

31 October 2011

Manager Announcements
Company Announcements Office
Australian Stock Exchange Limited
10th Floor, 20 Bond Street
SYDNEY NSW 2000

Via electronic lodgement

**QUARTERLY ACTIVITIES REPORT FOR THE PERIOD
ENDED 30 SEPTEMBER 2011**

HIGHLIGHTS

Sese concept study

- The Concept Study to evaluate the commercial viability of mining coal at Sese was completed in August 2011 and delivered to the Board in early September.
- The Concept study was managed internally, but drew on recognised independent consultants for the bulk of its input, including Wood Mackenzie (market, logistics, pricing), Parsons Brinckerhoff (electricity supply/demand), GEMECS and Coffey Mining (geology, resource estimation), Minserve (mining) and CPG Resources/QCC (coal processing and handling).
- The Concept Study concluded that there were a number of viable business cases to be made for developing a coal mine at Sese.
- The Concept Study assessed a staged development plan:
 - Stage 1 – cash flow positive from 2013 from an initial 1Mtpa project
 - Stage 2 – existing infrastructure is capable of supporting expansion to 5Mtpa
 - Stage 3 and 4 – production of 20Mtpa and beyond possible via large-scale export tonnages and increased domestic power station fuel sales

- An economic assessment of the project undertaken as part of the Concept Study showed the potential for attractive project economics:

	OPEX US \$/ROM t	CAPEX US \$
Stage 1 (Contractor)	\$13/t	\$46M
Stage 2 (Contractor)	\$10/t	\$104M

- On the basis of the results from the Concept Study, the Company has committed to a bankable feasibility study to assess a 3-5Mtpa operation.

Sese bulk sample

- Site preparation and construction of an all-weather access track for the 350m long box-cut excavation for a 10,000t bulk sample has commenced.
- Topsoil removal/stockpiling and the initial excavation of the box-cut for the bulk sample has commenced.

Sese EIA

- The Environmental Impact Assessment for the Sese project has commenced. It has now reached the stage of community consultations after which the formal Terms of Reference will be presented to the Department of Environmental Affairs for approval.
- An assessment of the requirements for the environmental baseline survey has commenced.

Sese resource drilling

- Infill drilling to a 1km x 1km grid has been completed across the entire deposit. Information from this drilling will assist resource upgrade to an Indicated Resource.
- Infill drilling to a 500m x 500m grid commenced in the northern part of Block-B and the north-central part of Block-C. This may permit classification of a Measured Resource in these areas.

Exploration

- Coal bearing stratigraphy has been identified on the Company's Sinazongwe East tenement in southern Zambia. Further exploration is required to determine the significance of this.

Corporate

- The cash position at 30 September 2011 was USD \$14,426,083.

Outlook

- Re-classification of the entire Sese coal resource to an Indicated category.
- Completion of infill drilling at Sese to a 500m x 500m grid in the northern half of Block-B and the central-north section of Block-C.
- Large diameter core drilling to collect 8 inch diameter coal core from selected sites in Block-B and Block-C. These samples are required for coal processing test work.
- Completion of the excavation of a bulk sample of approximately 10,000t of coal from a 350m long box-cut in Block-B.
- Commencement of Bankable Feasibility Study on the Sese coal project.
- Continuation of EIA process for the Sese coal project.
- Drill testing of coal-bearing stratigraphy on the Company's Sinazongwe East prospecting licence in southern Zambia.

PROJECTS

1. Sese Coal Project, Botswana

African Energy Resources Limited 100%

1.1 Concept Study Results

A Concept Study to evaluate the technical and commercial viability of the Sese coal project in Botswana was completed under the supervision of Mr Philip Clark, the Company's Senior Coal Consultant. The Concept Study comprised a number of modules performed by independent consultants:

- | | |
|--|-------------------------------------|
| • Geology and mineral resources | (GEMECS, Coffey Mining) |
| • Mining and mine scheduling | (Minserve Pty Ltd) |
| • Coal processing and handling | (CPG Resources and QCC Ltd) |
| • Marketing and price forecasts | (Wood Mackenzie) |
| • Coal chain logistics | (Wood Mackenzie) |
| • Power supply/demand for the region | (Parsons Brinckerhoff South Africa) |
| • Operating and capital cost estimates | (Wood Mackenzie, in-house) |

The Study concluded that the project could be developed through a staged approach. An initial, up to 1Mtpa, operation (Stage 1) can generate cash flows within two years and involves selling washed coal into domestic and regional markets. Additional coal sales to a power station, and moderate volumes of export sales could expand Sese into a 3-5Mtpa (Stage 2) operation. Existing rail and port infrastructure are able to support Stage 1 and Stage 2 operations. Stage 1 and Stage 2 were considered to be best suited to a contractor serviced operation.

Expansion of the project beyond Stage 2 is possible through increased sales of coal to power stations, and/or through increased volumes of export sales (with India the likely market). Increased volumes of export sales would require the construction of a heavy haulage railway and associated port infrastructure. The ultimate Stage 4 project could exceed 30Mtpa production assuming new infrastructure is built. Stage 3 and Stage 4 will likely be an owner operated mine.

The Concept Study has determined that strong operating cash margins may be possible under a variety of scenarios that do not require new rail and port infrastructure. As such, the Board believes that further evaluation of the project is warranted and has approved a feasibility study to refine the technical and commercial evaluation of a mining operation to deliver up to 5Mtpa (Stage 2 operation).

1.2 Bankable Feasibility Study (BFS)

Discussions have commenced with consultants under consideration for the bankable feasibility study. An initial study scope has been prepared which will be used to develop the full project outline for commencement in the next quarter. It is expected that the BFS will take approximately 12 months to complete.

SRK Consulting has been appointed to undertake a geotechnical assessment of the Sese coal project and have commenced site work. This includes geotechnical logging of selected drill cores and siting a small number of specific angled core holes for geotechnical studies.

1.3 Environmental Impact Assessment (EIA)

A Preliminary Environmental Impact Assessment report for the proposed Sese coal project was submitted to the Department of Environmental Affairs (DEA) in August. On the basis of this submission, the Company has been authorised to proceed to the next stage of the process, which is to undertake public consultation and to prepare a Scoping report and draft Terms of Reference. These are to be submitted to DEA for review and approval, after which the detailed assessment can begin.

1.4 Bulk Sample

In September the Company committed to excavate a 10,000t bulk sample of coal from the north-west corner of Block-B to provide material for bulk test-work, export trials and power station trials. The excavation will take the form of a 350m long box-cut with a high wall height of approximately 35m. The excavation will be capable of rapid expansion into a production ramp for a future operating mining operation. Local contractor G&S Projects (Pty) Ltd has been awarded the contract for the excavation and associated site works.

In August, the Company cleared an access track from the main gravel road to the bulk sample site to allow the G&S mining fleet to reach the site. Material from the excavation will be used to sheet the access track to maintain all-weather access. G&S mining equipment is now on-site and has commenced the excavation. Topsoil has been cleared and stockpiled, and initial excavation of the box-cut has commenced. Project completion is scheduled for late December.

1.5 Resource Drilling

During the quarter, the Company completed 81 diamond core holes (5,270.2m) and 26 reverse circulation (RC) percussion drill holes (2,298m). This drilling was performed for the following purposes:

- RC drilling in Block-B and Block-C to provide information on geological structure and to assess the limited impact of dolerite intrusions in the coal seam.

- 1km x 1km core drilling completed across the whole deposit, which should permit the re-classification of the entire deposit to an Indicated Resource.
- Installation and commissioning of water bores to provide sufficient water for the excavation of the bulk sample, sheeting the access road and for any on-site coal washing tests.
- 500m x 500m infill core drilling in the northern half of Block-B (completed) and commencement of similar infill in the north-central part of Block-C. This will provide information which should allow the classification of a Measured Resource in these areas.

To date, the resource delineation drilling comprises 333 holes for a total of 23,455m.

2. Uranium Projects in Zambia

2.1 Chirundu Uranium Project (100% African Energy)

- Baseline environmental studies for the Chirundu Uranium Project continued.
- Construction of a community health post at Sikoongo Village commenced and was near completion by the end of the quarter.

2.2 Kariba Valley Uranium Project (100% African Energy)

- During the course of routine field assessment of Karoo sediments in the Sinazongwe East tenement, the Company's geologists identified areas where sub-cropping coal has been exposed in several hand pits dug for local village water sources. The coal bearing sediments have a strike length of approximately 10km in the AFR tenement, and are the easterly extension of the stratigraphy which hosts the Maamba Colliery and the Kandabwe coal mine, Zambia's only producing coal deposits. A small programme of diamond drilling to assess the coal potential in the AFR tenement will be undertaken next quarter once the necessary environmental approvals have been obtained.

2.3 Northern Luangwa Valley Project (100% African Energy)

- No work during the quarter.

2.4 Aldershot Joint Venture (African Energy earning an initial 51%)

- 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

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 is based on data compiled by Dr Frazer Tabeart (a full time employee and 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")

30 SEPTEMBER 2011

Consolidated statement of cash flows

		Current quarter \$US'000	Year to date (3 months) \$US'000
Cash flows related to operating activities			
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for:		
	(a) exploration and evaluation	(1,067)	(1,067)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(739)	(739)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	96	96
1.5	Interest and other costs of finance paid	(31)	(31)
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	-	-
Net Operating Cash Flows		(1,741)	(1,741)
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(97)	(97)
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		(97)	(97)
1.13	Total operating and investing cash flows (carried forward)	(1,838)	(1,838)

1.13	Total operating and investing cash flows (carried forward)	(1,838)	(1,838)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	16,293	16,293
1.15	Cost of the Issue	(997)	(997)
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	15,296	15,296
	Net increase (decrease) in cash held	13,458	13,458
1.20	Cash at beginning of quarter/year to date	2,440	2,440
1.21	Exchange rate adjustments to item 1.20	(1,472)	(1,472)
1.22	Cash at end of quarter	14,426	14,426

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	498
1.24	Aggregate amount of loans to the parties included in item 1.10	-
1.25	Explanation necessary for an understanding of the transactions Payments to directors for executive services during the period and payments to related entities for reimbursements of GIS management, administrative 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	4,619
4.2 Development	-
4.3 Production	-
4.4 Administration	709
Total	5,328

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	6,451	2,375
5.2 Deposits at call	7,975	65
5.3 Bank overdraft	-	-
Total: Cash at end of quarter (item 1.22)	14,426	2,440

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	326,376,735	296,276,733		
7.4 Changes during quarter				
(a) Increase through exercise of options	100,000	100,000	AUD \$0.0850	AUD \$0.0850
(b) Increase through placement of shares	30,000,000	30,000,000	AUD \$0.5000	AUD \$0.5000
7.5 *Convertible debt securities				
7.6 Changes during quarter				
(a) Increases				
(b) Decreases				
7.7 Options		No. of options	Strike Price	Expiry Date
Unquoted options				
		9,152,981	AUD \$0.3125	30-Jun-12
		1,100,000	AUD \$0.4000	30-Jun-12
		3,625,000	AUD \$0.0850	30-Jun-12
		625,000	AUD \$0.1250	31-Dec-13
		250,000	AUD \$0.7000	31-Dec-13
		2,250,000	AUD \$0.8000	31-Dec-13
		1,500,000	AUD \$0.9000	31-Dec-13
		1,500,000	AUD \$1.1000	31-Dec-13
		1,500,000	AUD \$1.3000	31-Dec-13
		4,843,240	AUD \$1.0300	31-Dec-12
		782,499	AUD \$0.6250	25-July-14
7.8 Issued during quarter	782,499	No. of options	Strike Price	Expiry Date
		782,499	AUD \$0.6250	25-July-14
7.9 Exercised during quarter	100,000	No. of options	Strike Price	Expiry Date
		100,000	AUD \$0.085	30-Jun-12
7.10 Expired during quarter				
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 October 2011

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.