

30 July 2012

The Manager  
ASX Market Announcements  
ASX Limited  
Exchange Centre, 20 Bridge Street  
Sydney NSW 2000

*Via electronic lodgement*

**QUARTERLY ACTIVITIES REPORT FOR THE PERIOD  
ENDED 30 JUNE 2012**

**HIGHLIGHTS**

**Sese Coal and Power Project**

- In June a non-binding Memorandum of Understanding was executed with a potential off-taker for the electrical output of AFR's proposed 300MW coal-fired power station.
- Discussions with EPC contractors and lenders for an initial 300MW power station continued during the quarter.
- Work on the feasibility studies and EIA continued during the quarter.
- A programme of large-diameter core drilling to collect samples for coal quality analysis and physical property testing has been completed.

**Corporate**

- In June the Company issued 3,250,000 shares upon the exercise of employee options that raised AUD \$276,250 before costs.
- The cash position at 30 June 2012 was US\$5.3m.

## Outlook

- Re-classification of two areas within the Sese coal resource to the Measured Resource category. These areas of Measured Resource will form the basis of future ore reserves.
- Continue discussions with power station off-takers, lenders and EPC contractors.
- Continue feasibility study for the Sese Integrated Power Project.
- Continue EIA for the Sese Integrated Power Project.
- Continue evaluation of coal-chain logistics related to the Sese Export Project
- The Company is close to finalising a two year extension to the Sese Prospecting Licence and a further two year renewal of the nearby Sese West Prospecting Licence. Furthermore the Company expects the Botswana government to make final determinations regarding African Energy's coal licence applications during the quarter.
- Receive and interpret washing results and coking property tests from southern Zambian coal drilling.

## PROJECTS

### 1. Sese Coal and Power Project, Botswana

#### 1.1 Sese Integrated Power Project (100% AFR)

##### 1.1.1 Summary

- The Sese Integrated Power Project is defined as an initial 300MW power station, a captive 1.5Mtpa coal mine with its own mining licence (yet to be applied for) and all associated infrastructure to enable the project to deliver electricity into Botswana's national grid.
- This is a stand-alone project that is structured to enable the raising of limited recourse project finance independently of African Energy's balance sheet.
- African Energy currently owns 100% of the Integrated Power Project.

##### 1.1.2 Coal Mine Bankable Feasibility Study (BFS)

- Work on the mine feasibility study continued during the quarter.
- The feasibility study to date has concentrated on a series of trade-off studies to evaluate the optimum configuration and location of mining, coal processing facilities and mine infrastructure required to deliver to the Sese Integrated Power Project and/or the Sese Export Project.
- A bankable feasibility study (BFS) is now being scoped for the 1.5Mtpa captive coal mine, to be completed by the end of the year.
- A programme of large diameter drilling has been completed to provide samples for coal quality test work including ash-by-size analysis and other physical parameters. This will help derive product specifications for both power station fuel and export products.
- Eight core holes were completed (6 in Block-C, and 2 in Block-B), collecting a total of 140m of 122mm diameter coal core weighing approximately 2.8 tonnes.

##### 1.1.3 Environmental Impact Assessment

- The Environmental Impact Assessment (EIA) for the Sese Coal and Power Project continued during the quarter. The Preliminary EIA has been approved for a 5mtpa mine and up to 600MW power station.
- The Project Scoping Study Report that sets out the full terms of the EIA and highlights the issues raised by the community has been delivered to the Government.
- Terms for the EIA will be developed from the Project Scoping Study Report and discussions with the relevant Government department. The formal component of the EIA for the Integrated Power Project will then commence, and is due for completion in early 2013.

#### **1.1.4 Power Station**

- A Memorandum of Understanding (MOU) with a potential off-taker for the electrical output of AFR's proposed 300MW coal-fired power station was signed in June.
- The Off-taker is a credit-rated national electrical utility and a member of the Southern African Power Pool. The MOU is non-binding in nature and provides an opportunity for the Off-taker to make a full assessment of the Sese Power Project, at which time the parties will decide whether to enter into binding agreements to jointly develop and finance the Sese Integrated Power Project. Part of this assessment process will involve the negotiation of key commercial terms for a Power Purchase Agreement, Joint Development Agreement and other project contracts.
- A pre-feasibility study for the 300MW power station has commenced under the supervision of PB Power (part of the Parsons Brinckerhoff group) based in Johannesburg. This is scheduled for delivery in the third quarter of 2012.
- Discussions with EPC contractors for the construction of an initial 300MW power station are ongoing.
- Discussions with potential lenders and equity participants for the financing of an initial 300MW power station are ongoing.

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

#### **1.2.1 Introduction**

- The Sese Export Project specifically relates to all aspects of coal mining and coal sales that are not part of the Integrated Power Project.
- This includes all aspects of a coal exporting business, including coal mining, coal processing & handling, and coal-chain logistics to reach a point of sales (normally a port).

#### **1.2.2 Infrastructure Development**

- The Company is presently engaging with consultants to assess the expansion potential of existing rail and port options, and continues to maintain a watching brief on longer term, larger scale proposals such as the Trans Kalahari Railway and Ponto Techobanine projects.
- The Company has made a written submission to Grindrod, operators of the Matola Coal Terminal in Maputo, seeking an allocation for coal exports under their terminal expansion plan, due for completion in 2016.
- The Company is continuing discussions with Botswana Railways to establish freight tariffs for the transport of coal within the region to potential industrial customers and to ports in Mozambique.

## 2. Projects in Zambia

### 2.1 Chirundu Uranium Project

- Baseline environmental studies for the Chirundu Uranium Project continued.
- No other work during the quarter.

### 2.2 Kariba Valley Project

- Coal bearing sediments with a strike length of approximately 10km have been identified in the Sinazongwe East tenement. These are the easterly extension of the stratigraphy that hosts the Maamba Colliery and the Kandabwe Coal Mine, Zambia's only producing coal deposits.
- A total of nine holes for 1,691m of core were drilled and coal seams of varying thicknesses were intersected in all holes.
- Following detailed lithological logging of the holes, coal zones were selectively sampled from within each coal seam. Internal partings between the coal zones within each seam were not sent for analysis. The selected intervals of raw coal were sent to Inspectorate's coal laboratory in South Africa for proximate analysis.
- The table below summarises the significant intersections by hole for the coal seams. Raw CV, Ash and Inherent Moisture weighted averages and ranges are for the selectively sampled coal only (i.e. excludes the partings). Averages are weighted by length and relative density:

Table 1: Significant intersections by hole for the Sinazongwe coal seams

HoleID	Depth From	Coal Seam (incl. Partings) (m)	Sampled Coal (m)	Raw CV MJ/kg (ADB) Sampled Coal Average & Range	Ash % (ADB) Sampled Coal Average & Range	Inherent Moist. % (ADB) Sampled Coal Average & Range
SNZ001	194.57	6.23	<b>3.31</b>	Av. 20.3 15.5 to 24.7	Av. 37.7 25.5 to 51.0	Av. 1.3 1.1 to 1.5
	233.94	2.85	<b>1.74</b>	Av. 17.4 12.6 to 22.3	Av. 40.8 31.0 to 47.8	Av. 0.8 0.1 to 1.3
SNZ002	53.76	2.90	<b>1.89</b>	Av. 18.5 10.5 to 24.5	Av. 40.9 26.2 to 61.5	Av. 1.8 1.2 to 2.2
	82.00	1.57	<b>1.35</b>	Av. 21.7 20.3 to 23.0	Av. 34.7 31.6 to 37.6	Av. 1.9 1.1 to 2.4
	114.26	1.58	<b>1.05</b>	Av. 20.5 17.1 to 21.5	Av. 35.5 33.5 to 44.4	Av. 1.7 1.4 to 2.0
SNZ004	80.0	7.62	<b>4.38</b>	Av. 20.6 15.1 to 25.6	Av. 36.3 22.1 to 51.8	Av. 1.8 1.4 to 2.1
	116.82	1.47	<b>0.96</b>	Av. 17.8 10.9 to 26.2	Av. 42.9 24.0 to 58.9	Av. 1.7 1.6 to 1.8

HoleID	Depth From	Coal Seam (incl. Partings) (m)	Sampled Coal (m)	Raw CV MJ/kg (ADB) Sampled Coal Average & Range	Ash % (ADB) Sampled Coal Average & Range	Inherent Moist. % (ADB) Sampled Coal Average & Range
	140.94	1.31	<b>1.17</b>	Av. 22.0 20.4 to 24.5	Av. 34.0 28.4 to 37.6	Av. 1.3 1.2 to 1.6
<b>SNZ005</b>	95.46	1.39	<b>1.30</b>	Av. 20.4 15.8 to 22.6	Av. 36.6 33.3 to 40.5	Av. 1.7 1.5 to 1.7
<b>SNZ006</b>	77.79	2.78	<b>1.34</b>	Av. 19.2 15.8 to 22.5	Av. 38.8 28.2 to 49.4	Av. 1.2 1.1 to 1.4
<b>SNZ007</b>	201.20	5.33	<b>3.19</b>	Av. 20.3 12.8 to 24.8	Av. 37.5 27.4 to 58.2	Av. 1.3 1.1 to 1.6
	246.78	3.73	<b>2.72</b>	Av. 18.9 12.5 to 24.7	Av. 40.7 25.9 to 59.3	Av. 1.2 0.3 to 1.8
	323.15	1.55	<b>1.35</b>	Av. 18.7 16.9 to 20.9	Av. 44.0 38.2 to 48.9	Av. 0.9 0.8 to 1.3
<b>SNZ008</b>	113.55	1.05	<b>1.05</b>	Av. 20.4 19.6 to 21.7	Av. 38.4 34.9 to 40.5	Av. 1.5 1.4 to 1.6
<b>SNZ009</b>	179.47	5.06	<b>3.69</b>	Av. 20.0 12.5 to 22.5	Av. 38.5 30.7 to 59.1	Av. 1.6 1.1 to 2.0
	207.18	2.07	<b>1.16</b>	Av. 22.0 19.0 to 25.7	Av. 34.4 24.3 to 42.7	Av. 1.7 1.5 to 2.1

- The coal seams contain coal bands with locally very high vitrinite content, which are undergoing testing to determine their coking coal potential. Representative composite samples of significant coal seams (which will include the internal partings) have been submitted for washing yield analysis. These two programmes will enable the Company to determine if the coal has the potential for one or two products (a higher-value coking fraction and a middling for use as a power station fuel).
- Upon receipt of the data from this test work the board will evaluate possible options for this new project.

## 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 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 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")

30 JUNE 2012

#### Consolidated statement of cash flows

<b>Cash flows related to operating activities</b>		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	(1,771)	(8,625)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(722)	(2,936)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	54	255
1.5	Interest and other costs of finance paid	(83)	(256)
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	-	-
	<b>Net Operating Cash Flows</b>	<b>(2,522)</b>	<b>(11,562)</b>
<b>Cash flows related to investing activities</b>			
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	(196)
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)	-	-
	<b>Net investing cash flows</b>	<b>-</b>	<b>(196)</b>
1.13	<b>Total operating and investing cash flows (carried forward)</b>	<b>(2,522)</b>	<b>(11,758)</b>



1.13	<b>Total operating and investing cash flows (carried forward)</b>	<b>(2,522)</b>	<b>(11,758)</b>
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	278	16,620
1.15	Cost of the Issue	-	(999)
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>278</b>	<b>15,620</b>
	<b>Net increase (decrease) in cash held</b>	<b>(2,244)</b>	<b>3,863</b>
1.20	Cash at beginning of quarter/year to date	7,964	2,440
1.21	Exchange rate adjustments to item 1.20	(398)	(981)
1.22	<b>Cash at end of quarter*</b>	<b>5,322</b>	<b>5,322</b>

\*\$452k in value added tax (VAT) refunds were received by the Company in July. If refunds had been received prior to 30 June, cash at end of quarter would be \$5,774k

#### 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	481
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\$208k – director remuneration payments

US\$273k – 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	2,101
4.2 Development	-
4.3 Production	-
4.4 Administration	653
<b>Total</b>	<b>2,754</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 \$US'000	Previous quarter \$US'000
5.1 Cash on hand and at bank	4,212	5,801
5.2 Deposits at call	1,110	2,163
5.3 Bank overdraft	-	-
<b>Total: Cash at end of quarter (item 1.22)</b>	<b>5,322</b>	<b>7,964</b>

## 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	-	-	-	-



## 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: 30 July 2012

## 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.