

*For electronic distribution*

16 January 2013

## **COMPANY UPDATE – RECENT PROGRESS WITH PROJECTS**

The Directors are pleased to provide shareholders with the following update, highlighting several corporate initiatives and recent progress at the Sese Coal & Power Project in Botswana.

The 2.5 billion tonne Sese Coal & Power Project contains over 650Mt of thermal coal in measured resources, 1700Mt in indicated resources and 150Mt in inferred resources in eastern Botswana.

The Company is focused on creating viable businesses from the Project through the following avenues:

1. The Sese Integrated Power Project which aims to build an initial 300MW power station with its own dedicated coal mine based on a small portion of the measured resource.
2. The Sese Export Project focused on building a project to export processed Sese coal to Asia via the existing rail and port infrastructure to the east of the deposit.
3. Corporate activities related to provision of funds to deliver the above two projects.
4. Adding further coal resources to the total inventory from the nearby Sese West project.



**Diagram 1 Aerial oblique view of the Sese bulk sample site**

## **CORPORATE**

- The Company is currently in discussions with a number of global strategic groups who have expressed interest in investing either directly into Sese Power Ltd (the wholly owned special purpose vehicle which houses the Sese Integrated Power Project), or in the ASX-listed parent African Energy Resources Ltd.
- Equity raised from such investments would be used to accelerate the development of the projects.
- To date, ten companies have executed Confidentiality Agreements to gain access to the Company's data, with a further two expected before the end of January.
- Non-binding draft term sheets have been distributed to a number of these parties, and commercial discussions with these have commenced.
- The Company expects to conclude these discussions by the end of the current quarter.
- The Company also continues to seek the divestment of its non-core uranium project portfolio, which contains measured, indicated and inferred resources of over 11Mlb U<sub>3</sub>O<sub>8</sub>. Several companies are currently evaluating the acquisition of these uranium projects.

## **SESE INTEGRATED POWER PROJECT (SIPP)**

The Sese Integrated Power Project will comprise an initial 300MW power station, a dedicated 1.5mtpa coal mine and all related infrastructure required to deliver electricity into the Southern African Power Pool grid.



**Diagram 2 Conceptual design layout of the Sese 300MW power station**

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.

#### **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 late in Q1 2013.

#### **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.

#### **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.

#### **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 two 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.

#### ***SESE EXPORT PROJECT***

Over the past six 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. Significant capacity increases are deemed possible in a staged manner and are currently the subject of a prefeasibility study.

#### **Rail Infrastructure**

- A successful 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 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.
- The rail study is scheduled for completion in the current quarter.

#### **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.
- 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 by the end of the current quarter



**Diagram 3 Raw Sese coal prior to crushing and processing for the export trial**

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.

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