

28 April 2020

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 31 MARCH 2020

HIGHLIGHTS:

- The Botswana Energy Regulatory Authority approved the application for an electricity generation license (“Generation Licence”) for the proposed 300MW Sese Coal and Power Project (“Sese Project”)
- The Generation License was the final regulatory approval required for the Sese Project to commence.
- The Sese Joint Venture is engaged with prospective partners for financing and construction of the 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 in December 2019 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.
- The impact of COVID-19 has been widespread with travel restrictions and regional lock-downs having the potential to impact the Company’s business.
 - Day to day running of the Company continues without any reduction in services.
 - Whilst travel between Australia and Botswana is currently not possible, the Company is well represented in Botswana and South Africa, and regular management meetings held via video conferencing facilities enable continuity of our business.
 - Minor delays in processing applications for permits and licences in Botswana are expected during Q2 but are likely to ease in Q3.

- The Company has initiated several cost-cutting measures to reflect these minor delays, and will continue to evaluate opportunities to reduce costs as appropriate.
- At 31 December 2019, the Company had cash reserves of AU\$1.80M and held investments in listed companies valued at AU\$0.27M.

OUTLOOK:

Sese JV (33.3% AFR)

- Continue negotiations for:
 - Conversion of the Zimasco Term Sheet to a Power Sales Agreement
 - 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 Agreements related to use of Botswana, Zimbabwe and Zambia transmission grids
 - Wheeling Agreements (i.e. costs to transmit the power through third party countries such as Zimbabwe)
- 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 seeking to invest 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

Regional Energy Crisis

- Southern Africa is currently experiencing a major energy crisis due to a combination of thermal power generation plant failures in South Africa, and severe drought-induced low river flows reducing hydro-electric output in Zambia and Zimbabwe. This has resulted in widespread load shedding, often between 2,000MW (Stage 2 Load Shedding) and 6,000MW (Stage 6 Load Shedding) in South Africa, with a flow through impact in neighbouring countries which import a significant proportion of their power from South Africa.
- Whilst recent heavy rains in northern Zambia have alleviated the extreme drought, inflows into Lake Kariba are still low, and Zesco has indicated load shedding is likely to continue for much of 2020.
- This crisis is driving strong interest in the low-cost baseload power that can be delivered by the Sese Project.
- Many major mining and smelting projects, which are critical to their national economies, are highly 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 buyers and is well placed to satisfy this demand and provide a valuable addition to the southern African energy market.

PROJECTS:

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

African Energy owns one third of the Sese JV, which is developing the Sese Project.

Under a joint venture agreement signed in 2014, FQM earned a 66.7% interest in the Sese Project, with African Energy owning the balance of 33.3% (Sese JV). The parties contribute pro rata to ongoing costs, however FQM are obliged to arrange all debt financing for the project and loan fund AFR's equity contribution once a development decision has been formalised.

The Sese JV has completed several technical studies covering mining, coal preparation and power generation. A conceptual study of the proposed power station layout and design has determined that Sese coal is a suitable fuel for all common power station boiler technologies and can readily meet the required air quality and emissions standards set in the environmental approvals for the project.

These studies have also established the operating costs, capital costs and a robust financial model for a power project and the associated coal mine and coal processing facilities and have demonstrated that power from Sese could be delivered to the large power consumers in the Zambian Copperbelt.

The Sese JV has secured all key licences, permits and stakeholder approvals that are required for such an operation including:

- A large-scale mining licence has been granted for an initial period of 25-years over an area of approximately 51 km² which contains 650Mt of coal in Block-C.
- A Development Approval Order which sets the fiscal framework for the project, including a 5-year tax holiday from the commencement of commercial operations followed by a 15% corporate tax rate.
- Land Rights and an associated 50-year Land Lease Agreement.
- Water extraction rights from Shashe Dam.
- Environmental approval for the project for up to 500MW of power generation and the associated coal mining and coal processing volumes.
- Implementation of the resettlement action plan (RAP) around Sese.

Sese JV has executed power sales agreements with Kalumbila Minerals Limited (Zambian subsidiary of FQML) and a Term Sheet with Zimasco (Pvt) Ltd, which together would consume the full output of the initial 300MW power station for a period of 15 years.

Sese JV is in discussions with several additional parties. A second 300MW unit can be considered if suitable demand and associated power sales agreements can be established.

2 Mmamabula West Project, Botswana (AFR 100%)

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

Appendix 5B

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Name of entity

African Energy Resources Limited

ABN

45 123 316 781

Quarter ended ("current quarter")

31 March 2020

<i>Consolidated statement of cash flows</i>	Current quarter \$A'000	Year to date (9-months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for	-	-
(a) exploration & evaluation (if expensed)	(10)	(90)
(b) development	-	-
(c) production	-	-
(d) staff costs	(118)	(310)
(e) administration and corporate costs	(22)	(120)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	2	16
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(148)	(503)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) tenements	-	-
(c) property, plant and equipment	-	-
(d) exploration & evaluation (if capitalised)	-	-

<i>Consolidated statement of cash flows</i>	Current quarter \$A'000	Year to date (9-months) \$A'000
(e) investments	(77)	(173)
(f) other non-current assets	-	-
2.2 Proceeds from the disposal of:		
(a) entities	-	-
(b) tenements	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) 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	(77)	(173)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	-	-
3.4 Transaction costs related to issues of equity securities or convertible debt securities	-	-
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	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9-months) \$A'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,485	1,942
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(148)	(503)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(77)	(173)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-
4.5	Effect of movement in exchange rates on cash held	(150)	(156)
4.6	Cash and cash equivalents at end of period	1,109	1,109

5. Reconciliation of cash and cash equivalents <i>at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts</i>		Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	625	446
5.2	Call deposits	483	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)	1,109	1,485

6. Payments to related parties of the entity and their associates		Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	81
6.2	Aggregate amount of payments to related parties and their associates included in item 2	

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

Payment of director fees and to Mitchell River Group for administration and technical staff and provision of a serviced office.

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i>		
<i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1	Loan facilities	-
7.2	Credit standby arrangements	-
7.3	Other (please specify)	-
7.4	Total financing facilities	-
7.5	Unused financing facilities available at quarter end	-
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.	

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(148)
8.2 Capitalised exploration & evaluation (Item 2.1(d))	-
8.3 Total relevant outgoings (Item 8.1 + Item 8.2)	(148)
8.4 Cash and cash equivalents at quarter end (Item 4.6)	1,109
8.5 Unused finance facilities available at quarter end (Item 7.5)	-
8.6 Total available funding (Item 8.4 + Item 8.5)	1,109
8.7 Estimated quarters of funding available (Item 8.6 divided by Item 8.3)	7.5

8.8 If Item 8.7 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer:

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:

Compliance statement

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

Date: 28 April 2020

Authorised by: Board of Directors

(Name of body or officer authorising release – see note 4)

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.