



African Energy Resources Limited

ARBN 123 316 781

Financial Report
30 June 2014

Table of Contents

Corporate Directory	3
Directors' Report	4
Directors' Declaration	13
Independent Audit Report	14
Independence Declaration	16
Consolidated Statement of Profit or Loss and Other Comprehensive Income	17
Consolidated Statement of Financial Position	18
Consolidated Statement of Changes in Equity	19
Consolidated Statement of Cash Flows	20
Notes to the Consolidated Financial Statements	21
1 Reporting entity	21
2 Basis of preparation	21
3 Significant accounting policies	22
4 Financial risk management	27
5 Determination of fair values	29
6 Segment information	29
7 Revenue from continuing operations	30
8 Personnel expenses	30
9 Professional & Corporate Expenses	30
10 Income Taxes	30
11 Earnings per share	31
12 Trade and other receivables	31
13 Property, plant and equipment	32
14 Exploration and evaluation expenditure	32
15 Trade and other payables	32
16 Borrowings	33
17 Contributed equity	33
18 Provisions	34
19 Reconciliation of loss after income tax to net cash inflow from operating activities	34
20 Parent Entity	34
21 Related parties	34
22 Subsequent events	36
23 Capital and other commitments	36
24 Contingencies	36
Corporate Governance Statement	37

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 Philip Clark Non-Executive Director Mr Vincent (Ian) Masterton-Hume (appointed 13 September 2013) Non-Executive Director Mr Wayne Richard Trumble (appointed 6 May 2014) Non-Executive Director Mr Yan Zhao (appointed 13 September 2013) Alternate Director to Mr Hume Mr Michael Curnow (resigned 31 March 2014) Non-Executive Director
Company Secretary	Mr Daniel Davis
Registered Office	Granite House, La Grande Rue St Martin, Guernsey GY1 3RS
Representative Office in Australia	Suite 1, 245 Churchill Avenue Subiaco, Western Australia, 6008
Share Register	Link Market Services Limited Level 4 Central Park 152 St Georges Terrace Perth, Western Australia, 6000
Stock Exchange Listings	Australian Securities Exchange (ASX: AFR) Botswana Stock Exchange (BSE: AFR)
Auditor	BDO Audit (WA) Pty Limited 38 Station Street Subiaco, Western Australia, 6008
Solicitors	Fairweather Corporate Lawyers 595 Stirling Highway Cottesloe, Western Australia, 6011
Bankers	HSBC Bank Australia Limited 190 St Georges Terrace Perth, Western Australia, 6000
Website	www.africanenergyresources.com

Directors Report

Your Directors present their report on the Consolidated Entity consisting of African Energy Resources Limited (Company) and its controlled entities for the financial year ended 30 June 2014.

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 over 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 Limited, operating the Savannah and Lanfranchi nickel projects in Australia; Albidon Limited, operating the Munal Nickel Mine in Zambia, Mirabela Nickel Limited, operating the Santa Rita nickel project in Brazil; Exco Resources Limited, developing copper and gold resources in Australia; and Energy Ventures Limited.

Other current directorships

Energy Ventures Limited

Anova Metals Limited (Appointed 8 Aug 2013)

Special responsibilities

Executive Chairman

Member of the remuneration committee

Former directorships in the last three years

Exco Resources Limited

Interests in shares and options

37,808,245 shares

333,333 performance rights

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 25 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 was appointed Managing Director of the Company in November 2007 after serving two years as General Manager. Under his stewardship the Company discovered and delineated the coal resource at the Sese Coal & Power Project and has since managed the strategic direction of company to focus upon the delivery of multiple coal-fired power stations, captive coal-mines and an export coal mine. He has overseen the acquisition of Mmamantse and Mmamabula West Coal Projects that has grown the resource inventory of the Company to 8.7Bt of thermal coal.

Other current directorships

Segue Resources Limited (appointed 1 September 2014)

Special responsibilities

Managing Director

Former directorships in the last three years

Interests in shares and options

4,364,769 shares

1,666,666 performance rights

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. He has been an Executive Director of African Energy Resources since listing and is responsible for the Company's commercial and financial business operations.

Other current directorships

Energy Ventures Limited

Anova Metals Limited

Special responsibilities

Member of the audit committee

Former directorships in the last three years

Norrand Resources Limited

Interests in shares and options

5,775,669 shares

1,000,000 performance rights

Directors Report (continued)

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.

Other current directorships

CDC Group

Special responsibilities

Former directorships in the last three years

Albidon Limited

Oval Biofuels Limited

Zambian Breweries Plc

Interests in shares and options

1,161,651 shares

33,333 performance rights

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 Limited, 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 is Chairman of the Company's audit and Remuneration Committees.

Other current directorships

Engineers Without Borders Australia

Engineers Without Borders International

City West Water

Special responsibilities

Chairman of Audit & Risk Committee

Chairman of Remuneration Committee

Former directorships in the last three years

nil

Interests in shares and options

885,963 shares

200,000 performance rights

Mr Vincent Ian Masterton-Hume - Non-Executive Director (appointed 13 September 2013)

Mr Hume's career in the resources industry stretches back several decades, primarily in the fields of managed fund investments, capital raising and project development. He currently sits on the boards of Silver City Mines; TSX-listed Golden Minerals; and ASX-listed Iron Road. He is a former Director of ASX and TSX-listed Marengo Mining.

Mr Hume was a Founding Partner of The Sentient Group ("Sentient"), an independent private equity investment firm that specialises in the global resource industry. He remains an independent advisor to Sentient, following his retirement from the fund in 2008. Sentient manages in excess of US \$2.3 billion in the development of metal, mineral and energy assets across the globe. Sentient's current investment portfolio includes projects in power generation, energy storage, potash, and base, precious and ferrous metals mining, covering countries as diverse as China, Brazil, Canada, Papua New Guinea, Finland, Australia, Kenya and Botswana.

Prior to the founding of Sentient, Mr Hume was a consultant to AMP's Private Capital Division, working on the development of a number of Chilean mining investment joint ventures, as well as advising on a number of specific investments across a range of commodities and locations.

Other current directorships

Silver City Mines Limited

Golden Minerals Limited

Iron Road Limited

Antofagasto Australia Limited

Special responsibilities

Member of Remuneration Committee

Former directorships in the last three years

Marengo Mining Limited

Interests in shares and options

1,764,567 shares

Directors Report (continued)

Mr Wayne Trumble - Non-Executive Director (appointed 6 May 2014)

Mr Trumble is a senior executive with 35 years of specific industry expertise in electricity, investment and construction.

For the twelve years to 2013, Mr Trumble was the Executive General Manager of Griffin Power Pty Ltd, reporting to the Board of the Griffin Group, where he led Griffin's move from fuel supplier to electricity generator. He was responsible for preparation of strategy and the development, execution and operation of Griffin's \$1.2 billion Bluewaters coal fired project, providing 436 MW of base load power in Western Australia. Mr Trumble led the team responsible for all aspects of the project development and construction including all required environmental approvals, negotiations of turn-key EPC contract, off take contracts, grid interconnection and approval of project financing to a level of \$1.0 billion.

Prior to working at Griffin, Mr Trumble was the Managing Director of TransAlta Energy where he was responsible for the commissioning and operation of the 105MW Parkeston Power Station at Kalgoorlie.

Other current directorships

Energy Made Clean

Special responsibilities

Member of Audit & Risk Committee

Former directorships in the last three years

nil

Interests in shares and options

nil

Mr Michael Curnow – Non-Executive Director (resigned 31 March 2014)

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 Limited and AGR Limited. Mr Curnow has been a Non-Executive Director of African Energy Resources since listing and is also a Non-Executive Director of Energy Ventures Limited and Citation Resources Limited (formerly Clean Global Energy Limited). During the past three years he has held no other public Directorships. Mr Curnow is Chairman of the Company's audit and Remuneration Committees.

Current directorships

Citation Resources Limited

Energy Ventures Limited

Special responsibilities

Former member of Audit & Risk Committee

Former member of Remuneration Committee

Former directorships in the last three years

African Energy Resources

Interests in shares and options

N/A

Mr Yan Zhao - Alternate Director (appointed 13 September 2013)

Mr Zhao is an employee of Sentient Group where he has worked as part of the investment team since 2008. Prior to joining Sentient, Mr Zhao worked at Actis Capital in London, where he supported and worked on a wide range of investments with a special focus on natural resources. Prior to this, Yan was an auditor in KPMG, involved in due diligence work on several Chinese companies listed in Hong Kong.

Yan holds a Master in Finance from London Business School and a BSc in Economics from University of International Business and Economics in China. Yan has the certificate of CGA-Canada, ACCA and CFA level III candidate.

Current directorships

nil

Special responsibilities

nil

Former directorships in the last three years

nil

Interests in shares and options

nil

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 past ten 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	4	4	2	2	-	-
Charles Tabear	4	4	-	-	-	-
Gregory Fry	4	4	-	-	2	2
Valentine Chitalu	1	4	-	-	-	-
Michael Curnow	3	3	2	2	2	2
Philip Clark	4	4	2	2	2	2
Vincent Masterton-Hume	2	3	-	-	-	-
Wayne Trumble	1	1	-	-	-	-

Directors Report (continued)

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 year ended 30 June 2014.

African Energy and its subsidiaries ("Consolidated Entity") are focused on creating viable businesses through the following avenues:

- The Sese Integrated Power Project which aims to build an initial 300MW power station with its own dedicated coal mine based on a small portion of the Sese measured resource.
- Pursuing other power generation opportunities based on low-cost Sese coal
- Developing power generation and sales opportunities based on the coal at the Mmamantswe Project
- Assessing a coal export business based on coal at the Mmamabula West Project.
- Corporate activities related to provision of funds to deliver the above projects.
- Adding further coal resources to the total inventory from the nearby Sese West project.

3. Remuneration Report - Audited

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

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.

3.2 Remuneration governance

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.

Mr Clark is the chairman of the remuneration committee

3.3 Non-Executive Directors

Fees and payments to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-Executive Directors' fees and payments are reviewed annually by the Board.

The current base remuneration was last reviewed with effect from 1 January 2014 and was set at AUD 50,000 per annum but payable by the issue of 416,666 shares per annum at the election of the Director.

3.4 Executive Directors

The executive pay and reward framework has two components:

- base pay; and
- long-term incentive through participation in the African Energy Resources Performance Rights Plan.

Directors Report (continued)

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.

Employee Performance Rights Plan

In August 2012 the Board adopted an employee performance right share plan ("Plan") to enable the Company to issue Performance Rights to employees and Directors. The Plan was developed by the Board to provide an opportunity to employees to participate in the Company's future growth and provide an incentive to contribute to that growth. The Plan is further designed to assist in retaining employees. Performance Rights were chosen as they allow the Company to incentivise employees and Directors. The Remuneration Committee has determined performance hurdles that will apply to each Performance Right issued.

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 July 2013
- Base salary is AUD 100,000 payable in shares as agreed
- 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: 1 July 2013
- Base salary is AUD 400,000 payable in a combination of cash and shares as agreed
- 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 July 2013
- Base salary is AUD 200,000 payable in a combination of cash and shares as agreed
- 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 July 2013
- Base salary is AUD 2,500 per day on an "as required" basis
- Mr Clark's contract and remuneration is reviewed annually

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

3.5 Voting and comments made at the Company's 2013 Annual General Meeting

The Company received more than 99% of "yes" votes on its remuneration report for the 2013 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

3.6 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) 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 - 2014	Short term employee benefits	Post-employment benefits	Share based payments	Total	Share based payments as a % of total
	Cash salary and fees	Superannuation	Options / Rights		
	USD	USD	USD	USD	
Non-Executive Directors					
Valentine Chitalu	-	-	31,993	31,993	100%
Philip Clark	13,800	-	29,905	43,705	68%
Michael Curnow (resigned 31 March 2014)	-	-	34,448	34,448	100%
Vincent Masterton-Hume (appointed 13 September 2014)	-	-	18,797	18,797	100%
Wayne Trumble(appointed 6 May 2014)	6,951	-	-	6,951	-
Total Non-Executive Directors	20,751	-	115,143	135,893	85%
Key Management Personnel					
Executive Directors					
Gregory Fry	138,000	-	82,731	220,731	37%
Charles Tabear	285,200	-	138,579	423,779	33%
Alasdair Cooke	-	-	86,221	86,221	100%
Total Key Management Personnel	423,200	-	307,531	730,731	42%
Total	443,951	-	422,674	866,624	49%

Key Management Personnel remuneration - 2013

Non-Executive Directors					
Valentine Chitalu	25,678	-	16,315	41,993	39%
Philip Clark	175,462	-	16,315	191,777	9%
Michael Curnow	25,678	-	16,315	41,993	39%
Total Non-Executive Directors	226,818	-	48,945	275,763	18%
Key Management Personnel					
<i>Executive Directors</i>					
Gregory Fry	179,743	-	16,315	196,058	8%
Charles Tabear	364,620	-	29,366	393,986	7%
Alasdair Cooke	51,355	-	43,004	94,359	46%
Total Key Management Personnel	595,718	-	88,685	684,403	13%
Total	822,536	-	137,630	960,166	14%

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 Group did not engage a remuneration consultant during the year.

3.7 Share-based compensation

The establishment of the AFR Employee Performance Rights Plan was approved by shareholders at the 2012 Annual General Meeting. The Employee Performance Rights 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.

Rights are granted under the plan for no consideration. Rights granted under the plan carry no dividend or voting rights. When exercisable, each right is convertible into one ordinary share.

On 1 October 2012, The Company issued 6,400,000 Performance Rights to Directors. The following table summarises the performance hurdles that apply to each Performance Right and the number of Performance Rights that remain unvested subject to each performance hurdle for each Director of the Company:

During the year 2,433,335 Shares were awarded to Directors upon vesting of Performance Rights and an additional 33,333 were cancelled upon Mr Curnow's resignation. The balance of 3,933,332 remained unvested at 30 June 2014.

Directors Report (continued)

	continued service until 1 July 2014	continued service until 1 Jan 2015	power purchase agreement for 300MW coal fired power station	coal sales exceeding 100,000t	completion of a BFS on the Sese Coal Project	completion of an EIS on the Sese Coal Project	Unvested
Charles Tabear	333,334	333,333	666,667	666,666	-	-	2,000,000
Gregory Fry	333,333	333,334	333,333	333,333	-	-	1,333,333
Alasdair Cooke	-	-	166,666	166,667	-	-	333,333
Philip Clark	-	-	-	-	100,000	100,000	200,000
Valentine Chitalu	33,333	33,333	-	-	-	-	66,666
	700,000	700,000	1,166,666	1,166,666	100,000	100,000	3,933,332

3.8 Additional Information

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

	Type	Year Granted	Number Granted	Value at Grant Date	Expiry Date	Number vested in year	Number forfeited in year	Vesting year	Value yet to vest US\$	
									Min	Max
Alasdair Cooke	Rights	2013	500,000	87,500	30-Sep-17	166,667	-	various	58,333	58,333
Charles Tabear	Rights	2013	3,000,000	525,000	30-Sep-17	1,000,000	-	various	350,000	350,000
Gregory Fry	Rights	2013	2,000,000	350,000	30-Sep-17	666,667	-	various	233,333	233,333
Valentine Chitalu	Rights	2013	100,000	17,500	30-Sep-17	33,334	-	various	11,667	11,667
Michael Curnow	Rights	2013	100,000	17,500	30-Sep-17	33,334	33,333	various	-	-
Philip Clark	Rights	2013	200,000	35,000	30-Sep-17	-	-	various	35,000	35,000

3.9 Directors' and Executives Interests

A. Shares

	Balance at 30/06/2012	Balance at 30/06/2013	Purchases (Sales) during 2014	Issued upon vesting of rights	Issued in lieu of cash fee	Balance at resignation	Balance at 30/06/2014	Balance at Reporting Date
Non-executive Directors								
Michael Curnow	677,991	767,277	-	66,667	372,025	1,205,969	1,205,969	N/A
Valentine Chitalu	488,673	618,792	-	33,333	372,025		1,024,150	1,024,150
Philip Clark	285,000	374,286	57,407	-	372,025		803,718	803,718
Vincent Masterton-Hume	-	1,330,001	118,600	-	211,799		1,660,400	1,660,400
Wayne Trumble	-	-	-	-	-		-	-
Executive Directors								
Alasdair Cooke	28,752,925	34,002,925	2,352,941	166,667	910,712		37,433,245	37,433,245
Charles Tabear	2,658,575	2,011,689	163,004	1,000,000	669,642		3,844,335	3,844,335
Gregory Fry	4,300,192	4,389,478	(90,001)	666,666	372,025		5,338,168	5,338,168
	37,163,356	43,494,448	2,601,951	1,933,333	3,280,253	1,205,969	51,309,985	50,104,016

B. Performance Rights

	Balance at 30/06/2012	Balance at 30/06/2013	Vested and converted to shares in 2014	Expired	Balance at 30/06/2014	Vested and exercisable	Unvested
Non-executive Directors							
Michael Curnow	-	100,000	(66,667)	(33,333)	-	-	-
Valentine Chitalu	-	100,000	(33,333)	-	66,667	-	66,667
Philip Clark	-	200,000	-	-	200,000	-	200,000
Vincent Masterton-Hume	-	-	-	-	-	-	-
Wayne Trumble	-	-	-	-	-	-	-
Executive Directors							
Alasdair Cooke	-	500,000	(166,667)	-	333,333	-	333,333
Charles Tabear	-	3,000,000	(1,000,000)	-	2,000,000	-	2,000,000
Gregory Fry	-	2,000,000	(666,666)	-	1,333,334	-	1,333,334
	-	5,900,000	(1,933,333)	(33,333)	3,933,334	-	3,933,334

Directors Report (continued)

C. 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	
	2014 USD	2013 USD	2014 USD	2013 USD
Mitchell River Group Pty Ltd				
Provision of a fully serviced office and admin staff Alasdair Cooke, Frazer Tabeart, Gregory Fry	578,417	983,553	-	4,097
Anova Metals Ltd				
Recharge of office costs Alasdair Cooke, Gregory Fry	6,612	-	-	-

At 30 June 2014 the company had a payable outstanding to Mitchell River Group of USD 46,834.

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 & 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 ended 30 June 2014 was USD 6,779,734 (2013: USD 12,547,749).

No dividends have been paid or declared by the Company during the year ended 30 June 2014.

6. Loss Per Share

The basic loss per share for the Consolidated Entity for the year was 1.55 (2013: 3.58) 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 Group will continue to pursue activities within its corporate objectives. Further information about likely developments in the operations of the Group 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 Group.

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 Group recognises its responsibility to rehabilitate areas affected by its exploration activities and made provision for rehabilitation in the Statement of Financial Position.

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

11. 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.

Directors Report (continued)

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.

12. 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.

13. Non-Audit Services

	2014 USD	2013 USD
BDO Audit (WA) Pty Ltd: Audit and review of financial reports	39,382	51,065
BDO Audit (WA) Pty Ltd: Other assurance services	5,114	-
	44,496	51,065

During the year, there were no non-audit services provided by BDO Audit (WA) Pty Limited (2013: nil).

14. 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 2014.



Charles Frazer Tabcart
Managing Director

Perth, 26 September 2014

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 profit or loss and other 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 other mandatory professional reporting requirements; and
 - (b) give a true and fair view of the financial position as at 30 June 2014 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, 26 September 2014

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 2014, the consolidated statement of profit or loss and other 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 position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (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 ability of the consolidated entity to continue as a going concern is dependent upon the future successful raising of necessary funding through equity, successful exploration and subsequent exploitation of the consolidated entity's tenements, and/or sale of non-core assets. These conditions, along with other matters as set out 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.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2014. 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 2014 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO

A handwritten signature in black ink, appearing to read 'P Murdoch', written over a horizontal line.

Phillip Murdoch

Director

Perth, 26 September 2014

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 2014, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of 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, 26 September 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2014

	Note	2014 USD	2013 USD
Revenue from continuing operations	7	57,109	50,282
Personnel expenses	8	(869,486)	(1,483,555)
Employee share based payment expense	18	(830,585)	(1,267,023)
Professional & administration expense	9	(1,097,082)	(1,426,111)
Exploration & evaluation expensed		(47,405)	(219,180)
Impairment of exploration & evaluation	14	(2,730,996)	(7,265,881)
Borrowing costs		(343,714)	(321,490)
Borrowing costs - equity settled		(867,231)	(542,486)
Foreign currency loss		(50,344)	(72,275)
Loss before tax		(6,779,734)	(12,547,719)
Income tax expense	10	-	-
Loss after income tax for the year		(6,779,734)	(12,547,719)
Attributable to:			
Equity holders of the Company		(6,779,734)	(12,547,719)
Loss for the year		(6,779,734)	(12,547,719)
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Foreign currency translation reserve		242,625	(1,021,576)
Total other comprehensive income / (loss) for the year		242,625	(1,021,576)
Total comprehensive loss attributable to the ordinary equity holders of the Company:			
Total comprehensive loss for the year		(6,537,109)	(13,569,295)
Loss per share for loss attributable to the ordinary equity holders of the Company:			
Basic loss per share (cents per share)	11	(1.55)	(3.58)
Diluted loss per share (cents per share)	11	(1.55)	(3.58)

The Consolidated Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the accompanying notes

Consolidated Statement of Financial Position

As at 30 June 2014

	<i>Note</i>	2014 USD	2013 USD
Assets			
Current assets			
Cash & cash equivalents		3,318,725	5,625,212
Trade & other receivables	12	89,123	83,129
Total current assets		3,407,848	5,708,341
Non current assets			
Property, plant & equipment	13	147,260	392,935
Exploration & evaluation	14	22,780,733	19,087,753
Total non-current assets		22,927,993	19,480,688
Total assets		26,335,841	25,189,029
Liabilities			
Current liabilities			
Trade & other payables	15	497,813	571,560
Borrowings	16	5,000,000	5,000,000
Total current liabilities		5,497,813	5,571,560
Non-current Liabilities			
Provisions	17	250,000	250,000
Total non-current liabilities		250,000	250,000
Total liabilities		5,747,813	5,821,560
Net assets		20,588,028	19,367,469
Equity			
Contributed equity	18	57,089,973	50,534,203
Reserves		1,069,908	167,872
Accumulated losses		(37,571,853)	(31,334,606)
Total equity attributable to shareholders of the Company		20,588,028	19,367,469

The consolidated statement of financial position is to be read in conjunction with the accompanying notes

Consolidated Statement of Changes in Equity for the year ended 30 June 2014

	Contributed equity	Accumulated losses	Foreign Currency Translation Reserve	Share-Based Payments Reserve	Total equity
	USD	USD	USD	USD	USD
At 30 June 2012	42,346,557	(19,278,481)	(3,084,133)	3,154,730	23,138,673
Net loss for the year	-	(12,547,729)	-	-	(12,547,729)
Effect of translation of foreign operations to group presentation currency	-	-	(1,021,577)	-	(1,021,577)
Total comprehensive income for the year	-	(12,547,729)	(1,021,577)	-	(13,569,306)
Transactions with owners in their capacity as owners:					
Share issue net of issue costs	8,063,492	-	-	-	8,063,492
Options granted in settlement of financing costs	-	-	-	542,486	542,486
Equity settled share based payment transactions	124,154	-	-	1,067,970	1,192,124
Share based payments adjustment on exercise/expiry of rights	-	491,605	-	(491,605)	-
	8,187,646	491,605	-	1,118,851	9,798,102
At 30 June 2013	50,534,203	(31,334,606)	(4,105,710)	4,273,582	19,367,469
Net loss for the year	-	(6,779,734)	-	-	(6,779,734)
Effect of translation of foreign operations to group presentation currency	-	-	242,625	-	242,625
Total comprehensive income for the year	-	(6,779,734)	242,625	-	(6,537,109)
Transactions with owners in their capacity as owners:					
Share issue net of issue costs	6,059,786	-	-	-	6,059,786
Options granted in settlement of financing costs	-	-	-	867,231	867,231
Equity settled share based payment transactions	495,984	-	-	334,667	830,651
Share based payments adjustment on expiry of options	-	542,487	-	(542,487)	-
	6,555,770	542,487	-	659,411	7,757,668
At 30 June 2014	57,089,973	(37,571,853)	(3,863,085)	4,932,993	20,588,028

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

Consolidated Statement of Cash Flows for the year ended 30 June 2014

	Note	2014 USD	2013 USD
Cash flows from operating activities			
Interest received		57,109	50,282
Payment to suppliers and employees		(1,851,835)	(2,849,117)
Net cash (outflow) from operating activities	19	(1,794,726)	(2,798,835)
Cash flows from investing activities			
Acquisition of new projects		(4,224,375)	-
Proceeds from sale of property, plant and equipment		-	89,077
Payment for exploration and evaluation		(2,097,956)	(4,067,661)
Net cash (outflow) from investing activities		(6,322,331)	(3,978,584)
Cash flows from financing activities			
Proceeds from the issue of share capital		6,211,795	8,223,919
Payments for share issuance costs		(152,009)	(235,327)
Interest & legal fees on loan facility		(343,714)	(268,322)
Net cash inflow from financing activities		5,716,072	7,720,270
Net (decrease) / increase in cash and cash equivalents		(2,400,985)	942,851
Cash and cash equivalents at the beginning of the year		5,625,212	5,315,490
Effect of exchange rate fluctuations on cash held		94,498	(633,129)
Cash and cash equivalents at the end of the year		3,318,725	5,625,212

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 consolidated financial statements of the Company as at and for the year ended 30 June 2014 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. African Energy Resources Limited is a for-profit entity for the purposes of preparing financial statements.

The financial report was authorised for issue by the Directors on 26 September 2014.

(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 6,779,734 and derived net cash outflows from operating and investing activities of USD 8,117,057.

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, repayment or renegotiating the terms of loans 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 14 – 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 Profit or Loss and other Comprehensive Income.
- Note 20(e) – Share-based payment arrangements - The Group measures the cost of equity settled share based payments at fair value at the grant date using the Black-Scholes model taking into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, the expected volatility of the underlying share, the expected dividend yield and risk free interest rate for the term of the option.

Notes to the Consolidated Financial Statements (continued)

3. Significant accounting policies

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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

(ii) Transactions eliminated on consolidation

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

(iii) Comparatives

Prior period comparatives are for the year from 1 July 2012 to 30 June 2013.

(b) Foreign currency

(i) Foreign currency transactions

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

(ii) Financial statements of foreign operations

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

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

(iii) Net investment in foreign operations

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

(c) Financial instruments

(i) Non-derivative financial instruments

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

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

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

(ii) Subsequent measurement

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

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

(iii) Impairment

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

(d) Property, plant and equipment

(i) Owned assets

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

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

Notes to the Consolidated Financial Statements (continued)

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

(ii) Subsequent costs

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

(iii) Depreciation

With the exception of freehold land and mineral property and development assets, depreciation is charged to the profit and loss using a diminishing value method over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. Mineral property and development assets are depreciated on the units of production basis over the life of the economically recoverable reserves.

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

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

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

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

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

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

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

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability and facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest. Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from intangible assets to mineral property and development assets within property, plant and equipment.

(ii) Development expenditure

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

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

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

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

(f) Cash and cash equivalents

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

(g) Trade and other receivables

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

(h) Other financial assets

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

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

(i) Impairment

The carrying amounts of the Consolidated Entity's assets, other than exploration assets (see accounting policy (e)), and deferred tax assets, are reviewed at each 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.

(j) Business Combinations

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

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

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

(k) Contributed equity

Ordinary shares are classified as equity.

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

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.

(l) Dividends

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

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

The share option program allows the Consolidated Entity employees and consultants to acquire shares of the Company. (see note 20) The fair value of options granted is recognised as an employee or consultant expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

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

(ii) Wages, salaries and annual leave

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

(n) Provisions

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

(i) Site restoration

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

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

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

(o) Trade and other payables

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

(p) Borrowings

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

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

(q) Borrowing costs

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

(ii) Diluted earnings per share

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

(s) Revenue recognition

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

(t) 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.

(u) Income tax

Income tax on the Statement of Profit or Loss and other Comprehensive Income for the periods presented comprises current and deferred tax. Income tax is recognised in the Statement of Profit or Loss and other 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.

(v) 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.

(w) 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.

(x) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting periods and have not been early adopted by the company. The company's assessment of the impact of these new standards and interpretations is set out below.

Title of standard	Nature of change	Impact	Mandatory application date/ Date adopted by company
AASB 9 Financial Instruments	AAB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. Since December 2013, it also sets out new rules for hedge accounting.	There will be no impact on the company's accounting for financial assets and financial liabilities, as the new requirements only effect the accounting for available-for-sale financial assets and the accounting for financial liabilities that are designated at fair value through profit or loss and the company does not have any such financial assets or financial liabilities.	Must be applied for financial years commencing on or after 1 January 2017. Therefore application date for the company will be 30 June 2018. The company does not currently have any hedging

Notes to the Consolidated Financial Statements (continued)

		The new hedging rules align hedge accounting more closely with the company's risk management practices. As a general rule it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation.	arrangements in place.
IFRS 15 (issued June 2014) Revenue from contracts with customers	An entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This means that revenue will be recognised when control of goods or services is transferred, rather than on transfer of risks and rewards as is currently the case under IAS 18 Revenue.	Due to the recent release of this standard the company has not yet made an assessment of the impact of this standard.	Must be applied for annual reporting periods beginning on or after 1 January 2017. Therefore application date for the company will be 30 June 2018.

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 the Audit & Risk Committee under a charter approved by the Board of Directors. The Audit & Risk Committee 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. 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:

	2014 USD	2013 USD
Cash held in Australian Dollars (AUD)	-	5,183,360
Cash held in US Dollars (USD)	1,912,441	
Cash held in South African Rand (ZAR)	328,289	157,213
Cash held in Botswana Pula (BWP)	-	19,617
Trade and other receivables (BWP)	17,612	31,616
Trade and other receivables (other foreign currencies)	71,511	51,513
Trade and other payables (BWP)	(52,733)	(133,906)
Trade and other payables (other foreign currencies)	(445,080)	(705,466)

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.

Notes to the Consolidated Financial Statements (continued)

	Carrying amount	Interest rate risk				Foreign exchange risk			
		- 100 bps		+ 100 bps		-10%		+10%	
		Profit USD	Equity USD	Profit USD	Equity USD	Profit USD	Equity USD	Profit USD	Equity USD
30 June 2014									
Financial assets									
Cash and cash equivalents	3,318,725	33,187	(33,187)	(33,187)	33,187	(101,329)	101,329	101,329	(101,329)
Trade and other receivables	89,123	891	(891)	(891)	891	(7,151)	7,151	7,151	(7,151)
Financial liabilities									
Trade and other payables	497,805	-	-	-	-	5,273	(5,273)	(5,273)	5,273
Borrowings	5,000,000	50,000	(50,000)	(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.

iv. 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:

	2014 USD	2013 USD
Cash at bank & short term bank deposits		
A-1+	3,022,909	4,874,845
FNB Botswana (not rated)	249,822	394,930
Standard Bank South Africa (not rated)	2,123	3,360
Stanbic Bank (Zambia) (not rated)	19,821	37,727
Cash on hand	3,470	4,628
	3,298,145	5,315,490

(b) 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, management aims at maintaining flexibility in funding by keeping committed credit lines available with a variety of counterparties. Surplus funds are only invested in instruments that are tradeable in highly liquid markets.

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

	Less than 6 months	6 - 12 months	Total contractual cash flows
2014			
Trade Payables	497,805	-	497,805
Borrowings	-	5,000,000	5,000,000
	497,805	5,000,000	5,497,805
2013			
Trade Payables	571,560	-	571,560
Borrowings	-	5,000,000	5,000,000
	571,560	5,000,000	5,571,560

(c) 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

Notes to the Consolidated Financial Statements (continued)

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) 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.

(b) 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.

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 2014

	Botswana Exploration	Zambia Exploration	All other segments	Consolidated
	USD	USD	USD	USD
Total segment revenue	-	-	57,109	57,109
Profit (loss) before income tax	(158,187)	(341,594)	(6,279,953)	(6,779,734)
Impairment of exploration expenditure	-	(2,730,996)	-	(2,730,996)
Segment Assets				
Property, plant and equipment	138,770	3,430	5,060	147,260
Exploration and evaluation expenditure	22,780,733	-	-	22,780,733
Other	284,978	20,945	3,101,925	3,407,848
Total Segment Assets	23,204,481	24,375	3,106,985	26,335,841
Segment Liabilities				
Borrowings	-	-	5,000,000	5,000,000
Provision for rehabilitation	250,000	-	-	250,000
Other	303,978	5,033	188,802	497,813
Total Segment Liabilities	553,978	5,033	5,188,802	5,747,813
For the year ended 30 June 2013				
Total segment revenue	-	-	50,282	50,282
Profit (loss) before income tax	(214,068)	(8,002,006)	(4,331,644)	(12,547,719)
Impairment of exploration expenditure	-	(7,265,881)	-	(7,265,881)
Segment Assets				
Property, plant and equipment	200,634	183,506	8,795	392,935
Exploration and evaluation expenditure	16,429,457	2,658,296	-	19,087,753
Other	87,787	3,021	5,617,533	5,708,341
Total Segment Assets	16,717,878	2,844,823	5,626,328	25,189,029
Segment Liabilities				
Borrowings	-	-	5,000,000	5,000,000
Provision for rehabilitation	250,000	-	-	250,000
Other	383,114	1,118	187,328	571,560
Total Segment Liabilities	633,114	1,118	5,187,328	5,821,560

Notes to the Consolidated Financial Statements (continued)

7. Revenue from continuing operations

	2014 USD	2013 USD
Interest received	57,109	50,282
	57,109	50,282

8. Personnel expenses

	2014 USD	2013 USD
Wages and salaries	392,453	772,565
Superannuation	24,526	11,185
Directors fees	428,875	675,652
Recruitment	3,578	16,022
Payroll tax	20,054	8,132
	869,486	1,483,555

9. Professional & Corporate Expenses

	2014 USD	2013 USD
Audit tax and accounting	135,583	155,898
Compliance & insurance	143,773	250,522
Occupancy	188,032	325,792
Travel	156,483	228,083
Marketing	156,139	129,876
Depreciation and impairment of PP&E	192,387	260,357
Other	124,685	75,582
	1,097,082	1,426,111

10. Income Taxes

(a) Income tax expense:

	2014 USD	2013 USD
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	(6,779,734)	(12,547,719)
Prima facie income tax at 30%	(2,033,920)	(3,764,316)
Tax effect of amounts not deductible in calculating taxable income:		
Sundry items	1,048	1,325
Other	1,124,770	2,827,978
	(908,102)	(935,013)
Difference in overseas tax rates	556,066	325,004
Tax loss not recognised	352,034	610,009
Income tax expense/(benefit)	-	-

(c) Tax losses:

Unused tax losses for which no deferred tax asset has been recognised	(2,976,346)	(3,085,937)
Potential tax benefit @ 30%	(892,904)	(925,781)
Difference in overseas tax rates 10%	556,066	325,004
Potential tax benefit	(336,838)	(573,188)

Notes to the Consolidated Financial Statements (continued)

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

Timing	4,326	10,025
Losses - Revenue	3,175,467	2,838,629

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 2014 was based on the loss attributable to ordinary shareholders of USD 6,779,734 (2013: USD 12,547,719) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2014 of 436,321,550 (2013: 350,524,802) calculated as follows:

	2014 USD	2013 USD
Loss attributable to ordinary shareholders	(6,779,734)	(12,547,719)
Issued number of ordinary shares at 1 July	394,832,546	330,126,735
Effect of shares issued during the period	41,489,004	20,398,067
Weighted average number of shares for year to 30 June	436,321,550	350,524,802
Basic loss per share (cents per share)	(1.55)	(3.58)

(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. Trade and other receivables

	2014 USD	2013 USD
Trade debtors	14,744	6,663
Prepaid expenses	10,703	-
GST and VAT receivable	56,007	72,275
Other receivable	7,669	4,191
	89,123	83,129

None of the trade and other receivables are past due or impaired.

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)

13. Property, plant and equipment

	2014 USD	2013 USD
Plant and equipment at cost	297,488	681,255
Less: Accumulated depreciation	(150,228)	(288,320)
Carrying amount at 30 June	147,260	392,935
	-	-
PP&E movement reconciliation		
Plant and equipment at cost:		
Balance at the beginning of the year	681,255	1,045,725
Additions	-	-
Disposals	(383,767)	(364,470)
Carrying amount at 30 June	297,488	681,255
Accumulated depreciation:		
Balance at the beginning of the year	(288,320)	(262,663)
Depreciation charge for the year	(192,387)	(260,358)
Disposals	330,479	234,701
Carrying amount at 30 June	(150,228)	(288,320)

14. Exploration and evaluation expenditure

	2014 USD	2013 USD
Sese Coal & Power Project	18,136,024	16,402,344
Chirundu Uranium Project	-	2,658,295
Mmamabula West Coal Project	1,371,281	-
Mmamantswe Coal Project	3,273,428	-
Sinazongwe Coal Project	-	27,113
Carrying amount of exploration and evaluation	22,780,733	19,087,752
EE&D movement reconciliation		
Balance at the beginning of the year	19,087,753	23,288,057
Additions	2,091,358	3,322,186
New acquisitions	4,224,375	-
Impairment of exploration & evaluation	(2,730,996)	(7,265,881)
Effect of movements in foreign exchange	108,243	(256,609)
Carrying amount at 30 June	22,780,733	19,087,753

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.

15. Trade and other payables

	2014 USD	2013 USD
Trade creditors	243,493	397,863
Accrued expenses	196,338	158,998
Payroll liabilities	9,140	(792)
Annual leave provisions	28,913	8,416
Other payables	19,921	7,076
	497,805	571,560

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)

16. Borrowings

Loan from Macquarie Bank Limited

2014 USD	2013 USD
5,000,000	5,000,000
5,000,000	5,000,000

On 19 December 2013, 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 2014. Interest is repayable by the Company on outstanding balances is equal to the USD LIBOR rate plus 6.0%.

Under the terms of the extension to the Facility, the Company issued Macquarie Bank Limited with 36,605,900 American call options, each with a strike price of AUD \$0.15 and expiring 31 December 2014. Using a Black-Scholes option pricing model, the tranche of options issued to Macquarie Bank were valued at USD\$867,230 on the date of issue.

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

17. Contributed equity

Contributed equity

Cost of share issue

2014 USD	2013 USD
60,197,955	53,039,254
(3,107,982)	(2,505,051)
57,089,973	50,534,203

Movement in share capital	Date	Number of shares	Issue price USD cents	USD
Balance 30 June 2012		330,126,735		42,346,557
Options exercise	13 Jul 2012	125,000	12.7	15,883
Placement	12 Nov 2012	17,857,144	14.5	2,595,925
Placement	20 Dec 2012	3,571,429	14.7	525,460
Conversion of performance rights	26 Apr 2013	458,333	-	-
Shares in lieu of salary	26 Apr 2013	1,027,238	12.1	124,154
Placement	30 Apr 2013	41,666,667	12.4	5,161,550
Capital raising costs				(235,327)
Balance 30 June 2013		394,832,546		50,534,203
Conversion of performance rights	01 Jul 2013	863,095	-	-
Shares in lieu of salary	01 Jul 2013	1,203,262	6.2	74,832
Sentient Placement T2	12 Jul 2013	29,166,667	11.1	3,224,375
Sentient Placement Fee	12 Jul 2013	3,541,667	11.1	391,531
Shares in lieu of salary	24 Oct 2013	1,862,679	8.7	162,196
Shares in lieu of salary	19 Dec 2013	1,533,636	10.6	162,619
Conversion of performance rights	19 Dec 2013	300,000	-	-
Conversion of performance rights	24 Jan 2014	1,166,667	-	-
Placement	15 Apr 2014	14,896,535	8.0	1,187,815
Placement fee issue	15 Apr 2014	744,827	8.0	59,391
Shares in lieu of salary	15 Apr 2014	1,195,686	7.5	89,733
Conversion of rights	15 Apr 2014	33,334	-	-
Placement to Director	05 Jun 2014	20,571,443	7.9	1,620,822
Rights Issue Allotment	05 Jun 2014	2,352,941	7.9	185,388
Capital raising costs				(602,931)
Balance 30 June 2014		474,235,222		57,089,973

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)

18. Provisions

Provision for the rehabilitation of bulk sample site at Sese Coal & Power Project in Botswana

2014 USD	2013 USD
250,000	250,000
250,000	250,000

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

Cash flows from operating activities

Profit/(loss) for the year

Adjustments for:

Equity-settled share-based payment expenses

Depreciation and amortisation expense

Borrowing costs classified as financing

Exploration & evaluation expensed

Impairment charge

Foreign exchange losses

Change in operating assets & liabilities

(Increase)/decrease in trade and other receivables

(Decrease)/increase in trade and other payables

Net cash used in operating activities

2014 USD	2013 USD
(6,779,734)	(12,547,719)
830,585	1,267,023
192,387	261,046
1,210,945	863,976
47,405	219,180
2,730,996	7,265,881
51,189	72,274
2,864	76,321
(81,363)	(276,817)
(1,794,726)	(2,798,835)

20. Parent Entity Note

Current Assets

Non-Current Assets

Total Assets

Current Liabilities

Total Liabilities

Contributed equity

Reserves

Accumulated losses

Total Equity

Loss for the year

Other comprehensive income / (loss) for the year

Total comprehensive income / (loss) for the year

2014 USD	2013 USD
-	-
25,810,827	24,522,868
25,810,827	24,522,868
5,222,799	5,074,969
5,222,799	5,074,969
57,089,973	50,534,203
4,932,993	4,273,582
(41,434,938)	(35,439,984)
20,588,028	19,367,801
(6,537,441)	(13,568,974)
-	-
(6,537,441)	(13,568,974)

There were no commitments, contingent liabilities or contingent assets at the parent level at 30 June 2014.

21. 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 2014	Ownership interest 2013
African Energy Holdings SRL	Barbados	100%	100%
African Energy Holdings SRL 2	Barbados	100%	100%
African Energy Holdings SRL 3	Barbados	100%	100%
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 (Pty) Ltd	Botswana	100%	100%
Sese Power (Pty) Ltd (formerly AER Minerals (Pty) Ltd	Botswana	100%	100%
Sese Power 2 (Pty) Ltd (formerly Sese Coal (Pty) Ltd)	Botswana	100%	100%
Sese Power Subsidiary (Pty) Ltd	Botswana	100%	100%
African Energy Resources Ltd	Zambia	100%	100%
Chirundu Joint Ventures Zambia Ltd	Zambia	100%	100%
Muchinga Energy Resources Ltd (formerly Sitwe Uranium Exploration Ltd)	Zambia	100%	100%
Botswana Energy Solutions Limited	British Virgin Is.	100%	-
Mmamantswe Coal (Pty) Ltd	Botswana	100%	-

(c) Key Management Personnel

\$859,936 was paid to Directors of the Company during the year. Of this amount \$439,391 was paid in cash with the balance paid in equity instruments. Disclosures relating to key management personnel are set out in the Remuneration Report.

(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	
	2014 USD	2013 USD	2014 USD	2013 USD
Mitchell River Group Pty Ltd				
Provision of a fully serviced office and admin staff Alasdair Cooke, Frazer Tabear, Gregory Fry	578,417	983,553	-	4,097
Anova Metals Ltd				
Recharge of office costs Alasdair Cooke, Gregory Fry	6,612	-	-	-

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

	2014 USD	2013 USD
Trade and other receivables	-	-
Trade and other payables	46,834	19,751

(e) Expenses arising from share-based payment transactions

	2014 USD	2013 USD
Performance rights issued under AFR Performance Rights Plan	334,666	879,717
Shares issued under AFR Employee Share Plan	495,984	199,053
Options issued under AFR Employee Option Plan	-	188,253
Shares granted in settlement of capital raising costs	450,922	-
Options granted in settlement of financing costs	867,231	542,486
	<u>2,148,803</u>	<u>1,809,509</u>

- Performance rights are valued at face value of the share on the date of issue and expensed over the expected life of the right

Notes to the Consolidated Financial Statements (continued)

22. Subsequent events

Since balance date, 1,083,064 new ordinary shares were issued to Directors and staff in lieu of cash salary and an additional 966,669 shares issued to Directors and staff upon vesting of time-based performance rights.

An Environmental Impact Assessment for the first 300MW integrated power project at Sese was approved by the DEA in Botswana on 1st September, and is valid for project initiation within 5 years.

Other than the abovementioned 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.

23. Capital and other commitments

	2014 USD	2013 USD
Minimum tenement commitments within one year		
within one year	-	3,844,235
later than one year	-	23,529
Minimum payments in relation to non-cancellable operating leases		
within one year	-	3,036
later than one year	-	-
	-	3,870,801

The Company acquired Mmamabula West coal project in December 2013. Under the terms of the sale and purchase agreement, deferred consideration of USD1,500,000 is payable by African Energy Resources upon an extension licence being granted over the Mmamabula West prospecting licence. An extension is expected be granted in late 2014.

24. Contingencies

There were no contingent assets or liabilities in the Group at 30 June 2014.

Corporate Governance Statement

This Statement reflects African Energy Resources Limited's corporate governance policies and practices as at 30 June 2014 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.

Corporate Governance Statement

The Company's practice:

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

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

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

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

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

Name	Position	Term in Office
Mr A C Cooke	Executive Chairman	8 years
Dr C F Tabeart	Managing Director	7 years
Mr G W Fry	Executive Director	8 years
Mr V Chitalu	Non-Executive Director	8 years
Mr P D Clark	Non-Executive Director	3 years
Mr V I Masterton-Hume	Non-Executive Director	1 year
Mr Wayne Trumble	Non-Executive Director	6 months

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

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

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

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

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

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.

Corporate Governance Statement

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:
 - 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.

Corporate Governance Statement

The Company's practice:

The Board has a separate Audit & Risk Committee to assist the Board. The responsibilities of the Audit & Risk Committee 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 one Executive and two Non-Executive Directors and is chaired by a non-independent Director; therefore the Company is not compliant with Recommendation 4.2.

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

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

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

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

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

The Board, consisting of members with financial expertise and detailed knowledge and experience of the mineral exploration and evaluation business, advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Company. The Managing Director and Company Secretary declared in writing to the Board that the Company's financial reports for the year ended 30 June 2014 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

Corporate Governance Statement

- 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.

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:

The Board has a separate Audit & Risk Committee to assist the Board, its responsibilities are set out in a formal charter approved by the Board.

The Board takes a proactive approach to risk management. The Board has delegated to the Audit & Risk Committee 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

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 7 to 11 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.