

30 October 2015

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2015

HIGHLIGHTS

- Norwegian engineering and design consultants, Norconsult, completed an evaluation of grid integration and transmission solutions for the Sese Power Project (51% First Quantum Minerals ("FQM"), 49% African Energy).
 - An 80km, 400kV transmission connection to the Phokoje sub-station will allow power from Sese to be delivered into the Botswana grid, and into Zambia, Namibia, South Africa and Zimbabwe.
- German engineering consultants, STEAG, completed a review of the Sese power station feasibility work completed to date and provided recommendations on key technology selection and preliminary power plant design considerations.
 - Unit sizes between 150MW and 225MW, and configurations ranging from 150MW to 450MW total installed capacity were confirmed as feasible
 - The preferred block of coal suitable for such a project has been confirmed
- Documentation for a new mining licence application for the Sese Power Project commenced during the quarter.
- African Energy executed a binding term sheet with an experienced South African project developer, TM Consulting, for the conditional sale of the Mmamantswe coal and power project for US\$20M. Formal documentation for the Share Sale Agreement is to be finalised before the exclusivity conferred by the Term Sheet expires on 13th November.
- The following project development programmes commenced at the Mmamabula West project:
 - A programme of four large diameter core holes to derive a power station fuel specification,
 - Amendments to the Environmental and Social Impacts Assessment (ESIA) and Environmental Management Plan (EM) to include 300MW + 300MW of power generation and grid connection/integration
 - Hydrogeological modelling for ESIA baseline studies,
 - Preparation of submissions for surface rights and water allocation
 - Scoping for a grid integration study
- At 30 September 2015, the Company had cash reserves of AU\$7.94M.

OUTLOOK FOR NEXT QUARTER

Sese Integrated Power JV (49% AFR, 51% FQM)

- Complete coal supply agreement and submit a mining license application covering enough coal for the initial Sese Power Project and potential future expansions.
- Commence negotiations with Botswana Ministry of Finance for a Manufacturing Development Approval Order
- Complete Water Supply Agreement with WUC
- Finalize Land Lease Agreement
- FQM have committed to invest a further A\$11M in the Sese JV by 15 July 2016 to acquire an additional 24% interest in Sese Integrated Power JV
- Continue to assess power market opportunities in the southern African region suitable for expansions of the Sese Integrated Power JV.

Mmamantswe Power Project (100% AFR)

- Execution of a Share Sale Agreement which will include delivery of a bank guarantee in favour of African Energy or the creation of an escrow account for the initial US\$10m payment.
- Commence documentation for a formal submission in response to South Africa's Request for Proposals (RFP) for a coal-fired, cross-border independent power project.

Mmamabula West Project (100% AFR)

- Completion of large diameter drilling programme to determine power station fuel specification.
- Completion of hydrogeological modelling for the ESIA baseline study.
- Amendment of the ESIA and EMP to include 300MW + 300MW of power generation plus grid connection.
- Amendment of Artesia well-field ownership to secure enough water allocation for Mmamabula West (for up to 600MW) whilst retaining enough water for Mmamantswe 600MW and 9Mtpa coal mining and processing.
- Commence grid integration study.
- Continue discussions with potential project development partners for mine-mouth power generation opportunities.

PROJECTS

1 Sese JV, Botswana (AFR 49%, FQM 51%)

1.1 Sese JV Administrative

- First Quantum Minerals Limited (FQM) can increase their interest in Sese Integrated Power JV to 75% by investing a further A\$11.1M by 15 July 2016. This investment will be used to fund the evaluation and development of the proposed Sese Integrated Power Project.
- FQM spent US\$195,094 in the quarter and has spent US\$693,229 to date since their initial investment on January 2015.
- Once FQM has reached a 75% project interest, AFR's ongoing 25% interest in all projects undertaken in the Sese JV will be loan carried through to commercial operation, with the loan to be priced on the same terms as FQM's weighted average cost of long-term debt, and repaid from AFR's share of operating surplus cash flow.

1.2 Integrated Power Project

- Norwegian engineering and design consultants, Norconsult, have completed an investigation into the transmission facilities required to connect the Sese power plant to the grid in Botswana and to identify the capacity of the grid to export power to neighbouring countries. Key findings are:
 - A power plant at Sese with a net output up to ~400 MW can be integrated on a 400 kV single circuit line from Sese to the existing Botswana Power Corporation (BPC) sub-station at Phokoje.
 - The proposed transmission connection will allow Sese to supply power into the Botswana grid for sales to BPC, and allow wheeling into Zambia, Namibia, South Africa and Zimbabwe.
- German engineering consultants, STEAG completed a review of the power station feasibility work completed to date and provided recommendations on key technology selection decisions and preliminary power plant design considerations.
 - The preliminary design confirmed the feasibility of unit sizes ranging from 150MW to 225MW and evaluated the technical and economic benefits of various single or multi-unit configurations between 150MW and 450MW total installed capacity.
 - Coal supply will be from Block-C, with ROM coal processed via a simple dense media separation plant.
 - The mine would be a conventional open pit, truck and shovel operation.
 - The power plant would most likely utilize dry cooling technology and dry or semi-dry flue gas desulphurization to ensure compliance with applicable emissions standards.
 - Water supply for the project will be via a ~40km pipeline from Shashe Dam near Francistown.

1.3 Permitting

- A mining license application covering enough coal for the initial Sese Power Project and potential future expansions is currently being prepared.
- A formal Land Lease Agreement for the approved Surface Rights area at Sese is being prepared for execution.
- A formal Water Supply Agreement is being finalized for execution.
- The Environmental and Social Impact Assessment for the Sese Integrated Power Project has been approved by the Department of Environmental Affairs (DEA). This covers an initial 300MW power station, associated coal mine and related infrastructure, including an access corridor to the main A1 highway and regional transmission grid.

The Sese (PL96/2005) and Sese West (PL197/2007) prospecting licenses are valid until 31 December 2016.

2 Mmamantswe Integrated Power Project, Botswana (AFR 100%)

2.1 Binding Term Sheet

- AFR has executed a binding term sheet with a South African developer, TM Consulting (TMC), for the conditional sale of the Mmamantswe coal and power project for US\$20M:
 - TMC will form a bid consortium which will sole fund the preparation and submission of a bid into South Africa's coal-fired base load IPP procurement programme using the Mmamantswe project.
 - If the Mmamantswe bid is shortlisted by South Africa's Department of Energy, AFR will transfer its interest in the Mmamantswe prospecting licence to the Developer for US\$10M.
 - AFR will receive an additional US\$10M should the shortlisted project reach Financial Close.
 - TMC exclusivity under Term Sheet extended until 13 November 2015
- The conditions precedent include completion of due diligence by the buyer, delivery of a bank guarantee or the creation of an escrow account for the initial US \$10m payment within 60 days, and completion of a Share Sale Agreement within 60 days.

2.2 Integrated Power Project

- South Africa's Department of Energy has issued a Request for Proposals ("RFP") to developers of projects for the first bid window of a 2,500MW coal baseload IPP procurement programme. This first bid window is for 1,600MW, of which up to 600MW can come from cross border projects (i.e. those physically located outside South Africa's border).
- It is expected that specific qualifying criteria for the cross-border projects will be released under an amended RFP in Q4 2015.
- The Mmamantswe project is only 20km from the border with South Africa and has been previously evaluated by Eskom for integration into the South African grid.
- The Developer will prepare and submit a Mmamantswe RFP bid for a 600MW coal-fired cross-border power project.

Mmamantswe prospecting licence (PL069/2007) has been granted an extension until 31st December 2016.

3 Mmamabula West Project, Botswana (AFR 100%)

3.1 Project Development Plan

The Mmamabula West project contains two ~5m thick coal seams which provide a variety of developments options as either a stand-alone integrated power project, a stand-alone export coal mine (for coal exports to South Africa or into the seaborne global market), or a combination of the two.

- AFR is currently only pursuing the power development opportunities for this project.
- The following project development plan was approved by the AFR board during the quarter:
 - Large diameter drilling programme to derive a power station fuel specification – this will de-risk the project from a power developer’s perspective and provide valuable inputs into the project financial model.
 - The first hole (MMB130, a slimline pilot hole) was completed at 146.67m (K-Seam 102.5m to 106.2m and A-Seam 139.1m to 143.5m), and coring of the twinned large diameter core (122mm diameter core) commenced in late October.
 - Three more large diameter cores will be drilled to provide representative coverage across the project area
 - Hydrogeological (aquifer) modelling will be undertaken for preliminary ESIA baseline studies. The initial model will be constructed using existing borehole information.
 - Amend the ESIA/EMP documentation to include 300MW + 300MW of power generation plus grid connection to BPC’s Isang sub-station.
 - Surface rights application for project, project access corridor and grid connection corridor.
 - Amendment of Mmamantswe well-field ownership to secure enough water allocation for Mmamabula West (for up to 600MW power plus associated coal mining and processing) whilst retaining enough water for Mmamantswe (600MW power and 9Mtpa coal mining and processing).
 - A preliminary (desktop) grid integration study to determine the optimal grid connection point for supply of power into the Botswana grid and into South Africa.
- Completion of these elements plus the existing mine pre-feasibility study completed by African Energy in March 2014 will provide a solid technical and commercial platform to attract development partners and investors into the project.
- Mmamabula West (PL56/2005) has been granted an extension to 31 March 2017.

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

Sese Project: Resource Summary (Raw coal ADB, 51% FQM, 49% AFR)								
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 ADB, 51% FQM, 49% AFR)								
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 ADB, 100% AFR)								
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 ADB, 100% AFR)								
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							

* 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.

Dr. Frazer Tabeart
Managing Director

5 Mining tenements held at the end of the quarter and their location

	Interest at beginning of quarter	Interest at end of quarter	Location	Commodity
PL096/2005 (Sese)	49%	49%	Botswana	Coal, U
PL197/2007 (Sese West)	49%	49%	Botswana	Coal, U
PL004/2013 (Foley North)	49%	49%	Botswana	Industrial
PL069/2007 (Mmamantswe)	100%	100%	Botswana	Coal
PL056/2005 (Mmamabula West)	100%	100%	Botswana	Coal
12634-HQ-LML (Chirundu ML)	100%	100%	Zambia	U
13265-HQ-LPL (Chirundu PL)*	0%	0%	Zambia	U
13642-HQ-LPL (Munyumbwe)	100%	100%	Zambia	U
19800-HQ-LPL (Kariba Valley)	100%	100%	Zambia	U
20612-HQ-LPL (Sinazongwe)	0%	100%	Zambia	Coal
16566-HQ-LPL (Sinazongwe Central)	100%	100%	Zambia	Coal
16775-HQ-LPL (Sinazongwe South)*	0%	0%	Zambia	Coal

*Renewal of Sinazongwe South and Chirundu prospecting licenses are under application

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 Tabcart (an employee and the Managing Director of African Energy Resources Limited) who is a member of The Australian Institute of Geoscientists. Dr Tabcart 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 Tabcart 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 2015

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	(29)	(29)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(382)	(382)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	93	93
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Refund of Botswana VAT	171	171
	Net Operating Cash Flows	(147)	(147)
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	(147)	(147)

1.13	Total operating and investing cash flows (carried forward)	(147)	(147)
	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	(147)	(147)
1.20	Cash at beginning of quarter/year to date	6,240	6,240
1.21	Exchange rate adjustments to item 1.20	(553)	(553)
1.22	Cash at end of quarter	5,540	5,540

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	183
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\$142,488 – director remuneration payments

US\$40,536 – 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	-	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$US'000
4.1 Exploration and evaluation	292
4.2 Development	-
4.3 Production	-
4.4 Administration	334
Total	626

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	832	554
5.2 Deposits at call	4,708	5,683
5.3 Bank overdraft	-	-
Total: Cash at end of quarter (item 1.22)	5,540	6,237

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				
6.2 Interests in mining tenements acquired or increased	20612-HQ-LPL (Sinazongwe)	Direct	0%	100%

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	620,001,768	620,001,768	-	-
7.4 Changes during quarter (a) Increases through issue of new shares	1,333,333	1,333,333		
7.5 *Convertible debt securities	-	-	-	-
7.6 Changes during quarter	-	-	-	-
7.7 Options/Rights	50,405,900	No. of options	Strike Price	Expiry Date
Unquoted options		36,605,900	AUD \$0.15	31-Dec-15
		13,800,000	AUD \$0.10	27-Nov-17
Unquoted rights	11,266,666	Performance rights subject to various vesting hurdles and expiry dates		
7.8 Issued during quarter	nil			
7.9 Exercised during quarter	1,166,666 performance rights subject to various vesting hurdles and expiry dates			
7.10 Expired during quarter	nil			
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.



Mr Daniel Davis

Company Secretary

Date: 30 October 2015

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.