



African Energy Resources Limited

ARBN 123 316 781

Interim Financial Statements
for the six months ended
31 December 2015

AFRICAN ENERGY RESOURCES LIMITED

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AFRICAN ENERGY RESOURCES LIMITED
Directors' Report
Interim Financial Statements - 31 December 2015

Your Directors present their report on the consolidated entity consisting of African Energy Resources Limited and the entities it controlled at the end, or during, the half-year ended 31 December 2015.

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
Mr Yan Zhao	Alternate Director to Mr Hume
Mr Wayne Trumble	Non-Executive Director
Mr John Dean	Non-Executive Director

REVIEW OF OPERATIONS

African Energy Resources and its subsidiaries ("Consolidated Entity") are focused on creating viable businesses through the development of power generation projects from its coal asset portfolio in Botswana.

During the six months to 31 December 2015;

- First Quantum Minerals Limited (FQM) increased their interest in the Sese Integrated Power Project to 53%, having spent A\$1.3M (beyond the initial A\$8M investment) on the Sese Project to date.
- The Company agreed to the conditional sale of the Mmamantswe Power Project to TM Consulting for US\$20 million
- The following project development programmes commenced at the Mmamabula West project:
 - A programme of four large diameter core holes and subsequent analytical work to derive a power station fuel specification for each coal seam;
 - Amendments to the Environmental and Social Impacts Assessment (ESIA) and Environmental Management Plan (EMP) to include 300MW + 300MW of power generation and grid connection;
 - Hydrogeological modelling for ESIA baseline studies; and
 - Preparation of submissions for surface rights and water allocation.
- At the Annual General Meeting, shareholders passed a resolution for the Company to undertake an on-market share buyback. 8,646,573 shares were acquired during December at an average price of 5.2 cents.
- At 31 December 2015, the Company had cash reserves of AU\$6.68M (US\$4.87M).

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's Independence Declaration is set out on page 7 and forms part of the Directors' report for the half year ended 31 December 2015.



Charles Frazer Tabeart
Director
14 March 2016

AFRICAN ENERGY RESOURCES LIMITED

Directors' Declaration

Interim Financial Statements - 31 December 2015

- 1 In the opinion of the directors of African Energy Resources Limited :
 - a. The financial statements and notes set out on pages 8 to 15, are in accordance with the Corporations Act 2001, including:
 - i. Giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
 - ii. Complying with AASB 134 Interim Financial Reporting, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - b. there are reasonable grounds to believe that African Energy Resources Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



Charles Frazer Tabeart
Director
14 March 2016

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of African Energy Resources Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of African Energy Resources Limited, which comprises the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of African Energy Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of African Energy Resources Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of African Energy Resources Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

BDO Audit (WA) Pty Ltd

BDO

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

Phillip Murdoch

Director

Perth, 14 March 2016

DECLARATION OF INDEPENDENCE BY PHILLIP MURDOCH TO THE DIRECTORS OF AFRICAN ENERGY RESOURCES LIMITED

As lead auditor for the review of African Energy Resources Limited for the half-year ended 31 December 2015, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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



Phillip Murdoch
Director

BDO Audit (WA) Pty Ltd
Perth, 14 March 2016

AFRICAN ENERGY RESOURCES LIMITED**Consolidated Statement of Profit or Loss and Other Comprehensive Income****For the half-year ended 31 December 2015**

	31-Dec-15 US\$	31-Dec-14 US\$
Revenue from continuing operations	68,684	1,728
Salaries and employee benefits expense	(474,978)	(597,392)
Administration and other corporate expenses	(301,518)	(668,443)
Borrowing costs	-	(131,637)
Share of net loss in Sese Joint Venture	(200,112)	-
Foreign currency gain	(23,321)	(1,261)
Loss before tax	(931,245)	(1,397,005)
Income tax expense	-	-
Loss after tax for the half year	(931,245)	(1,397,005)
Attributable to:		
Equity holders of the Company	(931,245)	(1,397,005)
Loss for the half year	(931,245)	(1,397,005)
Other comprehensive income		
Foreign currency translation reserve	(310,814)	(757,226)
Total other comprehensive income / (loss) for the half year	(310,814)	(757,226)
Total comprehensive income / (loss) attributable to the ordinary equity holders of the Company:		
Total comprehensive (loss) for the half year	(1,242,059)	(2,154,231)
Loss per share for loss attributable to the ordinary equity holders of the Company:		
Basic and diluted loss per share (cents per share)	(0.15)	(0.25)

The above statement should be read in conjunction with the accompanying notes.

AFRICAN ENERGY RESOURCES LIMITED
Consolidated Statement of Financial Position
As at 31 December 2015

	Note	31-Dec-15 US\$	30-Jun-15 US\$
Assets			
Current assets			
Cash and cash equivalents		4,867,429	6,240,350
Trade and other receivables		131,841	271,203
Total current assets		4,999,270	6,511,553
Non-current assets			
Investment in Sese Joint Venture		8,590,941	8,791,053
Property, plant & equipment		2,643	2,413
Capitalised exploration and evaluation expenditure	4	6,440,128	6,179,689
Total non-current assets		15,033,712	14,973,155
Total assets		20,032,982	21,484,708
Liabilities			
Current liabilities			
Trade and other payables		224,218	179,417
Total current liabilities		224,218	179,417
Total liabilities		224,218	179,417
Net assets		19,808,764	21,305,291
Equity			
Issued capital	5	63,226,204	63,545,081
Reserves		191,617	438,022
Accumulated losses		(43,609,057)	(42,677,812)
Total equity attributable to shareholders of the Company		19,808,764	21,305,291

The above statement should be read in conjunction with the accompanying notes.

AFRICAN ENERGY RESOURCES LIMITED
Consolidated Statement of Changes in Equity
For the half-year ended 31 December 2015

	Contributed equity	Foreign Currency Translation Reserve	Share- Based Payments Reserve	Accumulated losses	Total equity
For the half-year ended 31 December 2015	US\$	US\$	US\$	US\$	US\$
Opening balance 1 July 2015	63,545,081	(4,886,734)	5,324,756	(42,677,812)	21,305,291
Net loss for the period	-	-	-	(931,245)	(931,245)
Other Comprehensive loss					-
Effect of translation of foreign operations to group presentation currency	-	(310,814)	-	-	(310,814)
Total comprehensive income (loss) for the period	-	(310,814)	-	(931,245)	(1,242,059)
Transactions with owners in their capacity as owners:					
Share buyback costs	(327,594)	-	-	-	(327,594)
Employee performance rights	-	-	64,409	-	64,409
Equity settled share based payment transactions	8,717	-	-	-	8,717
	(318,877)	-	64,409	-	(254,468)
Balance at 31 December 2015	63,226,204	(5,197,548)	5,389,165	(43,609,057)	19,808,764
For the half-year ended 31 December 2014					
Opening balance 1 July 2014	57,089,973	(3,863,085)	4,932,993	(37,571,848)	20,588,033
Net loss for the period	-	-	-	(1,397,005)	(1,397,005)
Other Comprehensive loss					
Effect of translation of foreign operations to group presentation currency	-	(757,226)	-	-	(757,226)
Total comprehensive income (loss) for the period	-	(757,226)	-	(1,397,005)	(2,154,231)
Transactions with owners in their capacity as owners:					
Share issue net of issue costs	6,142,158	-	-	-	6,142,158
Equity settled share based payment transactions	202,342	-	248,318	-	450,660
	6,344,500	-	248,318	-	6,592,818
Balance at 31 December 2014	63,434,473	(4,620,311)	5,181,311	(38,968,853)	25,026,620

The above statement should be read in conjunction with the accompanying notes.

AFRICAN ENERGY RESOURCES LIMITED
Consolidated Statement of Cash Flows
For the half-year ended 31 December 2015

	31-Dec-15 US\$	31-Dec-14 US\$
Cash flows from operating activities		
Cash paid to suppliers and employees	(652,569)	(1,245,057)
Net cash used in operating activities	(652,569)	(1,245,057)
Cash flows from investing activities		
Payment for exploration and evaluation expenditure	(168,816)	(518,267)
Interest received	95,539	1,728
Net cash used in investing activities	(73,277)	(516,539)
Cash flows from financing activities		
Proceeds from the issue of share capital	-	6,638,671
Buyback of shares	(327,594)	-
Payment of share issue costs	-	(225,617)
Repayment of Loans	-	(5,000,000)
Interest and other finance costs paid	-	(131,637)
Net cash from financing activities	(327,594)	1,281,417
Net decrease in cash and cash equivalents	(1,053,440)	(480,179)
Cash and cash equivalents at 1 July	6,240,350	3,318,725
Effect of exchange rate fluctuations on cash held	(319,481)	(133,000)
Cash and cash equivalents at 31 December	4,867,429	2,705,546

The above statement should be read in conjunction with the accompanying notes.

AFRICAN ENERGY RESOURCES LIMITED
Notes to the consolidated financial statements
Interim Financial Statements - 31 December 2015

1. Reporting entity

African Energy Resources Limited (the 'Company') is a Guernsey registered company domiciled in Australia. The consolidated interim financial statements of the Company as at and for the six months ended 31 December 2015 comprises the Company and its subsidiaries (together referred to as the 'consolidated entity' or the 'Group'). The Group is primarily involved in the development of power generation assets in southern Africa.

2. Basis of preparation

(a) Statement of Compliance

The consolidated interim financial statements are a general purpose financial report which has been prepared in accordance with AASB 134: Interim Financial Reporting and Corporations Act 2001.

The consolidated interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated annual financial statements of the consolidated entity as at and for the year ended 30 June 2015.

These consolidated interim financial statements were authorised for issue by the Directors on 14 March 2016.

(b) Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgments made by the management in applying the Group's accounting policies during the six months ended 31 December 2015 were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2015.

(c) Significant accounting policies

The same accounting policies and methods of computation have generally been followed in these half-year financial statements as compared with the most recent annual financial statements.

(d) New and amended standards adopted by the entity

A number of new or amended standards became applicable for the current reporting period, however, the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards. There may be some changes to the disclosures in the 2016 annual report as a consequence of these amendments.

(e) Impact of standards issued but not yet applied by the entity

There were no new standards issued since 30 June 2015 that have been applied by the Company. The 30 June 2015 annual report disclosed that the Company anticipated no material impacts arising from initial application of those standards issued but not yet applied at that date, and this remains the assessment as at 31 December 2015.

AFRICAN ENERGY RESOURCES LIMITED
Notes to the consolidated financial statements
Interim Financial Statements - 31 December 2015

3. Segment information

The Company's main activity is development of coal-fired power in southern Africa. Power investments related to the Company's minority interest in Sese Power Project.

For the period ended 31 December 2015	Power Development Projects	Power Investments	Other segments	Consolidated
	US\$	US\$	US\$	US\$
Total segment revenue	-	-	68,684	68,684
(Loss) before income tax	-	(200,112)	(731,133)	(931,245)
Segment Assets at 31 December 2015				
Investment in Sese IPP	-	8,590,941	-	8,590,941
Property, plant and equipment	-	-	2,643	2,643
Exploration and evaluation	6,440,128	-	-	6,440,128
Cash and short term receivable	-	-	4,999,270	4,999,270
Total Segment Assets	6,440,128	8,590,941	5,001,913	20,032,982
Segment Liabilities at 31 December 2015				
Trade & other payables	-	-	224,218	224,218
Total Segment Liabilities	-	-	224,218	224,218
For the period ended 31 December 2014				
Total segment revenue	-	-	1,728	1,728
(Loss) before income tax	-	-	(1,397,005)	(1,397,005)
Segment Assets at 30 June 2015				
Investment in Sese JV	-	8,791,053	-	8,791,053
Property, plant and equipment	-	-	2,413	2,413
Exploration and evaluation	6,179,689	-	-	6,179,689
Cash and short term receivable	-	-	6,511,553	6,511,553
Total Segment Assets	6,179,689	8,791,053	6,513,966	21,484,708
Segment Liabilities at 30 June 2015				
Trade & other payables	-	-	179,417	179,417
Total Segment Liabilities	-	-	179,417	179,417

4. Reconciliation of Exploration & Evaluation Expenditure

	31-Dec-15 US\$	30-Jun-15 US\$
Balance at the beginning of the period	6,179,689	22,780,733
Additions	270,565	278,141
New Acquisitions	-	1,500,000
Disposal due to deconsolidation of former subsidiary	-	(18,005,951)
Effect of movements in foreign exchange	(10,126)	(373,234)
Carrying amount at end of period	6,440,128	6,179,689

In December, African Energy Resources entered a binding agreement to sell the Mmamantse Coal and Power project to TM Consulting for US\$20 million, subject to the achievement of certain hurdles by 18 June 2017.

The material conditions of the sale are:

AFRICAN ENERGY RESOURCES LIMITED**Notes to the consolidated financial statements****Interim Financial Statements - 31 December 2015**

- TM Consulting will form a bid consortium which is responsible for sole funding the preparation and submission of a bid in response to a Request for Proposals in respect of South Africa's Coal Baseload Independent Power Producer Procurement Program.
- If TM Consulting is notified by South Africa's Department of Energy that it has achieved preferred bidder status, TM Consulting must pay \$20 million to the Seller on completion of the sale.

The ultimate recoverability of Exploration and Evaluation Expenditure is dependent upon its successful development or sale.

5. Movement in share capital

	Date	Number of shares	Issue Price US\$ cents	US\$
Balance 30 June 2014		474,235,222		57,275,052
Shares in lieu of salary	01 Jul 2014	1,083,064	-	-
Conversion of performance rights	01 Jul 2014	966,669	-	-
Shares in lieu of salary	01 Oct 2014	1,208,064	4.9	58,667
Conversion of performance rights	01 Oct 2014	100,000	-	-
FQM Placement	22 Oct 2014	69,000,000	4.8	3,339,031
Rights Issue / Shortfall	26 Nov 2014	68,324,910	4.7	3,218,203
Shares in lieu of salary	27 Nov 2014	1,277,779	4.9	62,238
Conversion of performance rights	27 Nov 2014	200,000	-	-
Shares in lieu of salary	20 Feb 2015	272,727	5.3	14,351
Shares in lieu of salary	02 Apr 2015	2,000,000	5.0	99,033
Capital raising costs				(521,493)
Balance 30 June 2015		618,668,435		63,545,081
Shares in lieu of salary	02 Jul 2015	166,666*	5.2	8,717
Conversion of performance rights	02 Jul 2015	1,166,666	-	-
November share buyback	30 Nov 2015	(29,000)	3.8	(1,099)
December share buyback	31 Dec 2015	(8,617,573)	3.8	(326,495)
Balance 31 December 2015		611,355,194		63,226,204

* 166,666 shares were issued to Mr Alasdair Cooke in lieu of cash salary, as approved at the Company's 2014 annual general meeting.

6. Recognised fair value measurements

On 17 October 2014, the Company signed an agreement with First Quantum Minerals, to develop power generation capacity at Sese Coal Mine & Power Project (the "Project"). This agreement provided African Energy Resources with a partner with a strong track record in developing large-scale capital intense projects. It also provides a sound financial partner who is responsible for providing the necessary funding for the Project if a positive development decision is made.

First Quantum Minerals acquired an initial 51% interest in the Project for consideration of AU\$8,000,000. First Quantum Minerals is required to spend a further AU\$12,000,000 by 15 July 2016 on the project, which will see First Quantum Minerals increase its interest in the Project to 75%. This AU\$12,000,000 contribution will be used to fund the evaluation and development of the proposed Project.

Once First Quantum Minerals has attained a 75% Project interest, AFR's ongoing 25% interest in the Project will be loan carried through to commercial operation. The loan to be priced on the same terms as First Quantum Minerals' weighted average cost of long-term debt, and is to be repaid from the Company's share of operating surplus cash flow.

The Project comprises five entities that control the Sese, Sese West and Foley North prospecting licenses. First Quantum Minerals acquired a controlling 51% interest in the Project on 23 January 2015. As at 31 December 2015 First Quantum Minerals has a 53% interest in the Sese Project.

As disclosed within the 30 June 2015 Annual Report the Company elected to value its expected 25% interest in Project (the "Investment") at fair value upon initial acquisition date of 23 January 2015.

(a) Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed are categorised according to the fair value hierarchy as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 - Inputs for the assets or liability that are not based on observable market data (unobservable inputs).

	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
Investments in Associates at 31 December 2015				
Investment in Sese Project ⁽¹⁾	-	-	-	-
Investments in Associates at 30 June 2015				
Investment in Sese Project ⁽¹⁾	-	-	8,791,053	8,791,053

(1) The investment in Sese Project was measured at fair value at initial recognition (refer 30 June 2015 Annual Report for the details on inputs and judgements used in measuring fair value). The investment in the Sese Project is equity accounted following initial recognition and therefore has been transferred out of level 3 assets during the period. There have been no impairment indicators as at 31 December 2015 that would require reassessment of fair value.

7. Dividends

No dividends were paid by the consolidated entity.

8. Commitments & Contingencies

There were no commitments or contingencies in the consolidated entity at 31 December 2015.

9. Events Occurring After Reporting Period

The share buyback scheme continued into 2016. In the period since 1 January 2016, the Company has acquired 3,158,479 shares at a cost of A\$164,403.

The Company granted a 3-month exclusive period to a South African investment group finalise a Joint Development Agreement for the development of an integrated coal mine and thermal power station at its Mmamabula West power project.

No other matters or circumstances have arisen since the end of the interim financial period which significantly affected or may significantly affect the operations, results or the state of affairs of the consolidated entity or the parent company in future reporting periods.