



JUNE 2014 QUARTERLY ACTIVITIES REPORT

The Waterberg Coal Project (WCP)

Firestone Energy Limited (**FSE**) is a participant in the Waterberg Coal Project (**WCP**) joint venture, situated in the Limpopo Province, South Africa. The Project currently has identified coal resources of 3.883 billion tonnes¹ of coal contained within the granted mining rights; of which 2.070 Billion tonnes are contained within the measured category¹.

The WCP Joint venture entered into a Memorandum of Understanding with Eskom Holdings in March 2012 for the supply and delivery of 10 million tonnes per annum (**mtpa**) of coal from the Project.

In May 2012 the mineral consultancy, SRK Consulting of Johannesburg, South Africa were commissioned by the WCP joint venture partners to undertake a technical and economic feasibility study for the development of the Project. In October 2013, SRK Consulting delivered to the project partners the results of the feasibility study (**FS**). A summary of the activities arising from the FS in the period ending 30 June 2014 is set out below.

EPC Contract

During the quarter, the WCP Partners awarded the Engineering, Procurement and Construction Management contract for the development of the plant and associated infrastructure to Ardbel (a joint venture between ELB Engineering Services and the DRA Group).

Specifically, Ardbel's brief is to design, manufacture, supply, delivery, assemble, install and commission the 22mtpa coal handling and preparation plant (**CHPP**).

Ardbel have also commenced work on a review of the project capital expenditure requirements arising from the SRK Feasibility Study. This process is envisaged to be completed mid-August 2014 and which will complement the on-going optimisation of the overall project by the WCP project team.

Ardbel also commenced preparation of a Project Execution Plan (**PEP**) following completion of the Waterberg Coal Project Feasibility Study; which study is now the subject of due diligence by a Banking Syndicate for the purposes of project funding. The PEP should be completed during August 2014.

ASX Release

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Corporate Details:

Major Shareholders:
The Waterberg Coal Company Ltd

Directors and Officers:

Non Executive Directors:

George Oupa Magashula
Edwin Leith Boyd

Officers:

Mr Stephen Miller CEO and Executive
Director
Ms Amanda Matthee CFO
Mr Edwin Leith Boyd Company
Secretary

ASX / JSE Symbol:
FSE

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Project Optimisation Study

The WCP technical team continued to work on project “value engineering” and optimisation; focussing on production scheduling, savings on mining contractor costs, plant operating costs and capital savings associated with the materials handling and CHPP.

Pursuant to the optimisation work being undertaken on both the mine plan and infrastructure development; the WCP are currently engaging with Exxaro Resources Limited (**Exxaro**) to investigate the potential of sharing of logistics infrastructure in future.

The JSE listed Exxaro is the operator of the immediately adjacent Grootegeluk Mine which currently produces approximately 18 mtpa of coal product and is also looking at expanding its operations through the development of the Thabametsi coal project which shares a common boundary with the WCP. The Grootegeluk mine has been producing coal for over 25 years.

The WCP team have been engaging with the “short listed” mining contractors during the quarter with a view to finalisation of the process to appoint a preferred mining contractor. It is anticipated that the preferred mining contractor status should be awarded in the September quarter.

Eskom; Coal Supply Agreement (CSA) negotiations

Pursuant to the Eskom MOU; Eskom have now been provided demonstrable evidence that the quantum and qualities of the specified coal can be delivered by the WCP Joint Venture. During the quarter, Eskom requested that the proposed offtake term be increased from a 30 year period, to a 40 year period.

Subsequent to receiving the updated economic model, Eskom has relaxed the very strict cut off for coal specifications which will increase the yield and reduce the operating costs. The WCP technical team have adjusted the economic model accordingly. As a result of this, Eskom and WCP are now able to advance discussions to reach agreement on price for delivery of the specified coal product requested by Eskom. The basis for price negotiation is a base price and escalator, with five-yearly price re-openers.

WCP have notified Eskom that a construction build commencing January 2015 would see first coal product in Q4, 2015.

Project funding

As previously advised, the Standard Bank of South Africa Limited (**SBSA**), have been mandated to arrange project finance for the construction and development of the WCP. SBSA have appointed Hatch Goba as the Independent Technical Consultant to review all technical matters for the WCP as part of its due diligence for the credit process.

During the quarter, the WCP team continued to work closely with Hatch pursuant to the review process. The team expect completion of the Hatch review by the end of August 2014.

WCP Stakeholder engagement

Interaction by the WCP technical team with strategic stakeholders continued during the quarter, including meetings with the Lephalale municipality and participation at the Strategic Infrastructure Project 1 forum.

New Office - Johannesburg

During the quarter, the WCP took occupation of its dedicated project offices in Sandton, Johannesburg. This stronger physical presence coupled with the appointment of additional members to the technical team, including the project metallurgist and a project manager reflects the increasing activity as the project further ramps up towards project “readiness”.

Working capital loan

During the period, FSE entered into a further loan agreement with The Waterberg Coal Company Limited (**WCC**) (ASX/JSE: WCC), the 45.88% major shareholder in FSE. WCC will provide additional funding of up to A\$3million to be used for FSE’s obligations in relation to the WCP.

The loan will be under the same conditions as the prior loan. Material terms of which are:

- WCC grants an additional loan facility of up to \$3m to be used towards project expenditure.
- No interest is payable on the loan.
- The loan is unsecured.

Corporate Activities

During the quarter FSE announced the resignation of Mr Jonathan Hart as Company Secretary and the appointment of Mr Edwin Leith (Lee) Boyd as Company Secretary with effect from 21 May 2014.

Stephen Miller
Chief Executive Officer

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Table 1 – Coal Resource on all six Waterberg Coal Project Properties under both Prospecting Permit and Mining Right						
Resource Classification	Coal Resource¹(Mt)	Ash % (ad)	IM % (ad)	Vol % (ad)	CV (Mj/kg) (ad)	TS % (ad)
Measured	2070.3	57.9	2.2	17.6	10.51	0.96
Indicated	856.3	59.4	2.3	17.2	9.96	1.00
Inferred	956.7	58.9	2.2	17.5	10.26	1.03
Total Resources	3883.3	58.5	2.2	17.5	10.33	0.99
Coal Resource ¹ based on minimum thickness cut-off of 0,5m						

Note 1: Competent Person Statement

Gemecs (Pty) Limited was commissioned by the Waterberg Coal Company "WCC", to undertake an Updated Independent Persons Geological Report for the Sekoko Waterberg Coal Project.

The Coal Resources were estimated in accordance with the South African code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves ("SAMREC Code"), Australasian Code for Reporting of Exploration Results. Mineral Resources and Ore Reserves ("the JORC Code") and South African National Standard (SANS 10320:2004) guidelines.

The information in this announcement that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr Coenraad D van Niekerk, Pr.Sci.Nat (Reg. No 400066/98), M.Sc Hons (Geology), MDP, an employee of Gemecs (Pty) Limited, who is a Fellow of the Geological Society of South Africa. Mr Niekerk is a mining geologist with 38 years' experience in the mining industry, sufficient experience 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 as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Niekerk consents to the inclusion in the announcement of the matters based on this information in the form and context in which it appears.

Appendix 1 – Interests in mining tenements held Tenement table

WCC has an interest in the following Exploration and Mining Licences.
Licences are located in South Australia:

Property Name	Tenement	Interest at Beginning and End of Quarter	Status
Lyons	EL 5221	100%	Exploration Licence
Glenloth	EL 5397	100%	Exploration Licence.
Claypan Dam	EL 4445	100%	Exploration Licence

The Company's interest in the Waterberg Coal Project, located in South Africa:

Properties	Right under which the properties are held	Relevant Joint Venture	Holder	Interest at Beginning and End of Quarter	Issue Date	Expiry Date
Vetleegte	Vetleegte Prospecting Right	First Joint Venture	Uzalile Joint Venture (Sekoko Resources and Uzalile)	37.39%	Granted New Order Prospecting Right No. 651/2006, on 19/10/06	Renewal lodged 19 September 2011 and prior to the expiry date. Section 18(5) of the MPRDA provides that prospecting right in respect of which an application for renewal has been lodged will remain in force until such time as the renewal application has been granted or refused.
Olieboomsfontein	Duikerfontein Prospecting Right	First Joint Venture	Sekoko Coal	37.39%	Granted New Order Prospecting Right No. 681/2007, on 13/10/05. Renewal on 3 July 2013	3 July 2016
Duikerfontein	Duikerfontein Prospecting Right	First Joint Venture	Sekoko Coal	37.39%	Granted New Order Prospecting Right No. 681/2007, on 13/10/05. Renewal on 3 July 2013	3 July 2016
Swanepoelpan	Duikerfontein Prospecting Right	First Joint Venture	Sekoko Coal	37.39%	Granted New Order Prospecting Right No. 681/2007, on 13/10/05	3 July 2016
Smitspan	Mining Right	Second Joint Venture	Sekoko Coal	37.39%	Granted New Order Mining Right No. 22/2011, on 17/09/11	16/09/2041

Massenberg	Mining Right	Second Joint Venture	Sekoko Coal	37.39%	Granted New Order Mining Right No. 22/2011, on 17/09/11	16/09/2041
Minnasvlakte	Mining Right	Second Joint Venture	Sekoko Coal	37.39%	Granted New Order Mining Right No. 22/2011, on 17/09/11	16/09/2041
Hooikraal	Mining Right	Second Joint Venture	Sekoko Coal	37.39%	Granted New Order Mining Right No. 22/2011, on 17/09/11	16/09/2041