

28 July 2016

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 30 JUNE 2016

HIGHLIGHTS

- First Quantum Minerals Ltd. (FQM) committed AUD \$3 million over the next twelve months on work programs to advance the Sese Integrated Power Project.
- 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 coal mining license.
 - Negotiations continued with the Botswana Ministry of Finance for a Manufacturing Development Approval Order for the Sese Project.
- The South African Minister of Energy gazetted a determination setting out terms for the coal baseload cross-border Independent Power Producer (IPP) procurement programme:
 - 3,750 MW shall be procured through one or more coal-fired, cross-border IPP's
 - The Department of Energy can commence direct negotiation with one or more project developers rather than being restricted to a tendering process;
 - Procurement shall target connection to the grid as soon as reasonably possible.
- African Energy's 100% owned Mmamabula West and Mmamantswe Projects are being developed for submission into this cross border IPP programme.
- Project development programmes continued at the Mmamabula West project:
 - Test work programme to develop a preliminary fuel specification continued
 - Amendments to the Environmental and Social Impacts Assessment (ESIA) and Environmental Management Plan to include 600MW of power generation and grid connection continued;
 - Hydrogeological modelling for ESIA baseline studies continued;
 - Preparation of submissions for surface rights and water allocation continued
- AFR assisted TM Consulting prepare the Mmamantswe Project work programme to deliver a formal submission in response to South Africa's coal-fired, cross-border IPP procurement programme.
- On-market share buyback remained suspended in the quarter.
- At 30 June 2016, the Company had cash reserves of AU\$5.27M.

OUTLOOK FOR NEXT QUARTER

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

- Commence a work programme to advance the Sese Project including;
 - Additional large diameter drilling to collect ~1,000kg of coal for combustion testing.
 - Preliminary geotechnical evaluations of the proposed power station site
 - Update the Environmental Approvals to allow up to 450MW of power generation.
 - Update the mining study to meet the requirements of a 450MW power project.
 - Preliminary power station design and layout.
 - Execution of the Water Supply Agreement for the project.
 - Hydrogeological studies at the mine site to characterize the aquifers.
- Continue to assess power market opportunities in the southern African region suitable for expansions of the Sese Integrated Power Project.
- 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\$10.0M by 12 July 2017 to acquire an additional 22% interest in the project.

Mmamabula West Project (100% AFR)

- Complete binding documentation for a Joint Development Agreement with a development partner 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)

- Continue to assist TM Consulting execute the Mmamantswe Project work programme to deliver a formal submission in response to South Africa's coal-fired, cross-border IPP procurement programme.

PROJECTS

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

1.1 Sese JV

- FQM acquired a 51% interest in the Sese Project in January 2015 and shall increase their interest in to 75% by investing a further A\$10.0M by 12 July 2017. This investment will be used to fund the evaluation and development of the proposed Sese Integrated Power Project.
- 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.
- FQM spent A\$164,820 in the quarter and has spent A\$1,935,800 to date since their initial investment on January 2015 and currently own 53% interest in the Sese Project.
- First Quantum Minerals Ltd. (FQM) has committed AUD \$3 million over the next twelve months on work programs to advance the Sese Integrated Power Project:
 - Additional large diameter drilling to collect approximately 1,000kg of coal for combustion testing and physical handling test work. This will lead to the development of the fuel specification for the proposed power station, and finalization of the coal handling and processing flowsheet.
 - Preliminary geotechnical evaluations of the proposed power station site to assess sub-surface conditions with respect to footings for the power station (boilers, turbines, generators) and ancillary infrastructure.
 - Update the mining study to meet the requirements of fuel delivery for a 450MW integrated power project.
 - Preliminary power station design and layout.
 - Negotiations for power off take agreements with interested parties.
 - Execution of the Water Supply Agreement for the project.
 - Hydrogeological studies at the mine site to characterize aquifers to allow mine design and aquifer management plans to be advanced.
 - Commencement of early site works to include an upgraded access road and preliminary siting of camp facilities.
 - Diamond drilling to test the continuity and quality of the Seswe limestone deposit for use as a sorbent to reduce airborne sulphur emissions from the proposed power station.

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.
 - An update to the ESIA is being prepared to seek environmental approvals sufficient for up to 450MW of power generation (staged development of 2 x 225MW units) and the associated coal mining and processing.
- 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 recently gazetted an updated notice amending its coal-fired, baseload, cross-border IPP procurement programme to 3,750MW. Procurement is to be managed via the IPP Office on behalf of the Department of Energy, and can be via direct negotiation for grid connection as soon as possible.

The Mmamabula West project contains two ~5m thick coal seams and is being developed as an integrated underground coal mine and 600MW power station for submission into the South African cross-border IPP procurement programme.

2.2 Joint Development Agreement

The Company is continuing to negotiate a Joint Development Agreement for the Mmamabula West project with a South African developer.

2.3 Project Development Plan

The following project development plan has been implemented:

- A large diameter drilling programme to derive a power station fuel specification:
 - Proximate analyses of coal core samples from four slim-line cores (48 samples of HQ3 core) indicate that the coal quality is in-line with expectations from previous drilling.
 - Petrographic analysis of representative coal samples from each seam has been undertaken and indicates that the coal from both seams is a Medium Rank D bituminous coal.

- 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 continued on the large diameter core.
- 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 continued. Field measurements of standing water levels and water chemistry are being collected on a regular basis to establish the baselines for aquifer positions and aquifer chemistry.
- Amendment to the ESIA/EMP documentation to include 600MW of power generation plus grid connection to BPC's Isang sub-station continued. Final Scoping and Terms of Reference documentation were submitted to the Department of Environmental Affairs during the 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.

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 2015 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.
- During the quarter, TM Consulting engaged a number of technical consultants to assist develop and implement a program of work designed to:
 - Allow the Company to meet the approved work program on the prospecting licence, thereby keeping it in good standing and allowing a renewal request to be submitted later this year;
 - Provide all required information to enable the Company to apply for a mining licence over the coal deposit before the end of the year, and
 - Provide all required information to allow TM Consulting to enter into negotiations with South Africa's IPP office for a power purchase agreement under the auspices of the 3,750MW cross-border coal fired IPP procurement program.

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 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 June 2016

Consolidated statement of cash flows

Cash flows related to operating activities		Current Quarter \$US'000	Year to date (12 months) \$US'000
1.1	Receipts from product sales and related debtors		
1.2	Payments for:		
	(a) exploration and evaluation	(61)	(440)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(351)	(1,474)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	7	150
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Refund of Botswana VAT	-	171
	Net Operating Cash Flows	(405)	(1,593)
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	(405)	(1,593)

1.13	Total operating and investing cash flows (carried forward)	(405)	(1,593)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	(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	-	(444)
	Net increase (decrease) in cash held	(405)	(2,037)
1.20	Cash at beginning of quarter/year to date	4,477	6,240
1.21	Exchange rate adjustments to item 1.20	(129)	(260)
1.22	Cash at end of quarter	3,943	3,943

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	203
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\$143,810 – director remuneration payments

US\$59,322 – 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	208
4.2 Development	-
4.3 Production	-
4.4 Administration	351
Total	559

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	604	802
5.2 Deposits at call	3,339	3,675
5.3 Bank overdraft	-	-
Total: Cash at end of quarter (item 1.22)	3,943	4,477

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	-	-	-	-
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.



Daniel Davis

Company Secretary

Date: 28 July 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.