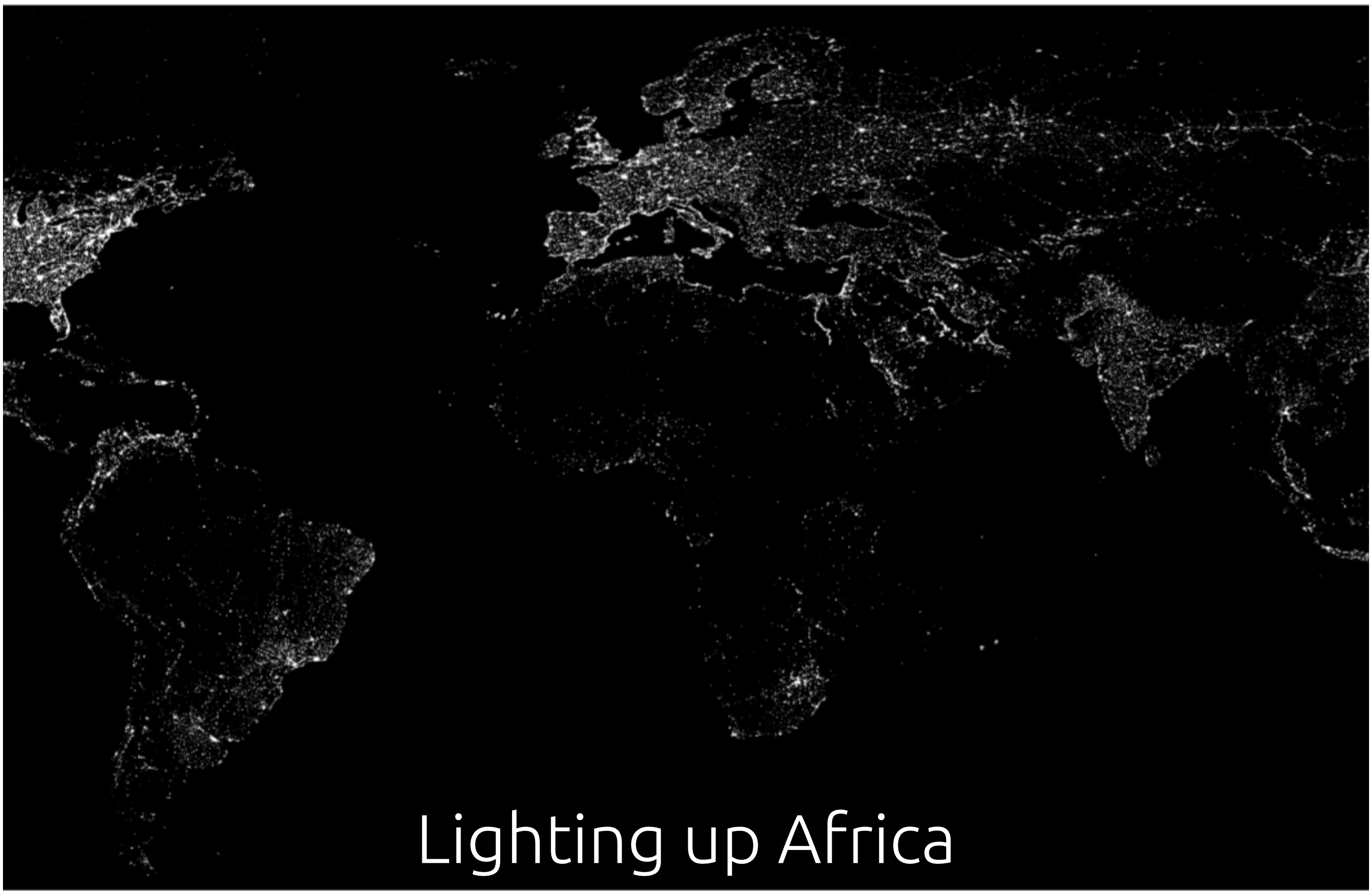
AfricaNewEnergies



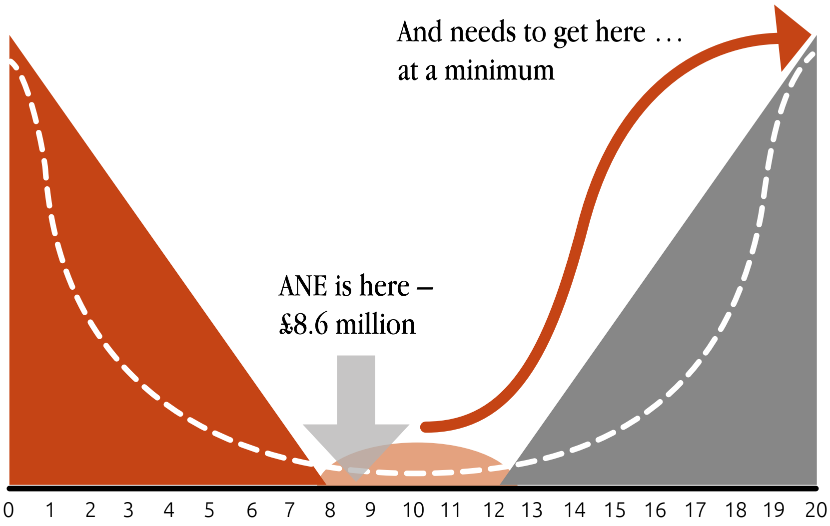
Africa New Energies' Annual General Meeting

The meeting started with a brief introduction to the company to refresh our memories and bring newcomers up to date.

Following this, we looked at where we were at the AGM last year and what we had planned to do in the year ahead. This led to an explanation of the market conditions during that year and how they give rise to both opportunities and challenges.

Market conditions

It is important to understand the context in which ANE operates. The company has done extremely well in the current environment to raise £8.6 million from a variety of sources, without undue dilution. However, the Valley of Death refers to the fact that the UK has one of the most enabling environments in the world for angel funding. But once £5 million has been raised (the annual Enterprise Investment Scheme limit), the company is too big for small angel investors, but too small to attract institutional investment – where less risk is tolerated and a profitable business is usually required where a price earnings ratio can be calculated. Companies from every sector face this problem, the oil and gas sector is by no means unique.



Where the oil and gas sector finds life to be challenging is the fact that it requires vast amounts of capital to become cash flow positive. With prices dropping from a high of $127 in 2013 to a low of $27 in 2015, where 60% of US rigs were laying idle, sentiment towards the sector is negative.

ANE faces a further challenge that is specific to its circumstances. It is using technology that institutional investors do not understand and drilling in a location that is more than 1,000 miles from the nearest proven hydrocarbons deposit. Its team are mathematicians rather than geologists so institutional investors would find its offering out of their mandate.

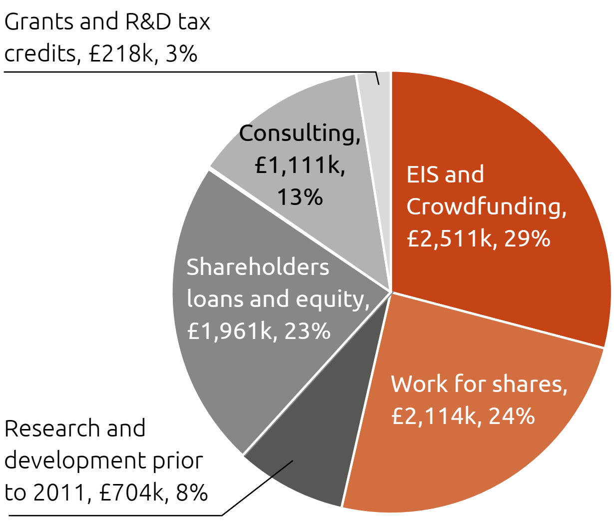
If ANE is to succeed in finding oil and gas, it first needs to succeed in finding an unconventional funding mechanism to fund its targeted 10 well drilling programme.

Analysis of the funds that have been raised to date

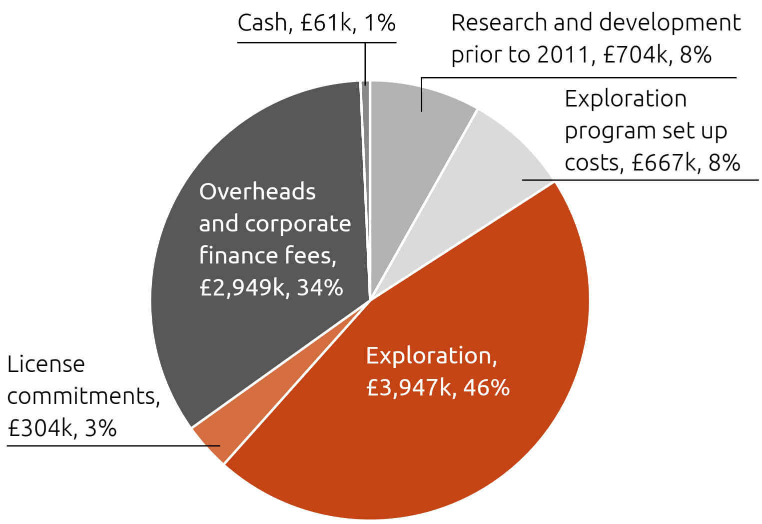
ANE is proud of the fact that it has tapped investors for a minority of the funds that have been invested in the exploration programme and technology

Funding to date

Africa New Energies – Funds raised – £8,632k



Africa New Energies – deployment of funds – £8,632k

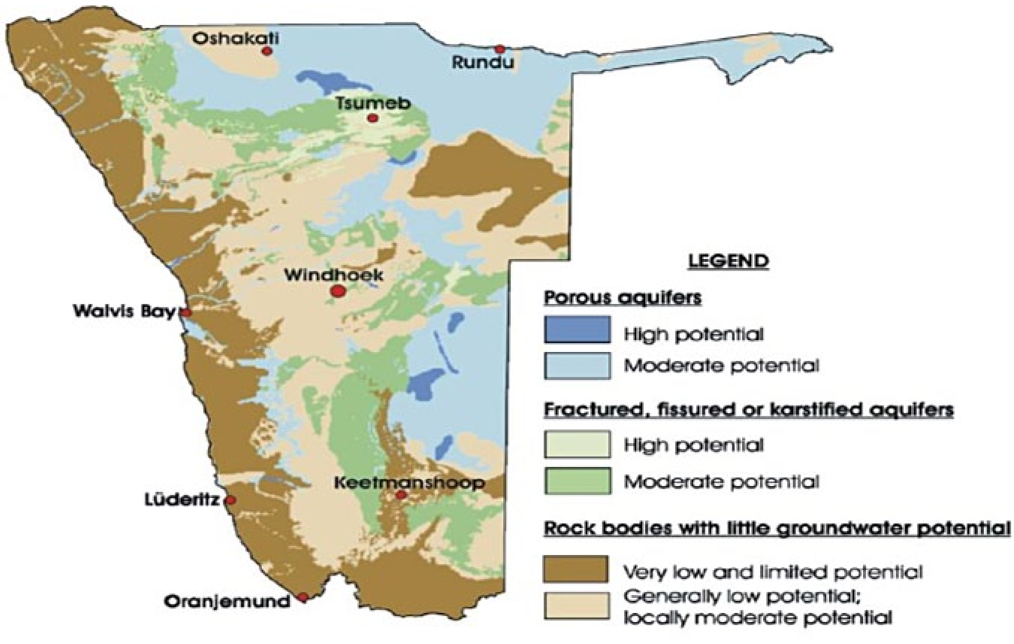


development to date. In fact only 29% or £2.5 million of the £8.6 million raised to date has been from crowdfunding investors. The rest has been funded from the owners liquidating properties, grants, research and development tax credits, grants, sale of intellectual property and consulting, and skills swaps. For every £1.00 raised from EIS investors, the company has sourced £2.44 from other sources.

Apart from high corporate finance costs – which are unavoidable due to the highly regulated nature of fund-raising, the technology has reduced costs. Peter Hutchinson, the former chief geologist for BP North America, estimates that a typical exploration program involving traditional seismic dominated approaches would have cost $50 million to get to this point, with lower probabilities of success.

The Chinese Bid

Opportunities and challenges



On 26 January 2017, Africa New Energies received an unsolicited offer valuing the company at approximately £2.95 per share or $500 million. The bid was made by a US private equity firm called One Stone Capital which has $1 billion under management. They indicated in writing that the Chinese government was behind them with further money from the Asian Infrastructure Investment Fund.

This was a substantial offer and after first investigation appeared to be sufficiently credible to pursue. However, after fully evaluating the offer, the board felt that it had no other alternative but to turn down the offer. The following were felt to be incongruent with the company's values:

Fracking

ANE's acreage on blocks 2219 and 2319 sits on the world's second largest known aquifer covering some 190,000 square kilometres – almost the area of England and Scotland combined. The frackable resources are likely to be located in the Ecka, Dwyke and Beaufort formations, which are directly below the aquifer. As fracking involves fracturing the rock and pumping it with known carcinogens, ANE believes that such degradation of a water source in a country where 99% of the land is not arable, is not environmentally acceptable. This is why the board has issued a moratorium on fracking on this acreage.

The Chinese responded correctly that a British company had received acreage from the Botswana government to frack the Nama Basin directly across the

theguardian

Botswana sells fracking rights in pristine Kgalagadi national park

Did fracking in Botswana cause Johannesburg to tremble?

Botswana sells fracking rights in National Park

border from ANE. This is true, and ANE was dismayed when it was approached by the Bushman and Herero communities in Botswana to assist them to bring about a basin-wide ban. The company is alone in its crusade to bring about the sustainable extraction of mineral resources in an environmentally responsible way. When the Chinese representatives met with the local community, they finally agreed that fracking would not be environmentally feasible – but this did take a month to negotiate.

Prison labour

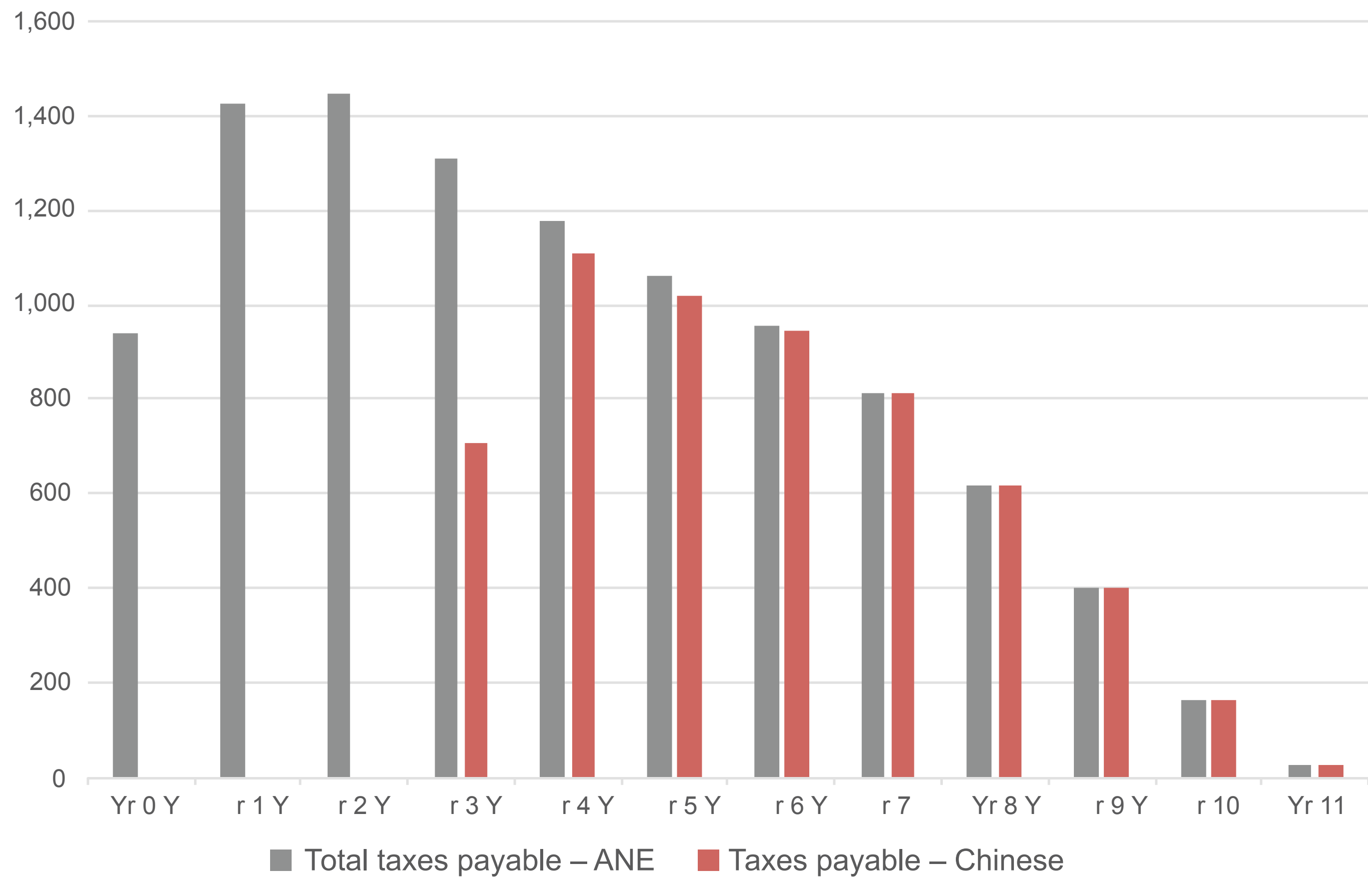
A second concern that ANE had was the Chinese insistence on using prison labour. The concession's 22,000 inhabitants are poor, live on land that is marginal with a rainfall of less than 350mm per year. 70% of the youth are unemployed. Having engaged with the community, it became clear to ANE that jobs and meaningful capacity development was more important to the community than receiving handouts. The Chinese approach in Africa has been to use prison labour for large industrial projects – where the prison labourers would help to build a project and would receive their freedom at the end of the construction period – often commuting years from their sentences.

This would not be acceptable to the community nor to the government, which would need to issue work permits. The Chinese were adamant that such labour practices would be used.

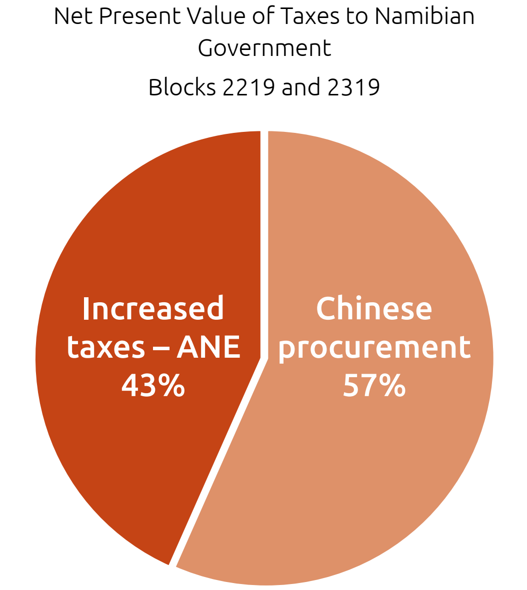
Procurement costs

The third problem lies in artificially increasing procurement costs: ANE estimates that to development and extract a mean resource of 1.6 billion barrels covering 2,000 km2 will take about $5 billion in capital expenditure over a

Effect of tripling the procurement spend



Net present value of tax transfers to China



seven year period. The Chinese estimates are that the costs would be $15 billion. There is an alarming trend across the oil and gas industry – where high hydrocarbon taxes mean that capital expenditure costs are artificially inflated. There is an unfortunate precedent within Namibia – the Usib Uranium project was originally estimated to be a $1 billion capex project – it was sold to the Chinese and upfront costs have ballooned to $5 billion. This means that the Namibian government will not receive any tax revenues for the first decade of the project.

ANE's analysts have modelled the effects of tripling procurement costs on the Namibian government's take. The effects are dramatic – the tripling of the procurement spend means that the Namibian government loses 30% of current GDP mainly in the first three years of production, when revenues are at their highest. This dramatically increases political risk to the project and the chances of nationalisation. At peak production, this project will increase Namibian GDP by over 50% of its 2017 benchmark, should the mean prospective resource of 1.6 billion barrels be discovered.

Once again, when ANE pointed out that the exploration agreement with the Namibian government has specific provisions to avoid inflating costs – the Chinese were adamant that it was their standard way of operating in Africa and that no government had refused them yet.

This is the before photograph of this water borehole where oil seepage was present in 1986. This picture was taken in 2013.

Here is a picture of our chief field geologist, Immanuel Ambata, the same site in November 2017. The local people told us that foreigners came in with earth moving equipment in April 2017 to take deep samples on this site in March/April 2017 – coinciding with the visit to Namibia of the One Stone Capital's representative. Bringing earth moving equipment to such a remote site – 400 km from Windhoek with 50% on dirt roads is a major undertaking and somewhat audacious considering the fact that it is illegal. To us it exemplifies the integrity of the potential counterparty.

The Chinese Bid

Negative consequences

Obviously turning down an offer that would have given investors between 30 fold and 100 fold returns over night, in terrible sector investment conditions, was not universally popular.

The decline of the offer culminated in a number of setbacks, causing the CEO to name March 2017, ANE's Mensis Horribilis.

Illegal exploration activity

Not for nothing, the oil and gas industry has been called the "Squeeze". It is notoriously dirty. As the diagrams, left, show, ANE's team was tipped off by the local community that foreigners were drilling illegally on a disused water borehole that had oil shows in 1986. This activity coincided with the Chinese representatives visit in April 2017.

Accident in Botswana

On 1 March 2017, two of ANE's team were involved in a car accident where they were extremely lucky not to be harmed. They hit a cow in the middle of Botswana when blinded by a passing truck.

Lost consulting revenue – Alumni Risk

Thirdly, ANE is dependent on revenue from consulting and a fee of almost £250k was lost, where the company's South African consultancy will need to sue a business partner to recover the funds. As explained in the earlier slide, the company has developed marketable skills that reduce its dependence on shareholders for funds to cover corporate overheads.

ANE EIS reapplication

The Enterprise Investment Scheme was compromised by the Chinese bid for arcane technical reasons, where the company is still debating with HRMC. According to the tax rules, companies benefiting from EIS should not have gross assets of more than £16 million to receive the generous tax breaks. It could be argued that the company's only asset, its shares in the wholly owned Alumni Exploration East Namibia (Pty) Ltd, was now worth more than £16 million, due to a bid valuing the company at almost £400 million. However, the company has argued, correctly according to its accountants, that unless the asset was sold and the funds realized, it could not be capitalised at the value of a bid that was not accepted. Secondly, GAAP applying specifically to commodities exploration stipulates than exploration expenditure incurred prior to discovering, proving and booking a resource should be expensed. Ironically, this complies with the tax rules with regard to claiming exploration expenditure. ANE is cautiously optimistic that it will resolve this problem. Fortunately it affects less than 10% of EIS investors. Should the company not resolve the problem, it will reorganise investor shares such that they receive these ANE shares free and participate in the subscription of other technology companies supporting ANE that do qualify for EIS.

Staff issues - Shareholders Action Group

One of the most distressing consequences of the bid, was the unexpected way that staff reacted to it. When the bid was announced, they assumed that their work was done and that they could retire. ANE's board were at pains to explain that there were fundamental problems that needed to be resolved before the bid could be accepted, but this had little effect on staff performance. We found that three staff members refused to come to the office as they were running businesses on the side, despite being paid by ANE. They were given an ultimatum of desisting immediately or having their contracts terminated. Two were dismissed and one stopped.

Staff issues - Shareholders Action Group

Another former staff member colluded with a terminated staff member to take a shareholder list and send derogatory emails to all shareholders about the management team. He tried to form a shareholders action group to force the company to accept the bid, but gave up when fewer than 1% of votes expressed interest in joining him. This did shareholder morale considerable damage.

Green Sky Corporate Finance issues

A former colleague of the CEO offered to seek regulation to create a corporate finance house, but resigned after 12 days on the job. This has caused a delay of over 18 months.

Walsh Aviation

A key investee company providing airborne services set up by a loyal and large shareholder of ANE was compromised when the founder felt he was not psychiatrically prepared to take on running an ambitious technology start up. Again this has delayed the project by 18 months.

Bank fraud

When paying the license fee to the Namibian government from South Africa a technical error on the side of Standard Bank of South Africa resulted in a payment of hundreds of thousands going into a private bank account of a sheriff of the court in Port Elizabeth. He immediately splurged it on a fleet of cars. The company filed for an urgent application to the South African courts to return the moneys, upon which Standard Bank accepted the liability and repaid the amount lost. This was a highly stressful 3 week period when at times it seemed as though the company would need to absorb the loss.

Management team's physical health

These factors have had an effect on staff wellbeing: The combination of travel and stress resulted in the CEO contracting pneumonia – potentially life threatening and stopping him from operating in most of March and April causing further delays.

Disaster came when Sarah Keely, wife of Stephen Larkin and known to many of the shareholders as the voice of competence in the office, was diagnosed with cancer. Her condition has deteriorated.

Reinforce £3.00 offer price with:

Farm-in agreements where services are swapped for shares

Providing asset backing for a digital currency

Rights issue assisted by digital currency trading to raise £3 million net on the EIS

Financial strategy going forward

For all the upheaval this bid and its rejection caused, it was still game changing for the company – in a positive way.

The company's shares are being revalued where it is signing farm-in agreements with supplier companies at close to the £3.00 per share valuation.

It has also given it the impetus to back the Aziza Coin token where the controlling shareholders Shakes Motsilili, Brendon Raw and Stephen Larkin have given 20% of the company in return for using their loans to obtain 20% of the Aziza Coins prior to the Initial Coin Offering later in 2018.

The company plans to sell these digital coins to raise $60 million for 10 well drilling programme 2018.

German government support – ZIM program – EUR0.9m

At due diligence stage for 1st SPII grant

Commitment from provincial government for communications network - £1 million

Successes

Despite these disruptions, we are able report important progress on a number of funding fronts:

Section 12J and FSB approval in South Africa – first funds hit accounts 2 weeks ago

After six years of lobbying, one legislative change and four years of engagement with the authorities, we are able to announce that Alumni Energy Investments Limited in South Africa is finally regulated and approved.

This is a vital step in ANE's evolution in funding its future. Section 12J is a clause in the South African legislation that enables corporates, trusts and individuals to get back up to 45% of investment through reduced taxes in a similar way to EIS when they invest in this fund. It is regulated by the Financial Services Board in South Africa. The amounts that we are allowed to raise have such high restrictions – R500 million (£30 million) per investee company and an unlimited number of companies, the potential for funding is effectively unlimited by tax restrictions.

This is a vital new source of funding to us as it will assist with the airborne surveying – which will be heavily subsidised by grants from both the South Africa and German governments, the communications network we need to complete the project and the passive seismic tomography. It will also fund a drilling services company on a highly tax subsidised basis.

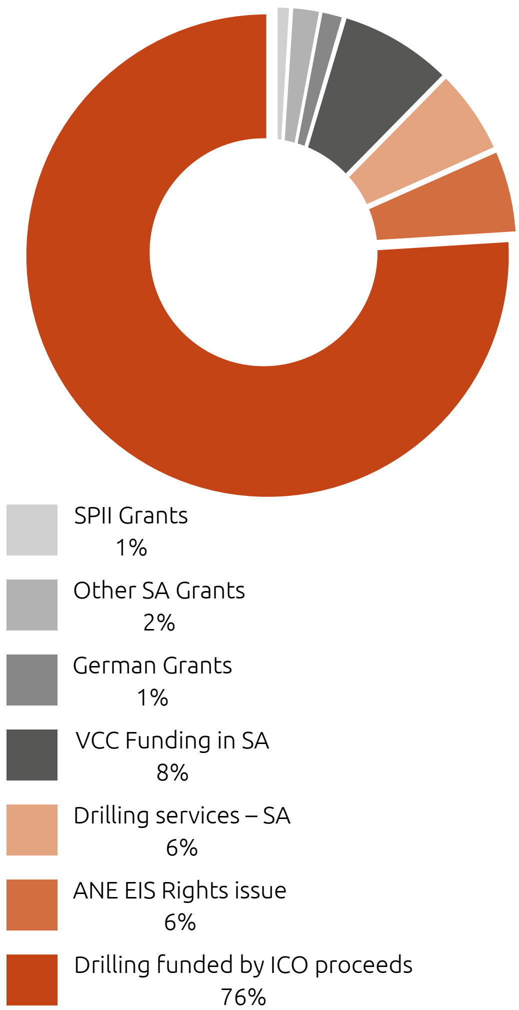
Launch of Aziza Coin – October 2017

This also enabled ANE to get involved with Aziza Coin , as the first client. Aziza Coin is a token ecosystem supporting disruptive technology startup businesses. The overriding objective of the Aziza Coin is to foster economic and social development in developing countries by providing access to finance, skills and support services to startups at better than market rates.

What differentiates the Aziza Coin as a token is that it is asset-backed – it will own 20% of all the startup businesses being supported. This was an effective way of using the $500 million valuation. Using this market valuation, the cofounders of ANE decided to transfer 20% of its shares – worth $100m – to the AZF in an attempt to kick-start its broader strategy of providing funding and centralised support services to a range of qualifying startup businesses.

The Aziza Coin is currently focused on businesses based the United Kingdom, South Africa and Namibia, although the Foundation has ambitions to expand its operational footprint into other countries in Southern Africa, and the rest of the African continent and beyond. The AZF aims to raise $60m to support its existing stable of early-stage businesses, and subsequent qualifying startups – all of which will be required to make a material contribution to job creation, skills acquisition, community development and the material prosperity of the countries in which they operate.

As ANE will be in possession of 100 million of the 500 million coins, it will be able to sell these on the ICO (like a share listing but for digital coins) where if it is successful, it will fund a 10 programme at a greatly reduced level of dilution.



ANE sources of funding through the ICO

The graph, left, shows the significance of a successful initial coin offering for Aziza Coin to ANE, where it will fund almost 80% of the money required for a ten well programme.

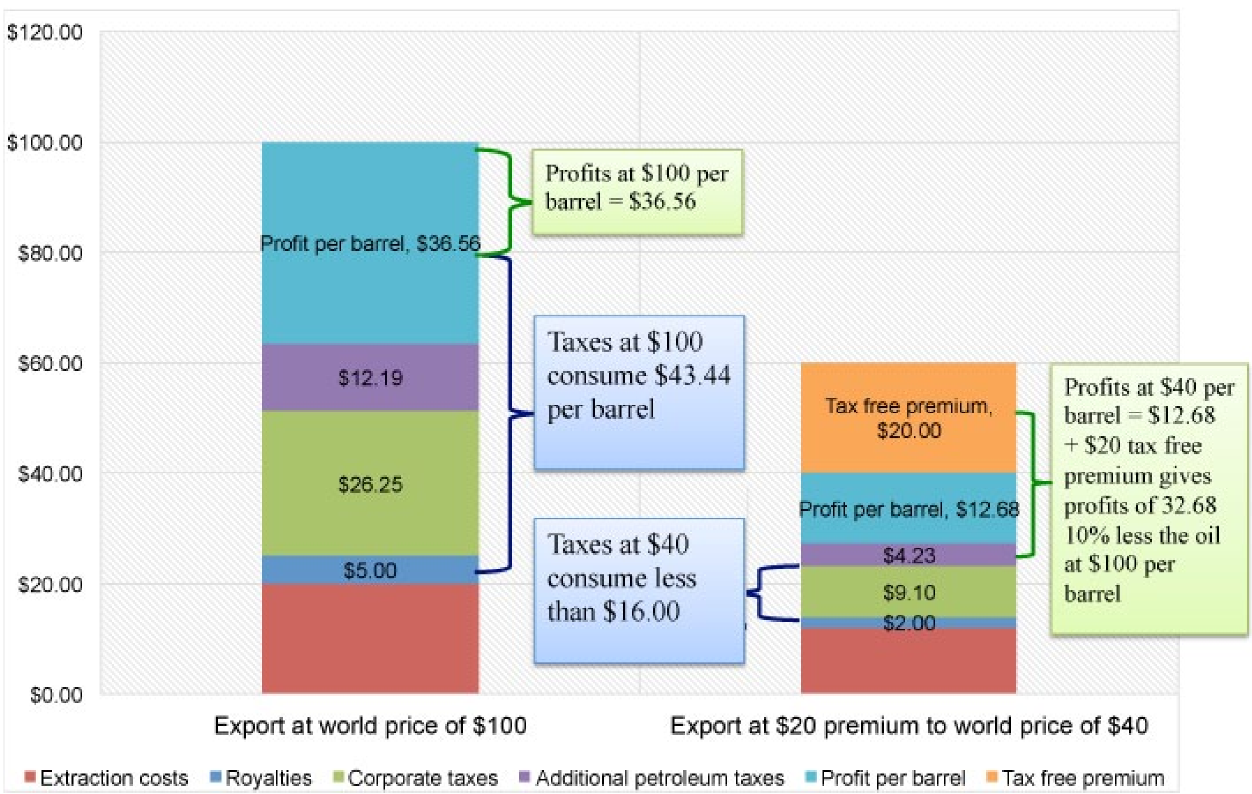
It is our intention to start drilling in 2018, where the spudding of the first well will greatly assist Aziza Coin to sell its coins to the global public. As was the case previously, it will also unlock significant amounts of grant funding and Research and Development Tax Credits.

Success of all these interventions will enable ANE to become self-funding with less than 100 million shares in issue.

Another encouraging point to ANE's proposition is the underlying economics. Despite a brent crude price of $70 per barrel, ANE is budgeting at $40 per barrel and the project still shows excellent returns of $16 per barrel.

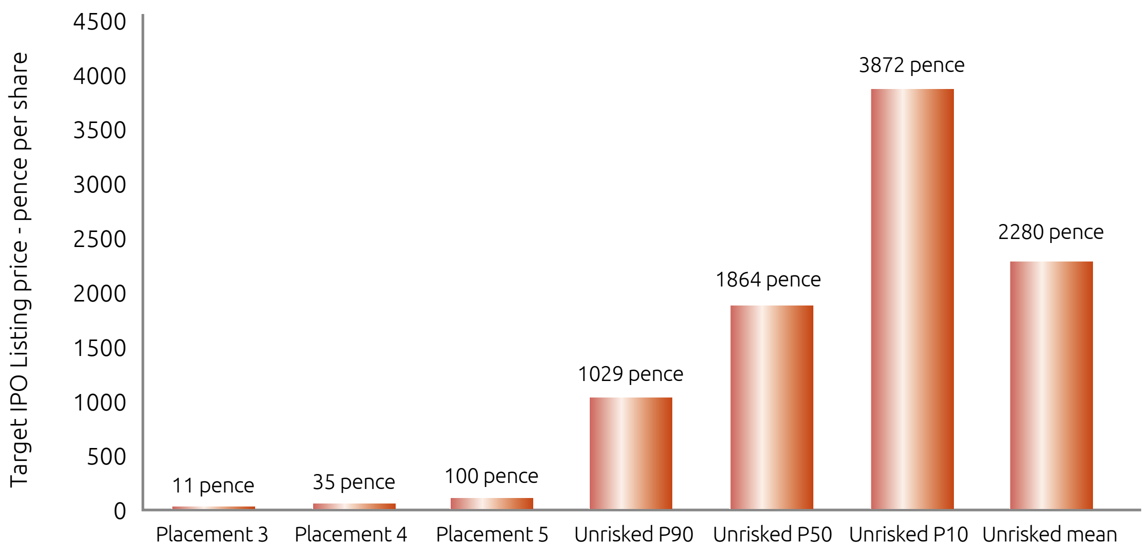
The structure of the fiscal terms of the contract means that 70% of the net present value of price decreases are absorbed by the Namibian government. This means that the breakeven point of the project is $19. On the discovery side, virtually any hydrocarbons found will yield a return. The breakeven point in terms of barrels discovered is 16 million barrels – 1/100th of the prospective resource.

ANE's profit at $40 per barrel



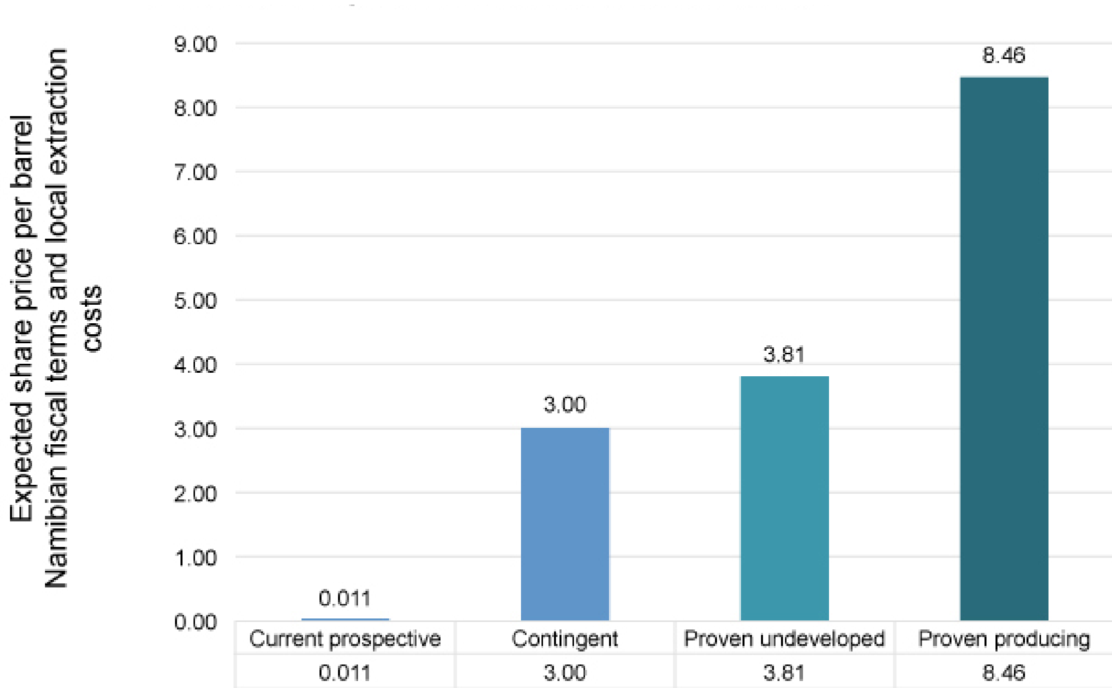
Target share price

Modelled share price – Pence
Unrisked prospective share price scenarios



How discovery increases share value

Value per barrel on progressive resource reclassification
Based on unrisked mean prospective resource scenario



We need to play as a team

There are ways we can all help. We can support our asset-backed token, the Aziza Coin. Get onto LinkedIn, Twitter and Facebook. Like our articles, share them – spread the word.

A big thank you to everyone who has referred people. This is a very personal type of support which is much appreciated.