



African Energy Resources Limited

ARBN 123 316 781

Financial Report
30 June 2011

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Corporate Directory

Directors

Mr Alasdair Cooke
Executive Chairman

Dr Charles (Frazer) Tabeart
Managing Director

Mr Gregory (Bill) Fry
Executive Director

Mr Valentine Chitalu
Non-Executive Director

Mr Michael Curnow
Non-Executive Director

Mr Philip Clark (appointed 1 April 2011)
Non-Executive Director

Company Secretary

Mr Daniel Davis

Registered Office

Granite House, La Grande Rue
St Martin, Guernsey GY1 3RS

Representative Office in Australia

Level 1, 8 Colin Street
West Perth WA 6005

Share Register

Computershare
Level 2, 45 St Georges Terrace
Perth WA 6000

Stock Exchange Listings

Australian Securities Exchange (ASX: AFR)

Auditor

BDO Audit (WA) Pty Ltd
38 Station Street
Subiaco WA 6008

Solicitors

Fairweather Corporate Lawyers
Ground Floor, 1 Havelock Street
West Perth WA 6005

Bankers

HSBC Bank Australia Limited
190 St Georges Terrace
Perth WA 6000

Website

www.africanenergyresources.com

Directors' Report

The Directors of the Company present their report for the financial year ended 30 June 2011.

1. DIRECTORS AND COMPANY SECRETARY

The Directors and the Company Secretary of the Company at any time during or since the end of the financial year are as follows.

Mr Alasdair Cooke BSc (Hons), MAIG – Executive Chairman

Mr Cooke has served as Chairman of the Board of the Company since its incorporation. Mr Cooke is qualified as a geologist and has been involved throughout his career in mineral exploration and corporate development, including six years spent with BHP Minerals Business Development Group and over ten years managing public resource companies.

Mr Cooke is a founding partner of the Mitchell River Group, which over the past ten years has established a number of successful resources companies, including ASX listed Panoramic Resources Ltd, operating the Savannah and Lanfranchi nickel projects in Australia; ASX listed Albidon Ltd, operating the Munali Nickel Mine in Zambia, ASX listed Mirabela Nickel Ltd, operating the Santa Rita nickel project in Brazil; ASX listed Exco Resources Ltd, developing copper and gold resources in Australia; and ASX listed Energy Ventures Ltd. Mr Cooke is currently an Executive Director of Energy Ventures Ltd, Oval Biofuels Ltd and Exco Resources Ltd and a former Director of Albidon Limited. During the last three years he has held no other public Directorships. Mr Cooke is a member of the Company's remuneration committee.

Dr Charles Tabeart PhD, BSc (Hons) ARSM, MAIG – Managing Director

Dr Tabeart is a graduate of the Royal School of Mines with a PhD and Honours in Mining Geology. He has over 20 years experience in international exploration and mining projects, including 16 years with WMC Resources. Whilst at WMC, Dr Tabeart managed exploration portfolios in the Philippines, Mongolia and Africa, gaining considerable experience in a wide variety of commodities and operating with staff from diverse cultural backgrounds.

Dr Tabeart joined the Mitchell River Group in August 2005, initially as Head of Exploration for Albidon Ltd, and subsequently as General Manager for African Energy Resources Ltd. Under his stewardship the Company delineated the coal resource at the Sese Coal Project and uranium resources in the Chirundu Uranium Project in addition to exploration discoveries in the Kariba Valley of Zambia and at Foley in Botswana. He was appointed Managing Director in November 2007.

Dr Tabeart is a Director of the Mitchell River Group and a former Director of Agricola Resources plc. During the last three years he has held no other public Directorships.

Mr Gregory Fry – Executive Director

Mr Fry has more than 20 years corporate experience in the mining and resources industry, specialising in accounting, management, business development and general corporate activities. He has vast experience in project evaluation and development, project funding, management, finance and operations.

Over the past 15 years Mr Fry has been a Director of several private and public companies with activities ranging from funds management, minerals exploration, mining and quarrying, land development and waste management.

Mr Fry has been an Executive Director of African Energy Resources since listing and is responsible for the Company's commercial and financial business programs. He is currently a Director of Energy Ventures Limited, Norrland Resources Limited, Mitchell River Group Pty Ltd and Oval Biofuels Limited and was previously a Director of Agricola Resources plc. During the last three years he has held no other public Directorships. Mr Fry is a member of the Company's audit committee.

Mr Valentine Chitalu MPhil, BAcc, FCCA – Non-Executive Director

Mr Chitalu, a Zambian national and resident, is a Chartered Certified Accountant, Fellow of the Association of Chartered Certified Accountants (UK) and holds a practicing certificate from the Zambia Institute of Certified Accountants. He also holds a Masters Degree in Economics, Finance and Politics of Development and a Bachelor's Degree in Accounting and Finance.

Mr Chitalu has been a non-executive Director of African Energy Resources since listing and has assisted African Energy through his extensive business and Government contacts in the region. Mr Chitalu is a current Director of CDC Group, MTN (Zambia) Limited, Zambian Breweries Plc, Oval Biofuels Limited and a former Director of Albidon Ltd. During the last three years he has held no other public Directorships.

Mr Michael Curnow – Non-Executive Director

Mr Curnow brings extensive experience in the resources sector in gold, platinum and mineral sands exploration to the Company, which is significant for the future development of African Energy. He has been involved in the ownership and management of a wide range of businesses in South Africa and Australia. He was a founding Director of Gallery Gold Ltd and AGR Ltd. Mr Curnow has been a Non-Executive Director of African Energy Resources since listing and is also a Non-Executive Director of Energy Ventures Ltd. During the past three years he has held no other public Directorships. Mr Curnow is Chairman of the Company's audit and remuneration committees.

Mr Philip Clark – Non-Executive Director

Mr Clark brings a broad range of business skills to African Energy, with a particular focus on developing coal resources. He previously spent over 30 years working for BHP Billiton, culminating in five years as Vice President of Resource Development for BHP Billiton Energy Coal globally. He also held previous roles in coal mine management. Mr Clark is also a Director of Engineers Without Borders Australia Ltd, a not-for-profit organisation which partners with developing communities, assisting them to gain access to the knowledge, resources and appropriate technologies to improve their livelihoods. During the past three years he has held no other public Directorships.

Mr Daniel Davis – Company Secretary BCom CPA

Mr Davis is a member of CPA Australia who graduated from the University of Western Australia in 2001 with a Bachelor of Commerce majoring in Accounting and Finance. Mr Davis has worked in the resources sector for the last seven years specialising in African based explorers. Prior to joining African Energy in 2007 as Financial Accountant he worked with Albidon Ltd in a similar role. Mr Davis was appointed to the role of Company Secretary during 2009.

1.1 Directors' Meetings

The number of Directors' meetings and number of meetings attended by each of the Directors of the Company during the financial year were:

Director	Board of Directors		Remuneration Committee		Audit Committee	
	Present	Held	Present	Held	Present	Held
Alasdair Cooke	3	3	2	2	-	-
Charles Tabcart	3	3	-	-	-	-
Gregory Fry	3	3	-	-	2	2
Valentine Chitalu	3	3	-	-	-	-
Michael Curnow	3	3	2	2	2	2
Philip Clark	1	1	-	-	-	-

1.2 Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of African Energy Resources Limited support and have adhered to the principles of sound corporate governance. The Board recognises the recommendations of the Australian Stock Exchange Corporate Governance Council, and considers that the Company is in compliance with those guidelines which are of importance to the commercial operation of a junior listed resource company. During the financial year, shareholders continued to receive the benefit of an efficient and cost-effective corporate governance policy for the Company. A Corporate Governance Policy is included as part of this report.

2. REVIEW OF OPERATIONS, BUSINESS STRATEGIES AND PROSPECTS

African Energy Resources Limited (“African Energy” or “the Company”) listed on the Australian Securities Exchange on 18 April 2007. The Company was incorporated on 29 September 2006 and is domiciled in Guernsey. The information presented in this report is for the year ended 30 June 2011.

African Energy and its subsidiaries (“Consolidated Entity”) is focused on developing the Sese Coal Project in Botswana and identifying and developing new energy resources projects in southern Africa. The Company is led by a highly experienced Board of Directors and management team who have been closely associated with successful exploration projects and mining developments, including current mining projects in Zambia and Botswana as well as large scale coal operations in Australia. The Company’s projects are located over sedimentary basins of the Karoo Supergroup, which are host to uranium and coal projects in South Africa, Malawi, Zambia, Botswana, Tanzania and Zimbabwe.

In July 2011, the Company completed a A\$15,000,000 raising (before costs) and is currently well funded to advance feasibility studies on the Sese Coal Project.

3. REMUNERATION REPORT - AUDITED

This Remuneration Report outlines the remuneration arrangements which were in place during the year, and remain in place as at the date of this report, for the Directors and key management personnel of African Energy Resources Limited.

Remuneration and benefits provided have been represented in US dollars (“USD”) due to the change in presentation currency from Australian dollars (“AUD”) from 1 July 2010. 2010 remuneration is converted to USD for comparative purposes using the average exchange rate for the year which was 1 AUD = 0.8822 USD.

The functional currency of the Company and each of the operating subsidiaries is US dollars which represents the currency of the primary economic environment in which the Consolidated Entity operates. Previously the presentation currency of the financial statements was Australian dollars. To facilitate clarity and understanding, on 19 March 2010 the Directors resolved to change the presentation currency and present the consolidated financial statements in US dollars from 1 July 2010. The presentation in US dollars is consistent with internal management reporting. The change in accounting policy was applied retrospectively and the comparative represented.

The information provided in this remuneration report has been audited as required by section 308(3c) of the Corporations Act 2001.

3.1 Principles of compensation

The objective of the Group’s executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation;
- transparency; and
- capital management.

In consultation with external remuneration consultants, the Group has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the organisation.

Alignment to shareholders’ interests:

- has economic profit as a core component of plan design;
- focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracts and retains high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience;
- reflects competitive reward for contribution to growth in shareholder wealth;
- provides a clear structure for earning rewards; and
- provides recognition for contribution.

The framework provides a mix of fixed and variable pay, and a blend of short and long-term incentives. As executives gain seniority with the Group, the balance of this mix shifts to a higher proportion of "at risk" rewards.

The Board provides advice on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for executive Directors, other senior executives and non-executive Directors. The Corporate Governance Statement provides further information on the role of the Board.

Non-executive Directors

Fees and payments to non-executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-executive Directors' fees and payments are reviewed annually by the Board. The Board has also considered the advice of independent remuneration consultants to ensure non-executive Directors' fees and payments are appropriate and in line with the market.

The current base remuneration was last reviewed with effect from 1 April 2011 and was set at AUD 50,000 (USD 52,960) per annum.

Executive Directors

The executive pay and reward framework has two components:

- base pay and benefits, including superannuation; and
- long-term incentive through participation in the African Energy Employee Option Plan.

The combination of these comprises the executive's total remuneration.

Base pay

Base pay is structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the Remuneration Committee's discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay for executives is reviewed annually to ensure the executive's pay is competitive with the market.

There is no guaranteed base pay increases included in any executives' contract.

Superannuation

Retirement benefits are limited to superannuation contributions as required under the Australian superannuation guarantee legislation.

Long-term incentives

Long-term incentives are provided to certain non-executive Directors and executives under the African Energy Employee Option Plan; more details are provided in section 3.4 *Equity instruments* of this report.

3.2 Service contracts

On appointment to the Board, all Executive Directors enter into an executive service agreement with the Company. The agreement details the Board policies and terms, including compensation, relevant to the office of Director.

The Company currently has service contracts in place with the following four Board members. All contracts with Executive Directors are for a two year term but can be terminated by either party with three months notice. Details of the service agreements are listed below.

Mr Alasdair Campbell Cooke - *Executive Chairman, the Company*

- Commencement date: 1 December 2006
- Base salary, at 30 June 2011 was USD 105,920 (AUD 100,000)
- Termination payment is the equivalent of three months consulting fees
- Mr Cooke's contract and remuneration is reviewed annually

Dr Charles Frazer Tabcart - *Managing Director, the Company*

- Commencement date: 5 November 2007
- Base salary, including superannuation at 30 June 2011 was USD 370,720 (AUD 350,000)
- Termination payment is the equivalent of three months consulting fees
- Dr Tabcart's contract and remuneration is reviewed annually

Mr Gregory William Fry - *Executive Director, the Company*

- Commencement date: 1 December 2006
- Base salary, at 30 June 2011 was USD 174,768 (AUD 165,000)
- Termination payment is the equivalent of three months consulting fees
- Mr Fry's contract and remuneration is reviewed annually

Mr Philip Clark - *Non-Executive Director, the Company*

- Commencement date: 1 April 2011
- Base salary, at 30 June 2011 was USD 275,392 (AUD 260,000) plus non-executive Director fee of USD 52,960 (AUD 50,000)
- Termination payment is the equivalent of one months consulting fees
- Mr Clark's contract and remuneration is reviewed annually

No other key management personnel have service contracts in place with the Consolidated Entity.

3.3 Directors and executive officers' remuneration (Consolidated Entity)

Details of the remuneration of the Directors, key management personnel of the Consolidated Entity (as defined in AASB 124 *Related Party Disclosures*) and specified executives of the Consolidated Entity are set out in the following tables.

The key management personnel of the Consolidated Entity are the Directors of African Energy Resources Limited and the following officer:

Name	Position	Employer
Daniel Davis	Company Secretary	Mitchell River Group Pty Ltd

Details of remuneration

The following tables set out remuneration paid to key management personnel of the Consolidated Entity during the reporting period.

Key Management Personnel remuneration - 2011	Short term employee benefits	Post-employment benefits	Share based payments	Total	Options as a % of total
	Cash salary and fees	Superannuation	Options		
	USD	USD	USD		
Non-Executive Directors					
Valentine Chitalu	45,727	-	993	46,720	2%
Philip Clark	70,070	-	129,385	199,455	65%
Michael Curnow	38,331	-	-	38,331	-
Total Non-Executive Directors	154,128	-	130,378	284,506	46%
Key Management Personnel Executive Directors					
Gregory Fry	155,799	-	630,970	786,769	80%
Charles Tabeart	270,760	23,258	945,964	1,239,982	76%
Alasdair Cooke	98,920	-	315,976	414,896	76%
Daniel Davis	88,020	-	1,567	89,587	2%
Total Key Management Personnel	613,499	23,258	1,894,477	2,531,234	75%
Total	767,627	23,258	2,024,855	2,815,740	72%

Key Management Personnel remuneration - 2010**Represented USD****Non-Executive Directors**

Valentine Chitalu	41,284	-	2,107	43,391	5%
Michael Curnow	30,870	-	-	30,870	-
Total Non-Executive Directors	72,154	-	2,107	74,261	3%

Key Management Personnel Executive Directors

Gregory Fry	132,300	-	14,746	147,046	10%
Charles Tabeart	242,804	21,853	21,066	285,723	7%
Alasdair Cooke	88,200	-	8,426	96,626	9%
Daniel Davis	62,020	-	9,325	71,345	13%
Total Key Management Personnel	525,324	21,853	53,563	600,741	9%
Total	597,478	21,853	55,670	675,001	8%

Note: The percentage of the value of remuneration consisting of options is based on the value of options expensed during the financial year

The Company and the Group currently have no performance based cash remuneration built into Director or executive packages. The total remuneration shown in the table above is fixed.

3.4 Share-based compensation

Options over shares in African Energy Resources Limited are granted under the African Energy Employee Option Plan ("Employee Option Plan") which was approved by shareholders approved at the 2010 Annual General Meeting. The Employee Option Plan is designed to provide long-term incentives for Directors and executives to deliver long-term shareholder returns. The issue of options is not linked to performance conditions because options are set a level above the current share price at the time the options are granted, which provides an incentive for management to improve the Company's performance. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

Vesting of the options is based on the period of service and are granted under the plan for nil consideration.

The terms and conditions of each grant of options affecting remuneration in the current or future reporting periods are as follows:

Grant date	Date vested and exercisable	Expiry date	Exercise Price(cents) AUD	Fair value at grant date (cents per option) AUD	% Vested
28/03/11	23/03/12	31/12/13	80.00	37.75	0%
28/03/11	23/03/13	31/12/13	80.00	42.00	0%

Options granted under the Employee Option Plan carry no dividend or voting rights. 3,902,485 shares were issued during the year ended 30 June 2011 (2010: nil) as a result of exercise of options over ordinary shares. No terms of equity-settled share-based payment transactions have been altered or modified during the reporting year.

All options expire on the earlier of their expiry date or on termination of the individual's employment. When exercisable each option is convertible into one ordinary share.

Name	2011		2010	
	Options granted	Options vested	Options granted	Options vested
Non-executive Directors				
Valentine Chitalu	-	-	100,000	50,000
Michael Curnow	-	-	-	-
Phillip Clark	1,000,000	-	-	-
Key Management Personnel				
<i>Executive Directors</i>				
Gregory Fry	1,500,000	1,850,000	700,000	350,000
Charles Tabcart	2,250,000	2,750,000	1,000,000	500,000
Alasdair Cooke	750,000	950,000	400,000	200,000
<i>Other Key Management Personnel</i>				
Daniel Davis	-	125,000	250,000	225,000
	5,500,000	5,675,000	2,450,000	1,325,000

Share options are granted under a service condition and, for grants to key management personnel, market and non-market performance conditions. Non-market performance conditions are not taken into account in the grant date fair value measurement of the services received. Share options are granted following recommendation by the Remuneration Committee to the full Board of Directors.

3.5 Additional information

Details of vesting profile of the options granted as remuneration to each director of the Company and each named Company executive and relevant group executives is detailed below.

	Number Granted	Year Granted	% Vested in year	Forfeited in year	Vesting year	Value yet to vest USD	
						Min	Max
Valentine Chitalu	899,736	2007	-	-	2007	-	-
Michael Curnow	899,736	2007	-	-	2007	-	-
Gregory Fry	818,160	2007	-	-	2007	-	-
Charles Tabear	1,972,824	2007	-	-	2009	-	-
Alasdair Cooke	1,187,652	2007	-	-	2007	-	-
Daniel Davis	200,000	2008	50%	-	2010	-	-
Gregory Fry	700,000	2010	50%	-	2011	-	-
Charles Tabear	1,000,000	2010	50%	-	2011	-	-
Alasdair Cooke	400,000	2010	50%	-	2011	-	-
Valentine Chitalu	100,000	2010	50%	-	2011	-	-
Daniel Davis	250,000	2010	50%	-	2011	-	-
Philip Clark	1,000,000	2011	-	-	2013	-	381,898
Alasdair Cooke	750,000	2011	100%	-	2011	-	-
Gregory Fry	1,500,000	2011	100%	-	2011	-	-
Charles Tabear	2,250,000	2011	100%	-	2011	-	-
	13,928,108						381,898

Further details relating to options granted during the year are set out below:

	(A) 2011 Remuneration consisting of options %	(B) Value at grant date USD	(C) Value at exercise date USD	(D) Value at Lapse date USD
Valentine Chitalu	2%	-	-	-
Philip Clark	65%	371,027	-	-
Michael Curnow	-	-	-	-
Gregory Fry	80%	628,256	-	-
Charles Tabear	76%	942,384	-	-
Alasdair Cooke	76%	314,128	-	-
Daniel Davis	2%	-	-	-
		2,255,795	-	-

- (A) The percentage of the value of remuneration consisting of options, based on the value of options expensed during the current year.
- (B) The value at grant date calculated in accordance with AASB 2 Share-based Payment of options granted during the year as part of remuneration.
- (C) The value at exercise date of options that were granted as part of remuneration and were exercised during the year, being the intrinsic value of the options at that date.
- (D) The value at lapse date of options that were granted as part of remuneration and that lapsed during the year because a vesting condition was not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied.
- (E) The Board does not permit any option holder from hedging against variances in share price.

This is the end of the audited remuneration report.

4. PRINCIPAL ACTIVITIES

The principal activity of the Consolidated Entity during the course of the financial year consisted of evaluation and exploration of the Sese Coal Project in Botswana.

5. RESULTS AND DIVIDENDS

The Consolidated Entity's loss after tax attributable to members of the Consolidated Entity for the financial year ending 30 June 2011 was USD 4,927,071 (2010: USD 1,746,686).

No dividends have been paid or declared by the Company during the year ended 30 June 2011.

6. LOSS PER SHARE

The basic loss per share for the Consolidated Entity for the year was 1.70 (2010: 0.67) cents per share.

7. EVENTS SUBSEQUENT TO REPORTING DATE

During July, the Company completed a placement to institutional and sophisticated investors overseas and in Australia to advance the Sese Coal Project. 30,000,000 ordinary shares were issued at AUD 50 cents per share to raise AUD \$15,000,000 before costs.

In addition, 100,000 ordinary shares have been issued on conversion of options since the balance date, raising AUD \$8,500 before costs.

Other than the aforementioned events, no matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations, results or state of affairs of the Group in future financial years which have not been disclosed publicly at the date of this report.

8. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company will continue to pursue activities within its corporate objectives. Further information about likely developments in the operations of the Company and the expected results of those operations in the future financial years has not been included in this report because disclosure would likely result in unreasonable prejudice to the Company.

9. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 7 March 2011, The Company entered into a binding agreement with Albidon Exploration Limited to acquire 4,814,982 shares in Chirundu Joint Ventures Limited ("CJVL") for total cash consideration of US\$2,500,000. These shares represented 30% in the share capital of CJVL and have taken African Energy's interest in CJVL to 100%.

10. ENVIRONMENTAL REGULATIONS

The Consolidated Entity's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation or under the legislation of African countries in which it operates. However, the Board believes there are adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply.

The Company is not subject to the reporting requirements of both the Energy Efficiency Opportunities Act 2006 and the National Greenhouse and Energy Reporting Act 2007.

11. DIRECTORS' AND EXECUTIVES' INTERESTS

As at the date of this report, the interests of the Directors and Executives in the shares and options of the Company were:

	Shares	Option Strike Price							
		8.5c	31.25c	40c	70c	80c	90c	110c	130c
Executive Directors									
Alasdair Cooke	26,245,825	400,000	1,187,652	-	-	-	250,000	250,000	250,000
Charles Tabeart	1,558,575	1,000,000	1,972,824	-	-	-	750,000	750,000	750,000
Gregory Fry	3,600,192	700,000	818,160	-	-	-	500,000	500,000	500,000
Non-executive Directors									
Valentine Chitalu	388,673	100,000	899,736	-	-	-	-	-	-
Michael Curnow	644,555	-	899,736	-	-	-	-	-	-
Philip Clark	20,000	-	-	-	250,000	750,000	-	-	-
Other Officers									
Daniel Davis	192,930	250,000	-	200,000	-	-	-	-	-
Total	32,650,750	2,450,000	5,778,108	200,000	250,000	750,000	1,500,000	1,500,000	1,500,000

12. SHARE OPTIONS**12.1 Unissued shares under options**

As at the date of this report, there were 26,346,211 unlisted incentive options on issue detailed as follows:

No. of options	Strike Price	Expiry Date
9,152,981	AUD \$0.3125	30-Jun-12
1,100,000	AUD \$0.40	30-Jun-12
3,625,000	AUD \$0.085	30-Jun-12
625,000	AUD \$0.125	31-Dec-13
250,000	AUD \$0.70	31-Dec-13
2,250,000	AUD \$0.80	31-Dec-13
1,500,000	AUD \$0.90	31-Dec-13
1,500,000	AUD \$1.10	31-Dec-13
1,500,000	AUD \$1.30	31-Dec-13
4,843,230	AUD \$1.03	31-Dec-12
26,346,211		

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company.

12.2 Shares issued on exercise of options

During the year 3,902,085 shares were issued as a result of the exercise of options raising USD 1,094,890 before costs.

Grant Date	Expiry Date	Exercise Price AUD cents	Number exercised during the year	Funds Raised AUD	Funds Raised USD
1/07/2007	30/06/2012	31.25	2,777,085	867,839	883,768
12/12/2007	30/06/2012	40	300,000	120,000	121,363
2/07/2009	30/06/2012	8.5	362,500	27,625	28,324
2/10/2009	30/06/2012	12.5	500,000	62,500	61,435
			3,939,585	1,077,964	1,094,890

13. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS**13.1 Indemnification**

An indemnity agreement has been entered into with each of the Directors and Company Secretary of the Company named earlier in this report. Under the agreement, the Company has agreed to indemnify those officers against any claim or for any expenses or costs which may arise as a result of work performed in their respective capacities to the extent permitted by law. There is no monetary limit to the extent of this indemnity.

13.2 Insurance

During the financial year the Company has taken out an insurance policy in respect of Directors' and officers' liability and legal expenses' for Directors and officers.

14. CORPORATE STRUCTURE

African Energy Resources Limited is a Company limited by shares that is incorporated and domiciled in Guernsey. The Company is listed on the Australian Securities Exchange and Botswana Stock Exchange under code AFR.

15. NON-AUDIT SERVICES

During the year, there were no non-audit services provided by BDO Audit (WA) Pty Ltd (2010: nil).

16. LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's Independence Declaration is set out on page 18 and forms part of the Directors' report for the financial year ended 30 June 2011.



Charles Frazer Tabeart
Managing Director
Perth, 2 September 2011

Directors' Declaration

AFRICAN ENERGY RESOURCES LIMITED AND ITS CONTROLLED ENTITIES

The Directors of the company declare that:

- 1 The financial statements, comprising the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity and accompanying notes, are in accordance with the Corporations Act 2001; and
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 30 June 2011 and of the performance for the year ended on that date of the Consolidated Entity.
- 2 In the Directors opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 3 The Consolidated Entity has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
- 4 The Directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Board of Directors and is signed on behalf of the Directors by:



Charles Frazer Tabeart
Managing Director

Perth
2 September 2011

Independent Audit Report



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Australia

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF AFRICAN ENERGY RESOURCES LIMITED**

Report on the Financial Report

We have audited the accompanying financial report of African Energy Resources Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of African Energy Resources Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

BDO Audit (WA) Pty Ltd ABN 79 112 284 787 is a member of a national association of independent entities which are all members of BDO (Australia) Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (WA) Pty Ltd and BDO (Australia) Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation (other than for the acts or omissions of financial services licensees) in each State or Territory other than Tasmania.

**Opinion**

In our opinion the financial report of African Energy Resources Limited is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date;
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

The financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditors Opinion

In our opinion, the Remuneration Report of African Energy Resources Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO
A handwritten signature in blue ink, appearing to be 'Peter Toll', written over the BDO logo.

Peter Toll
Director

Signed in Perth, Western Australia
Dated this the 2nd day of September 2011

Independence Declaration



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38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

2 September 2011

The Directors
African Energy Resources Limited
Granite House, La Grande Rue
St Martin
GUERNSEY GY1 3RS

Dear Sirs,

DECLARATION OF INDEPENDENCE BY PETER TOLL TO THE DIRECTORS OF AFRICAN ENERGY RESOURCES LIMITED

As lead auditor of African Energy Resources Limited for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of African Energy Resources Limited and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'Peter Toll', is written over a light blue horizontal line.

Peter Toll
Director

A small, stylized blue logo consisting of the letters 'BDO' in a sans-serif font.

BDO Audit (WA) Pty Ltd
Perth, Western Australia

BDO Audit (WA) Pty Ltd ABN 79 112 284 787 is a member of a national association of independent entities which are all members of BDO (Australia) Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (WA) Pty Ltd and BDO (Australia) Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation (other than for the acts or omissions of financial services licensees) in each State or Territory other than Tasmania.

Consolidated Statements of Comprehensive Income
For the year ended 30 June 2011

		2011 USD	Represented 2010 USD
Revenue from continuing operations	7	72,271	193,599
Gain on acquisition of 30% of Chirundu Uranium Project	27	589,412	-
Professional fees	9	(186,512)	(157,460)
Personnel expenses	11	(1,084,659)	(819,938)
Share-based payments	26(e)	(2,216,027)	(175,191)
Administration fees	12	(1,165,491)	(794,987)
(Impairment) / reversal of exploration expenditure	18	(594,973)	68,355
Borrowing costs		(275,494)	-
Finance costs	8	(65,599)	(61,064)
Loss before tax		(4,927,071)	(1,746,686)
Income tax expense	13	-	-
Loss for the year		(4,927,071)	(1,746,686)
Attributable to:			
Equity holders of the Company		(4,927,071)	(1,746,686)
Loss for the year		(4,927,071)	(1,746,686)
Other comprehensive income			
Foreign currency translation reserve	22	832,655	(520,194)
Total other comprehensive income / (loss) for the year		832,655	(520,194)
Total comprehensive income / (loss) attributable to the ordinary equity holders of the Company:			
Total comprehensive income / (loss) for the year		(4,094,416)	(2,266,880)
Loss per share for loss attributable to the ordinary equity holders of the Company:			
Basic loss per share (cents per share)	14	(1.70)	(0.67)
Diluted loss per share (cents per share)	14	n/a	n/a

The consolidated statements of comprehensive income are to be read in conjunction with the accompanying notes

Consolidated Statements of Financial Position
As at 30 June 2011

	<i>Note</i>	2011 USD	Represented 2010 USD
Assets			
Current assets			
Cash and cash equivalents	15(a)	2,437,566	3,977,744
Trade and other receivables	16	344,705	250,346
Total current assets		2,782,271	4,228,090
Non-current assets			
Property, plant and equipment	17	665,517	593,504
Exploration and evaluation expenditure	18	21,038,572	13,997,606
Total non-current assets		21,704,089	14,591,111
Total assets		24,486,360	18,819,201
Liabilities			
Current liabilities			
Trade and other payables	19	880,892	747,353
Borrowings	20	5,000,000	-
Total current liabilities		5,880,892	747,353
Total liabilities		5,880,892	747,353
Net assets		18,605,468	18,071,848
Equity			
Contributed equity	21	26,726,320	24,314,311
Reserves	22	3,035,349	561,089
Accumulated losses		(11,156,201)	(6,803,552)
Total equity attributable to shareholders of the Company		18,605,468	18,071,848

The consolidated statements of financial position are to be read in conjunction with the accompanying notes

**Consolidated Statements of Changes in Equity
for the year ended 30 June 2011**

	<i>Note</i>	Contributed equity USD	Accumulated losses USD	Reserves	Total equity USD
At 1 July 2009		17,486,452	(5,056,866)	906,264	13,335,850
Net loss for the year		-	(1,746,686)	-	(1,746,686)
Effect of translation of foreign operations to group presentation currency	22	-	-	(520,194)	(520,194)
Total comprehensive income for the year		-	(1,746,686)	(520,194)	(2,266,880)
Transactions with owners in their capacity as owners:					
Share issue net of issue costs	21	6,827,859	-	-	6,827,859
Equity settled share based payment transactions	22	-	-	175,019	175,019
		6,827,859	-	175,019	7,002,878
At 30 June 2010 (Represented)		24,314,311	(6,803,552)	561,089	18,071,848
At 1 July 2010		24,314,311	(6,803,552)	561,089	18,071,848
Net loss for the year		-	(4,927,071)	-	(4,927,071)
Effect of translation of foreign operations to group presentation currency	22	-	-	832,655	832,655
Total comprehensive income for the year		-	(4,927,071)	832,655	(4,094,416)
Transactions with owners in their capacity as owners:					
Share issue net of issue costs	21	2,412,009	-	-	2,412,009
Equity settled share based payment transactions	22	-	-	2,216,027	2,216,027
Transfer of share based payments on exercise/lapse of options		-	574,421	(574,421)	-
		2,412,009	574,421	1,641,606	4,628,035
At 30 June 2011		26,726,320	(11,156,202)	3,035,349	18,605,467

The consolidated statements of changes in equity are to be read in conjunction with the accompanying notes

**Consolidated Statements of Cash Flows
for the year ended 30 June 2011**

	Note	2011 USD	Represented 2010 USD
Cash flows from operating activities			
Interest received		48,784	145,617
Payment to suppliers and employees		(2,473,856)	(1,382,255)
Net cash (outflow) from operating activities	24	(2,425,072)	(1,236,638)
Cash flows from investing activities			
Acquisition of property, plant and equipment		(166,783)	(92,301)
Acquisition of 30% of CJVL	27	(2,500,000)	-
Payment for exploration and evaluation expenditure		(3,772,005)	(1,266,737)
Net cash (outflow) from investing activities		(6,438,788)	(1,359,038)
Cash flows from financing activities			
Proceeds from the issue of share capital		2,510,352	7,242,454
Drawdown of loan facility		5,000,000	-
Payments for share issuance costs		(98,343)	(414,595)
Interest on debt facilities		(39,706)	-
Repayment of loans from related entities		-	(545,103)
Net cash inflow from financing activities		7,372,302	6,282,756
Net (decrease) / increase in cash and cash equivalents		(1,491,558)	3,687,080
Cash and cash equivalents at the beginning of the year		3,977,744	729,291
Effect of exchange rate fluctuations on cash held		(48,620)	(438,626)
Cash and cash equivalents at the end of the year	15	2,437,566	3,977,745

The consolidated statements of cash flows are to be read in conjunction with the accompanying notes

Notes to the Consolidated Financial Statements

1. Reporting entity

African Energy Resources Limited (referred to as the 'Parent Entity' or the 'Company') is a company domiciled in Guernsey. The address of the Company's registered office is Granite House, La Grande Rue, St Martin, Guernsey GY1 3RS. The address of the Company's Australian representative office is Level 1, 8 Colin Street, West Perth, WA 6005. The consolidated financial statements of the Company as at and for the year ended 30 June 2011 comprise the Company and its subsidiaries (together referred to as the 'Consolidated Entity' or the 'Group'). The Group is primarily involved in coal exploration in Africa.

2. Basis of preparation

(a) Statement of Compliance

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australian Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The financial report of the Consolidated Entity also complies with IFRSs and interpretations as issued by the International Accounting Standards Board.

The financial report was authorised for issue by the Directors on 2 September 2011.

(b) Basis of measurement

The financial report is prepared under the historical cost convention.

(c) Functional and presentation currency (change in presentation currency)

These consolidated financial statements are presented in US dollars.

The functional currency of the Company and each of the operating subsidiaries is US dollars which represents the currency of the primary economic environment in which the Company and each of the operating subsidiaries operates. Previously the presentation currency of the financial statements was Australian dollars. To facilitate clarity and understanding, on 19 March 2010 the Directors resolved to change the presentation currency and present the consolidated financial statements in US dollars from 1 July 2010. The presentation in US dollars is consistent with internal management reporting. The change in accounting policy was applied retrospectively and the comparative represented.

Subsidiaries denominated in Australian dollars ("AUD") are translated at the closing rate on balance date. Profit and loss items are translated on the prevailing rate on the date of transaction.

(d) Going concern

The financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

During the year, the Consolidated Entity incurred a net loss for the year of USD 4,927,071 and derived net cash inflows from operating and financing activities of USD 4,947,230. During July 2011, the Company completed a share placement raising AUD 15,000,000 (USD 16,268,400) before costs.

(e) Use of estimates and judgments

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the Consolidated Entity.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- (i) Note 26(e) – Share-based payment arrangements - The Group measures the cost of equity settled share based payments at fair value at the grant date using the Black-Scholes model taking into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, the expected volatility of the underlying share, the expected dividend yield and risk free interest rate for the term of the option.
- (ii) Note 18 – Exploration & evaluation expenditure - The Group's accounting policy for exploration and evaluation is set out in note 3(e). If, after having capitalised expenditure under this policy, the Directors conclude that the Group is unlikely to recover the expenditure by future exploration or sale, then the relevant capitalised amount will be written off to the Statement of Comprehensive Income.

3. Significant accounting policies

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

(ii) Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

(iii) Comparatives

Prior period comparatives are for the period from 1 July 2009 to 30 June 2010.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to United States dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Statement of Comprehensive Income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to USD at foreign exchange rates ruling at the dates the fair value was determined.

(ii) Financial statements of foreign operations

The assets and liabilities of Australian subsidiaries, including goodwill and fair value adjustments arising on consolidation, are translated to US dollars at foreign exchange rates ruling at the reporting date. The revenues and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to US dollars at rates approximating to the foreign exchange rates ruling at the dates of the transactions.

Foreign exchange differences arising on translation are recognised directly in the foreign currency translation reserve ("FCTR"), as a separate component of equity. When a foreign operation is disposed of, in part or in full,

the relevant amount in the FCTR is transferred to profit or loss, as part of the gain or loss on sale where applicable.

(iii) Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations, and of related effective hedges are taken to translation reserve and released into profit and loss upon disposal.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(ii) Subsequent measurement

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Details on how the fair value of financial instruments is determined are disclosed in note 5.

(iii) Impairment

The group assesses at each balance date whether there is objective evidence financial asset or group of financial assets is impaired.

(d) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy (i)).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a work condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components).

(ii) Subsequent costs

The Consolidated Entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Consolidated Entity and the cost of the item can be measured reliably. All other costs are recognised in the profit and loss as an expense as incurred.

(iii) Depreciation

With the exception of freehold land and mineral property and development assets, depreciation is charged to the profit and loss using a diminishing value method over the estimated useful lives of each part of an item of

property, plant and equipment. Land is not depreciated. Mineral property and development assets are depreciated on the units of production basis over the life of the economically recoverable reserves.

The estimated useful lives in the current and comparative periods are as follows:

Plant and equipment	2.5 to 10 years
---------------------	-----------------

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

(e) Exploration and development expenditure

(i) Exploration and evaluation expenditure

Exploration and evaluation costs, which are intangible costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Consolidated Entity has obtained the legal rights to explore an area are recognised in the profit and loss.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

- a) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- b) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability and facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from intangible assets to mineral property and development assets within property, plant and equipment.

(ii) Development expenditure

Development costs are accumulated in respect of each separate area of interest. Development costs related to an area of interest are carried forward to the extent that they are expected to be recouped either through sale or successful exploitation of the area of interest.

When an area of interest is abandoned or the Directors decide that it is not commercial, any accumulated cost in respect of that area is written off in the financial period the decision is made. Each area of interest is reviewed at the end of each accounting period and accumulated cost written off to the extent that they will not be recoverable in the future. Impairment of assets is discussed in note 3(i).

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production commences. When production commences, carried forward exploration and development costs are amortised on a units of production basis over the life of economically recoverable reserves.

Development assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see impairment accounting policy note 3(i)). For the purposes of impairment testing, development assets are allocated to cash-generating units to which the development activity relates. The cash generating unit shall not be larger than the area of interest.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, short term bills and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Consolidated Entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(g) Trade and other receivables

Trade and other receivables are recorded at amounts due less any allowance for doubtful debts.

(h) Other financial assets

The Group classifies its investments in the following categories: loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance date which are classified as non-current assets. Loans and receivables are included in receivables in the statement of financial position.

Investments in subsidiaries are carried at cost, net of any impairment losses (see note 3(c)(iii)).

(i) Impairment

The carrying amounts of the Consolidated Entity's assets, other than exploration assets (see accounting policy (e)), and deferred tax assets, are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

(i) Calculation of recoverable amount

The recoverable amount of the Consolidated Entity's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the

asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss in respect of goodwill is not reversed.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Business Combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(k) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, for example as a result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(l) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(m) Employee Benefits***(i) Share-based payment transactions***

The share option program allows the Consolidated Entity employees and consultants to acquire shares of the Company. (see note 26 (e)) The fair value of options granted is recognised as an employee or consultant expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

(ii) Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Consolidated Entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

(n) Provisions

A provision is recognised in the Statement of Financial Position when the Consolidated Entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

(i) Site restoration

In accordance with the Consolidated Entity's environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land is recognised when the land is contaminated.

The provision is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes are reflected in the present value of the restoration provision at the end of the reporting period.

The amount of the provision for future restoration costs is capitalised and is depreciated over the useful life of the mineral reserve. The unwinding of the effect of discounting on the provision is recognised as a finance cost.

(o) Trade and other payables

Trade and other payables are non-interest bearing liabilities stated at cost and settled within 30 days.

(p) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit and loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not incremental costs relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

(q) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year.

(r) Earnings per share***(i) Basic earnings per share***

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by weighted average number of ordinary shares outstanding during the financial year, adjusted for the bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(s) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

Net financial income

Net financial income comprises interest payable on borrowings calculated using the effective interest method, interest receivable on funds invested, dividend income and foreign exchange gains and losses.

Interest income is recognised in the profit and loss as it accrues, using the effective interest method.

Management fees are recognised in the profit and loss as the right to a fee accrues, in accordance with contractual rights.

(t) Income tax

Income tax on the Statement of Comprehensive Income for the periods presented comprises current and deferred tax. Income tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised, or to the extent that the Group has deferred tax liabilities with the same taxation authority.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

(u) Segment reporting

AASB 8 Operating Segments requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker.

(v) Goods and Services Tax / Valued Added Tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax ("GST") or Value Added Tax ("VAT"), except where the amount of GST/VAT incurred is not recoverable from the taxation authority. In these circumstances, the GST/VAT is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST/VAT included. The net amount of GST/VAT recoverable from, or payable to, the relevant tax authority is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST/VAT components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the relevant tax authority are classified as operating cash flows.

(w) New standards and interpretations not yet adopted

Australian Accounting Standards and Interpretations that have been recently issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2011. These are outlined in the table below:

AASB reference	Title and Affected Standard(s):	Nature of Change:	Application date:	Impact on Initial Application:
AASB 9 (issued December 2009 and amended December 2010)	Financial Instruments	Amends the requirements for classification, measurement and derecognition of financial assets and financial liabilities.	1 January 2013	Due to the recent release of these amendments and that adoption is only mandatory for the 30 June 2014 year end, the entity has not yet made an assessment of the impact of these amendments.
Revised AASB 124	Related Party Disclosures	The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government or other government related entities.	1 January 2011	The Consolidated Entity will apply the standard from 1 July 2011. When the amendments are applied, the group will need to disclose any transactions between its subsidiaries. However there will be no impact on the amounts recognised in the financial statements.
AASB 7	Financial Instruments Disclosures	Deletes various disclosures relating to credit risk, renegotiated loans and receivables and the fair value of collateral held.	1 January 2011	There will be no impact on initial adoption to amounts recognised in the financial statement as the amendments result in fewer disclosures.
AASB 1053 and AASB 2010-2	Application of Tiers of Australian Accounting Standards and Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements	On 30 June 2011, the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements.	1 July 2013	African Energy Resources is listed on the ASX and is not eligible to adopt the new Australia Accounting Standards-Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the company.

AASB 2010-6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets	Amendments made to AASB 7 <i>Financial Instruments: Disclosures</i> in November 2010 introduce additional disclosures in respect of risk exposures arising from transferred financial assets.	1 July 2011	The amendments will affect particularly entities that sell, factor securitise, lend or otherwise transfer financial assets to other parties. They are not expected to have any significant impact on the Consolidated Entity's disclosures. The Group intends to apply the amendment from 1 July 2011.
AASB 2010-8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets	In December 2010, the AASB amended AASB 112 <i>Income Taxes</i> to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying amount of the relevant assets or liabilities, that is through use or through sale. The amendment introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale.	1 January 2012	The Consolidated Entity does not have any investment properties. The standard therefore will have no impact on the Consolidated Entity's financial statements.
IFRS 11 (issued May 2011)	Joint Arrangements	Joint arrangements will be classified as either 'joint operations' (where parties with joint control have rights to assets and obligations for liabilities) or 'joint ventures' (where parties with joint control have rights to the net assets of the arrangement). Joint arrangements structured as a separate vehicle will generally be treated as joint ventures and accounted for using the equity method (proportionate consolidation no longer allowed). However, where terms of the contractual arrangement, or other facts and circumstances indicate that the parties have rights to assets and obligations for liabilities of the arrangement, rather than rights to net assets, the arrangement will be treated as a joint operation and joint venture parties will account for the assets, liabilities, revenues and expenses in accordance with the contract.	Annual reporting periods commencing on or after 1 January 2013	Joint arrangement structured as a separate vehicle, i.e. joint venture, currently uses the proportionate consolidation method. When this standard is adopted for the first time for the year ended 30 June 2014, joint ventures will be accounted for in consolidated financial statements using the equity method, rather than the proportionate consolidation method. On 1 July 2012, the initial equity accounted investment will be measured as the aggregate of the net carrying amounts of all assets and liabilities previously accounted for using proportionate consolidation. Any impairment adjustments required on 1 July 2012 will be debited to retained earnings on that date.
IFRS 12	Disclosure of interest in other entities	Combines existing disclosures from IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures. Introduces new disclosure requirements for interests in associates and joint arrangements, as well as new requirements for unconsolidated structured entities.	1 January 2013	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, additional disclosures will be required for interests in associates and joint arrangements, as well as for unconsolidated structured entities.

IFRS 13 (issued May 2011)	Fair Value Measurement	Additional disclosures required for items measured at fair value in the statement of financial position, as well as items merely disclosed at fair value in the notes to the financial statements. Extensive additional disclosure requirements for items measured at fair value that are 'level 3' valuations in the fair value hierarchy that are not financial instruments, e.g. land and buildings, investment properties etc.	1 January 2013	When this standard is adopted for the first time on 1 July 2012, additional disclosures will be required about fair values.
IFRS 10 (issued May 2011)	Consolidated Financial Statements	Introduces a single 'control model' for all entities, including special purpose entities (SPEs), whereby all of the following conditions must be present: • Power over investee (whether or not power used in practice) • Exposure, or rights, to variable returns from investee • Ability to use power over investee to affect the entity's returns from investee.	Annual reporting periods commencing on or after 1 January 2013	When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements because the entity does not have any special purpose entities.
AASB 1054 (issued May 2011)	Australian Additional Disclosures	Moves additional Australian specific disclosure requirements for for-profit entities from various Australian Accounting Standards into this Standard as a result of the Trans-Tasman Convergence Project. Removes the requirement to disclose each class of capital commitment and expenditure commitment contracted for at the end of the reporting period (other than commitments for the supply of inventories).	Annual reporting periods commencing on or after 1 July 2011	There will be no impact on disclosures when this Standard is adopted for the first time because the entity has no capital or other expenditure commitments.

4. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed.

Risk management is carried out by a central treasury department ("Group Treasury") under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks by holding cash in the currency that it is budgeted to be spent in.

The Group holds the following financial instruments:

	2011 USD	Represented 2010 USD
Financial assets		
Cash and cash equivalents	2,437,566	3,977,744
Trade and other receivables	344,705	250,346
	2,782,271	4,228,090
Financial liabilities		
Trade and other payables	880,892	747,353
Borrowings	5,000,000	-
	5,880,892	747,353

(a) Market risk**i. Foreign currency risk**

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investments in foreign operations. The Consolidated Entity has USD as its functional currency, which is also the denomination currency for the Group's transactions. Some exposure to foreign exchange risk exists in respect to the Australian subsidiaries which provides administrative and technical support to the Group and have transactions denominated in Australian Dollars. The risk is measured using sensitivity analysis and cash flow forecasting.

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in United States Dollars, was:

	2011	2010
	AUD	AUD
Cash	1,839,405	2,056,435
Trade and other receivables	159,945	80,520
Trade and other payables	(397,260)	(96,881)

Group sensitivity to movement in foreign exchange rate is shown in the summarised sensitivity analysis table below.

ii. Price risk

The Group does not hold investments and therefore is not exposed to equity securities price risk.

iii. Interest rate risk

The Group's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and liabilities is set out below:

	2011		2010	
	Weighted average interest rate	Balance USD	Weighted average interest rate	Balance USD
<i>Floating interest rate:</i>				
Cash and cash equivalents	4.35%	2,372,474	3.75%	2,660,054
<i>Fixed interest rate:</i>				
Term deposits	6.02%	65,091	5.25%	1,317,691
		<u>2,437,565</u>		<u>3,977,744</u>

The Group has significant interest-bearing assets; however a percentage change in interest rates would not have a material impact on the results. Group sensitivity to movement in interest rates is shown in the summarised sensitivity analysis table below.

		Interest rate risk				Foreign exchange risk			
		- 20 bps		+ 20 bps		-10%		+10%	
	Carrying amount	Profit USD	Equity USD	Profit USD	Equity USD	Profit USD	Equity USD	Profit USD	Equity USD
30 June 2011									
Financial assets									
Cash and cash equivalents	2,437,566	4,875	-	(4,875)	-	-	183,940	-	(183,940)
Trade and other receivables	344,705	-	-	-	-	-	15,994	-	(15,994)
Financial liabilities									
Trade and other payables	880,892	-	-	-	-	-	(39,726)	-	39,726
Borrowings	5,000,000	10,000	-	(10,000)	-	-	-	-	-

Interest rate volatility was chosen to reflect expected short term fluctuations in market interest rates.

Foreign exchange volatility was chosen to reflect expected short term fluctuations in the Australian Dollar.

(b) Credit risk

The carrying amount of cash and cash equivalents, trade and other receivables (excluding prepayments), represent the Group's maximum exposure to credit risk in relation to financial assets.

Cash and short term liquid investment are placed with reputable banks, so no significant credit risk is expected. The Group does not have any material exposure to any single debtor or group of debtors, so no significant credit risk is expected.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Due to the dynamic nature of the underlying businesses, Group Treasury aims at maintaining flexibility in funding by keeping committed credit lines available with a variety of counterparties. Surplus funds are only invested in instruments that are tradeable in highly liquid markets.

The tables below analyse the Group's financial liabilities into relevant maturity groupings. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

	Less than 6 months	6 - 12 months	Total contractual cash flows
2011			
Trade payables	880,892	-	880,892
Borrowings	5,000,000	-	5,000,000
	<u>5,880,892</u>	<u>-</u>	<u>5,880,892</u>
2010			
Trade payables	747,354	-	747,354
Borrowings	-	-	-
	<u>747,354</u>	<u>-</u>	<u>747,354</u>

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

5. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

(b) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(c) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(d) Share-based payment transactions

The fair value of share appreciation rights is measured using a Black-Scholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

6. Segment information

(a) Description of Segments

The Company's Board receives financial information across two reportable segments. These are *Botswana Exploration* and *Zambia Exploration*.

(b) Segment Information

For the year ended 30 June 2011

	Botswana Exploration	Zambia Exploration	Other	Consolidated
	USD	USD	USD	USD
Total segment revenue	-	614,918	46,766	661,683
Profit (loss) before income tax	(72,779)	(1,447,271)	(3,407,021)	(4,927,071)
(Impairment) / reversal of exploration expenditure	-	(594,973)	-	(594,973)
Gain on acquisition of 30% of Chirundu project	-	589,412	-	589,412
Segment Assets				
Property, plant and equipment	13,442	643,934	8,141	665,517
Exploration and evaluation expenditure	4,666,263	16,372,310	-	21,038,573
Other	765,597	124,749	1,891,924	2,782,270
Total Segment Assets	5,445,302	17,140,993	1,900,065	24,486,360
Segment Liabilities				
Other	801,749	32,376	46,767	880,892
Borrowings	-	-	5,000,000	5,000,000
Total Segment Liabilities	801,749	32,376	5,046,767	5,880,892

For the year ended 30 June 2010

	Botswana Exploration	Zambia Exploration	Other	Consolidated
	USD	USD	USD	USD
Total segment revenue	-	949	192,649	193,599
Profit (loss) before income tax	(35,540)	(465,509)	(1,245,637)	(1,746,686)
(Impairment) / reversal of exploration expenditure	-	68,355	-	68,355
Segment Assets				
Property, plant and equipment	13,143	557,728	22,634	593,504
Exploration and evaluation expenditure	2,905,828	11,091,778	-	13,997,606
Other	37,129	146,729	4,044,232	4,228,090
Total Segment Assets	2,956,100	11,796,235	4,066,866	18,819,201
Segment Liabilities				
Other	466,005	319,164	(37,816)	747,353
Total Segment Liabilities	466,005	319,164	(37,816)	747,353

7. Revenue from continuing operations

	2011 USD	Represented 2010 USD
Interest received	48,784	145,616
Management fees charged	23,487	47,983
	72,271	193,599

8. Finance Costs

	2011 USD	Represented 2010 USD
Foreign currency (gain)/loss	65,599	61,064
	65,599	61,064

9. Professional fees

	2011 USD	Represented 2010 USD
Audit fees	62,562	58,719
Tax consulting services	6,041	1,323
Legal costs	46,166	70,211
Other professional fees	71,743	27,207
	186,512	157,460

10. Auditor's remuneration

	2011 USD	Represented 2010 USD
BDO Audit (WA) Pty Ltd: Audit and review of financial reports	51,132	35,617
BDO Spencer Steward Zambia Audit of financial reports	11,430	13,336
	62,562	48,954

11. Personnel expenses

	2011	Represented
	USD	2010
		USD
Wages and salaries	427,627	264,374
Directors fees	657,032	555,564
	<u>1,084,659</u>	<u>819,938</u>

12. Administration fees

	2011	Represented
	USD	2010
		USD
Corporate costs	177,776	76,926
Depreciation	145,496	128,370
Administrative costs	521,453	347,410
Loss on sale of fixed assets	2,863	(1,187)
Other operational costs	317,902	243,468
	<u>1,165,490</u>	<u>794,987</u>

13. Income Taxes

	2011	Represented
	USD	2010
		USD
(a) Income tax expense:		
Current tax	-	-
Deferred tax	-	-
Overprovision in respect to prior years	-	-
	<u>-</u>	<u>-</u>
(b) Reconciliation of income tax expense to prima facie tax payable:		
Loss before income tax	(4,927,071)	(1,746,686)
Prima facie income tax at 30%	(1,478,121)	(524,006)
Tax effect of amounts not deductible in calculating taxable income:		
Sundry items	948	510
Other	666,476	67,113
	<u>(810,697)</u>	<u>(456,383)</u>
Difference in overseas tax rates	314,697	170,737
Tax loss not recognised	(496,000)	(285,646)
Income tax expense/(benefit)	<u>-</u>	<u>-</u>
(c) Tax losses:		
Unused tax losses for which no deferred tax asset has been recognised	(2,666,502)	(1,521,274)
Potential tax benefit @ 30%	(799,951)	(456,382)
Difference in overseas tax rates 10%	314,697	170,737
Potential tax benefit	<u>(485,254)</u>	<u>(285,645)</u>
(d) Unrecognised deferred tax assets arising on timing differences and losses		
Timing	15,246	11,897
Losses - Revenue	<u>1,819,137</u>	<u>1,333,883</u>

The tax benefits of the above deferred tax assets will only be obtained if:

- The Consolidated Entity derives future assessable income of a nature and of an amount sufficient to enable the benefits to be utilised;
- The Consolidated Entity continues to comply with the conditions for deductibility imposed by law;
- No changes in income tax legislation adversely affect the Consolidated Entity from utilising the benefits.

14. Earnings per share

(a) Basic loss per share

The calculation of basic loss per share at 30 June 2011 was based on the loss attributable to ordinary shareholders of US\$4,947,633 (2010 restated: US\$1,746,686) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2011 of 290,236,466 (2010: 259,343,490) calculated as follows:

	2011 USD	2010 USD
Loss attributable to ordinary shareholders	(4,927,071)	(1,746,686)
Weighted average number of ordinary shares at 30 June	290,236,466	259,343,490
Basic loss per share (cents per share)	(1.70)	(0.67)

(b) Diluted loss per share

Potential ordinary shares are not considered dilutive, thus diluted loss per share is the same as basic loss per share.

15. Cash and cash equivalents

(a) Reconciliation to cash at the end of the year

	2011 USD	Represented 2010 USD
Cash at bank & in hand	2,372,475	2,660,053
Term deposits	65,091	1,317,691
	2,437,566	3,977,744

(b) Interest rate risk exposure

The Group's exposure to interest rate risk is discussed in note 4.

16. Trade and other receivables

	2011 USD	Represented 2010 USD
Trade debtors	35,141	46,970
Other receivable	309,564	203,375
	344,705	250,346

(a) Impaired receivables and receivables past due

None of the current receivables are impaired or past due but not impaired.

(b) Risk exposure

Information about the Group's exposure to credit risk, foreign exchange and interest rate risk is provided in note 4.

17. Property, plant and equipment

	2011 USD	Represented 2010 USD
Plant and equipment at cost	911,369	859,911
Less: Accumulated depreciation	(245,852)	(266,407)
Total property, plant and equipment	665,517	593,504
PP&E movement reconciliation		
Plant and equipment at cost:		
Balance at the beginning of the year	859,911	749,122
Additions	166,783	154,681
Disposals	(115,236)	(61,130)
Effect of movements in foreign exchange	(89)	17,239
Balance at the end of the year	911,368	859,912
Plant and equipment – depreciation and impairment losses		
Balance at the beginning of the year	(266,407)	(173,545)
Depreciation charge for the year	(137,669)	(122,715)
Disposals	158,738	18,762
Effect of movements in foreign exchange	(514)	11,091
Balance at the end of the year	(245,851)	(266,407)
Carrying amounts		
Balance at the beginning of the year	593,504	575,577
Balance at the end of the year	665,517	593,505

18. Exploration and evaluation expenditure

	2011 USD	Represented 2010 USD
Carrying amount of exploration and evaluation expenditure	21,038,572	13,997,606
EE&D movement reconciliation		
Balance at the beginning of the year	13,997,606	11,582,410
Additions	4,611,519	2,255,499
Acquisition of 30% of CJVL	2,987,801	-
(Impairment) of EE&D / Reversal of Impairment	(594,973)	68,355
Effect of movements in foreign exchange	36,618	91,343
Balance at the end of the year	21,038,571	13,997,606
Carrying amounts		
Balance at the beginning of the year	13,997,606	11,582,410
Balance at the end of the year	21,038,572	13,997,606

The recoverability of the carrying amounts of exploration and evaluation assets is dependent on the successful development and commercial exploitation or sale of the respective area of interest.

19. Trade and other payables

	2011 USD	Represented 2010 USD
Trade creditors	599,888	96,387
Other payables	26,201	44,017
Accrued expenses	254,803	606,950
	880,892	747,354

Trade and other payables are non-interest bearing liabilities stated at cost and settled within 30 days. Information about the Group's exposure to foreign exchange risk is provided in note 4.

20. Borrowings

	2011 USD	Represented 2010 USD
Loan from Macquarie Bank Limited	5,000,000	-
	5,000,000	-

On 4 March, African Energy executed a US\$5m convertible loan facility with Macquarie Bank. The loan facility was fully drawn during March and is repayable at any time up until 31 December 2011. Interest is repayable by the Company on outstanding balances is equal to the USD LIBOR rate plus 3.5%.

Under the terms of the Facility, the Company has issued Macquarie with 4,843,230 American call options, each with a strike price of AUD \$1.03 and expiring 31 December 2012.

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in note 4.

21. Contributed equity

	2011 USD	Represented 2010 USD
Contributed equity	27,996,578	25,486,226
Cost of share issue	(1,270,258)	(1,171,915)
	26,726,320	24,314,311

Movement in share capital	Date	Number of shares	Issue price USD	USD
Balance 1 July 2009		174,509,152		17,486,452
Share Placement - tranche 1	03 Aug 2009	21,176,372	0.04	885,490
Share Placement - tranche 2	27 Aug 2009	59,081,628	0.04	2,460,159
Share Placement	04 Dec 2009	27,969,998	0.14	3,893,839
Exercise of employee Options	12 Jan 2010	37,500	0.08	2,965
Capital raising costs				(414,594)
Balance 30 June 2010		282,774,650		24,314,311
Exercise of employee Options	25 Oct 2010	500,000	0.12	61,435
Share Placement	25 Oct 2010	9,600,000	0.15	1,415,462
Exercise of employee Options	09 Dec 2010	250,000	0.09	21,596
Exercise of employee Options	22 Feb 2011	750,000	0.32	237,038
Exercise of employee Options	22 Feb 2011	300,000	0.40	121,363
Exercise of employee Options	07 Mar 2011	1,124,673	0.32	356,156
Exercise of employee Options	10 Mar 2011	470,000	0.32	148,251
Exercise of employee Options	11 Apr 2011	37,500	0.09	3,370
Exercise of employee Options	19 Apr 2011	432,412	0.33	142,323
Exercise of employee Options	19 Apr 2011	37,500	0.09	3,357
Capital raising costs				(98,343)
Balance 30 June 2011		296,276,735		26,726,320

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in the proportion to the number and amount paid on the shares held.

Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

22. Reserves

	2011 USD	Represented 2010 USD
Share-based payments reserve	3,385,247	1,743,641
Foreign currency translation reserve	(349,897)	(1,182,552)
	3,035,350	561,089
Reconciliation of movement in reserves		
Share-based payments reserve		
Balance at the beginning of the year	1,743,641	1,568,622
Equity settled share-based payment transactions	2,216,027	175,019
Transfer of share-based payments on exercise/lapse of options	(574,421)	-
Balance at 30 June	3,385,247	1,743,641
Foreign currency translation reserve		
Balance at the beginning of the year	(1,182,552)	(662,358)
Effect of translation of foreign currency operations to group presentation currency	832,655	(520,194)
Balance at 30 June	(349,897)	(1,182,552)

Share based payments reserve

The share based payments reserve represents the value of options issued under the compensation arrangement that the Consolidated Entity is required to include in the consolidated financial statements. No gain or loss is recognised in the profit or loss on the purchase, sale, issue or cancellation of the Consolidated Entity's own equity instruments.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity.

23. Key management personnel disclosures**(a) Directors**

The following persons were Directors of African Energy Resources Limited during the financial year:

<i>(i) Chairman – executive</i> Mr A C Cooke	<i>(ii) Executive Directors</i> Dr C F Tabeart, <i>Managing Director</i> Mr G W Fry, <i>Executive Director</i>	<i>(iii) Non-executive Directors</i> Mr V Chitalu, Mr M P Curnow Mr P Clark
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(b) Other key management personnel

The following persons had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Name	Position	Employer
Daniel Davis	Company Secretary	Mitchell River Group Pty Ltd

(c) Key management personnel compensation

The key management personnel compensation is as follows:

	2011 USD	Represented 2010 USD
Short-term employee benefits	767,627	597,478
Post-employment benefits	23,258	21,853
Equity compensation benefits	2,024,855	55,670
	<u>2,815,740</u>	<u>675,001</u>

Information regarding individual Directors and executive compensation and some equity instruments disclosures as permitted by Corporations Regulation 2M.3.03 is provided in the remuneration report section of the Directors' report.

(d) Equity Holdings**(i) Options Holdings**

2011	Balance at 1/07/2010	Granted as compensation	Exercised	Balance at 30/06/2011	Vested and exercisable	Unvested
Non-executive Directors						
Michael Curnow	899,736	-	-	899,736	899,736	-
Valentine Chitalu	999,736	-	-	999,736	999,736	-
Philip Clark	-	1,000,000	-	1,000,000	-	1,000,000
Key Management Personnel						
<i>Executive Directors</i>						
Alasdair Cooke	1,587,652	750,000	-	2,337,652	2,337,652	-
Charles Tabear	2,972,824	2,250,000	-	5,222,824	5,222,824	-
Gregory Fry	1,518,160	1,500,000	-	3,018,160	3,018,160	-
<i>Other Officers</i>						
Daniel Davis	450,000	-	-	450,000	450,000	-
	8,428,108	5,500,000	-	13,928,108	12,928,108	1,000,000

2010**Non-executive Directors**

Michael Curnow	899,736	-	-	899,736	899,736	-
Valentine Chitalu	899,736	100,000	-	999,736	949,736	50,000

Key Management Personnel*Executive Directors*

Alasdair Cooke	1,187,652	400,000	-	1,587,652	1,387,652	200,000
Charles Tabear	1,972,824	1,000,000	-	2,972,824	2,472,824	500,000
Gregory Fry	818,160	700,000	-	1,518,160	1,168,160	350,000

Other Officers

Daniel Davis	200,000	250,000	-	450,000	325,000	125,000
	5,978,108	2,450,000	-	8,428,108	7,203,108	1,225,000

(ii) Share Holdings

	Balance at 1/07/2009	Purchases during 2010	Balance at 1/07/2010	Purchases during 2011	Other Changes*	Balance at 30/06/2011
Non-executive Directors						
Michael Curnow	11,543	-	11,543	390,000	243,012	644,555
Valentine Chitalu	89,048	-	89,048	-	299,625	388,673
Philip Clark	-	-	-	20,000	-	20,000
Key Management Personnel						
<i>Executive Directors</i>						
Alasdair Cooke	7,252,938	4,162,334	11,415,272	-	14,530,503	25,945,775
Charles Tabear	1,345,714	-	1,345,714	4,700	208,161	1,558,575
Gregory Fry	1,593,385	-	1,593,385	-	2,006,807	3,600,192
<i>Other Officers</i>						
Daniel Davis	10,000	-	10,000	-	182,930	192,930
	10,302,628	4,162,334	14,464,962	414,700	17,471,038	32,350,700

* In specie distribution of African Energy shares by Energy Ventures Limited

(e) Loans to key management personnel

There were no loans made to key management personnel during the year ended 30 June 2011 (2010: nil).

(f) Other transactions with key management personnel

Other transactions with key management personnel are discussed in related parties disclosure (note 26 (d)).

24. Reconciliation of loss after income tax to net cash inflow from operating activities

	2011 USD	Represented 2010 USD
Cash flows from operating activities		
Profit/(loss) for the year	(4,927,071)	(1,535,959)
<i>Adjustments for:</i>		-
Depreciation and amortisation expense	145,496	128,370
Loss on Sale of Fixed Assets	25,292	(1,187)
Interest on debt facilities classified as financing	39,706	-
Impairment charge	594,973	(68,355)
Gain on acquisition	(589,412)	-
Chirundu losses not attributable	(20,563)	-
Foreign exchange losses	65,599	61,064
Equity-settled share-based payment expenses	2,216,027	175,019
Operating profit (loss) before changes in working capital and provisions	(2,449,953)	(1,241,048)
(Increase)/decrease in trade and other receivables	(32,833)	(11,920)
(Decrease)/increase in trade and other payables	57,714	16,330
Net cash used in operating activities	(2,425,072)	(1,236,638)

25. Parent Entity

	2011 USD	Represented 2010 USD
Current Assets	4,982	-
Non-Current Assets	23,647,253	22,395,498
Total Assets	23,652,235	22,395,498
Current Liabilities	5,046,767	12,950
Total Liabilities	5,046,767	12,950
Contributed equity	26,726,320	24,314,311
Reserves	3,385,247	1,743,641
Accumulated losses	(11,506,099)	(3,675,404)
Total Equity	18,605,468	22,382,548
Profit / (loss) for the year	(4,116,512)	(810,935)
Other comprehensive income / (loss) for the year	-	-
Total comprehensive income / (loss) for the year	(4,116,512)	(810,935)

26. Related parties**(a) Parent entities**

The parent entity within the Group is African Energy Resources Limited.

(b) Subsidiaries

	Country of incorporation	Class of shares	Ownership interest 2011	Ownership interest 2010
Parent entity				
African Energy Resources Ltd	Guernsey	Ordinary		
Subsidiary (direct)				
African Energy Holdings SRL	Barbados	Ordinary	100%	-
A E Resources Pty Ltd	Australia	Ordinary	100%	100%
AFR Australia Pty Ltd	Australia	Ordinary	100%	-
Sitwe Uranium Exploration Ltd	Zambia	Ordinary	100%	-
African Energy Resources (SA) (Pty) Ltd	South Africa	Ordinary	100%	100%
African Energy Resources Mozambique Ltd	Mozambique	Ordinary	100%	100%
Subsidiaries (indirect – direct subsidiaries of African Energy Holdings SRL)				
African Energy Resources Botswana (Proprietary) Ltd	Botswana	Ordinary	100%	100%
AER Minerals (Proprietary) Ltd	Botswana	Ordinary	100%	-
Subsidiaries (indirect – direct subsidiaries of A E Resources Pty Ltd)				
African Energy Resources Ltd	Zambia	Ordinary	100%	100%
Subsidiaries (indirect – direct subsidiaries of African Energy Resources Ltd (Zambia))				
Chirundu Joint Ventures Zambia Ltd	Zambia	Ordinary	100%	70%

(c) Loans from related parties

	2011 USD	Represented 2010 USD
Loan from Energy Ventures Limited		
Beginning of year	-	529,353
Loan repayments paid		(557,092)
Interest charged	-	27,739
End of year	-	-

(d) Other related party transactions

	Charges from:		Charges to:	
	2011 USD	Represented 2010 USD	2011 USD	Represented 2010 AUD
Mitchell River Group Pty Ltd	728,128	408,640	-	-
Provision of a fully serviced office and admin staff				
Alasdair Cooke, Frazer Tabear, Gregory Fry				
Exco Resources Ltd	1,022	3,437	5,970	4,989
Recharge of office overhead costs				
Alasdair Cooke				

Energy Ventures Ltd	31,703	98,097	7,106	12,937
Recharge of office overheads and wages				
Alasdair Cooke, Gregory Fry, Michael Curnow				
Albidon Ltd	5,960	29,685	133,678	459,029
Recharge of office overheads and wages				
Alasdair Cooke, Valentine Chitalu				

Assets and liabilities arising from the above transactions

	2011 USD	Represented 2010 USD
Trade and other receivables	30,132	30,132
Trade and other payables	49,972	44,563

(e) Option Plans

The establishment of the AFR Employee Option Plan was approved by shareholders at the 2007 Annual General Meeting. The Employee Option Plan is designed to provide long-term incentives for key staff and consultants to deliver long-term shareholder returns. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

Once vested, the options remain exercisable for a period of two years. Options are granted under the plan for no consideration. Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share. The exercise price of options is based on the weighted average price at which the company's shares are traded on the ASX.

Grant Date	Expiry Date	Exercise Price cents	Balance at start of year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of year	Vested and exercisable at year end
1/07/2007	30/06/2012	31.25	11,930,066	-	(2,777,085)	-	9,152,981	100%
20/11/2007	30/06/2012	40	300,000	-	-	-	300,000	100%
12/12/2007	30/06/2012	40	550,000	-	(300,000)	(50,000)	200,000	100%
22/04/2008	30/06/2012	40	600,000	-	-	-	600,000	100%
2/07/2009	30/06/2012	8.5	1,850,000	-	(325,000)	-	1,525,000	100%
27/08/2009	30/06/2012	8.5	2,200,000	-	-	-	2,200,000	100%
2/10/2009	30/06/2012	12.5	500,000	-	(500,000)	-	-	100%
16/09/2010	31/12/2013	12.5	-	625,000	-	-	625,000	50%
2/02/2011	31/12/2013	70	-	250,000	-	-	250,000	0%
18/02/2011	31/12/2013	90	-	1,500,000	-	-	1,500,000	100%
18/02/2011	31/12/2013	110	-	1,500,000	-	-	1,500,000	100%
18/02/2011	31/12/2013	130	-	1,500,000	-	-	1,500,000	100%
7/03/2011	31/12/2013	103	-	4,843,230	-	-	4,843,230	100%
28/03/2011	31/12/2013	80	-	1,650,000	-	-	1,650,000	0%
16/05/2011	31/12/2013	80	-	600,000	-	-	600,000	0%
			<u>17,930,066</u>	<u>12,468,230</u>	<u>(3,902,085)</u>	<u>(50,000)</u>	<u>26,446,211</u>	

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes option-pricing model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes option-pricing model.

Grant date	Fair value at grant date (cents per option)	Share price (cents per share)	Exercise price (cents per option)	Volatility factor	Option life (years)	Expected dividends	Risk-free interest rate
22/04/08	16.16	27.0	40.00	105.00%	4	-	7.21%
2/07/09	3.33	5.3	8.50	155.18%	3	-	3.15%
2/07/09	3.73	5.3	8.50	155.18%	3	-	3.15%
27/08/09	4.78	7.4	8.50	151.33%	3	-	3.15%
27/08/09	5.30	7.4	8.50	151.33%	3	-	3.15%
2/10/09	5.04	10.0	12.50	126.21%	3	-	3.24%
16/09/10	4.10	9.5	12.50	93.56%	3	-	4.50%
16/09/10	4.82	9.5	12.50	93.56%	3	-	4.50%
16/09/10	3.77	9.5	12.50	93.56%	3	-	4.50%
2/02/11	29.42	64.5	70.00	101.45%	3	-	4.75%
18/02/11	46.90	95.0	90.00	102.54%	3	-	4.75%
18/02/11	41.77	95.0	110.00	102.54%	3	-	4.75%
18/02/11	37.52	95.0	130.00	102.54%	3	-	4.75%
7/03/11	37.24	99.0	103.00	102.42%	2	-	4.75%
28/03/11	37.75	70.5	80.00	108.82%	3	-	4.75%
28/03/11	42.00	70.5	80.00	108.82%	3	-	4.75%
16/05/11	44.94	82.0	80.00	105.22%	3	-	4.75%
16/05/11	49.60	82.0	80.00	105.22%	3	-	4.75%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

Share options are granted under a service condition and, for grants to key management personnel, market and non-market performance conditions. Non-market performance conditions are not taken into account in the grant date fair value measurement of the services received.

Expenses arising from share-based payment transactions

	2011 USD	Represented 2010 USD
Options issued under employee option plan	(2,216,027)	(175,191)
	(2,216,027)	(175,191)

27. Business Combination

On 7 March 2011, African Energy entered into a binding agreement with Albidon Exploration Limited to acquire 4,814,982 shares in Chirundu Joint Ventures Limited ("CJVL") for total cash consideration of USD 2,500,000. These shares represented 30% in the share capital of CJVL and have taken African Energy's interest in CJVL to 100%. The assets and liabilities recognised as a result of the acquisition are as follows

	USD
Cash and cash equivalents	2,326
Trade and other receivables	16,187
Property, plant and equipment	97,376
Exploration and evaluation expenditure	2,987,801
Trade and other payables	(14,278)
Net identifiable assets acquired	<u>3,089,412</u>
less : gain on acquisition	(589,412)
Cash consideration	<u><u>2,500,000</u></u>

The acquisition costs relating to this acquisition have been deemed immaterial and expensed through the profit and loss. The impact of the acquisition on revenue for the Consolidated Entity is limited to the gain upon acquisition.

Prior to the acquisition, the Company accounted for its interest in the Chirundu Joint Ventures Limited using the proportionate consolidation method whereby 70% of the assets and liabilities were taken up in the books of the Consolidated Entity based on the 70% ownership interest. Following the acquisition of the remaining 30% of Chirundu Joint Ventures Limited, the financial statements of the 100% owned subsidiary are included in the consolidated financial accounts until such a time that control ceases.

28. Subsequent events

During July, the Company completed a placement to institutional and sophisticated investors overseas and in Australia to advance the Sese Coal Project. 30,000,000 ordinary shares were issued at AUD 50 cents per share to raise AUD 15,000,000 before costs.

In addition, 100,000 ordinary shares have been issued on conversion of options since the balance date, raising AUD 8,500 before costs.

Other than the aforementioned events, no matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations, results or state of affairs of the Group in future financial years which have not been disclosed publicly at the date of this report.

29. Capital and other commitments

The Company has a total minimum expenditure commitment of USD 218,123 in the next twelve months for its two prospecting licences located in Botswana.

There were no capital and other commitments at 30 June 2011.

30. Contingencies

There were no contingent assets or liabilities in the Group at 30 June 2011.