

31 July 2012



Quarterly Activities Report **for the Period to 30 June 2012**

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 June 2012.

Highlights

- **Signed Funding Agreement - A\$40.7m**
- **Undertaking to procure project funding up to US\$400m**
- **Increased Technical Resources**
- **Appointment of SRK Consulting to complete a Feasibility Study**
- **Amended Eskom MoU**

Funding Facility

On 7 May 2012 the Board announced that it had entered into a conditional termsheet for the provision of A\$30.7million of funding by Ariona Company SA (Ariona). Firestone has now executed an Investment Agreement with Ariona to provide funding to the Company for the increased amount of A\$40.7million. Firestone has been actively engaged in carrying out the necessary works required to negotiate the terms and complete the documentation, which remains a primary focus of the Company.

Through the execution of the agreement and subject to certain conditions precedent, Ariona will provide A\$40.7million to the Company under a secured convertible note facility replacing the current convertible notes.

With this increased facility, and based on current budgeted expenditure, Firestone is fully funded up to and including the completion of the Feasibility Study. Post the finalisation of the feasibility Study, project funding will be required to undertake development and operation of the Waterberg Coal Project and Ariona have undertaken to procure funding of up to US\$400m for this purpose.

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:
3,114 million ordinary shares

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

Directors and Officers

Non Executive Directors:
Tim Tebella (Chairman)
David Perkins (Deputy Chairman)
Dr Pius Kasolo
Mr Ben Mphahlele
Mr Kobus Terblanche

Officers:
Mr David Knox CEO
Mr Jerry Monzu Company Secretary

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Web: www.firestoneenergy.com.au

Technical Update

The technical team has recently been increased to provide further resources to assist in completing the feasibility study. Further drilling and assessments are required to re-model and scope the resource for the increased production rate. In addition, the integrated water use licence requirements will be aligned to the proposed production levels. This will be addressed in the current Feasibility Study.

SRK Consulting (SRK) have been appointed to carry out the necessary works to complete a feasibility study to a bankable level. The technical teams from both SRK and the Sekoko Joint-Venture are fully engaged and working closely.

Corporate

During the quarter the short-term Funding Facility for A\$2.2m announced to the market on 22 March 2012 was partially drawn down by the Company.

On 3 April 2012, the Company announced to the market that it decided to reject the offer from Tata Power Company Ltd, for reasons including that in the opinion of the directors the offer materially undervalued the inherent value in the project.

During the period, the Company announced that Sekoko Coal (Pty) Ltd, it's South African black-owned Joint Venture Partner, signed a memorandum of understanding with Eskom Holdings Limited to supply thermal coal from it's Waterberg Coal Project. Under the MoU, the parties will enter into a coal supply agreement enabling the Firestone / Sekoko joint –venture to supply a minimum of 10 million tonnes per annum of thermal coal for a minimum period of 30 years. The production of coal is estimated to commence in 2014 and will ramp up over a 5 year period to 10 million tonnes per annum. This MoU replaces the earlier MoU with Eskom which was announced to the market on 2 February 2011.

Outlook

The Company has continued to make good progress in securing funding to advance the development of the project and is committed to delivering a feasibility study to a bankable level for the proposed increased production rate. Firestone remains confident that following the successful completion of the initiatives carried out to-date it will unlock the value of the Waterberg Project.

FOR FURTHER INFORMATION:

David Knox

CEO

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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.

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 June 2012

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors		
1.2 Payments for (a) exploration & evaluation	(389)	(1,096)
(b) development	-	-
(c) production	-	-
(d) administration	(283)	(1,409)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	1	31
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other	-	68
	(671)	(2,406)
Net Operating Cash Flows		
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	(418)
(b) equity investments	-	-
(c) properties	(105)	(2,031)
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)	-	-
	(105)	(2,449)
Net investing cash flows		
1.13 Total operating and investing cash flows (carried forward)	(776)	(4,855)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(776)	(4,855)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, Convertible Notes etc.	-	2,030
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	642	1,360
1.17	Repayment of borrowings	-	-
1.18	Capital raising costs	-	(90)
1.19	Other – Interest paid	-	(173)
	Net financing cash flows	642	3,127
	Net increase (decrease) in cash held	(134)	(1,728)
1.20	Cash at beginning of quarter/year to date	309	1,892
1.21	Exchange rate adjustments to item 1.20 Gain / (Loss)	(6)	5
1.22	Cash at end of quarter	169	169

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	421
1.24 Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

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 - \$388K

Payments to Directors of the Company - \$33K

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 Company has in place a further financing facility (convertible notes) with its existing convertible noteholders.	\$2,200	260
3.2	Credit standby arrangements	-	-

Estimated cash outflows for next quarter

		\$A'000
4.1	Exploration and evaluation	150
4.2	Development	-
4.3	Production	-
4.4	Administration	250
Total		400

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	Cash on hand and at bank	56
5.2	Deposits at call	253
5.3	Bank overdraft	-
5.4	Other (provide details)	-
Total: cash at end of quarter (item 1.22)		309

+ 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		

+ 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 Preference +securities (description)	Nil	Nil		
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	Nil	Nil		
7.3 +Ordinary securities FSE	3,113,878,641	3,113,878,641		Fully paid
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 +Convertible debt securities (description)				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options 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	Exercise price 5 Cents 6 Cents 6 Cents 6 Cents 4 Cents	Expiry date 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

7.11	Debentures <i>(totals only)</i>		
7.12	Unsecured notes <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 give a true and fair view of the matters disclosed.



Sign here:
Company Secretary

Date: 31 July 2012

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.

+ See chapter 19 for defined terms.