

30 April 2013

**QUARTERLY ACTIVITIES REPORT FOR THE PERIOD  
ENDED 31 MARCH 2013**

**HIGHLIGHTS**

**Sese Coal and Power Project**

- The Government of the Republic of Botswana (GRB) has announced a Request for Prequalification (RFP) from independent power producers (such as Sese Power (Pty) Ltd) for a 300MW power station to be built as units 5 & 6 of the Morupule B Power Station (2 x 150MW boilers).
- An RFP for a new 300MW power station at a greenfields site will also to be announced shortly.
- African Energy (through Sese Power (Pty) Ltd) will submit an RFP proposal for the greenfields power station in due course.
- The Company is also continuing its discussions with other potential electricity off-takers for the export of another 250-300MW of electricity.
- The Company is thus pursuing multiple opportunities to sell the electricity from one or more 300MW power stations.
- The Measured Resource at Block-C contains 330Mt of coal, sufficient to fuel eight such projects for a 30-year lifespan.
- The Company's prefeasibility study into the use of existing rail and port infrastructure for the export of coal via Maputo is nearing completion (final documentation stage). Results will be announced after further consultations with the GRB and other stakeholders.

**Corporate**

- African Energy Resources Ltd and Aviva Corporation have executed a binding term sheet under which African Energy will acquire the 1.3 billion tonne Mmamantswe Coal Project in south-east Botswana for a cash consideration of AUD \$3.5M, subject to Aviva shareholder approval and other conditions precedent being met within three months.
- African Energy and the Sentient Group have executed a binding share subscription agreement under which Sentient will subscribe for up to AUD \$8.5M in African Energy shares at AUD 12c per share. This subscription will comprise an initial unconditional tranche of \$5M and a second tranche of \$3.5M, which is conditional upon the acquisition of Mmamantswe by African Energy. AUD \$5M was received by African Energy on 30 April 2013.
- On completion of these transactions, African Energy will have secured the full rights to 3.8 billion tonnes of coal in Botswana, and increased its working capital to approximately \$6M.

- The Company is also currently in advanced discussions with 4 global strategic groups who have expressed interest in investing directly into Sese Power Ltd (the wholly owned special purpose vehicle that houses the Sese Integrated Power Project).
- Several other parties are still progressing with due diligence and are actively engaged in reviewing information available through the Company's online data room.
- Site visits are being coordinated over the current quarter, providing the opportunity for review of the trial pit, coal stockpiles, proposed development sites and infrastructure access.

#### **Other**

- 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.
- The cash position at 31 March 2013 was US\$2.4m (31 December 2012: US\$3.7m).

#### **Outlook**

- Continue discussions with power station off-takers, lenders and EPC contractors.
- Prepare RFP submission for 300MW greenfields power project.
- Continue EIA for the Sese Integrated Power Project.
- Complete documentation of prefeasibility studies for the Sese Integrated Power Project and the Sese Export Project.

### **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 one or 300MW power stations, each with 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 (his includes a 50% reserve margin) 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 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.

#### **1.1.3 Botswana Tender Opportunity**

- The Government of the Republic of Botswana (GRB) has announced a Request for Prequalification (RFP) from independent power producers (such as Sese Power Ltd) for a 300MW power station to be built as units 5 & 6 of the Morupule B Power Station (2 x 150MW boilers).
- An RFP for a new 300MW power station at a greenfields site will also to be announced shortly.
- African Energy (through Sese Power Ltd) will submit an RFP proposal for the greenfields power station in due course.
- 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.

#### **1.1.4 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 development partner.

#### **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 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.

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

#### **1.2.1 Background**

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.

### **1.2.2 Rail Infrastructure**

- A successful export trial comprising a full 34-wagon train of coal to Maputo was completed 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 from Botswana.

### **1.2.3 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.

## **2 Projects in Zambia**

### **2.1 Chirundu Uranium Project**

- No work during the quarter.

### **2.2 Kariba Valley Project**

During the quarter the Company received analytical data for its Sinazongwe coal project, which confirmed the potential for medium to hard coking coal fractions in the coal seams at Sinazongwe in southern Zambia. The key aspects of this new discovery are as follows:

- Sinazongwe occurs in the Gwembe Valley, Zambia's only coal producing region and where a 300MW power station is currently under construction to provide electricity for the Zambian domestic market.

- Analysis of the raw coal in these seams indicated calorific values of up to 26.2 MJ/kg (6300 kcal/kg) on an air-dried basis, with localised bright vitrinite bands. These vitrinite rich bands have been selectively sampled and analysed for their coking potential.
- Results for 19 samples collected from the first 4 holes (holes SNZ001, SNZ002, SNZ004, SNZ005) have been received to date.
- 17 of the samples were determined to have a Free Swelling Index (FSI) above 4.5. Maximum FSI was 8.5, with a mean FSI of 6.1, indicating some potential for medium to hard coking coal.
- FSI analyses of the coal seams in the remaining 4 holes are expected in the coming weeks and will be reported once received.
- The Sinazongwe coal deposit occurs in prospecting licence 13646-HQ-LPL, which was recently renewed for a further two-year term.

### **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 MARCH 2013

#### Consolidated statement of cash flows

| Cash flows related to operating activities        |                                                                   | Current quarter<br>\$US'000 | Year to date<br>(9 months)<br>\$US'000 |
|---------------------------------------------------|-------------------------------------------------------------------|-----------------------------|----------------------------------------|
| 1.1                                               | Receipts from product sales and related debtors                   | -                           | -                                      |
| 1.2                                               | Payments for:                                                     |                             |                                        |
|                                                   | (a) exploration and evaluation                                    | (830)                       | (3,836)                                |
|                                                   | (b) development                                                   | -                           | -                                      |
|                                                   | (c) production                                                    | -                           | -                                      |
|                                                   | (d) administration                                                | (406)                       | (2,104)                                |
| 1.3                                               | Dividends received                                                | -                           | -                                      |
| 1.4                                               | Interest and other items of a similar nature received             | 5                           | 22                                     |
| 1.5                                               | Interest and other costs of finance paid                          | (78)                        | (242)                                  |
| 1.6                                               | Income taxes paid                                                 | -                           | -                                      |
| 1.7                                               | Other (provide details if material)                               | -                           | -                                      |
|                                                   | <b>Net Operating Cash Flows</b>                                   | <b>(1,309)</b>              | <b>(6,160)</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                                            | 6                           | 90                                     |
| 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>6</b>                    | <b>90</b>                              |
| 1.13                                              | <b>Total operating and investing cash flows (carried forward)</b> | <b>(1,315)</b>              | <b>(6,080)</b>                         |

|      |                                                                   |                |                |
|------|-------------------------------------------------------------------|----------------|----------------|
| 1.13 | <b>Total operating and investing cash flows (carried forward)</b> | <b>(1,315)</b> | <b>(6,080)</b> |
|      | <b>Cash flows related to financing activities</b>                 |                |                |
| 1.14 | Proceeds from issues of shares, options, etc.                     | -              | 3,137          |
| 1.15 | Cost of the Issue                                                 | -              | (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>-</b>       | <b>2,923</b>   |
|      | <b>Net increase (decrease) in cash held</b>                       |                |                |
| 1.20 | Cash at beginning of quarter/year to date                         | 3,676          | 5,322          |
| 1.21 | Exchange rate adjustments to item 1.20                            | 2              | 198            |
| 1.22 | <b>Cash at end of quarter*</b>                                    | <b>2,363</b>   | <b>2,363</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 | 396                         |
| 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\$239k – director remuneration payments

US\$157k – 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 | 752          |
| 4.2 Development                | -            |
| 4.3 Production                 | -            |
| 4.4 Administration             | 556          |
| <b>Total</b>                   | <b>1,308</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                     | 2,273                       | 3,587                        |
| 5.2 Deposits at call                             | 90                          | 87                           |
| 5.3 Bank overdraft                               | -                           | -                            |
| <b>Total: Cash at end of quarter (item 1.22)</b> | <b>2,363</b>                | <b>3,674</b>                 |

#### Changes in interests in mining tenements

|                                                                      | Tenement reference           | Nature of interest<br>(note (2)) | Interest at beginning<br>of quarter | Interest at end of<br>quarter |
|----------------------------------------------------------------------|------------------------------|----------------------------------|-------------------------------------|-------------------------------|
| 6.1 Interests in mining tenements<br>relinquished, reduced or lapsed | Matonda (Zambia 8301-HQ-LPL) | Subsidiary                       | 100%                                | 0%                            |
| 6.2 Interests in mining tenements<br>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                                                                 | 351,680,308  | 351,680,308                                                                       | -                                             | -                                                |
| 7.4  | Changes during quarter<br>(a) Increases through issue of new shares<br>(b) Decreases | -            | -                                                                                 | -                                             | -                                                |
| 7.5  | *Convertible debt securities                                                         | -            | -                                                                                 | -                                             | -                                                |
| 7.6  | Changes during quarter<br>(a) Increases<br>(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 subject to various vesting hurdles and expiring 1 October 2017 |                                               |                                                  |
| 7.8  | Issued during quarter                                                                | -            | -                                                                                 | -                                             | -                                                |
| 7.9  | Exercised during quarter                                                             | -            | -                                                                                 | -                                             | -                                                |
| 7.10 | Expired during quarter                                                               | -            | -                                                                                 | -                                             | -                                                |
| 7.11 | Debentures<br>(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.

A handwritten signature in purple ink, appearing to read "D Davis".

**Mr Daniel Davis**

Company Secretary

Date: 30 April 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.