

31 January 2014

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 31 DECEMBER 2013

HIGHLIGHTS

- African Energy Resources Limited ("African Energy" or "Company") executed a Joint Development Agreement ("JDA") with ACWA Power International ("ACWA Power") for the development of one or more 300MW or larger power projects to be located at the Company's Sese coal deposit in Botswana.
- African Energy and ACWA Power, as a consortium, submitted an Expression of Interest to the Government of Botswana to build, own and operate a 300 MW coal fired power generation plant at AFR's Sese coal deposit.
- African Energy completed the acquisition of the 2.4 billion tonne Mmamabula West Coal Project in south-east Botswana for cash consideration of US\$2.5m, subject to certain conditions.
- The Company commenced discussions with potential partners to evaluate opportunities to sell coal and/or power generated from the Mmamantswe coal deposit to South Africa.
- Karoo Exploration Corp ("Karoo") notified the Company it had completed its due diligence during the December quarter related to the Binding Letter of Intent under which Karoo will acquire the Company's portfolio of Zambian uranium licences. Subject to certain conditions, African Energy will receive a cash payment of US\$2m, and the receipt of an equity package consisting of shares and share purchase warrants with a value of US\$0.5m.
- The cash position at 31 December 2013 was US\$3.43m (30 September 2013: US\$ US\$4.56m).

OUTLOOK

Sese Coal & Power Project

- The company will be continuing to progress its power development programme at Sese with the following activities:
 - A formal response from the Government of Botswana on the Expression of Interest lodged by the African Energy/ACWA Power consortium is expected.
 - Continuation of a Definitive Study on the Sese Integrated Power Project.
 - Advancement of other power supply opportunities in the southern African region.
 - Continuation of permitting and environmental programmes necessary for the development of up to two 300MW integrated power projects and associated coalmines.

- Submission of a mining license application covering 50Mt of coal for the Sese Integrated Power Project and application for a retention license for remainder of PL96-2005.

Mmamantswe Coal Project

- Commencement of coal and power marketing studies and an associated economic appraisal of the project
- Submit application for two year extension of PL069/2007.

Mmamabula West Coal Project

- Continue the Environmental and Social Impact Assessment for an underground export coal mine.
- Commencement of a feasibility study to assess the economic viability of an underground export coal mine.
- Continue assessment of export infrastructure options (rail, port, off-take).
- Submit application for mining license or retention license over PL056/2005.

OTHER CORPORATE

During the quarter 3,696,315 new shares were issued:

- 1,500,490 shares were issued to Directors in lieu of cash salary.
- 1,895,825 shares were issued to staff in lieu of cash salary.
- 300,000 shares issued to staff upon vesting of performance rights.

PROJECTS

1 Sese Coal and Power Project, Botswana

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.
- Coal for the power stations will be provided from Sese Block-C which currently contains 330Mt of coal in measured resources and is thus capable of supporting multiple power projects.
- African Energy has executed a Joint Development Agreement (“JDA”) with ACWA Power for the development of a 300 MW power station and integrated coal mine (“Project”) to be located at the Company’s Sese coal deposit in Botswana.

1.2 Botswana Tender Opportunity

- In August the Ministry of Minerals, Energy and Water Resources (“MMEWR”), on behalf of the Government of the Republic of Botswana, released a Tender Notice and Invitation for the EOI for the development of a Greenfield 300 MW coal-fired power station.
- African Energy and ACWA Power as a consortium submitted an EOI to the Government of Botswana to build, own and operate a 300 MW coal fired power generation plant to be located at AFR’s Sese coal deposit with the ability to deliver power into the grid as early as 2016, and no later than 2019.
- MMEWR is expected to make its determination on power procurement from the Expressions of Interest submitted in the next quarter.
- 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.

1.3 Other Power Off-take Negotiations

- Discussions with other regional electricity off-takers are continuing to progress.

1.4 Feasibility Studies and ESIA

- A Definitive Feasibility Study for a 300MW power station and captive ~1.5mtpa coal mine has been scoped with work to commence in the first quarter of 2014.
- An Environmental and Social Impact Assessment (“ESIA”) covering up to two 300MW power stations, each with its own 1.5Mtpa coalmine is nearing completion. The Company expects to lodge the first draft in the first quarter of 2014.

2 Mmamantswe Coal Project, Botswana (100% AFR)

- The Mmamantswe Coal Project is in south-eastern Botswana, and comprises a Measured and Indicated Resource of approximately 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 has commenced discussions with potential partners to evaluate opportunities to sell coal and or power to South Africa.

3 Mmamabula West Coal Project, Botswana (100% AFR)

3.1 Background

- In late December, the Minister for Minerals Energy and Water Resources in Botswana approved the transfer of title of the Mmamabula West prospecting licence to African Energy Resources Ltd, thereby satisfying the completion requirements of the Mmamabula West Sale Agreement.
- In early January, African Energy made the initial USD \$1 million payment to Asenjo Energy under the terms of the Sale Agreement.
- A final cash payment of USD \$1.5m will be made to Asenjo Energy once a retention licence has been granted over the project in mid-to late-2014.
- Mmamabula West contains 892Mt of Indicated Resource and 1,541 Mt of Inferred Resource at an average in-situ raw CV of 4,800kcal/kg (20.1 MJ/kg). The majority of the coal occurs in two coal seams which are 4-6m thick and 100-150m below surface.
- A preferred area of approximately 25km² within the Indicated Resource contains higher quality coal that can produce a 6,100 kcal/kg export product at theoretical yields of 75%. This area requires further detailed studies to confirm its potential for an underground export coal mine.

3.2 Resource Estimate

- Mmamabula West has been delineated by 87 holes drilled by Asenjo between 2008 and 2011, plus 52 historical drill holes drilled before 2006. The deposit contains three coal seams:
 - K-Seam: 5.7m thick (0.5m to 9m), 47-122m deep (average 105m)
 - Parting 20-30m
 - A-Seam: 4.6m thick (0.5m to 6.5m), 70-210m deep (average 130m)
 - Parting 15-25mE-Seam: 1.5m thick (0.5m to 3.2m), 85-230m deep (average 155m)

In situ resource tonnages and raw coal qualities (air-dried basis) are shown in section 4:

3.3 Preferred Area For Mining Studies:

- Detailed inspection of the drilling information, proximate analyses and washability tables has led to the identification of a coherent 25km² area (defined by 50 drill holes) within the indicated resource that has higher quality coal capable of producing high CV products at high yields.
- This area was the subject of a high level desktop study completed by Mining Consultancy Services (Pty) Ltd in December 2011. This study assessed an underground bord and pillar mining operation to extract A-seam only, and "highly recommended" that further more detailed studies were undertaken on this preferred area.

- African Energy believes that this preferred area from within the Indicated Resource could form the basis of a stand-alone underground export coalmine.

3.4 Mining Studies and ESIA:

- An Environmental and Social Impact Assessment for a potential 4Mtpa underground coal mine in the preferred mining area commenced in October 2013.
- A feasibility study to assess the underground mining, processing, marketing and transport logistics of up to 4Mtpa of coal from the preferred mining area commenced in early January 2014.

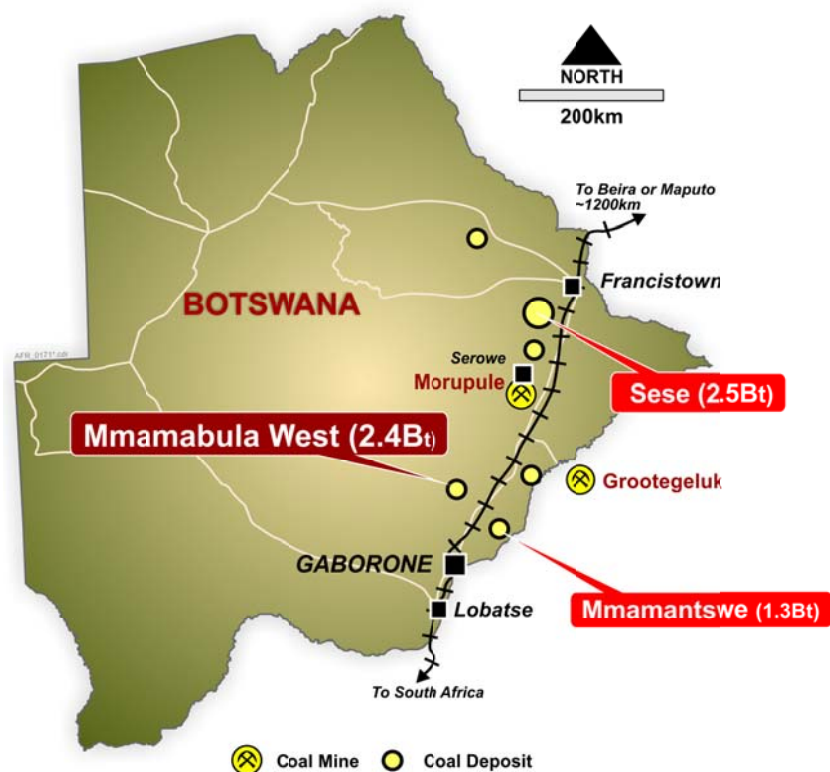


Diagram 1: Location of Botswana Coal Projects

4 Global Coal Resources for Coal Projects in Botswana

Sese Coal & Power Project: Resource Summary (Raw coal on an air-dried basis)								
Resource Zone	In-Situ Tonnes*	CV (MJ/kg)	CV (kcal/kg)	Ash %	IM%	VM%	FC%	S %
MEASURED (Block-C)	333 Mt	17.6	4,200	30.2	7.9	20.6	41.4	2.1
MEASURED (Block-B)	318 Mt	16.0	3,820	34.8	7.4	20.4	37.4	1.7
INDICATED	1,714 Mt	15.3	3,650	38.9	6.6	18.7	35.8	2.0
INFERRED	152 Mt	15.0	3,600	39.1	6.4	19.5	34.9	2.2
TOTAL	2,517 Mt							

Mmamabula West Project: Resource Summary (Raw coal on an air-dried basis)								
Resource Zone	In-Situ Tonnes*	CV (MJ/kg)	CV (kcal/kg)	Ash %	IM%	VM%	FC%	S %
MEASURED	N/A							
INDICATED	892 Mt	20.2	4,825	25.5	6.0	26.0	41.0	1.5
INFERRED	1,541 Mt	20.0	4,775	25.5	5.7	25.9	41.2	1.7
TOTAL	2,433 Mt							

Mmamantswe Project: Resource Summary (Raw coal on an air-dried basis)								
Resource Zone	In-Situ Tonnes*	CV (MJ/kg)	CV (kcal/kg)	Ash %	IM%	VM%	FC%	S %
MEASURED	978 Mt	9.5	2,270	56.5	3.9	15.8	21.8	2.0
INDICATED	265 Mt	7.9	1,890	62.3	3.3	14.2	18.1	2.1
INFERRED	N/A							
TOTAL	1,243 Mt							

GRAND TOTAL	6,193 Mt
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* In-Situ tonnes have been derived by removing volumes for modelled intrusions, burnt coal and weathered coal and then applying geological loss factors to the remaining Gross In-Situ Tonnes

5 Mining tenements held at the end of each quarter and their location

	Interest at beginning of quarter	Interest at end of quarter	Location
PL 96/2005 (Sese)	100%	100%	Botswana
PL197/2007 (Sese West)	100%	100%	Botswana
PL004/2013 (Foley North)	100%	100%	Botswana
PL069/2007 (Mmamantswe)	100%	100%	Botswana
PL056/2005 (Mmamabula West)*	0%	100%	Botswana
18176-HQ-LPL (Mulipo)	100%	100%	Zambia
13764-HQ-LPL (Nangandwe)	100%	100%	Zambia
12634-HQ-LML (Chirundu ML)	100%	100%	Zambia
13265-HQ-LPL (Chirundu PL)	100%	100%	Zambia
13642-HQ-LPL (Munyumbwe)	100%	100%	Zambia
8264-HQ-LPL (Kariba Valley)	100%	100%	Zambia
13646-HQ-LPL (Sinazongwe East)	100%	100%	Zambia
17732-HQ-LPL (Sinazongwe West)	100%	100%	Zambia
16556-HQ-LPL (Sinazongwe Central)	100%	100%	Zambia
16775-HQ-LPL (Sinazongwe South)	100%	100%	Zambia

* PL056/2005 (Mmamabula West)*was acquired 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 Resources 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 was prepared and first disclosed under the JORC Code 2004. It has not been updated since to comply with the JORC Code 2012 on the basis that the information has not materially changed since it was last reported. References to "Measured, Indicated and Inferred Resources" are to those terms as defined in the JORC Code (2004 edition).

Information in this report relating to Exploration results, 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 that is relevant to the style of mineralisation and type of deposit under consideration and to the activity that 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 2013

Consolidated statement of cash flows

Cash flows related to operating activities		Current Quarter \$US'000	Year to date (6 months) \$US'000
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for:		
	(a) exploration and evaluation	(616)	(1,186)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(437)	(892)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	45	52
1.5	Interest and other costs of finance paid	(107)	(186)
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	-	-
	Net Operating Cash Flows	(1,115)	(2,212)
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a) prospects	-	(3,232)
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.9	Proceeds from sale of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	-	-
	Net investing cash flows	-	(3,232)
1.13	Total operating and investing cash flows (carried forward)	(1,115)	(5,444)

1.13	Total operating and investing cash flows (carried forward)	(1,115)	(5,444)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	3,224
1.15	Cost of the Issue	-	(11)
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	-	3,213
	Net increase (decrease) in cash held	(1,115)	(2,231)
1.20	Cash at beginning of quarter/year to date	4,565	5,626
1.21	Exchange rate adjustments to item 1.20	(24)	31
1.22	Cash at end of quarter*	3,426	3,426

*US\$1,000,000 was paid on 5 January to complete the acquisition of Mmamabula West Coal Project

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	245
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\$108k – director remuneration payments
US\$137k – 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	997
4.2 Development	-
4.3 Production	-
4.4 Administration	491
Total	1,488

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	2,462	1,223
5.2 Deposits at call	965	3,342
5.3 Bank overdraft	-	-
Total: Cash at end of quarter (item 1.22)	3,427	4,565

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	PL56/2005 (Mmamabula West)	License holder	0%	100%

Issued and quoted securities at end of current quarter

		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	433,273,789	433,273,789	-	-
7.4	Changes during quarter (a) Increases through issue of new shares (b) Increases through conversion of rights	3,396,315 300,000	3,396,315 300,000		
7.5	*Convertible debt securities	-	-	-	-
7.6	Changes during quarter	-	-	-	-
7.7	Options/Rights Unquoted options	60,155,204	No. of options	Strike Price	Expiry Date
	782,499		AUD \$0.625	25-July-14	
	22,766,805		AUD \$0.21	31-Dec-14	
	36,605,900		AUD \$0.15	31-Dec-15	
	Unquoted rights		7,783,334	Performance rights subject to various vesting hurdles and expiring 30 September 2017	
7.8	Issued during quarter Unquoted options	36,605,900	Options with an exercise price of 15c expiring on 31 December 2015		
	Unquoted rights	1,666,666	Performance rights subject to various vesting hurdles and expiring 30 September 2017		
7.9	Exercised during quarter	300,000	Vested performance rights converted to ordinary shares		
7.10	Expired during quarter Unquoted options	7,350,000	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	
	Unquoted rights		500,000	Performance Rights	
7.11	Debentures <i>(totals only)</i>	-	-		
7.12	Unsecured notes <i>(totals only)</i>	-	-		

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 2014

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.