African Energy

Delivering power to the people

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31 October 2012

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2012

HIGHLIGHTS

Sese Coal and Power Project

- Definition of a Measured Resource of 651Mt, Indicated Resource of 1,714Mt and Inferred Resources of 152Mt at the Sese deposit in PL96/2005:

Sese Coal & Power Project: Resource Summary (Raw coal on an air-dried basis)					
Resource Zone	**Total Tonnes in-situ**	**CV (MJ/kg)**	**CV (kcal/kg)**	**Ash %**	**S %**
MEASURED (Block-B)	318 Mt	16.0	3,820	34.8	1.7
MEASURED (Block-C)	333 Mt	17.6	4,200	30.2	2.1
INDICATED	1,714 Mt	15.3	3,650	38.9	2.0
INFERRED	152 Mt	15.0	3,600	39.1	2.2
TOTAL	**2,521 Mt**				

- Granting of a two-year extension to PL96/2005 Sese.
- Granting of coal rights on the nearby PL197/2007 Sese West tenement, containing an Exploration Target* of 3-6 billion tonnes of additional coal in the 3,500 to 5,000kcal/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 growing Asian markets.
- Signing of a non-binding MOU with an EPC contractor for the 300MW Sese power station.
- Completion of pre-feasibility studies and transmission options report for the 300MW Sese power station.
- Completion of successful boiler trials using coal collected from the Sese bulk sample pit.
- Completion of a desktop scoping study of rail and port options for the Sese Export Project.

** 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.*

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Corporate

- In October the Company issued 10,000,000 Performance Rights as a performance and retention incentive for Directors and employees of the Company. Performance Rights are convertible to ordinary shares for no consideration upon the achievement of various performance and time-based vesting hurdles.
- In July the Company issued 125,000 shares upon the exercise of employee options that raised AUD $15,625 before costs.
- The cash position at 30 September 2012 was US$3.15m.

Outlook

- Continue discussions with power station off-takers, lenders and EPC contractors.
- Commence a bankable feasibility study for the Sese Integrated Power Project.
- Continue EIA for the Sese Integrated Power Project.
- Commence a pre-feasibility study of coal-chain logistics related to the Sese Export Project.
- Undertake a whole train export trial of Sese coal via the port of Maputo in Mozambique.
- Complete an initial resource drilling programme at PL197/2007 Sese West.
- Receive and interpret washing results and coking property tests from southern Zambian coal drilling.

Sese coal seam (18m thick) with 15m barren cover exposed at the Sese Bulk Sample Pit in PL96/2005

PROJECTS

1 Sese Coal and Power Project, Botswana

1.1 Sese Deposit Resource Upgrade

- The Sese coal deposit was discovered in mid-2010, since which time African Energy has completed three campaigns of drilling to delineate a series of coal resources. The final campaign of resource drilling was undertaken on a 500m x 500m grid in the northern section of Block-B and Block-C with the goal of delineating measured resources in these two areas and predominantly Indicated Resources on the remainder of the project which was drilled to a 1km x 1km grid. To date, a total of 435 drill holes have been completed, of which 278 are diamond core holes, and the remaining 157 are reverse circulation percussion holes.
- Resource modeling by the Company's consultants has now been completed:

Sese Coal & Power Project: 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 (Block-B)	318 Mt	16.0	3,820	34.8	7.4	20.4	37.4	1.7
MEASURED (Block-C)	333 Mt	17.6	4,200	30.2	7.9	20.6	41.4	2.1
INDICATED	1,714 Mt	15.3	3,650	38.9	6.6	18.7	35.8	2.0
INFERRED	152 Mt	15.0	3,600	39.1	6.4	19.5	34.9	2.2
TOTAL	**2,517 Mt**							

**The in-situ tonnes represent the Gross In-Situ tonnages of coal after removal of weathered coal, coal affected by dolerite dykes and sills and applicable geological loss factors*

- The Measured Resource in Block-C is an ideal source of raw coal to fuel the Sese Integrated Power Project and future expansions. It also has potential to produce an export product.
- The Measured Resource in Block-B contains higher washing yields that are favourable for export products and regional sales.
- PL96/2005 in which the Sese resource is situated, was recently extended for a further two years by the Ministry of Minerals, Energy and Water Resources.

1.2 Sese West Exploration Target

- PL197/2007 Sese West was recently renewed for a further two year period with the addition of coal to the list of minerals for prospecting.
- PL197/2007 is to the immediate south of the 2.5 billion tonne Sese Coal deposit.
- Previous drilling on PL197/2007 encountered coal in six holes distributed throughout the tenement. This coal is interpreted to be the down-dip continuation of the Sese deposit.

- On the basis of these coal intersections and knowledge of the coal at Sese, an Exploration Target** of 3 to 6 Billion tonnes of 3,500 kcal/kg to 5,000 kcal/kg thermal coal has been defined on PL197/2007.
- A programme of resource delineation drilling for an inferred resource has commenced.

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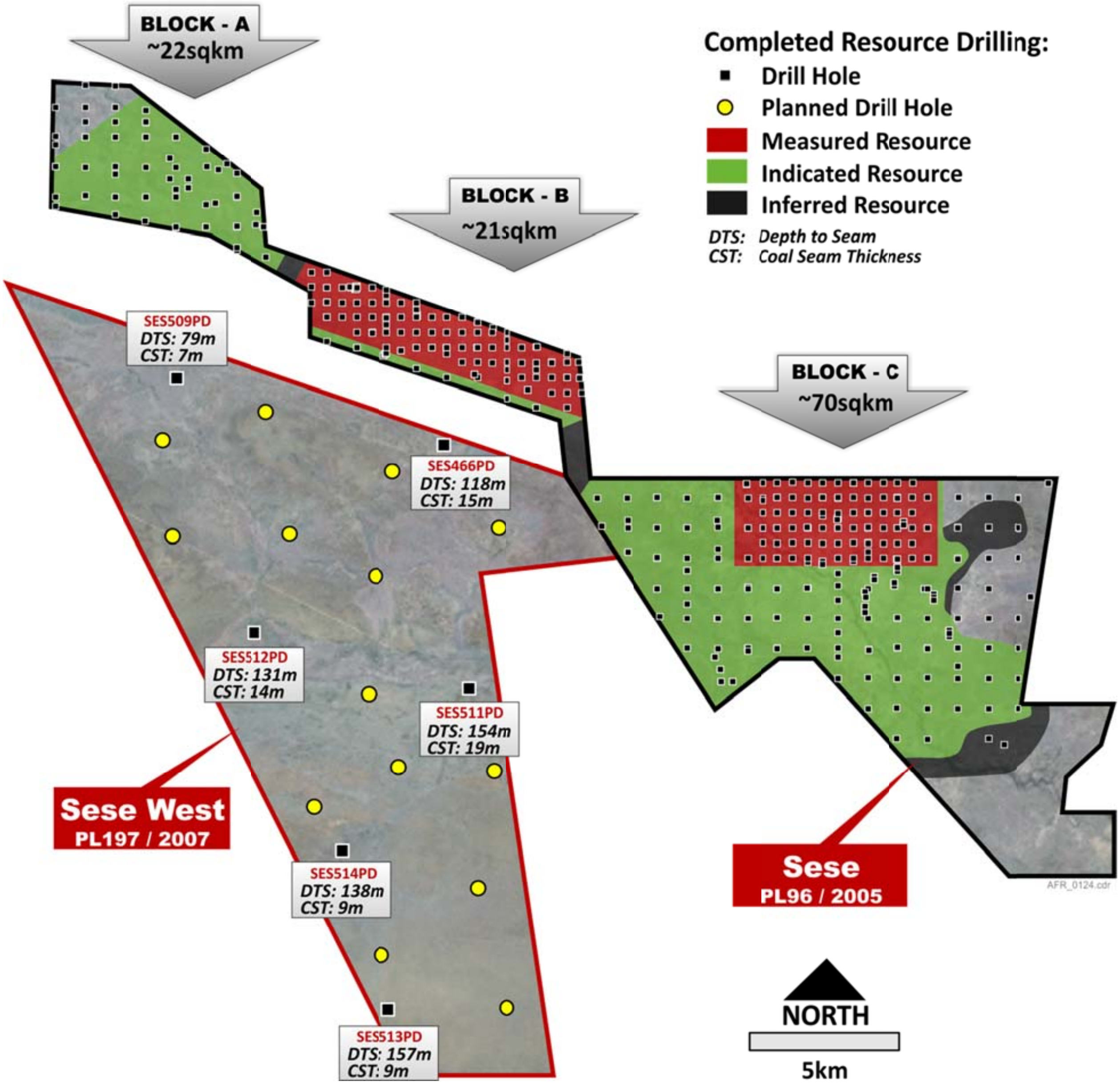

Sese resource outline and Sese West drilling programme.

1.3 Sese Integrated Power Project (100% AFR)

1.3.1 Summary

- The Sese Integrated Power Project is defined as an initial 300MW power station, a captive 1.5Mtpa coal mine with its own mining licence (yet to be applied for) and all associated infrastructure to enable the project to deliver electricity into Botswana's national grid.
- This is a stand-alone project that is structured to enable the raising of limited recourse project finance independently of African Energy's balance sheet.
- African Energy currently owns 100% of the Sese Integrated Power Project.

1.3.2 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.

1.3.3 Feasibility Studies

- The pre-feasibility study reports for both the power station and captive coal-mine 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 a Bankable Feasibility Study (BFS).
- 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.

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

1.3.4 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.

1.3.5 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 mobilisation 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.

1.3.6 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 six 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.

1.4 Sese Export Project (100% AFR)

1.4.1 Summary

- Over the past six months the Company's export business focus has been on a concept level study of coal chain logistics in the region. 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. During the next quarter this will be improved to a pre-feasibility study level.

1.4.2 Rail Infrastructure

- The second phase of train trials will be undertaken in the December quarter, 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.
- Track assessments underway with engineering consultants to determine the capital and rolling stock requirements to expand the capacity from 2 million tonnes to 20 million tonnes per annum through a staged ramp up.
- Former Director of Operations for Botswana Rail has been employed by the Company to assist in negotiations.

1.4.3 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.

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

2 Projects in Zambia

2.1 Chirundu Uranium Project

- Baseline environmental studies for the Chirundu Uranium Project continued.
- No other work during the quarter.

2.2 Kariba Valley Project

- Awaiting washing results and swell index results for coal samples form the SInazongwe East coal seam.
- Geological surface mapping of the coal sequences along strike from the Sinazongwe discovery has commenced.

2.3 Northern Luangwa Valley Project

- 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, 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.*

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	Quarter ended ("current quarter")
123 316 781	30 SEPTEMBER 2012

Consolidated statement of cash flows

	Cash flows related to operating activities	Current quarter $US'000	Year to date (3 months) $US'000
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for:		
	(a) exploration and evaluation	(1,456)	(1,456)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(779)	(779)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	8	8
1.5	Interest and other costs of finance paid	(67)	(67)
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	-	-
	Net Operating Cash Flows	**(2,294)**	**(2,294)**
	Cash flows related to investing activities		
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
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	**-**	**-**
1.13	**Total operating and investing cash flows (carried forward)**	**(2,294)**	**(2,294)**

1.13	**Total operating and investing cash flows (carried forward)**	**(2,294)**	**(2,294)**
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	16	16
1.15	Cost of the Issue	(4)	(4)
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	**12**	**12**
	Net increase (decrease) in cash held		
1.20	Cash at beginning of quarter/year to date	5,322	5,322
1.21	Exchange rate adjustments to item 1.20	112	112
1.22	**Cash at end of quarter***	**3,152**	**3,152**

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	626
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

US$370k – director remuneration payments

US$256k – payments for administrative staff, technical 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	910
4.2	Development	-
4.3	Production	-
4.4	Administration	565
	Total	**1,475**

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	2,541	4,212
5.2	Deposits at call	611	1,110
5.3	Bank overdraft	-	-
	Total: Cash at end of quarter (item 1.22)	**3,152**	**5,322**

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	Sinazongwe A (Zambia 16556-HQ-LPL) Sinazongwe B (Zambia 16775-HQ-LPL)	Subsidiary Subsidiary	0% 0%	100% 100%

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**	330,251,735	330,251,735		
7.4	Changes during quarter (a) Increases through exercise of options (b) Decreases	125,000 -	125,000 -		
7.5	**+Convertible debt securities**				
7.6	Changes during quarter (a) Increases (b) Decreases				
7.7	**Options** Unquoted options		**No. of options**	**Strike Price**	**Expiry Date**
			375,000	AUD $0.125	31-Dec-13
			250,000	AUD $0.70	31-Dec-13
			2,225,000	AUD $0.80	31-Dec-13
			1,500,000	AUD $0.90	31-Dec-13
			1,500,000	AUD $1.10	31-Dec-13
			1,500,000	AUD $1.30	31-Dec-13
			782,499	AUD $0.625	25-July-14
			9,768,964	AUD $0.50	31-Dec-13
7.8	Issued during quarter	-			
7.9	Exercised during quarter	125,000	**No. of options**	**Strike Price**	**Expiry Date**
			125,000	AUD $0.125	31-Dec-13
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 October 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.