31 July 2013

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 30 JUNE 2013

HIGHLIGHTS

- The Company raised AUD $8.5M by placing 70.83m new shares at AUD $0.12c with Sentient Executive GP IV, Limited, acting for Sentient Global Resources Fund IV, L.P. ("Sentient"). Sentient is now the largest shareholder in AFR, owning approximately 17.3% of the issued capital.
- Sentient is an independent private equity investment firm that specialises in the global resource industry managing in excess of US $2.3 billion in the development of metal, mineral and energy assets across the globe. Of particular relevance to African Energy is Sentient's long-term relationship with SDIC, China's fifth largest State Owned Enterprise, and Sentient's joint venture partner in SDIC Xiyang Energy Co Ltd, an integrated coal mining and power generation company operating in China.
- Discussions with prospective joint developers of one or more 300MW independent power projects (IPP's) continued during the quarter. A successful outcome will ultimately lead to the creation of an independent power consortium created specifically to fund bids for and develop IPP's in southern Africa.
- African Energy has successfully submitted a Request for Registration and Information (RFRI) to the Republic of South Africa's Department of Energy (RSA) for the development of a 300MW power station and captive coal mine to supply energy to the South African electricity grid.
- In early July, the Company completed the acquisition of the 1.3 billion tonne Mmamantswe Coal Project in south-east Botswana for a cash consideration of AUD $3.5M from Aviva Corporation.
- African Energy has now secured the full rights to 3.8 billion tonnes of coal in Botswana, and increased its working capital to approximately $6M.

Other

- During the quarter 2,036,594 new shares were issued:
  - 863,095 shares were issued to Directors in lieu of cash salary.
  - 340,167 shares were issued to staff in lieu of cash salary under the employee share plan.
  - 733,332 shares were issued to Directors upon vesting of performance rights.
  - 100,000 shares issued to staff upon vesting of performance rights.
- The cash position at 30 June 2013 was US$5.62m (31 March 2013: US$2.4m).

Outlook

- Continue discussions with development partners, power station off-takers, lenders and EPC contractors relevant to the Sese Integrated Power Project.
- Prepare RFP submission for Botswana 300MW greenfields power project.
- Undertake a series of stakeholder briefings relating to export infrastructure studies undertaken by AFR.

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 more 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. Sese Power is currently 100% owned by African Energy.
- The Company is in advanced discussions with multiple parties interested in pre-development partnering with AFR through equity participation in Sese Power. Funds raised from this will be used to pay for the Definitive Feasibility Study for SIPP and for power off-take agreement negotiations.
- Sese Power is holding discussions with potential consortium partners (EPC contractors, power developers, Operation and Maintenance contractors, BEE partners) to form one or more consortia to bid for several power project opportunities in southern Africa (see below).
- African Energy's equity contribution to the project(s) will include the allocation of up to 60Mt of coal from Sese Block-C measured resource into one or more mining licences that will be owned by Sese Power.
- Block-C currently contains 330Mt of coal in measured resources and is thus capable of supporting multiple power projects.

1.1.2 Botswana Tender Opportunity

- A Request for Prequalification (RFP) for a new 300MW power station at a greenfields site in Botswana is expected to be announced shortly.
- African Energy (through Sese Power) will submit an RFP proposal for the greenfields power station once its power development consortium has been finalised.
- Sese Power 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.

1.1.3 South Africa 300MW submission in response to a Request for Registration and Information

- African Energy Resources Ltd (AFR) has prepared and successfully submitted a Request for Registration and Information (RFRI) to the Republic of South Africa's Department of Energy (RSA) for the development of a 300MW power station and captive coal mine to supply energy to the South African electricity grid. The key aspects of the submission are as follows:
  - In December 2012, in support of its Integrated Resource Plan for Electricity 2010-2030, RSA added close to 11,000MW of new generating capacity to its forward procurement programme.
  - Of this, 2,500MW has been reserved for base-load coal-fired generation, including domestic and imported energy from Independent Power Producers.
  - AFR has registered its interest in supplying 300MW in conjunction with a South African

BEE partner.
- The off-take party would be South African utility Eskom

1.1.4 Other Power Off-take Negotiations

- Discussions with another regional electricity off-taker have continued to progress well with the terms of a joint cooperation agreement having been submitted for consideration.

1.1.5 Feasibility Studies

- A Definitive Feasibility Study for a 300MW power station and captive ~1.5mtpa coal mine will commence upon finalisation of terms with a strategic pre-development partner.

1.2 Sese Export Project (100% AFR)

1.2.1 Background

- Over the past twelve 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 for this line with a series of staged capital injections.
- During the last quarter Morupule Coal Mines (MCM), the only operating coal mine in Botswana, commenced exports of coal through the ports of Durban (rail via South Africa) and Maputo (rail via Zimbabwe and Mozambique, on the existing line referred to above).
- MCM expect to initially export at an annualized rate of 150,000 tonnes, but this is likely to increase over the next 12 months.
- This is a milestone achievement for Botswana, placing it amongst the coal exporting nations of the world.
- Rail capacity for Botswana coal through South Africa has been reported as approximately 10mtpa, which combined with the 10-20mtpa on the Francistown-Maputo line indicate existing rail infrastructure could evacuate up to 30mtpa from Botswana once its coal industry has been expanded through the development of new mines.

1.2.2 Ongoing Work Programme

- African Energy is commencing a series of discussions to inform stakeholders of the outcomes of its studies of export logistics.
- This will include meetings with the three relevant railway companies (Botswana Railways, National Railways of Zimbabwe and CFM, Mozambique), who are now all involved with the Morupule export programme. These meetings will include discussions on rail tariffs appropriate to incentivize large-scale coal export operations.
- Meetings will also be requested with the appropriate Government Ministries.

2 Mmamantswe Coal Project, Botswana (100% AFR)

- The Mmamantswe Coal Project is in south-eastern Botswana, and comprises a Measured and Indicated Resource of 1.3 billion tonnes of thermal coal, including 895Mt of Probable Reserves.
- A 2009 Scoping Study completed by SRK concluded that a 10Mtpa open-pit mining operation could produce 2.4Mtpa of washed export coal (22MJ/kg, <20% ash) and 2.1Mtpa of middlings suitable for power station fuel (15.3MJ/kg, 38% ash) at a ROM (run-of-mine) cash cost of $9.10 per tonne for a total capital cost of $350M on an owner-operated basis.
- An Environmental Impact Assessment was approved for the project by the Government of Botswana in October 2012, and an 8 Gl/year water bore-field has been delineated and secured for the project, providing sufficient water for mining and processing and for a 300MW mine-mouth power station.
- The Company acquired the Mmamantswe Coal Project from Aviva Corporation in July 2013 for AUD$3.5m. Aviva had invested approximately AUD $12m in the project prior to disposal.
- All project data is being assimilated into AFR's database and will be used to finalise the project plan for the next 12 months.

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.

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 JUNE 2013

Consolidated statement of cash flows

	Cash flows related to operating activities	Current quarter $US'000	Year to date (12 months) $US'000
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for:		
	(a) exploration and evaluation	(487)	(4,323)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(547)	(2,651)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	13	35
1.5	Interest and other costs of finance paid	(26)	(268)
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	-	-
	Net Operating Cash Flows	**(1,047)**	**(7,207)**
	Cash flows related to investing activities		
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(4)	(4)
1.9	Proceeds from sale of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	91
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	-	-
	Net investing cash flows	**(4)**	**87**
1.13	**Total operating and investing cash flows (carried forward)**	**(1,051)**	**(7,120)**

1.13	**Total operating and investing cash flows (carried forward)**	**(1,051)**	**(7,120)**
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	5,162	8,299
1.15	Cost of the Issue	(21)	(235)
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	**5,141**	**8,064**
	Net increase (decrease) in cash held		
1.20	Cash at beginning of quarter/year to date	2,363	5,322
1.21	Exchange rate adjustments to item 1.20	(827)	(640)
1.22	**Cash at end of quarter***	**5,626**	**5,626**

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	337
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$86k – director remuneration payments

US$251k – 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	535
4.2	Development	-
4.3	Production	-
4.4	Administration	538
	Total	**1,073**

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	970	2,273
5.2	Deposits at call	4,656	90
5.3	Bank overdraft	-	-
	Total: Cash at end of quarter (item 1.22)	**5,626**	**2,363**

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	-	-	-	-

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**	394,832,546	394,832,546	-	-
7.4	Changes during quarter (a) Increases through issue of new shares (b) Decreases	 43,152,238 -	 43,152,238 -		
7.5	**+Convertible debt securities**	-	-	-	-
7.6	Changes during quarter (a) Increases (b) Decreases	-	-	-	-
7.7	**Options/Rights** Unquoted options	30,899,304	**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
			22,766,805	AUD $0.21	31-Dec-14
	Unquoted rights	8,916,667	Performance Rights subject to various vesting hurdles and expiring 1 October 2017		
7.8	Issued during quarter	-	-	-	-
7.9	Exercised during quarter	458,333	• 458,333 Vested performance rights converted to ordinary shares		
7.10	Expired during quarter	10,393,964	• 9,768,964 Options exercisable at AUD0.50 and expiring 31 December 2013 • 625,000 Performance Rights		
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 July 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.