NOTICE OF GENERAL MEETING

and

EXPLANATORY MEMORANDUM

The Independent Expert has concluded the:

- **Advantages of the Share Transfer described in these meeting materials outweigh the disadvantages for the non-associated Shareholders; and**
- **Convertible Note issue described in these meeting materials is fair and reasonable to the non-associated Shareholders.**

The Directors who are independent of the Transactions unanimously recommend shareholders vote in favour of the Resolutions.

General Meeting to be held at
BDO Chartered Accountants, Hay Room
38 Station Street
Subiaco, Western Australia

on

5 October 2012
11:00am Perth Time

This is an important document and requires your attention.

You should read this document in its entirety. You may wish to consult your financial adviser about its contents. If you are in doubt as to how to vote, you should seek advice from your accountant, solicitor or other professional adviser prior to voting.

Corporate Adviser	**Legal Adviser**	**JSE Sponsor**
BBY Limited	Kelly & Co. Lawyers	River Group

253711AGC/1226029.5

IMPORTANT NOTICES

Decision on how to vote

Shareholders should read this Notice of General Meeting and Explanatory Statement and the accompanying booklet containing the Independent Expert's Report (**Document**) in its entirety before deciding how to vote. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor, tax advisor, investment adviser or other professional adviser prior to voting.

If you have any questions, please feel free to contact the information line on 1800 643 977 (within Australia) or +61 2 8256 3363 (outside Australia) Monday to Friday between 9.00am and 5.00pm (Sydney Time).

ASX & ASIC

A draft of this Document was provided to ASX for review on 8 August 2012 in accordance with Listing Rule 15.1.7 and with ASIC on 21 August 2012 in accordance with the Corporations Act and ASIC Regulatory Guide 74. ASX, ASIC and their respective employees and officers do not take any responsibility for this Document.

Date

This Document is dated 31 August 2012.

Glossary

Capitalised expressions used in this Document are defined in the Glossary set out at the end of this Document.

JOHANNESBURG STOCK EXCHANGE AND SOUTH AFRICAN APPROVALS AND EXCHANGE CONTROL REGULATIONS

FSE has a secondary listing on the JSE Limited in South Africa (**JSE**). The JSE and other regulatory bodies have noted the content of this document.

Pursuant to the relevant South African laws, this Document will be given to the **South African Reserve Bank** (**SARB**) for its consideration of this Document.

SOUTH AFRICAN EXCHANGE CONTROL REGULATIONS

On listing on the JSE, FSE obtained South African Reserve Bank ("**SARB**") approval for the secondary listing of its ordinary shares on the JSE.

The SARB approval specifically provided the following:

- the approval of the inward listing of FSE on the JSE;
- confirmation that FSE meets the criteria of an "African Company" as defined in Section W 7.9.2 of the "Exchange Control Rulings" of SARB and is therefore treated as such; and
- FSE's South African shareholders will be treated according to the provisions of Section H.(A) of the Exchange Control Rulings following the secondary listing of FSE on the JSE.

Upon the listing of FSE's shares on the JSE the "Exchange Control Regulations" of SARB provided for in Section W of the Exchange Control Rulings will apply to the acquisition of FSE's shares by South African residents.

The following is a summary of the Exchange Control Regulations insofar as they have application to Shareholders in relation to the holding of FSE shares. This summary description is intended as a guide only and is therefore not comprehensive. If you are in any doubt you should consult an appropriate professional advisor immediately.

South African corporates, trusts, partnerships and private individuals

South African corporates, trusts, partnerships and private individuals may invest in inward listed instruments without restriction. Consequently, an acquisition of FSE shares by a South African corporate, trust, partnership or private individual will not affect such person's offshore investment allowance, and such a person need not take any additional administrative actions and can instruct its broker to accept, buy and sell inward listed common shares on its behalf in FSE as it would with any other listed security on the JSE.

South African institutional investors

South African retirement funds, long-term insurers, collective investment scheme management companies and investment managers who have registered with the SARB as institutional investors for Exchange Control purposes are entitled to a foreign portfolio investment allowance. South African institutional investors are allowed to invest in inward listed shares without affecting their permissible foreign portfolio investment allowance.

Member brokers of the JSE

In terms of Section W.7.9.5 of the SARB Exchange Control Rulings, a special dispensation was provided to local brokers to facilitate the trading in shares of inward listed companies. South African brokers are now allowed, as a book building exercise, to purchase FSE shares offshore and to transfer them to FSE's South African share register. This special dispensation is confined to shares of inward listed companies and brokers may warehouse such shares for a maximum period of 30 days only.

Exchange Control provisions applicable to South African residents in respect of acquisition issues and rights issues by African companies that are listed on the JSE

Foreign companies are, upon application, allowed to use their shares as acquisition currency. South African institutional investors, authorised dealers, corporates, trusts, partnerships and private individuals may accept such shares without restriction.

South African institutional investors, authorised dealers, corporates, trusts, partnerships and private individuals may exercise their rights in terms of a rights offer without restriction.

Movement of FSE shares between registers

FSE shares are fully fungible and may be transferred between registers. South Africans may only acquire FSE shares, via the JSE, that are already on the South African branch register maintained by FSE's transfer secretaries. Member brokers of the JSE may acquire shares on foreign exchanges and transfer FSE shares to the South African register as set out above. Non-residents are not subject to Exchange Control Regulations and may freely transfer FSE shares between branch registers.

Dear Shareholder,

On behalf of the Board of Directors of Firestone Limited ("**Company**" or "**FSE**"), I am delighted to enclose the Notice of Meeting, which relates to and provides an explanation of a number of resolutions being put to shareholders at a General Meeting of shareholders to be held on 5 October 2012.

The key resolutions relate to:

i) the refinancing of the Company through a new A$40.7 million secured convertible note facility provided by Ariona Company SA ("**Ariona**"); and

ii) the acquisition of 800 million FSE shares by Ariona from Sekoko Resources (Pty) Ltd and/or its subsidiary Sekoko Coal (Proprietary) Limited, FSE's major shareholder and partner for the Waterberg Coal Joint Venture Project.

The new A$40.7 million convertible note facility is a crucial achievement for the Company as it will enable the repayment of the existing convertible note facility and ensures that the Company is fully funded through to completion of the Bankable Feasibility Study ("**BSF**") for the Company's flagship Waterberg Coal Joint Venture Project. The refinancing **requires your support** and will adequately capitalise the Company to allow the development of the Company's core assets for the future benefit of all FSE shareholders.

In addition to these transactions, Ariona has provided an undertaking to procure financing of up to US$400 million for the development of the Waterberg Coal Joint Venture Project.

The introduction of Ariona as a major shareholder and funding partner to FSE has significant benefits to the Company. Ariona is a special purpose vehicle representing a consortium of international institutional and private investors focusing on global resource and mining projects. In addition to being a substantial funding partner, Ariona's consortium brings a wealth of knowledge, experience and expertise in the resource and mining sector which will be invaluable to FSE as the Company develops its core assets. Ariona will appoint up to three Directors to the Board of FSE, which will further guide FSE to development.

The Notice of Meeting is an important document and **requires your urgent attention**. It provides the details of the new convertible note facility, an explanation of each resolution being put to shareholders, and an Independent Expert Report that was commissioned by the Board in relation to the resolutions being put to shareholders. The Independent Expert Report concludes that the new convertible note facility is **fair and reasonable** to shareholders of FSE.

The Directors who are independent of the Resolutions **unanimously recommend** you vote in **favour** of each of the resolutions.

About the New Convertible Note Facility

A summary of the key terms of the new convertible note facility are outlined below:

Amount	A$40.7 million
Term	4 years
Interest Rate	8.0% pa

Interest Payments	Payable half yearly. For the first 24 months interest to be paid in cash or capitalised at the election of FSE and after the first 24 months interest to be paid in cash or capitalised as agreed by the Company and Ariona.
Conversion Price	A$0.025 per share
Conversion Terms	Convert into ordinary shares at the election of the noteholder.

The terms of the new convertible note facility are favourable compared to the existing convertible notes which attract an interest rate of 10.0% per annum.

Use of Funds

The funds raised through the refinancing will be applied in approximately the manner set out below.

Use	A$'000
Redeem existing convertible notes at face value	21,300
Pay outstanding interest on the existing convertible notes	845
Working Capital	16,655
Expenses of the transaction (estimate)	1,900
Total	40,700

It is imperative that the refinancing through the new convertible note facility takes place, to enable the Company to redeem the existing convertible notes that were issued since 2009. These existing convertible notes start maturing on 9 October 2012, with the first maturity being in the amount of approximately A$8 million.

More Information

Shareholders seeking further information can contact David Knox, the Company's Chief Executive Officer. You may wish to consult your financial adviser about the contents of the Notice of Meeting.

The Board looks forward to receiving your favourable support in relation to all of the resolutions set out in the Notice of Meeting that, among other things will recapitalise FSE and enable the Company to advance the development of the Waterberg Coal Joint Venture Project.

Yours sincerely,

Tim Tebeila
Chairman

NOTICE OF GENERAL MEETING
OF
FIRESTONE ENERGY LIMITED
ABN 71 058 436 794

Notice is hereby given that a general meeting of shareholders of Firestone Energy Limited (**FSE**) will be held at BDO Chartered Accountants, Hay Room, 38 Station Street Subiaco, Western Australia on 5 October 2012 at 11:00am Perth Time.

SPECIAL BUSINESS

1. APPROVAL OF TRANSFER OF SHARES AND ACQUISITION OF RELEVANT INTEREST

To consider and if thought fit pass the following resolution as an ordinary resolution:

"That, for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given to:

(a) *the purchase from Sekoko Resources (Proprietary) Limited and/or Sekoko Coal (Proprietary) Limited of 800,000,000 fully paid ordinary shares in the capital of FSE (**Consideration Shares**) by Ariona Company SA; and*

(b) *the acquisition of a relevant interest, up to a maximum voting power of **25.7**% in FSE, by Ariona Company SA and its associates,*

on the terms and conditions described in the Explanatory Statement accompanying this Notice of General Meeting."

2. APPROVAL OF ISSUE OF NEW CONVERTIBLE NOTES AND ISSUE OF SHARES ON CONVERSION OF NEW CONVERTIBLE NOTES

To consider and if thought fit pass the following resolution as an ordinary resolution:

"That,

1. *for the purposes of section 208 of the Corporations Act and ASX Listing Rule 7.1 and for all other purposes, approval is given to:*

   *the issue to Ariona Company SA of A$40,700,000 of secured convertible notes with a conversion price of A$0.025 per share, a term of 4 years, and a coupon payment of 8.0% per annum (**NCNs**);*

   and

2. *for the purposes of item 7 of section 611 of the Corporations Act, and for all other purposes, approval is given to:*

(a) *the issue to Ariona Company SA of a minimum of **1,628,000,000** and a maximum of **2,228,030,414** fully paid ordinary shares in the capital of FSE on conversion of the NCNs and capitalised interest on them (**Conversion Shares**); and*

(b) *the acquisition by Ariona Company SA and its associates of a relevant interest, up to a maximum voting power of **56.7**% in FSE, upon conversion by Ariona Company SA of the NCNs and capitalised interest on them,*

on the terms and conditions described in the Explanatory Statement accompanying this Notice of General Meeting."

3. APPROVAL OF ISSUE OF UNLISTED INCENTIVE OPTIONS

To consider and if thought fit pass the following resolution as an ordinary resolution:

That pursuant to ASX Listing Rule 7.1 and subject to and conditional on Resolution 2 above being passed, approval be given for the issue of 300 million options over the unissued share capital of FSE with an exercise price of A$0.025 per share and an expiry date of 2 years from the date of issue of the options and otherwise on the terms and conditions described in the Explanatory Statement accompanying this Notice of General Meeting."

4. SUBSEQUENT APPROVAL OF SHARE ISSUE

To consider and if thought fit pass the following resolution as an ordinary resolution:

"That pursuant to ASX Listing Rule 7.4, and for all other purposes, Shareholders ratify the issue and allotment of 155,202,857 fully paid ordinary shares in the capital of FSE on 22 February 2012, by way of the issue of shares to BBY Nominees Pty Ltd on the terms and conditions as outlined in the Explanatory Statement accompanying this Notice of General Meeting."

5. SUBSEQUENT APPROVAL OF CONVERTIBLE NOTE ISSUE

To consider and if thought fit pass the following resolution as an ordinary resolution:

"That pursuant to ASX Listing Rule 7.4, and for all other purposes, Shareholders ratify the issue of 3 (three) fully paid A$100,000 Convertible Notes on 19 October 2011, which are convertible into 15,000,000 ordinary shares in the capital of FSE on the terms and conditions as outlined in the Explanatory Statement accompanying this Notice of General Meeting."

BY ORDER OF THE BOARD

Mr Jerry Monzu
Company Secretary
31 August 2012

NOTES

Voting Exclusion Statement

FSE will disregard any votes cast on the Resolutions by the following persons:

Resolution	Person(s) excluded from voting
1	The Company will disregard any votes cast in favour of Resolution 1 by Sekoko Resources (Proprietary) Limited and Ariona Company SA and any associates of those persons.
2	The Company will disregard any votes cast in favour of Resolution 2 by: • Ariona Company SA; • BBY Nominees Pty Limited and Jaguar Funds Management Pty Ltd; • BBY Limited; • as well as any other person who may participate in the issue and any person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities), and any of their associates.
3	The Company will disregard any votes cast in favour of Resolution 3 by BBY Nominees Pty Limited, Jaguar Funds Management Pty Ltd and BBY Limited as well as any other person who may participate in the issue, and any person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, and any associates of those persons.
4	The Company will disregard any votes cast in favour of Resolution 4 by BBY Nominees Pty Limited and its associates.
5	The Company will disregard any votes cast in favour of Resolution 5 by BBY Nominees Pty Limited and its nominated subscribers for the Convertible Notes the subject of the Resolution and their associates.

However, FSE need not disregard a vote if:

(a) it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(b) it is cast by the Chairperson of the meeting as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form to vote as the proxy decides.

Undirected Proxies

Where permitted, the Chairperson of the meeting, in respect of each item of business, intends to vote undirected proxies **in favour** of each Resolution.

Entitlement to Attend and Vote

The Board has determined that, for the purposes of the meeting (including voting at the meeting), Shareholders are those persons who are the registered holders of ordinary shares at 5.00pm Perth Time on 3 October 2012.

Holders of existing convertible notes in FSE are entitled to attend the meeting but are not entitled to vote in their capacity as noteholders.

Voting by Proxy

A Shareholder who is entitled to attend and cast a vote at the meeting may appoint a proxy. A proxy need not be a Shareholder. A person can appoint an individual or a body corporate as a proxy. If a body corporate is appointed as a proxy, it must ensure that it appoints a corporate representative in accordance with section 250D of the Corporations Act to exercise its powers as proxy at the meeting.

A Shareholder who is entitled to cast 2 or more votes may appoint up to 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise. The following addresses are specified for the purposes of receipt of proxy appointments and any authorities under which proxy appointments are signed (or certified copies of those authorities):

Share Registry contact details:

Post: Computershare Investor Services Pty Limited, GPO Box 242, Melbourne VIC 3001 Australia

Facsimile: +61 3 9473 2555.

For Intermediary Online subscribers only (custodians) please visit www.intermediaryonline.com to submit your voting intentions.

The Chairman of the meeting will be Mr David Perkins.

To be effective, a proxy appointment and (if the proxy appointment is signed by the Shareholder's attorney) the authority under which the appointment is signed (or a certified copy of the authority) must be received by FSE at least 48 hours before the meeting.

For more information concerning the appointment of proxies and the addresses to which proxy forms may be sent, please refer to the proxy form.

Voting by Attorney

A Shareholder may appoint an attorney to vote on his/her behalf. For an appointment to be effective for the meeting, the instrument effecting the appointment (or a certified copy of it) must be received by FSE at its registered office, or the addresses listed above for the receipt of proxy appointments, at least 48 hours before the meeting.

Corporate Representatives

A body corporate which is a Shareholder, or which has been appointed as a proxy, may appoint an individual to act as its representative at the meeting. The appointment must comply with the requirements of section 250D of the Corporations Act. The representative should bring to the meeting evidence of his or her appointment, including any authority under which it is signed, unless it has previously been given to FSE.

Independent Expert's Report

FSE commissioned BDO, an Independent Expert, to prepare a report on the proposed Transactions and that report forms part of this Notice of Meeting and is set out in Annexure D to this Notice of Meeting (see separate booklet accompanying this document).

The Independent Expert Report concludes the:

- Advantages of the Share Transfer described in these meeting materials outweigh the disadvantages for the non-associated Shareholders; and

- Convertible Note issue described in these meeting materials is fair and reasonable to the non-associated Shareholders.

South African Shareholders

Forms of proxy must be received by the South African transfer secretaries, Computershare Investor Services (Pty) Ltd, at Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107) by no later than 10h00 on 1 October 2012

Dematerialised shareholders, other than own name registration, must NOT complete the proxy form and must provide their CSPD or broker their voting instructions in terms of the custody agreement entered into between such shareholders and their CSDP or broker,

Hand deliveries to:	Mail deliveries to:
Computershare Investor Services (Pty) Ltd Ground Floor 70 Marshall Street Johannesburg 2001	Computershare Investor Services (Pty) Ltd PO Box 61051 Marshalltown 2107

EXPLANATORY STATEMENT

INTRODUCTION

The purpose of this Explanatory Statement is to provide Shareholders with information they require in order to make an informed decision on each Resolution detailed in the Notice of General Meeting

If you are in doubt as to how to vote, you should seek advice from your accountant, solicitor, tax advisor or other professional adviser prior to voting. It is important that you read this Explanatory Statement in its entirety for a detailed explanation of each Resolution.

The Directors who are independent of the Resolutions described in these meeting materials unanimously recommend shareholders vote in favour of the Resolutions.

BACKGROUND

FSE announced to the ASX on 7 May 2012 that FSE had agreed to the terms of a A$30.7 million funding facility to be provided by Ariona Company SA, a special purpose vehicle representing a consortium of international institutional and private investors focusing on global resource opportunities.

On 25 July 2012, the Company announced that it had entered into a formal Investment Agreement with Ariona to provide funding to the Company of A$40.7 million, increasing the initial A$30.7 million facility by a further A$10 million.

Further information about Ariona is set out in section 9.3 of the Explanatory Statement to Resolution 1.

The facility will be offered via the issue of New Convertible Notes (**NCN**) which is the subject of Resolution 2.

Funds raised are expected to be applied as follows:

Use of Funds	**A$'000**
Redeem Existing Convertible Notes (**ECNs**) at face value	21,300
Pay outstanding interest on the ECNs	845
Working Capital	16,655
Expenses of the transaction (estimate)	1,900
Total	**40,700**

FSE has agreed, subject to shareholder approval, to issue 300 million Incentive Options exercisable at A$0.025 per Share over a 2 year period to the ECN Holders as an incentive for the early redemption of the ECNs. Further details regarding the Incentive Options are set out in the Explanatory Statement to Resolution 3.

In addition, as announced to the ASX on 7 May 2012 and on 29 June 2012, FSE has been informed that Ariona has agreed to acquire from Sekoko Resources (Proprietary) Limited and/or Sekoko Coal (Proprietary) Limited (**Sekoko**) a:

- significant shareholding in FSE; and
- 10% interest in the Waterberg Coal Project (which FSE indirectly holds a 60% interest in) either directly from Sekoko or, depending on South African regulatory approvals, through acquiring a 25% shareholding in Sekoko Coal (Proprietary) Limited that holds a 40% interest in the Waterberg Coal Project, and to provide or procure the long term funding requirements for the development the Waterberg Coal Project.

Shareholder approval is being sought for the transfer of 800,000,000 Shares by Sekoko to Ariona. Further information is set out in the Explanatory Statement to Resolution 1.

FSE commissioned BDO, an Independent Expert, to prepare a report on the proposed Transactions and that report forms part of this Notice of Meeting and is set out in the separate booklet accompanying this document and marked Annexure D.

SUMMARY OF TRANSACTIONS

If Shareholders approve Resolutions 1, 2 and 3:

1. Ariona will acquire at least 622,000,000 and up to 800,000,000 Shares, comprising approximately a maximum 25.7% of the current issued Shares in FSE. As a result of the acquisition of those shares, Ariona's voting power in FSE will be a maximum of 25.7%.
2. Two new directors nominated by Ariona (Mr David Hillier and Mr Kevin Kartun) will be appointed to the Board of FSE. Ariona has a right to nominate a third director to the Board of FSE at any time. Further details of the new directors are set out in section 7.2 of Resolution 1 of this Explanatory Statement.
3. 300 million Incentive Options will be issued to the ECN holders.
4. Ariona may receive up to a maximum of 2,228,030,414 Shares comprising 1,628,000,000 Shares on conversion of the NCNs and up to a further 600,030,414 Shares if interest on the NCNs is capitalised and it elects to receive all that interest in Shares.
5. On completion of the Share Acquisition and subject to the passing of Resolution 2 and assuming that Ariona subsequently converts all of the NCNs and capitalised interest into Shares and there is no adjustment to the conversion price of the NCNs under the terms of the issue of the NCNs, **the maximum voting power of Ariona will be 56.7%**.
6. The advantages of the Transactions are that:
   - FSE will be recapitalised with sufficient funding to redeem the ECNs and provide adequate funding for the completion of the Bankable Feasibility Study for the Waterberg Coal Project.
   - They introduce a new funding partner (in Ariona) into FSE and the Waterberg Coal Project, which has the support of international institutional and private investors focusing on global resource opportunities. The financial backing of Ariona will support FSE in proceeding with the development of the Waterberg Coal Project.
   - Ariona, through its two new nominated directors, brings strong experience in global mining projects which will be beneficial to FSE in the development of the Waterberg Coal Projects.
   - Ariona is making a substantial investment of over A$69 million into FSE and the Waterberg Coal Project. This substantial commitment to the Project will assist in providing FSE with

the funding, technical expertise and commercial acumen to advance the Project through the development phase and eventual production.

- The NCNs provide FSE with a better form of funding than the ECNs by:

    (i) having an 8.0% coupon per annum versus the current 10.0% coupon per annum payable on the ECNs; and

    (ii) having a 4 year funding term which provides funding certainty beyond the ECNs which commence maturing in October 2012.

- The redemption of the ECNs will result in a simplified capital structure which should make the Company easier to value for the investment community.

- The injection of new capital and the parallel redemption of ECNs will replace existing funding parties who have indicated they do not wish to continue funding FSE beyond the maturity of the ECNs.

- The NCNs inject additional working capital into FSE to facilitate the advancement of the Project through to completion of the Bankable Feasibility Study.

- It removes the short term funding pressure on FSE which currently arises from the short term maturity of the ECN's. The ECNs commence maturing in October 2012, with the first maturing notes being approximately A$8.0 million in value.

- Whilst the NCNs and capitalised interest could be converted into a total of **2,228,030,414** Shares (the equivalent of **41.7**% of FSE's issued Shares post conversion), the conversion price, without adjustment, represents a premium of **227**% to the existing Share price of A$**0.011**

The disadvantages of the Transactions are that:

- **If all the NCNs are converted into Shares by Ariona or an associate of Ariona, there will be an effective change of control of FSE (for the benefit of Ariona) without a control premium paid to non-participating Shareholders.**

- **If the Share Acquisition only occurs, there would have been a transfer of a significant shareholding in FSE without non-participating Shareholders participating in any control premium and the existence of an additional substantial shareholder with in excess of 25% of the issued capital of FSE may discourage possible future takeover offers for FSE.**

- **The structure of the NCNs may discourage future takeover offers for FSE (subject to the passing of Resolution 2).**

In the event that Resolutions 1 and 2 are not approved by Shareholders, then both the Share Acquisition and the NCN Issue will not proceed.

If approved under Resolution 2, the completion of the NCN Issue is not dependent on the approval of the Share Acquisition.

If the NCN Issue is not approved under Resolution 2, then the Share Acquisition may not proceed.

A$8.45 million of the ECNs mature and are due and payable in October 2012. The balance of the ECNs progressively mature through to October 2014. In the event that the NCN Issue does not proceed, FSE will be required to raise alternative forms of capital which may be on different terms and conditions to the current funding package presented in this Explanatory Statement. There is a significant risk that FSE will not be able to raise the significant funding to repay the ECNs as they mature.

In the event that the NCN Issue does not proceed and FSE cannot procure alternative funding to meet the maturity of the ECNs, then FSE may not be able to meet its financial obligations as and when they fall due.

In the event that the maturing ECNs cannot be repaid, then FSE would be in default of its obligations and the ECN holders may elect to implement their rights under the ECN facility which may include winding up the Company and appointing administrators to the Company.

RESOLUTION 1 - APPROVAL OF TRANSFER OF SHARES AND ACQUISITION OF RELEVANT INTEREST

FSE has been informed that Ariona has agreed to acquire 622,000,000 Shares plus any additional Shares, up to 178,000,000 million Shares, held by Sekoko at the conclusion of the meeting (a possible total of 800 million Shares) from Sekoko for A$0.01 per share (a possible total of A$8 million). This represents a maximum shareholding of approximately 25.7% of the issued capital of FSE. In addition, Ariona will acquire a 10% interest in the Waterberg Coal Project (which FSE holds an indirect 60% interest in) either through acquiring a 25% shareholding in Sekoko Coal (Proprietary) Limited that holds a 40% interest in the Waterberg Coal Project or directly from Sekoko, depending on South African regulatory approvals, for approximately A$20.5 million, with Sekoko maintaining a 30% interest in the project. As a result of these acquisitions Ariona will be the largest shareholder in FSE and the ownership of the Waterberg Coal Project will be either:

FSE	60%
Sekoko	40%*

* includes an indirect interest in the Joint Venture for Ariona through a 25% shareholding in Sekoko; or

.

FSE	60%
Sekoko	30%
Ariona	10%

A summary of the Share Purchase Agreement entered into between Ariona and Sekoko is set out in Part 1 of Annexure A.

Further information and explanation concerning Resolution 1 is set out below:

1. SHAREHOLDER APPROVAL - ITEM 7 OF SECTION 611 OF THE CORPORATIONS ACT

Pursuant to section 606 of the Corporations Act, a person must not acquire shares in a listed company if, because of the transaction, the person's (or someone else's) voting power in the company increases from 20% or below to more than 20% or from a starting point that is above 20% and below 90%. However, pursuant to item 7 of section 611 of the Corporations Act, an acquisition previously approved by a resolution passed at a general meeting of the listed company is exempt from the prohibition in section 606.

Subject to completion of the Share Acquisition and the number of Shares held by Sekoko at the conclusion of the meeting, Ariona's maximum voting power in FSE will increase from zero to approximately 25.7%.

Assuming all of the NCNs, which are the subject of Resolution 2, are converted into Shares and all of the interest on them is capitalised and also converted into Shares, **the maximum voting power of Ariona will be 56.7% (if the conversion price is not adjusted in accordance with the terms of the NCNs. The approval for the acquisition of this relevant interest pursuant to the conversion of the NCNs is set out in Resolution 2.**

On a fully diluted basis, assuming all of FSE's options are exercised (both the current options and the Incentive Options, which are the subject of Resolution 3), the maximum voting power of Ariona will be **50.5**% (based on the above assumptions relating to the NCNs.

Resolution 1 and Resolution 2 are not interdependent or inter-conditional. In other words, if Resolution 1 is not approved by Shareholders (that is, the Share Acquisition will not proceed), Resolution 2 may be approved (and the NCN Issue may still proceed).

Accordingly, Shareholder approval of the transfer of the Consideration Shares to Ariona pursuant to Resolution 1 is being sought for the purposes of item 7 of section 611 of the Corporations Act.

For shareholder approval pursuant to item 7 of section 611 to be effective, Shareholders must be provided with all the information known to FSE or to Ariona or its associates that is material to the decision on how to vote on the Resolution, including:

- the identity of the entity proposing to make the acquisition of the Shares and its associates;
- the maximum extent of the increase in that entity's voting power in FSE that would result from the acquisition;
- the voting power that the entity would have as a result of the acquisition;
- the maximum extent of the increase in voting power of each of that entity's associates that would result from the acquisition; and
- the voting power that each of that entity's associates would have as a result of acquisitions.

ASIC Regulatory Guide 74 specifies information required to be provided to the Shareholders because their approval of the proposed issues of Shares in FSE is sought. Accordingly, this is the basis on which the information in this Explanatory Statement regarding the Share Acquisition is provided.

2. WHO CAN VOTE AND WHAT MAJORITY IS REQUIRED

Resolution 1 requires an ordinary resolution which is a simple majority of those Shareholders present and voting either in person or by proxy at the meeting, either on a show of hands or on a poll if one is called in accordance with the applicable requirements.

It is a condition of approval under item 7 of section 611 that no votes are cast in favour of the Resolution by the:

- persons proposing to make the acquisition and their associates (i.e. Ariona and its associates); or
- persons from whom the acquisition is to be made and their associates (i.e. Sekoko and its associates).

3. INTERESTS OF DIRECTORS IN THE RESOLUTION

None of the Non Conflicted Directors have any interest in the Transaction.

Mr Tim Tebeila is considered to have a material personal interest in the Share Acquisition (as the Chairman of Sekoko and given his interest in 85.5% of Sekoko's share capital).

4. ADVANTAGES AND DISADVANTAGES

The Directors consider that the proposed acquisition of Shares by Ariona has the following advantages and disadvantages:

Advantages:

- Introduces a new funding partner into FSE and the Waterberg Coal Project, which has the support of international institutional and private investors focusing on global resource opportunities. The financial backing of Ariona will support FSE in proceeding with the development of the Waterberg Coal Project.
- Ariona is making a substantial investment into FSE and the Waterberg Coal Project of over A$69 million.
- Ariona has committed to working with FSE and Sekoko in procuring the funding requirements for the long term development of the Waterberg Coal Project.
- Ariona, through its two new nominated directors, brings strong experience in global mining projects which will be beneficial to FSE in the development of the Waterberg Coal Projects.

Disadvantages:

The Directors consider that the disadvantages are that a substantial shareholding in the Company would have transferred without a control premium being paid to non-participating Shareholders and the introduction of an additional substantial shareholder with over 25% of the issued capital of FSE may act as deterrent to possible future takeover offers for FSE.

5. WHAT WILL HAPPEN IF RESOLUTION 1 IS NOT PASSED?

If Resolution 1 is not passed, then Sekoko will retain its 33.80% shareholding in FSE and continue as the major shareholder of FSE. If Resolution 1 is not passed, but Resolutions 2 and 3 are passed, then on conversion of the New Convertible Notes, Ariona's maximum voting power in FSE will be 41.7% (or 37.2% on a fully diluted basis) assuming capitalisation of all interest and conversion of that interest and assuming no adjustment of the conversion price of the NCNs.

6. DO THE INDEPENDENT DIRECTORS RECOMMEND THE SHARE ACQUISITION?

Yes.

Each of the Directors who are independent of this transaction believes that the Share Acquisition will be in the best interests of FSE and Shareholders for the reasons set out below:

- Introduces a new funding partner into FSE and the Waterberg Coal Project, which has the support of international institutional and private investors focusing on global resource opportunities. The financial backing of Ariona will allow FSE to proceed with the development of the Waterberg Coal Project.

- Ariona is making a substantial investment into FSE and the Waterberg Coal Project of over A$69 million.

- Ariona has committed to working with FSE and Sekoko in procuring the funding requirements for the long term development of the Waterberg Coal Project.

- Ariona, through its two new nominated directors, brings strong experience in global mining projects which will be beneficial to FSE in the development of the Waterberg Coal Projects

Accordingly, the independent Directors unanimously recommend that Shareholders vote in favour of Resolution 1.

Each of the Directors who are independent of this resolution approved both the proposal to put Resolution 1 to Shareholders and this Explanatory Statement, and recommend that shareholders vote in favour of the Resolution. Each of the Directors who are independent of this resolution will vote in favour of Resolution 1 in respect of the Shares in which they have a relevant interest.

The Chairman of the meeting intends to vote undirected proxies in respect of this resolution in favour of this resolution. The Chairman of the meeting will be Mr David Perkins.

Mr Tebeila is considered to have a material personal interest in the Share Acquisition (as the Chairman of Sekoko and given his interest in 85.5% of Sekoko's share capital) and has not therefore made a recommendation.

7. IMPACT ON FSE

7.1 Capital Structure

For the purposes of item 7, section 611 of the Corporations Act, it is important for Shareholders to note the effect following completion of the Share Acquisition on the "voting power" of Ariona. Under the Corporations Act, voting power is calculated by aggregating the total number of votes attached to all voting shares in FSE that the person or their associates has a relevant interest in and expressing this as a percentage of the total number of votes attached to all the voting shares in FSE.

FSE currently has 3,113,878,641 Shares on issue. On completion of the Share Acquisition, and assuming Ariona acquires the maximum 800,000,000 Shares from Sekoko and assuming no other transfers of shares currently held occur (except as noted below) FSE's top 5 Shareholders will be:

Shareholder	Number of Shares	% of current total Shares
Ariona Company SA	800,000,000	25.69
Linc Energy Limited	283,336,423	9.10
Sekoko Resources (Proprietary) Ltd*	252,645,091	8.11
BBY Nominees Pty Ltd	165,023,979	5.30

* - being the current combined holdings of Sekoko Coal (Proprietary) Ltd and Sekoko Resources (Proprietary)Ltd

On completion of the Share Acquisition and assuming Ariona acquires the full 800,000,000 Shares, Ariona's voting power will change as follows:

Shareholder	Current Voting Power	Maximum Extent of Increase in Voting Power on Completion of Share Acquisition	Maximum Voting Power on Completion of Share Acquisition
Ariona	0%	25.7%	25.7%

Ariona has confirmed that none of its associated entities (listed in Annexure B) currently have any relevant interest in FSE.

A table of Ariona's voting power in FSE if Resolution 1 is passed Resolution 2 is passed, both Transactions complete, with Ariona acquiring the full 800,000,000 Shares, and Ariona converts all of the NCNs to Shares, with all interest on them being capitalised and also converted, is set out in the Explanatory Statement to Resolution 2.

Under the terms of the Sale Purchase Agreement (summarised in Part 1 of Annexure A), Sekoko will retain a relevant interest in the 800,000,000 Shares transferred to Ariona as a result of certain provisions under the agreement whereby:

- In certain prescribed circumstances, Ariona must cast any votes attaching to the Shares acquired by Ariona under the Sale Acquisition in a certain way (further details are set out in Part 1 of Annexure A).

- Ariona will be restricted from disposing of those Shares until at least US$400 million of project funding in respect of the Waterberg Coal Project has been procured.

The voting arrangement and restriction on disposal of the shares amounts to a relevant interest in the Shares the subject of the arrangement, being the FSE shares acquired by Ariona under the Share Acquisition. Accordingly and assuming Sekoko does not dispose, other than to Ariona under the Share Acquisition, of any Shares, Sekoko will retain its voting power of 33.8% in FSE (comprising of its relevant interest in the Shares disposed of under the Sale Acquisition and the Shares it will retain), notwithstanding that the nature of the voting power (in respect of the Shares transferred to Ariona) has changed from a direct interest (that is, Shares held in the name of Sekoko or directly on its behalf) to an indirect interest (via the obligations on Ariona under the Share Purchase Agreement described in more detail in Part 1 of Annexure A).

7.2 Appointment of New Directors

Subject to Resolution 2 being passed, the following two new Directors will be appointed to the Board. Ariona also has a right to appoint a third member to the Board as its discretion in the future.

The two Directors are as follows:

David Hillier FCA, AMP (Harvard), MAICD

Mr Hillier is a chartered accountant by training and spent 12 years with international accounting firms Ernst & Young and PricewaterhouseCoopers. Work with major international clients in the gold mining, mineral sands and oil and gas industries led to a career in the resources industry. Initially working with the NY listed Bond International Gold group, Mr Hillier subsequently spent 15 years with Normandy Mining Limited, including 6 years as Chief Financial Officer. Normandy was Australia's largest gold producer at the time with exploration and mining activities across the globe. Responsibilities included all financial and commercial operations from exploration through feasibility studies and financing of the development and operation of large scale mines. Mr Hillier was responsible for raising several hundred million dollars of gold backed loan facilities in the US to fund mining operations and Treasury operations selling millions of ounces of gold annually. He had extensive experience as Normandy's representative on joint venture committees. Since the takeover of Normandy by Newmont Mining of the US, Mr Hillier has been Chief Executive and Director of various public mining companies.

Kevin Kartun

Mr Kartun has 40 years' experience in exploration and mining geology, resource investments and investor relations in southern Africa and Australia. He has worked as a geologist in South Africa, Namibia and Australia for various companies including Anglo American Corporation Limited, Newmont Limited, Shell SA (Proprietary) Limited/Billiton and Gold Fields of South Africa Limited. His experience covers a wide range of commodities, including platinum, gold, diamonds, base metals, mineral sands, uranium, coal and synfuels.

Mr Kartun holds a B.Sc. (Honours) and Ph.D. in Geology from the University of Cape Town and is a Fellow of the Australian Institute of Mining and Metallurgy, a Fellow of the Geological Society of South Africa, a Fellow of the South African Institute of Mining and Metallurgy, and a Member of PDAC.

Ariona has confirmed that the proposed director nominees have no associations with Ariona, FSE or their associates nor do they have any interest in the issue of the NCNs or the Share Acquisition.

Subject to Resolution 2 being passed, Ariona will also retain the right to appoint 3 nominees to the Board for as long as more than 50% of the NCNs remain on issue.

7.3 The future of FSE

Ariona Company SA has informed the Directors that its intentions (in accordance with ASIC Regulatory Guide 74.25(e)) are as follows:

- it has no intention to change the business of FSE;

- it may inject further capital into FSE, should there be a requirement to do so and will, if Resolution 2 is passed, inject $40.7 million of further capital, by way of subscription for the NCNs, into FSE;

- it has no intention to change the current employment arrangements of FSE;

- other than as described in this Explanatory Statement, Ariona has no present intention regarding any proposal whereby any property will be transferred between FSE and Ariona or any person associated with either of them;

- Ariona has no intention to otherwise redeploy the fixed assets of FSE; and

- Ariona notes that FSE has not declared or paid any dividend and is unlikely to do so in the near term and Ariona does not intend to change that policy.

8. INDEPENDENT EXPERT'S REPORT

BDO was commissioned by the Directors of FSE to provide an Independent Expert's Report to assess whether the advantages of the proposed Share Acquisition outweighed the disadvantages to Shareholders not associated with Ariona.

The Independent Expert's Report concludes that:

"We have considered the terms of the Share Transfer as outlined in the body of this report and have concluded that the advantages of the Share Transfer outweigh the disadvantages of the Share Transfer for Shareholders"

Shareholders are urged to carefully read the Independent Expert's Report in relation to the Share Acquisition (a copy of which is contained in the separate booklet and marked Annexure D) to understand the scope of the report, the methodology of the valuation and the sources of information and assumptions made.

9. ADDITIONAL INFORMATION

9.1 Share Purchase Agreement

A summary of the Share Purchase Agreement entered into between Ariona and Sekoko is set out in Part 1 of Annexure A.

9.2 Status of Conditions

In addition to Shareholder approval, the Share Acquisition is subject to a number of conditions detailed in the Share Purchase Agreement between Ariona and Sekoko. The conditions, and their status as at the date of this document, are set out in Part 2 of Annexure A.

One of the conditions set out in the Share Purchase Agreement relates to the approval of the NCN Issue the subject of Resolution 2. If Resolution 2 is not passed, then the Share Acquisition may not proceed.

9.3 Directors' interests in FSE

As at the date of this document, the following Directors have the following relevant interests (for the purposes of the Corporations Act) in Shares and in options over the unissued share capital of FSE:

Director	Relevant Interest in Shares	Options (exercise price and expiry date)
Mr Tim Tebeila (Chairman, Director)	1,052,645,091	110,000,000 (6 cent June 2013)
Mr David Perkins (Deputy Chairman)	2,500,000	Nil
Dr Pius Chilufya Kasolo (Non Executive Director)	Nil	Nil
Mr Morore Benjamin (Ben) Mphahlele (Non Executive Director)	Nil	Nil
Mr Kobus Terblanche (Non Executive Director)	Nil	Nil

9.3 Overview of Ariona Company SA

Name: Ariona Company SA (Ariona)

Address: Suite 13, 1st Floor, Ollaji Trade Centre, Francis Rachel Street, Victoria, Mahe, Republic of Seychelles

Incorporated: Republic of Seychelles

IBC No: 061983

Director: Mr Richard Maclellan (Sole Director)

Ariona Company SA is a Special Purpose Vehicle (**SPV**) that has been incorporated for the purpose of investment in mining opportunities. It does not carry on any other business activities save for investment in suitable mining opportunities. Its associates and consortium members are set out in Annexure B.

Ariona has no employees and its Sole Director is Mr Richard Maclellan.

RESOLUTION 2 - APPROVAL OF ISSUE OF NEW CONVERTIBLE NOTES AND ISSUE OF SHARES ON CONVERSION OF NEW CONVERTIBLE NOTES

FSE has entered into an agreement with Ariona under which Ariona will provide A$40.7 million of funding to FSE under a secured convertible note facility. A concise summary of the terms of the NCNs are below:

Term	4 Years
Coupon	8.0% per annum
Interest Payments	Payable half yearly. For the first 24 months, interest is to be paid in cash or capitalised at the election of FSE. After the first 24 months, interest is to be paid in cash or, if so agreed by the Company and the Majority Noteholder, capitalised.
Tranches	A$30.7 million is available for drawdown on completion with a further A$10 million available for drawdown as required to meet budgeted expenses over a 12 month period from completion.
Conversion Price	A$0.025 per Share*
Conversion Terms	Convert into Shares at the election of the NCN holder. This applies to the face value of the NCNs and, at the election of the Noteholder to capitalised and unpaid interest
Transfer	Notes may be transferred.

*- Subject to adjustment for capital reorganisations. A summary of the capital reorganisation provisions can be found in Part 3 of Annexure A.

The security is in the form of guarantees and indemnities, and rights and pledges in favour of the Security Holder over the Company's interests in the Waterberg Coal Project.

A Summary of the NCN facility terms (in the form of an Investment Agreement and the accompanying Secured Convertible Note Deed Poll and the related securities) is set out in Part 3 of Annexure A.

Further information and explanation concerning Resolution 2 is set out below:

1. APPROVAL TO GIVE FINANCIAL BENEFIT TO RELATED PARTY

Subject to a number of exceptions, section 208 of the Corporations Act provides that before a public company can give a financial benefit to a related party of that company, the company must obtain the approval of its shareholders.

The Corporations Act gives issuing securities to a related party as one example of "giving a financial benefit" to a related party – section 229(3)(e).

FSE seeks Shareholder approval to give the financial benefit described below to Ariona under the NCN Issue:

Related Party	Nature of Relationship	Nature of Financial Benefit
Ariona Company SA	Pursuant to section 228(6) of the Corporations Act, it is reasonable that Ariona Company SA be taken as having reasonable grounds to believe that it will become a related party in the future by becoming a controlling shareholder of FSE as a result of having completed the Share Acquisition and converting sufficient of the NCNs to give it control.	FSE is issuing a total of A$40,700,000 convertible notes to Ariona Company SA. The convertible notes will be secured and pay interest at the rate of 8.0% per annum and convert into shares in FSE at A$0.025 (subject to adjustment).

2. **SHAREHOLDER APPROVAL - LISTING RULE 7.1**

Under ASX Listing Rule 7.1, a company may not issue more than 15% of its share capital in any one year without shareholder approval, except in certain circumstances.

Essentially, the formula in Listing Rule 7.1 provides that a company must not make or agree to make, during a 12 month period, a new issue of equity securities where that issue or those issues would represent more than 15% of the company's issued share capital without first obtaining approval of its shareholders in general meeting. The term "equity securities" is defined in the Listing Rules to include convertible securities.

The Directors seek approval from Shareholders pursuant to ASX Listing Rule 7.1 for the issue of the NCNs.

The following information about the NCNs is provided to Shareholders in accordance with the requirements of ASX Listing Rule 7.3:

(a) Each NCN has a face value of $1.00. Accordingly, if the full facility is drawn down by FSE there would be 40,700,000 convertible notes issued. If all of the NCNs are converted, 1,628,000,000 Shares would be issued. (Taking into account that interest may be capitalised and capitalised interest may also be converted, a maximum of 2,228,030,414 Shares may be issued as a result of the conversion). Any shares issued that are attributable to the capitalised interest on the NCNs, will only be issued pursuant to the 15% cap set out in Listing Rule 7.1, or with Shareholder approval.

(b) $30.7 million of the NCNs will be issued within three months of the Date of the Meeting. The ASX has granted the Company a waiver of Listing Rule 7.3.2 to permit the Company to issue no more than $10 million of the total NCNs at any time no later than 12 months from the day that is 5 Business Days after the date of the Meeting.

(c) The NCNs have a face value of $1.00 and are convertible at the election of the NCN Holder at A$0.025 per Share up to 4 years from the date they are issued.

(d) The NCNs will be issued to Ariona.

(e) In addition to the terms of the NCNs described above, if the NCNs (and capitalised interest (if applicable)) are converted, the shares issued will be fully paid ordinary shares ranking equally with all other Shares currently on issue. A summary of the terms and conditions of the NCNs is set out in Part 3 of Annexure A.

(f) Funds raised by the issue of the NCNs will be used to redeem the ECNs at face value, pay outstanding interest on the ECNs and for working capital purposes as set out in the table in the Background to the Explanatory Statement.

3. WHO CAN VOTE AND WHAT MAJORITY IS REQUIRED

Resolution 2 requires an ordinary resolution which is a simple majority of those Shareholders present and voting either in person or by proxy at the meeting, either on a show of hands or on a poll if one is called in accordance with the applicable requirements.

FSE will disregard any votes cast on Resolution 2 by Ariona Company SA, BBY Nominees Pty Limited, Jaguar Funds Management Pty Ltd and BBY Limited (and any person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities) or their associates.

4. THE ISSUE OF THE CONVERSION SHARES TO ARIONA - ITEM 7 OF SECTION 611 OF THE CORPORATIONS ACT

Shareholder approval is also being sought for the conversion of the NCNs by Ariona into Shares.

Ariona has the option, but not an obligation, to convert the NCNs into Shares at any time during the term of the NCNs (which is a period of 4 years).

Pursuant to section 606 of the Corporations Act, a person must not acquire shares in a listed company if, because of the transaction, the person's (or someone else's) voting power in the company increases from 20% or below to more than 20% or from a starting point that is above 20% and below 90%. However, pursuant to item 7 of section 611 of the Corporations Act, an acquisition previously approved by a resolution passed at a general meeting of the listed company is exempt from the prohibition in section 606.

As the interest payments on the NCNs may be capitalised during the term of the NCNs, the maximum number of Shares that could be issued to Ariona on conversion is 2,228,030,414.

Shareholder	**Current Voting Power**	**Maximum Extent of Increase in Voting Power on Conversion of NCNs and capitalised interest**	**Maximum Voting Power on Conversion of NCNs and capitalised interest**
On the assumption that Resolution 1 and 2 are both passed, the Share Acquisition Completes with Ariona acquiring 800,000,000 Shares and Ariona converts all of the NCNs that are issued (assuming the full $40.7 million facility is drawn down) and including any capitalised interest on the NCNs			
Ariona	0%	31% (increase above 25.7% resulting from Ariona acquiring 800,000,000 Shares)	56.7%
On the assumption that Resolution 1 is NOT passed, the Share Acquisition does NOT occur, but Resolution 2 is passed and Ariona converts all of the NCNs that are			

issued (assuming the full $40.7 million facility is drawn down) and including any capitalised interest			
Ariona	0%	41.7%	41.7%

Ariona has confirmed in accordance with ASIC Regulatory Guide 74, that none of its associated entities (listed in Annexure B) currently have any relevant interest in FSE.

5. INTERESTS OF DIRECTORS IN THE RESOLUTION

None of the Non Conflicted Directors other than Mr David Perkins have any interest in the Transaction.

Mr David Perkins (the Chair of the meeting) will be prohibited from voting on this resolution (except as proxy for shareholders who are entitled to vote on this resolution) pursuant to the Listing Rules. Mr Perkins is a director of BBY Limited. BBY Limited will receive a fee on the completion of the NCN Issue to Ariona.

6. ADVANTAGES AND DISADVANTAGES

The Directors consider that the proposed NCN Issue to Ariona Company SA has the following advantages and disadvantages:

Advantages:

- FSE will be recapitalised with sufficient funding to redeem the ECNs and provide adequate funding for the completion of the Bankable Feasibility Study for the Waterberg Coal Project.
- It introduces a new funding partner (in Ariona) into FSE and the Waterberg Coal Project, which has the support of international institutional and private investors focusing on global resource opportunities. The financial backing of Ariona will support FSE in proceeding with the development of the Waterberg Coal Project.
- Ariona through its two new nominated directors bring strong experience in global mining projects which will be beneficial to FSE in the development of the Waterberg Coal Projects.
- The New Convertible Note facility provides FSE with a better form of funding than the ECNs by:
    - (i) having an 8.0% coupon per annum verses the current 10.0% coupon per annum payable on the ECNs; and
    - (ii) having a 4 year funding term which provides funding certainty beyond the ECNs which commence maturing in October 2012.
- The interest on the NCN's can be capitalised for 24 months at the election of FSE which should reduce the short term cash requirements of the Company. After the first 24 months, interest is to be paid in cash unless the Company and the Majority Noteholder agree to capitalise it.
- The conversion premium on the NCN's at A$0.025 per Share (without adjustment) is at a **227**% premium to the existing Share price of A$**0.011**.

- The redemption of the ECNs will result in a simplified capital structure which should make the Company easier to value for the investment community.

- The injection of new capital and the parallel redemption of ECNs will replace existing funding parties who have indicated they do not wish to continue funding FSE beyond the maturity of the ECNs.

- It removes the short term funding pressure on FSE which currently arises from the short term maturity of the ECN's. The ECNs commence maturing in October 2012, with the first maturing notes being approximately A$8.0 million in value.

- It provides sufficient working capital to allow the Company to advance its development to get through completion of the Bankable Feasibility Study.

Disadvantages:

- In the event that the NCNs are not converted into Shares at their maturity, then FSE will need to redeem the NCN's at maturity.

- The NCN facility is secured against the Company's interest in the Waterberg Coal Project.

- If a substantial number of the NCNs are converted to Shares by Ariona (or a transferee of NCNs who is an associate of Ariona) Ariona would achieve control of FSE without a control premium being paid to non-participating Shareholders. The structure of the NCNs may discourage future takeover offers for FSE.

7. INDEPENDENT EXPERT'S REPORT

As detailed in the Explanatory Statement to Resolution 1 above (at item 8) BDO was commissioned by the Directors of FSE to provide an Independent Expert's Report to assess whether the proposed Share Acquisition was fair and reasonable to the Shareholders not associated with Ariona.

The Independent Expert was also commissioned to provide an opinion as to the value of the financial benefit being received by Ariona as a result of the NCN Issue the subject of Resolution 2.

The Independent Expert's Report concludes that:

"We have considered the terms of the Funding Facility as outlined in the body of this report and have concluded that the Funding Facility is fair and reasonable to Shareholders."

Shareholders are urged to carefully read the Independent Expert's Report (a copy of which is contained in the separate booklet accompanying this document and marked Annexure D) to understand the scope of the report, the methodology of the valuation and the sources of information and assumptions made.

8. WHAT WILL HAPPEN IF RESOLUTION 2 IS NOT PASSED?

FSE currently has A$8.45 million of ECNs that mature and are due and payable in October 2012 with the balance of the ECNs progressively maturing through to October 2014. In the event that the NCN Issue does not proceed, FSE will be required to raise alternative forms of capital which may be on different terms and conditions to the current funding package presented in this Explanatory Statement.

In the event that the NCN Issue does not proceed and FSE cannot procure alternative funding to meet the maturity of the ECNs, then FSE may not be able to meet its financial obligations when they fall due.

In the event that the maturing ECNs cannot be repaid, then FSE would be in default of its obligations and the ECN holders may elect to implement their rights under the ECN facility which may include winding up the Company and appointing administrators to the Company.

9. DO THE NON CONFLICTED DIRECTORS RECOMMEND THE NCN ISSUE?

Yes.

Each of the Directors who are independent of this Resolution believes that the NCN Issue will be in the best interests of FSE and Shareholders for the reasons set out in point 6 above.

Accordingly, the independent Directors unanimously recommend that Shareholders vote in favour of Resolution 2.

Each of the Directors who are independent of this resolution approved both the proposal to put Resolution 2 to Shareholders and this Explanatory Statement, and recommend that shareholders vote in favour of the Resolution. Each of the Directors who are independent of this resolution will vote in favour of Resolution 2 in respect of the Shares in which they have a relevant interest.

The Chairman of the meeting intends to vote undirected proxies for this resolution in favour of this resolution. The Chairman of the meeting will be Mr David Perkins

10. ADDITIONAL INFORMATION

10.1 NCN Facility Terms

A Summary of the NCN facility terms is set out in Part 3 of Annexure A.

10.2 Status of Conditions

In addition to Shareholder approval, the NCN Issue is subject to a number of conditions detailed in an Investment Agreement that FSE has entered into with Ariona. The conditions, and their status as at the date of this document, are set out in Part 4 of Annexure A.

Nothing has come to the attention of the Directors which would cause them to believe that the conditions set out in Part 4 of Annexure A will not be satisfied.

10.3 Directors' interests in FSE

As at the date of this Document, the following Directors have the following relevant interests (for the purposes of the Corporations Act) in Shares and in options over the unissued share capital of FSE:

Director	Relevant Interest in Shares	Options
Mr Tim Tebeila (Chairman, Director)	1,052,645,091	110,000,000 (6 cent exercise price, expiring June 2013)

Mr David Perkins (Deputy Chairman)	2,500,000	Nil
Dr Pius Chilufya Kasolo (Non Executive Director)	Nil	Nil
Mr Morore Benjamin (Ben) Mphahlele (Non Executive Director)	Nil	Nil
Mr Kobus Terblanche (Non Executive Director)	Nil	Nil

10.4 **Shareholder Approval for the Issue of the Conversion Shares - Listing Rule 7.1**

Under ASX Listing Rule 7.1, a company may not issue more than 15% of its share capital in any one year without shareholder approval, except in certain circumstances. One of the exceptions is Exception 4 in Listing Rule 7.2 which provides that the issue of shares on the conversion of convertible securities does not require shareholder approval if the convertible securities were issued in accordance with the Listing Rules. On the basis that Resolution 2 is passed, the issue of 1,628,000,000 Shares on conversion of the NCNs would not require shareholder approval. Further, an approval pursuant to Listing Rule 7.1 is not required in order to issue the Conversion Shares to Ariona as approval is being obtained under item 7 of section 611 of the Corporations Act (see Exception 16 in Listing Rule 7.2).

10.5 A change after item 7 approval but before acquisition is completed

If Resolution 2 is passed, FSE may determine at some point in the future that Shareholders should be given the opportunity to give fresh approval under item 7 of section 611 of the Corporations Act if:

- a change in circumstances happens after Shareholder approval of Resolution 2 but before the NCNs are converted into Shares; and
- the change means the transaction (i.e. the acquisition of a relevant interest in Shares as a result of the conversion of the NCNs and capitalised interest by Ariona) is materially different from the one approved by Shareholders under Resolution 2.

This would be the case if subsequent events increased the voting power that Ariona would have after completion of conversion of the NCNs and capitalised interest into Shares beyond the maximum voting power identified above - for example, Ariona purchased Shares on market before converting any NCNs.

10.6 Issue of Shares to BBY Nominees

Under the terms of a subscription agreement and associated A$2.2M facility entered into on 26 April 2012, FSE is required to issue 68,253,968 Shares to BBY Nominees Pty Ltd. Once those Shares are issued (which is expected to occur after the meeting), Ariona's maximum voting power , if Resolution 1 is passed and Ariona acquires 800,000,000 Shares and if Resolution 2 is passed and all interest payable on the NCNs is capitalised and Ariona converts all of the NCNs and capitalised interest into Shares, would be **56**% (**50**% on a fully diluted basis).

RESOLUTION 3 – APPROVAL OF ISSUE OF UNLISTED INCENTIVE OPTIONS

As detailed in the Background to this Explanatory Statement above, FSE currently has ECNs on issue.

A majority of the funds raised pursuant to the NCN Issue (which is the subject of Resolution 2) will be used for the redemption of the ECN at face value and the payment of any outstanding interest.

All the ECNs are held by BBY Nominees Pty Ltd and Jaguar Funds Management Pty Ltd. They are parties to the Investment Agreement and in it have agreed to the early redemption of their respective ECNs.

As an incentive to agree to the early redemption of the ECNs, the ECN Holders were offered and accepted, subject to Shareholder approval, a total of 300,000,000 options over the unissued share capital of FSE, exercisable at A$0.025 per Share and expiring 2 years after the date of issue, and otherwise on the terms set out in Annexure C (the **Incentive Options**).

The Directors believe that the early redemption of the ECNs is in the best interests of Shareholders because:

- the coupon payment on the NCNs of 8.0% per annum is significantly better that the coupon payment on the ECN's of 10.0% per annum;

- the frequency of the coupon payments on the NCNs is on a half yearly basis, which is significantly better that the coupon payments on the ECN's, which are on a monthly basis; and

- redeeming the ECNs will allow FSE to maintain a simplified capital structure rather than having two sets of convertible notes on issue. The refined capital structure will make the Company more appealing for investors as FSE will be easier and more transparent to value.

Listing Rule 7.1 provides that a company must not issue more equity securities than the number calculated in accordance with a formula contained in that Listing Rule without approval of its shareholders.

Essentially, the formula in Listing Rule 7.1 provides that a company must not make or agree to make, during a 12 month period, a new issue of equity securities where that issue or those issues would represent more than 15% of the company's issued share capital without first obtaining approval of its shareholders in general meeting. The term "equity securities" is defined in the Listing Rules to include shares and options to acquire shares.

The Directors seek approval from Shareholders pursuant to ASX Listing Rule 7.1 for the issue of the Incentive Options.

The following information about the Incentive Options is provided to Shareholders in accordance with the requirements of ASX Listing Rule 7.3:

(a) The Incentive Options (300,000,000 will be issued) if exercised, will result in 300 million Shares being issued.

(b) The Incentive Options will be issued within three months of the Date of the Meeting.

(c) Each Incentive Option will have an exercise price of A$0.025 and an expiry date of 2 years from the date of issue.

(d) The Incentive Options will be issued to BBY Nominees Pty Ltd and Jaguar Funds Management Pty Limited.

(e) In addition to the terms of the Incentive Options described above and set out below, if the Incentive Options are exercised, the shares issued will be fully paid ordinary shares ranking equally with all other Shares currently on issue.

(f) The issue price of the Incentive Options is nil. No funds will be raised from the issue of the Incentive Options. If the Incentive Options are exercised, the funds raised will be used for working capital purposes, and other purposes at the discretion of the Board. The Incentive Options will be issued all on the same day.

The full terms and conditions of the Incentive Options are set out in Annexure C.

Resolution 3 is subject to and conditional on Resolution 2 above being passed. If Resolution 2 is not passed, no Incentive Options will be issued.

Directors' recommendation

Each of the Directors who are independent of this Resolution believes that the NCN Issue will be in the best interests of FSE and Shareholders for the reasons set out above.

Mr David Perkins (the Chair of the meeting) will be prohibited from voting on this resolution (except as proxy for shareholders who are entitled to vote on this resolution) pursuant to the Listing Rules. Mr Perkins is a director of BBY Limited. BBY Limited will receive a fee on the completion of the NCN Issue to Ariona.

Accordingly, the independent Directors unanimously recommend that Shareholders vote in favour of Resolution 3.

Each of the Directors who are independent of this resolution approved both the proposal to put Resolution 3 to Shareholders and this Explanatory Statement, and recommend that shareholders vote in favour of the Resolution. Each of the Directors who are independent of this resolution will vote in favour of Resolution 3 in respect of the Shares in which they have a relevant interest.

The Chairman of the meeting intends to vote undirected proxies for this resolution in favour of this resolution. The Chairman of the meeting will be Mr David Perkins.

RESOLUTION 4 – SUBSEQUENT APPROVAL OF SHARE ISSUE

FSE announced to the ASX on 22 February 2012 through the lodgement of an Appendix 3B pursuant to Listing Rule 3.10 of the issue of 155,202,857 Shares (**Issued Shares**).

Listing Rule 7.1 provides that a company must not, without Shareholder approval or subject to specified exceptions, issue or agree to issue during any 12 month period equity securities if the number of those securities exceeds 15% of the number of Shares on issue at the commencement of that 12 month period.

Listing Rule 7.4 sets out an exception to Listing Rule 7.1. It provides that where a company in general meeting approves a previous issue of securities, then provided that the previous issue did not breach Listing Rule 7.1, those securities will be treated as having been issued with Shareholder approval for the purpose of Listing Rule 7.1.

Whilst the issue of the Issued Shares did not require the prior approval of Shareholders as it was within FSE's existing 15% placement capacity, the purpose of Resolution 4 is to approve the issue of these Issued Shares in accordance with the requirements of Listing Rule 7.4 to provide FSE with flexibility to issue further securities, without obtaining Shareholder approval at the time of issue, in accordance with the limit under Listing Rule 7.1 should the need arise in the future.

The following information about the Issued Shares is provided to Shareholders in accordance with the requirements of Listing Rule 7.5:

(a) the total number of Issued Shares was 155,202,857.

(b) the Issued Shares had an issue price of A$0.0063 per share.

(c) the Issued Shares were fully paid ordinary shares in the capital of FSE.

(d) no funds were raised by the issue of the Issued Shares, however the Issued Shares were issued as payment to BBY Nominees Pty Ltd (in its capacity as custodians of the ECNs), in lieu of interest payable on the notes of A$977,778.

The approval under this Resolution 4 is not sought for any other purpose other than to provide FSE with the flexibility to issue further securities, without obtaining Shareholder approval at the time of issue. The requirement to obtain Shareholder approval for a future issue of securities, at the time of issue, could limit FSE's opportunity to take advantage of opportunities that may arise.

Directors' recommendation

The Directors unanimously recommend that Shareholders vote in favour of Resolution 4 on the basis set out above.

RESOLUTION 5 – SUBSEQUENT APPROVAL OF CONVERTIBLE NOTE ISSUE

FSE announced to the ASX on 19 October 2011 through the lodgement of an Appendix 3B pursuant to Listing Rule 3.10 of the issue of 3 fully paid A$100,000 Convertible Notes, which are convertible into 15,000,000 Shares (**Issued Notes**).

Listing Rule 7.1 provides that a company must not, without Shareholder approval or subject to specified exceptions, issue or agree to issue during any 12 month period equity securities if the number of those securities exceeds 15% of the number of Shares on issue at the commencement of that 12 month period.

Listing Rule 7.4 sets out an exception to Listing Rule 7.1. It provides that where a company in general meeting approves a previous issue of securities, then provided that the previous issue did not breach Listing Rule 7.1, those securities will be treated as having been issued with Shareholder approval for the purpose of Listing Rule 7.1.

Whilst the issue of the Issued Notes did not require the prior approval of Shareholders as it was within FSE's existing 15% placement capacity, the purpose of Resolution 5 is to approve the issue of these Issued Shares in accordance with the requirements of Listing Rule 7.4 to provide FSE with flexibility to issue further securities, without obtaining Shareholder approval at the time of issue, in accordance with the limit under Listing Rule 7.1 should the need arise in the future.

The following information about the Issued Notes is provided to Shareholders in accordance with the requirements of Listing Rule 7.5:

(a) the total number of Issued Notes is three (3) A$100,000 notes.

(b) the Issued Notes had an aggregate total consideration of A$300,000 and are convertible into Shares at A$0.020 per Share. The key terms of the Issued Notes are summarised below.

(c) the Issued Notes were issued to BBY Nominees Pty Ltd.

(d) funds raised by the issue of the Issued Notes were used for meeting commitments of FSE in connection with the development of the Waterberg Coal Project and general working capital purposes.

<u>Key terms of the Issued Notes:</u>

Issuer	FSE
Security	Unsecured
Issue Price	A$100,000 per Convertible Note (x 3 tranches)
Interest Rate	10% p.a. payable semi-annually
Term	3 years from the date of issue
Conversion Process	Holders may elect to convert them at any time prior to 2.00pm WST on the last day of the term. These Convertible Notes form part of the ECNs and, if Resolution 2 is passed will be redeemed at completion of the NCN Issue.

Pricing	Convertible at A$0.02 per Share – i.e. convertible into 5,000,000 Shares per note

The approval under this Resolution 5 is not sought for any other purpose other than to provide FSE with the flexibility to issue further securities, without obtaining Shareholder approval at the time of issue. The requirement to obtain Shareholder approval for a future issue of securities, at the time of issue, could limit FSE's opportunity to take advantage of opportunities that may arise.

Directors' recommendation

The Directors unanimously recommend that Shareholders vote in favour of Resolution 5 on the basis set out above.

GLOSSARY

Ariona means Ariona Company SA, a company established under the laws of the Republic of the Seychelles, Registration No. 016983.

ASIC means the Australian Securities and Investments Commission.

ASIC Regulatory Guide 74 means *ASIC Regulatory Guide 74 – Acquisitions approved by members,* dated December 2011.

ASX means ASX Limited (ACN 008 624 691), trading as the Australian Securities Exchange.

BDO means BDO Corporate Finance (WA) Pty Ltd (ACN 124 031 045) (Australian Financial Services Licence Number 316158).

Bankable Feasibility Study means a bankable feasibility study in accordance with the requirements of the joint venture agreements for the Waterberg Coal Project.

Board means the board of Directors.

Business Day means a day which is not a Saturday, Sunday or bank or public holiday in Perth.

Chairman means the chairman of the meeting determined under the Constitution.

Constitution means the constitution of FSE.

Conversion Shares means the Shares to be issued on conversion of the NCN and capitalised interest on the NCNs.

Corporations Act means *Corporations Act 2001* (Cth).

Date of the Meeting means the day on which the general meeting of members of FSE to which this notice relates is held.

Director means a director of FSE.

ECN means FSE's current convertible notes, totalling A$21.3 million.

ECN Holders means the current holders of the ECNs.

Explanatory Statement means this explanatory memorandum to this Notice of General Meeting.

FSE or **the Company** means Firestone Energy Limited (ACN 110 475 799).

Incentive Options means the 300,000,000 options over the unissued share capital of FSE to be issued and as detailed under Resolution 3 in this Explanatory Statement.

Independent Expert means BDO.

Independent Expert's Report means the report set out in the separate booklet accompanying this document and marked Annexure D.

JSE means the Johannesburg Stock Exchange on which FSE has a secondary listing (JSE:FSE).

Listing Rules means the listing rules of the ASX.

Majority Noteholder means the holder of NCNs that holds, or holders of NCNs that together hold, 66.66% in value of the total principal money in respect of all NCNs on issue at the relevant time.

NCNs Notes means the convertible notes to be issued to Ariona the subject of the NCN Issue.

NCN Issue means the issue of $40,700,000 new convertible notes to Ariona as detailed under Resolution 2 in this Explanatory Statement.

Non Conflicted Directors means the following directors of FSE:

- Mr David Perkins;
- Dr Pius Chilufya Kasolo;
- Mr Morore Benjamin Mphahlele; and
- Mr Kobus Terblanche.

Notice of General Meeting means the Notice of General Meeting of Shareholders to be held on 5 October 2012.

Related Body Corporate has the meaning given to that term in the Corporations Act.

Resolution means a resolution as set out in the Notice of General Meeting.

Sekoko means Sekoko Resources (Proprietary) Limited and/or Sekoko Coal (Proprietary) Limited (as applicable).

Share means a fully paid ordinary share in the capital of FSE.

Share Acquisition means the transfer of up to 800,000,000 Shares from Sekoko to Ariona as detailed under Resolution 1 in this Explanatory Statement.

Shareholder means a member of FSE.

Transactions means the Share Acquisition and the NCN Issue and **Transaction** means the Share Acquisition or the NCN Issue (as applicable).

ANNEXURE A

Transaction Documentation Summary and Conditions Precedent

PART 1 – Summary of Share Purchase Agreement

The following is a summary provided by Sekoko of the share sale and purchase agreement entered into on 13 June 2012 between Sekoko Coal (Proprietary) Limited (**Sekoko or Coal**), Sekoko Resources (Proprietary) Limited (**Resources**) and Ariona Company S.A (**Ariona**) (**Share Purchase Agreement**) as it has been amended by deeds of amendment of 13 July 2012, 24 July 2012 and 8 August 2012 respectively.

(Capitalised terms used in this summary bear the same meaning as in the Glossary or in the summary below or if not so defined then in the Share Purchase Agreement.)

1 **The acquisitions**

1.1 The Share Purchase Agreement provides for the acquisition by Ariona of:

1.1.1 622,000,000 Shares plus any additional Shares (up to 178,000,000 Shares) held by Sekoko at the conclusion of the meeting (**FSE Shares**) for a consideration of A$0.01per Share acquired (**Purchase Price**); and

1.1.2 a 10% interest in the Joint Ventures established between Sekoko and FSE (through FSE subsidiaries - Lexshell 126 General Trading (Proprietary Limited) (**Lexshell**) and Checkered Flag Investments 2 (Pty) Ltd (**Flag)**), for a consideration of A$20.5 million (**Subscription Money**), which interest is acquired:

1.1.2.1 subject to approval under section 11 of the (South African) Mineral and Petroleum Resources Development Act, No. 28 of 2002 (**MPRDA**) (**Share Subscription Section 11 Approval**), through the subscription by Ariona for such number of fully paid ordinary shares in the capital of Sekoko Coal (Proprietary Limited (**Coal**) which on the date those shares are issued will be equal to 25% of the shares comprising the issued share capital of Coal (**Subscription Shares**);

or alternatively

1.1.2.2 should the Share Subscription Section 11 Approval be refused (as evidenced by written notice to that effect from the DMR or the relevant Minister), through the acquisition from Sekoko of a 10% Participation Interest (as defined in the Share Purchase Agreement) in each of the two Joint Venture comprising the Waterberg Coal Project (including a 10% right, title and interest in and to all of the assets held for the purposes of those Joint Ventures) (**JV Interest**) (**Alternative Transaction**).

1.2 Subject to Share Subscription Section 11 Approval not having been either obtained or refused before Completion, Ariona agrees (at completion of the sale and purchase of the

FSE Shares (**Completion**)) to lend to Coal an amount equal to the Subscription Money (**Temporary Loan**), on the basis that the Temporary Loan is:

1.2.1 interest free;

1.2.2 repayable at the earlier of (i) the Issue Date of the Refusal Date (see below for meanings of these expressions) and (ii) the third Business Day after the date a demand is made for repayment by Ariona after an Event of Default (as defined in the Share Purchase Agreement) has occurred;

1.2.3 secured by a guarantee by Sekoko Resources (Proprietary) Limited (**Resources**) with recourse limited to a cession and pledge by Resources of 25% of the issued shares in the capital of Coal (**Security**), and amounts recovered under that Security.

1.3 In the event that the Share Subscription Section 11 Approval is:

1.3.1 obtained, Ariona will subscribe for the Subscription Shares and Coal will apply the proceeds of such subscription to repay the Temporary Loan; and

1.3.2 refused, Ariona will acquire the JV Interest from Coal and Coal will apply the proceeds of such sale to repay the Temporary Loan.

1.4 All title to, property in and risk in respect of the FSE Shares and the JV Interest remains with Sekoko until Completion or completion of the Alternative Transaction (as applicable).

2 Key dates

2.1 Satisfaction Date: date that FSE Shareholders approve the Share Acquisition (i.e. the subject of Resolution 1);

2.2 Completion Date: the Business Day after fulfilment or waiver of all the Conditions Precedent;

2.3 Issue Date: 2nd Business Day after Share Subscription Section 11 Approval is obtained; and

2.4 Refusal Date: 2nd Business Day after the date on which the DMR notifies Ariona, Sekoko or Resources that the Share Subscription Section 11 Approval is or has been refused.

3 Conduct pending Completion and Issue Date / Refusal Date

3.1 JV Assets: reasonable endeavours: Resources and Coal have given undertakings to Ariona (until the Issue Date or the Refusal Date) to use their reasonable endeavours to protect and maintain the validity and good standing of the JV Assets and to ensure that the business of each Joint Venture is conducted with due care and in accordance with normal and prudent practice.

3.2 JV Assets: Ariona consents: Until the Issue Date or the Refusal Date, Resources and Coal must use reasonable endeavours to ensure that, unless Ariona consents in writing, a number of matters are not undertaken in respect of the Joint Ventures, including the establishment of an Incorporated Joint Venture otherwise than as contemplated in the Share Purchase Agreement and the shareholders' agreement contemplated in it (**Shareholders' Agreement**), the incurring of liabilities, the borrowing of money, the cessation of business, making of substantial changes to the business of the Joint Ventures, the employment of new employees and the termination of employees' employment .

3.3 Resources and Coal restrictions: Until the Completion Date, Resources and Coal must not engage in discussions with third parties with regard to the disposal of shares in the capital of FSE to the extent they are, at the time, comprised in the FSE Shares. Until the Issue Date or the Refusal Date, Resources and Coal must not, except to Ariona, sell any interest of any kind in either of the Joint Ventures or any of the JV Assets.

3.4 Coal Assets: undertakings: Resources and Coal have given undertakings to Ariona (until the Issue Date or the Refusal Date) to protect and maintain the validity and good standing of the assets of Coal, to maintain each policy of insurance held by Sekoko and to manage and conduct its business with due care and in accordance with normal and prudent practice.

4 Joint Venture Agreements / Management Board

Coal and Resources (on its behalf and as agent for Uzalile Property Investments (Proprietary) Limited (**Uzalile**) agree that, with effect from Completion:

4.1 they consent to, and waive any rights any of them may have which is in any way inconsistent with Coal selling and Ariona buying the JV Interest;

4.2 the 10% Participation Interest in the Joint Ventures acquired by Ariona includes a 10% undivided right, title and interest in all of the JV Assets;

4.3 the management board constituted under each Joint Venture Agreement shall consist of 6 members;

4.4 for as long as Ariona holds a Participation Interest of at least 10% in the relevant Joint Venture, Ariona shall have the right to appoint 2 of those members;

4.5 the presence of at least 1 of the members appointed by Ariona shall be required for a quorum.

5 Negotiation of Shareholders Agreement

5.1 Until Completion (or if it is later, then until the Issue Date or Refusal Date), Coal, Resources and Ariona are to enter into good faith negotiations and endeavour to involve FSE in those negotiations, for the corporatisation of the Joint Ventures by merging them into Coal (or another entity) through negotiating and implementing the Shareholders' Agreement, with the terms set out in Schedule 2 to the Share Purchase Agreement forming the basis upon which they are agreeable to the corporatisation and an agreed outline of the provisions they wish to be included in the Shareholders" Agreement.

5.2 Until the Shareholders Agreement has been fully executed and all its conditions precedent have been satisfied, the Joint Venture Agreements shall continue in full force and effect.

5.3 If FSE, Flag and Lexshell do not agree to the corporatization of the Joint Ventures using Coal as the vehicle for the future conduct of the Businesses the Parties agree that they will negotiate in good faith with each other and with FSE, Flag and Lexshell to identify and agree on:

5.3.1 another corporate vehicle for the future conduct of the businesses of the Joint Ventures, which may be Lexshell or a newly incorporated body; and

5.3.2 the transactions required to achieve the corporatization of the Joint Ventures using that vehicle.

6 **Consolidation of the Waterberg Assets**

Pending the execution of the Shareholders' Agreement, Ariona will not do anything which gives rise to (i) the consolidation or merger of the assets of the Waterberg Coal Project with any other assets or project, or (ii) the involvement of a Historically Disadvantaged South African (HDSA) or HDSA Company or a competitor of Resources or Coal in the South African coal industry.

7 **Section 11 applications**

The parties will co-operate with each other for the preparation and making of all applications for Section 11 Approvals to the DMR and the Minister, as soon as practicable after the Share Purchase Agreement was entered into and before the Completion Date.

8 **Funding of cost of development**

8.1 <u>Project Funding</u>:

8.1.1 Ariona will negotiate in good faith (and use reasonable endeavours to agree terms by no later than 6 months after the Bankable Feasibility Study has been completed and approved by the JV participants) with Resources and FSE, the terms on which Ariona will provide or procure, market based project funding required to bring the Waterberg Coal Project to Commercial Productions up to an amount not exceeding an aggregate sum of US$400 million (**Funding Cap**) which includes funding for the Deferred Carry as described below.

8.1.2 Project funding shall be subject to the written approval of all participants in each Joint Venture.

8.2 <u>Deferred Carry</u>: The terms of the funding will include(in relation to Resources and Coal):

8.2.1 the payment or contribution, on behalf of Resources or Coal (depending on how the Incorporated Joint Venture is structured), of all amounts in US Dollars which Resources or Coal may become liable to contribute by way of equity contributions in connection with the development of the Waterberg Coal Project, until the project achieves Commercial Production (**Deferred Carry Amount**);

8.2.2 the Deferred Carry Amount will bear interest at the lower of 9% or Ariona's actual initial cost of debt funding;

8.2.3 50% of the gross aggregate amount received by Resources or Coal as dividends/distributions from the Incorporated Joint Venture, is to be paid to Ariona in repayment of the Deferred Carry Amount;

8.2.4 all outstanding amounts must be repaid in cash at the end of 20 years from the date on which Commercial Production from the Waterberg Coal Project commenced; and

8.2.5 if the Incorporated Joint Venture uses project funding from a third party, the Deferred Carry will remain available to Resources or Coal (as applicable).

8.3 <u>Resources project funding</u>:

If Resources procures project financing for the Joint Ventures and that project funding is accepted by all participants in the Joint Ventures, Resources will be entitled to receive an arranging fee of 1.5% of any such project financing, which fee will be payable by Ariona and Flag or Lexshell in proportion to their respective Participation Interests in the relevant Joint Venture.

8.4 <u>Penalty on failure to procure funding</u>:

8.4.1 Ariona warrants to Resources and Coal that it will be able to provide or procure the provision of the Deferred Carry Amount and the project funding, within a reasonable time, after all relevant conditions have been satisfied and the BFS has been completed and approved by the participants in the Joint Venture.

8.4.2 If Ariona breaches (i) its obligation with regard to negotiating in good faith and using reasonable endeavours to agree terms or (ii) the warranty in respect of the Deferred Carry Amount, Ariona shall be obliged (subject to Resources using reasonable commercial endeavours to raise alternative finance on commercial terms and as soon as reasonably possible), to pay:

8.4.2.1 all of Resources' or Coal's costs reasonably incurred in raising finance for the equity contributions;

8.4.2.2 the amount of any interest greater than the lower of 9% per annum and a percentage which equates to Ariona's actual initial cost of debt funding, payable by Resources or Coal (as applicable) in respect of that finance; and

8.4.2.3 if Resources is diluted as a result of Ariona's breach and Resources' or Coal's inability to fund those equity contributions wholly or in part, an amount, by way of liquidated damages, equal to A$2.05 million for each 1% of that dilution.

8.4.3 If Ariona breaches (i) its obligation with regard to negotiating in good faith and using reasonable endeavours to agree terms or (ii) the warranty in respect of the project funding, Ariona shall be obliged (subject to the Joint Ventures or the Incorporated Joint Venture using reasonable commercial endeavours to raise alternative project finance on commercial terms and as soon as reasonably possible), to pay:

8.4.3.1 all of the Joint Ventures' or the Incorporated Joint Venture's costs reasonably incurred in raising alternative project finance;

8.4.3.2 as liquidated damages, an amount equal to the difference in value to the Joint Ventures or the Incorporated Joint Venture of the funding obtained, compared with the agreed terms for the project funding or a project funding at a rate of 9% per annum on dollar based funding.

9 **Exchange of Sekoko JV interest for FSE shares**

Resources agrees that if Ariona acquires the FSE Shares and either subscribes for the Subscription Shares or the Alternative Transaction completes and:

9.1 resources or Coal propose a transaction in terms whereof its interest in the Joint Ventures is exchanged for shares in FSE;

9.2 the terms of the proposed sale are commercially acceptable to Ariona (acting reasonably) and the board of directors of FSE; and

9.3 an independent expert engaged by FSE has opined that those terms are fair and reasonable to the un-associated shareholders in FSE,

then Ariona will vote the FSE Shares in favour of a resolution of the FSE shareholders to approve a sale (if Resources or Coal wishes to sell) of Resources' shareholding in Coal or Coal's interest in the Joint Ventures or the incorporated Joint Venture to FSE.

10 **Restriction on Ariona with regard to disposals**

10.1 Restriction on encumbrance or transfer: Until project funding of at least US$400 million (including funding of the Deferred Carry) has been offered to the Joint Ventures or the Incorporated Joint Venture in a form capable of acceptance, Ariona will not, without Resources' prior written consent, Encumber any of the FSE Shares or the Subscription Shares or the JV Interest (**Ariona Acquisitions**) or transfer any of the Ariona Acquisitions to a third party who is not a member of the consortium of investors providing funding to Ariona in connection with the Purchase Price or the Subscription Money (who are named in Annexure B), the consideration for the Alternative Transaction or the Temporary Loan.

10.2 Restriction re HDSA investors: Ariona must not, while Resources continues to hold an interest in the Waterberg Coal Project that is sufficient to satisfy the provisions of South African law and administrative policy relating to the involvement of black empowerment enterprises in resources projects, without the prior written consent of Resources, sell or otherwise dispose of the Subscription Shares or the JV Interest to a HDSA or a HDSA Company.

10.3 Sekoko pre-emptive right: If Ariona wishes to dispose of the Subscription Shares or the JV Interest whilst Resources continues to hold an interest in the Waterberg Coal Project, Ariona must (subject to Flag and/or Lexshell waiving any relevant pre-emptive right) offer the Subscription Shares or the JV Interest to Resources at the same price and on the same terms and conditions.

11 **Eskom MOU**

Resources and Coal must use reasonable endeavours to procure the assignment, with the consent of Eskom Holdings SOC Limited, of the Eskom MOU to the Joint Ventures or the Incorporated Joint Venture.

12 **Indemnities**

To secure certain indemnities in respect of breach of warranty and other matters given by Resources and Coal in the Share Purchase Agreement Resource, Coal and Ariona have entered into a further agreement under which, if Coal is discovered to have liabilities as at Completion under the Share Purchase Agreement which are the subject matter of those indemnities, subject to necessary regulatory approvals being obtained, Ariona has the right, but not the obligation, to subscribe for shares in Coal at the fair market value of Coal shares at the time the relevant liability is to be paid an amount sufficient, together with Coal's cash resources (if any), to pay the relevant indemnified liability.

The effect of these arrangements, depending on the aggregate of the amounts of the relevant indemnified liabilities (if any) may result in Ariona coming to own directly and/or indirectly up to a 40% interest in the Waterberg Coal Project with Resources direct or indirect ownership interest in it being reduced possibly to zero.

It is to be noted, however, that a dilution of Resources' interest in the Waterberg Coal Project to less than 25.1% may result in the black empowerment enterprise (BEE) requirements for minerals projects in South Africa not being satisfied. In order to comply with the BEE requirements, the shareholding Ariona may have in Coal will be limited such that its interest in the Waterberg Coal Project, through its Coal shareholding, cannot exceed 14.9%. If Resources were able to continue to satisfy the BEE requirements and Ariona were to subscribe for shares in Resources, instead of Coal, the maximum direct (through Coal) and indirect (through Resources via Coal) interest in the Waterberg Coal Project that Ariona could hold is 27.4%.

PART 2 – Conditions Precedent to Share Acquisition

The following is a summary of the conditions precedent to the Share Acquisition which remain to be satisfied as at the date of this Notice of Meeting and Explanatory Memorandum.

	Condition
1.	**IDC**: Industrial Development Corporation of South Africa Limited (**IDC**) having (i) consented in writing to the transactions relevant to certain arrangements between IDC and Sekoko, and (ii) agreed in writing that, upon payment to it of the amount owing to it, those arrangement will terminate and the shares in FSE pledged to IDC will be released from that pledge
2.	**Ariona / FSE Connotes**: The agreement in relation to the issue of convertible notes by FSE to Ariona (i.e. the Investment Agreement) not having been amended without Resources' consent
3.	**Ariona / FSE Connotes**: Ariona having subscribed for A$30.7 million of the NCNs
4.	**Ariona directors**: FSE having after the meeting appointed Ariona's nominees as directors of FSE
5.	**FSE group consents**: FSE, Flag and Lexshell having, in form and substance satisfactory to Ariona (acting reasonably) consented or agreed to certain things and waived certain warranty breaches and pre-emptive rights (to the extent applicable) connected with the Joint Ventures and in connection with Ariona acquiring the JV Interest. The matters agreed to are substantially the same as the matters summarised in paragraph 4 of Part 1 of this Annexure A.
6.	**Regulatory approvals**: All approvals under certain applicable South African laws in respect of the sale and purchase of the FSE Shares, the subscription for the Subscription Shares and, the JV Interest and the making of the Temporary Loan having been obtained.
7.	**FSE Shareholder Approvals**: FSE shareholders having passed Resolutions 1 and 2
8.	**Regulatory approvals**: Ariona having been provided with satisfactory evidence that any approvals required in relation to any issue of shares in FSE to Sekoko were obtained
9.	**FSE undertaking**: FSE having undertaken to Ariona that it will not, until Completion has occurred: (i) engage in business other than in the normal course of its business, or (ii) proceed with any internal restructuring of the FSE subsidiaries or their 60% Participation Interests in the Joint Ventures, without Ariona's prior written consent
10.	**Security Agreements**: Ariona and Resources having agreed the terms of the documents comprising Annexure B (Guarantee and Cession) to the Share Purchase Agreement
11.	**Liability Security:** Resources and Ariona having entered into an arrangement and executing all necessary documents that provides adequate security (which security may include the right for Ariona to subscribe for additional equity in Coal) in connection with Coal's ability to pay and/or Resources' ability to indemnify Ariona in respect of potential liabilities of Coal
12.	**Affairs of Sekoko:** Resources and Ariona having agreed in writing and in greater detail than what is set out in Schedule 3 the various acts, matters and things concerning the affairs of Sekoko which are contemplated in the Reconstruction Steps to be substituted for Schedule 3 of the Share Purchase Agreement or that Schedule 3 is adequate.

PART 3 – New Convertible Note Facility Terms

Investment Agreement

The following is a summary of the Investment Agreement entered into on 23 July 2012 between FSE, Ariona, BBY Nominees Pty Ltd (**BBY**) and Jaguar Funds Management Pty Ltd (**JFM**) (**Investment Agreement**).

(Capitalised terms used in this summary bear the same meaning as in the Investment Agreement.)

1.	**Existing Notes** • BBY and JFM agree that from the last interest payment date prior to 29 April 2012 in respect of the ECNs, until the redemption of the ECNs, interest will be calculated and payable on a monthly basis. No interest will be paid in cash; instead, all interest will either be payable in Shares issued at a discount, or capitalised to be paid out on redemption of the ECNs. • All ECNs may be redeemed early. • Firestone will issue to BBY and JFM in total (and as between them in proportion to the ECNs held by them respectively) 300 million incentive options exercisable over 2 years at a price of A$0.025 per Share.
2.	**Initial Subscription** • Castlepines Global Equity Limited, a member of the Ariona consortium, has provided to FSE a letter of comfort in respect of the entire possible subscription amount of A$40.7 million. • A$30.7 million will be paid into the Escrow Account once all the conditions precedent have been satisfied. • The initial subscription for and issue to Ariona of A$30.7 million of NCNs will be made on the 5th Business Day after the Conditions Precedent are satisfied.

3.	**Escrow Arrangements**
	• The Escrow Account will be established by the Escrow Agent (BBY) which will hold, invest and disburse the Initial Subscription Monies, and only release amounts on receipt of a Withdrawal Notice from Ariona.
	• Interest earned on the Initial Subscription Monies whilst held in the Escrow Account must be paid to Ariona.
	• Initial Subscription Monies (and interest) must be released and distributed from the Escrow Account as follows:
	  • an amount equal to the amount required to redeem the ECNs and pay any capitalised interest on them, to such account as BBY and JFM directs;
	  • the balance of the Initial Subscription Monies to FSE; and
	  • any interest accrued on Initial Subscription Monies to Ariona.

4.	**Redemption of Existing Notes** • The Escrow Agent will make the necessary payments from the Escrow Account to ensure the redemption of all Existing Notes, including the payment of any unpaid interest that has accrued and has not been satisfied by the issue of Shares.

<table>
<tr><td></td><td>This amount is warranted not to exceed A$22.145million.</td></tr>
<tr><td>5.</td><td>Directors Nomination Rights
Ariona may nominate three persons to be Directors. This does not prejudice the right of Ariona as a shareholder of FSE to propose for election as Directors at a general meeting persons in addition to its three permitted nominees.
Ariona Nominees may be removed and replaced by Ariona from time to time.</td></tr>
<tr><td>6.</td><td>Cessation of Director Nomination Rights
Ariona will retain the right to appoint Ariona Nominees up to Completion, and thereafter for as long as more than 50% of the Convertible Notes remain on issue.</td></tr>
<tr><td>7.</td><td>Conditions Precedent: The conditions precedent to be satisfied before the initial subscription for A$30.7 million of NCNs will occur, and their status as at the date of this notice, are set out in Part 4 of this Annexure A.</td></tr>
<tr><td>8.</td><td>Additional Facility
an Additional Facility of $10 million is available to be drawn by FSE for 12 months from Completion of the issue of NCNs in respect of the initial subscription by Ariona of A$30.7 million.
Draw down on the Additional Facility can be made at intervals of not less than every 3 months, and must be for no more than next 3 months of cash requirements net of existing cash.
There are various conditions precedent to draw down of the Additional Facility, including as to the provision of a certificate that the amount proposed to be drawn is no more than sufficient, net of existing surplus cash, to fund FSE’s budgeted expenses for the next 3 months of operations.
NCNs issued under Additional Facility will have the same interest payment dates and Maturity Date as the NCNs issued for the initial A$30.7 million subscription</td></tr>
<tr><td>9.</td><td>Restriction
FSE is not to use the funds received from Ariona other than in accordance with the agreed Budget.</td></tr>
<tr><td>10.</td><td>Effect of event of default
Ariona may terminate its commitments under the agreement, exercise or enforce any of its rights under the Finance Documents, or initiate enforcement action in respect of the Securities.</td></tr>
<tr><td>11.</td><td>Security
The obligations of FSE under the Investment Agreement, the Convertible Note Deed Poll and the Terms and Conditions of Convertible Notes are secured by a somewhat complex security structure in accordance with South African practice where securities are intended to secure transferees of secured instruments. The structure involves a South African incorporated special purpose vehicle owned and managed by Ariona (Security Holder). The Security Holder gives a limited recourse guarantee to Ariona and the holders of NCNs of FSE’s relevant obligations and takes a cross indemnity from FSE which is secured over the direct and indirect interests of FSE in the Waterberg Coal Project including by guarantees and securities granted by Flag and Lexshell.</td></tr>
</table>

12.	**Release of securities** To enable the establishment of the Incorporated Joint Venture, Ariona agrees that, if required, it will procure that the Security Holder releases and discharges: • those Securities given by Lexshell if it is the vehicle through which corporatisation of the Joint Ventures is achieved (**Corporatisation Vehicle**); and • from any other Security and any assets which are the subject matter of that security, which must be transferred to Lexshell (if it is the Corporatisation Vehicle) to establish the Incorporated JV.

Secured Convertible Note Deed Poll

Note that the Secured Convertible Note Deed Poll (a Deed Poll for the benefit of holders of NCNs to be executed by FSE) is set out as an annexure to the Investment Agreement and will be executed by FSE before the initial subscription of A$30.7 million for NCNs occurs under the Investment Agreement.

The following is a summary of the Secured Convertible Note Deed Poll (**deed poll**)

(Capitalised terms used in this summary bear the same meaning as in the Investment Agreement.)

1.	**Issue of notes on Completion Date** On the Completion Date Ariona must be issued with 30,700,000 Notes that rank equally with each other. Each Note has a face value of $1.00.
2.	**Issue of notes on Drawdown Date** On each Drawdown Date specified in a Drawdown Notice, and in accordance with the Investment Agreement, Ariona must be issued with the number of NCNs subscribed for by Ariona on that Drawdown Date, up to the maximum of 10,000,000 NCNs.
3.	**Rights** Each Noteholder: • has the benefit of and may enforce, the deed poll against FSE; and • has the benefit of, takes NCNs subject to, and may enforce its rights under the Finance Documents.
4.	**Note Terms** **Interest** • 8% per annum • Payable 6 monthly (on the 6 month and 12 month anniversary of the Issue Date) • For the first 24 months, at the election of the Company, interest is payable in cash or capitalised • After the first 24 months, interest is payable in cash or if Company and Majority Noteholder agree, capitalised • Noteholder can on Conversion, elect to receive any outstanding interest in cash or in Shares.

5.	**Conversion** • At election of Noteholder at any time prior to Maturity Date (4 years from date of issue) • Conversion Price - \$0.025 per share (subject to adjustment for capital reorganisations). • Shares issued on conversion (including in respect of interest) rank equally with all other Shares on issue from the Conversion Date. • Company has no obligation to convert if it would result in Noteholder exceeding takeover threshold of 20% and the shareholder approval under item 7 of section 611 obtained is no longer valid. However if the value of the NCNs (including any capitalised interest) being converted is greater than A\$500,000 and the relevant Noteholder so requests, the Company must seek any necessary shareholder approval to allow the conversion to occur. • On issue of Shares on Conversion, FSE must issue a cleansing notice to the market or prepare and lodge with ASIC a prospectus in compliance with Chapter 6D of the Corporations Act.
6.	**Capital Reorganisations** • Consolidations and share splits – reorganised on same basis. • Issues of Shares and convertible securities – on a formula basis to preserve the effective value, as at the Completion Date, of converting the NCNs at 2.5 cents per Share – this applies to all issues (including issues of convertible securities) with an issue, exercise or conversion price of less than 2.5 cents per Share) not just rights issues and bonus issues. • Capital Reductions - on a formula basis to preserve the effective value, as at the Completion Date, of converting the NCNs at 2.5 cents per Share. • Share Buybacks - on a formula basis to preserve the effective value, as at the Completion Date, of converting the NCNs at 2.5 cents per Share.
7.	**Redemption** • Any Notes outstanding at Maturity Date, and which are not then subject to a Conversion Notice, are to be redeemed. • Redemption Payment is to be in Australian dollars, inclusive of any capitalised interest.
8.	**Transferability** Notes can be transferred but will not be quoted on ASX.
9.	**Meetings** • Noteholders entitled to receive all notices and accounts sent to shareholders. • Noteholders can attend shareholder meetings but cannot vote or speak at the meetings except as provided for in the Corporations Act or the ASX Listing Rules.

PART 4 – Conditions Precedent to NCN Issue

The following is a summary of the conditions precedent to the NCN Issue which remain to be satisfied as at the date of this Notice of Meeting and Explanatory Memorandum

	Condition
1.	All Australian and South African regulatory approvals necessary or desirable to give effect to the Finance Documents having been obtained on terms acceptable to Ariona and the Company.
2.	Resolution 2 having been passed.
3.	The Company having obtained any other approval the Company must obtain to complete all the transactions contemplated by this document, the Convertible Note Deed Poll, or any agreement relating to the redemption of the ECNs, the issue of the maximum number of NCNs that may be issued under the Investment Agreement and the Convertible Note Deed Poll, the granting and enforcement of each of the Securities and the issue of Shares on conversion of the Convertible Notes.
4.	The Board having appointed, on the date on which E is satisfied, as directors of the Company the nominee(s) not exceeding three of Ariona whose names, consents to act as directors of the Company and profiles Ariona has provided to FSE. Ariona has advised that it only intends two nominees be appointed as Directors for the time being.

ANNEXURE B

Associated entities of Ariona Company SA

No.	Name of Entity
1	**Richmond Capital LLP**
2	**Castlepines Global Equity Limited**
3	**Al Nahdha Investment**
4	**Orlisk International Ltd**
5	**Issar Pty Ltd**
6	**Standard Bank of South Africa Limited**
7	**Abu Dhabi Investment Council (ADIC)**
8	**Starvale Holdings Pty Ltd**

ANNEXURE C

INCENTIVE OPTIONS

TERMS AND CONDITIONS

The Options will entitle the holders to subscribe for Shares in the Company on the following terms:

(a) each Option entitles the holder, when exercised, to one (1) Share in the Company;

(b) the Options will be exercisable at any time prior to 5.00pm WST two (2) years after the date of issue (**Expiry Date**). Options not exercised on or before the expiry date will automatically lapse;

(c) the exercise price of each Option will be A$0.025 per Share (2.5 cents);

(d) an Option does not confer the right to a change in exercise price or a change in the number of underlying securities over which the Option can be exercised;

(e) the Option may be exercised by completing an application form for Shares (**Notice of Exercise**) delivered to the Company and received by it any time prior to the Expiry Date;

(f) upon the exercise of an Option and receipt of all relevant documents and payment in cleared funds, the holder will be allotted and issued a Share ranking pari passu with the then issued Shares. The Company will apply for quotation of all Shares issued upon exercise of the Options on ASX;

(g) a summary of the terms and conditions of the Options, including the Notice of Exercise, will be sent to all holders of Options when the initial holding statement is sent;

(h) subject to the Corporations Act, the ASX Listing Rules and the Company's constitution, the Options are freely transferable;

(i) any Notice of Exercise received by the Company's share registry on or prior to the Expiry Date will be deemed to be a Notice of Exercise as at the last Business Day of the month in which such notice is received;

(j) there will be no participating entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital. However, the Company will ensure that for the purposes of determining entitlements to any such issue, it will announce the terms of the issue to ASX prior to the record date in accordance with the requirements of the ASX Listing Rules;

(k) if at any time the issued capital of the Company is reconstructed, all rights of an Option holder are to be changed in a manner consistent with the ASX Listing Rules; and

(l) Shares issued pursuant to the exercise of an Option will be issued not more than 14 days after the date of the Notice of Exercise.

Firestone Energy Limited

ABN 71 058 436 794

Lodge your vote:

By Mail:
Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only
(custodians) www.intermediaryonline.com

For all enquiries call:

(within Australia) 1300 850 505
(outside Australia) +61 3 9415 4000

000001 000 FSE
MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Proxy Form

For your vote to be effective it must be received by 11.00am (WST) Wednesday 03 October 2012

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate “Certificate of Appointment of Corporate Representative” prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the information tab, "Downloadable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

Turn over to complete the form →

View your securityholder information, 24 hours a day, 7 days a week:

www.investorcentre.com

☑ **Review your securityholding**

☑ **Update your securityholding**

Your secure access information is:

SRN/HIN: I9999999999

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

☐ **Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with '**X**') should advise your broker of any changes.

I 9999999999 I ND

Proxy Form

Please mark ☒ to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Firestone Energy Limited hereby appoint

☐ **the Chairman of the Meeting** **OR** ____________

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the General Meeting of Firestone Energy to be held at BDO Chartered Accountants, Hay Room, 38 Station Street, Subiaco, Western Australia on Friday, 05 October 2012 at 11.00am (WST) and at any adjournment of that meeting.

Important for Resolutions 2 to 5: If the Chairman of the Meeting is your proxy and you have not directed him/her how to vote on Resolutions 2 to 5 below, please mark the box in this section. If you do not mark this box and you have not directed your proxy how to vote, the Chairman of the Meeting will not cast your votes on Resolutions 2 to 5 and your votes will not be counted in computing the required majority if a poll is called on these Resolutions. The Chairman of the Meeting intends to vote undirected proxies in favour of Resolutions 2 to 5.

☐ I/We acknowledge that the Chairman of the Meeting may exercise my proxy even if he/she has an interest in the outcome of that Item and that votes cast by him/her, other than as proxy holder, would be disregarded because of that interest.

STEP 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

		For	Against	Abstain
Resolution 1	Approval of Transfer of Shares and Acquisition of Relevant Interest	☐	☐	☐
Resolution 2	Approval of Issue of New Convertible Notes and Issue of Shares on Conversion of New Convertible Notes	☐	☐	☐
Resolution 3	Approval of Issue of Unlisted Incentive Options	☐	☐	☐
Resolution 4	Subsequent Approval of Share Issue	☐	☐	☐
Resolution 5	Subsequent Approval of Convertible Note Issue	☐	☐	☐

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary	Director	Director/Company Secretary

Contact Name ____________ **Contact Daytime Telephone** ____________ **Date** ___ / ___ / ___

This is

ANNEXURE D

to

NOTICE OF GENERAL MEETING

dated 30 August 2012

of

FIRESTONE ENERGY LIMITED

INDEPENDENT EXPERT'S REPORT

This is an important document and requires your attention.

You should read this document in its entirety. You may wish to consult your financial adviser about its contents. If you are in doubt as to how to vote, you should seek advice from your accountant, solicitor or other professional adviser prior to voting.

FIRESTONE ENERGY LIMITED
Independent Expert's Report

9 August 2012

BDO

Financial Services Guide

9 August 2012

BDO Corporate Finance (WA) Pty Ltd ABN 27 124 031 045 (“**we**” or “**us**” or “**ours**” as appropriate) has been engaged by Firestone Energy Limited (“**Firestone**”) to provide an independent expert’s report on the proposal to issue a convertible note to Ariona Company SA replacing the current convertible notes and the proposal for Sekoko Resources (Pty) Ltd to sell 800 million shares in Firestone to Ariona Company SA for A$8 million. You will be provided with a copy of our report as a retail client because you are a shareholder of Firestone.

Financial Services Guide
In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide (“**FSG**”). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- Who we are and how we can be contacted;
- The services we are authorised to provide under our Australian Financial Services Licence, Licence No. 316158;
- Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- Any relevant associations or relationships we have; and
- Our internal and external complaints handling procedures and how you may access them.

Information about us
BDO Corporate Finance (WA) Pty Ltd is a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The financial product advice in our report is provided by BDO Corporate Finance (WA) Pty Ltd and not by BDO or its related entities. BDO and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business.

Financial services we are licensed to provide
We hold an Australian Financial Services Licence that authorises us to provide general financial product advice for securities to retail and wholesale clients.

When we provide the authorised financial services we are engaged to provide expert reports in connection with the financial product of another person. Our reports indicate who has engaged us and the nature of the report we have been engaged to provide. When we provide the authorised services we are not acting for you.

General Financial Product Advice
We only provide general financial product advice, not personal financial product advice. Our report does not take into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice.

Fees, commissions and other benefits that we may receive
We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees are agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. The fee for this engagement is approximately $40,000.

Except for the fees referred to above, neither BDO, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Other Assignments
In June 2010, BDO was engaged by Firestone to prepare an independent expert's report on the transaction whereby Firestone announced it had entered into an agreement with Sekoko Coal Limited to acquire a 60% interest in a further two properties in the Waterberg Coalfield.

BDO Audit and Assurance (WA) Pty Ltd is the appointed Auditor of Firestone. We do not consider that this impacts on our independence in accordance with the requirements of Regulatory Guide 112 'Independence of Experts'. We have completed a conflict search of BDO affiliated organisations within Australia. This conflict search incorporates all Partners, Directors and Managers of BDO affiliated organisations. We are not aware of any circumstances that, in our view, would constitute a conflict of interest or would impair our ability to provide objective assistance in this matter.

Remuneration or other benefits received by our employees
All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report. We have received a fee from Firestone for our professional services in providing this report. That fee is not linked in any way with our opinion as expressed in this report.

Referrals
We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Complaints resolution
Internal complaints resolution process
As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing addressed to The Complaints Officer, BDO Corporate Finance (WA) Pty Ltd, PO Box 700 West Perth WA 6872.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme
A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service ("**FOS**"). FOS is an independent organisation that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial service industry. FOS will be able to advise you as to whether or not they can be of assistance in this matter. Our FOS Membership Number is 12561. Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly via the details set out below.

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001
Toll free: 1300 78 08 08
Facsimile: (03) 9613 6399
Email: info@fos.org.au

Contact details
You may contact us using the details set out at the top of our letterhead on page 1 of this FSG.

TABLE OF CONTENTS

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

9 August 2012

The Directors
Firestone Energy Limited
Tempo Offices, Suite B9
431 Roberts Road
Subiaco
WA 6008

Dear Sirs

INDEPENDENT EXPERT'S REPORT

1. Introduction

On 7 May 2012, Firestone Energy Limited ("**Firestone**" or "**the Company**") announced that it had entered into a conditional term sheet with Ariona Company SA ("**Ariona**") under which Ariona will provide $30.7 million (revised to $40.7 million by a further announcement on 25 July 2012) to the Company under a secured convertible note facility with a conversion price of $0.025 per share replacing the current convertible notes ("**Funding Facility**").

In addition, the Company announced that Ariona will acquire up to 800 million shares in Firestone from Sekoko Resources (Pty) Ltd ("**Sekoko**"), its major shareholder, for $8 million ("**Share Transfer**"). This represents approximately 25% of the issued share capital of the Company.

Firestone is seeking the approval of its non-associated shareholders ("**Shareholders**") under section 611 item 7 of the Corporations Act 2001 ("**the Act**"), because separately and together the:

- Funding Facility may result in Ariona holding more than 20% of the issued capital in Firestone; and
- Share Transfer may result in Ariona holding more than 20% of the issued capital in Firestone.

The two proposed transactions are not conditional on each other.

Our report will accompany a Notice of Meeting ("**NOM**") and Explanatory Memorandum ("**EM**").

2. Summary and Opinion

2.1 Purpose of the report

The directors of Firestone have requested that BDO Corporate Finance (WA) Pty Ltd (“**BDO**”) prepare an independent expert’s report (“**our Report**”) to express two opinions. The first, as to whether or not the Funding Facility, under which shares may be issued to Ariona on the conversion of the convertible notes, is fair and reasonable to the Shareholders of Firestone (“**Opinion One**”), and the second as to whether the advantages of the Share Transfer outweigh the disadvantages (“**Opinion Two**”).

Our Report is prepared pursuant to section 208 (Need for member approval for financial benefit) and 611 of the Act and is to be included in the NOM and EM for Firestone in order to assist the Shareholders in their decision whether to approve the Funding Facility and Share Transfer.

2.2 Approach

Our Report has been prepared having regard to Australian Securities and Investments Commission (“**ASIC**”) Regulatory Guide 111 (“**RG 111**”), ‘Content of Expert’s Reports’ and Regulatory Guide 112 (“**RG 112**”) ‘Independence of Experts’.

In arriving at Opinion One, we have assessed the terms of the Funding Facility as outlined in the body of this report. We have considered:

- How the value of the shares being acquired compares to the value of the consideration to be paid on conversion;
- The likelihood of a superior alternative offer being available to Firestone;
- Other factors which we consider to be relevant to the Shareholders in their assessment of the Funding Facility; and
- The position of Shareholders should the Funding Facility not proceed.

In arriving at Opinion Two, we have assessed the terms of the Share Transfer as outlined in the body of this report. We have considered:

- The advantages and disadvantages of the Share Transfer for the Shareholders;
- Whether a premium for control is being offered in relation to the transfer of Firestone shares and whether this is appropriate;
- Other factors which we consider to be relevant to the Shareholders in their assessment of the Share Transfer; and
- The position of Shareholders should the Share Transfer not proceed.

2.3 Opinion

Opinion One

We have considered the terms of the Funding Facility as outlined in the body of this report and have concluded that the Funding Facility is fair and reasonable to Shareholders.

Opinion Two

We have considered the terms of the Share Transfer as outlined in the body of this report and have concluded that the advantages of the Share Transfer outweigh the disadvantages of the Share Transfer for Shareholders.

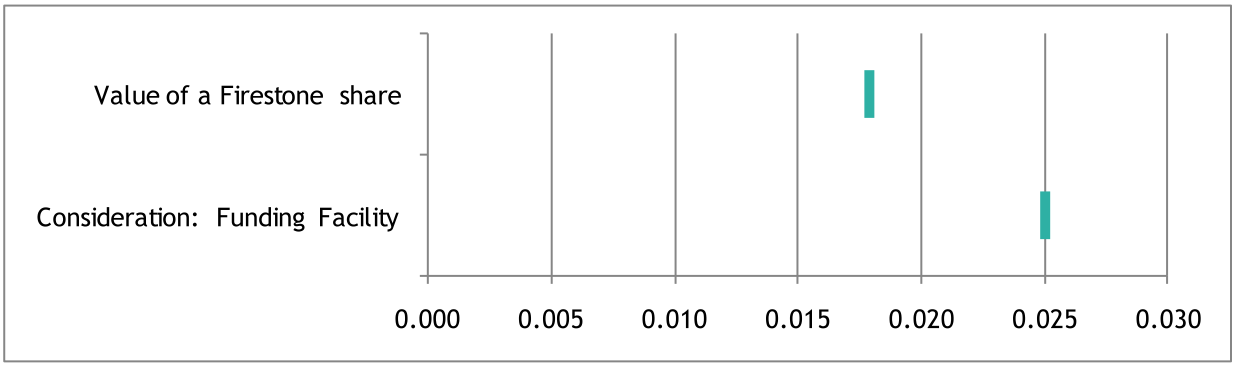
2.4 Fairness

Opinion One - Funding Facility

In Section 11 we determined how the Funding Facility consideration compares to the value of a Firestone share as detailed hereunder.

	Reference	Low $	High $
Value of a Firestone share	10.3	0.018	0.018
Consideration: Funding Facility	11	0.025	0.025

The above valuation ranges are graphically presented below:



The above pricing indicates that, in the absence of any other relevant information, the Funding Facility is fair for Shareholders. We also consider the interest rate is representative of an arm's length interest rate when compared to other convertible notes issued.

2.5 Reasonableness

Opinion One - Funding Facility

We have considered the analysis in Section 13 of this report, in terms of both:

- advantages and disadvantages of the Funding Facility; and
- alternatives, including the position of the Shareholders if the Funding Facility does not proceed.

In our opinion, the position of Shareholders if the Funding Facility is approved is more advantageous than the position if the Funding Facility is not approved. Accordingly, in the absence of any other relevant information we consider that the Funding Facility is reasonable for Shareholders.

The respective advantages and disadvantages considered are summarised below:

ADVANTAGES AND DISADVANTAGES			
Section	Advantages	Section	Disadvantages
13.4	The proposed Funding Facility is fair	13.5	Dilution effect to Firestone's existing shareholders
13.4	Access to funding	13.5	Reduced control
13.4	Avoids the possibility of Firestone becoming insolvent.		
13.4	Introduction of Ariona's experience and expertise in the resource sector		

Other key matters we have considered include:

Section	Description
13.1	Alternative proposals
13.2	The practical level of control
13.3	Consequences of not approving the Funding Facility

Opinion Two - Share Transfer

We have considered the analysis in Section 14 of this report, in terms of both:

- advantages and disadvantages of the Share Transfer; and
- alternatives, including the position of the Shareholders if the Share Transfer does not proceed.

In our opinion, the advantages of the Share Transfer outweigh the disadvantages of the Share Transfer for Shareholders.

The respective advantages and disadvantages considered are summarised below:

ADVANTAGES AND DISADVANTAGES			
Section	Advantages	Section	Disadvantages
14.6	Funding for the Waterberg JV	14.7	Reduced control
14.6	Introduction of Ariona's experience and expertise in the resource sector		

Other key matters we have considered include:

Section	Description
14.1	Valuation consideration
14.2	Is Sekoko receiving a premium for control?
14.3	Alternative proposals
14.4	The practical level of control
14.5	Consequences of not approving the Share Transfer

3. Scope of the Report

3.1 Purpose of the Report

Funding Facility

Section 606 of the Corporations Act expressly prohibits the acquisition of shares by a party if that acquisition will result in that person (or someone else) holding an interest in 20% or more of the issued shares of a public company, unless a full takeover offer is made to all shareholders.

Following the Funding Facility alone, Ariona may hold a maximum of 41.7% of the issued capital of Firestone, if all the convertible notes are converted to shares. If the Share Transfer is also approved, then Ariona may hold a maximum of 56.7% of the issued capital of Firestone, if all the convertible notes are converted to shares.

Section 611 permits such an acquisition if the shareholders of that entity have agreed to the issue of such shares. This agreement must be by resolution passed at a general meeting at which no votes are cast in favour of the resolution by any party who is associated with the party acquiring the shares, or by the party acquiring the shares. Section 611 states that shareholders of the company must be given all information that is material to the decision on how to vote at the meeting.

ASIC Regulatory Guide 74 deals with "Acquisitions Agreed to by Shareholders". It states that the obligation to supply shareholders with all information that is material can be satisfied by the non-associated directors of Firestone, by either:

- undertaking a detailed examination of the proposed Share Transfer themselves, if they consider that they have sufficient expertise; or
- by commissioning an Independent Expert Report.

The directors of Firestone have commissioned this Independent Expert's Report to satisfy this obligation.

We note that approval of shareholders is also sought under Section 208 “Need for member approval for financial benefit” since there is a financial benefit in the proposal to issue convertible notes to Ariona which will pay interest at 8% per annum and Ariona is expected to become a related party in the future. Guidance on this is provided by ASIC Regulatory Guide 76 “Related Party Transactions” and ASIC Regulatory Guide 111.

Share Transfer

Section 606 of the Corporations Act expressly prohibits the acquisition of shares by a party if that acquisition will result in that person (or someone else) holding an interest in 20% or more of the issued shares of a public company, unless a full takeover offer is made to all shareholders.

Following the Share Transfer alone, Ariona may hold a maximum of 25.7% of the issued capital of Firestone. If the Funding Facility is also approved, then Ariona may hold a maximum of 56.7% of the issued capital of Firestone, if all the convertible notes are converted to shares.

Section 611 permits such an acquisition if the shareholders of that entity have agreed to the issue of such shares. This agreement must be by resolution passed at a general meeting at which no votes are cast in favour of the resolution by any party who is associated with the party acquiring the shares, or by the party acquiring the shares. Section 611 states that shareholders of the company must be given all information that is material to the decision on how to vote at the meeting.

Regulatory Guide 74 issued by ASIC deals with "Acquisitions Agreed to by Shareholders". It states that the obligation to supply shareholders with all information that is material can be satisfied by the non-associated directors of Firestone, by either:

- undertaking a detailed examination of the proposed Share Transfer themselves, if they consider that they have sufficient expertise; or
- by commissioning an Independent Expert's Report.

The directors of Firestone have commissioned this Independent Expert's Report to satisfy this obligation.

3.2 Regulatory guidance

Neither the Listing Rules nor the Act defines the meaning of “fair and reasonable”. In determining whether the Funding Facility and Share Transfer are fair and reasonable, we have had regard to the views expressed by ASIC in RG 111. This regulatory guide provides guidance as to what matters an independent expert should consider to assist security holders to make informed decisions about transactions.

This regulatory guide suggests that where the transaction is a control transaction, the expert should focus on the substance of the control transaction rather than the legal mechanism to affect it. RG 111 suggests that where a transaction is a control transaction, it should be analysed on a basis consistent with a takeover bid.

In our opinion, the Funding Facility is a control transaction as defined by RG 111 since Ariona will gain voting shares in Firestone if the convertible notes are converted to shares and we have therefore assessed the Funding Facility to consider whether, in our opinion, it is fair and reasonable to Shareholders.

RG111.42 requires that we identify the advantages and disadvantages of the Share Transfer to Shareholders.

RG 111.43 suggests that an expert should assess whether a premium for control will be provided to the vendor of any shares. RG 111.44 suggests that the greater the control premium, the greater the advantages of the transactions to the non-associated shareholders would need to be to support a finding that the advantages of the proposal outweighed the disadvantages.

RG 111.45 sets out that the expert should inquire whether further transactions are planned between the entity, the vendor or their associates and if any are contemplated determine if these are at arm’s length. RG 111.46 also suggests that an expert should consider whether the transaction will deter the making of a takeover bid.

In relation to the matter of the Funding Facility being a transaction providing a financial benefit to a related party, RG111.63 states that generally an expert need only conduct one analysis of whether the transaction is ‘fair and reasonable’, even if the report has been prepared for a reason other than the transaction being a related party transaction.

3.3 Adopted basis of evaluation

Opinion One - Funding Facility

RG 111 states that a transaction is fair if the value of the offer price or consideration is greater than the value of the securities subject of the offer. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm’s length. When considering the value of the securities subject of the offer in a control transaction the expert should consider this value inclusive of a control premium. Further to this, RG 111 states that a transaction is reasonable if it is fair. It might also be reasonable if despite being 'not fair' the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid.

Having regard to the above, BDO has completed this comparison in two parts:

- A comparison between the conversion price of the convertible note and the value of each Firestone share being acquired (fairness – see Section 12 "Is the Funding Facility Fair?"); and
- An investigation into other significant factors to which Shareholders might give consideration, prior to approving the resolution, after reference to the value derived above (reasonableness – see Section 13 "Is the Funding Facility Reasonable?").

Opinion Two - Share Transfer

RG 111 suggests that the main purpose of an independent expert's report is to adequately deal with the concerns that could reasonably be anticipated of those persons affected by the transaction.

Having regard to RG 111, we have completed our Report as follows:

- An investigation into the advantages and disadvantages of the Share Transfer (section 14);
- An analysis of the matter of any premium for control received by Sekoko (Section 14); and
- An analysis of any other issues that could be reasonably anticipated to concern Shareholders as a result of the Share Transfer (Section 14).

This assignment is a Valuation Engagement as defined by APES 225 Valuation Services. A Valuation Engagement means an engagement or assignment to perform a valuation and provide a valuation report where we determine an estimate of value of the Company by performing appropriate valuation procedures and where we apply the valuation approaches and methods that we consider to be appropriate in the circumstances.

4. Outline of the Funding Facility & Share Transfer

On 7 May 2012, Firestone announced it had agreed the terms for a $30.7 million (revised to $40.7 million by a further announcement dated 25 July 2012) funding facility to be provided by Ariona. In addition, the Company announced that Ariona has agreed to acquire up to 800 million shares in Firestone from Sekoko for $8 million.

On 29 June 2012, Firestone announced that Sekoko and Ariona have signed a formal Share Sale and Purchase Agreement ("**SPA**").

Funding Facility

Firestone has entered into a conditional term sheet with Ariona under which Ariona will provide $40.7 million to the Company under a secured convertible note facility replacing the current convertible notes. The terms of the convertible notes will be:

Term	4 years
Coupon	8.0% pa
Interest payments	Payable half yearly. For the first 24 months interest is to be paid in cash or capitalised at the election of Firestone and after the first 24 months interest to be paid in cash or capitalised as agreed by the Company or Ariona
Conversion price	$0.025 per share
Conversion terms	Convert into ordinary shares at the election of the noteholder

Ariona will be entitled to nominate up to three directors to the Board of Firestone.

Firestone will, subject to necessary shareholder approval, offer the existing convertible note ("**ECN**") holders who agree to early redemption of their notes, incentive options exercisable over 2 years at a price of $0.025 per share. The number of incentive options to be issued to an accepting ECN holder shall be pro rata to its holding of ECNs on the basis that 300 million incentive options would be issued in the case of 100% acceptance.

Share Transfer

Firestone has been informed by Sekoko, its major shareholder, that Sekoko and Ariona have signed a formal SPA in which Ariona will acquire from Sekoko a minimum of 622 million shares in Firestone for $6.22 million up to a maximum of 800 million shares in Firestone for $8 million. This represents approximately 20.0% up to a maximum of 25.7% of the issued capital of Firestone.

Ariona will also acquire a 10% interest in the Waterberg JV from Sekoko for approximately $20.5 million, reducing Sekoko's interest to 30%.

The transaction will include Ariona undertaking to procure project funding for the development of the Waterberg Joint Venture of up to US$400 million.

Ariona agrees that until project funding of at least US$400 million has been offered to the Waterberg JV, Ariona will not, without Sekoko's prior written consent, sell or transfer to a third party, any of its Firestone shares or its JV interest.

Ariona obtain the right to nominate up to three persons to be directors of Firestone.

As a result of the Share Transfer, Ariona will be the largest shareholder in the Company and the ownership of the Waterberg JV will be:

Firestone	60%
Sekoko	30%
Ariona	10%

The capital structure below is shown under three scenarios:

- If only the Funding Facility is approved
- If only the Share Transfer is approved
- If both the Funding Facility and the Share Transfer are approved

Scenario 1: If only the Funding Facility is approved

The capital structure following the completion of the Funding Facility will be as follows:

Firestone	Existing shareholders # shares	%	Sekoko # shares	%	Ariona # shares	%	Total # shares	%
Current shares	2,061,233,550	66.2%	1,052,645,091	33.8%	-	0.0%	3,113,878,641	100%
Conversion of notes - Facility at face value	-		-		1,628,000,000		1,628,000,000	
Conversion of notes - capitalisation of interest for 4 years	-		-		600,030,414		600,030,414	
Total share holding	**2,061,233,550**	**38.6%**	**1,052,645,091**	**19.7%**	**2,228,030,414**	**41.7%**	**5,341,909,055**	**100%**

Following the completion of the Funding Facility, Ariona could hold a maximum of 41.7% of the issued capital.

The calculation above assumes that the convertible notes, including capitalisation of interest over the full 4 year term, are all converted into shares.

Note that Sekoko currently own 852,645,091 shares plus an additional 200 million shares held beneficially by BBY Nominees Pty Ltd.

Note also that the calculation above does not include the 68,253,968 shares to be issued to BBY under the terms of a subscription agreement and associated A$2.2 million facility entered into on 26 April 2012. These shares will not be issued until after the shareholder meeting.

Scenario 2: If only the Share Transfer is approved

The capital structure following the completion of the Share Transfer will be as follows:

Firestone	Existing shareholders # shares	%	Sekoko # shares	%	Ariona # shares	%	Total # shares	%
Current shares	2,061,233,550	66.2%	1,052,645,091	33.8%	-	0.0%	3,113,878,641	100%
Transfer of shares to Ariona	-		(800,000,000)		800,000,000		-	
Total share holding	**2,061,233,550**	**66.2%**	**252,645,091**	**8.1%**	**800,000,000**	**25.7%**	**3,113,878,641**	**100%**

Following the completion of the Share Transfer, Ariona will hold approximately 25.7% of the issued capital.

Sekoko will continue hold its remaining 8.1% shareholding.

Note also that the calculation above does not include the 68,253,968 shares to be issued to BBY under the terms of a subscription agreement and associated A$2.2 million facility entered into on 26 April 2012. These shares will not be issued until after the shareholder meeting.

Scenario 3: If both the Funding Facility and the Share Transfer are approved

The capital structure following the completion of the Funding Facility and Share Transfer will be as follows:

Firestone	Existing shareholders # shares	%	Sekoko # shares	%	Ariona # shares	%	Total # shares	%
Current shares	2,061,233,550	66.2%	1,052,645,091	33.8%	-	0.0%	3,113,878,641	100%
Conversion of notes	-		-		2,228,030,414		2,228,030,414	
Total share holding	**2,061,233,550**	**38.6%**	**1,052,645,091**	**19.7%**	**2,228,030,414**	**41.7%**	**5,341,909,055**	**100%**
Transfer of shares to Ariona	-		(800,000,000)		800,000,000		-	
Total share holding	**2,061,233,550**	**38.6%**	**252,645,091**	**4.7%**	**3,028,030,414**	**56.7%**	**5,341,909,055**	**100%**

Following the completion of the Funding Facility and Share Transfer, Ariona could hold a maximum of 56.7% of the issued capital.

This assumes that the convertible notes, including any capitalisation of interest, are all converted into shares.

If all of the current options on issue and the options proposed to be issued to ECN holders are exercised, Ariona’s maximum share holding will be 50.3%.

Sekoko will continue hold its remaining 4.7% shareholding.

Note also that the calculation above does not include the 68,253,968 shares to be issued to BBY under the terms of a subscription agreement and associated A$2.2 million facility entered into on 26 April 2012. These shares will not be issued until after the shareholder meeting.

5. Profile of Firestone Energy Limited

5.1 History

Firestone is a Perth based coal exploration company which is co-listed on the ASX and the Johannesburg Stock Exchange ("**JSE**"). The Company was incorporated on 11 January 1993 and listed on the ASX on 24 June 1993. Firestone's head office is situated in Subiaco, Western Australia.

In January 2006, Administrators were appointed to the Company and in July 2006, the Administrators and the Company entered into an amended Deed of Company Arrangement ("**DOCA**"). The Administrators accepted a proposal by an investment group for the restructuring and recapitalisation of the Company, including the settlement of all creditor claims. The proposal was accepted by creditors and the DOCA was subsequently executed. At a meeting of shareholders held in September 2006, the shareholders of the Company approved the various resolutions required to complete the restructuring and recapitalisation of the Company. Following the meeting, on 17 October 2006, the DOCA was terminated and the management of the Company was returned to the new Directors. As part of the administration process, a large proportion of the Company's assets were sold to a third party including tenements, mining information, property, plant and equipment, subsidiary shares and properties.

The Company changed its name to Firestone Energy Limited in December 2007, from the previous Centralian Minerals Limited. Firestone became dual listed on the JSE in October 2008.

On 18 June 2008, Firestone announced that it had agreed with Sekoko to acquire an interest in a 500 million tonne coal project in the Waterberg Coalfield of South Africa. The agreement was to conditionally acquire up to a 55% interest in the T1 Properties.

Shareholder approval was granted for the transaction on 18 September 2008 and the Joint Venture ("**JV**") Agreement was finalised on 24 October 2008 ("**the Waterberg JV**").

During October 2010, an addendum to the Waterberg JV agreement was signed giving Firestone the opportunity to increase its potential interest in the T1 Joint Venture from 55% to a maximum of 60%. To do so, Firestone agreed to pay Sekoko a production royalty fee of ZAR0.50 per tonne of coal sold from the Waterberg properties up to a maximum aggregate amount of ZAR45 million.

5.2 Waterberg Coal Project

Firestone's current project is the Waterberg coal project in the Limpopo Province of South Africa. Firestone currently holds a 60% interest in the Waterberg JV.

The project consists of eight farms in the Waterberg coalfield totalling 7,979 hectares. The identified area over the Smitspan farm (first phase base case) indicates a mine layout covering 507 hectares extending for 3.5km east to west and 1.8km north to south. This area contains 258Mt (ROM) which will produce 120Mt of domestic coal for local power stations and a further coal of export quality coal with an average yield of 67% on selective mining basis.

Reserves and resources

Firestone has saleable coal reserves of 120Mt where 51Mt are proven and 69Mt are probable.

Life of mine

21 years at an average stripping ratio of 2.1 on saleable tonnes.

Status

Firestone's flagship Waterberg project completed a Bankable Feasibility Study of which the definitive feasibility study was completed in October 2010 and the off-take agreement with Eskom Holdings Limited (“**Eskom**”) was signed in January of 2011. Funding to construct the mine is currently being raised. The mining right application was submitted in July 2010 and was approved at the regional level by the Department of Mineral Resources (“**DMR**”) in June 2011. All supporting documents including Environmental Impact Assessments and Social Labour Plan were submitted with the Mining Right application.

In April 2012, Sekoko signed a Memorandum of Understanding (“**MoU**”) for a Coal Supply Agreement with Africa's largest power utility, Eskom to supply thermal coal from its Waterberg Coal Project in the Lephalale area, Limpopo, to Eskom power stations in the Mpumalanga Province.

Both parties have agreed that, upon compliance of the terms and conditions set out in the MoU, the parties will enter into a Coal Supply Agreement containing enabling provisions for the Waterberg JV to supply a minimum of 10Mt of thermal coal on a Free on Rail basis annually to Eskom's two designated power stations in the Mpumalanga area for a minimum period of thirty years. The production of coal will commence in 2014 and will ramp up over a period of five years to 10Mt per annum.

A further Bankable Feasibility Study is now underway which is proposing a larger mine.

Capital expenditure

The initial study estimated ZAR0.5billion (A$71.4 million) to establish the first phase of the operation while the net present value (“**NPV**”) was estimated between ZAR300 and ZAR500 million (A$42.8 to A$71.4 million). The capital expenditure and NPV of the revised study are not known at this time.

5.3 Historical Balance Sheet

Firestone - Statement of Financial Position	Reviewed as at 31-Dec-11 $	Audited as at 30-Jun-11 $	Audited as at 30-Jun-10 $
CURRENT ASSETS			
Cash and cash equivalents	883,636	1,892,188	2,130,542
Trade and other receivables	19,634	62,110	420,031
Prepayments	5,776	-	-
TOTAL CURRENT ASSETS	**909,046**	**1,954,298**	**2,550,573**
NON-CURRENT ASSETS			
Property, plant and equipment	4,788,576	5,374,513	3,635,535
Interest in joint venture	76,911,782	85,197,758	75,849,117
Receivables	968,168	108,618	147,119
TOTAL NON-CURRENT ASSETS	**82,668,526**	**90,680,889**	**79,631,771**
TOTAL ASSETS	**83,577,572**	**92,635,187**	**82,182,344**
CURRENT LIABILITIES			
Trade and other payables	2,384,713	3,432,033	1,958,093
Payable to JV partner	3,029,559	-	-
Convertible note	8,688,525	1,330,587	1,531,394
TOTAL CURRENT LIABILITIES	**14,102,797**	**4,762,620**	**3,489,487**
NON-CURRENT LIABILITIES			
Convertible note	12,139,521	20,372,463	14,530,114
TOTAL NON-CURRENT LIABILITIES	**12,139,521**	**20,372,463**	**14,530,114**
TOTAL LIABILITES	**26,242,318**	**25,135,083**	**18,019,601**
NET ASSETS	**57,335,254**	**67,500,104**	**64,162,743**
EQUITY			
Issued capital	75,402,271	73,135,309	62,704,850
Reserves	(6,320,788)	3,879,461	6,210,265
Accumulated losses	(11,746,229)	(9,514,666)	(4,752,372)
TOTAL EQUITY	**57,335,254**	**67,500,104**	**64,162,743**

Source: Firestone’s reviewed accounts for the half-year ended 31 December 2011 and 2011 Annual Report

5.4 Historical Statement of Comprehensive Income

Firestone - Statement of Comprehensive Income	Reviewed half-year to 31-Dec-11 $	Audited year to 30-Jun-11 $	Audited year to 30-Jun-10 $
Continuing operations			
Revenue	27,854	57,894	62,386
Other income	12,917	20,877	28,863
Profit/(loss) on disposal of PP&E	-	(3,521)	-
Foreign exchange gain/(loss)	-	3,631	144,762
Occupancy costs	(13,800)	(73,600)	(76,242)
Legal fees	(176,456)	(740,755)	(642,791)
Administration costs	(286,670)	(407,364)	(542,641)
Travel and accommodation	(65,793)	(175,521)	(218,903)
Directors fees	(130,004)	(253,679)	(252,911)
Employee and consultant costs	(6,530)	(173,618)	(420,075)
Listing and share registry costs	(118,916)	(278,057)	(237,201)
Finance costs	(1,474,164)	(2,738,581)	(1,281,555)
(Loss) before income tax	**(2,231,562)**	**(4,762,294)**	**(3,436,308)**
Income tax benefit/(expense)	-	-	-
(Loss) from continuing operations	**(2,231,562)**	**(4,762,294)**	**(3,436,308)**
Loss attributable to the members of Firestone Energy Limited	**(2,231,562)**	**(4,762,294)**	**(3,436,308)**
Other comprehensive income			
Foreign currency translation reserve	(10,200,250)	(2,330,804)	433,349
Total comprehensive loss	**(12,431,812)**	**(7,093,098)**	**(3,002,959)**

Source: Firestone's reviewed accounts for the half-year ended 31 December 2011 and 2011 Annual Report

5.5 Capital Structure

The share structure of Firestone as at 2 August 2012 is outlined below:

	Number
Total ordinary shares on issue	3,113,878,641
Top 20 shareholders	2,290,835,256
Top 20 shareholders - % of shares on issue	**73.57%**

Source: Computershare

The range of shares held in Firestone as at 2 August 2012 is as follows:

Range of Shares Held	Number of Shareholders	Number of Shares	Percentage of Issued Shares
1 - 1,000	2,333	1,006,462	0.03%
1,001 - 5,000	1,639	5,046,193	0.16%
5,001 - 10,000	1,350	67,753,926	2.18%
10,001 - 100,000	978	325,058,934	10.44%
100,001 - and over	178	2,715,013,126	87.19%
TOTAL	**6,478**	**3,113,878,641**	**100.00%**

Source: Computershare

The ordinary shares held by the most significant shareholders as at 2 August 2012 are detailed below:

Name	Number of Shares Held	Percentage of Issued Shares
Sekoko Resources Pty Ltd	852,645,091	27.38%
BBY Nominees Pty Ltd	365,023,979	11.72%
Computershare Company Nominees Limited	375,455,596	12.06%
Linc Energy Limited	283,336,423	9.10%
Bell Potters Nominees Limited	76,500,000	2.46%
Subtotal	1,952,961,089	62.72%
Others	1,160,917,552	37.28%
Total ordinary shares on Issue	**3,113,878,641**	**100.00%**

Source: Computershare

Note that Sekoko own an additional 200 million shares held beneficially by BBY Nominees Pty Ltd. Sekoko effectively hold 33.8% of the current issued capital.

The Firestone unlisted options as at 2 August 2012 are outlined below:

Number of Unlisted Options	Expiry Date	Exercise Price ($)	Cash raised if exercised
30,000,000	30-Nov-12	0.05	$1,500,000
110,000,000	30-May-13	0.06	$6,600,000
96,904,767	30-Jun-13	0.06	$5,814,286
25,875,000	30-Jun-14	0.06	$1,552,500
48,395,000	31-May-14	0.04	$1,935,800
311,174,767			**$17,402,586**

Source: Computershare

The Firestone listed options on issue as at 2 August 2012 are outlined below:

Number of Listed Options	Expiry Date	Exercise Price ($)	Cash raised if exercised
39,370,000	31-May-14	0.04	$1,574,800
39,370,000			**$1,574,800**

Source: Computershare

5.6 Convertible notes

As at the date of this report, Firestone had the following convertible notes on issue:

Date of issue	Number of Notes	Face value per note	Total Face Value	Redemption/ Conversion	Balance	Maturity Date	Conversion price	Balance to convert
		$	$	$	$		$	
02-Oct-09	12	500,000	6,000,000		6,000,000	02-Oct-12	0.0400	150,000,000
16-Nov-09	3	500,000	1,500,000		1,500,000	16-Nov-12	0.0400	37,500,000
18-Dec-10	3	500,000	1,500,000		1,500,000	16-Mar-13	0.0400	37,500,000
21-Jan-10	3	500,000	1,500,000		1,500,000	04-Feb-13	0.0400	37,500,000
23-Feb-10	3	500,000	1,500,000		1,500,000	03-Mar-13	0.0400	37,500,000
16-Mar-10	3	500,000	1,500,000		1,500,000	16-Mar-13	0.0400	37,500,000
30-Apr-10	3	500,000	1,500,000		1,500,000	30-Apr-13	0.0400	37,500,000
04-Jun-10	1	500,000	500,000		500,000	04-Jun-13	0.0400	12,500,000
04-Jun-10	4	100,000	400,000		400,000	04-Jun-13	0.0400	10,000,000
13-Jul-10	9	100,000	900,000		900,000	13-Jul-13	0.0400	22,500,000
08-Nov-10	6	100,000	600,000		600,000	08-Nov-13	0.0249	24,096,386
22-Nov-10	6	100,000	600,000		600,000	23-Nov-13	0.0249	24,096,386
22-Dec-10	6	100,000	600,000		600,000	22-Dec-13	0.0250	24,000,000
23-Jan-11	6	100,000	600,000		600,000	24-Jan-14	0.0233	25,751,073
22-Feb-11	9	100,000	900,000		900,000	22-Feb-14	0.0221	40,723,982
24-May-11	6	100,000	600,000		600,000	24-May-14	0.0200	30,000,000
22-Jun-11	6	100,000	600,000	(300,000)	300,000	22-Jun-14	0.0200	15,000,000
19-Oct-11	3	100,000	300,000		300,000	19-Oct-14	0.0200	15,000,000
			21,600,000	**(300,000)**	**21,300,000**			**618,667,826**

6. Profile of Ariona Company SA

Background

Ariona Company SA is a special purpose vehicle incorporated in the Seychelles (IBC number 061983) for the purpose of 'investment in mining opportunities'. It does not carry on any other business activities save for investment in suitable mining opportunities.

Ariona's only asset is its investment in the Waterberg Joint Venture. Ariona has a single director named as Mr Richard Maclennan and has no employees.

Ariona is owned by a consortium of investors as set out in the table below.

Name of entity
Richmond Capital LLP
Castlepines Global Equity Limited
Al Nahdha Investment
Orlisk International Ltd
Issar Pty Ltd
Standard Bank of South Africa Limited
Abu Dhabi Investment Council
Starvale Holdings Pty Ltd

7. Economic analysis

7.1 Current Economic Conditions

Having picked up in the early months of 2012, growth in the world economy has since softened. Current assessments are that global GDP will grow at no more than average pace in 2012. Most commodity prices have declined, which has helped to reduce inflation and provided scope for some countries to ease macroeconomic policies. Australia's terms of trade peaked nearly a year ago, though they remain historically high.

China's growth has moderated to a more sustainable pace, but does not appear to be slowing further. Conditions in other parts of Asia have recovered from the effects of last year's natural disasters, though the ongoing trend is unclear and could be dampened by the effects of slower growth outside the region. Growth in the United States continues, but at only a modest pace. The most significant area of weakness continues to be Europe, where economic activity has been contracting and policymakers confront the very difficult task of seeking to put both bank and sovereign balance sheets onto a sound footing, while promoting conditions for improved long-term growth.

Financial markets have responded positively to signs of progress, but Europe will remain a potential source of adverse shocks for some time. Low appetite for risk has seen long-term interest rates faced by highly rated sovereigns, including Australia, decline to exceptionally low levels. Nonetheless, capital markets remain open to corporations and well-rated banks and Australian banks have had no difficulty accessing funding, including on an unsecured basis. Share markets have remained volatile, though in net terms they have generally risen over the past couple of months.

In Australia, most indicators suggest growth close to trend overall. Labour market data show moderate employment growth, even with job shedding in some industries, and the rate of unemployment has thus far remained low.

Inflation remains low, with underlying measures near 2 per cent over the year to June, and headline CPI inflation lower than that. The effects of the price on carbon will start to affect these measures over the next couple of quarters. The Bank's assessment of the outlook for inflation is unchanged: it is expected to be consistent with the target over the next one to two years. Maintaining low inflation over the longer term will, however, require growth in domestic costs to continue their recent moderation as the effects of the earlier exchange rate appreciation wane.

As a result of the sequence of earlier decisions, monetary policy is easier than it was for most of 2011, with interest rates for borrowers a little below their medium-term averages. While it is too soon to see the full impact of those changes, dwelling prices have firmed a little over the past couple of months, and business credit has over the past six months recorded its strongest growth for several years. The exchange rate, however, has remained high, despite the observed decline in the terms of trade and the weaker global outlook.

At today's meeting, the Board judged that, with inflation expected to be consistent with the target and growth close to trend, but with a more subdued international outlook than was the case a few months ago, the stance of monetary policy remained appropriate.

Source: www.rba.gov.au Statement by Glenn Stevens, Governor: Monetary Policy Decision 7 August 2012

8. Industry analysis

8.1 Coal

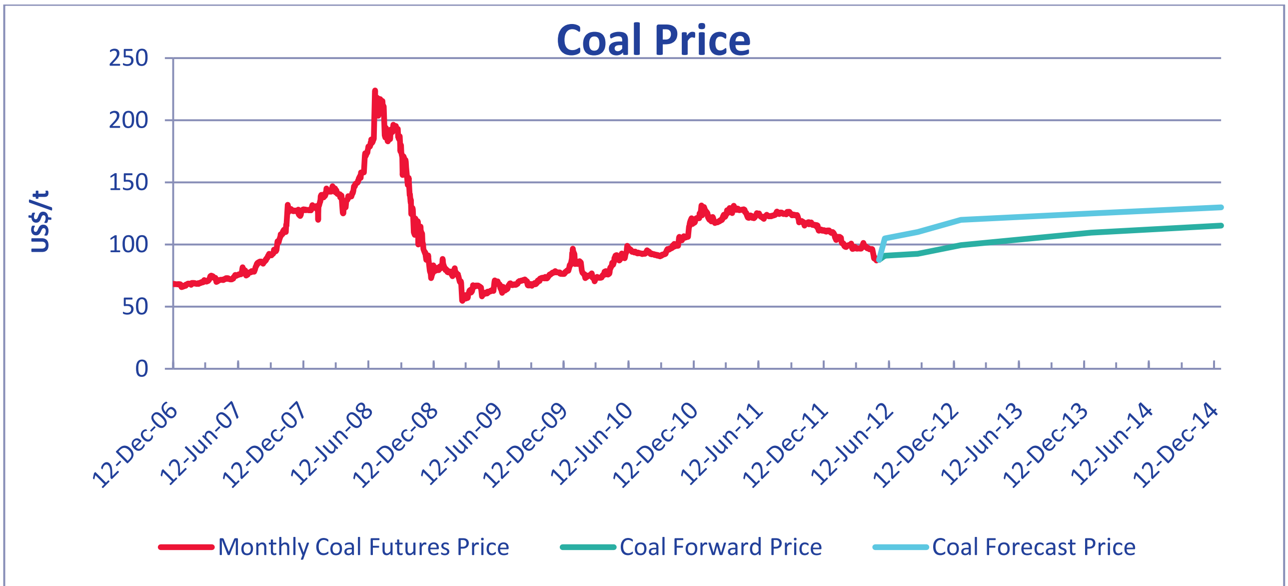
Coal deposits are found below the earth's surface with the quality of a coal deposit determined by the length of time in formation, commonly known as its 'organic maturity', temperature and pressure. The rank of coal refers to the physical and chemical properties that coals of different maturities possess. Lower rank coals such as lignite generally possess a much lower organic maturity, have a soft texture, a dull earthly appearance and are characterized by high moisture levels and low energy (carbon) content. Higher ranked coals such as Anthracite, which is the highest ranking coal, are harder, stronger, contain less moisture, and produce more energy.

To date coal has been mined by two broad methods, opencast mining and underground mining, the choice of extraction method determined by the geology of the coal deposit.

8.2 Prices

Coal is a global commodity and, as such, prices are determined by global supply and demand factors. With both the international community and the world's dependency on energy growing, fuel products are the single most important input affecting global economic growth. As a result coal is a highly marketable commodity, and with world consumption estimated to increase 60% by 2030, the long term price outlook is strong.

During 2007-2008, elevated demand for coal as the cheapest source of power caused prices to increase by around 200%. This diverged from historical trends where coal has generally traded at a lower, more stable price than more volatile commodities such as oil and gas. Speculation about sustainability of prices in light of the economic slowdown and a slackening steel market caused the correction from the highs experienced, however in comparison to an average between US$20/tonne ("**t**") to US$40/t throughout the 1990's, the current price is still well above historical levels.



Source: Bloomberg

Coal prices have retracted substantially since the commodity boom from 2005 to 2008. This spike was not only fuelled by the surge in demand from developing economies such as China but was also exacerbated by supply side factors. Disruptions to global supply occurred as a result of extremely heavy snowfall in China and long term power shortages in South Africa.

Prices are expected to remain fairly stable at current levels as is shown by the forecast in the chart above. This is primarily due to expectations of a recovery in the world economy over the coming years with the continued expansion of India and China in particular driving demand for both energy and iron and steel production.

9. Valuation approach adopted

There are a number of methodologies which can be used to value a business or the shares in a company. The principal methodologies which can be used are as follows:

- Capitalisation of future maintainable earnings (“**FME**”)
- Discounted cash flow (“**DCF**”)
- Quoted market price basis (“**QMP**”)
- Net asset value (“**NAV**”)
- Market based assessment

A summary of each of these methodologies is outlined in Appendix 2.

Different methodologies are appropriate in valuing particular companies, based on the individual circumstances of that company and available information. In our assessment of the value of Firestone’s shares we have chosen to employ the following methodologies:

- Net Asset Value (“**NAV**”) – primary method
- Quoted Market Price Basis (“**QMP**”) – secondary method

We have chosen these methodologies for the following reasons:

- Firestone does not generate regular trading income. Therefore there are no historic profits that could be used to represent future earnings. This means that the FME valuation approach is not appropriate;
- Firestone has no foreseeable future net cash inflows and therefore the application of DCF is not possible;
- Firestone’s most significant asset is its interest in the Waterberg Coal Project and as such we require a specialist valuation of that project;

  We instructed Venmyn Rand (Pty) Ltd trading as Venmyn (“**Venmyn**”) to provide an independent specialist current market valuation of the coal assets of the JV between Sekoko and Firestone at their Waterberg Coal Project. Venmyn’s full report may be found in Appendix 3;

  Venmyn has applied the Multiples of Exploration Expenditure (“**MEE**”) approach and the Comparable Transaction Value Method (“**CTVM**”) to value the Waterberg Coal Project; and
- Firestone is listed on the ASX and JSE and this provides an indication of the market value where an observable market for the securities exists.

10. Valuation of Firestone

10.1 Net Asset Valuation of Firestone

The value of Firestone's assets on a going concern basis is reflected in our valuation below:

We have been advised that there has not been a significant change in the net assets of Firestone since 31 December 2011.

Firestone - Statement of Financial Position	Note	Reviewed 31-Dec-11 $	Adjusted valuation $
CURRENT ASSETS			
Cash and cash equivalents		883,636	883,636
Trade and other receivables		19,634	19,634
Prepayments		5,776	5,776
TOTAL CURRENT ASSETS		**909,046**	**909,046**
NON-CURRENT ASSETS			
Property, plant and equipment		4,788,576	4,788,576
Interest in joint venture	1	76,911,782	75,229,104
Receivables		968,168	968,168
TOTAL NON-CURRENT ASSETS		**82,668,526**	**80,985,848**
TOTAL ASSETS		**83,577,572**	**81,894,894**
CURRENT LIABILITIES			
Trade and other payables		2,384,713	2,384,713
Payable to JV partner		3,029,559	3,029,559
Convertible note		8,688,525	8,688,525
TOTAL CURRENT LIABILITIES		**14,102,797**	**14,102,797**
NON-CURRENT LIABILITIES			
Convertible note		12,139,521	12,139,521
TOTAL NON-CURRENT LIABILITIES		**12,139,521**	**12,139,521**
TOTAL LIABILITES		**26,242,318**	**26,242,318**
NET ASSETS		**57,335,254**	**55,652,576**
Number of shares on issue	2		3,113,878,641
Value per share			**0.018**

The table above indicates the net asset value of a Firestone share is $0.018.

The following adjustments were made to the net assets of Firestone as at 31 December 2011 in arriving at our valuation.

Note 1: Valuation of Firestone's mineral assets

We instructed Venmyn to provide an independent market valuation of the Waterberg JV. Firestone holds a 60% interest in the JV. Venmyn considered a number of different valuation methods when valuing the Waterberg Coal Project. Venmyn have used the MEE approach and the CTVM and applied a discount to arrive at a fair value of the Waterberg JV. We consider this methodology to be appropriate.

The value of the coal assets of the JV between Firestone and Sekoko, as calculated by Venmyn, is set out below:

Mineral Assets	Fair value (ZARm)	Interest
Sekoko Coal - Firestone JV Waterberg Coal Project	1027.72	100%

The table below shows the value of Firestone's interest in coal assets at their Waterberg Coal Project:

Mineral Assets	Fair value	Currency	Interest
Sekoko Coal - Firestone JV Waterberg Coal Project	1,027,720,000	ZAR	100%
Conversion 1 ZAR : 0.122 AUD	125,381,840	AUD	100%
Firestone's interest in the Waterberg Coal Project	75,229,104	AUD	60%

Source: www.oanda.com 14 May 2012

The table above indicates that Firestone's 60% interest in the coal assets at their Waterberg Coal Project is $75.23 million.

Note 2: Shares on issue

The shares on are issue are shown on an undiluted basis due to the current options on issue being 'out of the money'.

10.2 Quoted Market Prices for Firestone's Securities

To provide a comparison to the valuation of Firestone in Section 10.1, we have also assessed the quoted market price for a Firestone share on the ASX and JSE.

The quoted market value of a company's shares is reflective of a minority interest. A minority interest is an interest in a company that is not significant enough for the holder to have an individual influence in the operations and value of that company.

RG 111.11 suggests that when considering the value of a company's shares for the purposes of approval under Item 7 of s611 the expert should consider a premium for control. An acquirer could be expected to pay a premium for control due to the advantages they will receive should they obtain 100% control of another company. These advantages include the following:

- control over decision making and strategic direction;
- access to underlying cash flows;
- control over dividend policies; and
- access to potential tax losses.

Whilst Ariona will not be obtaining 100% of Firestone, RG 111 states that the expert should calculate the value of a target's shares as if 100% control were being obtained. RG 111.13 states that the expert can then consider an acquirer's practical level of control when considering reasonableness. Reasonableness has been considered in section 12.

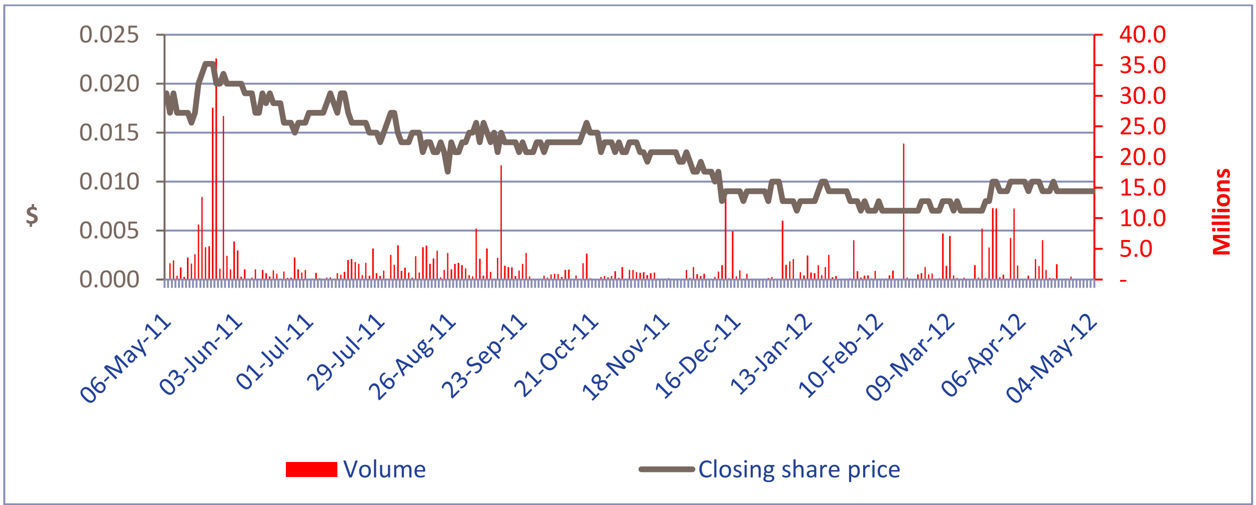
Therefore, our calculation of the quoted market price of a Firestone share including a premium for control has been prepared in two parts. The first part is to calculate the quoted market price on a minority interest basis. The second part is to add a premium for control to the minority interest value to arrive at a quoted market price value that includes a premium for control.

Minority interest value

Our analysis of the quoted market price of a Firestone share is based on the pricing prior to the announcement of the proposed Funding Facility and Share Transfer. This is because the value of a Firestone share after the announcement may include the affects of any change in value as a result of the proposed Funding Facility and Share Transfer. However, we have considered the value of a Firestone share following the announcement when we have considered reasonableness in Section 13.

ASX share price analysis

Information on the proposed Funding Facility and Share Transfer were announced to the market on 7 May 2012. Therefore, the following chart provides a summary of the share price movement over the 12 months to 4 May 2012 which was the last trading day prior to the announcement.



Source: Bloomberg

The daily price of Firestone's shares from 4 May 2011 to 4 May 2012 has ranged from a low of $$0.006 on 21 February 2012 to a high of $0.023 on 25 May 2011.

During this period a number of announcements were made to the market. The key announcements are set out below:

Date	Announcement	Closing Share Price Following Announcement $ (movement)	Closing Share Price Three Days After Announcement $ (movement)
02-May-12	Suspension from Official Quotation	0.009 (-)	0.010 (▲ 11%)
30-Apr-12	Trading Halt	0.009 (-)	0.009 (-)
30-Apr-12	March 2012 Quarterly Activities Report and 5B cashflow	0.009 (-)	0.009 (-)
03-Apr-12	Amended Announcement Regarding Eskom MOU	0.010 (▲ 11%)	0.010 (-)
03-Apr-12	Firestone Rejects TATA Offer	0.010 (▲ 11%)	0.010 (-)
26-Mar-12	Firestone/Sekoko JV sign Eskom MOU	0.008 (-)	0.009 (▲ 13%)
22-Mar-12	Short Term Finance Facility	0.007 (-)	0.008 (▲ 14%)
07-Mar-12	Cornerstone Investor Update	0.008 (▲ 14%)	0.007 (▼ 13%)
01-Mar-12	Firestone Activities Update	0.008 (-)	0.007 (▼ 13%)
31-Jan-12	Quarterly Activities Report and App 5B Cashflow	0.008(▼ 11%)	0.007 (▼ 13%)
25-Nov-11	Firestone receives Management Proposal from Sekoko	0.012 (-)	0.013 (▲ 8%)
31-Oct-11	Sept 2011 Quarterly Activities Report and Appendix 5B	0.013 (▼ 7%)	0.013 (-)
21-Sep-11	Firestone Appoints CEO	0.014 (-)	0.013 (▼ 7%)
15-Sep-11	Firestone Negotiating Significant Agreement	0.015 (▲ 15%)	0.014 (▼ 7%)
06-Sep-11	Linc Energy takes Strategic Stake in Firestone	0.015 (▲ 15%)	0.014 (▼ 7%)
03-Aug-11	Appendix 3B	0.016 (▲ 7%)	0.015 (▼ 6%)
03-Aug-11	Mining Right Approval Secured	0.017 (▲ 6%)	0.014 (▼ 18%)
29-Jul-11	Quarterly Activities Report and Appendix 5B	0.017 (▲ 6%)	0.014 (▼ 18%)
27-Jul-11	LOI for 1.2million tonnes pa from Stig Jiangsu	0.014 (▼ 7%)	0.015 (▲ 7%)
21-Jul-11	IDC Commences Funding	0.015 (-)	0.015 (-)
18-Jul-11	Appendix 3B	0.016 (-)	0.016 (-)
13-Jul-11	Cancellation of Jindal Non-binding MOU	0.017 (▼ 11%)	0.016 (▼ 6%)
09-Jun-11	Update on Mining Rights Application	0.017 (▼ 6%)	0.017 (-)
11-May-11	Prospectus	0.019 (-)	0.017 (▼ 11%)

On the 26 March 2012 Firestone announced to the market that its Joint Venture with Sekoko Coal had signed a Memorandum of Understanding for a coal supply agreement Africa's largest power utility, Eskom Holdings Limited. The market reacted positively to this news with the share price closing 13% higher in the three days following the announcement.

On 3 August 2011 the Department of Mineral Resources in South Africa granted the Mining Right approval to mine for 30 years over the seven properties contained in the Waterberg Coal Project. The approval was conditional upon payment of a mine rehabilitation provision - ZAR8 million has been paid with the next ZAR8 million payment due at the end of August 2012. The total rehabilitation liability is ZAR33 million. The share price increased 6% on the back of this announcement and subsequently fell 18% three days after the announcement.

On 29 July 2011 the quarterly activities report was released to the market with the major highlights being that 3 tonne of coal sample was submitted to Eskom for testing and that major banks and financial institutions indicated interest in providing project finance. Following the announcement the share price closed 6% higher; however the closing price three days after the announcement had declined 18%.

On 27 July 2011 the Joint Venture with Sekoko Resources received a Letter of Intent from a member of the Saintly International Group for the purchase of a regular volume of 1.2 million tonnes per annum of prime coal, with shipments to commence in late 2012. The share price following the announcement closed 7% lower however the market corrected three days following the announcement with the pre-announcement price restored.

On 13 July 2011 the Company announced that it had cancelled its non-binding Memorandum of Understanding with Jindal Steel and Power Limited and therefore will only work with its established joint venture partner Sekoko Resources. The market reacted negatively to this news with the share price falling 11% following the announcement.

To provide further analysis of the market prices for a Firestone share, we have also considered the weighted average market price for 10, 30, 60 and 90 trading day periods to 4 May 2012.

	4 May 2012	10 Days	30 Days	60 Days	90 Days
Closing Price	$0.009				
Weighted Average		$0.009	$0.010	$0.009	$0.008

The above weighted average prices are prior to the date of the announcement of the proposed Funding Facility and Share Transfer, to avoid the influence of any increase in price of Firestone's shares that has occurred since the Funding Facility and Share Transfer were announced.

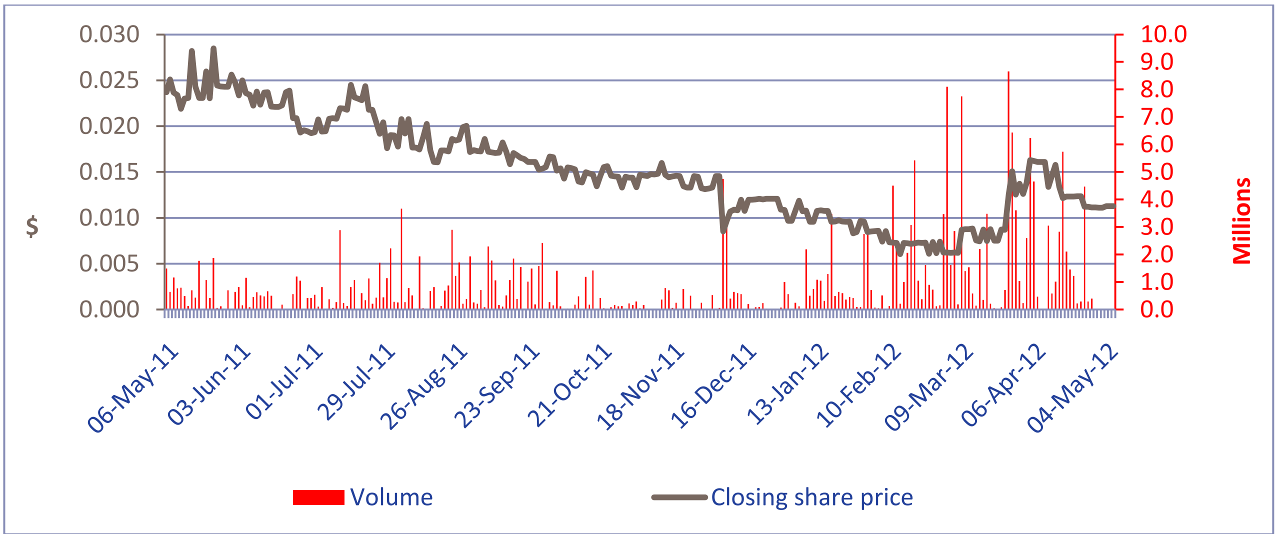
An analysis of the volume of trading in Firestone's shares for the twelve months to 4 May 2012 is set out below:

	Share price low	Share price high	Cumulative Volume traded	As a % of Issued capital
1 trading day	$0.009	$0.009	0	0.00%
10 trading days	$0.009	$0.009	577,397	0.02%
30 trading days	$0.008	$0.011	67,863,402	2.18%
60 trading days	$0.006	$0.011	127,854,476	4.11%
90 trading days	$0.006	$0.011	175,335,173	5.63%
180 trading days	$0.006	$0.018	309,036,021	9.92%
1 year	$0.006	$0.023	575,529,576	18.48%

A total of 18.48% of the Company's current issued capital was traded in a twelve month period on the ASX.

JSE share price analysis

Information on the proposed Funding Facility and Share Transfer were announced to the market on 7 May 2012. Therefore, the following chart provides a summary of the share price movement on the JSE over the 12 months to 4 May 2012 which was the last trading day prior to the announcement.



Source: Bloomberg

Note that the share price has been translated into AUD based on the daily Bloomberg ZAR/AUD exchange rate.

The daily price of Firestone's shares from 4 May 2011 to 4 May 2012 has ranged from a low of $$0.005 on 23 May 2012 to a high of $0.028 on 23 May 2011.

To provide further analysis of the market prices for a Firestone share, we have also considered the weighted average market price for 10, 30, 60 and 90 trading day periods to 4 May 2012.

	4 May 2012	10 Days	30 Days	60 Days	90 Days
Closing Price	$0.011				
Weighted Average		$0.011	$0.014	$0.011	$0.010

The above weighted average prices are prior to the date of the announcement of the proposed Funding Facility and Share Transfer, to avoid the influence of any increase in price of Firestone's shares that has occurred since the Funding Facility and Share Transfer were announced.

An analysis of the volume of trading in Firestone's shares for the twelve months to 4 May 2012 is set out below:

	Share price low	Share price high	Cumulative Volume traded	As a % of Issued capital
1 trading day	$0.011	$0.011	0	0.00%
10 trading days	$0.010	$0.012	5,454,501	0.18%
30 trading days	$0.010	$0.020	57,611,253	1.85%
60 trading days	$0.005	$0.020	109,054,100	3.50%
90 trading days	$0.005	$0.020	137,261,258	4.41%
180 trading days	$0.005	$0.021	182,312,778	5.85%
1 year	$0.005	$0.028	237,487,154	7.63%

A total of 7.63% of the Company's current issued capital was traded in a twelve month period on the JSE.

A total of 26.11% of the current issued capital was traded over the twelve month period on the ASX and JSE, indicating a low level of liquidity.

For the quoted market price methodology to be reliable there needs to be a 'deep' market in the shares. RG 111.69 indicates that a 'deep' market should reflect a liquid and active market. We consider the following characteristics to be representative of a deep market:

- Regular trading in a company's securities;
- Approximately 1% of a company's securities are traded on a weekly basis;
- The spread of a company's shares must not be so great that a single minority trade can significantly affect the market capitalisation of a company; and
- There are no significant but unexplained movements in share price.

A company’s shares should meet all of the above criteria to be considered ‘deep’, however, failure of a company’s securities to exhibit all of the above characteristics does not necessarily mean that the value of its shares cannot be considered relevant.

In the case of Firestone, we consider there to be a low level of liquidity with less than 30% of shares being traded on the ASX and JSE in the twelve month period prior to the announcement.

Our assessment is that a range of values for Firestone’s shares based on market pricing, after disregarding post announcement pricing, is between $0.008 and $0.011 bearing in mind the low liquidity of Firestone’s shares.

Control Premium

We have reviewed the control premiums paid by acquirers of coal companies listed on the ASX. We have summarised our findings below:

Transaction Period	Number of Transactions	Average Deal Value (AUD$m)	Average Control Premium
2012	1	1,975.33	11.10%
2011	7	1,389.45	39.91%
2010	4	640.13	48.17%
2009	3	1,147.20	40.12%
2008	1	985.31	35.25%
2007	0	0	0
2006	1	2,299.06	13.09%
2005	2	195.53	6.28%
		Median	**27.84%**
		Average	**34.97%**

Source: Bloomberg

In arriving at an appropriate control premium to apply we note that observed control premiums can vary due to the:

- Nature and magnitude of non-operating assets;
- Nature and magnitude of discretionary expenses;
- Perceived quality of existing management;
- Nature and magnitude of business opportunities not currently being exploited;
- Ability to integrate the acquiree into the acquirer’s business;
- Level of pre-announcement speculation of the transaction;
- Level of liquidity in the trade of the acquiree’s securities.

Ariona's maximum shareholding following the Funding Facility and Share Transfer will be 51.7%. Ariona is not acquiring full control of Firestone, but it will have effective control. As a result, Ariona should be expected to pay a full premium for control. Taking this into consideration and the control premium research above, a control premium between 25% and 35% is appropriate.

Quoted market price including control premium

Applying a control premium to Firestone's quoted market share price results in the following quoted market price value including a premium for control:

	Low $	High $
Quoted market price value	0.008	0.011
Control premium	25%	35%
Quoted market price valuation including a premium for control	**0.010**	**0.015**

Therefore, our valuation of a Firestone share based on the quoted market price method and including a premium for control is between $0.010 and $0.015.

10.3 Assessment of Firestone's Value

The results of the valuations performed are summarised in the table below:

Due to the low level of liquidity of Firestone's shares, the QMP methodology is not considered to be as reliable.

Firestone's major asset is its interest in the JV with Sekoko and because of this the net asset valuation approach is more reliable.

	Low $	High $
Net tangible assets	0.018	0.018
ASX & JSE market prices	0.010	0.015

Based on the results above we consider the value of a share to be $0.18.

The difference in the NAV and QMP value can be attributed to the low level of liquidity. The value of a company is often not accurately reflected in the company's shares price if the shares are thinly traded.

11. Valuation of consideration

Funding Facility

The consideration offered per share by Ariona is $0.025 cash, being the conversion price of the convertible note.

12. Is the Funding Facility fair?

Fairness - Funding Facility

In section 10.3 we determined the value of a Firestone share and in section 11 the value of the consideration. The comparison is detailed below:

	Low $	High $
Value of a Firestone share	0.018	0.018
Consideration: Funding Facility	0.025	0.025

We note from the table above the consideration on conversion of the convertible note into shares is greater than the value of a Firestone share. Therefore, we consider the proposed Funding Facility to be fair.

13. Is the Funding Facility reasonable?

13.1 Alternative Proposal

We are unaware of any alternative proposal that might offer the Shareholders of Firestone a premium over the value resulting from the Funding Facility.

13.2 Practical Level of Control

If the Funding Facility is approved then, on conversion of convertible notes to shares, Ariona may hold an interest of approximately 41.7% in Firestone and a maximum of 56.7% if both the Funding Facility and Share Transfer transactions are approved. In addition to this, Ariona will be able to nominate up to three directors to the Board of Firestone.

When shareholders are required to approve a matter that relates to a company there are two types of approval levels. These are general resolutions and special resolutions. A general resolution requires 50% of shares to be voted in favour to approve a matter and a special resolution requires 75% of shares on issue to be voted in favour to approve a matter. If the Funding Facility is approved then, on conversion of convertible notes to shares, Ariona will not be able to pass or block general resolutions but will be able to block special resolutions. However, if both the Funding Facility and the Share Transfer are approved, and convertible notes are converted to shares, Ariona will be able to pass general resolutions.

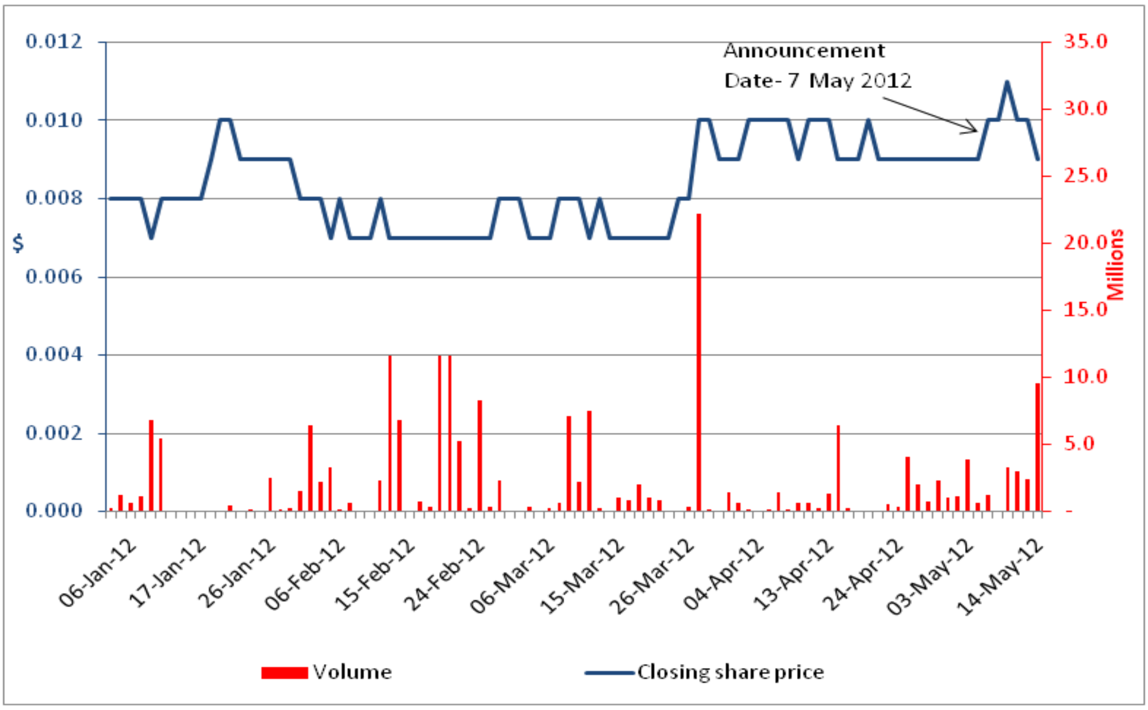
Firestone's Board currently comprises five directors. Ariona will nominate up to three additional directors which may take Firestone's Board to eight directors. This would mean that Ariona nominated directors would make up 37.5% of the Board, or 29% if only two (of seven) are nominated.

Ariona's control of Firestone following the Funding Facility, on conversion of convertible notes to shares, will be significant when compared to all other shareholders as they will be the major shareholder. Therefore, in our opinion, Ariona should be expected to pay a premium for control.

13.3 Consequences of not Approving the Funding Facility

Post announcement share price movement

We have analysed movements in Firestone's share price since the Funding Facility was announced. A graph of Firestone's share price since the announcement is set out below.



Source: Bloomberg

On the day of the announcement, the share price rose from $0.009 to $0.01. As at the date of this report, the share price had returned to the pre announcement date of $0.009 suggesting that if the Funding Facility is not approved, the share price may not decline.

13.4 Advantages of Approving the Funding Facility

We have considered the following advantages when assessing whether the Funding Facility is reasonable.

Advantage	Description
The proposed Funding Facility is fair	As set out in Section 12, the proposed Funding Facility to issue the convertible note with a conversion price of $0.025 is fair. RG 111 states that an offer is reasonable if it is fair.
Access to funding	The convertible loan note will allow for an additional cash injection of approximately $16.655 million. Currently Firestone has less than $1 million in cash in its balance sheet. The additional cash from the convertible loan note will mean that the Company will not need any near future fundraisings which would dilute the existing shareholders interests.
Avoids the possibility of Firestone becoming insolvent.	There is the possibility that Firestone may become insolvent if cash does not become available in the short to medium term. $6 million of existing convertible notes mature in October 2012. If the Funding Facility is not approved the Company will be required to find alternative funding to meet the maturity of the notes, which

	may or may not be achievable and if achievable may be on terms that are less favourable than the Funding Facility.
Introduction of Ariona's experience and expertise in the resource sector	Ariona brings knowledge, experience and expertise in the mining and resources sector which will help guide the Company as it develops its assets. This will be achieved through up to three directors of Ariona being appointed to the board of Firestone.

13.5 Disadvantages of Approving the Funding Facility

If the Funding Facility is approved, in our opinion, the potential disadvantages to Shareholders include those listed in the table below:

Disadvantage	Description
Dilution of existing shareholders	Firestone could issue a maximum of 2,228,030,414 additional shares if all of the notes are converted into shares and all of the interest payments are capitalised. The issue of 2,228,030,414 additional shares would decrease existing Shareholders interest from 66.2% to 38.6%.
Reduced control	If the Funding Facility is approved, and convertible notes are converted to shares, Ariona will hold a maximum shareholding of 41.7% or 56.7% if both the Funding Facility and Share Transfer transactions are approved and convertible notes converted to shares, which will allow then to pass general resolutions. Ariona will elect up to three nominees to the Board of Firestone. The combination of up to three board members and being the major shareholder increases Ariona's control over Firestone and reduces the control that the existing shareholders have. Practical control will pass to Ariona if Ariona's interest in the issued capital exceeds 50%.

14. Assessment of the Share Transfer

14.1 Valuation consideration

Ariona has offered Sekoko $0.01 cash per share to acquire 800 million Firestone shares for a total of $8 million.

14.2 Is Sekoko receiving a premium for control?

Share Transfer

In section 10.3 we determined the value of a Firestone share and above we determined the value of the consideration. The comparison is detailed below:

	Low $	High $
Value of a Firestone share	0.018	0.018
Consideration: Share Transfer	0.010	0.010

We note from the table above that the consideration being offered by Ariona per Firestone share is less than the value of a Firestone share. Therefore, we consider that no premium for control is being offered to Sekoko. As such, the Shareholders are not being deprived of the opportunity to share in any premium for control.

14.3 Alternative Proposal

We are unaware of any alternative proposal that might offer the Shareholders of Firestone a premium over the value ascribed to, resulting from the Share Transfer.

14.4 Practical Level of Control

If the Share Transfer is approved then Ariona will hold an interest of approximately 25.7% in Firestone and a maximum of 56.7% if both the Funding Facility and Share Transfer are approved.

When shareholders are required to approve an issue that relates to a company there are two types of approval levels. These are general resolutions and special resolutions. A general resolution requires 50% of shares to be voted in favour to approve a matter and a special resolution requires 75% of shares on issue to be voted in favour to approve a matter. If the Funding Facility is approved Ariona will not be able to pass or block general resolutions but will be able to block special resolutions. However, if both the Funding Facility and the Share Transfer are approved, Ariona will be able to pass general resolutions.

Firestone’s Board currently comprises five directors. Ariona will not nominate any directors to the Board as part of the Share Transfer.

Ariona’s degree of control of Firestone following the Funding Facility will be significant when compared to all other shareholders as they will be the major shareholder. Therefore, in our opinion, Ariona should be expected to pay a premium for control.

14.5 Consequences of not Approving the Share Transfer

Post announcement share price movement

We have analysed movements in Firestone's share price since the Share Transfer was announced. A graph of Firestone's share price since the announcement is set out in section 13.3.

14.6 Advantages of Approving the Share Transfer

We have considered the following advantages when assessing whether the Share Transfer is reasonable.

Advantage	Description
Funding for the Waterberg JV	Ariona will be introducing up to US$400 million in project funding for the Waterberg JV. Ariona agrees that until project funding of at least US$400 million has been offered to the Waterberg JV, Ariona will not, without Sekoko's prior written consent, sell or transfer to a third party, any of its Firestone shares or its JV interest.
Introduction of Ariona's experience and expertise in the resource sector	Ariona brings knowledge, experience and expertise in the mining and resources sector which assist the Company as it develops its assets.

14.7 Disadvantages of Approving the Share Transfer

If the Share Transfer is approved, in our opinion, the potential disadvantages to Shareholders include those listed in the table below:

Disadvantage	Description
Reduced control	If the Share Transfer is approved, Ariona will hold 25.7% of the issued share capital allowing them to block special resolutions. If both the Funding and Share Transfer transactions are approved, Ariona will hold a maximum shareholding of 56.7% which will allow them to pass general resolutions.

15. Conclusion

Opinion One - Funding Facility

We have considered the terms of the Funding Facility as outlined in the body of this report and have concluded that the Funding Facility is fair and reasonable to Shareholders.

Opinion Two - Share Transfer

We have considered the terms of the Share Transfer as outlined in the body of this report and have concluded that the advantages of the Share Transfer outweigh the disadvantages of the Share Transfer for Shareholders.

16. Sources of information

This report has been based on the following information:

- Draft Notice of General Meeting and Explanatory Statement on or about the date of this report;
- Terms of the convertible note;
- Sale and purchase agreement between Ariona and Sekoko;
- Audited financial statements of Firestone for the years ended 30 June 2011 and half-year ended 31 December 2011;
- Independent Valuation Report of Firestone's mineral assets dated 11 May 2012 performed by Venmyn;
- Share registry information;
- Information in the public domain; and
- Discussions with Directors and Management of Firestone.

17. Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of $40,000 (excluding GST and reimbursement of out of pocket expenses). Except for this fee, BDO Corporate Finance (WA) Pty Ltd has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this report.

BDO Corporate Finance (WA) Pty Ltd has been indemnified by Firestone in respect of any claim arising from BDO Corporate Finance (WA) Pty Ltd's reliance on information provided by the Firestone, including the non provision of material information, in relation to the preparation of this report.

Prior to accepting this engagement BDO Corporate Finance (WA) Pty Ltd has considered its independence with respect to Firestone and any of their respective associates with reference to ASIC Regulatory Guide 112 "Independence of Experts". In BDO Corporate Finance (WA) Pty Ltd's opinion it is independent of Firestone and their respective associates.

The provision of our services is not considered a threat to our independence as auditors under Professional Statement APES 110 – Professional Independence. The services provided have no material impact on the financial report of Firestone.

A draft of this report was provided to Firestone and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this report as a result of this review.

BDO is the brand name for the BDO International network and for each of the BDO Member firms.

BDO (Australia) Ltd, an Australian company limited by guarantee, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of Independent Member Firms. BDO in Australia, is a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International).

18. Qualifications

BDO Corporate Finance (WA) Pty Ltd has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions.

BDO Corporate Finance (WA) Pty Ltd holds an Australian Financial Services Licence issued by the Australian Securities and Investment Commission for giving expert reports pursuant to the Listing Rules and the Act.

The persons specifically involved in preparing and reviewing this report were Adam Myers and Sherif Andrawes of BDO Corporate Finance (WA) Pty Ltd. They have significant experience in the preparation of independent expert reports, valuations and mergers and acquisitions advice across a wide range of industries in Australia and were supported by other BDO staff.

Adam Myers is a member of the Australian Institute of Chartered Accountants. Adam's career spans 14 years in the Audit and Assurance and Corporate Finance areas. Adam has considerable experience in the preparation of independent expert reports and valuations in general for companies in a wide number of industry sectors.

Sherif Andrawes is a Fellow of the Institute of Chartered Accountants in England & Wales and a Member of the Institute of Chartered Accountants in Australia. He has over twenty years experience working in the audit and corporate finance fields with BDO and its predecessor firms in London and Perth. He has been responsible for over 150 public company independent expert's reports under the Corporations Act or ASX Listing Rules. These experts' reports cover a wide range of industries in Australia. Sherif Andrawes is the Chairman of BDO in Western Australia.

19. Disclaimers and consents

This report has been prepared at the request of Firestone for inclusion in the NOM and EM which will be sent to all Firestone Shareholders. Firestone engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider whether or not the conversion price of the convertible note issued to Ariona and the consideration offered by Ariona to Sekoko for 800 million shares is fair and reasonable to the Shareholders of Firestone.

BDO Corporate Finance (WA) Pty Ltd hereby consents to this report accompanying the above EM. Apart from such use, neither the whole nor any part of this report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO Corporate Finance (WA) Pty Ltd.

BDO Corporate Finance (WA) Pty Ltd takes no responsibility for the contents of the EM other than this report.

BDO Corporate Finance (WA) Pty Ltd has not independently verified the information and explanations supplied to us, nor has it conducted anything in the nature of an audit or review of Firestone, Ariona or Sekoko in accordance with standards issued by the Auditing and Assurance Standards Board. However, we have no reason to believe that any of the information or explanations so supplied is false or that material information has been withheld. It is not the role of BDO Corporate Finance (WA) Pty Ltd acting as an independent expert to perform any due diligence procedures on behalf of the Company. The Directors of the Company are responsible for conducting appropriate due diligence in relation to Ariona. BDO

Corporate Finance (WA) Pty Ltd provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process.

The opinion of BDO Corporate Finance (WA) Pty Ltd is based on the market, economic and other conditions prevailing at the date of this report. Such conditions can change significantly over short periods of time.

With respect to taxation implications it is recommended that individual Shareholders obtain their own taxation advice, in respect of the proposed Funding Facility and Share Transfer, tailored to their own particular circumstances. Furthermore, the advice provided in this report does not constitute legal or taxation advice to the Shareholders of Firestone, or any other party.

BDO Corporate Finance (WA) Pty Ltd has also considered and relied upon independent valuations for mineral assets held by the Sekoko-Firestone JV.

The valuer engaged for the mineral asset valuation, Venmyn, possess the appropriate qualifications and experience in the industry to make such assessments. The approaches adopted and assumptions made in arriving at their valuation are appropriate for this report. We have received consent from the valuer for the use of their valuation report in the preparation of this report and to append a copy of their report to this report.

The statements and opinions included in this report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of this engagement are such that BDO Corporate Finance (WA) Pty Ltd has no obligation to update this report for events occurring subsequent to the date of this report.

Yours faithfully

BDO CORPORATE FINANCE (WA) PTY LTD

Adam Myers

Director

Sherif Andrawes

Director

APPENDIX 1 – GLOSSARY OF TERMS

Reference	Definition
$	Australian dollar
The Act	The Corporations Act 2001
Ariona	Ariona Company SA
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
AUD	Australian dollars
BDO	BDO Corporate Finance (WA) Pty Ltd
The Company	Firestone Energy Limited
CTVM	Comparable transaction value method
DCF	Discounted Future Cash Flows
DMR	Department of Mineral Resources
DOCA	Deed of Company Arrangement
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
ECN	Existing convertible notes
Eskom	Eskom Holdings Limited
EM	Explanatory Memorandum
Firestone	Firestone Energy Limited
FME	Future Maintainable Earnings
Funding Facility	The proposal for Ariona to provide $40.7 million to Firestone under a secured convertible note facility replacing the current convertible notes. The conversion price is $0.025 per share.
JSE	Johannesburg Stock Exchange
JV	Joint venture

Listing Rules	ASX Listing Rules
MEE	Multiples of exploration expenditure
MoU	Memorandum of Understanding
NAV	Net Asset Value
NOM	Notice of Meeting
NPV	Net present value
QMP	Quoted market price
RBA	Reserve Bank of Australia
our Report	This Independent Expert's Report prepared by BDO
RG111	Content of expert reports (March 2011)
RG112	Independence of experts (March 2011)
S611	Section 611 of the Corporations Act 2001
Sekoko	Sekoko Resources (Pty) Limited
Share Transfer	The proposal for Sekoko Resources (Pty) Ltd to sell 800 million shares in Firestone to Ariona for A$8 million.
Shareholders	Shareholders of Firestone not associated with Sekoko or Ariona
t	Tonne
US$	United States dollar
Venmyn	Venmyn Rand (Pty) Ltd trading as Venmyn
VWAP	Volume Weighted Average Price
The Waterberg JV	The Firestone and Sekoko joint venture coal project in Waterberg Coalfield in South Africa
ZAR	South African Rand

APPENDIX 2 – VALUATION METHODOLOGIES

Methodologies commonly used for valuing assets and businesses are as follows:

1 *Net asset value ("NAV")*

Asset based methods estimate the market value of an entity's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- Orderly realisation of assets method
- Liquidation of assets method
- Net assets on a going concern method

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to entity holders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not be appropriate. The 'net assets on a going concern basis' method estimates the market values of the net assets of an entity but does not take into account any realisation costs.

Net assets on a going concern basis are usually appropriate where the majority of assets consist of cash, passive investments or projects with a limited life. All assets and liabilities of the entity are valued at market value under this alternative and this combined market value forms the basis for the entity's valuation.

Often the FME and DCF methodologies are used in valuing assets forming part of the overall Net assets on a going concern basis. This is particularly so for exploration and mining companies where investments are in finite life producing assets or prospective exploration areas.

These asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. Asset based methods are appropriate when an entity is not making an adequate return on its assets, a significant proportion of the entity's assets are liquid or for asset holding companies.

2 *Quoted Market Price Basis ("QMP")*

A valuation approach that can be used in conjunction with (or as a replacement for) other valuation methods is the quoted market price of listed securities. Where there is a ready market for securities such as the ASX, through which shares are traded, recent prices at which shares are bought and sold can be taken as the market value per share. Such market value includes all factors and influences that impact upon the ASX. The use of ASX pricing is more relevant where a security displays regular high volume trading, creating a "deep" market in that security.

3 *Capitalisation of future maintainable earnings (“FME”)*

This method places a value on the business by estimating the likely FME, capitalised at an appropriate rate which reflects business outlook, business risk, investor expectations, future growth prospects and other entity specific factors. This approach relies on the availability and analysis of comparable market data.

The FME approach is the most commonly applied valuation technique and is particularly applicable to profitable businesses with relatively steady growth histories and forecasts, regular capital expenditure requirements and non-finite lives.

The FME used in the valuation can be based on net profit after tax or alternatives to this such as earnings before interest and tax (“**EBIT**”) or earnings before interest, tax, depreciation and amortisation (“**EBITDA**”). The capitalisation rate or "earnings multiple" is adjusted to reflect which base is being used for FME.

4 *Discounted future cash flows (“DCF”)*

The DCF methodology is based on the generally accepted theory that the value of an asset or business depends on its future net cash flows, discounted to their present value at an appropriate discount rate (often called the weighted average cost of capital). This discount rate represents an opportunity cost of capital reflecting the expected rate of return which investors can obtain from investments having equivalent risks.

Considerable judgement is required to estimate the future cash flows which must be able to be reliably estimated for a sufficiently long period to make this valuation methodology appropriate.

A terminal value for the asset or business is calculated at the end of the future cash flow period and this is also discounted to its present value using the appropriate discount rate.

DCF valuations are particularly applicable to businesses with limited lives, experiencing growth, that are in a start up phase, or experience irregular cash flows.

5 *Market Based Assessment*

The market based approach seeks to arrive at a value for a business by reference to comparable transactions involving the sale of similar businesses. This is based on the premise that companies with similar characteristics, such as operating in similar industries, command similar values. In performing this analysis it is important to acknowledge the differences between the comparable companies being analysed and the company that is being valued and then to reflect these differences in the valuation.

APPENDIX 3 – INDEPENDENT VALUATION REPORT PREPARED BY VENMYN

Block G, First Floor
Rochester Place
173 Rivonia Road
Sandton 2146
PO Box 782761
Sandton 2146
Republic of South Africa

Tel: +27 11 783 9903
Fax: +27 11 783 9953
www.venmyn.com

INDEPENDENT VALUATION REPORT ON THE COAL ASSETS OF THE SEKOKO COAL (PTY) LIMITED (SEKOKO COAL) – FIRESTONE ENERGY LIMITED (FIRESTONE) JOINT VENTURE (SEKOKO COAL - FIRESTONE JV) AT THEIR WATERBERG COAL PROJECT, SOUTH AFRICA, COMPILED BY VENMYN RAND (PTY) LIMITED (VENMYN)

COMPILED BY:-

N. MCKENNA (COMPETENT EXPERT)
M.SC. (GEOL), PR. SCI. NAT (400199/04)
MSAIMM (309030), MGSSA, M. INST. D.
DIRECTOR

J.A. MYBURGH
B.SC. (MATHEMATICS)
MINERAL PROJECT ANALYST

OUR REFERENCE:- D11196R

FIRST DRAFT:- 10TH MAY 2012
FINAL REPORT: - 11TH MAY 2012
EFFECTIVE DATE : - 1ST MAY 2012

Sekoko Coal (Pty) Ltd
Hampton Office Park
Fulham House, 1st Floor
20 Georgian Crescent
Bryanston,
2140

SYNOPSIS

Venmyn was commissioned by the directors of Lexshell 126 General Trading (Pty) Limited (Lexshell) and instructed by BDO Corporate Finance (WA) (Pty) Ltd (BDO) to prepare a valuation report on certain of the coal assets (contributing properties) of the Joint Ventures (JV) between Sekoko Coal and Firestone Energy Limited (Firestone) at their Waterberg Coal Project (Sekoko Coal – Firestone JV), located in the Limpopo Province, South Africa. Venmyn understand that BDO will use this valuation report for the purposes of compiling an Independent Experts Report in relation to a proposed acquisition of Firestone shares, requiring shareholder approval under Section 611 (Item 7) of the Australian Corporations Act.

This valuation considers the Fair Value of the coal assets of the T1, T2 and T3 agreements properties (the contributing properties) on a 100% attributable basis. No assessment is made with respect to the relative values attributable to either Firestone or Sekoko Coal, nor is any opinion expressed regarding the proposed transaction.

These properties are situated less than 5km to the west of the Grootegeluk Colliery mining lease boundary, approximately 240km northwest of Pretoria (Tshwane) and 70km south of the border with Botswana. The area is accessed via the tarred R517 between Modimolle (formerly Nylstroom) and Lephalale. The railway line from Thabazimbi terminates immediately north of Grootegeluk Colliery and power lines from the Matimba Power Station traverse the area.

Approximately 1.4 billion TTIS of coal has been classified into the Measured, Indicated and Inferred categories for the contributing properties. These JORC compliant Coal Resources form the basis of the valuation of these properties, reported herein.

The mineral assets of the contributing properties of the Waterberg Coal Project were valued on the basis of available historical and recent exploration data and current Coal Resources, using methods appropriate for the development status of the project. Venmyn's valuation considered the prospectivity of the project and attached a value range consistent with that assessment. The methods applied are accepted industry methods which aim to reduce subjectivity by assessing the relevance and effectiveness of exploration work.

This report has been prepared for Lexshell in compliance with, and to the extent required by, the Australian Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (VALMIN Code, 2005). Consistent with the VALMIN Code, in this report Fair Value is considered to be comprised of the 'Intrinsic' or 'Technical' value and a premium or discount relating to market, strategic or other considerations.

To assess the Intrinsic/Technical Value, both the multiples of exploration expenditure (MEE) and comparable transactions approach were utilised. The MEE valuation method was used in the first instance to value the mineral assets of the contributing properties on the basis that recent expenditures have contributed to its present value. As Coal Resources were classified for the contributing properties, it was appropriate to attach a comparable unit market value to those resources. In order to arrive at reasonable market comparisons, appropriate recent and similar transactions were identified. These assessments resulted in an Intrinsic or Technical Value range of between ZAR1,283m and ZAR1,733m, with a preferred value of **ZAR1,509.67m** for the mineral assets of the contributing properties.

While a value of in excess of ZAR1bn for the mineral assets of the contributing properties was supported by relatively high Market Values in the past, Venmyn have noted a significant decrease (~50%) in the market capitalisation of Firestone in the past 6-12 months, a continuation of a more extended decreasing trend. As a result, the current effective Market Value of the mineral assets has been assessed as **ZAR545.78m**.

It is clear, from the above, that the Market Value is significantly lower than the Intrinsic/Technical Value of the mineral assets. In terms of the requirements of VALMIN, 2005, Venmyn consider it appropriate to apply a discount to the Intrinsic/Technical Value of the mineral assets. In this case Venmyn consider the mean of the Intrinsic/Technical Value and the Market Value to reflect the Fair Value of the mineral assets, as at the effective date of this report. The table overleaf summarises the results from the valuation methods employed.

<table>
<tr><th rowspan="2"></th><th rowspan="2">FARM</th><th colspan="3">INTRINSIC OR TECHNICAL VALUE</th><th rowspan="2">TOTAL (ZARm)</th><th rowspan="2">MARKET VALUE (ZARm)</th><th rowspan="2">FAIR VALUE (ZARm)</th></tr>
<tr><th>COST APPROACH (ZARm)</th><th>COMPARABLE TRANSACTION APPROACH (ZARm)</th><th>PREFFERED VALUE (ZARm)</th></tr>
<tr><td rowspan="2">T1</td><td>Olieboomsfontein 220 LQ</td><td>1.00</td><td>N/A</td><td>1.00</td><td rowspan="2">125.02</td><td rowspan="8">545.78</td><td rowspan="8">1027.72</td></tr>
<tr><td>Vetleegte 304 LQ</td><td>121.00</td><td>127.05</td><td>124.02</td></tr>
<tr><td rowspan="4">T2</td><td>Minnasvlakte 258 LQ</td><td>10.45</td><td>77.34</td><td>43.90</td><td rowspan="4">1,343.87</td></tr>
<tr><td>Smitspan 306 LQ</td><td>1,085.54</td><td>1,417.98</td><td>1,251.76</td></tr>
<tr><td>Massenberg 305 LQ</td><td>30.37</td><td>31.40</td><td>30.88</td></tr>
<tr><td>Hooikraal 315 LQ</td><td>15.18</td><td>19.48</td><td>17.33</td></tr>
<tr><td rowspan="2">T3</td><td>Swanepoelpan 262LQ</td><td>19.95</td><td>57.42</td><td>38.68</td><td rowspan="2">40.77</td></tr>
<tr><td>Duikerfontein 263LQ</td><td>0.00</td><td>2.09</td><td>2.09</td></tr>
<tr><td></td><td>TOTAL</td><td>1,283.48</td><td>1,732.75</td><td>1,509.67</td><td>1,509.67</td><td>545.78</td><td>1,027.72</td></tr>
</table>

In Venmyn's opinion the current Fair Value of the Contributing Properties of the Waterberg Coal Project, given their current state of development and current market conditions is **ZAR1,028m**.

The valuation of exploration assets is, by nature, subjective and uncertain. The placing of a specific monetary value on historical exploration can be misleading, and the reader is advised to consider the ranges in which each property has been evaluated, and to further consider the technical merits of each project area and form an opinion regarding its prospectivity on the basis of the data presented in this report.

DISCLAIMER AND RISKS

Venmyn has prepared this Valuation Report and, in so doing, has utilised information provided by Sekoko Coal and Lexshell as to its operational methods and forecasts. Where possible this information has been verified from independent sources with due enquiry in terms of all material issues that are a prerequisite to comply with the VALMIN Code. Venmyn and its directors accept no liability for any losses arising from reliance upon the information presented in this report.

The authors of this Valuation Report are not qualified to provide extensive commentary on legal issues associated with Sekoko Coal or Lexshell's right to the mineral properties. Sekoko Coal, Lexshell and its attorneys have provided certain information, reports and data to Venmyn in preparing this Valuation Report which, to the best of their knowledge and understanding is complete, accurate and true and Sekoko Coal and Lexshell acknowledge that Venmyn has relied on such information, reports and data in preparing this Valuation Report. No warranty or guarantee, be it express or implied, is made by the authors with respect to the completeness or accuracy of the legal aspects of this document.

OPERATIONAL RISKS

The business of mining and mineral exploration, development and production by their nature contain significant operational risks. The business depends upon, amongst other things, successful prospecting programmes and competent management. Profitability and asset values can be affected by unforeseen changes in operating circumstances and technical issues.

POLITICAL AND ECONOMIC RISKS

Factors such as political and industrial disruption, currency fluctuation and interest rates could have an impact on Lexshell's future operations, and potential revenue streams can also be affected by these factors. The majority of these factors are, and will be, beyond the control of Sekoko, Lexshell or any other operating entity.

FORWARD LOOKING STATEMENTS

The following report contains forward-looking statements. These forward looking statements are based on opinions and estimates of Sekoko Coal and Lexshell management and Venmyn at the date the statements are made. They are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in our forward-looking statements. Factors that could cause such differences include changes in world coal markets, equity markets, costs and supply of materials relevant to the projects, and changes to regulations affecting them. Although we believe the expectations reflected in our forward-looking statements to be reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

**INDEPENDENT VALUATION REPORT
ON THE WATERBERG COAL ASSETS
OF THE
SEKOKO COAL (PTY) LIMITED (SEKOKO COAL) –
FIRESTONE ENERGY LIMITED (FIRESTONE)
JOINT VENTURE
(SEKOKO COAL - FIRESTONE JV)
AT THEIR
WATERBERG COAL PROJECT,
SOUTH AFRICA,
COMPILED BY
VENMYN RAND (PTY) LIMITED
(VENMYN)**

LIST OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

1. INTRODUCTION

Venmyn was commissioned by the directors of Lexshell 126 General Trading (Pty) Limited (Lexshell) and instructed by BDO Corporate Finance (WA) (Pty) Ltd (BDO) to prepare a valuation report on certain of the coal assets (contributing properties) of the Joint Ventures (JV) between Sekoko Coal and Firestone Energy Limited (Firestone) at their Waterberg Coal Project (Sekoko Coal – Firestone JV), located in the Limpopo Province, South Africa. Venmyn understand that BDO will use this valuation report for the purposes of compiling an Independent Experts Report in relation to a proposed acquisition of Firestone shares, requiring shareholder approval under Section 611 (Item 7) of the Australian Corporations Act.

This valuation considers the Fair Value of the coal assets of the T1, T2 and T3 agreements properties (the contributing properties) on a 100% attributable basis. No assessment is made with respect to the relative values attributable to either Firestone or Sekoko Coal, nor is any opinion expressed regarding the proposed transaction. This valuation is therefore an assessment of the total Fair Value of the mineral assets only.

The contributing properties are located in the Limpopo Province, South Africa (Figure 1).

The Sekoko Coal-Firestone JV encompasses three separate agreements between Sekoko Coal and Firestone:-

Table 1: Sekoko Coal-Firestone JV Agreements

AGREEMENT	SIGNATURE DATE	PROPERTIES	SEKOKO COAL CURRENT EFFECTIVE INTEREST	FIRESTONE CURRENT EFFECTOVE INTEREST
T1	12/06/2008	Olieboomsfontein 220LQ	40%	60%
		Vetleegte 304LQ		
T2	01/03/2009	Minnasvlakte 258LQ	40%	60%
		Smitspan 306LQ		
		Massenberg 305LQ		
		Hooikraal 315LQ		
T3	02/02/2010	Duikerfontein 263LQ	40%	60%
		Swanepoelpan 262LQ		

The contributing properties for this Valuation Report are the T1, T2 and T3 properties (Figure 2). The contributing properties cover a surface area of ~7,998 hectares (ha).

These properties are situated less than 5km to the west of Exxaro's Grootegeluk Colliery mining lease boundary, approximately 240km northwest of Pretoria (Tshwane) and 70km south of the border with Botswana. The area is accessed via the tarred R517 between Modimolle (formerly Nylstroom) and Lephalale. The railway line from Thabazimbi terminates immediately north of Grootegeluk Colliery and power lines from the Matimba Power Station traverse the area.

Since the inception of the Waterberg Coal Project in 2007, significant exploration drilling and sampling has been conducted predominantly by Sekoko Coal (and more recently by Firestone) as part of an on-going exploration programme which is intended to increase the level of geological confidence with respect to the Coal Resources and provide the basis for a Feasibility Study for the development and exploitation of the project in the near term (by ~2014).

2. SCOPE OF THE OPINION

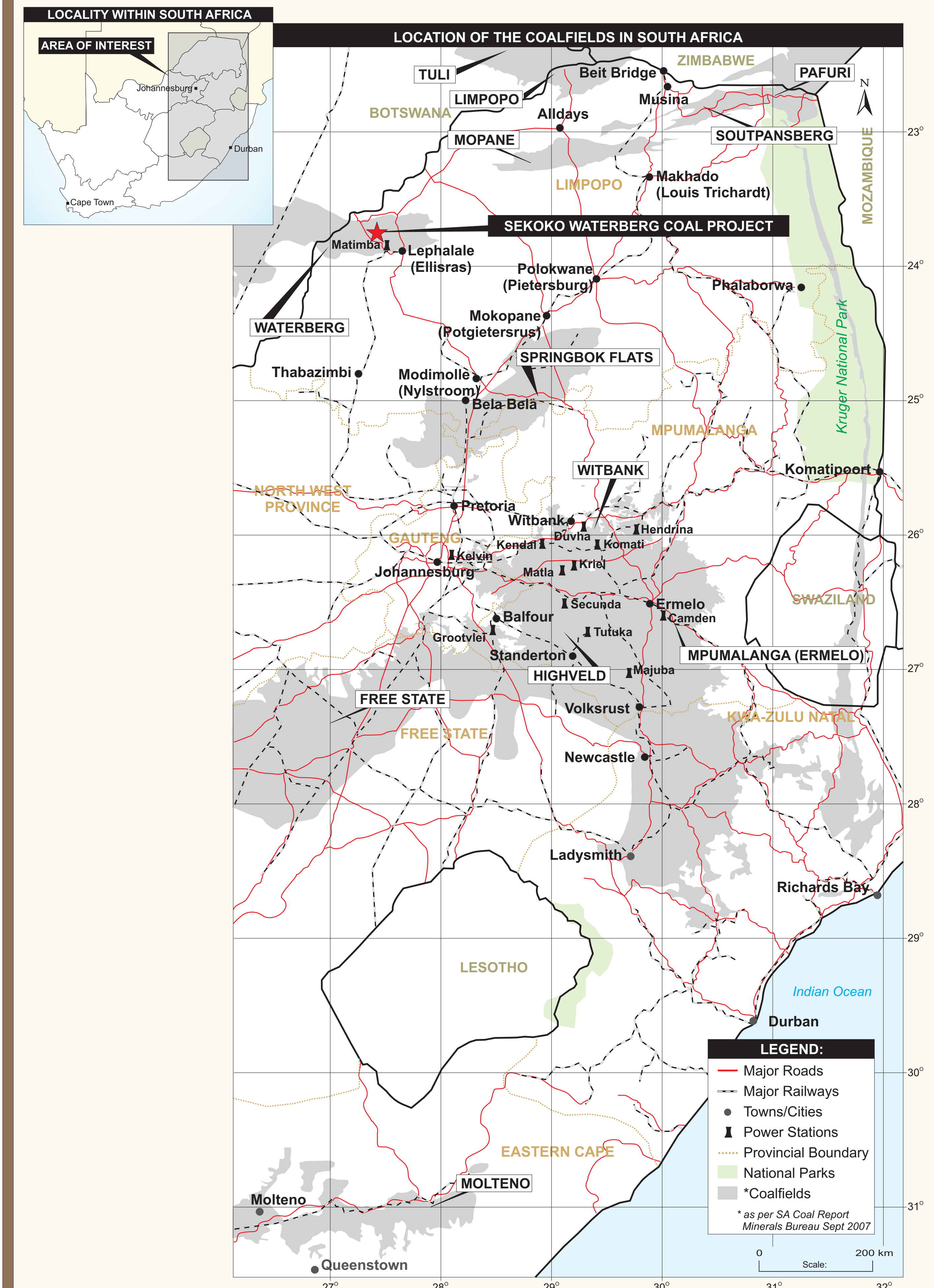
This valuation considers the full Fair Value of the coal assets of the T1, T2 and T3 agreement properties (the contributing properties).

In the execution of the mandate, Venmyn have considered the strategic merits of the contributing properties and defined the valuation outcomes on an open and transparent basis. Venmyn's mineral asset valuation (MAV) has been carried out using industry accepted methods being mindful of the development status of each property.

A site visit to the contributing properties was conducted by the authors of this report in July 2010 in preparation of a resource assessment and MAV at that time. Since no material exploration or developmental work has occurred on the contributing properties since this site visit, it was not considered necessary, by Venmyn, to visit the site again for the purposes of the MAV reported herein. In addition, Venmyn is fully familiar with the geological and operating environment in which the contributing properties occurs. Having conducted a number techno-economic evaluations of other projects within the Waterberg Coalfield.

The MAV included in this report has been prepared in compliance with and to the extent required by The Code and Guidelines for Assessment and Valuation of Mineral Assets and Mineral Securities for Independent Expert Reports 2005 (VALMIN Code), prepared by the VALMIN Committee, a joint committee of The Australian Institute of Mining and Metallurgy (AusIMM), the Australasian Institute of Geoscientists and the Mineral Industry Consultants Association with the participation of the Australian Securities and Investment Commission, the ASX, the Minerals Council of Australia, the Petroleum Exploration Society of Australia, the Securities Association of Australia and representatives from the Australian finance sector.

LOCALITY OF THE COAL ASSETS IN RELATION TO SOUTH AFRICAN COALFIELDS



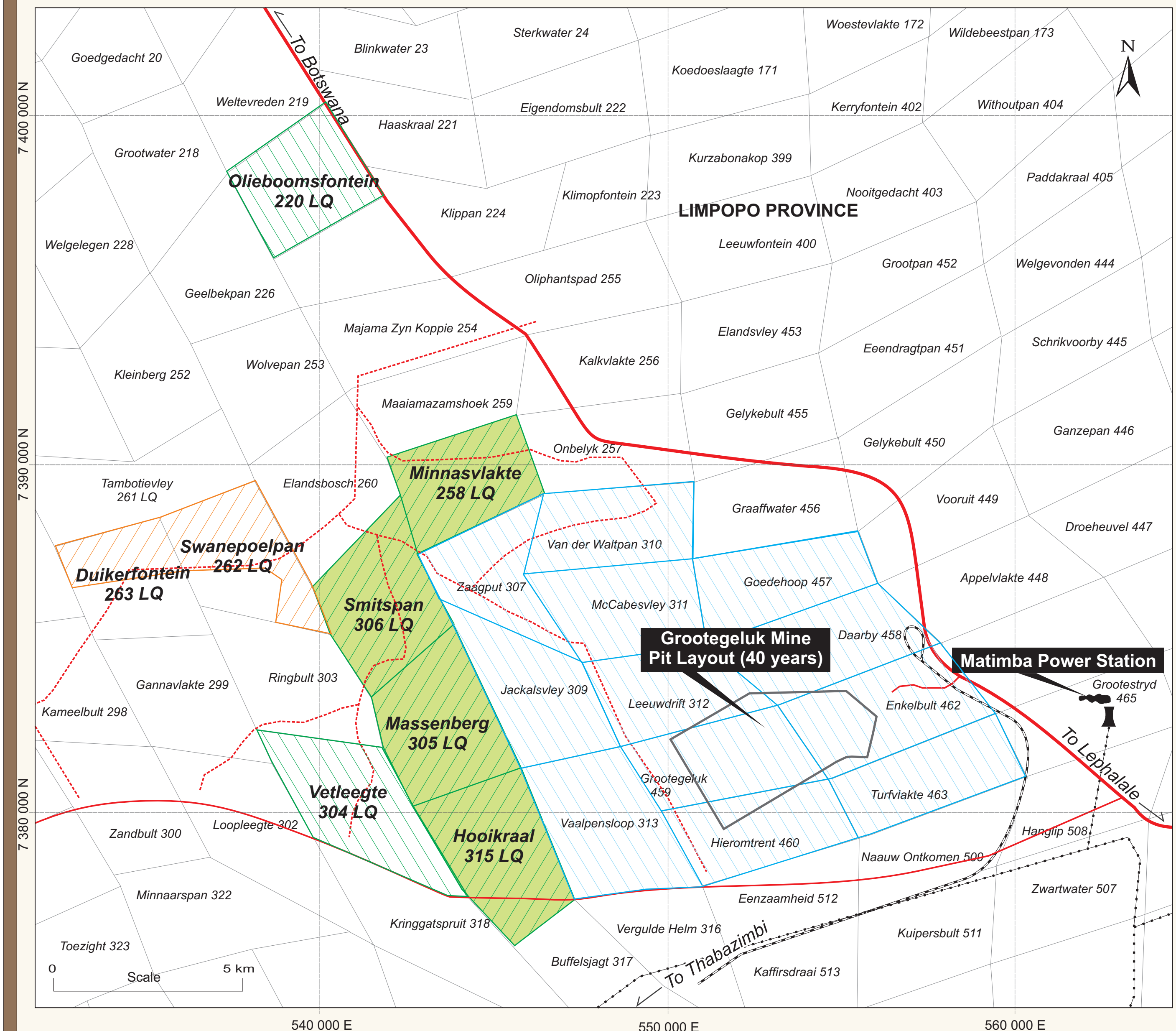
VENMYN
Independence you can trust

FIGURE 02

Sekoko Coal

LOCATION OF THE CONTRIBUTING PROPERTIES OF THE WATERBERG COAL PROJECT

LOCALITY WITHIN SOUTH AFRICA



LEGEND:

- Farm Boundary
- Main Road
- Secondary Road
- Farm Road
- Railway
- Powerline
- Grootegeluk Mine
- Grootegeluk Colliery Mining Lease

Contributing Properties at the Waterberg Coal Project

- T1
- T2 } Sekoko Coal/Firestone JV
- T3

Source: Barker's Coalfields Map of SA

These guidelines are considered by Venmyn to be a concise recognition of the best practice valuation methods for this type of mineral asset and accord with the principles of open and transparent disclosure that are embodied in internationally accepted Codes for Corporate Governance.

This Valuation Report considers the full Fair Value of the coal assets of the contributing properties at the effective date (1st May 2012). This Valuation Report has been compiled based on information available up to and including the effective date of this report. The valuation is therefore only valid for this date and may change over time in response to economic, market, legal or political factors, in addition to changes in the Coal Resources and their classification as a result of further exploration.

The valuation of the mineral assets has been conducted on a 100% attributable basis. All monetary values included in this report are expressed in South African Rands (ZAR), unless otherwise denoted.

In the execution of the mandate, Venmyn undertook a technical assessment of the contributing assets and also considered the strategic merits of each of the mineral assets. This work has been based upon technical information which has been supplied by Sekoko Coal and its subsidiary companies, and which has been independently due diligenced by Venmyn, where possible. Sekoko Coal has warranted in writing that it has openly provided all material information to Venmyn which, to the best of its knowledge, understanding, and belief is complete, accurate and true, having made all reasonable enquiries and has not omitted anything likely to affect its import.

Venmyn consents to the inclusion of this Valuation Report in BDO’s Independent Experts Report in relation to a proposed acquisition of Firestone shares, and to reference any part of this report, provided that no portion is used out of context or in such a manner as to convey a meaning which differs from that set out in the whole report.

Venmyn reserves the right to, but will not be obliged to, revise this report or sections therein, and conclusions thereto, if additional information becomes known to Venmyn subsequent to the date of this report.

3. COMPETENT PERSONS’ DECLARATION

Venmyn is an independent advisory company. Its consultants have extensive experience in preparing competent persons’, technical advisors’ and valuation reports for mining and exploration companies. Venmyn’s advisors have, collectively, more than 100 years of experience in the assessment and evaluation of mining projects and are members in good standing of appropriate professional institutions.

The signatories to this report are qualified to express their professional opinions on the values of the mineral assets described. Curricula vitae (CV’s) are presented in Section 16.

Neither Venmyn nor its staff have, or have had, any interest in this project capable of affecting their capacity to give an unbiased opinion, and, have not and will not, receive any pecuniary or other benefits in connection with this assignment, other than normal consulting fees.

4. SOURCES OF INFORMATION

Venmyn has based its assessment of the contributing properties, reported herein, on information provided by Sekoko Coal and its subsidiary companies, along with technical reports by its contractors and associates and other relevant published data. Drafts of this report have been provided to Sekoko Coal and its relevant subsidiary companies, in order to identify and address any factual errors or omissions prior to finalisation.

The report has been prepared based on exploration information available up to and including the 1st May 2012.

In broad terms we have relied upon, but were not restricted to, the following principal sources of information: -

- current corporate structure and ownerships;
- exploration expenditure data as at 1st May 2012;
- the Firestone website as at 1st May 2012;
- the Mineral Resources Statement, prepared by Venmyn, as at August 2010;
- the Mineral Asset Valuation Report, prepared by Venmyn in October 2011;
- publicly available information relating to the coal exploration and mining sector, as detailed in Section 15;
- the Venmyn coal transaction and valuation databases;
- the memorandum of understanding with Eskom for a 30 year coal supply agreement; and
- publicly available information relating to Sekoko Coal and Firestone that we deemed to be relevant, including:-
    - share price movements;
    - company announcements; and
    - media articles.

5. EFFECTIVE OWNERSHIP OF THE WATERBERG COAL PROJECT

Sekoko Coal, a wholly-owned subsidiary of Sekoko Resources (Pty) Limited (Sekoko Resources), has entered into three separate JV and 'Farm-In' agreements (Table 1) with Firestone, through various wholly owned South African subsidiary companies. Firestone's participation interest increases as various milestones are reached. At the effective date of this Valuation Report, the effective participation interests of Sekoko Coal in the Waterberg Coal Projects are graphically presented in Figure 3.

6. LEGAL TENURE

6.1. Mineral Rights Summary

The contributing properties are tabulated in Table 2 and illustrated in Figure 2, respectively:-

Table 2: Legal Tenure Summary for the Contributing Properties.

AGREEMENT	FARM NAME	SURFACE AREA (ha)	MINERAL RIGHTS HOLDER	STATUS OF MINERAL RIGHT	EXPIRY DATE
T1	Vetleegte 304LQ	1,133.50	Uzalile Property Services (Pty) Ltd (60%) and Sekoko Resources (Pty) Ltd (40%) JV	Granted New Order Prospecting Right No. 651/2006, on 19/10/06	12/11/2011
	Olieboomsfontein 220LQ	1,092.40	Sekoko Coal (Pty) Ltd	Granted New Order Prospecting Right No. 681/2007(All Minerals), on 13/10/05	12/10/2010*
SUB TOTAL		**2,225.90**			
T2	Minnasvlakte 258 LQ	1,022.83	Sekoko Coal (Pty) Ltd	Granted New Order Mining Right No. 22/2011, on 17/09/11	16/09/2041
	Smitspan 306 LQ	1,165.70			
	Massenberg 305 LQ	1,216.74			
	Hooikraal 315 LQ RE	955.33			
SUB TOTAL		**4,360.61**			
T3	Duikerfontein 263LQ	501.10	Sekoko Coal (Pty) Ltd	Granted New Order Prospecting Right No. 681/2007(All Minerals), on 13/10/05	12/10/2010*
	Swanepoelpan 262LQ	910.80			
SUB TOTAL		**1,411.90**			
TOTAL		**7,998.41**			

* Sekoko Coal have applied for an extension to the prospecting rights.

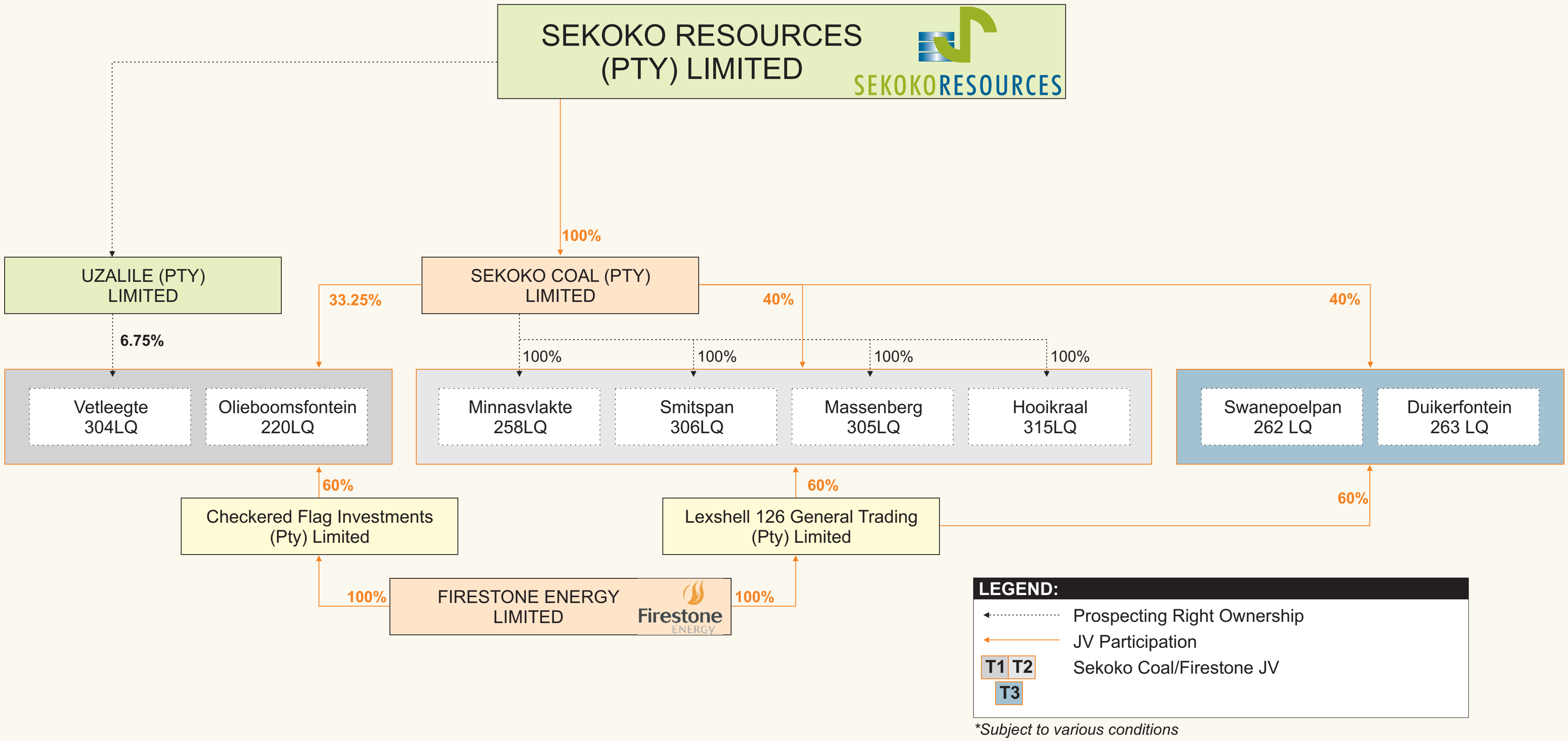
Table 2 shows that Sekoko Coal has been granted a New Order Mining Right over Minnasvlakte 258LQ, Smitspan 306LQ, Massenberg 305LQ and Hooikraal 315LQ. Over Vetleegte 304LQ, Sekoko Coal has applied for a renewal of their expired New Order Prospecting Right. Sekoko Coal have informed Venmyn that the DMR have acknowledged receipt of the renewal documents but still need to issue the formal renewal. For Olieboomsfontein 220LQ, Duikerfontain 263LQ and Swanepoelpan 262LQ, while Sekoko Coal applied for a renewal over these properties, the DMR incorrectly granted a renewal over the farms Minnasvlakte 258LQ, Smitspan 306LQ, Massenberg 305LQ and Hooikraal 315LQ, for which they already have a separate Mining Right. Sekoko Coal's legal department have informed the DMR of the error, however this has yet to be rectified.

Venmyn are not qualified to provide extensive commentary on legal issues associated with Sekoko Coal or Lexshell's right to the mineral properties. Sekoko Coal, Lexshell and its attorneys have provided certain information, reports and data to Venmyn in preparing this Valuation Report which, to the best of their knowledge and understanding is complete, accurate and true and Sekoko Coal and Lexshell acknowledge that Venmyn has relied on such information, reports and data in preparing this Valuation Report. No warranty or guarantee, be it express or implied, is made by the authors with respect to the completeness or accuracy of the legal aspects of this document.

For the purposes of this valuation, Venmyn have assumed that Sekoko Coal (and the JV) have the rights to all contributing properties, but the unresolved issues of mineral tenure detailed above is a significant project risk and may have a significant effect on the value of the assets should Sekoko Coal not retain the mineral rights to the T1 and T3 properties, for whatever reason.

Venmyn have been advised that Sekoko Coal are confident that the renewals will be correctly granted as they are in regular contact with the DMR and have been supplying additional information to the DMR. In addition, Sekoko Coal have hosted a site visit by the DMR, to the properties, in order for the DMR to confirm that work has been undertaken on the properties.

CORPORATE STRUCTURE AND PARTICIPATION INTERESTS OF THE JOINT VENTURE



Source: Venmyn

7. THE COAL MARKET

Coal is mined commercially in over 50 countries and used in more than 70 countries worldwide. Coal is readily available from a wide variety of sources in a well-supplied worldwide market and it can be transported to demand centres quickly, safely and easily by ship and rail. A large number of suppliers are active in the international coal market, ensuring competitive behaviour and efficient functioning.

7.1. Global Coal Resources

Venmyn is not aware of any calculation of global coal resources. British Petroleum (BP) provides a list of coal reserves globally (Figure 4, Table 3), although whether these reserves are defined in terms of the Committee for Mineral Reserves International Reporting Standards (CRIRSCO) Codes is uncertain.

It is important to note that many of the figures for 2010, presented herein, were only made available in June 2011. The figures for 2011 are only expected to be released in mid-2012.

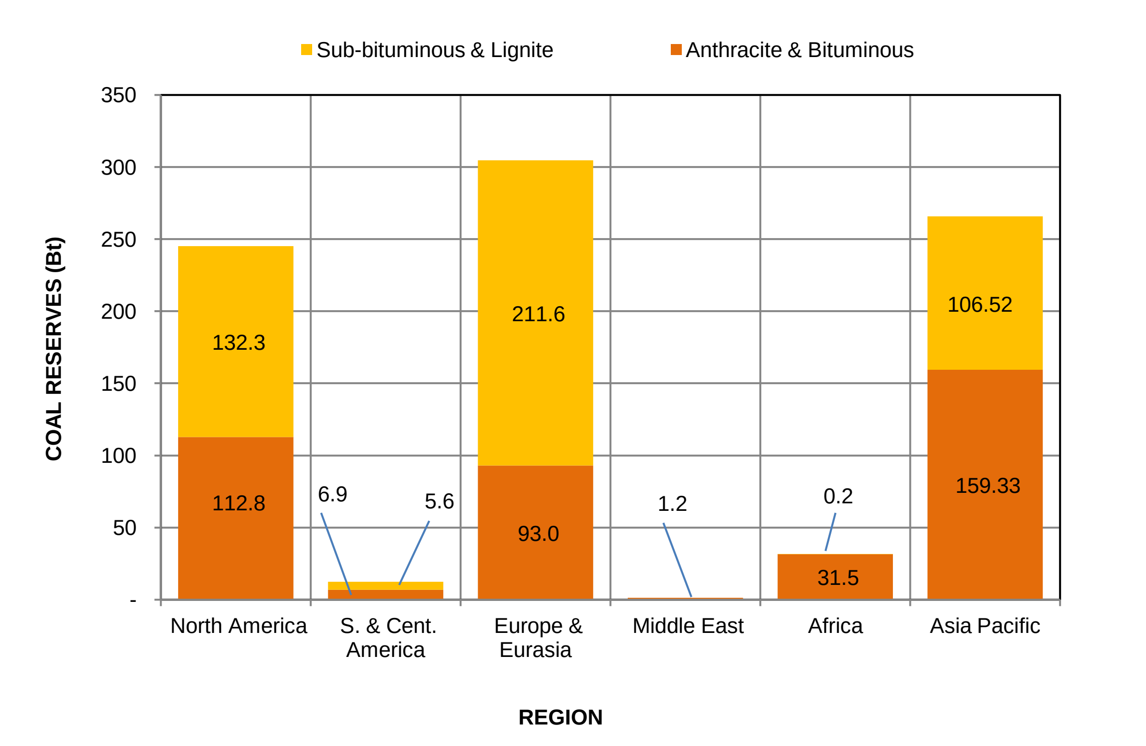
At the outset, it is important to note that in order to estimate the global coal resources, professional experts are faced with a significant problem and that is that the Committee CRIRSCO Codes insist that a resource can only be quantified and classified if there are "reasonable prospects for eventual economic extraction". In many cases, the sheer size and potential technical constraints associated with a coalfield mean that it may not be able to satisfy that condition for public reporting. However, the United Nations Framework Classification (UNFC) System does allow the classification of coal reserves as a strategic imperative. Unfortunately, many of the so-called coal studies do not necessarily reflect this problem. In Section 6.2, coal resources are strategic numbers that are not necessarily compliant with CRIRSCO but important to gauge coal resources available for the future of humankind.

7.2. Global Coal Reserves

Total global coal reserves are estimated at 860Bt, according to BP (BP, 2011). Historically, estimates of world recoverable coal reserves have reduced from 1,174Bt in 1990 to 1,083Bt in 2000 and to 860Bt in 2010 (Table 4 and Table 3). However, those who believe that even these latest estimates may be high, are mindful of the fact that national and global coal reserves have been grossly overestimated in the past, and suggest that world coal reserves may be significantly lower than estimated (Low, 2008; Hartnady, 2009; IEE, 2010).

Although coal deposits are widely distributed, 78.1% of the world's recoverable coal reserves were located in five countries at the end of 2010: the United States (27.5%), Russia (18.2%), China (13.2%), Australia (8.8%) and India (7.0%).

Figure 4 : Global Coal Reserves (end 2010)



Source: BP Statistical Review of World Energy June 2011

Anthracite and bituminous coal accounted for 47% of the world's estimated recoverable coal reserves (on a tonnage basis) in 2010, while sub-bituminous and lignite accounted for 53% in 2010.

Regionally, Europe and Eurasia, with 35.3% of recoverable coal reserves, accounted for the largest quantity of proved coal. The Middle East, with the world's largest oil deposits, contains the least coal reserves in the world (0.1%). Africa accounts for 3.7% of recoverable coal reserves, with South Africa accounting for 95% of total African coal reserves (Table 3).

Table 3 : Global Coal Reserves (end 2010)

REGION/COUNTRY	ANTHRACITE & BITUMINOUS (Mt)	SUB-BITUMINOUS & LIGNITE (Mt)	TOTAL (Mt)	SHARE OF TOTAL	R/P RATIO
US	108,501	128,794	**237,295**	28%	
Canada	3,474	3,108	**6,582**	1%	97
Mexico	860	351	**1,211**	0%	130
TOTAL NORTH AMERICA	**112,835**	**132,253**	**245,088**	**28%**	**231**
Brazil	-	4,559	**4,559**	1%	*
Colombia	6,366	380	**6,746**	1%	91
Venezuela	479	-	**479**	0%	120
Other S. & Cent. America	45	679	**724**	0%	*
TOTAL SOUTH & CENTRAL AMERICA	**6,890**	**5,618**	**12,508**	**1%**	**148**
Bulgaria	2	2,364	**2,366**	0%	82
Czech Republic	192	908	**1,100**	0%	22
Germany	99	40,600	**40,699**	5%	223
Greece	-	3,020	**3,020**	0%	44
Hungary	13	1,647	**1,660**	0%	183
Kazakhstan	21,500	12,100	**33,600**	4%	303
Poland	4,338	1,371	**5,709**	1%	43
Romania	10	281	**291**	□	9
Russian Federation	49,088	107,922	**157,010**	18%	495
Spain	200	330	**530**	0%	73
Turkey	529	1,814	**2,343**	0%	27
Ukraine	15,351	18,522	**33,873**	4%	462
United Kingdom	228	-	**228**	□	13
Other Europe & Eurasia	1,440	20,735	**22,175**	3%	317
TOTAL EUROPE & EURASIA	**92,990**	**211,614**	**304,604**	**35%**	**257**
South Africa	30,156	-	**30,156**	4%	119
Zimbabwe	502	-	**502**	0%	301
Other Africa	860	174	**1,034**	0%	*
Middle East	1,203	-	**1,203**	0%	*
TOTAL MIDDLE EAST & AFRICA	**32,721**	**174**	**32,895**	**4%**	**127**
Australia	37,100	39,300	**76,400**	9%	180
China	62,200	52,300	**114,500**	13%	35
India	56,100	4,500	**60,600**	7%	106
Indonesia	1,520	4,009	**5,529**	1%	18
Japan	340	10	**350**	□	382
New Zealand	33	538	**571**	0%	107
North Korea	300	300	**600**	0%	16
Pakistan	-	2,070	**2,070**	0%	*
South Korea	-	126	**126**	□	60
Thailand	-	1,239	**1,239**	0%	69
Vietnam	150	-	**150**	□	3
Other Asia Pacific	1,582	2,125	**3,707**	0%	114
TOTAL ASIA PACIFIC	**159,326**	**106,517**	**265,843**	**31%**	**57**
TOTAL WORLD	**404,762**	**456,176**	**860,938**	**100%**	**118**

Source: BP Statistical Review of World Energy June 2011
Notes: Proved reserves of coal - Generally taken to be those quantities that geological and engineering information indicates with reasonable certainty can be recovered in the future from known deposits under existing economic and operating conditions. Coal Reserves-to-production (R/P) ratio - If the coal reserves remaining at the end of the year are divided by the production in that year, the result is the length of time that those remaining coal reserves would last if production were to continue at that rate.
* More than 500 years.□ Less than 0.05%.

7.3. Supply

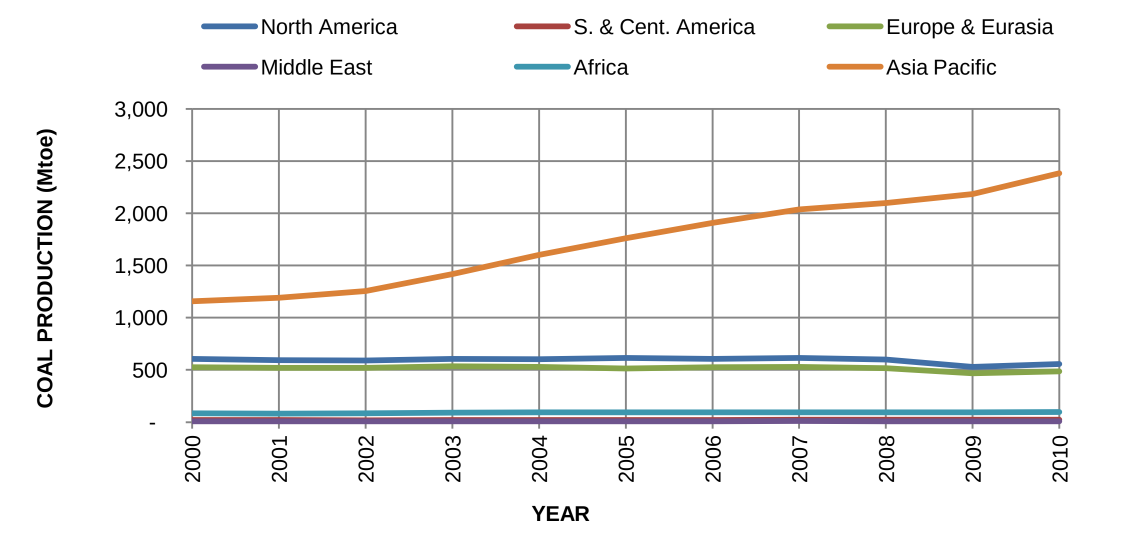
The Asia Pacific region accounted for 4,683.5Mt of coal produced, or ~64% of coal produced, in 2010, (Figure 5 and Figure 6). China, Australia, Indonesia and India were the dominant producers, but China was the most significant producer, producing almost 70% of Asia Pacific coal in 2010.

It was believed that the percentage share of Asia-Pacific production of several countries, including Australia, could, however, potentially fall since their production targets in the latter half of the year were influenced by floods and heavy rains. However, it now appears that most countries in this region continued to grow their coal production despite the poor weather conditions. The Asia-Pacific countries that showed a drop in coal production in 2010 included South Korea, Japan and Vietnam.

The influence of the La Nina weather phenomenon on Australian production (and Colombian and South African production) in 2011 is yet to be determined. Several company initiatives were introduced in 2011 to ensure that the year's Australian production would compensate for earlier shortfalls – a factor that bodes well for Australia's 2011 coal production performance. However, heavy rains at the beginning of 2012 have again resulted in coal mine closures, with four Australian coal mines closed in eastern Australia in March 2012 (The Huffington Post, 2012).

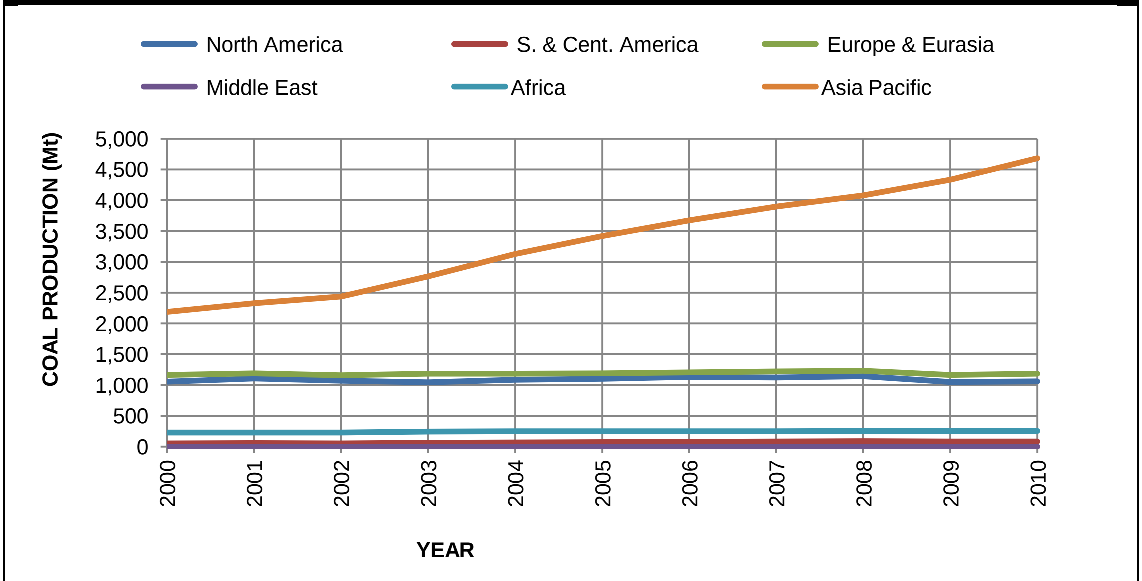
North America, after the Asia Pacific region, produces the next highest amount of coal by energy value, although it produces less coal in volume terms than Europe and Eurasia. Africa, South and Central America and the Middle East are the next largest coal producers by volume and energy values. This pattern is observed in consolidated global figures for 2009 and 2010 (Figure 5 and Figure 6).

Figure 5 : Coal Global Production 2000 – 2010 (Mtoe)



Source: BP Statistical Review of World Energy 2011

Figure 6 : Coal Global Production 2000 – 2010 (Mt)



Source: BP Statistical Review of World Energy 2011

Coal production quantities in North America and Africa had not significantly changed between 1981 and 2008, but production dropped in 2009 in every region, except in the Asia Pacific and Middle East regions, in 2009, reducing by 9.1% in North America, 7.1% in Central and South America, 6.9% in Europe and Eurasia, and 0.7% in Africa. Many regions reversed this trend in 2010, and are again increasing their coal production volumes, as can be seen by country-specific information shown in Table 4.

The most significant producers of coal in 2011 are shown in Table 4, which shows that China was the largest coal producer in 2011 by tonnage, followed by the United States (US). South Africa was ranked as the 7th-largest producer of coal volumes, and the combined 6th-largest producer of coal in energy terms in 2009 but, since Indonesia increased its coal volumes in 2011 more dramatically than South Africa, South Africa has fallen to the 7th largest producer of coal in energy terms (BP, 2011).

Table 4 : Selected Coal Producers – Estimated 2011 Production

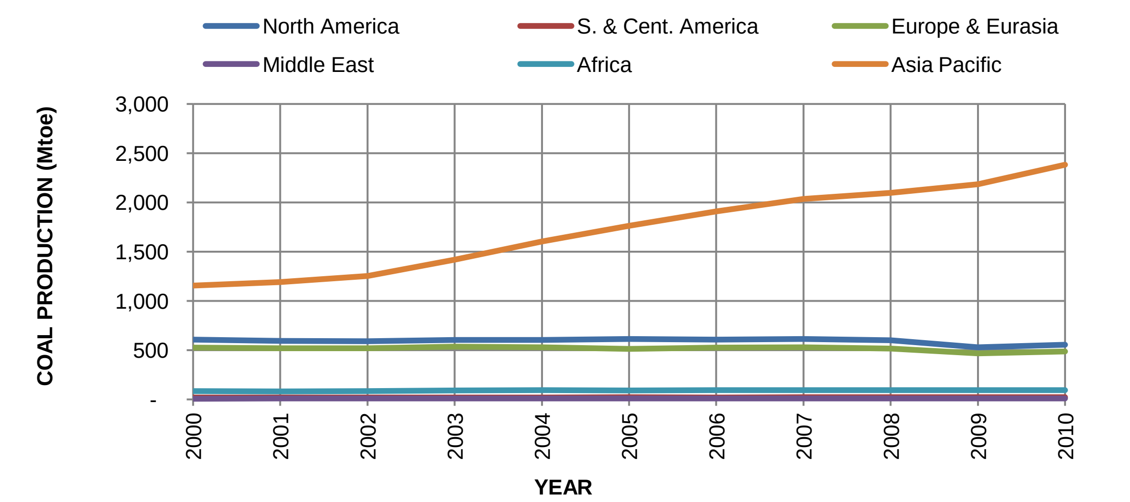
COUNTRY	PRODUCTION (Mt)	NOTES
China	3,539	The Chinese National Bureau of Statistics (Reuters, 2012b)
US	982	The BP Statistical Review of World Energy (2010) gives US coal production as 973.2Mt in 2009 and the Energy Information Administration (EIA) (2011) notes that this increased by 1% in 2010. Venmyn was not able to source production tonnages for 2011; however, it is known that the US is idling some mines on the back of poor domestic demand (Wellstead, 2012)
India	554	Coal production for fiscal 2011, starting in April 2011, is expected to be 554Mt, but there are indications that the country will not meet this tonnage (Sethuraman, 2012)
Australia	356	Australia's coal production increased by 1% between 2009 and 2010 (Abare, 2011). The production tons mentioned in this table are for 2010, as Venmyn could not find 2011 production figures at the time of writing this report.
Indonesia	340	Indonesia was expected to produce 340Mt of coal in 2011 (Reuters, 2012c)
Russia	334	State Statistics Committee of Russia (Hellenic Shipping News, 2012)
South Africa	255	The latest available statistics from November 2010 to October 2011 (inclusive) gives production for this period of 255Mt (DMR, 2011b)

7.4. Demand

The Asia Pacific region accounted for the bulk of coal demand by energy value in 2010, with 67%, or 2,385Mtoe, of global consumption stemming from this region in 2010 (Figure 7). North America was the next largest contributor to consumption by region, at 16%, or 556Mtoe, of global demand, followed by Europe and Eurasia, at 14% of global demand, or 487Mtoe, in 2010. All regions, with the exception of the Middle East and Asia Pacific, experienced a drop in coal consumption, in energy terms, in 2009, but all of the regions showed an increase in consumption, in energy and volume terms, in 2010 (Figure 7 and Figure 8).

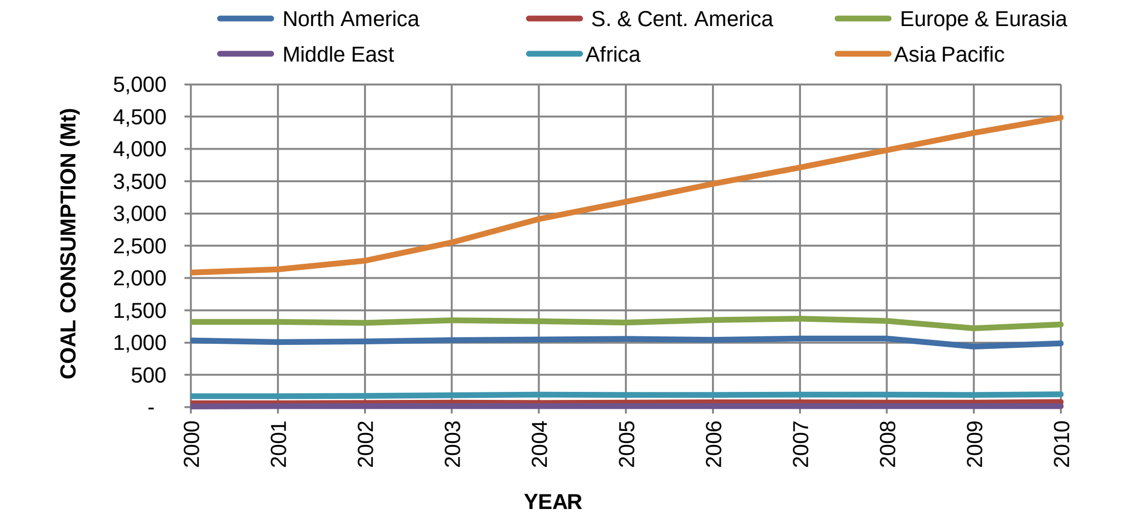
China's coal consumption was the world's largest in energy terms in 2010, totalling 48.2% of global consumption, or 1,713.5Mtoe, followed by the US, with 14.8% of global consumption, or 524.6Mtoe. China continues to dominate coal consumption, and accounted for two-thirds of consumption growth globally in 2010.

Figure 7 : Coal Consumption 2000-2010 (Mtoe)



Source: BP Statistical Review of World Energy 2011

Figure 8 : Coal Consumption 2000-2010 (Mt)



Source: BP Statistical Review of World Energy 2011

7.4.1. Imports

While a portion of consumption can be met by domestic production, some countries are unable to supply domestic coal requirements. As far as seaborne coal trade, the following coal flows apply (Neumann, 2009; Economist Intelligence Unit, 2010):-

- a significant portion of South Africa's coal exports are destined for India;
- Australia's main export destination is Asia, with a smaller quantity of coal supplied to Europe and the US;
- Russia's main export destination is Eastern Europe, with a smaller quantity of coal supplied to the East;
- Indonesia mainly supplies the East, but also supplies a small quantity of coal to Europe;
- Colombia has mainly supplied the US and Europe, but is starting to send coal to Asia when freight rates are high and when prices are strong; and
- the US supplies its internal market and Europe, although, in 2010, a weak currency, low freight charges and a shortage of coking coal in Asia resulted in it supplying considerable tonnages to this region.

As far as trends in coal destination countries, industry observers continue to watch China and India's coal imports, anticipating that they will soon take over from the traditionally-largest coal importers. Many anticipate that China will demonstrate that they had imported more coal than any other nation for 2011, when the statistics are released in min-2012.

However, to-date, Japan appears to continue to dominate in net coal imports, with net imports of ~177Mt in 2010 compared to China's ~164Mt of net coal imports. South Korea, Taiwan, Germany, the United Kingdom (UK) and Brazil are also among the largest importers of coal.

7.4.2. Exports

The country production rankings are considerably different to the coal export rankings. Australia has historically controlled 55% to 60% of the coking coal market. Australia exported over 137Mt of coking coal in 2008, 135Mt in 2009, and 159Mt in 2010.

Indonesia, meanwhile, is the largest global exporter of thermal coal, exporting 173Mt of thermal coal in 2008 and more than 180Mt in 2010 (Lucarelli, 2011; Abare, 2011; Wong, 2010; SourceWatch, 2010). Australia, Indonesia, Russia, Colombia, the US and South Africa remain important sources of global coal, with all of these countries reporting increases in production in 2010.

An issue that dominated 2010 coal exports and continued to influence 2011 coal exports, changing traditional source countries' contributions to global coal supplies, is the continued impact of floods in Australia, that resulted in numerous producers declaring force majeure and announcing that they would not be able to meet their supply commitments.

This resulted in Chinese and Indian buyers, as well as other buyers, trying to source coal from non-traditional sources. For instance, for the US this meant that its coking coal exports reached 1991 levels, rising to 55Mt in 2010, and marking a 49% increase in year-on-year exports. The US is similarly expected to have increased its coking coal export tonnages for 2011, this time to 65Mt (Xinhuanet, 2011). This is expected to be on the back of a low dollar price and low freight charges to the region.

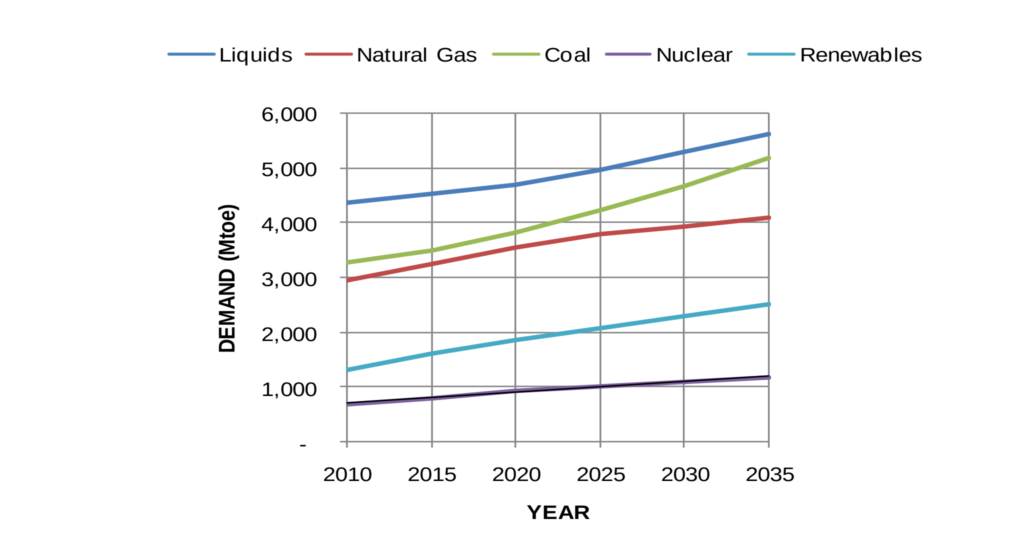
China's contribution to global exports will also be notably different to that in 2009, although it remains a net importer. This is because China, despite being the largest producer on coal, was not a significant exporter of coal in 2009 and became a net importer of coal in 2009, as a result of high demand and domestic Chinese prices being higher than import prices. However, this changed in 2010, when China again became an exporter of coal, exporting 19Mt in 2010 (Mining Exploration News, 2010; Wong, 2010; SourceWatch, 2010).

7.5. Future Demand

7.5.1. Thermal Coal

The demand for thermal coal in the future will largely depend on the extent of global reliance on coal for electricity production, while the demand for coking coal will depend on the growth in steel production. Coal demand is expected to increase significantly, especially on the back of increases in power and industrial production (Figure 9).

Figure 9 : Projected Demand for Energy (Mtoe)



Source:EIA

Coal demand is expected to increase from 2010, and this increase is likely to be more dramatic than for many other energy commodities.

The thermal coal market has been growing, as a result of coal's share of world electricity generation. This stands at ~40% globally.

However, electricity demand in Asia is increasing, and coal, as a fuel source, contributes a much larger percentage to electricity generation in this region – two factors which bode well for the continued growth of the thermal coal market. Some 220GW of coal powered generation capacity is expected to come on line in the next five years, including 79GW in China and 69GW in India (PSQ Analytics, 2010).

While coal's share of global electricity generation capacity is expected to grow in most regions, in some regions, notably Europe, there will be a reduction in its share, because of environmental concerns. The predicted coal-fired generating capacity by region is shown in Table 5.

Unsurprisingly, given many of the Asian countries' high future coal-fired electricity consumption levels (Table 5) and limited domestic supplies of coal, many of the top importers of thermal coal are expected to be from the continent in future, with South Korea and Malaysia also featuring prominently as importers of thermal coal.

Table 5 : Predicted World Coal-fired Generating Capacity by Country and Region (GW)

REGION / COUNTRY	HISTORY	PROJECTIONS					AVERAGE ANNUAL % CHANGE
	2007	2015	2020	2025	2030	2035	2007-2035
North America	**340**	**345**	**346**	**347**	**352**	**363**	**0.2**
United States	313	325	326	327	330	337	0.3
Canada	21	14	14	14	15	16	-0.8
Mexico	7	6	6	6	7	10	1.4
OECD Europe	**200**	**189**	**182**	**176**	**174**	**177**	**-0.4**
Non-OECD Europe and Eurasia	**98**	**97**	**95**	**96**	**103**	**118**	**0.7**
Russia	44	44	44	44	50	61	1.1
Other	54	52	51	51	53	57	0.2
Asia	**729**	**859**	**990**	**1,170**	**1,381**	**1,622**	**3.7**
Japan	45	42	41	40	39	39	-0.5
South Korea	23	22	23	27	33	41	2.1
Australia/New Zealand	31	30	31	31	32	33	0.3
China	496	625	750	901	1,062	1,233	3.3
India	84	86	89	98	113	135	1.7
Other Asia	50	53	57	72	102	141	3.8
Middle East	**6**	**5**	**5**	**5**	**5**	**5**	**-0.4**
Africa	**41**	**41**	**43**	**47**	**56**	**70**	**1.9**
Central and South America	**10**	**10**	**9**	**9**	**9**	**11**	**0.1**
Brazil	2	2	2	2	2	3	0.8
Other Central and South America	8	8	7	7	7	8	-0.1
TOTAL WORLD	**1,425**	**1,545**	**1,671**	**1,849**	**2,080**	**2,366**	**1.8**

Note: Totals may not equal sum of components due to independent rounding.
Sources: History: Derived from EIA, International Energy Statistics database (as of November 2009), web site www.eia.doe.gov/emeu/international. Projections: EIA, *Annual Energy Outlook 2010*, DOE/EIA-0383 (2010) (Washington, DC, April 2010), AEO2010 National Energy Modelling System, run AEO2010R.D111809A, web site www.eia. doe.gov/oiaf/aeo; and World Energy Projection System Plus (2010).

7.5.2. Coking Coal

Countries which have traditionally been large consumers of coking coal, including Japan, the European Union (EU) and Korea, will continue to be so, and their year-on-year imports are expected to grow significantly as will India and China's imports (Metalreal, 2010).

Some fluctuations in steel production in China were observed in China between August and October 2010, with the year-on-year percentage growth being negative. This will be concerning to coking coal producers, since consistent production or growing crude steel production ensures demand for coking coal. However, the Chinese shortfall in crude steel production was made up for by other producers, so the overall world year-on-year percentage growth remained positive (Worldsteel, 2011). This suggests that the coking coal market, which is derived from this, will also remain strong.

7.6. Future Supply

According to the United States Energy Statistics Department, from 2010 to 2030, coal production in China, the US and India, driven by growing coal consumption, is projected to increase. It is assumed that much of the demand for coal in China, the United States, and India will continue to be met by domestic production.

However, some countries such as India are already noting their import dependence is increasing and have a concerted strategy of sourcing coal from, and buying mines in, other regions, including Africa.

Increases in coal production are also expected from Australia/New Zealand with these increases expected to be used primarily for export from Australia rather than domestic consumption. Production growth in Asia is attributable to both rising levels of coal consumption and a desire to export. Rising international trade is also expected to support production increases in Russia, Africa, and Central and South America (excluding Brazil).

It is expected that Australia will continue to dominate the coking coal market when this sector recovers from the torrential rains that have influenced it and continue to influence it. Indonesia, meanwhile, will continue to dominate the thermal coal market.

7.7. Future Prices

The price of coal varies based on its specifications. All of the international coal price graphs demonstrate a similar peak that was experienced in the coal price in 2008. This is not surprising since, as Neumann (2009) indicates different coal prices are co-integrated with each other. Although there is not a linear relationship between the different prices, there is a strong relationship with each other.

7.7.1. Thermal Coal

Coal prices have historically been lower and more stable than oil and gas prices in spite of the almost 200% increase in the price of coal between 2007 and 2008. However, this increase was corrected in the recent global financial crisis and economic slowdown.

The general increase in the coal price was attributable to the increase in demand for the most affordable form of fuel for power generation. In view of the dramatic increase in coal prices, the focus on coal resources has intensified worldwide.

7.7.2. Coking Coal

Internationally, coking coal demand has remained stagnant since the early 1980s, but this changed in 2003, when coking coal prices rose markedly, as a result of increased demand in the steel manufacturing industry.

In Q2 2011, Anglo American and Japanese consumers agreed on a contract price of USD330/t for its premium low-volatile hard coking coal. Other coals on contract will reach a lower price (Hall, 2011).

8. SOUTH AFRICAN COAL MINING INDUSTRY

South Africa has a well-established, low-risk coal mining industry, which has reputable participants, including Anglo Coal SA Limited (Anglo Coal), Ingwe Coal Corporation (Ingwe)/BHP Billiton plc (BHPB), Xstrata Coal, Exxaro Resources Ltd (Exxaro), and Sasol Limited (Sasol) Mining. There are also an increasingly large number of junior mining companies as a result of their investing in greenfield projects and brownfield projects, divested of by the larger mining companies wishing to secure BEE credits and to sell mines that do not fit into their coal portfolios (Ryan, 2011).

Coal is one of South Africa’s most important export minerals. The bulk of the exports, particularly when freight charges are low, are going to Asia (Economist Intelligence Unit, 2010). South Africa was the world’s sixth largest producer in energy terms of hard coal and the seventh largest producer in volume terms in 2009, and it may become the seventh-largest producer in energy and volume terms when consolidated production information for 2011 is released. South Africa’s coal reserves rank sixth in the world with a reported 30Bt of economically recoverable coal reserves. The country is known for its low-cost, readily-available coal, which makes it a very competitive industry.

8.1. Reserves

The country is currently implementing a review of the national coal resources and coal reserves and hopes to have a firmer foundation for national estimates of coal resources and coal reserves. This should assist in reducing the doubt that surrounds estimates of South Africa’s coal reserves. In the current South African Minerals Industry (DMR, 2010d) Handbook, the Department of Mineral Resources (DMR) relies on information provided by the BP’s 2010 Statistical Review of World Energy, and states that South Africa has 30.4Bt of coal reserves, thereby differing significantly from lower estimates implied by US geologist Mr. King Hubert, who estimates that the whole continent of Africa has ~15Bt (Hartnady, 2009).

8.2. Supply

The South African coal-mining industry is highly concentrated, with three companies, namely Ingwe (BHPB), Anglo Coal and Exxaro, dominating production.

South Africa’s coal production accounted for 98.6% of Africa’s coal production in 2009 (BP, 2011). South Africa’s coal sales have been increasing since 1900, but this pattern was broken in 2009, when South Africa’s sales dropped from 254.9Mt to 245.2Mt between 2008 and 2009. South Africa’s export tonnages, similarly, dropped in 2009, to 60.4Mt, as a result of shortfalls in delivery from Transnet Freight Rail (TFR) (Ryan 2010, DMR, 2010b and 2010a).

Between November 2010 and October 2011 South Africa produced 255.4Mt and thus increased its year-on-year production beyond 2008 levels. Over this period, 67.3Mt were exported, marking a significant improvement on 2009 export tonnages (DMR, 2011). In total, there are eighteen coalfields, with the Witbank-Highveld Coalfield being the most economically important. The Witbank-Highveld Coalfield produces the highest percentage of South Africa’s saleable coal.

8.3. Demand

According to the DMR (2010), the main markets for South African coal are:-

- the export market, which took up ~24% of total production in 2009; and
- the domestic market, which consists of:-
    - electricity generation, which consumes ~62% of coal in the domestic market;
    - petrochemical companies, primarily Sasol, which consume ~23% of coal in the domestic market;
    - general industry, which consumes ~8% of coal in the domestic market;
    - metallurgical industry, primarily ArcelorMittal South Africa Ltd (ArcelorMittal), Highveld Steel and Columbus Steel, which consumes ~4% of coal in the domestic market; and
    - about ~4% of coal for the domestic market which is purchased by merchants, and sold locally for the household market or exported.

8.3.1. The Export Market

South Africa has the capacity to export 91Mt of coal from the Richards Bay Coal Terminal (RBCT), but it is exporting significantly lower volumes, having exported 61Mt in 2009 and 63Mt in 2010.

The Durban Bulk Connection (DBC) currently has a capacity of 2Mtpa for sized coal exports.

An alternative option for exporting South African coal is to export via the Matola Coal Terminal, in Maputo, Mozambique. Recent upgrades have increased the capacity of this terminal to 6Mtpa and there are plans to increase the Matola port capacity to 10Mtpa by 2014.

8.3.2. The Domestic Market

The average quality specification requirements for domestic consumers are shown in Table 6.

Table 6 : Weighted Coal Qualities by Sector

SECTOR	COAL TYPE	CV (MJ/kg)	ASH (%)	VOLATILE MATTER (%)
Electricity generation	Bituminous	20.7	30.1	22.5
Tutuka Power Station	Bituminous	22 - 25	< 30	> 20
Majuba Power Station	Bituminous	19 - 23	20 - 35	20 - 24
Synfuels	Bituminous	21.3	25.8	22.3
Small Industry and Household	Anthracite	29.4	15.2	7.0
	Bituminous	27.3	14.2	26.6

Source:- DMR Minerals Bureau, Eskom

South African State electricity utility Eskom Holdings Limited's (Eskom's) power stations have been specifically designed to burn low-grade coals which are abundant in South Africa. Every year Eskom consumes ~62% of domestically-sold coal from which it provides ~90% of the country's electricity.

Sasol consumes approximately 23% of South Africa's annual domestically-consumed coal and operates coal mines to provide feedstock for synthetic fuels and chemical plants.

Sasol primarily uses the coal mined by Sasol Mining to produce petrol, diesel and petrochemicals and power generation at the chemical plants.

Approximately 4% of local consumption goes to the household market. The suppliers are largely coal traders in formal and informal residential areas.

The metallurgical sector also consumes about 4% of the local coal production. The major players in the industry include ArcelorMittal, Columbus Stainless Steel and Highveld Steel.

Cement manufacturers are likely to emerge as significant consumers in the medium-term as infrastructure developments in southern Africa gain momentum, creating demand for cement-based products.

Coking coal has historically played a minor role in the South African coal industry. In 2006, less than 4Mt of coking coal was produced by Exxaro's Grootegeluk and Tshikondeni Collieries, the former for export and the latter for ArcelorMittal's steel works in Vanderbijlpark. In 2010, less than 3Mt was sold by South African producers, and all of this was for domestic use.

The lack of development has largely been a function of the Witbank/Highveld Coalfields' lower qualities which have been better suited to thermal applications.

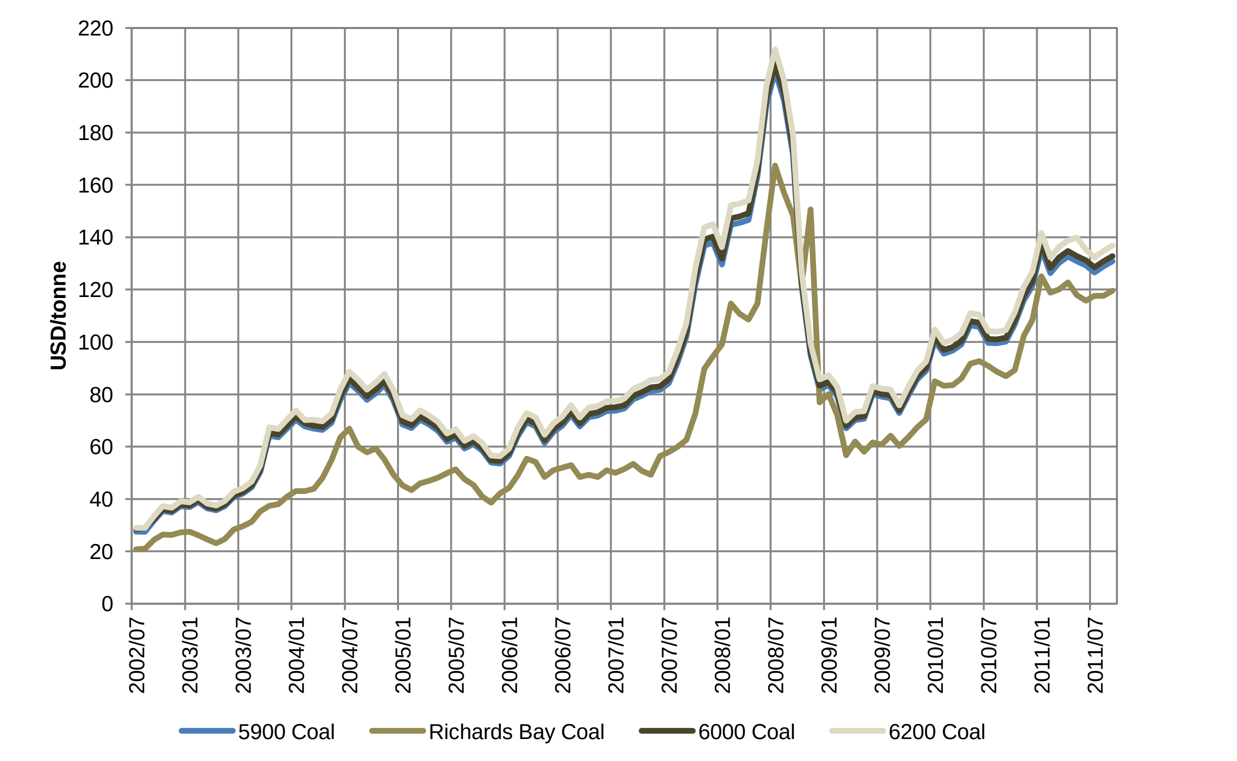
8.4. Prices

8.4.1. Thermal Coal

Thermal coal prices are based on the energy content of the quality of the coal. In the South African market, low grade coal is predominantly used by Eskom operated power stations. Low grade coal prices are based on contracts and are rarely reported in the public domain. The pricing mechanism is usually based on a cost plus basis where the price of the coal covers cost plus a margin. For high grade thermal coal, price data is available for a variety of products. 5900kcal coal prices, 6000kcal coal prices, 6200kcal coal prices and Richards Bay FOB coal prices are the most popularly used prices. Figure 10 illustrates the historic prices for each of these categories.

For the past 15 months, export prices for all qualities of coal was above the USD100/t mark and the current three month average ranges from USD103/t for Richards Bay Coal and USD121/t for 6200kcal coal.

Figure 10 : Coal Price History from July 2002 to July 2011 (USD)



Source: INet Bridge

8.4.2. Coking Coal

South Africa did not export coking coal in 2009, but did sell ~1.9Mt in 2009 domestically at an average local coking coal price of ZAR871/t (DMR, 2010b). In 2010, South Africa, similarly, did not export any coking coal, but did produce ~3.4Mt locally and sold 2.4Mt of bituminous coking coal to the domestic market. Between November 2010 and October 2011, South Africa sold 2.3Mt of bituminous coking coal locally and exported 474,223t. The average unit value of domestic bitumous coal sales ranged between ZAR785/t and ZAR1,020/t over this period, while the average unit value of export sales ranged between ZAR512/t and ZAR1,161/t.

8.5. Outlook

Export sales and sales to Eskom are the most important sources of demand, and the outlook for these sales avenues are the most important to consider for any new entrant into the coal sector.

8.5.1. Coal Sales to Eskom

South Africa dominates the region in its maximum electricity demand (of 33,461MW), its total capacity (42,941MW) and its proportional dependency on coal as part of the possible electricity generation mix that is available to it, since some 92% of the country's generation capacity currently stems from coal (Zhou et al, 2009).

While this percentage is likely to fall, since only 15% of additional new electricity capacity until 2030 is expected to be from coal-burning power stations, coal will still be the most important means of producing electricity for some time (South African government, 2011).

In addition, it is likely that there will be an increased demand for electricity, and potentially electricity derived from coal-fired power stations, from the region as a whole, since Southern African Power Pool (SAPP) members have an electricity demand that is growing at an average of 3% a year (Musaba, 2010).

Southern Africa continues to develop SAPP, a community of 12 countries which were to sell surplus electricity to each other (Musaba, 2010). Historically, the DRC and Zambia, Zambia and Zimbabwe, and Mozambique and South Africa have had transmission lines linking the countries, but the intention is to invest USD5.6m in transmission projects to construct transmission networks between several countries which have not had transmission networks linking them (Musaba, 2010).

In the north of the SAPP community, hydropower dominates the energy supply mix, with Tanzania, Angola, Zambia, Zimbabwe, Malawi, Mozambique and, most importantly, the DRC having considerable hydropower potential. In the south of the SAPP community, meanwhile, thermal power is integral, with Namibia, Botswana, South Africa, Lesotho, Swaziland and arguably also Mozambique, in the next few years, increasingly building coal-fired power stations or being dependent on them for a large portion of their energy production (Musaba, 2010).

The SAPP community has the potential to change the way that power is generated and transmitted throughout the region and could offer the opportunity for a diverse array of generating possibilities, including additional hydropower and coal-fired generation possibilities for private or national investors. This could result in an increase in the number of coal-fired generators that exist in the sub-region or, if the massive Inga hydropower project, in the DRC, takes off, result in imported hydropower-derived electricity being the dominant form of power generation in the whole SAPP community.

8.5.2. Export Sales

Some 63Mt of coal was exported from South Africa in 2010 and 27.5Mt have been exported in the first half of 2011. Export tonnages are limited by a lack of rail capacity and operational underperformance, which has included derailments in the past.

8.5.2.1. Infrastructure

A general lag in infrastructural development in remote areas has hamstrung meaningful industrial development, and this is particularly important for any potential new mining company that wishes to establish itself there and export its product.

Several transport corridors have been mooted to assist new coal producers, including a Waterberg-Mpumalanga Corridor, that would allow coal to be transported to Mpumalanga from the Waterberg Coalfield and then transported on to Maputo or Richards Bay; and a Limpopo-Techobanine Corridor, that would allow coal from the Limpopo Coalfield, and potentially also the Soutpansberg Coalfield to be exported through Techobanine, a port to the south of Maputo (Hall, I, 2011). South African coal producers could also potentially take advantage of a mooted Walvis Bay Corridor (also known as the Trans-Kalahari Corridor) that promises to link Namibia to South Africa, but this would be a long and thus expensive export route (Trademark, 2012).

8.5.2.2. Changing Product Emphasis

There have been reports that coal producers want to start exporting coal with a lower calorific value. Dubbed RB3, it is likely to have a specification of 5,600kcal/kg. This low calorific value is in demand from India, and could be supplied from the Waterberg, which has an abundance of low-quality coal. However, while this presents an opportunity for coal firms in the Waterberg that have not got established ties to Eskom, it is likely that Eskom will oppose the exporting of coal grades which it requires (Ryan, 2010b).

8.5.2.3. Coal as a Strategic Mineral

Those in the coal sector have become wary of political interference in coal exports. As indicated in the previous discussion, it is possible that Eskom may oppose the exporting of low-calorific-value coal (Ryan, 2010b). In addition, previous Minister of Public Enterprises Alec Erwin is on record as saying that government could intervene in the coal sector if government's needs are not met (Wakeford, 2008).

8.5.2.4. Environmental Issues

Globally, there have been increasing concerns about the prevalence of coal-fired power stations. This will result in a reduction of electricity being produced from these power stations in Europe and it is possible that South African thermal coal exports to this destination will be harmed as a result.

8.5.2.5. Costs

Rising freight costs will narrow any cost advantage that South Africa has and its future export success to destinations such as Asia is largely dependent on freight costs remaining low. Its traditional market, of Europe, continues to be a market for South African coal, but its demand for coal is dropping (Ryan, 2010b). Exporters are likely to have their profits influenced by increased freight charges, which became effective on the 1st April 2011.

9. THE WATERBERG COAL PROJECT DESCRIPTION AND LOCATION

9.1. Location

The contributing properties are situated less than 5km west of Exxaro's Grootegeluk Mine boundary, 240km northwest of Pretoria (South Africa's capital) and 70km south of the border with Botswana.

9.2. Accessibility

The properties are well placed with regards to the local infrastructure, located approximately 20km from the railway line that runs from Lephalale to Pretoria, and extends to Maputu, Richards Bay and Saldana Bay (Figure 1). The railway line terminates immediately north of the Grootegeluk Mine.

The road network in the area is well established, with the tarred D1675 within 10km from the contributing properties.

9.3. Climate and Vegetation

The climate of the area is warm, which ensures that exploration and mining can take place throughout the year. Summers are hot (averaging highs of 35ºC) with occasional thunder storm activity. The winters are mild (averaging highs of approximately 20ºC) and generally dry.

The Waterberg is generally dry, with an annual average rainfall of 450mm, and prone to drought.

The vegetation of the area consists of sparse Bushveld, with the main land use being for game farming. The Waterberg Coal Project properties are all currently being utilised as game farms.

9.4. Local Resources

The nearest town is that of Lephalale (Figure 2), which is located approximately 40km east of the contributing properties. The town is a regional centre and provides modern conveniences, including accommodation and services. The town is also a source of fuel and labour. The town services Eskom's Matimba Power Station as well as Exxaro's Grootegeluk Coal Mine among other industries.

Lephahale is approximately 3.5 hours drive from Pretoria (South Africa's capital) and Johannesburg (South Africa's economic hub) on good tarred roads and is also connected by a well established rail system.

9.5. Infrastructure

National infrastructure, including Transnet's Railway line (which terminates at the Grootegeluk Mine) and Eskom's power distribution network lie within 20km southwest of the contributing properties (Figure 2).

Eskom's existing 3,900MW Matimba Power Station is located adjacent to the Grootegeluk Mine, approximately 15km west of the contributing properties. Eskom's planned 4,800MW Medupi Power Station is located approximately 10km south of the Waterberg Coal Project properties, and is expected to be commissioned during 2012. Eskom plans to build at least one additional power station in the Waterberg. This together with Medupi will require an additional 30mtpa of coal.

In 2012, the South African government have made a number of pronouncements on infrastructure (particularly water and rail) improvements in the Waterberg Coalfield region of South Africa.

The rail division of Transnet has undertaken to spend ZAR7b on rail upgrades in the next five years to increase coal exports from Limpopo as well as to ensure that coal from the region can reach South Africa's existing power stations in Mpumalanga, before their traditional feeder mines in Mpumalanga are depleted. Phase one includes an upgrade of the existing route from the Waterberg to Ermelo via Rustenburg and Pyramid South and includes the construction of passing loops and the increase in the axle loads capacity (Smith, 2012). Phase two of the investment programme is not on the capital expenditure schedule for the next seven years.

This involves the expenditure of ZAR31m on a 450km line from south of Thabazimbi to Broodsnyersplaas, north of Ermelo, as well as the upgrading of the existing line between Thabazimbi and the Waterberg (Smith, 2012)

9.6. Topography

The topography of the contributing properties is generally a flat plain, with small undulations over the project area. The elevation varies between ~860m above mean sea level (amsl) to ~900mamsl. The topography dips gently to the north and west towards the Limpopo River valley.

The Limpopo River, which forms the border between South Africa and Botswana in this area, is a perennial river, and is located approximately 15km from the contributing properties.

10. GEOLOGICAL SETTING

10.1. Regional Geological Setting

The Waterberg Coalfield reportedly accounts for over 45% of South Africa's unmined coal inventory. It is considered a strategic coalfield in light of South Africa's (and southern Africa's) current energy crisis, with Eskom as well as mining and exploration companies presently investing heavily in this coalfield.

The Waterberg Coalfield is rapidly becoming as important as the better known Witbank, Highveld and Ermelo Coalfields which currently supply the vast majority of Eskom's coal power stations. It's importance is set to surpass these other coalfields within the next 20 to 30 years as many of the more established coalfields become progressively more depleted, and as Eskom begins to increase its footprint in the Waterberg, away from the concentration of power stations in Mpumalanga in a bid to redistribute their impact on the environment and to satisfy the developmental needs of the Limpopo Province.

The Waterberg Coalfield is currently host to (Figure 1):-

- Exxaro Resources Limited's (Exxaro) 19mtpa Grootegeluk Coal Mine;
- Eskom's 3,700MW Matimba Power Station; and
- Eskoms planned Medupi Power Station which is currently under construction.

The Waterberg Coalfield is currently being explored and developed by a number of exploration and mining companies (Figure 1):-, including *inter alia*:-

- Sekoko Coal, Firestone Energy, Resource Generation and Namane Resources for steam coal and coking coal;
- Sasol and PetroSA for various coal-to-liquids and gas-to liquids projects; and
- Anglo Coal and for Iscor Ltd (Iscor) with Batepro Limited for coal bed methane gas.

The Waterberg Coalfield extends for approximately 85km in a westerly direction from Lephalale and has a 40km north-south extent. The coalfield extends westward into Botswana where it is known as the Mmamabula Coalfield.

The coalfield is fault-bounded along the southern and northern margins by the Eenzaamheid and Zoetfontein faults respectively (Figure 11), creating a 'horst' structure. The Daarby fault, with a displacement of between 250m and 400m, divides the coalfield into a shallow opencastable western area and a deep northeastern area, where coal occurs at a depth of between 200m and 400m below surface and may only be extracted by underground mining.

The major coal bearing horizons of the Ecca Group of the Karoo Supergroup, in the Waterberg are:-

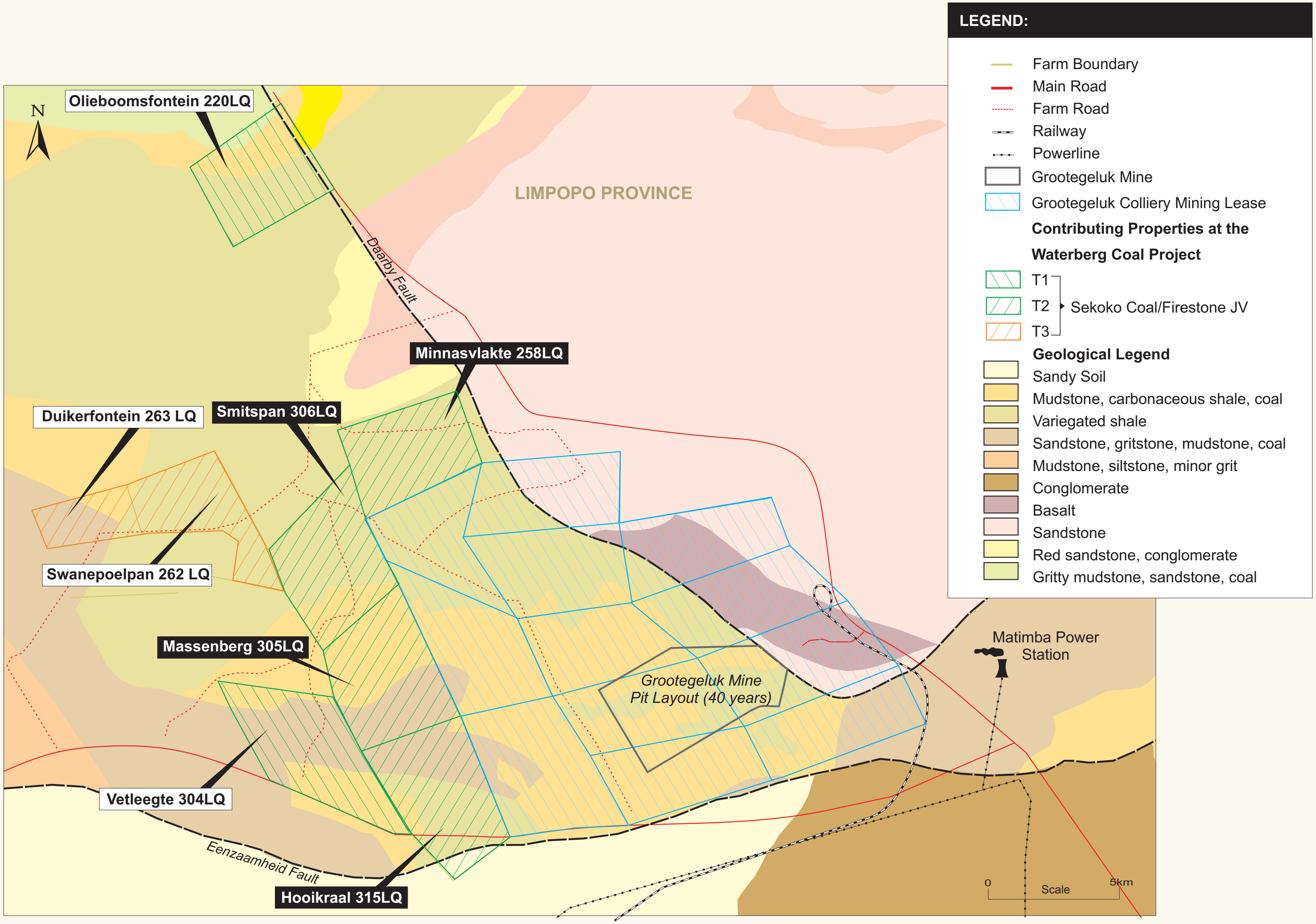
- the Volksrust Formation, which consists of 55m of intercalated mudstones and coal, and
- the Vryheid Formation, which incorporates four major discrete seams of approximately 1.5m, 3m, 9m and 4m, respectively.

Coal measures occur over a strarigraphic interval between 90m – 110m thick, characterised by 11 discrete coal zones, with the upper zones (Zone 6 – Zone 11) holding the highest commercial value (including semi-soft coking coals).

The Waterberg Coalfield does not exhibit a noticeable increase in rank (carbon/energy content) with increasing depth. The air dried volatile content of the coal remains at 35% – 36% from the sub-outcrop to a depth of 400m.

Only a few dolerite dykes outcrop in the southeastern portion of the Waterberg Coalfield and no sill features have, to-date, been encountered in any exploration borehole.

REGIONAL GEOLOGY



Source: Venmyn

D1196 Sekoko Valuation 2012

VENMYN Independence you can trust

Sekoko Coal

FIGURE 11

10.1.1. The Volksrust Formation

The Volksrust Formation differs from that of the main Karoo Basin by being dominantly carbonaceous where it is represented by intercalated carbonaceous shale and mudstone, and bright coal. The Volksrust Formation consists of cyclical repetitions of mudstone and coal with an average thickness of approximately 60m, and comprise the upper seven zones (identified as Zones 5 to 11) that can be correlated across the coalfield.

The Volksrust Formation coals are classified as a thick interbedded seam type deposits in terms of the SANS 10320:2004 guidelines.

There is a decreasing ratio of bright to dull coal from the top to the bottom of the succession, with the proportion of semi-soft coking coal greatest in Zones 6 to 11. The best quality coals are within Zones 8 to 11 over the majority of the coalfield. These zones are characterised by the highest yields and the presence of both bright and vitrinite coals.

The vitrinite content of the coal towards the top of the Volksrust Formation leads to the upper zones having a semi-soft coking coal yield as well as thermal coal. The remainder of the Volksrust Formation yields low grade thermal coal for power station consumption.

Each zone is typically characterised with bright coal at its base, with the ratio of coal to shale decreasing from the base in an upward direction. It follows therefore that the ash content of the zones increases upwards from approximately 20% to 45%.

The coal succession requires beneficiation or up-grading, to produce an acceptable coal quantity for the market, which varies from semi-soft coking coals to internationally traded and local power station coals.

10.1.2. The Vryheid Formation

The Vryheid Formation coal seams are composed of predominantly dull coal with minor carbonaceous mudstone intercalations, mined as thermal coals. The coal seams are identified as Zones 1 to 4 from the base of the Formation. These coals occur over a stratigraphic interval of approximately 40m. The coal seams vary in thickness between 1.5m and 9m.

The Vryheid Formation coals are classified a multiple seam deposit type according to the SANS 10320:2004 guidelines. These are not unlike the coalfields in Mpumalanga.

While the majority of the coal seams or zones consist mainly of dull coal or inertinite-rich coal, some bright coal is developed at the base of zones 2, 3 and 4.

This coal is suitable for steam-raising, gasification or as a direct-injection coal in the metallurgical industry. It requires limited or no beneficiation to up-grade the coal quality parameters.

Due to lateral facies changes and changes in the depositional environment, these zones are characterized by a large variation in thickness and quality.

Zone 3 is the best-developed dull coal zone and reaches a maximum thickness of 9m. The basal portion yields a small fraction with semi-soft coking coal properties. Zone 2 is on average 4m thick and reaches a maximum thickness of 6m in the Grootegeluk lease area. The basal portion also yields a fraction with semi-soft coking coal properties. Zone 1, the basal Vryheid coal zone, has an average thickness of 1.5m.

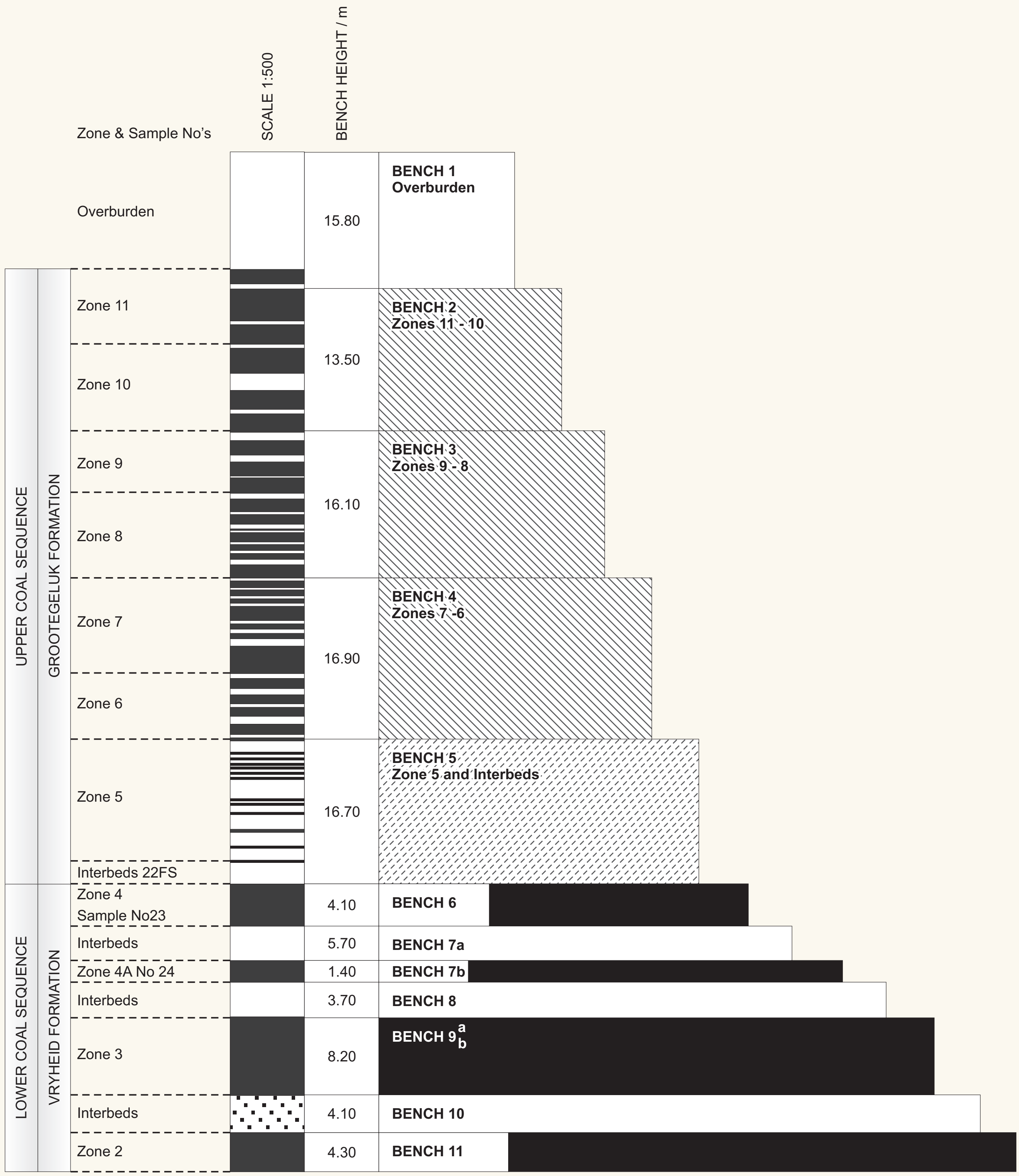
10.1.3. Grootegeluk Colliery

Exxaro's Grootegeluk Colliery is the only presently operating mine in the Waterberg Coalfield. This opencast mine commenced production in 1980 primarily as a source of coking coal for Iscor's steel works with a middlings fraction from the beneficiation process suited to power station consumption.

Saleable products currently include semi-soft coking coal, metallurgical coal and thermal coal, with the latter predominating as a dedicated supply to the Matimba Power Station. Metallurgical coal is primarily supplied to ArcelorMittal Steel, with semi-soft coking coal exported via the Durban and Richards Bay ports. Grootegeluk currently has a 14Mtpa supply agreement with Eskom's neighbouring Matimba Power Station.

The coal strata extracted at Grootegeluk is roughly 110m thick (Figure 12). The upper 60m consists of intercalated bright coal and carbonaceous shale of the Volksrust Formation, whilst the bottom 50m consists of well-defined dull coal seams separated by shale and sandstone interburden of the Volksrust Formation.

STRATIGRAPHY OF THE WATERBERG COAL ZONES AND GROOTEGELUK COLLIERY MINING BENCHES



The overburden thickness varies due to weathering but averages approximately 22m at the Grootegeluk Colliery.

The deposit is mined selectively using a parallel bench advance approach, with benches extracted individually or in planned combination to satisfy specific end-product specifications. In addition, run-of-mine (ROM) from the various benches is blended to allow the washing plants, in turn, to supply a consistent product to the end-user.

Grootegeluk's export coal is railed via Thabazimbi to Rustenburg and on to the Gauteng area. From there it is railed on the general-freight lines to destinations such as Saldanha or Durban. Some export coal is railed via general freight to Middelburg and onto the coal link line to the Richards Bay Coal Terminal (RBCT).

Exxaro's Grootegeluk Coal Mine is a 19Mtpa operation. In 2009 the mine had the following product split:-

- Eskom sales of approximately 15.5Mtpa;
- soft coking coal of approximately 1.2Mtpa; and
- export steam coal of approximately 1.8Mpta

10.2. Local Geology

The contributing properties are superimposed over the regional geology of the western half of the Limpopo Province (Figure 11). The Goedgedacht/Swartrand, Endragtpan and Greenwich Formations form part of the Karoo Sequence and consist of shales, sandstones, mudstones and coal occurrences. Both the Upper and Lower Coal Sequences are present within the Sekoko Coal-Firestone JV Waterberg Project area.

Structurally, the stratigraphy, especially in the area of the contributing properties appears to be significantly faulted, generally in an east-west orientation, and increasing in intensity to the south. There is a dominant east-west fault direction with fault throws varying from 10m in the north to as much as 130m in the south.

Understanding the structural-geological environment is, arguably, more important than understanding the distribution of the coal quality characteristics. The presence of the various coal zones is directly related to the faulting and subsequent erosion of the upper zones in the southern properties.

While the northern properties comprise all the coal zones (Zones 1 – 11), Massenberg 305LQ only has Zones 1 -9 in the north and Zones 1 – 4 in the south, and Hooikraal 315LQ only has Zones 1 – 4.

It is generally believed that the geological and structural environment, due to its relatively close proximity to Grootegeluk, should be similar to the geological and mining-geological conditions encountered at that mine. However, since Grootegeluk was established in the most favourable mining-geological environment, areas in close proximity to the mine may not necessarily experience such favourable conditions, due to the presence of fault structures.

11. GEOLOGICAL MODELLING

In August 2010, Sound Mining Solutions (Pty) Ltd (SMS) undertook geological modelling under the direct guidance of Venmyn. Orebody modelling was carried out using recent boreholes to derive the 3D geological and structural model. Coal zone roofs and floors were constructed on an inverse distance method using Micromine Version 11.0.5 Build 1134.

The zone surfaces were cut on fault boundaries, received from Lexshell and also based on interpretations from the data where there were sudden changes in zone elevations. Where holes were drilled short, the zones were extrapolated using surrounding holes and fitting within the interpreted fault blocks.

A wireframe for each zone was created separately per farm. A wireframe for each zone was created and in-filled in Datamine to form a block model. The block size was set at a maximum of 100m x 100m x zone height. The volumes, densities (at a wash of RD=1.9t/m^3) and quality data (at a wash of RD=1.9t/m^3) was modelled over the properties. A cut-off of 0.5mm minimum thickness limit was applied.

12. RESOURCE STATEMENT

As described in Section 11 above, the coal zones are extensively interlaminated with shales and mudstones. Therefore, in order to identify the Coal Resource only within the zone, a wash at an RD=1.9t/m^3 was carried out on the samples. This effectively removes the rock fraction from the coal.

All Coal Resources have been categorised, by Venmyn, using the SAMREC and JORC Code and the SANS 10320:2004 (SANS) method of classification (stipulated in the SAMREC Code) for thick interbedded coal deposits.

The SANS scheme utilises the distance between boreholes as the primary defining factor between the classification of Measured, Indicated and Inferred resources and Reconnaissance/Exploration Target occurrences, as per Table 7 below:-

Table 7: SANS Classification of Coal Resources.

	FOR THICK INTERBEDDED SEAM DEPOSIT (<65% Ash)		FOR MULTIPLE SEAM DEPOSIT (<50% Ash)	
CATEGORY	MAX DISTANCE BETWEEN B/H (m)	NO. B/H PER AREA	MAX DISTANCE BETWEEN B/H (m)	NO. B/H PER Ha
Measured Resource	350	8 b/h per 100ha	350	8 b/h per 100ha
Indicated Resource	1,000	1 b/h per 100ha	500	4 b/h per 100ha
Inferred Resource	3,000	1 b/h per 1,000ha	1,000	1 b/h per 100ha
Reconnaissance/ Exploration Target	4,000	1 b/h per 1,600ha	2,000	1 b/h per 400ha

NB. Boreholes are required to have quality data.

It is important to note, that classification into any category, requires that boreholes have associated quality data. Boreholes that do not have associated quality data, have been specifically excluded from any volume estimates and have not been classified into any Coal Resource category, and have not been considered as representing a Reconnaissance/Exploration Target.

According to SANS, coal is to be quoted according to the following definitions:-

- each coal zone was 'washed' at an RD=1.9 to 'remove' the rock fraction from the coal fraction and to calculate the volume of coal in the interlaminated sequence;
- the zone tonnage was multiplied by the percent yield (by mass) to derive the coal tonnage. Note that the coal tonnage has a lower RD than the zone tonnage.
- this coal tonnage is then reduced by the geological losses to obtain Total Tonnes In-Situ (TTIS);
- geological losses are selected based on the density of the drilling and the structures in the area; and
- the classification is based strictly on the radii from boreholes according to the SANS specifications.

12.1. Coal Resource Estimates of the Contributing Properties

Table 8 summarises the Coal Resources of the contributing properties, defined by Venmyn in 2010 using the assumptions detailed in Section 12.

Venmyn understand that no additional resource drilling has been conducted over the resource area since the August 2010 resource estimate, and since no mining has taken place, Venmyn consider that Table 8 represents the Coal Resources as at the effective date of this report. On this basis ~1.4 billion TTIS of coal has been classified into the Measured, Indicated and Inferred categories for the contributing properties.

Venmyn note that in September 2010, Parsons Brinkerhoff (PB) conducted a Definitive Feasibility Study for Sekoko Coal. As part of their report, PB reported certain Coal Resource estimates over the T2 properties and Vetleegte 315LQ, based on their own geological modelling. While full details of the calculation of the Coal Resources over Smitspan 306LQ were provided, there is no detailed Coal Resource reporting for any of the other T2 farms or Vetleegte 315LQ. Furthermore the PB reports do not consider the Coal Resources of the T3 properties or Olieboomsfontein 220LQ.

The Venmyn estimates can be considered fully JORC compliant. In addition, the Venmyn estimates detail the Coal Resources over all the contributing properties, while the PB estimates only considered certain selected properties for the purposes of their Definitive Feasibility Study.

For the purposes of this valuation, only the Venmyn Coal Resource estimates have been considered. Venmyn have a high degree of confidence in the quality and reasonableness of these estimates, and they have been reported in compliance with the JORC Code.

12.2. Mining and Processing

No mining and/or processing has taken place on the contributing properties. In September 2010, PB conducted a Definitive Feasibility Study over the farm Smitspan 306LQ. However, a revised Definitive Feasibility Study will shortly be commissioned in order to investigate an operation that will satisfy the requirements of the terms and conditions of the recently signed memorandum of understanding (MoU) with Eskom. This MoU considers a 30-year supply agreement commencing delivering 2Mtpa of coal to Eskom in 2014, to be ramped up to 10Mtpa by 2019.

Table 8: Coal Resources of the Contributing Properties (Venmyn, August 2010)

FARM NAME & NO.	RESOURCE / OCCURENCE CATEGORY	ZONE	COAL GROSS TONNES IN SITU	COAL TOTAL TONNES IN SITU	AIR DRIED QUALITIES AT RD = 1.9 CV (MJkg)	ASH (%)	VOL. (%)	SULPH. (%)	MOIST. (%)
Minnasvlakte 258 LQ	Measured	All							
	Indicated	All	26,507,000	21,201,000	21.59	29.51	27.24	0.94	2.61
	Inferred	All	230,687,000	173,012,000	21.56	29.58	27.51	0.94	2.54
TOTAL / AVE MINNASVLAKTE			**257,194,000**	**194,213,000**	**21.56**	**29.57**	**27.48**	**0.94**	**2.55**
Smitspan 306 LQ	Measured	All	238,667,800	214,800,600	20.74	31.14	25.69	0.89	2.84
	Indicated	All	475,844,000	380,671,000	21.49	29.52	26.50	0.98	2.78
	Inferred	All							
TOTAL / AVE SMITSPAN			**714,511,800**	**595,471,600**	**21.22**	**30.10**	**26.21**	**0.95**	**2.80**
Massenberg 305 LQ	Measured	All							
	Indicated	All	20,797,000	16,635,000	19.60	33.70	22.12	0.71	2.77
	Inferred	All	109,539,000	82,148,000	21.04	29.79	22.09	0.69	2.96
TOTAL / AVE MASSENBERG			**130,336,000**	**98,783,000**	**20.80**	**30.45**	**22.10**	**0.69**	**2.93**
Hooikraal 315 LQ	Measured	All							
	Indicated	All	7,282,000	4,366,000	22.56	25.89	26.64	1.00	3.11
	Inferred	All	155,491,000	77,742,000	22.38	26.63	25.19	0.83	2.78
TOTAL / AVE HOOIKRAAL			**162,773,000**	**82,108,000**	**22.39**	**26.59**	**25.27**	**0.84**	**2.80**
Vetleegte 315 LQ	Measured	All	1,224,000	1,040,300	25.99	16.60	24.27	0.98	3.20
	Indicated	All	204,499,000	143,146,000	21.37	28.22	24.71	0.75	3.53
	Inferred	All	17,893,000	11,090,000	22.61	24.81	23.89	0.66	3.67
TOTAL / AVE VETLEEGTE			**223,616,000**	**155,276,300**	**21.49**	**27.90**	**24.65**	**0.75**	**3.54**
Swanepoelpan 262 LQ	Measured	All							
	Indicated	All	1,072,000	853,000	21.49	29.83	25.12	0.82	3.34
	Inferred	All	378,227,000	283,666,000	21.60	28.52	26.65	1.14	3.35
TOTAL / AVE SWANEPOELPAN			**379,299,000**	**284,519,000**	**21.60**	**28.52**	**26.65**	**1.14**	**3.35**
Duikerfontein 263 LQ	Measured	All							
	Indicated	All							
	Inferred	All	13,949,000	10,457,000	21.98	27.17	25.44	0.78	4.20
TOTAL / AVE DUIKERFONTEIN			**13,949,000**	**10,457,000**	**21.98**	**27.17**	**25.44**	**0.78**	**4.20**
TOTAL / AVE RESOURCE / OCCURRENCE FOR WATERBERG PROJECT			**1,881,678,800**	**1,420,827,900**	**21.42**	**29.27**	**25.96**	**0.94**	**2.98**

NOTES:-

Boreholes required to have quality data for consideration of the borehole densities for classification purposes.

Minimum seam height of 0.5m applied for GTIS.

The Waterberg coal typically occurs interlaminated with shale, which is difficult to separate during the logging and sampling process. Therefore, in order to calculate the tonnage of coal in each zone, rather than the tonnage of the zone including the rock, each zone was washed at an RD=1.9 to remove the rock. The zone tonnage was multiplied by the percent yield (by mass) to derive the coal tonnage. Note that the coal tonnage has a lower RD than the zone tonnage, in most instances.

Rounding to 2 significant figures for Measured.

Rounding to 3 significant figures for Indicated and Inferred.

Geological loss percentages are a function of borehole and fault density.

13. THE WATERBERG COAL PROJECT MINERAL ASSET VALUATION

At the early exploration phase, coal projects are valued dependent upon prospects for eventual economic extraction. A seller's view may not necessarily match that of a potential buyer's, and the transaction price is usually a compromise. The objective of this valuation was the assessment of the economic prospectivity of the contributing coal properties and their relation to the attributable mineral asset value.

International mineral asset valuation codes set out clear methodologies for the valuation of mineral assets, with confidence in the mineral resource estimates being the primary value driver.

With respect to the contributing properties, the coal resources have been classified by Venmyn in compliance with both the JORC code. Consistent with this approach, Venmyn has valued the contributing properties in compliance with the VALMIN Code, 2005. Consistent with the VALMIN Code, in this report Fair Value is considered to be comprised of the 'Intrinsic' or 'Technical' value and a premium or discount relating to market, strategic or other considerations.

The selection of an appropriate valuation method depends on such factors as:

- the nature of the valuation;
- the development status of the Mineral Assets; and
- the extent and reliability of available information.

In conducting mineral asset valuations, Venmyn consider the following categories of Mineral Assets:-

- **Exploration Areas** – properties where mineralisation may or may not have been identified, but where a Mineral or Petroleum Resource has not been identified;
- **Advanced Exploration Areas** – properties where considerable exploration has been undertaken and specific targets have been identified that warrant further detailed evaluation, usually by drill testing, trenching or some other form of detailed geological sampling. A resource estimate may or may not have been made but sufficient work will have been undertaken on at least one prospect to provide both a good understanding of the type of mineralisation present and encouragement that further work will elevate one or more of the prospects to the resource category;
- **Pre-Development Projects** – properties where Mineral or Petroleum Resources have been identified and their extent estimated (possibly incompletely) but where a decision to proceed with development has not been made. Properties at the early assessment stage, properties for which a decision has been made not to proceed with development, properties on care and maintenance and properties held on retention titles are included in this category if Mineral or Petroleum Resources have been identified, even if no further Valuation, Technical Assessment, delineation or advanced exploration is being undertaken.
- **Development Projects** – properties for which a decision has been made to proceed with construction and/or production, but which are not yet commissioned or are not yet operating at design levels; and
- **Operating Mines** – mineral properties, particularly mines and processing plants that, have been commissioned and are in production.

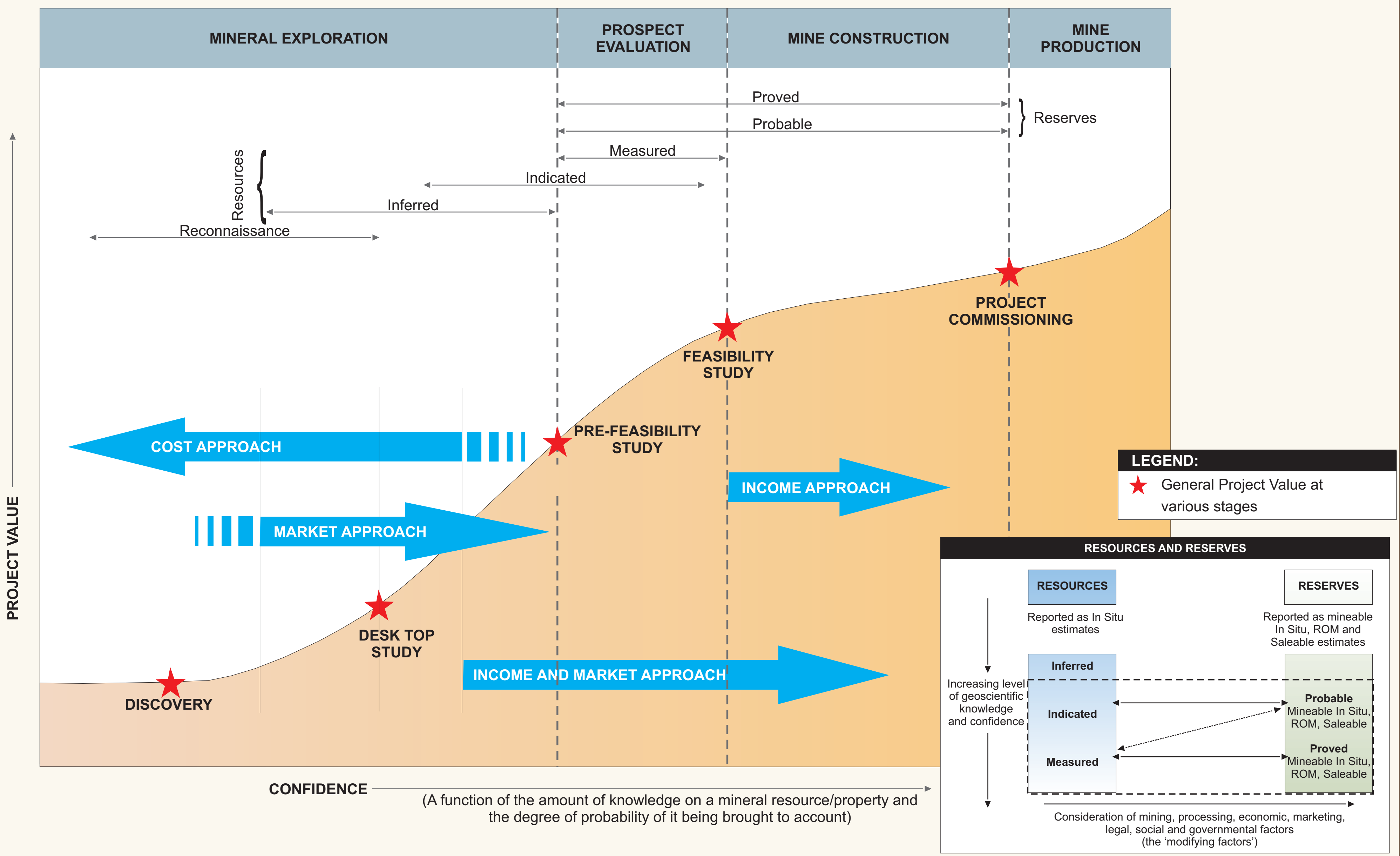
As the confidence in mineral resource estimates is increased, i.e. from Inferred Mineral Resources to Indicated Mineral Resources and Measured Mineral Resource, so is the veracity of the valuation. Table 9 and Figure 13 illustrate the link between a project's development status and the most appropriate valuation methodology for determining the Intrinsic or Technical value.

Table 9: Valuation Approaches and Methodologies.

VALUATION APPROACH	VALUATION METHODOLOGY	EXPLORATION AREAS	DEVELOPMENT PROPERTIES	MINING PROPERTIES	DORMANT PROPERTIES		DEFUNCT PROPERTIES
					ECONOMICALLY VIABLE	UNVIABLE	
Cash Flow	Various DCF methods	N/A	P1	P1	P1	NA	NA
Sales Comparative	Comparable transactions	P1	P3	P2	P2	P1	P1
Historical Cost	Asset Recognition and Impairment Test	P2	NA	NA	NA	P3	P2

P1 = Most acceptable method and widely used
P3 = Less acceptable approach, less widely used and poorly understood.
P2 = Acceptable approach and quite widely used

PROJECT LIFETIME VALUE AND VALUATION METHODOLOGY CURVE FOR MINERAL RESOURCE PROJECTS



Source: Venmyn

FIGURE 13

13.1. Technical or Intrinsic Value of the Mineral Assets

There are three generally accepted approaches for establishing the Technical Value of mineral assets. These are the:-

- the Cost Approach or Multiples of Exploration Expenditure (MEE);
- the Market Approach or Comparable Transaction Value Method; and
- the Cash Flow (DCF) Approach.

Where insufficient confidence exists in the technical parameters of a mineral deposit, or mineral asset, to classify resources, valuation methods mainly rely on the principle of historical cost. This implies that a mineral asset's value is related to the money spent on its acquisition, plus a multiple of the exploration expenditure, depending upon the degree to which its prospectivity has been enhanced by exploration. Once resources have been classified, then market comparisons are made on a monetary value per unit of mineralisation (ZAR/t). Once technical studies establishing the basis for future economic exploitation have been carried out, discounted cash flow (DCF) methods are applicable and all the methods used to identify a reasonable transaction value.

The contributing coal assets can be defined as early to advanced stage exploration areas, with JORC code compliant Measured, Indicated and Inferred Coal Resources. Therefore, all the contributing properties were valued using both the historical cost method and comparative sales transaction valuation method. The absence of Coal Reserves for the Project has precluded the use of the Cash Flow Approach or DCF method under the Australian Securities and Investment Commission (ASIC) guidelines.

It is important to note that this valuation has utilised the Venmyn August 2010 Coal Resource Statement (Table 8), as this is considered the current compliant resources estimate for the Waterberg Coal Project. The effective date of the valuation is 01st May 2012.

13.1.1. MEE Method

The Cost Approach or MEE Method is based upon the principle of past, preferably audited, exploration expenditures where some expenditures will have added value, and others not. Through the introduction of a prospectivity enhancement multiplier (PEM), a premium (or discount) multiplier can be applied to the total cost of exploration to-date, depending on whether the exploration expense being considered has relatively enhanced the prospectivity of the target or not.

The subjectivity of the method is reduced by addressing specific expenditures with reference to the relevance of the type of mineralisation being considered and the effectiveness of the exploration. A measure of the effectiveness of a historical exploration programme is the confidence that can be ascribed to the resultant mineral resource estimate.

Exploration expenditure does not only include the costs of physical in-field exploration, but also the costs incurred to make it possible to carry out the exploration, for example, the costs of aerial or other surveys and transportation costs, etc. The value of the resulting asset is not measured by the value of new deposits discovered by the exploration but by the value of the resources allocated to exploration during the period.

The Waterberg Coal Project can be considered as an early to advanced stage exploration project with varying degrees of historic and recent exploration and analytical data available on the various properties. Lexshell provided Venmyn with all available acquisition and exploration cost data for the contributing properties and, where historical exploration data was available, Venmyn assessed its relevance and effectiveness and estimated the cost of replicating that data.

Venmyn have considered the prospectivity of the respective coal properties according to the classification of exploration phases illustrated in Table 10.

This table represents Venmyn's standard PEM schedule for coal deposits. In Venmyn's opinion, these PEM values reflect fair and reasonable multipliers based upon on the amount of work associated with and/or development status of any particular project.

In order to establish an appropriate PEM, each property was classified with respect to Table 10 knowing that each new exploration phase was carried out contingent upon the successful outcome of the preceding phase. In addition, the PEM selected, was reviewed taking into consideration proximity to well understood resource areas, drillhole density and a qualitative assessment of the prospects for eventual extraction.

Table 10: Venmyn's Coal Prospect Exploration Phase Classification.

PHASE COMPLETED	EXPLORATION PHASE	PEM FAIR	PEM UPPER	PEM LOWER	EXPLORATION ACTIVITY
0	Exploration Concept	0	0.2	0	Project about which nothing is known, but which has potential on a conceptual basis.
1	Desktop study	0	0.5	0.2	Historical and literature study, records or evidence of coal findings in the area. Historical artisanal mining data if any.
2	Reconnaissance	0.8	1.0	0.5	Geological mapping if terrain suitable. Palaeo topographical mapping. Historical drilling with intercept data, no laboratory assay.
3	Ground Follow-up	1.0	1.0	0.8	Detailed outcrop mapping, identification of coal hosting strata, coal seam outcrop mapping. Sampling of exposed coal seams where available. Historical drilling data with intercept and analyses, but of questionable authenticity.
4	Ground Follow-up	2.0	2.0	1.0	Ground geophysics, remote sensing techniques (e.g. seismics). Reliable historical drilling, but correlations difficult due to density of drilling.
5	First-phase drilling	4.0	5.0	2.0	Large diameter core drilling, widely spaced grid with preliminary coal analysis. First-pass tonnage estimate. Inferred coal resource.
6	Resource drilling and laboratory testwork	8.0	11.0	5.0	In-fill drilling, detailed coal analyses and washability testwork. Establish coal qualities, market potential, detailed resource tonnage estimation, washabilities. Advanced inferred and indicated coal resource classification.
7	Historic Mining	16.0	20.0	11.0	Previous commercial production, establishing reliable and well documented quality, tonnage, washability etc. Measured coal resource.
8	Reserve Classification	20.0	>20	20	Complete feasibility assessment, establish economics, and design a mine of an appropriate nature. Classification of coal reserves.

The MEE valuation process is shown in Table 11. The technique accounts for recent and historical expenditure and multiplies the various expenditures by appropriate PEMs based upon the value enhancement from such expenditure.

Venmyn has based the MEE valuation of the contributing properties upon information provided by Lexshell, along with other relevant published and unpublished data. A desktop evaluation of all the contributing exploration properties was carried out. All reasonable enquiries were made to confirm the authenticity and completeness of the technical data upon which this report is based.

To-date a total of ~ZAR74.35m of expenditure can be allocated to the acquisition of the prospecting rights and can be attributed to the prospecting over the properties and the associated economic studies. These costs include geological modelling and resource definition, as well as other project related expenditures. Since this delineation drilling has been the principle value driver to-date, these costs have been multiplied by the following PEM's:-

- PEM's of 1.0 – 2.0 for Olieboomsfontein 220 LQ;
- PEM's of 11.0 – 20.0 for Vetleegte 304 LQ;
- PEM's of 11.0 – 20.0 for Smitspan 306LQ;
- PEM's of 5.0 – 11.0 for Minnasvlakte 258LQ; Massenberg 305LQ, Hooikraal 315LQ, and Swanepoelpan 262LQ; and
- PEM's of 2.0 – 5.0 for Duikerfontein 263LQ

Smitspan 306LQ has received high PEMs since a significant amount of drilling and sampling has been carried out on this property relative to the other properties. While a previous Feasibility Study has been completed on this property, a revised Feasibility Study will shortly be commissioned to meet the requirements of the recently signed MoU with Eskom. Clearly Smitspan 306LQ is the 'stand-out' property and is considered highly prospective by Venmyn. Consequently Venmyn have selected a PEM of 20.0 to reflect the advanced nature of this property in terms of its level of exploration and development as well as the fact that a revised Feasibility Study will commence shortly.

Vetleegte 304LQ has received a preferred PEM of 12. While significant drilling and sampling has been conducted and Measured Resources classified, this property has not undergone the same level of technical investigation and economic studies as Smitspan 306LQ.

Minnasvlakte 258LQ, Massenberg 305LQ, Hooikraal 315LQ and Swanepoelpan 262LQ have received preferred PEM's of 8.0 to reflect the classification of Indicated Resources. However, unlike Smitspan 306LQ, these properties are generally lacking in the Upper Coal Sequence coals and are structurally very complex or have significantly deeper coal, and are therefore considered significantly less prospective than Smitspan 306LQ.

Duikerfontein 263LQ has received a preferred PEM of 2, reflecting the very limited exploration work, and very limited Coal Resources (at low levels of confidence) over this property.

Venmyn have analysed and rated the contributing properties according to the results achieved from historical and recent exploration activities as well as the success these activities have had on the classification of coal resources over the various properties.

Based on the principles discussed above, PEM values of between 2.0 – 20.0 were allocated to the various properties, with respect to the present value estimates of historical exploration expenditure. This reflects the relative enhancement in the prospectivity that has been achieved on each property as a result of the historical exploration.

The various costs, multiplied by their allocated PEM's have then been added to derive the MEE valuation for each property. This methodology has resulted in a preferred MEE valuation of **ZAR1,283m** for the contributing properties.

Table 11: MEE Valuation

FARM	TOTAL EXPLORATION EXPENDITURE (ZARm)	LOWER PEM	UPPER PEM	FAIR PEM	MIN PROJECT VALUE (ZARm)	MAX PROJECT VALUE (ZARm)	PREFERRED PROJECT VALUE (ZARm)
Olieboomsfontein 220 LQ	0.50	1	2	2	0.50	1.00	1.00
Vetleegte 304 LQ	10.08	11	20	12	110.92	201.66	121.00
Minnasvlakte 258 LQ	1.31	5	11	8	6.53	14.37	10.45
Smitspan 306 LQ	54.28	11	20	20	597.04	1,085.54	1,085.54
Massenberg 305 LQ	3.80	5	11	8	18.98	41.75	30.37
Hooikraal 315 LQ	1.90	5	11	8	9.49	20.88	15.18
Swanepoelpan 262LQ	2.49	5	11	8	12.47	27.42	19.95
Duikerfontein 263LQ	0.00	2	5	4	-	-	-
TOTAL/ WT. AVE	**74.35**	**10**	**19**	**17**	**755.93**	**1,392.63**	**1,283.48**

13.1.2. The Comparable Transaction Method

The comparable transaction value method is based upon other, preferably recent, arm's length transactions of a similar nature, which determines a monetary value per unit of resource (ZAR/t).

Venmyn has graphically plotted recent transactions of a similar nature in relation to their specific stage of exploration (Figure 14) in order to make the necessary comparisons.

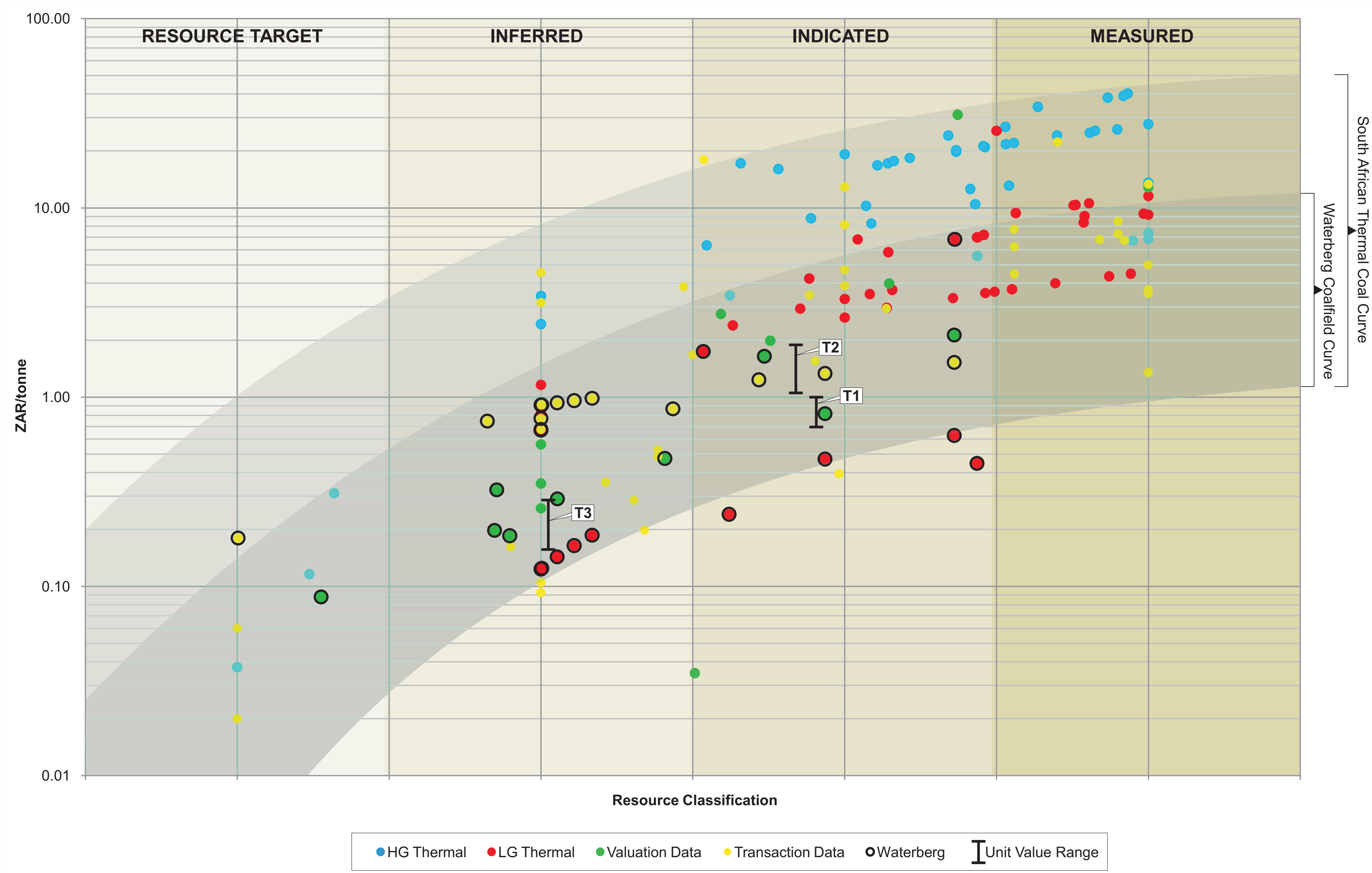
Since Coal Resources have been classified for the Waterberg Coal Project, Venmyn were able to carry out a comparable transaction valuation on the basis that recent market valuations of a similar nature provide the proxy for value. In order to arrive at a reasonable value with which to compare the respective projects, appropriate recent and historical transactions must form the basis.

Figure 14 summarises Venmyn's database of recent valuations within the context of the South African coal market with reference to the respective resource and reserve classifications.

While Venmyn has considered the entire transaction database to derive an appropriate comparable value, the valuation took into account the following recent transactions/valuations within the Waterberg Coalfield:-

- the valuation by SRK Consulting (South Africa) (Pty) Limited (SRK) in June 2006, of the Grootegeluk Colliery ahead of the merger of Eyesizwe and Kumba (now Exxaro) – Eyesizwe/Kumba Grootegeluk transaction;
- the joint venture transaction between Sekoko Coal and Firestone Energy, in July 2009, concerning the farms Minnasvlakte 258LQ, Smitspan 306LQ, Massenberg 305LQ and Hooikraal 315LQ in the Waterberg;
- the joint venture transaction between Sekoko Coal and Firestone Energy, in February 2010, concerning the farms Swanepoelpan 262LQ and Duikerfontein 263LQ in the Waterberg;

VALUATION CURVE FOR SOUTH AFRICAN COAL PROJECTS



Source: Venmyn

D1198 Sekoko Valuation 2012

VENMYN Independence you can trust

Sekoko Coal

FIGURE 14

- RSV Enco's valuation of Resource Generation's project in the Waterberg in July 2010; and
- IDC's ZAR249m funding of the development of Sekoko Coal and Firestone Energy's Waterberg Coal Project, resulting in the IDC owning 33.3% of Sekoko Coal's equity in the Waterberg Coal Joint Venture.

These transactions represent recent transactions of a similar nature, and have been used, together with enterprise values of listed companies with projects in the Waterberg, to define a Waterberg Coal Valuation Curve.

It is clear, in Figure 14, that the Waterberg Coal Valuation Curve, informed by the above transactions/valuations define a less variable range of values than that defined by the entire dataset, and falls within the middle-lower portion of the greater coal curve.

As discussed in Section 13.1.1, the presence of the various coal seams differs across the properties. At Hooikraal 315 LQ and Massenberg 305LQ, for example, the preferred (higher quality) Upper Coal Sequence coal zones (zones 5 – 11), are largely absent. These properties are also associated with a more structurally complex environment.

As a result, Venmyn considers these properties of lower prospectivity and has allocated unit values that are significantly lower than for the highly prospective Smitspan 306LQ property. Similarly, while Minnasvlakte 258LQ has both Upper Coal Sequence and Lower Coal Sequence coal zones present, the coal is deeper in this region, and consequently Venmyn have adjusted the unit values downwards to reflect that this property has a lower prospectivity than Smitspan 306LQ, but higher prospectivity than those properties absent in Upper Coal Sequence coal zones.

The comparable transaction value range selected for the valuation of the contributing properties has considered the nature of this valuation and the risk factors.

Venmyn are of the opinion that the ranges defined are reasonable in light of transactions of a similar nature and consideration of the following:-

- the opencastability of the resources;
- the presence of commercially valuable coal zones;
- the range of potential coal qualities;
- the magnitude of the classified Coal Resource;
- availability of infrastructure and logistics; and
- the timing of potential exploitation.

The range of values generated based upon all TTIS coal quantified for the contributing properties of the Sekoko Coal-Firestone JV Waterberg Coal Project, are summarized in Table 13 based on the most recent Venmyn estimates. The valuation range was calculated from the range of unit values as defined by the Comparative Transaction Valuation method. The value range reflects the level of confidence attached to the respective Coal Resources and the probability of their being brought to account. The population of historic market transactions provides an indication of reasonability.

Table 12 summarises the results of the Comparable Transaction Valuation.

Table 12: Summary of Comparative Transaction Valuation

FARM	TOTAL RESOURCE (Total Tonnes in-situ) (Mt)	PROJECT VALUE		
		MIN PROJECT VALUE (ZARm)	MAX PROJECT VALUE (ZARm)	PREFERRED PROJECT VALUE (ZARm)
Olieboomsfontein 220 LQ	-	-	-	-
Vetleegte 304 LQ	155.28	104.50	149.59	127.05
Minnasvlakte 258 LQ	194.21	53.68	101.01	77.34
Smitspan 306 LQ	595.47	1,215.41	1,620.54	1,417.98
Massenberg 305 LQ	98.78	25.63	37.17	31.40
Hooikraal 315 LQ	82.11	15.15	23.80	19.48
Swanepoelpan 262LQ	284.52	43.15	71.68	57.42
Duikerfontein 263LQ	10.46	1.57	2.61	2.09
TOTAL/ WT. AVE	**1,420.83**	**1,459.09**	**2,006.42**	**1,732.75**

Table 13: Comparative Valuation Based on Venmyn Resource Estimates

FARM	INFERRED COAL RESOURCE VENMYN TOTAL INFERRED RESOURCE (Total Tonnes in-situ) (Mt)	LOWER UNIT VALUE (ZAR/t)	UPPER UNIT VALUE (ZAR/t)	MEAN VALUE (ZARm)	INDICATED COAL RESOURCE VENMYN TOTAL INDICATED RESOURCE (Total Tonnes in-situ) (Mt)	LOWER UNIT VALUE (ZAR/t)	UPPER UNIT VALUE (ZAR/t)	MEAN VALUE (ZARm)	MEASURED COAL RESOURCE VENMYN TOTAL MEASURED RESOURCE (Total Tonnes in-situ) (Mt)	LOWER UNIT VALUE (ZAR/t)	UPPER UNIT VALUE (ZAR/t)	MEAN VALUE (ZARm)	PROJECT VALUE MIN PROJECT VALUE (ZARm)	MAX PROJECT VALUE (ZARm)	PREFERRED PROJECT VALUE (ZARm)
Olieboomsfontein 220 LQ	-	0.20	0.30	-	-	0.70	1.00	-	-	2.00	3.00	-	-	-	-
Vetleegte 304 LQ	11.09	0.20	0.30	2.77	143.15	0.70	1.00	121.67	1.04	2.00	3.00	2.60	104.50	149.59	127.05
Minnasvlakte 258 LQ	173.01	0.20	0.40	51.90	21.20	0.90	1.50	25.44	-	2.00	3.00	-	53.68	101.01	77.34
Smitspan 306 LQ	0.00	0.30	0.50	-	380.67	1.50	2.00	666.17	214.80	3.00	4.00	751.80	1,215.41	1,620.54	1,417.98
Massenberg 305 LQ	82.15	0.15	0.25	16.43	16.64	0.80	1.00	14.97	-	1.50	2.00	-	25.63	37.17	31.40
Hooikraal 315 LQ	77.74	0.15	0.25	15.55	4.37	0.80	1.00	3.93	-	1.50	2.00	-	15.15	23.80	19.48
Swanepoelpan 262LQ	283.67	0.15	0.25	56.73	0.85	0.70	0.90	0.68	-	1.50	2.50	-	43.15	71.68	57.42
Duikerfontein 263LQ	10.46	0.15	0.25	2.09	-	0.70	0.90	-	-	1.50	2.50	-	1.57	2.61	2.09
TOTAL/ WT. AVE	**638.12**	**0.25**		**145.48**	**567**	**1.01**		**832.87**	**216**	**2.31**		**754.40**	**1,459.09**	**2,006.42**	**1,732.75**

Venmyn's preferred value is the mean value derived from the unit value ranges per category. This results in a preferred full Comparable Transaction Value of **ZAR1,733m** for the contributing properties of the Sekoko Coal-Firestone JV Waterberg Coal Project, and equates to a unit value of ZAR1.22/TTIS. Over 80% of the value of the contributing properties is made up from the coal assets at Smitspan 306LQ.

13.1.3. Intrinsic Value Summary

Table 14 summarises the results from the various valuation methods used in establishing the Intrinsic/Technical Value of the mineral assets of the contributing properties:-

Table 14: Intrinsic Value Summary

FARM	COST APPROACH (ZARm)	COMPARATIVE TRANSACTION APPROACH (ZARm)	PREFFERED VALUE (ZARm)	TOTAL (ZARm)
Olieboomsfontein 220 LQ	1.00	N/A	1.00	125.02
Vetleegte 304 LQ	121.00	127.05	124.02	
Minnasvlakte 258 LQ	10.45	77.34	43.90	1,343.87
Smitspan 306 LQ	1,085.54	1,417.98	1,251.76	
Massenberg 305 LQ	30.37	31.40	30.88	
Hooikraal 315 LQ	15.18	19.48	17.33	
Swanepoelpan 262LQ	19.95	57.42	38.68	40.77
Duikerfontein 263LQ	0.00	2.09	2.09	
TOTAL	**1,283.48**	**1,732.75**	**1,509.67**	**1,509.67**

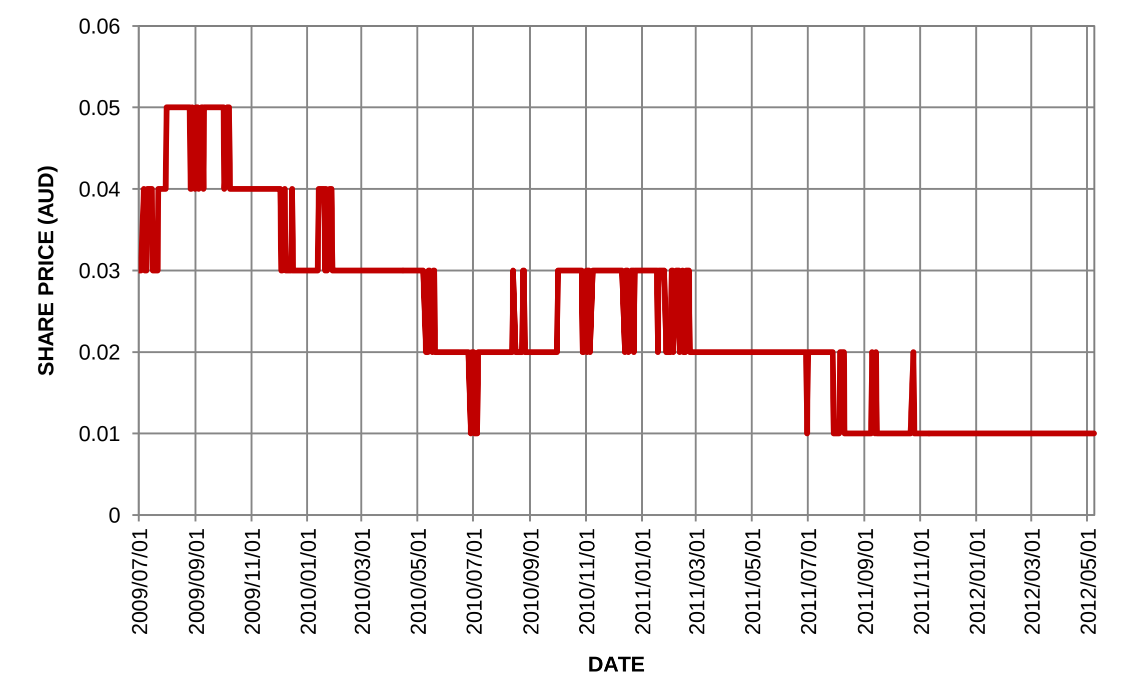
The table above demonstrates general agreement between the values derived from the various valuation methods, however the Cost Approach results in lower values in all cases.

The Cost Approach defines the bottom (ZAR1,283m) of the value range identified, while the Comparative Transaction Approach defined the top (ZAR1,732.75m) of the value range identified. The preferred Intrinsic/Technical Value is considered to be represented by the mean of the two valuation approaches, and results in a value of **ZAR1,510m**.

13.2. Market Value of the Mineral Assets

Venmyn consider that the Firestone share price history represents a proxy for the changes in the Market Value of the mineral assets of the contributing properties over time, as the mineral assets represent the principle assets of Firestone. Figure 15 represents the spot share price of Firestone since their involvement in the Waterberg Project.

Figure 15: Historical Share Price Movements for Firestone (July 2009 – May 2012)



Source: YahooFinance

Since Firestone currently have a 60% interest in the mineral assets, the current Market Value of Firestone is considered to represent 60% of the value mineral assets. On this basis, the effective Market Value of the mineral assets can be calculated on a 100% attributable basis, at any point in time. From Figure 15, it appears that the Market Value of the mineral assets has been reducing, systematically over time. Venmyn notes the relatively small volume of trade in Firestone shares and also considers that delays in project development and challenges with respect to financing may be contributing to the decline in Market Value.

While a value of in excess of ZAR1bn for the mineral assets of the contributing properties was supported by relatively high Market Values in the past, Venmyn have noted a significant decrease (~50%) in the market capitalisation of Firestone in the past 6-12 months, a continuation of a more extended decreasing trend. The past 30 day weighted average share price for Firestone was USD0.01. As a result, the current effective Market Value of the mineral assets has been assessed as **ZAR545.78m** (approximately half of that of a year ago).

13.3. Valuation Summary

The results of the valuations carried out by Venmyn are given in Table 15:-

Table 15: Summary of Valuation Results

	FARM	INTRINSIC OR TECHNICAL VALUE				MARKET VALUE (ZARm)	FAIR VALUE (ZARm)
		COST APPROACH (ZARm)	MARKET APPROACH (ZARm)	PREFFERED VALUE (ZARm)	TOTAL (ZARm)		
T1	Olieboomsfontein 220 LQ	1.00	N/A	1.00	125.02	545.78	1027.72
	Vetleegte 304 LQ	121.00	127.05	124.02			
T2	Minnasvlakte 258 LQ	10.45	77.34	43.90	1,343.87		
	Smitspan 306 LQ	1,085.54	1,417.98	1,251.76			
	Massenberg 305 LQ	30.37	31.40	30.88			
	Hooikraal 315 LQ	15.18	19.48	17.33			
T3	Swanepoelpan 262LQ	19.95	57.42	38.68	40.77		
	Duikerfontein 263LQ	0.00	2.09	2.09			
	TOTAL	1,283.48	1,732.75	1,509.67	1,509.67	545.78	1,027.72

It is clear, from the above, that the Market Value is significantly lower than the Intrinsic/Technical Value of the mineral assets. In terms of the requirements of VALMIN, 2005, Venmyn consider it appropriate to apply a discount to the Intrinsic/Technical Value of the mineral assets in estimating the Fair Value. In this case, Venmyn consider that the mean of the Intrinsic/Technical Value and the Market Value reflects the Fair Value of the mineral assets, as at the effective date of this report.

In Venmyn's opinion the current Fair Value of the Contributing Properties of the Waterberg Coal Project, given their current state of development and current market conditions is **ZAR1,028m.**

The valuation of exploration assets is, by nature, subjective and uncertain. The placing of a specific monetary value on historical exploration can be misleading, and the reader is advised to consider the ranges in which each property has been evaluated, and to further consider the technical merits of each project area and form an opinion regarding its prospectivity on the basis of the data presented in this report.

The reader should note that a transaction involving the assets in question will rely on a willing-buyer willing-seller arms length transaction which will need to consider other strategic considerations, such as the relative scarcity of South African coal projects.

13.4. Key Assumptions

We arrived at our opinion of value based on the following assumptions: -

- that all information provided to Venmyn, by Sekoko Coal and/or Lexshell can be relied upon;
- that the valuation is with respect to the face value of the mineral assets only;
- that the valuation was conducted on a 100% attributable basis;
- that the legal status of the mineral rights and statutory obligations were fairly stated;
- that the prospecting licences will be kept valid and that they can be converted to Mining Licences in the future;
- that expired prospecting licences will be correctly renewed;
- that the mining right will be kept valid;
- that all other regulatory approvals for exploration and mining will be timeously obtained;
- that the corporate structures and ongoing activities were fairly presented;
- that reliance can be placed on the exploration expenditures provided by Sekoko Coal and/or Lexshell;

- that reliance can be placed on the current Mineral Resource Statement;
- that the coal quality lends itself to the production of a suitable thermal coal product after washing;
- that Sekoko Coal, its subsidiaries and Firestone would continue as going concerns and would continue to be fully funded; and
- that Sekoko Coal and/or Firestone would be able to secure markets and off-take for any future operations.

Venmyn made due enquiry into these issues to be satisfied of the potential impact on the mineral asset valuation.

No consideration has been given to financial exposures, financing arrangements, equity transfers etc as this report is in respect of the valuation of the mineral assets only. Asset and liability adjustments would need to be considered in addition to the respective mineral asset values to establish company enterprise values.

We have relied upon and assumed the accuracy of the information provided to us in deriving our opinion. Where practical, we have corroborated the reasonableness of the information provided to us for the purpose of our valuation, whether in writing or obtained in discussion with management of Sekoko Coal, by reference to publicly available or independently obtained information.

Our valuation is based on current economic, regulatory, market as well as other conditions. Subsequent developments may affect this valuation, and we are under no obligation to update, review or re-affirm our valuation based on such developments.

13.5. Key Risks

The contributing properties represent early- to advanced-stage projects, and are therefore, inherently exposed to normal operational risks associated with exploration and development projects. The success of the projects depends largely on successful prospecting programmes and competent management. Profitability and asset values can be affected by unforeseen changes in operating circumstances and technical issues.

While the contributing properties are located in an emerging coal exploration and mining hub, there are significant infrastructural challenges to overcome. Lack of adequate water and rail infrastructure is identified as a major challenge to the future development of the region.

Certain licences have expired and renewals have been applied for. There is no guarantee that these will be awarded in their entirety or in part, and licence applications and renewals are currently experiencing considerable delays. Venmyn have been advised by Sekoko Coal that they are confident the renewals will be correctly granted as they are in regular contact with the DMR and have been supplying additional information to the DMR. In addition Sekoko Coal have hosted a site visit by the DMR, to the properties, in order for the DMR to confirm that work has been undertaken on the properties.

The coal qualities are amenable to the production of large quantities of coal that could meet power station specifications. However any successful coal operation in the Waterberg Coalfield would be highly dependent on its ability to supply existing and future power stations in the area, and securing take-off agreements with such power stations or other external markets. In this regard a memorandum of understanding (MoU) with power utility Eskom on a 30-year supply agreement has recently been signed. In terms of the MoU, the project would commence delivering 2Mtpa of coal to Eskom in 2014, to be ramped up to 10Mtpa by 2019.

Factors such as political and industrial disruption, currency fluctuation and interest rates could have an impact on future operations, and potential revenue streams can also be affected by these factors. The majority of these factors are, and will be, beyond the control of any operating entity.

The Going Concern assumption is the assumption that an entity will continue to operate for the foreseeable future. Where there is a reasonable expectation that a company will be unable to meet its current obligations as they become due, the Going Concern assumption may not apply. The ability of Sekoko Coal and Firestone to continue operations as going concerns and the recoverability of their respective retained losses are dependent upon the existence of economically recoverable reserves in the future, and continued support from the respective parent companies and/or investors and/or financiers. It is assumed that sufficient working capital will be obtainable from internal and/or external financing to meet their respective companies' liabilities and commitments as they become due, however there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the respective companies.

The valuation presented herein represents the mean values achieved through the combination of value ranges within each method applied. The valuation of exploration assets is, by nature, both subjective and uncertain. The placing of a specific monetary value on historical exploration can be misleading, and the reader is advised to consider the full range in which each mineral asset has been evaluated, and to further consider the technical merits of each mineral asset and form an opinion regarding its prospectivity on the basis of the data presented in this report.

It must be noted that this valuation has been carried out as an indicative assessment of values that could reasonably be expected in view of recent market comparisons and valuations placed on coal producers and explorers by the market. Venmyn have provided their view on the unit comparisons having performed a high level review of the contributing mineral assets. Valuations that consider the timing of extraction, exchange rates fluctuations and views on the coal and uranium market trends may arrive at materially different values.

This report contains forward-looking statements. These forward-looking statements are based on the opinions and estimates at the date the statements were made. They are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in the forward-looking statements. Factors that could cause such differences include changes in world coal markets, equity markets, costs and supply of materials relevant to the projects, and changes to regulations affecting them. Although Venmyn believes the expectations reflected in its forward-looking statements to be reasonable, Venmyn does not guarantee future results, levels of activity, performance or achievements.

14. CONCLUSIONS

This report has investigated the techno-economic merits of the contributing properties of the Sekoko Coal-Firestone JV Waterberg Coal Project. A full range of values was calculated, but this report fully describes each coal asset so as not to be misleading.

Venmyn established an Intrinsic/Technical Value range of between ZAR1,283m and ZAR1,732.75m, with a preferred Intrinsic/Technical Value of ZAR1,510m. However, our assessment of the Firestone share price demonstrated a significant decrease in the Market Value of the mineral assets within the past 6 – 12 months.

Our assessment has demonstrated that the Market Value is significantly lower than the Intrinsic/Technical Value of the mineral assets. In terms of the requirements of VALMIN, 2005, Venmyn consider it appropriate to apply a discount to the Intrinsic/Technical Value of the mineral assets. In this case, Venmyn consider the mean of the Intrinsic/Technical Value and the Market Value to reflect the Fair Value of the mineral assets, as at the effective date of this report. In Venmyn's opinion the current Fair Value of the Contributing Properties of the Waterberg Coal Project, given their current state of development and current market conditions is **ZAR1,028m**.

The prospectivity of the Sekoko Coal-Firestone JV Waterberg Coal Project is enhanced by its proximity to the operating Grootegeluk Colliery as well as its proximity to water, electrical, road and rail infrastructure. Furthermore the coal is thick, relatively shallow and is considered opencastable. Notably, the Waterberg Coal Project is also within 40km of Eskom's Matimba Power Station.

This valuation has been carried out as an indicative assessment of values that could reasonably be expected in view of recent market comparisons and valuations placed on the coal resources by the market. Venmyn has its view on the unit comparisons having performed a high level review of the contributing properties. Valuations that consider the timing of extraction, exchange rate fluctuations, and views on the coal markets may, therefore, arrive at different values depending on the purpose of the valuation and prevailing market conditions.

This valuation is dated to the extent that it is valid at that time and will change if more information is made available or market conditions change.

The valuation of exploration assets is, by nature, both subjective and uncertain. The reader is advised to consider the full ranges in which each property has been evaluated, and to further consider the technical merits of each project area and form an opinion regarding its prospectivity on the basis of the data presented in this report.

Yours Faithfully

N. Mc KENNA
M.Sc (Geol), Pr. Sci. Nat.
MAUSIMM, MGSSA, MSAIMM, MIASSA, M.Inst.D.
DIRECTOR

J A MYBURGH
B.Sc (Mathematics)
MINERAL PROJECT ANALYST

15. REFERENCES

AUTHOR	DATE	TITLE	SOURCE
Australian Bureau of Agricultural and Resource Economics and Sciences (Abare)	2011	Australian Mineral Statistics 2011	http://adl.brs.gov.au
BP	2010	BP Statistical Review of World Energy	BP
BP	2011	BP Statistical Review of World Energy	BP
Department of Mineral Resources (DMR)	2010a	Information on Coal	www.dme.gov.za
Department of Mineral Resources (DMR)	2010b	Provisional Mineral Production and Sales Statistics (March 2010)	DMR
Department of Mineral Resources (DMR)	2010c	Provisional Mineral Production and Sales Statistics (July 2010)	DMR
Department of Mineral Resources (DMR)	2010d	South Africa's Mineral Industry 2009/2010	DMR
Department of Mineral Resources (DMR)	2011a	Provisional Mineral Production and Sales Statistics (December 2010)	DMR
Economist Intelligence Unit	2010	World Coal: EIU Oct Coal Outlook	http://Viewswire.eiu.com
Eskom	2008	Eskom Transmission Development Plans in the Waterberg Coal Fields Area 2008 to 2028	Eskom
Hall, I	2011	South African Coal Road Map – The SA Coal Industry: Present Context and Preliminary Future Scenarios	Coaltech Colloquium, Witbank – 22 July 2011
Hall, J	2011	Anglo-American settles Apr-Jun coking coal at $330/mt FOB	www.platts.com
Low, D	2008	What future for Coal in South Africa	The Oil Drum Europe (www.theoildrum.com)
Hartnady, CJH	2009	South Africa's falling coal reserves (Review Article)	
Hellenic Shipping News	2012	Russian coal output rises in 2011	www.hellenicshippingnews.com
The Huffington Post	2012	Australia Flooding : Coal Mines Closed in Queensland	www.huffingtonpost.com
I-Net Bridge	2011b	Coal Prices	
Lucarelli, B	2011	A tale of Two Steam Coal Industries	IBC Coal Markets Conference, rolevaenergy.com
Mining Exploration News	2010	Chinese Coal Production and Supply Exceeds Domestic Demand	www.paguntaka.org
Musaba, L	2010	The Southern African Power Pool	www.sari-energy.org
PSQ Analytics	2010	Coal and consumable fuels review (March 2010)	www.stockmarketsreview.com
Ryan, B	2010	Coal exports drop way below target	www.miningmx.com
Ryan, B	2010b	New low-grade export coal raises hackles	www.miningmx.com
Ryan, B	2011	SA coal down in the dumps	www.miningmx.com
Ryan, B	2011b	Transnet hikes coal tariffs	www.miningmx.com
Sethuraman, D	2012	India's Nine-Month Coal Production Falls 2.7%, India Coal says	http://mobile.bloomber.com
Smith,N	2012	Transnet to spend R7bn on Waterberg lines	Businesslive.co.za
SourceWatch	Accessed July 2010	Global use and production of coal	www.sourcewatch.org
South African government	2011	Integrated Resource Plan for Electricity, 2010-2030	South African government
Trademark	2012	Factbox: Southern Africa's coal rail and port bottlenecks	www.trademarksa.org
Wakeford, J	2008	What future for Coal in South Africa?	www.theoildrum.com
Wellstead, J	2012	Coal hits a wall in US market	
Wong, F	2010	Asia's thermal-coal imports seen hitting record in 2011	www.forexyard.com
Worldsteel	2011	March 2011 Crude Steel Production	www.worldsteel.org
Xinuanet	2011	US export of coking coal increases nearly 50 per cent in 2010	http://news.xinhuanet.com
Zhou,P; Yamba,FD; Lloyd, P; Nyahuma, L; Mzezewa, C; Kipondya, F; Keir, J; Asamoah, J; Simonsen, H	2009	Determination of regional emission factors for the power sector in Southern Africa	Journal of Energy in Southern Africa

16. CV'S

Proposed Position: Minerals Industry Advisor
Name of Firm: Venmyn Rand (Pty) Ltd
Name of Staff: Neil Mc Kenna
Profession: Geologist
Proposed Position: Director
Date of Birth: 05 June 1977
Years with Firm/Entity: Joined March 2007
Nationality: South African

Membership in Professional Societies:

CLASS	PROFESSIONAL SOCIETY	YEAR OF REGISTRATION
Member	Australian Institute of Mining and Metallurgy	2011
Member	Geological Society of South Africa	2002
Member	South African Institute of Mining and Metallurgy	2007
Member	South African Council for Natural Scientific Professions	2002
Member	Investment Analyst Society of South Africa	2009
Member	South African Institute of Directors	2009

Education:

DEGREE/DIPLOMA	FIELD	INSTITUTION	YEAR
B.Sc	Geology	University of the Witwatersrand	1998
B.Sc (Hons)	Geology	University of the Witwatersrand	1999
MSc	Geology	University of Cape Town	2001

Detailed Tasks Assigned:

YEAR	CLIENT	COMMODITY	PROJECT DESCRIPTION
2011	Kibo Mining Plc	Coal, Uranium	Competent Persons Report and valuation on the Rukwa and Pinewood Project Mineral Assets.
	Rio Tinto	Coal	Valuation of Coal Assets and Intellectual Property for CGT purposes.
	Coal of Africa Limited	Coal	Implementation of Best Practice Drilling and Sampling Protocols at their GSP Project in South Africa.
	PriceWaterhouseCoopers	Nickel	Valuation of Nickel Assets in Burundi.
	National Empowerment Fund	Coal	Due Diligence of a Coal Powered Operation in South Africa.
	Umcebo Mining	Coal	Valuation of Certain Coal Assets in South Africa.
	Tanzanian Royalty Exploration Corporation	Gold	CPR on the Gold Assets of the Itetemia and Luhala projects in Tanzania.
	Harmony	Gold	CPR on the Gold Assets of their Evander Operations in South Africa.
	Palaborwa Mining Company	Iron Ore	Mineral Resource Estimation for their Magnetite Stockpiles in South Africa.
	Manhattan Gold Corporation	Gold	Valuation of the Gravelotte Gold Mine Gold Assets in South Africa.
	PriceWaterhouseCoopers	Coal	Valuation of a Major Coal Assets in South Africa.
	Miranda Mineral Holdings	Coal	Valuation of Miranda's Coal Assets in South Africa.
	Lodestone Investments	Iron Ore	Valuation of Lodestone Iron Ore Assets in Namibia.
	Impondo Resources	Coal	Valuation of Impondo Resources Coal Assets in South Africa.
	Bateman	Phospho-Gypsum	Drilling and sampling of a Phospho-Gypsum dump.
	Sekoko Resources	Coal	Valuation of their Waterberg Project.
	Optimum Collieries	Coal	Fairness Opinion on Transaction.
	Tanzanian Royalty Exploration Corporation	Gold	Competent Persons Report on their Kigosi Project in Tanzania.
	Namakwa Diamonds	Diamonds	Mineral Resource Estimation and Technical Statement on their Global Operations.
	Namakwa Diamonds	Diamonds	Mineral Resource Estimation and Technical Statement on their Kao Diamond Deposit.
	Continental Coal	Coal	Due Dilligence of Continental Coal Mineral Assets.

YEAR	CLIENT	COMMODITY	PROJECT DESCRIPTION
2011	Continental Coal	Coal	Due Dilligence of Continental Coal Mineral Assets.
	Coal of Africa Limited	Coal	Competent Persons Report and Valuation of Coal of Africa Limited's Coal Assets.
	Kibo Mining Plc	Gold	Competent Persons Report and Valuation of Kibo's Mineral Assets in Tanzania.
	Sishen Iron Ore Company	Coal	Due Diligence and Valuation of Continental Coal's Mineral Assets in South Africa.
	Tanzanian Royalty Exploration Corporation	Gold	Updated Mineral Resource Statement for the Kigosi Gold Project in Tanzania.
	Sew Trident	Coal	technical Review and Valuation of the Ikoti Coal Project.
	Sekoko Resources	Coal	Valuation of Sekoko's Coal Assets in the Thuli Coalfield of South Africa.
	Namane Resources	Coal	Update of Competent Persons Report and Valuation on Namane's Waterberg Coal Project.
	Gem Diamonds	Diamonds	Competent Persons Report and Valuation of Gem Diamonds' Mineral Assets.
	Mzuri Capital	Coal and Uranium	Competent Persons Report on the Mineral Assets of Pinewood Resources.
	Gem Diamonds	Diamonds	Mineral Resource update.
2010	Kibo Mining plc	Gold	Mineral Assets Valuation of the gold assets of Morogoro Gold in Tanzania.
	Kibo Mining plc	Gold	Competent Persons Report on the Gold Assets of Morogoro Gold in Tanzania.
	Coal of Africa Limited	Coal	Mineral Assets Valuation of Noordgrens Landgoed's mineral assets foregone in 2004.
	Coal of Africa Limited	Coal	Mineral Asset Valuation of CoAL's mineral assets within South Africa.
	Trafigura	Base Metals and Gold	Mineral Asset Valuation of Proposed Greenfields project areas in Angola.
	ETA Star	Coal	Mineral Asset Valuation of certain Coal Assets in near Tete, Mozambique.
	Namakwa Diamonds	Diamonds	Mineral Resource update for Global Operations
	Namane Resources	Coal	Competent Persons Report and Valuation on Namane's Waterberg Coal Project.
	Namane Resources	Coal	Techno-economic assessment of Namane's Waterberg Coal Project.
	Sekoko Resources	Coal	Valuation of the Sekoko-Firestone JV coal assets in the Waterberg Coalfield
	Sekoko Resources	Coal	Resource update for the Sekoko-Firestone JV properties in the Waterberg Coalfield.
	Keldoron Mining	Coal	Valuation of Keldoron's Amajuba District Coal Project in South Africa
	Nyota Minerals	Gold	Mineral resource estimation of the Tulu Kapi Gold Project in Ethiopia.
	Namakwa Diamonds	Diamonds	Competent Persons Report and Valuation on Namakwa Diamonds' Mineral Assets.
	Miranda Mineral Holdings	Coal	Techno-economic assessment of Miranda's coal assets in South Africa.
	Nyota Minerals	Nickel	Mineral Experts Report on the Muremera Nickel Project in Burundi.
	Gem Diamonds	Diamonds	Mineral Resource Estimation for the Gope Project in Botswana.
	Ernst & Young Jordan	Gold and Base Metals	Valuation of Brinsley Enterprises Orshab Project in Sudan.
	Gem Diamonds	Diamonds	Mineral resource reporting audit at the Letseng Mine in Lesotho.

YEAR	CLIENT	COMMODITY	PROJECT DESCRIPTION
2009	Nyota Minerals	Gold	Scoping Study on the Tulu kapi Gold Project in Ethiopia.
	Kalagadi Manganese	Manganese	Techno-economic assessment of the Kalagadi's mineral assets in South Africa in the form of a CPR.
	VTB Bank Moscow	Uranium	Valuation of the Spitzkop Uranium Project in Namibia.
	Nyota Minerals	Gold	Drilling ans sampling QA/QC audit at the Tulu Kapi Gold Project in Ethiopia.
	Leeuw Mining	Coal	Due Dilligence and Valuation of the Maloma Colliery in Swaziland.
	Metorex	Fluorspar	Fairness opinion on Metorex's disposal of the Vergenoeg project.
	Dwyka Resources	Gold	Valuation of the Otjikoto Gold Project in Namibia.
	Mike Scott & Associates	Copper	Peer review of the modelling and resource estimation of the Kitumba Copper Project, Zambia.
	Sylvania Resources	Platinum	Due Dilligence and Valuation of the mineral assets of Sylvania Resources.
	Nyota Minerals Limited	Gold	Valuation of the mineral assets of the Otjikoto Gold Project, Namibia.
	Coal of Africa Limited	Coal	Valuation of the coal assets of the Tshikunda Coal Project in South Africa.
	Rand Uranium	Uranium	Mineral Resource Modelling and Mineral Resource Classification of the Cooke Dump.
	Dwyka Resources	Gold	Prospectivity review of the Tulu Kapi Gold Project in Ethiopia
	Northam Platinum Limited	Platinum	Valuation of Micawber 278 (Pty) Limited.
	Herbert Agencies (Pty) Limited	Coal	Valuation of the coal assets of the Vischkuil Coal Project in South Africa.
	Coal of Africa Limited	Coal	Valuation of the Coal Assets of the Makhado Land Swop Transaction with Rio Tinto
	Ernst & Young Jordan	Gold	Valuation of the Gold Assets of Brinsley Enterprises in Sudan
	Namakwa Diamonds	Diamonds	Mineral Resource and Mineral Reserve audit and update.
	Firestone Energy Limited	Coal	Valuation of the Coal Assets of the Sekoko Coal-Firestone JV Waterberg Coal Project, South Africa
	Trans Hex Group Limited	Diamonds	Valuation of the Diamond Assets of the Lower Orange River Operations, South Africa
	Bonaparte Diamond Mines NL	Diamonds	Valuation of the Diamond Assets of the Savanna Diamond Project, South Africa.
	Tanzanian Royalty Exploration Corporation	Gold	A National Instrument (NI-43-101) Technical Report on the Kigosi Gold Project, Tanzania.
	Mvelaphanda Resources Limited	Platinum	Valuation of the PGE Assets of the Booysendal Project, South Africa.
	Xstrata South Africa (Pty) Limited	Coal	Valuation of the Coal Assets of the Zonnebloem 1 Project, South Africa.
	Anglo Platinum Limited	Platinum	Valuation of the PGE Assets of Micawber 278 (Pty) Limited.
	Sekoko Resources	Coal	Valuation Update of the Coal Assets of Sekoko's Waterberg Coal Project, South Africa.
2008	Johannesburg Stock Exchange Limited/ Metorex Limited	Multi-Commodity	Fair and Reasonable Opinion on the Rights offer by Metorex in December 2008. This involved the creation and issue of 242,538,403 shares at an issue price of 200cps resulting in a cash consideration of ZAR485,076,806.
	Minéro Mining Company	Zinc-Lead	Competent Persons Report and Valuation of the Pering Zinc-Lead Mine, in South Africa.
	Gem Diamonds	Diamonds	Minerals Resource Update of all Gem Diamonds Mineral Assets.
	BRC DiamondCore	Diamonds	Valuation of BRC DiamondCore's Silverstreams Project in South Africa.
	Sekoko Resources	Coal	Valuation of Sekoko's Coal Assets of the Waterberg Coal Project in South Africa.
	Tata Steel	Coal	Prospectivity report on certain properties within the Tuli and Soutpansberg Coalfields
	Universal Coal plc	Coal	Valuation of the Coal Assets of the Elof Coal Project in South Africa
	Anglo Platinum	Platinum	Valuation of The PGE Assets of the Booysendal Platinum Project
	Namakwa Diamonds	Diamonds	Resource Estimation and Update for Namakwa Diamonds South African and DRC Projects.
	Harmony Gold Mining Company	Gold	Resource Estimation and Classification of the Deelkraal Dump
	Pioneer Coal	Coal	Competent Persons Report and Valuation of the Coal Assets of Pioneer Coal
	Namakwa Diamonds	Diamonds	Technical Statement on the Doornhoek Alluvial Diamond Property, South Africa

YEAR	CLIENT	COMMODITY	PROJECT DESCRIPTION
2008	Pioneer Coal	Coal	Prospectivity Review for Pioneer Coal's Soutpansberg Coal Prospecting rights.
	Target Coal	Coal	Prospectivity Review of Various Coal Properties in the Ermelo region of South Africa.
	Lidongo Group Holdings	Diamonds	Prospectivity Review of Lidonga's Riet River Prospecting Rights.
	BRC DiamondCore	Diamonds	Technical Review of mineral resources and sampling programme at the Paardeburg East Diamond Project.
	BRC DiamondCore	Diamonds	Technical Review of mineral resources and sampling programme at the Silverstreams Alluvial Diamond Project.
	Namaqua Diamonds	Diamonds	Technical review of the London Project, North West, South Africa.
	Trans Hex Group	Diamonds	Competent persons Report and Techno-Economic Valuation of Trans Hex's Lower Orange River Mineral Assets.
	Ernst & Young	Platinum	Comparative Valuation of the Booysendal Platinum Project as part of the Fair and Reasonable Opinion on the Transaction between Northam and Mvelaphanda.
	Harmony Gold Mining Company	Gold	Annual Mineral Resource and Mineral Reserve Review and Update. Identification of Strateigic Opportunities at the Free State Operations.
	Gem Diamonds Limited	Diamonds	Mineral Resources Review of Gem Diamonds' Global Operations.
2007	Worldwide Coal Carolina (Pty) Limited	Coal	Techno-economic valuation of Worldwide Coal Carolina's coal assets.
	Apic Atoll (Pty) Ltd	Ferro-manganese	National Instrument 43-101F technical Report on the Riders Ferro-manganese Slag Dump, Pennsylvania, united States of America.
	Signet Mining	Coal	High level independent review of the coal resource, reserve and technical operating parameters of Tuli Coal (Private) Limited's Special Grant Area in Southern Zimbabwe.
	Anglo Platinum Limited	Platinum	An independent comparable transaction valuation of the platinum group element mineral assets of the Booysendal Project.
	Gem Diamonds Limited	Diamonds	Techno-economic valuation of Kimberley Diamond Company NL
	Gem Diamonds Limited	Diamonds	Mineral Experts Report on Kimberley Diamond Company NL
	Gem Diamonds Limited	Diamonds	Competent Persons Report on the Go25 (Gope) kimberlite.
	International Development Corporation	Ferro-Magnesium	Assessment of the geological and resource/reserve data provided to the IDC on the Riders Ferro-magnesium Slag Dump, Pennsylvania, USA, by Apic Toll Treatment (Pty) Limited as part of their application for funding.
	Harmony Gold Mining Company	Gold and Uranium	Mineral Resource Statements for Harmony's surface dump resources of the Randfontein and Free State Operations in South Africa.
	Gem Diamonds Limited	Diamonds	SAMREC compliant Resource and Reserve Statements for the mineral assets of the Cempaka Diamond Mine in Indonesia for BDI Mining Corporation (Subsidiary of Gem Diamonds Limited).
	Gem Diamonds Limited	Diamonds	SAMREC compliant Resource Statement on the mineral assets of Gope Exploration Company (Pty) Limited (Gope Project) (Subsidiary of Gem Diamonds Limited)
	Mintek/Department of Minerals and Energy	N/A	Review and recommendations on the Kumba/Exxaro proposal for Environmental Provisioning.
	Rockwell Resources (Pty) Limited	Diamonds	Compilation of Technical Statement (NI-43101) for the Wouterspan Operation.
	Gem Diamonds Limited	Diamonds	High level valuation of Cullinan Diamond Mine
	JCI Limited	Uranium	Review of and Recommendations on JCI's Laingsburg Uranium Project
	Harmony Gold Mining Company Limited	Gold and Uranium	Sample trail Audit and Competent persons sign-off (SAMREC) on Dump Drilling and Sampling
	Magnum Resources Limited	Tantalum	High Level Due Diligence of the Tantalite Valley Project, Southern Namibia
	Mintek/ Department of Minerals and Energy (South Africa)	N/A	Review of the System for Financial Provisioning for Mine Closure in South Africa
2004	De Beers Consolidated Mines	Diamonds	A study of the Relationship Between the Micro- and Macro Diamonds from Finsch Diamond Mine.
	De Beers Consolidated Mines	Diamonds	A study of the Relationship Between the Micro- and Macro Diamonds from Snap Lake Diamond Mine.

Employment Record:

POSITION	COMPANY	JOB DESCRIPTION	DURATION
Director	Venmyn Rand (Pty) Ltd	Venmyn Rand operates as a techno-economic consultancy for the resources industry on a worldwide basis. Responsibilities at Venmyn include: • Serving as Director of Venmyn and is responsible for the company's strategic process and management of internal functions and governance; • Providing hands-on services to all the company's major clients; • Providing minerals projects assessments; and • Mr Mc Kenna's expertise in financial valuation is particularly appropriate for ensuring market to market presentation of both the technical and financial issues of resources projects..	February 2009 - Present
Minerals Industry Advisor	Venmyn Rand (Pty) Ltd	Venmyn Rand operates as a techno-economic consultancy for the resources industry on a worldwide basis. Responsibilities at Venmyn include: • Compiling technical and geological information into reports which are compliant with the SAMREC and JSE listing rules. • Production of techno-economic reports for clients.	March 2006 – February 2009
Project Manager Resource Extension Drilling	De Beers, Finsch Mine	Responsible for the Mineral Resource Evaluation Drilling of the Block 5 Extension of the Finsch Diamond Mine, Northern Cape. This role included the following activities: • Management of diamond core drilling for volume, geological, structural and grade determinations. • Co-ordination of drilling/sampling activities of four LM90 drill rigs on three underground levels (510, 650 and 888 levels). • Managing the capturing of all geological data in a Datamine drill-hole database. • Responsible for the managing of drilling contractors (Boart Longyear) and maintaining project schedules. • Responsible for the supervision and mentorship of approximately 10 subordinates (including senior and junior geologists, geological officers and geological assistants).	October 2006 – March 2007
Technical Assistant	De Beers Group Exploration	• Responsible for routine reporting, and ad-hoc reviews and requests by Group Managers Office. • Corporate governance of Resource Delivery Group. • Technical reviews of advanced stage projects and resource statements. • Compilation of position papers. • Ad-hoc reports and resource reviews. • Joint venture reporting.	2005 - 2006
Technical Assistant	De Beers Africa Exploration	• Responsible for routine reporting. • liaison between field operations and laboratories. • Ad-hoc technical reports and reviews. • Corporate governance of Africa Management team and HOD committee. • Active management of relationships and data for a Joint Venture in Madagascar. • Projects tracking. • Business plan management.	2004 - 2005
Senior Geologist	De Beers Geoscience Centre	• Industrial and exploration related diamond research • Responsible for diamond related service work and decision support • Supervision and mentoring for diamond related projects. • Providing exploration ventures with targeting and mineral chemistry interpretations and decision support.	2003-2004
Staff Geologist	De Beers Group Exploration Services	Exposure to various aspects of exploration and mining geology over a 13 month training period. Competencies gained include: • diamond indicator mineral identification and interpretation. • bulk sample evaluation. • laboratory practices. • stream and loam exploration sampling (both reconnaissance and follow-up sampling). • Underground geological mapping, density measurements, waste control, bulk sampling and grade determination studies.	2002-2003

Languages:
English: Excellent
Afrikaans: Good

Certification:

I, the undersigned, certify that to the best of my knowledge and belief, these data correctly describe me, my qualifications, and my experience.

____Date: 11th May 2012
Full name of staff member: Neil Mc Kenna

Name of Firm: Venmyn Rand (Pty) Limited
Name of Staff: Mr Iaan Myburgh
Profession: Mineral Industry Analyst
Date of Birth: 31^{th} December 1984
Years with Firm/Entity: 2 years
Nationality: South Africa

Detailed Tasks Assigned:

YEAR	CLIENT	COMMODITY	PROJECT DESCRIPTION
2010	African Copper	Copper	Feasability Study
2010	Miranda Mineral Holdings	Coal	Independent Project Valuations
2010	White Water Resources	Gold	Independent Project Valuations
2010	Chrometco Limited	Chromite	Independent Project Valuations
2010	Sekoko	Coal	Independent Project Valuations
2010	West Wits	Gold/Uranium	Statistical Analysis
2010	Central African Gold	Gold	Statistical Analysis
2010	Worldwide Mineral Strategists	Gold	Statistical Analysis
2010	Rooderand Chromite	Chrome	Valuation Statement
2010	African Copper	Copper	Valuation Statement
2010	Sekoko	Coal	Valuation Statement
2010	Chrometco	Chrome	Valuation Statement
2011	Xceed Capital	Coal	Techno Economic Valuation
2011	PSIL	Uranium	Techno Economic Valuation
2011	Wesizwe	Platinum	Techno Economic Valuation
2011	Gem Diamonds	Diamonds	Independent Project Valuations
2011	Lesego	Platinum	Statistical Analysis
2011	Sephaku	Fluorspar	Independent Project Valuations
2011	Xceed Capital	Coal	Valuation Statement
2011	Wesizwe	Platinum	Valuation Statement
2011	Namane Elandslaagte	Diamonds	Valuation Statement
2011	PSIL	Uranium	Valuation Statement
2011	Sudor Coal	Coal	Valuation Statement
2011	Realm Resources	Platinum	Valuation Statement
2011	AEMFC	Coal	Valuation Statement
2011	Lodestone Namibia	Iron Ore	Valuation Statement
2011	African Copper	Copper	Valuation Statement
2011	Karbochem	Power Generation	Valuation Statement
2011	Miranda Minerals	Coal	Valuation Statement
2011	Anglo Namibian Prospects	Base Metals	Valuation Statement
2011	Umcebo	Coal	Valuation Statement
2011	Gem Diamonds	Diamonds	CPR
2011	Banro	Gold	CPR
2011	Sephaku	Fluorspar	CPR
2011	Platmin	Platinum	CPR
2011	Harmony	Gold	CPR

Fair and Reasonable Opinions:

YEAR	CLIENT	Securities Exchange Jurisdiction	Transaction Type	Implied Value (US$m)	DESCRIPTION
2011	Wesizwe	JSE	Acquisition	280	F&R opinion document to the exchange
2010	Sylvania	ASX	Share conversion	190	F&R opinion letter to the board
2010	Ultratech Cement	JSE	Acquisition	50	Independent F&R for Ultratech Cement on Xstrata Assets
2011	Optimum Coal	Coal	Acquisition	400	F&R opinion letter to the board
2011	Forbes Manhattan	Base Metals	Acquisition	20	SARB approval
2011	Sikhuliso	Gold	Acquisition	30	Value Determinition

Key Qualifications and Description:

Mr Iaan Myburgh has a degree in Mathematics from the University of Pretoria. He joined Venmyn in January 2010. During the time he has worked with Venmyn, he has specialised mainly in the market review for different commodities as well valuation of mineral projects using the market approach method and discounted cash flow method. He is also a candidate in the CFA program having passed the first level exam in 2010.

Education:

DEGREE/DIPLOMA	FIELD	INSTITUTION	YEAR
B. Sc	Mathematics	University of Pretoria	2010

Employment Record:

POSITION	COMPANY	JOB DESCRIPTION	DURATION
Mineral Industry Analyst	Venmyn Rand (Pty) Ltd	Venmyn provides compliance and valuation reporting services to the minerals industry. Responsibilities at Venmyn include:- • Compiling technical and geological information into reports which are compliant with the SAMREC and JSE listing rules; • High level research for multiple facets of mineral projects; • Valuation of mineral projects; and • Background research of information for CPR's and Technical Statements.	2010 – present

Languages:

English: Excellent
Afrikaans: Excellent

Certification:

I, the undersigned, certify that to the best of my knowledge and belief, these data correctly describe me, my qualifications, and my experience.

____Date: 01st May 2012
Full name of staff member: Jacobus Adriaan Myburgh