



Annual Report 2009



AFRICAN ENERGY
RESOURCES LIMITED

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CORPORATE DIRECTORY

Directors

Mr Alasdair Cooke	Executive Chairman
Dr Frazer Tabcart	Managing Director
Mr Bill Fry	Executive Director
Mr Valentine Chitalu	Non-Executive Director
Mr Michael Curnow	Non-Executive Director

Company Secretary

Mr Daniel Davis

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Stock Exchange Listing

African Energy Resources Limited shares are listed on the
Australian Stock Exchange (ASX : AFR)

Website Address

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Managing Director's Letter

Dear Shareholder,

Despite the widespread and severe impact of the Global Financial Crisis, your Company has made significant progress in the last year. Highlights from this period include:

- Commencement of a bankable feasibility study on the Njame and Gwabe uranium deposits in the Chirundu JV project in Zambia.
- Delivery of revised resource statements for the Njame and Gwabe deposits which now contain a total of 7.4 Mlb U_3O_8 in Measured and Indicated resources at an average grade of 293 ppm U_3O_8 .
- Reduction in estimated cash operating costs for the Njame and Gwabe deposits to US \$26-\$31/lb U_3O_8 .
- Discovery of the Siamboka uranium prospect in the Chirundu JV project and the Sitwe uranium prospect in northern Zambia.
- Commencement of a new earn-in joint venture in southern Zambia with Aldershot Resources.
- A capital raising programme which leaves the Company well funded for resource growth through its exploration programmes over the next 12 months.

The African Energy group of companies are focused on identifying and developing energy resources projects in Africa, with a current emphasis on uranium. The Company holds a quality portfolio of tenements and joint venture projects in Zambia and Botswana. These projects are

located over sedimentary basins of the Karoo Supergroup, which are host to known uranium deposits in South Africa, Malawi, Zambia, Botswana, Tanzania and Zimbabwe. By virtue of their geometry and metallurgical properties, these deposits offer the potential for low cost uranium production through shallow open-pit mining and sulphuric acid heap-leaching.

The Company's flagship project, the Chirundu JV project in southern Zambia, is currently the subject of a bankable feasibility study which commenced in 2008. Significant progress was made on this project during the year, including the delineation of Measured and Indicated resources at both the Njame and Gwabe uranium deposits and the development of revised cash operating cost estimates for these deposits. These latest estimates indicate a cash cost of production of US \$26-\$31/lb U_3O_8 to produce 1.2 to 1.4 Mlb U_3O_8 per annum for 5-6 years from a series of open pits and acid heap leach pads. The downward pressure on uranium prices since the last quarter of 2008 has highlighted the sensitivity of the Chirundu project returns to the uranium price and re-affirmed our commitment to further optimise processing parameters to reach a targeted cash operating cost below US \$25/lb.

Whilst we are very encouraged by the operating cost estimates, the mine life of 5-6 years is at the lower end of the acceptable period over which to amortise the expected US \$108 million capital expenditure requirements. The Company has therefore suspended completion of the bankable feasibility study and embarked on an aggressive programme of exploration designed to deliver additional



resources in southern Zambia to increase the project life to 8-10 years. These programmes are well funded via a recently completed private placement to new and existing shareholders. With additional exploration programmes to include drilling at the Sitwe discovery in northern Zambia, drilling at the Sese project in Botswana and a new joint venture in southern Zambia with Aldershot Resources, the Company is well placed to deliver growth to all shareholders.

On behalf of the Board of Directors I would like to thank our shareholders for their continued support and welcome new shareholders to the Company. I would also like to thank our staff members who have continued to perform admirably during this period of unprecedented market turmoil.



Frazer Tabeart

Managing Director

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

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



Operations Review

Strategy and Objectives

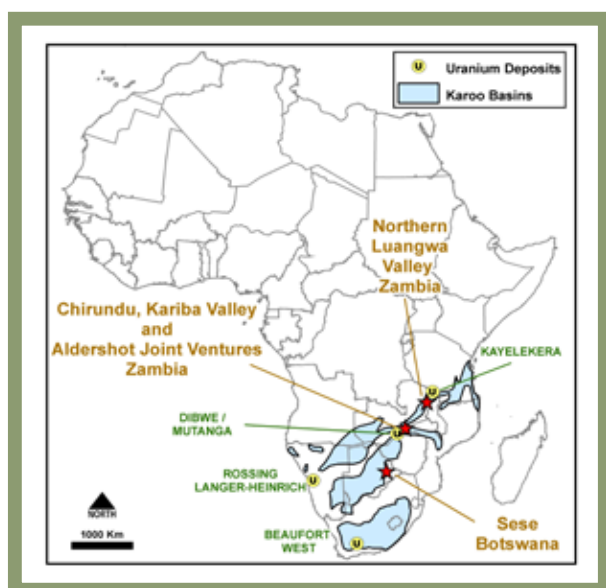
African Energy owns or is earning an interest in seven uranium projects covering over 10,000 square kilometres in southern Africa, ranging from bankable feasibility studies at the Njame and Gwabe deposits in the Chirundu JV in Zambia, to large tenement holdings with prospective geology and uranium anomalies defined by airborne radiometric surveys. African Energy's projects are located in sedimentary rocks of the Karoo Supergroup. A significant amount of known uranium mineralisation occurs in the Karoo sediments in Zambia, Malawi, Botswana, Zimbabwe, Tanzania, Mozambique and South Africa.

Until recently there has been no commercial uranium production from the Karoo Supergroup, but the commissioning of Paladin's Kayelekera mine in Malawi this year demonstrates the potential for this style of mineralisation. This view is further supported by ongoing feasibility studies at Chirundu (African Energy) and Mutanga (Denison Mines Corp) in Zambia, Letlhakane (A-Cap Resources) in Botswana and Mkuju River (Mantra Resources) in Tanzania.

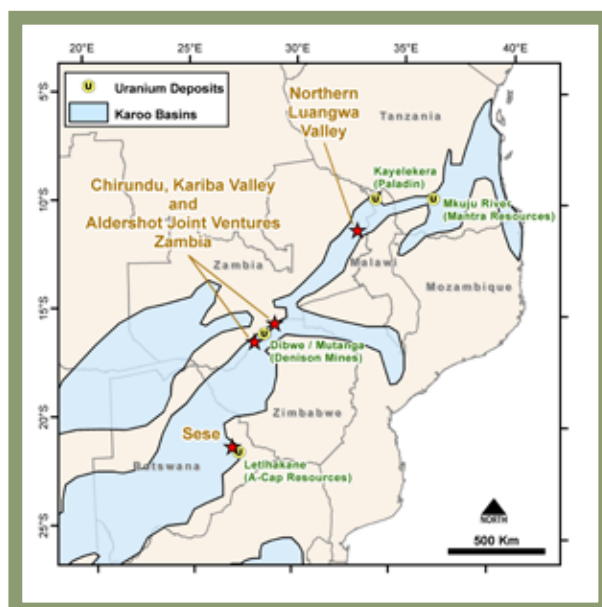
African Energy's primary goal is to bring the uranium deposits in southern Zambia to commercial production and to use the cash flow developed from this operation to provide leveraged growth through mergers, acquisitions and organic exploration success.

In the near term, the primary objectives of the Company will be:

- A major exploration drilling programme in southern Zambia to identify and delineate additional resources.
- Re-scoping and recommencement of bankable feasibility studies to evaluate the viability of mining and processing the uranium mineralisation discovered in the Chirundu JV.
- Exploration and drilling programmes to define the resource potential of the Sese project in Botswana and the Sitwe prospect in northern Zambia;
- Continued assessment of less advanced projects to provide a pipeline of drilling opportunities, and
- Continued assessment of opportunities for the acquisition of new projects.



African Energy's project locations and major uranium deposits in southern Africa



Location of advanced uranium projects in the Karoo basins of southern Africa



Chirundu Joint Venture Project

The Chirundu joint venture project occurs approximately 150km south-east of Lusaka by sealed road. Previous exploration for uranium in the late 1970's by AGIP identified a number of uranium anomalies in the Chirundu area. The most significant of these is the Njame uranium prospect which became the initial focus of African Energy's work in the Chirundu joint venture project, and where the Company was able to identify an initial Inferred Resource in September 2006. Since that time African Energy has discovered the Gwabe uranium deposit some 20km to the northeast, and has outlined over 8.7 Mlb of U_3O_8 (3,945t) in combined Measured, Indicated and Inferred resources at the two deposits.

Joint venture partner Albidon Limited has elected to maintain its 30% interest in the project through meeting its share of future project costs. Both companies committed to a bankable feasibility study which commenced in May 2008. During the past year, work on the feasibility study concentrated on detailed resource drilling to upgrade resources to Measured and Indicated categories, an assessment of mining options, metallurgical test work to determine mineral processing paths and a revised operating cost summary.

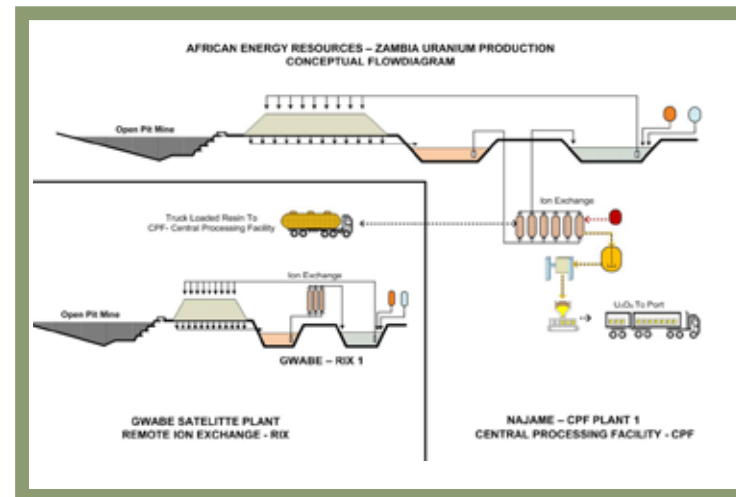
In October 2008 the joint venture partners agreed to defer the engineering and hydrogeological aspects of the feasibility study until additional resources had been identified to extend the mine life beyond the current 5-6 years.



Location of the Chirundu Joint Venture project in southern Zambia

Chirundu Conceptual Project Overview

The Chirundu feasibility study is based on an operation utilising open pit mining and sulphuric acid heap leaching of the uranium ores, with mining initially from the Njame deposit only, followed by Gwabe once Njame has been exhausted. Uranium will be stripped from the leach solutions by ion-exchange resins, followed by elution and precipitation to produce a granulated UO_4 product suitable for export at an annual rate of approximately 1.2 to 1.4 million lb U_3O_8 equivalent over a 5-6 year life. A centralised uranium processing facility at Njame will support the combined operations with loaded ion-exchange resins trucked from Gwabe to Njame for final processing and packaging.



Conceptual project design for the Chirundu uranium operations

Mineral Resources at Chirundu

A major programme of reverse circulation percussion drilling and large diameter core drilling was completed at Njame and Gwabe in late 2008 to provide infill assay data for resource estimation and core samples for metallurgical test work.

The full drilling programme completed to date at Njame now includes 499 aircore/reverse circulation percussion holes for a total of 26,921m and 161 diamond drill holes for 8,310m of core. Drill samples were collected over 1m drill intervals, and were assayed for U and U_3O_8 using the pressed-pellet XRF method. The majority of Njame North, East and Central deposits have been drilled to a 50m x 50m grid, with local infill to 50m x 25m and in places to 25m x 25m. Zones drilled to wider drill spacing than these have been classified as Inferred. The updated resource estimate was completed using the Ordinary Kriging

method, and classified with reference to the criteria set out in the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code, December 2004).



The full drilling programme completed to date at Gwabe now includes 280 aircore/reverse circulation percussion holes for a total of 12,533m and 39 diamond drill holes for 1,368m core. The majority of the Gwabe deposit has been drilled to a 50m x 50m grid with local infill to 50m x 25m.

On the basis of these programmes a revised mineral resource estimate for both deposits was completed, with the majority of mineralisation classified in the Measured and Indicated resource categories. Combined Measured and Indicated resources for the Chirundu JV project contain 7.4 Mlb U_3O_8 at an average grade of 293 ppm U_3O_8 , suitable for a 5-6 year mining project producing 1.2 to 1.4 Mlb U_3O_8 equivalent per annum.

Njame Resource:		
Measured	2.7Mt @ 350ppm U_3O_8	2.1Mlb U_3O_8
Indicated:	3.7Mt @ 252ppm U_3O_8	2.1Mlb U_3O_8
Inferred:	2.2Mt @ 225ppm U_3O_8	1.1Mlb U_3O_8
Total:	8.6Mt @ 276ppm U_3O_8	5.2Mlb U_3O_8
Gwabe Resource:		
Measured:	1.3Mt @ 237ppm U_3O_8	0.7Mlb U_3O_8
Indicated	3.6Mt @ 313ppm U_3O_8	0.3Mlb U_3O_8
Inferred:	0.8Mt @ 178ppm U_3O_8	0.3Mlb U_3O_8
Total:	5.7Mt @ 278ppm U_3O_8	3.5Mlb U_3O_8
<i>Note; 100 ppm U_3O_8 cut-off grade applied in all cases Appropriate rounding has been applied</i>		

Mining Options Study

Sound Mining Solutions Central Africa (Pty) Ltd were contracted to perform a trade-off study to compare mining using surface mining machines (specifically the T1255 from Vermeer), conventional drill and blast mining, and ripping/free-digging using a bulldozer. These costs have been derived through a consideration of the mechanical strength properties of the rock mass at Njame and Gwabe and have been benchmarked against mining operations in rocks of similar strength. Operating cost estimates for the Vermeer T1255 were also factored to account for actual vs. claimed performance for these machines in a large mining operation in southern Africa. Load and haul costs to deliver mineralisation to the heap leach pads and to deliver waste to the waste rock dump were factored into the estimate.

A summary of the results of this study is provided below:

Activity	Ripping & Dozing	Drilling & Blasting	Surface Miner
Operating cost for ore excluding capital	1.81	2.32	1.78
Operating cost for ore including capital	2.12	2.59	2.02
Operating cost for waste excluding capital	1.49	2.00	1.58
Operating cost for waste including capital	1.75	2.23	1.83

On the basis of these results, and subject to further test-work to verify the assumptions made, the Company has selected surface miners as the preferred mining solution for Chirundu, although both deposits are likely to benefit from ripping and free-digging in the upper 5-10m which will slightly reduce costs.

Metallurgical Test Work Results

Mintek Laboratories have been performing metallurgical test work studies on the mineralisation from Njame and Gwabe as part of the feasibility study. This work has comprised rolling-bottle tests to assess material variability within and between the deposits and to determine parameters for subsequent column leach tests, and column leach tests on Njame mineralisation. Key results to date are:

- Rolling-bottle tests indicate that there is no material variability in reagent consumption for the mineralisation within each deposit.



- Rolling bottle tests indicate that Gwabe mineralisation consumes approximately twice as much sulphuric acid as Njame mineralisation.
- Column leach tests indicate that no scrubbing or agglomeration is required.
- Column leach tests for Njame mineralisation have achieved uranium recoveries of 84-87% with acid consumption of 3kg/t to 4kg/t.
- An average recovery of 85% and acid consumption of 5kg/t has been used for calculating operating cost estimates for processing Njame mineralisation.
- Uranium recovery of 70% was assumed for Gwabe based on previous column leach tests.
- An acid consumption of 10kg/t has been assumed for Gwabe based on twice that for Njame, as derived from the rolling-bottle tests.
- Sulphuric acid prices used for this estimation are US \$170/t for acid purchased in the Copperbelt (2008 estimated contract price) and US \$150/t transport to Chirundu as quoted by a local transport contractor. A reduction in these prices may be possible, which will have a positive impact on overall operating costs.
- Prices for other reagents were derived from quotes obtained by GRD Minproc.

Operating Cost Estimates

Based on the results of the mining options study and the metallurgical test work to date, a revised operating cost estimate has been produced:

Njame

Area	% of Total Cost	Annual Cost (US\$)	US\$/t Processed	US\$/lb U ₃ O ₈
Mining Cost	65%	22,520,000	11.26	20.03
Labour	6%	1,922,914	0.96	1.71
Power	2%	652,767	0.33	0.58
Reagents	24%	8,441,540	4.22	7.51
Consumables	1%	420,782	0.21	0.37
Maintenance Materials	1%	250,000	0.13	0.22
Product Transport	0%	129,030	0.06	0.11
General and Admin	1%	452,556	0.23	0.40
Total	100%	34,789,589	17.39	30.95

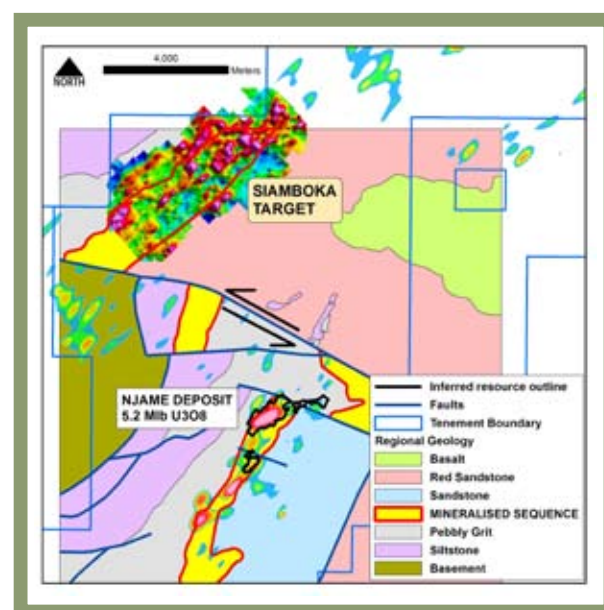
Gwabe

Area	% of Total Cost	Annual Cost (US\$)	US\$/t Processed	US\$/lb U ₃ O ₈
Mining Cost	41%	11,082,500	4.93	10.64
Labour	7%	2,000,000	0.89	1.92
Power	2%	450,000	0.20	0.43
Reagents	46%	12,257,160	5.45	11.77
Consumables	1%	348,535	0.15	0.33
Maintenance Materials	1%	250,000	0.11	0.24
Product Transport	0%	119,543	0.05	0.11
General and Admin	1%	266,336	0.12	0.26
Total	100%	26,774,074	11.90	25.71

On the basis of these estimates, the average life-of-mine operating cost will be below US \$30/lb U₃O₈. With further optimisation the Company is targeting an operating cost range of US \$22-\$25/lb U₃O₈.

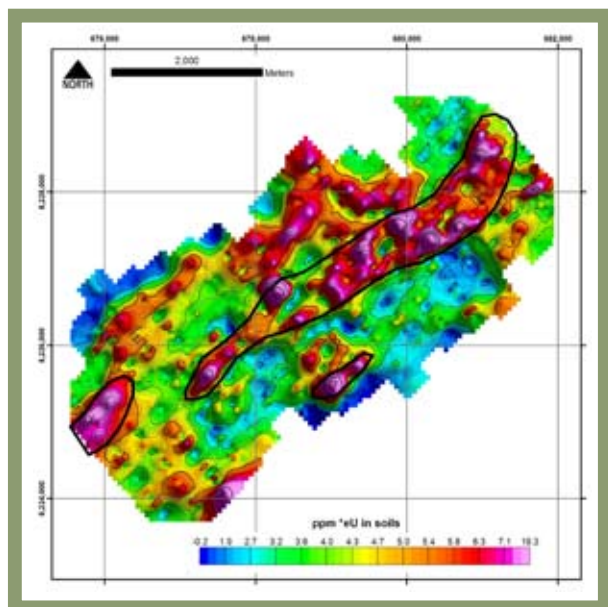
Exploration Programmes in the Chirundu JV

Exploration in the last year has resulted in the discovery of the Siamboka prospect, which occurs 8km north of the Njame deposit. The prospect was identified through an airborne radiometric survey which highlighted an anomalous uranium response over sedimentary rocks which are interpreted to represent the faulted offset of the mineralised sandstones and siltstones at Njame.



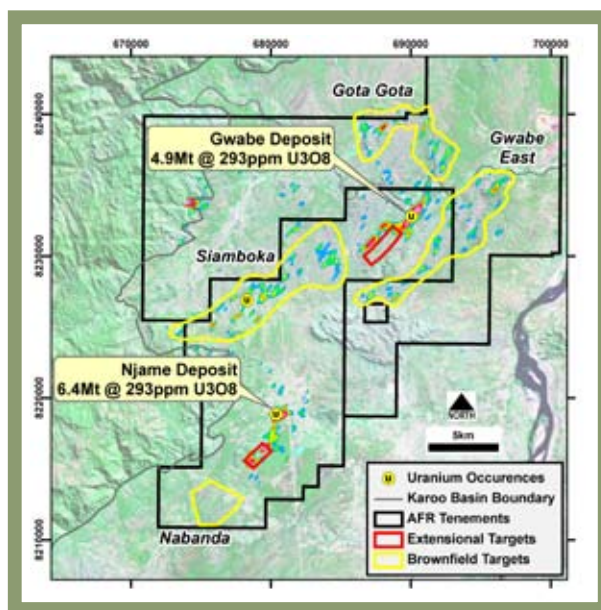
Siamboka location plotted on a geological base map. Airborne radiometric data is overlain on the geology. Note the occurrence of airborne radiometric anomalism at Siamboka on the same geological sequence as that which hosts Njame, with an interpreted fault offset between the two

Field evaluation of the prospect included geological mapping and an assessment of the uranium content of the soils on a 400m x 25m grid pattern. The uranium content in soils was established at each grid point using a calibrated RS-125 spectrometer in assay mode. Results to date indicate that anomalous uranium levels occur over a strike length in excess of 5km and up to 0.6km wide.



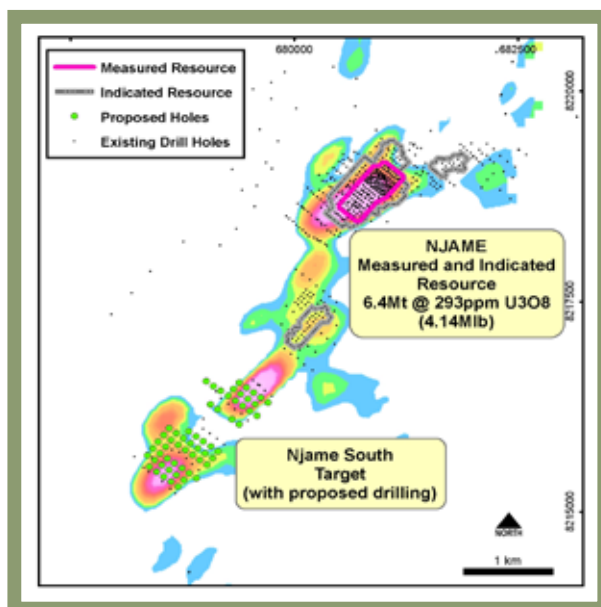
Soil sampling results from RS-125 spectrometer survey of the Siamboka target depicted as a gridded image of uranium contents in soil

The soil anomaly is parallel to the strike of the sedimentary rocks. A peak value of 32 ppm U was recorded by the RS-125 spectrometer, which is equivalent to 38 ppm U_3O_8 . The uranium anomalism is spatially related to the contact between siltstones and coarser grained pebbly grits. Similar contacts are mineralised at both of the nearby Njame and Gwabe uranium deposits. The Siamboka target represents a high priority target for drill testing in the fourth quarter of 2009 due to its proximity to the proposed Njame uranium processing facility.



Location map showing the Siamboka target and other brownfields and extensional targets in the Chirundu JV Project. Deposit grade and tonnage represents total Measured and Indicated resources at the Njame and Gwabe deposits

Further drilling will also be undertaken at Njame South, where previous drilling identified uranium mineralisation associated with airborne and surface radiometric anomalism. Drilling will also be conducted at the southern end of the Gwabe radiometric anomaly to evaluate the potential of down-plunge mineralisation.



Proposed drill collars for the evaluation of the Njame South prospect



Kariba Valley Joint Venture Project

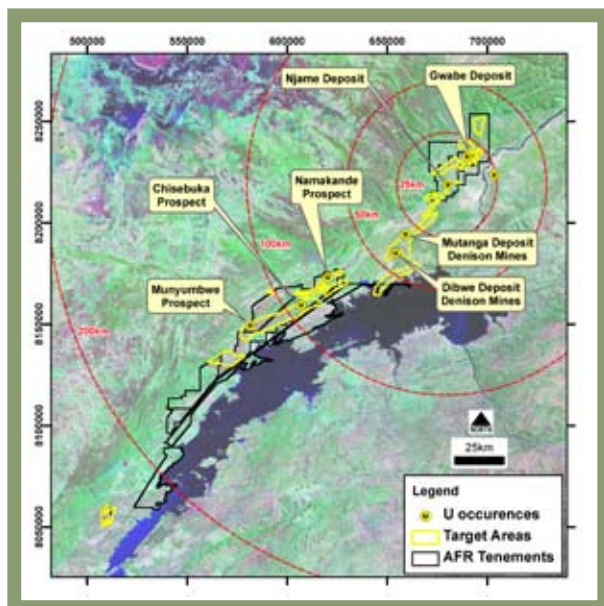
The Kariba Valley joint venture project is the second joint venture with Albion Exploration Limited, and contains the high-priority Chisebuka and Namakande prospects. The Kariba Valley joint venture project is approximately 250km from Lusaka by road, and occurs 50km to the southwest of Denison Mines' tenement that contains the Dibwe and Mutanga uranium deposits. The Kariba Valley JV project also contains the same Escarpment Grit Formation that hosts the mineralisation at Njame, Gwabe, Dibwe and Mutanga. African Energy can earn up to a 70% interest in this project by completing a prefeasibility study and delivering an Indicated resource.

The Kariba Valley JV tenements occur within economic trucking radius of the proposed Njame uranium processing facility near Chirundu and thus forms an important and integral part of African Energy's resource expansion plans for southern Zambia. Any economically viable discovery of uranium in this project could result in a remote ion-exchange mining project capable of delivering high-value loaded ion-exchange resins to the Njame plant where it would be processed to make the final UO_4 product for export.

percussion drilling at three prospects; Munyumbwe, Chisebuka, and Namakande. Encouraging results have been obtained from exploration at Chisebuka and Namakande with significant uranium mineralisation observed at both prospects. A major exploration initiative has commenced on these areas to identify resources suitable for mining operations to feed into the Njame processing facility.



Location of named prospects with respect to the outline of the Kariba Valley joint venture project



Location map showing the Kariba Valley JV project and the prospect locations referred to in the text. Note concentric circles denoting trucking distance to the proposed Njame uranium processing facility

To date, African Energy has undertaken limited programmes of ground radiometric surveys, geochemical soil and rock-chip sampling and reverse circulation

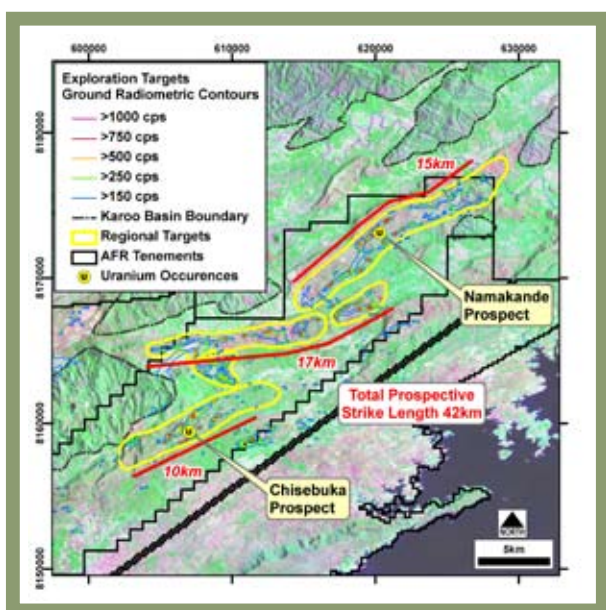
Namakande and Chisebuka Prospects

The Namakande and Chisebuka prospect areas occur in the northern part of the Kariba Valley JV and are defined by a series of elongated ground radiometric anomalies along a total strike length in excess of 40km. Previous exploration by African Energy includes geochemical soil and rock-chip sampling and very limited reverse circulation percussion drilling at both prospects. Ore grades have been encountered in drilling at Chisebuka (e.g. 7m @ 445 ppm U_3O_8 from 11m depth and 7m @ 465 ppm U_3O_8 from 57m). Ore grade uranium has also been located at Namakande, including the previously reported Namakande A target where a zone of uranium anomalism has been detected in both soils and rock-chip sampling. This anomaly extends over 1km of strike length, and is open along strike in both directions. The anomaly contains >50 ppm U_3O_8 in soils and contains rock chip samples taken from small historical trenches with peak values of 451 ppm U_3O_8 . Three lines of geochemical soil and rock-chip sampling were completed at the Namakande C target,

with uranium anomalism detected on two of these lines. Peak values of 1,150 ppm U_3O_8 in rock-chip samples and 326 ppm U_3O_8 in soil samples were detected.



A significant programme of geological mapping and detailed soil sampling has commenced at Namakande and will be used to prioritise a number of targets for drill testing that will commence in the fourth quarter of 2009.



Ground radiometric anomalies in the northern part of the Kariba Valley JV project on a false colour satellite image

Aldershot Joint Venture Project

African Energy has entered into an Earn-In Agreement with Aldershot Resources Ltd (Aldershot) regarding two prospecting licences in the Kariba Valley in southern Zambia. These two licences, Lake Kariba PLLS.310 and prospecting licence application Sinazongwe LPL32/07 cover an area of 748 km² and occur between African Energy's Kariba Valley JV project and the northern shore of Lake Kariba. They cover sedimentary rocks of Karoo age, including the Escarpment Grit and Interbedded Sandstone and Mudstone horizons which host the known uranium mineralisation in the region, including African Energy's Njame and Gwabe deposits, and Denison Mines' Mutanga and Dibwe deposits. African Energy can earn a 51% beneficial interest in the subject properties through meeting an Earn-In Expenditure commitment of AU \$500,000 within three years of signing the Agreement, and can increase this to 70% by completing a prefeasibility study on an Inferred resource.

The area of the subject properties was first explored for uranium in the 1980's by the Power Reactor and Nuclear Fuel Development Corporation of Japan (PNC). PNC conducted ground geophysical surveys and limited drilling (a total of 76 holes) between 1980 and 1985, identifying several prospects where narrow zones of uranium bearing mineralisation was present in Karoo sediments.

Between 1985 and 2007 there was no uranium exploration undertaken on the subject properties. In 2007, Aldershot commissioned a series of ground radiometric surveys over selected target areas, and followed up with limited geochemical rock-chip sampling where warranted. 20 rock samples were submitted for assay, returning values between 5.5 ppm U_3O_8 and 1,780 ppm U_3O_8 . Of the 20 samples assayed, 5 returned values in excess of 500 ppm U_3O_8 , in all cases associated with sedimentary horizons bearing reduced mudball concentrations. Whilst not specifically identifying economic concentrations of uranium, these results are evidence that uranium mineralising processes have occurred in the region.

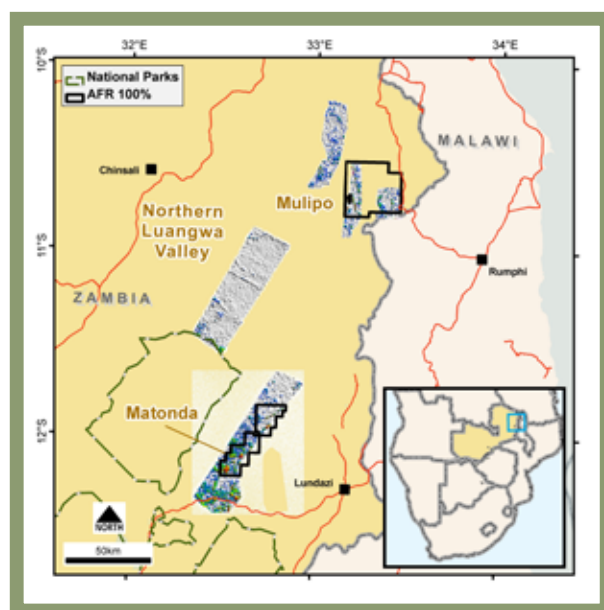
African Energy considers that the subject properties have not been systematically or adequately explored for uranium, and thus present an opportunity for further discoveries that are potentially within economic trucking distance of its proposed uranium processing facility at Njame. Exploration programmes are scheduled to commence in late 2009.



Map showing location of the Aldershot JV tenements with reference to other African Energy projects

Northern Luangwa Valley Project

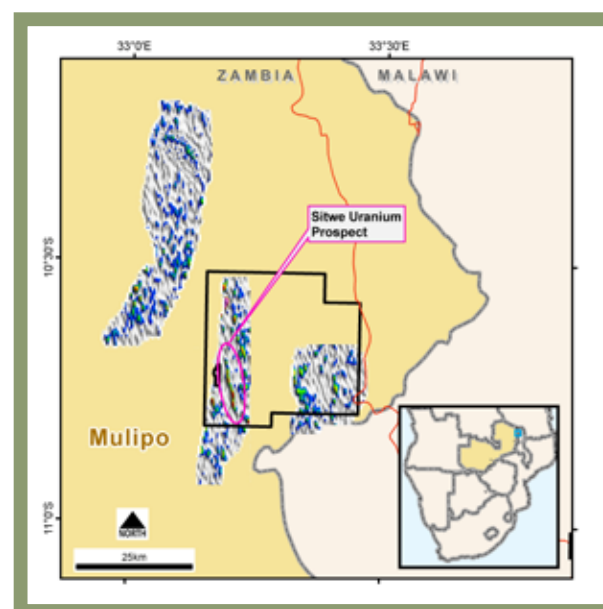
The Northern Luangwa Valley project comprises two Prospecting Licences (Matonda and Mulipo) that are wholly owned by African Energy. Limited exploration for uranium was undertaken in this area by the Power Reactor and Nuclear Fuel Development Corporation of Japan (PNC) in the mid 1970's, highlighting several areas of interest.



Northern Luangwa Valley project showing the locations of African Energy's licences and the airborne surveys referred to in the text

African Energy has evaluated this project through a series of detailed airborne radiometric surveys completed in December 2006 and October 2007. These surveys identified several uranium anomalies, including confirmation of two areas reflecting previously identified regional anomalies, and several new areas of uranium anomalism. Reconnaissance evaluation in April 2008 confirmed the presence of Karoo-aged sediments at a number of these anomalies, the most significant of which occurs approximately 5km north of the village of Sitwe in the Mulipo prospecting licence.

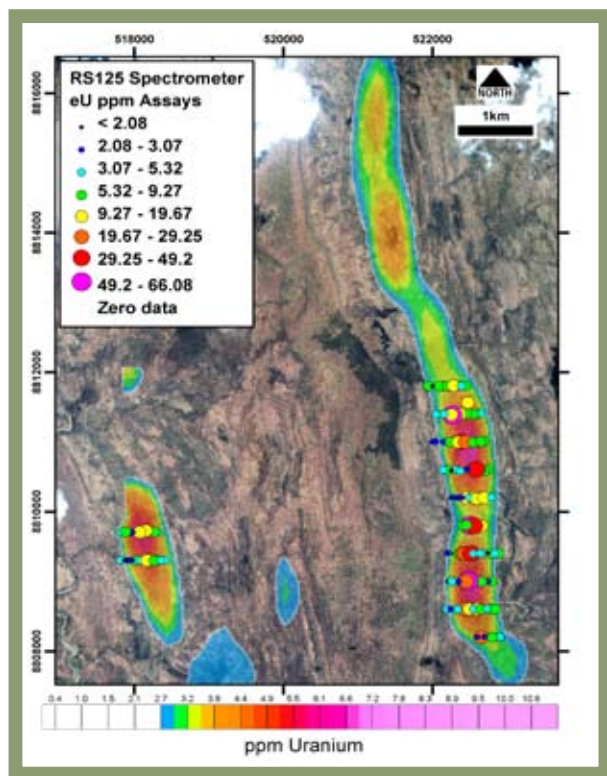
Field evaluation of the Sitwe airborne radiometric anomaly indicates that there is a close spatial association between the anomaly and shallow-dipping inter-bedded fine sandstones and siltstones over a strike-length of approximately 8km. A programme of geochemical soil sampling (400 metres by 50 metres sample spacing) was completed over the southern half of the primary target, and a further two lines were completed over a secondary target 2km to the west. The soil samples were analysed for uranium using a calibrated Radiation Solutions RS-125 hand-held spectrometer, with every second sample also analysed by X-Ray Fluorescence (XRF) at ALS Chemex Laboratories in South Africa.



Location of the Sitwe airborne radiometric anomaly in the Mulipo prospecting licence

Assay results from the RS-125 spectrometer were very encouraging, with anomalous assay values highlighting an elongated zone of uranium anomalism corresponding to silty sediments within an inter-bedded siltstone-sandstone association. A peak value of 66ppm eU was recorded

(equivalent to 78 ppm U_3O_8). Assays derived from the XRF analysis at ALS Chemex Laboratories confirmed the anomalism. The anomaly remains open to the north where the airborne radiometric target extends for a further 4km.

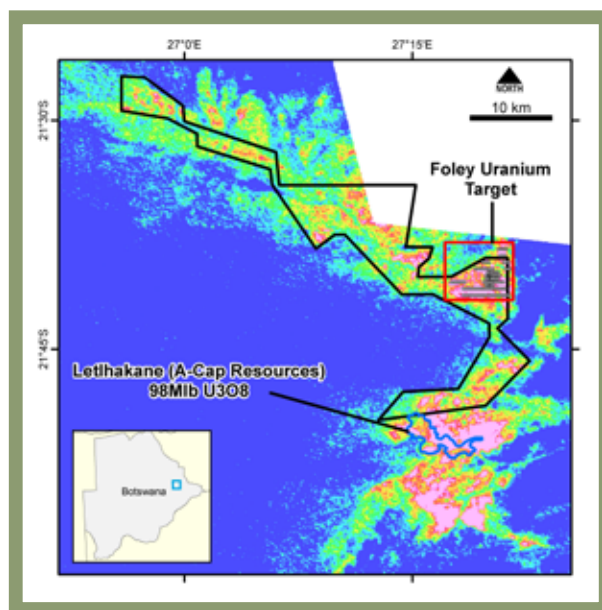


Geochemical soil sampling assay results at Sitwe plotted on the airborne radiometric data (uranium channel), draped over a high-resolution satellite photo of the area

Additional geochemical soil sampling is required to cover the northern extent of the airborne radiometric target and provide detailed infill for the entire target. This data will be used to prioritise drilling targets. The Company expects to complete the additional soil sampling in the fourth quarter of 2009 and to have targets delineated for drilling in 2010.

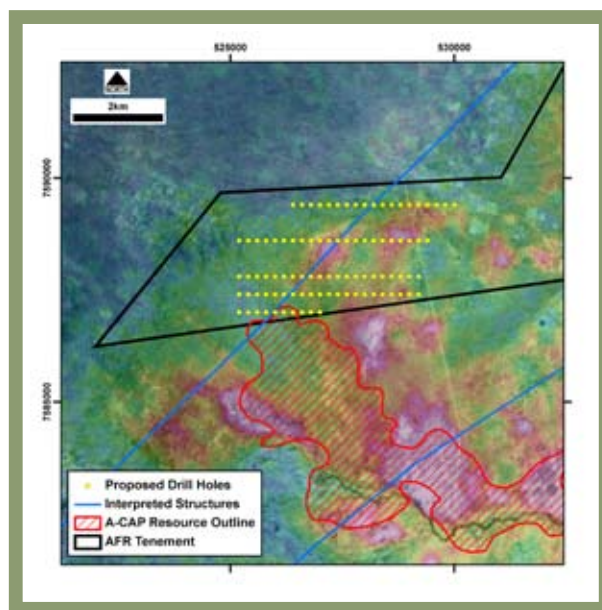
Sese Uranium Project, Botswana

The Sese uranium project is located in northeast Botswana and is approximately 50km southwest of Francistown. The project is situated close to the sealed highway between Francistown and Gaborone and is easy to access. The Sese Project covers an area of Karoo sediments where very high background uranium levels have been observed in publicly available regional radiometric data. The Karoo sediments form a band approximately 5km to 10km wide, occupying a position between older basement gneisses to the east and younger, flat lying Kalahari Sand cover to the west. Calcrete horizons are locally developed immediately above the Karoo sediments in this part of Botswana.



Radiometric data for the Sese project showing the location of the Foley Target and the location of A-Cap Resources' Inferred Resource outline

To the immediate south of the Sese tenement, A-Cap Resources has identified widespread and continuous uranium mineralisation in the calcrete and in the underlying Karoo-aged sandstones on their Letlhakane project, resulting in an Inferred Resource containing 98 million lb U_3O_8 at an average grade of 158 ppm U_3O_8 . This resource covers a large area, and extends to the tenement boundary with African Energy's Sese Prospecting Licence. African Energy plans to drill the possible extension of this resource into the Sese tenement in the third quarter of 2009.



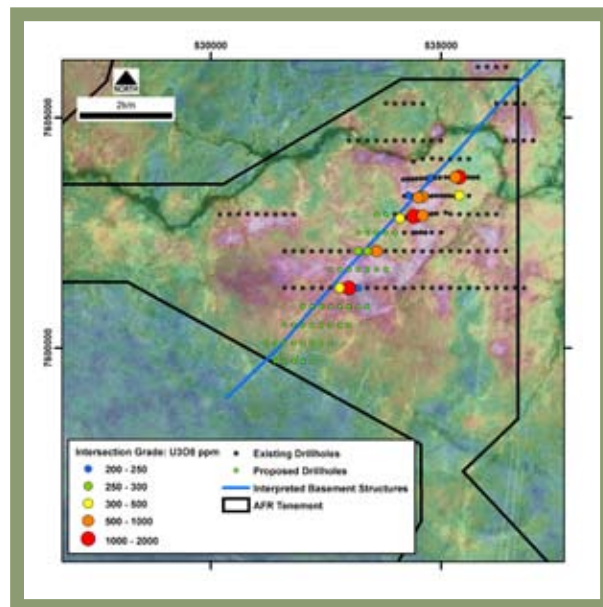
Proposed drill hole collar locations at the southern extent of the Sese Project, where the African Energy permit is adjacent to a known uranium resource on ground held by A-Cap Resources Limited



The Foley uranium target occurs 15km to the north of Letlhakane and covers an area of almost 50km². African Energy completed an 83 drillhole programme of broadly spaced reverse circulation percussion (RC) drilling to evaluate the Foley anomaly in late 2007. Significant thicknesses and grades of uranium mineralisation were encountered in several holes near the centre of the anomaly. A new geological interpretation has been completed for the Sese area, suggesting that the higher grade mineralisation at Foley is spatially associated with a northeast-southwest trending structure in the basement rocks which in turn controls a Karoo-aged sedimentary channel. Further drilling is planned for the Foley target to test this concept and determine the economic significance of the mineralisation identified to date.

Significant drill intercepts from the Foley prospect

Hole ID	From (m)	To (m)	Interval (m)	Grade (ppm U ₃ O ₈)
SES003	33	34	1	213
SES010	41	45	4	634
SES012	40	49	9	370
SES013	57	58	1	578
SES020	53	54	1	218
SES022	27	28	1	394
and	29	30	1	>2,000
SES044	43	44	1	309
SES065	52	54	2	526
SES066	55	58	3	288
SES067	51	52	1	264
SES118	63	64	1	232
and	67	70	3	210
SES119	66	68	2	248
and	75	76	1	1,429
and	78	80	2	1,234
SES120	69	71	2	357
SES132	30	31	1	375
SES143	29	30	1	982
SES153	36	37	1	209
SES155	53	55	2	1,168
SES156	61	65	4	854



Drill status map of the Foley Uranium Target showing mineralised intersection grades (200 ppm U₃O₈ cut-off), overlain on airborne radiometric uranium anomalies. Proposed infill drilling is located on a nominal 400m x 200m spaced grid



Tenement Schedule

Project Name	Tenement Name	Tenement Holder	Licence Number	African Energy Equity	Tenement Area (sq km)	Date Granted	Current Expiry Date	Notes
MALAWI								
Majete	Majete	African Energy Resources (Malawi) Ltd	EPL 0175/2005	100%	441	22-Sep-05	21-Sep-09	1
Rumphi	Rumphi	African Energy Resources (Malawi) Ltd	EPL 0176/2005	100%	500	22-Sep-05	21-Sep-09	1
ZAMBIA								
North Luangwa Valley	Matonda	African Energy Resources Ltd	PLLS 270	100%	548	16-Nov-05	11-Feb-10	2
North Luangwa Valley	Mulipo	African Energy Resources Ltd	PLLS 271	100%	982	16-Nov-05	11-Feb-10	2
Kariba Valley	Nagandwe	African Energy Resources Ltd	13764-HQ-LPL	100%	138	Pending		
Chirundu JV	Chirundu ML	Albidon Exploration Limited	12634-HQ-LML	70%	248	Pending		3
Chirundu JV	Chirundu PL	Chirundu Joint Ventures	13265-HQ-LPL	70%	475	Pending		
Kariba Valley JV	Munyumbwe	Chirundu Joint Ventures	13642-HQ-LPL	-	270	Pending		4
Kariba Valley JV	Kariba Valley	Chirundu Joint Ventures	13263-HQ-LPL	-	548	Pending		4
Kariba Valley JV	Siabuleni	Chirundu Joint Ventures	13647-HQ-LPL	-	220	Pending		4
Kariba Valley JV	Sinazongwe E	Chirundu Joint Ventures	13646-HQ-LPL	-	77	Pending		4
Kariba Valley JV	Sinazongwe W	Chirundu Joint Ventures	13643-HQ-LPL	-	28	Pending		4
Aldershot JV	Lake Kariba	Aldershot Resources Ltd	PLLS 310	-	498	6-Dec-2006		4
Aldershot JV	Sinazongwe	Aldershot Resources Ltd	LPL/32/07	-	250	Pending		4
BOTSWANA								
Sese	Sese	African Energy Resources Botswana (Pty) Ltd	PL 96/2005	100%	288	1-Jul-05	30-Sep-10	
Sese	Sese West	African Energy Resources Botswana (Pty) Ltd	PL197/2007	100%	331	1-Oct-07	30-Sep-10	
ZIMBABWE								
Kariba Zimbabwe	Sinamatella 1	African Energy Resources Ltd	SG 17/05		233	Pending		5
Kariba Zimbabwe	Sinamatella 2	African Energy Resources Ltd	SG 19/05		644	Pending		5
Kariba Zimbabwe	Sebungwe	African Energy Resources Ltd	SG 20/05		504	Pending		5
Kariba Zimbabwe	Tenchiwende	African Energy Resources Ltd	SG 39/05		1,193	Pending		5
Kariba Zimbabwe	Chirundu Zimbabwe	African Energy Resources Ltd	SG 40/05		1,443	Pending		5
Kariba Zimbabwe	Mapamba	African Energy Resources Ltd	SG12/05		121	Pending		5

Notes:

1. African Energy has determined that the Malawi tenements are of no further interest and will not renew them beyond their expiry date.
2. African Energy has re-applied for these tenements under the Mines and Minerals Development Act No 7 of 2008.
3. Chirundu ML will be transferred to Chirundu Joint Ventures Ltd (in which African Energy holds 70%) on granting.
4. These licences are all in the process of renewal to meet the requirements of the Mines and Minerals Development Act No 7 of 2008. African Energy has the right to earn up to a 70% interest in these tenements.
5. The six tenements in Zimbabwe are yet to be granted.

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AFRICAN ENERGY
RESOURCES LIMITED

formerly African Energy Resources (Guernsey) Limited
ARBN 123 316 781

DIRECTORS' REPORT

The Directors of the Company present their report for the financial year ended 30 June 2009.

1. DIRECTORS AND COMPANY SECRETARY

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

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

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

Mr. Cooke is a founding partner of the Mitchell River Group, which over the past eight years has established a number of successful resources companies, including ASX listed Sally Malay Mining Ltd (now known as Panoramic Resources Ltd), operating the Savannah and Lanfranchi nickel projects in Australia, AIM and ASX listed Albidon Ltd, ASX listed Mirabela Nickel Ltd (developing the Santa Rita nickel project in Brazil), ASX listed Exco Resources Ltd (developing copper and gold resources in Australia) and ASX listed Energy Ventures Ltd (developing uranium projects in Sweden). Mr Cooke is a former director of Sally Malay Mining Ltd and is currently an Executive Director of Energy Ventures Ltd, Albidon Ltd, Oval Biofuels Ltd and Exco Resources Ltd.

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

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

Dr. Tabeart joined the Mitchell River Group of companies in August 2005, initially as Head of Exploration for Albidon Ltd, and subsequently as General Manager for African Energy Resources Ltd. Under his stewardship the Company delineated the uranium resources in the Chirundu JV in southern Zambia and exploration discoveries in the Kariba Valley of Zambia and at Foley in Botswana. He was appointed Managing Director in November 2007 and has since led the Company through Prefeasibility Studies and into Bankable Feasibility Study at Chirundu.

Dr. Tabeart is a Director of the Mitchell River Group and a former Executive Director for Agricola Resources plc. He is also one of the founders of Norrland Resources Ltd which is evaluating a large portfolio of nickel exploration tenements in Sweden.

Mr Gregory Fry – Executive Director

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

Over the past 14 years Mr. Fry has been a director of several private and public companies with activities ranging from funds management, minerals exploration, mining and quarrying, land development and waste management.

Mr. Fry has been an Executive Director of African Energy Resources since listing and is responsible for the Company's commercial and financial business programs. He is a current director of Energy Ventures Limited, Norrland Resources Limited, and Oval Biofuels Limited and since balance date resigned as director of Agricola Resources plc..

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

Mr. Chitalu, who is 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



DIRECTORS' REPORT

Accountants. He also holds a Master's Degree in Economics, Finance and Politics of Development and a Bachelor's Degree in Accounting and Finance.

Mr. Chitalu has had both an international and local career over a period of fifteen years in the fields of private equity, privatisation, merchant banking, corporate finance, accounting, auditing, development economics, capital markets and business/private sector development in transitional economies. He has a significant interest in private sector development in southern Africa and is extensively networked in the region.

Mr. Chitalu has worked for Meridien Financial Services as Manager, Corporate Finance and the Zambia Privatisation Agency as Chief Executive Officer and most recently as Central African Director with CDC (formerly Commonwealth Development Corporation). He currently holds directorships in various private entities.

Mr. Chitalu has been a non-executive director of African Energy Resources since listing and has assisted African Energy through his extensive business and Government contacts in the region. Mr. Chitalu is currently a director of Albidon Ltd.

Mr Michael Curnow – Non-Executive Director

Mr. Curnow brings extensive experience in the resources sector in gold, platinum and mineral sands exploration to the Company, which will be significant for the future development of African Energy. He has been involved in the ownership and management of a wide range of businesses in South Africa and Australia. He was a founding director of Gallery Gold Ltd and AGR Ltd. Mr Curnow has been a non-executive director of African Energy Resources since listing and is also a non-executive Director of Energy Ventures Ltd.

Dr Ian Duncan DPhil, FTSE, FAusIMM, FIEAust, FAIE – Non-Executive Director

(resigned 19th November 2008)

Dr Duncan's industrial experience is diverse, commencing with mechanical engineering applied to Australian chemical, paper and mining industries. He joined Western Mining Corporation Ltd (now part of BHP Billiton plc) in 1971 as Operations Manager, Exploration Division and had a 27 year career with Western Mining Corporation Ltd, retiring as General Manager of the large Olympic Dam copper, uranium, gold and silver operations in South Australia. He is a former Chairman of the London based Uranium Institute (now the World Nuclear Association). Dr Duncan is currently a non-executive Chairman of Energy Ventures Ltd.

Mr Daniel Davis – Company Secretary B.Com ASA

(appointed 1 April 2009)

Mr. Davis is an associate member of CPA Australia who graduated from the University of Western Australia in 2001 with a Bachelor of Commerce majoring in Accounting and Finance. Mr. Davis has worked in the resources sector for the last five years specialising in African based explorers. Prior to joining African Energy in 2007 as Financial Accountant he worked with Albidon Ltd in a similar role. Mr. Davis was appointed to the role of Company Secretary on 1st April 2009.

Mr Brett Mitchell – Company Secretary

(resigned 1 April 2009)

Mr Mitchell has worked for both private and publicly listed entities for the past 16 years as a corporate finance executive. Mr Mitchell holds a Bachelor of Economics degree from the University of Western Australia and has experience in the financial markets and resources sectors. Mr Mitchell is a former director of Energy Ventures Ltd and is currently executive director and company secretary of WildHorse Energy Ltd and Transerv Australia Ltd and non executive director and company secretary of Quest Petroleum NL. In the past three years Mr Mitchell has held no other public directorships.

DIRECTORS' REPORT

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	
	Present	Held	Present	Held
Alasdair Cooke	4	4	1	1
Charles Tabeart	4	4	-	-
Gregory Fry	4	4	-	-
Ian Duncan	2	2	-	-
Valentine Chitalu	3	4	-	-
Michael Curnow	4	4	1	1

1.2 Corporate Governance

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

2. REVIEW OF OPERATIONS, BUSINESS STRATEGIES AND PROSPECTS

A detailed review of operations is provided in the Operations Review of this Annual Report.

3. REMUNERATION REPORT - AUDITED

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

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.



DIRECTORS' REPORT

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

Alignment to shareholders' interests:

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

Alignment to program participants' interests:

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

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

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

Non-executive Directors

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

The current base remuneration was last reviewed with effect from 1 July 2008. The non-executive directors' remuneration is limited to a base fee of \$35,000 per annum which was approved at the Annual General Meeting on 27 November 2007. The following fees have since applied:

	2009	2008
	AUD	AUD
Non-executive Directors - base fees	35,000	35,000

Executive Directors

The executive pay and reward framework has two components:

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

The combination of these comprises the executive's total remuneration. The Group intends to revisit its long-term equity-linked performance incentives for executives during the year ending 30 June 2009.

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 executives' discretion.

DIRECTORS' REPORT

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. Base pay for executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

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

Superannuation

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

Long-term incentives

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

3.2 Service contracts

On appointment to the Board, all Executive Directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the office of Director.

The Company currently has service contracts in place with the executive chairman and executive directors. All contracts with the executives are for a two year term but can be terminated by either party with three months notice. Details of the executive's agreements are listed below.

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

- Commencement date: 1 December 2006
- Base salary, for the year ended 30 June 2008 was \$100,000
- Mr Cooke's contract and remuneration is reviewed annually

Dr Charles Tabcart – *Managing Director, the Company*

- Commencement date: 5 November 2007
- Base salary, including superannuation for the year ended 30 June 2008 was \$300,000
- Dr Tabcart's contract and remuneration is reviewed annually

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

- Commencement date: 1 December 2006
- Base salary, for the year ended 30 June 2008 was \$150,000
- Mr Fry's contract and remuneration is reviewed annually

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



DIRECTORS' REPORT

3.3 Directors and executive officers' remuneration (Company and consolidated)

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

The key management personnel of the Group are the directors of African Energy Resources Limited and the following executives:

Name	Position	Employer
Daniel Davis	Company secretary	African Energy Resources Limited
Brett Mitchell	Company secretary	African Energy Resources Limited

Details of remuneration

The following tables set out remuneration paid to Key Management Personnel of the Company and the consolidated entity during the reporting period.

Key management personnel of the Group and other executives of the Company and the Group

	Short term employee benefits	Post- employment benefits	Share based payments		Value of options as a % of remuneration
2009	Cash salary and fees	Superannuation	Options	Total	
Non-executive Directors					
Valentine Chitalu	64,896	-	-	64,896	-
Michael Curnow	35,000	-	-	35,000	-
Ian Duncan	13,505	-	-	13,505	-
Total non-executive directors	113,401	-	-	113,401	
Key Management Personnel (Group)					
<i>Executive Directors</i>					
Gregory Fry	150,000	-	-	150,000	-
Charles Tabear	275,229	24,771	26,655	326,655	8%
Alasdair Cooke	100,000	-	-	100,000	-
	525,229	24,771	26,655	576,655	
<i>Other Key Management Personnel (Group)</i>					
Brett Mitchell	45,000	-	-	45,000	-
Daniel Davis	76,159	2,191	11,722	90,071	13%
	121,159	2,191	11,722	135,071	
Total Key Management Personnel (Group)	646,389	26,961	38,376	711,726	

DIRECTORS' REPORT

	Short term employee benefits	Post- employment benefits	Share based payments		Value of options as a % of remuneration
2008	Cash salary and fees	Superannuation	Options	Total	
Non-executive Directors					
Valentine Chitalu	35,000	-	-	35,000	-
Michael Curnow	35,000	-	-	35,000	-
Ian Duncan	38,750	-	-	38,750	-
Total non-executive directors	108,750	-	-	108,750	
Key Management Personnel (Group)					
<i>Executive Directors</i>					
Gregory Fry	130,000	-	-	130,000	-
Charles Tabcart	261,741	20,857	89,828	372,426	24%
Alasdair Cooke	100,000	-	-	100,000	-
	491,741	20,857	89,828	602,426	
<i>Other Key Management Personnel (Group)</i>					
Wiscort Banda	25,248	1,107	17,970	44,325	41%
Patrick Cullen	118,807	-	44,764	163,571	27%
Brett Mitchell	60,000	-	-	60,000	-
Olivia Woodland	126,776	8,491	-	135,267	-
	330,831	9,598	62,734	403,163	
Total Key Management Personnel (Group)	822,572	30,455	152,562	1,005,589	

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

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

3.4 Share-based compensation

Options over shares in African Energy Resources Limited are granted under the AFR Employee Option Plan which was approved by shareholders at the 2007 annual general meeting. The Employee Option Plan is designed to provide long-term incentives for directors and executives 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.

Vesting of the options is based on the period of service, no incentive options granted to date are based on performance-related vesting conditions. Options are granted under the plan for no consideration.



DIRECTORS' REPORT

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

Grant date	Date vested and exercisable	Expiry date	Exercise price (cents)	Value per option at grant date (cents)	% Vested
12-Oct-06	18-Apr-07	30-Jun-12	31.25	13.00	100%
12-Oct-06	18-Apr-08	30-Jun-12	31.25	13.00	100%
12-Oct-06	18-Apr-09	30-Jun-12	31.25	13.00	100%
22-Apr-08	31-Dec-08	30-Jun-12	40.00	15.90	100%
22-Apr-08	31-Dec-09	30-Jun-12	40.00	15.90	0%

Options granted under the Employee Option Plan carry no dividend or voting rights.

No shares were issued during the year ended 30 June 2009 (2008: nil) as a result of exercise of options over ordinary shares.

No terms of equity-settled share-based payment transactions have been altered or modified during the reporting year.

During the reporting period no shares were issued on the exercise of options previously granted as compensation. All options expire on the earlier of their expiry date or on termination of the individual's employment. When exercisable each option is convertible into one ordinary share. The options are exercisable on annual basis four years from grant date.

	Number of options granted during the year		Number of options vested during the year	
Name	2009	2008	2009	2008
Non-executive Directors				
Valentine Chitalu	-	-	-	-
Michael Curnow	-	-	-	-
Ian Duncan	-	-	-	-
Key Management Personnel (Group)				
<i>Executive Directors</i>	-	-	-	-
Gregory Fry	-	-	-	-
Charles Tabear	-	-	591,847	591,847
Alasdair Cooke	-	-	-	-
Other Key Management Personnel (Group)				
Brett Mitchell	-	-	-	-
Daniel Davis	-	200,000	100,000	-
Wiscort Banda	-	600,000	-	-
Patrick Cullen	-	-	-	294,934
Olivia Woodland	-	-	-	-
	-	800,000	691,847	886,781

The value at grant date is calculated in accordance with AASB 2 Share based payment. The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured using the Black-Scholes option-pricing model. The contractual life of the option is used as an input into this model.

DIRECTORS' REPORT

Fair Value inputs into Black-Scholes Model	Jul-09 Options	Apr-08 Options	Dec-07 Options	Nov-07 Options	Mar-07 Options
Fair value at measurement date (cents per option)	5.1 cents	15.9 cents	24.4 cents	20.9 cents	13 cents
Share price (cents per share)	5.3 cents	27 cents	38 cents	34 cents	25 cents
Exercise price (cents per option)	8.5 cents	40 cents	40 cents	40 cents	31.25 cents
Expected volatility (expressed as weighted average)	310.36%	108.76%	105.00%	105.00%	5.90%
Option life (expressed as weighted average life)	3 years	4 Years	4 Years	4 Years	5 Years
Expected dividends	-	-	-	-	-
Risk-free interest rate (based on national government bonds)	3.15%	7.21%	6.54%	6.72%	5.99%

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

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

July 2009 options were issued post 30 June 2009. 2,000,000 were issued to employees and consultants on 1 July 2009 and 2,200,000 were issued to Directors following approval by Shareholders at a meeting on 18 August 2009.

3.5 Additional information

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

	Number Granted	Year Granted	% Vested in year	Forfeited in year (A)	Financial years in which grant vests	Value yet to vest AUD	
						Min (B)	Max (C)
Valentine Chitalu	899,736	2007	-	-	2007	-	-
Michael Curnow	899,736	2007	-	-	2007	-	-
Ian Duncan	899,736	2007	-	-	2007	-	-
Gregory Fry	818,160	2007	-	-	2007	-	-
Charles Tabcart	1,972,824	2007	-	-	2009	-	-
Alasdair Cooke	1,187,652	2007	-	-	2007	-	-
Brett Mitchell	932,412	2007	-	-	2007	-	-
Daniel Davis	200,000	2008	50%	-	2010	-	6,410
	7,810,256					-	6,410

(A) The % forfeited represents the reduction from the maximum number of options available to vest due to the highest level performance criteria not being achieved.

(B) The minimum value of options yet to vest is \$nil as the performance criteria may not be met and consequently the option may not vest.

(C) The maximum value of options yet to vest is not determinable as it depends on the market price of shares of the Company on the Australian Stock Exchange at the date the option is exercised.



DIRECTORS' REPORT

Further details relating to options are set out below:

	(A) 2009 Remuneration consisting of options %	(B) Value at grant date AUD	(C) Value at exercise date AUD	(D) Value at Lapse date AUD
Valentine Chitalu	-	-	-	-
Michael Curnow	-	-	-	-
Ian Duncan	-	-	-	-
Gregory Fry	-	-	-	-
Charles Tabear	8%	-	-	-
Alasdair Cooke	-	-	-	-
Brett Mitchell	-	-	-	-
Daniel Davis	13%	-	-	-

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

This is the end of the audited remuneration report

4. PRINCIPAL ACTIVITIES

The principal activity of the Company during the course of the financial year consisted of evaluation, and exploration of uranium prospects in Africa.

5. RESULTS AND DIVIDENDS

The Group's loss after tax attributable to members of the Consolidated Entity for the financial year ending 30 June 2009 was \$2,664,270 (2008: \$2,124,375).

No dividends have been paid or declared by the Company during the year ended 30 June 2009.

6. LOSS PER SHARE

The basic loss per share for the Consolidated Entity for the year was 1.5 (2008: 1.4) cents per share.

7. EVENTS SUBSEQUENT TO REPORTING DATE

During July and August 2009, African Energy completed a private placement of 80,258,000 ordinary shares to institutional and sophisticated investors, raising AUD\$4,000,000 before costs.

DIRECTORS' REPORT

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

8. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

9. ENVIRONMENTAL REGULATIONS

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

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

10. DIRECTORS' AND EXECUTIVES' INTERESTS

As at the date of this report, the interests of the Directors and Executives in the shares and options of African Energy Resources Limited ("the Company") were:

	Shares	Options		
		31.25 cents	40 cents	8.5 cents
Valentine Chitalu	89,048	899,736	-	100,000
Michael Curnow	11,543	899,736	-	-
Ian Duncan	14,934	899,736	-	-
Alasdair Cooke	11,415,272	1,187,652	-	400,000
Charles Tabcart	1,345,714	1,972,824	-	1,000,000
Gregory Fry	1,593,385	818,160	-	700,000
Brett Mitchell	40,000	932,412	-	-
Daniel Davis	10,000	-	200,000	250,000
Total	14,519,896	7,610,256	200,000	2,450,000



DIRECTORS' REPORT

11. SHARE OPTIONS

11.1 Unissued shares under options

As at the date of this report, there were 17,580,066 unlisted incentive options on issue detailed as follows:

Number of Options	Exercise Price cents	Expiry Date
11,930,066	31.25	30 June 2012
1,450,000	40	30 June 2012
4,200,000	8.5	30 June 2012

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

11.2 Shares issued on exercise of options

During and since the end of the financial year no shares were issued as a result of the exercise of options.

12. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

12.1 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.

12.2 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.

13. 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 Stock Exchange under code AFR.

14. NON-AUDIT SERVICES

During the year BDO Kendalls Audit and Assurance (WA) Pty Ltd ("BDO"), the Company's auditor, has performed certain other services in addition to their statutory duties. These non-audit services that were provided by BDO to the Company during the financial year totalled \$1,000 (2008: \$3,800).

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the board to ensure they do not impact the integrity and objectivity of the auditor; and

DIRECTORS' REPORT

- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

15. LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's Independence Declaration is set out on page 32 and forms part of the Directors' report for the financial year ended 30 June 2009.



Charles Frazer Tabeart

Managing Director

Perth, 18 September 2009



DIRECTORS' DECLARATION

AFRICAN ENERGY RESOURCES LIMITED AND ITS CONTROLLED ENTITIES

The directors of the company declare that:

- 1 The financial statements, comprising the income statement, balance sheet, cash flow statement, statement of changes in equity and accompanying notes, are in accordance with the Corporations Act 2001; and
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 30 June 2009 and of the performance for the year ended on that date of the company and the consolidated entity.
 - (c) 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.
- 2 The remuneration disclosures set out on pages 18 to 25 of the directors' report (as part of the audited Remuneration Report) comply with section 300A of the Corporations Act 2001.
- 3 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 Tabeart

Managing Director

Perth

18 September 2009

INDEPENDENT AUDIT REPORT



BDO Kendalls

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ABN 79 112 284 787

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 balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the disclosing entity 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 disclosing entity are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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

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 separate partnerships and entities.
 Liability limited by a scheme approved under
 Professional Standards Legislation.



INDEPENDENT AUDIT REPORT



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* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

Auditor's Opinion

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

- (a) (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Material uncertainty regarding continuation as a going concern

Without qualifying our opinion, we draw attention to the income statements in the financial report which indicates that the group incurred a net loss of \$2,664,270 during the year ended 30 June 2009. This condition, along with other matters as set forth in Note 2 (d), indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2009. 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.

Auditor's Opinion

In our opinion, the Remuneration Report of African Energy Resources Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.

BDO Kendalls Audit & Assurance (WA) Pty Ltd

BDO Kendalls


Peter Toll
Director

Signed in Perth, Western Australia
Dated this 18th day of September 2009

INDEPENDENCE DECLARATION



BDO Kendalls

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ABN 79 112 284 787

18th September 2009

The Directors
African Energy Resources Limited
Ground Floor
8 Colin Street
WEST PERTH WA 6005

Dear Sirs

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

As lead auditor of African Energy Resources Limited for the year ended 30 June 2009, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

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

Peter Toll
Director

BDO Kendalls Audit & Assurance (WA) Pty Ltd
Perth, Western Australia.

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INCOME STATEMENTS

For the year ended 30 June 2009

	Note	Consolidated		Parent entity	
		2009	2008	2009	2008
		AUD	AUD	AUD	AUD
Revenue from continuing operations	7	377,694	332,268	-	-
Other income	8	-	3,047	-	-
Professional fees	10	(165,711)	(191,348)	(37,142)	(38,690)
Personnel expenses	12	(1,192,088)	(737,705)	(619,143)	(375,542)
Share-based payments		(40,447)	(521,064)	(40,447)	(521,064)
Administration fees	13	(964,784)	(910,462)	(84,842)	(46,696)
Impairment exploration expenditure	21	(750,770)	-	(4,299,970)	(560,868)
Finance costs	9	71,836	(99,471)	-	-
Loss before tax		(2,664,270)	(2,124,735)	(5,081,544)	(1,542,861)
Income tax expense	14	-	-	-	-
Loss for the year		(2,664,270)	(2,124,735)	(5,081,544)	(1,542,861)
Attributable to:					
Equity holders of the Company		(2,664,270)	(2,124,735)	(5,081,544)	(1,542,861)
Loss for the year		(2,664,270)	(2,124,735)	(5,081,544)	(1,542,861)
Loss per share for loss attributable to the ordinary equity holders of the Company:					
Basic loss per share (cents per share)	15	(1.5)	(1.4)		
Diluted loss per share (cents per share)	15	(1.5)	(1.4)		

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

BALANCE SHEETS

as at 30 June 2009

	Note	Consolidated		Parent entity	
		2009	2008	2009	2008
		AUD	AUD	AUD	AUD
Assets					
Current assets					
Cash and cash equivalents	16	906,176	7,039,566	-	-
Trade and other receivables	17	687,945	614,237	633	8,766
Total current assets		1,594,121	7,653,803	633	8,766
Non current assets					
Receivables	18	-	-	13,184,064	14,687,290
Other financial assets	19	-	-	2,647,738	2,216,166
Property, plant and equipment	20	715,180	608,942	-	-
Exploration and evaluation expenditure	21	14,391,662	10,133,391	-	-
Total non-current assets		15,106,842	10,742,332	15,831,802	16,903,456
Total assets		16,700,963	18,396,136	15,832,435	16,912,223
Liabilities					
Current liabilities					
Trade and other payables	22	265,478	885,480	14,848	26,460
Total current liabilities		265,478	885,480	14,848	26,460
Non current liabilities					
Borrowings	23	617,898	624,893	-	-
Total non-current liabilities		617,898	624,893	-	-
Total liabilities		883,376	1,510,373	14,848	26,460
Net assets		15,817,587	16,885,763	15,817,587	16,885,763
Equity					
Contributed equity	24	20,968,804	21,001,958	20,968,804	21,001,958
Reserves	25	1,637,790	8,543	3,229,976	(816,546)
Accumulated losses		(6,789,007)	(4,124,738)	(8,381,191)	(3,299,649)
Total equity attributable to shareholders of the Company		15,817,587	16,885,763	15,817,587	16,885,763

The balance sheets are to be read in conjunction with the accompanying notes



STATEMENTS OF CHANGES IN EQUITY

For the year ended 30 June 2009

<i>Consolidated</i>		Contributed equity	Accumulated losses	Reserves	Total equity
	Note	AUD	AUD	AUD	AUD
At 1 July 2007		13,927,421	(2,000,003)	801,827	12,729,245
Net loss for the period		-	(2,124,735)	-	(2,124,735)
Total recognised income and expense for the period		-	(2,124,735)	-	(2,124,735)
Share issue net of issue costs	24	7,074,537	-	-	7,074,537
Equity settled share based payment transactions	25	-	-	521,064	521,064
Effect of translation of foreign operations to group presentation currency	25	-	-	(1,314,348)	(1,314,348)
At 30 June 2008		21,001,958	(4,124,738)	8,543	16,885,763
At 1 July 2008		21,001,958	(4,124,738)	8,543	16,885,763
Net loss for the period		-	(2,664,270)	-	(2,664,270)
Total recognised income and expense for the period		-	(2,664,270)	-	(2,664,270)
Share issue net of issue costs	24	(33,154)	-	-	(33,154)
Equity settled share based payment transactions	25	-	-	40,447	40,447
Effect of translation of foreign operations to group presentation currency	25	-	-	1,588,800	1,588,800
At 30 June 2009		20,968,804	(6,789,007)	1,637,790	15,817,587

<i>Parent entity</i>		Issued capital	Accumulated losses	Reserves	Total equity
	Note	AUD	AUD	AUD	AUD
At 1 July 2007		13,927,421	(1,756,788)	336,419	12,507,052
Net loss for the period		-	(1,542,861)	-	(1,542,861)
Total recognised income and expense for the period		-	(1,542,861)	-	(1,542,861)
Share issue net of issue costs	24	7,074,537	-	-	7,074,537
Equity settled share based payment transactions	25	-	-	521,065	521,065
Effect of translation of foreign operations to group presentation currency	25	-	-	(1,674,030)	(1,674,030)
		7,074,537	-	(1,152,965)	5,921,572
At 30 June 2008		21,001,958	(3,299,649)	(816,546)	16,885,763
At 1 July 2008		21,001,958	(3,299,649)	(816,546)	16,885,763
Net loss for the period		-	(5,081,543)	-	(5,081,543)
Total recognised income and expense for the period		-	(5,081,543)	-	(5,081,543)
Share issue net of issue costs	24	(33,154)	-	-	(33,154)
Equity settled share based payment transactions	25	-	-	40,447	40,447
Effect of translation of foreign operations to group presentation currency	25	-	-	4,006,075	4,006,075
		(33,154)	-	4,046,522	4,013,367
At 30 June 2009		20,968,804	(8,381,191)	3,229,976	15,817,587

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

CASH FLOW STATEMENTS

For the year ended 30 June 2009.

	Note	Consolidated		Parent entity	
		2009	2008	2009	2008
		AUD	AUD	AUD	AUD
Cash flows from operating activities					
Interest received		103,127	332,268	-	-
Payment to suppliers and employees		(1,881,885)	(1,760,911)	(737,649)	(443,236)
Net cash (outflow) from operating activities	28	(1,778,759)	(1,428,643)	(737,649)	(443,236)
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		60,555	-	-	-
Acquisition of property, plant and equipment		(323,779)	(431,994)	-	-
Payment for exploration and evaluation expenditure		(4,138,401)	(6,698,013)	-	-
Repayment of interest earning loans		192,135	397,065	-	-
Loans to controlled entities		-	-	777,799	(6,631,301)
Net cash (outflow) from investing activities		(4,209,491)	(6,732,942)	777,799	(6,631,301)
Cash flows from financing activities					
Proceeds from the issue of share capital		43,497	7,160,549	43,497	7,160,549
Payments for share issuance costs		(76,651)	(86,012)	(76,651)	(86,012)
Repayment of loans from related entities		(6,995)	(559,373)	(6,995)	-
Net cash (outflow) from financing activities		(40,150)	6,515,165	(40,150)	7,074,537
Net (decrease) / increase in cash and cash equivalents		(6,028,399)	(1,646,420)	-	-
Cash and cash equivalents at the beginning of the year		7,039,566	8,785,457	-	-
Effect of exchange rate fluctuations on cash held		(104,991)	(99,471)	-	-
Cash and cash equivalents at the end of the year	16	906,176	7,039,566	-	-

The cash flow statements are to be read in conjunction with the accompanying notes



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Reporting entity

African Energy Resources Limited (referred to as the 'parent entity' or the 'Company') is a company domiciled in Guernsey. The address of the Company's registered office is Granite House, La Grande Rue, St Martin, Guernsey GY1 3RS. The address of the Company's representative office in Australia is First Floor, 8 Colin Street, West Perth, WA 6005. The consolidated financial statements of the Company as at and for the year ended 30 June 2009 comprise the Company and its subsidiaries (together referred to as the 'consolidated entity' or the 'Group'). The Group is primarily involved in uranium exploration in Africa.

2. Basis of preparation

(a) Statement of Compliance

The financial report is a general purpose financial report which has 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 adopted by the International Accounting Standards Board.

The financial report was authorised for issue by the directors on 18 September 2009.

(b) Basis of measurement

The financial report is prepared on the historical cost basis.

(c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars. The functional currency of the Company and the Group is United States dollars.

(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.

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

(e) Use of estimates and judgments

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

the revision and future periods if the revision affects both current and future periods. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- (i) Note 30 – Share-based payment arrangements - The Group measures the cost of equity settled share based payments at fair value at the grant date using the Black-Scholes model taking into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, the expected volatility of the underlying share, the expected dividend yield and risk free interest rate for the term of the option.
- (ii) Note 21 – 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 Income Statement.

3. Significant accounting policies

(a) Basis of consolidation

(i) Subsidiaries

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

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

(ii) Transactions eliminated on consolidation

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

(iii) Comparatives

Prior period comparatives are for the period from incorporation being 1 July 2007 to 30 June 2008.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. 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 Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

(ii) Financial statements of foreign operations

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Foreign exchange differences arising on retranslation 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 the income statement 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. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

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

(ii) Subsequent measurement

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

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

(iii) Impairment

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

(d) Property, plant and equipment

(i) Owned assets

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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 income statement as an expense as incurred.

(iii) Depreciation

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

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

Plant and equipment	2.5 to 10 years
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The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

(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 income statement.

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

- (i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- (ii) 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 (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 1(i)). For the purposes of impairment testing, development assets are allocated to cash-generating units to which the development activity relates. The cash generating unit shall not be larger than the area of interest.

(f) Cash and cash equivalents

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

(g) Trade and other receivables

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

(h) Other financial assets

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

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

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

(i) Impairment

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(i) Calculation of recoverable amount

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

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

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

(ii) Reversals of impairment

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

An impairment loss in respect of goodwill is not reversed.

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

(j) Business Combinations

The purchase 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. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(k) Contributed equity

Ordinary shares are classified as equity.

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

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

(l) Dividends

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

(m) Employee Benefits

(i) Share-based payment transactions

The share option program allows the consolidated entity employees and consultants to acquire shares of the Company. 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.

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

(i) Site restoration

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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 income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not incremental costs relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

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

(q) Borrowing costs

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

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

(r) Earnings per share

(i) *Basic earnings per share*

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

(ii) *Diluted earnings per share*

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

(s) Revenue recognition

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

Net financial income

Net financial income comprise 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 income statement as it accrues, using the effective interest method.

Management fees – The right of the Company to receive the management fee must exist.

(t) Income tax

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

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

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

(u) Segment reporting

A segment is a distinguishable component of the consolidated entity that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(v) Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST 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 included. The net amount of GST recoverable from, or payable to, the ATO 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 components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(w) New standards and interpretations not yet adopted

Australian Accounting Standards and Interpretations that have been recently issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2009. These are outlined in the table below:

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 123 (revised Jun 2007)	Borrowing Costs	To the extent that borrowing costs are directly attributable to the acquisition, construction or production of a qualifying asset, the option of recognising borrowing costs immediately as an expense has been removed. Consequently all borrowing costs for qualifying assets will have to be capitalised.	Periods commencing on or after 1 January 2009	The transitional provisions of this standard only require capitalisation of borrowing costs on qualifying assets where commencement date for capitalisation is on or after 1 January 2009. As such, there will be no impact on prior period financial statements when this standard is adopted.
AASB 3 (reissued March 2008)	Business Combinations	Released as part of long term international convergence project between IASB and FASB. The revised standard introduces more detailed guidance on accounting for step acquisitions, adjustments to contingent consideration, assets acquired that the purchaser does not intend to use, reacquired rights and share-based payments as part of purchase consideration. Also, all acquisition costs will have to be expensed instead of being recognised as part of goodwill.	Business combinations where the acquisition date is on or after the beginning of the first reporting period that commences 1 July 2009 or later	As there is no requirement to retrospectively restate comparative amounts for business combinations undertaken before this date, there is unlikely to be any impact on the financial statements when this revised standard is first adopted. However, due to the nature of some of the changes in the revised standard, business combinations that the entity undertakes after this date may in future impact negatively on the results of the entity. For example, acquisition costs will have to be expensed instead of being recognised as part of goodwill. Specific changes in respect of step acquisitions and sell downs may introduce situations whereby adopting the revised standard may improve profitability.
AASB 127 (reissued March 2008)	Consolidated and Separate Financial Statements	The revised standard clarifies that changes in ownership interest which result in control being retained are accounted for within equity as transactions with owners. Losses will be attributed to the non-controlling interest even if this results in a debit balance for the non-controlling interest. Investments retained where there has been a loss of control will be recognised at fair value at date of sale.	Periods commencing on or after 1 July 2009	As there is no requirement to retrospectively restate the effect of these revisions, there is unlikely to be any impact on the financial statements when this revised standard is first adopted.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 2008-3 (issued March 2008)	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASB 1, AASB 2, AASB 4, AASB 5, AASB 7, AASB 101, AASB 107, AASB 112, AASB 114, AASB 116, AASB 121, AASB 128, AASB 131, AASB 132, AASB 133, AASB 134, AASB 136, AASB 137, AASB 138, AASB 139, Interpretation 9 and Interpretation 107]	Makes consequential amendments to 20 standards and 2 interpretations arising from the reissue of AASB 3 and AASB 127, including to AASB 128: Investments in Associates and AASB 131: Interests in Joint Ventures. When an investment ceases to be an associate or jointly controlled entity and is subsequently accounted for under AASB 139, the fair value of the investment at the date when it ceases to be an associate or jointly controlled entity is its fair value.	Periods commencing on or after 1 July 2009	As there is no requirement to retrospectively restate the effect of these revisions, there is unlikely to be any impact on the financial statements when this revised standard is first adopted. However, in future, if the (group) loses significant influence over associates or joint control in jointly controlled entities which are equity accounted, at that date.
AASB 2008-1 (issued February 2008)	Amendments to AASB 2 – Share-based Payments – Vesting Conditions and Cancellations	The definition of <i>vesting conditions</i> has changed and the accounting treatment clarified for cancellations to share-based payment arrangements by the counterparty. This is to ensure that conditions other than performance conditions do not result in a 'true up' of the share-based payment expense and are treated in a manner similar to market conditions.	Periods commencing on or after 1 January 2009	To date the entity has not issued any options to employees that include non-vesting conditions and as such there will be no impact on the financial statements when this revised standard is adopted for the first time.

Standards likely to have a Disclosure Impact only

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 8 (Issued Feb 2007)	Operating Segments	Replaces the disclosure requirements of AASB 114: <i>Segment Reporting</i> .	Periods commencing on or after 1 January 2009	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, disclosures required for the operating segments will be significantly different to what is currently reported (business and geographical segment).
AASB 101 (Revised Sep 2007)	Presentation of Financial Statements	Amendments to presentation and naming of the financial statements.	Annual reporting periods commencing on or after 1 January 2009	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, there will be various changes to the way financial statements are presented and various changes to names of individual financial statements.

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AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 2009-2 (Issued April 2009)	Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments	Requires additional disclosures about financial instrument fair values and liquidity risk.	Periods commencing on or after 1 January 2009	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, various additional disclosures will be required about fair values of financial instruments and the entity's liquidity risk. No comparative disclosures are required in the first year that these amendments are applied.

AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project (issued July 2008)

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 123	Borrowing Costs	Borrowing costs are now defined to include the interest expense calculated using the effective interest method. As such, various components of the definition have been deleted as these are included in the effective interest calculation.	Periods commencing on or after 1 January 2009	There will be no impact as these amendments merely clarify existing practice.
AASB 136	Impairment of Assets	Additional disclosure requirements about discounted cash flow assumptions used for the fair value less costs to sell method.	Periods commencing on or after 1 January 2009	There will be no financial impact when these amendments are first adopted because these amendments relate to additional disclosure requirements only.
AASB 138	Intangible Assets	Clarifies that the amortisation method for intangible assets could result in a lower amount of accumulated amortisation than under the straight line method.	Periods commencing on or after 1 January 2009	Initial adoption of this amendment will have no impact on the entity as the entity does not have intangible assets with finite useful lives that are subject to amortisation.

AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process (issued May 2009)

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 101	Presentation of Financial Statements	Clarifies that terms of a liability that could, at the option of the counterparty, result in the liability being settled by the issue of equity instruments, do not affect its classification. This means that unless the terms of such liabilities require a transfer of cash or other assets within 12 months, they do not necessarily have to be classified as current liabilities.	Periods commencing on or after 1 January 2010	Initial adoption of this amendment will have no impact as the entity does not have any current liabilities where the counterparty has the option to have the liabilities settled by the issue of equity instruments.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 107	Cash Flow Statements	Clarifies that only expenditures that result in a recognised asset in the balance sheet are eligible for classification as cash flows from investing activities.	Periods commencing on or after 1 January 2010	The entity classifies all expenditure relating to advertising and promotional activities (which have been expensed in the income statement) as cash flows from investing activities. On initial application of this amendment, such cash outflows will in future be classified as cash outflows from operating activities.
AASB 136	Impairment of Assets	Clarifies that CGUs to which goodwill is allocated cannot be larger than an operating segment as defined in AASB 8 <i>Operating Segments</i> before aggregation.	Periods commencing on or after 1 January 2010	There will be no impact as these requirements are only required to be applied prospectively to goodwill impairment calculations for periods commencing on or after 1 July 2010.

4. Financial risk management

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

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

The Group and the Company hold the following financial instruments:

	Consolidated		Parent entity	
	2009	2008	2009	2008
	AUD	AUD	AUD	AUD
Financial assets				
Cash and cash equivalents	906,176	7,039,566	-	-
Trade and other receivables	687,945	614,237	-	8,766
Receivables	-	-	13,184,065	14,687,290
Other financial assets	-	-	2,647,668	2,216,166
	1,594,121	7,653,803	15,831,734	16,912,222
	Consolidated		Parent entity	
	2009	2008	2009	2008
	AUD	AUD	AUD	AUD
Financial liabilities				
Trade and other payables	265,478	885,480	14,848	26,460
Borrowings	617,898	624,893	-	-
	883,376	1,510,373	14,848	26,460

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(a) Market risk

(i) Foreign currency risk

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

The Groups and the Company's exposure to foreign currency risk at the reporting date were as follows:

	Consolidated		Parent entity	
	2009	2008	2009	2008
	AUD	AUD	AUD	AUD
Cash	588,776	5,395,181	-	-
Trade and other receivables	62,416	176,690	-	-
Trade and other payables	(201,110)	-	-	-
Borrowings	(617,898)	(624,893)	-	-

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

(ii) Price risk

Neither the Group nor the Company hold investments and are therefore not exposed to equity securities price risk.

(iii) Interest rate risk

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

	2009		2008	
	Weighted average interest rate	Balance AUD	Weighted average interest rate	Balance AUD
Consolidated				
<i>Floating interest rate:</i>				
Cash and cash equivalents	3.00%	851,175	6.15%	5,714,992
<i>Fixed interest rate:</i>				
Term deposits	4.20%	55,001	6.20%	1,324,575
Interest earning loan receivable		-	7.50%	192,135
		<u>906,176</u>		<u>7,231,701</u>

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Summarised sensitivity analysis

		Interest rate risk				Foreign exchange risk			
		- 80 bps		+ 80 bps		-10%		+10%	
		Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
	Carrying amount	AUD	AUD	AUD	AUD	AUD	AUD	AUD	AUD
30 June 2009									
Financial assets									
Cash and cash equivalents	906,176	7,249		(7,249)			58,878		(58,878)
Trade and other receivables	687,945	-		-			6,242		(6,242)
Financial liabilities									
Trade and other payables	265,478	-		-			20,111		(20,111)
Borrowings	617,898	-		-			61,790		(61,790)

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 Group's major operational currencies.

(b) Credit risk

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

Cash and short term liquid investment are placed with reputable banks, so no significant credit risk is expected.

The company does not have any material exposure to any single debtor or group of debtors, so no significant credit risk is expected.

(c) Liquidity risk

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

(d) Fair value estimation

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

(i) Property, plant and equipment

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

(ii) 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.

(iii) 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.

(iv) Share-based payment transactions

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

6. Segment information

During the year the Group operated in one business segment – mineral exploration, and in one geographical area – Africa.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. Revenue from continuing operations

	Consolidated		Parent entity	
	2009	2008	2009	2008
	AUD	AUD	AUD	AUD
<i>Financial income:</i>				
Interest received	150,408	332,268	-	-
Management fees charged	227,286	-	-	-
	377,694	332,268	-	-

8. Other Income

	Consolidated		Parent entity	
	2009	2008	2009	2008
	AUD	AUD	AUD	AUD
Profit on sale of fixed assets	-	3,047	-	-
	-	3,047	-	-

9. Finance Costs

	Consolidated		Parent entity	
	2009	2008	2009	2008
	AUD	AUD	AUD	AUD
Foreign currency loss/(gain)	(71,836)	99,471	-	-
	(71,836)	99,471	-	-

10. Professional fees

	Consolidated		Parent entity	
	2009	2008	2009	2008
	AUD	AUD	AUD	AUD
Audit fees	51,025	28,235	31,039	28,235
Tax consulting services	4,000	35,632	-	-
Legal costs	36,277	7,539	6,103	10,456
Other professional fees	74,409	119,942	-	-
	165,711	191,348	37,142	38,690

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. Auditor's remuneration

	Consolidated		Parent entity	
	2009	2008	2009	2008
	AUD	AUD	AUD	AUD
Auditors of the Company and their related entities				
<i>BDO Kendalls Audit and Assurance (WA) Pty Ltd:</i>				
Audit and review of financial reports	32,233	29,605	32,233	29,605
BDO Spencer Steward Zambia				
Audit and review of financial reports	9,319	12,066	-	-
<i>BDO Kendalls Corporate Tax (WA) Pty Ltd:</i>				
Taxation	1,000	3,800	-	3,800
Total auditor's fees recognised as expense in the income statement	42,552	45,471	32,233	33,405

12. Personnel expenses

	Consolidated		Parent entity	
	2009	2008	2009	2008
	AUD	AUD	AUD	AUD
Corporate consultants	5,497	9,223	-	-
Wages and salaries	535,065	329,058	-	-
Directors fees	651,526	399,424	619,143	375,542
	1,192,088	737,705	619,143	375,542

13. Administration fees

	Consolidated		Parent entity	
	2009	2008	2009	2008
	AUD	AUD	AUD	AUD
Corporate costs	117,828	108,347	69,046	37,140
Depreciation	175,157	61,289	-	-
Administrative costs	533,060	478,429	15,796	9,556
Loss on sale of fixed assets	25,383	-	-	-
Other operational costs	113,357	262,397	-	-
	964,784	910,462	84,842	46,696



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. Income tax expense

	Consolidated		Parent entity	
	2009	2008	2009	2008
	AUD	AUD	AUD	AUD
(a) Income tax expense:				
Current tax	-	-	-	-
Deferred tax	-	-	-	-
Overprovision in respect to prior years	-	-	-	-
	-	-	-	-
(b) Reconciliation of income tax expense to prima facie tax payable:				
Loss before income tax	(2,664,270)	(2,124,735)	(5,081,543)	(1,159,476)
Prima facie income tax at 30%	(799,281)	(637,421)	(1,524,463)	(347,843)
Tax effect of amounts not deductible in calculating taxable income:				
Sundry items	783	(2,336)	-	-
Other	303,676	-	-	-
	(494,823)	(639,757)	(1,524,463)	(347,843)
Difference in overseas tax rates	208,154	329,826	1,524,463	347,843
Tax loss not recognised	(286,669)	(305,258)	-	-
Income tax expense/(benefit)	-	-	-	-
(c) Tax losses:				
Unused tax losses for which no deferred tax asset has been recognised	(1,640,680)	(2,394,700)	(5,081,543)	(1,159,476)
Potential tax benefit at 30%	(492,204)	(718,410)	(1,524,463)	(347,843)
Difference in overseas tax rates 10%	208,154	329,826	1,524,463	347,843
Potential tax benefit	(284,050)	(388,584)	-	-
(d) Unrecognised deferred tax assets arising on timing differences and losses:				
Timing	8,817	9,150	-	-
Losses - Revenue	1,191,179	907,129	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. Earnings per share

(a) Basic loss per share

The calculation of basic loss per share at 30 June 2009 was based on the loss attributable to ordinary shareholders of \$2,664,270 (2008: \$2,124,735) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2009 of 174,489,967 (2008: 152,601,544) calculated as follows:

	Consolidated	
	2009	2008
	AUD	AUD
Loss for the period		
Loss attributable to ordinary shareholders	(2,664,270)	(2,124,735)
Weighted average number of ordinary shares at 30 June	174,489,967	152,601,544
Basic loss per share (cents per share)	(1.5)	(1.4)

Diluted loss per share

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

16. Cash and cash equivalents

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

	Consolidated		Parent entity	
	2009	2008	2009	2008
	AUD	AUD	AUD	AUD
Cash at bank & in hand	851,175	5,714,992	-	-
Term deposits	55,001	1,324,575	-	-
	906,176	7,039,566	-	-

(b) Interest rate risk exposure

The Group's and the parent entity's exposure to interest rate risk is discussed in note 4.

17. Trade and other receivables

	Consolidated		Parent entity	
	2009	2008	2009	2008
	AUD	AUD	AUD	AUD
Trade debtors	440,486	141,336	-	-
Other receivable	247,459	280,766	633	8,766
Loans - interest bearing	-	192,135	-	-
	687,945	614,237	633	8,766



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The interest-bearing loan was provided to the consolidated entity's drilling contractor, Capital Drilling, for acquisition of drilling rig. The loan is denominated in US Dollars, repayable in monthly instalments calculated at 20% of the monthly drilling charges and with no fixed repayment date. The loan earns interest of 7.5% p.a. calculated daily.

(a) Impaired receivables and receivables past due

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

(b) Risk exposure

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

18. Receivables – Non-current

	Consolidated		Parent entity	
	2009	2008	2009	2008
	AUD	AUD	AUD	AUD
Loans to related parties	-	-	17,484,035	15,248,158
Provision for impairment of loans to controlled entities	-	-	(4,299,970)	(560,868)
	-	-	13,184,065	14,687,290

This is a non-interest bearing loan payable by A E Resources Pty Ltd, with no fixed date of repayment. The loan is recorded at fair value.

(a) Impaired receivables and receivables past due

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

(b) Risk exposure

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

19. Other financial assets

	Consolidated		Parent entity	
	2009	2008	2009	2008
	AUD	AUD	AUD	AUD
Investments in controlled entities - at cost				
A E Resources Pty Ltd – 100%	-	-	2,647,738	2,216,166

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. Property, plant and equipment

	Consolidated		Parent entity	
	2009	2008	2009	2008
	AUD	AUD	AUD	AUD
Plant and equipment at cost	930,818	693,002	-	-
Less: Accumulated depreciation	(215,638)	(84,061)	-	-
Total property, plant and equipment	715,180	608,942	-	-
PP&E movement reconciliation				
Plant and equipment at cost:				
Balance at the beginning of the year	693,002	261,008	-	-
Additions	323,779	445,922	-	-
Disposals	(25,710)	(25,710)	-	-
Effect of movements in foreign exchange	(60,254)	11,782	-	-
Balance at the end of the year	930,818	693,002	-	-
Plant and equipment – depreciation and impairment losses				
Balance at the beginning of the year	(84,061)	(10,484)	-	-
Depreciation charge for the year	(74,556)	(74,556)	-	-
Impairment losses	-	-	-	-
Disposals	2,725	2,725	-	-
Effect of movements in foreign exchange	(59,746)	(1,746)	-	-
Balance at the end of the year	(215,638)	(84,061)	-	-
Carrying amounts				
Balance at the beginning of the year	608,942	608,942	-	-
Balance at the end of the year	715,180	608,942	-	-



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. Exploration and evaluation expenditure

	Consolidated		Parent entity	
	2009	2008	2009	2008
	AUD	AUD	AUD	AUD
Carrying amount of exploration and evaluation expenditure	14,391,662	10,133,391	-	-
EE&D movement reconciliation				
Balance at the beginning of the year	10,133,391	4,654,698	-	-
Additions	4,138,401	6,698,013	-	-
Impairment of Malawi EED	(750,770)	-	-	-
Effect of movements in foreign exchange	870,640	(1,219,320)	-	-
Balance at the end of the year	14,391,662	10,133,391	-	-
Carrying amounts				
Balance at the beginning of the year	10,133,391	4,654,698	-	-
Balance at the end of the year	14,391,662	10,133,391	-	-

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. Exploration and evaluation expenditure previously capitalised in Malawi has been impaired during the period as the Group has stopped active exploration in the relevant areas of interest.

22. Trade and other payables

	Consolidated		Parent entity	
	2009	2008	2009	2008
	AUD	AUD	AUD	AUD
Trade creditors	188,843	786,402	-	-
Other payables	31,905	97,982	-	11,603
Accrued expenses	44,730	1,095	14,848	14,857
	265,478	885,480	14,848	26,460

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. Borrowings

	Consolidated		Parent entity	
	2009	2008	2009	2008
	AUD	AUD	AUD	AUD
Loan payable to a related entity	617,898	624,893	-	-
	617,898	624,893	-	-

This is a non-interest bearing loan payable to Energy Ventures Ltd, the ultimate controlling party of the Group (details disclosed in Note 29), with no fixed date of repayment. The loan is shown at fair value.

(a) Risk exposures

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

24. Contributed equity

	Consolidated		Parent entity	
	2009	2008	2009	2008
	AUD	AUD	AUD	AUD
Contributed equity	21,911,874	21,868,377	21,911,874	21,868,377
Cost of share issue	(943,070)	(866,419)	(943,070)	(866,419)
	20,968,804	21,001,958	20,968,804	21,001,958

Movement in share capital	Date	Number of shares	Issue price	AUD
Opening balance 1 July 2007		147,875,000		13,927,421
Private placement	14 Apr 2008	17,000,000	\$0.27	4,590,000
Rights Issue	14 May 2008	9,519,897	\$0.27	2,570,550
Capital raising costs				(86,013)
Balance 30 June 2008		174,394,897		21,001,958
Capital raising costs				(76,651)
Issue to employees	10 July 2008	75,207	\$0.30	26,478
Issue to directors	9 Dec 2008	39,048	\$0.30	17,019
Balance 30 June 2009		174,509,152		20,968,803

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 and the parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they 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

25. Reserves

	Consolidated		Parent entity	
	2009	2008	2009	2008
	AUD	AUD	AUD	AUD
Share-based payments reserve	1,902,653	1,862,207	1,902,653	1,862,207
Foreign currency translation reserve	(264,863)	(1,853,664)	1,327,323	(2,678,752)
	1,637,790	8,543	3,229,976	(816,546)
Reconciliation of movement in reserves				
Share-based payments reserve				
Balance at the beginning of the year	1,862,207	1,341,142	1,862,207	1,341,142
Equity settled share-based payment transactions	40,447	521,064	40,447	521,064
Balance at 30 June	1,902,653	1,862,207	1,902,653	1,862,207
Foreign currency translation reserve				
Balance at the beginning of the year	(1,853,664)	(539,316)	(2,678,752)	(1,004,723)
Effect of translation of foreign currency operations to group presentation currency	1,588,800	(1,314,348)	4,006,075	(1,674,030)
Balance at 30 June	(264,863)	(1,853,664)	1,327,323	(2,678,752)

Share based payments reserve

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

Translation reserve

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

26. Capital and other commitments

	Consolidated		Parent entity	
	2009	2008	2009	2008
	AUD	AUD	AUD	AUD
Exploration expenditure commitments				
Within one year	-	488,613	-	-
One year or later and no later than 5 years	-	-	-	-
	-	488,613	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. Key management personnel disclosures

(a) Directors

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

(i) *Chairman – executive*
Mr A C Cooke

(ii) *Executive directors*
Dr C F Tabcart, *Managing Director*
Mr G W Fry, *Executive Director*

(iii) *Non-executive directors*
Dr I J Duncan, (resigned 19 November 2008)
Mr V Chitalu,
Mr M P Curnow

(b) Other key management personnel

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

Name	Position	Employer
Brett Mitchell (resigned 1 April 2009)	Company Secretary	African Energy Resources Limited
Daniel Davis (appointed 1 April 2009)	Company Secretary	African Energy Resources Limited

(c) Key management personnel compensation

The key management personnel compensation is as follows:

	Consolidated		The Company	
	2009	2008	2009	2008
	AUD	AUD	AUD	AUD
Short-term employee benefits	759,790	822,572	608,735	462,395
Post-employment benefits	26,961	30,455	24,771	-
Equity compensation benefits	38,376	152,562	26,655	152,562
	825,127	1,005,589	660,160	614,957

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(d) Equity Holdings

(i) Options Holdings

2009	Balance at 1/07/2008	Granted as compensation	Exercised	Other changes	Balance at 30/06/2009	Vested and exercisable	Unvested
Non-executive Directors							
Valentine Chitalu	899,736	-	-	-	899,736	899,736	-
Michael Curnow	899,736	-	-	-	899,736	899,736	-
Ian Duncan	899,736	-	-	-	899,736	899,736	-
Key Management Personnel (Group)							
<i>Executive Directors</i>							
Gregory Fry	818,160	-	-	-	818,160	818,160	-
Charles Tabear	1,972,824	-	-	-	1,972,824	1,972,824	-
Alasdair Cooke	1,187,652	-	-	-	1,187,652	1,187,652	-
<i>Other Key Management Personnel (Group)</i>							
Brett Mitchell	932,142	-	-	-	932,142	932,142	-
Daniel Davis	200,000	-	-	-	200,000	100,000	100,000
	7,809,986	-	-	-	7,809,986	7,709,986	100,000

2008	Balance at 1/07/2007	Granted as compensation	Exercised	Other changes	Balance at 30/06/2008	Vested and exercisable	Unvested
Non-executive Directors							
Valentine Chitalu	899,736	-	-	-	899,736	899,736	-
Michael Curnow	899,736	-	-	-	899,736	899,736	-
Ian Duncan	899,736	-	-	-	899,736	899,736	-
Key Management Personnel (Group)							
<i>Executive Directors</i>							-
Alasdair Cooke	1,187,652	-	-	-	1,187,652	1,187,652	-
Charles Tabear	1,972,824	-	-	-	1,972,824	1,380,977	591,847
Gregory Fry	818,160	-	-	-	818,160	818,160	-
<i>Other Key Management Personnel (Group)</i>							
Wiscort Banda	-	600,000	-	-	600,000	-	600,000
Patrick Cullen	983,112	-	-	-	983,112	688,178	294,934
Brett Mitchell	932,142	-	-	-	932,142	932,142	-
Olivia Woodland	932,142	-	-	-	932,142	932,142	-
	9,525,240	600,000	-	-	10,125,240	8,638,459	1,486,781

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(ii) Share Holdings

2009	Balance at 1/07/2008	Purchases	Off Market Transfer	Balance at 30/06/2009
Non-executive Directors				
Valentine Chitalu	50,000	39,048	-	89,048
Michael Curnow	11,543	-	-	11,543
Ian Duncan	14,934	-	-	14,934
Key Management Personnel (Group)				
<i>Executive Directors</i>				
Gregory Fry	1,593,385	-	-	1,593,385
Charles Tabcart	59,014	1,286,700	-	1,345,714
Alasdair Cooke	3,252,464	4,000,474	-	7,252,938
<i>Other Key Management Personnel (Group)</i>				
Brett Mitchell	40,000	-	-	40,000
Daniel Davis	10,000	-	-	10,000
	5,031,340	5,326,222	-	10,357,562

2008	Balance at 1/07/2007	Purchases	Off Market Transfer	Balance at 30/06/2008
Non-executive Directors				
Valentine Chitalu	50,000	-	-	50,000
Michael Curnow	11,543	-	-	11,543
Ian Duncan	14,000	934	-	14,934
Key Management Personnel (Group)				
<i>Executive Directors</i>				
Alasdair Cooke	625,000	2,627,464	-	3,252,464
Charles Tabcart	50,000	9,014	-	59,014
Gregory Fry	1,593,385	-	-	1,593,385
<i>Other Key Management Personnel (Group)</i>				
Wiscort Banda	-	-	-	-
Patrick Cullen	-	-	-	-
Brett Mitchell	50,000	10,000	-	40,000
Olivia Woodland	50,000	10,000	-	40,000
	2,443,928	2,617,412	-	5,061,340

(e) Loans to key management personnel

There were no loans made to key management personnel during the year ended 30 June 2009 (2008: nil).

(f) Other transactions with key management personnel

Other transactions with key management personnel are discussed in related parties disclosure (note 29 (c)).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	Consolidated		Parent entity	
	2009	2008	2009	2008
	AUD	AUD	AUD	AUD
Cash flows from operating activities				
Profit/(loss) for the period	(2,664,270)	(2,124,735)	(5,081,543)	(1,542,861)
<i>Adjustments for:</i>				
Depreciation and amortisation expense	175,157	61,289	-	-
Impairment charge	750,770	-	4,299,970	560,868
Interest income	(47,307)	-	-	-
Foreign exchange (gains)/losses	-	99,472	-	-
Equity-settled share-based payment expenses	40,447	521,064	40,447	521,064
Management Fees	-	-	-	-
Income tax expense	-	-	-	-
Operating profit before changes in working capital and provisions	(1,745,204)	(1,442,910)	(741,126)	(460,929)
(Increase)/decrease in trade and other receivables	586,447	(37,175)	(8,134)	(8,767)
(Decrease)/increase in trade and other payables	(620,001)	51,442	11,611	26,460
Income taxes paid	-	-	-	-
Net cash from operating activities	(1,778,758)	(1,428,643)	(737,649)	(443,236)

29. Related parties

(a) Parent entities

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

(b) Subsidiaries

Group structure

Name of entity	Country of incorporation	Class of shares	Ownership interest	
			2009	2008
Parent entity				
African Energy Resources Ltd	Guernsey	Ordinary		
Subsidiary (direct)				
A E Resources Pty Ltd	Australia	Ordinary	100%	100%
Subsidiaries (indirect – direct subsidiaries of A E Resources Pty Ltd)				
African Energy Resources Botswana (Proprietary) Ltd	Botswana	Ordinary	100%	100%
African Energy Resources Mozambique Ltd	Mozambique	Ordinary	100%	100%
African Energy Resources (SA) (Pty) Ltd	South Africa	Ordinary	100%	100%
African Energy Resources Ltd	Zambia	Ordinary	100%	100%
African Energy Resources Ltd	Zimbabwe	Ordinary	100%	100%
Subsidiaries (indirect – direct subsidiaries of African Energy Resources Ltd (Zambia))				
Chirundu Joint Ventures Zambia Ltd	Zambia	Ordinary	70%	0%

Chirundu Joint Ventures Zambia Ltd was incorporated on 6 July 2008 to manage the operations of the Chirundu joint venture jointly owned by African Energy Resources Ltd (Zambia) and Albion Exploration Ltd. Shares in the company were issued to the joint venture parties in proportion to their ownership interest in the joint venture. This proportion remained to balance date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(c) Loans to from related parties

	Consolidated		Parent entity	
	2009	2008	2009	2008
	AUD	AUD	AUD	AUD
Loans to subsidiaries				
Beginning of year	-	-	14,687,290	9,996,066
Loans advanced	-	-	(1,503,225)	4,691,224
Loan repayments received	-	-	-	-
Interest charged	-	-	-	-
Interest received	-	-	-	-
End of year	-	-	13,184,065	14,687,290

	Consolidated		Parent entity	
	2009	2008	2009	2008
	AUD	AUD	AUD	AUD
Loans from Energy Ventures Limited				
Beginning of year	624,892	1,184,266	-	-
Loans advanced	-	-	-	-
Loan repayments paid	(6,994)	(559,374)	-	-
Interest charged	-	-	-	-
Interest received	-	-	-	-
End of year	617,898	624,892	-	-

(d) Other related party transactions

Loans are made by the Company to wholly owned subsidiaries for operating costs. Loans outstanding between the Company and its subsidiary have no fixed date of repayment and are non-interest bearing. As at 30 June 2009, the loan to subsidiaries totalled \$13,184,065 (2008: \$14,687,290).

The loan payable to Energy Ventures Ltd, is non-interest bearing and has no fixed date of repayment. At 30 June 2009 the balance of the loan payable to Energy Ventures Ltd was \$617,898 (2008: \$624,893). During the year, the consolidated entity was charged \$229,942 (2008: \$273,366) by Energy Ventures Ltd for the recharge of shared administration and wages, \$2,633 was outstanding as at 30 June 2009. The consolidated entity charged \$19,428 (2008: \$69,660) for the recharge of shared administration and wages, \$56 was outstanding as at 30 June 2009. Energy Ventures is a company associated with Mr Alasdair Cooke, Mr Michael Curnow and Dr Ian Duncan.

During the year, the consolidated entity was charged \$12,497 (2008: \$58,029) by Exco Resources Ltd for the recharge of shared overheads and the premises costs and received \$715 (2008: \$39,622) for the recharge of shared overheads, \$29 was outstanding as at 30 June 2009. Exco Resources Ltd is a company associated with Mr Alasdair Cooke.

During the year, the consolidated entity charged \$1,006 (2008: \$34,116) to Oval Biofuels Ltd for the recharge of shared overheads. As at 30 June 2009 \$41,257 was outstanding. Oval Biofuels Ltd is a company associated with Mr Alasdair Cooke and Mr Gregory Fry.

During the year the consolidated entity was charged \$477,229 (2008: \$286,435) by Mitchell River Group Pty Ltd for the recharge of technical project work, wages, overheads and office costs. As at 30 June 2009 \$115,375 was outstanding.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated entity charged \$8,387 to Mitchell River Group Pty Ltd, \$21 was outstanding as at 30 June 2009. Mitchell River Group Pty Ltd is a company associated with Mr Alasdair Cooke and Dr Frazer Tabart.

During the year the consolidated entity was charged \$1,768 (2008: \$32,658) by Albidon Ltd for the recharge of overheads. The consolidated entity charged Albidon Ltd \$1,560,987 for costs relating to the Chirundu Joint Venture, as at 30 June 2009 \$426,953 was outstanding. Mr Alasdair Cooke and Mr Valentine Chitalu are directors of Albidon Ltd.

Assets and liabilities arising from the above transactions

	Consolidated		Parent entity	
	2009	2008	2009	2008
	AUD	AUD	AUD	AUD
Trade debtors	468,317	53,867	-	-
Trade creditors	119,776	133,097	-	-

Employee benefits

(e) Option Plans

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

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

Consolidated and parent entity 2009

Grant Date	Expiry Date	Exercise Price cents	Balance at start of year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of year	Vested at year end
1/07/2007	30/06/2012	31.25	12,225,000	-	-	(294,934)	11,930,066	100%
20/11/2007	28/06/2012	40	730,000	-	-	(430,000)	300,000	100%
12/12/2007	29/06/2012	40	700,000	-	-	(150,000)	550,000	82%
22/04/2008	30/06/2012	40	600,000	-	-	-	600,000	50%
							13,380,066	

Consolidated and parent entity 2008

Grant Date	Expiry Date	Exercise Price cents	Balance at start of year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of year	Vested at year end
1/07/2007	30/06/2012	31.25	12,225,000	-	-	-	12,225,000	83%
20/11/2007	28/06/2012	40	-	1,400,000	-	(670,000)	730,000	0%
12/12/2007	29/06/2012	40	-	700,000	-	-	700,000	0%
22/04/2008	30/06/2012	40	-	600,000	-	-	600,000	0%
							14,255,000	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	Apr-08	Dec-07	Nov-07	Mar-07
	Options	Options	Options	Options
Fair value at measurement date (cents per option)	15.9 cents	24.4 cents	20.9 cents	13 cents
Share price (cents per share)	27 cents	38 cents	34 cents	25 cents
Exercise price (cents per option)	40 cents	40 cents	40 cents	31.25 cents
Expected volatility (expressed as weighted average)	108.76%	105.00%	105.00%	5.90%
Option life (expressed as weighted average life)	4 Years	4 Years	4 Years	5 Years
Expected dividends	-	-	-	-
Risk-free interest rate (based on national government bonds)	7.21%	6.54%	6.72%	5.99%

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

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

Expenses arising from share-based payment transactions

	Consolidated		Parent entity	
	2009	2008	2009	2008
	AUD	AUD	AUD	AUD
Options issued under employee option plan	(40,447)	(521,064)	(40,447)	(521,064)
	(40,447)	(521,064)	(40,447)	(521,064)

30. Subsequent events

No matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations, results or the state of affairs of the consolidated entity or the parent company in future financial years other than disclosed in the Directors' report.

31. Contingencies

There were no contingent assets or liabilities in the parent entity or the Group at 30 June 2009.



CORPORATE GOVERNANCE STATEMENT

OVERVIEW

In March 2003, the Australian Securities Exchange (ASX) Corporate Governance Council published its Principles of Good Corporate Governance and Best Practice Recommendations ("Recommendations").

In August 2007, the ASX Corporate Governance Council published a revised Principles and Recommendations (2nd Edition) to ensure that these remain relevant to the Australian business and investment communities. The Company's Corporate Governance Statement is structured below with reference to the ASX Corporate Governance Council's Principles and Recommendations (2nd Edition). The Company's Board of Directors has reviewed the recommendations. In many cases the Company was already achieving the standard required. In a limited number of instances, the Company has determined not to comply with the standard set out in the recommendations, largely due to the recommendation being considered by the Board to be unduly onerous for a Company of this size. Recommendations which the Company does not comply with are highlighted in this report.

Further information on the Company's corporate governance policies is located on the website: www.africanenergyresources.com.

1. PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

1.1 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.

1.2 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;

CORPORATE GOVERNANCE STATEMENT

- 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 (as defined in the Corporations Act).

Senior executives are responsible for the ongoing management of the Company's operations and report 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.

2. PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

2.1 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 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.

2.2 The Company's practice:

Independence

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 judgement. The Company does not comply with this recommendation as the majority of the Board is not independent.



CORPORATE GOVERNANCE STATEMENT

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 believe 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 Ccommunities in which it operates.

Composition

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	3 Years
Dr C F Tabcart	Managing Director	2 Years
Mr G W Fry	Executive Director	3 Years
Mr V Chitalu	Non-executive Director	3 Years
Mr M J Curnow	Non-executive Director	3 Years

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.

Education

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.

Independent professional advice and access to company information

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.

Nomination committee

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.

CORPORATE GOVERNANCE STATEMENT

Monitoring of Board Performance

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,
- 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.

3. PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

3.1 Companies should actively promote ethical and responsible decision-making.

- **Recommendation 3.1:** Companies should establish a code of conduct and disclose the code or a summary of the code as to:
 - the practices necessary to maintain confidence in the company's integrity
 - the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders
 - the responsibility and accountability of individuals for reporting and investigating reports of unethical practices
- **Recommendation 3.2:** Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.
- **Recommendation 3.3:** Companies should provide the information indicated in the Guide to reporting on Principle 3.

3.2 The Company's practice:

Ethical Standards

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 is committed to the highest level of integrity and ethical standards in all business practices. Directors and employees must conduct themselves in a manner consistent with current community and corporate standards and in compliance with all legislation. In addition, the Board subscribes to the Statement of Ethical Standards as published by the Australian Institute of Company Directors.

All Directors and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

Directors Dealings in Company Shares

The Company has a securities trading policy in place that applies to its directors, employees and contractors. The trading policy prohibits directors, employees and contractors from dealing in shares of the Company whilst in possession of price sensitive information.



CORPORATE GOVERNANCE STATEMENT

General trading in the Company's securities is prohibited:

- whilst in possession of unpublished price sensitive information;
- where officers are engaging in the business of active dealing;
- two weeks before and 24 hours after the release of the Company's quarterly, half yearly or annual report to the ASX; and
- two weeks before lodgement and during the period that a disclosure document including a prospectus is open for applications except to the extent that a director or employee is applying for securities pursuant to that disclosure document.

The policy requires directors to notify the Board and employees to notify the Managing Director in advance of any transactions involving the Company's securities.

In addition, directors must notify the Australian Securities Exchange of any acquisition or disposal of shares by lodgement of a Notice of Director's Interests.

Conflicts of Interest

In accordance with the Corporations Act and the Company's constitution directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exist the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

Based on the above information the Company believes it is fully compliant with Recommendations 3.1, 3.2 and 3.3.

4. PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

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

- **Recommendation 4.1:** The board should establish an audit committee.
- **Recommendation 4.2:** The audit committee should be structured so that it:
 - consists only of non-executive directors
 - consists of a majority of independent directors
 - is chaired by an independent chair, who is not chair of the board
 - 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.

4.2 The Company's practice:

Audit Committee

During the financial year the Board established a separate audit committee to assist the Board, its responsibilities are set out in a formal charter approved by the Board. Due to the size and structure of the company the audit committee consists of both executive and non-executive directors and therefore the Company is not compliant with Recommendation 4.2

CORPORATE GOVERNANCE STATEMENT

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, and
- liaising with the external auditors and ensuring that the annual audit and half-year review are conducted in an effective manner.
- reviewing the performance of the external auditors on an annual basis and nomination of auditors is at the discretion of the Board.

Audit and Compliance Policy

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 Executive Director and Company Secretary declared in writing to the Board that the Company's financial reports for the year ended 30 June 2008 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.

However, the Company has initiated an Audit Committee following the end of the financial period and is now compliance with this recommendation from 1 July 2008.

5. PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

5.1 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.



CORPORATE GOVERNANCE STATEMENT

5.2 The Company's practice:

Continuous Disclosure Policy

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:

- (a) 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;
- (b) Disclose notifications to the ASX on the Company website following confirmation of the publishing of the information by the ASX; and
- (c) 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:

- (d) Media releases;
- (e) Analyst briefings and presentations; and
- (f) 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.

6. PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

6.1 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.

6.2 The Company's practice:

Shareholder Communication

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.

CORPORATE GOVERNANCE STATEMENT

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 maximum amount of directors' fees 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
- 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 our website.

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

7. PRINCIPLE 7: RECOGNISE AND MANAGE RISK

7.1 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.

7.2 The Company's practice:

Recognise and Manage Risk

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

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



CORPORATE GOVERNANCE STATEMENT

RISK MANAGEMENT

Oversight of the risk management system

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

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

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

The Executive Directors 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.

Internal control framework

The Board acknowledges that it is responsible for the overall internal control framework, but recognizes 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.

8. PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

8.1 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:** Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.
- **Recommendation 8.3:** Companies should provide the information indicated in the Guide to reporting on Principle 8.

CORPORATE GOVERNANCE STATEMENT

8.2 The Company's practice:

Remuneration committee

During the financial year the Board established 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.

However, the Company will be formalising a separate Remuneration Committee in the 2009 financial year in compliance with this recommendation from 1 July 2008.

Remuneration policies

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

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

1. Retention and Motivation of senior executives
2. Attraction of quality management to the Company
3. Performance incentives which allow executives to share the rewards of the success of the Company

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

For details on the amount of remuneration and all monetary and non-monetary components for all directors refer to the Remuneration Report on pages 18 to 25 of the Annual Report. In relation to the payment of bonuses, options and other incentive payments, discretion is exercised by the Board, having regard to the overall performance of the Company and the performance of the individual during the period.

Based on the above information the Company believes it is fully compliant with Recommendations 8.1 and 8.2.



SHAREHOLDER INFORMATION

EXCHANGE LISTING

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

SUBSTANTIAL SHAREHOLDERS (HOLDING NOT LESS THAN 5%)

As at 13 October 2009

Name of Shareholder	Total Number of Voting Share in Energy Ventures Ltd in which the Substantial Shareholders and its Associates Hold Relevant Interests	Percentage of Total Number of Voting Shares (%)
Energy Ventures Limited	105,250,968	41.32
BBH BBHTSIA Standard Africa EQ Fund	17,000,000	6.67

CLASS OF SHARES AND VOTING RIGHTS

At 13 October 2009 there were 776 holders of 254,767,152 ordinary fully paid shares of the Company. The voting rights attaching to the ordinary shares are in accordance with the Company's Constitution being that:

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

DISTRIBUTION OF SHAREHOLDERS

Spread of Holdings	Number of shareholders
1 – 1,000	21
1,001 – 5,000	169
5,001 – 10,000	124
10,001 – 100,000	314
100,001 and over	148
Total	776

The number of shareholders holding less than a marketable parcel is 84.

SHAREHOLDER INFORMATION

UNLISTED OPTIONS

Securities	Number of Securities on Issue	Number of Holders
Options exercisable at 31.25 cents on or before 30/6/2012	11,930,066	17
Options exercisable at 40 cents on or before 30/6/2012	1,450,000	6
Options exercisable at 8.5 cents on or before 30/6/2012	4,200,000	23

ESCROWED SECURITIES

The Company does not have any securities on issue that are subject to escrow restrictions.

LISTING OF 20 LARGEST SHAREHOLDERS AS AT 13 OCTOBER 2009

	Name of Ordinary Shareholder	Number of Shares Held	Percentage of Shares Held %
1.	Energy Ventures Limited	105,250,968	41.31
2.	HSBC Custody Nominees (Australia) Limited	20,060,397	7.87
3.	J P Morgan Nominees Australia Limited	10,250,349	4.02
4.	HSBC Custody Nominees (Australia) Limited	8,000,000	3.14
5.	Mr Alasdair Campbell Cooke	6,625,474	2.61
6.	Mr Stacey Radford	5,000,000	1.96
7.	Geared Investments Pty Ltd	4,000,000	1.57
8.	PS Consulting Pty Ltd	4,000,000	1.57
9.	NEFCO Nominees Pty Ltd	3,231,250	1.27
10.	Clariden Capital Limited	3,000,000	1.18
11.	Helmet Nominees Pty Ltd	2,900,000	1.14
12.	Glenlaren Pty Ltd	2,627,464	1.03
13.	Mrs Elizabeth Margaret De Burgh	2,581,771	1.01
14.	Burls Holdings Pty Ltd	2,084,000	0.82
15.	Equity Trustees Ltd	2,000,000	0.79
16.	IE Properties Pty Ltd	2,000,000	0.79
17.	Mr Gregory William Fry	1,593,385	0.63
18.	Dr Charles Frazer Tabcart	1,340,000	0.53
19.	RBC Dexia Investor Services Australia Nominees Pty Limited	1,300,000	0.51
20.	Mrs Annabel Kate Glover	1,250,000	0.49
		189,095,058	74.24

CASH USAGE

Since the time of listing on ASX, the entity has used its cash and assets in a form readily converted to cash that it had at the time of admission to the official list of ASX in a manner which is consistent with its business objectives.





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