REPORT FOR THE QUARTER ENDED 31 DECEMBER 2012

Key Points:

- Agreements facilitating investment by Thebe Mining Resources (“TMR”) into the Moabsvelden Project executed, and ZAR65 million ($7 million) investment funds from TMR placed into an escrow account.
- Detailed review of Independent Technical Consultant’s report by short listed banks continuing.
- Bulk samples of product coal prepared and handed over to Eskom for ignition tests.
- Detailed design work of site infrastructure undertaken.
- Negotiations to purchase or lease site surface rights commenced.

Thebe Mining Resources Investment and Restructuring of BEE ownership

During the December quarter, agreements between Xceed Resources Limited (“Xceed” or “Company”) and TMR, and between Xceed and the three original Black Economic Empowerment partners (“Founding Shareholders”) were executed. The agreements provide for the Moabsvelden Project company to repurchase the shares in that company which are held by the Founding Shareholders, and the introduction of TMR as the new Black Economic Empowerment partner for the Moabsvelden Project. A key feature of the agreements is that TMR will invest ZAR65 million directly into the Project, thereby reducing Xceed’s development funding burden, whilst the repurchase of the Founding Shareholders’ interest for ZAR57 million will be funded by the Moabsvelden Project company from future operating cash flows over a four year period.

As part of the negotiations surrounding the repurchase of the Founding Shareholders shares by the Moabsvelden Project company, Xceed agreed to make an early payment of part of the various milestone payments due to the Founding Shareholders under the terms of the original agreement whereby Xceed acquired its 74% stake in the Moabsvelden Project company. Accordingly, an amount of ZAR10 million was paid by Xceed to the Founding Shareholders during the December quarter. This advanced payment is not additional to the payments due to the Founding Shareholders under the original agreement.

Following the execution of the agreements, TMR transferred ZAR65 million into an escrow account from where the funds will be released upon the satisfaction of the following conditions: Xceed obtaining a credit approved offer of development finance from a bank, the granting of a mining right for the development of Moabsvelden by the South African regulators, and Ministerial approval for the change of ownership in...
terms of Section 11 of the Mineral and Petroleum Resources Development Act. The satisfaction of these conditions will result in TMR acquiring a 30% interest in the Moabsvelden Project company and Xceed’s interest diluting from 74% to 70%.

The proposal for TMR to invest a further ZAR25 million directly into Xceed will be assessed once the total debt funding is secured and the size and pricing of any future capital raising by Xceed is known.

**Bank Finance**

During the December quarter, the South African banks short listed by the Company to advance their financing proposals for the development of the Moabsvelden Project commenced their engagement with Badger Mining & Consulting, the Independent Technical Consultant (“ITC”), who undertook an independent technical review of the Moabsvelden bankable feasibility study on behalf of the banks. This engagement process between the banks and the ITC was not completed before the commencement of the Christmas break in mid-December and has therefore continued into January. The Company anticipates that during the March quarter, one or more of the banks will have completed their review and will have presented the Project for credit approval.

**Eskom Bulk Sampling**

Two bulk samples of Moabsvelden product coal were collected and prepared during the December quarter and handed over to Eskom, the State owned power utility. Eskom will carry out ignition tests on these samples to determine their Ash Fusion Temperatures and Abrasion Index, amongst other characteristics. A successful outcome of these tests will enable the Company to advance its negotiations with Eskom around entering into a binding coal supply agreement in respect of the Project’s domestic quality coal.

**Detailed Design work commenced**

Detailed design work was completed during the December quarter in respect of site civil works such as the discard dump, slurry ponds, and pollution control dams. This will enable tenders for this work to be invited and awarded once funding and permitting is in place.

**Regulatory Approvals**

The process of obtaining various regulatory approvals for the development and operation of the Moabsvelden Colliery is proceeding in accordance with the Company’s expectations. It is anticipated that a Mining Right will be granted by the end of the March quarter or early in the June quarter.

**Surface Rights**

During the December quarter, the Company engaged with the land owner to acquire the surface rights to the Moabsvelden Project site. The land owner requested a formal offer be submitted for his consideration. This was provided at the end of the December quarter, after the Company had commissioned and received an independent valuation of the land. The Company has provided an offer to either lease the land or purchase it outright and is now awaiting a response to its offer from the land owner.

**Bankfontein and Roodepoort (XCD: 15% earning 70%)**

No further work was undertaken on these projects during the quarter.
Cash position

As at 31 December 2012, the Company held cash of $4.477 million. In addition, an amount of $0.342 million is held in an escrow account maintained by the Company's lawyers. The execution of formal agreements governing TMR's investment into the Moabsvelden Project company triggered the payment of a success fee of $0.342 million into this escrow account. Once all conditions precedent relating to TMR's investment have been satisfied or waived and TMR's funding of $7 million has been released from escrow, the success fee will be released from escrow and paid to the independent third party that introduced the Company to TMR.

During the December quarter, a material payment was made to the Founding Shareholders. As reported above, the Company made an early payment of part of the amounts due to the Founding Shareholders for the purchase of a 74% shareholding of the Moabsvelden project company. The amount paid was $1.12 million (ZAR10 million).

Plans for March Quarter

During the March quarter the Company intends to:

- Appoint the chosen project finance bank following the receipt of credit approval,
- Finalise development of OH&S, Environmental Management Plans and other policies in preparation for project development,
- Advance discussions with Eskom for coal off-take and power supply agreements, and
- Advance negotiations to acquire the surface rights to the Project site

For further information regarding the Company, please contact the Company on +61 8 9226 0329 or refer to www.xceedresources.com.au

For and on behalf of the Board of
Xceed Resources Limited

[Signature]

Ian Culbert
Managing Director
24 January 2013