



African Energy Resources Limited

ARBN 123 316 781

Financial Report
30 June 2012

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Corporate Directory

Directors	Mr Alasdair Cooke Executive Chairman
	Dr Charles (Frazer) Tabeart Managing Director
	Mr Gregory (Bill) Fry Executive Director
	Mr Valentine Chitalu Non-Executive Director
	Mr Michael Curnow Non-Executive Director
Company Secretary	Mr Philip Clark Non-Executive Director
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 Listings	Australian Securities Exchange (ASX: AFR) Botswana Stock Exchange (BSE: AFR)
Auditor	BDO Audit (WA) Pty Ltd 38 Station Street Subiaco WA 6008
Solicitors	Fairweather Corporate Lawyers Ground Floor, 1 Havelock Street West Perth WA 6005
Bankers	HSBC Bank Australia Limited 190 St Georges Terrace Perth WA 6000
Website	www.africanenergyresources.com

Directors Report

The Directors of the Company present their report for the financial year ended 30 June 2012.

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 a geologist with 25 years' experience in the resource exploration industry throughout Australia and internationally. For the past 15 years Mr Cooke has been involved in mine development through various private and public resource companies, prior to which he held senior positions in BHP Billiton plc's international new business and reconnaissance group.

Mr Cooke is a founding director of Mitchell River Group, which over the past ten years has established a number of successful ASX listed resources companies, including Panoramic Resources Ltd, operating the Savannah and Lanfranchi nickel projects in Australia; Albidon Ltd, operating the Munali Nickel Mine in Zambia, Mirabela Nickel Ltd, operating the Santa Rita nickel project in Brazil; Exco Resources Ltd, developing copper and gold resources in Australia; and Energy Ventures Ltd.

Mr Cooke is currently an Executive Director of Energy Ventures Ltd, Oval Biofuels Ltd and Exco Resources Ltd and a former Director of Albidon Limited. During the last three years he has held no other public Directorships. Mr Cooke is a member of the Company's remuneration committee.

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

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

During the last three years he has held no other public Directorships.

Mr Gregory (Bill) 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.

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

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

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

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

Mr Michael Curnow – Non-Executive Director

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

Mr Philip Clark – Non-Executive Director BE (Mining), MBA, MAUSIMM, GAICD

Mr Clark brings a broad range of business skills to African Energy, with a particular focus on developing coal resources. He previously spent over 30 years working for BHP Billiton, culminating in five years as Vice President of Resource Development for BHP Billiton Energy Coal globally. He also held previous roles in coal mine management. Mr Clark is also the Chairman 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 Clark was appointed to the Company's audit and remuneration committees on 29 June 2012.

Directors Report (continued)

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 eight years specialising in African based explorers and producers. Mr Davis was appointed to the role of Company Secretary in 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	5	5	1	1	-	-
Charles Tabear	5	5	-	-	-	-
Gregory Fry	5	5	-	-	2	2
Valentine Chitalu	5	5	-	-	-	-
Michael Curnow	5	5	1	1	2	2
Philip Clark	5	5	-	-	-	-

2. Review of Operations

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 2012.

African Energy and its subsidiaries ("Consolidated Entity") are focused on developing the Sese Coal and Power 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.

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.

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.

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.

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 Remuneration Committee 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.

Directors Report (continued)

The current base remuneration was last reviewed with effect from 1 April 2012 and was set at USD 50,800 (AUD 50,000) per annum.

Executive Directors

The executive pay and reward framework has two components:

- base pay; and
- long-term incentive through participation in the African Energy Resources Employee Share Option Plan.

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.

Long-term incentives

Long-term incentives are provided to 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, Executive Directors enter into an executive service agreement with the Company. The agreement details the Board policies and terms, including compensation, relevant to the office of Director.

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

Mr Alasdair Campbell Cooke - Executive Chairman, the Company

- Commencement date: 1 December 2006
- Base salary, at 30 June 2012 was USD 101,600 (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 Tabart - Managing Director, the Company

- Commencement date: 5 November 2007
- Base salary, including superannuation at 30 June 2012 was USD 406,400 (AUD 400,000)
- Termination payment is the equivalent of three months consulting fees
- Dr Tabart'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 2012 was USD 203,200 (AUD 200,000)
- 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 2012 was USD 264,160 (AUD 260,000) plus non-executive Director fee of USD 50,800 (AUD 50,000)
- Termination payment is the equivalent of one month consulting fees
- Mr Clark's contract and remuneration is reviewed annually

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

3.3 Directors and executive officers' remuneration (Consolidated Entity)

Details of the remuneration of the Directors 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.

Directors Report (continued)

Details of remuneration

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

Key Management Personnel remuneration - 2012	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	51,625	-	-	51,625	-
Philip Clark	320,075	-	190,074	510,149	37%
Michael Curnow	51,625	-	-	51,625	-
Total Non-Executive Directors	423,325	-	190,074	613,399	31%
Key Management Personnel					
<i>Executive Directors</i>					
Gregory Fry	182,408	-	-	182,408	-
Charles Tabear	386,843	-	-	386,843	-
Alasdair Cooke	103,250	-	-	103,250	-
Total Key Management Personnel	672,501	-	-	672,501	-
Total	1,095,826	-	190,074	1,285,900	15%

Key Management Personnel remuneration - 2011

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					
<i>Executive Directors</i>					
Gregory Fry	155,799	-	630,970	786,769	80%
Charles Tabear	294,018	-	945,964	1,239,982	76%
Alasdair Cooke	98,920	-	315,976	414,896	76%
Total Key Management Personnel	548,737	-	1,892,910	2,441,647	78%
Total	702,865	-	2,023,288	2,726,153	74%

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

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

The Consolidated Entity did not engage a remuneration consultant during the year.

3.4 Share-based compensation

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

The vesting of options is based on the period of service and options 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	23/03/13	31/12/13	80.00	42.00	0%

Options granted under the Employee Option Plan carry no dividend or voting rights. 3,850,000 shares were issued during the year ended 30 June 2012 (2011: 3,902,485) 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. When exercisable each option is convertible into one ordinary share.

Directors Report (continued)

No new options were granted to Directors or Key Management Personnel during the year.

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

3.5 Shares provided on exercise of remuneration options

	Date of Exercise of Options	Number of ordinary shares issued upon exercise of options	Intrinsic value at exercise date USD
Valentine Chitalu	29-June-2012	100,000	9,144
Gregory Fry	29-June-2012	700,000	64,008
Charles Tabear	29-June-2012	1,000,000	91,440
Alasdair Cooke	29-June-2012	400,000	36,576

The value at exercise date of options that were granted as part of remuneration and were exercised during the year has been determined as the intrinsic value of options at that date.

3.6 Additional information

Details of vesting profile of the options granted as remuneration to each Key Management Personnel is detailed below.

	Number Granted	Year Granted	Vested in year	Forfeited in year	Vesting year	Value yet to vest USD Min	Max
Philip Clark	625,000	2011	100%	-	2012	-	-
Philip Clark	375,000	2011	-	-	2013	-	57,702
Alasdair Cooke	750,000	2011	-	-	2011	-	-
Gregory Fry	1,500,000	2011	-	-	2011	-	-
Charles Tabear	2,250,000	2011	-	-	2011	-	-

This is the end of the audited remuneration report.

4. Principal Activities

The principal activity of the Consolidated Entity during the course of the financial year consisted of evaluation and exploration of the Sese Coal and Power 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 2012 was USD 9,576,739 (2011: USD 4,927,071).

No dividends have been paid or declared by the Company during the year ended 30 June 2012.

6. Loss Per Share

The basic loss per share for the Consolidated Entity for the year was 2.95 (2011: 1.70) cents per share.

7. Events Subsequent to Reporting Date

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

In the opinion of the Directors, other than stated under Review of Operations, and Events Subsequent to Reporting Date, there were no significant changes in the state of affairs of the Group that occurred during the financial year under review and subsequent to the financial year end.

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 (continued)

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	Options				
		70c	80c	90c	110c	130c
Executive Directors						
Alasdair Cooke	28,752,925	-	-	250,000	250,000	250,000
Charles Tabear	1,850,975	-	-	750,000	750,000	750,000
Gregory Fry	4,300,192	-	-	500,000	500,000	500,000
Non-executive Directors						
Valentine Chitalu	488,673	-	-	-	-	-
Michael Curnow	677,991	-	-	-	-	-
Philip Clark	285,000	250,000	750,000	-	-	-
Total	36,355,756	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 17,851,463 unlisted incentive options on issue detailed as follows:

No. of options	Strike Price	Expiry Date
325,000	AUD \$0.125	31-Dec-13
250,000	AUD \$0.70	31-Dec-13
2,225,000	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
782,499	AUD \$0.625	25-Jul-14
9,768,964	AUD \$0.50	31-Dec-13

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

12.2 Shares issued on exercise of options

During the year 3,850,000 shares were issued as a result of the exercise of options raising USD 336,303 before costs.

Grant Date	Expiry Date	Exercise Price AUD cents	Number exercised	Funds Raised USD
2/07/2009	30/06/2012	8.5	3,550,000	304,319
2/10/2009	30/06/2012	12.5	300,000	31,984
			3,850,000	336,303

13. Indemnification and Insurance of Officers and Auditors

13.1 Indemnification

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

13.2 Insurance

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

14. Corporate Structure

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

15. Non-Audit Services

During the year, there were no non-audit services provided by BDO Audit (WA) Pty Ltd (2011: nil).

Directors Report (continued)

16. Lead Auditor's Independence Declaration

The lead auditor's Independence Declaration is set out on page 14 and forms part of the Directors' report for the financial year ended 30 June 2012.



Charles Frazer Tabcart
Managing Director
Perth, 28 September 2012

Directors' Declaration

African Energy Resources Limited and its Controlled Entities

The Directors of the company declare that:

- 1 The financial statements, comprising the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity and accompanying notes, are in accordance with the Corporations Act 2001; and
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 30 June 2012 and of the performance for the year ended on that date of the Consolidated Entity.
- 2 In the Directors opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 3 The Consolidated Entity has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
- 4 The Directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

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



Charles Frazer Tabcart
Managing Director

Perth
28 September 2012

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 2012, 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 gives a true and fair view and 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 company'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 company'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.



Opinion

In our opinion:

- (a) the financial report of African Energy Resources Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial positions as at 30 June 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2 (a).

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 (d) in the financial report, which indicates that the consolidated entity incurred a net loss of \$9,576,739 during the year ended 30 June 2012. This condition, along with other matters as set forth in Note 2 (d), indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report of the directors' report for the year ended 30 June 2012. 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.

Opinion

In our opinion, the Remuneration Report of African Energy Resources Limited for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO


Phillip Murdoch
Director

Perth, Western Australia
Dated this 28th day of September 2012

28 September 2012

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

Dear Sirs,

**DECLARATION OF INDEPENDENCE BY PHILLIP MURDOCH TO THE DIRECTORS OF
AFRICAN ENERGY RESOURCES LIMITED**

As lead auditor of African Energy Resources Limited for the year ended 30 June 2012, 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.



Phillip Murdoch
Director

BDO Audit (WA) Pty Ltd
Perth, Western Australia

Consolidated Statements of Comprehensive Income

For the year ended 30 June 2012

	Note	2012 USD	2011 USD
Revenue from continuing operations	7	263,567	72,271
Gain on acquisition of 30% of Chirundu project		-	589,412
Personnel expenses	8	(1,542,584)	(1,084,659)
Employee share option expense	19	(622,785)	(2,216,027)
Professional & corporate expense	9	(1,620,547)	(1,352,002)
(Impairment) / reversal of exploration expenditure	15	(5,441,587)	(594,973)
Borrowing costs		(261,631)	(275,494)
Borrowing costs - equity settled		(486,256)	-
Foreign currency loss		135,086	(65,599)
Loss before tax		(9,576,739)	(4,927,071)
Income tax expense	10	-	-
Loss for the year		(9,576,739)	(4,927,071)
Attributable to:			
Equity holders of the Company		(9,576,739)	(4,927,071)
Loss for the year		(9,576,739)	(4,927,071)
Other comprehensive income			
Foreign currency translation reserve	19	(884,137)	832,654
Total other comprehensive income / (loss) for the year		(884,137)	832,654
Total comprehensive income / (loss) attributable to the ordinary equity holders of the Company:			
Total comprehensive income / (loss) for the year		(10,460,876)	(4,094,417)
Loss per share for loss attributable to the ordinary equity holders of the Company:			
Basic loss per share (cents per share)	11	(2.08)	(1.70)
Diluted loss per share (cents per share)	11	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 2012

	<i>Note</i>	2012 USD	2011 USD
Assets			
Current assets			
Cash and cash equivalents	12	5,315,490	2,437,566
Trade and other receivables	13	704,322	344,705
Total current assets		6,019,812	2,782,271
Non current assets			
Property, plant and equipment	14	783,062	665,517
Exploration and evaluation expenditure	15	23,288,057	21,038,572
Total non-current assets		24,071,119	21,704,089
Total assets		30,090,931	24,486,360
Liabilities			
Current liabilities			
Trade and other payables	16	1,702,258	880,892
Borrowings	17	5,000,000	5,000,000
Total current liabilities		6,702,258	5,880,892
Non-current Liabilities			
Provisions		250,000	-
Total non-current liabilities		250,000	-
Total liabilities		6,952,258	5,880,892
Net assets		23,138,673	18,605,468
Equity			
Contributed equity	18	42,346,557	26,726,320
Reserves	19	70,597	3,035,349
Accumulated losses		(19,278,481)	(11,156,201)
Total equity attributable to shareholders of the Company		23,138,673	18,605,468

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 2012

	Not e	Contributed equity USD	Accumulated losses USD	Reserves USD	Total equity USD
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	19	-	-	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	18	2,412,009	-	-	2,412,009
Equity settled share based payment transactions	19	-	-	2,216,027	2,216,027
Share based payments adjustment on exercise/expiry 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
At 1 July 2011		26,726,320	(11,156,202)	3,035,349	18,605,467
Net loss for the year		-	(9,576,739)	-	(9,576,739)
Effect of translation of foreign operations to group presentation currency	19	-	-	(884,137)	(884,137)
Total comprehensive income for the year		-	(9,576,739)	(884,137)	(10,460,876)
Transactions with owners in their capacity as owners:					
Share issue net of issue costs	18	15,735,140	-	-	15,735,140
Options granted in settlement of capital raising costs	19	(114,903)	-	114,903	-
Options granted in settlement of financing costs	19	-	-	486,256	486,256
Equity settled share based payment transactions	19	-	-	622,785	622,785
Reserves adjustment on prior year revaluation which is now impaired		-	-	(1,850,099)	(1,850,099)
Share based payments adjustment on exercise/expiry of options		-	1,454,460	(1,454,460)	-
		15,620,237	1,454,460	(2,080,615)	14,994,082
At 30 June 2012		42,346,557	(19,278,481)	70,597	23,138,673

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 2012

<i>Note</i>	2012 USD	2011 USD
Cash flows from operating activities		
Interest received	255,331	48,784
Payment to suppliers and employees	(2,785,697)	(2,473,856)
Net cash (outflow) from operating activities	21 (2,530,366)	(2,425,072)
Cash flows from investing activities		
Acquisition of property, plant and equipment	(134,357)	(166,783)
Acquisition of 30% of CJVL	-	(2,500,000)
Payment for exploration and evaluation	(8,949,840)	(3,772,005)
Net cash (outflow) from investing activities	(9,084,197)	(6,438,788)
Cash flows from financing activities		
Proceeds from the issue of share capital	16,283,400	1,415,462
Proceeds from exercise of employee options	336,303	1,094,890
Payments for share issuance costs	(884,563)	(98,343)
Drawdown of loan facility	-	5,000,000
Interest & legal fees on loan facility	(261,631)	(39,706)
Net cash inflow from financing activities	15,473,509	7,372,302
Net (decrease) / increase in cash and cash equivalents	3,858,946	(1,491,558)
Cash and cash equivalents at the beginning of the year	2,437,566	3,977,744
Effect of exchange rate fluctuations on cash held	(981,022)	(48,620)
Cash and cash equivalents at the end of the year	12 5,315,490	2,437,566

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 2012 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 28 September 2012.

(b) Basis of measurement

The financial report is prepared under the historical cost convention.

(c) Functional and presentation currency

These consolidated financial statements are presented in US dollars ("USD").

The functional currency of the Company and each of the operating subsidiaries is USD which represents the currency of the primary economic environment in which the Company and each of the operating subsidiaries operates.

Subsidiaries denominated in Australian dollars ("AUD") are translated at the closing rate on reporting 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 9,576,739 and derived net cash inflows from operating and financing activities of USD 12,943,142.

The ability of the Consolidated Entity to continue as a going concern is dependent on the Consolidated Entity being able to raise additional funds as required to meet ongoing exploration commitments and for working capital. The Directors believe that they will be able to raise additional capital as required and are in the process of evaluating the Consolidated Entity's cash requirements. The Directors believe that the Consolidated Entity will continue as a going concern. As a result the financial report has been prepared on a going concern basis. However, should the Consolidated Entity be unsuccessful in undertaking additional raisings, the Consolidated Entity may not be able to continue as a going concern. No adjustments have been made relating to the recoverability and classification of liabilities that might be necessary should the Consolidated Entity not continue as a going concern.

(e) Use of estimates and judgments

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

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

- Note 15 – Exploration & evaluation expenditure - The Group's accounting policy for exploration and evaluation is set out in note 3(e). If, after having capitalised expenditure under this policy, the Directors conclude that the Group is unlikely to recover the expenditure by future exploration or sale, then the relevant capitalised amount will be written off to the Statement of Comprehensive Income.
- Note 23(d) – 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.

3. Significant accounting policies

(a) Basis of consolidation

Notes to the Consolidated Financial Statements (continued)

(b) 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.

(i) 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.

(ii) Comparatives

Prior period comparatives are for the period from 1 July 2010 to 30 June 2011.

(c) Foreign currency

(i) Foreign currency transactions

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

(ii) Financial statements of foreign operations

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

Foreign exchange differences arising on translation are recognised directly in the foreign currency translation reserve ("FCTR"), as a separate component of equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss, as part of the gain or loss on sale where applicable.

(iii) Net investment in foreign operations

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

(d) Financial instruments

(i) Non-derivative financial instruments

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

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

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

(ii) Subsequent measurement

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

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

(iii) Impairment

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

(e) 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).

Notes to the Consolidated Financial Statements (continued)**(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
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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.

(f) Exploration and development expenditure**(i) Exploration and evaluation expenditure**

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

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

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

(ii) Development expenditure

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

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

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

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

(g) Cash and cash equivalents

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

(h) Trade and other receivables

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

(i) 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 reporting date which are classified as non-current assets. Loans and receivables are included in receivables in the statement of financial position.

Notes to the Consolidated Financial Statements (continued)

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

(j) 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 reporting 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 reporting 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 reporting date.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

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

An impairment loss in respect of goodwill is not reversed.

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

(k) 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.

(l) 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.

Notes to the Consolidated Financial Statements (continued)

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.

(m) Dividends

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

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

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

(ii) Wages, salaries and annual leave

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

(o) Provisions

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

(i) Site restoration

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

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

The amount of the provision for future restoration costs is capitalised and is depreciated over the useful life of the mineral reserve.

(p) Trade and other payables

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

(q) 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 reporting date.

(r) 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.

(s) 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

Notes to the Consolidated Financial Statements (continued)

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.

(t) 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.

(u) 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.

(v) Income tax

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

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

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised, or to the extent that the Group has deferred tax liabilities with the same taxation authority. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

(w) 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.

(x) Goods and Services Tax / Valued Added Tax

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

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

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

(y) 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 2012. These are outlined in the table below:

Affected Standards and Interpretations	Application date (reporting period commences on or after)	Application date for Group
AASB 9 'Financial Instruments', AASB 2009- 11 'Amendments to Australian Accounting Standards arising from AASB 9' and AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)'	1 January 2013	30 June 2014
AASB 10 'Consolidated Financial Statements'	1 January 2013	30 June 2014
AASB 127 'Separate Financial Statements' (2011)	1 January 2013	30 June 2014
AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	30 June 2014
AASB 119 'Employee Benefits' (2011) and AASB 2011-10 "Amendments to Australian Accounting Standards arising from AASB 119 (2011)'	1 January 2013	30 June 2014
AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred tax: Recovery of Underlying Assets'	1 January 2013	30 June 2013
AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements	1 July 2013	30 June 2014
AASB 2011-9 'Amendments to Australian Accounting Standards- Presentation of Items of Other Comprehensive Income'	1 July 2012	30 June 2013

Notes to the Consolidated Financial Statements (continued)

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 foreign currency risks by holding cash in the currency that it is budgeted to be spent in.

(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 USD, was:

	2012 USD	2011 USD
Cash held in Australian Dollars (AUD)	2,739,633	122,099
Cash held in South African Rand (ZAR)	864,145	16,693
Cash held in Botswana Pula (BWP)	394,730	534,305
Trade and other receivables (BWP)	513,574	159,945
Trade and other receivables (other foreign currencies)	173,914	-
Trade and other payables (BWP)	(855,823)	(397,260)
Trade and other payables (other foreign currencies)	(887,330)	(383,632)

ii. Price risk

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

iii. Interest rate risk

The Group has significant interest-bearing assets; however a change in interest rates would not have a material impact on the results.

		Interest rate risk				Foreign exchange risk			
		- 100 bps		+ 100 bps		-10%		+10%	
	Carrying amount	Profit USD	Equity USD	Profit USD	Equity USD	Profit USD	Equity USD	Profit USD	Equity USD
30 June 2012									
Financial assets									
Cash and cash equivalents	5,315,490	53,155	-	(53,155)	-	-	394,855	-	(394,855)
Trade and other receivables	704,322	7,043	-	(7,043)	-	-	68,749	-	(68,749)
Financial liabilities									
Trade and other payables	1,702,258	-	-	-	-	-	(184,315)	-	184,315
Borrowings	5,000,000	50,000	-	(50,000)	-	-	-	-	-

- 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.

Notes to the Consolidated Financial Statements (continued)

(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. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit rates:

	2012 USD	2011 USD
Cash at bank & short term bank deposits		
A-1+	4,874,845	1,726,966
FNB Botswana (not rated)	394,930	534,305
Standard Bank South Africa (not rated)	3,360	4,552
Stanbic Bank (Zambia) (not rated)	37,727	171,743
Cash on hand	4,628	-
	5,315,490	2,437,566

(c) Liquidity risk

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

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

2012	Less than 6 months	6 to 12 months	Total contractual cash flows
Trade payables	1,702,258	-	1,702,258
Borrowings	5,000,000	-	5,000,000
	6,702,258	-	6,702,258
2011			
Trade payables	880,892	-	880,892
Borrowings	5,000,000	-	5,000,000
	5,880,892	-	5,880,892

(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 reporting 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.

Notes to the Consolidated Financial Statements (continued)

(b) Trade and other receivables

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

(c) Non-derivative financial liabilities

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

(d) Share-based payment transactions

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

6. Segment information**(a) Description of Segments**

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

(b) Segment Information**For the year ended 30 June 2012**

	Botswana Exploration	Zambia Exploration	All other segments	Consolidated
	USD	USD	USD	USD
Total segment revenue	-	-	263,567	263,567
Profit (loss) before income tax	(236,165)	(5,827,428)	(3,513,146)	(9,576,739)
Impairment of exploration expenditure	-	(5,441,587)	-	(5,441,587)
Segment Assets				
Property, plant and equipment	224,250	551,078	7,734	783,062
Exploration and evaluation expenditure	13,397,441	9,890,616	-	23,288,057
Other	911,089	66,009	5,042,714	6,019,812
Total Segment Assets	14,532,780	10,507,703	5,050,448	30,090,931
Segment Liabilities				
Other	987,330	61,582	653,347	1,702,258
Borrowings	-	-	5,000,000	5,000,000
Provision for Rehabilitation	250,000	-	-	250,000
Total Segment Liabilities	1,237,330	61,582	5,653,347	6,952,258

For the year ended 30 June 2011

Total segment revenue	-	614,918	46,766	661,683
Profit (loss) before income tax	(72,779)	(1,447,271)	(3,407,020)	(4,927,071)
Impairment 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	-	21,038,572
Other	765,597	124,749	1,891,925	2,782,271
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

Notes to the Consolidated Financial Statements (continued)

7. Revenue from continuing operations

	2012 USD	2011 USD
Interest	263,567	48,784
Management fees	-	23,487
	263,567	72,271

8. Personnel expenses

	2012 USD	2011 USD
Wages and salaries	522,511	411,656
Superannuation	22,216	15,971
Directors fees	942,143	657,032
Payroll tax	55,714	-
	1,542,584	1,084,659

9. Professional & Corporate Expenses

	2012 USD	2011 USD
BDO Audit (WA) Pty Ltd: Audit and review of financial reports	57,165	51,132
BDO Spencer Steward Zambia: Audit of 2010 financial reports	-	11,430
	57,165	62,562
Other professional and corporate expenses		
Tax consulting services	3,627	6,041
Legal costs	13,725	46,166
Professional fees	121,039	71,743
Depreciation	128,381	145,496
Other corporate and administration costs	1,296,610	1,019,994
	1,620,547	1,352,002

10. Income Taxes

	2012 USD	2011 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	(9,576,739)	(4,927,071)
Prima facie income tax at 30%	(2,873,022)	(1,478,121)
Tax effect of amounts not deductible in calculating taxable income:		
Sundry items	2,081	948
Other	2,632,830	666,476
	(238,111)	(810,697)
Difference in overseas tax rates	479,477	314,697
Tax loss not recognised	241,366	(496,000)
Income tax expense/(benefit)	-	-
(c) Tax losses:		
Unused tax losses for which no deferred tax asset has been recognised	(2,993,972)	(2,666,502)
Potential tax benefit @ 30%	(898,192)	(799,951)
Difference in overseas tax rates 10%	479,477	314,697
Potential tax benefit	(418,715)	(485,254)

Notes to the Consolidated Financial Statements (continued)

(d) Unrecognised deferred tax assets arising on timing differences and losses

Timing	15,246	15,246
Losses - Revenue	2,237,852	1,819,137

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

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

11. Earnings per share**(a) Basic loss per share**

The calculation of basic loss per share at 30 June 2012 was based on the loss attributable to ordinary shareholders of USD 9,576,739 (2011: USD 4,927,071) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2012 of 324,617,694 (2011: 290,236,446) calculated as follows:

	2012 USD	2011 USD
Loss attributable to ordinary shareholders	(9,576,739)	(4,927,071)
Issued number of ordinary shares at 1 July	296,276,735	282,774,650
Effect of shares issued during the period	28,340,959	7,461,796
Weighted average number of shares for year to 30 June	324,617,694	290,236,446
Basic loss per share (cents per share)	(2.95)	(1.70)

(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.

12. Reconciliation to cash and cash equivalents

	2012 USD	2011 USD
Cash at bank & on hand	4,205,994	2,372,474
Term deposits	1,109,497	65,092
	5,315,490	2,437,566

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

13. Trade and other receivables

	2012 USD	2011 USD
Trade debtors	31,880	30,132
Prepaid expenses	105,282	92,708
GST and VAT receivable	558,056	214,357
Other receivable	9,104	7,508
	704,322	344,705

(a) Impaired receivables and receivables past due

USD 452,000 in VAT refunds were received by the Company in July. 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 (continued)

14. Property, plant and equipment

	2012 USD	2011 USD
Plant and equipment at cost	1,045,725	911,369
Less: Accumulated depreciation	(262,663)	245,852)
Carrying amount at 30 June	783,062	665,517
PP&E movement reconciliation		
Plant and equipment at cost:		
Balance at the beginning of the year	911,369	859,911
Additions	290,174	166,783
Disposals	(155,645)	(115,236)
Effect of movements in foreign exchange	(173)	(90)
Carrying amount at 30 June	1,045,725	911,369
Accumulated depreciation:		
Balance at the beginning of the year	(245,852)	(266,407)
Depreciation charge for the year	(143,317)	(137,669)
Disposals	126,486	158,738
Effect of movements in foreign exchange	20	(513)
Carrying amount at 30 June	(262,663)	(245,852)

15. Exploration and evaluation expenditure

	2012 USD	2011 USD
Carrying amount of exploration and evaluation expenditure	23,288,057	21,038,572
EE&D movement reconciliation		
Balance at the beginning of the year	21,038,572	13,997,606
Additions	8,734,463	4,611,519
Acquisition of 30% of Chirundu Uranium Project	-	2,987,801
Impairment) of EE&D	(5,441,587)	(594,973)
Effect of movements in foreign exchange	(1,043,391)	36,618
Carrying amount at 30 June	23,288,057	21,038,572

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. In June the Board assessed the carrying value of the Chirundu Uranium Project and deemed that an impairment was necessary to reflect fair value of the project.

16. Trade and other payables

	2012 USD	2011 USD
Trade creditors	1,137,350	599,888
Accrued expenses	500,707	254,803
Payroll liabilities	12,480	10,226
Annual leave provisions	18,702	20,088
Other payables	33,019	(4,113)
	1,702,258	880,892

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.

Notes to the Consolidated Financial Statements (continued)

17. Borrowings

	2012 USD	2011 USD
Loan from Macquarie Bank Limited	5,000,000	5,000,000
	5,000,000	5,000,000

On 23 December 2011, African Energy extended the repayment terms of a US\$5m convertible loan facility with Macquarie Bank Limited. The loan facility is repayable at any time up until 31 December 2012. Interest is repayable by the Company on outstanding balances is equal to the USD LIBOR rate plus 5%.

Under the terms of the extension to the Facility, the Company issued Macquarie Bank Limited with 9,768,964 American call options, each with a strike price of AUD \$0.50 and expiring 31 December 2013. Using a Black-Scholes option pricing model, the tranche of options issued to Macquarie Bank were valued at USD\$486,256 on the date of issue.

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

18. Contributed equity

	2012 USD	2011 USD
Contributed equity	44,616,281	27,996,578
Cost of share issue	(2,269,724)	(1,270,258)
	42,346,557	26,726,320

Movement in share capital	Date	Number of shares	Issue price USD	USD
Balance 30 June 2010		282,774,650		24,314,311
Exercise of employee Options	25 Oct 2010	500,000	0.1229	61,435
Share Placement	25 Oct 2010	9,600,000	0.1474	1,415,462
Exercise of employee Options	09 Dec 2010	250,000	0.0864	21,596
Exercise of employee Options	22 Feb 2011	750,000	0.3161	237,038
Exercise of employee Options	22 Feb 2011	300,000	0.4045	121,363
Exercise of employee Options	07 Mar 2011	1,124,673	0.3167	356,156
Exercise of employee Options	10 Mar 2011	470,000	0.3154	148,251
Exercise of employee Options	11 Apr 2011	37,500	0.0899	3,370
Exercise of employee Options	19 Apr 2011	432,412	0.3291	142,323
Exercise of employee Options	19 Apr 2011	37,500	0.0895	3,357
Capital raising costs				(98,343)
Balance 30 June 2011		296,276,735		26,726,320
Exercise of employee Options	07 Jul 2011	50,000	0.0909	4,546
Share Placement	25 Jul 2011	30,000,000	0.5428	16,283,400
Exercise of employee Options	25 Jul 2011	50,000	0.0923	4,614
Exercise of employee Options	21 Nov 2011	200,000	0.0850	17,003
Exercise of employee Options	16 Mar 2012	300,000	0.1066	31,984
Exercise of employee Options	29 Jun 2012	3,250,000	0.0856	278,156
Capital raising costs				(884,563)
Capital raising costs - equity settled				(114,903)
Balance 30 June 2012		330,126,735		42,346,557

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 (continued)

19. Reserves

	2012 USD	2011 USD
Share-based payments reserve	3,154,731	3,385,247
Asset Reserves	-	1,850,099
Foreign currency translation reserve	(3,084,134)	(2,199,997)
	70,597	3,035,349
Reconciliation of movement in reserves		
Share-based payments reserve		
Balance at the beginning of the year	3,385,247	1,743,641
Employee share option expense	622,785	2,216,027
Options granted in settlement of financing costs	601,158	-
Share based payments adjustment on exercise/expiry	(1,454,459)	(574,421)
Balance at 30 June 2012	3,154,731	3,385,247
Asset reserve		
Balance at the beginning of the year	1,850,099	1,850,099
Reserves adjustment on historical revaluation which is now impaired	(1,850,099)	-
Balance at 30 June 2012	-	1,850,099
Foreign currency translation reserve		
Balance at the beginning of the year	(2,199,997)	(3,032,651)
Effect of translation of foreign currency operations to group presentation currency	(884,137)	832,654
Balance at 30 June 2012	(3,084,134)	(2,199,997)

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.

Asset Reserve

The reserve represents the uplift in value that arises upon the dilution in subsidiary companies.

Foreign currency 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.

20. Key management personnel disclosures

(a) Compensation

The key management personnel compensation is as follows:

	2012 USD	2011 USD
Short-term employee benefits	1,095,826	790,885
Equity compensation benefits	190,074	2,024,855
	1,285,900	2,815,740

Detailed remuneration disclosures are provided in the remuneration report on pages 5 to 9.

Notes to the Consolidated Financial Statements (continued)

(b) Equity Holdings

(i) Options Holdings

2012	Balance at 30/06/2011	Granted	Exercised	Expired	Balance at 30/06/2012	Vested and exercisable	Unvested
Non-Executive Directors							
Michael Curnow	899,736	-	-	(899,736)	-	-	-
Valentine Chitalu	999,736	-	(100,000)	(899,736)	-	-	-
Philip Clark	1,000,000	-	-	-	1,000,000	625,000	375,000
Executive Directors							
Alasdair Cooke	2,337,652	-	(400,000)	(1,187,652)	750,000	750,000	-
Charles Tabcart	5,222,824	-	(1,000,000)	(1,972,824)	2,250,000	2,250,000	-
Gregory Fry	3,018,160	-	(700,000)	(818,160)	1,500,000	1,500,000	-
	13,478,108	-	(2,200,000)	(5,778,108)	5,500,000	5,125,000	375,000

2011	Balance at 1/07/2010	Granted	Exercised	Expired	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
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	-
	7,978,108	5,500,000	-	-	13,478,108	12,478,108	1,000,000

(ii) Share Holdings

	Balance at 1/07/2010	Purchases during 2011	Other Changes*	Balance at 30/06/2011	Purchases during 2011	Exercised Options	Balance at 30/06/2012
Non-Executive Directors							
Michael Curnow	11,543	390,000	243,012	644,555	33,436	-	677,991
Valentine Chitalu	89,048	-	299,625	388,673	-	100,000	488,673
Philip Clark	-	20,000	-	20,000	265,000	-	285,000
Executive Directors							
Alasdair Cooke	11,415,272	-	14,530,503	25,945,775	2,407,150	400,000	28,752,925
Charles Tabcart	1,345,714	4,700	208,161	1,558,575	-	1,000,000	2,558,575
Gregory Fry	1,593,385	-	2,006,807	3,600,192	-	700,000	4,300,192
	14,454,962	414,700	17,288,108	32,157,770	2,710,286	2,200,000	37,068,056

* Inspecie distribution of shares by Energy Ventures Limited

(c) Loans to key management personnel

There were no loans made to key management personnel during the year ended 30 June 2012 (2011: nil).

(d) Other transactions with key management personnel

Other transactions with key management personnel are discussed in related parties disclosure (note 23 (d)).

Notes to the Consolidated Financial Statements (continued)

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

	2012 USD	2011 USD
Cash flows from operating activities		
Profit/(loss) for the year	(9,576,739)	(4,927,071)
Adjustments for:		
Depreciation and amortisation expense	128,381	145,496
Loss on sale of fixed assets	-	25,292
Interest on debt facilities classified as financing	261,631	39,706
Share based payments classified as financing	486,256	
Impairment charge	5,441,587	594,973
Gain on acquisition	-	(589,412)
Chirundu losses not attributable	-	(20,563)
Interest accrued	(8,235)	-
Foreign exchange (gains) / losses	(135,086)	65,599
Equity-settled share-based payment expenses	622,785	2,216,027
Change in operating assets & liabilities		
(Increase)/decrease in trade and other receivables	(11,327)	(32,833)
(Decrease)/increase in trade and other payables	260,380	57,714
Net cash used in operating activities	(2,530,366)	(2,425,072)

22. Parent Entity

	2012 USD	2011 USD
Current Assets	-	4,982
Non-Current Assets	28,235,390	23,647,253
Total Assets	28,235,390	23,652,235
Current Liabilities	5,096,717	5,046,767
Total Liabilities	5,096,717	5,046,767
Contributed equity	42,346,557	26,726,320
Reserves	3,154,731	3,385,247
Accumulated losses	(22,362,615)	(11,506,099)
Total Equity	23,138,673	18,605,468
Loss for the year	(12,310,976)	(4,116,512)
Other comprehensive income / (loss) for the year	(2,731)	-
Total comprehensive income / (loss) for the year	(12,313,707)	(4,116,512)

23. Related parties

(a) Parent entities

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

Notes to the Consolidated Financial Statements (continued)

(b) Subsidiaries

	Country of incorporation	Ownership interest 2012	Ownership interest 2011
African Energy Holdings SRL	Barbados	100%	100%
African Energy Holdings 2 SRL	Barbados	100%	0%
African Energy Holdings 3 SRL	Barbados	100%	0%
A E Resources Pty Ltd	Australia	100%	100%
AFR Australia Pty Ltd	Australia	100%	100%
African Energy Resources (SA) (Pty) Ltd	South Africa	100%	100%
African Energy Resources Mozambique Ltd	Mozambique	100%	100%
African Energy Resources Botswana (Proprietary) Ltd	Botswana	100%	100%
Sese Coal (Pty) Ltd	Botswana	100%	0%
Sese Power (Pty) Ltd (formerly AER Minerals (Pty) Ltd	Botswana	100%	100%
African Energy Resources Ltd	Zambia	100%	100%
Chirundu Joint Ventures Zambia Ltd	Zambia	100%	100%
Muchinga Energy Resources Ltd	Zambia	100%	100%

(c) Key Management Personnel

Disclosures relating to key management personnel are set out in note 22.

(d) Other related party transactions

The terms and conditions of the transactions with Directors, key executives and associates and their related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-Director related entities on an arm's length basis.

	Charges from		Charges to	
	2012 USD	2011 USD	2012 USD	2011 USD
Mitchell River Group Pty Ltd	826,430	728,128	1,196	-
Provision of a fully serviced office and admin staff Alasdair Cooke, Frazer Tabear, Gregory Fry				
Exco Resources Ltd	8,168	1,022	295	5,970
Recharge of office overhead costs Alasdair Cooke				
Energy Ventures Ltd	72,532	31,703	356	7,106
Recharge of office overheads and wages Alasdair Cooke, Gregory Fry, Michael Curnow				
Albidon Ltd	-	5,960	-	133,678
Recharge of office overheads and wages Alasdair Cooke, Valentine Chitalu				

Assets and liabilities at 30 June arising from transactions with related parties

	2012 USD	2011 USD
Trade and other receivables	-	30,132
Trade and other payables	219,310	49,972

(e) Employee Share Option Plan

The establishment of the AFR Employee Option Plan was approved by shareholders at the 2010 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.

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.

Notes to the Consolidated Financial Statements (continued)

Grant Date	Expiry Date	Exercise Price cents	Balance at start of year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of year	Vested and exercisable at year end
1/07/2007	30/06/2012	31.25	9,152,981	-	-	(9,152,981)	-	-
20/11/2007	30/06/2012	40	300,000	-	-	(300,000)	-	-
12/12/2007	30/06/2012	40	200,000	-	-	(200,000)	-	-
22/04/2008	30/06/2012	40	600,000	-	-	(600,000)	-	-
2/07/2009	30/06/2012	8.5	1,525,000	-	(1,525,000)	-	-	-
27/08/2009	30/06/2012	8.5	2,200,000	-	(2,200,000)	-	-	-
16/09/2010	31/12/2013	12.5	625,000	-	(125,000)	-	500,000	50%
2/02/2011	31/12/2013	70	250,000	-	-	-	250,000	100%
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%
28/03/2011	31/12/2013	80	1,650,000	-	-	(25,000)	1,625,000	50%
16/05/2011	31/12/2013	80	600,000	-	-	-	600,000	50%
			21,602,981	-	(3,850,000)	(10,277,981)	7,475,000	

(f) Fair value of options granted

No options were granted during the year.

(g) Expenses arising from share-based payment transactions

	2012 USD	2011 USD
Options issued under AFR Employee Option Plan	622,785	2,216,027
Options granted in settlement of capital raising costs	114,903	-
Options granted in settlement of financing costs	486,256	-

Options issued in settlement of capital raising costs and in settlement of financing costs were not issued to related parties of the Company.

24. Subsequent 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.

25. Capital and other commitments

	2012 USD	2011 USD
Minimum tenement commitments within one year		
within one year	51,135	218,123
later than one year	5,241,291	-
Minimum payments in relation to non-cancellable operating leases		
within one year	23,969	-
later than one year	3,036	-
	5,319,431	218,123

26. Contingencies

There were no contingent assets or liabilities in the Group at 30 June 2012.

Corporate Governance Statement

This Statement reflects African Energy Resources Limited's corporate governance policies and practices as at 30 June 2012 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.

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 Statement (continued)

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	6 years
Dr C F Tabeart	Managing Director	5 years
Mr G W Fry	Executive Director	6 years
Mr V Chitalu	Non-Executive Director	6 years
Mr M J Curnow	Non-Executive Director	6 years
Mr P D Clark	Non-Executive Director	1 year

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.

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:

Corporate Governance Statement (continued)

- o the practices necessary to maintain confidence in the Company's integrity;
 - o the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and
 - o 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:
 - o establish measurable objectives for achieving gender diversity;
 - o assess annually both the objectives set for achieving gender diversity; and
 - o assess annually the progress made towards achieving the objectives set.
- **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 has not at this time established a formal policy in relation to diversity. The board has considered its approach to diversity in the context of the new diversity requirements set out in the ASX Corporate Governance Principles and Recommendations.

The Company is committed to a workplace environment that promotes diversity and recognises the key competitive benefits of recruiting, developing and retaining a talented, diverse and motivated workforce. The board recognises the benefits of diversity at board level, senior management level and within the organisation generally and recognises the organisational strengths, deeper problem solving ability and opportunity for innovation that diversity may bring.

The board believes that given the size and nature of the Company's activities, and the existing diversity profile of the organisation, that an informal approach is appropriate at this time. Senior management roles and positions are filled by the best candidates available without discrimination. The Company aims to increase diversity in senior appointments as positions and appropriate candidates become available.

The Company will review this position annually and, as activities expand, plans to establish a formal diversity policy and set measurable objectives for achieving diversity in relation to gender.

At the date of this report the proportion of women in the organisation is as follows:

Level	Male	Female	Female %
Board	6	0	0%
Staff	10	5	33%

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, 3.4 and 3.5. The Company is not compliant with Recommendations 3.2 and 3.3 as outlined.

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:
 - o consists only of Non-Executive Directors;
 - o consists of a majority of independent Directors;
 - o is chaired by an independent Chair, who is not Chair of the Board; and
 - o 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

Corporate Governance Statement (continued)

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 2012 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.

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 (continued)

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.

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.

Corporate Governance Statement (continued)

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.

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:
 - o consists of a majority of independent Directors;
 - o is chaired by an independent chair; and
 - o 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 Executive 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 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 5 to 8 of the Financial 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.