

31 October 2014

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2014

HIGHLIGHTS

- During October, African Energy Resources Limited (“AFR” or “the “Company”) executed a binding Heads of Agreement with First Quantum Minerals Limited (“FQM”) under which FQM can earn a joint venture interest in the Sese Integrated Power Project (“Sese Project”). This is conditional upon completion of due diligence and execution of a binding Shareholder Agreement.
- FQM can earn a 75% interest in the Sese Project through investment of A\$20m and arranging finance as a loan carry for AFR’s 25% interest in the Project.
- A\$8m of the funds invested by FQM in the Project will be returned to AFR as repayment of parent company loans. The remaining A\$12m will be used for predevelopment funding of the Sese Project.
- Capital raisings totalling A\$7.3m were announced in October. A private placement to FQM was completed in October to raise A\$3.8m and the Company has initiated an underwritten non-renounceable rights issue to raise a further A\$3.5m.
- Upon completion of the rights issue and FQM joint venture investment, AFR will be debt free, with approximately A\$10m working capital and with a 25% carried interest in new power projects to be developed at Sese.
- Botswana’s Department of Environmental Affairs approved the Environmental Impact Assessment for the Sese Integrated Power Project, comprising a 1.6Mtpa coal mine, coal handling and processing plant, 300MW power station, water pipeline, access road, transmission grid connection, construction camp, and an ash disposal facility.
- A letter of intent was received from ZESCO, the electricity utility in Zambia, confirming ZESCO’s interest in receiving 300MW of power from African Energy’s Sese project.
- Parsons Brinckerhoff Africa was commissioned to undertake a Transmission Study to evaluate the transmission route and connection options between the Sese Project and ZESCO’s grid in southern Zambia.
- African Energy submitted multiple project registrations (300MW at Sese, 600MW at Mmamantswe) into South Africa’s Department of Energy request for registration to developers of projects for their 2,500MW coal baseload IPP procurement programme.
- The Environmental Impact Assessment for the Mmamabula West export coal project was submitted.

OUTLOOK FOR NEXT QUARTER

Sese Coal & Power Project

- Completion of the due diligence and execution of the shareholder agreement with First Quantum to finalise the joint venture investment in the Sese Project.
- Completion of the study to evaluate the transmission route and connection options for the Sese Project into southern Zambia.
- Advance other power supply opportunities in the southern African region.

Mmamabula West Coal Project

- Continue assessment of export infrastructure options (rail, port, off-take) and potential project development partnerships.

Mmamantswe Coal Project

- Potential release of the formal Request for Proposals (RFP) from South Africa's Dept. of Energy for the 2,500MW coal baseload IPP procurement programme.

PROJECTS

1 Sese Coal and Power Project, Botswana

1.1 Background

- The Sese Integrated Power Project will comprise one or more 300MW power stations, each with a dedicated ~1.5mtpa coal mine plus all related infrastructure required to deliver electricity into the Southern African Power Pool grid.
- Coal for the power stations will be provided from Sese Block-C which currently contains 330Mt of coal in measured resources and is thus capable of supporting multiple power projects of this size.

1.2 Joint Venture Investment by First Quantum Minerals (FQM)

- FQM and AFR have executed a binding Heads of Agreement (HOA) under which FQM will make a Joint Venture Investment to acquire a majority interest in African Energy Holdings SRL once certain conditions precedent have been satisfied.
- African Energy Holdings SRL is the wholly owned Barbados project entity which owns African Energy Resources Botswana (Pty) Ltd, the holder of the Sese and Sese West coal prospecting licences, the Foley North industrial minerals prospecting licence, the approved EIA, surface rights and water allocation.
- The key conditions precedent requiring satisfaction within 30 days of signing the HOA are:
 1. Completion of due diligence by FQM on African Energy Holdings SRL and African Energy Resources Botswana and their assets
 2. Execution of a Shareholders Agreement
 3. Consent of Macquarie Bank for the transaction (if required)
 4. Approval for the transaction by the Botswana Minister for Minerals Energy and Water Resources (if required)
- Once the conditions precedent are met, FQM will invest A\$8m for a 51% stake in African Energy Holdings SRL. This A\$8m will be used to repay outstanding project loans between African Energy Holdings SRL and AFR (increasing AFR's working capital to A\$10m).
- FQM will invest a further A\$12m over up to 18 months to increase its project interest to 75%. These funds will remain in the project entity to fund future pre-development activities.
- Upon reaching a majority interest, FQM will be the project manager and the Joint Venture will be managed as per the provisions of the Shareholders Agreement.
- AFR's 25% interest in all projects undertaken in African Energy Holdings SRL and its subsidiaries will be loan carried through to commercial operation, with its share of debt to be priced on the same terms as FQM's, and repaid from its share of operating cashflow.

1.3 Permitting

- The Tonota Sub Land Board has informed the Company that its application for a Surface Rights Lease covering a portion of Block C, surrounding areas and an access corridor between the project and the A1 Highway has been approved. A formal Lease Agreement will now be drawn up.
- The Environmental and Social Impact Assessment for the Sese Integrated Power Project has been approved by the Department of Environmental Affairs (DEA). This covers a 300MW power station, associated coal mine and related infrastructure and an access corridor to the main A1 highway and regional transmission grid.

1.4 Botswana 300MW Greenfield Tender Opportunity

- No further information on the bid process and timeframe was announced during the quarter.

1.5 Additional Power Opportunities for Sese

- African Energy Resources Limited entered into a non-binding Memorandum of Understanding with Zambia's electricity utility ZESCO Limited to explore the potential for the delivery of 300MW of base-load electrical power from Sese into ZESCO's grid in southern Zambia.
- ZESCO has also sent a Letter of Intent to African Energy expressing interest in buying up to 300MW of power from the Sese Project.
- African Energy has engaged Parsons Brinckerhoff Africa to undertake a Transmission Study to evaluate the transmission route and connection options between the Sese Project and ZESCO's grid in southern Zambia. The scope of this study was agreed in conjunction with ZESCO and Botswana Power Corporation.
- African Energy and ACWA Power International have submitted a joint registration for a 300MW power project at Sese for South Africa's 2,500MW coal baseload IPP procurement programme.

2 Sese West Coal Project, Botswana (100% AFR)

- The Sese West project contains an inferred resource of 2.5Bt of thermal coal.
- The Botswana Department of Mines has issued an interim six-month extension of the prospecting licence to the end of March 2015 whilst a two-year PL extension submission is being evaluated.

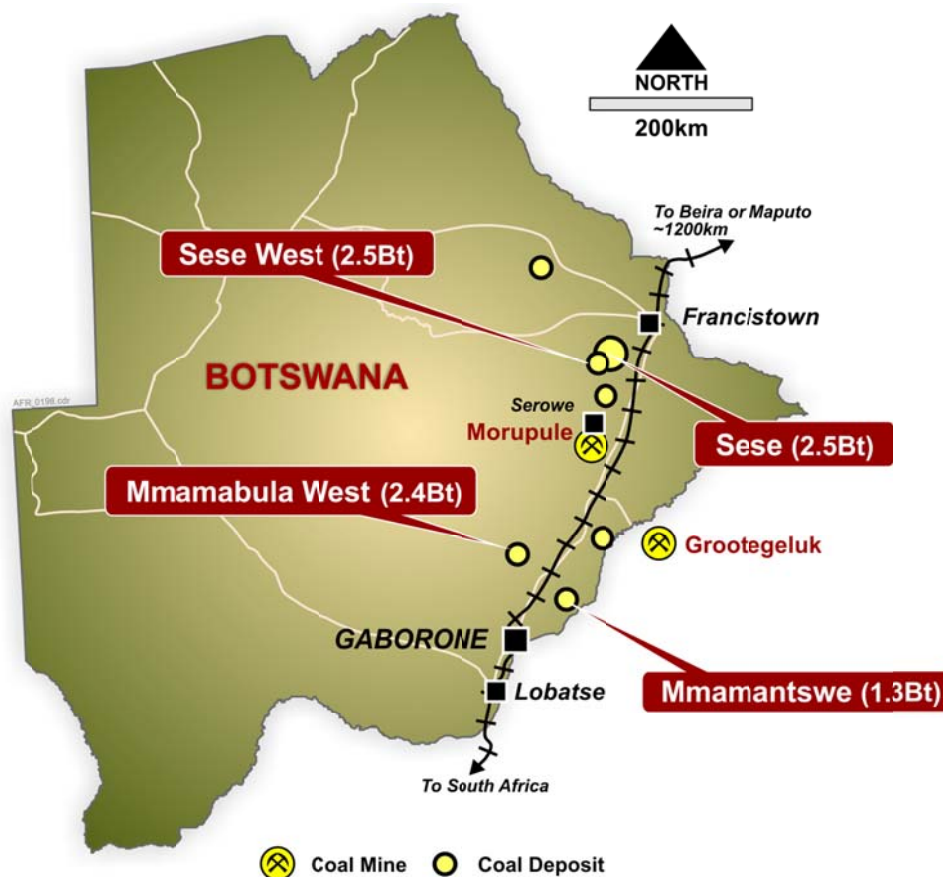
3 Mmamantswe Coal Project, Botswana (100% AFR)

- The Mmamantswe Coal Project comprises a Measured and Indicated Resource of approximately 1.24 billion tonnes of thermal coal less than 20km from the border with South Africa.
- The Company has submitted an application for a 2-year extension to the prospecting license over Mmamantswe (PL69/2007) under Section 17 (6) of the Mines and Minerals Act, 1999.
- South Africa's Department of Energy has issued a request for registration ("RFR") to developers of projects for their 2,500MW coal baseload IPP procurement programme.
- African Energy has submitted registrations for a 600MW projects at Mmamantswe in response to the South African RFR.

- The Ministry of Minerals Energy and Water Resources in Botswana has issued a Letter of Support for these project submissions.
- The Department of Energy intends to release a Request for Proposals (“RFP”) in regards to the coal baseload IPP procurement programme in due course.

4 **Mmamabula West Coal Project, Botswana (100% AFR)**

- The Environmental and Social Impact Assessment for a potential 4.4 Mtpa underground coal mine in the preferred mining area has been submitted to the Department of Environmental Affairs.



5 Global Coal Resources for African Energy's Coal Projects in Botswana

Sese Project: Resource Summary (Raw coal on an air-dried basis)								
Resource Zone	In-Situ Tonnes*	CV (MJ/kg)	CV (kcal/kg)	Ash %	IM%	VM%	FC%	S %
MEASURED (Bk-C)	333 Mt	17.6	4,200	30.2	7.9	20.6	41.4	2.1
MEASURED (Bk-B)	318 Mt	16.0	3,820	34.8	7.4	20.4	37.4	1.7
INDICATED	1,714 Mt	15.3	3,650	38.9	6.6	18.7	35.8	2.0
INFERRED	152 Mt	15.0	3,600	39.1	6.4	19.5	34.9	2.2
TOTAL	2,517 Mt							

Sese West Project: Resource Summary (Raw coal on an air-dried basis)								
Resource Zone	In-Situ Tonnes*	CV (MJ/kg)	CV (kcal/kg)	Ash %	IM%	VM%	FC%	S %
INFERRED	2,501 Mt	14.6	3,500	40.2	6.1	19.8	31.9	2.0
TOTAL	2,501 Mt							

Mmamabula West Project: Resource Summary (Raw coal on an air-dried basis)								
Resource Zone	In-Situ Tonnes*	CV (MJ/kg)	CV (kcal/kg)	Ash %	IM%	VM%	FC%	S %
INDICATED	892 Mt	20.2	4,825	25.5	6.0	26.0	41.0	1.5
INFERRED	1,541 Mt	20.0	4,775	25.5	5.7	25.9	41.2	1.7
TOTAL	2,433 Mt							

Mmamantswe Project: Resource Summary (Raw coal on an air-dried basis)								
Resource Zone	In-Situ Tonnes*	CV (MJ/kg)	CV (kcal/kg)	Ash %	IM%	VM%	FC%	S %
MEASURED	978 Mt	9.5	2,270	56.5	3.9	15.8	21.8	2.0
INDICATED	265 Mt	7.9	1,890	62.3	3.3	14.2	18.1	2.1
INFERRED	N/A							
TOTAL	1,243 Mt							

GRAND TOTAL	8,694 Mt
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* In-Situ tonnes have been derived by removing volumes for modelled intrusions, burnt coal and weathered coal and then applying geological loss factors to the remaining Gross In-Situ Tonnes

The Coal Resources quoted for the Sese, Mmamabula West and Mmamantswe Projects in the table above have been defined in accordance with the practices recommended by the Joint Ore Reserves Committee (2004 edition of the JORC Code). Sese West is reported as per the 2012 edition. There have been no material changes to any of the resources since they were first announced.

6 Mining tenements held at the end of each quarter and their location

	Interest at beginning of quarter	Interest at end of quarter	Location
PL 96/2005 (Sese)	100%	100%	Botswana
PL197/2007 (Sese West)	100%	100%	Botswana
PL004/2013 (Foley North)	100%	100%	Botswana
PL069/2007 (Mmamantswe)	100%	100%	Botswana
PL056/2005 (Mmamabula West)	100%	100%	Botswana
18176-HQ-LPL (Mulipo)	100%	-	Zambia
13764-HQ-LPL (Nangandwe)	100%	100%	Zambia
12634-HQ-LML (Chirundu ML)	100%	100%	Zambia
13265-HQ-LPL (Chirundu PL)	100%	100%	Zambia
13642-HQ-LPL (Munyumbwe)	100%	100%	Zambia
13646-HQ-LPL (Sinazongwe East)	100%	100%	Zambia
17732-HQ-LPL (Sinazongwe West)	100%	-	Zambia
16556-HQ-LPL (Sinazongwe Central)	100%	100%	Zambia
16775-HQ-LPL (Sinazongwe South)	100%	100%	Zambia

Dr. Frazer Tabeart

Managing Director

Full details for all projects including location maps, tenement schedules and technical descriptions may be found on the African Energy Resources website at: www.africanenergyresources.com

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 was prepared under the JORC Code 2012. References to "Measured, Indicated and Inferred Resources" are to those terms as defined in the JORC Code (2012 edition).

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 that is relevant to the style of mineralisation and type of deposit under consideration and to the activity that he is undertaking to qualify as a Competent Person under the 2012 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.

For any queries please contact the Company Secretary, Mr Daniel Davis on +61 8 6465 5500

Appendix 5B

Mining exploration entity quarterly report

Name of entity

African Energy Resources Limited

ARBN

123 316 781

Quarter ended ("Current Quarter")

30 September 2014

Consolidated statement of cash flows

Cash flows related to operating activities		Current Quarter \$US'000	Year to date (3 months) \$US'000
1.1	Receipts from product sales and related debtors		
1.2	Payments for:		
	(a) exploration and evaluation	(335)	(335)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(669)	(669)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	-	-
1.5	Interest and other costs of finance paid	(80)	(80)
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	-	-
	Net Operating Cash Flows	(1,083)	(1,083)
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.9	Proceeds from sale of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	-	-
	Net investing cash flows	-	-
1.13	Total operating and investing cash flows (carried forward)	(1,083)	(1,083)

1.13	Total operating and investing cash flows (carried forward)	(1,083)	(1,083)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Cost of the Issue	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	Net financing cash flows	-	-
	Net increase (decrease) in cash held	(1,083)	(1,083)
1.20	Cash at beginning of quarter/year to date	3,319	3,319
1.21	Exchange rate adjustments to item 1.20	(45)	(45)
1.22	Cash at end of quarter*	2,190	2,190

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities.

	Current quarter \$US'000
1.23 Aggregate amount of payments to the parties included in item 1.2	235
1.24 Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

US\$128,362 – director remuneration payments
US\$106,192 – payments for administrative staff, technical staff and provision of a fully serviced office

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

Financing facilities available

	Amount available \$US'000	Amount used \$US'000
3.1 Loan facilities	5,000	5,000
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$US'000
4.1 Exploration and evaluation	260
4.2 Development	-
4.3 Production	-
4.4 Administration	372
Total	632

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$US'000	Previous quarter \$US'000
5.1 Cash on hand and at bank	2,190	3,320
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
Total: Cash at end of quarter (item 1.22)	2,190	3,320

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	18176-HQ-LPL (Mulipo)	-	100%	-
	17732-HQ-LPL (Sinazongwe West)		100%	-
6.2 Interests in mining tenements acquired or increased				

Issued and quoted securities at end of current quarter

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	Preference *securities	-	-	-	-
7.2	Changes during quarter	-	-	-	-
7.3	*Ordinary securities	476,284,955	474,664,780	-	-
7.4	Changes during quarter				
	(a) Increases through issue of new shares	1,083,064	1,083,064		
	(b) Increases through conversion of rights	966,669	966,669		
7.5	*Convertible debt securities	-	-	-	-
7.6	Changes during quarter	-	-	-	-
7.7	Options/Rights				
	Unquoted options	37,388,399			
			No. of options	Strike Price	Expiry Date
			36,605,900	AUD \$0.15	31-Dec-15
	Unquoted rights	5,749,998	Performance rights subject to various vesting hurdles and expiring 30 September 2017		
7.8	Issued during quarter	-			
7.9	Exercised during quarter	800,002	Vested performance rights converted to ordinary shares		
7.10	Expired during quarter				
	Unquoted options	782,499			
			No. of options	Strike Price	Expiry Date
			782,499	AUD \$0.625	25-July-14
	Unquoted rights	-			
7.11	Debentures (totals only)	-	-		
7.12	Unsecured notes (totals only)	-	-		

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

A handwritten signature in purple ink, appearing to read "Mr Davis".

Mr Daniel Davis

Company Secretary

Date: 31 October 2014

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.