

31 October 2016

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2016

HIGHLIGHTS

- First Quantum Minerals Ltd (FQM) committed AUD \$3 million over the next twelve months on work programs to advance the Sese Integrated Power Project.
- Drilling programs commenced at the Sese Project during September:
 - Four large diameter holes were drilled to provide new data to finalise a power station fuel specification and undertake combustion testing at Eskom's labs in South Africa.
 - Five geotechnical holes were drilled over the planned Sese power station site to evaluate soil and bedrock strength for power station footings.
 - 16 infill core holes completed at Sese West with samples submitted to laboratory in South Africa.
 - A three-hole core program commenced at Foley North to provide data on extent and nature of the limestone at depth.
- Permitting of Sese Coal Mine and Power Project continued
 - An application to the Botswana Ministry of Finance for a Manufacturing Development Approval Order for the Sese Project was submitted.
- African Energy's 100% owned Mmamabula West and Mmamantswe Projects are being developed for submission into South Africa's 3,750MW cross border IPP procurement program.
- Project development programs continued at the Mmamabula West project:
 - Analyses of large diameter cores to provide the basis for determination of a power station fuel specification for each coal seam continued during the quarter.
 - Amendments to the Environmental and Social Impacts Assessment (ESIA) and Environmental Management Plan to include 600MW of power generation and grid connection continued;
 - Hydrogeological modelling for ESIA baseline studies continued;
 - Preparation of submissions for surface rights and water allocation continued.
- AFR assisted TM Consulting (TMC) with the preparation of a work program for the Mmamantswe Project to ultimately deliver a formal submission into South Africa's cross-border IPP procurement program.
 - A gap analysis on delivering a bankable feasibility study for the design, construction and commissioning of an applicable open pit coal mine with the associated mine area infrastructure and a coal handling and preparation plant (CHPP) was completed by Sedgman and VBKOM.

- Applications to renew Sese, Sese West and Mmamantswe prospecting licences were submitted to the Department of Mines in Botswana.
- On-market share buyback remained suspended during the quarter.
- At 30 September 2016, the Company had cash reserves of AU\$5.0M.

OUTLOOK FOR NEXT QUARTER

Sese Integrated Power Project (45% AFR, 55% FQM)

- Finalise work programs to advance the Sese Project including;
 - Geotechnical evaluations of the proposed power station site
 - Update the Environmental Approvals to allow up to 450MW of power generation.
 - Update the mining study to meet the requirements of a 450MW power project.
 - Preliminary power station design and layout.
 - Execution of the Water Supply Agreement for the project.
 - Hydrogeological studies at the mine site to characterize the aquifers.
- Prepare documentation to apply for a Generation and Export Licence.
- Continue to assess power market opportunities in the southern African region suitable for expansions of the Sese Integrated Power Project.
- FQM are required to commit a further A\$9.4M by 12 July 2017 to acquire an additional 20% interest in the project.

Mmamabula West Project (100% AFR)

- Complete binding documentation for a Joint Development Agreement with a development partner and such other ancillary documents as may be required.
- Ongoing hydrogeological modelling for the ESIA baseline study.
- Completion of the amendment of the ESIA and EMP to include 600MW of power generation plus grid connection, and submission of ESAI/EMP to the Department of Environmental Affairs.
- Commence infill drilling to establish a measured resource in the area of proposed mining for an initial 600MW power station fuel supply.

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

- Complete Phase 2 of the feasibility study for the proposed coal mine and CHPP.
- Commence detailed power station design studies.

PROJECTS

1 Sese JV, Botswana (AFR 45%, FQM 55%)

1.1 Sese JV

- FQM acquired a 51% interest in the Sese Project in January 2015 and can increase their interest in to 75% by investing a further A\$10.0M by 12 July 2017.
- Once FQM has reached a 75% project interest, AFR's ongoing 25% interest in all projects undertaken in the Sese JV will be loan carried through to commercial operation.
- FQM spent A\$668,089 in the quarter and has spent A\$2,603,889 to date since their initial investment on January 2015 and currently own 55% interest in the Sese Project.
- FQM has committed AUD \$3 million over the next twelve months on work programs to advance the Sese Integrated Power Project:
 - Additional large diameter drilling to collect approximately 1,000kg of coal for combustion testing and physical handling test work. This will lead to the development of the fuel specification for the proposed power station, and finalization of the coal handling and processing flowsheet.
 - Preliminary geotechnical evaluations of the proposed power station site to assess sub-surface conditions with respect to footings for the power station (boilers, turbines, generators) and ancillary infrastructure.
 - Update the mining study to meet the requirements of fuel delivery for a 450MW integrated power project.
 - Preliminary power station design and layout.
 - Negotiations for power off take agreements with interested parties.
 - Execution of the Water Supply Agreement for the project.
 - Hydrogeological studies at the mine site to characterize aquifers to allow mine design and aquifer management plans to be advanced.
 - Commencement of early site works to include an upgraded access road and preliminary siting of camp facilities.
 - Diamond drilling to test the continuity and quality of the Seswe limestone deposit for use as a sorbent to reduce airborne sulphur emissions from the proposed power station.
- The following field based activities were undertaken during the quarter:
 - Completion of four large diameter drill holes to collect 122mm coal core for combustion testing and test work leading to the development of a detailed fuel specification. A total of 50.01m of 122mm coal core has been collected in this program (approximately 1,000kg of coal). The core is stored in sealed, nitrogen filled tubes to preserve the coal in pristine condition prior to the test work commencing. Testing will commence in the next quarter.
 - Thirteen core holes were drilled into the measured resource in the area where initial mining is currently planned to provide fuel for the first power station. This will provide additional information on coal qualities and seam geometry to allow detailed mine planning and mine scheduling to be undertaken.

- Five shallow core holes collecting HQ3 diameter core were drilled to test the soil and bedrock geotechnical quality/strength at sites where power station foundations may be located. Additional drilling will carry over into the next quarter to complete preliminary geotechnical evaluations of the site.
- Sixteen vertical cored holes were drilled on a 500m x 500m grid at Sese West to provide information for the development of a measured resource estimate for part of the Sese West deposit. A total of 1,468.3m was drilled, of which 633.7m was drilled as RC-percussion pre-collars, and 834.6m was HQ3 diameter core. Core samples of coal have been sent to South Africa for proximate and ultimate analysis and for washing test work.
- A program of three diamond core holes to collect sample of marble/limestone from the Seswe carbonate occurrence (Foley North industrial minerals prospecting licence) commenced in the quarter. This program will be completed in the next quarter. Carbonate samples collected from this drilling will be analysed for their sulphur-dioxide sorbency properties and evaluate its suitability for power station emissions management.

1.2 Permitting

- A mining license application covering enough coal for the initial Sese Power Project and potential future expansions is currently being assessed by the Department of Mines in Botswana.
- Applications for further two-year extensions to the two coal prospecting licences (Sese PL96/2005 and Sese West PL197/2007) were submitted to the Department of Mines in late September.
- A Land Lease agreement providing guaranteed surface rights over the Sese project area for 50 years was signed during 2016 and remains in the process of being registered as a Deed in Botswana.
- A formal Water Supply Agreement is being finalized for execution.
- The Environmental and Social Impact Assessment for the Sese Integrated Power Project has been approved by the Department of Environmental Affairs (DEA).
 - This covers an initial 300MW power station, associated coal mine and related infrastructure, including an access corridor to the main A1 highway and regional transmission grid.
 - An update to the ESIA is being prepared to seek environmental approvals sufficient for up to 450MW of power generation (staged development of 2 x 225MW units) and the associated coal mining and processing.
- An application for a Manufacturing Development Approval Order for the Sese integrated power project was submitted to the Ministry of Finance during the quarter.

2 Mmamabula West Project, Botswana (AFR 100%)

2.1 Integrated Power Project

- In April, South Africa gazetted an updated notice amending its coal-fired, baseload, cross-border IPP procurement program to 3,750MW. Procurement is to be managed via the IPP Office on behalf of the Department of Energy, and can be via direct negotiation for grid connection as soon as possible.

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

2.2 Joint Development Agreement

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

2.3 Project Development Plan

- A large diameter drilling program has been completed to derive a power station fuel specification:
 - A program of physical test work, including particle size distribution analysis, ultimate analysis, hardness testing and abrasion testing continued on the large diameter core and will be completed in the next quarter.
 - These studies will provide information allowing a power station fuel specification and coal processing flowsheet to be derived for each coal seam.
- Hydrogeological (aquifer) modelling for preliminary ESIA baseline studies continued. Field measurements of standing water levels and water chemistry are being collected on a regular basis to establish the baselines for aquifer positions and aquifer chemistry.
- Amendment to the ESIA/EMP documentation to include 600MW of power generation plus grid connection to BPC's Isang sub-station continued.
 - Specialist studies (fauna, flora, noise, dust, archaeological survey) commenced during the quarter.
 - Submission of the final ESIA/EMP document is scheduled for late Q4 2016/early Q1 2017.
- An application for Surface Rights over the project area, project access corridor and grid connection corridor will be submitted in the next quarter.
- A program of infill drilling to establish a measured resource in the area of proposed mining for the supply of fuel to a 600MW power station is scheduled to commence next quarter.

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

- The Mmamantswe project is 20km from the border with South Africa and has been previously evaluated by Eskom for integration into the South African grid.
- In December 2015 the Company executed a binding Share Sale Agreement under which it will sell the Mmamantswe Coal and Power project to TM Consulting (TMC) for US\$20 million, subject to certain conditions being met, principally the financial close of a 600MW integrated power project.
- During the quarter, TMC engaged a number of technical consultants implement a program of work designed to:
 - Provide all required information to enable the Company to apply for a mining licence over the coal deposit, and

- Provide all required information to allow TM Consulting to enter into negotiations with South Africa's IPP office for a power purchase agreement under the auspices of the 3,750MW cross-border coal fired IPP procurement program.
- TMC has engaged Sedgman to deliver a phased study to deliver the following:
 - Phase 1:
 - Identify gaps to progress the project from its current status to a full bankable feasibility status. This analysis will be carried out by VBKOM on the geology and mining components while Sedgman will cover the coal handling and preparation plant (CHPP) portion of the gap analysis;
 - A proposed mining strategy and associated capital and operating cost estimate to execute the proposed mining strategy;
 - A process description for the proposed coal handling and processing plant (CHPP);
 - An estimated capital and operating cost for the proposed CHPP;
 - A summarised report to capture the deliverables from Phase 1 mentioned above.
 - A detailed proposal for Phase 2 to close out outstanding deliverables identified to fulfil the requirements for a full bankable feasibility study.
- Phase 1 of this study is scheduled for completion in Q4 2016, with Phase 2 to begin immediately thereafter.
- An application for a further two-year extension to the term of Mmamantswe Prospecting Licence PL69/2007 was submitted to the Department of Mines in late September.
- An application for Surface Rights over the project area, project access corridor and grid connection corridor will be submitted in the next quarter.

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

Sese Project: Resource Summary (Raw coal ADB, 55% FQM, 45% AFR)								
Resource Zone	In-Situ Tonnes*	CV (MJ/kg)	CV (kcal/kg)	Ash %	IM%	VM%	FC%	S %
MEASURED (Bk-C)	333 Mt	17.6	4,200	30.2	7.9	20.6	41.4	2.1
MEASURED (Bk-B)	318 Mt	16.0	3,820	34.8	7.4	20.4	37.4	1.7
INDICATED	1,714 Mt	15.3	3,650	38.9	6.6	18.7	35.8	2.0
INFERRED	152 Mt	15.0	3,600	39.1	6.4	19.5	34.9	2.2
TOTAL	2,517 Mt							

Sese West Project: Resource Summary (Raw coal ADB, 55% FQM, 45% AFR)								
Resource Zone	In-Situ Tonnes*	CV (MJ/kg)	CV (kcal/kg)	Ash %	IM%	VM%	FC%	S %
INFERRED	2,501 Mt	14.6	3,500	40.2	6.1	19.8	31.9	2.0
TOTAL	2,501 Mt							

Mmamabula West Project: Resource Summary (Raw coal ADB, 100% AFR)								
Resource Zone	In-Situ Tonnes*	CV (MJ/kg)	CV (kcal/kg)	Ash %	IM%	VM%	FC%	S %
INDICATED	892 Mt	20.2	4,825	25.5	6.0	26.0	41.0	1.5
INFERRED	1,541 Mt	20.0	4,775	25.5	5.7	25.9	41.2	1.7
TOTAL	2,433 Mt							

Mmamantswe Project: Resource Summary (Raw coal ADB, 100% AFR)								
Resource Zone	In-Situ Tonnes*	CV (MJ/kg)	CV (kcal/kg)	Ash %	IM%	VM%	FC%	S %
MEASURED	978 Mt	9.5	2,270	56.5	3.9	15.8	21.8	2.0
INDICATED	265 Mt	7.9	1,890	62.3	3.3	14.2	18.1	2.1
INFERRED	N/A							
TOTAL	1,243 Mt							

* In-Situ tonnes have been derived by removing volumes for modelled intrusions, burnt coal and weathered coal and then applying geological loss factors to the remaining Gross In-Situ Tonnes

The Coal Resources quoted for the Sese, Mmamabula West and Mmamantswe Projects in the table above have been defined in accordance with the practices recommended by the Joint Ore Reserves Committee (2004 edition of the JORC Code). Sese West is reported as per the 2012 edition. There have been no material changes to any of the resources since they were first announced.

Dr. Frazer Tabeart
Managing Director

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

	Interest at beginning of quarter	Interest at end of quarter	Location	Commodity
PL096/2005 (Sese)	47%	45%	Botswana	Coal, U
PL197/2007 (Sese West)	47%	45%	Botswana	Coal, U
PL004/2013 (Foley North)	47%	45%	Botswana	Industrial
PL069/2007 (Mmamantswe)	100%	100%	Botswana	Coal
PL056/2005 (Mmamabula West)	100%	100%	Botswana	Coal
12634-HQ-LML (Chirundu ML)	100%	100%	Zambia	U
13265-HQ-LPL (Chirundu PL)*	-%	-%	Zambia	U
13642-HQ-LPL (Munyumbwe)	100%	-%	Zambia	U
19800-HQ-LPL (Kariba Valley)	100%	100%	Zambia	U
20612-HQ-LPL (Sinazongwe)	100%	100%	Zambia	Coal
16566-HQ-LPL (Sinazongwe Central)	100%	100%	Zambia	Coal

* Chirundu prospecting license is under application for renewal

Full details for all projects including location maps, tenement schedules and technical descriptions may be found on the African Energy Resources website at: www.africanenergyresources.com

The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the 'JORC Code') sets out minimum standards, recommendations and guidelines for Public Reporting in Australasia of Exploration Results, Mineral Resources and Ore Reserves. The information contained in this announcement was prepared under the JORC Code 2012. References to "Measured, Indicated and Inferred Resources" are to those terms as defined in the JORC Code (2012 edition).

Information in this report relating to Exploration results, Mineral Resources or Ore Reserves is based on information compiled by Dr Frazer Tabeart (an employee and the Managing Director of African Energy Resources Limited) who is a member of The Australian Institute of Geoscientists. Dr Tabeart has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity that he is undertaking to qualify as a Competent Person under the 2012 Edition of the Australasian Code for reporting of Exploration Results, Mineral Resources and Ore Reserves. Dr Tabeart consents to the inclusion of the data in the form and context in which it appears.

For any queries please contact the Company Secretary, Mr Daniel Davis on +61 8 6465 5500

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Name of entity

African Energy Resources Limited

ABN

45 123 316 781

Quarter ended ("current quarter")

30 September 2016

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (3 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(47)	(47)
(b) development	-	-
(c) production	-	-
(d) staff costs	(102)	(102)
(e) administration and corporate costs	(107)	(107)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	50	50
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(206)	(206)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-
2.2 Proceeds from the disposal of:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	-	-

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (3 months) \$US'000
3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	-	-

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	3,943	3,943
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(206)	(206)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-
4.5	Effect of movement in exchange rates on cash held	87	87
4.6	Cash and cash equivalents at end of period	3,824	3,824

5.	Reconciliation of cash and cash equivalents	Current quarter \$US'000	Previous quarter \$US'000
	at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts		
5.1	Bank balances	982	604
5.2	Call deposits	2,842	3,339
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	3,824	3,943

6. Payments to directors of the entity and their associates

		Current quarter \$US'000
6.1	Aggregate amount of payments to these parties included in item 1.2	157
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3	Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

Payment of director fees

7. Payments to related entities of the entity and their associates

Current quarter \$US'000

- | | | |
|-----|--|----|
| 7.1 | Aggregate amount of payments to these parties included in item 1.2 | 49 |
| 7.2 | Aggregate amount of cash flow from loans to these parties included in item 2.3 | - |
| 7.3 | Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2 | |

Payment for administration and technical staff and provision of a fully serviced office

8. Financing facilities available

Add notes as necessary for an understanding of the position

	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
8.1	-	-
8.2	-	-
8.3	-	-
8.4	Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.	

9.	Estimated cash outflows for next quarter	\$US'000
9.1	Exploration and evaluation	135
9.2	Development	-
9.3	Production	-
9.4	Staff costs	138
9.5	Administration and corporate costs	70
9.6	Other (provide details if material)	-
9.7	Total estimated cash outflows	343

10.	Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1	Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced	13642-HQ-LPL (Munyumbwe, Zambia)	subsidiary	100%	-
10.2	Interests in mining tenements and petroleum tenements acquired or increased				

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.



Daniel Davis
Company Secretary
Date: 31 October 2016

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.