

31 January 2012

Manager Announcements
Company Announcements Office
Australian Stock Exchange Limited
10th Floor, 20 Bond Street
SYDNEY NSW 2000

Via electronic lodgement

**QUARTERLY ACTIVITIES REPORT FOR THE PERIOD
ENDED 31 DECEMBER 2011**

HIGHLIGHTS

Sese bulk sample

- Excellent progress was made on the excavation of the exploration bulk sample. By the end of the quarter approximately 5,000t of upper seam coal had been extracted and stockpiled.
- A site visit by the Hon. Minister of Minerals, Energy and Water Affairs and local government dignitaries was undertaken in late December to inspect progress with the bulk sample and discuss project developments with the management team.
- The bulk sampling exercise is scheduled for completion in Q1 2012. A further ~10,000t of coal will be added to the stockpiles in this quarter and test work programmes on the coal will commence.

Sese bankable feasibility study

- Key consultants for the bankable feasibility study have been appointed, including MRM (Runge) as the study manager and lead mining consultant, Sedgman Limited as the coal processing and handling consultant, GEMECS as the resource consultant, and Gondwana Ventures as the geological consultant. Further appointments will be made in Q1 2012 for hydrogeology, water search and civil engineering consultants.

- A marketing consultant (Industrial Coal Africa Pty Ltd) has been appointed for a six month period to develop markets for industrial use of Sese coal in the southern African region.

Sese EIA

- The Environmental Impact Assessment for the Sese coal and power project continued. The Preliminary EIA has been approved for a 5mtpa mine and up to 600MW power station. Community consultations are now scheduled for February which will be followed by development of the formal terms of reference for the full EIA.

Sese resource drilling

- Infill core drilling to a 500m x 500m grid was completed in the northern part of Block-B and the north-central part of Block-C. This data will be used to classify a Measured Resource in these areas.

Sese power project

- A project development plan for an initial 300MW power project was developed during the quarter.
- Phase 1 of the development plan (Concept Study) commenced. This is essentially a desk top study and included meetings with key parties to assess issues associated with fuel supply, power off-take, design and construction, water supply, environmental and regulatory framework, transmission options and project finance. The concept study is due for completion in Q1 2012, and will be followed by Phase 2 – feasibility study.
- Discussions with potential power off-take partners commenced during the quarter.

Exploration

- Coal bearing stratigraphy has been identified on the Company's Sinazongwe East tenement in southern Zambia. A small drilling programme (9 holes for 1,691m core) was completed. All holes intersected coal seams of variable thickness and quality. Detailed logging and analysis of the coal is underway.

Corporate

- African Energy Resources highlighted its commitment to Botswana by listing on the Botswana Stock Exchange in late October. The dual listing provides an opportunity for Botswana citizens to share in the future growth of the Sese Coal Project and provides the Company with access to an additional shareholder base within Botswana that includes a number of significant institutional investors and pension funds.

- In December, the Company finalised an agreement to extend the repayment date of the US\$5,000,000 loan facility with Macquarie Bank Limited (“MBL”) for an additional 12 months. The key terms of the new loan facility are as follows

Interest rate:	US\$ LIBOR + 5% (LIBOR is currently 0.28%)
Repayment Date:	31 December 2012
Facility Amount:	US\$5,000,000

The Company issued MBL with 9,768,964 options with a strike price of A\$0.50 and an expiry date of 31 December 2013 in consideration for extending the repayment date of the loan.

- The cash position at 31 December 2011 was USD \$10,322,988.

Outlook

- Release of the Government of Botswana’s Coal Roadmap is expected in Q1 2012.
- Re-classification of the entire Sese coal resource to an Indicated category.
- Large diameter core drilling to collect coal core from selected sites in Block-B and Block-C. These samples are required for coal processing test work.
- Completion of the excavation of a bulk sample and commencement of test work programmes on the coal.
- Continuation of Bankable Feasibility Study on the Sese coal project.
- Commence feasibility study for the Sese power project.
- Continuation of EIA process for the Sese coal and power project.
- Results from southern Zambian coal drilling

PROJECTS

1. Sese Coal Project, Botswana

African Energy Resources Limited 100%

1.1 Bankable Feasibility Study (BFS)

The bankable feasibility study is now underway. During the quarter a number of consultants were appointed to key roles:

- MRM/Runge have been appointed as Study Manager and as Mining Consultant
- Sedgman Limited have been appointed as Coal Processing and Handling Consultant
- SRK have been appointed as Geotechnical Consultant
- GEMECS have been appointed as Resource Consultant
- Gondwana Ventures have been appointed as Geological Consultant
- Industrial Coal Africa Pty Ltd have been appointed as Coal Marketing Consultant

Further appointments are expected in January/February 2012 for the roles of hydrogeology, water search and civil engineering consultants

1.2 Environmental Impact Assessment (EIA)

The Preliminary Environmental Impact Assessment for the proposed Sese coal and power project was submitted to the Department of Environmental Affairs (DEA) in August for a 5mtpa coal mine and up to 600MW power station. This PEIA has been approved, and the Company is now proceeding to the public consultation phase from which draft Terms of Reference for the full study will be derived in consultation with the DEA.

1.3 Bulk Sample

Extraction of the exploration bulk sample progressed well during the quarter. Almost 5,000t of coal from the upper parts of the seam were placed on stockpiles during the quarter. Approximately 10,000t of coal remain to be excavated and stockpiled, mainly from the lower part of the coal seam. This is expected to be completed by mid Q1 2012. A successful site visit was made by the Hon. Minister for Minerals, Energy and Water Affairs in late December, along with a number of regional dignitaries, including the Chiefs from Tonota and Mabesekwa towns, and representatives from the District Commissioner's office.

Coal from the bulk sample will be used for a number of purposes:

- Large scale washing tests
- Combustion test to ascertain how the coal will burn in power station boilers
- Export trials via Mozambique port (likely to be Maputo)

- Provision of samples to regional industrial users for their own test work (managed under AFR's marketing programme)

1.4 Resource Drilling

During the quarter, the Company completed 500m x 500m infill core drilling in the northern half of Block-B and the north-central part of Block-C. This will provide information which should permit the classification of a Measured Resource in these areas. This completes the standard diameter (slim-line) core drilling requirements for the entire resource delineation programme for PL96/2005.

A resource estimate update to convert the majority of the deposit to an Indicated Resource is due for completion early in Q1 2012. A further update to place the areas of 500m infill drilling (refer above) into Measured Resource is due in Q2 2012.

To date, the resource delineation drilling comprises 399 holes for a total of 27,780m, approximately 70% of which is HQ diameter core drilling.

1.5 Power Project

Strong progress on the Sese power project was made during the quarter. A project development plan for an initial 300MW power station has been devised, along with a detailed development schedule. The project essentially comprises four phases, of which the first phase (Concept Study) will be completed in early Q1 2012. This phase is largely a desk top study to evaluate all key areas of power project development:

- Fuel supply
- Off-take
- Design and construction
- Water supply
- Environmental permits and regulatory approvals
- Transmission and wheeling
- Operation and maintenance
- Ownership and equity investments
- Project finance

Once Phase 1 has been completed, Phase 2 (feasibility study) will commence. This will require the appointment of key advisors and consultants in January/February 2012. Phase 2 is due for completion by early Q3 2012.

2. Uranium Projects in Zambia

2.1 Chirundu Uranium Project (100% African Energy)

- Baseline environmental studies for the Chirundu Uranium Project continued.
- Construction of the community health post at Sikoongo Village was completed during the quarter, and the facility handed over to the Community at a ceremony attended by local dignitaries.

2.2 Kariba Valley Uranium Project (100% African Energy)

- During the course of routine field assessment of Karoo sediments in the Sinazongwe East tenement, the Company's geologists identified areas where sub-cropping coal has been exposed in several hand pits dug for local village water sources. The coal bearing sediments have a strike length of approximately 10km in the AFR tenement, and are the easterly extension of the stratigraphy which hosts the Maamba Colliery and the Kandabwe Coal Mine, Zambia's only producing coal deposits.
- A small programme of diamond drilling to assess the coal potential in the AFR tenement commenced during the quarter and was completed in mid-January. A total of nine holes for 1,691m of core were completed. Coal seams of varying thicknesses were intersected in all holes. Detailed core logging and sampling programmes are underway and results will be reported in due course.

2.3 Northern Luangwa Valley Project (100% African Energy)

- No work during the quarter.

2.4 Aldershot Joint Venture (African Energy earning an initial 51%)

- No work during the quarter.

Dr Frazer Tabeart
Managing Director

Full details for all projects including location maps, tenement schedules and technical descriptions may be found on the African Energy website at:

www.africanenergyresources.com

The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the 'JORC Code') sets out minimum standards, recommendations and guidelines for Public Reporting in Australasia of Exploration Results, Mineral Resources and Ore Reserves. The information contained in this announcement has been presented in accordance with the JORC Code and references to "Measured", "Indicated" and "Inferred Resources" are to those terms as defined in the JORC Code.

Information in this report relating to exploration results is based on data compiled by Dr Frazer Tabeart (a full time employee and Managing Director 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 2004 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.

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

Appendix 5B

Mining exploration entity quarterly report

Name of entity

AFRICAN ENERGY RESOURCES LIMITED

ARBN

123 316 781

Quarter ended ("current quarter")

31 DECEMBER 2011

Consolidated statement of cash flows

		Current quarter \$US'000	Year to date (3 months) \$US'000
Cash flows related to operating activities			
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for:		
	(a) exploration and evaluation	(3,593)	(5,019)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(769)	(1,509)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	53	149
1.5	Interest and other costs of finance paid	(48)	(79)
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	-	-
Net Operating Cash Flows		(4,718)	(6,458)
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(52)	(150)
1.9	Proceeds from sale of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	-	-
Net investing cash flows		(52)	(150)
1.13	Total operating and investing cash flows (carried forward)	(4,770)	(6,608)

1.13	Total operating and investing cash flows (carried forward)	(4,770)	(6,608)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	17	16,310
1.15	Cost of the Issue	(2)	(998)
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	Net financing cash flows	15	15,312
	Net increase (decrease) in cash held	(4,755)	8,704
1.20	Cash at beginning of quarter/year to date	14,426	2,440
1.21	Exchange rate adjustments to item 1.20	651	(821)
1.22	Cash at end of quarter	10,323	10,323

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities.

		Current quarter \$US'000
1.23	Aggregate amount of payments to the parties included in item 1.2	465
1.24	Aggregate amount of loans to the parties included in item 1.10	-
1.25	Explanation necessary for an understanding of the transactions Payments to directors for executive services during the period and payments to related entities for reimbursements of GIS management, administrative staff and provision of a fully serviced office.	

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows
- Nil
- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest
- Nil

Financing facilities available

	Amount available \$US'000	Amount used \$US'000
3.1 Loan facilities	5,000	5,000
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$US'000
4.1 Exploration and evaluation	2,807
4.2 Development	-
4.3 Production	-
4.4 Administration	788
Total	3,595

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$US'000	Previous quarter \$US'000
5.1 Cash on hand and at bank	6,159	6,451
5.2 Deposits at call	4,164	7,975
5.3 Bank overdraft		-
Total: Cash at end of quarter (item 1.22)	10,323	14,426

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	-	-	-	-
6.2 Interests in mining tenements acquired or increased	-	-	-	-

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference *securities				
7.2 Changes during quarter				
7.3 *Ordinary securities	326,576,735	326,576,735		
7.4 Changes during quarter				
(a) Increases through exercise of options	200,000	200,000		
(b) Decreases	-	-		
7.5 *Convertible debt securities				
7.6 Changes during quarter				
(a) Increases				
(b) Decreases				
7.7 Options		No. of options	Strike Price	Expiry Date
Unquoted options				
		9,152,981	AUD \$0.3125	30-Jun-12
		1,100,000	AUD \$0.4000	30-Jun-12
		3,425,000	AUD \$0.0850	30-Jun-12
		625,000	AUD \$0.1250	31-Dec-13
		250,000	AUD \$0.7000	31-Dec-13
		2,250,000	AUD \$0.8000	31-Dec-13
		1,500,000	AUD \$0.9000	31-Dec-13
		1,500,000	AUD \$1.1000	31-Dec-13
		1,500,000	AUD \$1.3000	31-Dec-13
		4,843,240	AUD \$1.0300	31-Dec-12
		782,499	AUD \$0.6250	25-July-14
		9,768,964	AUD \$0.5000	31-Dec-13
7.8 Issued during quarter	9,768,964	No. of options	Strike Price	Expiry Date
		9,768,964	AUD \$0.5000	31-Dec-13
7.9 Exercised during quarter	200,000	No. of options	Strike Price	Expiry Date
		200,000	AUD \$0.0850	30-Jun-12
7.10 Expired during quarter				
7.11 Debentures (totals only)				
7.12 Unsecured notes (totals only)				

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.



Mr Daniel Davis

Company Secretary

Date: 31 January 2012

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.