.

Our sum of the parts valuation comes out at $82.7 million, and with 296.8 million shares in issue and applying a 20% secondary risk weighting to account for risk factors outside the company's immediate control (eg country/political, commodity, exchange rate risk) we value African Eagle at 17.1p per share. Obvious upside to our valuation comes from increased resources and upgraded resource definitions with Dutwa raising the company's valuation from $82.7 million to $201.8 million (41.9p) if its JORC Inferred resources were upgraded to the Indicated category.

Financing issues aside, African Eagle offers investors a bet on the nickel market through a very promising project which the company has advanced effectively, tempered by diversification of assets and pipeline of projects unusual in the micro-cap arena. The company has any number of options for advancing these projects including farm-outs, joint ventures and trade sales which we believe makes the company an attractive proposition and worthy of our **speculative buy** recommendation and 17.1p target price.

Year to 31st Dec	Sales (£ Million)	Pre-tax Profit (£ Million)	Earnings Per Share (p)	Price Earnings Ratio	Dividends Per Share (p)	Dividend Yield (%)
2007A	0	(1.1)	(0.4)	NA	0	0.0
2008A	0	(5.5)	(2.6)	NA	0	0.0
2009A	0	(1.2)	(0.5)	NA	0	0.0
2010E	0	(6.0)	(2.0)	NA	0	0.0

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