Firestone ENERGY

ABN 71 058 436 794

# Half-Year Financial Report

# 31 December 2014

# FIRESTONE ENERGY LIMITED

## CORPORATE DIRECTORY

**DIRECTORS**

Dr Mathews Phosa
*Non-Executive Chairman*

Mr Stephen Miller
*Managing Director*

Mr Edwin Leith Boyd
*Non-Executive Director*

**COMPANY SECRETARY**

Mr Edwin Leith Boyd

**REGISTERED OFFICE**

Level 2, 1 Walker Avenue
WEST PERTH WA 6005

Telephone: (08) 9485 0888
Facsimile: (08) 9485 0077

**AUDITORS**

BDO Audit (WA) Pty Ltd
38 Station Street
SUBIACO WA 6008

**SHARE REGISTRY**

*ASX:*

Computershare Investor Services
Level 2, Reserve Bank Building
45 St Georges Terrace
PERTH WA, 6000
Ph 08 9323 2000
Fax 08 9323 2033

*JSE:*

Trifecta Capital Services
Trifecta Capital House
Nr 31 Beacon Road
Florida-North
1709
South Africa

**STOCK EXCHANGE LISTING**

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

**ASX & JSE CODE**

FSE

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## DIRECTORS' REPORT

Your directors present their financial report on the group (referred to hereafter as "the Group") consisting of Firestone Energy Limited ("Firestone" or "the Company") and the entities it controlled at the end of, or during the period to the half-year ended 31 December 2014.

### Directors

The names of the Directors of Firestone Energy Limited throughout the reporting period and at the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

Dr Mathews Phosa – Chairman *(appointed 27 October 2014)*
*Non-Executive Director*

Mr Stephen Miller
*Managing Director (appointed Managing Director 29 October 2014)*

Mr Edwin Leith Boyd
*Non-Executive Director*

George Magashula *(resigned 19 November 2014)*
*Non-Executive Director*

### Results of Operations

The net loss from continuing operations for the six months to 31 December 2014 was $2,447,373 (half-year ended 31 December 2013: $2,458,155).

### Review of Operations

**Operational overview for the six month period ending 31 December 2014**

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:

**Project Optimisation Study – The Eskom Project**

The Waterberg Coal Project's (WCP) technical team continued with the project value engineering and optimisation process during the period. As part of the optimisation process, Engineering, Procurement and Construction Management contractors ARDBEL (a joint venture between ELB Engineering Services and the DRA Group), reviewed the project capital expenditure requirements arising from the Feasibility Study and have identified significant capital savings.

With respect to off-take discussions with Eskom, these are ongoing and include finalisation of the coal specifications, pricing, delivery dates and the review by Eskom of the due diligence into the DFS for the Eskom Project.

**The Export Project - Definitive Feasibility Study (DFS)**

During the period, Ardbel was commissioned to produce a DFS on the Export Project, to be located in the south of the WCP area. The Export Project anticipates the build up to 4 million tonnes per annum over a five year period in export production; with first coal production targetted during the 3rd quarter 2016. The reduced period to complete this study accrues from the significant database and work product that was generated from the Eskom Project DFS, with additional work being carried out with respect to, inter alia, logistics (including rail), coal product off-take arrangements and water.

The WCP partners have been in discussions with various banks and funding agencies with respect to financing requirements for the proposed development. Pursuant to the discussions to date with such parties, an international mineral consultancy has been commissioned as Independent Technical Experts to produce a due diligence report for the purposes of Bank funding.

**Access to Water**

The WCP Partners have received confirmation from the Lephalele Municipality of an agreement for the right to utilise all treated water, other than water currently contracted by the Municipality to third parties and to become operator of the Paarl Water Treatment plant.

The plant has a treatment capacity of 10 million litres per day, or 3.64 million cubic metres per annum. Sufficient water is available for the proposed project development.

**Port capacity**

During the period WCP Partners entered discussions with RBT Grindrod Terminals regarding port allocation at the Richards Bay Terminal (RBGT) for confirmation of their capacity for the handling and loading of project coal. Negotiations are proceeding on the final volumes, timeline and contracted price. A formal contract will be executed once final arrangements with offtaking parties has been completed with confirmed volumes for offtakes for the first 5 years.

*Resource Statement*

An Independent Competent Persons Resource Statement was released to the market on 24 October 2013 reflecting 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 Swanepelpan).

The resource statement for the Waterberg Coal Project now stands at 3.88 billion tonnes of coal with coal in the measured category of 2.07 billion tonnes (Table 1). This represents a substantial increase in the coal resource for the Waterberg Coal Project. Previously, SRK Consulting (December 2012) declared a Coal Resource of 1.183 billion tonnes on the two farms Smitspan and Massenberg, of which 1.004 billion tonnes was in the Measured category. The Resource Statement was prepared on behalf of the Waterberg Coal Joint Venture Parties (WCJVP) by Gemecs (Pty) Limited in their capacity as Independent Competent Persons. For more detailed information on the Independent Competent Persons Resource Statement please refer to the ASX announcement dated 24 October 2013.

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 | 856.3 | 59.4 | 2.3 | 17.2 | 9.96 | 1.00 |
| Inferred | 956.7 | 58.9 | 2.2 | 17.5 | 10.26 | 1.03 |
| Total Resources | 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

**Corporate Activities**

On 16 July 2014, The Waterberg Coal Company Limited (WCC) resolved to extend the existing A$3 million facility to Firestone Energy Limited by a further A$3 million facility.

On 29 October 2014, the Company announced that Mr Stephen Miller had been appointed Managing Director.

On 10 November 2014, the Company announced that it had signed a term sheet with Four Oaks Credit Fund Limited for the provision of US$5 million in new funding via the issue of convertible notes.

On 28 November 2014 the Company held its Annual General Meeting of shareholders at which all resolutions put to shareholders were passed.

**Significant Events After Balance Date**

Refer to Note 10 in the attached financial statements.

Arising from the DFS for the Export Project, WCC has been in discussions with certain banks and finance agencies with respect to the funding required to retire the Group's indebtedness and also to provide the capital required to develop the Export Project (which forms part of the WCP) and for general working capital. To this end the lead manager of the proposed banking syndicate, has commissioned an international mineral consultancy as its independent technical expert to produce a due diligence report for the purposes of credit committee approval and project funding. As part of the funding requirements for the Export Project, the WCP Partners have now reached agreement in principle with an international power utility for that party to be the sole "off taker" of the export quality product accruing from the development. In principle commercial terms, product qualities and specifications have been agreed. As of the date of this report the parties have commenced drafting a legally binding off take agreement. An off take agreement is a condition precedent for the drawdown of any funding to be provided by the project financiers. Furthermore, the Waterberg Coal Project Partners have also reached an agreement in principle with an international mining and EPC contractor to contribute funding for the Group's working capital requirements.

**Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act is set out on page 17 and forms part of this report.

This report is made in accordance with a resolution of directors.

Dated at Perth this 16th day of March 2015.

Signed in accordance with a resolution of the Directors.

**Stephen Miller**
**Managing Director**

*Note 1: 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 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.*

# FIRESTONE ENERGY LIMITED

**Half-yearly financial statements for the period ended 31 December 2014**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
**For the Half-Year Ended 31 December 2014**

| | Note | December 2014 | December 2013 |
|---|---|---|---|
| | | $ | $ |
| **Continuing operations** | | | |
| Interest revenue | | 28 | 972 |
| Other income | | 10,443 | 247,393 |
| Administration costs | | (120,021) | (184,957) |
| Directors' fees | | (25,278) | (158,053) |
| Employee & consultant costs | | (123,789) | (144,495) |
| Legal and professional fees | | (16,557) | (89,685) |
| Listing and share registry costs | | (43,423) | (84,689) |
| Travel and accommodation | | - | (14,197) |
| Finance costs | 2 | (2,128,776) | (2,030,444) |
| **Loss before income tax** | | (2,447,373) | (2,458,155) |
| Income tax expense | | - | - |
| **Loss from continuing operations** | | (2,447,373) | (2,458,155) |
| **Loss for the half-year attributable to the members of Firestone Energy Limited** | | **(2,447,373)** | **(2,458,155)** |
| **Other comprehensive income for the half-year** | | | |
| *Items that may be subsequently reclassified to profit or loss* | | | |
| Foreign currency translation reserve movements | | 3,421,333 | (1,923,596) |
| **Total comprehensive income / (loss) for the half-year attributable to the members of Firestone Energy Limited** | | **973,960** | **(4,381,751)** |
| **Loss per share** | | | |
| *Loss per share on loss from continuing operations attributable to the ordinary equity holders of the company* | | | |
| Basic loss per share (cents per share) | | (0.07) | (0.07) |

For JSE requirements, the Headline Earnings per Share ("HEPS") has been calculated to be the equivalent of the basic 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.*

# FIRESTONE ENERGY LIMITED
**Half-yearly financial statements for the period ended 31 December 2014**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**As at 31 December 2014**

| | Note | December 2014 $ | June 2014 $ |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | | 2,934 | 28,286 |
| Trade and other receivables | | 694,251 | 582,250 |
| **Total current assets** | | 697,185 | 610,536 |
| **Non-current assets** | | | |
| Receivables | | 1,495,786 | 1,420,502 |
| Property, plant and equipment | | 4,250,192 | 4,041,808 |
| Exploration and evaluation | 4 | 75,011,415 | 71,544,785 |
| **Total non-current assets** | | 80,757,393 | 77,007,095 |
| **Total assets** | | **81,454,578** | **77,617,631** |
| **Current liabilities** | | | |
| Trade and other payables | | 5,549,420 | 4,401,376 |
| Borrowings | 5 | 11,946,732 | 10,815,628 |
| **Total current liabilities** | | 17,496,152 | 15,217,004 |
| **Non-current liabilities** | | | |
| Borrowings | 5 | 24,730,315 | 24,146,476 |
| **Total non-current liabilities** | | 24,730,315 | 24,146,476 |
| **Total liabilities** | | **42,226,467** | **39,363,480** |
| **Net assets** | | **39,228,111** | **38,254,151** |
| **Equity** | | | |
| Issued capital | | 79,553,721 | 79,553,721 |
| Reserves | | (13,182,575) | (16,603,908) |
| Accumulated losses | | (27,143,035) | (24,695,662) |
| **Total Equity** | | **39,228,111** | **38,254,151** |

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
**For the Half-Year Ended 31 December 2014**

| | Issued capital<br>$ | Accumulated losses<br>$ | Share-based payment reserve<br>$ | Convertible note reserve<br>$ | Foreign currency translation reserve<br>$ | Total<br>$ |
|---|---|---|---|---|---|---|
| Balance at 1 July 2014 | 79,553,721 | (24,695,662) | 4,615,245 | 2,073,819 | (23,292,972) | 38,254,151 |
| **Comprehensive income for the half-year** | | | | | | |
| Loss for the half-year | - | (2,447,373) | - | - | - | (2,447,373) |
| Foreign currency translation reserve | - | - | - | - | 3,421,333 | 3,421,333 |
| Total comprehensive income for the half-year | - | (2,447,373) | - | - | 3,421,333 | 973,960 |
| **Transactions with owners in their capacity as owners** | - | - | - | - | - | - |
| **Balance at 31 December 2014** | **79,553,721** | **(27,143,035)** | **4,615,245** | **2,073,819** | **(19,871,639)** | **39,228,111** |

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
**For the Half-Year Ended 31 December 2013**

| | Issued capital<br>$ | Accumulated losses<br>$ | Share-based payment reserve<br>$ | Convertible note reserve<br>$ | Foreign currency translation reserve<br>$ | Total<br>$ |
|---|---|---|---|---|---|---|
| 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 half-year** | | | | | | |
| Loss for the half-year | - | (2,458,155) | - | - | - | (2,458,155) |
| Foreign currency translation reserve | - | - | - | - | (1,923,596) | (1,923,596) |
| Total comprehensive income for the half-year | - | (2,458,155) | - | - | (1,923,596) | (4,381,751) |
| **Transactions with owners in their capacity as owners** | - | - | - | - | - | - |
| **Balance at 31 December 2013** | **79,553,721** | **(22,351,620)** | **4,615,245** | **2,073,819** | **(18,741,342)** | **45,149,823** |

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

# FIRESTONE ENERGY LIMITED

**Half-yearly financial statements for the period ended 31 December 2014**

**CONSOLIDATED STATEMENT OF CASH FLOWS**
**For the Half-Year Ended 31 December 2014**

| | December 2014 $ | December 2013 $ |
|---|---|---|
| **Cash flows from operating activities** | | |
| Payments to suppliers and employees | (217,731) | (585,559) |
| Interest paid | (18) | (11,536) |
| Interest received | 28 | 972 |
| **Net cash used in operating activities** | (217,721) | (596,123) |
| | | |
| **Cash flows from investing activities** | | |
| Payments for capitalised exploration and evaluation | (8,135) | (255,469) |
| Payments to acquire surface rights | - | (167,317) |
| **Net cash used in investing activities** | (8,135) | (422,786) |
| | | |
| **Cash flows from financing activities** | | |
| Proceeds of borrowings | 487,119 | 2,547,757 |
| Repayment of borrowings | (136,946) | (1,850,911) |
| Transaction costs | (150,000) | - |
| **Net cash from financing activities** | 200,173 | 696,846 |
| | | |
| **Net decrease in cash and cash equivalents** | (25,683) | (322,063) |
| Cash and cash equivalents at 1 July | 28,286 | 397,940 |
| Effect of exchange rate differences on the balance of cash held in foreign currencies | 331 | (88) |
| **Cash and cash equivalents at 31 December** | **2,934** | **75,789** |

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

## 1 BASIS OF PREPARATION OF HALF-YEAR FINANCIAL REPORT

These general purpose financial statements for the half-year reporting period ended 31 December 2014 have been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Act 2001.

These half-year financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual financial statements for the year ended 30 June 2014 and any public announcements made by Firestone Energy Limited during the half-year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period unless otherwise stated.

**New accounting standards and interpretations**

All new and amended Australian Accounting Standards and Interpretations effective from 1 July 2014 have been adopted, including:

- Interpretation 21 *Levies*
- AASB 2013-3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*
- AASB 2014-1 *Amendments to Australian Accounting Standards*

Neither of these standards had a material effect on the financial position or performance of the Group.

The Group has not elected to early adopt any new standards or amendments.

## 1 BASIS OF PREPARATION OF HALF-YEAR FINANCIAL REPORT (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 period ended 31 December 2014, the Group experienced net cash outflows from operating activities of $217,721 (2013 half-year: $596,123). There is a working capital deficiency at 31 December 2014 of $16,798,967 of which $4,336,344 is payable to the **WCC**". As at the date of this report, the Group has $2,934 in cash at bank, and has approximately $1.6 million available to draw down under the loan from WCC which is presently the only available source of funding. WCC in-turn has a working capital deficiency of $131,499,308 of which approximately $43 million is currently due for payment on 9 April 2015.

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, a convertible note issue, or any other financing instrument; or via WCC refinancing its borrowings and securing funding to enable it to support the Group.

WCC has been in discussions with certain banks and funding agencies with respect to the funding required to, not only redeem the Facility; but also to provide the capital required to develop the Export Project, which forms part of the Waterberg Coal Project ("**WCP**") and also to provide general working capital. To this end, the proposed lead manager of the banking syndicate, has commissioned an international mineral consultancy as its independent technical expert to produce a due diligence report for the purposes of credit committee approval and project funding. Furthermore, as part of the funding requirements for the Export Project, the WCP partners has now reached agreement in principle with an international power utility for that party to be the sole "off taker" of the export quality product accruing from the development. In principle commercial terms, product qualities and specifications have been agreed and as of the date of this report the parties have commenced drafting a legally binding off take agreement. An off take agreement is a condition precedent for the drawdown of any funding to be provided by the project financiers. Furthermore, the WCP partners have also reached an agreement in principle with an international mining and EPC contractor to contribute funding for the Group's working capital requirements.

Notwithstanding the ability of the Group to refinance its short term borrowings, in order for the Group to continue as a going concern and to progress the WCP; the Group will have to receive regulatory approval and, inter alia, raise adequate project financing and working capital.

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 WCC 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 WCP; 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.

### Significant Estimates

*Exploration and evaluation expenditure*
Exploration and evaluation expenditure costs related to each identifiable area of interest are carried forward to the extent that:

i. The rights to tenure of the areas of interest are current and the Group controls the area of interest in which the expenditure has been incurred; and

ii. Such costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively by its sale; or
iii. Exploration and evaluation activities in the area of interest have not at the reporting date reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to the area of interest are continuing.

Exploration and evaluation expenditure are generally capitalised where a JORC (Joint Ore Reserves Committee) resource has been identified and probable future economic benefits are demonstrated.

When the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated then any capitalised exploration and evaluation expenditure is reclassified as capitalised mine development. Prior to reclassification, capitalised exploration and evaluation expenditure is assessed for impairment.

In the event that an area of interest is abandoned or if the directors consider the expenditure to be of no value, accumulated costs carried forward are written off in the year in which that assessment is made. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

*Impairment*
Exploration and evaluation assets are assessed at each reporting period for indicators of impairment and where impairment indicators exist, recoverable amounts of these assets will be estimated based on discounted cash flows from their associated cash generating units. The consolidated statement of comprehensive income will recognise expenses arising from the excess of the carrying values of exploration and evaluation assets over the recoverable amounts of these assets.

## 2. EXPENSES – FINANCE COSTS

| | Half-year ended December 2014 $ | Half-year ended December 2013 $ |
|---|---|---|
| Interest expense | 1,936,559 | 1,838,227 |
| Amortisation of transaction costs | 192,217 | 192,217 |
| Total finance costs | **2,128,776** | **2,030,444** |

## 3. DIVIDENDS

No dividend has been paid during, or is recommended for, the financial period ended 31 December 2014.

## 4. EXPLORATION AND EVALUATION

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.

| | **Half-year ended Dec 2014 $** | **Year ended June 2014 $** |
|---|---|---|
| Opening balance | 71,544,785 | 77,109,220 |
| Additional project costs | 8,135 | 1,082,573 |
| Foreign exchange movements | 3,458,495 | (6,647,008) |
| **Closing balance** | **75,011,415** | **71,544,785** |

## 5. BORROWINGS

| | **December 2014 $** | **June 2014 $** |
|---|---|---|
| **Current** | | |
| *Unsecured loans carried at amortised cost* | | |
| Loan – Sekoko Resources [1,5] | 7,474,388 | 6,783,302 |
| Loan – The Waterberg Coal Company [2,5] | 4,336,344 | 4,032,326 |
| Loan – bridging finance [3,5] | 136,000 | - |
| | **11,946,732** | **10,815,628** |
| **Non-current** | | |
| *Loans carried at amortised cost* | | |
| Convertible note [4] | 25,525,297 | 25,133,675 |
| Transaction costs (convertible notes) | (1,525,196) | (1,525,196) |
| Transaction costs – amortised | 730,214 | 537,997 |
| | **24,730,315** | **24,146,476** |

1. Interest is charged at the South African prime rate of 9.25% (30 June 2014: 9.0%). The loan is unsecured.

2. 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 31 December 2014, the loans had been drawn down by $4,336,344. The loans are interest free and unsecured.

3. This loan is unsecured, non-interest-bearing and repayable upon demand. A facility fee of approximately 10% is payable on repayment of the balance.

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.

   A notarial bond in relation to the convertible notes is registered in the Pretoria deeds office under BN10029/2013. This notarial bond is noted against the Company's 100%-owned subsidiaries Checkered Flag Investments 2 (Pty) Ltd and Lexshell 126 General Trading (Pty) Ltd, to Main Street 1081 R F Pty Ltd, a 100%-owned subsidiary of WCC, for the sum of R 56 000 000 (A$5,918,035).

   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 31 December 2014 of the convertible note liability recognised at amortised cost is $25.35 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 31 December 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 values of current borrowings approximates their carrying value.

## 6. SEGMENT INFORMATION

Management has determined that the consolidated group has one reportable segment, being coal exploration in South Africa. As the Group 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 with making decisions regarding the consolidated group and its ongoing exploration activities, while also taking into consideration the results of exploration work that has been performed to date.

| **Segment information provided to the Board:** | **December 2014 $** | **December 2013 $** |
|---|---|---|
| Segment revenue from external sources | - | - |
| Reportable segment loss | (812,388) | (551,240) |

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

| | | |
|---|---|---|
| Total loss for reportable segment | (812,388) | (551,240) |
| *Unallocated:* | | |
| Interest revenue | - | 967 |
| Administration costs | (89,214) | (249,666) |
| Directors' fees | (25,278) | (158,053) |
| Employee and consultant costs | - | (22,483) |
| Legal and professional fees | (16,557) | (90,109) |
| Listing and share registry costs | (43,423) | (84,689) |
| Travel & accommodation | - | (4,434) |
| Finance costs | (1,460,513) | (1,298,448) |
| **Loss before income tax from continuing operations** | **(2,447,373)** | **(2,458,155)** |

| | **December 2014 $** | **June 2014 $** |
|---|---|---|
| Reportable segment assets | 79,260,197 | 75,579,723 |

## 7. FAIR VALUES OF FINANCIAL INSTRUMENTS

**Recurring fair value measurements**
The Group does not have any financial instruments that are subject to recurring or non-recurring fair value measurements.

**Fair values of financial instruments not measured at fair value**
The following instruments are not measured at fair value in the statement of financial position. These had the following fair values at 31 December 2014:

| | Carrying Amount $ | Fair Value $ |
|---|---|---|
| **Current assets** | | |
| Trade and other receivables | 694,251 | 694,251 |
| **Non-current assets** | | |
| Receivables | 1,495,786 | 1,495,786 |
| **Current liabilities** | | |
| Trade and other payables | 5,549,420 | 5,549,420 |

Due to their short-term nature, the carrying amounts of current receivables and current trade and other payables is assumed to equal their fair value.

## 8. COMMITMENTS AND CONTINGENCIES

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$211,358) by 20 June 2014
- 3,000,000 rand (A$317,038) by 20 July 2014
- 17,679,479 rand (A$1,868,353) by 30 November 2014

Massenberg
- 8,500,000 rand (A$898,273) by 22 June 2014
- 9,000,000 rand (A$951,113) by 22 July 2014
- 17,500,000 rand (A$1,849,386) 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.

There have been no other significant changes to commitments or contingencies since 30 June 2014.

## 9. RELATED PARTIES

The Waterberg Coal Company Limited 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, to be used for the Company's project financing obligations in relation to the Waterberg Coal Project. As at 31 December 2014, these loans had been drawn down by $4,336,344. Refer to Note 5.

$17,437 was receivable by the Company's wholly-owned subsidiary Lexshell from a subsidiary of The Waterberg Coal Company Limited at 31 December 2014.

## 10. SIGNIFICANT EVENTS OCCURRING AFTER BALANCE DATE

On 20 January 2015, the Company announced that it had received A$3.13 million, being net proceeds after transaction costs of Tranche 1 of the convertible note financing announced to the market on 10 November 2014.

475,971,429 convertible notes have been issued to Four Oaks Credit Fund Limited ("Four Oaks"), each with a face value of A$0.007 and convertible into one fully paid FSE ordinary share.

Additional relevant terms of the convertible notes include:

- Conversion at Four Oaks' election
- Redemption to be in equivalent US dollars
- Coupon interest rate is 6%
- PIK interest rate is 6%
- Maturity date is 30 June 2016.

A partial repayment of $420,000 of the loan from The Waterberg Coal Company Limited was made in January 2015.

Arising from the DFS for the Export Project, WCC has been in discussions with certain banks and finance agencies with respect to the funding required to retire the Group's indebtedness but also to provide the capital required to develop the Export Project, which forms part of the WCP and also to provide general working capital. To this end the lead manager of the proposed banking syndicate, has commissioned an international mineral consultancy as its independent technical expert to produce a due diligence report for the purposes of credit committee approval and project funding. Furthermore, as part of the funding requirements for the Export Project, the WCP Partners have now reached agreement in principle with an international power utility for that party to be the sole "off taker" of the export quality product accruing from the development. In principle commercial terms, product qualities and specifications have been agreed and as of the date of this report the parties have commenced drafting a legally binding off take agreement. An off take agreement is a condition precedent for the drawdown of any funding to be provided by the project financiers. Furthermore, the Waterberg Coal Project Partners have also reached an agreement in principle with an international mining and EPC contractor to contribute funding for the Group's working capital requirements.

With the exception of the above, there have been no matters or circumstances that have arisen since 31 December 2014 that have significantly affected, or may significantly affect:

(i) The consolidated entity's operations in future financial years, or
(ii) The results of those operations in future financial years, or
(iii) The consolidated entity's state of affairs in future financial years.

## DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The consolidated financial statements and notes are in accordance with the Corporations Act 2001 and:

    a. comply with Accounting Standard AASB 134: Interim Financial Reporting, Corporations Regulations 2001 and any other mandatory professional reporting requirements; and

    b. give a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year then ended on that date.

2. 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.

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

Dated at Perth this 16th day of March 2015.

**Stephen Miller**
**Managing Director**

Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

DECLARATION OF INDEPENDENCE BY IAN SKELTON TO THE DIRECTORS OF FIRESTONE ENERGY LIMITED

As lead auditor for the review of Firestone Energy Limited for the half-year ended 31 December 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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

Ian Skelton

Director

BDO Audit (WA) Pty Ltd

Perth, 16 March 2015

Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

**INDEPENDENT AUDITOR'S REVIEW REPORT**

To the members of Firestone Energy Limited

## Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Firestone Energy Limited, which comprises the consolidated statement of financial position as at 31 December 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 half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

### Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Firestone Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Independence

In conducting our review, 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 review report.

**Conclusion**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Firestone Energy Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

**Emphasis of matter**

Without modifying our conclusion, we draw attention to Note 1 in the financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon future successful fund raising, and refinancing of borrowing facilities. This condition, along with other matters as set out in Note 1, 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.

**BDO Audit (WA) Pty Ltd**

**Ian Skelton**
**Director**

Perth, 16 March 2015