

12 April 2016

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 31 March 2016

HIGHLIGHTS

- Executed a non-binding Term Sheet setting out the indicative terms and conditions of a transaction to jointly develop the Mmamabula West Project into an integrated coal mine and 600MW thermal power station for the supply of power in the southern African market.
- Sese JV focused on advancing the permitting of Sese Coal Mine and Power Project
 - The Department of Mines in Botswana accepted an application for a 1.6-million tonne per annum coal mining license.
 - Coal Supply Agreement between coal mining entity and power station entity was signed
 - Ongoing negotiations with Botswana Ministry of Finance for a Manufacturing Development Approval Order for the Sese Project. African Energy is undertaking financial modelling of Sese Project to assist FQM with these negotiations.
- Project development programmes continued at the Mmamabula West project:
 - Large diameter drilling programme was completed in late December. Initial proximate analyses confirm coal quality is in line with expectations
 - Test work programme to develop a preliminary fuel specification commenced
 - Amendments to the Environmental and Social Impacts Assessment (ESIA) and Environmental Management Plan to include 600MW of power generation and grid connection commenced;
 - Hydrogeological modelling for ESIA baseline studies commenced;
 - Preparation of submissions for surface rights and water allocation, and
 - Proposals received from industry consultants for a preliminary grid integration and transmission study.
- Assisted TM Consulting prepare the Mmamantswe Project work programme to deliver a formal submission in response to South Africa's coal-fired, cross-border independent power project procurement programme.
- On-market share buyback continued in the quarter. 3,158,479 shares were acquired during the quarter at an average price of 5.2 cents for AU\$164,403. On-market share buyback was suspended in early February until the details of the joint development agreement at Mmamabula West can be disclosed.
- At 31 March 2016, the Company had cash reserves of AU\$5.85M.

OUTLOOK FOR NEXT QUARTER

Sese Integrated Power Project (47% AFR, 53% FQM)

- Continue to assess power market opportunities in the southern African region suitable for expansions of the Sese Integrated Power Project.
- Execute Water Supply Agreement
- Submit an application to Botswana Ministry of Finance for a Manufacturing Development Approval Order for the Sese Project.
- FQM are required to commit a further A\$10.2M by 12 July 2016 to acquire an additional 22% interest in the project.

Mmamabula West Project (100% AFR)

- Complete the terms of binding documentation for a Joint Development Agreement and such other ancillary documents as may be required.
- Completion of large diameter core analyses to provide the basis for determination of a power station fuel specification for each coal seam.
- Ongoing hydrogeological modelling for the ESIA baseline study.
- Ongoing amendment of the ESIA and EMP to include 600MW of power generation plus grid connection.
- Commence grid integration and transmission study.

Mmamantswe Power Project (100% AFR, operated by TM Consulting)

- Assist TM Consulting execute the Mmamantswe Project work programme to deliver a formal submission in response to South Africa's coal-fired, cross-border independent power project procurement programme.

Corporate

- Continue on-market share buyback (subject to disclosure on the binding documentation for a Joint Development Agreement). Up to AU\$386,075 may be spent in the remainder of 2016.

PROJECTS

1 Sese JV, Botswana (AFR 47%, FQM 53%)

1.1 Sese JV

- FQM spent US\$269,984 in the quarter and has spent US\$1,246,707 to date since their initial investment on January 2015. FQM can increase their interest to 75% by funding a further A\$10.2M by 12 July 2016.

1.2 Permitting

- A mining license application covering enough coal for the initial Sese Power Project and potential future expansions is currently being assessed by Botswana Department of Mines.
- A Land Lease agreement providing guaranteed surface rights over the Sese project area for 50 years was signed during the quarter and remains in the process of being registered as a Deed in Botswana.
- 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.
- Foley North industrial minerals prospecting license (PL004/2013) was extended to 31 December 2017. Sese (PL96/2005) and Sese West (PL197/2007) prospecting licenses are valid until 31 December 2016.
- Commenced negotiations with Botswana Ministry of Finance for a Manufacturing Development Approval Order for the Sese Project. AFR is providing assistance to FQM for these negotiations, including financial modelling of project cash flows to various stakeholders and compiling advice on options for efficient and fair tax structuring.

2 Mmamabula West Project, Botswana (AFR 100%)

2.1 Integrated Power Project

South Africa's Department of Energy has issued a broad 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).

2.2 Non-Binding Term Sheet for a Joint Development Agreement

The Company has executed a non-binding Term Sheet to enter into a Joint Development Agreement for the Mmamabula Wets project with a South African developer.

The material terms and conditions of the Term Sheet are:

- African Energy has granted the Developer a 3-month exclusive period during which the parties will negotiate the terms of binding documentation for a Joint Development Agreement for an integrated coal mine and power station and such other ancillary documents as may be required;

- The Developer must complete Due Diligence to its satisfaction during the period of exclusivity; and
- The other terms of the Term Sheet are confidential and must be kept confidential by both parties.

2.3 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.

The following project development plan has been implemented:

- A large diameter drilling programme to derive a power station fuel specification:
 - Four HQ3 slim-line pilot holes each with a twinned large diameter (122mm core) hole were completed in the December quarter.
 - Proximate analyses of coal core samples from the slim-line cores (48 samples of HQ3 core) indicate that the coal quality is in-line with expectations from previous drilling.
 - Samples of roof and floor material adjacent to each seam have been submitted to the Company's environmental consultants for studying the potential for acid mine drainage. Samples of each coal seam (product and wash rejects) will also be analysed as part of this assessment.
 - A programme of physical test work, including particle size distribution analysis, ultimate analysis, hardness testing and abrasion testing has commenced on the large diameter core.
 - Petrographic analysis of representative coal samples from each seam will be undertaken in the next quarter.
 - These studies will provide information allowing a power station fuel specification and coal processing flowsheet to be derived for each coal seam.
- Hydrogeological (aquifer) modelling for preliminary ESIA baseline studies has commenced. The initial model has been constructed using existing borehole information.
- Amendment to the ESIA/EMP documentation to include 600MW of power generation plus grid connection to BPC's Isang sub-station has commenced. A revised project scope has been prepared, and community consultations were held in February 2016. Final Scoping and Terms of Reference documentation will be submitted in the next quarter.
- Surface rights applications for the project, project access corridor and grid connection corridor will be prepared in the next quarter.
- Proposals have been received from industry consultants to undertake a preliminary (desktop) grid integration study to determine the optimal grid connection point and transmission options for supply of power into the Botswana grid and into South Africa. Final selection of the preferred consultant will be made in the next quarter.
- Mmamabula West (PL56/2005) has been granted an extension to 31 March 2017.

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

- The Mmamantswe project is 20km from the border with South Africa and has been previously evaluated by Eskom for integration into the South African grid.
- In December the Company executed a binding Share Sale Agreement under which it will sell the Mmamantswe Coal and Power project to TM Consulting for US\$20 million, subject to certain conditions being met, principally the financial close of a 600MW integrated power project.
- Prospecting licence (PL069/2007) has been granted an extension until 31st December 2016.

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

Sese Project: Resource Summary (Raw coal ADB, 53% FQM, 47% 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, 53% FQM, 47% 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)	47%	47%	Botswana	Coal, U
PL197/2007 (Sese West)	47%	47%	Botswana	Coal, U
PL004/2013 (Foley North)	47%	47%	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)	100%	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")

31 March 2016

Consolidated statement of cash flows

Cash flows related to operating activities		Current Quarter \$US'000	Year to date (9 months) \$US'000
1.1	Receipts from product sales and related debtors		
1.2	Payments for:		
	(a) exploration and evaluation	(73)	(357)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(447)	(1,123)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	48	144
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Refund of Botswana VAT	-	149
	Net Operating Cash Flows	(471)	(1,188)
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	-	-
	Net investing cash flows	-	-
1.13	Total operating and investing cash flows	(471)	(1,188)

1.13	Total operating and investing cash flows (carried forward)	(471)	(1,188)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	(116)	(444)
1.15	Cost of the Issue	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (Payments for Share buyback)	-	-
	Net financing cash flows	(116)	(444)
	Net increase (decrease) in cash held	(587)	(1,632)
1.20	Cash at beginning of quarter/year to date	4,867	6,240
1.21	Exchange rate adjustments to item 1.20	197	(131)
1.22	Cash at end of quarter	4,477	4,477

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	192
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\$142,595 – director remuneration payments
US\$49,472 – 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	238
4.2 Development	-
4.3 Production	-
4.4 Administration	379
Total	617

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	802	824
5.2 Deposits at call	3,675	4,043
5.3 Bank overdraft	-	-
Total: Cash at end of quarter (item 1.22)	4,477	4,867

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			

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	608,196,716	608,196,716	-	-
7.4 Changes during quarter			-	-
(Decrease) through on-market buyback	(3,158,479)	(3,158,479)		
7.5 ⁺Convertible debt securities	-	-	-	-
7.6 Changes during quarter	-	-	-	-
7.7 Options/Rights	13,800,000	-	Options exercisable at A\$0.10 and expiring on 27 November 2017	
	11,266,666	-	Performance rights subject to various vesting hurdles and expiry dates	
7.8 Issued during quarter	-			
7.9 Exercised during quarter	-			
7.10 Expired during quarter	-			
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 'D. Davis'.

Daniel Davis

Company Secretary

Date: 12 April 2016

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.