

# AFRICAN COPPER PLC

## 2005 Annual Report



## CONTENTS

CHAIRMAN'S STATEMENT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
DIRECTORS' REPORT	21
STATEMENT OF DIRECTORS' RESPONSIBILITIES	24
INDEPENDENT AUDITORS' REPORTS	25
CONSOLIDATED PROFIT AND LOSS ACCOUNT	28
CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES	28
BALANCE SHEETS	29
CONSOLIDATED CASH FLOW STATEMENT	30
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	31

## CHAIRMAN'S STATEMENT

Dear Shareholder,

African Copper was extremely busy in fiscal 2005. The first quarter of 2005 saw the recruitment of key executives, the formation of our presence in Botswana and the signing of a number of key contracts that signalled the commencement of work.

The second quarter of 2005 saw the commencement of a sulphide delineation drilling programme, the kick-off of engineering work on the open-pit, heap-leach, SX-EW project at Dukwe, metallurgical testing of the sulphides and the start of updated environmental, archaeological and water studies.

In Q3, sufficient encouragement was obtained from early metallurgical results and engineering work that engineering for an underground mine and flotation concentrator was initiated. The third quarter of 2005 was probably the most intense period of parallel and concurrent work during the year with up to eight contractors engaged by the Company to complete the various studies required to bring Dukwe to a production decision. The shareholders of African Copper can be proud of the dedication and concentration shown by the employees of African Copper during this period.

The fourth quarter of 2005 saw a number of key decisions and encouraging results delivered from our on-going studies. Capital and operating cost estimates for the open-pit, heap-leach, SX-EW project were delivered early in the fourth quarter. Several factors, including the high strip ratio in the open pit, excessive acid consumption in the heap and cost escalation in mining, fuel, acid and explosives, combined to render the open pit mining of the oxide deposit marginal at copper prices of less than US\$1.30/lb. While the open pit option is still economic at prevailing copper prices, the board elected to defer a development decision until the results of the capital and operating cost parameters for an underground mine and flotation concentrator were established.

Encouraging drill results from the sulphide delineation programme became available late in Q3, and these were announced to the public in Q4. The intensive drill effort at Mapanipani North resulted in new geological interpretations and the discovery of a new footwall zone of mineralization. Preliminary metallurgical results from the sulphides were delivered in Q4 and these showed excellent recoveries that could produce marketable concentrates. The start of the permitting process was marked by the delivery of the Environmental, Archaeological and Water Studies to the government in Q4.

The first quarter of 2006 saw the finalization of the permitting studies, the effective completion of the infill drilling at Dukwe and the delivery of preliminary sulphide resources for a portion of the deposit utilizing an updated geological interpretation.

While the Board's goal is to develop the Dukwe deposit as its first mine, it is also excited about the prospects within the Matsitama and Thakadu and Makala exploration licenses. Two drill holes tested our geological model for these deposits after an extensive compilation effort. The stratabound-strataform copper-silver mineralization encountered at Thakadu and Makala appears to be more consistent and higher-grade than the hydrothermal shear hosted mineralization found at Dukwe. A 10,000 metre Phase 1 diamond drill programme is expected to commence in Q2 2006. African Copper hopes to complete a feasibility study on these deposits over the course of the next year.

As African Copper continues to grow towards production the Board will continue to seek growth in shareholder value and to sensibly use the resources that shareholders have entrusted to us. The Company will be aggressive in pursuing exploration, production and acquisition opportunities while remaining cognizant of market conditions and shareholder interests.

As a shareholder, you can be assured that the Board will protect your interests, will push management to achieve ever greater goals, will require the Company to develop projects in a sensible and environmentally sustainable manner, and will ensure the engagement of communities and stakeholders at all stages. The Board will remain active in the Company and will ensure the enforcement of the extensive Corporate Governance Policies and Procedures that have been put in place.

## CHAIRMAN'S STATEMENT - continued

On behalf of the Board, I would like to thank the shareholders and employees of African Copper for their support and loyalty in 2005 and through early 2006. I would also like to thank my fellow Directors for their active participation and contributions to the Company in its formative year. I expect that 2006 will be an exciting year for the Company, and for our shareholders.



Roy Corrans  
*Chairman*

31 March 2006

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management discussion and analysis ("MD&A") of the operating results and financial position of African Copper Plc (the "Company") and its subsidiaries is for the year ended 31 December 2005 compared with the period from the Company's incorporation on 11 February 2004 to 31 December 2004. The MD&A should be read in conjunction with the 31 December 2005 audited consolidated financial statements of the Company and the related Notes (the "Financial Statements") and the report entitled "Technical Report on the Dukwe Copper Project and Matsitama Prospecting Licences Botswana, Africa" prepared by A.C.A. Howe International Limited ("Howe") dated 30 March, 2006 (the "Technical Report"). The Financial Statements have been prepared under the historical cost convention and in accordance with United Kingdom generally accepted accounting principles ("UK GAAP") (See Note 2: Principal Accounting Policies). These principles differ in certain material respects from accounting principles generally accepted in Canada ("CDN GAAP"). Significant differences between UK GAAP and CDN GAAP applicable to the Company are described in Note 22 to the Financial Statements. All amounts herein are expressed in Sterling unless otherwise indicated and the information is current to 31 March 2006.

Additional information relating to the Company is available at [www.africancopper.com](http://www.africancopper.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Mr. Joseph Hamilton, P.Geo., the Company's Chief Operating Officer and a 43-101 "qualified person" as defined by the Canadian National Instrument 43-101, has reviewed the technical material contained herein.

### FORWARD-LOOKING STATEMENTS

Except for historical information contained in this discussion and analysis relating to African Copper, certain disclosure statements and information contained herein constitute forward-looking statements. Forward-looking statements include, but are not limited to, statements concerning the future price of copper, timing of the development of the Company's projects in Botswana, success of exploration activities, permitting time lines, requirements for additional capital, and the timing and possible outcome of pending and future regulatory applications and other statements which are not historical facts. When used in this document, the words such as "could," "plan," "estimate," "expect," "intend," "may," "potential," "should," and similar expressions are forward-looking statements. Although the Company believes that its expectations reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forward-looking statements. Important factors that could cause actual results to differ from these forward-looking statements include risks related to conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future prices of copper; possible variations in mineral resources or reserves, delays in obtaining governmental consents, permits and registrations or financing outcomes. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and the Company makes no responsibility to update them or to revise them to reflect new events or circumstances, except as required by law.

### 1.0 BUSINESS OVERVIEW

The Company operates in the resource industry in southern Africa. The principal business of the Company is the exploration and development of copper deposits in the Republic of Botswana. The Company has two principal project assets, both located in Botswana: the Dukwe Project and the Matsitama Project. Reference is made to the Technical Report, a copy of which has been filed on SEDAR and the Company's website.

The Company is incorporated in England and Wales with a listing on AIM and additional listings on the Toronto Stock Exchange ("TSX") and the Botswana Stock Exchange ("BSX"). The ordinary shares of African Copper trade on AIM and the TSX under the symbol ACU and on the BSX under the symbol "African Copper".

The Company's most advanced project is the Dukwe Project. Past work has included extensive drilling, sampling and subsequent engineering and metallurgical test work to delineate a substantial copper oxide resource. (reference is made to the Technical Report). During 2005, the Company substantially completed detailed engineering and cost estimates on a proposed open-pit, heap leach solvent extraction and electrowinning ("SX-EW") operation. This work included geotechnical studies, pit optimization studies, detailed costing estimates, equipment sizing, manpower estimates, environmental impact assessments, archaeological studies and infrastructure design.

In addition, a resource drilling delineation programme was designed and commenced with respect to the sulphide ore underlying the open pit (reference is made to the Technical Report). During the year, the Company retained a globally recognized independent consulting firm to oversee the drilling and sampling programme, and the ultimate resource estimation. The drilling is expected to be completed in the first quarter of 2006 with a final resource estimate of the complete sulphide zone delivered in the second quarter of 2006.

The Company also owns the 4,000 km<sup>2</sup> Matsitama project, which lies adjacent to and south east of the Dukwe project that offers 10 drill-ready and highly prospective targets, including the Thakadu-Makala deposits. An additional eight high-priority targets are ready for drilling with extensive surface geochemical copper anomalies. Thirty-five second-priority targets and an extensive geochemical and geophysical database will be systematically assessed over the next three years.

## **2.0 COPPER MARKET**

The availability of equity funding to the Company depends, in part, upon investor interest in the copper sector. As a result of its properties, singularly or in combination, of high ductility, malleability, and thermal and electrical conductivity, and its resistance to corrosion, copper has become a major industrial metal, ranking third after iron and aluminium in terms of quantities consumed. Electrical uses of copper, including power transmission and generation, building wiring, telecommunication, and electrical and electronic products, account for about three quarters of total copper use. Building construction is the single largest market, followed by electronics and electronic products, transportation, industrial machinery, and consumer and general products. Copper by-products from manufacturing and obsolete copper products are readily recycled and contribute significantly to copper supply.

The majority of demand comes from the US, Europe and Asia. Growth in copper demand has been enhanced recently by the industrialization of emerging economies in Asia and, in particular, China. China's share of world copper demand has risen from approximately 3% in 1970 to approximately 23% in 2004. Asia now accounts for almost half of the world's copper consumption. Other factors contributing to recent growth include worldwide demand for consumer products, strong housing markets and the expansion and maintenance of electrical infrastructure.

This increase in demand has caused a drawdown in copper inventories which has led to a recent decline in stocks of copper held by the international exchange warehouses. The cash price for copper has risen dramatically as a result of this shortage. The price of copper has been volatile historically, trading within a range of US\$0.60/lb to US\$1.54/lb from 1990 to 2004 and recently trading as high as US\$ 2.37 /lb on March 20, 2006.

Copper prices have also been cyclical historically, as periods of global oversupply depress prices, discourage new production and cause copper producers to curtail mine and refinery output. This results in a period of supply constraint that increases prices and encourages new production. Since 2003, growing demand for copper, combined with the inability of copper producers to increase supply, has substantially depleted copper inventories and increased prices. During 2005 there were a number of supply disruptions, caused by smelter shortfalls and mine strikes, which, when coupled with continuing strong demand, caused global inventories of refined copper stocks to be drawn down and copper prices to increase to historic highs.

The copper market is expected to remain strong throughout 2006 driven by high demand and steady supply. However, it is not possible to forecast future copper price trends and their impact on the future results from the Company's projects.

### **3.0 CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in conformity with UK GAAP requires the Company to select from possible alternative accounting principles, and to make estimates and assumptions that determine the reported amounts of assets and liabilities at the balance sheet date, and reported costs and expenditures during the reporting period. Estimates and assumptions may be revised as new information is obtained, and are subject to change. The Company's accounting policies and estimates used in the preparation of the Financial Statements are considered appropriate in the circumstances, but are subject to judgments and uncertainties inherent in the financial reporting process.

#### **Goodwill**

Goodwill arising on consolidation is capitalised and shown within fixed assets. Amortization of goodwill arising from the acquisition of Mortbury Limited ("Mortbury") in May 2004 and the purchase of the Mortbury preference share in November 2004 is to be deferred until production occurs, when it will be charged over the expected production period of the project. Where a project is abandoned or is determined to not be economically viable, the goodwill is written off.

#### **Resource Properties, Deferred Exploration and Development Costs**

All costs related to the exploration of mineral properties are capitalised until either the properties are brought into production, at which time they are depleted on a unit of production basis, or until the properties are sold, allowed to lapse or abandoned or determined not to be economically viable, at which time they are charged to the profit and loss account.

The amounts capitalised at any time represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of particular properties. The recoverability of the carrying values of exploration properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete development and future profitable production therefrom or alternatively upon the Company's ability to dispose of its interests on an advantageous basis.

Management is of the view that the current policy is appropriate for the Company at this time and is consistent with many other public exploration and development companies in the UK and Canada. Shareholders are advised that carrying values are not necessarily indicative of present or future values. The Company assesses whether impairment exists in any of its exploration projects, and writes down that project to its estimated recoverable value when such impairment is found to exist. No writedowns were recorded in 2005. A writedown would be recorded as an expense in the Company's profit and loss account.

#### **Asset Retirement Obligations**

The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset is depreciated over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. At 31 December 2005, the Company has not incurred or committed any asset retirement obligations related to the development of its Dukwe and Matsitama Projects.

#### **Change in Accounting Policy – Share Based Payments**

In 2005, the Company elected to comply with Financial Reporting Standard 20 ("FRS 20"), "Share Based Payments" with effect from the Company's date of incorporation 11 February 2004. Under FRS 20, the Company is required to charge the profit and loss account with the fair value of the options issued. This calculated charge amount is not based on historical cost, but is derived based on assumptions input into an option pricing model. The model requires that management make several assumptions as to future events, including: an estimate of the average future hold period of issued stock options before exercise, expiry or cancellation; future volatility of the Company's share price in the expected hold period (using historical volatility as a reference); and the appropriate risk-free rate of interest. The resulting

## MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

value calculated is not necessarily the value of which the holder of the option could receive in an arm's length transaction, given there is no market for the options and they are not transferable. It is management's view that the value derived is highly subjective and dependent entirely upon the input assumptions made. The fair value of the option is either expensed or capitalized as a deferred exploration cost depending on the nature of the grant. The effect of this change in accounting policy was to increase the loss before tax for the period ended 31 December 2004 by £331,800 and increase the net assets of the Company at 31 December 2004 by £96,500. The effect during the current year was to increase the loss before taxation by £120,277 and to increase net assets at 31 December 2005 by £388,048.

### 4.0 OVERALL PERFORMANCE

The Company recorded a net loss for 2005 of £612,206 (£1.19p), compared with £652,139 (£3.07p) in 2004. The net loss was lower in 2005 primarily due to increased interest income of £529,623 compared with £83,483 in 2004. The increase in interest income during 2005 can be attributed to an increase in average cash and short term deposit balances during 2005 resulting from the 12 November 2004 placing of 19,736,843 ordinary shares which raised gross proceeds of £15 million and the additional funds of £1 million received during 2005 from the exercise of warrants.

Increased costs in 2005 reflect the first year of normal operations for the Company due to the fact that prior to November 2004, it had limited financial resources to pursue its business plan. During 2004, the Company remained largely inactive prior to the acquisition of Mortbury Limited in May 2004 and then focused its efforts on completing its initial public offering ("IPO") in November 2004. At 31 December 2005 the Company had working capital of £9.0 million compared to £13.3 million at 31 December 2004.

	<i>Year ended</i> <b>31 December</b> <i>2005</i> £	<i>Period from</i> <b>11 February</b> <i>2004</i> <b>31 December</b> <i>2004</i> £ (as restated)*
Bank interest receivable	(529,623)	(83,483)
Share based compensation (see Section 3 – Change in Accounting Policy – Share based payments)	120,277	331,800
Administrative Costs:		
Administration	32,965	–
Directors fees	55,150	11,650
Office costs	119,192	69,099
Insurance	39,782	–
	<u>247,089</u>	80,749
Listing on Botswana and Toronto Stock Exchanges	113,879	–
Consultants, salaries and benefits	233,540	76,839
Shareholder communication and public company administration	87,400	19,852
Travel, accommodation, analyst trip and conferences	133,639	67,727
Professional fees	185,166	167,027
Foreign exchange	3,898	(8,372)
Tax	16,941	–
Net loss	<u>612,206</u>	<u>652,139</u>

\* see note 2(h) Share based payment in the Financial Statements

## MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

As noted in Section 3 – Change in Accounting Policy – Share Based Payments the Company elected to comply with Financial Reporting Standard 20 (“FRS 20”) “Share Based Payments” with effect from the Company’s date of incorporation 11 February 2004. Share based compensation expenses of £120,277 (2004: £331,800) are non-cash expenses and reflect the derived value of stock options granted during the year. An additional amount of £388,048 (2004: £96,500) was recorded as a non-cash expenditure to deferred exploration costs as the grant of options was made to personnel whose compensation is capitalized to the relevant deferred exploration property.

The increase in corporate administrative costs to £247,089 in 2005 compared to £80,749 in 2004 reflects the business development activities of the Company during the year as it established infrastructure and offices to support corporate activities and to complete the sulphide resource delineation programme and feasibility study on the open-pit portion of the Dukwe Project.

To enhance its contacts with certain shareholders and potential investors, the Company was successful in listing on the Botswana and Toronto Stock Exchange during the year. Salaries and management compensation increased to £233,540 from £76,839 in 2004 as a result of the addition of new staff and the cost of existing staff for a full year in 2005. Salaries and management compensation are either expensed to the profit and loss account or capitalized to deferred exploration depending on the nature of work performed. In 2005, a total of £318,745 of salaries and management compensation was capitalized compared to £nil in 2004. Shareholder communication and public company administration costs (£87,400 compared with £19,852 in 2004) mainly reflects additional reporting and administration costs associated with the Company’s Botswana and Toronto Stock Exchange listings during the year. Travel, accommodation, analyst trip and conference costs (£133,638 compared to £67,727 in 2004) increased as the Company responded to improved investor interest by meeting investors, conducting trips to the Company’s Botswana properties and disseminating corporate information.

Loss for the fourth quarter of 2005 was £72,666 (0.14p per share) versus £526,050 (2.5p per share) in the fourth quarter of 2004. The following table provides an analysis of the comparison of the two periods:

	<i>Three months Ended 31 December 2005 £</i>	<i>Three months Ended 31 December 2004 £</i>
Net loss	<b>(72,666)</b>	(526,050)
Add: Interest income	<b>(111,072)</b>	(70,997)
Add: Salary costs capitalized to deferred exploration	<b>(148,661)</b>	–
Add: Travel costs capitalized to deferred exploration	<b>(41,354)</b>	–
Less: Share based payments expensed as per adoption of FRS 20 Share Based Compensation	<b>120,277</b>	331,800
Adjusted net loss for comparison purposes	<b>(253,476)</b>	(265,247)

After taking into account interest, costs capitalized to deferred exploration in 2005 and expenses relating to the adoption of FRS 20, expenses in the fourth quarter of 2005 were lower than in the comparable quarter in 2004. During 2004 no salaries or related travel costs were capitalized to deferred exploration since most activities related to administrative tasks in completing the IPO in November 2004 rather than work directly related to the Company’s exploration properties in Botswana. In addition, certain office costs and professional fees were expensed and paid in the fourth quarter of 2004 after the successful completion of the IPO.

### 5.0 INVESTMENT IN DEFERRED EXPLORATION AND DEVELOPMENT

Cumulative expenditures on deferred exploration increased during the financial year ended 31 December 2005 to £7.2 million from £2.3 million at 31 December 2004. This £4.9 million increase during the year primarily reflects the total amount spent by the Company on

exploration, resource delineation drilling and detailed engineering programmes (the “2005 Dukwe Programme”). The fiscal 2005 operating budget for administration and development of the Dukwe Project and exploration of the Matsitama Project was set at approximately £7.25 million. Due to delays in sourcing a suitable drill contractor, drill mobilization holdups and slower than expected drilling rates the 2005 Dukwe Programme did not progress on plan, thereby, causing actual expenditures to be less than budgeted expenditures. However, the costs budgeted in fiscal 2005 are planned to be spent in fiscal 2006 as the Dukwe programmes are completed.

Management has conducted a review of its deferred exploration accounts. As at 31 December 2005 its Dukwe Project, is carried at £6.88 million and its Matsitama Project is carried at £0.28 million. The Company has determined that these carrying values are appropriate based on its assessment of realizable value.

A table outlining the additions to the Deferred Exploration Costs is presented in Section 5.1.2 and 5.2.2 below.

## **5.1 DUKWE PROJECT**

### **Strategy and Outlook**

The Company's goal is to develop the Dukwe deposit as its first mine in the Matsitama Belt of Botswana. In order to achieve its stated mission the Company focused its fiscal 2005 operational plan on completing the detailed engineering for an open pit heap leach, SX-EW operation at the Dukwe oxide deposit while concurrently working on a feasibility study for the proposed Dukwe sulphide underground mining operation.

#### **Dukwe Oxide**

In 2005, the feasibility study was completed on the proposed Dukwe oxide heap leach operation. Several factors, including the high strip ratio in the open pit, excessive acid consumption in the heap, cost escalation in mining, fuel, acid and explosives, combined to render the open pit mining of the oxide deposit marginal at prices less than US\$1.30 per pound of copper. The board of directors of the Company elected to defer the development decision on the oxide deposit until sufficient engineering had been completed on the deeper sulphide underground portion of the Dukwe deposit.

#### **Dukwe Sulphide**

In 2005, a major resource definition drill programme was initiated comprising of metallurgical holes, twinned and scissor verification holes, and outline and infill holes to provide a resource estimate for the deeper sulphides.

At the same time metallurgical testwork studies, including bench scale flotation batch tests and locked cycle tests, were commenced and ultimately showed that the near surface supergene and transition material could be treated through a flotation concentrator. Since the flotation concentrator would also be needed for the underground sulphides, the board elected to accelerate the detailed engineering of a flotation plant and concentrator in parallel with the sulphide drilling programme.

In the Technical Report, Howe concluded the following:

1. pursue a trial mining and underground exploration programme (the “Underground Trial Mining Programme”) to mine the four near surface discrete higher grade zones, specified in the Technical Report as Zones A,B,C and D, and test the Dukwe deposit resource model and mineability of the deeper sulphide resources; and
2. in order to take advantage of short to medium term high copper process, construct a production scale flotation concentrator plant in conjunction with the Underground Trial Mining Programme.

## Permitting

In order to proceed with the Company's plan to commence mining the Dukwe deposit, a mining licence, a surface rights permit for the plant and a water abstraction permit have to be obtained, and an environmental impact assessment has to be updated and approved.

The Final Draft Environmental Impact Assessment Report on the Company's proposed mining operation (the "EIA"), prepared by Water Surveys (Botswana) (Pty) Ltd., was submitted to the Department of Mines in November 2005 and the Ministry's comments have been received by the Company. In response to these comments, the EIA is being updated to reflect the current underground mining plan. The Company expects to re-submit the EIA to the Department of Mines in early April 2006. The Company is commencing the development of an environmental mitigation plan based on the EIA. This plan is required prior to the application for a mining licence, and will detail the environmental management that will be undertaken during operations.

Application to the Lands Board, Bamangwato Tribal Administration has been made for surface rights for the proposed plant site. The application has been processed, but the issuance of the surface rights permit has been deferred pending government acceptance of the EIA.

In conjunction with the EIA, a hydrogeological water resources study was completed. As a result of this study, an aquifer was identified to the north of the deposit that appears to be able to provide sufficient water for the Dukwe mining operations. By the end of April 2006, the Company expects to complete the drilling of boreholes into this aquifer to test the water levels and flow rates within the aquifer. Upon completion and flow testing of these boreholes, the Company will apply for an abstraction permit which will allow the Company to withdraw sufficient process water to support the operations at the Dukwe deposit.

The required archaeological impact study has been approved by the National Museum of Botswana, and a conditional permit has been issued.

Once the EIA is approved and the surface rights and water abstraction permits are granted, the Company intends to apply for the mining licence to cover the area containing and immediately surrounding the Dukwe deposit.

5.1.2 DUKWE PROJECT – EXPENDITURES

	<i>Year ended</i> <b>31 December</b> <b>2005</b> <b>£'000</b>	<i>Period from</i> <b>11 February</b> <b>2004 to</b> <b>31 December</b> <b>2004</b> <b>£'000</b>
<b>Opening Balance</b>	2,186	–
Arising on Mortbury acquisition 26 May 2004	–	2,035
<b>Exploration:</b>		
Drilling	2,196	–
Site management and logging core	299	–
Assay	183	–
Geological	48	–
Geophysical	76	–
Government permitting	–	18
	<u>2,802</u>	<u>18</u>
<b>Mine Development:</b>		
Detailed engineering	1,150	–
Government permitting	44	–
Administration	312	36
Depreciation capitalized	42	–
Road upgrade	4	–
Supply of electricity	214	–
Plant and equipment	51	–
	<u>1,817</u>	<u>36</u>
Foreign Exchange	(315)	
Share Based Compensation	388	97
<b>Ending balance</b>	<u>6,878</u>	<u>2,186</u>

5.2 MATSITAMA PROJECT

The Matsitama Prospecting Licences cover a very large area, some 4,000 km<sup>2</sup> of highly prospective mineral holdings. These licences are contiguous with the Dukwe deposit discussed above. Work during 2005 concentrated on the compilation and interpretation of a large geochemical, geophysical and drill database that had been assembled over the previous 40 years of exploration on the belt.

The Thakadu-Makala deposits represent an advanced exploration project that might develop into a mining project in its own right or, alternatively, as a complementary project running either in parallel or in series with the Dukwe Project. Howe concluded in the Technical Report that the Company is justified in undertaking a major advanced exploration programme at the Thakadu-Makala deposits and since this work might impact to some extent on the current development plan at the Dukwe deposit it should be completed without delay.

Howe also concluded that the Matsitama Project has a wealth of systematic multidisciplinary exploration data that indicate substantial areas of highly prospective terrain especially for sediment-hosted copper and zinc deposits. Recent compilation work by the Company

has brought several prospects outside of the Dukwe and Thakadu-Makala deposits to the forefront as locations deserving substantial exploration efforts. These areas include:

- Thakadu-Makala-Dihudi-Mukutsu
- Tholo-Lepashe-Tau
- Naklakwana
- along strike extensions of the Dukwe deposit

**5.2.2 MATSITAMA PROJECT – EXPENDITURES**

	<i>Year ended</i>	<i>Period from</i>
	<i>31 December</i>	<i>11 February</i>
	<i>2005</i>	<i>2004 to</i>
	<i>£'000</i>	<i>31 December</i>
		<i>2004</i>
		<i>£'000</i>
<b>Beginning Balance</b>	<b>144</b>	–
Arising on Mortbury acquisition 26 May 2004	–	142
Drilling	21	–
Assay	1	–
Geological	76	–
Administration	37	–
Government Permitting	2	2
<b>Ending balance</b>	<b>281</b>	<b>144</b>

**6.0 SUMMARY OF ANNUAL RESULTS**

The Company was incorporated on 11 February 2004. The Company's reporting currency is Sterling. The Company's subsidiary measurement currencies include: Mortbury (Sterling), Messina Copper (Botswana) (Proprietary) Limited (Botswana Pula) and Matsitama

## MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

Minerals (Proprietary) Limited (Botswana Pula). The following table sets out selected annual information on the Company, which data has been prepared in accordance with applicable United Kingdom Accounting Standards:

	<b>Year ended</b> <b>31 December</b> <b>2005</b> (audited)	<b>Period from</b> <b>11 February</b> <b>2004</b> <b>to 31 December</b> <b>2004</b> (as restated)*	<b>Period from</b> <b>11 February</b> <b>2004</b> <b>to 31 December</b> <b>2004</b> (audited)
Interest Income	£(529,623)	£(83,483)	£(83,483)
Operating expenses	£1,124,887	£735,622	£403,822
Loss before tax	£595,264	£652,139	£320,339
Loss after tax	£612,206	£652,139	£320,339
Basic loss per ordinary share	1.19p	3.07p	1.50p
Diluted loss per ordinary share	1.19p	3.07p	1.50p
Total assets	£26,865,941	£24,612,721	£24,516,221
Total liabilities	£(1,912,530)	£(261,452)	£(261,452)
Shareholders' equity	£24,953,411	£24,351,269	£24,254,769

\* In 2005, the Company elected to comply with FRS 20 "Share Based Payments" with effect from the Company's date of incorporation 11 February 2004.

### 7.0 SUMMARY OF QUARTERLY RESULTS

The following table sets out selected financial data on the Company for the most recently completed eight quarters, which data has been prepared in accordance with applicable United Kingdom Accounting Standards:

	<b>Q4</b> <b>31 Dec.</b> <b>2005</b>	<b>Q3</b> <b>30 Sept.</b> <b>2005</b>	<b>Q2</b> <b>30 June</b> <b>2005</b>	<b>Q1</b> <b>31 March</b> <b>2005</b>
<b>Interest revenues</b>	£(111,072)	£(154,409)	£(136,649)	£(127,493)
Net loss after tax	£72,666	£137,123	£227,913	£174,504
Basic loss per ordinary share	0.14p	0.26p	0.44p	0.35p
Diluted loss per ordinary share	0.14p	0.26p	0.44p	0.35p
	<b>Q4*</b> <b>31 Dec.</b> <b>2004</b>	<b>Q3</b> <b>30 Sept.</b> <b>2004</b>	<b>Q2</b> <b>30 June</b> <b>2004</b>	<b>11 Feb</b> <b>to 31 March</b> <b>2004</b>
Interest revenues	£(70,997)	£(3,592)	£(8,894)	–
Net loss after tax	£526,050	£108,864	£17,225	–
Basic loss per ordinary share	2.48p	0.41p	0.17p	–
Diluted loss per ordinary share	2.48p	0.41p	0.17p	–

\* As restated – includes £331,800 adjustment for the fair value of stock based compensation – see Note 2(h) – Stock Based Compensation in the Financial Statements.

## 8.0 CAPITAL RESOURCES AND LIQUIDITY

The Company had a net working capital balance of £9.0 million at 31 December 2005 compared to £13.3 million at 31 December 2004. Creditors increased from approximately £0.3 million in 2004 to £1.9 million in connection with outstanding invoices for the drilling, detailed engineering and feasibility programmes being conducted in Botswana at the Dukwe Project. Working capital decreased during the year due to the costs related to the 2005 Dukwe Programme and the exploration and drilling programmes conducted at the Matsitama Project.

The Company's existing cash resources are expected to be sufficient to fund the Company's following planned exploration and development activities in fiscal 2006 and fund general and administration costs until the end of fiscal 2007:

1. Complete the sulphide resource delineation drilling programme, resource estimate, detailed engineering and feasibility studies at the Dukwe Project which commenced in fiscal 2005;
2. Additional exploration and drilling programme along strike at the Dukwe Project; and
3. Phase 1 drill programme of Thakadu and Makala at the Matsitama Project.

The planned exploration and development activities presented above do not include (except for point 3 above) the recommended work programmes included in the Technical Report. However, during fiscal 2006 the Company intends to seek the necessary finance to undertake the recommendations contained in the Technical Report.

Since its inception, the Company has relied on the capital markets (in particular the equity markets) to fund its exploration and other activities. The Company's existing cash resources are insufficient to fund the Dukwe and Matsitama Projects to commercial development and the Company will have to rely upon equity markets or other sources of capital (from project finance, potential joint venture partners or other arrangements), the availability of which cannot be assured, in order to continue funding such development. Capital markets are subject to significant volatilities and uncertainties. There can be no assurance that the Company's undeveloped projects can be totally developed, in whole or in part, since factors beyond the Company's control may adversely affect its access to funding or its ability to recruit third party participants.

During the year ended 31 December 2005, a total of £1,021,192 was generated from the exercise of 2,012,967 warrants to purchase ordinary shares of the Company at 50p and 28,015 warrants to purchase ordinary shares of the Company at 52.5p. At 20 February 2006 outstanding warrants represented a total of 2,374,030 ordinary shares issueable for maximum aggregate proceeds of £1,246,366 if exercised prior to 12 November 2006 or £1,661,821 if exercised between 13 November 2006 and 12 November 2007.

At 31 March 2006 outstanding options represented a total of 5,659,872 ordinary shares issueable for maximum aggregate proceeds of £3,137,493 if exercised.

The Company does not currently have contractual obligations with regards to any purchase obligations or financings. The Company has entered into agreements for serviced office accommodation in the UK and Canada as shown below under Operating Obligations:

	<b>Total</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Contractual Obligations</b>					
Long Term Debt	–	–	–	–	–
Capital Lease Obligation	–	–	–	–	–
Operating Obligations	122,000	91,000	20,000	11,000	–
Purchase Obligation	–	–	–	–	–
Other Long Term Obligation	–	–	–	–	–
<b>Total Contractual Obligations</b>	<b>122,000</b>	<b>91,000</b>	<b>20,000</b>	<b>11,000</b>	<b>–</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

The Company's wholly-owned subsidiaries, Messina Copper (Botswana) (Proprietary) Limited and Matsitama Minerals (Proprietary) Limited, are obliged to incur certain minimum expenditures in respect of their prospecting and retention licences. Below is a summary of this expenditure commitment as set out in the original licences:

<i>Licence Number</i>	<i>Duration</i>	<b>2006</b>	<b>2007</b>
		<b>£</b>	<b>£</b>
<b>Matsitama</b>			
14/2004	April 2004 - March 2007	59,866	–
15/2004	April 2004 - March 2007	59,866	–
16/2004	April 2004 - March 2007	59,866	–
17/2004	April 2004 - March 2007	59,866	–
01/2005	Jan. 2005 - Dec. 2007	26,401	26,401
<b>Dukwe</b>			
2004/1R	Jan. 2005 - Dec. 2006	38,018	–
33/2005	July 2005 - September 2008	64,255	64,255

Note:

<sup>1</sup> *Converted from Pula into British Pounds Sterling at an exchange rate of 9.4693 Pula for one British Pound Sterling.*

### 9.0 OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet transactions.

### 10.0 TRANSACTIONS WITH RELATED PARTIES

The Company was charged £17,625 (2004 – £42,257) and £95,561 (2004 – £42,257) for the three and twelve months ended 31 December 2005 by the Dragon Group, a group controlled by A. J. Williams, a director of the Company for the provision of fully serviced office accommodation in the UK and reimbursed expenses. Accounts payable at 31 December 2005 were £12,651 (2004 – £42,257).

The Company was charged £12,817 (2004 – £22,766) and £43,421 (2004 – £22,766) for the three and twelve months ended 31 December 2005 by the Summit Resource Management Limited, a company controlled by D. Jones, a director and Chief Executive Officer of the Company, for the provision of fully serviced office accommodation in Canada and reimbursed expenses. Accounts payable at 31 December 2005 were £2,394 (2004 – £1,131).

The Company was charged £79,799 (2004 – £11,598) for the twelve months ended 31 December 2005 by Aegis Instruments, Micromine and MGE Consulting, owner of which is a director of a subsidiary, in respect of provision of geophysical and geological consulting and administration services. Accounts payable at 31 December 2005 were £11,229 (2004 – £3,222).

These related party transactions were in the normal course of operations and were measured at the exchange amounts.

### 11.0 RISKS

The exploration for and exploitation of natural resources are speculative activities that involve a high degree of risk for the Company and shareholders. The risk factors which should be taken into account in assessing the Company's activities include, but are not limited to, those set out below.

The risks noted below do not necessarily comprise all those faced by the Company and are not intended to be presented in any assumed order of likelihood or magnitude of consequences.

**The development of the Dukwe and Matsitama Projects into commercial operation cannot be guaranteed**

In general, development projects have no operating history upon which to base estimates of future cash operating costs. For development projects such as the Dukwe Project, estimates of mineral resources and mineral reserves are, to a large extent, based upon the interpretation of geological data obtained from drill holes and other sampling techniques and feasibility studies. This information is used to calculate estimates of the capital cost, cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed, the configuration of the orebody, expected recovery rates, comparable facility and equipment operating costs, anticipated climatic conditions and other factors. In addition, there remains to be undertaken certain work on the Dukwe Project that could adversely impact estimates of capital and operating costs of the project and such differences could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

There can be no assurance that the Company will be able to complete development of the Dukwe and Matsitama Projects (the "Projects") at all or on time or to budget due to, among other things, changes in the economics of the Projects, delays in receiving required consents, permits and registrations (including a mining licence), the delivery and installation of plant and equipment and cost overruns, or that the current personnel, systems, procedures and controls will be adequate to support the Company's operations. Should any of these events occur, it would have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

**Copper price volatility may affect the production, profitability, cash flow and financial position of the Company**

The Company's revenues, if any, are expected to be derived from the extraction and sale of copper concentrate. The price of copper has fluctuated widely, particularly in recent years, and is affected by numerous factors beyond the Company's control including international, economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and increased production due to new extraction developments and improved extraction and production methods. In recent years the price of copper has been affected by changes in the worldwide balance of copper supply and demand, largely resulting from economic growth and political conditions in China and other major developing economies. While this demand has resulted in higher prices for copper in recent years, if Chinese economic growth slows, it could result in lower prices for copper. The effect of these factors on the price of copper, and therefore the current or future economic viability of any of the Company's projects, cannot accurately be predicted. Any material decrease in the prevailing price of copper for any significant period of time would have an adverse and material impact on the economic evaluations contained in this prospectus and on the Company's results of operations and financial conditions, as well as the economic viability of the Projects.

**The Company currently depends significantly on a single project – the Dukwe Project**

The Company's activities are focused primarily on the Dukwe Project in Botswana. Any adverse changes or developments affecting this project would have a material and adverse effect on the Company's business, financial condition, results of operations and prospects.

**Future production estimates may not be achieved and are subject to the normal risks of mining operations**

The Company's future mining operations are subject to all of the hazards and risks normally incidental to exploration, development and the production of copper, any of which could result in damage to life or property, environmental damage and possibly legal liability for any or all damage. The Company's activities may be subject to prolonged disruptions due to weather conditions, hazards, such as unusual or unexpected geologic formations, flooding or other conditions that may be encountered in the drilling and removal of material.

There may be a higher than normal risk of operational problems being experienced, resulting from inexperience of plant management, operating and maintenance staff should suitably trained personnel resources not be readily available in Botswana or not otherwise easily employed from within the Southern Africa region. This situation could also be impacted by delays in issuing of necessary work and other labour permits to allow expatriate expertise to be utilized to the extent necessary.

**The success of current and future exploration activities cannot be assured**

The exploration and development of mineral deposits involves significant financial risks over a prolonged period of time, which even a combination of careful evaluation, experience and knowledge cannot eliminate. While discovery of a mineral structure may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenditure may be required to establish mineral reserves by drilling and to construct mining and processing facilities at a site. It is impossible to ensure that preliminary feasibility studies or full feasibility studies on the Projects or the current or proposed exploration programmes the Projects will ever result in the discovery of an economically viable mineral deposit or in a profitable commercial mining operation.

Whether a copper deposit will be commercially viable depends on a number of factors, some of which are the particular attributes of the deposit, such as its size and grade, proximity to infrastructure, financing costs and governmental regulations, including regulations relating to prices, taxes, royalties, infrastructure, land use, importing and exporting of copper and environmental protection. The effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company's Projects not being, or ceasing to be, viable, which would have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

**The Company will require additional capital in the future and no assurance can be given that such capital will be available at all or available on terms acceptable to the Company**

The exploration and development of the Company's properties and the construction of mining facilities and commencement of mining operations, will require substantial additional financing. Failure to obtain sufficient financing for the Projects and any future projects will result in a delay or indefinite postponement of exploration, development or production on the Company's properties or even a loss of a property interest. The only source of funds currently available to the Company is through the issue of equity capital, the sale of properties, royalty interests, the entering into of joint ventures or incurring debt. Additional financing may not be available when needed or if available, the terms of such financing might not be favourable to the Company and might involve substantial dilution to existing shareholders.

**Foreign investments and operations are subject to numerous risks associated with operating in foreign jurisdictions**

The Company is a foreign company and conducts its operations through foreign subsidiaries, and substantially all of its assets are held in such entities. Accordingly any limitation on the transfer of cash or other assets between the parent corporation and such entities, or among such entities, could restrict the Company's ability to fund its operations efficiently. Any such limitations, or the perception that such limitations may exist in the future, could have a material and adverse impact on the Company's valuation.

In addition, operating in foreign jurisdictions exposes the Company to the effects of political, economic or other risks, including changes in foreign laws (whether arbitrary or not), expropriation or nationalization of property, risks of loss due to civil strife, acts of war, insurrection or terrorism (including the effects of such acts which occur in neighbouring states), cancellation or renegotiation of contracts or the inability to enforce legal rights in the foreign jurisdiction.

**The Company has no operating history and a history of losses and there can be no assurance that the Company will ever be profitable**

The Company has no mineral properties from which any ore has ever been extracted and sold and its ultimate success will depend on its ability to generate cash flow from producing properties in the future. The Company has not earned profits to date and there is no assurance that it will do so in the future.

**Government regulations may have an adverse effect on the Company's mining operations**

The Company, its subsidiaries, its business and its operations are subject to various laws and regulations. The costs associated with compliance with such laws and regulations may cause substantial delays and require significant cash and financial expenditure, which may have a material adverse effect on the Company's business, financial condition, results of operations, and prospects and, in particular, the development of the Dukwe Project.

The Company's operations and its ability to hold various mineral rights require licences, permits and authorizations and, in some cases, renewals of existing licences, permits and authorizations from various governmental and quasi-governmental authorities. The Company believes that it currently holds or has applied for all necessary licences, permits and authorizations to carry on the activities that it is currently conducting and to hold the mineral rights it currently holds under applicable laws and regulations in effect at the present time, and also believes that it is complying in all material respects with the terms of such licences, permits and authorizations. However, the Company's ability to obtain, sustain or renew such licences, permits and authorizations on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable governmental and quasi-governmental bodies. Further, additional licences and permits that are necessary to permit the Company to commercially exploit the Dukwe Project (including a mining licence) may not be obtained. While there is no reason to believe that a mining licence will not ultimately be granted, the grant of the mining licence and the timing thereof cannot be guaranteed.

**Currency fluctuations may affect the costs that the Company incurs in its operations**

Copper is sold throughout the world, principally in US Dollars. The Company's costs are incurred primarily in British Pounds Sterling, Canadian Dollars, South African Rand and Botswana Pula. Changes in the currency exchange rates of the US Dollar against British Pounds Sterling, Canadian Dollars, South African Rand or Pula (i) may affect the capital and operating costs of the Projects and (ii) will affect the results presented in the Company's financial statements and cause its earnings to fluctuate. As well, such fluctuations may affect the cash flow that the Company hopes to realise from its operations. Accordingly, the Company will be exposed to exchange rate fluctuations which could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Further, there is no guarantee that the government of Botswana will not impose restrictions on the convertibility of and obligations to remit and convert to local currency in future. Such fluctuations in foreign currency or restrictions on the convertibility of and obligations to remit and convert to the currency of Botswana could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

**The prevalence of HIV/AIDS in Botswana may adversely impact the Company's proposed mining operations**

The per capita incidence of the HIV/AIDS virus in Botswana has been estimated as being one of the highest in the world, according to public sources. As such, HIV/AIDS remains the major healthcare challenge faced by Botswana and the Company's operations in the country. If the number of new HIV/AIDS infections in Botswana continues to increase and if the Botswana government imposes more stringent obligations on employers related to HIV/AIDS prevention and treatment, the Company's operations in Botswana and profitability could be adversely affected.

**The Company relies on key personnel and its management team and outside contractors (including those in Botswana), and the loss of one or more of these persons may adversely affect the Company**

The Company's business is dependent on retaining the services of a small number of key personnel of the appropriate calibre as the business develops. The Company has entered into employment agreements with certain of its key executives. The success of the Company is, and will continue to be, to a significant extent, dependent on the expertise and experience of the directors and senior management and the loss of one or more could have a materially adverse effect on the Company.

The Company will rely heavily on sub-contractors to build, run and maintain the Projects. The failure of a sub-contractor to perform properly its services to the Company could delay or frustrate mining operations, and have a materially adverse effect on the Company.

**12.0 FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash and cash equivalents, debtors, creditors and accrued liabilities, some of which are denominated in Sterling, Botswana Pula, United States dollars, Canadian dollars, Australian dollars and South African Rand. These accounts are recorded at cost which approximates their fair value at each reporting period end value in Sterling. The Company experiences financial gains or losses on these accounts as a result of foreign exchange movements against Sterling. The Company minimizes its foreign exchange risk by maintaining low Pula account balances, to the extent possible. The Company does not have major commitments to acquire assets in Botswana at this time, but does expect that certain significant expenditures in developing and operating a mine at Dukwe will be denominated in Botswana Pula and South African Rand. As mine development costs are incurred and purchase commitments made, the Company may acquire Botswana Pula and South African Rand or use derivative positions to lock in these costs in Sterling funds, if it believes it prudent to do so.

The Company has placed its cash and cash equivalents in short-term liquid deposits or investments which provide a revised rate of interest upon maturity.

**13.0 EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this management's discussion and analysis, management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this MD&A, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* of the Canadian Securities Administrators) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**14.0 OUTSTANDING SHARE DATA**

<b>Outstanding Ordinary Shares</b>	<b>Number</b>
Balance 31 December 2004	49,992,173
Ordinary shares issued on the exercise of warrants	<u>2,040,982</u>
Balance 31 December 2005	<u>52,033,155</u>
Ordinary shares issued on the exercise of warrants	<u>100,000</u>
Balance 31 March 2006	<u>52,133,155</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

<b>Warrants</b>	<b>Number</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
Warrants*	2,502,045	52.5p	12 November 2007
Warrants	2,836,182	50.0p	31 March 2005
Balance 31 December 2004	5,338,227		
Exercise of Warrants	(2,012,967)	50.0p	31 March 2005
Expiry of Warrants	(823,215)	50.0p	31 March 2005
Exercise of Warrants	(28,015)	52.5p	
Balance 31 December 2005	2,474,030		
Exercise of Warrants	(100,000)	52.5p	
Balance 31 March 2006	2,374,030		

\* exercise price is 52.5p for the first two years of the exercise period and 70p for the third year of the exercise period

<b>Options</b>	<b>Number</b>	<b>Weighted Average Exercise Price</b>
Mortbury option plan *	1,250,000	\$Can 0.25
Mortbury option plan *	450,000	35.0p
Company option plan	1,290,000	60.1p
Compensation option**	499,872	83.6p
Balance 31 December 2004	3,489,872	42.5p
Options granted	2,260,000	76.0p
Options cancelled	(90,000)	76.0p
Balance 31 December 2005 and 31 March 2006	5,659,872	52.6p

\* Under the Mortbury option plan, directors, employees and consultants of Mortbury were granted options to acquire ordinary shares in Mortbury. As a result of the acquisition of Mortbury, the Company agreed to satisfy these options by issuing shares in the Company on the same basis as shares were issued to Mortbury shareholders. No further options will be granted under the Mortbury option plan. There are an aggregate of 5,200,514 ordinary shares reserved for issuance under the Company's option plan and 1,700,000 ordinary shares reserved for issuance under the Mortbury option plan.

\*\* Compensation option issued to Numis Securities Limited ("Numis") in connection with the Company's initial public offering on 12 November 2004. The compensation option entitles Numis to subscribe for 499,872 ordinary shares at 83.6 p each until 12 November 2006 and 91.2 p each for one year thereafter.

## DIRECTORS' REPORT

### DIRECTORS' REPORT

The Directors present their report with the consolidated financial statements of the Company for the year ended 31 December 2005.

### PRINCIPAL ACTIVITY

The principal activity of the Group is the exploration for, and development of, copper deposits in the Republic of Botswana. The principal activity of the Company is that of a holding company.

A review of the Group's business and prospects is set out in the Chairman's Statement and the Management's Discussion and Analysis.

### RESULTS AND DIVIDENDS

The Group loss after taxation for the year was £612,206 (Restated 2004: loss of £652,139). The Directors do not recommend the payment of a dividend for the year (2004: nil).

### DIRECTORS

The following Directors served during the year:

R D Corrans  
D Jones  
J A Hamilton (Appointed 12 January 2005)  
B R Kipp  
M J Evans  
A J Williams  
R M Whyte (Appointed 25 April 2005)

All directors' service contracts are determinable on not more than 12 months' notice.

## DIRECTORS' REPORT – continued

The Directors who held office at the end of the financial year had the following interests in the ordinary shares of the Company:

Director	Shares held		Share Options held		Option Exercise Price	Option Exercise Period
	at 31 December 2005	at 31 December 2004	at 31 December 2005	at 31 December 2004		
R D Corrans	–	–	150,000	150,000	76p	12 November 2004 to 12 November 2014
D Jones	1,015,000	1,015,000	500,000 <sup>1</sup>	500,000	CAD \$0.25	29 March 1999 to 29 March 2007
			100,000	100,000	76p	12 November 2004 to 12 November 2014
J A Hamilton	–	–	1,500,000	–	76p	13 January 2005 to 13 January 2015
B R Kipp	200,000	200,000	350,000 <sup>1</sup>	350,000	35p	5 April 2004 to 29 March 2007
			100,000	100,000	76p	12 November 2004 to 12 November 2014
M J Evans	–	–	100,000	100,000	76p	12 November 2004 to 12 November 2014
A J Williams	2,000,012	2,000,012	250,000 <sup>1</sup>	250,000	CAD \$0.25	29 March 1999 to 29 March 2007
			100,000	100,000	76p	12 November 2004 to 12 November 2014
R M Whyte	–	–	100,000	–	76p	25 April 2005 to 25 April 2015

Note from table:

<sup>1</sup> Under a share option scheme operated by Mortbury Limited ("Mortbury"), these options were granted to acquire ordinary shares in Mortbury. As a result of the acquisition of Mortbury, the Company agreed to satisfy these options by issuing options in the Company on the same basis as the outstanding Mortbury options.

There have been no changes in the Directors' interests between 1 January 2006 and the date of this Report.

### SUBSTANTIAL SHARE INTERESTS

As at 17 February 2006 the Company was aware of the following substantial share interests:

	Ordinary shares	%
RAB Capital plc	6,558,810	12.58
A J Williams	2,000,012	3.84
FMR Corp	1,742,884	3.34
Fidelity International Limited	1,800,000	3.45

### **SHARE CAPITAL**

During the year a total of £1,021,000 was generated from the exercise of 2,012,967 warrants to purchase ordinary shares of the Company at 50p and 28,015 warrants to purchase ordinary shares of the Company at 52.5p.

### **CREDITOR PAYMENT TERMS**

It is the Group's policy to settle all amounts due to creditors in accordance with agreed terms of supply and market practice in the relevant country. The Company's average creditor payment period at 31 December 2005 was 35 days.

### **CORPORATE GOVERNANCE**

Corporate governance is conducted in accordance with the guidelines for AIM companies, published by the Quoted Companies Alliance, to the extent the Directors consider appropriate, having regard to the size of the Company and its current stage of development. The Board has appointed an Audit Committee, whose primary role is to review the accounts of the Group and a Remuneration Committee, which reviews executive remuneration. Meetings of the Board and of these Committees are held as deemed necessary. The Directors will continue to review the circumstances of the Company and its activities and develop its governance procedures as necessary.

### **FINANCIAL INSTRUMENTS**

The Group uses financial instruments comprising cash, liquid resources and items such as short-term debtors and creditors that arise from its operations. These financial instruments are the sole source of finance for the Group's operations. The principal risks relate to currency exposure and liquidity.

#### **Currency rate risk**

The functional currencies of the Group are Sterling and the Botswana Pula, being the currencies in which the majority of the Group's expenses are incurred. The Group's principal rate exposure is therefore related to movements between these currencies.

As the majority of the Group's cash resources are held in Sterling, the Group has a downside exposure to any strengthening of the Pula against Sterling as this would increase expenses in Sterling terms and accelerate the depletion of the Group's cash resources.

Any weakening of the Pula against Sterling would, however, result in a reduction in expenses in Sterling terms and preserve the Group's cash resources. In addition, any such movements would affect the Consolidated Balance Sheet when the net assets of the Botswana subsidiaries are translated from their functional currency into Sterling. In view of the potential significance of any strengthening of the Pula against Sterling, the policy of holding the majority of the Group's cash resources in Sterling is kept under review.

#### **Liquidity risk**

To date the Group has relied on shareholder funding to finance its operations. As the Group has limited cash resources and no material income, the liquidity risk is significant and is managed by controls over expenditure.

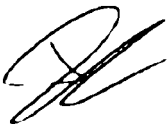
#### **Interest rate risk**

The Group's policy is to retain its surplus funds on short-term deposits, usually of one week and four weeks duration, at prevailing market rates.

### **AUDITORS**

A resolution to reappoint PKF (UK) LLP will be proposed at the Annual General Meeting.

BY ORDER OF THE BOARD



David Jones

*Chief Executive Officer*

31 March 2006

## DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **INDEPENDENT AUDITORS' REPORT**

To the Members of African Copper PLC

We have audited the group and parent company financial statements ('the financial statements') of African Copper plc for the year ended 31 December 2005 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes. The financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom accounting standards ('United Kingdom Generally Accepted Accounting Practice') are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the directors' report, the chairman's statement and the management's discussion and analysis. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **BASIS OF AUDIT OPINION**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**OPINION**

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2005 and of the group's loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

**EMPHASIS OF MATTER – AVAILABILITY OF PROJECT FINANCE**

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the requirement for the company to raise further funding if it is to bring its exploration projects into production. If the company is unable to secure such additional funding to develop its projects further, this may have a consequential impact on the recoverability of the carrying value of the related intangible assets and the investment of the parent company. The outcome of any future fundraising cannot presently be determined, and no adjustments to asset carrying values that may be necessary should the company be unsuccessful have been recognised in the financial statements.

PKF(UK)LLP

PKF (UK) LLP  
Registered Auditors  
London, UK  
31 March 2006

## INDEPENDENT AUDITORS' REPORT

To the Directors of African Copper PLC in Respect of Compatibility with Canadian GAAS

In accordance with the requirement contained in National Instrument 52-107 we report below on the compatibility of Canadian Generally Accepted Auditing Standards ("Canadian GAAS") and United Kingdom and International Standards on Auditing (UK and Ireland).

This report is made solely to the company's directors, as a body. Our audit work has been undertaken so that we might state to the company's directors those matters we are required to state to them in this auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's directors as a body, for our audit work, for this report, or for the opinions we have formed.

We conducted our audit for the year ended 31 December 2005 in accordance with International Standards of Auditing (UK and Ireland). There are no material differences in the form or content of our audit report (except as noted below) as compared to an auditors' report prepared in accordance with Canadian GAAS and if this report was prepared in accordance with Canadian GAAS it would not contain a reservation.

In Canada, reporting standards for auditors require that an auditors' opinion state that the consolidated accounts of the company present fairly, in all material respects, the financial position of the company and its results of operations and its cash flows. In the United Kingdom, reporting standards for auditors require that an auditors' opinion state that the consolidated accounts of a company give a true and fair view of the state of the group's affairs and of its profit for the year. In Canada, reporting standards for auditors' reports do not require an Emphasis of Matter paragraph that is included in the United Kingdom Independent Auditors' Report for the year ended 31 December 2005 given above. In all other respects, there are no material differences in the form and content of the above noted auditors report.

PKF(UK)LLP

PKF (UK) LLP

London, UK

31 March 2006

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2005

		<i>Year ended</i> <b>31 December</b> <b>2005</b> <b>£'000</b>	<i>Period from</i> <b>11 February</b> <b>2004 to</b> <b>31 December</b> <b>2004</b> <b>£'000</b> (as restated)*
Administrative expenses		(1,121)	(743)
Unrealized exchange (loss)/ gain		(4)	8
Operating loss	4	(1,125)	(735)
Bank interest receivable		530	83
Loss before tax		(595)	(652)
Tax	7	(17)	–
Loss after tax	17	(612)	(652)
Basic and diluted loss per share	8	1.19p	3.07p

All amounts relate to continuing operations.

\* see note 2(h) Share based payment

## CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2005

		<i>Year ended</i> <b>31 December</b> <b>2005</b> <b>£'000</b>	<i>Period from</i> <b>11 February</b> <b>2004</b> <b>to 31 December</b> <b>2004</b> <b>£'000</b> (as restated)*
Loss after tax for the financial period		(612)	(652)
Currency translation differences		(315)	–
Total recognised losses for the period		(927)	(652)
Prior period adjustment*		(332)	
Total recognised losses since last Annual Report		(1,259)	

\* see note 2(h) Share based payment

## BALANCE SHEETS

As at 31 December 2005

	Notes	Group		Company	
		As at 31 December 2005 £'000	As at 31 December 2004 £'000 (as restated)*	As at 31 December 2005 £'000	As at 31 December 2004 £'000 (as restated)*
<b>Fixed Assets</b>					
<b>Intangible Assets</b>					
Goodwill	9	8,684	8,684	-	-
Deferred exploration costs	9	7,159	2,330	688	112
<b>Total Intangible Assets</b>		<b>15,843</b>	<b>11,014</b>	<b>688</b>	<b>112</b>
Tangible assets	10	120	28	-	-
Investments	11	-	-	5,655	888
		<b>15,963</b>	<b>11,042</b>	<b>6,343</b>	<b>1,000</b>
<b>Current Assets</b>					
Debtors	12	227	160	105	1,532
Cash at bank and short term deposits		10,676	13,410	10,542	13,397
		<b>10,903</b>	<b>13,570</b>	<b>10,647</b>	<b>14,929</b>
<b>Creditors</b>					
Amounts falling due within one year	13	(1,913)	(261)	(188)	(122)
<b>Net Current Assets</b>		<b>8,990</b>	<b>13,309</b>	<b>10,459</b>	<b>14,807</b>
<b>Net Assets</b>		<b>24,953</b>	<b>24,351</b>	<b>16,802</b>	<b>15,807</b>
Share capital	15	520	500	520	500
Share premium	17	16,158	15,157	16,158	15,157
Merger reserve	17	8,606	8,606	-	-
Other reserve	17	1,248	740	1,248	740
Profit and loss account	17	(1,579)	(652)	(1,124)	(590)
<b>Equity Shareholders' Funds</b>	18	<b>24,953</b>	<b>24,351</b>	<b>16,802</b>	<b>15,807</b>

\* see note 2(h) Share based payment

These financial statements were approved by the Board of Directors on 31 March 2006 and were signed on their behalf by:



Director



Director

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	<i>Year ended</i> <b>31 December</b> <b>2005</b> <b>£'000</b>	<i>Period from</i> <b>11 February</b> <b>2004</b> <b>to 31 December</b> <b>2004</b> <b>£'000</b>
Net cash outflow from operating activities	(1,006)	(547)
Return on investment and servicing of finance	530	83
Capital expenditure	(3,279)	(85)
Acquisitions	-	(296)
Management of liquid resources	2,621	(13,000)
Financing – issue of equity shares during the year	1,021	14,255
Cash (outflow)/inflow during the year	<u>(113)</u>	<u>410</u>

Note 21 provides further information on cash flows.

### Reconciliation of net cash flow to movement in net funds

	<i>Year ended</i> <b>31 December</b> <b>2005</b> <b>£'000</b>	<i>Period from</i> <b>11 February</b> <b>2004</b> <b>to 31 December</b> <b>2004</b> <b>£'000</b>
(Decrease)/increase in cash in the period	(113)	410
Cash (inflow)/outflow from (decrease)/increase in liquid resources	<u>(2,621)</u>	<u>13,000</u>
Change in net funds arising from cash flows	(2,734)	13,410
Opening net funds	<u>13,410</u>	<u>-</u>
Closing net funds	<u>10,676</u>	<u>13,410</u>

### 1. NATURE OF OPERATIONS, GOING CONCERN AND AVAILABILITY OF PROJECT FINANCE

African Copper Plc ("African Copper" or the "Company") is the holding company of a mineral exploration and development group of companies (the "Group"). The Group is involved in the exploration and development of copper deposits in Botswana and is currently in the feasibility evaluation of an undeveloped copper deposit (the "Dukwe Project") and a large-scale exploration project (the "Matsitama Project"). The Dukwe Project is located in the northeastern portion of Botswana and the Matsitama Project is contiguous to the southern boundary of the Dukwe Project.

To fund its past exploration activities, the Company has raised equity capital to achieve specific milestones set out in its business plan. In November 2004, the Company raised funds to complete the bankable feasibility studies for the oxide and sulphide zones of the Dukwe Project and complete a phase-one exploration programme for the Matsitama Project. The Company's cash resources are expected to be sufficient to fund the Company's planned exploration and development activities in 2006 and fund general and administration costs until the end of 2007. The Directors therefore consider it appropriate to prepare these financial statements on the going concern basis.

However, the Company's current cash resources will not be sufficient to bring the Dukwe Project and the Matsitama Project into production and further funding will be required. During 2006 the Company intends to seek the necessary project or equity finance to commence production at the Dukwe Project and further exploration at the Matsitama Project. In the event that the Company is unable to secure the further finance required, the Company will not be able to fully develop these projects and their carrying values and the investment of the parent company may become impaired.

### 2. PRINCIPAL ACCOUNTING POLICIES

#### a) Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards.

#### b) Use of estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of expenses during the year. Actual results could differ from these estimates.

#### c) Basis of consolidation

These financial statements consolidate the financial statements of the Company and its subsidiaries using the acquisition method of accounting. The results of subsidiaries are included from the effective date of acquisition.

The cost of an acquisition is measured as the fair value of the cash consideration, equity instruments issued and liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Identifiable assets and liabilities assumed in the business combination are measured initially at their fair value on the date of acquisition. The excess of cost over the fair value of the Group's share of the identifiable net assets is recorded as goodwill.

In the Company's balance sheet, the investment in Mortbury Limited includes the nominal value of the shares issued as consideration for the acquisition of that company. As permitted by sections 131 and 133 of the Companies Act 1985, no premium was recorded on the issue of such shares. On consolidation, the difference between the nominal value of the share issued and their fair value was credited directly to the merger reserve.

**d) Deferred exploration costs**

All costs related to the exploration of mineral properties are capitalised until either the properties are brought into production, at which time they are depleted on a unit of production basis, or until the properties are sold, allowed to lapse, abandoned or determined not to be economically viable, at which time they are charged to the profit and loss account.

Assets acquired in relation to the exploration of mineral properties are capitalised in the same manner as exploration costs.

**e) Tangible fixed assets**

Depreciation is provided at the following annual rate in order to write off each asset over its estimated useful life:

Vehicles – straight-line over 4 years

Computers – straight-line over 3 years

Furniture and office equipment – straight-line over 5 years

**f) Goodwill**

Goodwill arising on consolidation is capitalised and shown within intangible assets. Amortization of goodwill arising from the acquisition of Mortbury Limited is to be deferred until production occurs, when it will be charged over the expected production period of the project. Where a project is abandoned or is determined to not be economically viable, the goodwill is written off.

**g) Foreign currency translation**

The reporting currency of African Copper plc is Sterling.

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Revenues, costs and non-monetary assets are translated at the exchange rates ruling at the date of the transaction.

Profits and losses of overseas subsidiary undertakings are translated into sterling at average rates for the year. The net assets of overseas subsidiaries are translated at rates ruling at the balance sheet date. Differences arising from the translation of investments in overseas subsidiary undertakings and any related loans are dealt with through reserves.

**h) Share based payment**

The Company has elected to adopt Financial Reporting Standards 20 (“FRS 20”), “Share Based Payments”, with effect from 11 February 2004 (date of incorporation), which represents early adoption of this standard and a change in accounting policy. Under FRS 20, the Group either charges the profit and loss account or capitalises as deferred exploration costs with the fair value of share options issued, depending on the nature of the grant. The fair value is calculated using the Black-Scholes method, which is then spread over the vesting period after allowing for any expected lapses. An exemption applies for options which were granted prior to 7 November 2002. The effect of this change in accounting policy is to increase the loss before tax for the period ended 31 December 2004 by £331,800 and increase the net assets of the Group at 31 December 2004 by £96,500. The effect during the current year is to increase the loss before taxation by £120,277 and to increase net assets at 31 December 2005 by £388,048.

**i) Deferred taxation**

Deferred taxation is provided on material timing differences between the incidence of income and expenditure for taxation and accounting purposes on a full provision basis in accordance with FRS 19 “Deferred Tax”.

Deferred tax assets are only recognised when they arise from timing differences where their recoverability in the short term is regarded as being probable. Deferred tax balances are not discounted.

**j) Company profit and loss account**

The Company has taken advantage of the exemption conferred by the Companies Act 1985 section 230 from publishing its own Profit and Loss Account. The result for the year ended 31 December 2005 was a loss after taxation of £534,468. (2004: £588,904).

**k) Asset retirement obligations**

The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset is depreciated over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. At 31 December 2005, the Company has not incurred or committed any asset retirement obligations related to the development of its Dukwe and Matsitama Projects.

**3. GROUP SEGMENT ANALYSIS**

	<i>Loss after taxation</i>		<i>Net assets</i>	
	<i>Year ended 31 December 2005 £'000</i>	<i>Period from 11 February 2004 to 31 December 2004 £'000 (as restated)</i>	<i>Year ended 31 December 2005 £'000</i>	<i>Period from 11 February 2004 to 31 December 2004 £'000 (as restated)</i>
<i>By geographical area</i>				
UK	534	590	20,633	23,041
Botswana	78	62	4,320	1,310
	<u>612</u>	<u>652</u>	<u>24,953</u>	<u>24,351</u>

All capital expenditures in respect of tangible and intangible assets relates to operations in Botswana.

**4. OPERATING LOSS**

	<i>Year ended 31 December 2005 £'000</i>	<i>Period from 11 February 2004 to 31 December 2004 £'000</i>
Operating loss is stated after charging/(crediting):		
Depreciation**	42	–
Exchange differences	(4)	8
Auditors remuneration:		
– Company audit	35	18
– Subsidiary companies audit (paid to Ernst & Young, Botswana)	7	–
– Other assurances services	8	–
– Other services provided by the auditors and their associates*	10	117
	<u>102</u>	<u>135</u>

\* During 2005, the remuneration paid to the auditors for other services was professional fees in connection with the preparation of the Company's corporate tax returns. Services in 2004 related to the company's flotation on AIM and were charged against the share premium account. The board reviews the nature and extent of non-audit services to ensure that the independence of the auditors is maintained.

\*\* Depreciation has been capitalised in deferred exploration costs

**5. DIRECTORS' REMUNERATION, EMOLUMENTS AND SHARE INTERESTS**

	<i>Year ended 31 December 2005</i>			<i>Period from</i>
	<i>Consulting</i>	<i>Directors'</i>	<i>Total</i>	<i>11 February</i>
	<i>Fee</i>	<i>Fees</i>	<i>Total</i>	<i>to 31 December</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>2004</i>
R D Corrans – Non executive	–	20,000	20,000	–
D Jones – Executive	92,738	–	92,738	44,667
J A Hamilton – Executive	167,302	–	167,302	–
B R Kipp – Executive	57,127	–	57,127	26,500
M J Evans – Non executive	–	12,500	12,500	–
A J Williams – Non executive	–	14,100	14,100	–
R M Whyte – Non executive	–	8,550	8,550	–
<b>Total</b>	<b>317,167</b>	<b>55,150</b>	<b>372,317</b>	<b>71,167</b>

Each of the non-executive directors, namely Roy Corrans, Michael Evans, Anthony Williams and Rodney Whyte are appointed under the terms of letters of appointment. The appointments are terminable by three months notice. Each of the executive directors, namely Joseph Hamilton, David Jones and Bradley Kipp has service agreements with the Company. Mr Hamilton's agreement is terminable by twenty-four months' notice and Mr Jones's and Mr Kipp's agreements are terminable by twelve months' notice. The Directors did not receive any benefits.

Details of Directors' interests in the shares of the Company are set out in the Directors' Report.

**6. STAFF COSTS AND NUMBERS**

	<i>Group</i>	
	<i>Year ended</i>	<i>Period from</i>
	<i>31 December</i>	<i>11 February</i>
	<i>2005</i>	<i>to 31 December</i>
	<i>2004</i>	<i>2004</i>
Consulting fees and salaries (including Directors' remuneration)	<b>£542,401</b>	<b>£89,955</b>

Of the £542,401 (2004: £89,955) recorded for consulting fees and salaries, £223,656 (2004: £89,955) was expensed and £318,745 (2004: £nil) was capitalized to deferred exploration costs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – continued

The average monthly number of employees, including executive Directors, during the year was 8, allocated as follows:

	<b>Group</b>	
	<b>Year ended</b>	<b>Period from</b>
	<b>31 December</b>	<b>11 February</b>
	<b>2005</b>	<b>2004</b>
	<b>to 31 December</b>	<b>2004</b>
Administration	4	1
Operations	4	2
Number of employees, including directors	<u>8</u>	<u>3</u>

### 7. TAXATION

The tax charge for the year may be analysed as follows:

	<b>Group</b>	
	<b>Year ended</b>	<b>Period from</b>
	<b>31 December</b>	<b>11 February</b>
	<b>2005</b>	<b>2004</b>
	<b>to 31 December</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
<b>Current taxation</b>	<u>(17)</u>	–
Overseas tax	<u>(17)</u>	–

A reconciliation of the tax charge to the loss for the period is as follows:

	<b>Year ended</b>	<b>Period from</b>
	<b>31 December</b>	<b>11 February</b>
	<b>2005</b>	<b>2004</b>
	<b>to 31 December</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
		(as restated)
Loss on ordinary activities before tax	<u>(595)</u>	(652)
Tax on loss on ordinary activities at 30%	(179)	(196)
Expenses not deductible for tax purposes	83	128
Tax losses carried forward	1,556	59
Irrecoverable withholding tax	17	–
Capital allowances in excess of depreciation	(1,456)	–
Lower tax rates on overseas losses	<u>(4)</u>	9
Tax charge	<u>17</u>	–

Unrecognized deferred tax assets and liabilities

	<i>Year ended 31 December 2005 £'000</i>	<i>Period from 11 February 2004 to 31 December 2004 £'000</i>
Losses	1,728	179
Accelerated capital allowances	<u>(1,472)</u>	<u>–</u>
Net deferred tax asset not recognized	<u>256</u>	<u>179</u>

Deferred tax assets of £256,000 (2004: £179,000) relating to trading losses carried forward have not been recognised in the accounts because there is insufficient evidence of the timing of suitable future taxable profits against which they can be recovered. The Group's tax losses have no fixed expiry date.

#### **8. BASIC AND DILUTED LOSS PER SHARE**

The calculation of basic loss per ordinary share on the net basis is based on the loss on ordinary activities after taxation of £612,206 (2004:£652,139) and on 51,500,444 (2004:21,209,021) ordinary shares being the weighted average of ordinary shares in issue and ranking for dividend during the year. No diluted loss per share is presented as the effect of the exercise of share options would be to decrease the loss per share.

Details of share options in issue which could potentially dilute earnings per share in the future are shown in note 15.

9. INTANGIBLE ASSETS

<b>Group</b>	<b>Deferred Exploration</b>		<b>Total</b>
	<b>Goodwill</b>	<b>Costs</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 11 February 2004	–	–	–
Arising on acquisition of subsidiary	5,440	2,177	7,617
Additions (as restated*)	3,244	153	3,397
At 31 December 2004	8,684	2,330	11,014
Additions	–	5,144	5,144
Exchange	–	(315)	(315)
<b>At 31 December 2005</b>	<b>8,684</b>	<b>7,159</b>	<b>15,843</b>

<b>Company</b>	<b>Deferred Exploration</b>		<b>Total</b>
	<b>Goodwill</b>	<b>Costs</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 11 February 2004	–	–	–
Additions (as restated*)	–	112	112
At 31 December 2004	–	112	112
Additions	–	576	576
<b>At 31 December 2005</b>	<b>–</b>	<b>688</b>	<b>688</b>

\* See note 2(h) and note 16 regarding the nature of the restatement. The effect of this change in accounting policy was to increase the additions to deferred exploration costs of the Group at 31 December 2004 by £96,500. The effect during the current year was to increase the additions to deferred exploration at 31 December 2005 by £388,048.

10. TANGIBLE FIXED ASSETS

	<b>Vehicles</b>	<b>Computer and Office Equipment</b>	<b>Furniture and Fittings</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Cost</b>				
At 11 February 2004	–	–	–	–
Additions	28	–	–	28
At 1 January 2005	28	–	–	28
Additions	103	26	5	134
<b>At 31 December 2005</b>	<b>131</b>	<b>26</b>	<b>5</b>	<b>162</b>
<b>Depreciation</b>				
At 11 February 2004 and 1 January 2005	–	–	–	–
Charge for the year	33	8	1	42
At 31 December 2005	33	8	1	42
<b>Net book value</b>				
<b>At 31 December 2005</b>	<b>98</b>	<b>18</b>	<b>4</b>	<b>120</b>
At 31 December 2004	28	–	–	28

11. INVESTMENTS

During 2004, the Company acquired interests in the following material subsidiary undertakings, which are included in the consolidated financial statements:

<b>Company</b>	<b>Shares in Subsidiary undertakings</b>	<b>Loans in Subsidiary undertakings</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
On acquisition and at 31 December 2004	888	–	888
Transfer from current assets	–	1,372	1,372
Additions	–	3,395	3,395
<b>At 31 December 2005</b>	<b>888</b>	<b>4,767</b>	<b>5,655</b>

<b>Name</b>	<b>Holding</b>	<b>Business Activity</b>	<b>Country of Incorporation</b>
Mortbury Limited	100% of equity shares	Investment	British Virgin Islands
Matsitama Minerals (Proprietary) Limited	100% of equity shares*	Exploration	Botswana
Messina Copper (Botswana) (Proprietary) Limited	100% of equity shares*	Exploration	Botswana

\* – indirectly held

**12. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<i>Group</i>		<i>Company</i>	
	<i>Year ended</i>	<i>Period from</i>	<i>Year ended</i>	<i>Period from</i>
		<i>11 February</i>		<i>11 February</i>
	<i>31 December</i>	<i>to 31 December</i>	<i>31 December</i>	<i>to 31 December</i>
	<i>2005</i>	<i>2004</i>	<i>2005</i>	<i>2004</i>
<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	
Prepayments and accrued income	116	–	105	–
Subsidiary companies	–	–	–	1,372
Other debtors	111	160		160
	<u>227</u>	<u>160</u>	<u>105</u>	<u>1,532</u>

**13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<i>Group</i>		<i>Company</i>	
	<i>Year ended</i>	<i>Period from</i>	<i>Year ended</i>	<i>Period from</i>
		<i>11 February</i>		<i>11 February</i>
	<i>31 December</i>	<i>to 31 December</i>	<i>31 December</i>	<i>to 31 December</i>
	<i>2005</i>	<i>2004</i>	<i>2005</i>	<i>2004</i>
<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	
Trade creditors	1,645	245	151	109
Accruals	268	16	37	13
	<u>1,913</u>	<u>261</u>	<u>188</u>	<u>122</u>

**14. FINANCIAL INSTRUMENTS**

The Group uses financial instruments comprising cash, liquid resources and items such as short-term debtors and creditors that arise from its operations. These financial instruments are the sole source of finance for the Group's operations. The principal risks relate to currency exposure and liquidity. Short-term debtors and creditors have been excluded from the following disclosures.

**Currency rate risk**

The functional currencies of the Group are Sterling and the Botswana Pula, being the currencies in which the majority of the Group's expenses are incurred. The Group's principal rate exposure is therefore related to movements between these currencies.

As the majority of the Group's cash resources are held in Sterling, the Group has a downside exposure to any strengthening of the Pula against Sterling as this would increase expenses in Sterling terms and accelerate the depletion of the Group's cash resources.

Any weakening of the Pula against Sterling would, however, result in a reduction in expenses in Sterling terms and preserve the Group's cash resources. In addition, any such movements would affect the Consolidated Balance Sheet when the net assets of the Botswana subsidiaries are translated from their functional currency into Sterling.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – continued

The policy in relation to the translation of foreign currency assets and liabilities is set out in note 2(g) “Accounting Policies – Foreign Currency Translation” to the consolidated financial statements.

In view of the potential significance of any strengthening of the Pula against Sterling, the policy of holding the majority of the Group’s cash resources in Sterling is kept under review.

There is not considered to be any material exposure in respect of liabilities incurred by the Group as these are of a short-term nature.

The table below shows an analysis of the Group’s monetary assets and liabilities by currency.

Group net monetary assets and liabilities by currency

	Year ended 31 December 2005		Period from 11 February 2004 to 31 December 2004	
	£’000		£’000	
	Functional Currency Sterling	Pula	£’000 Total	£’000 Total
Sterling	10,475	123	10,598	13,438
Pula	–	(13)	(13)	–
US Dollars	(136)	(1,266)	(1,402)	(121)
South African Rands	–	(138)	(138)	–
Australian Dollars	–	(23)	(23)	–
Canadian Dollars	(32)	–	(32)	(8)
	<u>10,307</u>	<u>(1,317)</u>	<u>8,990</u>	<u>13,309</u>

### Liquidity risk

To date the Group has relied on shareholder funding to finance its operations. As the Group has limited cash resources and no material income, the liquidity risk is significant and is managed by controls over expenditure.

### Interest rate risk

The Group’s policy is to retain its surplus funds on short-term deposits, usually of one week and four weeks duration, at prevailing market rates.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – continued

The currency and interest rate profile of financial assets and liabilities is as follows:

	<i>Total</i>	<i>Cash and short term deposits</i>	<i>Total Period from 11 February 2004</i>
	<i>Year ended 31 December 2005</i>	<i>Year ended 31 December 2005</i>	<i>to 31 December 2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Sterling	10,666	10,666	13,393
US Dollars	1	1	17
Pula	7	7	–
CAD\$	2	2	–
	<u>10,676</u>	<u>10,676</u>	<u>13,410</u>

The financial assets comprise interest earning bank deposits at rates set by reference to the prevailing LIBOR or equivalent in the relevant country.

### Fair value of financial assets and liabilities

There is no material difference between fair value and book value.

### 15. SHARE CAPITAL

	<i>Number</i>	<i>Amount £'000</i>
<b>Authorised</b>		
As at 31 December 2004 and 31 December 2005		
Ordinary Shares of 1p each	495,000,000	4,950
Redeemable preference shares of £1 each	<u>50,000</u>	<u>50</u>
<b>Issued</b>		
Balance on incorporation, 11 February 2004	2	–
Ordinary Shares issued, net of issue cost	25,409,218	254
Ordinary Shares issued on the exercise of warrants	5,000	–
Ordinary Shares issued on acquisition of Mortbury Limited	20,650,010	207
Ordinary Shares issued as part of the purchase of the Mortbury preference share	<u>3,927,943</u>	<u>39</u>
<b>Balance, 31 December 2004</b>	<b>49,992,173</b>	<b>500</b>
Ordinary Shares issued on exercise of warrants	<u>2,040,982</u>	<u>20</u>
<b>Balance 31 December 2005</b>	<b>52,033,155</b>	<b>520</b>

During 2004, the following issues of shares took place:

- On incorporation 2 ordinary share of 1p were issued. Subsequently, each of these 2 shares was subdivided into 5 ordinary shares of 1p each.
- 5,672,367 ordinary shares of 1p were issued for cash for total gross proceeds of £1,985,328
- 19,736,843 ordinary shares of 1p were issued for cash for total gross proceeds of £15 million. Costs of £1,577,461 incurred in completing this placement.
- 16,650,010 ordinary shares of 1p were issued as part of a share for share exchange at a premium of 34p per share and accounted for as a merger reserve. This share exchange was according to the terms of the acquisition of Mortbury and its subsidiaries. In addition, as part of the acquisition of Mortbury and its subsidiaries, a further 4 million ordinary shares of 1p were issued at par.
- 3,927,943 ordinary shares of 1p each were issued as part of the purchase of the preference share of Mortbury at a premium of 75p per share and accounted for as a merger reserve.

During 2005, a total of £1,021,000 was generated from the exercise of 2,012,967 warrants to purchase ordinary shares of 1p of the Company at 50p and 28,015 warrants to purchase ordinary shares of the Company at 52.5p.

Share Options and Warrants

The Company has issued the following options and warrants at 31 December 2005:

<b>Share Options<sup>1</sup> Held at 31 December 2005</b>	<b>Share Options<sup>1</sup> Held at 31 December 2004</b>	<b>Date of Grant</b>	<b>Option Price per Share</b>	<b>Exercise Period</b>
1,250,000	1,250,000	29 March 1999 <sup>2</sup>	Can\$0.25	up to 29 March 2007
450,000	450,000	5 April 2004 <sup>2</sup>	£0.35	up to 31 March 2007
500,000	500,000	23 September 2004	£0.35	up to 23 September 2014
700,000 <sup>5</sup>	790,000	12 November 2004	£0.76	up to 12 November 2014
499,872	499,872	12 November 2004	£0.836 from admission <sup>3</sup> until two years following admission date. £0.912 from that date until three years following admission date.	up to 3 years following admission.
1,500,000	–	5 January 2005	£0.76	up to 5 January 2015
100,000	–	25 April 2005	£0.76	up to 25 April 2015
300,000	–	1 September 2005	£0.76	up to 1 February 2015
120,000	–	1 September 2005	£0.76	up to 14 March 2015
240,000	–	12 November 2005	£0.76	up to 12 November 2015
<b>5,659,872</b>	<b>3,489,872</b>			

<b>Number of Warrants at 31 December 2005</b>	<b>Number of Warrants at 31 December 2004</b>	<b>Date of Grant</b>	<b>Option Price per Share</b>	<b>Exercise Period</b>
– <sup>4</sup>	2,836,182	9 June 2004	£0.50	up to 31 March 2005
2,474,030	2,502,045	26 May 2004	£0.525 from admission <sup>3</sup> until two years following admission date. £0.70 from that date until three years following admission date.	up to 3 years following admission.

<sup>1</sup> At 31 December 2005 directors' of the Company hold some of the share options. These are described in the Directors' Report.

<sup>2</sup> Under the Mortbury share scheme directors, employees and consultants of Mortbury were granted options to acquire ordinary shares in Mortbury. As a result of the acquisition of Mortbury, the Company agreed to satisfy these options by issuing options in the Company on the same basis as the outstanding Mortbury options. All Mortbury options that were exercisable at the date of the acquisition remain exercisable until 29 March 2007.

<sup>3</sup> Admission to the Alternative Investment Market of the London Stock Exchange at November 12, 2004.

<sup>4</sup> Of the total 2,836,182 warrants issued, 2,012,967 warrants were exercised and 823,215 expired during the year.

<sup>5</sup> During 2005, 90,000 share options were cancelled upon the resignation of two consultants.

**16. SHARE BASED PAYMENTS**

African Copper has established a share option scheme with the purpose of motivating and retaining qualified management and to ensure common goals for management and the shareholders. Under the African Copper share plan each option gives the right to purchase one African Copper ordinary share. For options granted to employees the vesting period is generally between one and three years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the Company. In 2004 exercise prices ranged between 35p and 83.5p. In 2005 all options were granted at 76p.

As part of the acquisition of Mortbury Limited, the Company agreed to grant options in the Company on the same basis as the Mortbury options outstanding on the date of acquisition. No further options will be granted under the Mortbury share scheme. Under the Mortbury share option scheme, directors, employees and consultants of Mortbury were granted a total of 1,790,000 to acquire ordinary shares of Mortbury ranging in exercise prices from 11p to 35p resulting in a weighted average exercise price of 17p. All Mortbury options that were exercisable at the date of acquisition remain exercisable until 29 March 2007.

As part of admission to the Alternative Investment Market of the London Stock Exchange, the Company issued its Nominated Advisor an option to subscribe for 499,872 ordinary shares at a price of 83.6p (“the Underwriters Options”) for two years following 12 November 2004 (date of admission) and at a price of 91.2p for the third year of the exercise period.

The Company has issued the following options at 31 December 2005:

	2005		2004	
	<i>Options<sup>1</sup></i>	<i>Weighted Average Exercise Price</i>	<i>Options<sup>1</sup></i>	<i>Weighted Average Exercise Price</i>
Outstanding at beginning of year	3,489,872	43p	–	–
Granted during the year	2,260,000	76p	3,489,872	43p
Forfeited during the year	(90,000)	76p	–	–
Exercised during the year	–	–	–	–
Outstanding at the end of the year	5,659,872	55p	3,489,872	43p
Exercisable at the end of the year	5,167,002	55p	3,066,261	44p

<sup>1</sup> At 31 December 2005 directors’ of the Company hold some of the share options. These are described in the Directors’ Report.

In arriving at the fair value, each option grant was valued separately using the Black-Scholes model. The weighted average fair value of options granted during the year was 27p (2004: 25p). The effect during the year was to increase the loss before taxation by £120,277 and to increase the additions to deferred exploration costs at 31 December 2005 by £388,048. The effect during 2004 was to increase the loss before tax for the period ended 31 December 2004 by £331,800, increase the additions to deferred exploration costs at 31 December 2004 by £96,500. The issue of the Underwriters Options has no effect on the Profit and Loss Account or net assets in either period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – continued

The assumptions used were as follows:

	2005	2004
Weighted average share price	56p	50p
Weighted average exercise price	76p	43p
Expected volatility	60%	60%
Expected life	5 years	2-5 years
Risk free rate	4.5%	4.5%
Expected dividends	None	None

Expected volatility was determined by calculating the historical volatility of the Company's share price since it was listed on the Alternative Investment Market of the London Stock Exchange in November 2004. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

### 17. RESERVES

#### Group

	<i>Share Premium £'000</i>	<i>Merger Reserve £'000</i>	<i>Other Reserve £'000</i>	<i>Profit and loss Account £'000</i>	<i>Total £'000</i>
At 11 February 2004	–	–	–	–	–
Premium on issue of fundraising shares	15,157				15,157
Premium on issue of acquisition shares		8,606			8,606
Intrinsic value of share options issued as part of acquisition			312	–	312
Loss for the period				(320)	(320)
Credit arising on share options	–	–	428	(332)	96
At 1 January 2005	<u>15,157</u>	<u>8,606</u>	<u>740</u>	<u>(652)</u>	<u>23,851</u>
Premium on exercise of warrants	1,001	–	–	–	1,001
Loss arising in the year	–	–	–	(612)	(612)
Currency translation differences	–	–	–	(315)	(315)
Credit arising on share options	–	–	508	–	508
<b>At 31 December 2005</b>	<b><u>16,158</u></b>	<b><u>8,606</u></b>	<b><u>1,248</u></b>	<b><u>(1,579)</u></b>	<b><u>24,433</u></b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – continued

### Company

	<i>Share Premium £'000</i>	<i>Merger Reserve £'000</i>	<i>Other Reserve £'000</i>	<i>Profit and loss Account £'000</i>	<i>Total £'000</i>
At 11 February 2004	–	–	–	–	–
Premium on issue of fundraising shares	15,157				15,157
Intrinsic value of share options issued as part of acquisition			312	–	312
Loss for the period				(258)	(258)
Credit arising on share options	–	–	428	(332)	96
At 1 January 2005	15,157	–	740	(590)	15,307
Premium on exercise of warrants	1,001	–	–	–	1,001
Loss arising in the year	–	–	–	(534)	(534)
Credit arising on share options	–	–	508	–	508
<b>At 31 December 2005</b>	<b>16,158</b>	<b>–</b>	<b>1,248</b>	<b>(1,124)</b>	<b>16,282</b>

**18. EQUITY SHAREHOLDERS' FUNDS**

	<i>Group</i>		<i>Company</i>	
	<i>Year ended 31 December 2005 £'000</i>	<i>Period from 11 February 2004 to 31 December 2004 £'000 (as restated)</i>	<i>Year ended 31 December 2005 £'000</i>	<i>Period from 11 February 2004 to 31 December 2004 £'000 (as restated)</i>
Loss for the year	(612)	(652)	(534)	(590)
Other losses in the year	(315)	–	–	–
	<b>(927)</b>	(652)	<b>(534)</b>	(590)
New share capital subscribed	20	500	20	500
Share premium arising on share issue net of expenses	1,001	15,157	1,001	15,157
Merger reserve arising on the acquisition of Mortbury Limited	–	8,606	–	–
Issue of share options as part of Mortbury Limited transaction consideration	–	312	–	312
Cost of options issued on flotation	–	(124)	–	(124)
Credit arising on share options	508	552	508	552
Net addition to shareholders' funds in the period	602	24,351	995	15,807
Opening shareholders' funds	24,351	–	15,807	–
Closing shareholders' funds	24,953	24,351	16,802	15,807

**19. RELATED PARTIES AND TRANSACTIONS WITH DIRECTORS**

The following amounts were paid to companies in which directors of the group have an interest:

	<i>Amount Paid</i>		<i>Balance outstanding</i>		
	<i>Period from</i>		<i>Period from</i>		
	<i>11 February</i>		<i>11 February</i>		
	<i>Year ended</i>	<i>2004</i>	<i>Year ended</i>	<i>2004</i>	
<i>31 December</i>	<i>to 31 December</i>	<i>31 December</i>	<i>to 31 December</i>		
<i>2005</i>	<i>2004</i>	<i>2005</i>	<i>2004</i>		
<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>		
Amount paid to the Dragon Group, a group controlled by A.J Williams, for the provision of fully serviced office accommodation in the UK and reimbursed expenses	96	42	13	42	
Amount paid to Summit Resource Management Limited, a company controlled by D Jones, for the provision of fully serviced office accommodation in Canada and reimbursed expenses	43	23	2	1	
Amount paid to Aegis Instruments, Micromine and MGE Consulting, companies controlled by a director of a subsidiary, in respect of provision of geophysical and geological consulting, administration services and reimbursed expenses	80	12	11	3	

These related party transactions were in the normal course of operations and are recorded at their exchange amount

**20. COMMITMENTS AND CONTINGENCIES**

Matsitama and Messina are obliged to incur certain minimum expenditure in respect of their prospecting licences. Below is a summary of this expenditure commitment as set out in the original licences:

<i>Licence Number</i>	<i>Duration</i>	<b>2006</b> <b>£000</b>	<b>2007</b> <b>£000</b>
<b>Matsitama</b>			
14/2004	April 2004 – March 2007	60	–
15/2004	April 2004 – March 2007	60	–
16/2004	April 2004 – March 2007	60	–
17/2004	April 2004 – March 2007	60	–
01/2005	January 2005 – Dec 2007	26	26
<b>Messina</b>			
2004/1R	January 2005 – December 2006	38	–
33/2005	July 1 2005 – June 2008	64	64

**21. NOTES TO THE CASH FLOW STATEMENT**

**Reconciliation of operating loss to net cash outflow from operating activities**

	<b>Group</b>	
	<b>Year ended</b>	<b>Period from</b>
	<b>31 December</b>	<b>11 February</b>
	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
		(as restated)
Operating loss	(1,125)	(735)
Increase in debtors	(68)	(160)
Increase in creditors	67	16
Share option expense	120	332
Net cash outflow from operating activities	<b>(1,006)</b>	<b>(547)</b>

Gross cash flows:

	<i>Group</i>	
	<i>Year ended</i>	<i>Period from</i>
	<i>31 December</i>	<i>11 February</i>
	<i>2005</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>
		<i>(as restated)</i>
<b>Returns on investment and servicing of finance</b>		
Interest received	530	83
Interest paid	–	–
	<u>530</u>	<u>83</u>
<b>Capital expenditure</b>		
Payments to acquire tangible fixed assets	(92)	(28)
Payments to acquire intangible fixed assets	(3,187)	(57)
	<u>(3,279)</u>	<u>(85)</u>
<b>Acquisitions</b>		
Cash acquired with subsidiary undertaking	–	34
Transaction costs	–	(71)
Cash consideration for purchase of subsidiary preference share	–	(259)
	<u>–</u>	<u>(296)</u>
<b>Management of liquid resources</b>		
Amounts placed on term deposit	–	(13,000)
Amounts withdrawn from term deposit	2,621	–
	<u>2,621</u>	<u>(13,000)</u>
<b>Financing</b>		
Issue of equity share capital – May 2004 Private Placing	–	1,985
— November 2004 Placing	–	13,423
Issue of equity upon exercise of warrants	1,021	2
Repayment of subsidiary company loan	–	(1,155)
	<u>1,021</u>	<u>14,255</u>

Analysis of net funds

	<i>At 1 January</i>	<i>Cash flows</i>	<i>At 31 December</i>
	<i>2005</i>		<i>2005</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Cash at bank and in hand	410	(113)	297
Liquid resources	13,000	(2,621)	10,379
	<u>13,410</u>	<u>(2,734)</u>	<u>10,676</u>

**22. SIGNIFICANT DIFFERENCES FROM CANADIAN GAAP**

The audited financial statements of the Company for the year ended 31 December 2005 have been prepared in accordance with United Kingdom Generally Accepted Accounting Principles (“UK GAAP”) which, as applied in the financial statements, conforms in all material respects to those accounting principles generally accepted under Canadian Generally Accepted Accounting Principles (“CDN GAAP”), except as described below.

**(a) Acquisition Accounting**

Under UK GAAP the exchange of shares of African Copper for the shares of Mortbury Limited (“Mortbury”) is accounted for as an acquisition of Mortbury by African Copper. This share exchange resulted in the former shareholders of Mortbury owning a majority of African Copper. As a result, under CDN GAAP this transaction is treated as an acquisition of African Copper by Mortbury, referred to as a “reverse take-over”. As African Copper was not an operating business prior to this share exchange, the transaction will be accounted for as a capital transaction of Mortbury. This transaction is the equivalent of the issuance of shares by Mortbury for the net assets of African Copper, accompanied by a recapitalization of Mortbury.

For CDN GAAP purposes, Mortbury is considered the continuing business. Accordingly, the financial statements would reflect the results of operations of Mortbury for the year from 1 January 2004 to 31 December 2004 and include the results of operations of African Copper only from the date of the share exchange, 26 May 2004. The reverse take-over acquisition would be recorded at the book value of the net assets of African Copper acquired, being \$1. Accordingly, no goodwill would arise from this transaction. Also, all costs pertaining to the transaction would be considered costs of issuing the shares and recapitalizing Mortbury.

**(b) Re-purchase of Mortbury Preference Share**

As a result of the accounting treatment given the share exchange, as described previously, the subsequent purchase of the Mortbury Class C Preference share would also be treated as a capital transaction for CDN GAAP. Accordingly, the excess of the fair value of the consideration given for the Preference share over its book value would be reflected as a premium on re-purchase of the share, charged separately to the accumulated loss account. Under UK GAAP this difference became an additional component of goodwill.

**(c) Warrants**

Under UK GAAP the fair value of warrants issued is not required. Under CDN GAAP the Company is required to determine the fair value of warrants issued using an acceptable pricing model (in this case the Black-Scholes Option Pricing Model has been used) and to separate this value from the underlying equity instrument, or record a cost equal to the fair value of the warrants issued.

In 2004 the Company issued warrants in connection with its 26 May private placement (with each investor receiving ½ share purchase warrant and one ordinary share per unit invested) and issued warrants to former Mortbury creditors as part of the 26 May share exchange. The following details the value attributed to the warrants granted:

- i) On 9 June 2004, 2,841,182 warrants at a price of 50p per share were granted in connection with the 26 May 2004 private placement. The fair value of these warrants amounted to £92,744, estimated based on the following assumptions: dividend yield of 0%; risk-free interest rate of 4.5%; expected life of 1 year; and volatility of 60%. This value has been recorded as an increase in “Contributed Surplus” in the Equity Shareholders’ Funds section of the balance sheet and a reduction in share premium related to the proceeds received from the private placement. During the year, a total of 2,012,967 warrants were exercised and 828,215 warrants expired. The exercise of these warrants was recorded as a decrease in “Contributed Surplus” in the Equity Shareholders’ Funds section and an addition to the share premium related to the fair value that was previously recorded for the warrants.
- ii) On 12 November 2004, 2,502,045 warrants at a price of 52.5p per share for the first two years and 70p per share for the third year were granted in connection with the 26 May 2004 share exchange. The fair value of these warrants amounted to £878,894,

estimated based on the following assumptions: dividend yield of 0%; risk-free interest rate of 4.5%; expected life of 3 years; and volatility of 60%. This value has been recorded as an increase in “Contributed Surplus” in the Equity Shareholders’ Funds section of the balance sheet and a reduction in share premium related to the costs of the share exchange. During the year, a total of 28,015 warrants were exercised. The exercise of these warrants were recorded as a decrease in “Contributed Surplus” in the Equity Shareholders’ Funds section and an addition to the share premium related to the fair value that was previously recorded for the warrants.

**(d) Goodwill**

Under UK GAAP amortization of goodwill arising from an acquisition is to be deferred until production occurs, when it will be charged over the expected production period of the project. Where a project is abandoned or is determined to not be economically viable, the goodwill is written off.

Under CDN GAAP, the accounting treatment given the Mortbury share exchange would have resulted in no goodwill being recorded. Accordingly, there is no adjustment required relating to goodwill or amortisation of goodwill under UK GAAP or CDN GAAP.

**(e) Cash and Cash Equivalents**

Under UK GAAP, cash at bank includes cash in hand and bank deposits repayable within 24 hours without penalty. All other bank deposits are included in short-term deposits. For purposes of the cash flow statement, management of liquid resources includes movements in short term deposits which do not fall within the definition of cash at bank.

Under CDN GAAP, cash and cash equivalents include cash on hand, balances with banks and short term deposits with original maturities of three months or less. Accordingly, there is no adjustment in the cashflow for management of liquid resources as the Company’s short term investments have maturities less than three months and movements in short term deposits fall into the definition of cash at bank.

**(f) Cash Flow Statement**

The format of the UK GAAP cash flow statement differs from that of the CDN GAAP cash flow statement. Under UK GAAP, interest paid and received is reported in a separate cash flow category called “Return on investment and servicing of finance.” In addition, under the UK GAAP cash flow statement there is a separate section for “Acquisitions”. Finally, under UK GAAP, movements in short-term investments are not included in cash but classified as “Management of Liquid Resources.” Under CDN GAAP, short-term investments with a maturity of three months or less at the date of acquisition are included in cash.

**(g) Foreign Exchange Data and Foreign Currency Translation**

All amounts included in this report are reported in Sterling. The following table reflects the low and high rates for one Pound Sterling, expressed in Canadian dollars in effect during the periods noted, the rates of exchange at the end of such periods and the average rates of exchange during such periods, based on the Bank of Canada average noon spot rate of exchange.

	<i>Year ended</i> <b>31 December</b> <i>2005</i>	<i>Year ended</i> <b>31 December</b> <i>2004</i>
Low for the period	<b>2.0036</b>	2.2017
High for the period	<b>2.4032</b>	2.5237
Rate at the end of period	<b>2.0036</b>	2.3062
Average rate for period	<b>2.2071</b>	2.3842

Under UK GAAP, Mortbury and its subsidiaries, Matsitama Minerals (Proprietary) Limited (“Matsitama”) and Messina Copper (Botswana) (Proprietary) Limited (“Messina”) are considered self-sustaining foreign subsidiaries. Accordingly, all assets and liabilities are translated into Sterling at the exchange rate prevailing at the balance sheet date and revenues and expenses at the exchange rate prevailing when the transaction occurred with the resulting differences reflected in Reserves. Under CDN GAAP, Mortbury is considered the parent company and African Copper, Matsitama and Messina are considered integrated foreign subsidiaries. Accordingly, monetary assets and liabilities are translated using the exchange rate prevailing at the balance sheet date, non-monetary assets and liabilities are translated at historical exchange rates and revenues and expenses are translated at the exchange rate prevailing when the transactions occurred, with the resulting differences reflected in the determination of net income for the period.

Effective 1 January 2004, Mortbury changed its reporting currency from U.S. dollars to Sterling. As required by CDN GAAP Emerging Issues Committee Release 130, all assets and liabilities of Mortbury would be translated from U.S. dollars to Sterling at the rate of exchange in effect at that date, with any resulting gain or loss being charged as a separate component of Shareholders’ Equity.

**(h) Share Based Compensation**

Under UK GAAP, the fair value of share options issued are included in the Equity Shareholders’ Funds as an Other Reserve. Under CDN GAAP, the fair value of share options issued are also included in the Shareholders’ Equity Funds but included under the Contributed Surplus category.

Under UK GAAP, the 450,000 Mortbury options issued at 35p granted by the Company as part of the Mortbury acquisition were dealt with as part of the acquisition accounting of Mortbury. Under CDN GAAP, these options represent a grant to employees and their fair value was calculated using the Black Scholes option pricing model and accounted for in the Share Premium account as a cost of issue.

**(i) Summary of GAAP Differences**

The following table summarizes the components of the significant differences between UK GAAP and CDN GAAP:

	<i>31 December</i>	<i>31 December</i>
	<i>2005</i>	<i>2004</i>
	<i>£’000</i>	<i>£’000</i>
<b>(i) Goodwill</b>		
Goodwill costs following UK GAAP	<b>8,684</b>	8,684
Less: goodwill arising on Mortbury acquisition not recorded under CDN GAAP	<b>(5,440)</b>	(5,440)
Less: goodwill arising on purchase of Mortbury preference share not recorded under CDN GAAP	<b>(3,244)</b>	(3,244)
<b>Goodwill following CDN GAAP</b>	<b>–</b>	–
<b>(ii) Deferred exploration costs</b>		
Deferred exploration costs following UK GAAP	<b>7,159</b>	2,330
Add: increase in value due to foreign exchange rate at 31 December 2003 compared to 26 May 2004 under CDN GAAP	<b>52</b>	52
Add: elimination of UK GAAP foreign exchange effect on non-monetary asset	<b>315</b>	–
<b>Deferred exploration costs following CDN GAAP</b>	<b>7,526</b>	2,382

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – continued**

	<i>31 December</i>	<i>31 December</i>
	<i>2005</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>
<b>(iii) Share capital</b>		
Share capital following UK GAAP	520	500
Less: share capital on Mortbury acquisition shares not recorded under CDN GAAP	(207)	(207)
Add: share capital on Mortbury acquisition shares recorded under CDN GAAP	167	167
Add: share capital issued in lieu of fee payable for assistance in the acquisition of Mortbury recorded under CDN GAAP	40	40
<b>Share capital following CDN GAAP</b>	<b>520</b>	<b>500</b>
<b>(iv) Share premium</b>		
Share premium following UK GAAP	16,158	15,157
Add: share premium on Mortbury acquisition recorded under CDN GAAP	1,703	1,703
Add: share premium on purchase of Mortbury preference share recorded under CDN GAAP	2,945	2,945
Less: related cash costs of issue under CDN GAAP	(71)	(71)
Less: related share costs of issue under CDN GAAP	(40)	(40)
Less: allocation of fair value of 1,700,000 Mortbury options and 499,872 underwriters options issued and recorded under CDN GAAP	(505)	(505)
Less: allocation of fair value of 2,836,182 warrants issued in private placement under CDN GAAP	(91)	(91)
Less: allocation of fair value of 2,502,045 warrants issued and recorded under CDN GAAP	(879)	(879)
Add: value of warrants exercised during 2005 under CDN GAAP	101	–
<b>Share premium following CDN GAAP</b>	<b>19,321</b>	<b>18,219</b>
<b>(v) Merger reserve</b>		
Merger reserve following UK GAAP	8,606	8,606
Less: premium on issue on Mortbury acquisition shares not recorded under CDN GAAP	(8,606)	(8,606)
<b>Merger reserve following CDN GAAP</b>	<b>–</b>	<b>–</b>
<b>(vi) Other reserve</b>		
Other reserve following UK GAAP	1,248	740
Less: reallocation of fair value of share options recorded as Contributed Surplus under CDN GAAP	(1,248)	(740)
<b>Other reserve following CDN GAAP</b>	<b>–</b>	<b>–</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – continued**

	<i>31 December</i>	<i>31 December</i>
	<i>2005</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>
<b>(vii) Contributed surplus</b>		
Contributed surplus following UK GAAP	–	–
Add: reallocation of fair value of share options recorded as Other Reserve under UK GAAP	<b>1,248</b>	740
Add: fair value of 499,872 underwriters options issued and recorded under CDN GAAP	<b>124</b>	124
Add: fair value of 450,000 Mortbury options issued and recorded under CDN GAAP	<b>69</b>	69
Add: allocation of fair value of 2,502,045 warrants issued and recorded under CDN GAAP	<b>879</b>	879
Add: allocation of fair value of 2,836,182 warrants issued in private placement under CDN GAAP	<b>91</b>	91
Less: value of warrants exercised during 2005 under CDN GAAP	<b>(101)</b>	–
<b>Contributed surplus following CDN GAAP</b>	<b>2,310</b>	<b>1,903</b>
<b>(viii) Profit and loss account</b>		
Profit and loss account following UK GAAP	<b>(1,264)</b>	(652)
Less: opening accumulated loss of Mortbury recorded under CDN GAAP	<b>(897)</b>	(897)
Less: premium on redemption of preference share recorded under CDN GAAP	<b>(3,244)</b>	(3,244)
Less: Loss of Mortbury for the period from 1 January 2004 to 26 May 2004 recorded under CDN GAAP	<b>(139)</b>	(139)
Add: Foreign currency gain for the period from 1 January 2004 to 26 May 2004 recorded under CDN GAAP	<b>29</b>	29
<b>Profit and loss account following CDN GAAP</b>	<b>(5,515)</b>	<b>(4,903)</b>

**(j) CDN GAAP Condensed Financial Statements**

Had the financial statements been reported under CDN GAAP, the condensed consolidated balance sheets and profit and loss accounts would be reported as follows:

**Consolidated Balance Sheets**

	<b>31 December</b>	<b>31 December</b>
	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
Intangible assets	7,526	2,382
Tangible assets	120	28
Current assets	10,903	13,570
Creditors	<u>(1,913)</u>	<u>(261)</u>
Net assets	<u>16,636</u>	<u>15,719</u>
Share capital	520	500
Share premium	19,321	18,219
Contributed surplus	2,310	1,903
Profit and loss account	<u>(5,515)</u>	<u>(4,903)</u>
	<u>16,636</u>	<u>15,719</u>

**Profit and Loss Account**

	<b>Year Ended</b>	<b>Year Ended</b>
	<b>31 December</b>	<b>31 December</b>
	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
Net loss, as reported in accordance with UK GAAP	(612)	(652)
Adjustment to accord with CDN GAAP relating to acquisition accounting	–	(110)
Net loss, as reported in accordance with CDN GAAP	(612)	(762)
Opening accumulated losses from Mortbury Limited		(897)
Opening losses brought forward	<b>(4,903)</b>	
Adjustment to accord with CDN GAAP relating to premium on repurchase of Mortbury Limited preference share	–	<u>(3,244)</u>
Accumulated losses carried forward	<u>(5,515)</u>	<u>(4,903)</u>
Loss per ordinary share	<u>1.19p</u>	<u>3.06p</u>

The differences arising between UK GAAP and CDN GAAP would have had no effect on the consolidated cash flow statement other than the differences in disclosure noted above.

# AFRICAN COPPER PLC

Corporate Information

## DIRECTORS

Roy D. Corrans  
*Non-executive Chairman*

Michael J. Evans  
*Non-executive Director*

Rodney M. Whyte  
*Non-executive Director*

Anthony J. Williams  
*Non-executive Director*

David Jones  
*Chief Executive Officer*

Joseph A. Hamilton  
*Chief Operating Officer*

Bradley R. Kipp  
*Finance Director*

## OFFICERS

David Jones  
*Chief Executive Officer*

Joseph A. Hamilton  
*Chief Operating Officer*

Bradley R. Kipp  
*Finance Director*

## HEAD OFFICE

100 Pall Mall  
St James's, London  
United Kingdom SW1Y 5HP  
Tel +44 (0) 20 7321 3721  
Fax +44 (0) 20 7321 3722

## COMPANY NUMBER

5041259

## BANK

National Westminster Bank Plc NatWest  
City of London officer  
P O Box 12258  
1 Princess Street  
London EC2R 8PA

## REGISTRAR

Computershare Investor Services PLC  
P O Box 82, The Pavillions  
Bridgewater Road  
Bristol BS99 7NH

## SOLICITORS

Ashurst  
Broadwalk House  
5 Appold Street  
London EC2A 2HA

## NOMINATED ADVISOR & BROKER

Numis Securities Limited  
Cheapside House  
138 Cheapside  
London, EC2V 6LH

## AUDITORS

PKF (UK) LLP  
Farringdon Place  
20 Farringdon Road  
London EC1M 3AP

## LISTING

Alternative Investment Market  
of the London Stock Exchange  
Symbol "ACU"

Botswana Stock Exchange  
Symbol "African Copper"

Toronto Stock Exchange  
Symbol "ACU"

## WEB SITE

[www.africancopper.com](http://www.africancopper.com)

## EMAIL:

[info@africancopper.com](mailto:info@africancopper.com)



# AFRICAN COPPER PLC

[www.africancopper.com](http://www.africancopper.com)