

31 October 2018

## **QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2018**

### **HIGHLIGHTS:**

- Revision to the Sese JV Environmental and Social Impact Assessment to 500MW and associated increase in coal mining scale has been approved by the Department of Environmental Affairs.
- Significant progress made on the Resettlement Action Plan (RAP) at Sese, with 90% of stakeholders relocated outside the surface rights area during the quarter.
- Requests for further two-year extensions of the Sese and Sese West coal Prospecting Licences have been submitted prior to their expiry on 31 December 2018. The Sese Mining Licence is not affected and is valid for another 23 years.
- African Energy continues to evaluate coal export opportunities for the Mmamabula West project, during a period where global coal price increases have led to the re-emergence of South Africa as a potential market for coal exports.
- Sold all remaining shares held in TSX-V listed GoviEx Uranium Inc, netting AU\$599k during the September quarter.
- Acquired a further 0.8M shares in ASX-listed Caravel Minerals for AU\$40k under a Rights Issue. African Energy remains the largest shareholder with 10.5%.
- On-market share buyback was suspended during the quarter.
- At 30 September 2018, the Company had cash reserves of AU\$3.48M and held investments in listed companies of AU\$0.64M.

### **OUTLOOK:**

#### **Sese JV (35% AFR)**

- Continue negotiations for:
  - PPA for 100MW sales to First Quantum Minerals Ltd (FQM) in Zambia,
  - MOU and Draft PPA to sell 88MW balance to credit worthy off-takers
  - Use of system charges related to use of Botswana and Zambia transmission grids, and
  - Wheeling costs (ie costs to transmit the power through third party countries such as Zimbabwe)
- Evaluate project financing options
- Finalise Generation and Export Licence, which is the only outstanding major permit required
- Finalise JORC (2012) Resource Re-Classification

- Complete Resettlement Action Plan (RAP)
- Commence a programme to establish a hydrogeological baseline over the wider Sese Project area as part of ongoing project development activities.

#### **Mmamabula West Project (100% AFR)**

- Establish a measured resource in the proposed mining area suitable for power station fuel or export quality coal.
- Negotiations with potential South African partners to take a participating 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
- Finalise Mining Licence application
- Ongoing hydrogeological observations for the ESIA baseline.

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

- Review project development plan in light of the recently released draft update to South Africa's Integrated Resource Plan.
- Infill core drilling to upgrade a portion of the coal resource to JORC 2012 Measured Resource category.
- Continue Phase 2 of the feasibility study for the proposed coal mine and CHPP.
- Commence detailed power station design studies.

#### **Corporate**

- The Company is seeking shareholder approval to extend the on-market share buyback at the annual general meeting to be held on 18 November 2018.

### **PROJECTS:**

#### **1 Sese JV (AFR 35%, FQM 65%)**

##### **1.1 Overview**

- FQM spent A\$0.31M in the quarter and has now spent A\$7.46M since their initial A\$8M investment and have earned a 65% interest in Sese JV.
- FQM have agreed to invest a further A\$2.54 million to reach a 75% interest, after which AFR's ongoing 25% interest in all projects undertaken in the Sese JV will be loan carried through to commercial operation.

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

- Draft update to the Measured Resource in Block-C was received from the independent resource consultant during the quarter and is currently being finalised. This update is based on more detailed drilling than previous Measured Resource estimates and will be to JORC 2012 standard.
- The resource update will include re-estimation of all resource blocks (Blocks A, B and C) and all JORC resource categories (Measured, Indicated, Inferred).
- Negotiations with the Botswana Energy Regulatory Authority for a Generation and Export Licence continued.
- Negotiations with Botswana Power Corporation for a Grid Connection and Use of System agreement continued.
- Negotiations relating to the commercial aspects of importing power into Zambia continued.
- Negotiations with other credit-worthy offtakers for the remaining 88MW of power available from development of the first 225MW unit at Sese continued.

### **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 and coal processing activities. This is subject to the standard conditions of such approvals in Botswana, including a requirement that the project be implemented within two years.
- This marks an important milestone for the project as it will allow for the development of two 225MW units, rather than two smaller, less efficient 150MW units as contemplated under the original EIA approval.
- Implementation of the resettlement action plan (RAP) around Sese, under which 25 households have to date had their grazing rights, water bores and access trails relocated to outside the Land Rights Lease. Re-settlement of a further 3 households is required to complete this process, which has been jointly monitored by Sese JV staff and the Tonota Land Board.
- Contracts were prepared and signed with the twenty-five fixed asset owners. The Tonota Land Board witnessed all contracts.

### **1.4 Sese West (PL197/2007)**

- Documentation of an updated resource is being finalised to JORC 2012 standard.

### **1.5 Foley North (PL004/2013)**

- No field programs were undertaken during the quarter.

## **2 Mmamabula West Project, Botswana (AFR 100%)**

- The Mmamabula West project contains two ~5m thick coal seams and is being developed as a coal export project targeting the South African market.
- Mmamabula West coal can be processed for use as a fuel in power stations or for export to South Africa or into the seaborne thermal coal market.
- During the last twelve months, the price of seaborne thermal coal has experienced steady growth, with the highest-quality coal from South Africa (Richards Bay RB1 specification) trading in the range of US \$95/t to \$107/t.
- The increase in coal export prices has invigorated South African coal producers to increase their coal exports, potentially compromising local coal contracts for South African consumers. During the last three months, Eskom has reported coal shortages at a number of its power stations, providing evidence that local supply constraints are real.
- Eskom consumes approximately 125Mt of coal per year, so any supply-side constraint provides a potential market opportunity for Botswana coal.
- African Energy is actively seeking a South African BEE partner who is prepared to buy an equity stake in the project as an export option for coal into South Africa.
- Baseline measurements of standing water levels and groundwater chemistry continued during the quarter.
- A revised draft of the ESIA is being prepared for submission to the DEA for review. 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%)**

- The Company has 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.
- Further drilling is planned at Mmamantswe to upgrade a portion of the measured resource (JORC 2005) to JORC 2012 and SAMREC 2012 standard. This drilling will commence once the development consortium has been formalised (a consortium between TMC and other parties including an original equipment manufacturer, EPC contractor and various funding parties).
- The formalisation of this consortium has been delayed whilst the parties review the recently released draft update to South Africa's Integrated Resource Plan (IRP). Whilst the revised/draft IRP continue to promote use of coal as one of the principal sources of fuel for South Africa's power needs, the draft does not specifically address the importation of "cross-border" power. TMC are currently seeking input from the authorities in South Africa to determine the status of the Cross Border IPP Procurement Program.
- The Mmamantswe Prospecting Licence PL69/2007 is valid until 31st December 2018. An application for a further two-year extension to the term of Mmamantswe Prospecting Licence PL69/2007 has been submitted to the Department of Mines.
- 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 ADB, 65% FQM, 35% 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
<b>TOTAL</b>	<b>2,517 Mt</b>							

Sese West Project: Resource Summary (Raw coal ADB, 65% FQM, 35% 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
<b>TOTAL</b>	<b>2,501 Mt</b>							

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
<b>TOTAL</b>	<b>2,433 Mt</b>							

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							
<b>TOTAL</b>	<b>1,243 Mt</b>							

\* 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.

## 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)	35%	35%	Botswana	Coal, U
PL096/2005 (Sese PL)	35%	35%	Botswana	Coal, U
PL197/2007 (Sese West)	35%	35%	Botswana	Coal, U
PL004/2013 (Foley North)	35%	35%	Botswana	Industrial
PL069/2007 (Mmamantswe)	100%	100%	Botswana	Coal
PL056/2005 (Mmamabula West)	100%	100%	Botswana	Coal

**Dr. Frazer Tabcart**  
Managing Director

**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](http://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.*

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

## Appendix 5B

### Mining exploration entity quarterly report

<b>Name of entity</b>	
African Energy Resources Limited	
<b>ABN</b>	<b>Quarter ended ("current quarter")</b>
45 123 316 781	30 September 2018

Consolidated statement of cash flows	Current quarter (3 months) \$US'000	Year to date (3 months) \$US'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers		
1.2 Payments for		
(a) exploration & evaluation	(30)	(30)
(b) development	-	-
(c) production	-	-
(d) staff costs	(90)	(90)
(e) administration and corporate costs	(46)	(46)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	14	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)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(152)</b>	<b>(152)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	(29)	(29)
(d) other non-current assets	-	-
2.2 Proceeds from the disposal of:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	437	437
(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)	-	-
<b>2.6 Net cash from / (used in) investing activities</b>	<b>408</b>	<b>408</b>

<b>Consolidated statement of cash flows</b>		<b>Current quarter (3 months) \$US'000</b>	<b>Year to date (3 months) \$US'000</b>
<b>3.</b>	<b>Cash flows from financing activities</b>		
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)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>-</b>	<b>-</b>
<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	2,300	2,300
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(152)	(152)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	408	408
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-
4.5	Effect of movement in exchange rates on cash held	(43)	(43)
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>2,513</b>	<b>2,513</b>
<b>5.</b>	<b>Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts</b>	<b>Current quarter \$US'000</b>	<b>Previous quarter \$US'000</b>
5.1	Bank balances	984	747
5.2	Call deposits	1,529	1,553
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>2,513</b>	<b>2,300</b>



**6. Payments to directors of the entity and their associates**

Current quarter \$US'000
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6.1	Aggregate amount of payments to these parties included in item 1.2	79
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
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7.1	Aggregate amount of payments to these parties included in item 1.2	10
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
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9.1	Exploration and evaluation	7
9.2	Development	-
9.3	Production	-
9.4	Staff costs	80
9.5	Administration and corporate costs	69
9.6	Other (provide details if material)	-
<b>9.7</b>	<b>Total estimated cash outflows</b>	<b>156</b>

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 October 2018

**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.