

AFR.AU

African Energy Resources Ltd

A\$ 0.26

17 March 2008
 Uranium
 Zambia, Botswana, Malawi
 Mid to Advanced Exploration
 Exchanges: ASX:AFR

AFR has a strategic land position in the Karoo basins of Zambia and Botswana (31,700km²) with a solid pipeline of uranium exploration projects. Chirundu JV, Zambia is most advanced, with resources of 9mlbs U₃O₈. Heap leach production potential 4Q09. PFS expected 2Q08.

Capital Profile

Share price (A\$)	0.26
52 week range (A\$/share)	0.25 to 1.06
Number of shares (m)	148
Options and warrants (m)	14
Convertible notes (m)	0
Fully diluted (m)	162
Market capitalisation (undiluted) (A\$m)	38.4
Debt (A\$m) - Mar 08F	1.2
Enterprise value (A\$m)	39.6
Major shareholders: Energy Vent. Ltd (71.17%), National Nominees Ltd (2.64%), HSBC Custody Nom. (Aust.) Ltd (1.70%)	
Avg monthly volume (m)	0
Cash (A\$m) - Mar 08F	3.2
Price/Cash (x)	12.1
Price/Book (x)	3.7
Company options:	No

Production and Financial Forecasts

YEAR END: June	Dec-07a	Mar-08F	2007a	2008F	2009F
Exploration and evaluation (A\$m)	2.26	0.83	0.91	6.32	8.67
Corporate (A\$m)	0.63	0.40	0.60	1.89	1.60
Exploration/(Expl.+ Corporate) (%)	78	67	60	77	84
Funding duration at current burn (years)			5.8	0.7	0.7
Shares on issue (pr end) (m shares)	147.9	147.9	147.9	164.5	181.2
Drilling - RAB (m)	0	2,500	0	5,000	10,000
Drilling - Other/Diamond (m)	14,524	2,500	11,000	29,524	10,000
Land holding ('000 ha)*	4,180	3,170	4,180	3,170	2,150
Tenement costs (\$k per year)	-	-	-	-	-
Capital raisings (A\$m)	0.00	0.00	11.35	5.00	10.00
Funding from JV partners (A\$m)	0	0	0	1	4
Cash (A\$m)	4.3	3.2	8.8	5.9	7.3
Cash backing (Ac/share)	2.9	2.2	5.9	3.6	4.0
Net asset backing (Ac/share)	7.1	7.0	8.6	9.1	13.8

*Uranium prospective tenements only, both held and under application.

Investment Points

100% uranium focus, drilling 20,000 RC in 2008.

Chirundu JV (Njame and Gwabe, Zambia): Heap leach opex US\$25-27/lb, capex US\$70m (scoping study 2Q07). Potential mine construction 4Q08, production 4Q09.

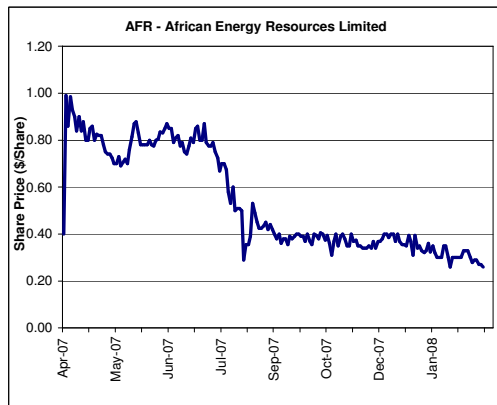
Njame deposit (resource 6.6mlbs U₃O₈) and Gwabe (2.5mlbs); combined resource 9.1mlbs U₃O₈; upgrade to JORC Indicated expected Mar. '08.

Sese (Botswana): Greenfields discovery - large uranium anomaly. Drill results (4Q07) incl. 3m @ 0.082% U₃O₈.

Near-term discovery potential: Chisebuka (Kariba JV) and Chirundu North and East, drilling 2Q08.

Pipeline of greenfield projects in Zambia and Malawi, airborne radiometrics flown Oct. '07.

Management with track record of project development.



Company Comment

Overview: AFR listed on the ASX Apr. '07. Tenements are in southern Africa's Karoo Basin uranium province, which is prospective for sedimentary roll-front and calcrite-hosted uranium deposits. **Chirundu JV (uranium, Zambia):** Joint venture with Albion (ASX:ALB), AFR 30%, earning up to 70%. **Njame Deposit** is the most advanced of AFR's projects - 7km x 1.5km radiometric anomaly first identified in the late 1970's. Uranium mineralisation forms tabular zones within Escarpment Grit sediments. 2006/07 drilling by AFR led to JORC inferred resource for Njame, 8.8mt @ 0.034% for 6.6mlb U₃O₈ down to 40m to 50m depth. Deposit is open down dip and along strike. **Gwabe Deposit:** Greenfields AFR discovery, shallow (3-29m), strike >700m and open. Njame and Gwabe resource 9.1mlbs U₃O₈. Upside potential at Njame East and North. Drilling 2Q08.

Chirundu JV scoping study: An in-house review of the Njame and Gwabe projects indicates potential for satellite open pits (free dig) with acid heap leach and individual ion-exchange plants (RIX), resins trucked to central plant at Njame. Base case model of 1.4mlb U₃O₈ annual production for 5 years (potential to expand with exploration success), production costs US\$25-\$27/lb U₃O₈, initial capex US\$70m funded by mix of equity and subordinated debt. Project design assumed a uranium price of US\$65/lb. **Pre-feasibility study** expected early 2Q08, with infill drilling to improve resource to JORC Indicated (taking AFR's equity stake to 70%). A BFS could commence Apr. '08.

Satellite projects: Chirundu North: (20km from Njame) and **Kariba Valley JV** (80km from Njame) potentially offer the greatest resource upside. Chirundu North has a radiometric uranium anomaly cluster with reconnaissance drill testing expected in 2008. **Kariba Valley JV** has identified outcropping uranium mineralisation at **Chisebuka** (0.012-0.482% U₃O₈) and **Namakande** (drill target 1800m long, up to 63ppm U₃O₈ in soils, 0.062% U₃O₈ in rock chips). Combined 4,524m initial RC drilling in 4Q07 found low-grade uranium, +10,000m program in 2008.

Sese Project (uranium, Botswana): 4Q07 greenfields discovery of sediment-hosted uranium. 50km south of Francistown, <5km from highway and railway, 15km north of Mokobaesi and Kraken sedimentary uranium deposits (A-Cap Resources). **Foley** uranium target: 7km x 7km, containing laterites overlying Karoo sediments, with up to 0.049% U₃O₈. Drilled 4,000m+ in 4Q07, best initial assays from centre of surface anomaly - 9m @ 0.037% U₃O₈ from 40m. Multiple uranium targets.

Investment Comment: AFR has considerable near-term growth potential from resource upgrades / expansions at the Chirundu JV (Gwabe and Njame uranium deposits). Exploration and development budget for '08 is ~A\$8m (\$3m expl., \$1.5m res. drilling, ~\$3.5m for 70% of BFS). Our initial target price for AFR is A\$0.60/share, moving to ~\$1.00/share (A\$160m, discounting the current LT U₃O₈ price US\$95/lb) as key project milestones are achieved at Chirundu with potential project commissioning 4Q09. Chirundu is analogous to Kariba (alkali vat leach) of former OmegaCorp (ASX:OMC, takeover by Denison Mines, TSX:DML in 3Q07 - valuation ~A\$200m). Discovery potential from 10,000m+ drilling at Chisebuka and Namakande (Kariba Valley JV).

Reserves and Resources/Mineralised Material

Code for reporting mineral resources - Australian:		(JORC)						
Uranium	Classification	Project	Ore	U ₃ O ₈	Cut Off	U ₃ O ₈	U ₃ O ₈	U ₃ O ₈ Eqty
U ₃ O ₈		Equity	Mt	%	ppm	Kt	Mlb	Mlb
Reserves								
Resources								
Njame N. (Chirundu JV)*	Inferred	70%	8.8	0.034	100	3.0	6.6	4.6
Gwabe (Chirundu JV)*	Inferred	70%	4.2	0.027	100	1.1	2.5	1.8
						4.1	9.1	6.4
						0.0	0.0	0.0

Mineralised Material (est., non compliant with JORC)

* AFR JV with Albion Exploration. AFR earned 30% for A\$1m spend; moving to 70% after JORC resource and pre-feasibility study.

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Key Projects

Project	Ownership/Option	Metal	JV Partner	Target Type	Process Route	Project Status	Location
Chirundu JV*	30/70%	U	Albion	Rollfront	acid leach	Pre feas	Zambia
Sese	100%	U	none	Rollfront	na	Mid. Expl.	Botswana
Kariba Valley JV^	30/70%	U	Albion	Rollfront	na	Adv. Expl.	Zambia
Luano Valley^	30/70%	U	Albion	Rollfront	na	Early Expl.	Zambia
Luangwa	100% + various	U	Albion	Rollfront	na	Early Expl.	Zambia
Majete	100%	U	none	Vein	na	Early Expl.	Malawi

* AFR JV with Albion Exploration. AFR is still earning initial 30% for A\$1m spend at each project.

AFR valuation derived from Chirundu scoping study (2Q07). Chirundu NPV break even occurs at a uranium price of ~US\$40lb on current project parameters. AFR will earn 70% in Chirundu after completing an Indicated JORC resource and PFS (expected 2Q08).

AFRICAN ENERGY RESOURCES VALUATION

	Uranium Resource (mlbs)	Valuation US\$/lb	Target	Valuation Sensitivity	
			Price A\$m	(Low) A\$m	(High) A\$m
Projects					
+ Chirundu (scoping study)	9	13.71	108	25	157
+ Expansion/satellites			30	8	40
+ Regional Exploration			15	10	20
Sub Total			153	43	217
+ Cash			3.2	3.2	3.2
+ Tax Losses			0.9	0.9	0.9
- Corporate			2.6	2.6	2.6
Sub Total			1.5	1.5	1.5
AFR NET ASSET VALUE			154	44	218
Capital Structure					
Shares			147.9	147.9	147.9
Fully Diluted Shares			162.2	162.2	162.2
AFR NET ASSET VALUE PER SHARE :A\$/share			1.04	0.30	1.48
AFR NET ASSET VALUE DILUTED :A\$/share fully diluted			0.99	0.31	1.38

CHIRUNDU URANIUM PROJECT (based on scoping study conceptual resource extrapolation)

		Equity		Sensitivity		
LONG TERM URANIUM PRICE [^]	:US\$/lb	35	40	60	90	125
EXCHANGE RATE	:AUUS	0.80	0.80	0.80	0.80	0.80
CHIRUNDU URANIUM NPV @ 10% NOMINAL*	:A\$m	70%	na	na	43	99
CHIRUNDU URANIUM NPV @ 10% NOMINAL*	:US\$m	70%	na	na	34	79
NPV/SHARE	:A\$/share	na	na	0.29	0.67	1.06
* Includes a pre feasibility study project discount of 30% of the project valuation:		30%				
[^] Uranium price forecasts are US\$100/lb to 4Q09, thence long term price indicated.						

CHIRUNDU URANIUM PROJECT KEY ASSUMPTIONS*

RESOURCE ESTIMATES		Uranium Mt	
	Conceptual Uranium Target		
	Scoping Study Extrapolation	10.2	0.040
	Potential Expansion & Exploration	6	0.045
	Total	16	0.042
MINING METHOD	Open Pit		
PROCESS METHOD	Dedicated Uranium Plant Heap Leach		
PRODUCTION RATE	:mtpa	2.0	
	:mlbspa	1.4	
CAPITAL COSTS	:US\$m	70	Plus sustaining capex of US\$1mpa (US\$0.50/t).
RECOVERY - URANIUM	:%	80	
OPERATING COSTS	:US\$/t	17.5	
	US\$/lb	25-27	
TAX	:%	30	(potential for further fiscal incentives to lower tax rate)
MINE LIFE	:Years	5	
TARGET COMMISSION DATE	:	4Q09	

* These figures are preliminary in nature and are intended to provide only a general indication of project potential scale and economic robustness. Considerable refinement may result from the pre-feasibility study, expected to be completed 2Q08.

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