

27th August 2014

LETTER OF INTENT FROM ZESCO, ZAMBIA'S STATE ELECTRICITY UTILITY

HIGHLIGHTS

- *A Letter of Intent ("LOI") has been executed by ZESCO, the electricity utility in Zambia, confirming ZESCO's interest in receiving power from African Energy's proposed 300MW Sese Integrated Power Project (the "Project"), for which development is planned to commence in 2015.*
- *ZESCO has agreed to work with African Energy on a Transmission System Connection Agreement based on a connection into the ZESCO National Electricity Grid at or near the Livingstone substation.*
- *ZESCO recently attended a joint meeting with African Energy and Botswana Power Corporation ("BPC") at which all parties agreed the scope for a Transmission Study to evaluate the transmission route and connection options for the Project.*
- *Parsons Brinckerhoff Africa has been commissioned to undertake the Transmission Study with immediate effect. Completion of the Transmission Study is expected in Q4 2014.*

ZESCO, the Zambian State Electricity utility, has executed a Letter of Intent with African Energy Resources Ltd (African Energy) confirming their interest in progressing discussions and technical studies that may potentially lead to long term power supply agreements.

The next stage of transmission studies are critical in determining the cost and technical parameters for connection into the Botswana and Zambian electricity grids. Cooperation of the respective grid managers, ZESCO and BPC (the Botswana state electricity utility) is essential for this process and has now been initiated. Recent meetings between the three parties have agreed the scope for the necessary studies and Parsons Brinckerhoff Africa have been engaged to undertake the work.

The proposed transmission line is planned to take up to 300MW of new power generation capacity and with further upgrading, up to 600MW of generation (Diagram 1). This link would create a significant new opportunity for Zambia and Botswana to trade power within the Southern Africa Power Pool and creates opportunities for both countries to diversify their power supply options and explore synergies between Zambia's large, zero carbon generation capacity based almost exclusively

on hydropower and Botswana's expanding capacity for low cost, reliable baseload generation from coal.

The proposed link is also close to the connection point for the recently completed Caprivi DC connector, linking Namibia into the Zambian grid. The economies of Namibia, Botswana and Zambia are all growing at steady rates, with forecasts of 4.2%, 5.4% and 7.1% GDP growth respectively in 2014. Growth in electricity demand continues at even higher rates due to expansions in both industrial use and even faster expansions in domestic demand. Governments in these countries are actively working to expand the state electricity grids into rural areas and bring reliable and affordable electricity to people who until now have largely relied upon wood and charcoal for cooking and heating.

The Transmission Study is scheduled for completion within three months. Other work will continue during this time to delineate other terms of agreement required for the project to proceed.

BACKGROUND

African Energy is developing a series of 300MW integrated power projects and captive coal mines at its Sese Project in Botswana which have the potential to supply power into Zambia via a new transmission line in eastern Botswana.

For any further information, please contact the Company directly on +618 6465 5500

For and on Behalf of the Board



Diagram 1. Proposed transmission routing from Sese, Botswana to a new grid connection point near Livingstone, Zambia.