



7 May 2012

Financial Restructure

The Board of **Firestone Energy Limited** (ASX/JSE: FSE) (the “**Company**” or “**FSE**”) is pleased to announce that the Company has agreed to terms for a **A\$30.7 million** funding facility to be provided by Ariona Company SA (**Ariona**), a special purpose vehicle representing a consortium of international institutional and private investors focusing on global resource opportunities. In addition, the Company has been informed that Ariona has agreed to acquire from Sekoko Resources, a significant shareholding in the Company and a direct interest in the Waterberg Coal Project owned by the Company in joint venture with Sekoko, and to provide the long term funding requirements for the development the Waterberg Coal project.

Mr Tim Tebeila, FSE’s Chairman said, **“These transactions represent a significant step in the Company’s development of the Waterberg Coal Project. The financial backing provided by Ariona will allow us to proceed with developing the project to completion. This is an exciting time for the Company and we very much welcome Ariona’s involvement in the Project and as a substantial shareholder of Firestone Energy.”**

Funding Facility

The Company has entered into a conditional term sheet with Ariona under which Ariona will provide A\$30.7 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 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.

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 Lephallale 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 Lephallale 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
Mr Jerry Monzu Company Secretary

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The Funds raised will be applied in approximately the manner set out below.

Redeem existing convertible notes (ECNs) at face value	A\$21.3m
Pay outstanding interest on the ECNs	A\$0.845m
Working Capital	A\$6.655m
Expenses of the transaction (estimate)	A\$1.9m
Total	A\$30.70m

The new convertible note facility is subject to certain conditions precedent, the most significant of which are:

- 1) completion of a legal and financial due diligence on the ECNs, satisfactory to Ariona;
- 2) Obtaining all necessary regulatory and shareholder approvals;
- 3) FSE and its Joint Venture Partner, Sekoko initiating the transfer of the prospecting rights and mining rights comprising the Waterberg Joint Venture into a joint venture company as contemplated in various public announcements (subject to the requisite regulatory consents to such transfer first being obtained);
- 4) the Company and the existing convertible note holders being satisfied with the financial capacity of Ariona and the identity and financial capacity of the parties backing Ariona and forming the investment consortium; and
- 5) Entering into the long form agreements incorporating all of the provisions of the Term Sheet, to the satisfaction of all parties.

Other significant terms are:

- Ariona will be entitled to nominate up to two directors to the Board of the Company;
- The Company will, subject to necessary shareholder approval, offer those existing convertible note holders who agree to the early redemption of their notes, incentive options exercisable over 2 years at a price of A\$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 of early redemption of ECNs; and
- Until completion of the transaction, the interest payments on the ECNs will be calculated on a monthly basis and at the election of the ECN holders, either converted into shares on a monthly basis at a 10% discount to the 5 day VWAP or capitalising the interest until completion of the transaction.

New Substantial Shareholder

The Company has been informed by Sekoko Resources, its major shareholder, that it has entered into a binding term sheet with Ariona pursuant to which:

- Ariona will acquire 800 million shares in the Company from Sekoko for A\$8 million. This represents approximately 25.7% of the issued share capital of the Company, reducing Sekoko's current shareholding in FSE from 27.4% to 1.7%;

- Ariona will also acquire a 10% interest in the Waterberg Joint Venture from Sekoko for approximately A\$13 million reducing Sekoko 40% direct interest in the project to 30%; and
- Ariona is to pay Sekoko US\$7.5 million upon completion of the transaction subject to the satisfaction of certain conditions.

FSE has been informed that the transactions above are subject to conditions precedent normal to transactions of this type and include:

- 1) completion of a legal, financial and technical due diligence satisfactory to Ariona;
- 2) entering into long form agreements incorporating all of the provisions of the Term Sheet, to the satisfaction of the parties; and
- 3) obtaining all necessary regulatory and shareholder approvals.

FSE has also been informed that the transaction will include:

Ariona undertaking to Sekoko to procure project funding for the development of the Waterberg Joint Venture of up to US\$400 million (including the joint venture funding obligations of Sekoko on a “deferred carry” basis that is, Sekoko’s equity contribution will be funded by Ariona on the basis that the principal plus interest will be repaid from Sekoko’s share of profits from the Project).

As a result of these acquisitions, Ariona will be the largest shareholder in the Company and the ownership of the Waterberg Joint Ventures will be:

FSE	60%
Sekoko	30%
Ariona	10%

It is noted that, as the Company is not a party to the Term sheet between Ariona and Sekoko and was not involved in its negotiation, it has no control over the final form of the formal long form agreements between Ariona and Sekoko. To the extent that the Company becomes aware of any significant change to the material terms of the transaction between Ariona and Sekoko, the Company will provide an update to shareholders and the market generally.

Shareholder Approval

There are several aspects of the transactions which will require shareholder approval including, among other things Ariona acquiring more than 20% of FSE, as an exception to Ariona making a formal takeover offer for FSE. The Company is targeting 18 June 2012 as the date for a general meeting of shareholders of the Company to approve the transactions. The Company will commission a report from an independent expert to assess whether the transactions are fair and reasonable for those shareholders of the Company not participating in the transactions. The independent experts report will accompany the notice of meeting and information memorandum to be sent to shareholders.

The Company has appointed BBY Limited as corporate finance advisers and Lead Manager, and Kelly & Co. Lawyers as its legal advisers.

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.