



## June 2015 Quarterly Activities Report

### The Waterberg Coal Project

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 tonnes<sup>1</sup> of coal contained within the granted mining rights; of which 2.070 billion tonnes are contained within the measured category<sup>1</sup>.

In October 2013, SRK Consulting (Australasia) Pty Ltd delivered to the project partners the results of the definitive feasibility study (**DFS**) for the proposed development of a coal project to deliver up to 10 million tonnes of coal product to Eskom Holdings SOC Ltd (**Eskom**) on a take or pay basis, pursuant to a memorandum of understanding dated on or about 23 March 2012 (the **Eskom Project**).

A further DFS, for a proposed development of an export project mine, was completed in Q1 of 2015. This proposed development would see total production of up to 4 million tonnes per annum (**mtpa**) of high quality export thermal coal product over a 3 to 4 year period (the **Export Project**). This study was completed subsequent to the preparation of a DFS for the proposed Eskom Project.

With respect to the Export Project DFS, an optimisation study is current in progress. A significant focus of this optimisation study is the review of the projects capital requirements with a view to enhancing the viability of the project. The optimisation includes consultation with world-class plant designers and competitive contract vendors for the mining and processing facilities and services. The WCP Partners are confident that the optimisation process will derive positive outcomes resulting in considerable reductions in capital funding requirements for the project.

During the quarter the WCP Joint Venture Partners (**WCP Partners**) and its consultants revised its original washing process plans to enable production of a higher quality of coal suitable for the export market.

Additionally, the optimised plant design allows flexibility for production of a higher quality power station feed product. This power station product is planned to be stockpiled during the export grade coal mining phase until the potential Independent Power Production (**IPP**) platform is completed. Utilisation of this product as IPP feed will result in optimal resource utilisation and a barren waste dump.

#### ASX Release

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**ASX / JSE Symbol:  
FSE**

## **Coal Processing Plant**

During the quarter WCP Partners commenced negotiations with experienced processing and services providers for a build-own-operate (**BOO**) dual module plant, each with a 550 tons per hour capacity.

The proposed plant design configures a two-stage wash process providing greater flexibility in product quality output. The advantage of such a design is clearly an ability to optimise a given product output mix to meet a range of commercial coal requirements including export quality, IPP platform feed stock and Eskom specification product from the one plant.

The WCP Partners are confident that adopting a BOO strategy in conjunction with well experienced operators will significantly reduce up front capital requirements and provide for a swift progression to mining and production.

The WCP Partners expect to complete its evaluation of BOO providers during the September quarter.

## **Mining Operations**

Negotiations with a number of parties for the award of the mining contract were advanced during the quarter. The bidding process, guided by our mining engineer, has progressed to a point where we have indicative pricing on a ZAR/ROM per ton which is within the parameters of the WCP Partners' financial modelling and with the WCP Partners' costings in the DFS.

## **Project Water Supply**

In October 2014 WCP Partners advised they had entered into a memorandum of understanding with the Lephalale Municipal Council (**LMC**) with respect to the Paarl Waste Water Treatment Facility (the **Facility**) whereby the WCP Partners will take over the management and operation of the Facility for the purpose of supplying water to the WCP.

During the quarter the WCP Partners were in negotiations with the LMC to complete the formally binding long form of the agreement.

The Facility has a treatment capacity of 10 million litres per day, or 3.64 million cubic metres per annum which will provide the WCP with sufficient water not only for its proposed Export Project development, but also Stage 1 of its proposed IPP development which is currently under technical and economic assessment.

## **Project Optimisation Study – The Eskom Project**

With the current focus on the Export Project and the IPP platform, value engineering work on the Eskom Project remains a lower priority and will continue so until further direction is received from Eskom in terms of advancing the status of negotiations with respect to the Coal Supply Agreement.

## **Power Production for Project Construction Purposes**

WCP Partners are in discussions with multiple parties regarding the onsite production of power generation. Guided by WCP consultants, SMEC Australia Pty Ltd (**SMEC**), who have extensive experience with this sector; they will be providing guidance and advice to the WCP Partners in respect of electricity generation plant specifications to ensure achievement of optimal technological configuration and operational efficiency for the plant. SMEC will also be assisting the WCP Partners to identify the most pre-eminent project and funding partners.

## **Export Product Off-take Arrangements**

Negotiations are ongoing with a number of international parties who have expressed considerable interest in entering into a long term off-take arrangements for the export product that is expected to be produced from the Export Project development.

## **Project Funding – The Export Project**

Accruing from the preliminary results of the DFS and the optimisation studies for the Export Project, the WCP Partners are in discussions with certain banks with respect to funding arrangements for the proposed development. Pursuant to the financing discussions, Snowden Mining Industry Consultants Pty Ltd (**Snowden Group**) has been commissioned as independent technical experts to produce a due diligence report for the purposes of project funding.

## **IPP Strategy**

On 11 December 2014 the government of South Africa announced it would be turning to the private sector to help solve its energy crisis. The government announced a “5-point plan” to urgently bring about extra generation capability for an energy starved economy. The major plank of the 5-point plan was the launching of a coal fired independent power producer programme for an initial 2,500MW of generation capacity. Additionally, the government announced it would be looking for co-generation options. WCP Partners has positioned itself to capitalise on both sets of opportunities.

In preparation for the long awaited announcement of the IPP Programme; WCP submitted registration of its intent to participate on 19 December 2014 having on 7 December 2014 lodged its registration with the Department of Environmental Affairs of its intent to build a power generation plant to be situated within the confines of its existing granted mining and prospecting rights; which collectively form the WCP area.

During the current quarter, WCP Partners have been preparing preliminary technical and economic models to determine the most appropriate, capital efficient and economical fashion in which to facilitate the development of an IPP Project from feed stock generated from its proposed coal mining projects.

WCP Partners are currently engaging with a number of parties, including mining and civil engineering contractors on the mining project(s); and potential technology partners, IPP developers and financial groups to partner with it in creating a new independent integrated energy company to be located within the confines of the WCP mining project area.

## **Corporate**

### **Refinancing the SBSA Facility**

On 16 March 2015 FSE advised the market that the funding facility made available by the Standard Bank of South Africa (**SBSA**) to its major shareholder, the Waterberg Coal Company Limited (**WCC**) (45.88%), was due for repayment on 9 April 2015. At that time FSE advised the market that WCC were in discussions with respect to refinancing the SBSA facility.

FSE and WCC sought a voluntary suspension of its shares whilst WCC conducted negotiations with SBSA (and other participants) with respect to “refinancing” the SBSA convertible note facility. Given that the international financial market and commodities markets continue to be somewhat challenging; interested parties (in the refinancing) have been undertaking very comprehensive due diligence programmes. This has resulted in the process being drawn out much longer than originally anticipated. Negotiations are now at an advanced stage and the Board is hopeful of finalising arrangements prior to expiry of the current voluntary suspension period which is 10 August 2015.

Stephen Miller  
**Managing Director**  
**Firestone Energy Limited**

**Table 1 – Coal Resource on all six Waterberg Coal Project Properties under both Prospecting Permit and Mining Right**

<b>Resource Classification</b>	<b>Coal Resource<sup>1</sup>(Mt)</b>	<b>Ash % (ad)</b>	<b>IM % (ad)</b>	<b>Vol % (ad)</b>	<b>CV (Mj/kg) (ad)</b>	<b>TS % (ad)</b>
<b>Measured</b>	2070.3	57.9	2.2	17.6	10.51	0.96
<b>Indicated</b>	856.3	59.4	2.3	17.2	9.96	1.00
<b>Inferred</b>	956.7	58.9	2.2	17.5	10.26	1.03
<b>Total Resources</b>	3883.3	58.5	2.2	17.5	10.33	0.99
Coal Resource <sup>1</sup> based on minimum thickness cut-off of 0,5m						

**Note 1: Competent Person Statement**

Gemecs (Pty) Limited was commissioned by the Waterberg Coal Company, 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 2004 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.