

## QUARTERLY ACTIVITIES REPORT FOR THE PERIOD TO 30 SEPTEMBER 2011

The Board of Firestone Energy Limited (ASX/JSE: FSE) (“Firestone” or the “Company”) is pleased to provide shareholders with its Quarterly Activities Report for the 3 month period ended 30 September 2011.

### Highlights

- ***Appointment of the Chief Executive Officer (CEO) to be dedicated to the project in South Africa***
- ***Mining Right approval and execution by DMR giving the project 30 year licence to mine four properties, being Smitspan, Minnasvlakte, Hooikraal and Massenberg***
- ***Firestone agrees to re-negotiate the MOU with Eskom in order to secure increased tonnages and an extended supply period***
- ***Exclusivity agreement signed with major, multinational listed mining and power company to carry out due diligence on the project***
- ***Linc Energy acquires a strategic equity stake in Firestone***

### OVERVIEW

This quarter has been significant primarily because of the occurrence of four major events:

- appointment of David Knox as CEO of Firestone;
- approval of the mining rights and execution of the mining right licence by DMR in respect of four (of the seven) project properties, being Smitspan, Minnasvlakte, Hooikraal and Massenberg;
- agreement to renegotiate the Eskom MOU; and,
- awarding of an exclusive due diligence period to a major, multinational listed mining and power company with a view to such company providing Firestone with a development proposal.

The appointment of the CEO has been a primary focus for the directors for most of the year. Given the early stage of development of our Smitspan project, and the particular requirements of our joint venture, the Company has not found it easy to attract the right resources. The Board considers that David Knox has the right mixture of talents required at this time and is pleased to report that he has settled into South Africa and has assumed day-to-day responsibility for the Company.

The approval of the mining right application and the execution of the mining right licence in August 2011 were significant steps for the project, despite being later than anticipated.

While each of the renegotiation of the Eskom MOU and the awarding of the due diligence period to a major, multinational listed mining and power company have been previously

### About Firestone Energy

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

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

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

### Corporate Details

ASX: FSE  
JSE: FSE

Issued Capital:  
2,959 million ordinary shares

Major Shareholders:  
Sekoko Resources (Pty) Ltd  
Linc Energy Ltd  
BBY Nominees Pty Ltd  
Bell Potter Nominees Ltd

### Directors and Officers

Non Executive Directors:  
David Perkins (Chairman)  
Dr Pius Kasolo  
Colin McIntyre  
Ben Mphahlele  
Kobus Terblanche  
Sizwe Nkosi

Company Secretary:  
Jerry Monzu

Contact:  
Suite B9, 431 Roberts Road  
Subiaco, Western Australia 6008  
Tel: +61 (08) 9287 4600

announced, neither matter has progressed to a level which has allowed the Company to provide further information.

Your directors consider the renegotiation of the Eskom offtake MOU to be attractive and potentially beneficial to Firestone because it may lead to increased tonnages and an extended supply period – two factors which heavily impact upon the economics of the project. In addition, directors consider that the parameters now being discussed with Eskom will provide a much stronger and more rewarding long-term relationship with Eskom.

Similarly, the awarding of a due diligence period to a major, multinational listed mining and power company with the intention that at the end of that period that company will present a firm development proposal to Firestone, provides an exciting prospect. However, the quality of any such proposal will not be known until sometime following the end of the due diligence period which is towards the middle of November.

The combined effect of these two significant events has meant that development work which might otherwise have been pursued following the approval of the mining right application and the execution of the mining right licence in August, has not taken place. Each of the negotiations includes the possibility of producing an operating environment significantly different to that incorporated in the assumptions underpinning the current mine plan. Progressing development on the basis of the current mine plan could have resulted in wasted effort and expense in the event that the Board is able to achieve a desired outcome in relation to one or both of the negotiations. As a consequence, the Company is no longer intending to produce coal in the first quarter of 2012. Further market updates will be announced in due course.

## **REGULATORY APPROVALS**

The mining right approved on the 3<sup>rd</sup> of August 2011 was signed by the Minister and registered at the end of August 2011. However, the Minister signed the mining right licence with respect to four (of the seven) properties only, being *Smitspan*, *Hooikraal*, *Massenberg* and *Minnasvlakte*. This is a correction to the announcements made by the Company in relation to this matter. At that time it was thought that the mining right licence applied to all properties which had been included in the mining right application. In its final analysis, the DMR decided to award and execute the mining right with respect to only those (four) properties which house the current project. These mining rights will be transferred to the designated joint venture company by way of a new section 11 application which is expected to be submitted during the December 2011 quarter.

The other properties, being *Duikerfontein*, *Olieboomfontein* and *Swanepoelpan*, continue to be subject to prospecting rights. An application can be made for conversion of those prospecting rights to a mining right at a time when a specific project is identified for those properties and the relevant environmental impact and other assessments are undertaken. The prospecting rights which relate to these properties will also be transferred to the relevant joint venture company by way of a new section 11 application which is expected to be submitted during the December 2011 quarter.

The prospecting right of *Vetleegte*, the property containing shallow resources of metallurgical coal, is a separate prospecting right relating only to that property. It is intended that this prospecting right be transferred to the relevant joint venture company by way of a new Section 11 application which is expected to be submitted during the December 2011 quarter.

## **LOGISTICS**

The Company has continued its discussions with Transnet Freight Rail on tonnages, tariff structure including take or pay fees, the requirement for Public Private Participation (PPP) and implementation dates. These discussions are being conducted on a cooperative basis. As yet no agreements have been entered into.

## **FUNDING**

During the quarter the Company completed the Share Purchase Plan commenced in the previous quarter in relation to its South African shareholders, raising approximately \$240,000 before costs. In addition, the Company raised A\$1.8m by way of a placement of approximately 150 million shares at A\$0.012 per share, under the Company's 15% issue capacity, to ASX listed global energy company Linc Energy Limited (ASX:LNC). Following the placement, Linc Energy holds approximately 9.6% of Firestone's issued capital.

The funds have been allocated towards Firestone's general working capital requirements for the development of the Smitspan project.

## **PUBLIC INVESTMENT CORPORATION (PIC)**

During the quarter PIC issued a draft non-binding project finance terms sheet and commenced due diligence on the project to develop a mine on the Smitspan farm. In view of the material changes which may arise from the current negotiations referred to above, this project finance facility will not be advanced until the outcome of those negotiations is known.

## **PROJECT FUNDING**

As at 30 September 2011 the A\$25m convertible note facility was almost completely drawn down, with only A\$300k of the facility remaining.

## **MARKETING**

Eskom MOU

As noted above the Company agreed with Eskom this quarter to renegotiate its MOU in order to seek improved tonnages and to extend the supply period. The Board and Eskom's designated project team are working to finalise a revised MOU, during Q4, 2011.

In addition it is anticipated that successful negotiation of the arrangements referred to above with a major, multinational listed mining and power company will incorporate an offtake agreement.

## **CORNERSTONE INVESTOR**

The joint venture with Sekoko Resources (Pty) Ltd has granted an exclusive period with a major, multinational listed mining and power company to conduct due diligence on the project. As stated above, it is intended the company will present a firm development proposal to Firestone at the end of its due diligence process and further announcements will be made in due course.

## **CORPORATE**

The Board appointed Mr David Knox as its Chief Executive Officer effective 20 September 2011. Mr Knox will be located in Johannesburg working alongside the joint venture partner, Sekoko Resources, and will be responsible for Firestone's overall operations. Mr Knox has extensive experience in project development, financing and banking and has had particular high-level experience in Africa in the energy and resources sectors. The appointment considerably strengthens the Board's knowledge in the areas of public administration and the development of its coal resources in South Africa.

Changes in the Board include the appointment of Morore Benjamin (Ben) Mphahlele as non-executive director to replace Mr Peter Tshisevhe who resigned in June 2011. Mr Kobus Terblanche has also been appointed as non-executive director to the Board as a nominee of Linc Energy. Mr Sizwe Nkosi has terminated his executive role with the joint venture and Firestone to take up another senior executive role. Mr Nkosi has agreed to continue as a non-executive director for the immediate future.

## **OUTLOOK**

The immediate outlook for the Company is to focus upon successfully concluding the renegotiation of its Eskom MOU and the achievement of a satisfactory outcome with the proposed cornerstone investor. In advance of those decisions, the Company is focusing on keeping costs to a minimum while at the same time advancing the regulatory and structural issues which are referred to above and which remain outstanding.

Yours sincerely,



**Firestone Energy Limited**

**David Perkins**

**Chairman**

**[www.firestoneenergy.com.au](http://www.firestoneenergy.com.au)**

## About Sekoko Resources

Sekoko Resources (Pty) Ltd is a South African-based black-owned energy and minerals company developing the coal, magnetite iron ore and PGMs Projects in the Limpopo Province of South Africa. This includes a significant exploration program and development of the Waterberg Coal Joint Venture Project based on significant Coal Zone Resources. Sekoko is targeting to commence operations in 2012, thus forming the basis for developing a global coal business.

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

**Firestone Energy Limited**

ABN

**71 058 436 794**

Quarter ended ("current quarter")

**30 Sept 2011**

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation		
(b) development	(319)	(319)
(c) production	-	-
(d) administration	-	-
	(400)	(400)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	15	15
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other	47	47
	(657)	(657)
<b>Net Operating Cash Flows</b>		
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(1,517)	(1,517)
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
	(1,517)	(1,517)
<b>Net investing cash flows</b>		
1.13 Total operating and investing cash flows (carried forward)	(2,174)	(2,174)

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(2,174)	(2,174)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, Convertible Notes etc.	2,030	2,030
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	573	573
1.17	Repayment of borrowings	-	-
1.18	Capital raising costs	(90)	(90)
1.19	Other – Interest paid		
	<b>Net financing cash flows</b>	<b>2,513</b>	<b>2,513</b>
	<b>Net increase (decrease) in cash held</b>	<b>339</b>	<b>339</b>
1.20	Cash at beginning of quarter/year to date	1,892	1,892
1.21	Exchange rate adjustments to item 1.20	8	8
1.22	<b>Cash at end of quarter</b>	<b>2,239</b>	<b>2,239</b>

**Payments to directors of the entity and associates of the directors**  
**Payments to related entities of the entity and associates of the related entities**

	Current quarter \$A'000	
1.23	Aggregate amount of payments to the parties included in item 1.2	333
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Directors fees (inc Exp reimbursements) - \$53K.

Payments to wholly owned subsidiary, Lexshell Pty Limited, of which amounts are paid to third parties to make payments on behalf of Firestone Energy pursuant to its JV agreement with Sekoko Resources - \$280K

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/A

+ See chapter 19 for defined terms.

## Financing facilities available

Add notes as necessary for an understanding of the position.

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities  (The holder of the Convertible Notes has converted A\$3.7million to equity as at 30 June 2011. The outstanding convertible note liability for Firestone Energy as at 30 Sept 2011 is A\$21.0 million)	\$25,000	\$24,700
3.2	Credit standby arrangements	-	-

## Estimated cash outflows for next quarter

		\$A'000
4.1	Exploration and evaluation	120
4.2	Development	-
4.3	Production	-
4.4	Administration	900
<b>Total</b>		<b>1,020</b>

## Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1	318	1,892
5.2	1,921	-
5.3	-	-
5.4	-	-
<b>Total: cash at end of quarter</b> (item 1.22)	2,239	1,892

+ See chapter 19 for defined terms.

### Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	Nil		
6.2	Interests in mining tenements acquired or increased	Nil		

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+ See chapter 19 for defined terms.



### Issued and quoted securities at end of current quarter

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference +securities</b> <i>(description)</i>	Nil	Nil		
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	Nil	Nil		
7.3 <b>+Ordinary securities</b> FSE	2,958,675,784	2,958,675,784		Fully paid
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	177,361,423	177,361,423		Fully Paid
7.5 <b>+Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	Nil (3)	Nil	\$100,000 each \$100,000 each	\$100,000 each \$100,000 each
7.7 <b>Options</b> FSEAK FSEAM FSEAO FSEAI FSEO	30,000,000 111,000,000 96,904,767 25,875,000 42,382,500	Nil Nil Nil Nil 42,382,500	<b>Exercise price</b> 5 Cents 6 Cents 6 Cents 6 Cents 4 Cents	<b>Expiry date</b> 30 Nov 2012 31 May 2013 30 Jun 2013 30 Jun 2014 31 May 2014
7.8 Issued during quarter	42,382,500	42,382,500	4 Cents	31 May 2014
7.9 Exercised during quarter				
7.10 Expired during quarter				

+ See chapter 19 for defined terms.

## Appendix 5B Mining exploration entity quarterly report

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7.11	<b>Debentures</b> <i>(totals only)</i>		
7.12	<b>Unsecured notes</b> <i>(totals only)</i>		

### Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does /does not\* (*delete one*) give a true and fair view of the matters disclosed.



Sign here: .....

Company Secretary

Date: 31 October 2011

Print name: Mr Jerry Monzu

### Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.

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