

For electronic distribution

23rd October 2012

COMPANY UPDATE – RECENT PROGRESS WITH PROJECTS

SUMMARY

The Directors are pleased to provide shareholders with the following update, highlighting the significant advances at the Sese Coal & Power Project in Botswana.

Major achievements to the project in the last six months include:

- Increase in the confidence of the mineral resources resulting in the definition of a Measured Resource of 651Mt, Indicated Resource of 1,720Mt and Inferred Resources of 150Mt.
- Granting of coal rights on the nearby Sese West tenement, containing an Exploration Target* of 3-6 billion tonnes of additional coal in the 3,500 to 5,00kcal/kg range.
- Structuring of African Energy's business into two core projects:
 - The Sese Integrated Power Project (SIPP), an initial 300MW power station and 1.5Mtpa captive coal mine.
 - The Sese Export Project to deliver coal to the growing Asian markets.



Diagram 1: 18m Sese coal seam with 15m barren cover exposed at the Sese Bulk Sample Pit

** The Exploration Target is conceptual in nature and it is uncertain if further exploration will result in the determination of a Mineral Resource.
There is currently insufficient data to define a JORC compliant mineral resource for the Exploration Target.*

SESE INTEGRATED POWER PROJECT

The Sese Integrated Power Project is advancing rapidly with good progress being made in several key areas as highlighted below;

Power Off-take Negotiations

- A Memorandum of Understanding (non-binding) has been signed with a key strategic off-take party to jointly investigate the project. A joint project review committee has now been established.
- Preliminary discussions have been held on the tariff structure.
- A transmission options study has been completed identifying multiple viable options to transmit the power.

Feasibility Studies

- The pre-feasibility study reports have now been received. The key outcomes of the study are that no technical flaws have been identified and the SIPP is technically and economically viable at current Southern African Power Pool prices. These outcomes provide a good level of confidence as the Company commences the next phase of its studies - the Bankable Feasibility Study (BFS).
- The BFS scoping documents have been prepared with two leading consultants shortlisted and sub-consultants identified. The study is expected to take six months to complete.



Diagram 2: Conceptual Design for the first 300MW Sese Power Station, courtesy PB Power.

Permitting

- The Environmental Impact Study scoping document has been approved by the Government of Botswana.
- Community consultation meetings have been held with no objections being recorded.
- Archeological surveys are underway.
- Water allocation application is pending final approval and the water pipeline easement has been agreed in principle.

Construction

- A Memorandum of Understanding (non-binding) has been signed with a preferred EPC contractor with relevant experience and capability. It is envisaged that benefits that will flow from using this EPC contractor will include improvements on the conceptual power station design and savings in time and cost due to early mobilization from their current project in Botswana.
- Geotechnical assessments have commenced to test the ground conditions for the power plant location and associated infrastructure, including the mine and coal delivery systems.

Financing and Operations

- Preliminary discussions have been held with banks and other institutions in relation to the project finance package with strong interest being received. Engagement with the respective finance groups will continue over the next 6 months in parallel with the off-take and construction negotiations.
- Discussions are continuing with two potential power station operators for the Operations and Maintenance contract.

SESE EXPORT PROJECT

Over the past six months the Company's export business focus has been on infrastructure and logistics evaluation and coordination. This process has been very successful with a rail and port solution identified capable of supporting an initial two million tonne per annum operation with potential to expand significantly beyond this in a staged manner.

Key tasks completed and initiatives being undertaken on the export operations include the following:

Permitting

- The Government of Botswana has recommenced considering coal licence applications. The Company has received notification that its Sese West application has been renewed with the addition of coal. This has an exploration target* of between 3 - 6 Billion tonnes of 3,500 to 5,000 kcal/kg coal.
- Other outstanding tenement applications are expected to be considered shortly.
- Drilling will commence on Sese West immediately to define a JORC inferred resource.

Rail Infrastructure

- Initial trial shipment of a wagon of coal to the port of Maputo was completed in April 2012.
- The second phase of train trials is about to commence with a 34-wagon train of coal to be sent to Maputo. This is a joint initiative with Morupule Coal Limited and the rail and port operators.
- Rail simulation modeling has been completed to determine travel times, cost estimates and rolling stock requirements with results significantly better than expectations.
- Rolling stock availability has been determined with several options identified.
- Former Director of Operations for Botswana Rail has been employed by the Company to assist in rail negotiations.

Port Infrastructure

- The port of Maputo has been identified as the preferred terminal with expansion plans proposed to increase capacity from a current 4 million tonnes to 20 million tonnes per annum. This expansion correlates well with the proposed ramp up of Sese's export operations.
- Discussions have commenced with the port operators on a port allocation and an Expression of Interest has been lodged.
- Marketing rights negotiations have commenced for Sese export coal.



Diagram 3: Grindrod and Vitol's Matola Coal Terminal, Maputo. New coal stockpiles will be built to the left of this image on reclaimed land. Image by courtesy of Grindrod

CORPORATE

The Company is currently in advanced discussions with several strategic groups in relation to both its Power and Export businesses. These discussions are specifically aimed at procuring an appropriate partner to assist the Company in rapidly growing each business unit.

For any further information, please refer to AFR's website or contact us directly on +61 8 6465 5500.

For and on behalf of the board.

JORC DISCLAIMER

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, Exploration Targets and Mineral Resources or Ore Reserves is based on information compiled by Dr Frazer Tabeart (an employee and the 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.

**The Exploration Target is conceptual in nature and it is uncertain if further exploration will result in the determination of a Mineral Resource. There is currently insufficient data to define a JORC compliant mineral resource for the Exploration Target.*