



## **DIRECTORS' REPORT**

The Directors present their report with the consolidated financial statements of the Company for the year ended 31 December 2006.

## **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.

## **BUSINESS REVIEW**

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

## **RESULTS**

The Group loss after taxation for the year was £2,100,884 (2005 restated under International Financial Reporting Standards ("IFRS"): £612,206).

## **PROPOSED DIVIDEND**

The Directors do not recommend the payment of a dividend for the year (2005: nil).

## **DIRECTORS**

The directors who held office during the year were as follows:

R D Corrans	Chairman
D Jones	Chief Executive
J A Hamilton	Chief Operating Officer
B R Kipp	Finance Director
M J Evans	Non-Executive
A J Williams	Non-Executive
R M Whyte	Non-Executive (Resigned 29 September 2006)

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

On 9 January 2007, in a planned succession, David Jones, Chief Executive, was appointed Non-Executive Deputy Chairman and Joseph Hamilton, the Company's then current Chief Operating Officer was appointed Chief Executive.

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

<i>Director</i>	<i>Shares held at 31 December 2006</i>	<i>Shares held at 31 December 2005</i>	<i>Share Options held at 31 December 2006</i>	<i>Share Options held at 31 December 2005</i>	<i>Option Exercise Price</i>	<i>Option Exercise Period</i>
R D Corrans	-	-	150,000	150,000	76p	12/11/04 to 12/11/14
			150,000	-	77.5p	01/08/06 to 31/07/16
D Jones	1,515,000	1,015,000	-	500,000 <sup>1</sup>	CAD \$0.25	29/03/99 to 29/03/07
			100,000	100,000	76p	12/11/04 to 12/11/14
			1,250,000	-	77.5p	01/08/06 to 31/07/16
J A Hamilton	-	-	1,500,000	1,500,000	76p	13/01/05 to 13/01/15
			2,250,000	-	77.5p	01/08/06 to 31/07/16
B R Kipp	200,000	200,000	350,000 <sup>1</sup>	350,000 <sup>1</sup>	35p	5/04/04 to 29/03/07
			100,000	100,000	76p	12/11/04 to 12/11/14
			1,250,000	-	77.5p	01/08/06 to 31/07/16
M J Evans	-	-	100,000	100,000	76p	12/11/04 to 12/11/14
			150,000	-	77.5p	01/08/06 to 31/07/16
A J Williams	2,250,012	2,000,012	-	250,000 <sup>1</sup>	CAD \$0.25	29/03/99 to 29/03/07
			100,000	100,000	76p	12/11/04 to 12/11/14
			150,000	-	77.5p	01/08/06 to 31/07/16

**Note from table:**

1. *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 2007 and the date of this Report.

Each of the Directors has confirmed that so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware, and that he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

## SUBSTANTIAL SHARE INTERESTS

As at 23 March 2007 the Company was aware of the following substantial share interests:

	Ordinary shares	%
Goldman Sachs Group	13,148,615	10.08%
RAB Capital Plc	13,008,810	9.97%
Geologic Resource Funds	11,518,800	8.83%
J P Morgan Chase & Co	9,600,000	7.36%
FMR Corp	7,668,664	5.88%
Fidelity International Limited	5,990,780	4.59%
QVT Fund LP	5,101,027	3.90%

## INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has, for the first time, prepared its full year consolidated financial statements under IFRS for the year ending 31 December 2006. The AIM Rules require conversion for years commencing on or after 1 January 2007 but the directors considered that early adoption was appropriate.

## SHARE CAPITAL

During 2006, a total of 78,474,030 ordinary shares were issued for net cash consideration of £53,641,555 from the following:

- i) public placement that raised gross proceeds of £57.96 million, through the issuance of 34,375,000 ordinary shares of 1p at 77.5p per share and 40,625,000 ordinary shares of 1p at Can\$1.60 per share. The net proceeds of the offering were £52.9 million after deducting a 6% cash commission to the underwriters of £3.48 million plus various professional fees and stamp duty reserve tax costs related to the offering
- (ii) exercise of 2,474,030 warrants to purchase ordinary shares of 1p of the Company at 52.5p
- (iii) exercise of 900,000 share options to purchase ordinary shares of 1p of the Company at Can\$0.25 and 100,000 share options to purchase ordinary shares of 1p of the Company at 35p. These share options were options originally granted under the Mortbury Limited option plan.

## 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 2006 was 30 days (2005: 35 days).

## CORPORATE GOVERNANCE

In formulating the Company's corporate governance procedures the Board of Directors takes due regard of the principles of good governance set out in Revised Combined Code issued by the Financial Reporting Council in July 2003 (as appended to the Listing Rules of the Financial Services Authority) and the size and stage of development of the Group. The Group complies with the guidance issued 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 of African Copper is currently made up of two executive directors and four non-executive directors. Mr. Roy Corrans chairs the Board, Mr. David Jones is the Deputy Chairman and Mr. Joseph Hamilton is the Company's Chief Executive Officer. It is the Board's policy to maintain independence by having at least half of the Board comprising non-executive directors who are free from any business, or other relationship with the Group. The structure of the Board ensures that no one individual or group dominates the decision making process.

The Board meets as deemed necessary to provide effective leadership and overall control and direction of the Group's affairs through the schedule of matters reserved for its decision. This includes the approval of the budget and business plan, major capital expenditures, acquisitions and disposals, risk management policies and the approval of the financial statements. Formal agendas, papers and reports are sent to the directors in a timely manner, prior to Board meetings.

All directors have access to the advice and services and of the Company Secretary, who is responsible for ensuring that all Board procedures are followed. Any director may take independent professional advice at the Company's expense in the furtherance of his duties.

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.

The Audit Committee which meets not less than four times a year considers the Group's financial reporting (including accounting policies) and internal financial controls, is chaired by Roy Corrans, the other members being Mike Evans and Anthony Williams. The committee receives reports from management and from the Group's auditors. The Audit Committee has reviewed the systems in place and considers these to be appropriate.

The Remuneration Committee which meets at least once a year and is responsible for making decisions on directors' remuneration packages is chaired by Roy Corrans, Mike Evans and Anthony Williams are the other committee members.

Remuneration of executive directors is established by reference to the remuneration of executives of equivalent status both in terms of level of responsibility of the position and be reference to their job qualifications and skills. The Remuneration Committee will also have regard to the terms which may be required to attract an executive of equivalent experience to join the Board from another company. Such packages include performance related bonuses and the grant of share options.

The Board attaches importance to maintaining good relationships with all its shareholders and ensures that all price sensitive information is released to all shareholders at the same time in accordance with London Stock Exchange, Toronto Stock Exchange and Botswana Stock Exchange rules. The Company's principal communication with its investors is through the annual report and accounts, the interim statements and the management's discussion and analysis.

## **FINANCIAL INSTRUMENTS**

The Group uses financial instruments comprising cash, cash equivalents and items such as short-term accounts receivable 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 Group holds and transacts business in multiple currencies, the most significant of which are Sterling, Botswana Pula, South African Rand, Canadian Dollars and US Dollars. As a result, the Group has exposure with respect to items and expenditures denominated in foreign currencies. The Group does not currently hedge foreign exchange risk.

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. The Group also has a downside exposure to any weakening of the Canadian dollar against the Sterling and Pula as a result of the amount of Canadian dollars held at 31 December 2006.

A detailed description of the nature and impact of foreign exchange losses recognized in fiscal 2006 is set out in Impact of Exchange Rates under "Performance – Dukwe Project" in the Management Discussion and Analysis.

### **LIQUIDITY RISK**

To date the Group has relied on shareholder funding to finance its operations. As the Group has no material income until the Dukwe Project reaches commercial production, 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.

### **POLITICAL AND CHARITABLE CONTRIBUTIONS**

The Group made no political contribution and one charitable donation during fiscal 2006 to the SOS Children's Village Francistown in Botswana of £2,500 (2005: nil).

### **AUDITORS**

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

BY ORDER OF THE BOARD

A handwritten signature in black ink, appearing to read "Joe Hamilton", written in a cursive style.

Joseph Hamilton  
Chief Executive Officer  
23 March 2007

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. The financial statements are required to 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 that 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

## **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 2006 which comprise the consolidated income statement and the consolidated and company balance sheets, cash flow statements and statements of change in shareholders' equity 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 International Financial Reporting Standards ('IFRSs') as adopted by the European Union 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 whether in our opinion the information given in the directors' report is consistent with the financial statements. The information in the directors' report includes that specific information presented in the Management's Discussion and Analysis that is cross referenced from the business review section of the directors' report.

In addition we report to you if, in our opinion, 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 group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs as at 31 December 2006 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2006;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

### Separate opinion in relation to IFRS

As explained in Note 2(a) to the group financial statements the group, in addition to complying with IFRS as adopted by the European Union, has also complied with IFRS as issued by the International Accounting Standards Board.

In our opinion the group financial statements give a true and fair view, in accordance with IFRS, of the state of the group's affairs as at 31 December 2006 and of its loss for the year then ended.

### Emphasis of matter – adequacy of project finance

In forming our opinion, which is not qualified, we have considered the adequacy of disclosures made in note 1 to the financial statements concerning the possible requirement for the company to raise further funding to complete the development of the Dukwe mine, in the event of significant cost overruns on that project. If the company is unable to secure such additional funding, this may have a consequential impact on the carrying value of the related assets and the investment of the parent company. The requirement for, or 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  
23 March 2007

**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 International Standards on Auditing (UK and Ireland).

We conducted our audit for the year ended 31 December 2006 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 were prepared in accordance with Canadian GAAS it would not contain a reservation.

An audit report issued in accordance with Canadian GAAS does not require the Emphasis of Matter paragraph that is included in the United Kingdom Independent Auditors' Report for the year ended 31 December 2006 given above. In all other respects, there are no material differences in the form and content of the above noted auditors' report.

Handwritten signature in grey ink that reads "PKF(UK)LLP".

PKF (UK) LLP  
London, UK  
23 March 2007

**African Copper Plc**  
**Consolidated income statement**

	Note	Year ended 31 December	
		2006 £'000	2005 £'000
Administrative expenses		(1,581)	(1,121)
Exchange loss		(2,103)	(4)
<b>Operating loss</b>	4	(3,684)	(1,125)
<b>Finance income</b>			
Bank interest receivable		1,646	530
<b>Loss before tax</b>		(2,038)	(595)
Tax	6	(62)	(17)
<b>Loss after tax</b>		(2,100)	(612)
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Basic and diluted loss per ordinary share	7	2.20p	1.19p

The notes on pages 16 to 40 are an integral part of these consolidated financial statements.

The comparative information has been restated in accordance with IFRS, as set out in Note 21.

**African Copper Plc**  
**Balance Sheets**

	Note	Group		Company	
		As at 31 December		As at 31 December	
		2006	2005	2006	2005
		£'000	£'000	£'000	£'000
<b>ASSETS</b>					
Property, plant and equipment	8	13,964	120	1,043	-
Deferred exploration costs	9	2,007	7,159	-	688
Long term receivables	10	-	-	16,986	4,767
Investments in subsidiaries	11	-	-	9,495	9,495
<b>Total non-current assets</b>		<b>15,971</b>	<b>7,279</b>	<b>27,525</b>	<b>14,950</b>
Other receivables and prepayments	13	648	227	438	105
Cash and cash equivalents	14	53,254	10,676	51,157	10,542
<b>Total current assets</b>		<b>53,902</b>	<b>10,903</b>	<b>51,595</b>	<b>10,647</b>
<b>Total assets</b>		<b>69,873</b>	<b>18,182</b>	<b>79,120</b>	<b>25,597</b>
<b>EQUITY</b>					
Issued share capital	15	1,305	520	1,305	520
Share premium		69,844	16,158	69,844	16,158
Merger reserve		-	-	8,607	8,607
Acquisition reserve		4,485	4,485	-	-
Foreign currency translation reserve		(1,979)	(315)	-	-
Retained losses		(5,687)	(4,579)	(829)	124
<b>Total equity</b>		<b>67,968</b>	<b>16,269</b>	<b>78,927</b>	<b>25,409</b>
<b>LIABILITIES</b>					
Trade and other payables	17	1,905	1,913	193	188
<b>Total current liabilities</b>		<b>1,905</b>	<b>1,913</b>	<b>193</b>	<b>188</b>
<b>Total equity and liabilities</b>		<b>69,873</b>	<b>18,182</b>	<b>79,120</b>	<b>25,597</b>

The notes on pages 16 to 40 are an integral part of these consolidated financial statements.

The comparative information has been restated in accordance with IFRS, as set out in Note 21.

The financial statements were approved by the Board of Directors and authorised for issue on 23 March 2007 and signed on their behalf by:

Director "Joe Hamilton"

Director "Bradley Kipp"

**African Copper Plc**  
**Group consolidated statement of changes in shareholders' equity**

		Share Note Capital £'000	Share Premium £'000	Acquisition Reserve £'000	Foreign Currency Translation Reserve £'000	Retained Loss £'000	Total Equity £'000
<b>Balance at 1 January 2005</b>		500	15,157	4,485	-	(4,475)	15,667
Foreign exchange adjustments		-	-	-	(315)	-	(315)
Loss for the year	4	-	-	-	-	(612)	(612)
Total recognised loss for the year		-	-	-	(315)	(612)	(927)
New share capital subscribed		20	1,001	-	-	-	1,021
Credit arising on share options		-	-	-	-	508	508
<b>Balance at 31 December 2005</b>		520	16,158	4,485	(315)	(4,579)	16,269
Foreign exchange adjustments		-	-	-	(1,664)	-	(1,664)
Loss for the year		-	-	-	-	(2,100)	(2,100)
Total recognised loss for the year		-	-	-	(1,664)	(2,100)	(3,764)
New share capital subscribed	15	785	58,702	-	-	-	59,487
Share issue costs		-	(5,016)	-	-	-	(5,016)
Credit arising on share options		-	-	-	-	992	992
<b>Balance at 31 December 2006</b>		1,305	69,844	4,485	(1,979)	(5,687)	67,968

The notes on pages 16 to 40 are an integral part of these consolidated financial statements.

The comparative information has been restated in accordance with IFRS, as set out in Note 21.

**African Copper Plc**  
**Company statement of changes in shareholders' equity**

	Note	Share Capital £'000	Share Premium £'000	Merger Reserve £'000	Retained Profit/(Loss) £'000	Total Equity £'000
<b>Balance at 1 January 2005</b>		500	15,157	8,607	150	24,414
Loss for the year	4	-	-	-	(534)	(534)
Total recognised loss for the year		-	-	-	(534)	(534)
New share capital subscribed		20	1,001	-	-	1,021
Credit arising on share options		-	-	-	508	508
<b>Balance at 31 December 2005</b>		520	16,158	8,607	124	25,409
Loss for the year		-	-	-	(1,664)	(1,664)
Total recognised loss for the year		-	-	-	(1,664)	(1,664)
New share capital subscribed	15	785	58,702	-	-	59,487
Share issue costs		-	(5,016)	-	-	(5,016)
Credit arising on share options		-	-	-	711	711
<b>Balance at 31 December 2006</b>		1,305	69,844	8,607	(829)	78,927

The notes on pages 16 to 40 are an integral part of these consolidated financial statements.

The comparative information has been restated in accordance with IFRS, as set out in Note 21.

**African Copper Plc**  
**Group consolidated cash flow statement**

	Note	Year ended 31 December	
		2006 £'000	2005 £'000
<b>Cash flows from operating activities</b>			
Administration expenses		(1,581)	(1,121)
Tax		(62)	(17)
Operating loss from continuing operations		(1,643)	(1,138)
Decrease in receivables		(421)	(68)
Decrease/(increase) in payables		(5)	67
Share based payment expense		562	120
Tax		62	17
<b>Cash used in operating activities</b>		<b>(1,445)</b>	<b>(1,002)</b>
Interest received		1,646	530
Net cash inflow/(outflow) from operating activities		201	(472)
<b>Cash flows from investing activities</b>			
Payments to acquire property, plant and equipment	8	(3,805)	(92)
Payments of deferred exploration expenditures	9	(6,186)	(3,187)
Net cash outflow from investing activities		(9,991)	(3,279)
<b>Cash flows from financing activities</b>			
Issue of equity share capital		52,948	-
Issue of equity upon exercise of warrants		1,378	1,021
Issue of equity upon exercise of options		145	-
Net cash inflow from financing activities		54,471	1,021
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>44,681</b>	<b>(2,730)</b>
Cash and cash equivalents at beginning of the year		10,676	13,410
Exchange loss		(2,103)	(4)
<b>Cash and cash equivalents at end of the year</b>	14	<b>53,254</b>	<b>10,676</b>

The notes on pages 16 to 40 are an integral part of these consolidated financial statements.  
The comparative information has been restated in accordance with IFRS, as set out in Note 21.

**African Copper Plc**  
**Company cash flow statement**

	Note	Year ended 31 December	
		2006 £'000	2005 £'000
<b>Cash flows from operating activities</b>			
Operating loss from continuing operations		(1,664)	(535)
Increase/(decrease) in receivables		(333)	55
Decrease/(increase) in payables		(5)	66
Share based payment expense		562	120
<b>Cash used in operating activities</b>		<b>(1,440)</b>	<b>(294)</b>
Interest received		2,056	589
<b>Net cash inflow/(outflow) from operating activities</b>		<b>616</b>	<b>295</b>
<b>Cash flows from investing activities</b>			
Increase in loans to subsidiaries	10	(12,219)	(3,395)
Payments to acquire property, plant and equipment	8	(150)	-
Payments of deferred exploration expenditures	9	-	(772)
<b>Net cash outflow from investing activities</b>		<b>(12,369)</b>	<b>(4,167)</b>
<b>Cash flows from financing activities</b>			
Issue of equity share capital		52,948	-
Issue of equity upon exercise of warrants		1,378	1,021
Issue of equity upon exercise of options		145	-
<b>Net cash inflow from financing activities</b>		<b>54,471</b>	<b>1,021</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>42,718</b>	<b>(2,851)</b>
Cash and cash equivalents at beginning of the year		10,542	13,397
Exchange loss		(2,103)	(4)
<b>Cash and cash equivalents at end of the year</b>	14	<b>51,157</b>	<b>10,542</b>

The notes on pages 16 to 40 are an integral part of these consolidated financial statements.  
The comparative information has been restated in accordance with IFRS, as set out in Note 21.

## **1. Nature of operations, going concern and adequacy of project finance**

African Copper Plc (“African Copper” or the “Company”) is a public limited company incorporated and domiciled in England and is listed on the AIM market of the London Stock Exchange, the Toronto Stock Exchange and the Botswana Stock Exchange. African Copper is a 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 developing its first copper mine at the Dukwe Project and is conducting an exploration programme at 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.

On 30 March 2006 a report prepared by A.C.A. Howe International Limited entitled “Technical Report on the Dukwe Copper Project and Matsitama Prospecting Licences Botswana Africa” (the “Technical Report”) was released (a copy of which is available at [www.africancopper.com](http://www.africancopper.com) or SEDAR at [www.sedar.com](http://www.sedar.com)). The Technical Report reviewed work completed to date and provided recommendations to advance the Company’s two Botswana projects. On 5 June 2006 the Company received shareholder approval at an Extraordinary General Meeting for the completion of a public offering to raise £52.9 million, net of expenses, through the issue of 34,375,000 ordinary shares at 77.5p per share and 40,625,000 ordinary shares at Can\$1.60. The Board plans to use the funds raised to develop a mine at the Dukwe Project and further the exploration of the Matsitama Project. The strategy contemplates cashflow generated from the proposed mining operations at the Dukwe deposit to continue funding the further exploration and development of the Matsitama Belt. The Company believes that it has sufficient financial resources to develop Dukwe and adequate working capital for the foreseeable future being a period of not less than twelve months from the date of signing these financial statements. The Directors therefore consider it appropriate to prepare these financial statements on a going concern basis.

In the event of project cost overruns or delays, the Company believes it has adequate flexibility to manage expenditures and to obtain project debt or further equity to complete the development of Dukwe. However, there can be no certainty in this regard and if the Company is unable to secure the further finance required, the Company may not be able to fully develop these projects and their carrying values and the investment of the parent company may become impaired.

The address of African Copper’s registered office is 100 Pall Mall, St James’s London SW1Y 5HP. These consolidated financial statements have been approved for issue by the Board of Directors on 23 March 2007.

## **2. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

### **a) Statement of Compliance**

The consolidated financial statements of African Copper have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and its interpretations adopted by the International Accounting Standards Board (“IASB”), which are the same as those adopted by the European Union and with the parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening balance sheet at 1 January 2005 for the purposes of the transition to IFRS.

A detailed explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group are provided in Note 21.

As permitted by section 230 of the Companies Act 1985, the income statement of the Company has not been presented in these financial statements.

#### **b) Basis of preparation**

The consolidated financial statements of African Copper are presented in Pounds Sterling and have been prepared on the historical cost basis.

Prior to 2006, the Group prepared its audited financial statements and unaudited interim financial statements under UK Generally Accepted Accounting Practice ("UK GAAP") principles. From 1 January 2006, the Group has elected to prepare annual consolidated financial statements in accordance with IFRS. As the 2006 annual financial statements include comparatives for 2005, the Group's date of transition to IFRS was 1 January 2005 and the 2005 comparatives are restated according to IFRS.

#### **c) Basis of consolidation**

##### ***(i) Subsidiaries***

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is recognized where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

##### ***(ii) Transactions eliminated on consolidation***

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

##### ***(iii) Business combinations***

On entering into a business combination, an acquirer is identified based on the identity of the entity which gains control of the combining entities.

The assets, liabilities and contingent liabilities of the acquiree are measured at their fair value at the date of acquisition. Any excess of the fair value of the consideration paid over the fair value of the identifiable net assets acquired is recognised as goodwill. If the fair value of the consideration is less than the fair value of the identifiable net assets acquired, the difference is recognised directly in the income statement.

#### **d) Foreign currency translation**

##### ***(i) Functional and presentation currency***

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Pounds Sterling, which is the Group's presentation currency and the functional currency of the Company.

### **(iii) Group companies**

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- ◇ assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- ◇ income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- ◇ all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

### **e) Property, plant and equipment**

Property, plant and equipment are recorded at cost less accumulated amortisation and less any accumulated impairment losses. Pre-production expenditure relating to testing and commissioning is capitalised to property, plant and equipment. The recognition of costs in the carrying amount of an asset ceases when the item is in the location and condition necessary to operate as intended by management. Any net income earned while the item is not yet capable of operating as intended reduces the capitalised amount. Interest on borrowings, specifically to finance the establishment of mining assets, is capitalised during the construction phase.

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be reliably measured. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Amortization methods and amortization rates are applied consistently within each asset class except where significant individual assets have been identified which have different amortisation patterns. Residual values are reviewed at least annually. Amortisation is not adjusted retrospectively for changes in the residual amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

Other assets consist of vehicles, information technology equipment and furniture and equipment.

### **Mining development and infrastructure**

Individual mining assets are amortised using the units-of-production method based on the respective estimated economically recoverable metal during the life of mine plan.

### **Mining plant and equipment**

Individual mining plant and equipment assets are depreciated using the straight line method over the useful life of the asset once the assets are available for use.

## **Other Assets**

These assets are depreciated using the straight line method over the useful life of the asset as follows:

- Vehicles 4 years
- Information technology 3 years
- Furniture & equipment 5 years

### **f) Deferred exploration and evaluation**

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

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

Upon demonstration of the technical and commercial feasibility of a project, any past deferred exploration and evaluation costs related to that project will be reclassified as Mine Development and Infrastructure.

Capitalised deferred exploration expenditures are reviewed for impairment losses (see accounting policy note below) at each balance sheet date. In the case of undeveloped properties, there may be only inferred resources to form a basis for the impairment review. The review is based on a status report regarding the Group's intentions for development of the undeveloped property.

The recoverability of deferred exploration and evaluation costs is dependent upon the discovery of economically recoverable ore reserves, the ability of the Group to obtain the necessary financing to complete the development of the reserves and future profitable production or proceeds from the disposal thereof.

### **g) Other receivables and prepayments**

Other receivables and prepayments are not interest bearing and are stated at amortised cost.

### **h) Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

### **i) Impairment**

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

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

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

#### **j) Share based payment**

Certain Group employees and consultants are rewarded with share based instruments. These are stated at fair value at the date of grant and either expensed to the income statement or capitalized to deferred exploration costs, based on the activity of the employee or consultant, over the vesting period of the instrument.

Fair value is estimated using the Black-Scholes valuation model. The estimated life of the instrument used in the model is adjusted for management's best estimate of the effects of non-transferability, exercise restrictions and behavioural considerations.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

#### **k) Provisions**

Provisions are recognized when, the Group has a legal or constructive obligation as a result of past events, it is more likely than not that an outflow of the resources will be required to settle the obligation and the amount can be reliably estimated.

#### **l) Trade and other payables**

Trade and other payables are not interest bearing and are stated at amortized cost.

#### **m) Income tax**

The charge for taxation is based on the profit or loss for the year and takes into account deferred tax. Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit or loss, and is accounted for using the balance sheet method.

Deferred tax assets are only recognised to the extent that it is probable that future taxable profit will be available in the foreseeable future against which the temporary differences can be utilised.

#### **n) Asset retirement obligations**

Mine closure and site restoration costs are comprised of asset retirement obligations, employee severance and ongoing expenditures related to the protection of the environment. The fair value of a liability for an asset retirement obligation is recognized when it is incurred.

Also, when a liability is initially recorded, a corresponding increase to the carrying amount of the related asset is recorded. On an annual basis, the fair value of the future liability for an asset retirement obligation is recognized in the period in which it is incurred with an offsetting amount being recognized as an increase in the carrying amount of the corresponding asset. This asset is amortized over the estimated life of the mine while the corresponding liability accretes to its future value by the end of the mine's life. Mine closure costs for employee severance are accrued as earned using a pre-determined formula based upon the employees' number of years of employment service with the mine. Ongoing expenditures related to the

protection of the environment are charged to earnings in the period they are incurred.

#### **o) Investment in subsidiaries**

Investments in subsidiaries are recognised at cost less any provision for impairment.

#### **p) Revenue**

##### ***i) Interest income***

Interest income is recognised as it accrues to the Company.

#### **q) Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Many of the amounts included in the financial statements involve the use of judgement and/or estimation. These judgements and estimates are based on managements' best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the financial statements.

Information about such judgements and estimation is contained in the accounting policies and/or the Notes to the financial statements, and the key areas are summarised below. Areas of judgement that have the most significant effect on the amounts recognized in the financial statements:

Capitalisation and impairment of exploration and evaluation costs – Note 2(i) and Note 9

Estimation of share based compensation amounts – Note 2(j) and Note 16

### **3. Group Segment reporting**

A business segment is a component of the Group distinguishable by economic activity (business segment), or by its geographical location (geographical segment), which is subject to risks and returns that are different from those of other business segments. The Group's only business segment is the exploration for, and the development of copper and other base metal deposits. The Group also reports by geographical segment. All the Group's activities are related to the exploration for, and the development of copper and other base metals in Botswana with the support provided from the UK. In presenting information on the basis of geographical segments, segment assets and the cost of acquiring them are based on the geographical location of the assets. Segment capital expenditure is the total cost incurred during the period to acquire segment assets and where the assets are located. There was no Group turnover during the year (31 December 2005:£nil).

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
<b>Total assets</b>		
Botswana	16,424	6,036
UK	53,449	12,146
<b>Total</b>	<b>69,873</b>	<b>18,182</b>
<b>Capital expenditure on property, plant and equipment</b>		
Botswana	3,805	134
UK	-	-
<b>Total</b>	<b>3,805</b>	<b>134</b>

	2006	2005
	£'000	£'000
<b>Capital expenditure on deferred exploration</b>		
Botswana	5,825	4,568
UK	350	576
<b>Total</b>	<b>6,175</b>	<b>5,144</b>

#### 4. Loss on operations before tax

	2006	2005
	£'000	£'000
<b>Loss on ordinary activities is stated after charging:</b>		
Depreciation *	115	42
Exchange differences	(2,103)	(4)
Auditors remuneration:		
- Audit fee	48	35
Fees payable to the auditor for other services:		
- Audit of accounts of associates of the Company pursuant to legislation	13	-
- Other services pursuant to legislation	8	8
- Other services relating to tax	30	10
- Other services relating to corporate finance	60	-
- All other services	1	-

#### 5. Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	Number of Employees 2006	Number of Employees 2005
Finance and administration	7	4
Technical and operations	22	4
	<b>29</b>	<b>8</b>

The aggregate payroll costs of these persons were as follows:

	2006	2005
	£'000	£'000
Wages and salaries	818	448
Benefits	61	15
Share based payments	955	481
	<b>1,834</b>	<b>944</b>

## Remuneration of directors and other key management personnel

2006	Directors Fees £'000	Basic annual remuneration £'000	Other benefits £'000	Total remuneration £'000
<b>Directors:</b>				
R D Corrans	20	-	-	20
D Jones	-	128	-	128
J A Hamilton	-	176	-	176
B R Kipp	-	85	-	85
A J Williams	14	-	-	14
M J Evans	13	-	-	13
R M Whyte	9	-	-	9
Total directors' remuneration	56	389	-	445
<b>Non-directors</b>	-	189	24	213
Share based payments				912
Total	56	578	24	1,570

Two directors exercised share options during the year and realizing a gain of £384,590 at the date of exercise. At 23 March 2007, the directors have not sold the shares. The gain attributable to the highest paid director was nil.

2005	Directors Fees £'000	Basic annual remuneration £'000	Other benefits £'000	Total remuneration £'000
<b>Directors:</b>				
R D Corrans	20	-	-	20
D Jones	-	93	-	93
J A Hamilton	-	167	-	167
B R Kipp	-	57	-	57
A J Williams	14	-	-	14
M J Evans	13	-	-	13
R M Whyte	8	-	-	8
Total directors' remuneration	55	317	-	372
<b>Non-directors</b>	-	114	14	128
Share based payments	-	-	-	507
Total	55	431	14	1,007

## 6. Income tax expense

### Factors affecting the tax charge for the current period

The tax credit for the period is lower than the credit resulting from the loss before tax at the standard rate of corporation tax in the UK – 30% (2005:30%)

	2006	2005
	£'000	£'000
Tax reconciliation		
Loss on ordinary activities before tax	(2,038)	(595)
Tax at 30% (2005: 30%)	(611)	(179)
Effects (at 30%) of:		
Expenses not deductible for tax purposes	150	83
Deferred tax asset not recognised	489	100
Credit in respect of overseas taxation	(19)	
Irrecoverable withholding tax	62	17
Lower tax rates on overseas losses	(9)	(4)
Tax charge	62	17

### Unrecognized deferred tax assets and liabilities

	2006	2005
	£'000	£'000
Losses	4,790	1,728
Arising on share options	38	-
Accelerated capital allowances	(4,521)	(1,472)
Net deferred tax asset not recognized	307	256

Deferred tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. As at December 31, 2006, the Group did not recognize deferred tax assets of £307,000 (2005: £256,000) in respect of losses 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.

## 7. Basic and diluted loss per share

The calculation of basic loss per ordinary share on the net basis is based on the loss of ordinary activities after taxation of £2,100,884 (2005: £612,206) and on 95,516,505 (2005: 51,500,444) ordinary shares being the weighted average number 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 that could potentially dilute earnings per share in the future are shown in note 16.

## 8. Property, Plant and Equipment

Group	Mine Development and Infrastructure £'000	Mine Plant and Equipment £'000	Other Assets £'000	Total £'000
<b>Cost</b>				
Balance at 1 January 2005	-	-	28	28
Additions	-	-	134	134
Balance at 31 December 2005	-	-	162	162
Balance at 1 January 2006	-	-	162	162
Reclassification from Deferred Exploration	10,395	241	-	10,636
Additions	3,322	146	337	3,805
Exchange adjustments	(458)	-	(32)	(490)
<b>Balance at 31 December 2006</b>	<b>13,259</b>	<b>387</b>	<b>467</b>	<b>14,113</b>
<b>Depreciation and impairment losses</b>				
Balance at 1 January 2005	-	-	-	-
Depreciation charge for the year	-	-	(42)	(42)
Balance at 31 December 2005	-	-	(42)	(42)
Balance at 1 January 2006	-	-	(42)	(42)
Depreciation charge for the year	-	-	(115)	(115)
Exchange adjustments	-	-	8	8
<b>Balance at 31 December 2006</b>	<b>-</b>	<b>-</b>	<b>(149)</b>	<b>(149)</b>
<b>Carry amounts</b>				
Balance at 1 January 2005	-	-	28	28
Balance at 31 December 2005	-	-	120	120
Balance at 1 January 2006	-	-	120	120
<b>Balance at 31 December 2006</b>	<b>13,259</b>	<b>387</b>	<b>318</b>	<b>13,964</b>
<b>Company</b>				
	Mine Development and Infrastructure £'000	Computer and Office Equipment £'000		Total £'000
<b>Cost</b>				
Balance at 1 January 2005 and 31 December 2005	-	-		-
Reclassification from Deferred Exploration	688	-		688
Additions	349	6		355
Balance at 31 December 2006	1,037	6		1,043

## 9. Deferred exploration costs

<b>Group</b>	<b>£'000</b>
<b>Cost</b>	
Balance at 1 January 2005	2,330
Additions	5,144
Exchange adjustments	(315)
Balance 31 December 2005	7,159
Additions	6,175
Exchange adjustments	(691)
Reclassification to Mine Development and Infrastructure	(10,636)
<b>Balance 31 December 2006</b>	<b>2,007</b>

<b>Company</b>	<b>£'000</b>
<b>Cost</b>	
Balance at 1 January 2005	112
Additions	576
Balance 31 December 2005	688
Additions	-
Reclassification to Mine Development and Infrastructure	(688)
<b>Balance 31 December 2006</b>	<b>-</b>

### Impairment loss

During the year the Group and Company did not recognize any provision for impairment against any of its deferred exploration assets

## 10. Company long term receivables

	<b>£'000</b>
<b>Loans to Subsidiary undertakings</b>	
Balance at 1 January 2005	1,372
Additions	3,395
Balance 31 December 2005	4,797
Additions	12,219
<b>Balance 31 December 2006</b>	<b>16,986</b>

## 11. Company - Investments in subsidiaries

	£'000
Acquisition of Mortbury Limited	6,251
Purchase of Mortbury preference shares	3,244
<b>Balance 31 December 2005 and 2006</b>	<b>9,495</b>

## 12. Subsidiary undertakings

	Country of incorporation and operation	Physical activity	Holding of equity shares 2006	Holding of equity shares 2005
Mortbury Limited	British Virgin Islands	Investment	100%	100%
Messina Copper (Botswana) (Pty) Limited *	Botswana	Exploration	100%	100%
Matsitama Minerals (Pty) Limited *	Botswana	Exploration	100%	100%

\* indirectly held

## 13. Other receivables and prepayments

	Group		Company	
	Year ended 31 December		Year ended 31 December	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
VAT receivable	440	104	241	-
Interest receivable	115	30	115	30
Prepayments and other receivables	93	93	82	75
	648	227	438	105

## 14. Cash and cash equivalents

Group	2006	2005
	£'000	£'000
Cash at bank	421	297
Short-term bank deposits	52,833	10,379
Cash and cash equivalents in the statement of cashflows	53,254	10,676
Company	2006	2005
	£'000	£'000
Cash at bank	329	163
Short-term bank deposits	50,828	10,379
Cash and cash equivalents in the statement of cashflows	51,157	10,542

## 15. Share Capital

	No. of shares	£'000
Authorised		
At 31 December 2005 and 31 December 2006		
Ordinary shares of 1p each	495,000,000	4,950
Redeemable preference shares of £1 each	50,000	50
Issued:		
Balance at 1 January 2005	49,992,173	500
Ordinary shares issued on exercise of warrants	2,040,982	20
Balance at 31 December 2005	52,033,155	520
Ordinary shares issued on June 2006 placement	75,000,000	750
Ordinary shares issued on exercise of warrants	2,474,030	25
Ordinary shares issued on exercise of options	1,000,000	10
Balance at 31 December 2006	130,507,185	1,305

### Shares issued

During 2005, a total 2,040,982 ordinary shares were issued for cash consideration of £1,021,000 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.

During 2006, a total of 78,474,030 ordinary shares were issued for net cash consideration of £53,641,555 from the following:

- (i) public placement that raised gross proceeds of £57.96 million, through the issuance of 34,375,000 ordinary shares of 1p at 77.5p per share and 40,625,000 ordinary shares of 1p at Can\$1.60 per share. The net proceeds of the offering were £52.9 million after deducting a 6% cash commission to the underwriters of £3.48 million plus various professional fees and stamp duty reserve tax costs related to the offering.
- (ii) exercise of 2,474,030 warrants to purchase ordinary shares of 1p of the Company at 52.5p.
- (iii) exercise of 900,000 share options to purchase ordinary shares of the Company at Can\$0.25 and 100,000 share options to purchase ordinary shares of the Company at 35p. These share options were options originally granted under the Mortbury Limited option plan.

## Share options and warrants

<b>Share<sup>1</sup> Options Held at 31 December 2006</b>	<b>Share<sup>1</sup> Options Held at 31 December 2005</b>	<b>Date of Grant</b>	<b>Option Price per Share</b>	<b>Exercise Period</b>
350,000	1,250,000	29 March 1999 <sup>2</sup>	Can\$0.25	up to 29 March 2007
350,000	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	700,000	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	1,500,000	5 January 2005	£0.76	up to 5 January 2015
100,000	100,000	25 April 2005	£0.76	up to 25 April 2015
300,000	300,000	1 September 2005	£0.76	up to 1 February 2015
120,000	120,000	1 September 2005	£0.76	up to 14 March 2015
240,000	240,000	12 November 2005	£0.76	up to 12 November 2015
7,310,000	-	1 August 2006	£0.775	up to 1 August 2016
400,000	-	11 September 2006	£0.775	up to 11 September 2016
200,000	-	30 November 2006	£0.775	up to 30 November 2016
750,000	-	29 December 2006	£0.775	up to 29 December 2016
<b>13,319,872</b>	<b>5,659,872</b>			

<b>Number of Warrants at 31 December 2006</b>	<b>Number of Warrants at 31 December 2005</b>	<b>Date of Grant</b>	<b>Subscription Price</b>	<b>Exercise Period</b>
-	2,474,030 <sup>4</sup>	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.

1. At 31 December 2006 directors' of the Company hold some of the share options. These are described in the Directors' Report.
2. 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.
3. Admission to the Alternative Investment Market of the London Stock Exchange at 12 November 2004.
4. Of the total 2,502,045 warrants issued, 28,015 warrants were exercised in 2005 and 2,474,030 were exercised in 2006.

**Acquisition reserve**

The acquisition reserve comprises the difference between the issued equity of Mortbury Limited at the date of the reverse acquisition of the Company by Mortbury Limited and the par value of shares issued by the Company in the share exchange, together with the fair value of equity issued to repurchase the Mortbury preference shares in issue. As such, the acquisition reserve is a component of the issued equity of the Group.

**Foreign currency translation reserve**

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of the Botswana foreign subsidiaries that have a different functional currency from the presentation currency. Exchange differences arising are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in the income statement in the period in which the operation is disposed of.

**Merger reserve**

As permitted by the Companies Act 1985, the merger reserve represents the premium on shares issued to acquire the share capital of Mortbury Limited.

**Dividends**

The directors do not recommend the payment of a dividend.

**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 on one African Copper ordinary share. For options granted the vesting period is generally upto 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 2005 all options were granted at 76p and in 2006 all options were granted at 77.5p.

As part of the acquisition of Mortbury Limited in 2004, 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 option scheme. Under the Mortbury share option scheme, directors, employees and consultants of Mortbury were granted a total of 1,700,000 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. In 2006 1 million of the Mortbury options were exercised.

As part of admission to the AIM 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.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2006		2005	
	Weighted average exercise price in £ per share	Options	Weighted average exercise price in £ per share	Options
At 1 January	55p	5,659,872	43p	3,489,872
Granted	77.5p	8,660,000	76p	2,260,000
Forfeited	-	-	76p	(90,000)
Exercised	14p	(1,000,000)	-	-
At 31 December	73p	13,319,872	55p	5,659,872
Exercisable at the end of the year	70p	7,229,872	55p	5,167,002

The weighted average share price on the date of exercise of 1 million share options was 63.5p.

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 77.5p (2005: 76p). The effect during the year was to increase the loss before taxation by £562,199 (2005: £120,277) and to increase the additions to deferred exploration costs at 31 December 2006 by £429,443 (2005: £388,048).

The assumptions used were as follows:

	2006	2005
Weighted average share price	73p	56p
Weighted average exercise prices	77.5p	76p
Expected volatility	34%	60%
Expected life	5 years	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 AIM 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.

The total expense in respect of share based payments for the year was £991,642 (2005: £508,325), of which £562,199 (2005: £120,277) was recorded as an expense in the income statement and £429,443 (2005: £388,048) was capitalised as part of deferred exploration costs.

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Expiry date	Exercise price in £ per share	Shares	
		2006	2005
2007	49p	1,199,872	2,199,872
2014	59p	1,200,000	1,200,000
2015	76p	2,260,000	2,260,000
2016	77.5p	7,310,000	-
2017	77.5p	1,350,000	-
	73p	13,319,872	5,659,872

The weighted average remaining contractual life of the outstanding options at 31 December 2006 was 8.68 years (2005:6.72 years).

## 17. Trade and other payables

	Group		Company	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Trade payables	548	1,617	100	136
Amounts due to related parties (Note 20)	39	26	36	15
Withholding taxes	204	22	-	-
Accrued expenses and other payables	1,114	248	57	37
	1,905	1,913	193	188

## 18. Financial risk factors

The board of directors determines, as required, the degree to which it is appropriate to use financial instruments, commodity contracts or other hedging contracts or techniques to mitigate risks. The main risks for which such instruments may be appropriate are foreign exchange risk, commodity price risk, interest rate risk and liquidity risk each of which is discussed below.

During the year ended 31 December 2006 no trading in commodity contracts was undertaken and there were no derivative instruments outstanding at 31 December 2006.

### (a) Foreign exchange risk

During 2005 and 2006 the Group did not hedge its exposure of foreign investments held in foreign currencies. The Group is exposed to translation and transaction foreign exchange risk and takes profits and losses as they arise.

The table below shows an analysis of net monetary assets and liabilities by functional currency :

	2006			2005		
	Sterling	Pula	Total	Sterling	Pula	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Sterling	27,501	2,076	29,577	10,475	123	10,598
Pula	(1)	(124)	(125)	-	(13)	(13)
Canadian Dollars	16,400	-	16,400	(32)	-	(32)
South African Rand	7,301	(367)	6,934	-	(138)	(138)
Australian Dollars	-	(21)	(21)	-	(23)	(23)
US Dollars	396	(1,188)	(792)	(136)	(1,266)	(1,402)
Euros	24	-	24	-	-	-
Total	51,621	376	51,997	10,307	(1,317)	8,990

The table below shows the currency profiles of cash and cash equivalents:

	Group		Company	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Sterling	29,021	10,666	26,982	10,542
Canadian Dollars	16,406	2	16,402	-
South African Rand	7,308	-	7,301	-
US Dollars	448	1	448	-
Botswana Pula	47	7	-	-
Euros	24	-	24	-
	53,254	10,676	51,157	10,542

Cash and cash equivalents bear interest at rates based on LIBOR.

**(b) Commodity price risk**

The Group is exposed to movements in the price of copper. The Group has not engaged in any hedges or instruments to mitigate this risk and no sales of copper were made during the year ended 31 December 2006. The price of copper can affect the viability of the Dukwe and Matsitama projects.

**(c) Interest rate risk**

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

**d) 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.

**e) Fair value of financial instruments**

The fair value of the Group's financial instruments reflect the carrying amounts shown in the balance sheet.

**19. Commitments**

Non-cancellable operating lease rentals are payable as follows:

	2006	2005
	£'000	£'000
Less than one year	113	210
Between one and three years	43	261
	156	471

The Group has purchase commitments in 2007 in respect of exploration and development expenditures for the Dukwe and Matsitama projects totalling to £10.85 million.

## 20. Related party transactions

The following amounts were paid to companies in which directors of the group have an interest and were incurred in the normal course of operations and are recorded at their exchange amount;

	2006 £'000	2005 £'000	Balance Outstanding at 31 December	
			2006 £'000	2005 £'000
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	77	96	36	13
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	82	43	-	2
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	35	80	3	11
The Company entered into an agreement with Pickax Corporation ("Pickax") to provide the services of Mr. Joseph Hamilton, a director and Chief Operating Officer of the Company. The agreement commenced on 1 July 2006, during which time Pickax will be paid £164,800 per year. Pickax is a corporation controlled by Joseph Hamilton. This agreement replaced an existing executive services agreement on materially the same terms and conditions.	82	-	-	-
	276	219	39	26

### Loans to Subsidiaries

Balance 1 January 2005	1,372
Amounts advanced to subsidiaries	3,345
Interest charged	50
Balance 31 December 2005	4,767
Amounts advanced to subsidiaries	11,868
Interest charged	351
Balance 31 December 2006	<b>16,986</b>

The amounts due from subsidiaries at 31 December 2006 have been subordinated in favour of other creditors of those companies.

## **21. Transition to IFRS**

### **Introduction**

The Group has adopted IFRS with effect from 1 January 2006. The directors have elected a transition date of 1 January 2005 as this is the start date for which the Group has presented full comparative information under IFRS in the 2006 Annual Report and Accounts.

### **Basis of transition to IFRS**

The accounting policies as set out in note 2 have been applied in preparing the restatement of the financial statements for the year ended 31 December 2005 and in the preparation of the opening IFRS balance sheet at 1 January 2005 (the Group's date of transition).

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its previous basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

### **IFRS 1 exemptions**

#### ***(a) Business combinations exemption***

The Group has not elected the business combinations exemption under IFRS 1, which would have allowed the Company to not restate business combinations prior to 1 January 2005. Accordingly, the Group has restated the Mortbury acquisition that occurred in 2004 prior to the 1 January 2005 transition date.

#### ***(b) Cumulative translation differences exemption***

African Copper has elected to set previously accumulated cumulative translations to zero at January 1, 2005.

#### ***(c) Exemptions from applying the requirements of IFRS 6 – Exploration for and evaluation of mineral resources.***

African Copper has elected to apply the transitional provisions under IFRS 6 which permit the existing accounting policy under UK GAAP for accounting for and capitalization of mineral exploration costs for IFRS purposes.

#### ***(d) Fair value or revaluation as deemed cost***

The Group has not chosen not to restate items of property, plant and equipment to fair value at the transition date.

#### ***(e) Share based compensation***

In 2005 the Company elected to adopt Financial Reporting Standard 20, "Share Based Payments", with effect from 11 February 2004 (date of incorporation), which represented early adoption of that standard. Accordingly, all share options issued subsequent to that date have been expensed as appropriate in accordance with IFRS 2, "Share Based Payments", which is equivalent to FRS 20 in its requirements.

## Effects of adopting IFRS on the Group's accounting policies

The following reconciliations provide a quantification of the more significant effects of the transition to IFRS.

### Group Reconciliation of equity 1 January 2005

	UK GAAP £000s	Mortbury Transaction Note (a) £000s	Mortbury Preference Shares Note (b) £000s	Share based payments Note (c) £000s	IFRS £000s
<b>ASSETS</b>					
Property, plant and equipment	28	-	-	-	28
Goodwill	8,684	(5,440)	(3,244)	-	-
Deferred exploration costs	2,330	-	-	-	2,330
Total non-current assets	11,042	(5,440)	(3,244)	-	2,358
Other receivables and prepayments	160	-	-	-	160
Cash and cash equivalents	13,410	-	-	-	13,410
Total current assets	13,570	-	-	-	13,570
<b>Total assets</b>	<b>24,612</b>	<b>(5,440)</b>	<b>(3,244)</b>	<b>-</b>	<b>15,928</b>
<b>EQUITY</b>					
Issued share capital	500	-	-	-	500
Share premium	15,157	-	-	-	15,157
Merger reserve	8,606	(5,661)	(2,945)	-	-
Acquisition reserve		1,540	2,945	-	4,485
Share based payment reserve	740	(312)	-	(428)	-
Retained losses	(652)	(1,007)	(3,244)	428	(4,475)
Total equity	24,351	(5,440)	(3,244)	-	15,667
<b>LIABILITIES</b>					
Trade and other payables	261	-	-	-	261
<b>Total equity and liabilities</b>	<b>24,612</b>	<b>(5,440)</b>	<b>(3,244)</b>	<b>-</b>	<b>15,928</b>

**Group Reconciliation of equity**  
**1 January 2006**

	UK GAAP £000s	Mortbury Transaction Note (a) £000s	Mortbury Preference shares Note (b) £000s	Share based payments Note (c) £000s	IFRS £000s
<b>ASSETS</b>					
Property, plant and equipment	120	-	-	-	120
Goodwill	8,684	(5,440)	(3,244)	-	-
Deferred exploration costs	7,159	-	-	-	7,159
Total non-current assets	15,963	(5,440)	(3,244)	-	7,279
Other receivables and prepayments	227	-	-	-	227
Cash and cash equivalents	10,676	-	-	-	10,676
Total current assets	10,903	-	-	-	10,903
<b>Total assets</b>	<b>26,866</b>	<b>(5,440)</b>	<b>(3,244)</b>	<b>-</b>	<b>18,182</b>
<b>EQUITY</b>					
Issued share capital	520	-	-	-	520
Share premium	16,158	-	-	-	16,158
Merger reserve	8,606	(5,661)	(2,945)	-	-
Acquisition reserves	-	1,540	2,945	-	4,485
Foreign exchange translation reserve	(315)	-	-	-	(315)
Retained losses	(16)	(1,319)	(3,244)	-	(4,579)
Total equity	24,953	(5,440)	(3,244)	-	16,269
<b>LIABILITIES</b>					
Trade and other payables	1,913	-	-	-	1,913
<b>Total equity and liabilities</b>	<b>26,866</b>	<b>(5,440)</b>	<b>(3,244)</b>	<b>-</b>	<b>18,182</b>

## Company Reconciliation of equity 1 January 2005

	UK GAAP £000s	Mortbury Transaction Note (a) £000s	Mortbury Preference Shares Note (b) £000s	Share based payments Note (c) £000s	IFRS £000s
<b>Assets</b>					
Investments	888	5,363	3,244		9,495
Deferred exploration costs	112				112
Total non-current assets	1,000	5,363	3,244		9,607
Other receivables and prepayments	1,532	-			1,532
Cash and cash equivalents	13,397	-			13,397
Total current assets	14,929	-			14,929
Total assets	15,929	5,363	3,244		24,536
<b>EQUITY</b>					
Issued share capital	500				500
Share premium	15,157				15,157
Merger reserve	-	5,363	3,244		8,607
Other reserves	740			(740)	-
Retained losses	(590)			740	150
Total equity	15,807	5,363	3,244		24,414
<b>LIABILITIES</b>					
Trade and other payables	122	-			122
Total equity and liabilities	15,929	5,363	3,244		24,536

### Company Reconciliation of equity 1 January 2006

	UK GAAP £000s	Mortbury Transaction Note (a) £000s	Mortbury Preference Shares Note (b) £000s	Share based payments Note (c) £000s	IFRS £000s
<b>Assets</b>					
Investments	888	5,363	3,244		9,495
Deferred exploration costs	688				688
Total non-current assets	1,576	5,363	3,244		10,183
Other receivables and prepayments	4,872				4,872
Cash and cash equivalents	10,542				10,542
Total current assets	15,414				15,414
<b>Total assets</b>	<b>16,990</b>	<b>5,363</b>	<b>3,244</b>		<b>25,597</b>
<b>EQUITY</b>					
Issued share capital	520				520
Share premium	16,158				16,158
Merger reserve	-	5,363	3,244		8,607
Retained losses	124				124
Total equity	16,802	5,363	3,244	-	25,409
<b>LIABILITIES</b>					
Trade and other payables	188	-	-		188
<b>Total equity and liabilities</b>	<b>16,990</b>	<b>5,363</b>	<b>3,244</b>	<b>-</b>	<b>25,597</b>

## **Reconciliations between IFRS and UK GAAP**

### **(a) Mortbury Transaction**

Under UK GAAP, the Mortbury acquisition that occurred in 2004 was 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. Under UK GAAP the transaction was not considered a reverse take-over and was accounted for as an acquisition of Mortbury by African Copper with £5.4 million recorded as goodwill.

Under IFRS, the exchange of shares of African Copper for the shares of Mortbury is considered a reverse-takeover transaction. Given that African Copper was not an operating business prior to the share exchange, and did not yet generate a return for its investors, it was not considered a business under IFRS for the purpose of applying business combination accounting under IFRS 3. As such the reverse take-over acquisition is accounted for as an acquisition of the net assets of African Copper by Mortbury with no goodwill being recorded on the transaction. The effect at 1 January 2005 and 1 January 2006, is to eliminate the goodwill (£5.4 million) and merger reserves (£5.7 million) recorded under UK GAAP. The reverse take-over transaction was recorded at the book value of the net assets of African Copper acquired, being \$1. The excess of the amount of issued equity in Mortbury over the nominal value of shares issued by African Copper was £1,540,000 and this was recorded as an acquisition reserve. As Mortbury is considered to be the continuing entity, an adjustment of £1,319,000 was made to retained losses representing the losses accumulated by Mortbury prior to the transaction.

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

As a result of the accounting treatment given the Mortbury share exchange, as described previously in (a) Mortbury Transaction, the subsequent purchase of the Mortbury Class C Preference Shares was also treated as a capital transaction for IFRS purposes. Accordingly, the excess of the fair value of the consideration given for the Preference Share over its book value was reflected as a premium on re-purchase of the shares, charged separately to the retained loss account.

The effect at 1 January 2005 and 1 January 2006, was to eliminate the goodwill recognized under UK GAAP of £3.2 million by recording the transaction against retained losses and to record the £2.9 million premium on re-purchase against the acquisition reserve.

### **(c) Share based payments**

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

## **Explanation of material adjustments on the income statement**

There were no adjustments to the income statement arising from the adoption of IFRS by the Group.

## **Explanation of material adjustments on the cashflow statement**

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

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

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