Firestone ENERGY

ABN 71 058 436 794

ANNUAL REPORT

For the year ended 30 June 2014

CORPORATE DIRECTORY

DIRECTORS

Mr Stephen Miller
Executive Director

Mr George Magashula
Non-Executive Director

Mr Edwin Leith Boyd
Non-Executive Director

COMPANY SECRETARY

Mr Edwin Leith Boyd

SHARE REGISTRY

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AUDITORS

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STOCK EXCHANGE LISTING

Securities of Firestone Energy Limited are dual listed on the Australian Securities Exchange and the Johannesburg Securities Exchange.

ASX & JSE CODE

FSE

CONTENTS

MANAGEMENT DISCLOSURE REPORT

During the period, the Group, a party to the Waterberg Coal Project Joint Venture, continued to progress matters relating to the proposed development of an opencast mining operation to produce 10 million tonnes per annum of coal (product) to Eskom, the South African parastatal power utility.

The material matters attended to during the period include as follows:

The Definitive Feasibility Study for the Waterberg Coal Project
In May 2012, SRK Consulting of Johannesburg, South Africa were commissioned by the Waterberg Joint Venture Partners to undertake a Definitive Feasibility Study on a proposed development of an opencast mining operation to produce 10 Million tonnes of coal (product) per annum to Eskom for an initial term of 30 years pursuant to the Memorandum of Understanding that the Joint Venture entered into with Eskom (the South African parastatal power utility) in March 2012 (as amended).
The Definitive Feasibility Study was completed by SRK in November 2013, and delivered to Eskom. The study confirmed that the Project can produce sufficient tonnes for 30 years at the required Eskom specification to satisfy the terms of the MOU.

Eskom; Coal Supply Agreement negotiations
Negotiations with Eskom on the Coal Supply Agreement are ongoing. During the period under review, the WJV BFS team proposed, and Eskom have agreed, that the basis for price negotiation will be a base price and escalator, with five-yearly price re-openers. A first draft CSA was presented to Eskom by the Project technical team, and a pro-forma CSA template subsequently received by the team from Eskom.

With the completion of the SRK Definitive Feasibility Study, Eskom now have demonstrable evidence that the quantum and qualities of the specified coal can be delivered by the WCP Joint Venture.

Subsequent to receiving the updated economic model, Eskom requested that the proposed offtake term be increased from a 30 year period, to a 40 year period, and have made several concessions on coal quality in order to increase the yield and reduce the operating costs. The WCP technical team have adjusted the economic model accordingly.

Interaction with Lenders
In November 2013 the completed Definitive Feasibility Study and accompanying economic model was made available to The Standard Bank of South Africa Limited. Standard Bank subsequently appointed Hatch Goba as their Independent Technical Consultant to review all technical matters for the Waterberg Coal Project. Eskom will make use of the Hatch review for their external technical review purposes. The Waterberg project team worked closely with Hatch during the review process, sourcing data from SRK and the specialist consultants where required.

Project Optimisation Study
Following the release of the SRK Definitive Feasibility Study, the Project technical team commenced with Value Engineering and detailed Pit optimisation, focussing on production scheduling, savings on mining contractor costs, plant operating costs and capital savings associated with the materials handling and CHPP. The Project team was assisted by Ardbel who have identified significant capital savings associated with the materials handling and coal washing plant when compared to the SRK FS study. Project optimisation also focussed on the phasing of project capital, thereby boosting early project cash flow, and on removing non-capital costs such as pre-strip mining costs from the balance sheet.

As part of the project optimisation, the Project team engaged with Exxaro on the possible sharing of logistics infrastructure and the construction of access roads across the Exxaro/Sekoko Coal properties. 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 Waterberg Coal Project.

During the year, the Project team started assessing the potential de-risking of the Coal Project by commencing operations with a smaller processing plant located in the south of the Sekoko Coal properties.

MANAGEMENT DISCLOSURE REPORT

Updated Resource Statement [1, 2]

An updated Independent Competent Persons Resource Statement was released during October 2013 to reflect the increased borehole database following the completion of the 2013 drilling programme on the four farms covered by the Mining Right (Smitspan, Massenberg, Hooikraal and Minnasvlakte), and the two farms held under Prospecting Rights (Vetleegte and Swanepoelpan)and associated sample analysis on the Waterberg Coal Project Properties.

The updated resource statement for the Waterberg Coal Project is for a coal resource of 3.88 Billion tonnes, which represents a substantial increase in the coal resource of the Waterberg Coal Project Properties. Previously SRK Consulting (Pty) Limited (December 2012) declared a Coal Resource of 1.183 billion tonnes on the two farms Smitspan and Massenberg.

The resource statement was prepared on behalf of the Waterberg Coal Project Joint Venture Partners by Gemecs (Pty) Limited in their capacity as Independent Competent Persons.

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

Resource Classification	Coal Resource 1 (Mt)	Ash % (ad)	IM % (ad)	Vol % (ad)	CV (Mj/kg) (ad)	TS % (ad)
Measured	2,070.3	57.9	2.2	17.6	10.51	0.96
Indicated	8,56.3	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	3,883.3	58.5	2.2	17.5	10.33	0.99

Coal Resource 1 based on minimum thickness cut-off of 0.5m

Interaction with Lenders

WCJVP mandated The Standard Bank of South Africa Limited (SBSA), to arrange project finance for The Waterberg Coal Project. Pursuant to this mandate, SBSA has now appointed Independent Technical Consultants to review all technical matters on behalf of the project financiers.

Water Use License (IWULA)

The Environmental work for the IWULA submission was completed during the period.

Stakeholder engagement

Throughout the period, regular and productive engagement by the Project technical team with project strategic stakeholders was ongoing. These discussions included, inter-alia, Eskom, the Department of Water Affairs, and Transnet Freight Rail for the timely delivery of services to the project.

Corporate Activities

On 2 September 2013, Firestone advised the market that it had entered into a loan agreement with The Waterberg Coal Company Limited (WCC) whereby WCC would advance up to A$3 million to be used for FSE's project finance obligations in relation to The Waterberg Coal Project. The loan is unsecured and non-interest bearing.

On 10 October 2013, the Company received notification from WCC that its off-market takeover bid for all the ordinary shares in Firestone had closed. At the conclusion of the offer, WCC's shareholding in FSE was 45.88%.

On 13 November 2013, Firestone announced that Mr Tim Tebeila resigned from the position of Chairman and Non-Executive Director of Firestone, effective 1 November 2013. Firestone also advised the market on this date that Mr George Oupa Magashula has been appointed to the position of Non-Executive Director of Firestone, effective 1 November 2013.

On 29 November 2013, Mr Ben Mphahlele, Mr Pius Kasolo and Mr David Knox were not re-elected at the Company's annual general meeting.

In December 2013, the short term loan from BBY Limited amounting to $250,000 was repaid.

In February 2014 the Eskom Feasibility Study was delivered. One of the conditions of this study was a final bulk sample burn test which was delayed.

Ardbel has been appointed as Engineering Procurement and Construction Contractor.

MANAGEMENT DISCLOSURE REPORT

Note: 1 Please note that this information was prepared and first disclosed under the JORC Code 2004.

Note 2: Competent Person Statement

Gemecs (Pty) Limited was commissioned by the Waterberg Coal Project Joint Venture Partners, 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 report 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 Joint Ore Reserves Committee (JORC) "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Niekerk consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

DIRECTORS' REPORT

Your Directors submit the annual financial report of the consolidated entity for the financial year ended 30 June 2014. In order to comply with the provisions of the Corporations Act, the Directors report as follows:

DIRECTORS

The names of the Directors who held office during or since the end of the year and until the date of this report are as detailed below. Directors were in office for this entire period unless otherwise stated. The Board has no sub-committees.

MR STEPHEN MILLER
Executive Director

Mr Miller has 25 years' experience investing and executing corporate finance, mergers and acquisitions opportunities in the resources sector.

He established Resource Venture Capital Partners (RVCP) which is dedicated to investment opportunities in the natural resources sector. RVCP is involved in corporate reorganisations and restructurings, direct investments and substantial debt and equity capital raisings for project start-ups, developments and corporate takeovers.

Mr Miller has also been a director, founder and chief executive officer of a number of successful resource companies listed on the Australian and North American exchanges, including East Africa Gold Corporation, Western Metals Limited and Defiance Mining Corporation.

He is a member of the Institute of Chartered Accountants Australia, a Fellow of the Australian Institute of Company Directors and previously a Director on the Australia Gold Council. Mr Miller's qualifications include a CA, BBus and FAICD.

During the past three years, Mr Miller has been a director of the following ASX-listed entity:

- The Waterberg Coal Company Limited (appointed 5 April 2013)

MR EDWIN LEITH BOYD
Non-Executive Director *– Appointed 18 March 2014*

Mr Boyd has extensive and broad-ranging directorial, corporate consulting, financial and senior executive experience in a range of industries including manufacturing, industrial engineering, and since 1993, the resources sector.

He was a director of Firestone from April 2007 to June 2009 during the period of identifying, negotiating and concluding the Company's agreement to participate in the Waterberg coal project.

He is a CPA and a Fellow of the Australian Institute of Company Directors.

During the past three years, Mr Boyd has been a director of the following ASX-listed entities:

- Anatolia Energy Limited (appointed 29 November 2012)
- The Waterberg Coal Company Limited (appointed 20 May 2014)

MR GEORGE MAGASHULA
Non-Executive Director *– Appointed 1 November 2013*

Mr Magashula is a seasoned business executive with over 20 years' experience in executive positions in both the public and private sector in South Africa. He has been employed by Telkom South Africa, Nampak, Sun International and SA Breweries.

His qualifications include a Bachelor of Science degree in Oceanography and Chemistry.

During the past three years, Mr Magashula has not served as a director of any other listed entity.

DIRECTORS' REPORT

MR BRIAN MCMASTER
Non-Executive Director *– Resigned 18 March 2014*

MR TIM TEBEILA
Non-Executive Chairman *– Resigned 1 November 2013*

DR PIUS KASOLO
Non-Executive Director *– Removed 29 November 2013*

MR DAVID KNOX
Non-Executive Director *– Removed 29 November 2013*

MR BEN MPHAHLELE
Non-Executive Director *– Removed 29 November 2013*

COMPANY SECRETARY

MR EDWIN LEITH BOYD – *Appointed 20 May 2014*
Mr Boyd is also a non-executive director of the Company and his qualifications and experience are shown above.

PRINCIPAL ACTIVITIES AND SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The principal activities of the group are coal and mineral exploration in South Africa.

Other than for the matters referred to in the Management Disclosure Report, there have been no significant changes in the state of affairs within the consolidated entity.

DIRECTORS' MEETINGS

The number of Directors' meetings held and the number of meetings attended by each of the Directors of the Company during the year to 30 June 2014 are:

	Meetings attended	Meetings held during time as Director
Stephen Miller	4	4
Edwin Boyd	-	-
George Magashula	-	-
Brian McMaster	3	4
Tim Tebeila	3	4
Pius Kasolo	4	4
David Knox	4	4
Ben Mphahlele	4	4

OPERATING AND FINANCIAL REVIEW

An operating review of the consolidated entity for the financial year ended 30 June 2014 is set out in the Management Disclosure Report. A brief summary of the results and shareholder returns for the year is below.

Shareholder returns	2014	2013
Net loss for the year	(4,802,197)	(5,848,203)
Basic EPS (loss) – cents	(0.14)	(0.19)
Share price as at 30 June – cents	0.5	0.5

The lower administrative, consultants and legal fees for 2014 compared to 2013 largely related to the takeover offer in 2013, which was completed in early 2014.

The Group's net assets decreased by $11.3 million as a result of the effect of foreign currency movements on the translation of Group's South African assets, and higher borrowings.

DIRECTORS' REPORT

At 30 June 2014, Firestone Energy Limited had the following unissued shares under option on issue:

Number Under Option	Expiry	Exercise Price
40,000,000	19 Sep 2014	$0.025
300,000,000	5 February 2015	$0.025
340,000,000		

DIVIDENDS

There have been no dividends declared or paid during the period.

REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for Directors and executives of Firestone Energy Limited. The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001. For the purposes of this report, Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including any Director of the parent company.

Key Management Personnel

i) Non-Executive Directors

Mr Edwin Boyd	Non-Executive Director	- appointed 18 March 2014
Mr George Magashula	Non-Executive Director	- appointed 1 November 2013
Mr Brian McMaster	Non-Executive Director	- resigned 18 March 2014
Mr Tim Tebeila	Chairman	- resigned 1 November 2013
Dr Pius Kasolo	Non-Executive Director	- removed 29 November 2013
Mr David Knox	Non-Executive Director	- removed 29 November 2013
Mr Morore Benjamin Mphahlele	Non-Executive Director	- removed 29 November 2013

ii) Executive Directors

Mr Stephen Miller — Executive Director

iii) Other Executives

Ms Amanda Matthee — Chief Financial Officer

There were no other changes to Key Management Personnel after the reporting date and before the date the financial report was authorised for issue.

Policy for determining remuneration

The objective of Firestone's broad remuneration policy is to ensure that the remuneration package provided to Directors and executives of the Group properly reflects the relevant person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

The Board is responsible for determining the remuneration policy for all Directors and Key Management Personnel based upon Firestone's nature, scale and scope of operating requirements and any other factors which the Board determines to be appropriate in determining the Group's remuneration policy.

Non-Executive Directors' fees are determined within an aggregate directors' fee pool limit. The maximum currently stands at $400,000 per annum and was approved by Firestone's shareholders at the 2008 annual general meeting.

The Group does not currently have formal policies around Key Management Personnel remuneration, which are set at market rates.

Short Term Cash Incentives

No short term cash incentives were provided to Directors, Key Management Personnel or other executives during the year, or are likely to be paid in the near future.

Other Payments

No other payments are due to Directors or Key Management Personnel.

DIRECTORS' REPORT

Long Term Benefits

Directors or Key Management Personnel currently have no right to long term leave payments.

Share-based Remuneration

Under current Accounting Standards any share-based remuneration must be valued in accordance with an appropriate option pricing model. Share options carry no voting rights and each option is convertible into one ordinary share in the company. No share-based remuneration (such as options to acquire Firestone shares) was granted to Directors in the current year or previous financial year. In recognition for successfully arranging funding for the Company, Mr David Knox was granted 40 million options on 19 September 2012 when he was Chief Executive Officer. These options have an exercise price of $0.025, expire on 19 September 2014 and vested immediately. The fair value at grant date using a binomial model was 0.194 cents per option and the options represented 19.8% of his total remuneration for the year. No options were exercised or lapsed during the year.

No other Key Management Personnel received share-based remuneration in the current year or previous financial year.

No options were exercised during the year as a result of share-based payments.

Service Contracts

The contract duration, period of notice and termination conditions for Key Management Personnel as at 30 June 2014 are as follows:

Mr Stephen Miller, the Chief Executive Officer, receives no remuneration and has no service contract.

Ms Amanda Matthee, the Chief Financial Officer, is engaged through an Executive Services Agreement with Firestone Energy Limited subsidiary Checkered Flag Investments 2 (Pty) Limited ("Checkered Flag"). The agreement is for an initial period of two years with an option to extend for a further three years. Termination by Checkered Flag without cause is by four months' notice or payment in lieu thereof. Termination by Ms Matthee is with one month's notice. Ms Matthee receives remuneration of R2,592,362 per annum, reviewable annually, and is eligible for performance-based bonuses and the grant of options upon completion of a bankable feasibility study and upon commencement of production.

There were no formal service agreements with Non-Executive Directors. On appointment to the Board, all Non-Executive Directors enter into a service agreement with Firestone, in the form of a letter of appointment. The letter summarises the Board policies and terms which mirror those set out within the Corporations Act 2001, including compensation, relevant to the office of Director.

Post-employment Benefits

No members of Key Management Personnel are entitled to post-employment benefits.

Performance-related Benefits

The Company occasionally provides incentive and performance based payments/benefits, typically in the way of equity options. There were no performance-related benefits during the year.

Financial Performance of the Group

There is no relationship between Firestone's current remuneration policy for Key Management Personnel and the company's performance or shareholder wealth. However, the Board takes note of the following indices in respect of the current and previous four financial years.

	2014	2013	2012	2011	2010
Net loss after tax	(4,802,197)	(5,848,203)	(4,530,596)	(4,762,294)	(3,436,308)
Working capital	(14,606,468)	(10,452,105)	(22,203,524)	(2,808,322)	(938,914)
Closing share price (cents)	0.5	0.5	0.7	1.6	1.3
% change in closing share price	-	(28.6%)	(56.3%)	23.1%	(61.8%)

DIRECTORS' REPORT

Directors' and Key Management Personnel Remuneration

Details of the nature and amount of each element of remuneration of the Key Management Personnel of Firestone Energy Limited are set out in the following tables. Each person was in office for the full year unless otherwise specified.

Directors		Short term employee benefits Salary/Fees	Post employment benefits Super	Share-based payments	Termination payments	Total
Executive Directors						
S. Miller [1]	**2014**	**-**	**-**	**-**	**-**	**-**
	2013	-	-	-	-	-
Non-Executive Directors						
L. Boyd [2]	**2014**	**8,850**	**-**	**-**	**-**	**8,850**
	2013	-	-	-	-	-
G. Magashula [3]	**2014**	**-**	**-**	**-**	**-**	**-**
	2013	-	-	-	-	-
B. McMaster [4]	**2014**	**-**	**-**	**-**	**-**	**-**
	2013	-	-	-	-	-
T. Tebeila [5]	**2014**	**20,000**	**-**	**-**	**-**	**20,000**
	2013	60,000	-	-	-	60,000
P. Kasolo [6]	**2014**	**20,833**	**-**	**-**	**-**	**20,833**
	2013	50,000	-	-	-	50,000
D. Knox [7]	**2014**	**-**	**-**	**-**	**-**	**-**
	2013	374,062	-	77,600	-	451,662
B. Mphahlele [8]	**2014**	**20,833**	**-**	**-**	**-**	**20,833**
	2013	50,000	-	-	-	50,000
K. Terblanche [9]	**2014**	**-**	**-**	**-**	**-**	**-**
	2013	48,611	-	-	-	48,611
D. Perkins [10]	**2014**	**-**	**-**	**-**	**-**	**-**
	2013	47,779	-	-	114,852	162,631
J. James [11]	**2014**	**-**	**-**	**-**	**-**	**-**
	2013	16,667	-	-	-	16,667
O. Zohar [12]	**2014**	**-**	**-**	**-**	**-**	**-**
	2013	17,671	-	-	-	17,671
D. Hillier [13]	**2014**	**-**	**-**	**-**	**-**	**-**
	2013	3,288	-	-	-	3,288
Executives						
A. Matthee [14]	**2014**	**262,215**	**-**	**-**	**-**	**262,215**
	2013	203,261	-	-	-	203,261
Total Key Management Personnel	**2014**	**332,731**	**-**	**-**	**-**	**332,731**
	2013	871,339	-	77,600	114,852	1,063,791

1. Appointed CEO and Executive Director 14 June 2013.
2. Appointed 18 March 2014.
3. Appointed 1 November 2013.
4. Appointed 14 June 2013, resigned 18 March 2014.
5. Resigned 1 November 2013.
6. Removed 29 November 2013.
7. Appointed CEO 20 September 2011. Resigned as CEO and appointed Non-Executive Director on 14 June 2013. Removed 29 November 2013.
8. Removed 29 November 2013.
9. Resigned 20 June 2013.
10. Resigned 14 June 2013.
11. Appointed 5 February 2013, resigned 13 June 2013.
12. Appointed 5 February 2013, resigned 13 June 2013.
13. Appointed 5 February 2013, resigned 1 March 2013.
14. Appointed CFO on 23 August 2012.

DIRECTORS' REPORT

Option holdings – Unlisted

The numbers of options over ordinary shares in the Company held during the financial year by each Director and key management personnel of Firestone Energy Limited, including their personally related parties, are set out below:

	Balance at the start of the year	Granted as remuneration	Options exercised	Change due to resignation or removal	Balance at the end of the period	Vested and exercisable at 30 June
Directors						
S Miller	-	-	-	-	-	-
L Boyd [1]	-	-	-	-	-	-
G Magashula [1]	-	-	-	-	-	-
T Tebeila [2]	-	-	-	-	-	-
P Kasolo [2]	-	-	-	-	-	-
D Knox [2]	40,000,000	-	-	(40,000,000)	-	-
B McMaster [2]	-	-	-	-	-	-
B Mphahlele [2]	-	-	-	-	-	-
Executives						
A Matthee	-	-	-	-	-	-
	40,000,000	**-**	**-**	**(40,000,000)**	**-**	**-**

Note 1 - appointed during the financial year
Note 2 - resigned or removed during the financial year

Share holdings

The numbers of shares in the Company held during the financial year by each Director and executive of Firestone Energy Limited, including their personally related parties, are set out below:

	Balance at the start of the period	Granted as remuneration	Issued on exercise of options	Net change other	Balance at the end of the period
Directors					
S Miller	-	-	-	-	-
L Boyd [1]					
G Magashula [1]					
T Tebeila [2]	572,645,091 *	-	-	(572,645,091)	-
P Kasolo [2]	-	-	-	-	-
D Knox [2]	-	-	-	-	-
B McMaster [2]	900,000	-	-	(900,000)	-
B Mphahlele [2]	-	-	-	-	-
Executives					
A Matthee [3]	31,133,437	-	-	(30,386,437)	747,000
	604,678,528	**-**	**-**	**(603,931,528)**	**747,000**

Note 1 - appointed during the financial year
Note 2 - resigned or removed during the financial year
Note 3 - Ms Matthee accepted the WCC takeover offer for her FSE shares, then subsequently purchased an additional 747,000 FSE shares on-market.

* Balance included amounts nominally held through directorship of Sekoko Coal (Pty) Ltd, whereby Sekoko Coal held 572,645,091 shares in Firestone Energy Limited at 30 June 2013.

DIRECTORS' REPORT

Loans and Other Transactions with Key Management Personnel

Mr Tim Tebeila was a common director of both Firestone Energy Limited and Sekoko Coal (Pty) Ltd.

The following transactions took place with Sekoko Resources Pty Ltd, the parent entity of Sekoko Coal (Pty) Ltd, during the period prior to Mr Tebeila's resignation when Sekoko Coal (Pty) Ltd was a related party of the Group:

	July - October 2013 $	July 2012 - June 2013 $
Transactions		
Management fees	-	132,228
Reimbursement of expenditure incurred on behalf of joint venture with Checkered Flag and Sekoko	6,889	163,803
Reimbursement of expenditure incurred in relation to planned joint venture with Lexshell and Sekoko	478,060	4,974,433
Amounts owed to Sekoko Resources as at 30 June 2013		
Payables	No longer related	395,014
Borrowings (refer to Note 11)	No longer related	7,948,449
	No longer related	**8,343,463**

These amounts were charged based on normal commercial terms and conditions.

There were no loans or other transactions with key management personnel during the year.

This concludes the audited Remuneration Report.

LIKELY DEVELOPMENTS

The Board of Firestone Energy Limited is currently considering the options for the development of a stand along export project which is expected to be able to be brought into production and cash flow sooner than the major total project. To this end, discussions are in progress with various parties with a view to structuring a finance package to advance this.

ENVIRONMENTAL REGULATION

The consolidated entity has done everything to the best of its knowledge to comply with all applicable legislation and has no reason to believe that they did not comply with any of the legislative requirements during the year ended 30 June 2014 and subsequent to year end.

DIRECTORS ' INTERESTS

No relevant interests in shares and options of Firestone were held directly or indirectly by Directors as at the date of this report.

SIGNIFICANT EVENTS AFTER REPORTING DATE

Loan Facility
Subsequent to the year end, the Company entered into a new loan facility agreement with Waterberg Coal Company Limited whereupon Waterberg Coal Company Limited extended a further loan of $3 million to enable the Company to meet its commitments on the Waterberg Coal Project.

There were no other known significant events from the end of the financial year to the date of this report.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

Indemnification

The Company has agreed to indemnify the directors and officers of the Company against all liabilities to another person (other than the Company or related body corporate) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

DIRECTORS' REPORT

During the financial year the Company paid a premium in respect of a contract insuring the directors and officers of the company and its controlled entities against any liability incurred in the course of their duties to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

NON-AUDIT SERVICES

During the year the consolidated group paid $15,300 (2013: $22,351) to a related entity of the auditor for non-audit services provided as outlined in Note 18 to the financial statements. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services do not compromise the auditor's independence as all non-audit services have been reviewed to ensure that they do not impact the integrity and objectivity of the auditor and none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has made an application to the court under Section 237 of the *Corporations Act 2001* for leave to bring court proceedings on behalf of the Company, or to intervene in any court proceedings to which Firestone is a party, for the purpose of taking responsibility on behalf of Firestone for all or part of those proceedings.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration, under section 307C of the Corporations Act 2001, is included on the next page and forms part of this directors' report.

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Stephen Miller
Director
30 September 2014

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Australia

DECLARATION OF INDEPENDENCE BY WAYNE BASFORD TO THE DIRECTORS OF FIRESTONE ENERGY LIMITED

As lead auditor of Firestone Energy Limited for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Firestone Energy Limited and the entities it controlled during the period.

Wayne Basford
Director

BDO Audit (WA) Pty Ltd

Perth, 30 September 2014

CORPORATE GOVERNANCE STATEMENT

Firestone Energy Limited ("Firestone") has made it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this statement. To the extent that they are applicable, and given its circumstances, Firestone adopts the Eight Essential Corporate Governance Principles and Best Practice Recommendations ('Recommendations') published by the Corporate Governance Council of the ASX.

Where Firestone's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. Where, after due consideration, Firestone's corporate governance practices depart from a recommendation, the Board has offered full disclosure and reasoning for the adoption of its own practice, in compliance with the "if not, why not" regime.

As Firestone's activities develop in size, nature and scope, the size of the Board and the implementation of additional corporate governance structures will be given further consideration.

DISCLOSURE OF CORPORATE GOVERNANCE PRACTICES

Compliance with the ASX Principles and Recommendations

(a) Principle 1 – Lay solid foundations for management and oversight

Recommendation 1.1: Companies should disclose the respective roles and responsibilities of the board and management; and those matters expressly reserved to the board and those delegated to management.

Notification of departure from Recommendation

Firestone has not formally disclosed the functions reserved to the Board and those delegated to senior executives.

Explanation for departure from Recommendation

The Board recognises the importance of distinguishing between the respective roles and responsibilities of the Board and management. The Board has established an informal framework for Firestone's management and the roles and responsibilities of the Board and management. Due to the small size of the Board and of Firestone, the Board does not think that it is necessary to formally document the roles of Board and management as it believes that these roles are being carried out in practice and are clearly understood by all members of the Board and management.

The appointments of non-executive directors are formalised in accordance with the regulatory requirements and Firestone's constitution.

Recommendation 1.2: Companies should undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director and provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.

Notification of departure from Recommendation

Firestone has not established formal processes for such but in practice the Board and management do follow accepted practices in establishing suitability of directors.

Explanation for departure from Recommendation

The Board is responsible for the strategic direction of Firestone, monitoring the overall corporate governance of Firestone and ensuring that shareholder value is increased. Due to the size of Firestone and the stage of the company's development, the Board does not consider it is necessary to establish formal processes for new appointments.

Recommendations of candidates for new directors are made by the directors for consideration by the Board as a whole. If it is necessary to appoint a new director to fill a vacancy on the Board or to complement the existing Board, a wide potential base of possible candidates is considered. If a candidate is recommended by a director, the Board assesses that proposed new director against a range of criteria including background, experience, professional skills, personal qualities, the potential for the candidate's skills to augment the existing Board and the candidate's availability to commit to the Board's activities. If these criteria are met and the Board appoints the candidate as a director, that director must retire at the next following General Meeting of Shareholders and will be eligible for election by shareholders at that General Meeting.

CORPORATE GOVERNANCE STATEMENT

Recommendation 1.3: Companies should have written agreements with each director and senior executives setting out the terms of their appointment.

Notification of departure from Recommendation

Firestone does not have formal written agreements with directors but does for senior executives.

Explanation for departure from Recommendation

Due to the size of Firestone's board and the stage of the company's development, the Board does not consider it is necessary to have formal documentation for each director.

Recommendation 1.4: The company secretary of the company should be accountable directly to the board through the chair on all matters to do with the proper functioning of the board.

Due to the small size of Firestone's Board, the company secretary reports to the Board regularly.

Recommendation 1.5: The company should have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them. The company should disclose that policy or a summary of it and disclose at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them.

The Company and all its related bodies corporate have established a Diversity Policy.

The Company recognises the benefits arising from employee and board diversity, including a broader pool of high quality employees, improving employee retention, accessing different perspectives and ideas and benefiting from all available talent.

Diversity includes, but is not limited to, gender, age, ethnicity, cultural background and the persons skill set.

The Diversity Policy does not form part of an employee's contract of employment with The Company, nor gives rise to contractual obligations. However, to the extent that the Diversity Policy requires an employee to do or refrain from doing something and at all times subject to legal obligations, the Diversity Policy forms a direction of the Company with which an employee is expected to comply.

OBJECTIVES

The Diversity Policy provides a framework for the Company to achieve:

- a diverse and skilled workforce, leading to continuous improvement in service delivery and achievement of corporate goals;
- a workplace culture characterised by inclusive practices and behaviours for the benefit of all staff;
- improved employment and career development opportunities for women;
- a work environment that values and utilises the contributions of employees with diverse backgrounds, experiences and perspectives through improved awareness of the benefits of workforce diversity and successful management of diversity; and
- awareness in all staff of their rights and responsibilities with regards to fairness, equity and respect for all aspects of diversity.

The Diversity Policy does not impose on the Company, its directors, officers, agents or employee any obligation to engage in, or justification for engaging in, any conduct which is illegal or contrary to any anti-discrimination or equal employment opportunity legislation or laws in any State or Territory of Australia or of any foreign jurisdiction.

CORPORATE GOVERNANCE STATEMENT

RESPONSIBILITIES

The Board's commitment

The Board is committed to workplace diversity, with a particular focus on supporting the representation of women at the senior level of the Company and on the Board.

The Board is responsible for developing measurable objectives and strategies to meet the Objectives of the Diversity Policy (**Measurable Objectives**) and monitoring the progress of the Measurable Objectives through the monitoring, evaluation and reporting mechanisms listed below.

The Board may also set Measurable Objectives for achieving gender diversity and monitor their achievement.

The Board will conduct all Board appointment processes in a manner that promotes gender diversity, including establishing a structured approach for identifying a pool of candidates, using external experts where necessary.

Strategies

The Company's diversity strategies include:

- recruiting from a diverse pool of candidates for all positions, including senior management and the Board;
- reviewing succession plans to ensure an appropriate focus on diversity;
- identifying specific factors to take account of in recruitment and selection processes to encourage diversity;
- developing programs to develop a broader pool of skilled and experienced senior management and Board candidates, including, workplace development programs, mentoring programs and targeted training and development;
- developing a culture which takes account of domestic responsibilities of employees; and
- any other strategies the Board develops from time to time.

MONITORING AND EVALUATION

The Chairman will monitor the scope and currency of this policy.

The Company is responsible for implementing, monitoring and reporting on the Measurable Objectives once they are set.

Measurable Objectives if set by the board will be included in the annual key performance indicators for the Chief Executive Officer / Managing Director and senior executives.

In addition, the Board will review progress against the Objectives (if set) as a key performance indicator in its annual performance assessment.

REPORTING

The Board may include in the Annual Report each year:

- the Measurable Objectives, if any, set by the Board; and
- progress against the Objectives; and
- the proportion of women employees in the whole organisation, at senior management level and at Board level.

Explanation for departure from Recommendations

While the Company has adopted a diversity policy as mentioned above, the Board does not consider it appropriate to set measurable objectives at this stage of the Company’s development. The Board will continue to review the development of Firestone and will adopt measurable objectives at a more appropriate time.

CORPORATE GOVERNANCE STATEMENT

Recommendation 1.6 & 1.7: Companies should have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors and senior executives; and disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

Notification of departure from Recommendation

Firestone does not have formal processes for evaluating performance reviews but does so informally within the confines of the size of its Board.

Explanation for departure from Recommendation

Due to the size of Firestone's Board and the stage of the company's development, the Board does not consider it is necessary to have formal performance reviews for each director or senior executive.

(b) Principle 2 – Structure of the Board to add value

Recommendation 2.1, 2.3 & 2.4: The board of the company should have a nomination committee with at least three members, a majority of whom are independent directors, chaired by an independent director and should disclose the charter of the committee.

Notification of departure from Recommendations

The Firestone Board does not currently have a majority of independent directors and the Chairman is not considered independent.

Explanation for departure from Recommendations

The Board's composition changed during the year. Consistent with the size of Firestone and its activities, the Board currently comprises three (3) Directors. The Board considers that Mr Magashula meets the criteria set in Principle 2.1 by the Corporate Governance Council to be considered an independent Director.

Mr Magashula has no material business or contractual relationship with Firestone, other than as a Director, and no conflicts of interest which could interfere with the exercise of independent judgement. Accordingly, he is considered to be independent.

The Board's policy is that the majority of directors shall be independent, non-executive directors. Due to the size of Firestone and the stage of Firestone's development, the Board does not consider it can justify the appointment of more independent non-executive directors, and therefore, the composition of the Board does not currently conform to the best practice recommendations of the ASX Corporate Governance Council.

Recommendation 2.2: The company should have an disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.

Notification of departure from Recommendation

Firestone does not have a board skills matrix setting out the mix of skills and diversity that the Board has or looks for, due to the size of the Board.

Explanation for departure from Recommendation

Due to the size of Firestone's Board and the stage of the company's development, the Board does not consider it is necessary to have a formal skills matrix but does endeavour to follow these recommendations in practice.

CORPORATE GOVERNANCE STATEMENT

Recommendation 2.5: The chair of the board of the company should be an independent director and, in particular, should not be the same person as the CEO of the entity.

Notification of departure from Recommendations

The Chairman and CEO of Firestone Energy Limited is Mr Stephen Miller.

Explanation for departure from Recommendation

Due to the size of Firestone's Board and the stage of the company's development, the Board does not consider it is necessary to have these roles separated.

Recommendation 2.6: The company should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.

Notification of departure from Recommendations

The company does not have a formal induction process.

Explanation for departure from Recommendation

Due to the size of Firestone's Board and the stage of the company's development, the Board does not consider it is necessary to have a formal induction process but endeavours to ensure that directors are fully supported and provided with opportunities for further learning.

Board access to independent professional advice
To assist directors with independent judgement, it is the Board's policy that if a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a director then, provided the director first obtains approval for incurring such expense from the Chair, Firestone will pay the reasonable expenses associated with obtaining such advice.

(c) Principle 3 – Promote ethical and responsible decision making

Recommendation 3.1: Companies should establish a code of conduct and disclose the code or a summary of the code as to:
- the practices necessary to maintain confidence in the company's integrity
- the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Notification of departure from Recommendation

Firestone has not established a formal code of conduct.

Explanation for departure from Recommendation

The Board considers that its business practices, as determined by the Board and key executives, are the equivalent of a code of conduct.

(d) Principle 4 – Safeguard integrity in corporate reporting

Recommendation 4.1: The board should establish an audit committee that:
- consists only of non-executive directors
- consists of a majority of independent directors
- is chaired by an independent chair, who is not chair of the board
- has at least three members.

CORPORATE GOVERNANCE STATEMENT

Notification of departure from Recommendation

Firestone has not established an audit committee.

Explanation for departure from Recommendation

The Board considers that Firestone is not currently of a size, or its affairs of such complexity, that the formation of separate or special committees is justified at this time. The Board as a whole is able to address the governance aspects of the full scope of Firestone's activities and ensure that it adheres to appropriate ethical standards.

The Board as a whole considers those matters that would usually be the responsibility of an audit committee and a nomination committee. The Board considers that, at this stage, no efficiencies or other benefits would be gained by establishing a separate audit committee or a separate nomination committee.

Recommendation 4.2: The board of the company should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly mantained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial performance of the entity.The audit committee should have a formal charter.

The company complies with this recommendation.

Recommendation 4.3: Companies that have an AGM should ensure that the external auditor attends the AGM and is available to answer questions from security holders relevant to the audit.

The company complies with this recommendation.

(e) Principle 5 – Make timely and balanced disclosure

Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

Notification of departure from Recommendations

Firestone has not established written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and accountability for compliance.

Explanation for departure from Recommendations

The directors have a long history of involvement with public listed companies and through the support of professional staff, are kept familiar with the disclosure requirements of the ASX listing rules.

Firestone has in place informal procedures that it believes are sufficient for ensuring compliance with ASX Listing Rule disclosure requirements and accountability for compliance. The Board has nominated the Chief Executive Officer and the Company Secretary as being responsible for all matters relating to disclosure.

(f) Principle 6 – Respect the rights of security holders

Recommendation 6.1: Companies should provide information about themselves and their governance to investors via their website.
Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

The company has a website which is maintained via an external service provider with an automatic update in terms of its latest announcement to the regulator.

CORPORATE GOVERNANCE STATEMENT

Recommendation 6.2 Companies should design and implement an investor relations program to facilitate effective two way communication with investors.

Notification of departure from Recommendations

Firestone has not established a formal investor relations program.

Explanation for departure from Recommendations

While Firestone has not established a formal investor relations strategy, it actively communicates with investors in order to identify their expectations and actively promotes investor involvement in Firestone. Investors with internet access are encouraged to provide their email addresses in order to receive electronic copies of information distributed by Firestone. Alternatively, hard copies of information distributed by Firestone are available on request.

Recommendation 6.3 Companies should disclose the policies and processes they have in place to facilitate and encourage participation at meetings of security holders.

Notification of departure from Recommendations

Firestone has not established a formal policy to encourage participation at meetings of security holders.

Explanation for departure from Recommendations

The board will consider additional strategies to ensure that security holder participation is encouraged.

Recommendation 6.4 Companies should give security holders the option to receive communications from, and send communications to, the company and its security register electronically

The company complies with this recommendation.

(g) Principle 7 – Recognise and manage risk

Recommendation 7.1: Companies should have a committee to oversee risk and disclose the charter, members and the number of times the committee met through the period. If no committee exists the company should disclose the processes employed for overseeing the company's risk management framework.

Recommendation 7.2: The board or committee of the board should review the company's risk management framework at least annually to satisfy itself that it continues to be sound and disclose in relation to each reporting period whether such a review has taken place.

Recommendation 7.3: The company should disclose if it has an internal audit function. If not, disclosure of the processes the company employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.

Recommendation 7.4: The company should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.

Notification of departure from Recommendations

Firestone has an informal risk oversight and management policy and internal compliance and control system.

Explanation for departure from Recommendations

The Board does not currently have formal procedures in place but is aware of the various risks that affect Firestone and its particular business. As Firestone develops, the Board will develop appropriate procedures to deal with risk oversight and management and internal compliance, taking into account the size of Firestone and the stage of development of its projects.

CORPORATE GOVERNANCE STATEMENT

(h) Principle 7 - Recognise and manage risk

Recommendation 7.3: The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The CEO and the Chief Financial Officer have provided a declaration to the Board in accordance with section 295A of the Corporations Act and have assured the Board that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

(i) Principle 8 – Remunerate fairly and responsibly

Recommendation 8.1: The board should establish a remuneration committee that:

- consists of a majority of independent directors
- is chaired by an independent chair
- has at least three members

Recommendation 8.2: The company should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.

Recommendation 8.3: Where the company has an equity based remuneration scheme the entity should disclose the policy or a summary of it.

Notification of departure from Recommendations

Firestone does not have a formal remuneration committee nor remuneration policy.

Explanation for departure from Recommendations

The current remuneration of the Directors is disclosed in the Directors' Report. Non-executive Directors receive a fixed fee for their services.

Subject to shareholder approval, the issue of options or shares to non-executive Directors may be an appropriate method of providing sufficient incentive and reward while maintaining cash reserves.

Due to Firestone's early stage of development and small size, it does not consider that a separate remuneration committee would add any efficiency to the process of determining the levels of remuneration for the Directors and key executives. The Board believes it is more appropriate to set aside time at specified Board meetings each year to specifically address matters that would ordinarily fall to a remuneration committee. In addition, all matters of remuneration will continue to be in accordance with regulatory requirements, especially in respect of related party transactions, and none of the Directors will participate in any deliberations regarding their own remuneration or related issues.

(j) Securities trading policy

Firestone adopted a Share Trading policy in December 2010. The policy summarises the law relating to insider trading and sets out Firestone's policy on Directors, officers, employees and consultants of the Group dealing in securities of Firestone.

The policy is provided to all Directors and employees of the Group and compliance with it is reviewed on an ongoing basis in accordance with Firestone's risk management systems.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2014

	Note	Consolidated 2014 $	Consolidated 2013 $
Revenue	2(a)	981	6,893
Other income	2(b)	248,774	24,972
Administration expenses		(107,897)	(765,809)
Compliance and regulatory expenses		(106,641)	(270,629)
Directors' fees		(191,904)	(294,015)
Employee and consultant expenses		(259,567)	(599,910)
Finance expenses	2(c)	(4,109,952)	(3,775,315)
Legal and professional fees		(260,289)	(835,853)
Rent expenses		(668)	(25,300)
Travel and accommodation		(15,034)	(149,693)
Loss before income tax expense from continuing operations		**(4,802,197)**	**(6,684,659)**
Income tax benefit	3	-	836,456
Loss after income tax for the year		**(4,802,197)**	**(5,848,203)**
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss			
Movement in foreign currency translation reserve		(6,475,226)	(5,001,988)
Total comprehensive loss for the year, net of tax		**(11,277,423)**	**(10,850,191)**
Loss per share for the year attributable to the ordinary equity holders of the Company			
Basic and diluted loss per share (cents)	4	(0.14)	(0.19)

For JSE requirements, the Headline Earnings per Share ("HEPS") has been calculated to be the equivalent of the basic and diluted loss per share as displayed above.

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

	Note	Consolidated 2014 $	2013 $
CURRENT ASSETS			
Cash and cash equivalents	6(a)	28,286	397,940
Trade and other receivables	7	582,250	248,769
Total Current Assets		610,536	646,709
NON-CURRENT ASSETS			
Receivables	7	1,420,502	1,564,396
Exploration and evaluation	8	71,544,785	77,109,220
Property, plant and equipment	9	4,041,808	4,298,379
Total Non-Current Assets		77,007,095	82,971,995
TOTAL ASSETS		**77,617,631**	**83,618,704**
CURRENT LIABILITIES			
Trade and other payables	10	4,401,376	2,900,315
Borrowings	11	10,815,628	8,198,499
Total Current Liabilities		15,217,004	11,098,814
NON-CURRENT LIABILITIES			
Borrowings	11	24,146,476	22,988,316
Total Non-Current Liabilities		24,146,476	22,988,316
TOTAL LIABILITIES		**39,363,480**	**34,087,130**
NET ASSETS		**38,254,151**	**49,531,574**
EQUITY			
Issued capital	12	79,553,721	79,553,721
Reserves		(16,603,908)	(10,128,682)
Accumulated losses		(24,695,662)	(19,893,465)
TOTAL EQUITY		**38,254,151**	**49,531,574**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2014

	Note	Consolidated 2014 $	Consolidated 2013 $
Cash Flows from Operating Activities			
Payments to suppliers and employees		(925,179)	(2,370,879)
Interest received		981	6,893
Interest paid		(11,539)	(1,105)
Net cash used in operating activities	6(b)	**(935,737)**	**(2,365,091)**
Cash Flows from Investing Activities			
Payments to acquire surface rights		(180,594)	-
Payments to acquire plant and equipment		-	(2,733)
Proceeds from sale of plant and equipment		2,344	-
Payments for capitalised exploration and evaluation		(346,925)	(2,886,867)
Net cash used in investing activities		**(525,175)**	**(2,889,600)**
Cash Flows from Financing Activities			
Proceeds from borrowings		4,199,871	6,447,006
Repayment of borrowings		(2,835,594)	-
Payment of transaction costs		(272,727)	(963,347)
Net cash provided by financing activities		**1,091,550**	**5,483,659**
Net increase / (decrease) in cash held		(369,362)	228,968
Cash at the beginning of the financial year		397,940	169,475
Effect of exchange rate changes on cash held in foreign currencies		(292)	(503)
Cash at the end of the financial year	6(a)	**28,286**	**397,940**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2014

	Issued capital	Accumulated losses	Share-based payment reserve	Convertible note reserve	Foreign currency translation reserve	Total
Balance at 1 July 2013	**79,553,721**	**(19,893,465)**	**4,615,245**	**2,073,819**	**(16,817,746)**	**49,531,574**
Comprehensive income for the year						
Loss for the year	-	(4,802,197)	-	-	-	(4,802,197)
Other comprehensive income						
Foreign currency translation	-	-	-	-	(6,475,226)	(6,475,226)
Total comprehensive loss for the year	-	**(4,802,197)**	-	-	**(6,475,226)**	**(11,277,423)**
Transactions with owners in their capacity as owners:						
	-	-		-	-	
Balance at 30 June 2014	**79,553,721**	**(24,695,662)**	**4,615,245**	**2,073,819**	**(23,292,972)**	**38,254,151**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2014

	Issued capital	Accumulated losses	Share-based payment reserve	Convertible note reserve	Foreign currency translation reserve	Total
Balance at 1 July 2012	**76,380,048**	**(14,045,262)**	**4,193,895**	**-**	**(11,815,758)**	**54,712,923**
Comprehensive income for the year						
Loss for the year	-	(5,848,203)	-	-	-	(5,848,203)
Other comprehensive income						
Foreign currency translation	-	-	-	-	(5,001,988)	(5,001,988)
Total comprehensive loss for the year	**-**	**(5,848,203)**	**-**	**-**	**(5,001,988)**	**(10,850,191)**
Transactions with owners in their capacity as owners:						
Issue of shares in payment of interest	1,716,667	-	-	-	-	1,716,667
Issue of shares in lieu of loan repayment	1,457,006	-	-	-	-	1,457,006
Issue of new convertible notes net of tax	-	-	-	2,073,819	-	2,073,819
Options issued	-	-	533,600	-	-	533,600
Share-based payment reversed for options not issued	-	-	(112,250)	-	-	(112,250)
Balance at 30 June 2013	**79,553,721**	**(19,893,465)**	**4,615,245**	**2,073,819**	**(16,817,746)**	**49,531,574**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

The financial statements of Firestone Energy Limited for the year ended 30 June 2014 were authorised for issue in accordance with a resolution of the Directors on 30 September 2014 and covers the consolidated entity consisting of Firestone Energy Limited ("the Company") and its subsidiaries ("the Group") as required by the *Corporations Act 2001.*

The financial statements are presented in the company's functional currency, Australian dollars. Firestone Energy Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange and the Johannesburg Stock Exchange.

(b) Basis of Preparation

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (including Australian Interpretations) issued by the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The financial statements have also been prepared on a historical cost basis. The accounting policies have been consistently applied, unless otherwise stated.

New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2013:

- AASB 10 *Consolidated Financial Statements*

  AASB 10 establishes a new control model that applies to all entities. The new control model broadens the situations in which an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority of voting rights may give control.

- AASB 11 *Joint Arrangements*

  AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. It removes the option to account for jointly controlled entities using proportionate consolidation. Joint operations, which give the parties rights to the underlying assets and obligations for the liabilities, are accounted for by recognising their share of those assets and liabilities. Joint ventures, which give the parties rights to the net assets of the joint venture and are always structured through a separate vehicle, are accounted for using the equity method.

  The Group has reviewed its joint arrangement with Sekoko Coal (Pty) Ltd and determined that it meets the classification criteria of a joint operation, as discussed in note 1(d), note 1(g) and note 8.

- AASB 12 *Disclosure of Interests in Other Entities*

  New disclosures have been introduced regarding the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates, structured entities and subsidiaries.

- AASB 13 *Fair Value Measurement*

  AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. It does not change when an entity is required to use fair value, but rather provides guidance on how to determine fair value when fair value is required or permitted. AASB 13 also expands the disclosure requirements for all assets and liabilities carried at fair value.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued...)

(b) Basis of Preparation (continued)

New and amended standards adopted by the Group (continued)

- AASB 119 *Employee Benefits*

  This standard changes the definition of short-term employee benefits. The distinction between short-term and long-term employee benefits is now based on whether the benefits are expected to be wholly settled within 12 months of the reporting date.

- AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* [AASB 124]

- AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*

- AASB 2012-5 *Annual Improvements to the IFRS 2009-2011 Cycle*

- Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*

Except as noted, the adoption of these standards did not have any impact on the current period or any prior period and is not likely to affect future periods.

New accounting standards and interpretations issued but not yet effective

New accounting standards and interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the reporting period ending 30 June 2014 are outlined in the following table.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued...)

(b) Basis of Preparation (continued)

New accounting standards and interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 9 (issued December 2009 and amended December 2010 and June 2014)	Financial Instruments	Amends the requirements for classification and measurement of financial assets. The available-for-sale and held-to-maturity categories of financial assets in AASB 139 have been eliminated. Under AASB 9, there are three categories of financial assets: • Amortised cost • Fair value through profit or loss • Fair value through other comprehensive income. The following requirements have generally been carried forward unchanged from AASB 139 *Financial Instruments: Recognition and Measurement* into AASB 9: • Classification and measurement of financial liabilities; and • Derecognition requirements for financial assets and liabilities. However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income. Adoption of AASB 9 is only mandatory for the year ending 30 June 2018. The entity has not yet made an assessment of the impact of these amendments.	1 January 2018	1 July 2018
AASB 2013-9 (issued December 2013)	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments	Makes two amendments to AASB 9: • Adding the new hedge accounting requirements into AASB 9 • Making available for early adoption the presentation of changes in 'own credit' in other comprehensive income (OCI) for financial liabilities under the fair value option without early applying the other AASB 9 requirements.	1 January 2018	Application of AASB 9: 1 July 2018

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued...)

(b) Basis of Preparation (continued)

New accounting standards and interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2013-9 (issued December 2013) (continued)	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments	Under the new hedge accounting requirements: • The 80-125% highly effective threshold has been removed • Risk components of non-financial items can qualify for hedge accounting provided that the risk component is separately identifiable and reliably measurable • An aggregated position (i.e. combination of a derivative and a non-derivative) can qualify for hedge accounting provided that it is managed as one risk exposure • When entities designate the intrinsic value of options, the initial time value is deferred in OCI and subsequent changes in time value are recognised in OCI • When entities designate only the spot element of a forward contract, the forward points can be deferred in OCI and subsequent changes in forward points are recognised in OCI. Initial foreign currency basis spread can also be deferred in OCI with subsequent changes be recognised in OCI • Net foreign exchange cash flow positions can qualify for hedge accounting. Adoption of AASB 9 is only mandatory for the year ending 30 June 2018. The entity has not yet made an assessment of the impact of these amendments.	1 January 2018	Application of AASB 9: 1 July 2018
Interpretation 21 (issued June 2013)	Levies	Clarifies the circumstances under which a liability to pay a levy imposed by a government should be recognised, and whether that liability should be recognised in full at a specific date or progressively over a period of time. The entity has not yet made an assessment of the impact of these amendments.	1 January 2014	1 July 2014
AASB 2013-3 (issued June 2013)	Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets	Clarifies the disclosure requirements for cash-generating units (CGUs) with significant amounts of goodwill and intangibles with indefinite useful lives and also adds additional disclosures when recoverable amount is determined based on fair value less costs to sell. As this standard amends disclosure requirements only, there will be no impact on amounts recognised in the financial statements.	1 January 2014	1 July 2014

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued...)

(b) Basis of Preparation (continued)

New accounting standards and interpretations issued but not yet effective (continued)

Improvements to IFRSs (issued December 2013)	Annual Improvements 2010-2012 Cycle	The changes include: IFRS 2 *Share-based Payment*: The amendment clarifies the definition of vesting conditions and market conditions by separately defining a performance condition and a service condition, both of which were previously incorporated within the definition of a vesting condition without themselves being specifically defined. The change applies prospectively to share-based payment transactions for which the grant date is on or after 1 July 2014. IAS 24 *Related Party Disclosures*: The amendment clarifies that an entity that provides key management personnel services ('management entity') to a reporting entity (or to the parent of the reporting entity), is a related party of the reporting entity. Separate disclosure of amounts recognised as an expense for key management personnel services provided by a separate management entity is also required.	1 July 2014	1 July 2014
IFRS 15 (issued June 2014)	Revenue from Contracts with Customers	An entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This means that revenue will be recognised when control of goods or services is transferred, rather than on transfer of risks and rewards as is currently the case under IAS 18 Revenue. Due to the recent release of this standard, the entity has not yet made a detailed assessment of the impact.	1 January 2017	1 July 2017
AASB 2014-3 (issued August 2014)	Amendments to Australian Accounting Standards - Accounting for Acquisitions of Interests in Joint Operations	When an entity acquires an interest in a joint operation whose activities meet the definition of a 'business' in AASB 3 *Business Combinations*, to the extent of its share of assets, liabilities, revenues and expenses as specified in the contractual arrangement, the entity must apply all of the principles for business combination accounting in AASB 3, and other IFRSs, to the extent that they do not conflict with AASB 11 *Joint Arrangements*. This means that it will expense all acquisition-related costs and recognise its share, according to the contractual arrangements, of: • Fair value of identifiable assets and liabilities, unless fair value exceptions included in AASB 3 or other IFRSs, and • Deferred tax assets and liabilities that arise from the initial recognition of an asset or liability as required by AASB 3 and AASB 1142 *Income Taxes*. Goodwill will then be recognised as the excess consideration over the fair value of net identifiable assets acquired. There will be no impact on the financial statements when these amendments are first adopted because they apply prospectively to acquisitions of interests in joint operations.	1 January 2016	1 July 2016

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued...)

(b) Basis of Preparation (continued)

Going Concern

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

For the year ended 30 June 2014, the Group experienced net cash outflows from operating activities of $935,737 (2013: $2,365,091). There is a working capital deficiency at 30 June 2014 of $14,606,468 of which $4,032,326 is payable to the Waterberg Coal Company Limited (Waterberg). As at the date of this report, the Group has $19,910 in cash at bank, and has $1.9 million available to draw down under the loan from Waterberg which is presently the only available source of funding. Waterberg in-turn has a working capital deficiency of $84,401,965 of which approximately $42 million is currently due for payment on 9 October.

The ability of the Group to continue as a going concern is dependent on either it being able to secure funding via an equity raising, or via Waterberg refinancing its borrowings and securing funding to enable it to support the Group.

Notwithstanding the ability of the Group to raise additional funds, renegotiate or refinance other current borrowings and/or receive financial support from Waterberg, in order for the Group to continue as a going concern, and to progress the Waterberg Coal Project into production, the Group has to receive regulatory approval, and raise adequate project financing.

The Directors believe that it is reasonably foreseeable that the Group will continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report after consideration of the following factors:

- The ability to issue additional shares under the Corporation Act 2001 to raise further working capital;
- Ability and willingness of Waterberg to provide financial support;
- The ongoing discussions with its financiers in respect to extending or refinancing its borrowings;
- The ongoing discussions with financiers and investors to fund the development of the Waterberg Coal Project; and
- Receipt of full regulatory approval for the development.

Should the Group not be able to obtain funds and refinance its borrowings, there is significant uncertainty whether the Group will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in this financial report. The financial report does not contain any adjustments relating to the recoverability and classification of recorded assets or to the amounts or classification of recorded assets or liabilities that might be necessary should the Group not be able to continue as a going concern.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Firestone Energy Limited (“the Company”) and its subsidiaries (“the Group”) as at 30 June each year.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Investments in subsidiaries are accounted for at cost in the individual financial statements of Firestone Energy Limited.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

(d) Critical accounting judgements and significant estimates

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued...)

(d) Critical accounting judgements and significant estimates (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised if it affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Classification of joint arrangements

The joint venture agreements in relation to the Waterberg joint venture require unanimous consent from all parties for all relevant activities. The joint venture is unincorporated. The two partners own the assets of the partnership as tenants in common and are jointly and severally liable for the liabilities incurred by the partnership. This entity is therefore classified as a joint operation and the Group recognises its direct right to the jointly held assets, liabilities, revenues and expenses as described in note 1 (g).

Recoverability of interest in joint operation

The Group considers the interest in the joint operation asset is recoverable based on future coal sales from a developed coal mine, and has not been impaired on the basis that the underlying asset will be successfully commercialised. This is dependent on the Group continuing as a going concern as noted above in Note 1(b). Further details on this balance can be found in Note 8.

Share-based payments

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires making assumptions about the most appropriate inputs to the valuation model, including the expected life of the share option, volatility and dividend yield. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 14.

Income Taxes

Judgement is required in assessing whether deferred tax assets are recognised in the consolidated statement of financial position. Deferred tax assets are recognised only when it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. Judgements are also required about the application of income tax legislation.

(e) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

(f) Income tax

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the reporting date.

Deferred tax is accounted for using the liability method in respect of temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of profit or loss and other comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued...)

(f) Income tax (continued)

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions or deductibility imposed by the law.

(g) Jointly controlled operations and assets

Under AASB 11 *Joint Arrangements*, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

(h) Mineral exploration and evaluation and development expenditure

The Group has adopted the policy of capitalising the costs of purchasing its mining tenements and all exploration and evaluation expenditure in relation to its mineral tenements as incurred.

The capitalised exploration and evaluation expenditure relating to a particular area of interest will be transferred to development expenditure when a decision to develop that area of interest is made.

All projects are subject to detailed review on an annual basis and accumulated costs written off to the extent that they will not be recoverable in the future.

(i) Property, plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the Group will include the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Surface rights refer to ownership of the land that the entity intends to mine, and is separate from a license to tenure over the land. These assets will be classified as property and carried at cost. The property will be amortised over a life of mine basis, with amortisation commencing upon production of saleable coal.

Depreciation

The depreciation amount of all fixed assets including building and capitalised lease assets is depreciated on a straight line basis over their useful lives to the Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	*Depreciation Rate*
Motor vehicles	5 years
Office furniture & equipment	4 years
Software	3 years

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued...)

1. Property, plant and equipment (continued)

Leasehold improvements	3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss.

(j) Impairment of assets

At each reporting date, the Group reviews the carrying values of tangible assets and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the profit or loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(k) Financial instruments

The Group does not currently undertake any hedging.

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method. They are included in current assets, except for those maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables (Note 7). They are measured initially at fair value and subsequently at amortised cost.

Financial liabilities

Non-derivative financial liabilities are recognised initially at fair value and subsequently at amortised cost, comprising original debt less principal payments and amortisation.

Impairment

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the asset's original effective interest rate. Any impairment losses are taken to the statement of profit or loss and other comprehensive income.

Compound financial instruments - Borrowings

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued...)

(k) Financial instruments (continued)

Compound financial instruments – Borrowings (continued)

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Interest, dividends, losses and gains relating to the financial liability are recognised in profit or loss. Distributions to the equity holders are recognised against equity, net of any tax benefit.

Derivatives

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of profit or loss and other comprehensive income, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

(l) Revenue recognition

Revenue from the sale of goods and disposal of other assets is recognised when the Group has passed control of the goods or other assets to the buyer. Interest revenue is recognised when it is due, on the accruals basis.

(m) Borrowing costs

Borrowing costs are recognised as an expense when incurred except those that relate to the acquisition, construction or production of qualifying assets where the borrowing cost is added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Assets capitalised within AASB 6 have not been considered to be qualifying assets.

Transaction costs relating to compound financial instruments are offset against the debt/equity on the statement of financial position, and amortised over the life of the convertible notes.

(n) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any loss of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(o) Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses on a straight line basis over the lease term.

(p) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued...)

(q) Share-based payment transactions

Equity-settled transactions

The Group may provide benefits to employees (including senior executives) or consultants of the Group in the form of share-based payments, whereby employees or consultants render services in exchange for shares or rights over shares in the Company (equity-settled transactions).

The cost of these equity-settled transactions with employees or consultants is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using an appropriate option pricing model for options or market price for ordinary shares or the fair value of the services received.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Firestone Energy Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share. Refer to Note 12 for a listing of all ordinary shares under option at year-end.

(r) Employee leave benefits

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Employee benefits not expected to be settled wholly within 12 months have been measured at the present value of the estimated future cash outflows to be made for those benefits. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of government bonds with terms and currencies that match, as closely as possible, the expected future cash outflows.

The obligations are presented as current liabilities in the statement of financial position, regardless of when settlement is expected to occur, unless the Group has an unconditional right to defer settlement for at least 12 months after the reporting date.

(s) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will results and that outflow can be reliably measured.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense.

(t) Foreign currency translation

Both the functional and presentation currency of Firestone Energy Limited is Australian dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued...)

(t) Foreign currency translation (continued)

Transactions (continued)

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign subsidiaries translation

The functional currency of the foreign operations, Checkered Flag Investments 2 (Pty) Ltd, Lexshell 126 General Trading (Pty) Ltd and Utafutaji Trading 75 (Pty) Ltd, is South African Rand (ZAR). As at the reporting date the assets and liabilities of these subsidiaries are translated into the presentation currency of Firestone Energy Limited at the rate of exchange ruling at the reporting date and their statements of profit or loss are translated at the weighted average exchange rate for the year.

Equity accounts are translated at their historical exchange rates. The exchange differences arising on the translation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in statement of profit or loss and other comprehensive income.

(u) Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(v) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(w) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(x) Goods and Services Tax (GST) and Value Added Tax (VAT)

Revenues, expenses and assets are recognised net of the amount of associated GST/VAT, unless the GST/VAT incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST/VAT receivable or payable. The net amount of GST/VAT recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST/VAT components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued...)

(y) Segment reporting

Management has determined that the consolidated group has one reportable segment, being coal exploration in South Africa. As the company is focused on mineral exploration, the Board monitors the consolidated group based on actual versus budgeted exploration expenditure incurred by area of interest.

This internal reporting framework is the most relevant to assist the Board (who are the chief operating decision makers) with making decisions regarding the Group and its ongoing exploration activities, while also taking into consideration the results of exploration work that has been performed to date.

2. REVENUE & EXPENSES

(a) Revenue

	2014 $	2013 $
Interest received	981	6,893
	981	**6,893**

(b) Other income

	2014 $	2013 $
Refund of transfer duty	225,568	-
Rent income	22,546	22,975
Gain on sale of assets	660	-
Foreign exchange gain	-	955
Other	-	1,042
	248,774	**24,972**

(c) Finance expenses

	2014 $	2013 $
Interest expense	2,951,792	2,536,137
Non-cash interest on convertible note	776,861	319,258
Amortisation of convertible note transaction costs	381,299	463,920
Share-based payment expense for options issued to former holders of convertible notes (refer to Note 14)	-	456,000
	4,109,952	**3,775,315**

Included within the statement of profit and loss and other comprehensive income are the following expenses:

	2014 $	2013 $
Depreciation	31,681	44,288
Superannuation	731	-
Share-based payment expense for options issued to former CEO (refer to Note 14)	-	77,600

3. INCOME TAX

(a) Income tax recognised in profit or loss

No income tax is payable by the parent or consolidated entities as they recorded losses for income tax purposes for the year.

	2014 $	2013 $
Current income tax	-	-
Deferred income tax	-	836,456
Income tax benefit as per the statement of profit or loss and other comprehensive income	**-**	**836,456**

(b) Income tax recognised directly in equity

	2014 $	2013 $
Net deferred tax debited directly to equity	-	836,456

3. INCOME TAX (Continued)

(c) Numerical reconciliation between income tax expense recognised in profit or loss and the accounting loss before income tax multiplied by the parent entity's statutory income tax rate

	2014 $	2013 $
Accounting loss before tax	4,802,197	6,684,659
Income tax benefit at 30% (2013: 30%)	1,440,659	2,005,398
Foreign tax rate adjustment	(9,823)	(21,112)
Non-deductible amounts:		
Interest paid in shares	-	(515,000)
Other share-based payments	-	(160,080)
Non-deductible interest and transaction costs on convertible notes	(1,151,645)	(95,777)
Other non-deductible expenses	(131,738)	(17,364)
Unrecognised tax losses	(147,453)	(359,609)
Income tax benefit attributable to loss from ordinary activities before tax	**-**	**836,456**

	2014 $	2013 $
(d) Recognised deferred tax balances		
Deferred Tax Assets		
Accruals and recognised revenue tax losses	603,398	836,456
Deferred Tax Liabilities		
Convertible note	(603,398)	(836,456)
Net deferred tax balances	**-**	**-**
(e) Unrecognised deferred tax balances		
Unrecognised revenue tax losses attributable to members of the Company	17,355,835	17,577,960
Potential tax benefit at applicable tax rates	5,130,701	5,210,778
Net unrecognised deferred tax asset at applicable tax rates	**5,130,701**	**5,210,778**

Unrecognised deferred tax balances will only be available following full review in the relevant jurisdictions.

4. LOSS PER SHARE

	2014 Cents	2013 Cents
Basic loss per share (cents per share)	(0.14)	(0.19)
The loss and weighted average number of ordinary shares used in the calculation of basic loss per share is as follows:	**$**	**$**
Loss for the year	(4,802,197)	(5,848,203)
	Number	**Number**
Weighted average number of shares outstanding during the year used in calculations of basic loss per share	**3,549,698,723**	**3,156,326,311**

Diluted loss per share

There is no dilution of shares due to options as the potential ordinary shares are not dilutive and are therefore not included in the calculation of diluted loss per share.

5. SEGMENT INFORMATION

Segment information provided to the Board:

	2014 $	2013 $
Revenue from external sources	-	-
Segment loss	(972,467)	(1,294,653)
Segment assets	75,579,723	81,364,992
Segment capital expenditure	1,263,166	5,258,746

Reported segment assets are equivalent to the capitalised exploration and evaluation expenditure (Note 8) plus surface right properties included in Note 9.

A reconciliation of reportable segment loss to operating loss before income tax is provided as follows:

Segment loss	(972,467)	(1,294,653)
Interest revenue and other income	969	7,310
Administration expenses	(275,869)	(314,749)
Finance costs	(2,968,659)	(3,019,777)
Compliance and regulatory expenses	(106,641)	(270,629)
Directors' fees	(191,904)	(294,015)
Employee and consultant expenses	(22,483)	(598,496)
Legal and professional fees	(260,041)	(835,853)
Rent expenses	(668)	(25,300)
Travel and accommodation	(4,434)	(38,497)
Loss before income tax	**(4,802,197)**	**(6,684,659)**

As the Group is in the exploration phase it has no major customers.

6. (a) CASH AND CASH EQUIVALENTS

	2014 $	2013 $
Cash at bank	**28,286**	**397,940**

Cash at bank earns interest at floating rates based on daily bank deposit rates. The Group's exposure to interest rate risk is discussed in Note 15. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of cash and cash equivalents noted above.

For the purposes of the cash flow statement, cash and cash equivalents comprise the following at 30 June:

Cash and cash equivalents	**28,286**	397,940

6. (b) RECONCILIATION TO STATEMENT OF CASH FLOWS

Reconciliation of loss after income tax to net cash flows from operating activities:	**2014** **$**	**2013** **$**
Loss after income tax	(4,802,197)	(6,842,659)
Adjustments:		
Depreciation	31,681	44,288
Gain on sale of assets	(660)	-
Amortisation of borrowing costs	381,299	463,920
Non-cash interest on convertible note	776,861	319,258
Share-based payment expense	-	533,600
Interest paid via share issues	-	2,561,667
Interest capitalised to Sekoko loan (investing activity)	652,401	439,023
Foreign exchange	290	(2,337)
	(2,960,325)	(2,325,240)
Changes in operating assets and liabilities:		
Decrease / (increase) in receivables	165,174	(185,439)
Increase in trade and other payables	1,859,414	145,588
Net cash outflow from operating activities	**(935,737)**	**(2,365,091)**

6. (c) NON-CASH INVESTING AND FINANCING ACTIVITIES

	2014 **$**	**2013** **$**
Convertible notes issued in lieu of interest payments on existing convertible notes	-	845,000
Shares issued to extinguish BBY loan (refer to Note 12)	-	1,457,006
Shares issued in lieu of interest payments on convertible notes existing at 31 January 2013	-	1,716,667

During the year ended 30 June 2013, new convertible notes were issued on a 1:1 basis in place of the $21,300,000 convertible notes existing at 31 January 2013, with the cash exchanged between the other counterparties to the notes, and in lieu of $845,000 interest payable on the existing convertible notes. Refer to Note 11 for more information about the terms and conditions of the new convertible notes. The carrying value of the new convertible notes was split between debt and equity in accordance with accounting standards.

7. TRADE AND OTHER RECEIVABLES

	2014 $	2013 $
Current		
GST / VAT recoverable	83,258	236,732
Receivables – Sekoko	498,656	-
Prepayments	336	12,037
	582,250	**248,769**
Non-Current		
Environmental rehabilitation bond	**1,420,502**	**1,564,396**

Information about the Group's exposure to foreign exchange risk and interest rate risk is provided in Note 15.

8. EXPLORATION AND EVALUATION

	2014 $	2013 $
Interest in capitalised exploration and evaluation expenditure	**71,544,785**	**77,109,220**
Opening balance	77,109,220	76,735,130
Additional capitalised expenditure	1,082,573	5,258,746
Foreign currency movements	(6,647,008)	(4,884,656)
Closing balance	**71,544,785**	**77,109,220**

The Company is a participant with Sekoko Coal (Pty) Ltd in a coal project in the Waterberg locality in South Africa. The Company holds a 60% earn-in interest and Sekoko Coal (Pty) Ltd a 40% interest, and the project is funded in the same ratio. The joint venture is carried out through the Company's 100%-owned subsidiaries, Lexshell 126 General Trading (Pty) Ltd and Checkered Flag Investments 2 (Pty) Ltd.

The joint venture agreements in relation to the Waterberg joint venture require unanimous consent from all parties for all relevant activities. The joint venture is unincorporated. This entity is therefore classified as a joint operation and the Group recognises its direct right to the jointly held assets, liabilities, revenues and expenses as described in Note 1(g).

The principal place of business of the joint operation is in South Africa.

9. PROPERTY, PLANT AND EQUIPMENT

	2014 $	2013 $
Office furniture and equipment:		
Cost	144,597	170,254
Accumulated depreciation	(137,726)	(130,302)
	6,871	**39,952**
Motor vehicles:		
Cost	-	8,851
Accumulated depreciation	-	(6,196)
	-	**2,655**
Property – surface rights:		
Cost	4,034,937	4,255,772
Total property, plant and equipment	**4,041,808**	**4,298,379**

Movements in the carrying amounts of each class of property, plant & equipment are set out below:

	2014 $	2013 $
Office furniture and equipment		
Balance at the beginning of year	39,952	85,897
Additions	-	2,733
Depreciation expense	(30,799)	(42,524)
Foreign exchange adjustment	(2,282)	(6,154)
Carrying amount at the end of the year	**6,871**	**39,952**
Motor vehicles		
Balance at the beginning of year	2,655	4,755
Depreciation expense	(882)	(1,764)
Disposals	(1,684)	-
Foreign exchange adjustment	(89)	(336)
Carrying amount at the end of the year	**-**	**2,655**
Property – surface rights		
Balance at the beginning of year	4,255,772	4,572,060
Additions	180,594	-
Foreign exchange adjustment	(401,429)	(316,288)
Carrying amount at the end of the year	**4,034,937**	**4,255,772**

10. TRADE AND OTHER PAYABLES

Current	2014 $	2013 $
Trade payables	353,156	1,017,936
Employee entitlements	-	34,478
Accruals	4,048,220	1,847,239
Other	-	662
	4,401,376	**2,900,315**

Trade payables are non-interest bearing and are normally settled on 30 day terms. Due to the short term nature, their fair value approximates their carrying value at reporting date. Information about the Group's exposure to foreign exchange risk is provided in Note 15.

11. BORROWINGS

	2014 $	2013 $
Current [5]		
Unsecured loans carried at amortised cost		
Loan – Sekoko Resources [1]	6,783,302	7,948,449
Loan – BBY [2]	-	250,000
Loan – The Waterberg Coal Company [3]	4,032,326	-
	10,815,628	**8,198,499**
Non-current		
Secured loans carried at amortised cost		
Convertible note [4]	25,133,675	24,356,814
Transaction costs of convertible notes	(1,525,196)	(1,525,196)
Transaction costs – amortised	537,997	156,698
	24,146,476	**22,988,316**

1. Interest is charged at the South African prime rate of 9.0% (2013: 8.5%). The loan is unsecured.

2. These funds were advanced under a short-term funding agreement with BBY Nominees Pty Limited and were repaid in December 2013.

3. The Waterberg Coal Company Limited has agreed to lend the Company up to $6 million, to be used for the Company's project financing obligations in relation to the Waterberg Coal Project. WCC agreed to lend the Company $3 million under an agreement dated 30 August 2013 and a further $3 million under an agreement dated 16 July 2014. As at 30 June 2014, the initial loan had been drawn down by $4,032,326, which included further advances subsequently agreed to be treated as part of the second $3m facility. The loans are interest free, unsecured and are to be repaid within 10 days of the Company making full repayment of the loan from Sekoko.

4. The total face value of the notes is $27.145 million and the maturity date 31 January 2017. They bear interest at a fixed rate of 8% per annum. The notes can be converted at any time before the maturity date at a conversion price of $0.025. They are secured over the assets of the Group.

   The initial fair value of the liability portion of the convertible note was determined using a market interest rate for an equivalent non-convertible bond at the issue date. The liability is subsequently recognised on an amortised cost basis until extinguished on conversion or maturity of the notes. The remainder of the proceeds is allocated to the conversion option and recognised in shareholders' equity, net of income tax, and not subsequently remeasured.

   The fair value as at 30 June 2014 of the convertible note liability recognised at amortised cost is $24.98 million. Discounted cash flow models are used to determine the fair values of convertible notes at amortised cost. Discount rates used on the calculations are based on market interest rates existing at the end of the reporting period for similar types of notes. The discount rate used at 30 June 2014 is 12% and the instrument is classified as level 3 under the fair value hierarchy.

5. Due to their short term nature, the fair value of current borrowings approximates their carrying values.

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in Note 15.

12. ISSUED CAPITAL

	2014 $	2013 $
3,549,698,723 (2013: 3,549,698,723) fully paid ordinary shares	**79,553,721**	**79,553,721**

Movement in ordinary share capital:	**No of Shares**	**$ Value**
Balance at 30 June 2012	**3,113,878,641**	**76,380,048**
5 February 2013 – Shares issued as payment of interest	241,145,620	1,716,667
5 February 2013 – Shares issued to extinguish BBY loan	194,674,462	1,457,006
Balance at 30 June 2013	**3,549,698,723**	**79,553,721**
Balance at 30 June 2014	**3,549,698,723**	**79,553,721**

Options

Unissued ordinary shares of the Company under option as at 30 June 2014 are as follows:

Number	Expiry	Exercise Price	Listed / Unlisted
40,000,000	19 September 2014	$0.025	Unlisted
300,000,000	5 February 2015	$0.025	Unlisted
340,000,000			

No option holder has any right under the options to participate in any other share issue of the Company.

13. RESERVES

Nature and purpose of reserves

Share-based payments reserve
This reserve is used to record the value of:

i. equity benefits provided to employees, Directors or consultants as part of their remuneration or services to the entity; and
ii. equity benefits provided as part of financing transactions.

Convertible note reserve
The convertible note reserve is used to record the equity component of the convertible notes.

Foreign currency translation reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation balances of foreign subsidiaries.

14. SHARE-BASED PAYMENTS

The following table illustrates the number and weighted average exercise prices (WAEP) of share options granted as share-based payments on issue during the year.

	2014 Number	2014 WAEP	2013 Number	2013 WAEP
Outstanding at 1 July	340,000,000	$0.025	236,904,767	$0.06
Granted during the year	-	-	340,000,000	$0.025
Exercised during the year	-	-	-	-
Expired during the year	-	-	(236,904,767)	$0.06
Outstanding as at 30 June	340,000,000	$0.025	340,000,000	$0.025

The weighted average remaining contractual life for share-based payment share options outstanding as at 30 June 2014 is 0.55 years (2013: 1.55 years).

The range of exercise prices for share-based payment options outstanding as at the end of the year was $0.025 (2013: $0.025).

40,000,000 unlisted 2 year options with an exercise price of 2.5 cents were issued to the Company's then CEO and current Non-Executive Director, Mr David Knox, on 19 September 2012. The fair value of the options was calculated at 0.19 cents per option using a binomial model and the following assumptions:

Dividend yield (%)	Nil
Expected volatility (%)	100%
Risk-free interest rate (%)	3.00%
Expected life (years)	1.5
Exercise price (cents)	2.5
Share price at grant date (cents)	0.9

300,000,000 unlisted 2 year options with an exercise price of 2.5 cents were issued to the former holders of the Company's convertible notes on 5 February 2013. The fair value of the options was calculated at 0.15 cents per option using a binomial model and the following assumptions:

Dividend yield (%)	Nil
Expected volatility (%)	100%
Risk-free interest rate (%)	3.00%
Expected life (years)	1.5
Exercise price (cents)	2.5
Share price at grant date (cents)	0.8

15. FINANCIAL RISK MANAGEMENT

(i) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group's overall strategy remains unchanged from the previous year.

The capital structure of the Group consists of borrowings, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses.

None of the Group's entities are subject to externally imposed capital requirements.

Gearing levels are reviewed by the Board on a regular basis after factoring in the cost of capital and the risks associated with each class of capital. The gearing ratio at 30 June 2014 was 91% (2013: 63%).

15. FINANCIAL RISK MANAGEMENT (Continued)

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

(ii) Financial risk management objectives

The Group's activities may expose it to a variety of financial risks in the future: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program does focus on the unpredictable nature of the financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out under an approved framework covering a risk management policy and internal compliance and control by management. The Board identifies, evaluates and approves measures to address financial risks.

(iii) Market risk

Cash flow interest rate risk

The Group's main interest rate risk arises from cash deposits held as investments prior to being spent on exploration and evaluation activities, environmental bonds, and the Sekoko loan. Deposits and loans at variable rates expose the Group to cash flow interest rate risk. During 2014 and 2013, the Group's deposits at variable rates were denominated in Australian Dollars and South African Rand. The Sekoko loan is denominated in South African Rand.

Sensitivity Analysis – Interest Rate Risk

The effect of possible interest rate movements used to determine the impact upon profit and loss and equity have been determined based upon management's assessment of current and future market conditions.

At 30 June, the Group had the following exposure to Australian short term interest rates and South African prime rates:

	2014 $	2013 $
Subject to Interest Rate Risk		
Financial assets		
Cash and cash equivalents	28,286	397,940
Environmental rehabilitation bond	1,420,502	1,564,396
Financial liabilities		
Borrowings	6,783,302	7,948,449

The following sensitivity analysis is based interest rate risk exposures in existence at the reporting date.

At 30 June the effects on post tax loss and equity from a change in interest rates would be as follows:

Future possible changes in interest rates based on management's estimates:	2014 $	2013 $
Interest Rates + 100bp (2013: 100bp)	(53,345)	(59,862)
Interest Rates - 100bp (2013: 100bp)	53,345	59,862

Foreign currency risk

As a result of significant investment operations by the Company's subsidiaries in South Africa, the Group's statement of financial position can be affected significantly by movements in the Australian dollar / South African Rand exchange rate.

Large transactions are denominated in South African Rand. The Group seeks to mitigate some of the effect of its foreign currency exposure by holding South African Rand.

15. FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (continued)

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency.

The Group does not have a policy to enter into forward contracts and does not negotiate hedge derivatives to exactly match the terms of the hedged item.

Sensitivity Analysis – Foreign Currency Risk

At 30 June the Australian dollar equivalents of assets and liabilities held in South African Rand are as follows:

	2014 $	2013 $
Subject to Foreign Exchange Movements		
Financial assets		
Cash and cash equivalents	6,248	3,162
Trade and other receivables	1,999,603	1,734,719
	2,005,851	1,737,881
Financial liabilities		
Trade and other payables	44,409	465,006
Borrowings	6,783,302	7,948,449
	6,827,711	8,413,455

The financial assets and liabilities of the subsidiaries are held in the functional currency of the subsidiaries, which is South African Rand. As a result, there is minimal foreign exchange risk in terms of the possible effect on profit or loss.

At 30 June the effects on post tax equity from a change in the Australian Dollar / South African Rand exchange rate would be as follows:

Future possible changes in foreign exchange rates based on management's estimates:	2014 $	2013 $
Exchange Rate + 10% (2013: 10%)	438,351	606,875
Exchange Rate - 10% (2013: 10%)	(535,762)	(741,736)

(iv) Credit risk

Credit risk arises from cash and cash equivalents, deposits (including environmental bonds) with banks and financial institutions, as well as credit exposures on outstanding receivables and committed transactions.

Cash transactions are limited to high credit quality financial institutions.

Environmental bonds are held with high credit quality financial institutions. The rights to the bonds are held by the Company's joint venture partner Sekoko Coal (Pty) Ltd, who will remit the funds to the Company upon expiry.

In relation to other credit risk areas management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

15. FINANCIAL RISK MANAGEMENT (Continued)

(v) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Consolidated entity manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group will aim at maintaining flexibility in funding by accessing appropriate committed credit lines available from different counterparties where appropriate and possible. Surplus funds when available are generally only invested in high credit quality financial institutions in highly liquid markets.

Maturity analysis of financial assets and liabilities based on management's expectations:

Year ended 30 June 2014	<6 months	6-12 months	1-5 years	>5 years	Contractual cash flows	Carrying Amount
Financial assets						
Trade & other receivables [1, 2]	581,914	-	1,420,502	-	2,002,416	2,002,416
Financial liabilities						
Trade & other payables	(4,401,376)	-	-	-	(4,401,376)	(4,401,376)
Borrowings [3]	(11,990,029)	(1,174,401)	(30,883,778)	-	(44,048,208)	(34,962,104)
Net maturity	**(15,809,491)**	**(1,174,401)**	**(29,463,276)**	**-**	**(46,447,168)**	**(37,361,064)**

Year ended 30 June 2013	<6 months	6-12 months	1-5 years	>5 years	Contractual cash flows	Carrying Amount
Financial assets						
Trade & other receivables [1, 2]	236,732	-	1,564,396	-	1,801,128	1,801,128
Financial liabilities						
Trade & other payables	(2,900,315)	-	-	-	(2,900,315)	(2,900,315)
Borrowings [3]	(9,284,299)	(1,085,800)	(32,773,311)	-	(43,143,410)	(31,186,815)
Net maturity	**(11,947,882)**	**(1,085,800)**	**(31,208,915)**	**-**	**(44,242,597)**	**(32,286,002)**

[1] No impairment is required on long term receivables, as they are long term deposits which are interest-bearing.
[2] Prepayments are excluded from the maturity analysis as they will not be received in cash.
[3] The convertible note holder has the option to convert the face value of the liability to equity at any time until maturity.

16. COMMITMENTS

(i) Operating Lease Commitments

The company has no operating lease commitments.

(ii) Other Commitments

- A production royalty, equivalent to ZAR0.50 (A$0.05) per tonne of coal sold, is payable to Sekoko Coal (Pty) Ltd during the term of the mining operations to a maximum aggregated amount of ZAR45 million (A$4.52 million).
- The Group's wholly-owned subsidiary Utafutaji Trading 75 (Pty) Ltd was due to make further payments to purchase the mining tenement properties Swanepoelpan and Massenberg as follows:

Swanepoelpan
- 2,000,000 rand (A$200,721) by 20 June 2014
- 3,000,000 rand (A$301,081) by 20 July 2014
- 17,679,479 rand (A$1,774,318) by 30 November 2014

Massenberg	• 8,500,000 rand (A$853,062) by 22 June 2014 • 9,000,000 rand (A$903,243) by 22 July 2014 • 17,500,000 rand (A$1,756,305) by 30 November 2014

The above payments are currently being re-negotiated and will be made when project financing is completed. In the interim, a monthly access fee of ZAR100,000 is being paid per property.

17. RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

	2014	2013
	$	$
Short-term employee benefits	332,731	871,339
Share-based payments	-	77,600
Post-employment benefits	-	-
Termination benefits	-	114,852
	332,731	**1,063,791**

(b) Investments in Controlled Entities

Subsidiaries of Firestone Energy Limited are set out below:

	Place of Incorporation	Equity holding		Principal Activities
		2014	2013	
		%	%	
Controlled Entities:				
Checkered Flag Investments 2 (Pty) Ltd	South Africa	**100**	100	Participant in Waterberg joint operation
Lexshell 126 General Trading (Pty) Ltd	South Africa	**100**	100	Participant in Waterberg joint operation

Lexshell 126 General Trading (Pty) Ltd holds a 100% interest in Utafutaji Trading 75 (Pty) Ltd ("Utafutaji"). The principal activity of Utafutaji is owning properties that may one day be mined.

An impairment assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates to determine whether there is objective evidence that a related party receivable is impaired. When such objective evidence exists, the Group recognises an allowance for the impairment loss.

17. RELATED PARTY TRANSACTIONS (Continued)

(c) Other transactions and balances with related parties

(i) The Waterberg Coal Company Limited

The Waterberg Coal Company Limited ("WCC") became a related party during the year via its significant shareholding (45.88%) and its control of the Firestone board.

WCC agreed to lend the Company $3 million under an agreement dated 30 August 2013 and a further $3 million under an agreement dated 16 July 2014. The funds are to be used for the Company's project financing obligations in relation to the Waterberg Coal Project. As at 30 June 2014, the initial loan had been drawn down by $4,032,326, which included further advances subsequently agreed to be treated as part of the second $3m facility. Refer to Note 11.

(ii) Sekoko Coal (Pty) Ltd

Prior to the resignation of Mr Tim Tebeila, Sekoko Coal (Pty) Ltd was a related party to the Group. Mr Tebeila was a common director of both entities and effectively controls Sekoko Coal (Pty) Ltd.

The following transactions have taken place with Sekoko Resources Pty Ltd, the parent entity of Sekoko Coal (Pty) Ltd, during the period that Sekoko Coal (Pty) Ltd was a related party of the Group:

	July - October 2013 $	July 2012 - June 2013 $
Transactions		
Management fees	-	132,228
Reimbursement of expenditure incurred on behalf of joint venture with Checkered Flag and Sekoko	6,889	163,803
Reimbursement of expenditure incurred in relation to planned joint venture with Lexshell and Sekoko	478,060	4,974,433
Amounts owed to Sekoko Resources as at 30 June 2013		
Payables	No longer related	395,014
Borrowings (refer to Note 11)	No longer related	7,948,449
	No longer related	**8,343,463**

These amounts were charged based on normal commercial terms and conditions.

18. AUDITOR'S REMUNERATION

	2014 $	2013 $
Amounts paid or payable to BDO Audit (WA) Pty Ltd:		
Audit or review of the financial reports of the Group	56,471	50,780
Other services by BDO Corporate Tax (WA) Pty Ltd and BDO Corporate Finance (WA) Pty Ltd	15,300	22,351
Audit and other services provided by BDO South Africa	26,909	26,743
	98,680	**99,874**

19. CONTINGENT LIABILITIES

The consolidated entity had no contingent liabilities at 30 June 2014.

20. PARENT ENTITY INFORMATION

(a) Summary financial information

	2014 $	2013 $
Assets		
Current assets	39,681	472,854
Non-current assets	70,746,645	74,693,484
Total assets	**70,786,326**	**75,166,338**
Liabilities		
Current liabilities	8,389,295	2,650,168
Non-current liabilities	24,146,476	22,988,316
Total liabilities	**32,535,771**	**25,638,484**
Equity		
Issued capital	79,553,721	79,553,721
Reserves	6,689,065	6,689,065
Accumulated losses	(47,992,231)	(36,714,932)
Total equity	**38,250,555**	**49,527,854**
Loss for the year	(11,277,299)	(10,853,551)
Total comprehensive loss	(11,277,299)	(10,853,551)

(b) Contingent liabilities of the parent entity

Firestone Energy Limited had no contingent liabilities as at 30 June 2014.

(c) Commitments of the parent entity

Firestone Energy Limited had no commitments as at 30 June 2014.

21. EVENTS AFTER THE BALANCE SHEET DATE

Loan Facility
Subsequent to the year end, the Company entered into a new loan facility agreement with Waterberg Coal Company Limited whereupon Waterberg Coal Company Limited extended a further loan of $3 million to enable the Company to meet its commitments on the Waterberg Coal Project.

There were no other known significant events from the end of the financial year to the date of this report.

DIRECTORS' DECLARATION

The Directors of the company declare that:

1. The financial statements and accompanying notes are in accordance with the Corporations Act 2001 and:
   (a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
   (b) give a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date.
2. The Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
3. In the Directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
4. The remuneration disclosures included in the Directors' Report (as part of the audited Remuneration Report), for the year ended 30 June 2014, comply with section 300A of the *Corporations Act 2001.*
5. The Directors have been given the declarations by the chief executive officer and the chief financial officer required by section 295A.

This declaration is made in accordance with a resolution of the Directors.

Stephen Miller
Director

30 September 2014

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INDEPENDENT AUDITOR'S REPORT

To the members of Firestone Energy Limited

Report on the Financial Report

We have audited the accompanying financial report of Firestone Energy Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1(b), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Stat*ements, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Firestone Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

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Opinion

In our opinion:

(a) the financial report of Firestone Energy Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(b).

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1(b) in the financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon the future successful raising of necessary funding to meet its short term liabilities. This condition, along with other matters as set out in Note 1(b), indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Firestone Energy Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO

Wayne Basford
Director

Perth, 30 September 2014

ASX ADDITIONAL INFORMATION

Shareholder Information

Additional information as required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below. This information is current as at 17 September 2014.

Distribution of equity security holders

Ranges	Number of Holders	Number of Shares	% of Issued Capital
1 - 1,000	1,757	745,147	0.02
1,001 – 10,000	1,219	3,727,279	0.11
10,001 - 100,000	881	44,011,242	1.24
100,001 – 1,000,000	616	208,318,739	5.87
1,000,000 - and over	107	3,292,896,316	94
Total	**5,525**	**3,549,698,723**	**100**

There are 3,636 holders of shares holding less than a marketable parcel.

Twenty largest holders of quoted shares

Number	Shareholder	Number of Shares Held	% of Issued Capital
1	THE WATERBERG COAL COMPANY LTD	651,743,663	18.36
2	BBY NOMINEES PTY LTD	588,284,995	16.57
3	AET SFS PTY LTD <WCC SBSA>	496,889,045	14.00
4	AET SFS PTY LTD <ARIONA SBSA>	480,000,000	13.52
5	LINC ENERGY LIMITED	283,336,423	7.98
6	BIOTRACE TRADING 316 (PTY) LTD	60,896,890	1.72
7	UZALILE INVESTMENTS PTY LTD	55,000,000	1.55
8	MR SIPHO VELEMPINI	27,099,352	0.76
9	MR DARYL PONSFORD	20,000,000	0.56
10	FMR INVESTMENTS PTY LIMITED	18,001,750	0.51
11	UOB KAY HIAN PRIVATE LIMITED <CLIENTS A/C>	17,115,706	0.48
12	PHASHA INVESTMENT HOLDINGS (PTY) LTD	14,639,000	0.41
13	MR MICHAEL SKELLERN	13,209,085	0.37
14	AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED	12,027,916	0.34
15	MR EMILE ALFRED NESSIM	12,000,000	0.34
16	CITICORP NOMINEES PTY LIMITED	11,553,255	0.33
17	CHAKAWALLA CC	11,000,000	0.30
18	JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	10,193,268	0.29
19	MR TERENCE EDWARD STANTON + MS GRACE MURIEL STANTON <TE&GMSTANTON SUPER FUND A/C>	10,000,000	0.28
20	ELKSTONE PTY LTD <WILSHAW SUPER FUND A/C>	8,750,000	0.25
	TOTAL	**2,801,740,348**	**78.92**

Quoted and unquoted equity securities

Equity Security	Quoted	Unquoted
Ordinary Shares	3,549,698,723	-
Options	-	300,000,000

ASX ADDITIONAL INFORMATION

Substantial shareholders

Substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

Shareholder	Number of shares
The Waterberg Coal Company Limited	1,628,632,708
BBY Nominees Pty Limited	588,284,995
Linc Energy Limited	283,336,423

Option holdings at 30 June 2014	Number of Holders	Number of Options
Unlisted Options expiring 31 January 2015 exercisable at 2.5 cents	**1**	300,000,000
Holdings of more than 20%		
BBY Nominees Pty Ltd	**1**	300,000,000

Voting rights

Ordinary shares carry one vote per share. There are no voting rights attached to the options in the Company.

Stock Exchange

The Company is dual listed on the Australian Securities Exchange and the Johannesburg Securities Exchange and has been allocated the code "FSE". The "Home Exchange" is Perth.

Other information

Firestone Energy Limited is incorporated and domiciled in Australia, and is a publicly listed company limited by shares.

On-market buy-back

There is no current on-market buy-back.

Firestone's interests in mining tenements

Country / Location	Tenement	Interest *
South Africa – Waterberg region	Smitspan (306LQ)	60%
South Africa – Waterberg region	Hooikraal (315LQ)	60%
South Africa – Waterberg region	Minnasvlakte (2584LQ)	60%
South Africa – Waterberg region	Vetleegte (304LQ)	60%
South Africa – Waterberg region	Swanepoelpan (262LQ)	60%
South Africa – Waterberg region	Duikerfontein (263LQ)	60%
South Africa – Waterberg region	Olieboomfontein (220LQ)	60%
South Africa – Waterberg region	Massenberg (305LQ)	60%

* 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.