

MARCH 2014 QUARTERLY ACTIVITIES REPORT

The Waterberg Coal Project (“WCP”) Definitive Feasibility Study (“DFS”)

As previously advised, the DFS for the WCP, as prepared by SRK Consulting (“SRK”) for the Waterberg Coal Joint Venture Partners, was delivered to Eskom in November 2013.

During the period under review, Eskom met with the WCP team to discuss the DFS. Accruing from those meetings, Eskom has requested additional information; which was subsequently delivered. Follow-up sessions for Eskom were organised by the WCP team for the various disciplines, including for the Environmental Study and the Financial Model.

As a result of discussions with Eskom, the financial model has been updated by the Project team to incorporate the requests of Eskom.

The 4th addendum to the Eskom Memorandum of Understanding (“MOU”) was drafted and signed with Condition Precedent dates adjusted to reflect the registration of the amended mining right and other regulatory approvals; and the timing of the recently completed large tonnage burn test at Eskom’s Majuba Power Station.

Coal Supply Agreement (“CSA”)

Negotiations with Eskom on the CSA are ongoing.

Subsequent to receiving the economic model as part of the due diligence on the DFS; Eskom have made several concessions on coal quality in order to increase the yield with a view to reducing operating costs. The WCP technical team are currently adjusting the economic model to reflect these requests. Following the completion of this, we expect to conclude discussions on pricing for the CSA.

Project Optimisation Study

Following on from the delivery of the DFS by SRK, during the last quarter, the WCP technical team have concentrated their efforts on project value engineering and optimisation.

Optimisation of the project has focussed on mine schedule smoothing, savings on both mining contractor operating costs and plant operating costs, and savings on infrastructure and residential costs.

Plant EPC and Mining Contractor Contracts

The WCP team has engaged with local and international process engineering firms for the design, manufacture, supply, delivery, assembly, installation and commissioning of a 22mtpa CHPP project in a phased approach within an EPC framework.

About Firestone Energy

Firestone Energy Limited is an independent, Australian exploration and development company listed on the Australian Stock Exchange Ltd (ASX) and the Johannesburg Stock Exchange (JSE). Firestone Energy has entered into a Joint Venture with Sekoko Resources (Pty) Ltd through which Firestone Energy has acquired the right to 60% participation interests in the Waterberg Coal Project located in Lephalale area, Limpopo Province, South Africa.

The first stage of the project is to develop the Smitspan mine which has a substantial measured thermal coal resource and to develop the Velleegte mine which is a substantial metallurgical coal deposit.

Firestone Energy is committed to becoming a profitable independent coal and energy producer at its projects in South Africa, thereby making a substantial contribution to the social and economic development of the Lephalale area and South Africa.

Corporate Details

ASX: FSE
JSE: FSE

Issued Capital:
3,549 million ordinary shares

Major Shareholders:
The Waterberg Coal Company Ltd

Directors and Officers

Non Executive Directors:
George Oupa Magashula
Lee Boyd

Officers:
Mr Stephen Miller CEO and Executive Director
Ms Amanda Matthee CFO
Mr Jonathan Hart Company Secretary

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The WCP team have received tender prices from both domestic and international mining contractors. The mining contract will involve the loading and haulage of between 40 million and 60 million cubic metres of material per annum, an exercise which will require a fleet of 40 x 240 tonne trucks. Two of the mining contract companies have been short listed by the project team and are now participating in the detailed costing phase.

An international rail company has been approached by the WCP team to manage the construction of the rail link. The rail company has also demonstrated the ability to increase rail capacity on the Thabametsi Lephalale line.

Interaction with Lenders

As previously advised, the DFS and accompanying economic model was completed during Q4 of 2013. Both the DFS and the economic model have now been provided to The Standard Bank of South Africa Limited for the purposes of arranging project finance for development of the WCP.

For the purposes of the credit process for project funding, Hatch Goba have been appointed as the Independent Technical Consultant to review all technical matters for the WCP. Eskom will also make use of the Hatch review for their due diligence purposes.

Stakeholder engagement

During the quarter the WCP team met with the Lephalale Municipal Council as part of its social and labour planning and infrastructure requirements for the project.

Finalising of the amended mining right application, and associated Environment and Social work has necessitated interaction with the South African Department of Mineral Resources, at both local and regional level. The Project team anticipate finalisation of the Amended Mining Right Application early in May 2014, and intend presenting jointly to both the Lephalale Municipality and the DMR in order to coordinate skills development initiatives, and the social and economic upliftment of Lephalale communities.

Investor Road Shows and Promotion

During the quarter, the WCP team have embarked on road shows to the domestic South African investor base, including both institutional and high net worth individuals with a view to raise investor awareness of the Company and the WCP.

Corporate Activities

Board Changes

During the quarter, Mr Brian McMaster announced his retirement from the Board and Mr Lee Boyd was appointed to the Board as a Non – Executive.

Yours sincerely

Stephen Miller
Chief Executive Officer

www.firestoneenergy.com.au

Appendix 1 – Tenement Table

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)	60%	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	60%	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	60%	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	60%	Granted New Order Prospecting Right No. 681/2007, on 13/10/05	3 July 2016
Smitspan	Mining Right	Second Joint Venture	Sekoko Coal	60%	Granted New Order Mining Right No. 22/2011, on 17/09/11	16/09/2041
Massenberg	Mining Right	Second Joint Venture	Sekoko Coal	60%	Granted New Order Mining Right No. 22/2011, on 17/09/11	16/09/2041
Minnasvlakte	Mining Right	Second Joint Venture	Sekoko Coal	60%	Granted New Order Mining Right No. 22/2011, on 17/09/11	16/09/2041
Hooikraal	Mining Right	Second Joint Venture	Sekoko Coal	60%	Granted New Order Mining Right No. 22/2011, on 17/09/11	16/09/2041

* Firestone Energy has entered into a Joint Venture with Sekoko Coal Pty Ltd through which the Company has acquired the right to a 60% "participation interest" in the project area that forms The Waterberg Joint Venture.

Summary of Expenditure Incurred per Project

Project	Quarter Cash Spend \$A'000
The Waterberg Coal Project	89
Total	89

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