

31 January 2020

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 31 DECEMBER 2019

HIGHLIGHTS:

- The Sese Joint Venture is engaged with prospective partners for financing and construction of the Sese Coal and Power Project ("Sese Project") and is progressing these negotiations. Negotiations to date have focussed on an initial installed capacity of 300MW gross (2 x 150MW units), which would produce approximately 260MW of net power available for sale.
- Sese Project signed a Cornerstone Power Sales Agreement for 100MW for 15 years with First Quantum Minerals Ltd ("FQM").
- Term Sheet for a Power Sales Agreement for 150MW for 15 years signed with Zimasco (Pvt) Ltd.
- After allowing for transmission losses, the two power sales agreements will consume the full output of the first 300MW stage.
- Ongoing strong interest from potential power purchasers in the region due to the major electricity shortages in southern African region associated with reduced generation availability at Eskom and major reductions in power generation in Zimbabwe and Zambia due to low rainfall and reduced water available to hydroelectric generators.
- Final permitting underway with energy regulators in Botswana.
- Bill Fry has stepped down from his Executive Role due to other commitments and continues as a non-executive Director.
- At 31 December 2019, the Company had cash reserves of AU\$2.1M and held investments in listed companies valued at AU\$0.59M.

OUTLOOK:

Sese JV (33.3% AFR)

- Commence discussions to move the Zimasco Term Sheet to a Power Sales Agreement.
- Continue negotiations for:
 - Ongoing engagement with an international power industry partner regarding potential participation in development and financing of the Sese Project.
 - Connection Agreement to the Botswana transmission grid
 - Use of System Agreement related to use of Botswana and Zambia transmission grids, and
 - Wheeling Agreements (i.e. costs to transmit the power through third party countries such as Zimbabwe)

- Finalise Generation and Export Licence, which is the only outstanding major permit required
- Ongoing hydrological monitoring to provide baseline water quality information

Mmamabula West Project (100% AFR)

- Review the Life-of-Mine (LOM) schedule and reserve statement for the A-Seam based on the new resource statement.
- Update the mining prefeasibility study to reflect coal specification to meet Eskom power station requirements, a revised LOM mining schedule and current capital and operating cost estimates.
- Further negotiations with potential South African partners to take a majority stake in the project.
- Finalise the Environmental and Social Impact Assessment submission for an integrated coal mine and power station of up to 600MW with the Department of Environmental Affairs.
- Finalise Land Rights approvals

Mmamantswe Power Project (100% AFR)

- Review project development plan against draft update to South Africa's Integrated Resource Plan

Opportunities provided by the Southern African Electricity Market

- Southern Africa is currently experiencing a major energy crisis due to a combination of thermal power generation plant failures and severe drought-induced low river flows reducing hydro-electric output (see Figure 1 below). This crisis is driving strong interest in the low-cost baseload power that can be delivered by the Sese Project.

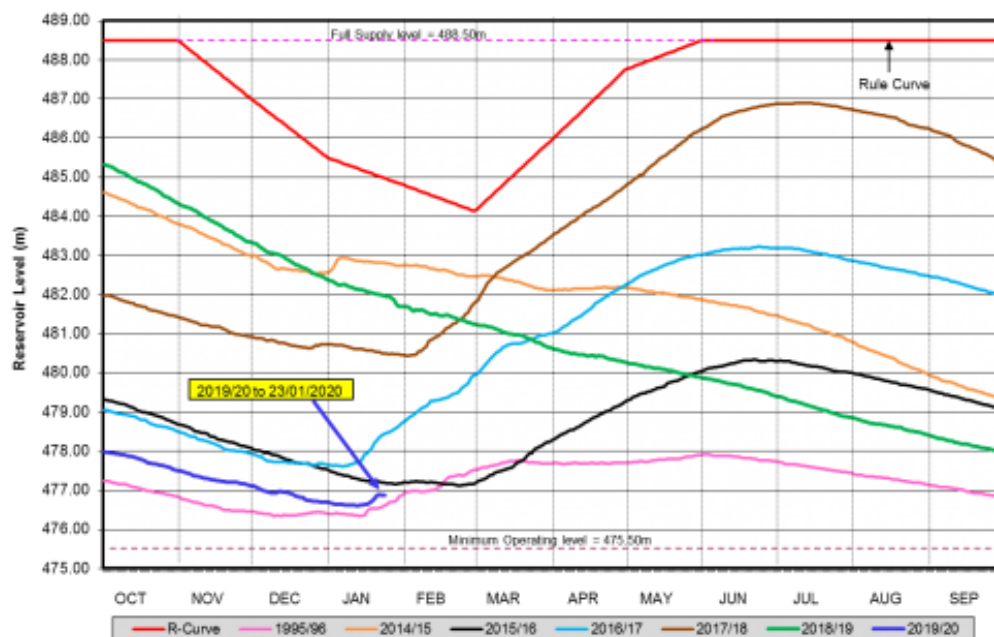


Figure 1: Lake Kariba Water level comparisons showing lake levels at their lowest for almost 25 years

- Many major mining projects, which are critical to their national economies, are dependent on stable power supply. A number of new builds and expansion plans for such projects are contingent on securing long-term power supply at suitable prices.
- The Sese Project is therefore receiving strong interest from potential power buyers and is well placed to satisfy this demand and provide a valuable addition to the southern African energy market.
- The Sese Project is ideally located at the centre of the regional transmission grid to deliver power to the entire region (see Diagram1) and has large resources of coal to support multiple long-term power generation projects.

PROJECTS:

1 Sese JV (AFR 33.3%, FQM 66.7%)

1.1 Overview

- African Energy owns a 33.3% interest in the Sese Project, with FQM owning the balance of 66.7%. The parties have agreed that the joint venture shareholding will continue at these levels and that both parties will contribute pro rata to ongoing costs.
- US\$0.48M was spent by Sese JV in the quarter
- All other obligations of the joint venture remain as agreed in 2014 (refer ASX release dated 20th October 2014).

1.2 Sese JV (ML 2016/42ML, PL96/2005)

- A cornerstone Power Sales Agreement (“PSA”) has been signed with Zambian subsidiaries of FQM for the purchase of 100MW of power delivered to their Zambian copper operations for a period of 15 years. FQM is the largest consumer of power in Zambia.
- A Power Sales Term Sheet, as a precursor to a Power Sales Agreement, has been executed between the Sese JV and Zimasco (Pvt) Ltd (“Zimasco”) for the purchase of 150MW of power for 15 years. Zimasco is Zimbabwe’s largest ferro-chrome mining and smelting business and is 100% owned by Sinosteel. It is the largest industrial consumer of power in Zimbabwe.
- The Sese Joint Venture is engaged with prospective partners for financing and construction of the project and is progressing these negotiations. Negotiations to date have focussed on an initial installed capacity of 300MW gross (2 x 150MW units), which would produce approximately 260MW of net power available for sale. After allowing for transmission losses, the two power sales agreements noted above will consume the full output of the first 300MW stage.
- The Sese Project is receiving strong interest from other potential energy buyers and is well placed to satisfy this demand and provide a valuable addition to the southern African energy market.
- The Sese Project is ideally located at the centre of the regional transmission grid to deliver power to the entire region and has large resources of coal to support multiple long-term power generation projects (refer Section 4 and below):

- The global resource estimate for Sese stands at 2,418Mt of thermal coal in Measured, Indicated and Inferred categories as follows:

Sese Project: Resource Summary (Raw coal on an air-dried basis) AFR 35% FQM 65%								
Resource Zone	In-Situ Tonnes*	CV (MJ/kg)	CV (kcal/kg)	Ash %	IM%	VM%	FC%	S %
MEASURED (Bk-C)	325 Mt	17.6	4,200	30.1	7.9	20.6	41.5	2.1
MEASURED (Bk-B)	304 Mt	16.0	3,820	34.8	7.4	20.3	37.6	1.6
INDICATED	1,663 Mt	15.4	3,700	38.4	6.8	18.7	34.1	2.0
INFERRED	126 Mt	14.2	3,400	41.4	6.4	18.8	31.2	2.2
TOTAL	2,418 Mt							

- Within this overall resource, the Measured Resource within the Mining Licence is for coal within the proposed mining area. The main SS Seam within this portion of the resource comprises the best combination of coal quality and strip ratio in the project, providing the lowest cost per GJ of contained energy, and thus the lowest cost fuel for use in a power station:

MEASURED BLOCK C RESOURCES - per SEAM						Raw Coal Qualities (Air Dried)				
Resource Block Name	Resource Category	Seam Name	In Situ Tonnes (Mt)	Geological Loss (%)	Discounted Tonnes (Mt)	CV (MJ/kg)	ASH (%)	IM (%)	VM (%)	TS (%)
BLOCK C	MEASURED	SSU	17.5	2	17.2	14.9	39.1	6.7	21.4	1.84
		SST	30.7	2	30.1	13.2	42.6	6.7	20.1	0.97
		SS	282.1	2	276.4	18.3	28.1	8.1	20.6	2.19
		SSL	1.0		1.0	9.8	57.6	4.6	16.6	0.98
TOTAL/AVERAGE (BLOCK C)	MEASURED	All Seams	331.3	2.0	324.7	17.6	30.1	7.9	20.6	2.06

*Discounts Applied: Minimum seam thickness cut-off of < 1.0 m. Dry Ash Free Volatile (DAFV) < 26%. Prospecting Licence Boundary

*No discounts were applied for any possible wetlands, rivers or infrastructure present within the project area

*Weighted average total tonnes and geological losses calculated on Discounted Tonnes

*RD - Relative Density, CV - Calorific Value, VM - Volatile Matter, IM - Inherent Moisture, TS - Total Sulphur

- A mining reserve statement for the SS Seam within the proposed mining area is being prepared using the updated resource estimate and information from First Quantum's in-house mining feasibility study.
- Negotiations with the Botswana Energy Regulatory Authority for a Generation and Export Licence continued.
- Ongoing negotiations with Botswana Power Corporation for a Grid Connection Agreement and a separate Use of System Agreement.

1.3 Permitting:

- Department of Environmental Affairs in Botswana has approved an updated Environmental Impact Assessment ("EIA") for the Sese Power Project to allow up to 500MW of power generation and the associated coal mining activities. This is subject to the standard conditions of such approvals in Botswana, including a requirement that the project be implemented within 2 years. DEA have confirmed that current activities relating to ML demarcation, relocation of cattle grazers and hydrogeological investigations constitute "implementation".

- Thirty-five asset owners were identified within the Sese Surface Rights area. Thirty-two asset owners have received their full and final compensation and have left the surface rights area. Three properties await final valuation of the resettlement package by the Land Board and will then be finalized.

1.4 Sese West (PL197/2007)

- Documentation of an updated resource is being finalised to JORC 2012 standard. No field programs were undertaken during the quarter.

1.5 Foley North (PL004/2013)

- This Prospecting Licence contains deposits of metamorphosed limestone which is suitable for use as a sulphur dioxide sorbent in operating power stations. No field programs were undertaken during the quarter.

2 Mmamabula West Project, Botswana (AFR 100%)

- An updated global mineral resource estimate for Mmamabula West indicates 2,935Mt of thermal coal in Measured, Indicated and Inferred categories as follows:

Mmamabula West Project: 2019 Coal Resource Summary: Raw coal reported on an air-dried basis								
Resource Category	In-Situ Tonnes*	CV (MJ/kg)	CV (kcal/kg)	Ash %	IM %	VM %	FC %	S %
MEASURED	17 Mt	22.2	5,300	19.6	7.3	24.8	48.2	1.6
INDICATED	1,061 Mt	20.4	4,875	24.4	6.1	26.5	43.1	1.5
INFERRED	1,858 Mt	20.3	4,850	24.7	5.8	26.2	43.4	1.6
TOTAL (all seams)	2,935 Mt	20.3	4,850	24.5	5.9	26.3	43.3	1.6

- African Energy is actively seeking a South African BEE partner who is prepared to buy a majority equity stake in the project as an export option for coal into South Africa.
- The Company has set up a Data Room with all technical and permitting data for the project which is available to potential BEE partners who sign a Confidentiality Agreement.
- The prefeasibility study completed in 2014 is being updated to reflect:
 - A revised coal product specification to match Eskom's power station fuel requirement
 - An updated Life of Mine (LOM) mining schedule to extract up to 4Mtpa to produce Eskom specification export coal with a high yield (90%)
 - Updated capital and operating cost estimates to reflect current price levels.

- A revised draft of the ESIA is being finalised for submission to the DEA for review. This revision expands the project scope to include a power station of up to 600MW, along with expanded coal mining volumes necessary to fuel such a power station. If accepted by DEA, the next step will be a stakeholders meeting, following which further revisions to the ESIA may be made and then submitted for final approval.

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

- Department of Mines issued a three-year extension of the Mmamantswe Prospecting Licence PL69/2007 in March 2019. The licence is valid until 31 December 2021.
- An application for Land Rights over the project area, project access corridor and grid connection corridor has been submitted.

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

Sese Project: Resource Summary (Raw coal on an air-dried basis) AFR 33.3% FQM 66.7%								
Resource Zone	In-Situ Tonnes*	CV (MJ/kg)	CV (kcal/kg)	Ash %	IM%	VM%	FC%	S %
MEASURED (Bk-C)	325 Mt	17.6	4,200	30.1	7.9	20.6	41.5	2.1
MEASURED (Bk-B)	304 Mt	16.0	3,820	34.8	7.4	20.3	37.6	1.6
INDICATED	1,663 Mt	15.4	3,700	38.4	6.8	18.7	34.1	2.0
INFERRED	126 Mt	14.2	3,400	41.4	6.4	18.8	31.2	2.2
TOTAL	2,418 Mt							

Sese West Project: Resource Summary (Raw coal on an air-dried basis) AFR 33.3% FQM 66.7%								
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 on an air-dried basis) AFR 100%								
Resource Zone	In-Situ Tonnes*	CV (MJ/kg)	CV (kcal/kg)	Ash %	IM%	VM%	FC%	S %
MEASURED	17 Mt	22.2	5,300	19.6	7.3	24.8	48.2	1.6
INDICATED	1,061 Mt	20.4	4,875	24.4	6.1	26.5	43.1	1.5
INFERRED	1,858 Mt	20.3	4,850	24.7	5.8	26.2	43.4	1.6
TOTAL	2,935 Mt							

Mmamantswe Project: Resource Summary (Raw coal on an air-dried basis) AFR 100%								
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 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 and Sese West resources are reported as per the 2012 edition. There have been no material changes to any of the resources since they were last reported.

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
ML2016/42L (Sese ML)	33%	33%	Botswana	Coal, U
PL096/2005 (Sese PL)	33%	33%	Botswana	Coal, U
PL197/2007 (Sese West)	33%	33%	Botswana	Coal, U
PL004/2013 (Foley North)	33%	33%	Botswana	Industrial
PL069/2007 (Mmamantswe)	100%	100%	Botswana	Coal
PL056/2005 (Mmamabula West)*	100%	100%	Botswana	Coal

* PL56/2005 was valid until 30 September 2019 and a two-year extension application was submitted on 10 September 2019. The license is yet to be renewed.

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.

Authorised for release by Frazer Tabeart, CEO of African Energy.

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

Appendix 5B

Mining exploration entity quarterly report

Name of entity

African Energy Resources Limited

ABN

45 123 316 781

Quarter ended ("current quarter")

31 December 2019

Consolidated statement of cash flows	Current quarter (3 months) \$US'000	Year to date (6 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers		
1.2 Payments for		
(a) exploration & evaluation	(117)	(175)
(b) development	-	-
(c) production	-	-
(d) staff costs	(95)	(192)
(e) administration and corporate costs	(39)	(97)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	5	14
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	(246)	(451)
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 (3 months) \$US'000	Year to date (6 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 (Payments for Share buyback)	-	-
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	1,673	1,942
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(246)	(451)
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	58	(6)
4.6	Cash and cash equivalents at end of period	1,485	1,485

5. Reconciliation of cash and cash equivalents	Current quarter	Previous quarter
at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	\$US'000	\$US'000
5.1	Bank balances	446
5.2	Call deposits	1,039
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)	1,485
		1,673

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 | 72 |
| 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 | 21 |
| 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 | |

Payments to Mitchell River Group for administration and technical staff and provision of a 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 | Loan facilities | - | - |
| 8.2 | Credit standby arrangements | - | - |
| 8.3 | Other (please specify) | - | - |
| 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	127
9.2	Development	-
9.3	Production	-
9.4	Staff costs	90
9.5	Administration and corporate costs	55
9.6	Other (provide details if material)	-
9.7	Total estimated cash outflows	272

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	-			
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 January 2020

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.