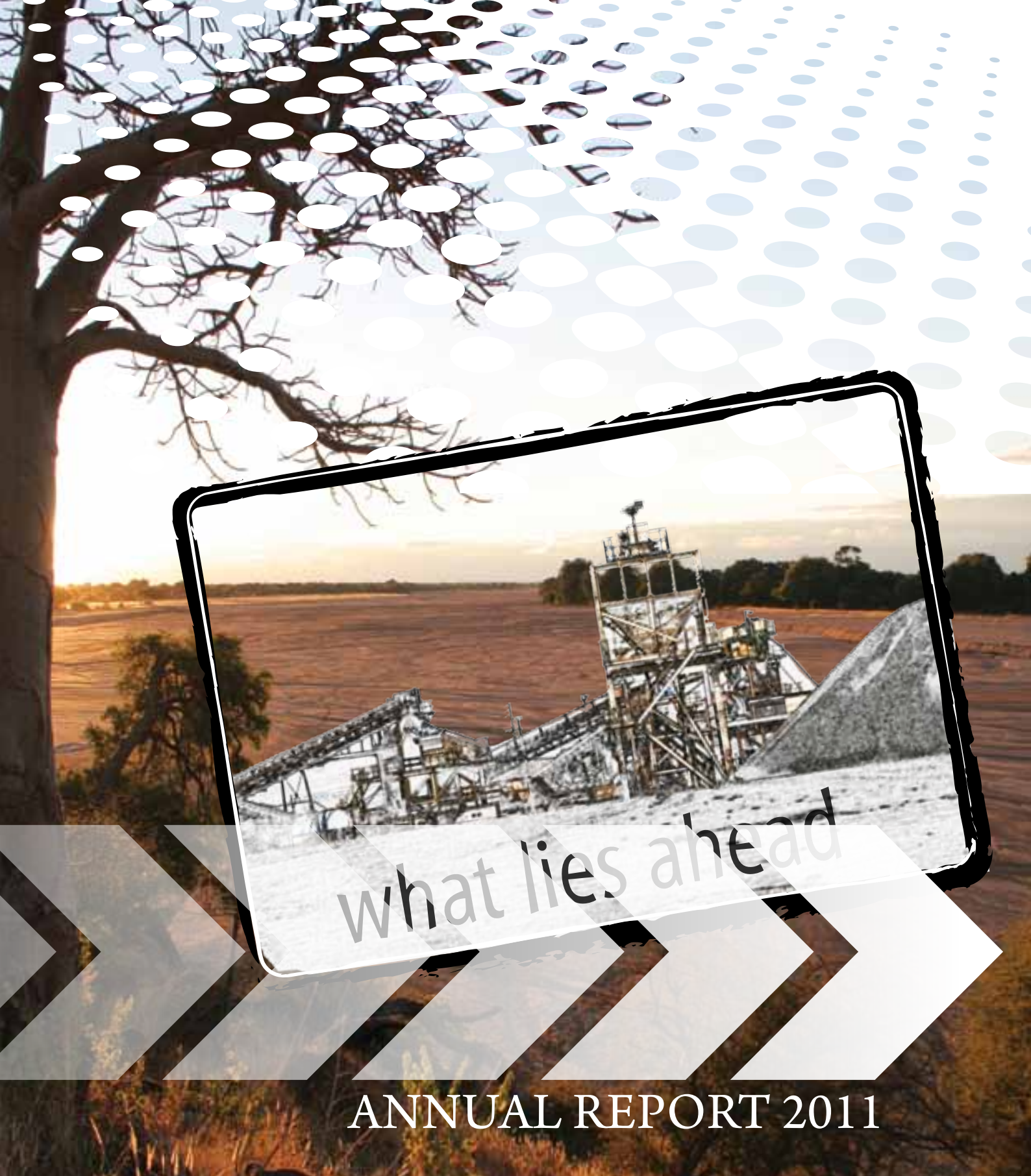




what lies ahead

ANNUAL REPORT 2011

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CORPORATE DIRECTORY

Directors	Mr Alasdair Cooke Executive Chairman Dr Charles (Frazer) Tabcart 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	Link Market Services Limited Ground Floor, 178 St Georges Terrace Perth WA 6000
Stock Exchange Listing	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



MANAGING DIRECTOR'S LETTER

Dear Shareholder,

The last twelve months has marked a major transition for your company as it has embarked upon the commercial evaluation of the massive Sese coal project in Botswana and delivered a maiden resource of over 2.7 billion tonnes of thermal coal. Whilst the Company still holds its uranium projects in Zambia, and is continuing baseline surveys at the Chirundu uranium project, the focus has shifted to Botswana and to coal.

Highlights over the last twelve months include:

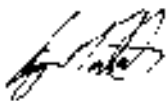
- Completion of a major resource delineation drilling programme which delivered a maiden resource of 2.7 billion tonnes of thermal coal at Sese, of which 500 million tonnes is in the Indicated Resource category, and the remaining 2.23 billion tonnes is in the Inferred Resource category. The coal occurs over an area of almost 110 square kilometres and forms a single seam which averages 14m thick, is almost flat lying, and is very close to surface. This is a deposit of world class proportions.
- Completion of a sampling programme which has indicated that the coal is suitable as both a raw feed for power station fuel, or as a washed product suitable for export.
- Completion of a Concept Study to evaluate the commercial development options for the coal deposit. The results of the Concept Study were delivered to the Board in early September 2011, where the Board approved a formal feasibility study.

A successful equity raising of AUD \$15 million was undertaken to advance the Sese coal project through these feasibility studies.

Through this work it is clear that the Sese coal project offers the potential for a large volume and very low cost open-pit mining operation over a considerable timeframe. The Company has determined that a staged development approach offers the best path to reducing the timeframe to first production, along with lowering the risk profile for each development stage.

When we delivered our 2010 Annual Report I indicated that we were searching for an experienced partner for the coal project. However, our belief in the project and, after several key appointments, our belief in our own ability to deliver a low-cost coal mine within the next 2-3 years means this is no longer the case.

On behalf of the Board of Directors, I would like to thank you for your support, and welcome the many new shareholders to the Company. The next twelve months is shaping up as a tremendously exciting period for the Company as it evaluates the development options in Botswana, and I look forward to sharing the journey with you.



Frazer Tabeart
Managing Director

The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the 'JORC Code') sets out minimum standards, recommendations and guidelines for Public Reporting in Australasia of Exploration Results, Mineral Resources and Ore Reserves. The information contained in this announcement has been presented in accordance with the JORC Code and references to "Measured, Indicated and Inferred Resources" are to those terms as defined in the JORC Code.

Information in this report relating to Exploration results, Mineral Resources or Ore Reserves is based on information compiled by Dr Frazer Tabeart (an employee and the Managing Director of African Energy Resources Limited) who is a member of The Australian Institute of Geoscientists. Dr Tabeart has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person under the 2004 Edition of the Australasian Code for reporting of Exploration Results, Mineral Resources and Ore Reserves. Dr Tabeart consents to the inclusion of the data in the form and context in which it appears.

BOTSWANA

SESE COAL PROJECT

LOCATION

The Sese coal project is in the Republic of Botswana, about 60km to the south of the mining hub of Francistown. Since independence in 1966, Botswana has been a stable democracy in which revenues from mining have played a major role in the economic development of the country, to the extent that Botswana is one of the wealthiest countries in Africa on a GDP per capita basis. The Government understands and has long supported investment in the mining industry, both by domestic and foreign companies, and has enacted a competitive fiscal regime supported by a simple and transparent Mines and Minerals Act. Botswana is thus an attractive destination for exploration and mining investment.

The Sese project occurs in eastern Botswana and is within 20km of the main infrastructure corridor which runs approximately north-south through the country's more populated eastern third. This corridor contains a good quality sealed road, railway line, 220kV electricity transmission lines and a water pipeline. The railway connects into Zimbabwe to the north east and South Africa to the south, providing access to ports in Mozambique and South Africa. Access to the project is via gravel roads and tracks leading from the main sealed A1 highway. The coal occurs close to surface in terrain dominated by stunted Mopane trees and grassy savannah and with an annual rainfall of approximately 450mm.

Botswana has long been known to host large deposits of coal, but until recently these were considered to be of generally low quality unsuitable for export. At present, there is a single operating coal mine, Morupule, which is majority owned by the Government and which is currently being expanded to produce approximately 3 million tonnes of coal per year from an underground operation to feed the nearby 600MW Morupule power station.

A number of other large undeveloped coal projects exist in the country, and a healthy exploration industry is evaluating these and new project opportunities.

The Sese coal project provides an attractive opportunity for development due to its large size, thick seam and proximity to surface offering the potential for low-strip ratio open pit mining of the entire resource. This, and the large strike extent (over 30km), offers the flexibility to mine several sections of the deposit at the same time and hence the ability to vary annual mining rates with ease.



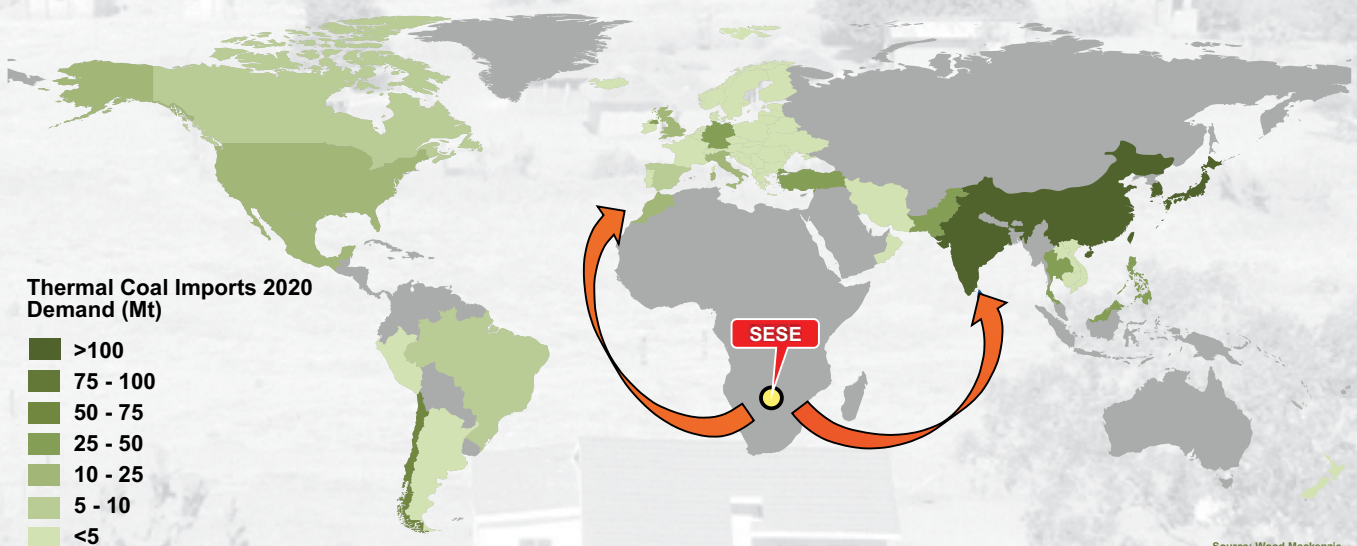
African Energy discovered coal at Sese in June 2010, and has since delineated an initial resource estimate of 2.7 billion tonnes of thermal coal

GLOBAL ENERGY COAL MARKET

Thermal or steaming coal has been a globally traded commodity for many decades and has underpinned the development of major coal mining provinces throughout the world. As worldwide electricity generation has risen to meet the demands of an increasingly urbanised population, coal consumption has increased in real terms, and is likely to continue to do so for the foreseeable future, even allowing for a steady increase in renewable energy generation.

Generally, coal from Botswana was not considered to be of a quality suitable for export, but in recent years that paradigm has changed. Over the last 30-40 years the quality of thermal coal traded on the global seaborne market has steadily decreased to the point where coals with calorific values ranging from 5,500 to 5,100 kcal/kg GAR are now routinely exported from America, Indonesia and South Africa, largely into the Asian market. The large deposits in Botswana are capable of producing coals ideally suited to the needs of these markets, although export infrastructure remains a challenge.

In the last few years, India and China have emerged as the largest importers of thermal coal. India currently imports approximately 50 million tonnes of coal per year, and this is expected to increase to over 210 million tonnes a year by 2025 as it continues to build a large number of 4,000MW power station complexes. Due to local constraints on domestic coal availability, these power stations are obliged to source up to 30% of their fuel requirements from imported coal. China is also expected to almost double its imports to 213 million tonnes per year by 2025. Both countries have been aggressively pursuing acquisitions in Australia and Indonesia to provide some security over supply, supplemented by acquisitions in Mozambique (India) and Mongolia (China).



Botswana remains one of the few undeveloped coal provinces in the world that has the resource inventory to meet these demands, and it is no surprise to see considerable Indian interest in the country. The Botswana Government, for its part, recognises a unique opportunity to stimulate a new industry capable of providing sustained economic development for future generations, and has embarked upon the development of a coal "roadmap" to secure this future.



Drilling at the Sese Project

Formal resource delineation drilling has established an Indicated and Inferred resource exceeding 2.7 billion tonnes of thermal coal.

The coal occurs in a single seam which averages 14m thick and is close to surface, offering the potential for low stripping ratios and very low ROM coal mining costs.

SESE COAL DEPOSIT FACTS

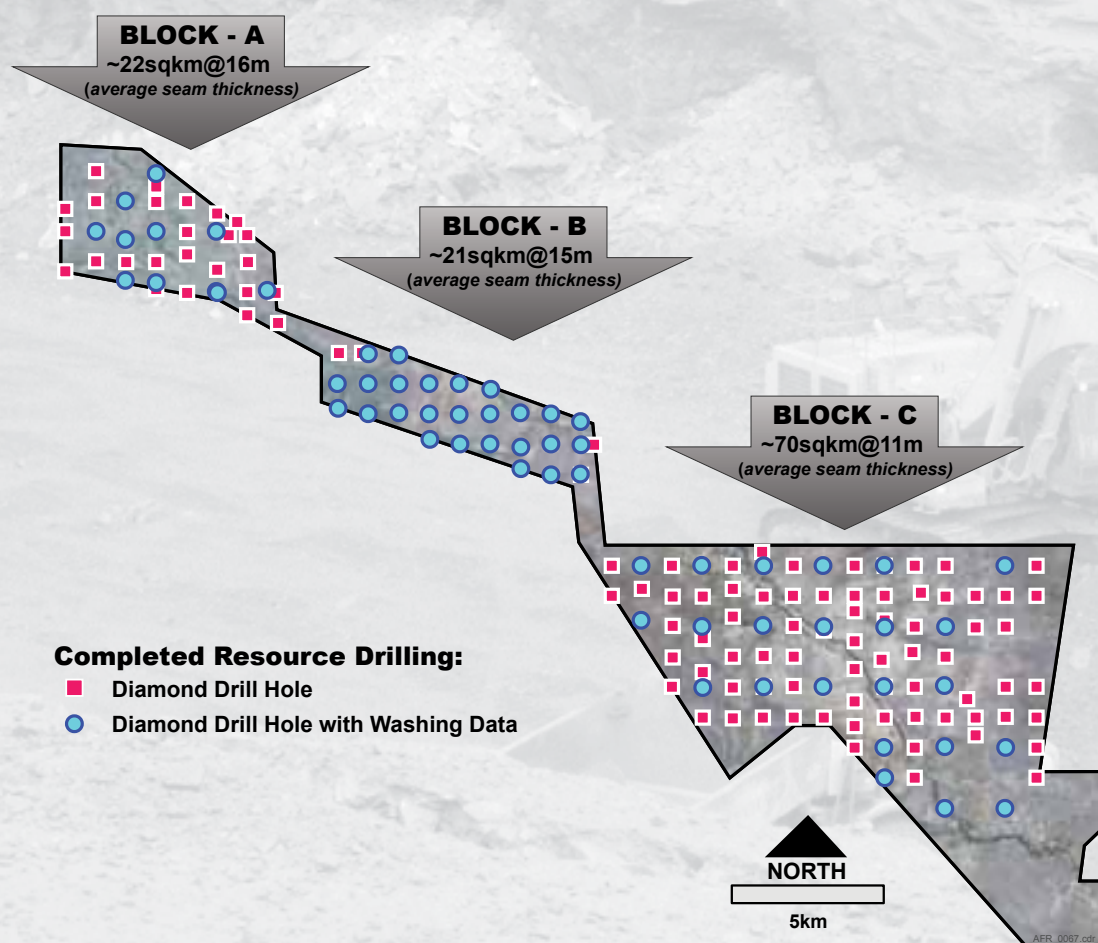
RESOURCE DELINEATION

Resource delineation drilling commenced in October 2010 and resulted in the publication of a maiden resource in May 2011. This initial resource was based on diamond drill core collected on a 2km x 2km grid; with infill reverse circulation percussion holes on a 1km x 1km grid, except in Block-B where core drilling was completed to the 1km spacing. Down-hole geophysical logging was undertaken on all holes, allowing correlation of coal seams and sedimentary horizons between the holes. Samples of raw coal from the core holes were submitted for proximate analysis which determines the heating value of the coal, its ash content, moisture content, volatile content, fixed carbon content and sulphur content. Samples were also analysed for their washed coal qualities at a number of relative density

cut-off points to determine preliminary beneficiation curves.

The resource estimation programme outlined a maiden resource of 2.73 billion tonnes of thermal coal, of which 500 million tonnes in Block-B is in the Indicated Resource category, with the remaining 2.23 billion tonnes in Block-A and Block-C in the Inferred Resource category.

Since the maiden resource was published, infill core drilling in Block-A and Block-C has been completed, and will be used to upgrade the entire deposit to an Indicated Resource category in late 2011. Further infill core drilling to a 500m x 500m grid in the northern half of Block-B and the north central portion of Block-C will be completed in late 2011 to upgrade these portions of the deposit to a Measured Resource estimate.



Resource Drilling Layout



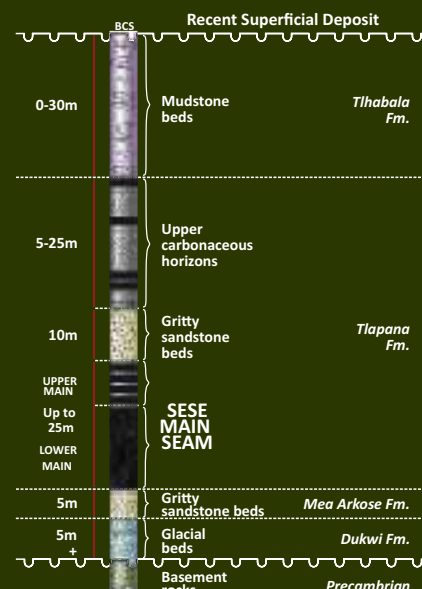
PROJECT

SESE COAL RESOURCE, MAY 2011 (AIR-DRIED BASIS)									
SEAM	RESOURCE CATEGORY	IN-SITU TONNES	CV KCAL/KG	CV MJ/KG	INHERENT MOISTURE %	ASH %	VOLATILE MATTER %	FIXED CARBON %	SULPHUR %
LOWER MAIN	Indicated	295 Mt	4,560	19.1	8.96	25.9	20.4	44.7	1.88
	Inferred	1,395 Mt	4,300	18.0	7.30	31.2	18.3	43.3	2.60
	TOTAL	1,690 Mt	4,350	18.2					
UPPER MAIN	Indicated	205 Mt	3,100	13.0	6.80	43.6	18.7	31.0	1.35
	Inferred	835 Mt	2,975	12.4	6.76	46.6	18.7	31.0	1.35
	TOTAL	1,040 Mt	3,000	12.5					
TOTAL		2,730 Mt							

GEOLOGY OF THE SESE COAL SEAM

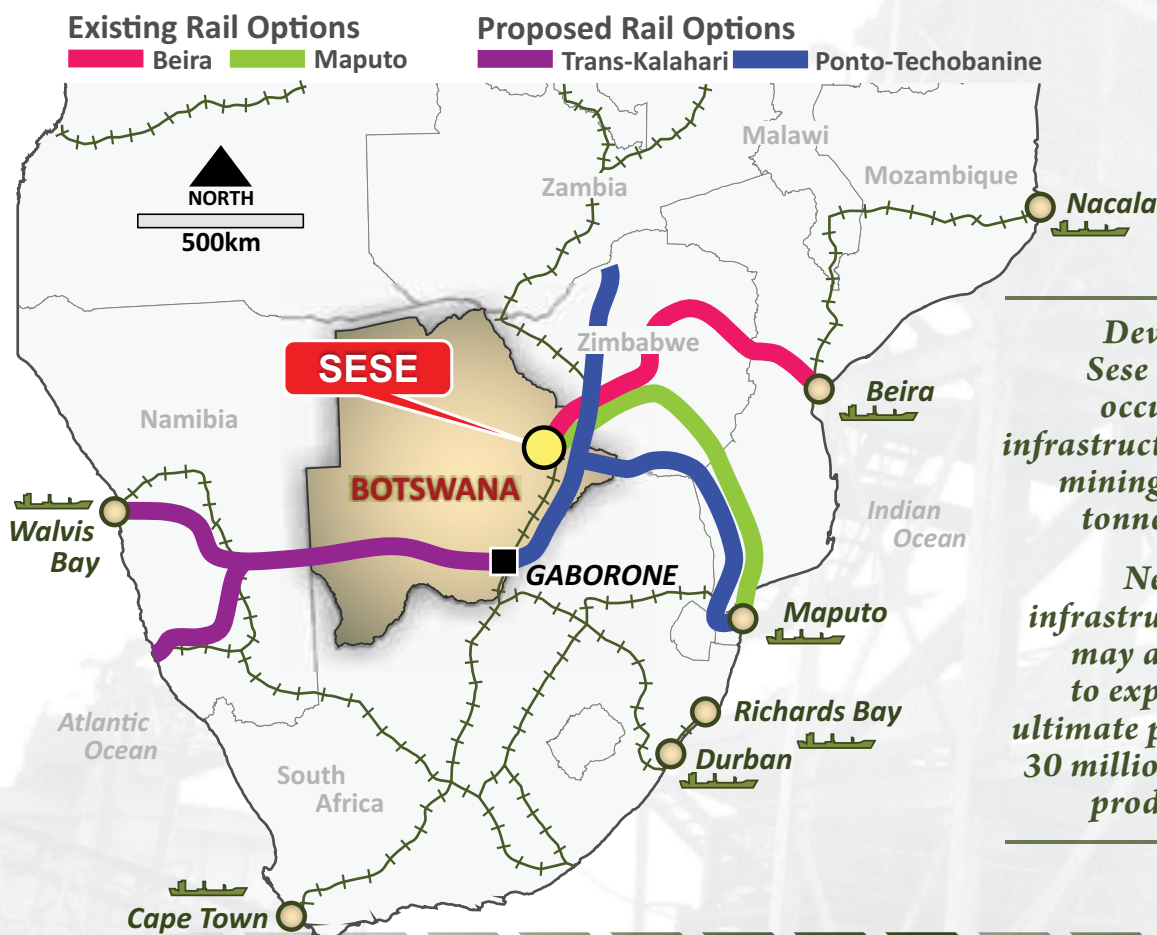
The coal at Sese occurs in a basal Main Seam which ranges in thickness from 6m to over 26m in total thickness, with an average of 14m. Thinner roof seams are developed in the overlying sedimentary rocks, and range in thickness from 1m to 3m. These upper seams have not been included in the resource models to date. The Main Seam is almost flat lying and is close to surface and shows very little structural complexity. Due to this geometry and proximity to surface, the entire deposit is amenable to open pit mining with an average stripping ratio of approximately 2:1. Large portions of the resource, such as the northern part of Block-B have even lower stripping ratios, and are thus ideally suited to become the sites for initial production. These low stripping ratios offer the potential for very low ROM coal mining costs, a key economic driver for the project.

WASHING DATA, BLOCK-B LOWER MAIN SEAM (AIR-DRIED BASIS)				
	SINGLE STAGE RD 1.6	SINGLE STAGE RD 1.7	TWO-STAGE PRIMARY RD 1.5	TWO-STAGE MIDDLING RD 1.5 - 1.7
Yield %	56.0	71.7	28.4	43.3
Ash %	16.2	18.0	13.8	20.8
IM %	8.0	8.0	8.0	8.0
VM %	25.6	25.2	26.2	24.3
FC %	50.2	48.8	52.0	46.9
TS %	0.27	0.26	0.31	0.23
CV MJ/kg	21.88	21.23	22.68	20.29
CV kcal/kg	5,220	5,070	5,420	4,850



EXPORT QUALITY COAL AFTER WASHING

Preliminary washability test work was undertaken on selected core holes across the entire deposit and reported as part of the maiden resource statement. Since then, further samples have been analysed to provide information for the Indicated Resource upgrade due in late 2011. Washing curves derived from the initial test work have shown that the raw coal quality can be significantly upgraded to produce export quality thermal coal at various relative density cut-off points. Two-stage and single-stage washing has been considered, with both able to produce export quality coal. The results have been very encouraging to date although further washability test work is required to optimise resource yields. A significant programme of further work has been recommended as part of ongoing feasibility studies.



Development of the Sese coal project can occur using existing infrastructure, potentially mining up to 5 million tonnes of coal a year.

New railway/port infrastructure proposals may allow the project to expand to reach its ultimate potential of over 30 million tonnes of coal production per year.

CONCEPT STUDY

OVERVIEW

The Concept Study to evaluate the commercial viability of mining coal at Sese was completed in August 2011 and delivered to the Board in early September. The study comprised the following key elements:

- An assessment of the environmental considerations applicable to the project
- A review of the geology and mineral resources at Sese
- A study of mining options for various mining rate scenarios
- A review of coal processing and handling options
- A review of the coal market and price forecasts for Sese export coal
- A review of the regional electricity supply/demand dynamics for the next 15 years
- A review of applicable coal chain logistics
- Development of operating cost and capital cost estimates and a financial evaluation of various mine scenarios
- An assessment of the key risk areas requiring further evaluation

The Concept Study was managed internally, but drew on recognised independent consultants for the bulk of its input, including Wood Mackenzie (market, logistics, pricing), Parsons Brinckerhoff (electricity supply/demand), GEMECS and Coffey Mining (geology, resource estimation), Minserv (mining) and CPG Resources/QCC (coal processing and handling). The Concept Study concluded that there were a number of viable business cases to be made for developing a coal mine at Sese and recommended a formal feasibility study to assess the development of a 3-5 million tonnes per annum project.

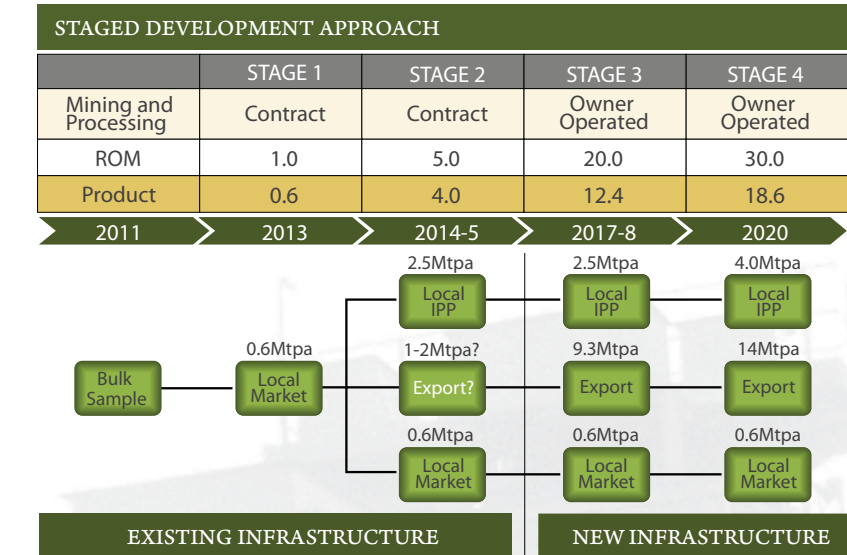
Conceptual studies have demonstrated that the development of the Sese coal project is value accretive under many scenarios

More rigorous feasibility studies have commenced to determine the optimum development pathway through an assessment of technical and commercial risks

STAGED DEVELOPMENT OF THE PROJECT

The Concept Study concluded that a staged approach to the development of Sese would incrementally reduce the risk of each subsequent stage, particularly the longer term large-scale export options. Stage 1 and Stage 2 projects are designed to take advantage of the existing infrastructure, whereas to go beyond Stage 2 new railway and port infrastructure would be required. Stage 1 is proposed to be a small contract mining and coal processing operation delivering up to 600,000 tonnes per annum of washed coal into domestic and regional low volume markets which could include mines wishing to generate their own electricity, cement plants, meat factories and a host of other industrial users. African Energy has commenced an assessment of potential customers and initiated preliminary discussions on coal quality and volume requirements. When available, the bulk sample will allow potential customers to take parcels of coal for their own assessment, considerably reducing the risk associated with coal quality and coal supply considerations.

Stage 2 would represent a significant increase in mining rates to 3-5 million tonnes per annum, largely through coal supply to a potential Independent Power Project (IPP) and through potential exports using the existing rail infrastructure. In the case of the former, independent studies have shown that the probable electricity deficits in the region over the next 10-15 years support the development of new power stations, and Sese's ability to deliver low-cost fuel for such power stations makes it an attractive option to consider for coal supply agreements. In the case of the latter, whilst the existing rail network may not be able to export more



than 2-3 million tonnes per annum, this is an opportunity to develop export markets and lower risk for longer term, higher volume export options. The commercial viability of export using existing infrastructure will be tested once coal is available from the bulk sample pit.

COAL CHAIN LOGISTICS

No evaluation of a coal project would be complete without a consideration of the logistics required to deliver coal to its market. In the case of Sese, the ultimate mine may be capable of producing very large tonnages of export quality coal, but equally apparent is the fact that the current rail/port infrastructure is inadequate for such volumes. In terms of the three markets discussed above, the existing infrastructure (rail, power, roads) are all adequate to allow Stage 1 and Stage 2 operations to deliver to their markets, although the capacity and freight cost of the

existing railway has yet to be demonstrated, so the Stage 2 export viability has yet to be confirmed.

To expand export beyond this and reach the ultimate potential of the deposit, new railway and port infrastructure is required. Two options have been tabled by consortia in recent years, the Trans-Kalahari Railway (TKR) to the west coast, and the Ponto Techobanine railway to the east coast. Both are proposed as dedicated heavy freight railway and port projects with the capacity to handle 60 million tonnes of coal per year. Both would require massive capital investments that would need participation of the private sector. African Energy remains confident that one of these options will be built, but anticipates a realistic timeframe of at least 6-7 years. In the interim, Stage 1 and Stage 2 operations provide very attractive options for evaluation.



Due to the simple geometry and shallow depth of the coal seam, and a staged approach to mine development, initial production could start as early as mid-2013.

The collection of a 10,000 tonne bulk sample will considerably de-risk the project and demonstrate African Energy's commitment to the region.

DEVELOPMENT PLAN

Under a staged project development scenario it is anticipated that an initial 1 million tonne per annum (1 Mtpa) Stage 1 mining operation could commence as early as 2013, ramping up over a two to three year period to a Stage 2 project of up to 5 Mtpa. To achieve this schedule, the Company has embarked on a series of studies to demonstrate the technical and commercial viability of these operations, along with the baseline surveys and environmental impact assessments that will be necessary to secure one or more mining licences.

Over the next twelve months the Company will focus on the following aspects of project development:

BULK SAMPLING

The Company has commenced extraction of up to 10,000 tonnes of coal from an excavation in Block-B. Samples of coal will be provided to potential customers to allow them to test the quality of the coal, both for domestic and export markets. Bulk samples will also be taken for analysis by African Energy for its own coal processing test work.

FEASIBILITY STUDIES

A series of studies are underway to assess: coal handling and processing requirements; mining and mine scheduling; the geotechnical aspects of mining and the civil engineering requirements of Stage 1 and Stage 2 operations. A programme to quantify and locate the water required for these projects has also commenced.

MARKET DEVELOPMENT

The Company has commenced discussions on marketing arrangements for Sese coal with several potential customers to determine the optimum scale of Stage 1 and Stage 2 operations. These discussions will proceed in parallel with the project development programmes outlined above. The ability for these customers to assess Sese coal from the bulk sample and associated test pit considerably lowers the development risk.

MEASURED RESOURCE DELINEATION

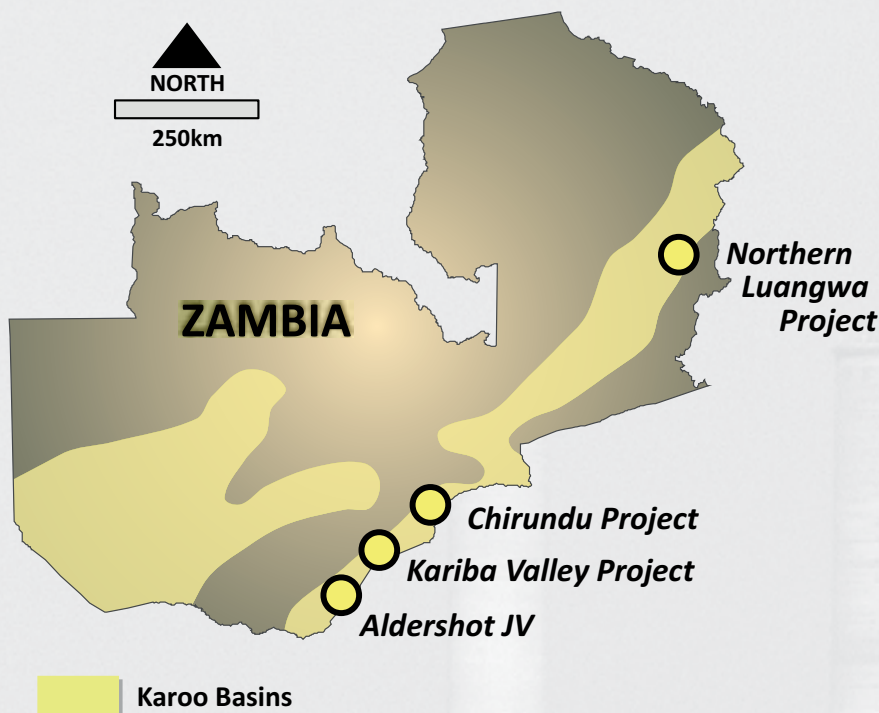
A programme of infill drilling is underway in the northern half of Block-B and the north-central portion of Block-C. This programme will complete core drilling on a 500m x 500m grid which will be sufficient to classify a Measured Resource capable of sustaining the first 15-25 years of production.

ENVIRONMENTAL IMPACT ASSESSMENT

The EIA process commenced in July 2011 and is now nearing the completion of the consultative phase of assessment. From this, the terms of reference for the formal impact assessment will be derived and the relevant EIA programme initiated.

SESE COAL PROJECT DEVELOPMENT PLAN

	JUL 2011	AUG 2011	SEP 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013
BULK SAMPLE												
RESERVE DRILLING												
FEASIBILITY STUDIES												
EIA and BASELINE SURVEYS												
ENVIRONMENTAL APPROVAL												
MINING LICENCE APPLICATION												
DEVELOP MARKETS												
MINE CONSTRUCTION												
COAL SALES												STAGE 1



A new discovery in northern Zambia and continued evaluation of the Chirundu project maintains a strong uranium component to the portfolio.

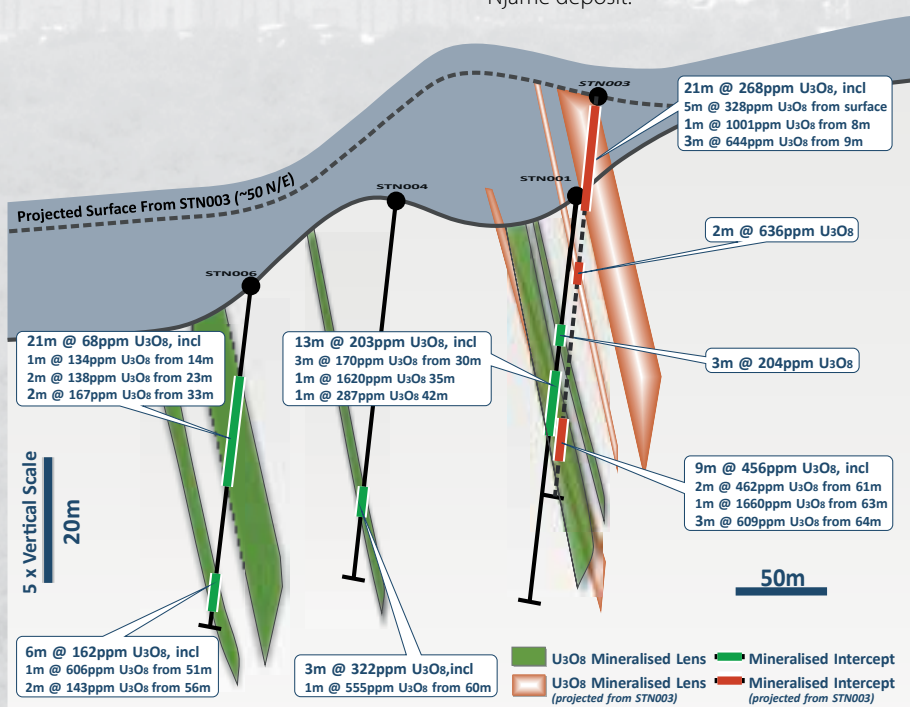
ZAMBIAN URANIUM PROJECTS

In spite of the focus on coal in Botswana, the Company has made significant progress with its uranium projects in Zambia. In early 2011, the Company completed an all cash transaction to buy Albidon Limited's remaining equity stake in the Chirundu and Kariba Valley joint venture project tenements, resulting in African Energy reaching 100% ownership of these tenements and thereby increasing its attributable uranium inventory to 11.1 Mlb U_3O_8 in Measured, Indicated and Inferred Resources.

At Chirundu, collection of data for environmental studies continued during the year to establish baseline levels of dust, noise, radon gas, sulphur dioxide, nitrogen dioxide and trace elements in soils, wells, streams and rivers in the region and communities around the Njame and Gwabe uranium deposits. This programme, including all data collection and data management, is managed by external consultants, thus ensuring independent verification of the baseline data should it be required. The Company further demonstrated its commitment to the local communities by funding and supervising the construction of a health post at Sikoongo village, near the Njame deposit.

The Company has also made an exciting new uranium discovery at the Sitwe North prospect. This uranium prospect occurs within the Company's 100% owned Northern Luangwa Valley project in northern Zambia, and was identified through an airborne radiometric survey that highlighted anomalous uranium responses interpreted to be associated with Karoo-age sedimentary rocks.

The Sitwe North prospect is hosted by strongly sheared feldspathic basement rocks close to an unconformity with the younger sediments of the Karoo Supergroup. Drilling has identified steeply dipping zones of uranium mineralisation of 2-10m true width in these sheared basement rocks, a style of mineralisation not previously encountered by African Energy. A small programme of seven RC percussion holes for 458m was completed at the Sitwe North prospect in late 2010, with best results including 6m @ 735 ppm U_3O_8 , 5m @ 651 ppm U_3O_8 and 10m @ 458 ppm U_3O_8 . The mineralisation occurs in multiple horizons and is open in all directions. Further work is required to determine the significance of this discovery.



TENEMENT SCHEDULE

PROJECT NAME	TENEMENT NAME	TENEMENT HOLDER	LICENCE NUMBER	AFRICAN ENERGY EQUITY	TENEMENT AREA (SQ KM)	DATE GRANTED	CURRENT EXPIRY DATE	NOTES
ZAMBIA								
North Luangwa Valley	Matonda	African Energy Resources Ltd (Zambia)	8301-HQ-LPL	100%	543	16-Nov-05	12-Apr-12	
North Luangwa Valley	Mulipo	African Energy Resources Ltd (Zambia)	8302-HQ-LPL	100%	971	16-Nov-05	10-Feb-12	
Kariba Valley	Nangandwe	African Energy Resources Ltd (Zambia)	13764-HQ-LPL	100%	138	04-Dec-09	03-Dec-11	1
Chirundu JV	Chirundu ML	Chirundu Joint Ventures (Zambia) Ltd	12634-HQ-LML	100%	248	09-Oct-09	08-Oct-34	
Chirundu JV	Chirundu PL	Chirundu Joint Ventures (Zambia) Ltd	13265-HQ-LPL	100%	475	03-Dec-09	02-Dec-11	1
Kariba Valley JV	Munyumbwe	Chirundu Joint Ventures (Zambia) Ltd	13642-HQ-LPL	100%	270	03-Dec-09	02-Dec-11	1
Kariba Valley JV	Kariba Valley	Chirundu Joint Ventures (Zambia) Ltd	8264-HQ-LPL	100%	548	24-Jun-09	23-Jun-13	
Kariba Valley JV	Sinazongwe E	Chirundu Joint Ventures (Zambia) Ltd	13646-HQ-LPL	100%	77	23-Mar-10	18-Mar-12	
Kariba Valley JV	Sinazongwe W	Chirundu Joint Ventures (Zambia) Ltd	8259-HQ-LPL	100%	28	24-Jun-09	23-Jun-13	
Aldershot JV	Lake Kariba	Aldershot Resources Ltd	8418-HQ-LPL	-	247	06-Dec-06	05-Dec-12	
Aldershot JV	Sinazongwe	Aldershot Resources Ltd	8414-HQ-LPL	-	119	03-Dec-08	21-Dec-12	
BOTSWANA								
Sese	Sese	African Energy Resources Botswana (Pty) Ltd	PL 96/2005	100%	288	26-Jul-05	30-Sep-12	
Sese	Sese West	African Energy Resources Botswana (Pty) Ltd	PL197/2007	100%	331	01-Oct-07	30-Sep-12	

Notes:

1. African Energy has applied for a renewal of these tenements.

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AFRICAN ENERGY
RESOURCES LIMITED

ARBN 123 316 781

FINANCIAL REPORT 2011



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 Limited, 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 Limited. Mr Cooke is currently an Executive Director of Energy Ventures Limited, 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 Limited, and subsequently as General Manager for African Energy Resources Limited. 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 of African Energy Resources Limited 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 Limited 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 Limited since listing and has assisted African Energy Resources Limited 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 Limited. During the last three years he has held no other public Directorships.

DIRECTORS' REPORT

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 Resources Limited. 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 Limited since listing and is also a Non-Executive Director of Energy Ventures Limited. 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 BE (MINING), MBA, MAUSIMM, GAICD

Mr Clark brings a broad range of business skills to African Energy Resources Limited, 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 Resources Limited in 2007 as Financial Accountant Mr Davis worked with Albion Limited 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 Tabart	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.

DIRECTORS' REPORT

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.

DIRECTORS' REPORT

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's 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 Tabeart - *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 Tabeart'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.

DIRECTORS' REPORT

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 Tabear	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 Tabear	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.

DIRECTORS' REPORT

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 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 at 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				
Executive Directors				
Gregory Fry	1,500,000	1,850,000	700,000	350,000
Charles Tabart	2,250,000	2,750,000	1,000,000	500,000
Alasdair Cooke	750,000	950,000	400,000	200,000
Other Key Management Personnel				
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.

DIRECTORS' REPORT

3.5 ADDITIONAL INFORMATION

Details of the 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.

DIRECTORS' 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.

DIRECTORS' REPORT

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.

DIRECTORS' REPORT

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
01/07/2007	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
02/07/2009	30/06/2012	8.5	362,500	27,625	28,324
02/10/2009	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

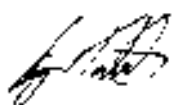
African Energy Resources Limited is a Company limited by shares that is incorporated and domiciled in Guernsey. The Company is listed on the Australian Securities Exchange under code AFR.

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 27 and forms part of the Directors' Report for the financial year ended 30 June 2011.



Charles Frazer Tabeart

Managing Director

Perth, 2 September 2011

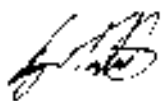
DIRECTORS' DECLARATION

AFRICAN ENERGY RESOURCES LIMITED AND ITS CONTROLLED ENTITIES

The Directors of the Company declare that:

1. The financial statements, comprising the Consolidated Statements of Comprehensive Income, Consolidated Statements of Financial Position, Consolidated Statements of Cash Flows, Consolidated Statements 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 Consolidated 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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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.

INDEPENDENT AUDIT REPORT



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

A handwritten signature in blue ink, appearing to read 'Peter Toll', is written over a faint, light blue 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', with a long horizontal stroke extending to the right.

Peter Toll
Director

A small, stylized BDO logo in blue ink, with the letters 'BDO' in a bold, sans-serif font.

BDO Audit (WA) Pty Ltd
Perth, Western Australia

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2011

		REPRESENTED	
		2011	2010
	NOTE	USD	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

		REPRESENTED	
		2011	2010
	NOTE	USD	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

		CONTRIBUTED EQUITY	ACCUMULATED LOSSES	RESERVES	TOTAL EQUITY
	NOTE	USD	USD	USD	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

		2011	REPRESENTED 2010
	NOTE	USD	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 judgments 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- (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 Statements 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 Statements 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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 that financial assets or groups of financial assets are 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:

- the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or other wise 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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(ii)). 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 Statements 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 Statements 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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, representing 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 Statements 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 Statements of Comprehensive Income for the periods presented comprises current and deferred tax. Income tax is recognised in the Statements 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 Statements 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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 statements 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 Financial Instruments: Disclosures 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AASB REFERENCE	TITLE AND AFFECTED STANDARD(S):	NATURE OF CHANGE:	APPLICATION DATE:	IMPACT ON INITIAL APPLICATION:
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AASB REFERENCE	TITLE AND AFFECTED STANDARD(S):	NATURE OF CHANGE:	APPLICATION DATE:	IMPACT ON INITIAL APPLICATION:
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	REPRESENTED 2010
	USD	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

	2011	REPRESENTED 2010
	USD	USD
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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
Floating interest rate:				
Cash and cash equivalents	4.35%	2,372,474	3.75%	2,660,054
Fixed interest rate:				
Term deposits	6.02%	65,091	5.25%	1,317,691
		2,437,565		3,977,744

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.

	CARRYING AMOUNT	INTEREST RATE RISK				FOREIGN EXCHANGE RISK			
		- 20 BPS		+ 20 BPS		-10%		+10%	
		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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

2011	LESS THAN 6 MONTHS	6 - 12 MONTHS	TOTAL CONTRACTUAL CASH FLOWS
Trade payables	880,892	-	880,892
Borrowings	5,000,000	-	5,000,000
	5,880,892	-	5,880,892

2010			
Trade payables	747,354	-	747,354
Borrowings	-	-	-
	747,354	-	747,354

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. REVENUE FROM CONTINUING OPERATIONS

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

8. FINANCE COSTS

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

9. PROFESSIONAL FEES

	2011	REPRESENTED 2010
	USD	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	REPRESENTED 2010
	USD	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 2010
	USD	USD
Wages and salaries	427,627	264,374
Directors' fees	657,032	555,564
	1,084,659	819,938

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. ADMINISTRATION FEES

	2011	REPRESENTED 2010
	USD	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
	1,165,490	794,987

13. INCOME TAXES

	2011	REPRESENTED 2010
	USD	USD
a) Income tax expense:		
Current tax	-	-
Deferred tax	-	-
Overprovision in respect to prior years	-	-
	-	-
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
	(810,697)	(456,383)
Difference in overseas tax rates	314,697	170,737
Tax loss not recognised	(496,000)	(285,646)
Income tax expense/(benefit)	-	-
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	(485,254)	(285,645)
d) Unrecognised deferred tax assets arising on timing differences and losses		
Timing	15,246	11,897
Losses - Revenue	1,819,137	1,333,883

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; and
- No changes in income tax legislation adversely affect the Consolidated Entity from utilising the benefits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 USD 4,947,633 (2010 restated: USD 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	2010
	USD	USD
Loss attributable to ordinary shareholders	(4,927,071)	(1,746,686)
Weighted average number of ordinary shares at 30 June	290,236,446	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	REPRESENTED 2010
	USD	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	REPRESENTED 2010
	USD	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. PROPERTY, PLANT AND EQUIPMENT

	2011	REPRESENTED 2010
	USD	USD
Plant and equipment at cost	911,369	859,911
<i>Less:</i> Accumulated depreciation	(245,852)	(266,407)
Total property, plant and equipment	665,517	593,504
<i>PP&E movement reconciliation</i>		
<i>Plant and equipment at cost:</i>		
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
<i>Plant and equipment – depreciation and impairment losses</i>		
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)
<i>Carrying amounts</i>		
Balance at the beginning of the year	593,504	575,577
Balance at the end of the year	665,517	593,505

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. EXPLORATION AND EVALUATION EXPENDITURE

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

On 4 March, African Energy executed a USD 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 repayable by the Company on outstanding balances is equal to the USD LIBOR rate plus 3.5%.

Under the terms of the loan 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. CONTRIBUTED EQUITY

	2011	REPRESENTED 2010
	USD	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. RESERVES

	2011	REPRESENTED 2010
	USD	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) Chairman – Executive

Mr A C Cooke

(ii) Executive Directors

Dr C F Tabcart, *Managing Director*
Mr G W Fry

(iii) Non-Executive Directors

Mr V Chitalu
Mr M P Curnow
Mr P D Clark

(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
Mr D M Davis	Company Secretary	Mitchell River Group Pty Ltd

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(C) KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensation is as follows:

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

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						
Executive Directors						
Alasdair Cooke	1,587,652	750,000	-	2,337,652	2,337,652	-
Charles Tabcart	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	-
Other Officers						
Daniel Davis	450,000	-	-	450,000	450,000	-
	8,428,108	5,500,000	-	13,928,108	12,928,108	1,000,000

2010	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	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 Tabcart	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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						
Executive Directors						
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
Other Officers						
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

Cash flows from operating activities	2011	REPRESENTED 2010
	USD	USD
Profit/(loss) for the year	(4,927,071)	(1,535,959)
Adjustments for:		-
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)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. PARENT ENTITY

	2011	REPRESENTED 2010
	USD	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
African Energy Resources Limited	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 Limited	Zambia	Ordinary	100%	100%
Subsidiaries (indirect – direct subsidiaries of African Energy Resources Ltd (Zambia))				
Chirundu Joint Ventures Zambia Ltd	Zambia	Ordinary	100%	70%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(C) LOANS FROM RELATED PARTIES

	2011	REPRESENTED 2010
	USD	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	REPRESENTED 2010	2011	REPRESENTED 2010
	USD	USD	USD	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 Limited	31,703	98,097	7,106	12,937
Recharge of office overheads and wages Alasdair Cooke, Gregory Fry, Michael Curnow				
Albidon Limited	5,960	29,685	133,678	459,029
Recharge of office overheads and wages Alasdair Cooke, Valentine Chitalu				

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ASSETS AND LIABILITIES ARISING FROM THE ABOVE TRANSACTIONS

	2011	REPRESENTED 2010
	USD	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
01/07/2007	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%
02/07/2009	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%
02/10/2009	30/06/2012	12.5	500,000	-	(500,000)	-	-	100%
16/09/2010	31/12/2013	12.5	-	625,000	-	-	625,000	50%
02/02/2011	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%
07/03/2011	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%
			17,930,066	12,468,230	(3,902,085)	(50,000)	26,446,211	

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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%
02/07/09	3.33	5.3	8.50	155.18%	3	-	3.15%
02/07/09	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%
02/10/09	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%
02/02/11	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%
07/03/11	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	REPRESENTED
	USD	2010
	USD	USD
Options issued under Employee Option Plan	(2,216,027)	(175,191)
	(2,216,027)	(175,191)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	3,089,412
less : Gain on acquisition	(589,412)
Cash consideration	2,500,000

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.

CORPORATE GOVERNANCE STATEMENT

This Statement reflects African Energy Resources Limited's Corporate Governance policies and practices as at 30 June 2011 and which were in place throughout the year. The Board's philosophy is to adopt practices that are consistent with the best practice recommendations of the ASX Corporate Governance Council and in the best interests of the Company. The governance practices are reviewed regularly.

A description of the Company's corporate governance practices is set out below.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Companies should establish and disclose the respective roles and responsibilities of board and management.

- **Recommendation 1.1:** Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.
- **Recommendation 1.2:** Companies should disclose the process for evaluating the performance of senior executives.
- **Recommendation 1.3:** Companies should provide the information indicated in the Guide to reporting on Principle 1.

THE COMPANY'S PRACTICE:

The Board considers that the essential responsibility of Directors is to oversee the Company's activities for the benefit of its shareholders, employees and other stakeholders and to protect and enhance shareholder value. Responsibility for management of the Company's business is delegated to the Managing Director, who is accountable to the Board.

Further, the Board takes specific responsibility for:

- Contributing to the development of and approving corporate strategy;
- Appointing, assessing the performance of and, if necessary removing the Managing Director;
- Reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives;
- Overseeing and monitoring:
 - Organisational performance and the achievement of strategic goals and objectives
 - Compliance with the Company's code of conduct
 - Progress of major capital expenditures and other corporate projects including acquisitions, mergers and divestments;
- Monitoring financial performance including approval of the annual, half yearly and quarterly reports and liaison with the auditor;
- Ensuring there are effective management processes in place, including reviewing and ratifying systems of risk identification and management, ensuring appropriate and adequate internal control processes, and that monitoring and reporting procedures for these systems are effective;
- Enhancing and protecting the Company's reputation;
- Approving major capital expenditure, capital management, acquisitions and divestments;
- Reporting to shareholders;
- Appointment of Directors; and
- Any other matter considered desirable and in the interest of the Company.

The Board is responsible for the overall Corporate Governance of the Company including the strategic direction, establishing goals for management and monitoring the achievement of these goals.

The Company has a formal Board Charter which is on the Company's website and summarised above. In broad terms, the Board is accountable to the shareholders and must ensure that the Company is properly managed to protect and enhance shareholders' wealth and other interests. The Board Charter sets out the role and responsibilities of the Board within the governance structure of the Company and its related bodies corporate.

Senior executives are responsible for the ongoing management of the Company's operations and reporting to the Board. They are accountable for all functions that are necessary to the operations of the Company and not specifically reserved to the Board. Senior executives' incentive based key performance indicators and their performance is reviewed on a regular basis by the Board.

Based on the above information, the Company believes it is fully compliant with Recommendations 1.1, 1.2 and 1.3.

CORPORATE GOVERNANCE STATEMENT

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

- **Recommendation 2.1:** A majority of the Board should be independent Directors.
- **Recommendation 2.2:** The Chair should be an independent Director.
- **Recommendation 2.3:** The roles of the Chair and Chief Executive Officer should not be exercised by the same individual.
- **Recommendation 2.4:** The Board should establish a Nomination Committee.
- **Recommendation 2.5:** Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors.
- **Recommendation 2.6:** Companies should provide the information indicated in the Guide to reporting on Principle 2.

THE COMPANY'S PRACTICE:

Corporate Governance Council Recommendation 2.1 requires a majority of the Board to be independent Directors. The Corporate Governance Council defines independence as being free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of unfettered and independent judgment. The Company does not comply with this recommendation as the majority of the Board is not independent.

Corporate Governance Recommendation 2.2 requires that the Chairperson should be an independent Director. The Company does not comply with this recommendation and the current Chairperson role is filled by an Executive Director.

The Board believes this current structure is best suited to enable the Company to deliver shareholder value and manage the operations for a company of its size. The Company will continue to review its Board structure in light of these recommendations as it continues to grow to ensure that it is in the best position to deliver value to its shareholders, key stakeholders and the communities in which it operates.

The Directors have been chosen for their particular expertise to provide the Company with a competent and well-rounded decision-making body and which will assist the Company and shareholders in meeting their objectives.

The term in office held by each Director in office at the date of this report is as follows and details of the professional skills and expertise of each of the Directors are set out in the Directors' Report.

NAME	POSITION	TERM IN OFFICE
Mr A C Cooke	Executive Chairman	5 Years
Dr C F Tabart	Managing Director	4 Years
Mr G W Fry	Executive Director	5 Years
Mr V Chitalu	Non-Executive Director	5 Years
Mr M J Curnow	Non-Executive Director	5 Years
Mr P D Clark	Non-Executive Director	6 months

The Directors meet frequently, both formally and informally, so that they maintain a mutual, thorough understanding of the Company's business and to ensure that the Company's policies of corporate governance are adhered to.

The Company has a formal process to educate new Directors about the nature of the business, current issues, the corporate strategy and the Company's expectations concerning the performance of Directors. Directors are given access to, and encouraged to participate in, continuing education opportunities to update and enhance their skills and knowledge.

Each Director has the right of access to all relevant company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified advisor at the Consolidated Entity's expense. The Director must consult with an advisor suitably qualified in the relevant field and obtain the Chairman's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the Director is made available to all other board members.

The Company does not currently have a separate Nomination Committee and as such has not complied with Recommendation 2.4. The duties and responsibilities typically delegated to such a committee are considered to be the responsibility of the full Board, given the size and nature of the Company's activities and as such, the Board does not believe that any marked efficiencies or enhancements would be achieved by the creation of a separate Nomination Committee.

The performance of all Directors is reviewed by the Chairman on an ongoing basis and any director whose performance is considered unsatisfactory is asked to retire. The Chairman's performance is reviewed by the other board members.

CORPORATE GOVERNANCE STATEMENT

The Company has established firm guidelines to identify the measurable and qualitative indicators of the Director's performance during the course of the year. Those guidelines include:

- Attendance at all board meetings. Missing more than three consecutive meetings without reasonable excuse will result in that director's position being reviewed; and
- Attendance at the Company's Shareholder Meetings. Non-attendance without reasonable excuse will result in that director's position being reviewed.

Based on the above information, the Company believes it is fully compliant with Recommendations 2.3, 2.5 and 2.6. The Company is not compliant with Recommendations 2.1, 2.2 and 2.4 as outlined.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Companies should actively promote ethical and responsible decision-making.

- **Recommendation 3.1:** Establish a code of conduct to guide the Directors, the Chief Executive Officer (or equivalent), the Chief Financial Officer (or equivalent) and any other key executives as to:
 - the practices necessary to maintain confidence in the Company's integrity
 - the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and
 - the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.
- **Recommendation 3.2:** Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.
- **Recommendation 3.3:** Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.
- **Recommendation 3.4:** Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.
- **Recommendation 3.5:** Companies should provide the information indicated in the Guide to reporting on Principle 3.

THE COMPANY'S PRACTICE:

The Company has a formal Code of Conduct as per Recommendation 3.1. This code outlines how Directors and employees of the Company and its related bodies corporate are to behave when conducting business. A full copy of this Code of Conduct is available on the Company's website.

The Company does not have a formal written policy governing diversity as required by Recommendation 3.2, however will consider drafting one over the next twelve months.

The Company is still considering the measureable objectives in relation to Recommendation 3.3 and will include these in its next annual report.

The proportion of women employees in the organisation as of 30 June 2011 is:

In whole organisation	21%
In senior executive positions	0%
On the Board	0%

The Company has made the relevant material available in the Corporate Governance Statement within its Annual Report and its website disclosure in accordance with this recommendation.

Based on the above information, the Company believes it is fully compliant with Recommendations 3.1, 2.5 and 2.6. The Company is not compliant with Recommendations 2.1, 2.2 and 2.4 as outlined.

CORPORATE GOVERNANCE STATEMENT

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

- **Recommendation 4.1:** The Board should establish an Audit Committee.
- **Recommendation 4.2:** The Audit Committee should be structured so that it:
 - consists only of Non-Executive Directors;
 - consists of a majority of independent Directors;
 - is chaired by an independent Chair, who is not Chair of the Board; and
 - has at least three members.
- **Recommendation 4.3:** The Audit Committee should have a formal charter.
- **Recommendation 4.4:** Companies should provide the information indicated in the Guide to reporting on Principle 4.

THE COMPANY'S PRACTICE:

The Board has a separate Audit Committee to assist the Board, its responsibilities are set out in a formal charter approved by the Board. Due to the size and structure of the Company, the Audit Committee consists of both Executive and Non-Executive Directors and therefore the Company is not compliant with Recommendation 4.2

The Committee's responsibilities under the charter include the following:

- Reviewing internal control and recommending enhancements;
- Monitoring compliance with Corporations Act 2001, Securities Exchange Listing Rules, matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investment Commission and financial institutions;
- Improving the quality of the accounting function;
- Reviewing external audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management;
- Liaising with the external auditors and ensuring that the annual audit and half-year review are conducted in an effective manner; and
- Reviewing the performance of the external auditors on an annual basis and nomination of auditors is at the discretion of the Board.

The Board imposes stringent policies and standards to ensure compliance with all corporate financial and accounting standards. Where considered appropriate, the Company's external auditors, professional advisors and management are invited to advise the Board on these issues and the Board meets quarterly to consider audit matters prior to statutory reporting.

The Company requires that its auditors must not carry out any other major area of service to the Company and should have expert knowledge of both Australian and International jurisdictions.

The Board assumes responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information. The Board maintains responsibility for a framework of internal control and ethical standards for the management of the Consolidated Entity.

The Board, consisting of members with financial expertise and detailed knowledge and experience of the mineral exploration and evaluation business, advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Company. The Managing Director and Company Secretary declared in writing to the Board that the Company's financial reports for the year ended 30 June 2011 present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards. This statement is required annually.

Based on the above information, the Company believes it is fully compliant with Recommendations 4.1, 4.3 and 4.4. The Company is not compliant with Recommendation 4.2 as outlined.

CORPORATE GOVERNANCE STATEMENT

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

Companies should promote timely and balanced disclosure of all material matters concerning the Company.

- **Recommendation 5.1:** Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.
- **Recommendation 5.2:** Companies should provide the information indicated in the Guide to reporting on Principle 5.

THE COMPANY'S PRACTICE:

The Company has a formal Continuous Disclosure Policy as required by Recommendation 5.1. This policy was introduced to ensure the Company achieves best practice in complying with its continuous disclosure obligations under the Corporations Act and ASX Listing Rules and ensuring the Company and individual officers do not contravene the Corporations Act or ASX Listing Rules. A full copy of this policy can be found on the Company's website.

The Company is required to immediately tell the ASX once it becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities.

Therefore to meet this obligation the Company undertakes to:

- Notify the ASX immediately it becomes aware of any information that a reasonable person would expect to have a material effect on the price and value of the companies securities, unless that information is not required to be disclosed under the listing rules;
- Disclose notifications to the ASX on the Company's website following confirmation of the publishing of the information by the ASX; and
- Not respond to market speculation or rumour unless the ASX considers it necessary due to there being, or likely to be, a false market in the Company's securities.

The Company Secretary is responsible for co-ordinating the disclosure requirements. To ensure appropriate procedure all Directors, officers and employees of the Company coordinate disclosures through the Company Secretary, including:

- Media releases;
- Analyst briefings and presentations; and
- The release of reports and operational results.

Based on the above information, the Company believes it is fully compliant with Recommendations 5.1 and 5.2.

CORPORATE GOVERNANCE STATEMENT

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

- **Recommendation 6.1:** Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at General Meetings and disclose their policy or a summary of that policy.
- **Recommendation 6.2:** Companies should provide the information indicated in the Guide to reporting on Principle 6.

THE COMPANY'S PRACTICE:

It is the policy of the Company to communicate effectively with its shareholders by giving them ready access to balanced and understandable information about the Company and making it easier for them to participate in General Meetings.

The Board encourages full shareholder participation at the Annual General Meeting as it provides shareholders an opportunity to review the Company's annual performance. Shareholder attendance also ensures a high level of accountability and identification with the Company's strategy and goals.

The shareholders are responsible for voting on the appointment of Directors, approval of the amount of funds available for remunerating Non-Executive Directors and the granting of options and shares to Directors. Important issues are presented to the shareholders as single resolutions.

The Company's auditor is required to be present and be available to shareholders at the Annual General Meeting.

Information is communicated to shareholders through:

- The Annual Report which is distributed to all shareholders;
- Half-yearly reports, quarterly reports, and all Australian Securities Exchange announcements which are posted on the Company's website;
- The Annual General Meeting and other meetings so called to obtain approval for board action as appropriate; and
- Compliance with the continuous disclosure requirements of the Australian Securities Exchange Listing Rules.

The Company's full policy on shareholder communication can be found on the Company's website.

Based on the above information, the Company believes it is fully compliant with Recommendations 6.1 and 6.2.

CORPORATE GOVERNANCE STATEMENT

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Companies should establish a sound system of risk oversight and management and internal control.

- **Recommendation 7.1:** Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.
- **Recommendation 7.2:** The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.
- **Recommendation 7.3:** The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.
- **Recommendation 7.4:** Companies should provide the information indicated in the Guide to reporting on Principle 7.

THE COMPANY'S PRACTICE:

Risk oversight, management and internal control are dealt with on a continuous basis by management and the Board, with differing degrees of involvement from various Directors and management, depending upon the nature and materiality of the matter.

The Board has no formal policy in place to recognise and manage risk as required by Recommendation 7.1, as it considers, in the context of the size and nature of the Company, that it would not improve the present *modus operandi*.

The Board takes a proactive approach to risk management. The Board is responsible for oversight of the processes whereby the risks, and also opportunities, are identified on a timely basis and that the Company's objectives and activities are aligned with the risks and opportunities identified by the Board. This oversight encompasses operational, financial reporting and compliance risks.

The Company believes that it is crucial for all Board members to be a part of the process, and as such the Board has not established a separate Risk Management Committee.

The Board oversees the establishment, implementation and annual review of the Company's risk management policies as part of the Board approval process for the strategic plan, which encompasses the Company's vision and strategy, designed to meet stakeholders' needs and manage business risks.

The Managing Director and Company Secretary have declared, in writing to the Board and in accordance with section 295A of the Corporations Act, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations in the Company.

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility, the Board has instigated an internal control framework that deals with:

- Financial reporting - there is a comprehensive budgeting system with an annual budget, updated on a regular basis approved by the Board. Monthly actual results are reported against these budgets.
- Investment appraisal - the Company has clearly defined guidelines for capital expenditure including annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses or assets are being acquired or divested.
- Quality and integrity of personnel - the Company's policies are detailed in an approved induction manual. Formal appraisals are conducted annually for all employees.

Based on the above information, the Company believes it is fully compliant with Recommendations 7.1, 7.2, 7.3 and 7.4.

CORPORATE GOVERNANCE STATEMENT

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

- **Recommendation 8.1:** The Board should establish a Remuneration Committee.
- **Recommendation 8.2:** The Remuneration Committee should be structured so that it:
 - consists of a majority of independent Directors;
 - is chaired by an independent chair; and
 - has at least three members.
- **Recommendation 8.3:** Companies should clearly distinguish the structure of Non-Executive Directors' remuneration from that of Executive Directors and senior executives.
- **Recommendation 8.4:** Companies should provide the information indicated in the Guide to reporting on Principle 8.

THE COMPANY'S PRACTICE:

The Board has a separate Remuneration Committee to make recommendations to the Board about the remuneration of Executive and Non-Executive Directors as well as senior management of the Company.

Its responsibilities are set out in a formal Remuneration Committee charter approved by the Board. Due to the size and structure of the Company, the Remuneration Committee consists of both Executive and Non-Executive Directors and therefore the Company is not compliant with Recommendation 8.2

Remuneration of Directors are formalised in service agreements. The Remuneration Committee is responsible for determining and reviewing compensation arrangements for the Directors themselves, the Executive Director and the executive team.

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality board and executive team by remunerating Directors and senior executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Board links the nature and amount of Executive Directors' and senior executives' emoluments to the Company's financial and operational performance. The expected outcomes of the remuneration structure are:

- Retention and motivation of senior executives;
- Attraction of quality management to the Company; and
- Performance incentives which allow executives to share the rewards of the success of the Company.

Remuneration of Non-Executive Directors is determined by the Board with reference to comparable industry levels and, specifically for Directors' fees, within the maximum amount approved by shareholders. There is no scheme to provide retirement benefits, other than statutory superannuation, to Non-Executive Directors.

For details on the amount of remuneration and all monetary and non-monetary components for all Directors refer to the Remuneration Report on pages 16 to 20 of the Annual Report. In relation to the payment of bonuses, options and other incentive payments, discretion is exercised by the Board, having regard to the overall performance of the Company and the performance of the individual during the period.

Based on the above information, the Company believes it is fully compliant with Recommendations 8.1, 8.3 and 8.4 and not compliant with 8.2 as outlined.

SHAREHOLDER INFORMATION

EXCHANGE LISTING

African Energy Resources Limited shares are listed on the Australian Securities Exchange. The Company's ASX code is AFR.

SUBSTANTIAL SHAREHOLDERS (HOLDING NOT LESS THAN 5%)

As at 6 October 2011

Name of Shareholder	Number of Shares Held	% Held
MR ALASDAIR CAMPBELL COOKE	26,245,825	8.04
MR STACEY RADFORD	17,014,192	5.21

CLASS OF SHARES AND VOTING RIGHTS

At 6 October 2011, there were 4,845 holders of 326,376,735 ordinary fully paid shares of the Company. The voting rights attaching to the ordinary shares are in accordance with the Company's Constitution being that:

- each shareholder entitled to vote may vote in person or by proxy, attorney or Representative;
- on a show of hands, every person present who is a shareholder or a proxy, attorney or representative of a shareholder has one vote; and
- on a poll, every person present who is a shareholder or a proxy, attorney or Representative of a shareholder shall, in respect of each fully paid Share held by him, or in respect of which he is appointed a proxy, attorney or Representative, have one vote for the Share, but in respect of partly paid Shares, shall, have such number of votes as bears the proportion which the paid amount (not credited) is of the total amounts paid and payable (excluding amounts credited)."

DISTRIBUTION OF SHAREHOLDERS

Range	Securities	No of Holders	%
100,001 and Over	253,004,937	361	7.45
10,001 to 100,000	61,971,669	1,789	36.92
5,001 to 10,000	7,232,732	886	18.29
1,001 to 5,000	3,966,974	1,267	26.15
1 to 1,000	200,423	542	11.19
Total	326,376,735	4,845	100.00
Unmarketable Parcels	472,386	747	0.14

SHAREHOLDER INFORMATION

UNLISTED OPTIONS

SECURITIES	NUMBER OF SECURITIES ON ISSUE	NUMBER OF HOLDERS	NAMES OF HOLDERS HOLDING MORE THAN 20%	NUMBER HELD
Options exercisable at 31.25 cents on or before 30 June 2012	9,152,981	14	-	-
Options exercisable at 40 cents on or before 30 June 2012	1,100,000	4	-	-
Options exercisable at 8.5 cents on or before 30 June 2012	3,625,000	18	-	-
Options exercisable at 12.5 cents on or before 31 December 2013	625,000	5	-	-
Options exercisable at 70 cents on or before 31 December 2013	250,000	1	-	-
Options exercisable at 80 cents on or before 31 December 2013	2,250,000	5	-	-
Options exercisable at 90 cents on or before 31 December 2013	1,500,000	3	-	-
Options exercisable at 110 cents on or before 31 December 2013	1,500,000	3	-	-
Options exercisable at 130 cents on or before 31 December 2013	1,500,000	3	-	-
Options exercisable at 103 cents on or before 31 December 2012	4,843,230	1	Macquarie Bank Limited	4,843,230
Options exercisable at 62.5 cents on or before 25 July 2014	782,499	7	-	-

SHAREHOLDER INFORMATION

LISTING OF 20 LARGEST SHAREHOLDERS AS AT 6 OCTOBER 2011

RANK	NAME	NUMBER OF SHARES HELD	% IC
1	MR STACEY RADFORD	17,014,192	5.21%
2	J P MORGAN NOMINEES AUSTRALIA LIMITED	14,898,540	4.56%
3	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	11,248,650	3.45%
4	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3	9,605,070	2.94%
5	MR DAVID GEORGE METFORD <STL SUPER FUND A/C>	8,500,000	2.60%
6	MR ALASDAIR CAMPBELL COOKE	8,054,988	2.47%
7	ENERGY VENTURES LIMITED	6,551,797	2.01%
8	GLENLAREN PTY LTD <GLENLAREN A/C>	6,243,550	1.91%
9	MR DONAL PAUL WINDRIM	5,904,337	1.81%
10	PS CONSULTING PTY LTD <NO 2 SUPER A/C>	5,700,000	1.75%
11	MR HENRY JOHN DEBURGH & MRS ELIZABETH MARGARET DEBURGH <COOKE SUPER FUND A/C>	4,900,000	1.50%
12	MR BRIAN MCCUBBING <BRIAN MCCUBBING S/F A/C>	3,900,000	1.19%
13	HELMET NOMINEES PTY LTD <TIM WEIR FAMILY FUND A/C>	3,500,000	1.07%
14	GLENLAREN PTY LTD <GLENLAREN SUPERANNUATION A/C>	3,350,000	1.03%
15	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	3,331,735	1.02%
16	GENERAL ADVISORY PTY LTD <G K ADAMS S/F A/C>	3,100,000	0.95%
17	JERSEY INVESTMENTS (WA) PTY LTD <THE FRASER FAMILY A/C>	3,066,011	0.94%
18	FRANWAY PTY LTD <KENNEDY FAMILY S/FUND A/C>	3,000,000	0.92%
19	NEFCO NOMINEES PTY LTD	2,750,000	0.84%
20	MR GREGORY WILLIAM FRY	2,671,671	0.82%
		127,290,541	39.00%

OTHER INFORMATION

There is no current on-market buyback of the Company's securities and the Company does not have any securities on that issue that are subject to escrow restriction.





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