



AfricanEnergy

Annual Report / 2020

Corporate Directory

Directors	Alasdair Cooke Charles (Frazer) Tabear Valentine Chitalu Vincent Masterton-Hume John Dean Gregory Fry (Retired 15 July 2020)	Executive Chairman Executive Director and CEO Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director
Company Secretary	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 Listing	Australian Securities Exchange (ASX: AFR)	
Auditor	BDO Audit (WA) Pty Limited 38 Station Street Subiaco, Western Australia, 6008	
Solicitors	Fairweather Corporate Lawyers 595 Stirling Highway Cottesloe, Western Australia, 6011	
Bankers	Westpac Banking Corporation Level 6, 109 St Georges Terrace Perth WA 6000	
Website	www.africanenergyresources.com	

Table of Contents

Chief Executive's Letter.....	3
Sese Joint Venture.....	4
Mmamabula West and Mmamantswe Coal Projects.....	6
Tenement Schedule.....	7
Annual Statement of Mineral Resources.....	8
Financial Report.....	9

Chief Executive's Letter

Dear Shareholder,

Your Company, African Energy, remains fully focused on its Botswana energy portfolio, with an emphasis on developing the Sese JV as a low-cost integrated coal mine and power station. The Sese JV is jointly owned by First Quantum Minerals Ltd (FQML, 66.7%) and African Energy (33.3%) and is managed by First Quantum. Negotiations for a Generation and Export Licence, power sales agreements and grid connection and transmission agreements continued throughout the year, leading to significant progress in several key areas, specifically:

- Executed a cornerstone Power Sales Agreement for 100MW delivered to First Quantum's copper operations in Zambia,
- Signed a Terms Sheet for a power sales agreement delivering 150MW to Zimasco's ferro-chrome operations in Zimbabwe, and
- Was awarded a Generation Licence for an initial 225MW of power.

The award of the Generation Licence is a significant step as all key permits for the project have now been received. To meet the requirements of the power sales agreements the project plans to install gross generation capacity of approximately 300MW (2 x 150MW units) as the first stage. The Company is seeking an amendment to the Generation Licence for an increase to 300MW to align it with these power sales agreements.

With significant infrastructure investment available through China's Belt and Road Initiative, the Sese JV remains engaged with potential development partners to explore avenues for project funding and technical and construction expertise relevant to major power investments.

In addition to the direct power sales agreements to industrial end-users such as those noted above, regional power utilities remain unable to meet their domestic power demands due to a lack of generation capacity or poor availability of existing power plants. All regional power utilities are under severe financial hardship and are thus unable to finance new power stations themselves: this provides opportunities for new, low-cost independent power generators to sell power on a long-term basis. African Energy can become such an independent power producer via its interest in the Sese JV, and is pursuing these opportunities as part of its business development strategy.

In addition to the Company's energy portfolio, African Energy continues to evaluate opportunities for diversification, particularly around the battery metals/electric vehicles theme, building on its investment in ASX listed Caravel Minerals. African Energy is currently the largest shareholder in Caravel which owns the Calingiri copper deposit in Western Australia and the Company remains alert to further opportunities which may complement this investment.

African Energy carries no debt and has very low corporate overheads. Coupled with a strong development partner at the Sese JV Project, a high-quality portfolio, and a robust power market in southern Africa, the Company remains well placed to develop major power projects for the region.



Frazer Tabcart
Executive Director and CEO

Sese Joint Venture

INTRODUCTION

The Sese JV Project in Botswana is situated very close to the interconnected regional transmission grid (Figure 1), and can produce and export secure, low cost base-load power. During the year, the Sese JV made significant progress in completing permitting requirements for the Sese Power Project and in securing agreements related to power sales from the first stage of the project.

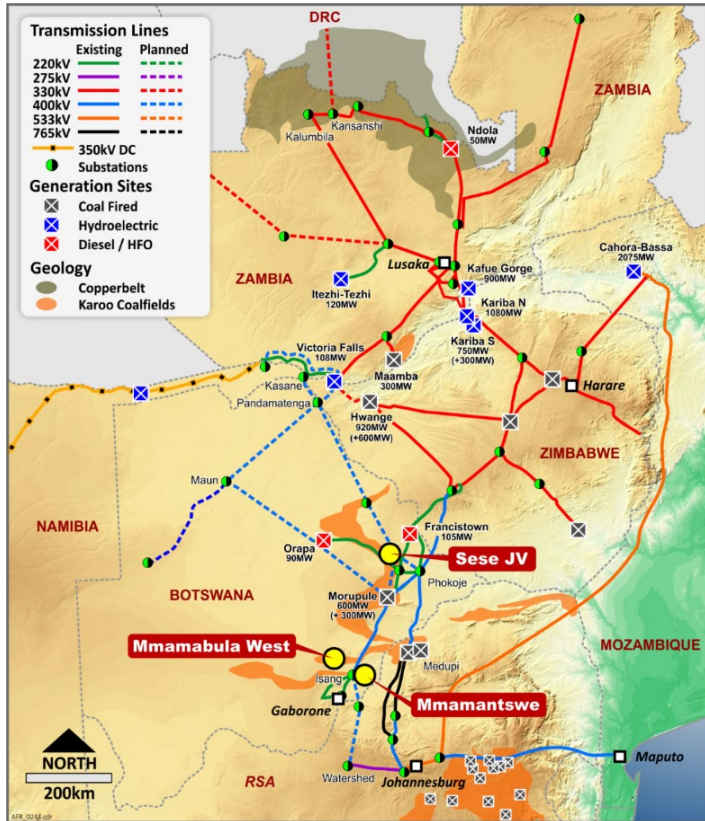


Figure 1. Location of African Energy’s Botswana coal and power projects and the existing and planned regional transmission interconnectors

Key regional power markets in Zambia, Botswana, Zimbabwe and South Africa are also of relevance to African Energy. As reported in 2019, all four countries are experiencing domestic supply constraints for a variety of reasons, providing a robust market for new energy projects.

In previous years, surplus power from South Africa was available as low-cost imports to shore-up deficits in neighbouring countries. South Africa’s current supply side concerns, causing widespread and well-publicised unscheduled power cuts, mean this is no longer the case except on an emergency, high-cost basis. The result is widespread load shedding throughout the region, with power cuts ranging from 4 to 18 hours per day, along with continued upward pressure on power tariffs. This provides opportunities for the Sese JV to offer reliable and affordable power sales to affected utilities.

SESE JV PROJECT

First Quantum Minerals Ltd (FQML) became a majority equity partner at the Sese Joint Venture in 2014 and have since directly invested >AUD \$17m for a 67% project interest. FQML is

responsible for arranging the funds required to build the Sese integrated power project and will loan carry African Energy’s residual interest through to commercial production. During the year African Energy agreed that its JV interest will remain at 33% and it will contribute pro rata to ongoing development costs.

The Sese JV partners have completed several technical studies covering mining, coal preparation and power generation. A conceptual study of the proposed power station layout and design along with power station fuel specification development and coal combustion tests have 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 the development of a power project in staged 225MW to 300MW increments. Assessment of the associated coal mine and coal processing facilities have demonstrated that power from Sese could be delivered to the Zambian Copperbelt where FQML operates a large copper mining and smelting business and to other large power consumers in the region.

In the last year the Company has made significant progress with power sales agreements related to Stage 1 (300MW):

- A cornerstone Power Sales Agreement has been signed with Zambian subsidiaries of FQML for the purchase of 100MW of power delivered to their Zambian copper operations for a period of 15 years. FQML 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 project has secured the majority of licences, permits and stakeholder approvals that are required for such an operation (see Figure 2), including:

- In 2020, the Botswana Energy Regulatory Authority issued an electricity generation license (“Generation Licence”) for the proposed 300MW Sese Coal and Power Project.

- The Generation Licence allows the Sese Power Project to export and sell 225MW of power for 15 years to the Zambian subsidiaries of FQML, Zimasco (Pvt) Limited in Zimbabwe and residual/surplus power to members of the Southern African Power Pool.
- The Generation Licence can be increased to 300MW upon written application as per the Botswana Electricity Regulatory Authority Act.
- A large-scale mining licence has been granted for an initial period of 25-years over an area of ~51 km² which contains 650Mt of coal.
- Environmental approval for up to 500MW of power generation and the associated coal mining and coal processing volumes.
- Land Rights and an associated 50-year Land Lease Agreement.
- A Water Supply Agreement relating to extraction rights from Shashe Dam, and

- 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 on power generation.

The Sese JV now has all key licenses and permits required to develop an integrated coal and power project in Botswana. The main remaining commercial documents required for the project include Grid Connection, Transmission, and Use of System agreements with the power utilities in Botswana, Zimbabwe and Zambia.

The advanced nature of the Sese JV and the robust market for power sales in the region make this a candidate for evaluation under China’s Belt and Road Initiative which plans to invest up to US \$30B in Africa, predominantly into large scale infrastructure projects. The Sese JV has continued discussions with several parties who may be able to provide financial, technical and construction assistance for the Project.

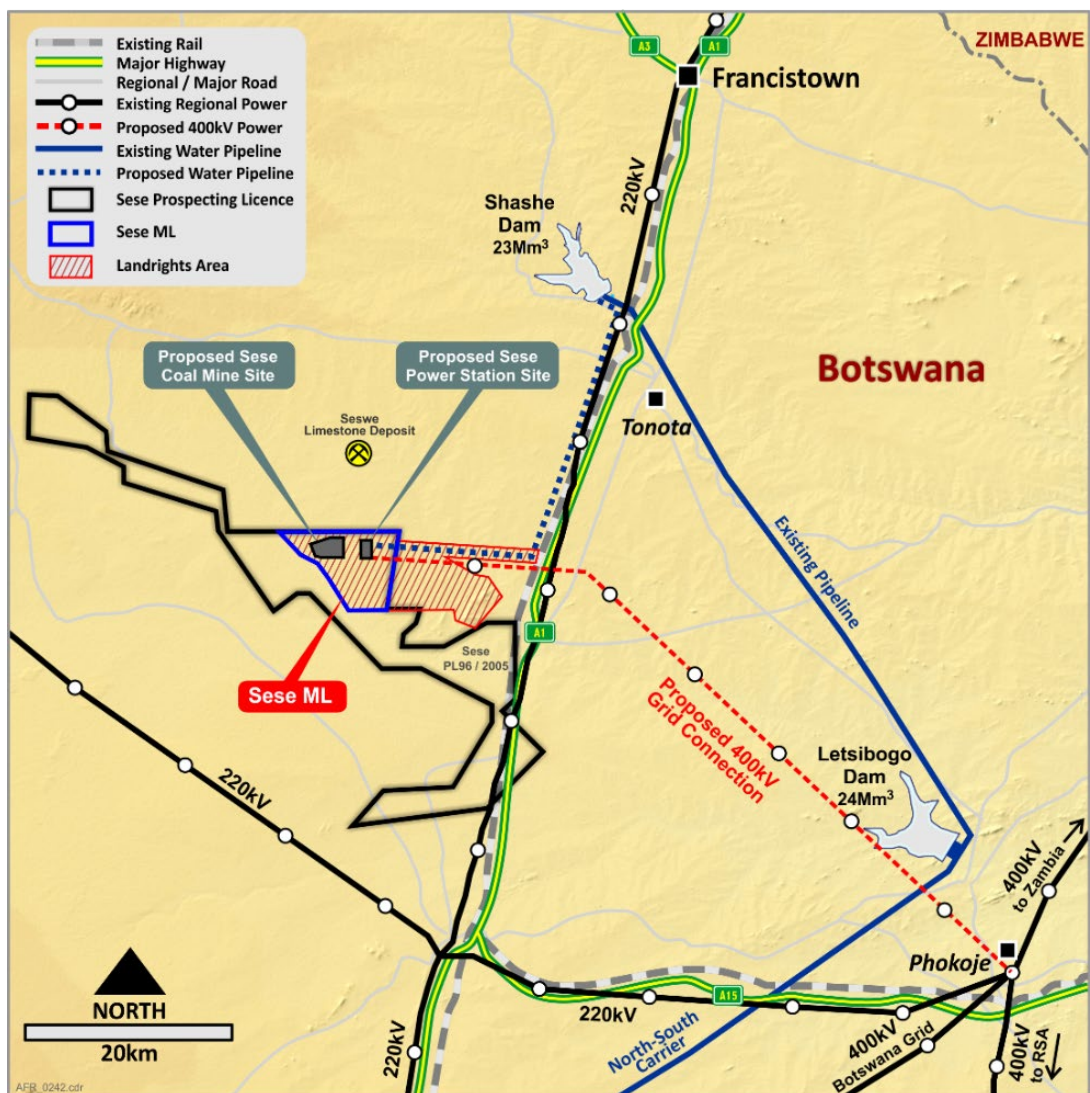


Figure 2. Sese JV license areas and main project elements

Mmamabula West and Mmamantswe Coal Projects

African Energy also owns the Mmamabula West and Mmamantswe coal projects in Botswana (Figure 3).

Mmamabula West Project, Botswana (AFR 100%)

The 2,935Mt Mmamabula West project contains high quality coal in two 4m to 6m thick seams (A-Seam and K-Seam) which are 100-150m below surface and are amenable to conventional underground mining. The project is situated 65km west of the main railway line in Botswana which provides access to local and regional coal markets (Figure 3).

A prefeasibility study on the extraction of the high-quality lower A-Seam was completed for the project in 2014 and determined that conventional underground mining could produce a variety of products for coal export or power generation at highly competitive prices, and that this coal could be readily trucked to a rail loading station on the main Botswana railway line. African Energy has developed coal specifications for several different coal products, including high quality export coals and coal suitable for use in South African power stations.

PL56/2005 (Mmamabula West Prospecting Licence) was valid until 30 September 2019. An application for a two-year extension was submitted on 10 September 2019. The license is yet to be renewed, and the Company remains engaged with the Botswana Dept. of Mines to seek a timely renewal of this licence.

Upon renewal of this licence, African Energy intends to:

- Undertake a review the Life-of-Mine (LOM) schedule and reserve statement for the A-Seam based on the current resource statement.
- Update the mining prefeasibility study to reflect a coal specification to meet Eskom power station requirements, a revised LOM mining schedule and current capital and operating cost estimates.
- Continue negotiations with potential South African BEE 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

Mmamantswe Integrated Power Project, Botswana (AFR 100%)

Mmamantswe contains 1.24Bt of thermal coal close to the South African border. Several studies on coal preparation and power station design were completed by the previous project owner, including grid integration studies for power sales into the South African grid. These studies indicated that the coal quality and coal geometry is suitable for the development of a mine-mouth power station and integrated coal mine but requires a large off-taker for ~600MW to be viable. The project is only 20km from the South African border and is close to the regional power transmission grid and planned grid expansions into South Africa (refer to Figure 3).

The Botswana 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.

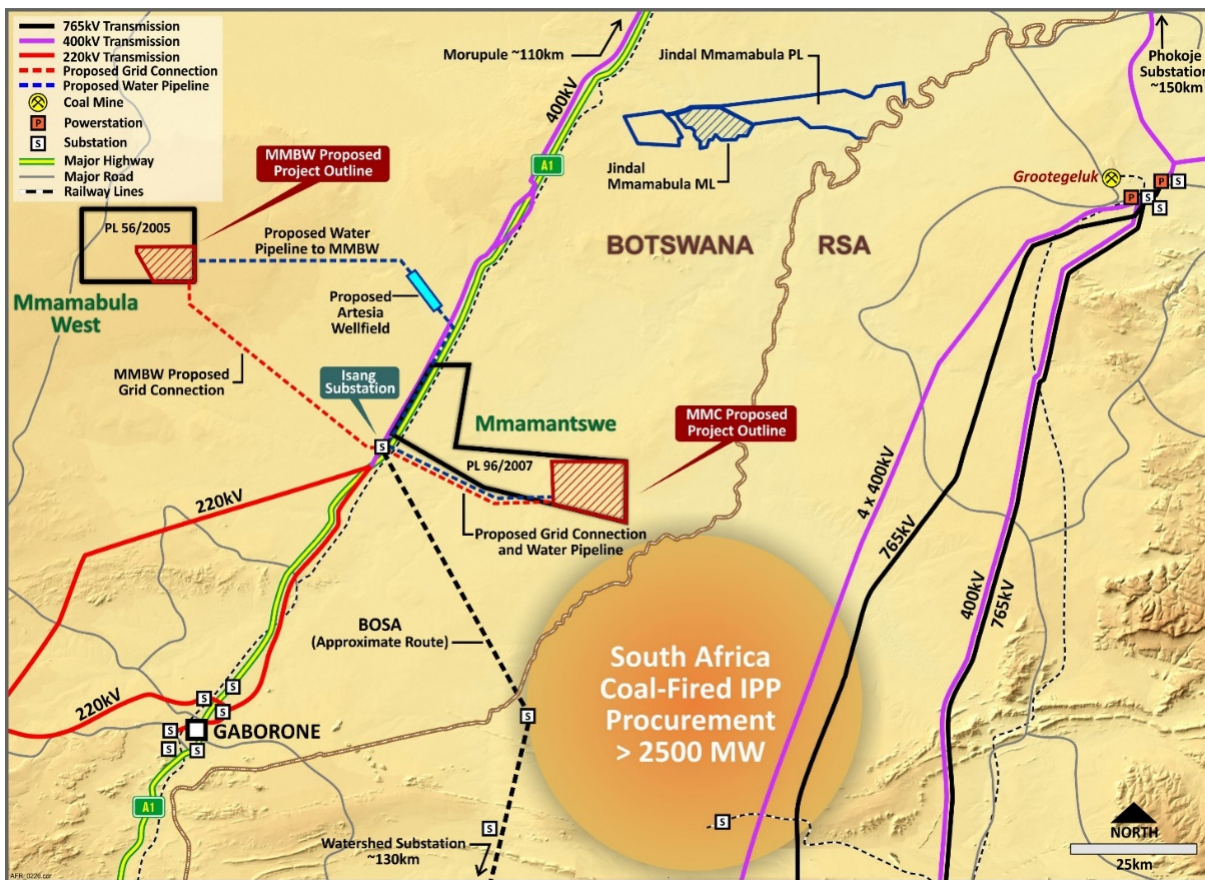


Figure 3. Location of the Mmamabula West and Mmamantswe coal projects with respect to key infrastructure elements in Botswana and northern South Africa.

Tenement Schedule

Project Name	Tenement Name	Tenement Holder	Licence Number	Equity	Area (sq km)	Date Granted	Current Expiry Date
Sese	Sese ML	Sese Power Subsidiary (Pty) Ltd	ML2016/42L	33%	51	22-Mar-17	31-Jan-42
Sese	Sese	AfricanEnergyResources Botswana(Pty)Ltd	PL 96/2005	33%	95	26-Jul-05	30-Sep-21
Sese	Sese West	AfricanEnergyResources Botswana(Pty)Ltd	PL197/2007	33%	131	01-Oct-07	30-Sep-21
Sese	Foley North	AfricanEnergyResources Botswana(Pty)Ltd	PL004/2013	33%	774	01-Jan-13	30 Sep-20*
Mmamantswe	Mmamantswe	Mmamantswe Coal (Pty) Ltd	PL069/2007	100%	453	01-Jul-12	31-Dec 21
Mmamabula West	Mmamabula West	Phokoje Power (Pty) Ltd	PL56/2005	100%	293	01-July-05	30-Sep-19*

*Tenement renewal submitted to Botswana Department of Mines.

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.

Annual Statement of Mineral Resources

Sese JV Project (AFR 33.3%, FQML 66.7%): Resource Summary (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)	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 (AFR 33.3%, FQML 66.7%): Resource Summary (Raw coal on an air-dried basis)								
Resource Zone	In-Situ Tonnes*	CV (MJ/kg)	CV (kcal/kg)	Ash %	IM%	VM%	FC%	S %
MEASURED	35 Mt	17.7	4,225	32.5	6.4	19.4	41.8	2.5
INDICATED	7 Mt	17.2	4,110	32.8	6.9	19.9	40.7	2.6
INFERRED	1,935 Mt	15.2	3,630	39.5	6.0	19.8	34.0	2.1
TOTAL	1,977 Mt							

Mmamabula West Project (AFR 100%): Resource Summary (Raw coal on an air-dried basis)								
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 (AFR 100%): Resource Summary (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							

* 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 Mmamantswe Project 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). The coal resources quoted for Sese, Sese West and Mmamabula West are reported as per the 2012 edition. There have been no material changes to any of the Sese, Sese West and Mmamantswe resources since they were first announced.

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.



African Energy Resources Limited

ARBN 123 316 781

Financial Report

30 June 2020

Directors' Report

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 2020.

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.

Alasdair Cooke BSc (Hons), MAIG – Executive Chairman

Mr Cooke has served as Chairman of the Board since its incorporation. Mr Cooke is a geologist with over 30 years' experience in the resource exploration industry throughout Australia and internationally. For the past 20 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 seventeen years has established a number of successful ASX listed resources companies, including Panoramic Resources, operating the Savannah and Lanfranchi nickel projects in Australia; Albidon, operating the Munali Nickel Mine in Zambia, Mirabela Nickel, operating the Santa Rita nickel project in Brazil; Exco Resources, developing copper and gold resources in Australia; and EVE Investments.

Other current directorships

EVE Investments Limited
Caravel Minerals Limited

Special responsibilities

Executive Chairman

Former directorships in the last three years

Anova Metals Limited

Interests in shares and options

50,003,682 shares

Charles (Frazer) Tabearth PhD, BSc (Hons) ARSM, MAIG – Executive Director and CEO

Dr Tabearth is a graduate of the Royal School of Mines with a PhD and Honours in Mining Geology. He has over 30 years' experience in international exploration and mining projects, including 16 years with WMC Resources. Whilst at WMC, Dr Tabearth 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 Tabearth 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

PolarX Limited
Arrow Minerals Ltd

Special responsibilities

Executive Director and CEO

Former directorships in the last three years

none

Interests in shares and options

4,774,100 shares

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

CDC Group

Special responsibilities

nil

Directors Report (continued)**Former directorships in the last three years**

nil

Interests in shares and options

2,251,425 shares

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 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. 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 directorshipsGolden Minerals Limited
Iron Road Limited**Special responsibilities**

nil

Former directorships in the last three years

nil

Interests in shares and options

4,157,606 shares

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 is a part of the team responsible for the development of power generation projects at the Sese Coal & Power Project under the joint venture with FQM.

Current directorships

nil

Special responsibilities

nil

Former directorships in the last three years

nil

Interests in shares and options

nil

Gregory (Bill) Fry – (retired 15 July 2020)

Mr Fry has more than 30 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.

Other current directorships

EVE Investments Ltd

Special responsibilities

nil

Former directorships in the last three years

Anova Metals Ltd

Interests in shares and options

5,869,610 shares

Daniel Davis – Company Secretary

Mr Davis is a qualified accountant who has fifteen years-experience in senior accounting and corporate roles for resources businesses in all stages from exploration to development, construction and mining.

Directors Report (continued)

1.1 Directors' Meetings

There was one Director's meeting during the Year which was attended by all Directors.

2. 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:

	2020	2019	2018	Restated ⁽¹⁾ 2017	Restated ⁽¹⁾ 2016
Profit / (loss) for the year attributable to owners	(3,372,977)	(927,792)	(4,013,178)	(1,618,702)	(2,070,429)
Basic earnings / (loss) per share (cents)	(0.54)	(0.15)	(0.64)	(0.27)	(0.34)
Dividend payments	-	-	-	-	-
Dividend payment ratio (%)	-	-	-	-	-
Increase / (decrease) in share price (%)	(7%)	(187%)	(304%)	209%	(4%)
Total KMP incentives as percentage of profit / (loss) for the year (%)	-	-	-	-	-

- ⁽¹⁾ Prior to 30 June 2017, the Group capitalised, accumulated exploration and evaluation expenditure and carried forward to the extent that they were expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves. From 1 July 2017, Exploration and evaluation expenditure is stated at cost and is accumulated and carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves. The result of this accounting change meant that the Group expensed exploration and evaluation expenditure as incurred in respect of each Identifiable area of interest until a time where an asset is in development.

Directors Report (continued)

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.

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 July 2020 and was set at US\$17,168 (AU\$25,000) per annum (2019: US\$24,545).

3.4 Executive Directors

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.

Long-term incentives

The award of performance rights and options to Directors, provides an opportunity for Directors to participate in the Company's growth and an incentive to contribute to that growth. The Remuneration Committee determines performance hurdles that will apply to each performance right and option issued. No new performance rights were issued during the year ended 30 June 2020.

Performance conditions attached to performance rights and options issued in the prior year are detailed in note 8.1.

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 Alasdair Cooke and Charles Tabear. 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.

Alasdair Campbell Cooke - Executive Chairman, the Company

- Commencement date: 1 January 2019
- Term: 2 years
- Base annual salary is US\$59,610 (AU\$85,000)
- Consulting Fee of US\$1,402 (AU\$2,000) per day when the executive works more than one day per week
- Termination payment is the equivalent of three months consulting fees

Charles Frazer Tabear - Executive Director, the Company

- Commencement date: 1 January 2019
- Term: 2 years
- Base annual salary is US\$112,208 (AU\$160,000)
- Consulting Fee of US\$1,402 (AU\$2,000) per day when the executive works more than two and a half days per week
- Termination payment is the equivalent of three months consulting fees

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

Directors Report (continued)

3.5 Comments made at the Company's 2019 Annual General Meeting

The Company did not receive any specific feedback at the AGM held on 14 November 2019 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 remuneration - 2020	Short term employee benefits	Post-employment benefits	Share based payments	Performance based	Total
	Cash salary & fees	Superannuation	Rights ⁽¹⁾		
	US\$	US\$	US\$	%	US\$
Non-Executive Directors					
Valentine Chitalu	23,505	-	-	-	23,505
Vincent Masterton-Hume	21,272	2,233	-	-	23,505
John Dean	23,505	-	-	-	23,505
Total Non-Executive Directors	68,282	2,233	-	-	70,515
Executive Directors					
Gregory Fry ⁽²⁾	33,578	-	-	-	33,578
Charles Tabearth	107,450	-	-	-	107,450
Alasdair Cooke	87,974	-	-	-	87,974
Total Executive Directors	229,002	-	-	-	229,002
Total Key Management Personnel	297,284	2,233	-	-	299,517

Key Management Personnel remuneration - 2019

Non-Executive Directors					
Valentine Chitalu	25,044	-	(15,262)	-	9,782
Vincent Masterton-Hume	22,872	2,173	(3,815)	-	21,230
John Dean	23,256	-	-	-	23,256
Total Non-Executive Directors	71,172	2,173	(19,077)	0.0%	54,268
Executive Directors					
Gregory Fry	42,093	4,419	(29,879)	-	16,633
Charles Tabearth	114,489	-	(36,864)	-	77,625
Alasdair Cooke	103,755	-	(26,386)	-	77,369
Total Executive Directors	260,337	4,419	(93,129)	0.0%	171,627
Total Key Management Personnel	331,509	6,592	(112,206)	0.0%	225,895

⁽¹⁾ Negative remuneration values in the prior period are due to a reversal in share-based payment expense as a result of a change in management estimates for the achievement of performance rights. Refer Note 8.1 for further details.

⁽²⁾ Gregory Fry was an executive director from 1 July 2019 to 31 December 2019 and a non-executive director from 1 January 2020.

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

Directors Report (continued)

3.7 Share-based compensation

The Company did not issue share-based compensation during the year.

3.8 Directors' and Executives Interests

A. Shares

	Balance at 30/06/2019	Purchases (Sales)	Balance at 30/06/2020
Non-executive Directors			
Valentine Chitalu	2,251,425	-	2,251,425
Vincent Masterton-Hume	4,157,606	-	4,157,606
John Dean	-	-	-
Executive Directors			
Alasdair Cooke	50,003,682	-	50,003,682
Charles Tabearnt	4,774,100	-	4,774,100
Gregory Fry	5,869,610	-	5,869,610
	<u>67,056,423</u>	<u>-</u>	<u>67,056,423</u>

B. Performance Rights

	Balance at 30/06/2019	Forfeited / Expired During Period	Balance at 30/06/2020
Non-executive Directors			
Valentine Chitalu	400,000	(400,000)	-
Vincent Masterton-Hume	100,000	(100,000)	-
John Dean	-	-	-
Executive Directors			
Alasdair Cooke	766,667	(766,667)	-
Charles Tabearnt	1,266,667	(1,266,667)	-
Gregory Fry	933,333	(933,333)	-
	<u>3,466,667</u>	<u>(3,466,667)</u>	<u>-</u>

C. Options

	Balance at 30/06/2019	Forfeited / Expired During Period	Balance at 30/06/2020
Non-executive Directors			
Valentine Chitalu	500,000	(500,000)	-
Vincent Masterton-Hume	500,000	(500,000)	-
John Dean	-	-	-
Executive Directors			
Alasdair Cooke	1,750,000	(1,750,000)	-
Charles Tabearnt	2,500,000	(2,500,000)	-
Gregory Fry	875,000	(875,000)	-
	<u>6,125,000</u>	<u>(6,125,000)</u>	<u>-</u>

D. 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	
	2020 US\$	2019 US\$	2020 US\$	2019 US\$
Mitchell River Group Pty Ltd	70,475	52,851	-	-

At 30 June 2020 the company had a payable outstanding to Mitchell River Group of US\$2,184 (30 June 2019: US\$6,105).

This is the end of the Audited remuneration report.

Directors Report (continued)

3. Principal Activities

The principal activity of the Consolidated Entity during the course of the financial year was the development of power projects in southern Africa.

4. Events Subsequent to Reporting Date

On 20 July 2020, the Company issued 31,124,532 options exercisable at AUD\$0.02 (2 cents) to a consultant. These options will vest upon the successful completion of an agreement that results in a new party becoming a majority shareholder in the Sese Joint Venture and expire on 20 July 2022.

The impact of the Coronavirus (COVID-19) pandemic is ongoing and while it has not significantly impacted the entity up to 30 June 2020, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

No other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the entity's operations, the results of those operations, or the entity's state of affairs in future financial years.

5. 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.

6. 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.

7. 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.

8. Indemnification and Insurance of Officers and Auditors

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.

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.

9. 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.

10. Non-Audit Services

During the year, there were no non-Audit services provided by BDO Audit (WA) Pty Limited (2019: nil).

11. Loans to key management personnel

Directors Report (continued)

No loans to key management personnel were provided during the period or up to the date of signing this report.

12. Lead Auditor's Independence Declaration

The lead Auditor's Independence Declaration is set out on page 23 and forms part of the Directors' report for the financial year ended 30 June 2020.



Charles Frazer Tabcart

Managing Director
Perth, 30 September 2020

Directors' Report

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 2020 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 Tabcart

Managing Director

Perth, 30 September 2020.

INDEPENDENT AUDITOR'S REPORT

To the members of African Energy Resources Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of African Energy Resources Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, 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, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the Corporations Act 2001, including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Report section of our report. We are independent of the Group in accordance with the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Material uncertainty related to going concern

We draw attention to Note 1.4 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Carrying Value of Investment in Associate

Key audit matter	How the matter was addressed in our audit
<p>As disclosed in Note 2.1, the Group's investment in associate (Sese Power Project) has a significant carrying value as at 30 June 2020.</p> <p>The company is required to assess whether any impairment indicators are present in accordance with ASAB 128 Investments in Associates and Joint Ventures ("AASB 128") which may indicate the Group's investment in associate is impaired.</p> <p>We have determined this is a key audit matter given its financial significance to the Group and the judgements and estimates required in assessing the carrying value of the investment.</p>	<p>Our procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> • Considering the existence of any indicators of impairment in accordance with AASB 128; • Reviewing ASX Announcements, Board of Directors meetings minutes, joint venture minutes and considering management's assessment of impairment indicators; and • Assessing the adequacy of related disclosures in Note 2.1 and Note 1.6 to the Financial Statements.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors 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 preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our auditor's report.



Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 15 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of African Energy Resources Limited, for the year ended 30 June 2020, complies with section 300A of the Corporations Act 2001.

Responsibilities

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.

BDO Audit (WA) Pty Ltd

BDO


Jarrad Prue

Director

Perth, 30 September 2020

DECLARATION OF INDEPENDENCE BY JARRAD PRUE TO THE DIRECTORS OF AFRICAN ENERGY RESOURCES LIMITED

As lead auditor of African Energy Resources Limited for the year ended 30 June 2020, 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.



Jarrad Prue
Director

BDO Audit (WA) Pty Ltd
Perth, 30 September 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2020

	2020	2019
<i>Note</i>	US\$	US\$
Government grants	24,783	-
Interest received	18,814	46,161
Share based payment expense / reversal	9,699	226,291
Gain / (loss) on derivative	(53,120)	(128,867)
Personnel expenses	(150,552)	(276,270)
Professional & administration expense	(192,161)	(187,423)
Exploration & evaluation expensed	(91,372)	(116,038)
Share of Loss in Sese JV	(408,704)	(376,918)
Impairment of Mmamabula West	(2,500,000)	-
Foreign currency gain / (loss)	(30,364)	(114,728)
Loss before tax	(3,372,977)	(927,792)
Income tax expense	-	-
Loss after income tax for the year	(3,372,977)	(927,792)
Attributable to:		
Equity holders of the Company	(3,372,977)	(927,792)
Loss for the year	(3,372,977)	(927,792)
Other comprehensive items that may be reclassified to profit or loss		
Gain in financial assets	12,535	(191,598)
Foreign currency translation reserve	(36,718)	(38,378)
Total other comprehensive income / (loss) for the year	(24,183)	(229,976)
Total comprehensive loss attributable to the ordinary equity holders of the Company:		
Total comprehensive loss for the year	(3,397,160)	(1,157,768)
Loss per share for loss attributable to the ordinary equity holders of the Company:		
Basic and diluted loss per share (cents per share)	(0.54)	(0.15)

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 2020

	Note	2020 US\$	2019 US\$
Assets			
Current assets			
Cash & cash equivalents	4.1	1,013,017	1,941,739
Financial assets at FVOCI	4.3	631,257	630,610
Trade & other receivables	4.4	19,229	51,482
Derivative asset		-	53,120
Total current assets		1,663,503	2,676,951
Non-current assets			
Investment in Sese Joint Venture	2.1	7,077,471	6,924,616
Exploration & evaluation	2.2	-	2,500,000
Total non-current assets		7,077,471	9,424,616
Total assets		8,740,974	12,101,567
Liabilities			
Current liabilities			
Trade & other payables	4.5	146,808	100,541
Total current liabilities		146,808	100,541
Total liabilities		146,808	100,541
Net assets		8,594,166	12,001,026
Equity			
Contributed equity	5.1	64,134,977	64,134,977
Reserves		(5,425,814)	(412,635)
Retained earnings (Accumulated losses)		(50,114,997)	(51,721,316)
Total equity attributable to shareholders of the Company		8,594,166	12,001,026

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 2020

For the twelve months ended 30 June 2020	Contributed equity	Accumulated losses	Foreign Currency Translation Reserve	Other Comprehensive Income Reserve (FVOCI)	Share-Based Payments Reserve	Total equity
	US\$	US\$	US\$	US\$	US\$	US\$
At 30 June 2019	64,134,977	(51,721,316)	(5,218,589)	(183,042)	4,988,996	12,001,026
Net earnings for the year	-	(3,372,977)	-	-	-	(3,372,977)
Effect of translation of foreign operations to group presentation currency	-	-	(36,718)	-	-	(36,718)
Movement in fair value of financial assets at FVOCI	-	-	-	12,535	-	12,535
Total comprehensive income for the year	-	(3,372,977)	(36,718)	12,535	-	(3,397,161)
Transactions with owners in their capacity as owners:						
Cleanse SBP Reserve	-	4,979,297	-	-	(4,979,297)	-
Share based payments	-	-	-	-	(9,699)	(9,699)
At 30 June 2020	64,134,977	(50,114,997)	(5,255,307)	(170,507)	-	8,594,166
For the twelve months ended 30 June 2019						
At 30 June 2018	64,134,977	(50,775,745)	(5,180,211)	(9,223)	5,215,287	13,385,085
Net earnings for the year	-	(927,792)	-	-	-	(927,792)
Effect of translation of foreign operations to group presentation currency	-	-	(38,378)	-	-	(38,378)
Movement in fair value of financial assets at FVOCI	-	(17,779)	-	(173,819)	-	(191,598)
Total comprehensive income for the year	-	(945,571)	(38,378)	(173,819)	-	(1,157,768)
Transactions with owners in their capacity as owners:						
Share based payments	-	-	-	-	(226,291)	(226,291)
At 30 June 2019	64,134,977	(51,721,316)	(5,218,589)	(183,042)	4,988,996	12,001,026

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

Notes to the Financial Statements (continued)

	2020	2019
<i>Note</i>	US\$	US\$
Cash flows from operating activities		
Interest received	20,302	49,177
Payment for exploration and evaluation	(86,058)	(121,414)
Payment to suppliers and employees	(364,893)	(460,510)
Net cash (outflow) from operating activities	4.2	(532,747)
Cash flows from investing activities		
Investment in Sese JV	(447,286)	-
Receipts from sale of listed investments	-	459,086
Acquisitions of Shares in Caravel Minerals	-	(111,135)
Net cash inflow/(outflow) from investing activities	(447,286)	347,951
Cash flows from financing activities		
Issue of Shares	-	-
Net cash inflow/(outflow) from financing activities	-	-
Cash and cash equivalents at the beginning of the year		
Net (decrease) / increase in cash and cash equivalents	4.1	2,300,244
Effect of exchange rate fluctuations on cash held	(877,935)	(184,796)
	(50,787)	(173,709)
Cash and cash equivalents at the end of the year	4.1	1,941,739

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

Notes to the Financial Statements

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 30 September 2020.

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 or loss items are translated on the prevailing rate on the date of transaction.

1.4 Going concern

This report is prepared on the going concern basis which assumes the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business.

The Group incurred a net loss of \$3,372,977 during the year ended 30 June 2020 (2019: \$927,792) and as of that date the Group had net current assets of \$1,516,695 (30 June 2019: \$2,576,410) including cash and cash equivalents of \$1,013,057 (30 June 2019: \$1,941,739). Net cash used in operating activities for the period was \$430,649 (2019: \$532,747).

These conditions indicate a material uncertainty that may cast doubt about the ability of the Group to continue as a going concern. The ability of the Group to continue as a going concern is principally dependent upon its ability to secure funds by raising capital from equity markets or by other means, and by managing cash flows in line with available funds, and/or the successful development of its exploration assets.

The Directors are confident of the ability of the Company to potentially raise capital as and when required. The Directors are satisfied there are sufficient funds to meet the Group's working capital requirements as at the date of this report.

The directors are uncertain of the duration of the COVID-19 pandemic and of the potential consequential impact that may flow through to the Group's future operating costs and exploration activities. The directors believe there are reasonable prospects the Group can continue operations through the COVID-19 pandemic and are committed to the long term development and growth of the Company on behalf of its shareholders, employees and the communities in which it operates.

The Directors have reviewed the business outlook and the assets and liabilities of the Group and are of the opinion that the going concern basis of accounting is appropriate as they believe the Group will continue to be successful in securing additional funds as and when the need to raise funds arises. Should the Group not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements and that the financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the entity not continue as a going concern.

Notes to the Financial Statements (continued)

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 2020 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 – Investments in Associates – The Group assesses the carrying amount of investment in associates at each reporting period in accordance with AASB 128. If impairment indicators are identified, the Group tests the investments for impairment in accordance with AASB 136. In assessing the recoverability of investments in associates, management applies their estimates and judgements as to the recoverability.
- Note 2.2 – 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 8 – Share-based payments arrangements - The Group values options issued at fair value at the grant date using the black scholes option pricing 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. Performance rights are valued at face value of the share on the date of issue. At each reporting period management assess the probability of the vesting of options and performance rights where applicable in accordance with AASB 2 – Share based payments (non-market conditions). The probability is assessed to either be less likely or more likely (0% or 100%) and a vesting expense is recorded accordingly.

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the company based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the company operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the company unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

2. Non-Current Assets

2.1 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 returns through its power to direct the activities of the entity. Where the group loses control of a subsidiary but retains significant

Notes to the Financial Statements (continued)

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

	2020 US\$	2019 US\$
Balance at the beginning of the year	6,924,616	7,301,534
Investment in Sese JV	561,559	-
Share of Losses after income tax	(408,704)	(376,918)
Carrying amount at 30 June	7,077,471	6,924,616

(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	33	4,990,946	107,780	-	(408,704)

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

	2020 US\$	2019 US\$
Summarised statement of financial position		
Current Assets		
Cash and cash equivalents	119,720	59,922
Trade and other receivables	32,152	119,105
Total current assets	151,872	179,027
Non-current Assets		
Exploration & evaluation	14,972,208	14,574,666
Property, plant & equipment	-	25,387
Total non-current assets	14,972,208	14,600,053
Total assets	15,124,080	14,779,079
Current Liabilities		
Trade and other payables	76,607	70,803
Total current liabilities	76,607	70,803
Non-current Liabilities		
Rehabilitation Provision	250,000	250,000
Total non-current liabilities	250,000	250,000
Total liabilities	326,607	320,803
Net assets	14,797,473	14,458,276

	2020 US\$	2019 US\$
Summarised statement of comprehensive income		
Total Operating Expense	1,216,335	1,090,614
Loss from operating activities	1,216,335	1,090,614
Other comprehensive income	9,777	5,140
Total comprehensive income	1,226,112	1,095,754

There were no contingent assets or liabilities in African Energy Holdings SRL at 30 June 2020. There were no commitments at 30 June 2020.

Notes to the Financial Statements (continued)

2.2 Exploration and evaluation expenditure

(a) Exploration and Evaluation Carrying Values

The Group will elect by Area of Interest to adopt one of the following policies:

- (i) Exploration and evaluation expenditure is stated at cost and is accumulated and carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves; or
- (ii) Exploration and evaluation costs are expensed as incurred as an operating cost of the Group. Costs related to the acquisition of properties that contain mining resources are capitalised and allocated separately to specific areas of interest. These costs are capitalised until the viability of the area of interest is determined.

The Board has determined to apply this policy to an area of interest on a case by case basis.

Area of Interest	Accounting Policy Election
Mmamabula West Coal Project	2.2(a)(ii)
Mmamantswe Coal Project	2.2(a)(i)
African Energy Holdings SRL (Sese JV)	2.2(a)(i)

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.

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.

	2020 US\$	2019 US\$
Mmamabula West Coal Project	-	2,500,000
Carrying amount of exploration and evaluation	-	2,500,000

(b) Exploration and Evaluation movement reconciliation

	2020 US\$	2019 US\$
Balance at the beginning of the year	2,500,000	2,500,000
Impairment due to delay in renewal of tenure	(2,500,000)	-
Carrying amount at 30 June	-	2,500,000

Notes to the Financial Statements (continued)

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 three reportable segments. These are Coal-fired Power Projects; Power Investments and Unallocated.

(b) Segment Information

For the year ended 30 June 2020	Coal-fired Power Development Projects	Power Investments	All other segments	Consolidated
	US\$	US\$	US\$	US\$
Total segment revenue	-	-	43,597	43,597
Profit (loss) before income tax	(2,591,372)	(408,704)	(372,901)	(3,372,977)
Segment Assets				
Investment in Sese JV	-	7,077,471	-	7,077,471
Cash and short term receivable	-	-	1,663,503	1,663,503
Total Segment Assets	-	7,077,471	1,663,503	8,740,974
Segment Liabilities				
Trade & other payables	-	114,273	32,535	146,808
Total Segment Liabilities	-	114,273	32,535	146,808
For the year ended 30 June 2019				
Total segment revenue	-	-	46,161	46,161
Profit (loss) before income tax	(116,038)	(376,918)	(434,836)	(927,792)
Segment Assets				
Investment in Sese JV	-	6,924,616	-	6,924,616
Exploration and evaluation expenditure	2,500,000	-	-	2,500,000
Property, plant and equipment	-	-	2,676,951	2,676,951
Cash and short term receivable	2,500,000	6,924,616	2,676,951	12,101,567
Total Segment Assets				
Segment Liabilities				
Trade & other payables	-	-	100,541	100,541
Total Segment Liabilities	-	-	100,541	100,541

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.

Notes to the Financial Statements (continued)**(b) Government Grants**

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate. This includes Job Keeper income received due to COVID-19 during the year which has been net off with the associated salaries this year.

(c) 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.

	2020 US\$	2019 US\$
Interest received	18,814	46,161
	<u>18,814</u>	<u>46,161</u>

3.3 Expenses

	2020 US\$	2019 US\$
Personnel expenses		
Employee salaries	89,191	89,097
Superannuation	7,710	10,224
Directors fees	297,232	338,177
Recharge of director fees and employee salaries	(243,581)	(161,228)
	<u>150,552</u>	<u>276,270</u>
Professional & administration expense		
Audit Tax and Accounting	63,387	71,932
Compliance & Insurance	61,283	68,554
Occupancy	23,533	(17,808)
Travel	7,551	37,529
Marketing	8,352	14,028
Legal fees	7,628	1,402
Depreciation and Impairment of PP&E	-	29
Other	20,427	11,757
	<u>192,161</u>	<u>187,423</u>

3.4 Income Taxes**(a) Income tax expense:**

	2020 US\$	2019 US\$
Current tax	-	-
Deferred tax	-	-
Overprovision in respect to prior years	-	-
	<u>-</u>	<u>-</u>

Notes to the Financial Statements (continued)**(b) Reconciliation of income tax expense to prima facie tax payable:**

	2020	2019
	US\$	US\$
Loss before income tax	(3,372,977)	(927,792)
Prima facie income tax at 30% (2019: 27.5%)	(1,011,893)	(255,143)
Tax effect of amounts not deductible in calculating taxable income:		
Sundry items	(7,387)	67
Other	91,248	82,091
	(928,032)	(172,985)
Difference in overseas tax rates	(4,321)	3,552
Tax loss not recognised	932,353	169,433
Income tax expense/(benefit)	-	-

(c) Tax losses:

	2020	2019
	US\$	US\$
Unused tax losses for which no deferred tax asset has been recognised	(511,187)	(408,073)
Potential tax benefit @ 30% (2019: 27.5%)	(153,356)	(112,220)
Difference in overseas tax rates 10%	(4,321)	3,552
Potential tax benefit	(157,677)	(108,668)

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

	2020	2019
	US\$	US\$
Timing	778,730	70,666
Losses - Revenue	4,656,480	4,498,803
	5,435,211	4,569,469

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.

Notes to the Financial Statements (continued)

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

(a) Basic loss per share

The calculation of basic loss per share at 30 June 2020 was based on the losses attributable to ordinary shareholders of US\$3,372,977 (2019: US\$927,792) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2020 of 622,960,630 (2019: 622,960,630) calculated as follows:

	2020 US\$	2019 US\$
Gain (Loss) attributable to ordinary shareholders	(3,372,977)	(927,792)
Issued number of ordinary shares at 1 July	622,960,630	622,960,630
Effect of shares issued during the period	-	-
Weighted average number of shares for year to 30 June	622,960,630	622,960,630
Basic loss per share (cents per share)	(0.54)	(0.15)

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.

(b) 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.

	2020 US\$	2019 US\$
Cash at bank and in hand	610,665	479,609
Short-term deposits	402,352	1,462,130
	1,013,017	1,941,739

Refer to note 5.2 for risk exposure analysis.

Notes to the Financial Statements (continued)**4.2 Reconciliation of loss after income tax to net cash flows from operating activities**

	2020	2019
	US\$	US\$
Cash flows from operating activities		
(Loss) for the year	(3,372,977)	(894,489)
Adjustments for:		
Gain/(Loss) on Derivative	53,120	128,867
Equity-settled share-based payment expenses	(9,699)	(259,594)
Share of Loss in Sese JV	408,704	376,918
Depreciation and amortisation expense	-	29
Impairment of Mmamabula West	2,500,000	-
Foreign exchange losses	28,774	113,099
Change in operating assets & liabilities		
(Increase)/decrease in trade and other receivables	29,222	(14,230)
(Decrease)/increase in trade and other payables	(67,793)	16,653
Net cash used in operating activities	(430,649)	(532,747)

There was no non-cash investing and financing activities during the year.

4.3 Financial Assets at FVOCI

	Caravel Shares	Goviex Shares	Total
Carrying amount at 30 June 2018	677,346	470,584	1,147,930
Additions	111,135	-	111,135
Movement in Fair Value of Financial assets at FVOCI	(156,278)	(35,310)	(191,588)
Effect of movements in foreign exchange	(1,593)	-	(1,593)
Disposals	-	(435,274)	(435,274)
Carrying amount at 30 June 2019	630,610	-	630,610
Additions	-	-	-
Movement in Fair Value of available for sale financial assets	12,535	-	12,535
Effect of movements in foreign exchange	(11,888)	-	(11,888)
Disposals	-	-	-
Carrying amount at 30 June 2020	631,257	-	631,257

4.4 Trade and other receivables

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

	2020	2019
	US\$	US\$
Trade debtors	-	31,546
Interest receivable	255	1,743
GST and VAT receivable	18,974	18,193
	19,229	51,482

Trade and other receivables are recorded at amounts due less any allowance for any expected credit losses.

Notes to the Financial Statements (continued)**4.5 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.

	2020	2019
	US\$	US\$
Trade creditors	11,018	63,711
Accrued expenses	132,623	32,403
Payroll liabilities	3,167	4,427
	146,808	100,541

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.

4.6 Impairment

The Group assesses at each reporting date whether there is objective evidence financial asset or group of financial assets is impaired in accordance with AASB 9.

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	Number of shares	US\$
Balance 30 June 2018	622,960,630	64,134,977
Balance 30 June 2019	622,960,630	64,134,977
Balance 30 June 2020	622,960,630	64,134,977

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.

Notes to the Financial Statements (continued)

(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.

ii. Price risk

The Group holds shares in Caravel Minerals and is exposed to equity securities price risk.

	Carrying amount	Price risk			
		+10%		-10%	
		Profit US\$	Equity US\$	Profit US\$	Equity US\$
30 June 2020					
Financial assets at FVOCI	631,257	63,126	63,126	(63,126)	(63,126)

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.

	Carrying amount	Interest rate risk				Foreign exchange risk			
		- 100 bps		+ 100 bps		-10%		+10%	
		Profit US\$	Equity US\$	Profit US\$	Equity US\$	Profit US\$	Equity US\$	Profit US\$	Equity US\$
30 June 2020									
Financial assets									
Cash & cash equivalents	1,013,017	10,130	(10,130)	(10,130)	10,130	(101,302)	101,302	101,302	(101,302)
Financial assets at FVOCI	631,257	-	-	-	-	(63,126)	63,126	63,126	(63,126)
Trade & other receivables	19,229	-	-	-	-	(1,923)	1,923	1,923	(1,923)
Financial liabilities									
Trade and other payables	146,808	-	-	-	-	(14,681)	14,681	14,681	(14,681)

- 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:

v. 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

Notes to the Financial Statements (continued)

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
2020			
Trade Payables	146,808	-	146,808
	146,808	-	146,808
2019			
Trade Payables	100,541	-	100,541
	100,541	-	100,541

(b) 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.

5.3 Fair value measurement

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

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: Unobservable inputs for the asset or liability

	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
30 June 2020				
Financial assets at FVOCI	631,257	-	-	631,257
Derivative asset	-	-	-	-
Total assets	631,257	-	-	631,257
30 June 2019				
Financial assets at FVOCI	630,610	-	-	630,610
Derivative asset	-	-	53,120	53,120
Total assets	630,610	-	53,120	683,730

Notes to the Financial Statements (continued)

There were no transfers between levels during the financial year.

Level 3 financial derivative unobservable inputs and sensitivity are as follows:

Description	Unobservable inputs	Sensitivity
Financial derivative	Share price	Decrease share price decrease fair value
	Volatility	Increase volatility significantly increase or decrease fair value

Accounting policy for fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

Fair value in active market (Level 1)

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and listed equity securities) are based on quoted market prices at the close of trading at the end of the reporting period without any deduction for estimated future selling costs.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Fair value in an inactive or unquoted market (Level 2 and Level 3)

The fair value of financial assets that are not traded in an active market is determined using valuation techniques. These include the use of recent share price from capital raising and option pricing models that provides a reliable estimate of prices obtained in actual market transactions.

For option pricing models, inputs are based on available market data. Fair values for unquoted equity investments are estimated, using the latest share price from capital raising. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

6. Group Structure

6.1 Basis of consolidation

(c) 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.

Notes to the Financial Statements (continued)

(d) 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.

(e) Comparatives

Prior period comparative are for the year from 1 July 2018 to 30 June 2019.

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.

	2020 US\$	2019 US\$
Current Assets	1,406,373	1,851,913
Non-Current Assets	7,187,793	10,149,113
Total Assets	8,594,166	12,001,026
Current Liabilities	-	-
Total Liabilities	-	-
Contributed equity	64,134,977	64,134,977
Reserves	(126,300)	4,860,950
Accumulated losses	(55,414,511)	(59,994,901)
Total Equity	8,594,166	12,001,026
Gain (loss) for the year	(2,951,523)	(1,076,229)
Other comprehensive income / (loss) for the year	-	-
Total comprehensive income / (loss) for the year	(2,951,523)	(1,076,229)

Notes to the Financial Statements (continued)

There were no commitments, contingent liabilities or contingent assets at the parent level at 30 June 2020.

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 2020	Ownership interest 2019
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%

7. Related parties

7.1 Key Management Personnel

US\$299,517 (2019: US\$225,895) was paid to Directors of the Company during the year. Disclosures relating to key management personnel are set out in the Remuneration Report. During the prior year, there was a negative balance for equity compensation benefits due to the reversal of share-based payment expenses.

	2020 US\$	2019 US\$
Short-term employee benefits	297,284	331,509
Post-employment benefits	2,233	6,592
Equity compensation benefits	-	(112,206)
	<u>299,517</u>	<u>225,895</u>

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	
	2020 US\$	2019 US\$	2020 US\$	2019 US\$
Mitchell River Group Pty Ltd	70,475	52,851	-	-

Directors Mr Cooke, Mr Fry and Dr Tabcart are Directors and 25% shareholders of Mitchell River Group Pty Ltd which charges the Group for provision of a serviced office and administration staff.

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

	2020 US\$	2019 US\$
Trade and other receivables	-	-
Trade and other payables	2,184	6,205

Notes to the Financial Statements (continued)**8. Share based payments****8.1 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 2019	Issued in Year	Vested in Year	Expired in Year*	Unvested at 30 June 2020	Fair Value (AUD)
28-Nov-14	27-Nov-19	FC	4,500,000	-	-	4,500,000	-	-
28-Nov-14	27-Nov-19	PPA2	666,667	-	-	666,667	-	-
28-Nov-14	27-Nov-19	PPAZ	300,000	-	-	300,000	-	-
31-Mar-15	30-Mar-20	MMA2	500,000	-	-	500,000	-	-
22-Nov-16	31-Dec-19	PPA3	1,166,667	-	-	1,166,667	-	-
22-Nov-16	31-Dec-19	BFS2	100,000	-	-	100,000	-	-
15-Aug-17	31-Dec-19	GEO2	300,000	-	-	300,000	-	-
			7,533,334	-	-	7,533,334	-	-

* All performance that expired during the year did because the expiry date of the performance right had passed

PPAZ	Formal execution of a PPA between the Sese JV company and ZESCO for the full output of a 300MW IPP 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
MMA2	unconditional completion of binding SSA or successful award of SA IPP tender to Mmamantswe
PPA2	Formal execution of a 300MW Sese PPA or when FQM have made a formal financial commitment to a 300MW power station at Sese by 27/11/2019
PPA3	Formal execution of a 300MW Sese PPA or when FQM have made a formal financial commitment to a 300MW power station at Sese by 31/12/2019
BFS2	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 from 1 October 2018 to 31 December 2019
GEO2	100% upon sign off of Mining Reserve or when FQM have made a formal financial commitment to a 300MW power station at Sese

9. Other**9.1 Events occurring after the reporting period**

On 20 July 2020, the Company issued 31,124,532 options exercisable at AUD\$0.02 (2 cents) to a consultant. These options will vest upon the successful completion of an agreement that results in a new party becoming a majority shareholder in the Sese Joint Venture and expire on 20 July 2022.

The impact of the Coronavirus (COVID-19) pandemic is ongoing and while it has not significantly impacted the entity up to 30 June 2020, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

No other 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.

9.2 Contingencies and Commitments

There were no contingent assets or liabilities in the Group at 30 June 2020. There were no commitments at 30 June 2020.

Notes to the Financial Statements (continued)**9.3 Remuneration of Auditors**

	2020	2019
	US\$	US\$
BDO Audit (WA) Pty Ltd: Audit and review of financial reports	30,848	25,800
	30,848	25,800

9.4 New standards and interpretations not yet adopted**Early adoption of accounting standards**

The Group has not elected to apply any pronouncements before their operative date in the annual reporting year beginning 1 July 2019.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the Group:

AASB 16 Leases

The Group has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

Impact of adoption

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption of AASB16 was not material to the financial statements.

When adopting AASB 16 from 1 July 2019, the Group has applied the following practical expedients:

- Applying a single discount rate to the portfolio of leases with reasonably similar characteristics;
- Accounting for leases with a remaining lease term of 12 months as at 1 July 2019 as short-term leases;
- Excluding any initial direct costs from the measurement of right-of-use assets;
- Using hindsight in determining the lease term when the contract contains options to extend or terminate the lease; and
- Not apply AASB 16 to contracts that were not previously identified as containing a lease.

Standards and Interpretations in use not yet adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2020. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

Conceptual Framework for Financial Reporting (Conceptual Framework)

The revised Conceptual Framework is applicable to annual reporting periods beginning on or after 1 January 2020 and early adoption is permitted. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards. Where the Group has relied on the existing framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under the Australian Accounting Standards, the Group may need to review such policies under the revised framework. At this time, the application of the Conceptual Framework is not expected to have a material impact on the Group's financial statements.

Additional Shareholder Information

The following additional information required by the ASX Listing Rules is current as at 25 September 2020.

African Energy Resources Limited shares are listed on the Australian Securities Exchange (ASX:AFR).

Distribution of Shareholders

Range	Securities	%	No. of holders	%
100,001 and Over	591,579,373	94.96	370	15.47
10,001 to 100,000	27,295,899	4.38	741	30.99
5,001 to 10,000	2,381,282	0.38	308	12.88
1,001 to 5,000	1,594,269	0.26	526	22.00
1 to 1,000	109,807	0.02	446	18.65
Total	622,960,630	100	2,391	100
Unmarketable Parcels	9,160,041	1.47	1,597	66.79

Largest 20 shareholders

Rank	Name	Number of Shares Held	%IC
1	Sentient Group	141,404,786	22.70%
2	First Quantum Minerals	86,692,308	13.92%
3	Alasdair Cooke (and associated entities)	50,003,683	8.03%
4	PS Consulting Pty Ltd	25,000,000	4.01%
5	Stacey Radford	19,237,334	3.09%
6	Bond Street Custodians Limited	9,693,148	1.56%
7	CS Third Nominees Pty Ltd	7,502,500	1.20%
8	Donal Windrim	6,871,914	1.10%
9	Helmet Nominees Pty Ltd	6,306,484	1.01%
10	Mr Miroslaw Jan Marzec & Mrs Barbara Anne Wiszniewski	6,300,000	1.01%
11	General Advisory Pty Ltd	5,800,926	0.93%
12	Mr Timothy John De Burgh	5,276,923	0.85%
13	Mrs Helen Elizabeth Martin	5,276,923	0.85%
14	Mr Brian Henry Mccubbing & Mrs Adriana Maria Mccubbing	5,163,000	0.83%
15	A & J Scott Pty Limited	5,000,000	0.80%
16	Frazer Tabear (and associated entities)	4,774,100	0.77%
17	Raejan Pty Ltd	4,700,000	0.75%
18	Mr Robert Cooke & Mrs Elizabeth Cooke	4,500,000	0.72%
19	ZW 2 Pty Ltd	4,500,000	0.72%
20	Jolib Pty Ltd	4,435,625	0.71%
	Total Top 20	408,439,654	65.56%

There were 2,391 holders of 622,960,630 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:

Class of shares and voting rights

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

Additional Shareholder Information (continued)**Substantial Holders**

As notified to the Company

Name	Number Of Shares Held	%IC
Sentient Group	141,404,786	22.70%
First Quantum Minerals	86,692,308	13.92%
Alasdair Cooke (and associated entities)	50,003,683	8.03%

Other information

The company has not utilised a share buyback in the past 12 months



PERTH OFFICE Suite 1, 245 Churchill Avenue, Subiaco WA 6008 | PO Box 162, Subiaco WA 6904
Tel: +61 8 6465 5500 | **Fax:** +61 8 6465 5599 | **Email:** info@africanenergyresources.com

africanenergyresources.com

African Energy Resources Limited ARBN 123 316 781