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4 April 2013

COMPANY UPDATE – MARCH QUARTER PROGRESS

HIGHLIGHTS

CORPORATE

- The Company is currently in advanced discussions with 5 global strategic groups who have expressed interest in investing either directly into Sese Power Ltd (the wholly owned special purpose vehicle that houses the Sese Integrated Power Project), or in the ASX-listed parent African Energy Resources Ltd.
- Several other parties are still progressing with due diligence and are actively engaged in reviewing information available through the Company's online data room.
- To date 20 companies have executed Confidentiality Agreements to gain access to the Company's data.
- Due to delays in obtaining travel visa's for Botswana, several groups have been unable to complete their due diligence within proposed timeframes. Site visits are being coordinated over the next 4-6 weeks, providing the opportunity for review of the trial pit, coal stockpiles, proposed development sites and infrastructure access.
- The Botswana Government is expected to invite bids from independent power producers (such as Sese Power Ltd) for two 300MW power stations to be built in Botswana. African Energy (through Sese Power Ltd) will submit a bid for one of these power stations in due course.
- The Company is continuing to pursue divestment options of its non-core uranium project portfolio, which contains measured, indicated and inferred resources of over 11Mlb U3O8.
- The Company recently announced the potential for coking coal products from its Sinazongwe Coal project in southern Zambia. An assessment of local markets for coking coal fractions and thermal coal middlings is underway.

SESE INTEGRATED POWER PROJECT (SIPP)

Power Off-take Negotiations

- Discussions with the preferred electricity off-taker have continued to progress well with the terms of a joint cooperation agreement having been submitted for consideration.
- The previously signed MOU is in the process of being extended for a further 12 months.
- Further details on progress will be announced this quarter.

Botswana Tender Opportunity

- The Botswana Government is expected to invite bids from independent power producers (such as Sese Power Ltd) for two 300MW coal-fired power stations to be built in Botswana. African Energy (through Sese Power Ltd) will submit a bid for these power stations once the tender process has been announced.
- Sese Power Ltd has potential to be one of the lowest cost power producers in southern Africa by virtue of its low mining cost and simple coal processing requirements.

Feasibility Studies

- The pre-feasibility study documentation for the project is due for completion this month.
- The key outcome of the study is that the power project is technically and economically robust at current Southern African Power Pool prices.
- Scoping of a Definitive Feasibility Study has been completed with a preferred contractor identified. The study will commence upon finalization of terms with a strategic partner.

Financing and Operations

- Discussions with banks and other institutions in relation to the project finance package are continuing, with strong interest being received from all parties. Negotiations will commence shortly after the commencement of the Definitive Feasibility Study.
- Discussions are continuing with two potential power station operators for the Operations and Maintenance contract.
- Negotiations are well advanced with 5 strategic project investors to take up non-sponsor project equity. These negotiations are expected to conclude shortly.

SESE EXPORT PROJECT

Over the past nine months the Company's export business focus has continued on infrastructure and logistics evaluation. The existing railway, approximately 25km to the east of Sese provides direct access to the Matola coal terminal in the port of Maputo in Mozambique and is suitable for initial volumes of approximately 2mtpa requiring only minimal track improvement. A recently completed prefeasibility study into rail/port infrastructure has concluded that significant capacity increases to 10-20 million tonnes are possible in a staged manner.

Rail Infrastructure

- A successful export trial comprising a full 34-wagon train of coal to Maputo was competed in November 2012, 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 has been completed. This study assessed 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 rail capacity to 10-20mtpa and beyond.

- A train path analysis that formed part of the rail study has demonstrated that annual capacity in the range of 10-20 million tonnes is feasible on the existing infrastructure.
- The results of this study are being used by the Company as support for ongoing discussions with the local rail operators on bulk haulage rail tariffs and rail access.
- Preliminary findings of the study have also been presented to the Minister of Transport, Minister of Minerals, Energy and Water Resources and the Vice President of Botswana, promoting this route as a short to medium option that is readily available for coal exports form Botswana.

Port Infrastructure and Marketing

- The port of Maputo has been identified as the preferred terminal with expansion plans proposed to increase capacity from a current 4.5mtpa to >20mtpa via several expansion stages.
- Discussions have commenced with the port operators and commercial negotiations on a port allocation are ongoing.
- Interest has been received from several coal-marketing organisations to gain the marketing rights for Sese coal. Upon successful negotiation of a bulk freight tariff and progress on port allocation, the company will finalise negotiation for the marketing rights for Sese coal.

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.