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## QUARTERLY ACTIVITIES REPORT FOR THE PERIOD TO 30 June 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 June 2011.

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### Highlights

- Further 3 tonne coal sample submitted to Eskom for testing;
- Major banks and financial institutions in South Africa indicate interest in providing project finance;
- Substantially completed process for selection of mining contractor;
- Water Use Licence: Addressed questions from application submitted in January 2011, no major issues identified;
- Rail: Detailed studies on rail transport options continued;
- Cornerstone Investor activity ongoing.

### Post Quarter Events

- Eskom MOU Board approval is being extended by 90 days;
- Appointed Public Investment Corporation to lead a limited period exclusive mandate to raise project finance;
- Letter of intent (LOI) received for coal export to the Saintry Group in China.

#### 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:  
2,793 million ordinary shares

Major Shareholders:  
Sekoko Resources (Pty) Ltd  
BBY Nominees Ltd  
Colbern Fiduciary Nominees Ltd  
Bell Potter Nominees Ltd

#### Directors and Officers

Non Executive Directors:  
David Perkins (Chairman)  
Dr Pius Kasolo  
Colin McIntyre

Executive Directors:  
Sizwe Nkosi

Company Secretary:  
Jerry Monzu

Contact:  
Suite B9, 431 Roberts Road  
Subiaco, Western Australia 6008  
Tel: +61 (0)8 9287 4600

## **OVERVIEW**

Whilst the mining right approval has taken longer than anticipated, the Company remains on course to start production in 2012. Communication with the Department of Mineral Resources indicates the application is proceeding smoothly, if somewhat delayed.

The award of mining rights is expected to pave the way for other regulatory approvals including water and environmental assessment impact approvals.

While Eskom remains the main off-taker of the coal, we have made significant inroads into the local high value market and export markets.

During the quarter the majority of management time was dedicated to addressing issues arising from submitted Environmental Impact Assessment, Water Use Licence and the Application for a Mining Right. Notwithstanding the delay in the issue of the Mining Right milestone and the effect of that delay on the other regulatory approvals, the Board remain satisfied with the progress made given the complexity of the processes involved.

## **WATERBERG COAL PROJECT**

### **Project Update**

The Waterberg Coal Project is now well advanced with all major actions required of the Company in order to receive approval for its application of a mining license completed. Management has been addressing various issues raised by respective regulators, none of these issues have been significant, primarily issues have been in the nature of explanations by management of the content of submitted documents. As previously advised, infrastructure, rail and processing contractors have been appointed and continue to be engaged in anticipation of the issue of the mining right.

The board completed its processes for the short listing of mining contractors and has compiled a short list of suitably qualified companies. Completion of this process by the appointment of the selected contractor is expected in the near term, following the finalisation of regulatory approvals.

Smitspan remains the Company's flagship project, the primary object of which will be to service the Eskom off-take agreement and other Eskom requirements. The flexibility of the 120mt saleable coal mine plan allows flexibility depending on the requirements of the off-taker. The Company has also experienced strong inquiry for its higher-quality metallurgical coal deposit.

### **Regulatory Approvals**

The Company has been informed that it's Application for a Mining Right was reviewed by The Licensing Committee of the Department of Mineral Regulation on 25 July 2011. Firestone is yet to be formally notified of the outcome of the committee meeting. Once approved at committee level the mining right approval is anticipated to be formally executed in August 2011.

With respect to the Environmental Impact Assessment (EIA) no comments were received within the time prescribed for a response from the Department of Environment. Firestone interprets this to be a positive sign that our EIA does not have major issues. The Company anticipates receiving the Record of Decisions shortly following the formal execution of the mining right.

Similarly it is anticipated the Company's application for Water Use Licence will be approved and a license issued following execution of the mining right.

## **MARKETING**

Initially it was anticipated that the Eskom MOU would be approved by the Eskom Board in July 2011 in order to convert it from a MOU to a fully fledged off-take agreement. Eskom have advised of a 90 day extension to this period as a result of an internal reorganization.

The Company is continuing to negotiate with Eskom to extend its relationship and to increase the tonnage of coal to be supplied from the Smitspan Mine.

The Company has received a Letter of intent from the Sainty Group of China to purchase initially 600,000 tonnes of coal from the 2<sup>nd</sup> half of 2012 and ramping up to 2.4m tonnes of coal in 2014. The Company and Sainty Group have agreed to a 90 day period within which to confirm the Letter of Intent in a binding agreement.

## **Logistics**

The detailed designs of the rail sidings are at an advanced stage and are expected to be completed within the next two months.

Environmental studies on the rail siding have been completed and are being submitted to the Department of Environmental Affairs. This follows the draft EIA which was submitted earlier this year.

Firestone's negotiations with Transnet Freight Rail (TFR) for access to its tracks and rolling stock are ongoing. TFR has publicly signalled a significant upgrade of its infrastructure capacity servicing the Waterberg region and Firestone interpret this as a positive indicator for our ability to transport coal from the Waterberg Project to Eskom, for export via Richards Bay Coal Terminal and/or the local market.

## **CORPORATE**

Mr Peter Tshisevhe, the Sekoko nominated Director, resigned from the Board of Firestone on 27 June 2011.

## **IDC**

The Industrial Development Corporation of South Africa (IDC) received Federal Investment Review Board (FIRB) approval for its ownership of shares in Firestone Energy Limited in June 2011. Sekoko received its first cash draw down from the IDC at the beginning of July 2011.

## **Funding**

During the quarter Firestone conducted a Share Purchase Plan (SPP) capital raising with the SPP offer being made in Australia, New Zealand and South Africa. In total the SPP raised approximately A\$1.9million.

Firestone has awarded the Public Investment Corporation of South Africa (PIC) an exclusive mandate to raise project finance of A\$29million (R200million). PIC manages assets totalling approximately R910billion (approx A\$130billion), making it one of the largest investment managers on the African continent. It is wholly owned by the South African Government and was established in April 2005 in accordance with the Public Investment Corporation Act of 2004.

## **Jindal Power and Steel MOU**

An agreement between Firestone, Sekoko Coal and Jindal was reached in June 2011 that the Non-Binding MOU signed in January 2011 be cancelled.

As at 30 June 2011 the Company had a positive cash balance of A\$1.9million.

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 June 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	(1,105)	(4,628)
(b) development	-	-
(c) production	-	-
(d) administration	(357)	(1,401)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	8	57
1.5 Interest and other costs of finance paid	-	(35)
1.6 Income taxes paid	-	-
1.7 Other	20	215
<b>Net Operating Cash Flows</b>	<b>(1,434)</b>	<b>(5,792)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(113)	(2,826)
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)	-	-
<b>Net investing cash flows</b>	<b>(113)</b>	<b>(2,826)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(1,547)</b>	<b>(8,618)</b>

+ See chapter 19 for defined terms.

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

1.13	Total operating and investing cash flows (brought forward)	(1,547)	(8,618)
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, Convertible Notes etc.	3,603	10,503
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Capital raising costs	(106)	(141)
1.19	Other – Interest paid	(1,318)	(1,911)
	<b>Net financing cash flows</b>	<b>2,179</b>	<b>8,451</b>
	<b>Net increase (decrease) in cash held</b>	<b>632</b>	<b>(167)</b>
1.20	Cash at beginning of quarter/year to date	1,283	2,130
1.21	Exchange rate adjustments to item 1.20	(23)	(71)
1.22	<b>Cash at end of quarter</b>	<b>1,892</b>	<b>1,892</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	1,174
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) - \$69K.

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 - \$1,105K

**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\$3.4million to equity as at 30 June 2011. The outstanding convertible note liability for Firestone Energy as at 30 June 2011 is A\$21.3 million)	\$25,000	\$24,700
3.2 Credit standby arrangements	-	-

## Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	1,070
4.2 Development	-
4.3 Production	-
4.4 Administration	400
<b>Total</b>	<b>1,470</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 Cash on hand and at bank	1,892	1,283
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>1,892</b>	<b>1,283</b>

## 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		

+ See chapter 19 for defined terms.

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

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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	2,781,314,361	2,781,314,361		Fully paid
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	154,286,341	154,286,341		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	19  (14)	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: 29 July 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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