



31 October 2012

Quarterly Activities Report for the Period to 30 September 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 September 2012.

During the quarter the Company issued a notice of General Meeting together with an explanatory memorandum to shareholders which outlined, *inter alia*, a suite of transactions which, if approved and implemented, would significantly improve Firestone's financial position and greatly assist in positioning the Company to become a major producer of coal in Southern Africa through its participation in the development of the Waterberg Coal project with its joint venture partner, Sekoko Resources (Pty) Ltd.

Subsequent to the quarter end, on 5 October 2012 shareholders in a general meeting approved resolutions, the subject of the notice of meeting. The most salient and commercially important of these resolutions related to the acquisition of a 25.7% interest in Firestone by Ariona Company SA (and its associates) from Sekoko Resources Pty Ltd; and the approval to issue new convertible notes to Ariona in an amount up to \$40.7 million. The result of the proposed issue of the new convertible notes to Ariona is that it provides Firestone with a greatly enhanced balance sheet and significant funding and much needed working capital enabling Firestone to continue to meet its obligations under the Waterberg Joint Venture, including funding the completion of the Bankable Feasibility Study ("BFS") which is due for completion in late December 2012. In addition to funding the BFS and related activities, it is forecast that Firestone will have sufficient cash reserves through to project start-up which is estimated for Q3, 2013. The outcome of these resolutions is that Ariona will emerge as the Company's major shareholder, on terms as set out in the explanatory memorandum.

As at the date of writing this quarterly report, the Company and Ariona are working through the completion process. As soon as completion has occurred, the market will be advised accordingly.

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 Pty Ltd
Bell Potter Nominees Ltd

Directors and Officers

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

Officers:
Mr David Knox CEO
Ms Amanda Matthee CFO
Mr Jerry Monzu Company Secretary

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The Waterberg Coal Project: Technical Update

During the quarter, the Waterberg Joint Venture Partners continued the BFS process for the proposed development of an opencast mining operation, providing 10 million tonnes of coal (product) per annum to Eskom for an initial term of 30 years. The formal Bankable Feasibility Study is being undertaken by SRK consultants. During the period, various specialist study groups were appointed to incorporate environmental work, rail studies, infrastructure and hydrology studies into the BFS. Furthermore a drilling contractor has been appointed, and the Waterberg Joint Venture partners have commenced a program to delineate the faults on Smitspan, and to upgrade the resource status on Smitspan and Massenberg. The drilling to delineate the fault-line on Smitspan is expected to be completed by the end of Nov 2012.

Currently the Waterberg Joint Venture have two geologists on site, overseen by an experienced coal exploration consulting geologist. Pursuant to the MOU with Eskom Holdings, the technical team have regular update meetings with Eskom and are also working closely with Transnet Freight Rail towards an integrated rail plan for the Waterberg. The study team are also engaging with the Department of Water Affairs for the supply of water to the project on a timely basis.

Yours sincerely,



David Knox

Chief Executive Officer

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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 September 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 | (411) | (411) |
| (b) development | - | - |
| (c) production | - | - |
| (d) administration | (353) | (353) |
| 1.3 Dividends received | - | - |
| 1.4 Interest and other items of a similar nature received | - | - |
| 1.5 Interest and other costs of finance paid | - | - |
| 1.6 Income taxes paid | - | - |
| 1.7 Other (GST receipts) | 49 | 49 |
| Net Operating Cash Flows | (715) | (715) |
| Cash flows related to investing activities | | |
| 1.8 Payment for purchases of: (a) prospects | - | - |
| (b) equity investments | - | - |
| (c) properties | - | - |
| 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) | - | - |
| Net investing cash flows | - | - |
| 1.13 Total operating and investing cash flows (carried forward) | (715) | (715) |

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

| | | | |
|---|---|------------|------------|
| 1.13 | Total operating and investing cash flows (brought forward) | (715) | (715) |
| Cash flows related to financing activities | | | |
| 1.14 | Proceeds from issues of shares, options, Convertible Notes etc. | | |
| 1.15 | Proceeds from sale of forfeited shares | | |
| 1.16 | Proceeds from borrowings | 717 | 717 |
| 1.17 | Repayment of borrowings | | |
| 1.18 | Capital raising costs | | |
| 1.19 | Other – Interest paid | | |
| | Net financing cash flows | 717 | 717 |
| | Net increase (decrease) in cash held | 2 | 2 |
| 1.20 | Cash at beginning of quarter/year to date | 169 | 169 |
| 1.21 | Exchange rate adjustments to item 1.20 Gain / (Loss) | (10) | (10) |
| 1.22 | Cash at end of quarter | 161 | 161 |

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 | 663 |
| 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 - \$567K

Payments to Directors of the Company - \$96K

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 | 977 |
| 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 | 134 | 102 |
| 5.2 Deposits at call | 27 | 67 |
| 5.3 Bank overdraft | | - |
| 5.4 Other (provide details) | | - |
| Total: cash at end of quarter (item 1.22) | 161 | 169 |

+ 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 | | |

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 <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 +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 | | | | |

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

| | | | | | |
|------|---|---|---|--|---|
| 7.5 | +Convertible debt securities <i>(description)</i> | Unlisted Convertible Notes Con Note 1 – 12 FSEAQ Con Note 2 – 3 FSEAS Con Note 3 – 3 FSEAU Con Note 4 – 3 FSEAY Con Note 5- 3 FSEAW Con Note 6 – 3 FSEAZ Con Note 7 – 3 FSEAA Con Note 8 - 1 x (\$500k) 4 x (\$100k) Con Note 9 - 9 x (\$100k) Con Note 13 - 6 x (\$100k) Con Note 14 – 6 x (\$100k) Con Note 15 – 6 x (\$100k) Con Note 16 – 6 x (\$100k) Con Note 17 – 9 x (\$100k) Con Note 20 – 6 x (\$100k) Con Note 21 – 3 x (\$100k) Con Note 22 – 3 x (\$100k) | Conversion number- Variable per Note Repayment dates – 2 October 2012 16 November 2012 18 December 2012 21 January 2013 23 February 2013 23 March 2013 30 April 2010 04 June 2013 04 June 2013 13 July 2013 8 November 2013 23 November 2013 22 December 2013 24 January 2014 22 February 2014 24 May 2014 22 June 2014 19 October 2014 | | |
| 7.6 | Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted | | | | |
| 7.7 | Options FSEAK FSEAM FSEAO FSEAI FSEO | | | Exercise price 5.0 Cents 6.0 Cents 6.0 Cents 6.0 Cents 4.0 Cents | Expiry date 30 Nov 2012 31 May 2013 30 Jun 2013 30 Jun 2014 31 May 2014 |
| 7.8 | Issued during quarter FSEAA | 30,000,000 110,000,000 96,904,767 25,875,000 48,395,000 | Nil Nil Nil Nil 48,395,000 | 2.5 Cents | 19 Sept 2014 |
| 7.9 | Exercised during quarter | | | | |
| 7.10 | Expired during quarter | | | | |
| 7.11 | Debentures <i>(totals only)</i> | | | | |
| 7.12 | Unsecured notes <i>(totals only)</i> | | | | |

+ See chapter 19 for defined terms.

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 October 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.