African Energy

Annual Report 2016

Corporate **Directory**

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 Richard Trumble
Non-Executive Director

Mr John Dean
Non-Executive Director

Company Secretary

Mr Daniel Davis

Registered Office

Granite House, La Grande Rue
St Martin, Guernsey GY1 3RS

Representative Office In Australia

Suite 1, 245 Churchill Avenue
Subiaco, Western Australia, 6008

Share Register

Link Market Services Limited
Level 4 Central Park 152 St Georges Terrace
Perth, Western Australia, 6000

Stock Exchange Listings

Australian Securities Exchange (ASX: AFR)
Botswana Stock Exchange (BSE: AFR)

Auditor

BDO Audit (WA) Pty Limited
38 Station Street
Subiaco, Western Australia, 6008

Solicitors

Clayton Utz
Level 27, QV.1, 250 St Georges Terrace
Perth WA 6000 Australia

Bankers

HSBC Bank Australia Limited
188-190 St Georges Terrace
Perth, Western Australia, 6000

Website

www.africanenergyresources.com

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AfricanEnergy

Managing Director's **Letter**

Dear Shareholder,

Your Company made further progress during the year towards the goal of becoming an independent power producer in a region where shortages in base load electricity supply provide robust, long term business opportunities.

This was reinforced In April 2016, when the government of South Africa issued a public Notice advising that it was accelerating the procurement of up to 3,750MW of coal-fired base load power from cross-border projects (i.e. sourced from outside South Africa). Not only is this a 50% increase in the total amount of energy to be supplied under this programme, the Notice indicated that the Department of Energy could procure this supply though direct negotiation, not just via public tender. The timeframe for this procurement has been thus been shortened to the extent that project developers are able to engage with the Department of Energy at their earliest opportunity.

In addition to the large scale procurement program in South Africa, Zambia continues to experience widespread power shortages caused by an over reliance on hydro-electric power schemes that have been hampered by low rainfalls during the past few years. Whilst the wet season in early 2016 replenished supply, water levels are once again approaching critical levels suggesting ongoing shortages are likely to persist, placing pressure on large industrial users in the Zambian Copperbelt.

African Energy's three large coal-to-power projects are being developed to supply these major markets, and have advanced during the year:

- First Quantum Minerals Limited continued to invest in the Sese Joint Venture, increasing its stake to 55% during the year. First Quantum will invest a further AUD $10M over the next year to reach a 75% interest. These funds are being used to evaluate and develop a fully integrated independent power project at Sese for the sale of power to Zambia and its neighbours.

- African Energy is not required to commit any further development funding to the Sese project, and its 25% interest in any coal-to-power project developed at the site will be loan carried by First Quantum through to production.

- African Energy also plans to develop a 600MW integrated power project at its wholly owned Mmamabula West project, and commenced a programme of technical studies and permitting activities during the year. The Company continued discussions with international developers who have expressed interest in taking a joint development and equity funding role.

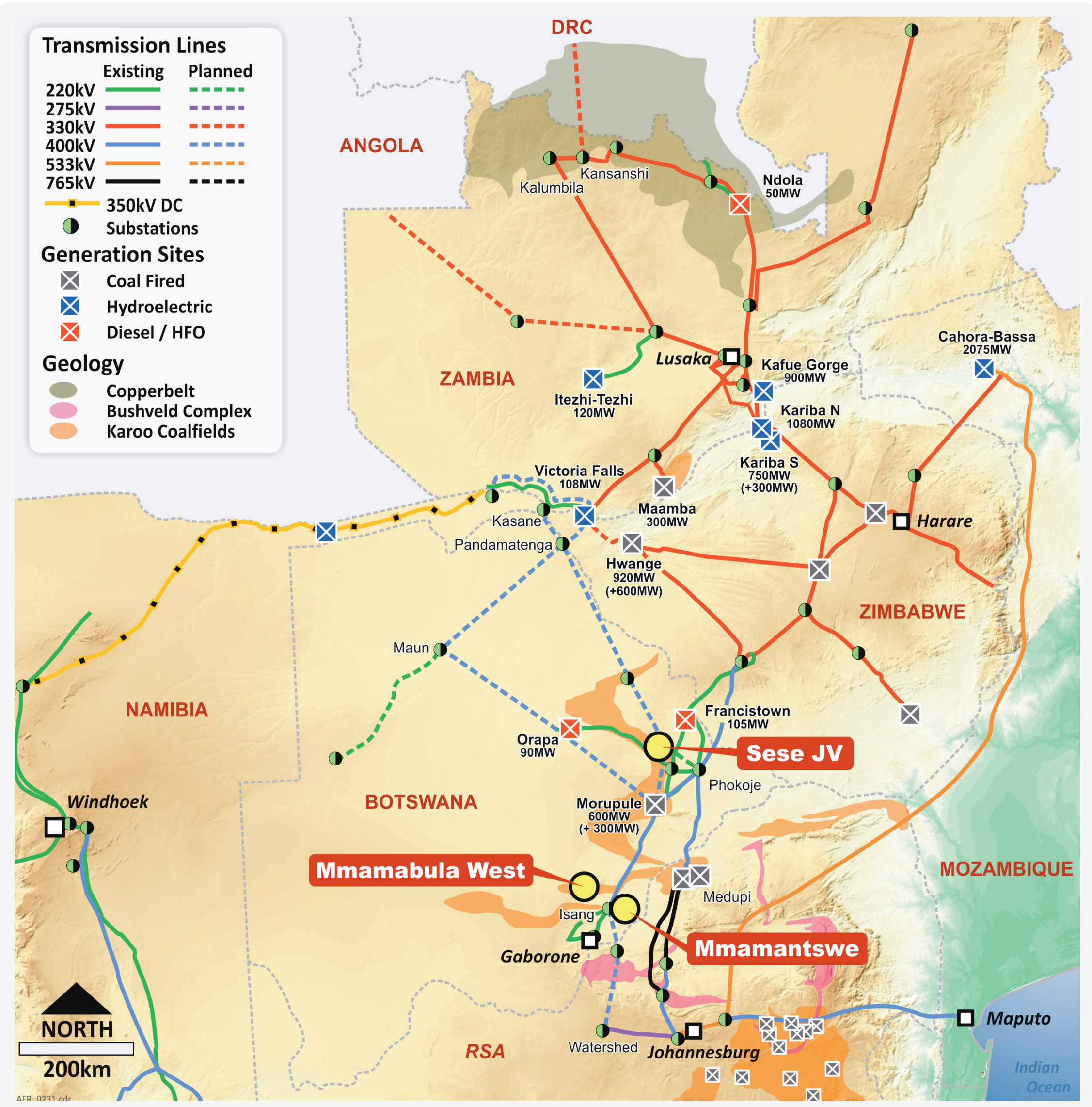
- Finally, African Energy executed a binding agreement to sell the Mmamantswe coal project for USD $20M to a South African developer, TM Consulting. The sale is conditional upon the developer sole funding a proposal to South Africa's Department of Energy, successfully negotiating a power purchase agreement and taking the project to financial close.

African Energy remains well funded, carries no debt and has low corporate overheads. Coupled with a strong development partner at Sese and a high quality portfolio, the Company is well placed to develop a number of major power projects for the region.

On behalf of the Board of Directors I would like to thank you all for your continued support during the year, and I look forward to reporting further progress next year.

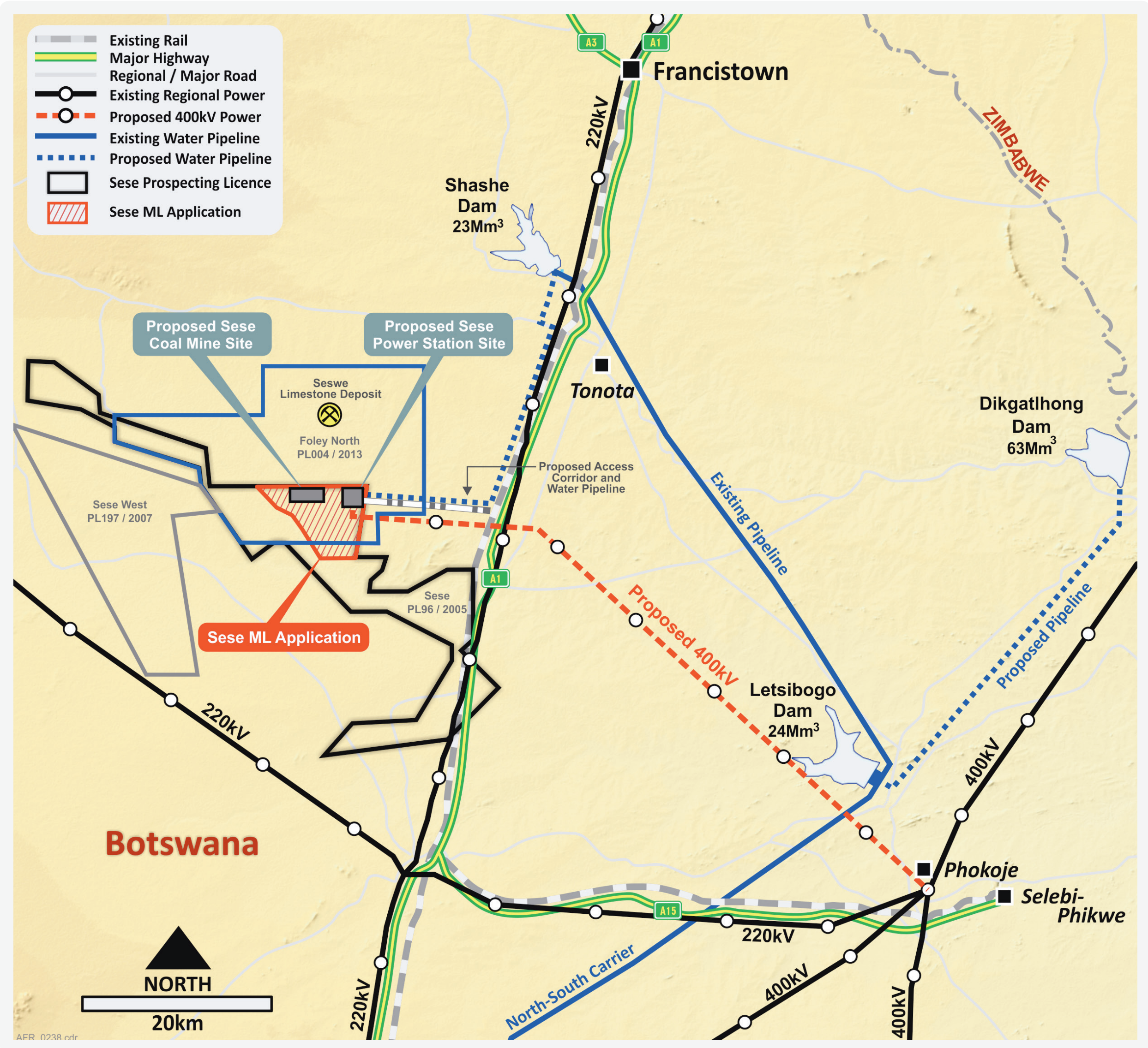
Frazer Tabeart,
Managing Director

- African Energy's coal projects in Botswana are all situated in close proximity to the interconnected regional transmission grid, and are all capable of providing secure, low cost fuel for large-scale base load power projects
- Our strategy is to tailor the development of each coal-to-power project to a natural power market based on geographic proximity, and to introduce project partners best able to secure power purchase agreements in these respective markets
- We are seeking to create attractive returns on existing shareholder equity by introducing high quality funding partners into each project, significantly reducing the Company's need to raise dilutive development funding
- This has led to the successful introduction of First Quantum Minerals Limited as a majority equity partner at the Sese Joint Venture, and a conditional Share Sale Agreement in place for Mmamantswe
- We are also seeking to finalise a joint development agreement with a South African developer for the Mmamabula West project

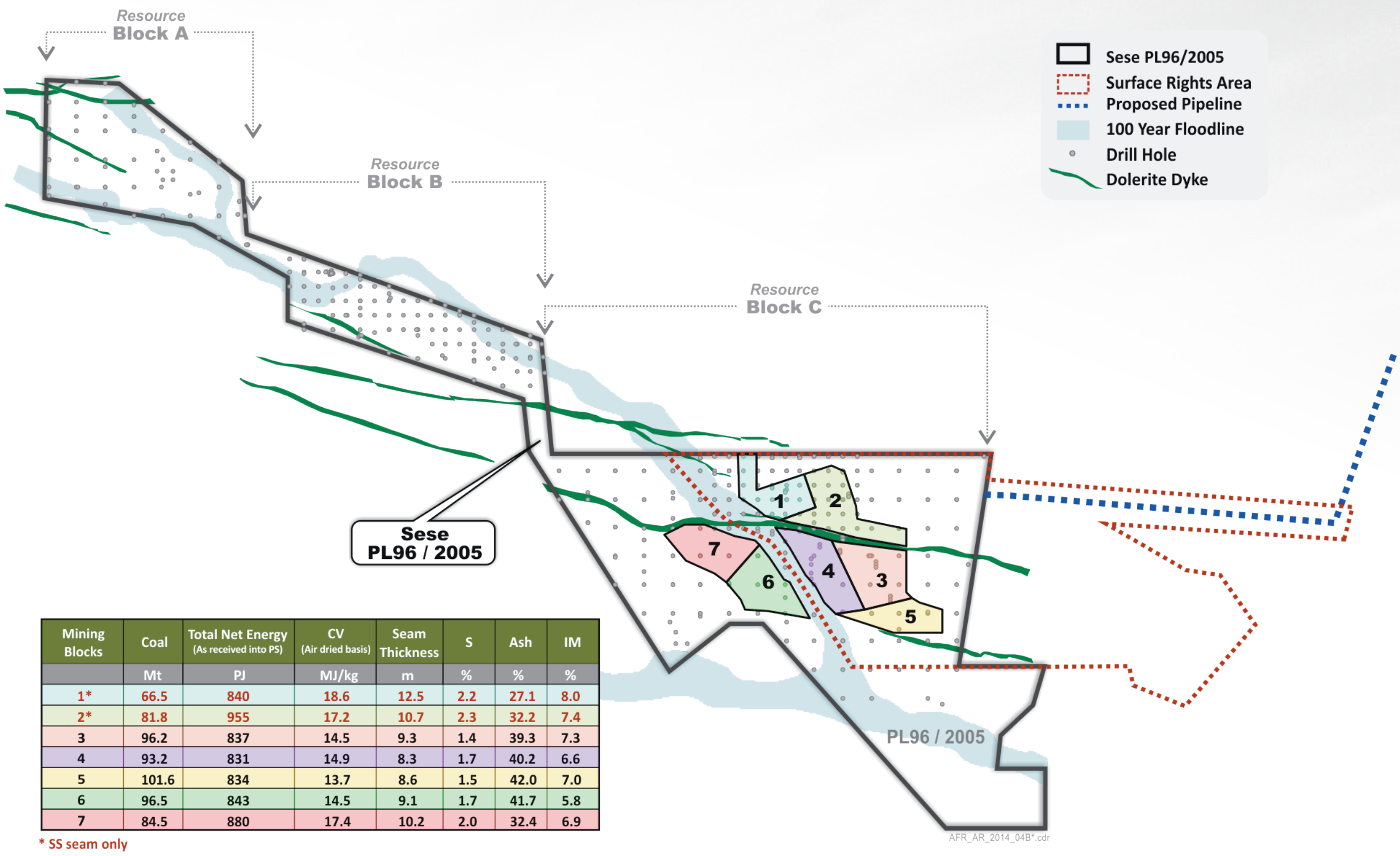


Sese *Joint Venture*

- African Energy has advanced the 5 billion tonne Sese coal project through a series of resource delineation drilling programmes, feasibility studies and successful applications for environmental approvals, water resources and surface rights
- Since January 2015, First Quantum Minerals Limited has directly invested AUD $10m into Sese for a 55% project interest, and has committed to invest a further AUD $10m in the project by July 2017 to increase its stake to 75%
- These funds are being used to evaluate the development of a fully integrated coal mine and mine-mouth power station at Sese, with a series of technical and commercial activities underway to finalise project design and cost estimates
- First Quantum is responsible for arranging the funds required to build the Sese integrated power project, and will loan carry African Energy's residual 25% interest through to commercial production



Sese **Joint Venture**



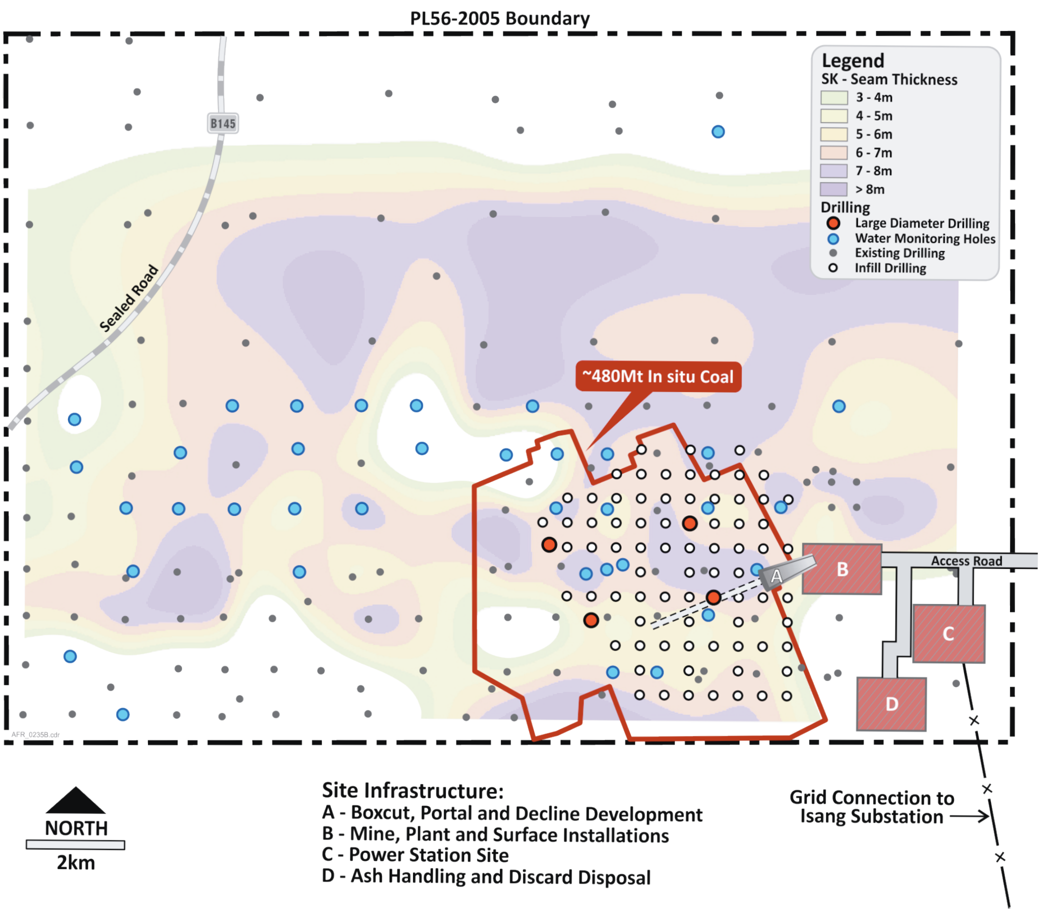
Mining Blocks	Coal	Total Net Energy (As received into PS)	CV (Air dried basis)	Seam Thickness	S	Ash	IM
	Mt	PJ	MJ/kg	m	%	%	%
1*	66.5	840	18.6	12.5	2.2	27.1	8.0
2*	81.8	955	17.2	10.7	2.3	32.2	7.4
3	96.2	837	14.5	9.3	1.4	39.3	7.3
4	93.2	831	14.9	8.3	1.7	40.2	6.6
5	101.6	834	13.7	8.6	1.5	42.0	7.0
6	96.5	843	14.5	9.1	1.7	41.7	5.8
7	84.5	880	17.4	10.2	2.0	32.4	6.9

* SS seam only

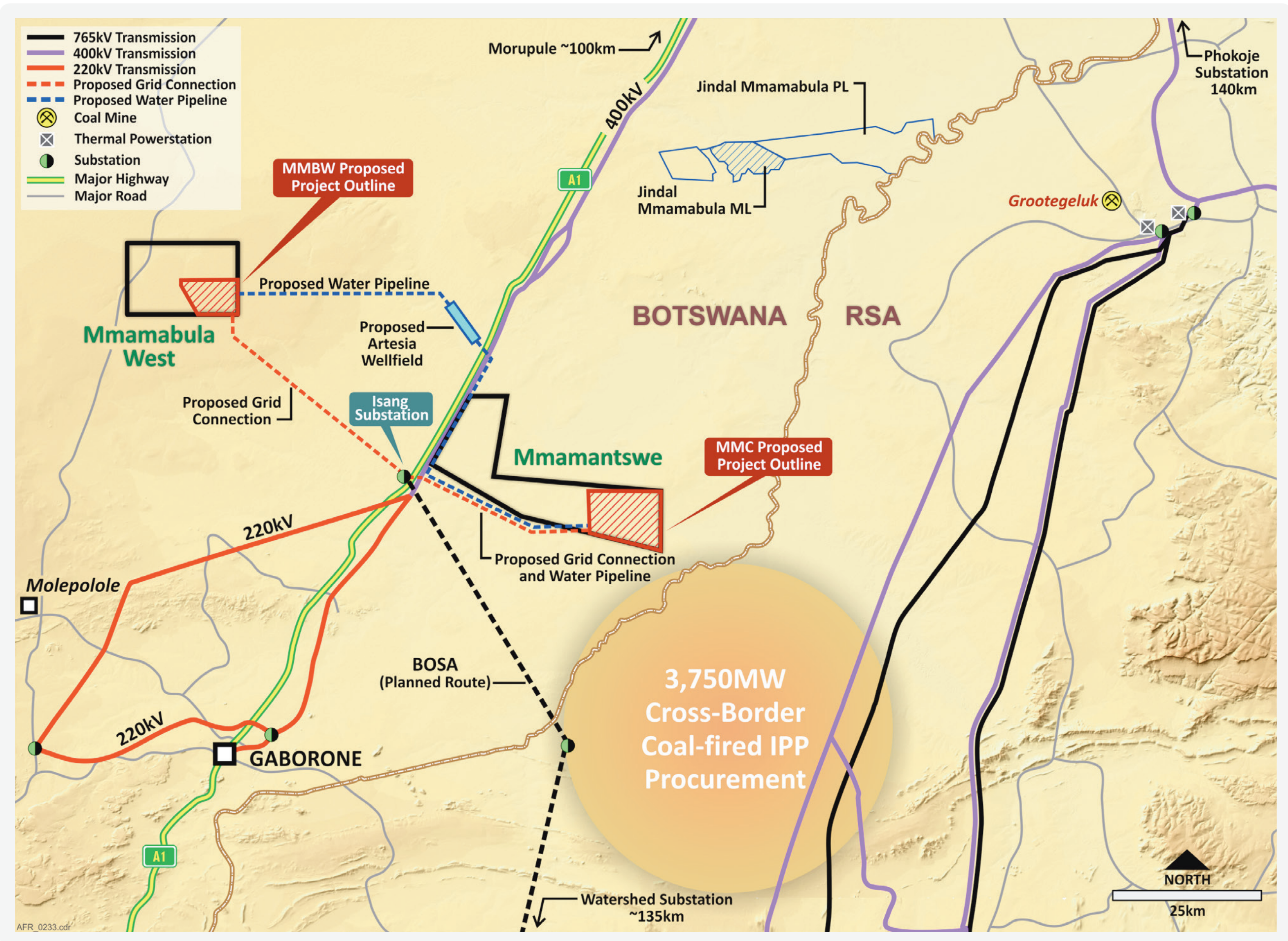
- A study of grid connection points and transmission options has confirmed that the Sese project could connect to the existing grid and evacuate power from Sese to Zambia and neighbouring countries
- A study of power station technology to evaluate boiler selection, unit sizing and preliminary layout suited to Sese coal quality has been completed
- A programme of large diameter drilling to provide approximately 1,000kg of coal for particle size analysis and combustion testing has commenced. This programme will allow finalization of a fuel specification for the Sese project
- A programme of infill drilling within the first proposed mining block has commenced to allow detailed mine scheduling
- An application for a large scale Mining Licence has been submitted over an area of approximately 51 km2. This area contains over 500Mt of coal in Block-C
- An application for a Manufacturing Development Approval Order has been submitted, which once approved will set the fiscal, commercial and legal framework for the project

Mmamabula West **Power Project**

- The 2.4 billion tonne Mmamabula West coal project contains some of the best quality coal in Botswana in two 4-6m thick seams at 100-150m depth
- A prefeasibility study completed in March 2014 determined that low cost underground mining presents an opportunity for the production of a low-cost power station fuel from a conventional underground bord and pillar mine
- African Energy has commenced a programme of work aimed at developing one or more 600MW integrated coal mine and power projects at Mmamabula West
  - A four-hole large dimeter drilling programme was completed during the year to provide material for the development of a power station fuel specification
  - Amendments to the environmental impact assessment to include up to 600MW of power generation, a grid connection study and the preparation of applications for surface rights and water rights have also commenced
  - An infill drilling programme will be undertaken to provide information for a measured resource estimate and provide the basis for an updated mining study, mining reserve and mine schedule to support an initial 600MW power project
- The Company is currently the sole developer of this project, but is in discussions with international power developers who have expressed interest in participating in the Mmamabula West power project as a joint developer and equity partner



- The Mmamantswe coal project is only 20km from the border and is close to the regional power transmission grid and planned transmission expansions into South Africa
- The Mmamantswe project has secured environmental approvals for up to 10Mtpa of coal mining and up to 2,000MW of power generation
- The Mmamantswe project is thus very well placed to participate in the 3,750MW cross-border procurement programme announced by South Africa in April 2016
- African Energy has executed a binding Agreement to sell Mmamantswe to TM Consulting, a South African developer for USD $20M if the developer successfully negotiates a power purchase agreement with South Africa's Department of Energy, and the project reaches financial close
- Under this agreement, TM Consulting is responsible for sole funding all work required to prepare and submit a proposal to the South African IPP procurement programme, thereby relieving African Energy of any further financial commitments to this project



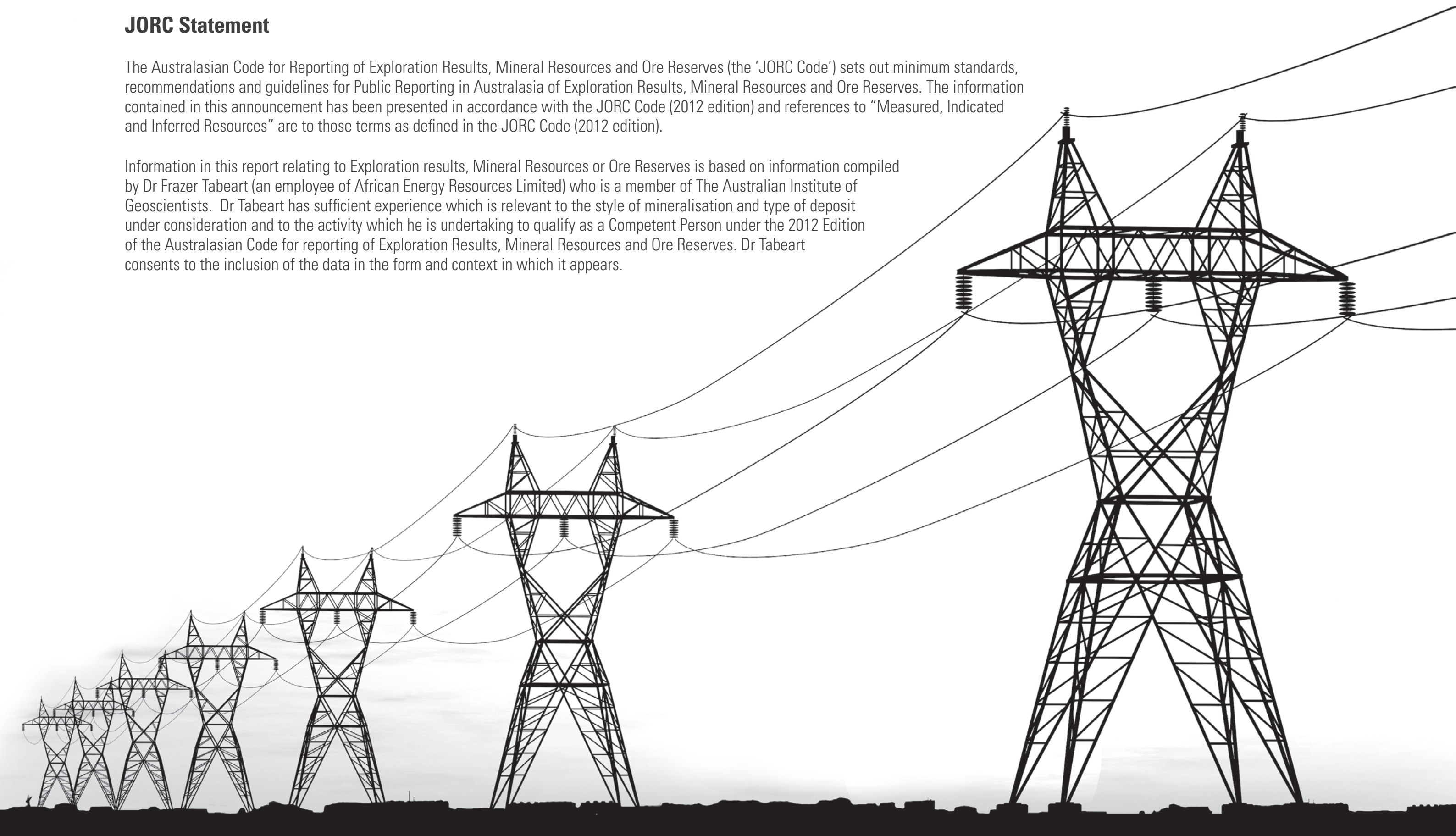
Tenement **Schedule**

Project Name	Tenement Name	Tenement Holder	Licence Number	African Energy Equity	Area (sq km)	Date Granted	Current Expiry Date
BOTSWANA							
SESE	*Sese*	*African Energy Resources Botswana (Pty) Ltd*	*PL 96/2005*	*45%*	*287*	*26-Jul-05*	*31-Dec-16*
SESE	*Sese West*	*African Energy Resources Botswana (Pty) Ltd*	*PL197/2007*	*45%*	*229*	*01-Oct-07*	*31-Dec-16*
SESE	*Foley North*	*African Energy Resources Botswana (Pty) Ltd*	*PL004/2013*	*45%*	*774*	*01-Jan-13*	*31-Mar-18*
MMAMANTSWE	*Mmamantswe*	*Mmamantswe Coal (Pty) Ltd*	*PL069/2007*	*100%*	*453*	*01-Jul-12*	*31-Dec-16*
MMAMABULA WEST	*Mmamabula West*	*Sese Power 2 (Pty) Ltd*	*PL56/2005*	*100%*	*293*	*01-July-05*	*31-Mar-17*
ZAMBIA							
Chirundu	*Chirundu ML*	*Chirundu Joint Ventures (Zambia) Ltd*	*12634-HQ-LML*	*100%*	*248*	*09-Oct-09*	*08-Oct-34*
Chirundu	*Chirundu PL*	*Chirundu Joint Ventures (Zambia) Ltd*	*13265-HQ-LPL*	*100%*	*230*	*17-Dec-09*	*Renewal Submitted*
Kariba Valley	*Chisebuka*	*Muchinga Energy Resources Ltd*	*19800-HQ-LPL*	*100%*	*251*	*23-Feb-15*	*22-Feb-17*
Sinazongwe	*Sinazongwe*	*Muchinga Energy Resources Ltd*	*20612-HQ-LPL*	*100%*	*38*	*12-Aug-15*	*11-Aug-17*
Sinazongwe	*Sinazongwe Central*	*Muchinga Energy Resources Ltd*	*16566-HQ-LPL*	*100%*	*5*	*04-Jul-12*	*Renewal Submitted*

JORC Statement

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 has been presented in accordance with the JORC Code (2012 edition) and 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 of African Energy Resources Limited) who is a member of The Australian Institute of Geoscientists. Dr Tabeart has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which 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.



Sese Project (AFR 45%, FQM 55%): 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 (AFR 45%, FQM 55%): 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 (AFR 100%): 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 (AFR 100%): 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***							

Mineral Resources & Ore Reserve Governance A summary of the governance and internal controls applicable to African Energy's Mineral Resources and Ore Reserves processes are as follows:

- Review and validation of drilling and sampling methodology and data spacing, geological logging, data collection and storage, sampling and analytical quality control;
- Geological interpretation – review of known and interpreted structure, lithology and weathering controls;
- Estimation methodology – relevant to mineralisation style and proposed mining methodology;
- Comparison of estimation results with previous mineral resource models, and with results using alternate modelling methodologies;
- Statistical and visual validation of block model against raw composite data; and
- Use of external Competent Persons to assist in the preparation of JORC Mineral Resources updates.

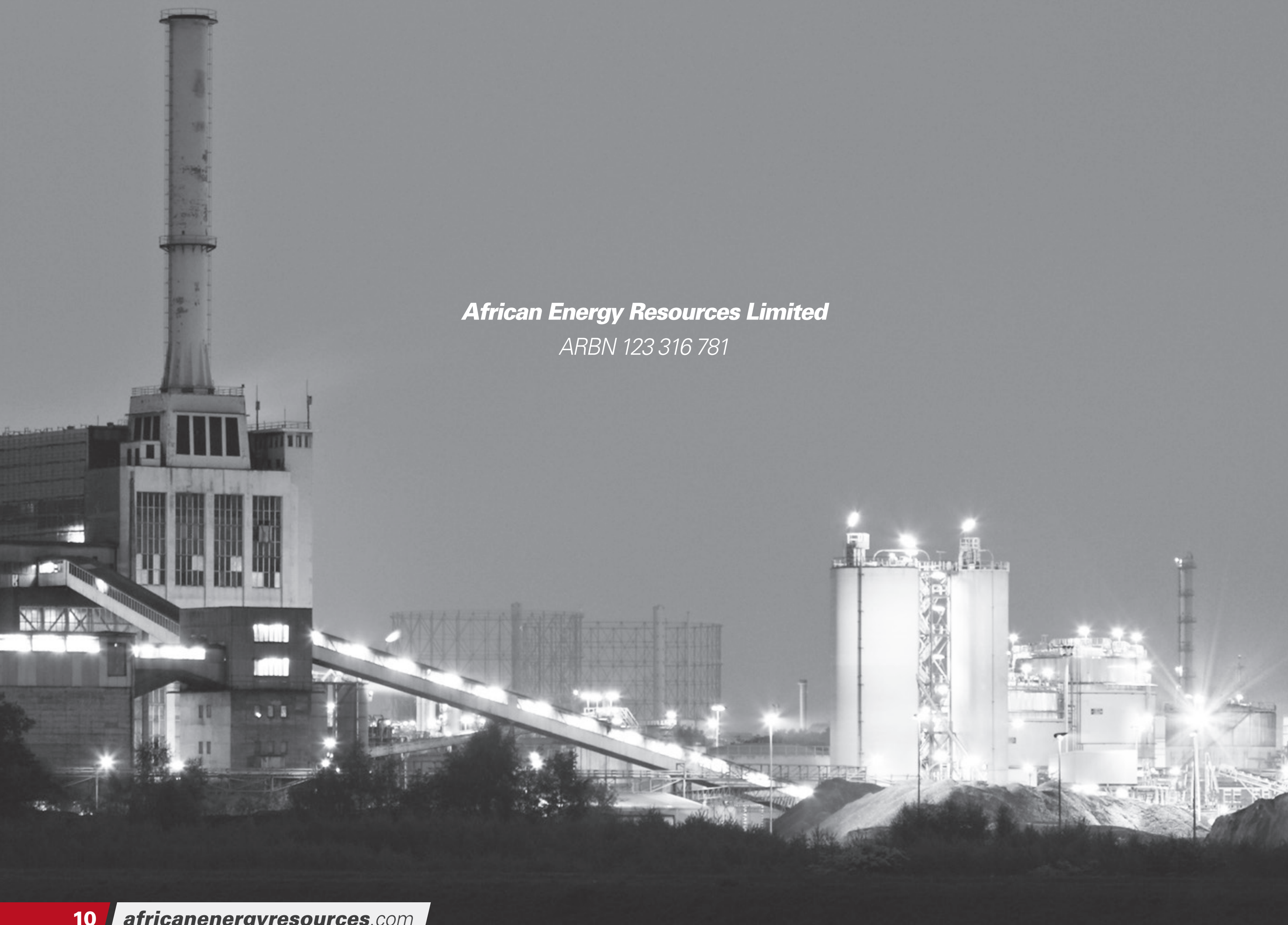
**In-Situ Tonnes have been derived by removing volumes for modeled intrusions, burnt coal and weathered coal and then applying appropriate geological loss factors to the remaining Gross In-Situ Tonnes.*
The Coal Resources quoted for the Sese, Mmamabula West and Mmamantswe Projects in the table above have been defined in accordance with the practices recommended by the Joint Ore Reserves Committee (2004 edition of the JORC Code), with the exception of Sese West which is reported as per the 2012 edition.
There have been no material changes to any of the resources since they were first announced.

Financial Report

30 June 2016

African Energy Resources Limited

ARBN 123 316 781



Your Directors present their report on the Consolidated Entity consisting of African Energy Resources Limited (Company) and its controlled entities for the financial year ended 30 June 2016.

1. Directors and Company Secretary

The Directors and the Company Secretary of the Company at any time during or since the end of the financial year are as follows.

Mr Alasdair Cooke BSc (Hons), MAIG – Executive Chairman
Mr Cooke has served as Chairman of the Board of the Company since its incorporation. Mr Cooke is a geologist with over 25 years' experience in the resource exploration industry throughout Australia and internationally. For the past 15 years Mr Cooke has been involved in mine development through various private and public resource companies, prior to which he held senior positions in BHP Billiton plc's international new business and reconnaissance group.

Mr Cooke is a founding director of Mitchell River Group, which over the past ten years has established a number of successful ASX listed resources companies, including Panoramic Resources Limited, operating the Savannah and Lanfranchi nickel projects in Australia; Albidon Limited, operating the Munali Nickel Mine in Zambia, Mirabela Nickel Limited, operating the Santa Rita nickel project in Brazil; Exco Resources Limited, developing copper and gold resources in Australia; and Energy Ventures Limited.

Other current directorships	*Special responsibilities*
EVE Investments	Executive Chairman
Anova Metals Limited	Member of the remuneration committee

Former directorships in the last three years	*Interests in shares and options*
none	50,003,682 shares
	933,333 performance rights

Dr Charles (Frazer) Tabeart PhD, BSc (Hons) ARSM, MAIG – Managing Director
Dr Tabeart is a graduate of the Royal School of Mines with a PhD and Honours in Mining Geology. He has over 25 years' experience in international exploration and mining projects, including 16 years with WMC Resources. Whilst at WMC, Dr Tabeart managed exploration portfolios in the Philippines, Mongolia and Africa, gaining considerable experience in a wide variety of commodities and operating with staff from diverse cultural backgrounds.

Dr Tabeart was appointed Managing Director of the Company in November 2007 after serving two years as General Manager. Under his stewardship the Company discovered and delineated the coal resource at the Sese Coal & Power Project and has since managed the strategic direction of company to focus upon the delivery of multiple coal-fired power stations, captive coal-mines and an export coal mine. He has overseen the acquisition of Mmamantswe and Mmamabula West Coal Projects that has grown the resource inventory of the Company to 8.7Bt of thermal coal.

Other current directorships	*Special responsibilities*
Segue Resources Limited	Managing Director

Former directorships in the last three years	*Interests in shares and options*
none	4,774,100 shares
	1,933,333 performance rights

Mr Gregory (Bill) Fry – Executive Director
Mr Fry has more than 25 years corporate experience in the mining and resources industry, specialising in accounting, management, business development and general corporate activities. He has vast experience in project evaluation and development, project funding, management, finance and operations.

Over the past 15 years, Mr Fry has been a Director of several private and public companies with activities ranging from funds management, minerals exploration, mining and quarrying. He has been an Executive Director of African Energy Resources since listing and is responsible for the Company's commercial and financial business programs.

Other current directorships	*Special responsibilities*
EVE Investments	Member of the Audit committee
Anova Metals Limited	

Former directorships in the last three years	Interests in shares and options
Norrland Resources Limited	5,869,610 shares
	1,266,667 performance rights

Mr Valentine Chitalu MPhil, BAcc, FCCA – Non-Executive Director
Mr Chitalu, a Zambian national and resident, is a Chartered Certified Accountant, Fellow of the Association of Chartered Certified Accountants (UK) and holds a practicing certificate from the Zambia Institute of Certified Accountants. He also holds a Masters Degree in Economics, Finance and Politics of Development and a Bachelor's Degree in Accounting and Finance.

Mr Chitalu has been a Non-Executive Director of African Energy Resources since listing and has assisted African Energy through his extensive business and Government contacts in the region.

Other current directorships	Special responsibilities
CDC Group	nil

Former directorships in the last three years	Interests in shares and options
nil	2,251,425 shares
	400,000 performance rights

Mr Philip Clark – Non-Executive Director BE (Mining), MBA, MAUSIMM, GAICD
Mr Clark brings a broad range of business skills to African Energy, with a particular focus on developing coal resources. He previously spent over 30 years working for BHP Billiton, culminating in five years as Vice President of Resource Development for BHP Billiton Energy Coal globally. He also held previous roles in coal mine management. Mr Clark is also the Chairman of Engineers Without Borders Australia Limited, a not-for-profit organisation which partners with developing communities, assisting them to gain access to the knowledge, resources and appropriate technologies to improve their livelihoods. During the past three years he has held no other public Directorships. Mr Clark is Chairman of the Company's Audit and Remuneration Committees.

Other current directorships	Special responsibilities
Engineers Without Borders Australia	Chairman of Audit & Risk Committee
Engineers Without Borders International	Chairman of Remuneration Committee
City West Water	

Former directorships in the last three years	Interests in shares and options
nil	2,485,392 shares
	200,000 performance rights

Mr Vincent Ian Masterton-Hume - Non-Executive Director
Mr Hume's career in the resources industry stretches back several decades, primarily in the fields of managed fund investments, capital raising and project development. He currently sits on the boards of Silver City Mines; TSX-listed Golden Minerals; and ASX-listed Iron Road. He is a former Director of ASX and TSX-listed Marengo Mining.

Mr Hume was a Founding Partner of The Sentient Group ("Sentient"), an independent private equity investment firm that specialises in the global resource industry. He remains an independent advisor to Sentient, following his retirement from the fund in 2008. Sentient manages in excess of US $2.3 billion in the development of metal, mineral and energy assets across the globe. Sentient's current investment portfolio includes projects in power generation, energy storage, potash, and base, precious and ferrous metals mining, covering countries as diverse as China, Brazil, Canada, Papua New Guinea, Finland, Australia, Kenya and Botswana.

Prior to the founding of Sentient, Mr Hume was a consultant to AMP's Private Capital Division, working on the development of a number of Chilean mining investment joint ventures, as well as advising on a number of specific investments across a range of commodities and locations.

Other current directorships	Special responsibilities
Silver City Mines Limited	Member of Remuneration Committee
Golden Minerals Limited	
Iron Road Limited	

Former directorships in the last three years	Interests in shares and options
Antofagasto Australia Limited	4,157,606 shares
Marengo Mining Limited	100,000 performance rights

Mr Wayne Trumble BBA (Hons) - Non-Executive Director
Mr Trumble is a senior executive with 35 years of specific industry expertise in electricity, investment and construction. For the twelve years to 2015, Mr Trumble was the Executive General Manager of Griffin Power Pty Ltd, reporting to the Board of the Griffin Group, where he led Griffin's move from fuel supplier to electricity generator. He was responsible for preparation of strategy and the development, execution and operation of Griffin's $1.2 billion Bluewaters coal fired project, providing 436 MW of base load power in Western Australia. Mr Trumble led the team responsible for all aspects of the project development and construction including all required environmental approvals, negotiations of turn-key EPC contract, off take contracts, grid interconnection and approval of project financing to a level of $1.0 billion.

Prior to working at Griffin, Mr Trumble was the Managing Director of TransAlta Energy where he was responsible for the commissioning and operation of the 105MW Parkeston Power Station at Kalgoorlie.

Other current directorships	***Special responsibilities***
Energy Made Clean	Member of Audit & Risk Committee
Former directorships in the last three years	***Interests in shares and options***
nil	327,273 shares 1,000,000 performance rights

Mr Yan Zhao - Alternate Director
Mr Zhao is an employee of Sentient Group where he has worked as part of the investment team since 2008. Prior to joining Sentient, Mr Zhao worked at Actis Capital in London, where he supported and worked on a wide range of investments with a special focus on natural resources. Prior to this, Yan was an Auditor in KPMG, involved in due diligence work on several Chinese companies listed in Hong Kong.

Mr Zhao holds a Master in Finance from London Business School and a BSc in Economics from University of International Business and Economics in China. Yan has the certificate of CGA-Canada, ACCA and CFA level III candidate.

Current directorships	***Special responsibilities***
nil	nil
Former directorships in the last three years	***Interests in shares and options***
nil	nil

Mr John Dean - Non-Executive Director
Mr Dean is an employee of First Quantum Minerals (FQM). Since joining FQM in 2011 he has fulfilled various roles within their mining operations including at FQM's Sentinel Copper Mine, its new flagship mine in Zambia. Prior to joining FQM, Mr Dean worked as an analyst in the energy and natural resource industries, possessing expertise in the valuation and commercial analysis of upstream oil and gas projects, as well as experience in electricity, natural gas, and crude oil markets.

Mr Dean graduated with honours from the University of Louisville in the United States with a Bachelor of Science in Business Administration, and was later awarded a Masters of Business Administration with distinction from the University of Oxford.

In addition to the Directorship, Mr Dean leads the team responsible for the development of power generation projects at the Sese Coal & Power Project under the joint venture with FQM.

Current directorships	***Special responsibilities***
nil	nil
Former directorships in the last three years	***Interests in shares and options***
nil	nil

Daniel Davis – Company Secretary
Mr Davis is a member of CPA Australia who graduated from the University of Western Australia in 2001 with a Bachelor of Commerce majoring in Accounting and Finance. Mr Davis has worked in the resources sector for the past ten years specialising in African based explorers and producers. Mr Davis has been Company Secretary since 2009.

1.1 Directors' Meetings

The number of Directors' meetings and number of meetings attended by each of the Directors of the Company during the financial year were:

Director	Board of Directors		Remuneration Committee		Audit & Risk Committee	
	Present	Held	Present	Held	Present	Held
Alasdair Cooke	3	3	-	-	-	-
Charles Tabeart	3	3	-	-	-	-
Gregory Fry	3	3	-	-	3	3
Valentine Chitalu	2	3	-	-	-	-
Philip Clark	3	3	-	-	3	3
Vincent Masterton-Hume	3	3	-	-	-	-
Wayne Trumble	3	3	-	-	3	3
John Dean	3	3	-	-	-	-

2. Review of Operations

First Quantum Minerals Ltd. (FQM) committed AUD $3 million over the next twelve months on work programs to advance the Sese Integrated Power Project. 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.

Sese JV focused on advancing the permitting of Sese Coal Mine and Power Project

- Norwegian engineering and design consultants, Norconsult, completed an evaluation of grid integration and transmission solutions for the Sese Power Project
- 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.
- A Land Lease agreement for the Sese Project was signed and is currently being registered with the Botswana Deeds Office. The land lease will provide surface rights over the project area for 50 years.
- 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
- 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; and
- 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 at the Mmamabula West project:

- Large diameter drilling programme to derive a power station fuel specification for each coal seam was completed.
- 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;
- Hydrogeological modelling for ESIA baseline studies continued;
- Preparation of submissions for surface rights and water allocation continued

Executed an agreement for the sale of Mmamantswe Coal and Power project to TM Consulting for US$20 million, subject to certain conditions being met. 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.

At the Annual General Meeting, shareholders passed a resolution for the Company to undertake an on-market share buyback. 11,805,052 shares were acquired for A$613,925 during the year at an average price of 5.2 cents.

3. Remuneration Report - Audited

This Remuneration Report outlines the remuneration arrangements which were in place during the year, and remain in place as at the date of this report, for the Directors and key management personnel ("KMP") of African Energy Resources Limited.

The information provided in this remuneration report has been Audited as required by section 308(3c) of the Corporations Act 2001.

3.1 Principles of Compensation

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation;
- transparency; and
- capital management.

Alignment to shareholders' interests:

- has economic profit as a core component of plan design;
- focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracts and retains high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience;
- reflects competitive reward for contribution to growth in shareholder wealth;
- provides a clear structure for earning rewards; and
- provides recognition for contribution.

The framework provides a mix of fixed and variable pay, and a blend of short and long-term incentives. As executives gain seniority with the Company, the balance of this mix shifts to a higher proportion of "at risk" rewards.

The following table shows key performance indicators for the group over the last five years:

	2016	2015	2014	2013	2012
Profit / (loss) for the year attributable to owners	(1,705,044)	(5,105,959)	(6,779,734)	(12,547,719)	(9,576,739)
Basic earnings / (loss) per share (cents)	(0.28)	(0.90)	(1.55)	(3.58)	(2.95)
Dividend payments	-	-	-	-	-
Dividend payment ratio (%)	-	-	-	-	-
Increase / (decrease) in share price (%)	(4%)	(4%)	3%	(61%)	(71%)
Total KMP incentives as percentage of profit / (loss) for the year (%)	-	-	-	-	-

3.2 Remuneration governance

The Remuneration Committee provides advice on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for Executive Directors, other senior executives and Non-Executive Directors. The Corporate Governance Statement provides further information on the role of the Board.

Mr Clark is the chairman of the remuneration committee.

3.3 Non-Executive Directors

Fees and payments to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-Executive Directors' fees and payments are reviewed annually by the Board.

The current base remuneration was last reviewed with effect from 1 April 2015 and was set at AU$45,000 per annum.

3.4 Executive Directors

The executive pay and reward framework has two components:

- base pay; and
- long-term incentive through issue of Performance Rights.

Base Pay

Base pay is structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the Remuneration Committee's discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay for executives is reviewed annually to ensure the executive's pay is competitive with the market. There is no guaranteed base pay increases included in any executives' contract.

Performance Rights

The Company has awarded Performance Rights to Directors to provide an opportunity to participate in the Company's future growth and provide an incentive to contribute to that growth. The Remuneration Committee has determined performance hurdles that will apply to each Performance Right issued.

Performance conditions are detailed in note 7.4(a).

Service Contracts

On appointment to the Board, Executive Directors enter into an executive service agreement with the Company. The agreement details the Board policies and terms, including compensation, relevant to the office of Director.

The Company currently has service contracts in place with the following three Board members. All contracts with Executive Directors are for a two year term but can be terminated by either party with three months' notice. Details of the service agreements are listed below.

Mr Alasdair Campbell Cooke - Executive Chairman, the Company

- Commencement date: 1 April 2015
- Base salary is AU$85,000
- Termination payment is the equivalent of three months consulting fees

Dr Charles Frazer Tabeart - Managing Director, the Company

- Commencement date: 1 April 2015
- Base salary is AU$320,000
- Termination payment is the equivalent of three months consulting fees

Mr Gregory William Fry - Executive Director, the Company

- Commencement date: 1 April 2015
- Base salary is AU$160,000
- Termination payment is the equivalent of three months consulting fees

No other key management personnel have service contracts in place with the Consolidated Entity.

3.5 Comments made at the Company's 2015 Annual General Meeting

The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

3.6 Directors and Executive Officers' Remuneration (Consolidated Entity)

Details of the remuneration of the Directors of the Consolidated Entity (as defined in AASB 124 Related Party Disclosures) of the Consolidated Entity are set out in the following tables.

The key management personnel of the Consolidated Entity are the Directors of African Energy Resources Limited.

The following tables set out remuneration paid to key management personnel of the Consolidated Entity during the year.

Key Management Personnel - 2016	Short term employee benefits	Post-employment benefits	Share based payments		Total
	Cash salary & fees	Superannuation	Shares	Performance Rights	
	US$	US$	US$	US$	US$
Non-Executive Directors					
Valentine Chitalu	32,771	-	-	5,025	37,796
Philip Clark	32,771	-	-	5,025	37,796
Vincent Masterton-Hume	32,771	-	-	5,025	37,796
Wayne Trumble	32,771	-	-	5,025	37,796
John Dean	32,771	-	-	-	32,771
Total Non-Executive Directors	163,855	-	-	20,100	183,955
Key Management Personnel					
Executive Directors					
Gregory Fry	116,520	-	-	16,750	133,270
Charles Tabeart	233,040	-	-	16,750	249,790
Alasdair Cooke	86,662	-	8,375	-	95,037
Total KMP	436,222	-	8,375	33,500	478,097
Total	600,077	-	8,375	53,600	662,052
Key Management Personnel – 2015					
Non-Executive Directors					
Valentine Chitalu	9,290	-	25,012	2,218	36,520
Philip Clark	9,290	-	25,012	4,654	38,956
Vincent Masterton-Hume	9,290	-	25,012	-	34,302
Wayne Trumble	29,933	-	10,620	-	40,553
John Dean	20,928		-	-	20,928
Total Non-Executive Directors	78,731	-	85,656	6,872	171,259
Key Management Personnel					
Executive Directors					
Gregory Fry	125,927	-	44,063	22,183	192,173
Charles Tabeart	258,047	-	45,021	22,183	325,251
Alasdair Cooke	80,098	-	59,549	-	139,647
Total KMP	464,072	-	148,633	44,366	657,071
Total	542,803	-	234,289	51,238	828,330

Performance rights that vested during the year were based on continued employment to a pre-determined date and were deemed to not be performance based.

The Group did not engage a remuneration consultant during the year.

3.7 Share-based compensation

The Company has awarded Performance Rights to directors for no consideration. Performance rights carry no dividend or voting rights. When exercisable, each right is convertible into one ordinary share.

On 1 July 2015, 1,066,666 shares were issued to directors upon vesting of performance rights issued in prior periods. The only tranche that vested during the year, vested upon continued service with the Company to 1 July 2015 and the value of these rights at grant date was A$0.175 per share. The balance of 5,833,333 remained unvested at 30 June 2016.

On 1 July 2015, 166,666 shares were awarded to Alasdair Cooke in lieu of cash salary.

KMP	Date Vested	Number of shares issued	Value of shares issued (US$)
Valentine Chitalu	1/07/15	100,000	6,900
Philip Clark	1/07/15	100,000	6,900
Vincent Masterton-Hume	1/07/15	100,000	6,900
Wayne Trumble	1/07/15	100,000	6,900
Charles Tabeart	1/07/15	333,333	23,000
Gregory Fry	1/07/15	333,333	23,000

3.8 Directors' and Executives Interests

A. Shares

	Balance at 30/06/2015	Purchases (Sales)	Issued upon vesting of rights	Issued in lieu of cash fee	Balance at 30/06/2016	Balance at Reporting Date
Non-executive Directors						
Valentine Chitalu	2,151,425	-	100,000	-	2,251,425	2,251,425
Philip Clark	2,385,392	-	100,000	-	2,485,392	2,485,392
Vincent Masterton-Hume	4,057,606	-	100,000	-	4,157,606	4,157,606
Wayne Trumble	227,273	-	100,000	-	327,273	327,273
John Dean	-	-	-	-	-	-
Executive Directors						-
Alasdair Cooke	49,837,016	-	-	166,666	50,003,682	50,003,682
Charles Tabeart	4,440,767	-	333,333	-	4,774,100	4,774,100
Gregory Fry	5,536,277	-	333,333	-	5,869,610	5,869,610
	68,635,756	-	1,066,666	166,666	69,869,088	69,869,088

B. Performance Rights

	Balance at 30/06/2015	Vested and converted to shares in year	Balance at 30/06/2016	Vested and exercisable	Unvested
Non-executive Directors					
Valentine Chitalu	500,000	(100,000)	400,000	-	400,000
Philip Clark	300,000	(100,000)	200,000	-	200,000
Vincent Masterton-Hume	200,000	(100,000)	100,000	-	100,000
Wayne Trumble	1,100,000	(100,000)	1,000,000	-	1,000,000
John Dean	-	-	-	-	-
Executive Directors					
Alasdair Cooke	933,333	-	933,333	-	933,333
Charles Tabeart	2,266,666	(333,333)	1,933,333	-	1,933,333
Gregory Fry	1,600,000	(333,333)	1,266,667	-	1,266,667
	6,899,999	(1,066,666)	5,833,333	-	5,833,333

C. Other related party transactions

The terms and conditions of the transactions with Directors, key executives and associates and their related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-Director related entities on an arm's length basis.

	Charges from		Charges to	
	2016 US$	2015 US$	2016 US$	2015 US$
Mitchell River Group Pty Ltd	190,066	319,370	-	-
Anova Metals Limited	2,383	-	5,823	-
EVE Investments Limited	-	-	34,771	-

At 30 June 2016 the company had a payable outstanding to Mitchell River Group of US$15,799 (30 June 2015: US$7,863).

This is the end of the Audited remuneration report.

4. **Principal Activities**
The principal activity of the Consolidated Entity during the course of the financial year consisted of evaluation and exploration of coal and energy projects in southern Africa.

5. **Results and Dividends**
The Consolidated Entity's loss after tax attributable to members of the Consolidated Entity for the financial year ended 30 June 2016 was US$1,705,044 (loss in 2015: US$ 5,105,959). No dividends have been paid or declared by the Company during the year ended 30 June 2016.

6. **Loss Per Share**
The basic loss per share for the Consolidated Entity for the year was 0.28 cents per share (2015: 0.90 cents).

7. **Events Subsequent to Reporting Date**
No matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations, results or state of affairs of the Group in future financial years which have not been disclosed publicly at the date of this report.

8. **Likely Developments and Expected Results**
The Group will continue to pursue activities within its corporate objectives. Further information about likely developments in the operations of the Group and the expected results of those operations in the future financial years has not been included in this report because disclosure would likely result in unreasonable prejudice to the Group.

9. **Significant Changes in the State of Affairs**
In the opinion of the Directors, other than stated under Review of Operations, and Events Subsequent to Reporting Date, there were no significant changes in the state of affairs of the Group that occurred during the financial year under review and subsequent to the year end.

10. **Environmental Regulations**
The Consolidated Entity's operations are not subject to any significant environmental regulations under the legislation of countries in which it operates. However, the Board believes there are adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply.

The Company is not subject to the reporting requirements of both the Energy Efficiency Opportunities Act 2006 and the National Greenhouse and Energy Reporting Act 2007.

11. **Indemnification and Insurance of Officers and Auditors**

11.1 Indemnification
An indemnity agreement has been entered into with each of the Directors and Company Secretary of the Company named earlier in this report. Under the agreement, the Company has agreed to indemnify those officers against any claim or for any expenses or costs which may arise as a result of work performed in their respective capacities to the extent permitted by law. There is no monetary limit to the extent of this indemnity.

11.2 Insurance
During the financial year, the Company has taken out an insurance policy in respect of Directors' and officers' liability and legal expenses' for Directors and officers.

12. **Corporate Structure**
African Energy Resources Limited is a Company limited by shares that is incorporated and domiciled in Guernsey. The Company is listed on the Australian Securities Exchange and Botswana Stock Exchange under code AFR.

13. **Non-Audit Services**
During the year, there were no non-Audit services provided by BDO Audit (WA) Pty Limited (2015: nil).

14. **Lead Auditor's Independence Declaration**
The lead Auditor's Independence Declaration is set out on page 16 and forms part of the Directors' report for the financial year ended 30 June 2016.

Charles Frazer Tabeart
Managing Director
Perth, 23 September 2016

Directors' Declaration

African Energy Resources Limited and its Controlled Entities

The Directors of the Company declare that:

1 The financial statements, comprising the consolidated statement of profit or loss and other comprehensive income , consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity and accompanying notes, are in accordance with the Corporations Act 2001; and

(a) comply with Accounting Standards and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) give a true and fair view of the financial position as at 30 June 2016 and of the performance for the year ended on that date of the Consolidated Entity.

2 In the Directors opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

3 The Consolidated Entity has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

4 The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Board of Directors and is signed on behalf of the Directors by:

Charles Frazer Tabeart
Managing Director
Perth, 23 September 2016

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INDEPENDENT AUDITOR'S REPORT

To the members of African Energy Resources Limited

Report on the Financial Report

We have audited the accompanying financial report of African Energy Resources Limited, which comprises the consolidated statement of financial position as at 30 June 2016, 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 year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Stat*ements, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, 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 report.

Opinion

In our opinion:

(a) the financial report of African Energy Resources Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 11 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of African Energy Resources Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO

Phillip Murdoch

Director

Perth, 23 September 2016

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

As lead auditor of African Energy Resources Limited for the year ended 30 June 2016, 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 audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

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, 23 September 2016

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2016

	Note	2016 US$	2015 US$
Revenue from continuing operations	3.2	122,178	70,495
Personnel expenses	3.3	(959,231)	(1,331,047)
Professional & administration expense	3.3	(537,385)	(764,563)
Exploration & evaluation expense		(45,168)	(168,057)
Share of Loss in Sese JV		(275,807)	(8,947)
Loss on acquisition of Sese JV		-	(2,399,886)
Borrowing costs		-	(131,637)
Foreign currency loss		(9,631)	(372,317)
Loss before tax		(1,705,044)	(5,105,959)
Income tax expense	3.4	-	-
Loss after income tax for the year		(1,705,044)	(5,105,959)
Attributable to:			
Equity holders of the Company		(1,705,044)	(5,105,959)
Loss for the year		(1,705,044)	(5,105,959)
Other comprehensive income			
items that may not be reclassified subsequently to profit or loss			
Foreign currency translation reserve		(262,066)	(1,023,649)
Total other comprehensive (loss) for the year		(262,066)	(1,023,649)
Total comprehensive loss attributable to the ordinary equity holders of the Company:			
Total comprehensive loss for the year		(1,967,110)	(6,129,608)
Loss per share for loss attributable to the ordinary equity holders of the Company:			
Basic loss per share (cents per share)	3.5	(0.28)	(0.90)
Diluted loss per share (cents per share)	3.5	(0.28)	(0.90)

The Consolidated Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the accompanying notes

Consolidated Statement of Financial Position

As at 30 June 2016

	Note	2016 US$	2015 US$
Assets			
Current assets			
Cash & cash equivalents	*4.1*	3,942,840	6,240,350
Trade & other receivables	*4.3*	129,360	271,203
Total current assets		4,072,200	6,511,553
Non-current assets			
Investment in Sese Joint Venture	*2.2*	8,515,246	8,791,053
Property, plant & equipment		1,940	2,413
Exploration & evaluation	*2.1*	6,610,155	6,179,689
Total non-current assets		15,127,341	14,973,155
Total assets		19,199,541	21,484,708
Liabilities			
Current liabilities			
Trade & other payables	*4.4*	197,305	179,417
Total current liabilities		197,305	179,417
Total liabilities		197,305	179,417
Net assets		19,002,236	21,305,291
Equity			
Contributed equity	*5.1*	63,109,911	63,545,081
Reserves		275,181	438,022
Accumulated losses		(44,382,856)	(42,677,812)
Total equity attributable to shareholders of the Company		19,002,236	21,305,291

The consolidated statement of financial position is to be read in conjunction with the accompanying notes

Consolidated Statement of Changes in Equity

For the year ended 30 June 2016

	Contributed equity US$	Accumulated losses US$	Foreign Currency Translation Reserve US$	Share-Based Payments Reserve US$	Total equity US$
At 30 June 2014	57,089,973	(37,571,853)	(3,863,085)	4,932,993	20,588,028
Net earnings for the year	-	(5,105,959)	-	-	(5,105,959)
Effect of translation of foreign operations to group presentation currency	-	-	(1,023,649)	-	(1,023,649)
Total comprehensive income for the year	-	(5,105,959)	(1,023,649)	-	(6,129,608)
Transactions with owners in their capacity as owners:					
Share issue net of issue costs	6,252,766	-	-	-	6,252,766
Options granted in settlement of capital raising costs	-	-	-	189,459	189,459
Equity settled share based payment transactions	202,342	-	-	202,304	404,646
	6,455,108	-	-	391,763	6,846,871
At 30 June 2015	63,545,081	(42,677,812)	(4,886,734)	5,324,756	21,305,291
Net earnings for the year	-	(1,705,044)	-	-	(1,705,044)
Effect of translation of foreign operations to group presentation currency	-	-	(262,066)	-	(262,066)
Total comprehensive income for the year	-	(1,705,044)	(262,066)	-	(1,967,110)
Transactions with owners in their capacity as owners:					
Share buyback	(443,887)	-	-	-	(443,887)
Equity settled share based payment transactions	8,717	-	-	99,225	107,942
	(435,170)	-	-	99,225	(335,945)
At 30 June 2016	63,109,911	(44,382,856)	(5,148,800)	5,423,981	19,002,236

The consolidated statements of changes in equity are to be read in conjunction with the accompanying notes

Consolidated Statement of Cash Flows

For the year ended 30 June 2016

	Note	2016 US$	2015 US$
Cash flows from operating activities			
Interest received		150,444	7,800
Payment to suppliers and employees		(1,471,544)	(2,274,573)
Net cash (outflow) from operating activities	4.2	(1,321,100)	(2,266,773)
Cash flows from investing activities			
Proceeds from dilution of Sese JV		-	6,570,480
Acquisition of New Projects		-	(1,500,000)
Payment for exploration and evaluation		(278,615)	(500,276)
Net cash inflow/(outflow) from investing activities		(278,615)	4,570,204
Cash flows from financing activities			
Proceeds from the issue of share capital		-	6,638,672
Buyback of shares		(443,887)	-
Payments for share issuance costs		-	(228,392)
Repayment of Borrowings		-	(5,000,000)
Interest & legal fees on loan facility		-	(131,637)
Net cash inflow/(outflow) from financing activities		(443,887)	1,278,643
Net (decrease) / increase in cash and cash equivalents		(2,043,602)	3,582,074
Cash and cash equivalents at the beginning of the year	4.1	6,240,350	3,318,725
Effect of exchange rate fluctuations on cash held		(253,908)	(660,449)
Cash and cash equivalents at the end of the year	4.1	3,942,840	6,240,350

The consolidated statements of cash flows are to be read in conjunction with the accompanying notes

1. Basis of Preparation

1.1 Statement of Compliance

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australian Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The financial report of the Consolidated Entity also complies with IFRSs and interpretations as issued by the International Accounting Standards Board. African Energy Resources Limited is a for-profit entity for the purposes of preparing financial statements.

The financial report was authorised for issue by the Directors on 23 September 2016.

1.2 Basis of measurement

The financial report is prepared under the historical cost convention.

1.3 Functional and presentation currency

These consolidated financial statements are presented in US dollars ('US$').

The functional currency of the Company and each of the operating subsidiaries is US$ which represents the currency of the primary economic environment in which the Company and each of the operating subsidiaries operates.

Subsidiaries denominated in Australian dollars ('AU$') are translated at the closing rate on reporting date. Profit and loss items are translated on the prevailing rate on the date of transaction.

1.4 Going concern

The financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

1.5 Reporting entity

African Energy Resources Limited (referred to as the 'Parent Entity' or the 'Company') is a company domiciled in Guernsey. The consolidated financial statements of the Company as at and for the year ended 30 June 2016 comprise the Company and its subsidiaries (together referred to as the 'Consolidated Entity' or the 'Group'). The Group is primarily involved in power and coal development in southern Africa.

1.6 Use of estimates and judgments

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the Consolidated Entity.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 2.1 – Exploration & evaluation expenditure - If, after having capitalised expenditure under this policy, the Directors conclude that the Group is unlikely to recover the expenditure by future exploration or sale, then the relevant capitalised amount will be written off to the Statement of Profit or Loss and other Comprehensive Income.
- Note 2.2 – Investments in Associates – The fair value on initial recognition of the retained interest in the group's investment in the Sese project is determined using valuation techniques. The group uses its judgement to select a variety of methods and makes assumptions on inputs that are based upon both observable and unobservable market inputs to determine an estimate on the fair value. Material changes in assumptions may give rise to material differences in the valuation of this retained interest.
- Note 7.4 – Share-based payments arrangements - The Group measures the cost of equity settled share based payments at fair value at the grant date using the Black-Scholes model taking into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, the expected volatility of the underlying share, the expected dividend yield and risk free interest rate for the term of the option.

2. Capital Expenditure

2.1 Exploration and evaluation expenditure

Exploration and evaluation activity involves the search for energy resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

a) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
b) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or other wise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

(a) Exploration and Evaluation Carrying Values

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability and facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest. Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from intangible assets to mineral property and development assets within property, plant and equipment.

The recoverability of the carrying amounts of exploration and evaluation assets is dependent on the successful development and commercial exploitation or sale of the respective area of interest.

	2016 US$	2015 US$
Mmamabula West Coal Project	3,214,851	2,849,466
Mmamantswe Coal Project	3,395,304	3,330,223
Carrying amount of exploration and evaluation	6,610,155	6,179,689

(b) Exploration and Evaluation movement reconciliation

Balance at the beginning of the year	6,179,689	22,780,733
Additions	437,020	278,141
New Acquisitions	-	1,500,000
Disposal due to deconsolidation of former subsidiary	-	(18,005,951)
Effect of movements in foreign exchange	(6,554)	(373,234)
Carrying amount at 30 June	6,610,155	6,179,689

2.2 Investments in Associates

Associates are entities over which the Group has significant influence but not control or joint control. Associates are accounted for in the parent entity financial statements at cost and the consolidated financial statements using the equity method of accounting. Under the equity method of accounting, the group's share of post-acquisition profits or losses of associates is recognised in consolidated profit or loss and the group's share of post-acquisition other comprehensive income of associates is recognised in consolidated other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends received from associates are recognised in the parent entity's profit or loss, while they reduce the carrying amount of the investment in the consolidated financial statements.

Subsidiaries are all entities over which the group has control. Control is determined with reference to whether the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those return through its power to direct the activities of the entity. Where the group loses control of a subsidiary but retains significant influence, the retained interest is re-measured to fair value at the date that control is lost and the difference between fair value and the carrying amount is recognised in profit or loss. There is judgement involved in determining whether control has been lost and determining the fair value of the investment held.

(a) Movements in carrying amounts

	2016 US$	2015 US$
Balance at the beginning of the year	8,791,053	-
Addition of Investment in Sese joint venture	-	8,800,000
Share of Losses after income tax	(275,807)	(8,947)
Carrying amount at 30 June	8,515,246	8,791,053

(b) Share of the results of its associates

The groups share of the results of its associates and its aggregated assets and liabilities are as follows.

	Ownership Interest %	Company's share of:			
		Assets US$	Liabilities US$	Revenues US$	Loss US$
African Energy Holdings SRL	47%	6,353,317	830,371	-	275,807

In January 2016, First Quantum Minerals notified the Company that it had incurred AUD$1,000,000 on development of the Sese Project and applied for new shares in the African Energy Holdings SRL taking it's beneficial ownership to 53%.

(c) Summarised financial information of associate - African Energy Holdings SRL

Summarised statement of financial position	2016 US$	2015 US$
Current Assets		
Cash and cash equivalents	61,203	66,998
Trade and other receivables	422,159	330,186
Total current assets	483,362	397,184
Non-current Assets		
Exploration & evaluation	12,860,916	12,646,418
Property, plant & equipment	173,418	7,328
Total non-current assets	13,034,334	12,653,746
Total assets	13,517,696	13,050,930
Current Liabilities		
Trade and other payables	1,766,747	1,110,398
Total current liabilities	1,766,747	1,110,398
Total liabilities	1,766,747	1,110,398
Net assets	11,750,949	11,940,532

Summarised statement of comprehensive income	2016 US$	2015 US$
Revenue	-	-
Total Operating Expense	(586,823)	(18,261)
Loss from operating activities	(586,823)	(18,261)
Other comprehensive income	-	-
Total comprehensive income	(586,823)	(18,261)

(d) Recognised fair value measurements

The Company has classified its financial assets and liabilities into the three levels prescribed under the accounting standards.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

On 17 October 2014, the Company signed an agreement with First Quantum Minerals, to develop power generation capacity at Sese (the "Project"). First Quantum Minerals acquired an initial 51% interest in the Project for consideration of AU$8,000,000. First Quantum Minerals is required to invest a further AU$12,000,000 by 15 July 2017, which will see First Quantum Minerals increase its interest in the Project to 75%.

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 Company has elected to value its 25% interest in Project (the "Investment") at fair value upon initial acquisition date of 23 January 2015.

The Company has assessed that the Investment is Level 3 as the significant inputs are not based on observable market data.

At 23 January 2015	**Level 1 US$**	**Level 2 US$**	**Level 3 US$**	**Total US$**
Investments in Associates				
Investment in Sese Project	-	-	8,800,000	8,800,000

3. Financial Performance

3.1 Segment information

AASB 8 Operating Segments requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker.

(a) Description of Segments

The Company's Board receives financial information across two reportable segments. These are development of power generation assets in Africa and Other.

(b) Segment Information

For the year ended 30 June 2016	Power Development	All other segments	Consolidated
	US$	US$	US$
Total segment revenue	-	122,178	122,178
Profit (loss) before income tax	(320,975)	(1,384,069)	(1,705,044)
Segment Assets			
Investment in Sese JV	8,515,246	-	8,515,246
Exploration and evaluation expenditure	6,610,155	-	6,610,155
Property, plant and equipment	-	1,940	1,940
Cash and short term receivable	-	4,072,200	4,072,200
Total Segment Assets	**15,125,401**	**4,074,140**	**19,199,541**
Segment Liabilities			
Trade & other payables	-	197,305	197,305
Total Segment Liabilities	**-**	**197,305**	**197,305**
For the year ended 30 June 2015			
Total segment revenue	-	70,495	70,495
Profit (loss) before income tax	(8,947)	(5,097,012)	(5,105,959)
Segment Assets			
Investment in Sese JV	8,791,053	-	8,791,053
Exploration and evaluation expenditure	6,179,689	-	6,179,689
Property, plant and equipment	-	2,413	2,413
Cash and short term receivable	-	6,511,553	6,511,553
Total Segment Assets	**14,970,742**	**6,513,966**	**21,484,708**
Segment Liabilities			
Trade & other payables	-	179,417	179,417
Total Segment Liabilities	**-**	**179,417**	**179,417**

3.2 Revenue

(a) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

(b) Net financial income

Net financial income comprises interest payable on borrowings calculated using the effective interest method, interest receivable on funds invested, dividend income and foreign exchange gains and losses.

Interest income is recognised in the profit or loss as it accrues, using the effective interest method. Management fees are recognised in the profit or loss as the right to a fee accrues, in accordance with contractual rights.

	2016	2015
	US$	US$
Interest received	122,178	70,495
	122,178	70,495

3.3 Expenses

Personnel expenses	2016 US$	2015 US$
Employee salaries	225,295	321,563
Superannuation	17,767	15,217
Directors fees	595,073	542,803
Share Based Payments	107,942	436,593
Payroll tax	13,154	14,871
	959,231	1,331,047

Professional & administration expense	2016 US$	2015 US$
Audit Tax and Accounting	75,338	118,113
Compliance & Insurance	115,358	148,230
Occupancy	77,038	114,199
Travel	106,642	110,064
Marketing	57,195	84,580
Legal fees	71,915	93,432
Depreciation and Impairment of PP&E	1,441	11,130
Other	32,458	84,815
	537,385	764,563

3.4 Income Taxes

(a) Income tax expense:

	2016 US$	2015 US$
Current tax	-	-
Deferred tax	-	-
Overprovision in respect to prior years	-	-
	-	-

(b) Reconciliation of income tax expense to prima facie tax payable:

	2016 US$	2015 US$
Loss before income tax	(1,705,044)	(5,105,959)
Prima facie income tax at 30%	(511,513)	(1,531,788)
Tax effect of amounts not deductible in calculating taxable income:		
Sundry items	510	810
Other	64,310	162,441
	(446,693)	(1,368,537)
Difference in overseas tax rates	3,359	125,864
Tax loss not recognised	443,334	1,242,673
Income tax expense/(benefit)	-	-

(c) Tax losses:

	2016 US$	2015 US$
Unused tax losses for which no deferred tax asset has been recognised	(1,188,822)	(1,835,713)
Potential tax benefit @ 30%	(356,647)	(550,714)
Difference in overseas tax rates 10%	3,359	125,864
Potential tax benefit	(353,288)	(424,850)

(d) Unrecognised deferred tax assets arising on timing differences and losses

	2016 US$	2015 US$
Timing	97,002	16,443
Losses - Revenue	3,953,604	3,600,317
	4,050,606	(424,850)

The tax benefits of the above deferred tax assets will only be obtained if:

i. The Consolidated Entity derives future assessable income of a nature and of an amount sufficient to enable the benefits to be utilised;
ii. The Consolidated Entity continues to comply with the conditions for deductibility imposed by law;
iii. No changes in income tax legislation adversely affect the Consolidated Entity from utilising the benefits.

Income tax on the Statement of Profit or Loss and other Comprehensive Income for the periods presented comprises current and deferred tax. Income tax is recognised in the Statement of Profit or Loss and other Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised, or to the extent that the Group has deferred tax liabilities with the same taxation authority. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

3.5 Earnings per share

(e) Basic loss per share

The calculation of basic loss per share at 30 June 2016 was based on the losses attributable to ordinary shareholders of US$1,705,044 (2015: US$5,105,959 and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2016 of 612,535,581 (2015: 564,547,964) calculated as follows:

	2016 US$	2015 US$
Loss attributable to ordinary shareholders	(1,705,044)	(5,105,959)
Issued number of ordinary shares at 1 July	616,618,702	474,235,222
Effect of weighted average number of shares issued during the period	(4,083,121)	90,312,742
Weighted average number of shares for year to 30 June	612,535,581	564,547,964
Basic (loss) per share (cents per share)	(0.28)	(0.90)

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by weighted average number of ordinary shares outstanding during the financial year, adjusted for the bonus elements in ordinary shares issued during the year.

(f) Diluted loss per share

Potential ordinary shares are not considered dilutive, thus diluted loss per share is the same as basic loss per share.

4. Working Capital Management

4.1 Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances, short term bills and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Consolidated Entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

	2016 US$	2015 US$
Cash at bank and in hand	603,832	543,376
Short-term deposits	3,339,008	5,696,974
	3,942,840	6,240,350

Refer to note 5.2 for risk exposure analysis.

4.2 Reconciliation of loss after income tax to net cash inflow from operating activities

Cash flows from operating activities	2016 US$	2015 US$
(Loss) for the year	(1,705,044)	(5,105,959)
Adjustments for:		
Accrued interest (received)	28,266	(62,695)
Equity-settled share-based payment expenses	107,942	436,593
Depreciation and amortisation expense	1,441	11,130
Exploration & evaluation expensed	45,168	168,057
Fair valuation of Sese	-	2,399,886
Borrowing costs classified as financing	-	131,637
Foreign exchange losses	210,729	15,153
Change in operating assets & liabilities		
(Increase)/decrease in trade and other receivables	(6,974)	(26,881)
(Decrease)/increase in trade and other payables	(2,629)	(233,694)
Net cash used in operating activities	(1,321,100)	(2,266,773)

4.3 Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

	2016 US$	2015 US$
Trade debtors	32,962	2,823
Interest receivable	34,429	62,695
GST and VAT receivable	61,969	205,685
	129,360	271,203

Trade and other receivables are recorded at amounts due less any allowance for doubtful debts.

4.4 Trade and other payables

Trade and other payables are recognised when the related goods or services are received, at the amount of cash or cash equivalent that will be required to discharge the obligation, gross of any settlement discount offered. Trade payables are non-interest bearing and are settled on normal terms and conditions.

	2016 US$	2015 US$
Trade creditors	75,822	59,408
Accrued expenses	66,085	48,867
Payroll liabilities	55,398	71,142
	197,305	179,417

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Consolidated Entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

4.5 Impairment

The Group assesses at each reporting date whether there is objective evidence financial asset or group of financial assets is impaired. No impairment was recorded for the year.

5. Funding and Risk Management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in the proportion to the number and amount paid on the shares held. Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, for example as a result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

5.1 Contributed equity

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 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		616,618,702		63,545,081
Conversion of performance rights	01 Jul 2015	1,166,666	-	-
Shares in lieu of salary	01 Jul 2015	166,667	5.2	8,717
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)
January share buyback	31 Jan 2016	(3,158,479)	3.7	(116,293)
Conversion of performance rights	02 Feb 2016	500,000	-	-
Balance 30 June 2016		606,646,983		63,109,911

5.2 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed.

Risk management is carried out by the Audit & Risk Committee under a charter approved by the Board of Directors. The Audit & Risk Committee identifies, evaluates and hedges foreign currency risks by holding cash in the currency that it is budgeted to be spent in.

(a) Market risk

i. Foreign currency risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investments in foreign operations. Some exposure to foreign exchange risk exists in respect to the Australian subsidiaries which provides administrative and technical support to the Group and have transactions denominated in Australian Dollars. The risk is measured using sensitivity analysis and cash flow forecasting.

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in US$, was:

	2016 US$	2015 US$
Cash held in US Dollars (US$)	428,934	4,122
Cash held in South African Rand (ZAR)	21,214	38,213
Cash held in Botswana Pula (BWP)	19,168	5,144
Trade and other receivables (BWP)	41,954	187,020
Trade and other payables (BWP)	(51,250)	-

ii. Price risk

The Group does not hold investments and therefore is not exposed to equity securities price risk.

iii. Interest rate risk

The Group has significant interest-bearing assets; however a change in interest rates would not have a material impact on the results.

		Interest rate risk				Foreign exchange risk			
		- 100 bps		+ 100 bps		-10%		+10%	
	Carrying amount	Profit US$	Equity US$	Profit US$	Equity US$	Profit US$	Equity US$	Profit US$	Equity US$
30 June 2016									
Financial assets									
Cash and cash equivalents	3,942,840	39,428	(39,428)	(39,428)	39,428	(42,893)	42,893	42,893	(42,893)
Trade and other receivables	129,360	-	-	-	-	(12,936)	12,936	12,936	(12,936)
Financial liabilities									
Trade and other payables	197,305	-	-	-	-	5,125	(5,125)	(5,125)	5,125

Interest rate volatility was chosen to reflect expected short term fluctuations in market interest rates.

- Foreign exchange volatility was chosen to reflect expected short term fluctuations in the Australian Dollar.

iv. Credit risk

The carrying amount of cash and cash equivalents, trade and other receivables (excluding prepayments), represent the Group's maximum exposure to credit risk in relation to financial assets. Cash and short term liquid investment are placed with reputable banks, so no significant credit risk is expected. The Group does not have any material exposure to any single debtor or group of debtors, so no significant credit risk is expected. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit rates:

	2016 US$	2015 US$
Cash at bank & short term bank deposits		
A-1+	3,912,157	6,213,491
FNB Botswana (not rated)	19,167	5,349
Standard Bank South Africa (not rated)	6,450	4,022
Stanbic Bank (Zambia) (not rated)	2,908	12,856
Cash on hand	2,158	4,632
	3,942,840	6,240,350

(b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Due to the dynamic nature of the underlying businesses, management aims at maintaining flexibility in funding by keeping committed credit lines available with a variety of counterparties. Surplus funds are only invested in instruments that are tradeable in highly liquid markets.

The tables below analyse the Group's financial liabilities into relevant maturity groupings. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

	Less than 6 months	6 - 12 months	Total contractual cash flows
2016			
Trade Payables	197,305	-	197,305
	197,305	-	197,305
2015			
Trade Payables	179,417	-	179,417
	179,417	-	179,417

(c) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

6. Group Structure

6.1 Basis of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

(b) Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

(c) Comparatives

Prior period comparatives are for the year from 1 July 2014 to 30 June 2015.

6.2 Foreign currency

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to United States dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Statement of Profit or Loss and other Comprehensive Income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to US$ at foreign exchange rates ruling at the dates the fair value was determined.

(b) **Financial statements of foreign operations**

The assets and liabilities of Australian subsidiaries, including goodwill and fair value adjustments arising on consolidation, are translated to US dollars at foreign exchange rates ruling at the reporting date. The revenues and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to US dollars at rates approximating to the foreign exchange rates ruling at the dates of the transactions.

Foreign exchange differences arising on translation are recognised directly in the foreign currency translation reserve ("FCTR"), as a separate component of equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss, as part of the gain or loss on sale where applicable.

(c) **Net investment in foreign operations**

Exchange differences arising from the translation of the net investment in foreign operations, and of related effective hedges are taken to translation reserve and released into profit or loss upon disposal.

6.3 Parent Entity Disclosures

The parent entity within the Group is African Energy Resources Limited.

	2016 US$	2015 US$
Current Assets	7,218,400	9,254,578
Non-Current Assets	11,783,840	12,059,647
Total Assets	19,002,240	21,314,225
Current Liabilities	-	8,929
Total Liabilities	-	8,929
Contributed equity	63,109,911	63,545,081
Reserves	5,423,981	5,324,756
Accumulated losses	(49,531,652)	(47,564,549)
Total Equity	19,002,240	21,305,288
Gain (loss) for the year	(1,967,111)	(6,129,606)
Other comprehensive income / (loss) for the year	-	-
Total comprehensive income / (loss) for the year	(1,967,111)	(6,129,606)

There were no commitments, contingent liabilities or contingent assets at the parent level at 30 June 2016.

6.4 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following principal subsidiaries in accordance with the accounting policy described in note 6.1(a).

	Country of incorporation	Ownership interest 2016	Ownership interest 2015
Botswana Energy Solutions Limited	British Virgin Is.	100%	100%
Mmamantswe Coal (Pty) Ltd	Botswana	100%	100%
African Energy Holdings SRL 2	Barbados	100%	100%
Phokoje Power (Pty) Ltd	Botswana	100%	100%
AFR Australia Pty Ltd	Australia	100%	100%
A E Resources Pty Ltd	Australia	100%	100%
African Energy Resources Ltd	Zambia	100%	100%
Chirundu Joint Ventures Zambia Ltd	Zambia	100%	100%
Muchinga Energy Resources Ltd	Zambia	100%	100%

There were no acquisitions or disposals of subsidiaries during the year.

7. Related parties

7.1 Key Management Personnel

US$662,052 (2015: US$828,330) was paid to Directors of the Company during the year. Of this amount US$600,077 (2015: US$542,803) was paid in cash with the balance paid in equity instruments. Disclosures relating to key management personnel are set out in the Remuneration Report.

7.2 Other related party transactions

The terms and conditions of the transactions with Directors, key executives and associates and their related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-Director related entities on an arm's length basis.

	Charges from		Charges to	
	2016 US$	**2015 US$**	**2016 US$**	**2015 US$**
Mitchell River Group Pty Ltd	190,066	319,370	-	-
Anova Metals Limited	2,383	-	5,823	-
EVE Investments Limited	-	-	34,771	-

7.3 Assets and liabilities at 30 June arising from transactions with related parties

	2016 US$	**2015 US$**
Trade and other receivables	26,377	-
Trade and other payables	15,799	7,863

7.4 Share based payments

(a) Performance Rights

The Company has granted performance rights to Directors and employees are as follows: Fair Value of performance rights is equal to the market price on the date of issue

Issue Date	Expiry Date	Vesting hurdle*	Unvested at 30 June 2015	Vested in Year	Issued in Year	Unvested at 30 June 2016	Fair value at reporting date (US$)
01-Oct-12	30-Sep-17	BFS	100,000	-	-	100,000	17,500
01-Oct-12	30-Sep-17	COAL	1,166,666	-	-	1,166,666	-
01-Oct-12	30-Sep-17	GEO	300,000	-	-	300,000	52,500
01-Oct-12	30-Sep-17	PPA	1,166,667	-	-	1,166,667	204,167
01-Oct-12	30-Sep-17	T3	799,999	799,999	-	-	-
24-Oct-13	23-Oct-18	PPA	833,333	-	-	833,333	83,333
24-Oct-13	23-Oct-18	PQ	833,333	-	-	833,333	83,333
28-Nov-14 (i)	27-Nov-19	FC	4,500,000	-	-	4,500,000	261,000
28-Nov-14 (i)	27-Nov-19	PPA	666,667	-	-	666,667	38,667
28-Nov-14 (i)	27-Nov-19	PPAZ	300,000	-	-	300,000	17,400
28-Nov-14 (i)	27-Nov-19	T3	366,667	-	-	366,667	21,267
31-Mar-15 (ii)	30-Mar-20	MMA	500,000	-	-	500,000	32,500
31-Mar-15 (iii)	30-Mar-20	MMA2	500,000	-	-	500,000	32,500
04-May-15 (iii)	03-May-20	T4	400,000	-	-	400,000	29,200
			12,433,332	799,999	-	11,633,333	873,367

(i) The share price at 28-Nov-2015 was AU$0.055
(ii) The share price at 31-Mar-2016 was AU$0.065
(iii) The share price at 4-May-2016 was AU$0.073

*Vesting hurdles

T3	continued service until 1 July 2016
T4	continued service until 1 July 2016
PPA	Formal execution of a 300MW Sese PPA or when FQM have made a formal financial commitment to a 300MW power station at Sese
PPAZ	Formal execution of a PPA between the Sese JV company and ZESCO for the full output of a 300MW IPP at Sese
COAL	Cumulative export coal sales from any AFR coal project exceeding 100,000t
PQ	Formal pre-qualification of the joint bid for the 300MW tender, or the commencement of direct negotiations with the Government of Botswana for a 300MW project, or when FQM have made a formal financial commitment to a 300MW power station at Sese
BFS	successful completion of a bankable feasibility study on Sese Coal Project or when FQM have made a formal financial commitment to a 300MW power station at Sese
GEO	100% upon sign off of Mining Reserve or when FQM have made a formal financial commitment to a 300MW power station at Sese
FC	Financial close of a 300MW power station whereby all conditions are satisfied by all parties and all agreements are executed, or when FQM have made a formal financial commitment to a 300MW power station at Sese
MMA	signing of a binding share sale agreement (SSA) or a binding joint development agreement (JDA)
MMA2	unconditional completion of binding SSA or successful award of SA IPP tender to Mmamantswe

(b) Options

The Company has granted 13,800,000 options

Granted to	Grant Date	Options Granted	Options Vested	Consideration	Exercise Price (AUD cents)	Expiry Date
First Quantum Minerals	27/11/14	13,800,000	13,800,000	-	10	27/11/17

(c) Shares

The Company issued 1,833,333 shares (2015: 5,058,570) to Directors and employees during the year as follows.

Shares issued to Directors and Staff	Date	Shares
Conversion of performance rights	1/07/2015	1,166,666
Shares in lieu of salary	1/07/2015	166,667
Conversion of performance rights	2/02/2016	500,000
Issued in year ended 30 June 2016		1,833,333
In lieu of cash salary	01 Oct 2014	1,208,064
Conversion of performance rights	01 Oct 2014	100,000
In lieu of cash salary	27 Nov 2014	1,277,779
Issued upon vesting of performance rights	27 Nov 2014	200,000
In lieu of cash salary	20 Feb 2015	272,727
In lieu of cash salary	02 Apr 2015	2,000,000
Issued in year ended 30 June 2015		5,058,570

Performance rights are valued at face value of the share on the date of issue and expensed of the expected life of the right and taking into account the likelihood of hurdle being met.

(d) Expenses arising from share-based payment transactions	**2016 US$**	**2015 US$**
Performance rights issued under AFR Performance Rights Plan	99,225	202,305
Shares issued under AFR Employee Share Plan	8,717	234,288
Total to directors and staff	107,942	436,593
Options granted in settlement of capital raising costs	-	189,459
Total to financiers and investors	-	189,459

8. Other

8.1 Events occurring after the reporting period

No matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations, results or state of affairs of the Group in future financial years which have not been disclosed publicly at the date of this report.

8.2 Contingencies and Commitments

There were no contingent assets or liabilities in the Group at 30 June 2016. There were no commitments at 30 June 2016.

8.3 Remuneration of Auditors

	2016 US$	2015 US$
BDO Audit (WA) Pty Ltd: Audit and review of financial reports	28,072	36,903
	28,072	36,903

8.4 New standards and interpretations not yet adopted

Australian Accounting Standards and Interpretations that have been recently issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2016.
AASB 9 Financial Instruments, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. AASB 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 9.

AASB 15 Revenue from Contracts with Customers establishes a comprehensive framework for determining whether, how much, and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction contracts, and IFRIC 13 Customer Loyalty Programmes. AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 15.

AASB 16 Leases removes the classification of leases as either operating or finance leases – for the lessee – effectively treating all leases as finance leases. Short term leases (less than 12 months) and leases of low value assets are exempt from the lease accounting requirements. Furthermore, there are changes in accounting over the life of the lease as a front-loaded pattern of expense will be recognised for most leases, even when a constant annual rental is paid. Lessor accounting remains similar to current practice. African Energy Resources has not yet determined the extent of the impact of this standard.

Incorporation and General Information

African Energy Resources Limited was incorporated in Guernsey and is subject to Guernsey law.

In Australia, the Company is registered as a foreign company under the Australian Corporations Act (ARBN 123 316 781). It is not subject to Chapter 6 of the Australian Corporations Act dealing with the acquisition of shares (including substantial shareholdings and takeovers). However, the Company has inserted into its Articles of Association ("Articles") some restrictions on the ability to acquire shares in the Company. These sections of the Articles reflect the restrictions on acquisitions of shares contained in Parts 6.1 and 6.2 of the Australian Corporations Act. The Company has undertaken to comply with the Listing Rules of the ASX.

Guernsey law does not impose any limitation on the acquisition of securities in the Company.

Exchange Listings

African Energy Resources Limited shares are listed on the Australian Securities Exchange (ASX) and Botswana Stock Exchange (BSE). The Company's ASX and BSE code is AFR.

Substantial Holders

As notified to the Company as at 3 October 2016

Name	Number Of Shares Held	%IC
Sentient Executive GP IV Limited	141,449,154	23.23%
First Quantum Minerals (Australia) Pty Limited	69,000,000	11.33%
Mr Alasdair Campbell Cooke (and associated entities)	50,003,683	8.21%

Class of shares and voting rights

At 3 October 2016, there were 2,976 holders of 608,996,716 ordinary fully paid shares of the Company. The voting rights attaching to the ordinary shares are in accordance with the Company's Memorandum & Articles of Association being that:

a. each shareholder entitled to vote may vote in person or by proxy, attorney or Representative;

b. on a show of hands, every person present who is a shareholder or a proxy, attorney or representative of a shareholder has one vote; and

c. on a poll, every person present who is a shareholder or a proxy, attorney or Representative of a shareholder shall, in respect of each fully paid Share held by him, or in respect of which he is appointed a proxy, attorney or Representative, have one vote for the Share, but in respect of partly paid Shares, shall, have such number of votes as bears the proportion which the paid amount (not credited) is of the total amounts paid and payable (excluding amounts credited)."

Distribution of Shareholders

Range	Securities	No of Holders	%
100,001 and Over	567,036,974	432	14.53
10,001 to 100,000	36,420,041	1,007	33.67
5,001 to 10,000	3,439,102	442	14.90
1,001 to 5,000	1,983,842	645	21.74
1 to 1,000	116,757	450	15.17
Total	**608,996,716**	**2,976**	**100.00**
Unmarketable Parcels	6,797,817	1,647	55.51

Additional Shareholder Information (continued)

Unquoted Equity Securities

Number of securities on issue	Option Exercise Price	Expiry Date of Option	Number of Holders	Names of Holders Holding More Than 20%	Number Held
Unlisted Options					
13,800,000	AU$0.10	27-Nov-2017	1	First Quantum Minerals (Australia) Pty Limited	100%
Performance Rights					
10,366,666	nil	various	12		

Largest 20 shareholders at 6 October 2016

Rank	Name	Number Of Shares Held	%IC
1	Sentient Executive GP IV Limited	141,449,154	23.23%
2	First Quantum Minerals (Australia) Pty Limited	69,000,000	11.33%
3	Mr Alasdair Campbell Cooke (and associated entities)	50,003,683	8.21%
4	Mr Stacey Radford	19,237,334	3.16%
5	PS Consulting Pty Ltd	18,000,000	2.96%
6	Mr David George Metford	10,500,000	1.72%
7	HSBC Custody Nominees (Australia) Limited - A/C 3	7,312,500	1.20%
8	Mr Donal Paul Windrim	6,871,914	1.13%
9	Mr Henry John Deburgh & Mrs Elizabeth Margaret Deburgh	6,339,685	1.04%
10	Mr Gregory William Fry (and associated entities)	5,869,610	0.96%
11	General Advisory Pty Ltd	5,645,926	0.93%
12	Helmet Nominees Pty Ltd	5,000,000	0.82%
13	Charles Frazer Tabeart (and associated entities)	4,774,100	0.78%
14	Raejan Pty Ltd	4,700,000	0.77%
15	Aurora Uranium Limited	4,551,797	0.75%
16	Jolib Pty Ltd	4,435,625	0.73%
17	Mr Robert Campbell Cooke & Mrs Elizabeth Minna Cooke	4,190,267	0.69%
18	HSBC Custody Nominees (Australia) Limited	4,182,855	0.69%
19	Mr Vincent Ian Masterton-Hume (and associated entities)	4,157,606	0.68%
20	J A Advisory Services Pty Ltd	4,000,000	0.66%
	Total Top 20	380,222,056	62.43%

Other information

There is no current on-market buyback of the Company's securities and the Company does not have any securities on that issue that are subject to escrow restriction.

AfricanEnergy

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