

31 January 2013

**QUARTERLY ACTIVITIES REPORT FOR THE PERIOD  
ENDED 31 DECEMBER 2012**

**HIGHLIGHTS**

**Sese Coal and Power Project**

- Discussions with the preferred electricity off-taker have continued for the output of the 300MW Sese Integrated Power Project, including detailed appraisals on transmission options, a draft electricity tariff structure and project delivery timeframes.
- The key outcome of the pre-feasibility study for the Integrated Power Project is that no technical flaws were identified and that the project is technically and economically robust at current Southern African Power Pool prices.
- An application for water rights from the nearby Shashe Dam for the Integrated Power Project was approved and is now awaiting final signature from the Minister of Minerals, Energy and Water Resources.
- A successful export trial comprising a full 34-wagon train of coal to Maputo was concluded in just over three days, demonstrating that commercially viable turn-around times of full coal trains are possible using the existing infrastructure.
- A study to assess the rail and port infrastructure to and in Maputo is nearing completion. This study is evaluating the capital investment required to run a 2mtpa coal export operation in a sustainable manner on the existing railway, along with what staged investments would be necessary to increase the annual railway capacity to 10-20mtpa and beyond.
- Drilling the Sese West exploration target was suspended during the wet season after the completion of eight holes. Further drilling is required to complete the evaluation.

**Corporate**

- The Company completed a capital raising of A\$3.0 million before costs through the issue of 21.43 million new shares at an issue price of A\$0.14 per share.
- Macquarie Bank Limited agreed to extend the repayment terms of the US\$5,000,000 loan facility, by twelve months to 31 December 2013. In consideration of the extension, Macquarie were issued with 22,766,805 options exercisable at AUD\$0.21 and expiring 31 December 2014.
- 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.
- The cash position at 31 December 2012 was US\$3.7m.

## Outlook

- Continue discussions with power station off-takers, lenders and EPC contractors.
- Scoping of a Definitive Feasibility Study for the Integrated Power Project with a preferred contractor is nearing completion and the study is anticipated to commence in three months.
- Continue EIA for the Integrated Power Project.
- Complete the rail/port infrastructure study and report findings to the Botswana Govt. and other key stakeholders.

## PROJECTS

### 1 Sese Coal and Power Project, Botswana

#### 1.1 Sese Integrated Power Project (100% AFR)

##### 1.1.1 Background

- The Sese Integrated Power Project will comprise an initial 300MW power station, a dedicated 1.5mtpa coal mine plus all related infrastructure required to deliver electricity into the Southern African Power Pool grid.
- A special purpose vehicle, Sese Power (Pty) Ltd (“Sese Power”), has been established to house this project, and is currently 100% owned by African Energy.
- Sese Power is currently negotiating a Power Purchase Agreement (“PPA”) with an electrical utility to buy the entire off-take from this power project.
- Upon successful conclusion of a draft PPA, Sese Power will seek to raise the necessary project finance to build the project.
- African Energy’s equity contribution to the project will include the allocation of up to 60Mt of coal from Sese Block-C measured resource into a mining licence that will be owned by Sese Power.
- Block-C currently contains 330Mt of coal in measured resources and is thus capable of supporting multiple additional such power projects.

##### 1.1.2 Power Off-take Negotiations

- Discussions with the preferred electricity off-taker have continued, including detailed appraisals on transmission options, a draft electricity tariff structure and project delivery timeframes.
- Further details on progress are expected to be announced in the next quarter.

##### 1.1.3 Feasibility Studies

- The pre-feasibility study for the project is in the final documentation phase.

- The key outcomes of the study are that no technical flaws have been identified and that the project is technically and economically robust at current Southern African Power Pool prices.
- Scoping of a Definitive Feasibility Study with a preferred contractor is nearing completion and the study is anticipated to commence in approximately 3 months.

#### **1.1.4 Permitting**

- An application for water rights from the nearby Shashe Dam has been approved and is now awaiting final signature from the Minister of Minerals, Energy and Water Resources.
- An application for surface rights has been submitted to the local Land Board.
- The Company has received a Clearance Letter from the Botswana National Museum for the Archaeological Impact Assessment, allowing the project to proceed without hindrance from a cultural/archaeological aspect.
- A new tenement, Prospecting Licence PL004/2013 was granted on 1<sup>st</sup> January 2013 allowing African Energy to explore for industrial minerals over a large area encompassing the Sese coal project. This will allow the company to identify sources of industrial minerals for road metal and limestone sorbent for reducing sulphur emissions in the power station.

#### **1.1.5 Financing and Operations**

- Discussions with banks and other institutions in relation to the project finance package are continuing, with strong interest being received.
- Discussions are continuing with potential power station operators for the Operations and Maintenance contract.
- Discussions are continuing with strategic project investors with the potential to take up non-sponsor project equity. These discussions are expected to conclude during the current quarter.

### **1.2 Sese Export Project (100% AFR)**

#### **1.2.1 Summary**

- The Sese Export Project seeks to establish an export coal business to Asian customers using coal mined from Sese Block-B, where a measured resource of 318Mt has been defined.
- Over the past six months the Company's export business focus has been on a concept to prefeasibility 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 and with potential to expand significantly beyond this in a staged manner.

### **1.2.2 Rail Infrastructure**

- A successful rail export trial comprising a full 34-wagon train of coal to Maputo was completed in November 2012 in partnership with Morupule Coal Mine, Vitol Coal South Africa and Grindrod Mozambique Ltda.
- The export trial was concluded in just over three days, demonstrating that commercially viable turn-around times of full coal trains are possible using the existing infrastructure.
- A study to assess the rail and port infrastructure to and in Maputo is nearing completion. This study is evaluating the capital investment required to establish a 2mtpa coal export operation in a sustainable manner on the existing railway, along with what staged investments would be necessary to increase the annual railway capacity to 10-20mtpa and beyond.
- The study is also assessing how operational practices could be amended to increase the efficiency of the railways and reduce turn-around times for bulk commodities traffic.
- The rail study is scheduled for completion in the current quarter, with the results to be presented to the Government of Botswana and other key regional stakeholders on completion.

### **1.2.3 Port Infrastructure and Marketing**

- The port of Maputo has been identified as the preferred terminal with expansion plans proposed to increase coal capacity from a current 4.5mtpa to >20mtpa.
- Discussions have commenced with the port operators and commercial negotiations on a port allocation are ongoing.
- Negotiations for the marketing rights for Sese export coal have commenced, and are expected to conclude in the next quarter.

## **2 Projects in Zambia**

### **2.1 Chirundu Uranium Project**

- Baseline environmental studies for the Chirundu Uranium Project were concluded. The Company now has over three years of continuous baseline data from which to demonstrate the baseline levels and seasonal fluctuations of all key environmental metrics.
- Two companies commenced due diligence investigation on the Chirundu, Kariba Valley and Northern Luangwa Valley uranium projects as potential acquisitions or joint venture opportunities. It is expected that the due diligence will be completed in the current quarter.

### **2.2 Kariba Valley Project**

- No work during the quarter.

### **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](http://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.*

***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 2012

#### Consolidated statement of cash flows

| Cash flows related to operating activities        |                                                                   | Current quarter<br>\$US'000 | Year to date<br>(6 months)<br>\$US'000 |
|---------------------------------------------------|-------------------------------------------------------------------|-----------------------------|----------------------------------------|
| 1.1                                               | Receipts from product sales and related debtors                   | -                           | -                                      |
| 1.2                                               | Payments for:                                                     |                             |                                        |
|                                                   | (a) exploration and evaluation                                    | (1,669)                     | (3,005)                                |
|                                                   | (b) development                                                   | -                           | -                                      |
|                                                   | (c) production                                                    | -                           | -                                      |
|                                                   | (d) administration                                                | (798)                       | (1,696)                                |
| 1.3                                               | Dividends received                                                | -                           | -                                      |
| 1.4                                               | Interest and other items of a similar nature received             | 10                          | 17                                     |
| 1.5                                               | Interest and other costs of finance paid                          | (99)                        | (166)                                  |
| 1.6                                               | Income taxes paid                                                 | -                           | -                                      |
| 1.7                                               | Other (provide details if material)                               | -                           | -                                      |
|                                                   | <b>Net Operating Cash Flows</b>                                   | <b>(2,556)</b>              | <b>(4,850)</b>                         |
| <b>Cash flows related to investing activities</b> |                                                                   |                             |                                        |
| 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                                            | 86                          | 86                                     |
| 1.10                                              | Loans to other entities                                           | -                           | -                                      |
| 1.11                                              | Loans repaid by other entities                                    | -                           | -                                      |
| 1.12                                              | Other (provide details if material)                               | -                           | -                                      |
|                                                   | <b>Net investing cash flows</b>                                   | <b>86</b>                   | <b>86</b>                              |
| 1.13                                              | <b>Total operating and investing cash flows (carried forward)</b> | <b>(2,470)</b>              | <b>(4,764)</b>                         |

|      |                                                                   |                |                |
|------|-------------------------------------------------------------------|----------------|----------------|
| 1.13 | <b>Total operating and investing cash flows (carried forward)</b> | <b>(2,470)</b> | <b>(4,764)</b> |
|      | <b>Cash flows related to financing activities</b>                 |                |                |
| 1.14 | Proceeds from issues of shares, options, etc.                     | 3,121          | 3,137          |
| 1.15 | Cost of the Issue                                                 | (210)          | (214)          |
| 1.16 | Proceeds from borrowings                                          | -              | -              |
| 1.17 | Repayment of borrowings                                           | -              | -              |
| 1.18 | Dividends paid                                                    | -              | -              |
| 1.19 | Other (provide details if material)                               | -              | -              |
|      | <b>Net financing cash flows</b>                                   | <b>2,911</b>   | <b>2,923</b>   |
|      | <b>Net increase (decrease) in cash held</b>                       |                |                |
| 1.20 | Cash at beginning of quarter/year to date                         | 3,152          | 5,322          |
| 1.21 | Exchange rate adjustments to item 1.20                            | 83             | 195            |
| 1.22 | <b>Cash at end of quarter*</b>                                    | <b>3,676</b>   | <b>3,676</b>   |

**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<br>\$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\$282k – director remuneration payments

US\$297k – 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<br>\$US'000 | Amount used<br>\$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 | 756          |
| 4.2 Development                | -            |
| 4.3 Production                 | -            |
| 4.4 Administration             | 413          |
| <b>Total</b>                   | <b>1,169</b> |

#### 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<br>\$US'000 | Previous quarter<br>\$US'000 |
|--------------------------------------------------|-----------------------------|------------------------------|
| 5.1 Cash on hand and at bank                     | 3,587                       | 2,541                        |
| 5.2 Deposits at call                             | 87                          | 611                          |
| 5.3 Bank overdraft                               | -                           | -                            |
| <b>Total: Cash at end of quarter (item 1.22)</b> | <b>3,674</b>                | <b>3,152</b>                 |

#### Changes in interests in mining tenements

|                                                                   | Tenement reference                 | Nature of interest<br>(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) | Subsidiary                       | 0%                               | 100%                       |
|                                                                   | Sinazongwe B (Zambia 16775-HQ-LPL) | Subsidiary                       | 0%                               | 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                      | 351,680,308  | 351,680,308        |                                               |                                                  |
| 7.4  | Changes during quarter                    |              |                    |                                               |                                                  |
|      | (a) Increases through issue of new shares | 21,428,571   | 21,428,571         |                                               |                                                  |
|      | (b) Decreases                             | -            | -                  |                                               |                                                  |
| 7.5  | *Convertible debt securities              |              |                    |                                               |                                                  |
| 7.6  | Changes during quarter                    |              |                    |                                               |                                                  |
|      | (a) Increases                             |              |                    |                                               |                                                  |
|      | (b) Decreases                             |              |                    |                                               |                                                  |
| 7.7  | Options/Rights                            | 40,668,268   |                    |                                               |                                                  |
|      | 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                                        |
|      |                                           | 22,766,805   | AUD \$0.21         | 31-Dec-14                                     |                                                  |
|      | Unquoted rights                           | 10,000,000   | Performance Rights |                                               |                                                  |
| 7.8  | Issued during quarter                     | 10,000,000   | Performance Rights |                                               |                                                  |
| 7.9  | Exercised during quarter                  | -            | -                  | -                                             | -                                                |
| 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 2013

#### 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.