

AFRICAN ENERGY RESOURCES LIMITED

ARBN 123 316 781

PROSPECTUS

**For the offer of a non-renounceable rights issue of approximately 34,716,218 New Shares,
on the basis of 1 New Share for every 13 Shares held
at an issue price of 8.5 cents per New Share, to raise up to approximately \$2,950,879
and for the offer of Shortfall Shares**

**This Offer is partly underwritten by Sentient Global Resources Fund IV, L.P. (acting through
Sentient Executive GP IV Limited as general partner of its general partner)**

This document is a transaction-specific prospectus issued in accordance with section 713 of the Corporations Act 2001. This Prospectus contains important information about the Offer. You should read the entire document including the Entitlement and Acceptance Form. If after reading this Prospectus you have any questions about the Offer or this Prospectus, you should speak to your professional adviser.

The New Shares offered by this Prospectus should be considered highly speculative.

IMPORTANT NOTICE

This Prospectus is dated 5 May 2014 and was lodged with ASIC on that date. Neither ASIC, ASX nor any of their respective officers take any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

Certain terms and abbreviations used in this Prospectus have defined meanings, which are explained in the Glossary. In this Prospectus, the words "we", "our" and "us" refer to the Company. The words "you" or "your" refer to Shareholders.

No securities will be issued on the basis of this Prospectus later than 13 months after the date of this Prospectus. Application for quotation of the New Shares will be made to ASX within 7 days after the date of this Prospectus.

We are an ASX listed company whose Shares are granted official quotation by ASX. In preparing this Prospectus regard has been had to the fact that we are a disclosing entity for the purposes of the Corporations Act and that certain matters may reasonably be expected to be known to investors and professional advisers who investors may consult.

No person is authorised to give any information or to make any representations in connection with this Offer that is not contained in this Prospectus. Any information or representation that is not contained in this Prospectus may not be relied upon as having been authorised by the Directors or by us.

Restrictions on distribution

The Offer is made in Australia, New Zealand and the Cayman Islands only. This Prospectus does not constitute an offer in any overseas jurisdiction where it would be unlawful to make the Offer. You must ensure compliance with all laws of any country relevant to your Application. We will take the return of a duly completed Entitlement and Acceptance Form as a representation by you that there has been no breach of any laws and that you are an Eligible Shareholder.

The Corporations Act prohibits any person passing on to another person an application form unless it is accompanied by or included in a hard copy, or the complete and unaltered electronic version of this Prospectus. Please contact us if you wish to obtain a hard copy of this Prospectus free of charge.

A copy of this Prospectus can be downloaded from our website at www.africanenergyresources.com. If you access the electronic version of this Prospectus you should ensure that you download and read the entire Prospectus. The electronic version of this Prospectus is only available to Australian residents.

CORPORATE DIRECTORY

DIRECTORS

Mr Alasdair Cooke (Executive Chairman)
Dr Charles (Frazer) Tabeart (Managing Director)
Mr Gregory (Bill) Fry (Executive Director)
Mr Valentine Chitalu (Non-Executive Director)
Mr Philip Clark (Non-executive Director)
Mr Vincent (Ian) Masterton-Hume (Non-Executive Director)

COMPANY SECRETARY

Mr Daniel Davis

BUSINESS OFFICE IN AUSTRALIA

Level 1, 8 Colin Street
West Perth, Western Australia, 6005

Tel: +61 8 6465 5500

UNDERWRITER

Sentient Global Resources Fund IV, L.P.
(acting through Sentient Executive GP IV
Limited as general partner of its general
partner)
Landmark Square
1st Floor, 64 Earth Close
West Bay Beach South, Grand Cayman
Cayman Islands KY1-1007

SOLICITORS

Fairweather Corporate Lawyers
595 Stirling Highway
Cottesloe, Western Australia, 6011

SHARE REGISTRY *

Link Market Services Limited
Ground Floor
178 St George's Terrace
Perth, Western Australia, 6000

* The name of the Share Registry is included for information purposes only. It has not been involved in the preparation of any part of this Prospectus and has not consented to being named in the Prospectus.

TABLE OF CONTENTS

1.	INVESTMENT OVERVIEW	1
2.	REASON FOR THE RIGHTS ISSUE AND EFFECT ON THE COMPANY	6
2.1	Background	6
2.2	Use of Funds	6
2.3	Effect on shareholders' equity and cash reserves.....	7
2.4	Effect on capital structure	7
2.5	Pro forma Statement of financial position.....	8
3.	UNDERWRITER ARRANGEMENTS AND EFFECT ON CONTROL.....	10
3.1	Determining Minimum Subscription and Underwritten Amount	10
3.2	Underwriting arrangements	10
3.3	Shortfall allocation policy	11
3.4	Effect on control	12
3.5	Future intentions of the Underwriter and its associates	13
4.	RISK FACTORS	14
4.1	Introduction.....	14
4.2	Specific Risks	14
4.3	General Investment Risks	17
5.	DETAILS OF THE OFFER.....	18
5.1	The Offer	18
5.2	How to accept the Rights Issue	19
5.3	Allotment and Quotation	20
5.4	Shortfall	21
6.	ADDITIONAL INFORMATION.....	22
6.1	Rights attaching to New Shares	22
6.2	Transaction specific prospectus and continuous disclosure obligations	25
6.3	Market price of Shares	27
6.4	Directors' Interests	27
6.5	Interests of experts and advisers	29
6.6	Expenses of the Offer.....	30
6.7	Consents	30
7.	DIRECTORS' AUTHORISATION AND CONSENT	31
8.	GLOSSARY	32

1. INVESTMENT OVERVIEW

Question	Response	Where to find more information
What is the Offer?	We are offering to issue New Shares to Eligible Shareholders by a pro-rata non-renounceable rights issue. Under the Rights Issue, Eligible Shareholders may subscribe for 1 New Share for every 13 Shares held on the Record Date.	Section 2.1
What is the Issue Price?	The Issue Price is 8.5 cents per New Share.	Section 2.1
Who is an Eligible Shareholder?	The Offer is made to Eligible Shareholders only. An Eligible Shareholder is a Shareholder with a registered address in Australia, New Zealand or Cayman Islands on the Record Date.	Section 5.1(a)
How many New Shares will be issued?	The number of New Shares that will be issued under the Offer at Full Subscription is 34,716,218 and at Minimum Subscription is 17,647,058. In the event that Option holders who reside in Australia, New Zealand or Cayman Islands exercise their Options before the Record Date, they will be entitled to participate in the Offer. This will increase the maximum number of New Shares that may be issued under the Offer.	Section 2.1
What is the amount that will be raised under the Offer?	At the date of this Prospectus, the maximum amount that may be raised under the Prospectus is \$2,950,879 before expenses at Full Subscription and \$1,500,000 before expenses at Minimum Subscription. If existing Option holders exercise their Options before the Record Date so as to participate in the Offer, the amount raised under the Offer may increase.	Section 2.1
What is the purpose of the Offer?	The purpose of the Offer is to raise funds: • to pay the deferred vendor payment on the Mmamabula West acquisition; • to further progress the Company's Botswana power and coal projects; • to pay the costs of the rights issue process; • to provide general working capital. A budget of how we intend to use the funds raised at both Minimum Subscription and Full Subscription is set out in Section 2.2. As with any budget, new circumstances may change the way we apply the funds.	Section 2.2

Question	Response	Where to find more information
What is the effect of the Offer on share capital and cash reserves?	The effect of the Offer on share capital and cash reserves is to: • Increase the number of Shares on issue. • Increase our cash reserves at Full Subscription by approximately \$2,950,879 before the costs of the Offer.	Section 2.3
What are the underwriting arrangements?	The offer is partly underwritten by Sentient Global Resources Fund IV, L.P. acting through Sentient Executive GP IV Limited, the general partner of its general partner (Sentient or the Underwriter). The Underwriter is a member of the Sentient Group, which is an independent private equity investment firm that specialises in investing in the global resource industry. The Underwriter is the largest Shareholder in the Company with a current relevant interest in Shares of 19.95%. The Underwriter will take up as much of the Sentient Entitlement (in its capacity as an Eligible Shareholder) under the Offer as it is able to whilst remaining under the applicable takeover threshold of a 20% relevant interest in Shares. The take-up of the Sentient Entitlement will therefore depend on the take-up of the Offer by Eligible Shareholders other than the Underwriters. The Underwritten Amount is the sum of \$1,500,000 less the proceeds from the Sentient Entitlement that is taken up by the Underwriter in accordance with its commitment above. The commitment by the Underwriter in respect of the Sentient Entitlement together with the commitment to additionally underwrite is to seek to ensure that the Minimum Subscription of \$1,500,000 is achieved.	Section 3
How will Shortfall be allocated?	Any Entitlement not accepted will form the Shortfall. In order to minimise the take-up by the Underwriter and thereby minimise any control issues, the Company will allocate Shortfall Shares with a first priority to Eligible Shareholders that have subscribed for their full Entitlement (other than the Underwriter), prior to allocating Shortfall Shares to the Underwriter up to the Underwritten Amount. Further detail on the priorities for the allocation of Shortfall Shares is set out in Section 3.4. Eligible Shareholders wishing to apply for Shortfall Shares should do so in accordance with Section 5.5.	Sections 3.3 and 5.4
What is the effect on control of the Offer?	The effect of the Offer on the control of the Company is reliant upon the take-up of Entitlement by Eligible Shareholders and the placing of any Shortfall. At the date of this Prospectus, the Underwriter has a relevant interest in 19.95% of the Shares currently on issue. Please refer to the table in Section 3.5 detailing various scenarios and the resultant relevant interest for	Section 3.4

Question	Response	Where to find more information
What are the risks of a further investment in the Company?	the Underwriter after the Offer, which maximum relevant interest could be 22.96%. The Offer should be considered highly speculative. Before deciding to subscribe under the Offer, you should consider the risk factors set out in this Prospectus and all other relevant material including our public announcements and report. The Company is developing 3 projects in Botswana being the Sese power and coal project, the Mmamantswe power and coal project and the Mmamabula West coal project. Some of the specific risks relevant to an investment in the Company are: • Commercial Tender Risk – the Company has a Joint Development Agreement with ACWA Power International where the parties have formed a bid consortium in relation to the Sese Project. The consortium has bid to develop the Botswana 300MW Greenfield Power Tender. There is risk as to whether the consortium will be successful in this bid or any other power purchase agreement bids. • Finance Risk under a Tender Project – if the consortium wins the Botswana 300MW Greenfield Power Tender or any other power purchase agreement bid, there is no guarantee that a necessary financing package for a project will be secured. • Partnering Risk – the Company is reliant upon maintaining a good relationship with ACWA Power International so as to effectively develop any power purchase agreement project that is successfully bid upon. • Water – power projects and the associated mining activities require considerable volumes of water. In all of the Company's power and coal projects a suitable water source has been identified, and in the case of the Sese Power Project this has been secured. The cost of accessing water is a risk. • Infrastructure risk - All of the Company's projects occur within 20kms to 60kms of existing road, rail, water and power infrastructure. In each case a connection to the appropriate regional infrastructure will be required. • Loan facility repayment – the Company has a US\$5,000,000 loan facility with Macquarie Bank Limited. The loan facility is secured against the Sese project assets of the Company and is repayable by 31 December 2014. Interest is payable by the Company on outstanding balances equal to US\$ LIBOR rate plus 6%. At the date of this Prospectus, the outstanding moneys repayable under the facility including interest is approximately	Section 4

Question	Response	Where to find more information
	US\$5,026,000. The Company may seek to extend the repayment date, as it has done in the past. Any extension will likely be contingent upon payment of a fee. In the event that the facility is not extended and remains payable by 31 December 2014, the Company will need to seek further funds (which may be by way of debt, equity or a combination of debt and equity) in order to repay the moneys by 31 December 2014. No assurance can be given that future funding (by 31 December 2014 or any later date) will be available to the Company on favourable terms or at all which would prejudice the ongoing operations of the Company. • Exploration and development risk – In relation to the coal projects, coal exploration and development is by its nature a high risk undertaking. There is no assurance that the Company's activities on these projects will result in a commercially viable operation. The Mmamabula West project is currently the Company's principal coal project. • Coal price – an adverse movement in the price of coal may adversely affect the development of the Company's export focused coal projects. • Botswana sovereign risk – Although the political situation is stable, uncertainties may arise from matters such as corruption, civil strife and poor infrastructure. • Reliance on key personnel – the Company's success depends on the core competencies of its Directors and management and their familiarisation with, and ability to operate in, the resource industry and the Company's ability to retain its key executives.	
How do I accept my entitlement under the Offer?	All Eligible Shareholders are entitled to subscribe for New Shares under the Offer. If you wish to make an Application in respect to your Entitlement, you must complete the Entitlement and Acceptance Form that accompanies this Prospectus. You may accept all or part of your Entitlement. If you do not wish to take up any of your Entitlement, you do not need to take any action and your Entitlement will lapse.	Section 5.2
What will happen to Excluded Shareholders?	The Offer is not extended to Excluded Shareholders (any Shareholder whose registered address on the Record Date is not situated in Australia, New Zealand or Cayman Islands).	Section 5.2
What are the key dates of the Offer?	Prospectus lodged with ASIC and ASX Appendix 3B lodged with ASX	5 May 2014 5 May 2014

Question	Response	Where to find more information
	Notice sent to Optionholders	5 May 2014
	Notice sent to Shareholders	7 May 2014
	"Ex" date (date from which Shares trade on ASX without the entitlement to participate in the Offer)	8 May 2014
	Record Date (to determine eligibility of Shareholders to participate in the Offer)	12 May 2014
	Anticipated despatch of Prospectus and Entitlement and Acceptance Forms to Eligible Shareholders	15 May 2014
	Closing Date	29 May 2014
	Deferred settlement trading commences	30 May 2014
	ASX notified of under-subscriptions	3 June 2014
	Issue date	5 June 2014
	Deferred settlement trading ends	5 June 2014
	New Securities commence normal trading on ASX.	6 June 2014
	Please note that these dates are subject to change. We reserve the right, subject to the Corporations Act and the Listing Rules to amend the timetable at any time, and in particular, to extend the Closing Date or to withdraw the Offer without prior notice.	

2. REASON FOR THE RIGHTS ISSUE AND EFFECT ON THE COMPANY

2.1 Background

The company was admitted to the Official List of the ASX on 16 April 2007. The Company is focused on developing power generation and coal projects in Botswana.

We are making this Offer which consists of a pro-rata non-renounceable rights issue to Eligible Shareholders of approximately 34,716,218 New Shares at Full Subscription and 17,647,058 New Shares at Minimum Subscription. The Offer is made on the basis of 1 New Share for every 13 Shares held by Eligible Shareholders on the Record Date at an issue price of 8.5 cents per New Share ("**Rights Issue**"). The Rights Issue will raise up to approximately \$2,950,879 before expenses at Full Subscription and approximately \$1,500,000 before expenses at Minimum Subscription.

As at the date of this Prospectus, we have 451,310,838 Shares, 37,388,399 Options and 6,550,000 Performance Rights on issue. Option holders with an address in Australia, New Zealand or Cayman Islands may exercise their Options before the Record Date and participate in the Offer. In this event, the number of New Shares to be issued under this Prospectus and the funds raised as a result of the Rights Issue may vary.

2.2 Use of Funds

We are seeking to raise a total of up to approximately \$2,950,879 from this Rights Issue. The Company intends to use its current funds and the proceeds of the Offer at Minimum Subscription and Full Subscription as follows:

Funds Available	Amount Minimum Subscription \$	Amount Full Subscription \$
Cash on hand at the date of this Prospectus	2,190,000	2,190,000
Funds raised under the Offer ¹	1,500,000	2,950,879
Total funds available	3,690,000	5,140,879
Use of Funds	Amount Minimum Subscription \$	Amount Full Subscription \$
Deferred vendor payment on Mmamabula West acquisition ²	1,595,745	1,595,745
Ongoing permitting activities and technical studies at Sese power and coal project	400,000	400,000
Permitting activities at Mmamantswe power and coal project ³	150,000	150,000
Technical studies and marketing upon Mmamantswe power and coal project	150,000	870,440
Feasibility study progress upon Mmamabula West coal project ³	300,000	1,020,439
General working capital ⁴	964,255	964,255

Expenses of the Offer including underwriting fee ⁵	130,000	140,000
Total	3,690,000	5,140,879

- 1 The table assumes that none of the existing Option holders exercise their Options before the Record Date and participate in the Offer. In the event that more funds are raised than \$2,950,879, we will allocate those additional funds to general working capital.
- 2 The Mmamabula West final acquisition payment is to be made once the Prospecting Licence PL56/2005 has been renewed over the project in mid-to late-2014. The required payment is US\$1,500,000. The payment in the table above assumes a A\$:US\$ exchange rate of A\$1.00:US\$0.94.
- 3 In the event that moneys are raised beyond Minimum Subscription to Full Subscription, the net funds (of up to approximately \$1,440,879) are intended to be applied to:
 - (a) further technical studies and marketing upon Mmamantswe power and coal project – up to \$720,440; and
 - (b) further feasibility study progress upon Mmamabula West coal project - up to \$720,439,
 on a pro-rata basis.

General working capital includes corporate administration and operating costs and may be applied to directors' fees, ASX and share registry fees, legal, tax and audit fees, insurance and travel costs. If Shareholders approve the issue of 2,352,941 Shares at 8.5 cents each to an associate of Alasdair Cooke (a Director) at the Shareholder Meeting on 23 May 2014, the Company will receive further funds of \$200,000 which is intended to be applied to general working capital.
- 4 The items of expenses are set out in Section 6.6.
- 5 This table is a statement of our proposed application of the funds raised as at the date of this Prospectus. As with any budget, intervening events and new circumstances have the potential to affect our decisions and we reserve the right to vary the way the funds are applied.

2.3 Effect on shareholders' equity and cash reserves

Assuming that all New Shares offered under the Rights Issue are issued, the principal effects of the Rights Issue on the Company will be to:

- (a) increase the total number of Shares on issue (see Section 2.4); and
- (b) increase our cash reserves at Full Subscription by approximately \$2,950,879, before taking into account the expenses of the Offer (see Section 2.5).

A pro forma statement of financial position, which contains further information about the effect of the Rights Issue on the Company, is provided in Section 2.5.

2.4 Effect on capital structure

Assuming that no Options are exercised before the Record Date, the effect of the Offer on the Company's issued share capital at Minimum Subscription and Full Subscription is shown in the following table:

Shares	Minimum Subscription	Full Subscription
Existing Shares ¹	451,310,838	451,310,838
New Shares issued under Rights Issue	17,647,058	34,716,218
Total Shares on issue after completion of the Rights Issue	468,957,896	486,027,056
Options	Minimum Subscription	Full Subscription
Existing Options (exercise price 62.5 cents expiring 25 July 2014)	782,499	782,499
Existing Options (exercise price 15 cents expiring 31 December 2015)	36,605,900	36,605,900
Options issued under Rights Issue	-	-
Total Options on issue after completion of the Rights Issue	37,388,399	37,388,399
Performance Rights	Minimum Subscription	Full Subscription
Performance Rights ²	6,550,000	6,550,000

1. The existing Shares do not include 2,352,941 Shares that will be issued to an associate of Alasdair Cooke (a Director) immediately after the Shareholder Meeting to be held on 23 May 2014.
2. The Performance Rights have been issued under an employee performance rights plan and each right is convertible into one Share on satisfaction of a performance hurdle. The performance hurdles are set out in the Company's 2013 annual report.

2.5 Pro forma Statement of financial position

To illustrate the effect of the Rights Issue on the Company, a pro forma statement of financial position has been prepared based on the unaudited statement of financial position as at 28 February 2014. The pro forma statement of financial position shows the effect of the Rights Issue as if it had been made on 28 February 2014 at both Minimum Subscription and Full Subscription based on the following assumptions:

- (a) At Minimum Subscription, the issue of 17,647,058 shares by the Company at an issue price of 8.5 cents per Share to raise gross funds of \$1,500,000 in accordance with the Rights Issue less estimated costs of \$130,000 raising a net sum of \$1,370,000.
- (b) At Full Subscription, the issue of 34,716,218 Shares by the Company at an issue price of 8.5 cents per Share to raise gross funds of \$2,950,879 in accordance with the Rights Issue less estimated costs of \$140,000 raising a net sum of \$2,810,879.

In addition, the proforma statement of financial position includes, at both Minimum Subscription and Full Subscription, the Company's recent placement of 14,896,535 Shares by the Company at an issue price of 8.5 cents per Share to raise net funds of \$1,266,205 and in connection with this placement, the issue of 744,827 Shares at no cost representing a 5% placement fee.

	Actual 28-Feb-14 Unaudited A\$	Pro-forma 28-Feb-14 (Minimum Subscription) A\$	Pro-forma 28-Feb-14 (Maximum Subscription) A\$
Assets			
Current Assets			
Cash and cash equivalents	1,843,249	4,770,596	6,247,183
Trade & Other receivables	196,012	196,012	196,012
Total current assets	2,039,261	4,966,608	6,443,195
Non-current Assets			
Exploration & Evaluation	26,511,979	26,511,979	26,511,979
Property, plant and equipment	351,166	351,166	351,166
Total non-current assets	26,863,146	26,863,146	26,863,146
Total assets	28,902,407	31,829,754	33,306,341
Liabilities			
Current Liabilities			
Trade and other payables	449,877	449,877	449,877
Macquarie loan facility	5,376,344	5,376,344	5,376,344
Total current liabilities	5,826,221	5,826,221	5,826,221
Non-current Liabilities			
Provision for Rehabilitation - Sese	268,817	268,817	268,817
Total non-current liabilities	268,817	268,817	268,817
Total liabilities	6,095,039	6,095,039	6,095,039
Net assets	22,807,368	25,734,715	27,211,302
Equity			
Issued capital	58,220,627	61,147,974	62,624,561
Reserves	1,345,619	1,345,619	1,345,619
Accumulated losses	(36,758,878)	(36,758,878)	(36,758,878)
Total equity	22,807,368	25,734,715	27,211,302

3. UNDERWRITER ARRANGEMENTS AND EFFECT ON CONTROL

3.1 Determining Minimum Subscription and Underwritten Amount

The Directors have determined that Minimum Subscription of \$1,500,000 is an appropriate sum to enable the Company to apply these funds and cash on hand to meet the objectives set out in the Use of Funds table in Section 2.2.

The Underwriter is the largest Shareholder in the Company with a current relevant interest in Shares of 19.95%. The Underwriter will take up as much of the Sentient Entitlement (in its capacity as an Eligible Shareholder) under the Offer as it is able to whilst remaining under the applicable takeover threshold of a 20% relevant interest in Shares. The take-up of the Sentient Entitlement will therefore depend upon the take-up of the Entitlements by Eligible Shareholders other than the Underwriter.

The Underwritten Amount is the sum of \$1,500,000 less the proceeds of the Sentient Entitlement that is taken up by the Underwriter in accordance with its commitment above. The commitment by the Underwriter in respect of the Sentient Entitlement together with the commitment to additionally underwrite is to seek to ensure that the Minimum Subscription of \$1,500,000 is achieved.

3.2 Underwriting arrangements

(a) *The Underwriter and financial capacity*

The Underwriter is Sentient Global Resources Fund IV, L.P (**Sentient Fund IV**) acting through Sentient Executive GP IV, Limited as the general partner of Sentient GP IV, L.P. which in turn is the general partner of the Sentient Fund IV. As a general partner of the general partner of Sentient Fund IV, Sentient Executive GP IV, Limited holds Shares as a fiduciary of Sentient Fund IV.

The Underwriter is a member of the Sentient Group, which is an independent private equity investment group that specialises in investing in the global resource industry. The Sentient Group manages significant funds that are used to develop resource projects.

Although the Underwriter is the largest shareholder of the Company with a current relevant interest in Shares of 19.95%, the Directors have determined that it is appropriate that it partly underwrites the Offer given its financial capacity and the reasonable terms of the underwriting including that the Underwriting Agreement is not conditional on any sub-underwriting support. The pricing of the Offer of 8.5 cents per Share is at the same price as a placement on 16 April 2014 that raised gross funds of \$1,266,205. The Directors have adopted a shortfall allocation policy (see Section 3.3) so as to seek to limit any increase in relevant interest for the Underwriter by reason of its underwriting. The Company does not consider that the Underwriter will obtain control of the Company as a result of its underwriting (see Section 3.4).

(b) *Underwriting Agreement*

The Underwriter is not a related party of the Company.

Under the Underwriting Agreement, the Underwriter is obliged to subscribe for Shortfall Shares up to the Underwritten Amount on the Issue Date. Section 3.4 sets

out some examples of the Shortfall Shares to be issued to the Underwriter in different scenarios.

We are also required to reimburse the Underwriter for all reasonable out-of-pocket expenses.

Under the Underwriting Agreement we are required to make the Offer in accordance with all relevant regulatory requirements and we have given various representations and warranties to the Underwriter, which are customary for an agreement of this nature.

As is normal for underwriting agreements of this nature, the Underwriter has a wide discretion to terminate its obligations under the Underwriting Agreement on the occurrence of a number of events, which may occur before the issue of Shortfall Shares. The significant termination events include:

- a fall in indices event allowing the Underwriter to terminate its obligations if, at any time between the date of the Underwriting Agreement and the close of trading on the business day prior to allotment of the last of the Underwritten Securities, the S&P/ASX 200 Index falls to a level that is 90% or less of the level at the closing of trading on the business day prior to the date of the Underwriting Agreement;
- the occurrence of an adverse change occurs which is, or is likely to give rise to, a material adverse effect. A material adverse effect includes such an effect on the assets, performance or prospects of the Company;
- a material omission or misleading or deceptive statement in the Prospectus; and
- the Company lodging a supplementary prospectus in a form and substance that has not been approved by the Underwriter.

The fee payable to the Underwriter is \$75,000 plus GST.

(c) *No Sub-underwriting*

The Underwriter will not appoint sub-underwriters to subscribe for Shortfall.

3.3 **Shortfall allocation policy**

Any New Shares under the Rights Issue that are not applied for will form the Shortfall Shares. Information on how to apply for Shortfall Shares is set out in Section 5.4.

The Company will allocate Shortfall Shares in accordance with the following priorities:

- (a) first priority will be given to Eligible Shareholders (other than the Underwriter) that have subscribed for their full Entitlement provided that the issue of the Shortfall Shares will not result in the applicant's voting power in the Company exceeding 20%;
- (b) second priority will be the Underwriter so that any Shortfall Shares not subscribed for by parties given first priority will revert to the Underwriter up to the Underwritten Amount.

In the event that applications exceed the Shortfall Shares in the first category above, the Shortfall Shares will be allocated on a proportionate basis relative to the shareholdings at the Record Date.

The Directors further have discretion to place any Shortfall Shares remaining after the priority process above (after the first category is satisfied and the Underwriter has subscribed up to the Underwritten Amount) within 3 months of the Closing Date. Any such offer of Shortfall Shares will be at the same price as the New Shares offered under the Rights Issue.

3.4 Effect on control

As at the date of this Prospectus, the Underwriter has a relevant interest in 90,016,363 Shares, representing 19.95% of the Shares currently on issue.

The relevant interest of the Underwriter will vary depending upon the Underwriter's ability to take-up the Sentient Entitlement (which depends upon the take-up of Entitlements by Eligible Shareholders other than the Underwriter) and the subsequent placing of Shortfall. Below is a table detailing various scenarios.

Underwriter	Total percentage acceptance take-up of Entitlements by Eligible Shareholders other than the Underwriter				
	100%	75%	50%	25%	0%
Current Shares held	90,016,363	90,016,363	90,016,363	90,016,363	90,016,363
Sentient Entitlement taken up under Offer	6,924,335	5,194,704	3,463,136	1,731,568	-
Shares to be issued under Underwriting Agreement	-	8,677,602	14,183,922	15,915,490	17,647,058
Number of Shares held following the Offer	96,940,698	103,888,669	107,663,421	107,663,421	107,663,421
Total Shares on issue	486,027,056	486,027,056	482,853,062	475,905,479	468,957,896
Percentage of Shares following the Offer / Relevant Interest	19.95%	21.38%	22.30%	22.62%	22.96%

The above table assumes:

- (a) Eligible Shareholders do not apply for any Shortfall.
- (b) All Shortfall up to the Underwritten Amount is subscribed for by the Underwriter.

The Offer is 1 New Share for every 13 Shares held by Eligible Shareholders and the maximum dilution at Full Subscription that will be experienced by any Eligible Shareholder that fails to subscribe for any Entitlement is 7.14% of its existing shareholding.

By reason of the above, the effect of the Offer on the relevant interest of the Underwriter in Shares and any possible control is reliant upon the take-up of Entitlements by Eligible Shareholders and the placing of any Shortfall. The Company considers that the Underwriter will not obtain control of the Company as a result of taking up the Sentient Entitlement and taking up any Shortfall (if any) as the Underwriter. The maximum relevant interest of Sentient after the Offer will be 22.96% (see the table above).

3.5 Future intentions of the Underwriter and its associates

The Company considers that the Underwriter will not obtain control of the Company as a result of taking up the Sentient Entitlement and the placing of any Shortfall (if any) to it as underwriter, and consequently, the Underwriter's ability to influence the direction of the Company as a Shareholder should be unchanged.

The Underwriter has informed us that on the facts and circumstances presently known to it, it is supportive of our current direction and it does not currently intend, in its capacity as a Shareholder, to seek any major changes to our direction and objectives, and that other than as disclosed in this Prospectus it:

- does not currently intend to seek any significant changes to our existing businesses;
- does not currently intend to inject further capital into the Company, and has made no commitments to do so, other than in taking up the Sentient Entitlement and partly underwriting this Offer. However, if we require additional funding in the future, the Underwriter will assess such requirement and will decide whether to provide such funding based on the prevailing circumstances at that time;
- does not currently intend to seek any changes to the employment of, or to rationalise, our present employees;
- does not currently intend to seek for any property to be transferred between the Company and it or any person associated with it;
- does not currently intend to seek the redeployment of our fixed assets; and
- does not currently intend to seek any change to our existing financial or dividend policies.

The Underwriter has indicated that its intentions detailed above are based on the Underwriter's circumstances as at the date of this Prospectus, and the facts and information regarding the Company and the general political, economic and business environment known to the Underwriter as at the date of this Prospectus. Any future decision will be reached by it based on all material information and circumstances at the relevant time. Accordingly, if circumstances change or new information becomes available in the future, the Underwriter's intentions may change accordingly.

4. RISK FACTORS

4.1 Introduction

An investment in the securities the subject of this Prospectus is highly speculative as the Company is focussed on the development of projects in Botswana for domestic and export power and coal export. The projects are the Sese power and coal project, the Mmanantswe power and coal project and the Mmamabula West coal project.

There are a number of factors that may have a material impact on our future operating and financial performance. The key material risks are described below.

You should carefully consider the risks described below, the information contained in other sections of this Prospectus, and all other relevant material including our public announcements and reports.

The specific risks below are some of the risks specific to the Company including by reason of its involvement in the resource industry. The general investment risks below are some of the risks to the Company of a general economic nature.

4.2 Specific Risks

Commercial Tender Risk

The Company has a Joint Development Agreement with ACWA Power International where the parties have formed a bid consortium in relation to the Sese Project. The consortium has bid to develop the Botswana 300MW Greenfield Power Tender. The consortium is one of eight bidders that have submitted an Expression of Interest in the formal tender process. There is risk as to whether the consortium will be successful in this bid or any other power purchase agreement bids.

Finance Risk under a Tender Project

If the consortium wins the Botswana 300MW Greenfield Power Tender or any other power purchase agreement bid, there is no guarantee that a necessary financing package for a project will be secured.

Partnering Risk

The Company is reliant upon maintaining a good relationship with ACWA Power International so as to effectively develop any power purchase agreement project that is successfully bid upon.

Water

Power projects and the associated mining activities require considerable volumes of water. In all of the Company's power and coal projects a suitable water source has been identified, and in the case of the Sese Project this has been secured. However, these water sources will only remain sustainable if recharge of the water resource is achieved over the operational life of the project. The Company's consultants have undertaken technical modelling of the recharge rates which indicate adequate water supply, but these models are by their nature only an estimate of future recharge rates and may not necessarily provide reliable information, and may have to be recalculated in the future. The cost of accessing

water is a risk.

Infrastructure Risk

All of the Company's projects occur within 20 kms to 60kms of existing road, rail, water and power infrastructure. In each case a connection to the appropriate regional infrastructure will be required and there is always the risk of failure of this connecting infrastructure or of the primary infrastructure itself.

Loan facility repayment

The Company has a US\$5,000,000 loan facility with Macquarie Bank Limited. The loan facility is secured against the Sese project assets of the Company and is repayable by 31 December 2014. Interest is payable by the Company on outstanding balances equal to US\$ LIBOR rate plus 6%. At the date of this Prospectus, the outstanding moneys repayable under the facility including interest is approximately US\$5,026,000. The Company may seek to extend the repayment date, as it has done in the past. Any extension will likely be contingent upon payment of a fee. In the event that the facility is not extended and remains payable by 31 December 2014, the Company will need to seek further funds (which may be by way of debt, equity or a combination of debt and equity) in order to repay the moneys by 31 December 2014. No assurance can be given that future funding (by 31 December 2014 or any later date) will be available to the Company on favourable terms or at all which would prejudice the ongoing operations of the Company.

Exploration and Development Risks

In relation to the coal projects, coal exploration and development is by its nature a high risk undertaking. There is no assurance that the Company's activities on these projects will result in a commercially viable operation. The Mmamabula West project is currently the Company's principal coal project

Estimates of Ore Reserves and Mineral Resources

Estimating ore reserves and mineral resources is a subjective process where the accuracy of estimates is a function of the quantity and quality of available data, the assumptions used and judgments made in interpreting information. As a result, estimates of ore reserves and mineral resources are inherently imprecise and may have to be recalculated based on matters such as changes in the coal price, production costs or recovery rates and exploration and development activity generally.

Coal Price

Whilst Sese and Mmamantswe are being developed predominantly as integrated power projects (and are thus not directly exposed to coal prices), the Mmamabula West project was acquired for its export potential. If developed, this project depends on, amongst other factors, the coal price being sustained at a level which allows the project to remain financially viable. The international coal price can be highly volatile and represents a risk to any coal export projects.

Botswana Sovereign Risk

Botswana is a representative democratic republic that has been independent from the United Kingdom since 1966. The political situation since independence has been stable and Botswana has a legal system based on British law.

However, sovereign risk exists as uncertainties may arise from matters such as corruption, civil strife and poor infrastructure.

Reliance on Key Personnel

The Company's success largely depends on the core competencies of its Directors and management and their familiarisation with, and ability to operate in, the resource industry and the Company's ability to retain its key executives.

Foreign Exchange Rate Risk

Any revenue received by the Company would likely be derived in Botswana Pula (BWP), South African Rand (ZAR) or US dollars (USD) from the sale of electricity or US dollars (USD) from the sale of coal. The Company's operating expenses would be incurred principally in Botswana Pula. Therefore, USD reported revenue will be directly impacted by movements in the BWP/USD exchange rates. Movements in the BWP/USD exchange rate and/or the USD coal price or BWP/ZAR electricity price may adversely or beneficially affect the Company's results or operations and cash flows.

Environmental

The Company's projects are subject to laws and regulations regarding environmental matters and the discharge of hazardous wastes and materials. As with all mineral projects, the Company's projects are expected to have a variety of environmental impacts should development proceed. Development of any of the Company's projects will be dependent on the Company satisfying environmental guidelines and, where required, being approved by government authorities.

The Company intends to conduct its activities in an environmentally responsible manner and in accordance with all applicable laws, but may still be subject to accidents or other unforeseen events which may compromise its environmental performance and which may have adverse financial implications.

Title

Botswana has a reliable mineral tenure system which is managed through the Mines and Minerals Act 1999. The core prospecting licences covering coal at the Company's Sese, Mmamantswe and Mmamabula West coal projects all expire on 30 June 2014. The Company has submitted formal applications to the Ministry of Minerals Energy and Water Resources to have two-year extensions granted for all of these licences, as per Section 17 (6) of the Act. There is no guarantee that the extension applications will be granted.

4.3 General Investment Risks

Securities Investments and Share Market Conditions

There are risks associated with any securities investment. The prices at which the securities trade may fluctuate in response to a number of factors.

Furthermore, the stock market, and in particular the market for exploration and mining companies may experience extreme price and volume fluctuations that may be unrelated or disproportionate to the operating performance of such companies. These factors may materially adversely affect the market price of the securities of the Company regardless of the Company's operational performance. Neither the Company nor the Directors warrant the future performance of the Company, or any return of an investment in the Company.

Economic Risk

Changes in the general economic climate in which the Company operates may adversely affect the financial performance of the Company. Factors that may contribute to that general economic climate include the level of direct and indirect competition against the Company, industrial disruption, the rate of growth of gross domestic product in Australia, interest rates and the rate of inflation.

Legislative

Changes in relevant taxes, legal and administration regimes, accounting practices and government policies may adversely affect the financial performance of the Company.

5. DETAILS OF THE OFFER

5.1 The Offer

(a) Overview

All Eligible Shareholders are entitled to participate in the Rights Issue. You are an Eligible Shareholder if you are a Shareholder with a registered address in Australia, New Zealand or Cayman Islands on the Record Date. The Record Date is 5.00pm WST, 12 May 2014.

As an Eligible Shareholder you are entitled to subscribe for 1 New Share for every 13 Shares held on the Record Date at the issue price of 8.5 cents per New Share.

When calculating your Entitlement, we will round down fractions to the nearest whole number.

The Company's Share Registry must receive your Entitlement and Acceptance Form by the Closing Date (being 5.00pm WST on 29 May 2014).

The Offer is non-renounceable. This means that you may not sell or transfer all or part of your Entitlement. The Offer will lapse if you do not accept your Entitlements by the Closing Date.

(b) Minimum Subscription

Minimum Subscription under the Rights Issue is \$1,500,000 representing the Sentient Entitlement that will be taken up by the Underwriter plus the Underwritten Amount.

No New Securities will be allotted or issued until the Minimum Subscription has been received. If the Minimum Subscription is not achieved within 4 months after the date of issue of this Prospectus, the Company will either repay the Application moneys to the Applicants or issue a supplementary prospectus or replacement prospectus and allow Applicants one month to withdraw their Application and be repaid their Application moneys.

(c) Offer is underwritten

The underwriting arrangements are set out in Section 3. The Offer is partly underwritten by the Underwriter to the Underwritten Amount on the terms of the Underwriting Agreement. The Underwriter is not a related party of the Company.

(d) Rights attaching to New Shares

A summary of the rights attaching to the New Shares is set out in Section 6.1.

(e) Taxation

There may be taxation implications in relation to the Rights Issue and subscribing for New Shares. These taxation implications vary depending on your individual circumstances. You should seek and rely on your own taxation advice regarding an investment in the Company. Neither the Company nor any of its officers,

employees, agents and advisers accepts any liability or responsibility with respect to the taxation consequences connected with the Rights Issue or the New Shares.

5.2 How to accept the Rights Issue

(a) Action required by Eligible Shareholders

Your Entitlement is shown on the Entitlement and Acceptance Form accompanying the Prospectus sent to you. To subscribe to the Rights Issue, you must complete this form in accordance with the instructions.

You may take up your Entitlement in whole or in part or allow all of your Entitlement to lapse.

You may pay by cheque or by BPAY.

If you pay by cheque, please make the cheque payable to "African Energy Resources Limited" and cross it "Not Negotiable". Completed Entitlement and Acceptance Forms (and a cheque for the Application Money) must be mailed to the postal address, or delivered by hand to the delivery address set out below.

Postal address: African Energy Resources Limited
c/- Link Market Services Limited
GPO Box 3560
Sydney NSW 2001

Delivery address: African Energy Resources Limited
c/- Link Market Services Limited
1A Homebush Bay Drive
Rhodes NSW 2138

If you pay by BPAY, please follow the procedure set out in the Entitlement and Acceptance Form. You do not have to send us a completed Entitlement and Acceptance Form if you pay by BPAY. It is your responsibility to ensure that we receive your payment by the Closing Date. We do not accept any responsibility for incorrectly completed BPAY payments.

You should be aware that your own financial institution may implement earlier cut-off times with regards to electronic payments and you should therefore take this into consideration when making payment.

We must receive your Entitlement and Acceptance Form by the Closing Date. If we receive your Entitlement and Acceptance Form after the Closing Date, we may, at our discretion, accept or reject your Application. If we reject your Application, you will receive a refund in full of any payment of Application Money without interest.

If you complete and lodge an Entitlement and Acceptance Form, you will be deemed to have accepted the Offer to subscribe, on the terms set out in this Prospectus and in the Entitlement and Acceptance Form, for the number of New Shares specified in the Form.

We will hold your Application Money on trust until we issue the New Shares to you in accordance with the Corporations Act. We will retain any interest earned on the Application Money, whether or not the New Shares are issued to you.

If you are in any doubt as to how to complete or deal with your Entitlement and Acceptance Form, you should contact your professional adviser for assistance.

(b) Excluded Shareholders

The Offer under the Rights Issue is not extended to Excluded Shareholders (any Shareholder whose registered address on the Record Date is not situated in Australia, New Zealand or Cayman Islands). The Rights Issue does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer.

In making this decision, the Directors have taken into account the small number of Excluded Shareholders and the cost and administrative complexity of complying with applicable regulations in jurisdictions outside Australia, New Zealand or Cayman Islands.

The Company will not be appointing a nominee for Excluded Shareholders to acquire and then sell the New Securities that would otherwise be offered to the Excluded Shareholders and then distribute any net proceeds.

(c) New Zealand offer restrictions

The New Shares are not being offered or sold to the public within New Zealand other than to existing Shareholders of the Company with registered addresses in New Zealand.

This Prospectus has not been registered, filed with or approved by any New Zealand regulatory authority. This Prospectus is not an investment statement or prospectus under New Zealand law and is not required to, and may not, contain all the information that an investment statement or prospectus under New Zealand law is required to contain.

5.3 Allotment and Quotation

(a) Allotment of New Shares

The New Shares issued pursuant to the Rights Issue will be allotted as soon as practicable after the Closing Date. We will allot the New Shares on the basis of your Entitlement.

Pending the allotment and issue of New Shares or payment of refunds under this Prospectus, we will hold all Application Money on trust for you in a separate bank account. We will, however, be entitled to retain all interest that accrues on any Application Money we hold.

No securities will be allotted and issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

(b) Quotation by ASX

We intend to apply to ASX for quotation of the New Shares within 7 days of the date of this Prospectus.

If any New Shares are not granted quotation on ASX within 3 months after the date of this Prospectus, or such longer period as is permitted by the Corporations Act, we

will not issue those New Shares and the Application Money in respect of those New Shares will be refunded to you without interest within the time prescribed by the Corporations Act.

(c) **Holding Statements**

We participate in the security transfer system known as CHESS. CHESS is operated by ASX Settlement Pty Ltd (ACN 008 504 532) (a wholly owned subsidiary of ASX) in accordance with the Listing Rules and the ASX Settlement Operating Rules. Under CHESS you will not receive a share certificate. You will receive a holding statement setting out the number of New Shares issued to you under this Prospectus. If you are broker sponsored, ASX Settlement will send you a CHESS statement.

5.4 Shortfall

Any New Shares under the Rights Issue that are not applied for will form the Shortfall Shares. The Offer to issue Shortfall Shares is a separate offer under the Prospectus.

Shareholders may apply for any Shortfall Shares by completing the relevant Shortfall Shares section in the Entitlement and Acceptance Form and sending it to the Company's share registry (refer to Section 5.2(a) above) with payment by cheque or BPAY on the same terms as in Section 5.2(a).

The priorities between different categories of parties in the allocation of Shortfall Shares is set out in Section 3.3.

Application for Shortfall with moneys does not guarantee any allotment of any Shortfall Shares. All application moneys in relation to which Shortfall Shares are not allocated will be returned without interest.

It is your responsibility to ensure that you will not breach the takeovers provisions applicable to the Company (a 20% threshold) by applying for Shortfall Shares. These provisions are set out in the Company's Articles.

6. ADDITIONAL INFORMATION

6.1 Rights attaching to New Shares

The Company is incorporated in Guernsey, listed on ASX and a disclosing entity under the Australian Corporations Act.

The rights and liabilities attaching to ownership of Shares in the Company (including the New Shares) are:

- (a) set out in the Company's Articles; and
- (b) in certain circumstances, regulated by the Companies Law, the Listing Rules and the general law.

A summary of the more significant rights and liabilities attaching to Shares is set out below. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of our Shareholders.

Voting Rights

Subject to any provision of the Company's Memorandum and Articles and without prejudice to any special rights, privileges or restrictions as to voting attached to any Shares:

- (i) on a show of hands, every Shareholder present in person or being a duly authorised representative of a corporation which is a Shareholder, shall have one vote;
- (ii) on a poll, every Shareholder present in person or by proxy or being a duly authorised representative of a corporation which is a Shareholder, shall have one vote for each fully paid Share held by him.

Where there are joint registered holders of any Share, such persons shall not have the right of voting individually in respect of such Share but shall elect one of their number to represent them and to vote whether in person or by proxy in their name.

No Shareholder shall be entitled to be present or take part in any proceedings or vote either personally or by proxy at any meeting unless all calls on unpaid shares due by him have been paid.

A Shareholder may appoint any person (whether a member or not) his proxy and may appoint more than one proxy to attend and vote on the same occasion.

Any corporation which is a member may by resolution of its directors or other governing body authorise such person as it thinks fit (whether a member or not) to act as its representative at any meeting of the Company.

General Meetings

Shareholders are entitled to be present in person or by proxy or a duly authorised representative of a corporation which is a Shareholder to attend and speak and vote at general meetings of the Company.

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business. The quorum for a general meeting shall be two

Shareholders present in person or by proxy or a duly authorised representative of a corporation which is a Shareholder.

At any meeting a resolution put to the vote shall be decided by a show of hands or by a poll at the option of the chairman. Nevertheless, before or on the declaration of the result, a poll may be demanded:

- (i) by the Chairman of the meeting;
- (ii) in writing by at least five Shareholders present in person or by proxy or being a duly authorised representative of a corporation which is a Shareholder; or
- (iii) in writing by any Shareholder present in person or by proxy or being a duly authorised representative of a corporation which is a Shareholder and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting.

Dividend Rights

The Company in general meeting may, by ordinary resolution, declare dividends out of the profits of the Company. No dividend shall exceed the amount recommended by the Board.

All dividends shall be declared and paid according to the amounts paid up on the Shares in respect whereof the dividend is paid.

The Board may at any time declare and pay such interim dividends as appear to be justified by the position of the Company. The Board may also declare and pay any fixed dividend which is payable on any Shares of the Company half-yearly or otherwise on fixed dates whenever the position, in the opinion of the Board, so justifies.

The Board may deduct from any dividend payable to any Shareholder on or in respect of a Share all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

No dividend on or in respect of a Share shall bear interest against the Company.

With the prior approval of an ordinary resolution of the Company passed at any general meeting, the Board may, in respect of any dividend specified by the ordinary resolution, offer any holders of the Shares the right to elect to receive in lieu of that dividend (or part of any of that dividend) an allotment of Shares credited as fully paid. The value of the additional Shares each holder of Shares who elects to receive the same shall be allotted in lieu of any amount of dividend shall equal as nearly as possible the net cash amount of the dividend that such holder elects to forgo and may exceed that amount. The additional Shares so allotted shall rank *pari passu* in all respects with the fully paid Shares then in issue.

Dividends and other distributions to be made by the Company are subject to a solvency test pursuant to the Companies Law.

Future Increases in Capital

In default of any ordinary resolution by the Company and subject to the provisions of the Companies Law and the Company's Articles, the unissued Shares of the Company are at the disposal of the Board, which may allot, grant options over or otherwise dispose of them to such persons on such terms and conditions at such times as the Board determines.

The Company may, by ordinary resolution, increase its Share capital and prescribe any preference or priority as regards dividends or in the distribution of assets or as to voting.

The Company may by ordinary resolution:

- (i) consolidate and divide all or any of its Share capital into Shares of larger amount than its existing Shares;
- (ii) subdivide all or any of its Shares into Shares of smaller amount; and
- (iii) cancel any unissued Shares.

Subject to the Companies Law, the Company may, by special resolution, reduce its Share capital.

Transfer of Shares

All transfers of Shares may be effected in writing in any usual or common form or in any other form acceptable to the Board or by any other manner as the Board may accept. Any instrument of transfer shall be signed by or on behalf of the transferor who shall be deemed to remain the holder until the name of the transferee is entered into the register.

The Board may in its absolute discretion refuse to register the transfer of a Share which is not fully paid or on which the Company has a lien. The Board may also refuse to register a transfer of any Share in favour of more than four persons jointly or a transfer of an uncertificated Share.

Amendment of Articles

The Company's Articles may be amended by special resolution passed by at least three quarters of the votes cast by holders of Shares entitled to vote on the resolution, at a general meeting for which notice has been given in accordance with the Company's Articles, including notice to propose the resolution as a special resolution.

Takeover Protection

On 24 November 2009 Shareholders approved the amendment of the Articles to incorporate takeover protection provisions. The takeover protection provisions are broadly modelled on the relevant parts of Chapter 6 of the Australian Corporations Act regulating events where a person seeks to acquire a substantial interest in, or control of, the Company.

Subject to certain exceptions (modelled on the Australian Corporations Act exceptions), a person is prohibited from acquiring a relevant interest if, because of the acquisition, the person's or someone else's voting power in the Company increases from 20% or below to more than 20% or from a starting point that is above 20% and below 90%. One of the exceptions to the prohibition is where the holding of a relevant interest results from an issue under a prospectus to a person as underwriter or sub-underwriter to the issue where the prospectus disclosed the effect or range of possible effects that the issue would have on the number of Shares in which that person would have a relevant interest or on the voting power of that person.

A person is required to notify the Company and ASX of beginning or ceasing to have a substantial holding or a movement of at least one percent in the person's substantial

holding. A substantial holding is where a person or their associates have a relevant interest in 5% or more of the total votes attaching to Shares.

Takeover bids will be conducted in accordance with Australian Corporations Act principles incorporated into the Articles.

Predominance of Listing Rules

While the Company is admitted to trading on the Official List, then despite anything in the Articles, if the Listing Rules prohibit an act being done, the act must not be done. Nothing in the Articles prevents an act being done that the Listing Rules require to be done. If the Listing Rules require an act to be done or not to be done, authority is given for that act to be done or not to be done (as the case may be). If the Listing Rules require the Articles to contain a provision and it does not contain such a provision, the Articles is deemed to contain that provision. If the Listing Rules require the Articles not to contain a provision and it contains such a provision, the Articles is deemed not to contain that provision. If a provision of the Articles is inconsistent with the Listing Rules, the Articles is deemed not to contain that provision to the extent of the inconsistency.

6.2 Transaction specific prospectus and continuous disclosure obligations

We are a disclosing entity under the Corporations Act and therefore are subject to regular reporting and disclosure obligations. We are required to disclose to ASX any information held by us which a reasonable person would expect to have a material effect on the price or the value of the Company's securities.

As this Prospectus is a transaction specific prospectus issued under section 713 of the Corporations Act, it is required to contain information in relation to the effect of the Offer on the Company and the rights and liabilities attaching to the securities offered. This Prospectus is not required to provide information regarding our assets and liabilities, financial position and performance, profits and losses or prospects on the basis that, as at the date of this Prospectus, the Company has not withheld from its continuous disclosure reporting any information about such matters that investors and their professional advisers would reasonably require to make an informed assessment of such matters and expect to find in this Prospectus.

Information that is already in the public domain has not been reported in this Prospectus other than that which is considered necessary to make this Prospectus complete.

The Company, as a disclosing entity under the Corporations Act, states that:

- (a) it is subject to regular reporting and disclosure obligations;
- (b) copies of documents lodged with ASIC in relation to the Company (not being documents referred to in section 1274(2)(a) of the Corporations Act) may be obtained from, or inspected at, the offices of ASIC; and
- (c) it will provide a copy of each of the following documents, free of charge, to any person on request:
 - (i) the annual financial report most recently lodged by the Company with ASIC;
 - (ii) any half-year financial report lodged with ASIC after lodgement of the annual financial report and before lodgement of this Prospectus with ASIC; and

- (iii) any continuous disclosure notices given by the Company after the lodgement of the annual financial report and before the lodgement of this Prospectus with ASIC.

We lodged our latest annual report with ASX on 27 September 2013. Since then, we have made the following announcements to ASX shown in the table below.

Date	Description of Announcement
01/10/2013	Agreement to Sell Zambian Uranium Portfolio
02/10/2013	Corporate Presentation – October 2013
15/10/2013	Acquisition of 2.4BT Mmamabula West Coal Project
22/10/2013	Trading Halt
23/10/2013	ACWA Power Joint Development Agreement and Submission of EOI
24/10/2013	Appendix 3B and Change in Director's Interest Notice x 6
28/10/2013	Notice of Annual General Meeting/Proxy Form
28/10/2013	Annual Report to shareholders
31/10/2013	Quarterly Activities and Cashflow Report
06/11/2013	BRR – AFR partners with ACWA Power to develop power station
07/11/2013	Presentation for Africa Downunder in Singapore
11/11/2013	BRR Webcast – AFR acquires Mmamabula West Coal Project
29/11/2013	Results of Meeting
23/12/2013	Government Approves 2.4 BT Mmamabula West Transfer
24/12/2013	Appendix 3B
24/12/2013	Change of Director's Interest Notice x 7
03/01/2014	JORC Code Clarification Statement
06/01/2014	Change of Director's Interest Notice
24/01/2014	Appendix 3B
24/01/2014	Change of Director's Interest Notice x 3
31/01/2014	Quarterly Activities and Cashflow Report
04/02/2014	Investor Presentation
13/02/2014	JORC Clarification Statement
26/02/2014	Update on Botswana 300MW Greenfield Power Project Tender
06/03/2014	Company Update
12/03/2014	Half Year Accounts

31/03/2014	Director Resignation & Final Director's Interest Notice
01/04/2014	Completion of Chirundu Sale Extended
03/04/2014	Trading Halt
07/04/2014	Suspension from Official Quotation
14/04/2014	Share Placement & Rights Issue
14/04/2014	Reinstatement to Official Quotation
15/04/2014	Multiple Heavy Haul Rail Projects Meet Key Milestones
16/04/2014	MOU Executed with Zambia's State Electricity Utility
16/04/2014	Appendix 3B and ASIC Cleansing Notice
16/04/2014	Change of Director's Interest Notice x6
16/04/2014	Change in substantial holding
30/04/2014	Quarterly Activities & Cashflow Report
30/04/2014	Notice of General Meeting/Proxy Form
01/05/2014	Chirundu Sale Lapses
02/05/2014	Change of Director's Interest Notice

6.3 Market price of Shares

Information about the closing market price of the Shares quoted on ASX during the 3 month period before the date of this Prospectus (including the last closing market price on a day on which the Shares traded) is set out in the table below.

	Price	Date
Highest	10.5 cents	6 February 2014
Lowest	7.5 cents	14 April 2014
Latest	8.0 cents	2 May 2014

6.4 Directors' Interests

(a) Interests of Directors

Other than as disclosed in this Prospectus, no Director or proposed Director holds, or has held at any time during the last two years, any interest in:

- (i) the formation or promotion of the Company; or
- (ii) any property acquired or proposed to be acquired by the Company in

connection with its formation or promotion of the Company or the Offer; or

(iii) the Offer;

and no amounts have been paid or agreed to be paid by any person and no benefits have been given or agreed to be given by any person to a Director or proposed Director to induce him or her to become, or to qualify as, a Director or for services provided by a Director or proposed Director in connection with the formation or promotion of the Company or the Offer.

(b) Interests in securities as at the date of this Prospectus

The Directors (and their respective associates) have relevant interests in the Shares, Options and Performance Rights of the Company as set out in the table below. Interests include those held directly and indirectly.

Each Director who is an Eligible Shareholder will be entitled to participate in the Rights Issue. The table below does not include the New Shares that the Directors may subscribe for under the Offer.

Director	Number of Shares	Number of Options	Number of Performance Rights ²
Mr Alasdair Cooke	35,080,304 ¹	-	333,333
Dr Charles (Frazer) Tabeart	3,681,331	-	2,000,000
Mr Gregory (Bill) Fry	5,338,168	-	1,333,333
Mr Valentine Chitalu	1,024,150	-	66,667
Mr Philip Clark	746,311	-	200,000
Mr Vincent (Ian) Masterton-Hume	1,541,800	-	-

Notes:

1. The number of Shares above for Alasdair Cooke does not include 2,352,941 Shares that will be issued to an associate of Alasdair Cooke if Shareholders approve the issue of these Shares at the Shareholder Meeting on 23 May 2014.
2. There are various performance hurdles associated with the performance rights as set out in the 2013 annual report of the Company. None of the performance rights have vested.

(c) Remuneration of Directors

Mr Alasdair Cooke is currently paid \$100,000 per annum as executive chairman payable in shares at a pre-determined price of 12c per share. In the two years prior to the date of this Prospectus Mr Cooke has received total remuneration of approximately \$160,956.

Dr Charles (Frazer) Tabeart is currently paid \$400,000 per annum as managing director. Of his salary, \$310,000 is paid in cash with \$90,000 payable in shares at a pre-determined price of 12c per share. In the two years prior to the date of this

Prospectus Dr Tabeart has received total remuneration of approximately \$764,860.

Mr Gregory (Bill) Fry is currently paid \$200,000 per annum as an executive director. Of his salary, \$150,000 is paid in cash with \$50,000 payable in shares at a pre-determined price of 12c per share. In the two years prior to the date of this Prospectus Mr Fry has received total remuneration of approximately \$380,478.

Mr Valentine Chitalu is currently paid \$50,000 per annum as a director's fee payable in shares at a pre-determined price of 12c per share. In the two years prior to the date of this Prospectus Mr Chitalu has received total remuneration of approximately \$80,478.

Mr Philip Clark is currently paid \$50,000 per annum as a director's fee payable in shares at a pre-determined price of 12c per share, as well as being engaged to provide technical consulting services on an as required basis at a rate of \$2,500 per day. In the two years prior to the date of this Prospectus Mr Clark has received total remuneration of approximately \$323,394.

Mr Vincent (Ian) Masterton-Hume is currently paid \$50,000 per annum as a director's fee payable in shares at a pre-determined price of 12c per share. In the two years prior to the date of this Prospectus Mr Masterton-Hume has received total remuneration of approximately \$29,000.

Directors are also entitled to be reimbursed for reasonable expenses incurred by them in providing their services to the Company.

6.5 Interests of experts and advisers

Other than as disclosed in this Prospectus, no expert, promoter or any other person named in this Prospectus as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of this Prospectus, nor any firm in which any of those persons is or was a partner nor any company in which any of those persons is or was associated with, has now, or has had, in the two year period ending on the date of this Prospectus, any interest in:

- (a) the formation or promotion of the Company; or
- (b) property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offer; or
- (c) the Offer.

Other than as disclosed in this Prospectus, no amounts of any kind (whether in cash, securities or otherwise) have been paid or agreed to be paid to any expert, promoter or any other person named in this Prospectus as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of the Prospectus, or to any firm in which any of those persons is or was a partner or to any company in which any of those persons is or was associated with, for services rendered by that person in connection with the formation or promotion of the Company or the Offer.

Fairweather Corporate Lawyers has acted as lawyers to the Company in relation to the Rights Issue. We estimate that we will pay approximately \$20,000 (excluding GST) for these services. In the past two years, Fairweather Corporate Lawyers has been paid approximately \$50,000 by the Company for other legal services.

The Underwriter will receive an underwriting fee of \$75,000. In the past two years, the Underwriter subscribed for Shares in a placement conducted in April and July 2013 and in connection with that placement, was issued 3,541,666 Shares by the Company at no cost representing a 5% placement fee. The Underwriter further subscribed for Shares in a placement in April 2014 and in connection with that placement, was issued 744,827 Shares by the Company at no cost representing a 5% placement fee.

6.6 Expenses of the Offer

All expenses connected to the Rights Issue payable by the Company are estimated at approximately \$130,000 at Minimum Subscription and \$140,000 at Full Subscription. These estimated expenses include underwriting fees, legal fees, ASX and ASIC fees and other miscellaneous expenses directly attributable to the Rights Issue.

6.7 Consents

The following parties has given their written consent to be named in this Prospectus and for the inclusion of statements made by that party (as described below in the form and context in which they are included), and has not withdrawn such consent before lodgement of this Prospectus with ASIC.

FW Legal Pty Ltd trading as Fairweather Corporate Lawyers has consented to Fairweather Corporate Lawyers being named as the Solicitors to the Offer.

Sentient Executive GP IV Limited in its capacity as general partner of Sentient GP IV, L.P. acting as the general partner of the Sentient Global Resources Fund IV, L.P. has consented to Sentient Global Resources Fund IV, L.P. being named as the partial Underwriter to the Offer and the inclusion in the Prospectus of all statements referring to it.

The parties referred to above in this section:

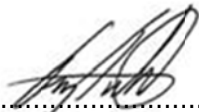
- do not make, or purport to make any statement in this Prospectus, or on which a statement made in this Prospectus is based other than as specified in this Section;
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Prospectus other than a reference to its name and a statement included in the Prospectus with the consent of that party as specified in this Section; and
- has not caused or authorised the issue of this Prospectus.

7. DIRECTORS' AUTHORISATION AND CONSENT

This Prospectus is authorised by the Company and lodged with the ASIC pursuant to section 718 of the Corporations Act.

Each Director has consented to lodgement of this Prospectus with ASIC in accordance with the terms of section 720 of the Corporations Act and has not withdrawn that consent.

Dated: 5 May 2014



.....
Signed for and on behalf of African Energy Resources Limited
By Dr Charles (Frazer) Tabeart
Director

8. GLOSSARY

Where the following terms are used in this Prospectus they have the following meanings:

Applicant	A person who submits and Entitlement and Acceptance Form.
Application	An application for New Shares under the Rights Issue.
Application Money	The Issue Price multiplied by the total number of New Shares applied for by an Applicant under an Entitlement and Acceptance Form.
Articles	The articles of incorporation of the Company.
ASIC	Australian Securities and Investments Commission.
ASX	ASX Limited (ACN 008 624 691) and the Australian Securities Exchange it operates
Board	The Board of Directors.
Closing Date	The time and date at which the Offer expires, being 5:00pm WST, 29 May 2014, subject to the Company varying this date in accordance with the Listing Rules.
Company or African Energy or AFR	African Energy Resources Limited (ARBN 123 316 781).
Companies Law	The Companies (Guernsey) Law, 2008 as amended.
Corporations Act	The Corporations Act 2001 (Cth)
Director	A director of the Company for the time being.
Eligible Shareholders	Shareholders with a registered address in Australia, New Zealand or Cayman Islands at the Record Date.
Entitlement	The entitlement to subscribe for New Shares under the Rights Issue.
Entitlement and Acceptance Form	The entitlement and acceptance form attached to or accompanying this Prospectus, personalised for each Eligible Shareholder, which allows each Eligible Shareholder to accept the Offer.
Excluded Shareholder	A Shareholder whose registered address is not in Australia, New Zealand or Cayman Islands.
Full Subscription	The maximum amount to be raised under the Offer being the sum of \$2,950,879 assuming no existing Options are exercised.

Issue Date	The date of issue of the New Shares under the Rights Issue and being in accordance with the proposed timetable which is anticipated to be 5 June 2014.
Issue Price	8.5 cents per New Share, being the price payable to subscribe for each New Share.
Minimum Subscription	The minimum amount to be raised under the Offer being the sum of \$1,500,000.
New Shares	The Shares offered under the Rights Issue.
Offer	The offer to Eligible Shareholders of New Shares under the Rights Issue.
Official List	The official list of the ASX.
Option	An option to acquire a Share.
Performance Right	A right issued by the Company under an employee performance rights plan where each right is convertible into one Share on satisfaction of a performance hurdle.
Prospectus	This prospectus dated 5 May 2014.
Record Date	The time and date for determining a Shareholder's entitlement to participate in the Rights Issue, being 5.00pm WST, 12 May 2014.
Rights Issue	The pro-rata non-renounceable offer to Eligible Shareholders of 1 New Share for every 13 Shares held by Eligible Shareholders on the Record Date.
Sentient Entitlement	The Entitlement of the Underwriter to subscribe for New Shares (in its capacity as an Eligible Shareholder) under the Rights Issue.
Share	A fully paid ordinary share in the issued capital of the Company.
Shareholder	Registered holder of Shares.
Shareholder Meeting	A meeting of Shareholders to be held on 23 May 2014 to approve the subscription by an associate of Alasdair Cooke, a Director, of 2,352,941 Shares at 8.5 cents each.
Shortfall	New Shares not applied for under the Offer before the Closing Date.
Shortfall Shares	New Shares constituting the Shortfall.

Underwriter or Sentient	Sentient Global Resources Fund IV, L.P acting through Sentient Executive GP IV Limited, a Cayman Islands registered company, in its capacity as general partner of Sentient GP IV, L.P. which in turn is the general partner of the Sentient Fund IV.
Underwriting Agreement	The underwriting agreement between the Company and the Underwriter.
Underwritten Amount	The sum of \$1,500,000 less the proceeds of the Sentient Entitlement that is to be taken up by the Underwriter.
WST	Western Standard Time.
\$ or A\$	means Australian dollars unless otherwise stated.
US\$	means United States dollars.